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CHICAGO PUBLIC SCHOOLS BUDGET RIGHT FOR TOUGH ECONOMIC CLIMATE *Civic Federation Supports District's Taxing Restraint*

The taxing restraint shown by the Chicago Public Schools \$6.2 billion FY2009 proposed budget stands in stark contrast to the enormous property and sales tax increases imposed by other Chicago-area governments in the past year. For the first time since FY1999, CPS will not raise its property tax levy to the maximum amount allowed under the tax cap law. Instead the District will balance its budget through spending reserve funds and through management savings. Civic Federation President Laurence Msall announced the Federation's position in **support** of the CPS budget at a public hearing held today at Chicago Public Schools headquarters.

Chicago's citizens are currently facing serious economic hardships, such as a City unemployment rate that stood at 8.2% in June. By freezing its property tax levy, Chicago Public Schools has shown praiseworthy responsiveness to taxpayers' concerns. CPS will spend \$100 million in reserves to balance its budget, which would still leave a total fund balance of 10.7%, well within the Government Finance Officers Association recommended levels of 5 to 15%.

The Federation's analysis found that responsible management actions also allowed CPS to give taxpayers a break. Since FY2006, CPS has reduced staffing levels by 2,820 positions, including the elimination of 489 positions planned for FY2009. This is a prudent response to the District's declining enrollment and looming financial challenges. In addition, CPS has successfully contained employee health care costs at a time when other governments across the nation are experiencing significant health care cost increases. Budgeted health care costs will fall by 1.8% in FY2009 due to a combination of more stringent auditing and review of claims and reduced staffing.

"Chicago taxpayers can look forward to a respite from the punishing tax increases of the past year," said Laurence Msall, president of the Civic Federation. "While CPS faces daunting fiscal challenges in the future—especially from exponential growth in pension expenses—the Federation commends the superior financial management that made this good news budget possible."

However, the Federation urges CPS to follow through on pledges to produce a capital improvement plan (CIP). The Federation's analysis commends the District for providing additional capital information in its FY2009 budget. But this data still falls far short of the detailed, comprehensive, multi-year information citizens and public officials need to assess the District's multi-million dollar capital program that is already underway. The Federation urges CPS to continue to build upon its existing capital disclosures.

The Federation's full analysis and recommendations will be available on our website, www.civicfed.org, at 9:00 a.m. Wednesday, August 27, 2008.

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.

* Executive Committee
☼ Past Chairmen's Council



**CHICAGO PUBLIC SCHOOLS
FY2009 RECOMMENDED BUDGET**

Analysis and Recommendations

**Prepared By
The Civic Federation
August 27, 2008**

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EXECUTIVE SUMMARY

The Civic Federation is pleased to **support** the Chicago Public Schools' (CPS) proposed FY2009 \$6.2 billion budget. The District has made the difficult but responsible choice of freezing its property tax levy and rejecting the enormous, ill-conceived tax increases that too many other local governments have embraced this year. This is a time when Chicagoans are facing serious economic hardships. Raising taxes in this climate would have done little more than inflict further pain on taxpayers and further impede the pace of eventual economic recovery.

This budget is the first since FY1999 in which CPS has not reflexively raised its property tax to the maximum amount allowed by the tax cap law. We welcome this dramatic and important change in the fiscal philosophy by the District's leadership.

To balance its budget, CPS used \$100.0 million in reserves rather than raise taxes. This is a reasonable step made possible by years of prudent fiscal management. This year the District will further strengthen its fiscal stability by moving to implement a formal budget stabilization policy, which will reserve 5.0% of the operating and debt service budget.

The Civic Federation also commends CPS for proposing a number of responsible fiscal management actions in the FY2009 budget. These efforts include:

- Reducing staffing by 489 positions: Since FY2006, the District has eliminated 2,820 positions, with the total number of employees falling to 43,391. CPS's efforts to reduce its workforce over time is a prudent move. Trimming staffing levels is an appropriate response given the long-term financial and enrollment realities facing CPS.
- Containing healthcare costs: CPS budgeted healthcare costs in FY2009 will **decrease** by 1.8% in FY2009, falling from \$307.3 million to \$301.8 million. Many governments across the nation are experiencing significant healthcare cost increases. The District's ability to contain these costs is a laudable achievement.

While the Civic Federation applauds CPS's decision to exercise fiscal restraint by freezing the property tax levy, we are **disappointed** by the District's failure to produce a comprehensive capital improvement plan (CIP). We commend CPS for providing additional capital budget information in its FY2009 budget as well as the individual school information that is provided on the District's website. However, while this extra information is useful, it still falls far short of providing stakeholders with the detailed, comprehensive, multi-year information they need to assess CPS's stewardship of its multi-million dollar capital program. It is important for the District to educate the public as to likelihood of particular repairs or improvements throughout the District. As such, we urge the District to continue to build on their CIP disclosures.

CPS will face enormous fiscal challenges in coming years. Total employee pension expenses will rise by 13.1% in FY2009, from \$439.0 million to \$496.3 million. Since FY2005, these costs have escalated by 75.7%, or by \$213.9 million. Pension costs will continue to rise exponentially in future years. Total benefit cost growth will outstrip general operating revenue growth by a

ratio of 2.8 to one. Between FY2005 and FY2009, benefit costs will rise by 49.0% while revenues used to pay for those benefits are expected to increase by 17.5%. Finally, rising personnel expenses come at a time when the student population continues to decline – between 2002 and 2007 student enrollment fell by over 29,000 students. In 2009, it is expected to drop by an additional 3,601 students. Dealing with all of these challenges in coming years will be very difficult for CPS and require extraordinary fiscal discipline, including making more painful but necessary priority choices.

The Civic Federation offers the following **key findings** on the FY2009 Recommended Budget:

- The total proposed FY2009 CPS budget will increase by 6.4%, rising from \$5.8 billion to nearly \$6.2 billion. This is a \$371.0 million increase over FY2008;
- Approximately 43.0% of the total FY2009 budget increase, or \$159.4 million, is for capital spending attributable to the Modern Schools Across Chicago (MSAC) construction program, 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 2.8% in FY2009, rising from \$3.3 billion to \$3.4 billion. Since FY2005, compensation costs have risen by 16.1% or \$479.0 million;
- CPS enrollment continues to decline, with total actual enrollment decreasing between 2002 and 2007 by 29,922 students or 6.8%;
- Property tax revenues for all funds are projected to increase to \$1.84 billion in FY2009, a 1.1% or \$20.5 million increase over FY2008 revenues, due to a levy increase for new property only. For the 2008 tax year, the levy will not be increased for existing property; and
- A total of 489 positions will be eliminated, reducing the District's overall number of positions to 43,391.

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

- This year CPS has broken with past practice and opted to freeze the tax capped portion of its property tax levy at approximately \$1.8 billion rather than reflexively increase taxes to the maximum amount allowed under the State property tax cap law;
- The FY2009 CPS budget proposes the elimination of 489 full-time equivalent positions, nearly all of which are school-based positions, a prudent measure given the District's continued declining enrollment;
- CPS budgeted healthcare costs will decrease by 1.8% in FY2009, falling from \$307.3 million to \$301.8 million;¹
- CPS proposes to enact a financial policy establishing a formal budget stabilization fund of 5.0% of the operating and debt service budget. The fund will be reserved for contingency situations and it is the intention of the District to increase the size of the fund over time;
- The Capital Projects Fund section has been significantly expanded to include important information about the District's capital program; and
- Building on the marked improvements made to the previous year's budget document, additional format changes in the FY2009 budget document will significantly enhance

¹ CPS estimates that actual healthcare costs in FY2008 will be \$274.2 million, less than the budgeted amount of \$307.3 million. Information provided by the CPS Office of Management and Budget, August 12, 2008.

taxpayers' and stakeholders' ability to understand the district's financial management strategies and budget priorities over time.

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

- It is imperative that CPS aggressively seek legislation to curb its rapidly escalating retirement costs by placing a moratorium on new pension benefits until the funded ratio reaches 90%, limiting annual benefit increases for new hires to 3% or the rate of inflation, whichever is less, and increase the employee share of pension costs by at least one percentage point (to 3%);
- We urge CPS to also seek reform of the Teachers' Pension Fund governance structure to ensure greater balance of employee and management interests;
- CPS should develop and make publicly available performance measures for support service functions such as administration, food service and transportation;
- CPS should fully develop a comprehensive, district-wide, multi-year capital improvement plan. The CIP should include a five-year summary list of projects, funding sources and expenditures per project, information pertaining to the impact of capital spending on the operating budget, brief narrative descriptions of each individual project, and a timeframe for completing the projects;
- CPS should develop and implement 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's public comment procedures should be modified by requiring Board members to be present at the three public budget hearings and holding the final hearing several days before taking a final vote on the budget document, copies of the budget document should be made available publically online at least 3 days prior to start of the first hearing and information regarding the date, time and location of the public hearings should be easily accessible to the public;
- The Civic Federation urges the Teachers' Pension Fund to conduct an evaluation of the costs and benefits of establishing an irrevocable trust fund to pre-fund its retiree health insurance obligations;
- There are several steps that CPS should take in order to further improve the budget document's transparency, including: five years of comparable, aggregate data and an accompanying narrative for the budgeted costs of employee health care benefits; a detailed breakdown of state aid that is listed by total amount received for all mandated and other categorical programs; line item information for "other" categories listed throughout the budget document; and additional charter school and Renaissance 2010 data.

OVERVIEW OF ANALYSIS

The Civic Federation is pleased to announce its **support** for the Chicago Public Schools' (CPS) proposed FY2009 \$6.2 billion budget. This is the first time since FY1999 that CPS has not reflexively raised its property tax to the maximum amount allowed by the tax cap law. We welcome this dramatic and important change in fiscal philosophy by the District's leadership.

To balance its budget, CPS used \$100.0 million in reserves rather than raise taxes. This year the District will further strengthen its fiscal stability by moving to implement a formal budget stabilization policy, which will reserve 5.0% of the operating and debt service budget.

CPS has made the correct choice this year in freezing the property tax levy and rejecting the enormous, ill-conceived tax increases that too many other local governments have embraced. This is a time when citizens are facing serious economic hardships. Raising taxes in this climate would have done little more than inflict further pain on taxpayers and help impede the pace of economic recovery.

The Civic Federation also commends CPS for proposing a number of responsible fiscal management actions in the FY2009 budget.

Staffing will be reduced by 489 positions. Since FY2006, the District has eliminated 2,820 positions, with the total number of employees falling to 43,391. CPS's efforts to reduce its workforce over time is a prudent move. Salaries and benefit costs represent 71.3%, or \$3.6 billion, of the District's proposed general operating appropriations of \$4.8 billion in FY2009. The Civic Federation **commends** CPS leadership for making the difficult but necessary decision to trim staffing levels. This is an appropriate response given the long-term financial and enrollment realities facing CPS.

CPS budgeted healthcare costs in FY2009 will **decrease** by 1.8% in FY2009, falling from \$307.3 million to \$301.8 million.² Healthcare costs are declining at CPS because of the elimination of positions, younger teachers have replaced retiring senior teachers, CPS has instituted specialty service screening and auditing which reduces service utilization; and there is more stringent review and enforcement of regulations regarding coverage of spouses and dependents. Many governments across the nation are experiencing significant healthcare cost increases. The District's ability to contain these costs is a laudable achievement.

While the Civic Federation applauds CPS's decision to exercise fiscal restraint by freezing the property tax levy, we remain concerned that the District has not fully established a comprehensive capital improvement plan (CIP).

Last year, the Civic Federation offered qualified support for the CPS FY2008 budget because of the District's stated commitment to embrace long-term planning strategies in order to deal with the serious fiscal challenges this government will face in the years ahead. CPS Chief Executive Officer Arne Duncan stood with City of Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin to endorse 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 was developing a three-year capital improvement plan and four-year long-term financial projections, and that these plans would be published in the FY2009 budget.³

² CPS estimates that actual healthcare costs in FY2008 will be \$274.2 million, less than the budgeted amount of \$307.3 million. Information provided to the Civic Federation by the CPS Office of Management and Budget, August 12, 2008.

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

Although CPS has improved the quality and detail of its capital budget information in its FY2009 budget, as well as enhancing the individual school information that is provided on the District's website, more capital planning information is needed. While this additional information is useful, it still falls far short of providing stakeholders with the detailed, comprehensive, multi-year information they need to assess CPS's stewardship of its multi-million dollar capital program.

We understand that producing a CIP is a long, difficult process. However, in the absence of such a document it is hard for taxpayers and citizens to have full comprehension of or confidence in the District's multi-million dollar capital program.

Although the Civic Federation is pleased to support the proposed budget, we must reiterate our warning that CPS will face enormous fiscal challenges in coming years, including:

- Total employee pension expenses will rise by 13.1% in FY2009, from \$439.0 million to \$496.3 million. Since FY2005, these costs have escalated by 75.7%, or by \$213.9 million. These costs will continue to rise exponentially in future years.
- Total benefit costs will outstrip general operating revenue growth by a ratio of 2.8 to one. Between FY2005 and FY2009, benefit costs will rise by 49.0% while revenues used to pay for those benefits are expected to increase by 17.5%.
- All major personnel benefits – salaries, pensions and health insurance – are projected to rise by 16.0% or by \$469.9 million between FY2005 and FY2009. This double digit increase comes even with the elimination of thousands of positions and the implementation of cost-saving measures.
- Rising personnel expenses came at a time when student population continues to decline – between 2002 and 2007, student enrollment fell by over 29,000 students. In 2009 it is expected to drop by another 3,601 students.

Meeting these challenges in coming years will be very difficult for CPS. To do so successfully, the District must exercise extraordinary fiscal discipline and use management tools such as a capital improvement plan, as well as formal long-term financial planning.

Issues that The Civic Federation Supports

There are several steps CPS has proposed in the FY2009 budget that the Civic Federation supports.

Holding the Line on Property Taxes

This year, CPS has broken with past practice and opted to freeze the tax-capped portion of its property tax levy at approximately \$1.8 billion rather than reflexively increase taxes to the

maximum amount allowed under the tax cap law. Overall, property taxes will increase slightly by \$20.5 million on properties that are not subject to the tax cap.

The last year that the District's property tax levy was less than the maximum amount allowed was FY1999.⁴ With that single exception, the District has opted to increase the property tax levy to the maximum amount allowed by the tax cap law every year since FY1997.

Last year the Civic Federation urged CPS's Board of Trustees to reduce its FY2009 property tax levy by \$32 million from the maximum amount allowable under the tax cap law. We argued that as the District was receiving a greater than expected share of State funding, it should reduce property taxes by the entire amount of that funding. Doing so would be a good faith gesture by the Board toward beleaguered Chicago taxpayers. This year, we are pleased that CPS has recognized the very difficult conditions facing many Chicagoans.

Chicagoans currently face serious fiscal hardship as the economy falters. The situation has been exacerbated by the ill-considered action of too many governments in the Chicago region to dramatically increase individual and business tax burdens. Last year the City of Chicago enacted the largest property tax increase in recent history. This year Cook County's massive sales tax increase propelled the composite tax rate in Chicago to 10.25%, the nation's highest. City Colleges of Chicago recently increased their property tax levy to the maximum amount allowed under the tax cap law.

Economic downturns are precisely the wrong time to raise taxes and impose further burdens on taxpayers. Rather, the focus for governments should be on living within their means by trimming costs. In spite of the decisions of the City of Chicago, Cook County and City Colleges to impose huge new tax increases, all three governments are now projecting significant budget deficits for the coming year. We **congratulate** CPS's management staff for choosing a far different path and exercising tax restraint.

Rather than increase property taxes this year, CPS will use \$100 million in reserves to increase the amount of revenues available. The District is able to do so because it made a fiscally responsible decision in recent years to increase reserves significantly so that it could draw on them for contingencies. The fund balance in the General Fund was estimated at \$480.4 million at the end of FY2008. Of that amount, \$100.0 million will be used to pay for personnel and capital costs in FY2009. This will leave a total of \$380.4 million in available fund balance, or 10.7% of the proposed General Fund appropriation of \$3.5 billion. The District proposes to put \$258.0 of the total reserves, or 5.0% of FY2009 operating and debt service appropriations of \$5.1 billion, into a formal stabilization fund.⁵ This action helps ensure that sufficient reserve funds remain available for emergencies and will help CPS maintain a high bond rating.

The Civic Federation believes CPS has made the correct decision in using reserves rather than increasing property taxes this year. It is a reasonable step, however, we caution against further reductions in reserve funds at this point unless absolutely necessary. CPS's financial situation

⁴ *Chicago Public Schools FY1999 Budget*, p. 48.

⁵ *Chicago Public Schools FY2009 Budget*, pp. 53-54.

must be carefully monitored to ensure that the reserves remain adequate. The designation a formal stabilization fund is a key decision that will help CPS achieve this goal.

Reduction in Personnel

The FY2009 CPS budget proposes the elimination of 489 full-time equivalent (FTE) positions. This 1.1% decrease in positions will shrink the District's workforce from 43,880 FTEs in FY2008 to 43,391 FTEs in the forthcoming fiscal year. Most of the reductions are school-based, with 488 FTEs being eliminated. These include teachers, principals, assistant principals, clerical staff and non-teaching support staff. A total of 110 administrative FTE positions will be added to the payroll, increasing positions from 1,640 to 1,750.

Since FY2006, CPS has reduced personnel by 6.1% or 2,820 positions. Even with personnel reductions, the District's compensation costs will rise by 2.8% or \$95.8 million in FY2009. During the five-year period between FY2005 and FY2009, compensation costs will rise by 16.1% or \$479.0 million.

CPS's efforts to reduce its workforce over time is a prudent move given the twin phenomena of rising personnel costs and declining student enrollment. Salaries and benefit costs represent 71.3%, or \$3.6 billion, of the District's proposed general operating appropriations of \$4.8 billion in FY2009.

The Civic Federation **commends** CPS leadership for making the difficult but necessary decision to trim staffing levels. This is an appropriate response given the long-term financial and enrollment realities facing CPS.

Employee Healthcare Cost Containment

CPS budgeted healthcare costs will **decrease** by 1.8% in FY2009, falling from \$307.3 million to \$301.8 million.⁶ This a \$5.5 million reduction. CPS healthcare costs include expenses for both PPO & HMO health insurance plans, prescription drug coverage, dental insurance, mental health services, vision services and group term life insurance.⁷ They are expected to consume fully 6.2% of the total FY2009 operating budget of \$4.5 billion.

Healthcare costs are declining at CPS for a number of reasons:

- The number of CPS employees has declined due to the elimination of positions and an increasing number of charter school personnel;
- A significant number of younger teachers have entered service in recent years, replacing more senior, higher cost teachers who have retired;
- CPS has instituted specialty service screening and auditing, resulting in reduced service utilization; and

⁶ CPS estimates that actual healthcare costs in FY2008 will be \$274.2 million, less than the budgeted amount of \$307.3 million. Information provided by the CPS Office of Management and Budget, August 12, 2008.

⁷ Information provided to the Civic Federation by the CPS Office of Management and Budget, August 12, 2008.

- There is more stringent review and enforcement of regulations regarding coverage of spouses and dependents.⁸

Many governments across the nation are experiencing significant healthcare cost increases. The District's ability to contain these costs is a laudable achievement.

Creation of a Formal Budget Stabilization Fund

CPS proposes to enact a financial policy that establishes a formal budget stabilization fund of 5.0% of the operating and debt service budget. The amount of \$258.0 million has been designated for the fund in FY2009; this is 5.0% of the combined operating and debt service budget of \$5.1 billion. The fund will be reserved for contingency situations. It is the intention of the District to increase the size of the fund over time.

Establishing a formal budget stabilization fund is recognized as a best practice in public finance. The National Advisory Council on State and Local Budgeting urges all governments to develop a formal written policy on stabilization funds. Such a policy can "protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures."⁹ Similarly, the Government Finance Officers Association recommends that governments adopt a formal financial policy on reserve or stabilization accounts.¹⁰

The Civic Federation congratulates CPS's financial management team for taking the fiscally responsible and prudent step of formally establishing a budget stabilization fund. This is a sound financial management strategy.

Budget Book Format Improvements

Building on the marked improvements made to the previous year's budget document, the Civic Federation commends CPS for continuing the trend of increased transparency. This year's budget format improvements include:

- Increasing the amount of detail provided for the District's Renaissance 2010 program, including the number of new and total Renaissance 2010 schools for the fiscal year. The budget book also provides detailed enrollment data for Renaissance 2010 schools in FY2009;
- Increasing the amount of detail provided for the charter schools housed by the District, including a breakdown of District charter school expenses for FY2009 and the total number of charter schools, campuses and students operating and served during the current fiscal year;

⁸ Information provided to the Civic Federation by the CPS Office of Management and Budget, August 12, 2008.

⁹ See Recommended Practice 4.1: Develop Policy on Stabilization Funds. National Advisory Council on State and Local Budgeting. *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (Chicago: GFOA, 1998).

¹⁰ Government Finance Officers Association. Committee on Budgeting and Fiscal Policy, Recommended Practice: Adoption of Financial Policies (2001) at www.gfoa.org (last visited on August 21, 2008).

- Alphabetizing the list of individual schools on the CD-ROM that accompanies the budget book rather than listing the schools by code, thereby easing the process by which parents can locate specific information about their children’s school;
- Providing school budget snapshots within the budget book itself that give readers budgetary and demographic information for each CPS school;
- Providing central office snapshots within the budget book itself that give readers budgetary information for each CPS administrative department, as well as details about the programs supported by each central office department; and
- Providing a citizen’s guide to the FY2009 budget book. The guide is intended to provide readers with a summary overview of the District’s revenues, spending projections and long-term goals.

Additional Capital Information in the Budget Book

The Capital Projects Fund section of the FY2009 budget has been significantly expanded to include important information about the District’s capital program. This is in addition to information about individual schools found on the CPS website.

The Capital Funds Project section contains the following information:

- A schedule of planned bond issuances over the next five years and descriptions of how those bond proceeds will be used;
- A detailed discussion of the objectives of the CPS Capital Improvement Plan;
- A discussion of the prioritization process used for developing and maintaining the District’s multi-year capital program;
- An example of the information that is available on a per school basis online at the School Assessment database;
- Summary project information about how FY2009 capital funds will be spent;
- Increased information about the Modern Schools Across Chicago construction plan, including an update on the construction program’s progress. The MSAC FY2009 spending plan is also provided this year and can be located on the accompanying CD-ROM; and
- A summary review of the status of FY2008 capital projects.

The following pieces of capital project information are located online under the Department of Operations section of CPS’s website:¹¹

- 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>).
- 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.

¹¹ See www.cps.k12.il.us/Operations/cip.html.

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>).

- 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).

Providing increased aggregate capital project information is a significant step in the right direction. We salute the CPS administration for improving the transparency of its capital budget information. However, the additional information falls far short of the more complete perspective that is found in a full, formal capital improvement plan.

Issues of Concern to the Civic Federation

The Civic Federation has several concerns relating to CPS's financial management. These include the District's continued failure to implement a capital improvement plan and its the long-term structural difficulties of its overall financial structure.

Lack of a Formal Multi-Year Capital Improvement Plan

Last year, the Civic Federation offered qualified support for the CPS FY2008 budget because of the District's stated commitment to embrace long-term planning strategies in order to deal with the serious fiscal challenges this government will face in the years ahead. CPS Chief Executive Officer Arne Duncan stood with City of Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin to endorse 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 was developing a three-year capital improvement plan and four-year long-term financial projections, and that these plans would be published in the FY2009 budget.¹²

Although CPS does provide additional capital budget information in its FY2009 budget, as well as individual school information that is provided on the District's website, more information should be provided in the CIP. While this additional information is useful, it still 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.

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 in 2007.¹³

¹² Information provided to the Civic Federation in meeting with CPS Finance and Budget staff, July 31, 2007.

¹³ 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.

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 amount of funds available. The CIP is an important tool for assisting governments in the process of prioritizing projects and identifying funding sources for these projects.

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.¹⁴

¹⁴ 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. The State of Florida requires school districts to prepare 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/practices.html.

2. Required Information in a Capital Improvement Plan

A CIP should include the following information:¹⁵

- 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.

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.¹⁶

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.¹⁷

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.¹⁸

CPS Faces Long-Term Structural Challenges

CPS faces some tremendous long-term structural issues, including rapidly escalating pension costs, benefit cost increases that outstrip revenue growth and declining enrollment. Each factor

¹⁵ Ibid; See 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 Accountability (OPPAGA). *Best Financial Management Practices*. See http://www.oppaga.state.fl.us/school_districts/bestprac/practices/practices.html.

¹⁶ See NACSLB Recommended Practice 9.6: Develop a Capital Improvement Plan, Civic Federation Budget Analyses of Local Government Budget – various years.

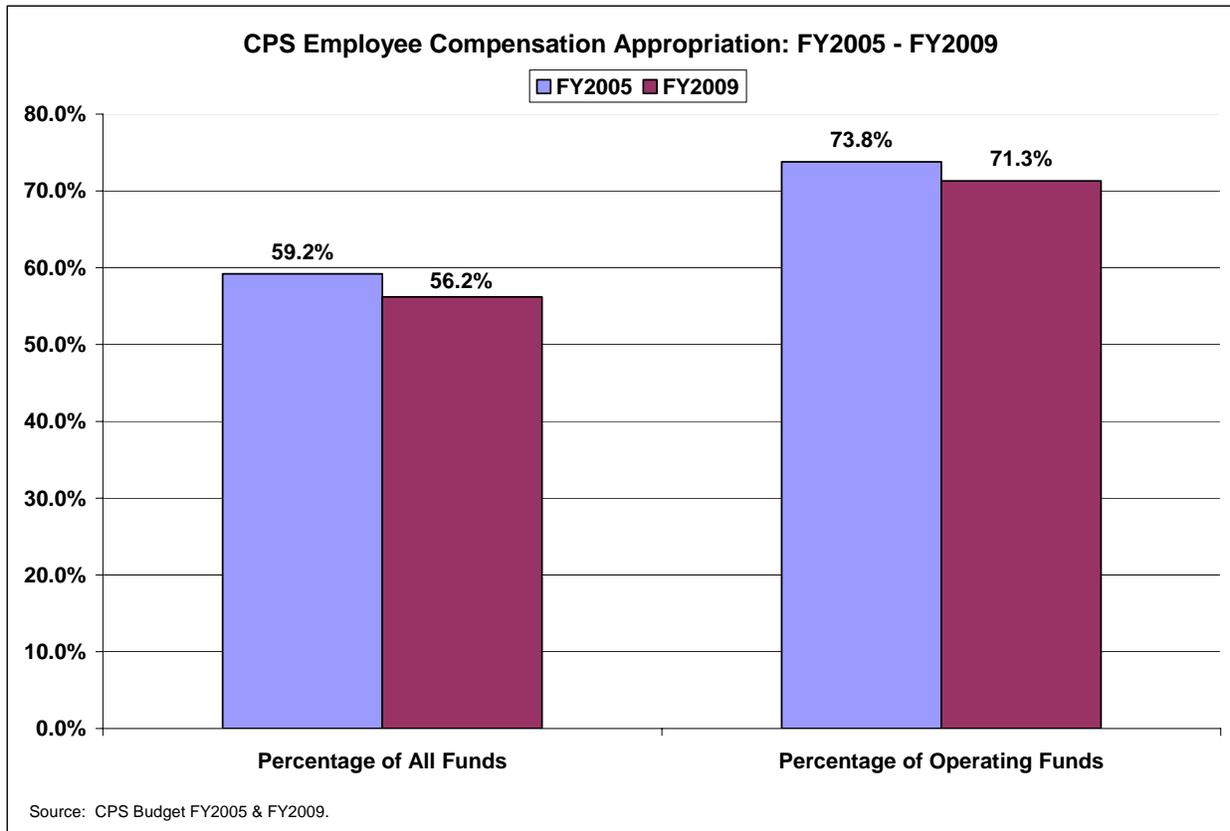
¹⁷ Ibid.

¹⁸ See Civic Federation Budget Analyses of Local Government Budgets – various years.

presents a unique set of fiscal challenges. Successfully dealing with them will require taking painful, and often controversial, steps.

Rapidly Escalating Employee Pension Costs

Employee salaries and benefits will consume 56.2% of the entire budget and 71.3% of the operating budget in FY2009. Therefore, any effort to control overall budgetary expenses must consider ways to contain the enormous personnel costs. The good news is that the percentage of total costs from personnel expenses have declined over the past five years. In FY2005, salaries and benefits were 59.2% of the total budget and 73.8% of the operating budget. This decline is due in part to the elimination of 3,827 full-time equivalent positions since FY2005¹⁹ and the ability of the District in recent years to contain health insurance costs and salary increases. *However, a close look inside these statistics reveals a red flag: the rapidly escalating cost of employee pensions.*



Three types of personnel expenses account for nearly 99.0% of all CPS benefits: teacher and support staff salaries, teacher and support staff pensions and hospitalization expenses (health insurance). Overall, the cost of these benefits will rise by 16.0% in the five years between FY2005 and FY2009. Salaries, which will comprise 75.6% of all major personnel costs in FY2009, have grown by 8.8% since FY2005. Hospitalization insurance costs, 8.7% of all

¹⁹ The total number of full-time equivalent positions will have fallen by 8.1%, from 47,218 to 43,391.

FY2009 appropriations, will increase by 17.7%. During this same time period pension costs will have risen dramatically -- by 75.7% or from \$282.4 million to \$496.3 million.

Rate of Growth in Major CPS Benefits by Type: FY2005 - FY2009				
Type of Benefit	FY2005	FY2009	\$ Change	% Change
Salaries	\$ 2,403.5	\$ 2,614.2	\$ 210.7	8.8%
Pensions	\$ 282.4	\$ 496.3	\$ 213.9	75.7%
Hospitalization	\$ 256.5	\$ 301.8	\$ 45.3	17.7%
Total	\$ 2,942.4	\$ 3,412.3	\$ 469.9	16.0%

Source: CPS FY2005 & FY2009 Budgets.

CPS has filed a lawsuit claiming that the disparity between the Illinois General Assembly's funding of the Teachers' Pension Fund and the Teachers' Retirement System of the State of Illinois is invalid under Article IV, Section 13 of the Illinois Constitution because:

...by passing a local law when a general law is or can be made applicable, the General Assembly has discriminated among those similarly situated with no rational basis.²⁰

At issue is that the State of Illinois has in the past pledged as a goal to contribute to the CPS Pension Fund an amount equal to 20% to 30% of the amount contributed to the State of Illinois Teachers' Retirement System (which provides pension benefits for all non-Chicago teachers). In 2008, the State contributed \$75.2 million to the CPS Pension Fund; this is an amount between \$133 million to \$237.1 million less than would have been contributed if the State met its stated goal. If the State fulfilled its goal, the fiscal pressure on the CPS would lessen substantially. However, there certainly is no guarantee that the District will win injunctive relief in court or that if it did win that the ruling would not be appealed by the State. In any event, the State faces severe financial difficulties of its own today and would be hard pressed to contribute additional funds to the CPS Pension Fund. So, until and if the CPS Pension Fund receives a huge new cash infusion, the District must continue to grapple with the problem of skyrocketing employee pension costs.

Rate of Growth in Benefit Costs Outstrips Operating Revenue Growth

The growth in CPS personnel costs continues to outstrip general operating revenue growth. CPS's operating revenues²¹ used to pay for employee benefits rose by 17.5% in the five-year period between FY2005 and FY2009. During the same five-year period, benefit costs increased by 49.0%, a figure 2.8 times as large as the revenue increase.

²⁰ *Board of Education of the City of Chicago v. Alexi Giannoulis and Daniel Hynes*. Complaint for Declaratory Judgment and Injunctive Relief. Filed in the Circuit Court of Cook County, County Department, Chancery Division. Case No. 08CH09640.

²¹ "Operating revenues" here refers to General and Special Revenue Funds.

CPS Employee Compensation FY2005 & FY2009 (Operating Funds)				
(in \$ millions)				
Expenditure Type	FY2005	FY2009	\$ Change	% Change
Teacher Pension	\$ 199.0	\$ 399.6	\$ 200.6	100.8%
ESP Pension	\$ 83.4	\$ 96.7	\$ 13.3	15.9%
Hospitalization	\$ 256.5	\$ 301.8	\$ 45.3	17.7%
Unemployment Compensation	\$ 3.2	\$ 11.0	\$ 7.8	243.8%
Medicare/Social Security	\$ 25.6	\$ 36.9	\$ 11.3	44.1%
Subtotal Benefits	\$ 567.7	\$ 846.0	\$ 278.3	49.0%

Source: CPS Budgets

Given CPS's present expenditure and revenue structure, the District's current rate of benefit increases is unsustainable over time.

Declining Student Enrollment

CPS enrollment continues to decline while at the same time operating costs climb. Between 2002 and 2007, pupil enrollment fell by 29,922 students or 6.8%. Enrollment between 2008 and 2009 is expected to decline by 0.9% or 3,601 students. This downward trend will likely continue into the foreseeable future. Declining enrollment has two significant impacts:

- Fewer teachers and support personnel are required. While CPS has responded to this trend with reductions in personnel, over time reductions will help to reduce, but will not eliminate, personnel cost pressures.
- The District must review its capital plant needs and costs in light of changing enrollment figures. New schools will need to be built in areas of growing student population while schools in declining areas will likely be closed. It is important to note, however, that closing a school does not eliminate all capital costs as the buildings must be maintained until a decision is made regarding their final disposition. Therefore, capital costs are likely to remain high even as the number of buildings in use may decline.

Civic Federation Recommendations

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

Implement Pension Benefit Reforms

It is imperative that CPS 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%. In FY2009, CPS's share of employee pension costs will total over \$400 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. Salaries would be held constant, so this would shift more of the escalating pension costs onto employees. 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.²²

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.

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 functions. These performance measures should be made publicly available in the budget document and/or other financial management reports.

²² The Civic Federation, *Recommendations to Reform Public Pension Boards of Trustees in Illinois*, February 13, 2006.

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 (CIP). 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

Develop and Implement a Formal Long-Term Financial Plan

CPS uses multi-year forecasts to understand the impact of the proposed budget on future fiscal years. Estimates are prepared using historical data. The District faces a difficulty in that the amount of state aid provided each year, which is one of its main funding sources, is highly unpredictable.²⁴ However, CPS does not develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders.

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.²⁵ A long-term financial plan typically includes 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. The plan helps governments address fiscal challenges before they become fiscal crises.

A long-term financial plan can frame the issues and challenges facing CPS, assist stakeholders in understanding those issues and challenges, and help the district to focus on concrete actions it can take in the future. Several local governments, including the City Colleges of Chicago and

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

²⁴ Information provided to the Civic Federation by CPS Office of Management and Budget, August 5, 2008.

²⁵ See National Advisory Council on State and Local Budgeting and Government Finance Officers Association.

the Metropolitan Water Reclamation District, publish their long-term financial plans in their budget documents. CPS must follow their fiscally-sound example.

CPS leadership has indicated to the Civic Federation on two occasions that it would move to develop a formal long-term financial plan:

1. At the April 10, 2007 press conference where CPS Chief Executive Officer Arne Duncan joined City of Chicago Mayor Daley and Metropolitan Mayors Caucus Chair Ed Schock of Elgin in endorsing a series of school financial management accountability reforms which included the development of a long-term financial plan;²⁶ and
2. In a meeting with the Civic Federation on the FY2008 budget, when CPS financial staff indicated the District was developing a four-year long-term financial projection to be incorporated into the FY2009 budget.²⁷

Given the long-term financial difficulties the District will face in future years, developing a formal long-term financial plan that can be reviewed and discussed by key stakeholders is imperative. The Civic Federation strongly urges CPS to move forward on developing a long-term financial planning process.

Consider Revising the Public Comment Procedures

The Civic Federation recommends that CPS consider revising its public comment schedule to allow for greater consideration of stakeholder input. CPS currently provides four opportunities for public comment on its annual budget: three meetings at locations around the City of Chicago at which Board members are not present, and a final meeting before a Board of Trustees meeting immediately after which the Board votes on the budget. Most other governments in the region require the Board members to be present at public budget hearings and hold these meetings several days, or weeks, prior to the governing body voting on the budget. We believe that this type of public comment system is preferable to CPS's current system as it allows members of the governing board sufficient time to consider the opinions of various stakeholders before making a final decision.

We also recommend that CPS make the budget document is available online at least three days prior to the first hearing. If circumstances do not allow for this to happen, we suggest making hard copies of the budget document available at the hearings, in addition to the current practice of placing copies of the budget document in all Chicago Public Libraries.

Finally, we urge CPS to clearly present information pertaining to the public comment hearings on its website, as well as throughout the community. This information should be easily accessible to the public in order to ensure proper participation in CPS's budget process.

Consider Creating a Trust Fund to Pre-Pay Retiree Health Insurance Expenses

²⁶ 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.

²⁷ Information provided to the Civic Federation in meeting with CPS Finance and Budget staff, July 31, 2007.

As required by GASB Statement 43, the Public School Teachers' Pension Fund has disclosed information about other post employment benefits (OPEB) in its audited financial statements. Per state statute,²⁸ the total health insurance benefits provided in a single year may not exceed \$65.0 million, plus any previous year amounts authorized but not spent.

To date, the Pension Fund has opted to continue paying for OPEB expenses on a pay-as-you-go basis. Other local governments, such as the Metropolitan Water Reclamation District and the Chicago Transit Authority, have established irrevocable trust funds to pre-pay obligations. These efforts have been linked to reforms that reduce the governments' costs and liabilities for retiree health insurance and related benefits. They have determined that pre-funding OPEB can be an effective way to spread benefit costs among the generations enjoying the benefits as well as to reduce expenses over time.

The Civic Federation urges the Teachers' Pension Fund to conduct an evaluation of the costs and benefits of establishing an irrevocable trust fund to pre-fund its retiree health insurance obligations.

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 FY2010 budget book:

- Current aggregate personnel information that provides a breakdown of positions by teaching, capital funded, administrative and support categories;
- Five years of comparable, aggregate personnel information that shows positions by fund and by category;
- An evaluation of budget initiative and management efficiencies proposed in the previous fiscal year budget supported by performance and cost-savings data;
- Additional detailed information regarding charter schools and the Renaissance 2010 program, including the number of new charter schools for each fiscal year, the number of new and existing Renaissance 2010 schools for each fiscal year, aggregate appropriations for Renaissance 2010 schools and a narrative explaining the relationship between the charter school and Renaissance 2010 programs;
- 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");
- Comprehensive data showing the amount that will be appropriated for education initiatives, such as dropout prevention or summer jobs programs, both individually and in the aggregate. This information, which has been included in previous CPS budgets, should be restored in FY2010;
- A detailed breakdown, by line item appropriations, of State aid that is listed by total amount received for all mandated and other categorical programs;

²⁸ See 40 ILCS 5/17-142.1

- A detailed breakdown of “other” categories listed throughout the document, such as the “Other Miscellaneous Revenue” section for Local Revenues section and the “Hospitalization/Other Compensation” under the All Funds Appropriations section; and
- Five years of comparable, aggregate data and an accompanying narrative that breaks down the line item budgeted costs of employee health care benefits.

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.

FY2009 BUDGET HIGHLIGHTS

CPS has proposed a FY2009 total budget of nearly \$6.2 billion. The district’s deficit, which was originally projected to be \$371.0 million, was eliminated through a combination of expenditure reductions, increased state funding, increased property tax revenues from new construction, and a transfer of reserve funds.

Deficit Drivers

CPS’s \$371.0 million deficit is primarily due to increased capital budget expenditures. Approximately \$159.4 million or 43.0% of the deficit is due to additional capital costs. The remainder of the cost increases are attributable to both personnel and tuition/contractual service expense increases. Approximately 22.2% of the deficit, or \$82.3 million, can be attributed to increases in personnel items, including an additional \$32.0 million for salary increases and \$50.3 million for benefit increases. The benefit increases are almost entirely tied to increased pension costs.²⁹ Charter schools will cost the District an additional \$38.0 million in FY2009.

²⁹ Meeting between the Civic Federation and Chicago Public Schools Finance Office Staff, July 23, 2008.

Deficit Drivers for FY2009 Chicago Public Schools Budget (in \$ millions)		
	Amount	% of Deficit
Personnel Expense Increases		
Salary Increases	\$ 32.0	8.6%
Benefit Increases	\$ 50.3	13.6%
Total Personnel Expenses Increases	\$ 82.3	22.2%
Tuition & Contractual Service Expense Increases		
Charter and Contract Schools	\$ 38.0	10.2%
Supplementary Education Programs	\$ 25.6	6.9%
Facilities Support	\$ 22.5	6.1%
High School Transformation	\$ 10.5	2.8%
Total Tuition & Contractual Services Increases	\$ 96.6	26.0%
Debt Service Increase	\$ 4.9	1.3%
Other Operating Expense Increases	\$ 27.8	7.5%
Capital Budget Increase	\$ 159.4	43.0%
Total Budget Increase	\$ 371.0	100.0%

Source: CPS FY2009 Budget, p. 6.

Gap-Closing Measures

CPS reported a \$371.0 million deficit for FY2009. This year CPS will use an additional \$56.2 million of its fund balance to help close the budget gap instead of relying on a property tax increase. In addition, in FY2009 CPS will receive \$45.2 million in school carryover funds from previous years and \$20.0 million in debt service funds from the City of Chicago per an intergovernmental agreement to aid in closing their projected budget deficit. The deficit will also be closed through revenue enhancements, including an additional \$99.5 million from the State of Illinois, \$20.5 million from property taxes on new construction, and a \$150.9 million bond issuance.

Gap-Closing Measures in FY2009 Chicago Public Schools Budget (in \$ millions)	
	Amount
Projected Deficit	\$ 371.0
Deficit Reduction Measures - Operating Funds	
Increase in Local Funding	
Revenues from New Construction Property Taxes	\$ 20.5
City Debt Service Flow Through	\$ 20.0
Other Local Funding Sources	\$ 8.6
Total Increase in Local Funding	\$ 49.1
Total Increase in Federal Funding	\$ 6.6
Total Increase in State Funding	\$ 99.5
Operating & Debt Service Fund Balance Withdrawal	\$ 56.2
Subtotal Deficit Reduction Measures - Operating Funds	\$ 211.4
Deficit Reduction Measures - Capital & Debt Funds	
Increase Local Capital Revenue	\$ 103.5
Increase Federal Capital Revenue	\$ 2.5
Increase Bond Issuances	\$ 150.9
Capital Fund Balance Increase	\$ (97.5)
Subtotal Deficit Reduction Measures - Capital & Debt Funds	\$ 159.4
Total	\$ 370.8

*Difference between projected deficit and final total is due to rounding.

Source: CPS FY2009 Budget, p. 6.

Budget Format Changes

CPS has continued to revise and expand the format of its budget book by increasing the amount of information it provides to the public in its FY2009 budget. This year's budget document includes more information about the District's Capital Improvement Plan (CIP), including an executive summary of both the plan and of the funding sources for the plan. The budget book also contains an explanation of the process by which capital projects are ranked by the District. Finally, the District has placed its capital improvement database onto its website, allowing the public to access capital improvement information. The capital information is categorized by each school, allowing the reader to view a list of the work that has been completed at each institution, as well as work that is on the capital agenda.

This year's budget also features snapshots of each school's individual budget, as well as snapshots of the budgets for each department in the central office. The snapshots for the schools, included in School Based Budgeting section, provide readers with an overview of school spending and demographics. The central office snapshots, found in the Organizational Overview section of the budget, also provide spending overviews and highlight the programs that are supported by each office. This information provides the public with a mechanism by which they can assess the amount of money being spent at their institution, as well as the amounts of money that are being spent on administrative items.

In addition to the new information contained within the budget book, this year CPS has produced a supplemental citizen's guide to their FY2009 budget book. The citizen's guide, which was distributed at their public budget hearings, provides readers with an overview of the District's revenues, spending projections and long-term goals. The goal of the publication is to help facilitate the public's understanding of the entire CPS budget process.

RESOURCES: REVENUES AND FUND BALANCE

CPS proposes budgeting nearly \$6.2 billion in total resources for FY2009. This is an increase of 6.4%, or \$371.0 million over FY2008. 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. In FY2009 CPS will no longer levy for the Public Building Commission Operation and Maintenance fund. Its separate property tax levy will instead be folded into the levy for the General Fund. This results in a decrease of \$367.0 million for the Special Revenue Funds, but an increase of \$390.0 million for the General Fund.³⁰

³⁰ Email communication between the Civic Federation and CPS Office of Management and Budget, August 5, 2008.

Chicago Public Schools Resources: All Funds				
FY2008 & FY2009				
	FY2008	FY2009	\$ Change	% Change
General Operating Funds				
General Fund	\$ 2,976.7	\$ 3,550.3	\$ 573.6	19.3%
Special Revenue Funds	\$ 1,671.6	\$ 1,304.6	\$ (367.0)	-22.0%
Subtotal General Operating Funds	\$ 4,648.3	\$ 4,854.9	\$ 206.6	4.4%
Capital Projects Funds	\$ 855.0	\$ 1,014.4	\$ 159.4	18.6%
Debt Service Funds	\$ 283.2	\$ 288.1	\$ 4.9	1.7%
Total	\$ 5,786.5	\$ 6,157.4	\$ 370.9	6.4%

Source: CPS FY2008 Budget, p. 11; and FY2009 Budget, p. 22.

All funds resources include:

- \$5.1 billion in current revenues, including \$555.9 million of proceeds from new bond issues for the Capital Improvement Program; and
- \$517.7 million in prior-year fund balance carried over and appropriated for FY2009, which includes a \$100.0 million transfer from the General Fund. The majority of this fund balance, \$352.5 million, is capital funding on hand from FY2008 for the Modern Schools Across Chicago (MSAC) construction program.

General Operating Fund resources will increase by 4.4% or \$206.6 million, from \$4.6 billion to nearly \$4.9 billion. This year, CPS will use \$100.0 million of the previous year-end fund balance, leaving \$122.4 million in General Fund reserve fund balance for FY2008. Special Revenue Fund resources will decrease by 22.0%, or \$367.0 million, due to the reclassification of the Operations and Maintenance Fund to the General Fund. Debt service fund resources in FY2009 will increase by 1.7% or \$4.9 million to \$288.1 million.

The CPS Capital Projects Fund will rise by 18.6%, or \$159.4 million, over FY2008 due to the carry-over of funds from years past for the Modern Schools Across Chicago construction program. These funds will continue to be carried over each year until the projects are completed. Approximately \$555.9 million, or 54.8%, of the FY2009 capital fund resources will come from “other financing sources”, while \$352.5 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 FY2009.

Chicago Public Schools FY2009 Appropriated Resources by Fund Type (in \$ thousands)						
	General Fund	Special Revenue	Subtotal Operating Funds	Debt Service	Capital	Total
Fund Balance Appropriated	\$ 100,000	\$ 45,200	\$ 145,200	\$ 20,000	\$ 352,500	\$ 517,700
Property Taxes	\$ 1,756,460	\$ 74,700	\$ 1,831,160	\$ 11,838	\$ -	\$ 1,842,998
PPRT	\$ 105,820	\$ 30,000	\$ 135,820	\$ 55,684	\$ -	\$ 191,504
Investment Interest Income	\$ 31,600	\$ 800	\$ 32,400	\$ -	\$ 15,000	\$ 47,400
Miscellaneous Local Revenue	\$ 82,950	\$ 25,766	\$ 108,716	\$ 20,114	\$ 88,500	\$ 217,330
Subtotal Local Revenue	\$ 1,976,830	\$ 131,266	\$ 2,108,096	\$ 87,636	\$ 103,500	\$ 2,299,232
General State Aid (GSA)	\$ 697,879	\$ 261,000	\$ 958,879	\$ 180,421	\$ -	\$ 1,139,300
State Aid - Teacher Pension	\$ 71,023	\$ 3,800	\$ 74,823	\$ -	\$ -	\$ 74,823
Flat Grant ADA	\$ 12,500	\$ -	\$ 12,500	\$ -	\$ -	\$ 12,500
Block Grants: Ed. Serv. & Gen. Ed	\$ 621,723	\$ 13,334	\$ 635,057	\$ -	\$ -	\$ 635,057
Other State Aid	\$ 27,300	\$ 24,258	\$ 51,558	\$ -	\$ -	\$ 51,558
Subtotal State	\$ 1,430,425	\$ 302,392	\$ 1,732,817	\$ 180,421	\$ -	\$ 1,913,238
Elem & Sec. Ed.--NCLB	\$ 180	\$ 440,722	\$ 440,902	\$ -	\$ -	\$ 440,902
Child Nutrition	\$ -	\$ 147,316	\$ 147,316	\$ -	\$ -	\$ 147,316
Special Ed. -- IDEA	\$ -	\$ 113,500	\$ 113,500	\$ -	\$ -	\$ 113,500
Medicaid, ROTC, Other	\$ 42,848	\$ 124,242	\$ 167,090	\$ -	\$ 2,500	\$ 169,590
Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal Federal	\$ 43,028	\$ 825,780	\$ 868,808	\$ -	\$ 2,500	\$ 871,308
Other Financing Sources	\$ -	\$ -	\$ -	\$ -	\$ 555,916	\$ 555,916
Total Revenues	\$ 3,450,283	\$ 1,259,438	\$ 4,709,721	\$ 268,057	\$ 661,916	\$ 5,083,778
Total Resources	\$ 3,550,283	\$ 1,304,638	\$ 4,854,921	\$ 288,057	\$ 1,014,416	\$ 6,157,394

Source: Chicago Public Schools FY2009 Budget, p. 25.

All Fund Revenues Overview

The FY2009 budget projects a 5.4% increase in revenues for all funds from the previous year. This is a \$258.4 million increase over FY2008.

- Local revenues are expected to increase by 7.1%, or \$152.7 million, to nearly \$2.3 billion. This includes a \$129.7 million expected increase in Miscellaneous Local Revenues, which partially results from an expected \$88.5 million reimbursement to CPS from the City for the Modern Schools Across Chicago program and a \$12 million expected increase in private grant and foundation funding.³¹
- Revenues provided by the State of Illinois are projected to rise by 5.3%, or \$96.5 million.
- Federal funding will increase by 1.1%, or \$9.1 million, primarily due to increased funding for Special Education, which is expected to increase by 5.0% or \$5.4 million.
- Other funding sources, totaling \$555.9 million for FY2009, are comprised of bond proceeds - \$550.0 million in new bonds and \$5.9 million from Qualified Zone Academy Bonds.³²

³¹ Email communication between the Civic Federation and CPS Office of Management and Budget, August 5, 2008.

³² Ibid.

Chicago Public Schools Appropriated Resources by Source				
All Funds FY2008-FY2009 (in \$ thousands)				
	FY2008	FY2009		
	Proposed	Proposed	\$ Change	% Change
Fund Balance Appropriated	\$ 559,000	\$ 517,700	\$ (41,300)	-7.4%
Property Taxes	\$ 1,822,489	\$ 1,842,998	\$ 20,509	1.1%
PPRT	\$ 200,007	\$ 191,504	\$ (8,503)	-4.3%
Investment Interest Income	\$ 36,650	\$ 47,400	\$ 10,750	29.3%
Lunchroom Sales	\$ 9,600	\$ 9,800	\$ 200	2.1%
Miscellaneous Local Revenue	\$ 77,790	\$ 207,530	\$ 129,740	166.8%
Subtotal Local Revenue	\$ 2,146,536	\$ 2,299,232	\$ 152,696	7.1%
General State Aid (GSA)	\$ 1,086,382	\$ 1,139,300	\$ 52,918	4.9%
State Aid - Teacher Pension	\$ 75,263	\$ 74,823	\$ (440)	-0.6%
Flat Grant ADA	\$ 14,400	\$ 12,500	\$ (1,900)	-13.2%
Block Grants: Ed. Serv. & Gen. Ed	\$ 585,061	\$ 635,057	\$ 49,996	8.5%
Other State Aid	\$ 52,608	\$ 51,558	\$ (1,050)	-2.0%
Other State Revenue*	\$ 3,000	\$ -	\$ (3,000)	100.0%
Subtotal State	\$ 1,816,714	\$ 1,913,238	\$ 96,524	5.3%
Elem & Sec. Ed.--NCLB	\$ 435,000	\$ 440,902	\$ 5,902	1.4%
Child Nutrition	\$ 146,077	\$ 147,316	\$ 1,239	0.8%
Special Ed. -- IDEA	\$ 108,086	\$ 113,500	\$ 5,414	5.0%
Medicaid, ROTC, Other	\$ 172,999	\$ 169,590	\$ (3,409)	-2.0%
Subtotal Federal	\$ 862,162	\$ 871,308	\$ 9,146	1.1%
Total Revenues	\$ 4,825,412	\$ 5,083,778	\$ 258,366	5.4%
Other Financing Sources	\$ 405,000	\$ 555,916	\$ 150,916	37.3%
Total Resources	\$ 5,789,412	\$ 6,157,394	\$ 367,982	6.4%

*Other source of revenue not specified by CPS

Source: Chicago Public Schools FY2008 Budget pp. 14 and 15; FY2009 Budget pp. 25 and 26; and CPS Office of Management and Budget.

Several key assumptions built into the FY2009 revenue projections, including some projections for General State Aid and mandated categoricals, are based upon state budget appropriations found within Public Act 95-734:³³

- The tax-capped portion of the property tax levy will remain constant. However, there will be a \$20.5 million increase for new property that is not subject to the tax cap;
- Personal Property Replacement Tax³⁴ revenues are projected to decrease by 4.3%, or \$8.5 million. This projected decrease is based on a budget-to-budget comparison and is in light of an expected continued decline in Illinois' economy;
- Projected statewide increases for categorical programs are expected as follows: \$115.4 million for mandated categoricals; \$32.4 million for the Early Childhood Block Grant; and, a total of \$31.8 million for the Transition Assistance grant. CPS is slated to receive a portion of these increases, including \$32.8 million from mandated categorical programs and \$12.0 million for the Early Childhood programs;

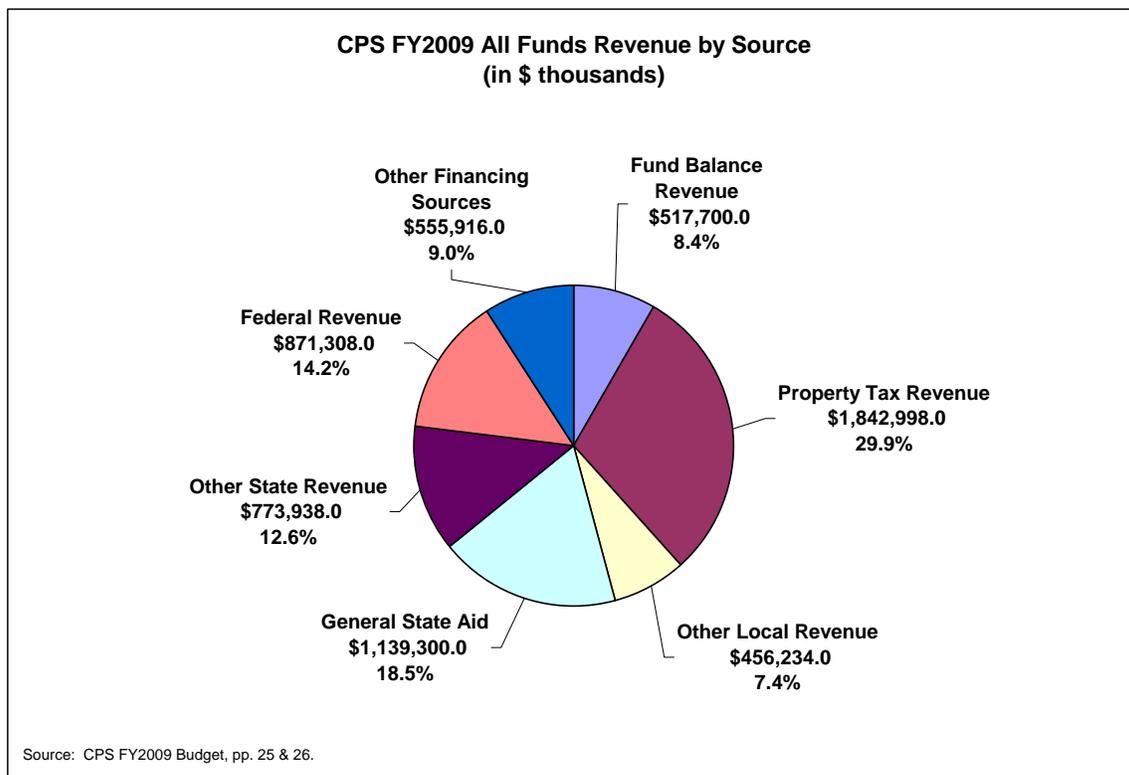
³³ Chicago Public Schools FY2009 Budget, p.52.

³⁴ The Personal Property Replacement Tax is a corporate income tax.

- CPS's budget projects that General State Aid will increase by \$52.9 million to \$1,139.3 million in FY2009. Consequently, an increase in the state foundation level is expected, rising to \$5,959 per pupil. This is a 3.9% increase, or \$225, from \$5,734 per pupil in FY2008;
- Under the terms of P.A. 93-845, which allows CPS to file for a prior year Equalized Assessed Value (EAV) adjustment in FY2009, CPS anticipates filing for this adjustment which is expected to generate \$16.3 million for CPS³⁵;
- CPS anticipates \$74.8 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 FY2008.

Chicago Public Schools All Funds Revenues by Source

In FY2009, 29.9% of all CPS revenues, or \$1.8 billion, will come from local property tax revenues. The State of Illinois will provide the second largest component of the CPS revenue stream in the form of General State Aid, with 18.5% of the total, or \$1.1 billion. Federal funds will be the third largest source of revenues at 14.2% of the total or \$871.3 million.



Five-Year CPS Revenue Trend for All Funds

CPS revenues are projected to increase by 22.0 % between FY2005 and FY2009. This is a \$1.1 billion increase, from \$5.0 billion to approximately \$6.1 billion. Local revenues will increase by

³⁵ Chicago Public Schools FY2009 Budget, p. 52.

4.4% over the five-year period, with property taxes, the largest local revenue source, rising by \$209.7 million. State revenues between FY2005 and FY2009 are projected to increase by 16.8%, from \$1.6 billion to \$1.9 billion. Revenue from the PPRT is projected to increase by 65.7% over the five-year period. Federal funding is expected to show a modest percentage gain in revenues, up only 4.7% to \$39.0 million.

Chicago Public Schools Appropriated Resources by Source				
All Funds FY2005-FY2009 (in \$ thousands)				
	FY2005 Proposed	FY2009 Proposed	\$ Change	% Change
Fund Balance Appropriated	\$ 374,285	\$ 517,700	\$ 143,415	38.3%
Property Taxes	\$ 1,633,328	\$ 1,842,998	\$ 209,670	12.8%
PPRT	\$ 115,600	\$ 191,504	\$ 75,904	65.7%
Investment Interest Income	\$ 32,851	\$ 47,400	\$ 14,549	44.3%
Miscellaneous Local Revenue	\$ 420,707	\$ 217,330	\$ (203,377)	-48.3%
Subtotal Local Revenue	\$ 2,202,486	\$ 2,299,232	\$ 96,746	4.4%
General State Aid (GSA)	\$ 910,900	\$ 1,139,300	\$ 228,400	25.1%
State Aid - Teacher Pension	\$ 65,045	\$ 74,823	\$ 9,778	15.0%
Flat Grant ADA	\$ 11,237	\$ 12,500	\$ 1,263	11.2%
Block Grants: Ed. Serv. & Gen. Ed	\$ 494,803	\$ 635,057	\$ 140,254	28.3%
Other State Aid	\$ 156,083	\$ 51,558	\$ (104,525)	-67.0%
Subtotal State	\$ 1,638,068	\$ 1,913,238	\$ 275,170	16.8%
Elem & Sec. Ed.--NCLB	\$ 401,594	\$ 440,902	\$ 39,308	9.8%
Child Nutrition	\$ 154,463	\$ 147,316	\$ (7,147)	-4.6%
Special Ed. -- IDEA	\$ 104,915	\$ 113,500	\$ 8,585	8.2%
Medicaid, ROTC, Other	\$ 171,302	\$ 169,590	\$ (1,712)	-1.0%
Subtotal Federal	\$ 832,274	\$ 871,308	\$ 39,034	4.7%
Total Revenues	\$ 4,672,828	\$ 5,083,778	\$ 410,950	8.8%
Other Financing Sources	\$ -	\$ 555,916	\$ 555,916	100.0%
Total Resources	\$ 5,047,113	\$ 6,157,394	\$ 1,110,281	22.0%

Source: Chicago Public Schools FY2005 Budget p. 23; and FY2009 Budget pp. 25 and 26.

General Operating Fund Revenues

CPS's General Operating Funds, comprising the General and Special Revenue Funds, together fund CPS's general operations. General Operating Fund Revenues will total \$4.7 billion and will represent 78.8% of all fund revenues in FY2009.

In FY2009, General Operating Funds resources are expected to rise by 4.6%, from approximately \$4.7 to nearly \$4.9 billion, over FY2008. This is an increase of \$213.5 million.

CPS's local revenues will provide \$2.1 billion of all General Operating Funds revenues. State sources will provide the second largest amount: \$1.7 billion. Federal funds are expected to total \$868.8 in FY2009.

Chicago Public Schools General Fund and Special Revenue Fund Resources FY2008-FY2009 (in \$ thousands)				
	FY2008	FY2009	\$ Change	% Change
Fund Balance Appropriated	\$ 109,000	\$ 145,200	\$ 36,200	33.2%
Property Taxes	\$ 1,770,689	\$ 1,831,160	\$ 60,471	3.4%
PPRT	\$ 145,900	\$ 135,820	\$ (10,080)	-6.9%
Investment Interest Income	\$ 36,650	\$ 32,400	\$ (4,250)	-11.6%
Lunchroom Sales	\$ 9,600	\$ 9,800	\$ 200	2.1%
Miscellaneous Local Revenue	\$ 60,923	\$ 108,716	\$ 47,793	78.4%
Subtotal Local Revenue	\$ 2,023,762	\$ 2,117,896	\$ 94,134	4.7%
General State Aid (GSA)	\$ 926,000	\$ 958,879	\$ 32,879	3.6%
State Aid - Teacher Pension	\$ 75,263	\$ 74,823	\$ (440)	-0.6%
Fiat Grant ADA	\$ 14,400	\$ 12,500	\$ (1,900)	-13.2%
Block Grants: Ed. Serv. & Gen. Ed	\$ 585,061	\$ 635,057	\$ 49,996	8.5%
Other State Aid	\$ 52,608	\$ 51,558	\$ (1,050)	-2.0%
Other State Revenue*	\$ 3,000	\$ -	\$ (3,000)	-100.0%
Subtotal State	\$ 1,656,332	\$ 1,732,817	\$ 76,485	4.6%
Elem & Sec. Ed.--NCLB	\$ 435,000	\$ 440,902	\$ 5,902	1.4%
Child Nutrition	\$ 146,077	\$ 147,316	\$ 1,239	0.8%
Special Ed. -- IDEA	\$ 108,086	\$ 113,500	\$ 5,414	5.0%
Medicaid, ROTC, Other	\$ 172,999	\$ 167,090	\$ (5,909)	-3.4%
Subtotal Federal	\$ 862,162	\$ 868,808	\$ 6,646	0.8%
Total Revenues	\$ 4,542,256	\$ 4,719,521	\$ 177,265	3.9%
Total Resources	\$ 4,651,256	\$ 4,864,721	\$ 213,465	4.6%

*Specific funding source not specified by CPS.

Source: Chicago Public Schools FY2008 Budget pp. 14-15; and FY2009 Budget p. 25.

The next exhibit shows a five-year trend in General Operating Funds resources and revenues, from the FY2005 proposed budget to the FY2009 proposed budget. Over this five-year period, general operating resources, including appropriated fund balances, increased by 20.2%, or \$816.8 million. The fund balance five-year appropriation increase of \$114.9 million or 379.2% is attributable to the District's decision to place \$100.0 million of reserve funds into the General Fund to balance the FY2009 budget without a property tax increase.

Chicago Public Schools General Fund and Special Revenue Fund Resources FY2005-FY2009 (in \$ thousands)				
	FY2005	FY2009	\$ Change	% Change
Fund Balance Appropriated	\$ 30,300	\$ 145,200	\$ 114,900	379.2%
Property Taxes	\$ 1,582,000	\$ 1,831,160	\$ 249,160	15.7%
PPRT	\$ 72,774	\$ 135,820	\$ 63,046	86.6%
Investment Interest Income	\$ 16,300	\$ 32,400	\$ 16,100	98.8%
Lunchroom Sales	\$ 13,000	\$ 9,800	\$ (3,200)	-24.6%
Miscellaneous Local Revenue	\$ 59,307	\$ 108,716	\$ 49,409	83.3%
Subtotal Local Revenue	\$ 1,743,381	\$ 2,117,896	\$ 374,515	21.5%
General State Aid (GSA)	\$ 824,840	\$ 958,879	\$ 134,039	16.3%
State Aid - Teacher Pension	\$ 65,045	\$ 74,823	\$ 9,778	15.0%
Flat Grant ADA	\$ 11,237	\$ 12,500	\$ 1,263	11.2%
Block Grants: Ed. Serv. & Gen. Ed	\$ 494,803	\$ 635,057	\$ 140,254	28.3%
Other State Aid	\$ 46,082	\$ 51,558	\$ 5,476	11.9%
Subtotal State	\$ 1,442,007	\$ 1,732,817	\$ 290,810	20.2%
Elem & Sec. Ed.--NCLB	\$ 401,594	\$ 440,902	\$ 39,308	9.8%
Child Nutrition	\$ 154,463	\$ 147,316	\$ (7,147)	-4.6%
Special Ed. -- IDEA	\$ 104,915	\$ 113,500	\$ 8,585	8.2%
Medicaid, ROTC, Other	\$ 171,302	\$ 167,090	\$ (4,212)	-2.5%
Subtotal Federal	\$ 832,274	\$ 868,808	\$ 36,534	4.4%
Total Revenues	\$ 4,017,662	\$ 4,719,521	\$ 701,859	17.5%
Total Resources	\$ 4,047,962	\$ 4,864,721	\$ 816,759	20.2%

*Specific funding source not specified by CPS.

Source: Chicago Public Schools FY2005 Budget p. 23; and FY2009 Budget p. 25.

State Funding for Programs

The State of Illinois will provide over \$1.9 billion in revenues for CPS operating budget programs in FY2009. In addition, the state will provide a \$74.8 million contribution to the CPS teachers' pension fund.

The exhibit below shows the distribution of FY2009 state monies. State operating support, excluding pensions, will increase by 5.8%, or \$100.0 million. General State Aid will increase by 4.8%, or \$52.9 million. Spending for every mandated categorical program increased, with the exception of orphanage spending for non-special education students. Career and Technical Education funding increased by \$2.7 million, or 26.7%, over FY2008. Funding for School Safety and Educational Improvement, along with Illinois Charter School Programs, decreased by 13.2% and 25.0% respectively, over FY2008.

Detail of State Funding for CPS General Operating Budget (Excluding Pensions) in FY2009				
(in \$ millions)				
	FY2008	FY2009	\$ Change	% Change
General State Aid (Net)	\$ 1,102.7	\$ 1,155.6	\$ 52.9	4.8%
Mandated Categoricals				
Sp Ed - Summer School	\$ 5.1	\$ 6.0	\$ 0.9	17.6%
Sp Ed - Extraordinary	\$ 84.0	\$ 90.7	\$ 6.7	8.0%
Sp Ed - Orphanage 7.03	\$ 30.4	\$ 36.4	\$ 6.0	19.7%
Sp Ed - Personnel	\$ 75.3	\$ 75.4	\$ 0.1	0.1%
Sp Ed - Private Tuition	\$ 56.5	\$ 67.4	\$ 10.9	19.3%
Transportation - Reg & Voc	\$ 11.9	\$ 13.2	\$ 1.3	10.9%
Transportation - Sp Ed	\$ 107.3	\$ 111.7	\$ 4.4	4.1%
IL Free Lunch/Breakfast	\$ 10.6	\$ 13.3	\$ 2.7	25.5%
Orphanage Regular 18-3	\$ 6.5	\$ 5.8	\$ (0.7)	-10.8%
Sub Total	\$ 387.6	\$ 419.9	\$ 32.3	8.3%
Selected Other Categorical Programs				
Illinois Charter Schools	\$ 3.2	\$ 2.4	\$ (0.8)	-25.0%
Bilingual - Chicago	\$ 36.9	\$ 41.5	\$ 4.6	12.5%
Early Childhood Block	\$ 128.8	\$ 140.7	\$ 11.9	9.2%
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	\$ 5.4	\$ 0.6	12.5%
School Safety & Ed Improvement Block Grant	\$ 14.4	\$ 12.5	\$ (1.9)	-13.2%
Alternative Education/Regional Safe Schools	\$ 3.7	\$ 3.7	\$ -	0.0%
Career & Technical Ed	\$ 6.0	\$ 7.6	\$ 1.6	26.7%
ROE/ISC - Operations	\$ 0.9	\$ 0.9	\$ -	0.0%
Sub Total Selected Other Programs	\$ 231.1	\$ 247.1	\$ 16.0	6.9%
All Other State General Fd Ed Programs	\$ 14.0	\$ 15.8	\$ 1.8	12.9%
Other State Revenue*	\$ 3.0	\$ -	\$ (3.0)	-100.0%
Total State Funding for CPS	\$ 1,738.4	\$ 1,838.4	\$ 100.0	5.8%

Note: FY2008 numbers are estimations made by CPS while FY2009 are actual legislatively-authorized totals.

*CPS did not specify the source of this funding.

Source: CPS Office of Management and Budget.

CPS is projecting that foundation level will increase from \$5,734 in FY2008 to \$5,959 per pupil in FY2009, a \$225 or 3.9% increase. This increase returns to a level that is in line with years past, as opposed to the foundation level increase in FY2008 of nearly 7.5%.

The next exhibit shows increases in the foundation level for state per pupil funding between FY2005 and FY2009. During this five-year period, the foundation level rose by \$995 or 20.0%, from \$5,734 to \$5,959 per pupil.

State of Illinois General State Aid Foundation Level (Per Pupil)			
	Foundation Level Per Pupil	\$ Change from Prior Year	% Change from Prior Year
FY2005	\$ 4,964	-	-
FY2006	\$ 5,164	\$ 200	4.0%
FY2007	\$ 5,334	\$ 170	3.3%
FY2008	\$ 5,734	\$ 400	7.5%
FY2009*	\$ 5,959	\$ 225	3.9%
\$ Change	\$ 995		
% Change	20.0%		

*Note: the foundation level for FY2009 is a CPS estimate, whereas the remaining figures are actual.

Source: ISBE Illinois Ed. Funding Recommendations, April 2005, p. 2; FY2007 Budget, p. 7; CPS FY2009 Budget, p. 52.

Property Tax Revenues

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 2008 will actually be received in 2009. Taken together, these two circumstances mean that the property tax funds available during the CPS upcoming fiscal year (FY2009) will be drawn from half of tax year 2007 and half of tax year 2008.

Overall, the CPS's property tax revenues for all funds are projected to only slightly increase, from \$1.82 billion in FY2008 to \$1.84 billion in FY2009, a \$20.5 million or 1.1% increase. This result is due to the District's decision to not increase the property tax levy for tax capped funds in tax year 2008. The last year that the District's levy was less than the maximum amount allowed was FY1999.³⁶ With that one exception, the District has opted to increase the property tax levy to the maximum amount allowed by the tax cap law every year since FY1997.

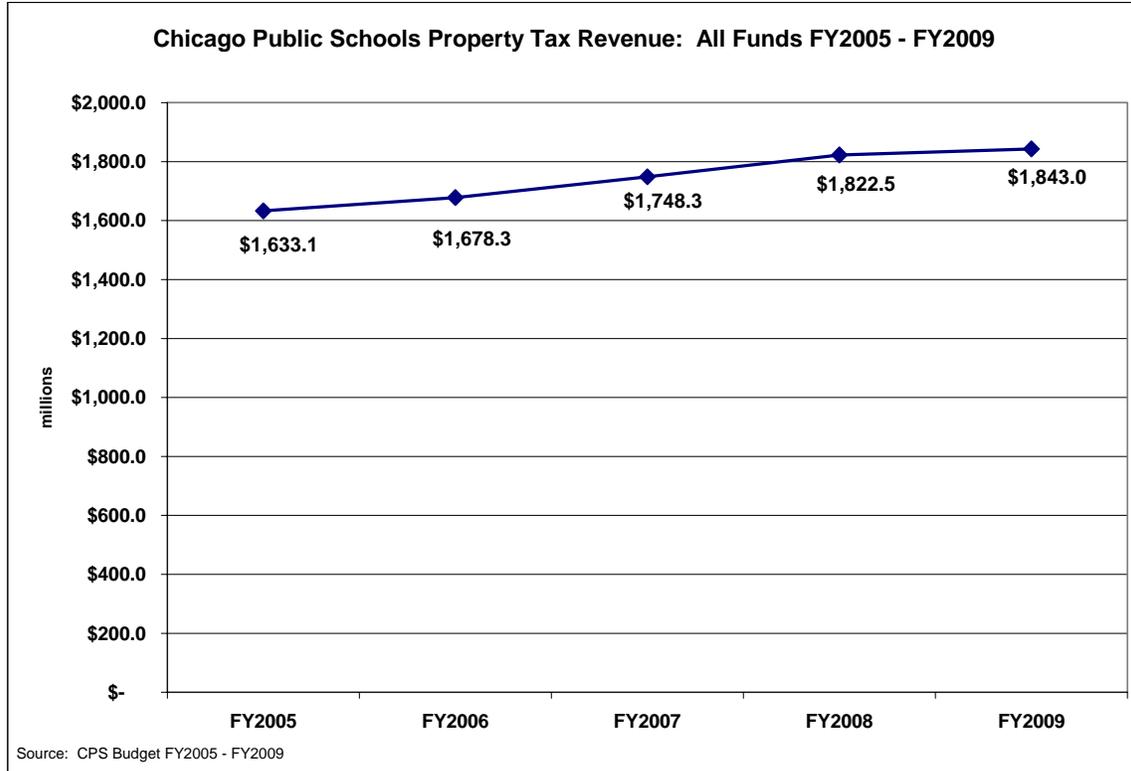
The slight increase of \$20.5 million over FY2008 property tax revenues is attributable to an increase in the FY2009 taxes for new properties which are not subject to the tax cap.³⁷ In FY2008, the District anticipated an increase of \$19.0 million for property tax increases for new buildings or additions to existing buildings.

The FY2009 budget assumes a property tax collection rate of 96.5%, identical with the collection rate assumed in FY2008.³⁸ Since FY2005, total property tax revenues have increased by 12.9% or \$209.9 million.

³⁶ *Chicago Public Schools FY1999 Budget*, p. 48.

³⁷ 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> (last visited on August 21, 2008).

³⁸ *Chicago Public Schools FY2007 Budget*, p. 27 and CPS Office of Management and Budget.



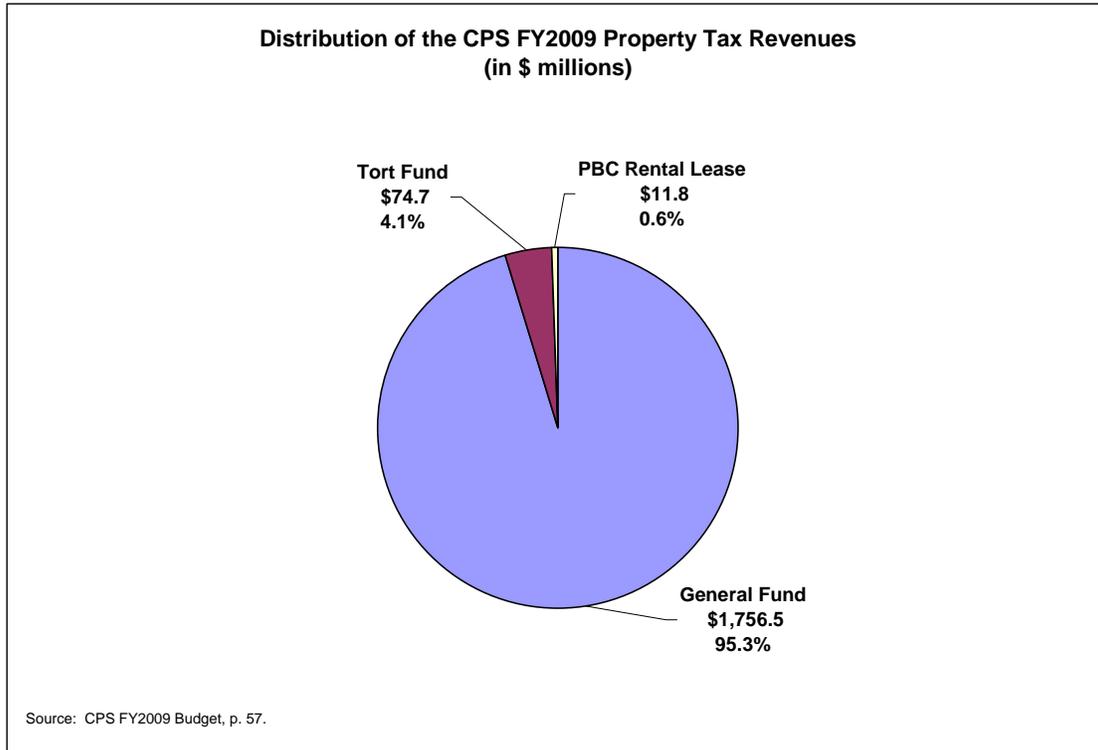
The next exhibit shows a ten-year trend for CPS property tax revenues. Over that period, property tax revenues have risen by 31.3% or \$439.3 million. This represents an increase from approximately \$1.40 billion to \$1.84 billion.

Chicago Public Schools Property Tax Revenue: FY2000 to FY2009 (in \$ millions)			
Fiscal Year	Revenue	\$ Change from Previous Year	% Change from Previous Year
FY2000	\$ 1,403.7	-	-
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%
FY2009	\$ 1,843.0	\$ 20.5	1.1%
10-Year \$ Change	\$ 439.3		
10-Year % Change	31.3%		

Source: CPS Budgets FY2000-FY2009

The following graph depicts the allocation of FY2009 property tax revenues to CPS funds. Beginning on July 1, 2008, CPS will no longer maintain a separate property tax levy for the Public Building Commissioner Operations and Maintenance (PBC O&M) Fund. Instead, the

General Fund revenues will support PBC O & M expenses. As a result, approximately 95.3% or nearly \$1.76 billion of the levy is earmarked for the General Fund to finance CPS operations. The second largest amount, \$74.7 million, is set aside for the Workers and Unemployment Compensation Tort Immunity Fund, while only 0.6% of the levy will be used 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 FY2009 are also presented and discussed.

Appropriations

The proposed FY2009 Chicago Public Schools budget will increase by 6.4%, rising from \$5.8 billion to \$6.2 billion. This is a \$371.0 million increase. Nearly 18.6% of the total increase or \$159.4 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 4.4%, or by \$206.7 million. Appropriations for the Debt Service fund will also increase by \$4.9 million, or 1.7%.

CPS Appropriations: All Funds FY2008 & FY2009 (in \$ millions)				
Fund Type	FY2008 Proposed	FY2009 Proposed	\$ Change	% Change
General Operating Funds	\$ 4,648.2	\$ 4,854.9	\$ 206.7	4.4%
Capital Projects Fund	\$ 855.0	\$ 1,014.4	\$ 159.4	18.6%
Debt Service Fund	\$ 283.2	\$ 288.1	\$ 4.9	1.7%
Total Appropriation	\$ 5,786.4	\$ 6,157.4	\$ 371.0	6.4%

Source: CPS FY2009 Budget, p. 4.

Appropriations by Expenditure Type: Change from FY2008 to FY2009

The FY2009 CPS budget proposes a total All Funds appropriation of approximately \$6.2 billion. This is a 6.4% increase over the previous year's proposed appropriation of nearly \$5.8 billion. Approximately 56.2% of appropriations or \$3.5 billion is earmarked for salaries and benefits. Over \$2.0 billion, or 32.5% of all appropriations, is reserved for teachers' salaries, while \$598.0 million is proposed for non-teacher salaries, such as support staff, janitors, and any other employees who do not have teaching certificates. Approximately \$288.1 million is allocated for debt service expenses, a 1.7% increase over the previous year.

CPS Appropriations by Expenditure Type: FY2008 & FY2009 All Funds (in \$ millions)				
General Operating Funds	FY2008	FY2009	\$ Change	% Change
Teacher Salaries	\$ 2,011.6	\$ 2,016.2	\$ 4.6	0.2%
Non-Teacher Salaries	\$ 562.0	\$ 598.0	\$ 36.0	6.4%
Employee Benefits	\$ 791.4	\$ 846.7	\$ 55.3	7.0%
Subtotal General Operating Compensation	\$ 3,365.0	\$ 3,460.9	\$ 95.9	2.8%
Commodities & Utilities	\$ 317.4	\$ 323.8	\$ 6.4	2.0%
Non-personnel Services	\$ 689.0	\$ 755.6	\$ 66.6	9.7%
Equipment/Capital Outlay	\$ 20.3	\$ 18.6	\$ (1.7)	-8.4%
Debt Service	\$ 1.4	\$ -	\$ (1.4)	-100.0%
Other	\$ 255.3	\$ 296.1	\$ 40.8	16.0%
Subtotal Other Operating	\$ 1,283.4	\$ 1,394.1	\$ 110.7	8.6%
Subtotal General Operating	\$ 4,648.4	\$ 4,855.0	\$ 206.6	4.4%
Debt Service Fund			\$ -	
Services Other than Personnel	\$ 6.5	\$ 4.6	\$ (1.9)	-29.2%
Debt Service Payments	\$ 276.7	\$ 283.5	\$ 6.8	2.5%
Subtotal Debt Service	\$ 283.2	\$ 288.1	\$ 4.9	1.7%
Capital Fund			\$ -	
Salaries	\$ 8.7	\$ -	\$ (8.7)	-100.0%
Benefits	\$ 2.5	\$ -	\$ (2.5)	-100.0%
Services, Commodities, Utilities	\$ 0.5	\$ -	\$ (0.5)	-100.0%
Total Capital Outlay	\$ 855.0	\$ 1,014.4	\$ 159.4	18.6%
Other	\$ (11.8)	\$ -	\$ 11.8	-100.0%
Subtotal Capital Fund	\$ 854.9	\$ 1,014.4	\$ 159.5	18.7%
Total	\$ 5,786.5	\$ 6,157.5	\$ 371.0	6.4%

Source: CPS FY2008 Budget, p. 11; and FY2009 Budget, pp. 22 & 23.

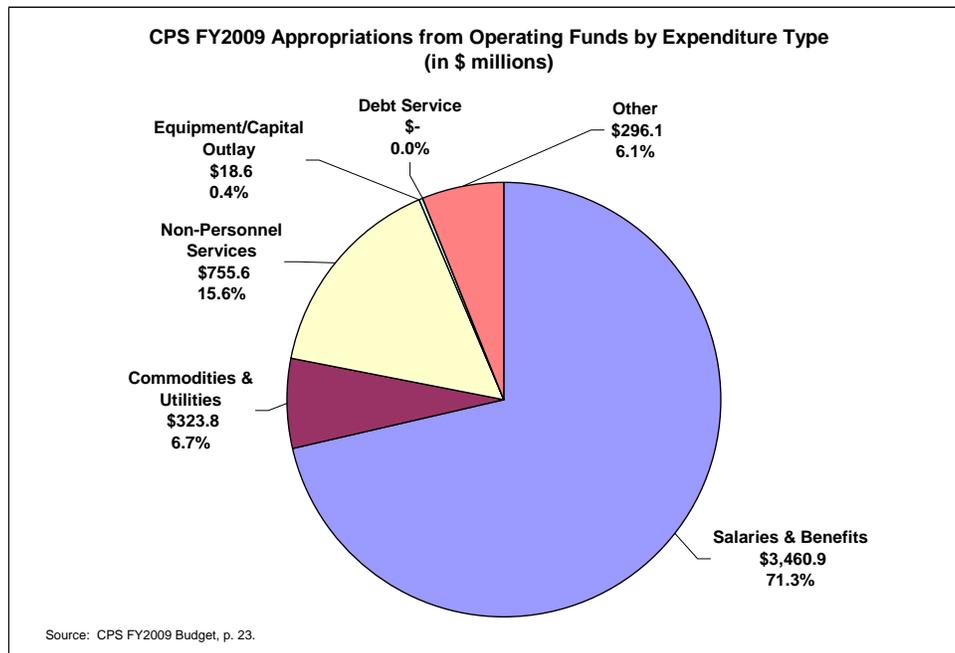
The following exhibit presents the CPS General Operating Funds by expenditure type for FY2008 and FY2009. Over 41.5%, or \$2.0 billion, of the total general operating funds is reserved for teachers' salaries. In addition, employee benefits spending will rise by 7.0%,

primarily reflecting the \$51.4 million increase in CPS's required contribution to the teacher pension system. The FY2009 healthcare cost is budgeted at \$301.8 million, a decrease of \$5.5 million or 1.8% from FY2008 appropriations. Taken together, salaries and benefits represent 71.3% of the total general operating funds appropriation.

CPS Appropriations by Expenditure Type: FY2008 & FY2009				
General Operating Funds (in \$ millions)				
Expenditure Type	FY2008	FY2009	\$ Change	% Change
Teacher Salaries	\$ 2,011.6	\$ 2,016.2	\$ 4.6	0.2%
Non-Teacher Salaries	\$ 562.0	\$ 598.0	\$ 36.0	6.4%
Other Employee Benefits				
Teacher Pension	\$ 349.3	\$ 400.4	\$ 51.1	14.6%
Ed Support Personnel Pension	\$ 89.7	\$ 96.7	\$ 7.0	7.8%
Hospitalization/Other Comp.	\$ 307.3	\$ 301.8	\$ (5.5)	-1.8%
Unemployment Compensation	\$ 10.9	\$ 11.0	\$ 0.1	0.9%
Medicare/Social Security	\$ 34.4	\$ 36.9	\$ 2.5	7.3%
Total Employee Benefits	\$ 791.6	\$ 846.8	\$ 55.2	7.0%
Subtotal Compensation	\$ 3,365.2	\$ 3,461.0	\$ 95.8	2.8%
Insurance & Worker Compensation	\$ 49.5	\$ 44.6	\$ (4.9)	-9.9%
Commodities & Utilities	\$ 317.4	\$ 323.8	\$ 6.4	2.0%
Non-personnel Services	\$ 689.0	\$ 755.6	\$ 66.6	9.7%
Equipment/Capital Outlay	\$ 20.3	\$ 18.6	\$ (1.7)	-8.4%
Debt Service	\$ 1.4	\$ -	\$ (1.4)	-100.0%
Other	\$ 205.8	\$ 251.5	\$ 45.7	22.2%
Total	\$ 4,648.6	\$ 4,855.1	\$ 206.5	4.4%

Sources: CPS FY2008 Budget, p. 16; and FY2009 Budget, pp. 23 & 27.

The next exhibit shows the breakdown of general operating appropriations in the FY2009 budget by percentage of expenditure types. The largest single portion of the FY2009 general operating appropriation is earmarked for salaries and benefits. Approximately 71.3% of the general and special funds, or nearly \$3.5 billion, will be used for teacher salaries, non-teacher compensation and employee benefits. Non-personnel services appropriations, totaling \$755.6 million, include payments to outside organizations who provide major school-support services.



Five-Year Appropriation Trends by Expenditure Type: FY2005 and FY2009

The exhibit below shows that CPS appropriations for all funds have risen from \$5.0 billion to \$6.2 billion over five years. This is a 22.0% increase since FY2005. One of the largest percentage increases in that five-year period is for non-personnel services, which rose by 52.4%, from \$495.7 million to \$755.6 million. Total employee compensation (salary and benefits) rose by 16.1% over this period, with employee benefits rising 45.3%. Commodities and Utilities also rose substantially, by 30.9%, from \$247.3 million to \$323.8 million.

CPS Appropriations By Expenditure Type: FY2005 & FY2009				
All Funds (in \$ millions)				
Operating Expenditure Type	FY2005	FY2009	\$Change	% Change
Teacher Salaries	\$ 1,890.3	\$ 2,016.2	\$ 125.9	6.7%
Non-Teacher Salaries	\$ 508.7	\$ 598.0	\$ 89.3	17.6%
Employee Benefits	\$ 582.9	\$ 846.7	\$ 263.8	45.3%
Subtotal General Operating Compensation	\$ 2,981.9	\$ 3,460.9	\$ 479.0	16.1%
Commodities & Utilities	\$ 247.3	\$ 323.8	\$ 76.5	30.9%
Non-personnel Services	\$ 495.7	\$ 755.6	\$ 259.9	52.4%
Equipment/Capital Outlay	\$ 21.5	\$ 18.6	\$ (2.9)	-13.5%
Debt Service	\$ 1.5	\$ -	\$ (1.5)	-100.0%
Other	\$ 299.9	\$ 296.1	\$ (3.8)	-1.3%
Subtotal Other General Operating	\$ 1,065.9	\$ 1,394.1	\$ 328.2	30.8%
Subtotal General Operating	\$ 4,047.8	\$ 4,855.0	\$ 807.2	19.9%
Debt Service Fund				
Services Other than Personnel	\$ 5.7	\$ 4.6	\$ (1.1)	-19.3%
Debt Service Payments	\$ 332.4	\$ 283.5	\$ (48.9)	-14.7%
Subtotal Debt Service	\$ 338.1	\$ 288.1	\$ (50.0)	-14.8%
Capital Fund				
Salaries	\$ 4.4	\$ -	\$ (4.4)	-100.0%
Benefits	\$ 0.6	\$ -	\$ (0.6)	-100.0%
Services, Commodities, Utilities	\$ 0.2	\$ -	\$ (0.2)	-100.0%
Total Capital Outlay	\$ 660.0	\$ 1,014.4	\$ 354.4	53.7%
Other	\$ (5.6)	\$ -	\$ 5.6	-100.0%
Subtotal Capital Fund	\$ 659.7	\$ 1,014.4	\$ 354.7	53.8%
Total	\$ 5,045.6	\$ 6,157.5	\$ 1,111.9	22.0%

Source: CPS FY2005 Budget, p. 25; and FY2009 Budget, pp. 22 & 23.

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 52.4%, from \$495.7 million to \$755.6 million. During the period analyzed, compensation (salaries and benefits) has risen by 16.1%, a difference of \$479.0 million.

CPS Appopriations by Expenditure Type: FY2005 & FY2009				
General Operating Funds (in \$ millions)				
Expenditure Type	FY2005	FY2009	\$ Change	% Change
Teacher Salaries	\$ 1,890.3	\$ 2,016.2	\$ 125.9	6.7%
Non-Teacher Salaries	\$ 508.7	\$ 598.0	\$ 89.3	17.6%
Other Employee Benefits	\$ 582.9	\$ 846.7	\$ 263.8	45.3%
Subtotal Compensation	\$ 2,981.9	\$ 3,460.9	\$ 479.0	16.1%
Commodities & Utilities	\$ 247.3	\$ 323.8	\$ 76.5	30.9%
Non-personnel Services	\$ 495.7	\$ 755.6	\$ 259.9	52.4%
Equipment/Capital Outlay	\$ 21.5	\$ 18.6	\$ (2.9)	-13.5%
Debt Service	\$ 1.5	\$ -	\$ (1.5)	-100.0%
Other	\$ 299.9	\$ 296.1	\$ (3.8)	-1.3%
Total	\$ 4,047.8	\$ 4,855.0	\$ 807.2	19.9%

Source: CPS FY2005 Budget, p. 25; and FY2009 Budget, p. 23.

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 3.0%, or over \$60.2 million. Funding for Special Education Programs will increase by 2.8%, from \$491.1 million in FY2008 to \$505.0 million in FY2009. Spending for Vocational and Special Needs Instructional Programs will increase 6.1%, from \$175.9 million in FY2008 to \$186.6 million in FY2009. Of CPS's non-instructional programs, support services will increase by 8.8%, and community services will increase by 12.5%. Other Services (Interest and Debt services and total provision for contingencies) will decrease by \$40.0 million, a 70.1% decrease over FY2008.

CPS Appropriations By Function: FY2008 & FY2009				
General Operating Funds (General Fund & Special Revenue Fund) (in \$ millions)				
Function	FY2008	FY2009	\$ Change	% Change
Instruction-Regular Programs	\$ 2,019.1	\$ 2,079.3	\$ 60.2	3.0%
Instruction-Special Education	\$ 491.1	\$ 505.0	\$ 13.9	2.8%
Instruction-Voc Ed & Special Needs	\$ 175.9	\$ 186.6	\$ 10.7	6.1%
Subtotal Instruction	\$ 2,686.1	\$ 2,770.9	\$ 84.8	3.2%
Supporting Services	\$ 1,772.9	\$ 1,928.1	\$ 155.2	8.8%
Community Services	\$ 56.9	\$ 64.0	\$ 7.1	12.5%
State Rev. Pension Adjust.	\$ 75.3	\$ 74.8	\$ (0.5)	-
Other	\$ 57.1	\$ 17.1	\$ (40.0)	-70.1%
Total	\$ 4,648.3	\$ 4,854.9	\$ 206.6	4.4%

Source: CPS FY2008 Budget pp. 14, 21 & 22; and FY2009 Budget, pp. 25, 33 & 34.

Projections for CPS's FY2009 General Operating Fund appropriations by function show changes from FY2005 appropriations. Appropriations for Regular Instructional Programs will rise by 13.1%, or \$240.2 million. Special Education programs will increase by 12.9%, from \$447.4 million to \$505.0 million. Vocational and Special Needs Instructional Programs will also increase from \$173.1 million to \$186.6 million, or 7.8%.

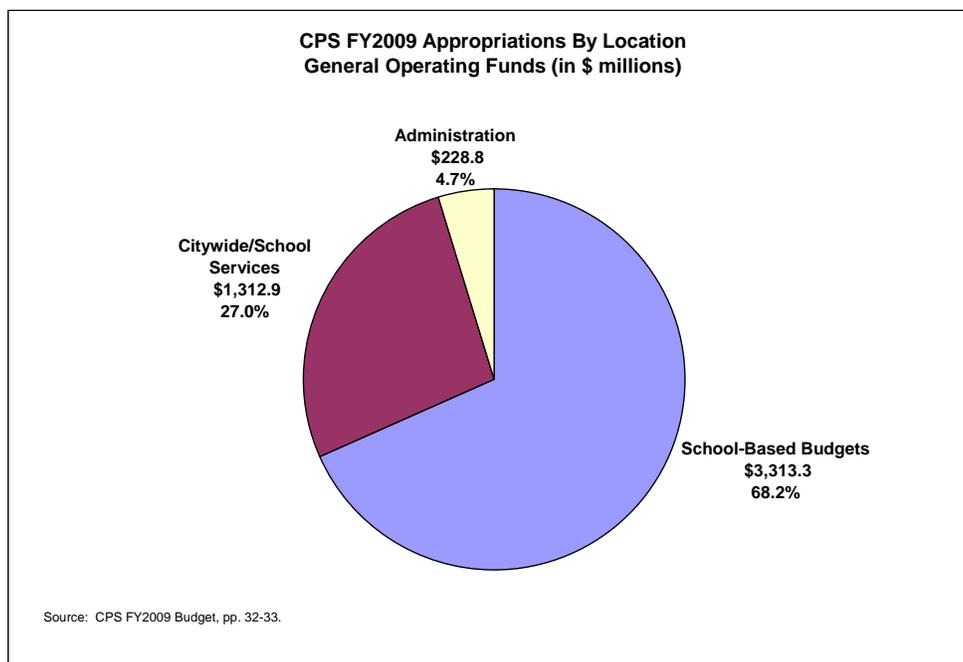
As for non-instructional programs, appropriations for supporting services will increase by 41.4%, and community services appropriations will increase by 101.9%. Other services (Interest and Debt services and total provision for contingencies) will decrease by 86.7%, or \$111.3 million.

CPS Appropriations By Function: FY2005 & FY2009				
General Operating Funds (General Fund & Special Revenue Fund) (in \$ millions)				
Function	FY2005	FY2009	\$ Change	% Change
Instruction-Regular Programs	\$ 1,839.1	\$ 2,079.3	\$ 240.2	13.1%
Instruction-Special Education	\$ 447.4	\$ 505.0	\$ 57.6	12.9%
Instruction-Voc Ed & Special Needs	\$ 173.1	\$ 186.6	\$ 13.5	7.8%
Subtotal Instruction	\$ 2,459.6	\$ 2,770.9	\$ 311.3	12.7%
Supporting Services	\$ 1,363.3	\$ 1,928.1	\$ 564.8	41.4%
Community Services	\$ 31.7	\$ 64.0	\$ 32.3	101.9%
State Rev. Pension Adjust.	\$ 65.0	\$ 74.8	\$ 9.8	0.0%
Other	\$ 128.4	\$ 17.1	\$ (111.3)	-86.7%
Total	\$ 4,048.0	\$ 4,854.9	\$ 806.9	19.9%

Source: CPS FY2005 Budget, pp. 30 & 31; and FY2009 Budget pp. 33 & 34.

Appropriations by Location

The exhibit below provides the FY2009 General Operating Funds allocation by location. A total of \$3.3 billion or 68.2% of the FY2009 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 \$1.3 billion or 27.0% of general operating funds. Nearly \$228.8 million or 4.7% of the General Operating Funds allocation will go to Central Office administration (this amount does not include salaries for school-based administrators).



Compared to FY2008 expenditures, Citywide/School Services, consisting of appropriations that directly impact the schools, will see an increase of 8.0% – \$96.7 million more will be allocated for these programs. School-based budgets will receive a 2.6% funding increase, while administrative costs will be decreased by \$1.2 million compared to FY2008.

CPS Appropriations by Location FY2008 & FY2009				
General Operating Funds (in \$ millions)				
Location	FY2008	FY2009	\$ Change	% Change
School-Based Budgets	\$ 3,229.1	\$ 3,313.3	\$ 84.2	2.6%
Citywide/School Services	\$ 1,216.2	\$ 1,312.9	\$ 96.7	8.0%
Administration	\$ 230.0	\$ 228.8	\$ (1.2)	-0.5%
Total	\$ 4,675.3	\$ 4,855.0	\$ 179.7	3.8%

Source: CPS FY2008 Budget, p. 22; and FY2008 Budget, pp. 32 & 33.

New and Enhanced Education Initiatives for CPS FY2009 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 FY2009 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 FY2010.

CPS did provide a list of new resources for educational initiatives in FY2009. The District reports that it will increase funding for student-oriented initiatives by \$37.0 million. The District's Turnaround schools will see the largest increase, approximately \$7.4 million. The District's Turnaround program replaces all existing staff and faculty in poor performing schools with new employees, usually governed by an external management organization. The model successfully rehabilitated its first two schools, resulting in the expansion of the program.

FY2009 New Resources for Educational Initiatives	
All Funds	
	New Funding
Turnaround Schools	\$ 7,400,000
Montessori & Technology Magnet Programs	\$ 2,500,000
Evening School	\$ 2,400,000
Achievement Academies	\$ 1,800,000
Total	\$ 14,100,000

Source: CPS FY2009 Budget, p. 11.

CPS also reports that it will allocate an additional \$5.2 million for teacher-training programs, as shown below.

FY2009 New Resources for Professional Development	
All Funds	
	New Funding
Principal Selection and Development	\$ 2,700,000
Sister Cities Program Expansion	\$ 1,000,000
Teacher Evaluation Pilot	\$ 1,000,000
Performance Management and Recognition	\$ 500,000
Total	\$ 5,200,000

Source: CPS FY2009 Budget, p. 10.

PERSONNEL AND EMPLOYEE HEALTH CARE BENEFITS

The information contained in this section pertains to both CPS personnel data and employee health care benefits. Within the Personnel section, information about total Full-Time Equivalent positions and a breakdown of administrative positions can be found with both two- and four-year comparisons. In the Employee Health Care Benefits section, estimated and budgeted health care costs for FY2008 and FY2009 are contained in the first section, along with a list of the health care plans currently available for CPS employees. Following this section is a historical analysis of actual health care costs for CPS employees from FY2003 to FY2007.

Personnel

This section presents an analysis of CPS's personnel trends by type: administrative, school-based and capital funded. This analysis also includes data on CPS's administrative staff levels itemized by individual administrative unit.

The analysis compares FY2009 personnel figures to FY2008 and FY2006. Since CPS did not provide data on CPS's administrative staff levels itemized by individual administrative unit until FY2006, the analysis presents a four-year trend in personnel.

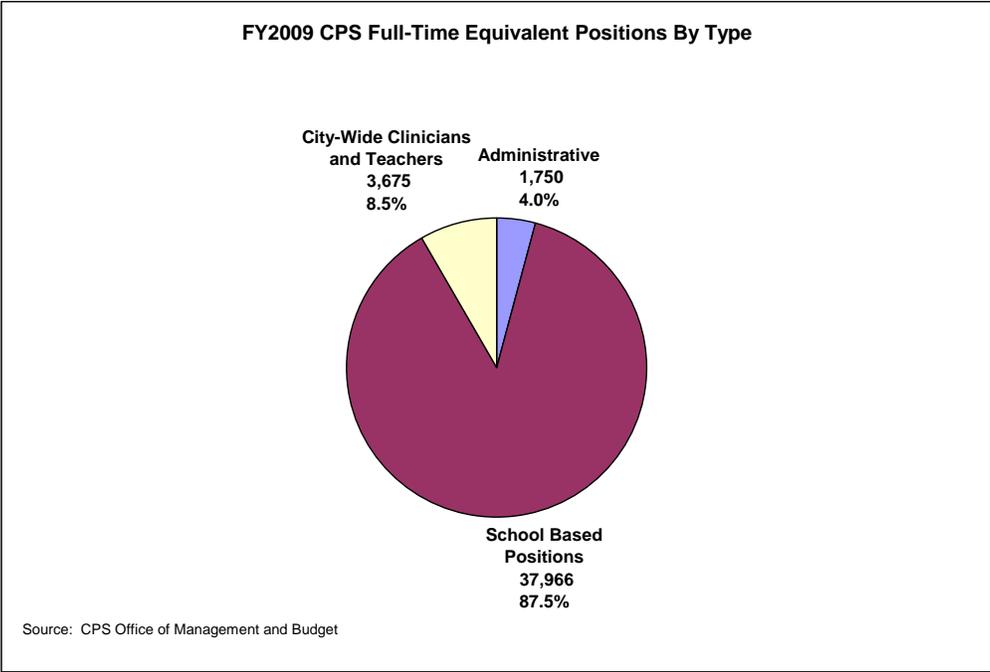
In FY2009, CPS will fund a total of 43,391 full-time equivalent (FTE) positions. This is a 1.1% decrease from the FY2008 total of 43,880. The following exhibit details CPS staff reductions:

CPS Distribution of Personnel: FY2008 & FY2009				
Full-Time Equivalent (FTE) Positions				
Location	FY2008	FY2009	Change	% Change
Administrative Positions	1,640	1,750	110	6.7%
School-Based Positions	42,129	41,641	(488)	-1.2%
Subtotal Operating Funds Positions	43,769	43,391	(378)	-0.9%
Capital-Funded Positions	111	-	(111)	-100.0%
Total	43,880	43,391	(489)	-1.1%

Sources: CPS Office of Management and Budget; CPS Budget FY2009, p. 50 & pp. 269-270; and CPS Budget FY2008, p. 60.

In FY2009, the Chicago Public Schools will budget for 43,391 teaching positions. Approximately 87.5%, or 37,966 of FY2009 budgeted positions, are designated as school-based staff, including teachers, assistant principals, principals and non-teaching support services including teachers' aides, clerical staff, custodians, security officers, and building engineers. Administrative staff composes 4.0% of all FTE positions. In FY2008 CPS funded 111 administrative positions with capital funds in order to develop and implement technology systems throughout the district. As these systems are now operational and require on-going maintenance, CPS will shift funds for these positions to the general operating budget.³⁹

³⁹ CPS FY2009 Budget p. 74



Administrative Staff by Unit

The following exhibit details full-time equivalent positions within CPS’s central office by administrative unit. In FY2009 110 administrative FTE positions were added to CPS’s full-time staff, a 6.7% increase from FY2008.

CPS Administrative Staff Levels: FY2008 & FY2009				
Full-Time Equivalent (FTE) Positions				
Administrative Unit	FY2008	FY2009	Change	% Change
Board of Education	20	20	-	0.0%
C.E.O.	10	9	(1)	-10.0%
Chief of Staff	8	9	1	12.5%
Inspector General	16	17	2	9.7%
Law	79	80	1	1.3%
Communications	14	15	1	7.1%
Audit Services	3	3	-	0.0%
New Schools Development	26	30	4	15.4%
External Affairs	48	50	2	4.2%
Business Diversity	4	7	4	100.0%
Chief Education Officer	7	25	18	262.9%
Literacy	36	46	10	26.7%
High School Programs	161	171	10	6.5%
Education to Careers	44	36	(8)	-17.7%
Early Childhood Education	19	19	-	0.0%
Math & Science	31	29	(2)	-5.8%
Research, Eval. & Accountability	34	37	3	8.8%
Instruction & School Mgmt.	222	216	(5)	-2.4%
School Demographics & Planning	1	5	4	400.0%
Principal Preparation & Development	10	14	4	40.0%
Academic Enhancement	11	11	-	0.0%
Specialized Services	60	46	(14)	-23.3%
Strategic Planning	6	7	1	16.7%
Language & Cultural Education	44	17	(27)	-61.4%
Fine Arts	9	10	1	11.1%
Chief Administrative Officer	6	10	4	66.7%
Human Resources	232	231	(1)	-0.4%
Contracts & Procurement	47	26	(21)	-44.7%
Safety & Security	53	63	10	18.9%
Technology Services	145	222	77	53.1%
Business Service Center	37	44	7	18.9%
School Financial Services	64	79	16	24.4%
Management & Budget	31	27	(4)	-12.9%
Chief Operating Officer	5	3	(2)	-40.0%
Facility Operations & Maintenance	11	19	8	72.7%
Real Estate	1	5	4	400.0%
Food Services	21	22	1	4.8%
Student Transportation	1	1	-	0.0%
Instructional Design and Assessment	24	16	(8)	-33.3%
Autonomous Mgmt & Performance School	2	3	1	50.0%
Extended Learning Opportunities	17	22	5	29.4%
Grants Management and Administration	22	27	5	22.7%
Total	1,640	1,750	110	6.7%

Note: This chart does not include school-based administrative positions or positions paid for out of the Capital Fund.

Slight discrepancies between tabulations of FTE positions are caused by rounding.

Source: CPS Budget FY2009, pp. 269-270.

Eleven of the 42 units listed above, or 26.2%, will undergo staffing reductions. The administrative units that experienced the greatest reductions in staff levels include:

- Language and Culture (-61.4%);
- Chief Operating Officer (-40.0%);

- Contracts and Procurement (-44.7%); and
- Instructional Design & Assessment (-33.3%).

The units that increased their staff levels to the greatest extent include:

- School Demographics and Planning (+400.0%, from one in FY2008 to five in FY2009);
- Real Estate (+400.0%, from one in FY2008 to five in FY2009);
- Chief Education Officer (+262.9%, from seven in FY2008 to 25 in FY2009); and
- Business Diversity (+100%, from four in FY2008 to seven in FY2009).

New units were added in FY2009 under the management of pre-existing offices. The newly created Department of Library and Information Systems and Office of Turnaround Schools will operate under the Chief Education Office. The Chief Financial Office added two new units, Treasury and Accounts Payable P-Card. The Office of High Schools and High School Programs also made some additions, creating the Offices of Sports, Graduation Pathways, Post-Secondary Education, and High School Teaching and Learning.

Personnel Four-Year Trend

In FY2009 the Chicago Public Schools will budget for 43,391 full-time equivalent positions, a decrease of 2,820 positions, or 6.1% from FY2006.

CPS Distribution of Personnel: FY2006 & FY2009				
Full Time Equivalent (FTE) Positions				
Location	FY2006	FY2009	Change	% Change
Administrative Positions	1,650	1,750	100	6.0%
School-Based Positions	44,481	41,641	(2,840)	-6.4%
Subtotal Operating Funds Positions	46,131	43,391	(2,740)	-5.9%
Capital-Funded Positions	80	-	(80)	-100.0%
Total	46,211	43,391	(2,820)	-6.1%

Source: CPS Budget FY2007, p. 76; and CPS Budget FY2009, p. 50.

Administrative Staff by Unit Four-Year Trend

The following exhibit compares CPS's administrative staff levels itemized by individual administrative unit in the FY2006 and FY2009 budget books. CPS FY2006 is the earliest year for which individual administrative unit data became available. Personnel in FY2009 will increase by 100 positions, or 6.0%, compared to FY2006. The increase is primarily due to a shift of positions from the capital budget to the operating budget.

CPS Administrative Staff Levels: FY2006 & FY2009				
Full-Time Equivalent (FTE) Positions				
Administrative Unit	FY2006	FY2009	Change	% Change
Board of Education	20	20	-	0.0%
C.E.O.	13	9	(4)	-30.8%
Chief of Staff	9	9	-	0.0%
Inspector General	19	17	(2)	-10.5%
Law	79	80	1	1.3%
Communications	14	15	1	7.1%
Audit Services	3	3	-	0.0%
New Schools Development	19	30	11	57.9%
External Affairs	50	50	-	0.0%
Business Diversity	3	7	4	133.3%
Chief Education Officer	10	25	15	154.0%
Literacy	38	46	8	20.0%
High School Programs	133	171	38	28.7%
Education to Careers	36	36	0	0.6%
Early Childhood Education	19	19	-	0.0%
Math & Science	42	29	(13)	-30.5%
Research, Eval. & Accountability	43	37	(6)	-14.0%
Instruction & School Mgmt.	231	216	(15)	-6.4%
School Demographics & Planning	-	5	5	-
Principal Preparation & Development	8	14	6	75.0%
Academic Enhancement	11	11	-	0.0%
Specialized Services	81	46	(35)	-43.2%
Strategic Planning	9	7	(2)	-22.2%
Language & Cultural Education	53	17	(36)	-67.9%
Fine Arts	-	10	10	-
Chief Administrative Officer	9	10	1	11.1%
Human Resources	213	231	18	8.5%
Contracts & Procurement	34	26	(8)	-23.5%
Safety & Security	61	63	2	3.3%
Technology Services	147	222	75	51.0%
Business Service Center	-	44	44	-
School Financial Services	131	79	(52)	-39.7%
Management & Budget	53	27	(26)	-49.1%
Chief Operating Officer	16	3	(13)	-81.3%
Facility Operations & Maintenance	19	19	-	0.0%
Real Estate	2	5	3	150.0%
Food Services	21	22	1	4.8%
Student Transportation	1	1	-	0.0%
Instructional Design and Assessment	-	16	16	-
Autonomous Mgmt & Performance School	-	3	3	-
Extended Learning Opportunities	-	22	22	-
Grants Management and Administration	-	27	27	-
Total	1,650	1,750	100	6.0%

Note: This chart does not include school-based administrative positions or positions paid for out of the Capital Fund.

Slight discrepancies between tabulations of FTE positions are caused by rounding.

Sources: CPS Budget FY2009, pp. 269-270; and CPS Budget FY2007 CDROM data.

Twelve, or approximately 28.6%, of the 42 units listed above will undergo staffing reductions. The units that will undergo the highest reductions include:

- Language and Cultural Education (-67.9%);
- Chief Operating Officer (-81.3%);
- Management & Budget (-49.1%); and
- School Financial Services (-39.1%).

The units undergoing the highest staffing increases include:

- Chief Education Officer (+154.0%);
- Facility Operations & Maintenance (+154.0%);
- Business Diversity (+133.3%); and
- Principal Preparation & Development (75.0%).

Since FY2006 CPS has added new administrative units including the Offices of School Demographics & Planning, Fine Arts, Instructional Design and Assessment, Autonomous Management & Performance Schools, Extended Learning Opportunities, Grants Management & Administration, and the Business Service Center.

Personnel Appropriations

In FY2009 CPS personnel appropriations are expected to increase by \$95.0 million to \$3.5 billion, a 2.8% increase over the FY2008 budgeted appropriation of \$3.4 billion. Salaries, which constitute 75.6% of all personal service appropriations, will increase by 1.6%. 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 6.9% or \$54.4 million, rising from \$791.6 million to \$846.0 million.

CPS Employee Compensation FY2008 & FY2009 (Operating Funds)				
(in \$ millions)				
Expenditure Type	FY2008	FY2009	\$ Change	% Change
Teacher Salaries	\$ 2,011.6	\$ 2,016.2	\$ 4.6	0.2%
Ed. Support Personnel Salaries	\$ 562.0	\$ 598.0	\$ 36.0	6.4%
Subtotal Salaries	\$ 2,573.6	\$ 2,614.2	\$ 40.6	1.6%
Teacher Pension	\$ 349.3	\$ 399.6	\$ 50.3	14.4%
ESP Pension	\$ 89.7	\$ 96.7	\$ 7.0	7.8%
Hospitalization	\$ 307.3	\$ 301.8	\$ (5.5)	-1.8%
Unemployment Compensation	\$ 10.9	\$ 11.0	\$ 0.1	0.9%
Medicare/Social Security	\$ 34.4	\$ 36.9	\$ 2.5	7.3%
Subtotal Benefits	\$ 791.6	\$ 846.0	\$ 54.4	6.9%
Total	\$ 3,365.2	\$ 3,460.2	\$ 95.0	2.8%

Sources: CPS FY2008 Budget, p. 16; FY2009 Budget, p. 24.

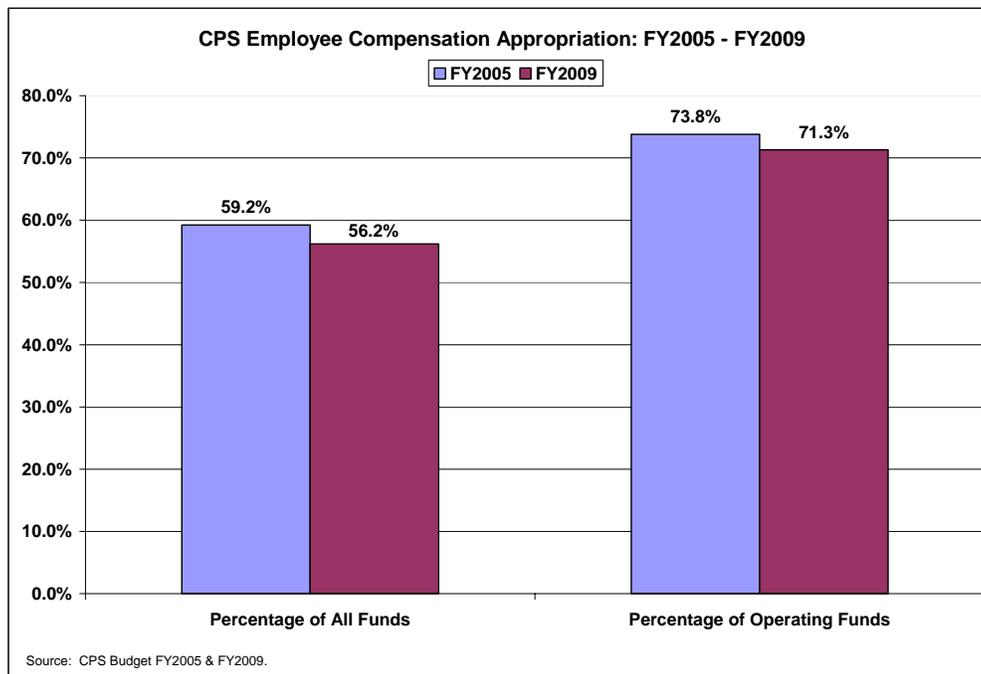
Over a five-year period, the compensation costs CPS pays for out of its General Operating Funds have risen by 15.8%, or by \$473.0 million. Salaries during that period increased by 8.8%, from \$2.4 billion to \$2.6 billion. Benefits rose at a much faster rate, increasing by 44.9% or by \$262.3 million.

CPS Employee Compensation FY2005-FY2009 (Operating Funds)				
(in \$ millions)				
Expenditure Type	FY2005	FY2009	\$ Change	% Change
Teacher Salaries	\$ 1,890.7	\$ 2,016.2	\$ 125.5	6.6%
Ed. Support Personnel Salaries	\$ 512.8	\$ 598.0	\$ 85.2	16.6%
Subtotal Salaries	\$ 2,403.5	\$ 2,614.2	\$ 210.7	8.8%
Teacher Pension	\$ 199.0	\$ 399.6	\$ 200.6	100.8%
ESP Pension	\$ 83.4	\$ 96.7	\$ 13.3	15.9%
Hospitalization	\$ 256.5	\$ 301.8	\$ 45.3	17.7%
Unemployment Compensation	\$ 3.2	\$ 11.0	\$ 7.8	243.8%
Medicare/Social Security	\$ 25.6	\$ 36.9	\$ 11.3	44.1%
Subtotal Benefits	\$ 567.7	\$ 846.0	\$ 278.3	49.0%
Total*	\$ 2,971.2	\$ 3,460.2	\$ 489.0	16.5%

*Due to a change in CPS's reporting of Workers Compensation benefits, this category is now listed as a non-compensation expense. Therefore, the FY2005 benefits total is \$16 million less than what was originally reported.

Sources: CPS Budgets FY2005-FY2009.

The next exhibit compares the percentage of CPS appropriations earmarked for employee compensation in FY2005 versus FY2009. The percentage of all funds and general operating appropriations dedicated to personnel has declined 3.0% over the last five years and the percentage of General and Special Revenue Fund appropriations earmarked for personnel expenditures has decreased by 2.5%.



Employee Health Care Benefits

Chicago Public Schools' employee health care benefits costs and plans are detailed in this section. A description of the health care plans offered by CPS is provided in this section, along with current budget and historical cost trends for CPS employee health care. The budgetary data compares FY2008 estimates to FY2009 proposed data, while the historical comparisons use actual, audited data for CPS employee health care costs. While a direct comparison cannot be drawn between the historical and budgeted data due to their different classifications, this is the most recent data provided by CPS.

Employee Health Plans

CPS gives its employees a choice of two Health Maintenance Organization plans and two Preferred Provider Organization plans:

- Two Health Maintenance Organization (HMO) options:
 - BlueCross BlueShield HMO IL
 - UnitedHealthcare HMO
- Three Preferred Provider Organization (PPO) options:
 - BlueCross BlueShield PPO
 - UnitedHealthcare PPO
 - UnitedHealthcare PPO with a health reimbursement account.⁴⁰

Prescription drug coverage is provided by Caremark for all plans. CPS also offers vision care benefits, mental health coverage and provides separate HMO and PPO dental plans. A flexible spending account (FSA) is also available to employees.⁴¹

Budgeted Costs of CPS Employee Health Care Benefits

Between FY2008 estimates and FY2009 budget projections, the employee share of health care costs will remain constant at \$40.3 million. Employer contributions will increase by 10.0%, or \$27.5 million. The remainder of CPS's employee health care costs are supported by Consolidated Omnibus Budget Reconciliation Act (COBRA) payments, which will decrease by 19.8% or \$2.1 million between FY2008 and FY2009.⁴² The following table details the estimated and projected contributions to CPS employee health care costs between FY2008 and FY2009.⁴³

⁴⁰ A health reimbursement account are "medical care reimbursement plans established by employers that can be used by employees to pay for health care." They are "funded solely by employers" and "unspent funds in the HRA usually can be carried over to the next year." See Employer Health Benefits 2007 Annual Survey, Section VIII – The Kaiser Family Foundation and Health Research and Educational Trust.

⁴¹ Email communication between the Civic Federation and Lynetta Waldon, Senior Benefits Analyst, Compensation and Benefits Management for CPS, April 11, 2008.

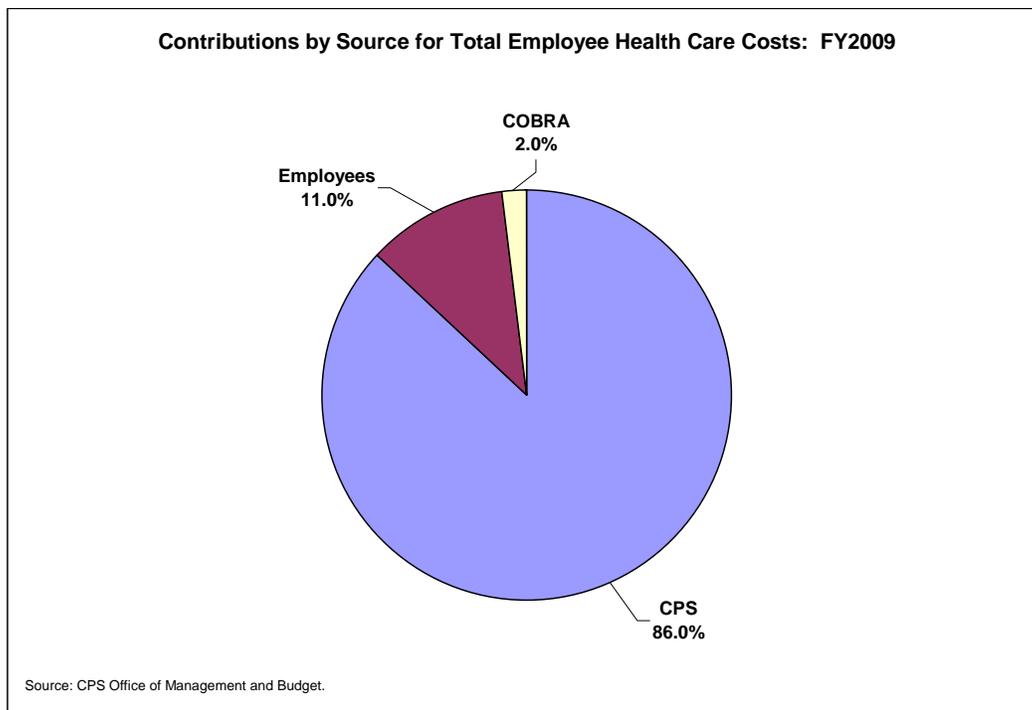
⁴² COBRA is a federal law that allows for workers who have lost their jobs to apply for a continuation of their health care benefits for a set period of time after their employment has been terminated. U.S. Department of Labor website at <http://www.dol.gov/dol/topic/health-plans/cobra.htm> (last visited on August 7, 2008).

⁴³ Email communication between the Civic Federation and CPS Office of Management and Budget, August 12, 2008.

Budgeted Contributions for CPS Employee Health Care FY2008 & FY2009 (in \$ millions)				
	FY2008 Estimate	FY2009 Budget	\$ Change	% Change
CPS Employer Contributions	\$ 274.2	\$ 301.7	\$ 27.5	10.0%
Employee Payroll Contributions	\$ 40.3	\$ 40.3	\$ -	0.0%
COBRA Contributions	\$ 10.6	\$ 8.5	\$ (2.1)	-19.8%
Total Health Care Cost	\$ 325.1	\$ 350.5	\$ 25.4	7.8%

Source: CPS Office of Management and Budget.

The chart below depicts the portion of total employee health care costs paid by CPS employees, COBRA payments and CPS itself. CPS bears the majority of the costs for its employees' health care, paying for 86% of the total health care bill. Employees pay 11% of the health care costs they incur, with COBRA payments totaling only 2% of the total costs.



Historical Costs of CPS Employee Health Care Benefits

CPS's employee actual health care costs have increased over the past five-year period. From FY2003 to FY2007 the total cost of health care provided to CPS employees increased by approximately 33.2% or \$74.9 million. The total cost of employee health care expenses paid by CPS also increased during this period, by 27.6% or \$54.3 million.⁴⁴

⁴⁴ Email communication between the Civic Federation and CPS Office of Management and Budget, August 12, 2008.

Change in Health Care Spending: CPS Costs and Total Costs FY2003 - FY2007 (in \$ millions)							
	FY2003	FY2004	FY2005	FY2006	FY2007	\$ Change	% Change
Employer Health Care Spending	\$ 196.5	\$ 229.0	\$ 230.2	\$ 243.0	\$ 250.8	\$ 54.3	27.6%
Total Health Care Spending	\$ 225.6	\$ 259.2	\$ 270.3	\$ 290.2	\$ 300.5	\$ 74.9	33.2%

Source: CPS Office of Management and Budget.

CPS employee's share of their own health care costs have increased by 73.7%, or \$17.1 million, during the five-year period between FY2003 and FY2007. CPS's employer share health care costs has risen by 27.6%, or \$54.3 million, during the same period.

Change in Health Care Spending: CPS Costs and Employee Costs FY2003 - FY2007 (in \$ millions)							
	FY2003	FY2004	FY2005	FY2006	FY2007	\$ Change	% Change
Employer Health Care Spending	\$ 196.5	\$ 229.0	\$ 230.2	\$ 243.0	\$ 250.8	\$ 54.3	27.6%
Employee Health Care Spending	\$ 23.2	\$ 24.1	\$ 32.3	\$ 38.9	\$ 40.3	\$ 17.1	73.7%

Source: CPS Office of Management and Budget.

ENROLLMENT: CONTINUED DECLINE PROJECTED

Projected Enrollment Expected to Decrease by 0.9%

CPS predicts an ongoing decline in overall student enrollment across the system. In the FY2008 budget CPS used its fall 2007 projected enrollment of 413,694 students to estimate total enrollment in FY2008 at 409,000 students.⁴⁵ In the current budget, CPS projects that FY2008 enrollment totaled approximately 408,601 students and FY2009 total enrollment will be 405,000 students resulting in a projected decrease in enrollment of 3,601 students or 0.9%.⁴⁶

CPS Student Projected Enrollment: Fall 2008 - Fall 2009				
	Fall 2008	Fall 2009	08-09 # Change	08-09 % Change
Total	408,601	405,000	(3,601)	-0.9%

Source: CPS FY2009 Budget p. 50.

Historical Trends Based on Actual Enrollment Data

As the following exhibit indicates, total actual enrollment dropped by 5,093 students, or 1.3%, between school years 2006 to 2007. Between the fall of 2002 and the fall of 2007, actual enrollment has dropped by 29,922 students, a decrease of 6.8% percent.⁴⁷

CPS Student Enrollment: Fall 2002 - Fall 2007								
	Fall 2002	Fall 2003	Fall 2004	Fall 2005	Fall 2006	Fall 2007	02-07 # Change	02-07 % Change
Preschool	21,788	22,085	21,712	21,205	21,363	21,388	(400)	-1.8%
Elementary, K-8	315,671	308,111	299,007	290,645	280,767	274,672	(40,999)	-13.0%
High School	101,064	104,223	106,093	109,132	111,564	112,541	11,477	11.4%
Total	438,523	434,419	426,812	420,982	413,694	408,601	(29,922)	-6.8%

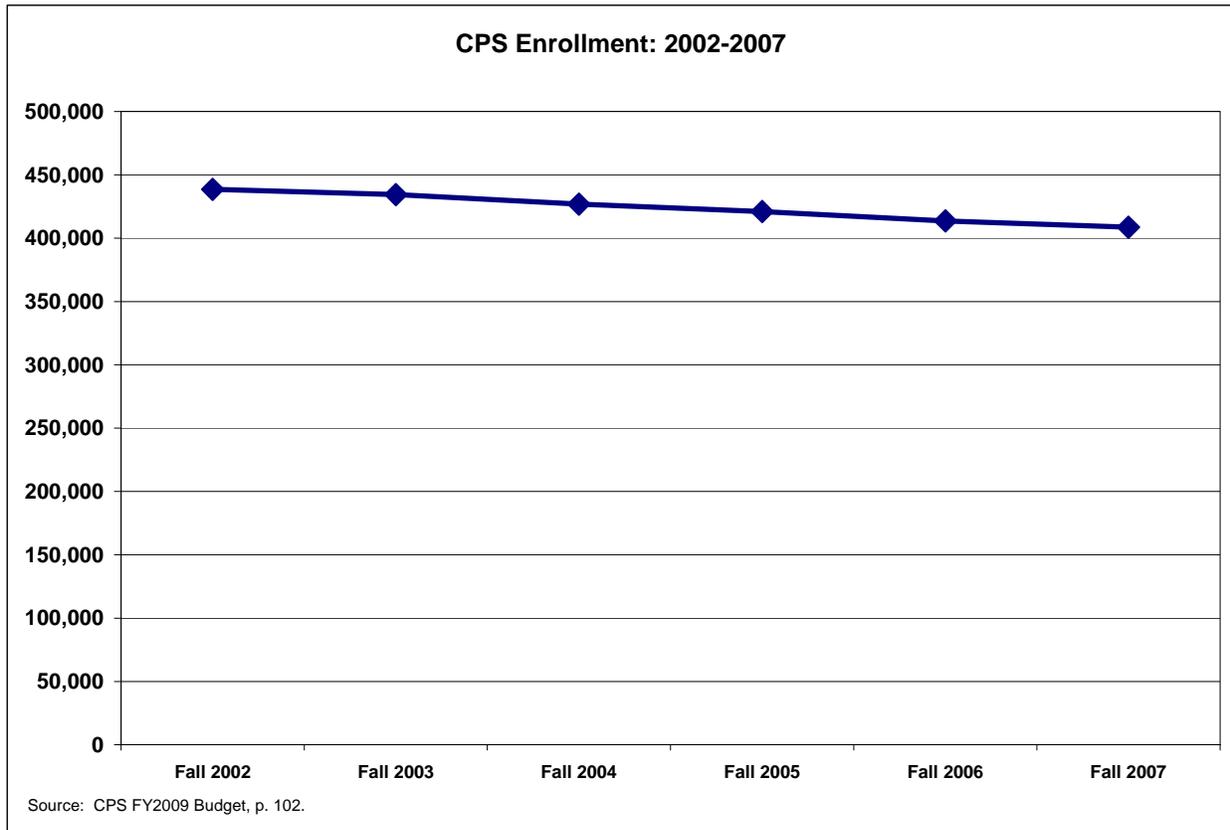
Source: CPS FY2009 Budget, p. 102.

⁴⁵ Chicago Public Schools Budget FY2008, p. 60.

⁴⁶ Chicago Public Schools Budget FY2009, p. 50.

⁴⁷ Chicago Public Schools Budget FY2009, p. 102.

The following graph depicts the falling trend in enrollment between school years 2002 to 2007.



UNRESERVED FUND BALANCE RATIO

Between FY2003 and FY2007, the CPS General Operating Funds' unreserved fund balance increased from 5.9 to 9.5% of operating revenues in those funds. This is above the 5% minimum ratio recommended by the Government Finance Officers Association. The steady increase in the fund balance ratio is definitely an encouraging trend.

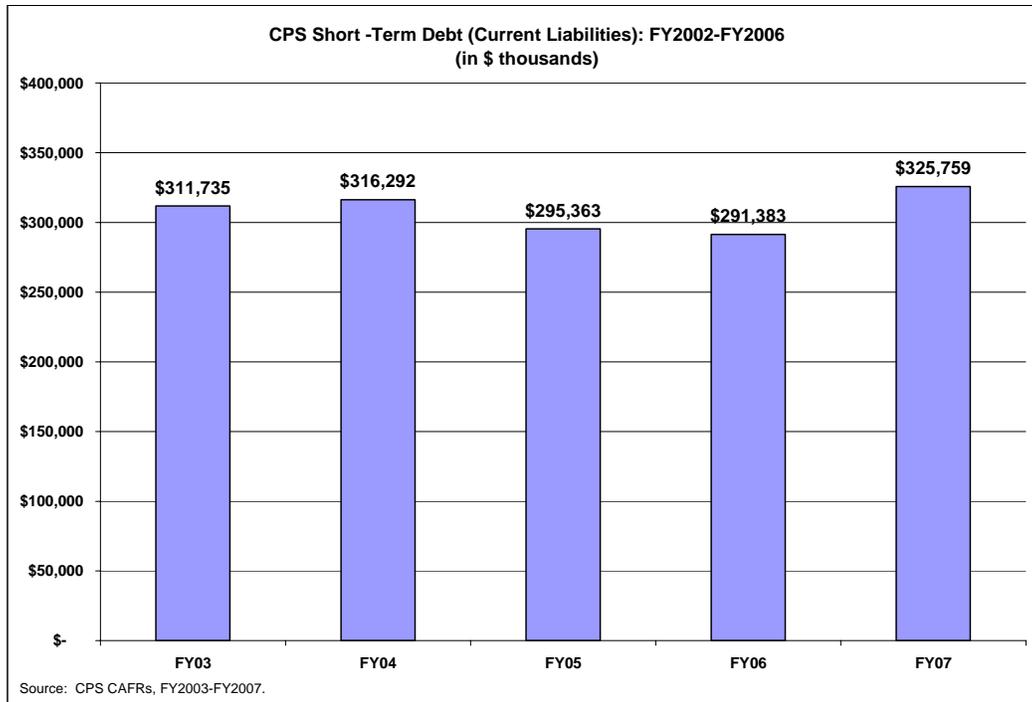
Chicago Public Schools Unreserved Fund Balance Ratio for FY2003-FY2007			
	Unreserved General Operating Fund Balance	Revenues	Ratio
FY2003	\$208,359,000	\$ 3,551,552,000	5.9%
FY2004	\$196,510,000	\$ 3,721,989,000	5.3%
FY2005	\$248,546,000	\$ 3,945,555,000	6.3%
FY2006	\$307,720,000	\$ 4,185,852,000	7.4%
FY2007	\$404,843,000	\$ 4,282,504,000	9.5%

Sources: Chicago Public Schools Comprehensive Annual Financial Reports FY2003 - FY2007.

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 all current liabilities except accrued salaries and wages, accrued payroll, compensated absences, accrued interest, accrued and other liabilities and the current portion of long-term liabilities. The exhibit below presents the Chicago Public Schools short-term debt trends for Fiscal Years 2003 through 2007. During that 5-year period, short-term debt obligations rose by 4.5% or from \$311.7 million to \$325.7 million.



LONG-TERM DEBT TRENDS

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

Capital Outlay

The FY2009 proposed appropriation for CPS capital projects will be approximately \$1.0 billion. This is an 18.6% increase from the previous year’s *budgeted* amount of \$855.0 million and 24.3% more than the estimate of FY2008 *actual expenses* of \$816.2 million. Much of the increase is due to construction expenses related to the Modern Schools Across Chicago capital program.⁴⁸

⁴⁸ *Chicago Public Schools FY2009 Budget*, p. 323.

**CPS FY2009 Capital Projects Fund
Budget Summary (In Millions)**

Resources	FY2008 Est.	FY2009	\$ Change	% Change
Beginning Fund Balance	\$ 680.5	\$ 609.9	\$ (70.6)	-10.4%
Reserved for encumbrance	\$ 199.1	\$ 257.4	\$ 58.3	29.3%
Available for reappropriation	\$ 481.4	\$ 352.5	\$ (128.9)	-26.8%
Revenues			\$ -	
Local Revenue	\$ 62.2	\$ 103.5	\$ 41.3	66.4%
State Revenue	\$ -	\$ -	\$ -	
Federal Revenue	\$ 20.0	\$ 2.5	\$ (17.5)	-87.5%
Subtotal Revenues	\$ 82.2	\$ 106.0	\$ 23.8	29.0%
Other Financing Sources*	\$ 252.6	\$ 555.9	\$ 303.3	120.1%
Total Resources	\$ 816.2	\$ 1,014.4	\$ 198.2	24.3%

Appropriations	FY2008	FY2009	\$ Change	% Change
Capital Outlays	\$ 390.0	\$ 1,014.4	\$ 624.4	160.1%
			\$ -	
Ending Fund Balance			\$ -	
Reserved for encumbrance	\$ 257.4	\$ 257.4	\$ -	0.0%
Unreserved fund balance	\$ 352.5	\$ -	\$ (352.5)	-100.0%
Total Fund Balance	\$ 609.9	\$ 257.4	\$ (352.5)	-57.8%

* In FY2009, includes \$550 million in CPS bond funds and \$5.9 million from a Qualified Zone Academy Bond, which is an interest free federal loan for school construction.
Source: *CPS FY2009 Budget*, p. 324.

The exhibit below shows the planned uses of bond issuances over the next five fiscal years. A total of \$1.7 billion in bonds will be issued during this period. Approximately 41.4% of these funds will be used for ongoing maintenance, 29.7% for the Modern Schools Across Chicago initiative, 23.5% for other capital projects and 5.4% for projects required under the federal Americans with Disabilities Act. The District estimates that total capital needs between FY2009 and FY2012 will be \$4.5 billion. As funding will be available only for \$1.7 billion of this amount, unmet capital needs are estimated as \$2.8 billion.⁴⁹

Sources and Uses of CPS Capital Program Bond Proceeds (in \$ millions)					
	FY2009 Proposed	FY2010 Projected	FY2011 Projected	FY2012 Projected	Total
Sources					
Local Bond Proceeds	\$550.0	\$550.0	\$300.0	\$300.0	\$1,700.0
Uses					
Modern Schools Across Chicago	\$255.0	\$250.0	\$0.0	\$0.0	\$505.0
Ongoing Facility Maintenance	\$172.0	\$177.0	\$177.0	\$177.0	\$703.0
ADA Projects	\$23.0	\$23.0	\$23.0	\$23.0	\$92.0
Other*	\$100.0	\$100.0	\$100.0	\$100.0	\$400.0

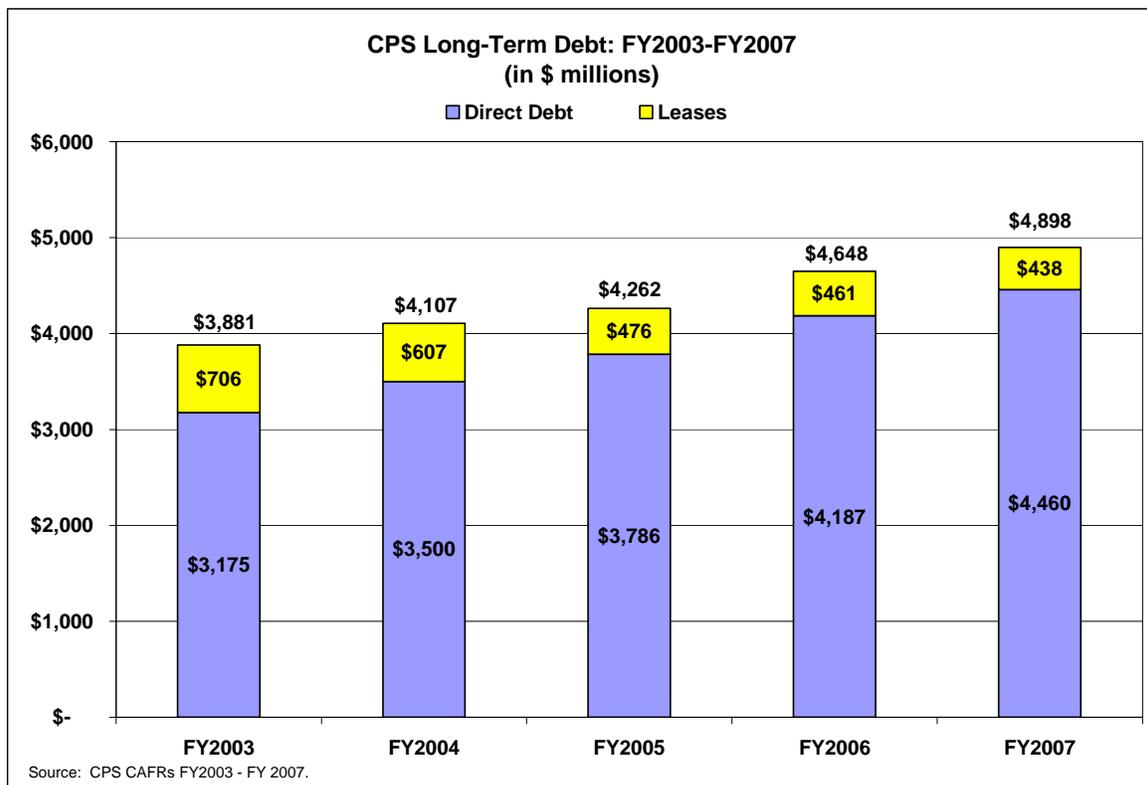
*Other includes new school initiatives, technology, and other new construction.
Source: *CPS FY2009 Budget*, p. 323.

⁴⁹ *CPS FY2009 Budget*, p. 323.

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.⁵⁰ For the Chicago Public Schools, 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.⁵¹ 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.

Chicago Public Schools long-term debt increased by 26.2% between FY2003 and FY2007. This represents an \$1.0 billion increase from \$3.8 billion to \$4.8 billion. While direct tax supported debt increased by 40.5% during this five year time period, the amount outstanding for capital leases declined from \$706 million to \$438 million or by 37.9%. The overall high rate of increase in long-term debt bears watching, particularly as the CPS faces continuing challenges in meeting its rising expenditures in areas such as personnel and retirement costs.



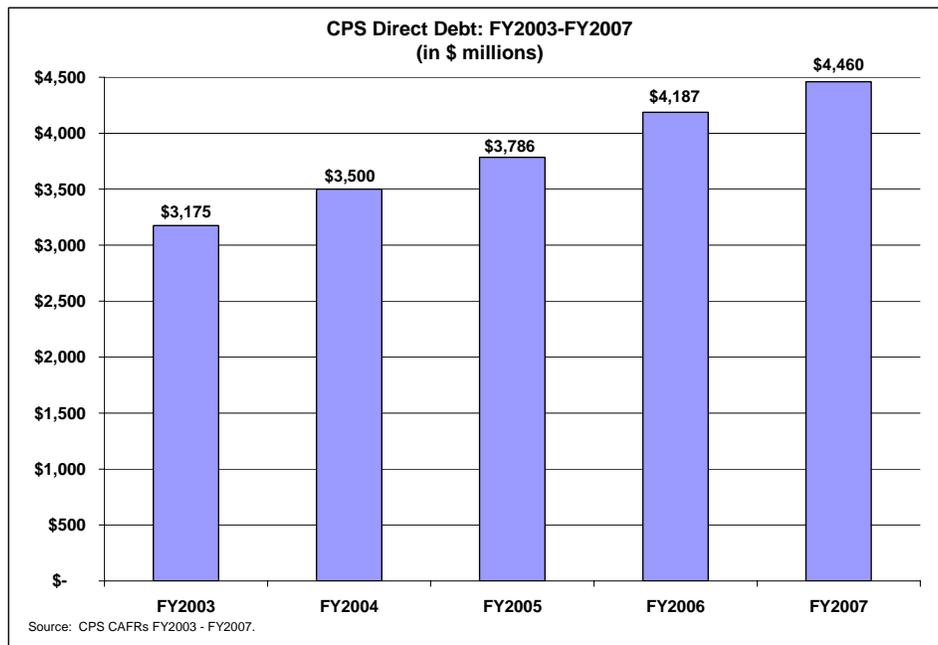
⁵⁰ Information for direct debt is from both Note 8 (Long Term Debt) and Note 9 (Capitalized Lease Obligations) in CPS *Comprehensive Annual Financial Reports*.

⁵¹ CPS FY2005 *Comprehensive Annual Financial Report*, Notes 8 and 9, pp. 53-57.

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.

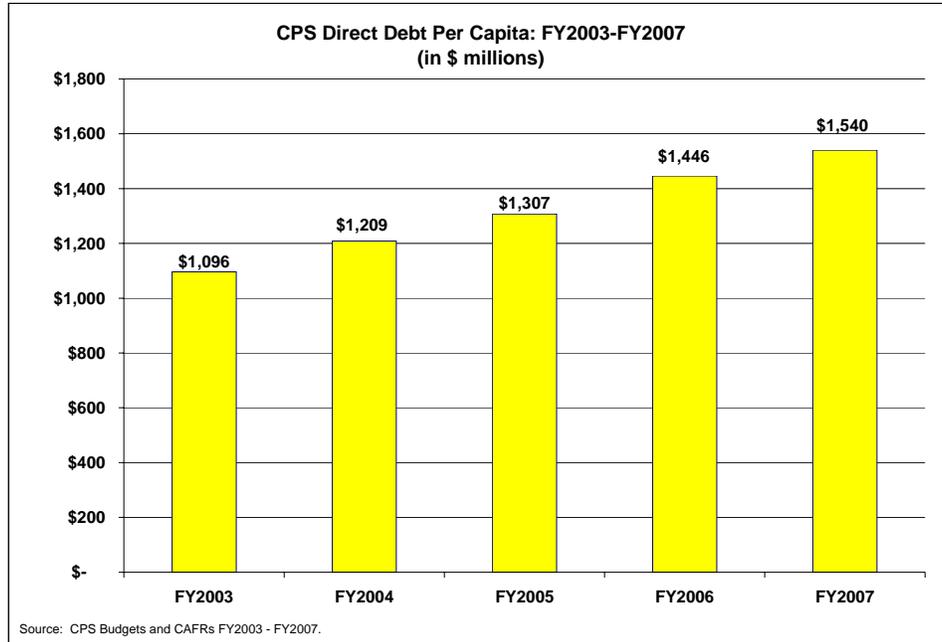
Chicago Public Schools direct debt includes unlimited tax General Obligation bonds, Qualified Zone Academy Bonds, State Technology Revolving Loan funds and Asbestos Abatement Loans. It excludes lease payments.⁵² Between FY2003 and FY2007, the direct debt burden of the Chicago Public Schools increased by from \$3.1 billion to \$4.4 billion. This is a \$1.2 billion, 40.5% increase. This increase reflects the Chicago School District's large capital construction program over the past several years.



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 the Chicago Public Schools' 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 40.5% between FY2003 and FY2007, from \$1,096 to \$1,540. It rose by 6.5% between FY2006 and FY2007.

⁵² Information for direct debt from Note 8 (Long Term Debt) in CPS *Comprehensive Annual Financial Reports*.



CPS Bond Ratings

In November 2007, the Chicago Public Schools bonds received an upgrade from Moody's Investors Services and Standard and Poors. Moody's raised its bond rating from A2 with a positive outlook to A1 with a stable outlook. Standard and Poors increased the District's rating from A+ to AA-. The two rating agencies based their decision on the Chicago Public Schools improved financial health in recent years. This includes the District's successful efforts to hold the line on health insurance costs.⁵³ Fitch revised its fiscal outlook of CPS from "Stable" to "Positive" in early 2008.⁵⁴

TEACHERS' PENSION FUND

Chicago public school teachers are enrolled in the Public School Teachers' Pension and Retirement Fund 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 FY2007, the Teachers' Pension Fund had over 56,000 members, including 23,623 retirees and beneficiaries receiving benefits and 32,968 current members. Since FY2003, total membership has increased by 2.7% or 1,478 members. However, while there has been an increase in the number of retirees receiving benefits, the number of current members has declined as the District reduces staffing levels. The number of retirees and beneficiaries receiving benefits increased by 27.2% or 5,058 members since FY2003, while the number of current members has declined by 9.8% or 3,580 members.

⁵³ Lorene Yue. "Moody's, S & P boost Chicago Public Schools bond rating," *Crain's Chicago Business*, November 19, 2007.

⁵⁴ Information provided to the Civic Federation by CPS Office of Management and Budget, August 5, 2008.

CPS Teachers' Pension Fund Membership FY2003 - FY2007			
Fiscal Year	Retirees & Beneficiaries Receiving Benefits	Current Members	Total
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
FY2007	23,623	32,968	56,591

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

Sources: Teachers' Pension CAFRs, FY2007 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 is at least 90%. If the ratio drops below that 90% figure, the remainder of the costs must be paid by the Chicago Public Schools, the State of Illinois from the State Distributive Fund and investment income.

Employer Contributions

The Chicago Public Schools 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. The actuarial calculations used to determine the employer level of funding 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 FY2009, the required CPS contribution was nearly \$177.8 million. This is a steep 1,023.9% or \$161.9 million increase since FY2006.

CPS (Employer) Contribution to Teachers' Pension Fund for State FY2006-FY2009				
	FY2006	FY2007	FY2008	FY2009
Total Required Employer Contribution	\$ 114,721,000	\$ 167,245,000	\$ 227,319,000	\$ 263,002,000
State Appropriations	\$ 65,000,000	\$ 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	\$ 9,778,000
Additional CPS Contribution (P.A. 90-582)	\$ 10,530,000	\$ 10,920,000	\$ 10,894,000	\$ 10,426,000
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	\$ 177,798,000

*In FY2009, the Other category has included pension contributions made to the pension funds from federal funds. These monies will be applied in FY2009 to the Board of Education required contribution.

Sources: Chicago Teachers Pension Fund Annual Financial Reports, FY2004-FY2007.

Employee Contributions

The Chicago Public Schools also makes an annual appropriation of 7% of regular salaries of employees as part of the **employee contribution** to the Teachers' Pension Fund.⁵⁵ Essentially, the District "picks up" 7% of the 9% required employee contribution for the retirement system. In addition, the State of Illinois makes an annual employer contribution to the Teachers' Pension Fund of approximately \$65 million.

Pension Funding Appropriations in FY2009

Per P.A. 90-582, in FY2009 the State of Illinois is providing approximately \$9.8 million in funding for the Teacher's Pension Fund in addition to its regular \$65.0 million contribution, bringing the total State contribution to roughly \$74.8 million.⁵⁶ The CPS expects to appropriate a total of \$497.1 million for teacher and educational support personnel retirement costs. This is a \$121.3 million, 32.3% increase from FY2007. Approximately \$400.4 million will be appropriated for the Teachers' Pension Fund. This represents a \$108.9 million, 37.4% increase from three years ago. A primary reason for the increases is the requirement of PA 89-15 that the CPS contribute additional funds increase the total assets of the Teachers Pension Fund up to 90% of the total actuarial liabilities by the end of FY2045.

CPS Retirement Benefit Appropriations: FY2007-FY2009 (in \$ millions)					
Type	FY2007	FY2008	FY2009	\$ Change (3 Year)	% Change (3 Year)
Teachers' Pensions	\$ 291.5	\$ 349.3	\$ 400.4	\$ 108.9	37.4%
Educational Support Personnel	\$ 84.3	\$ 89.7	\$ 96.7	\$ 12.4	14.7%
Total	\$ 375.8	\$ 439.0	\$ 497.1	\$ 121.3	32.3%

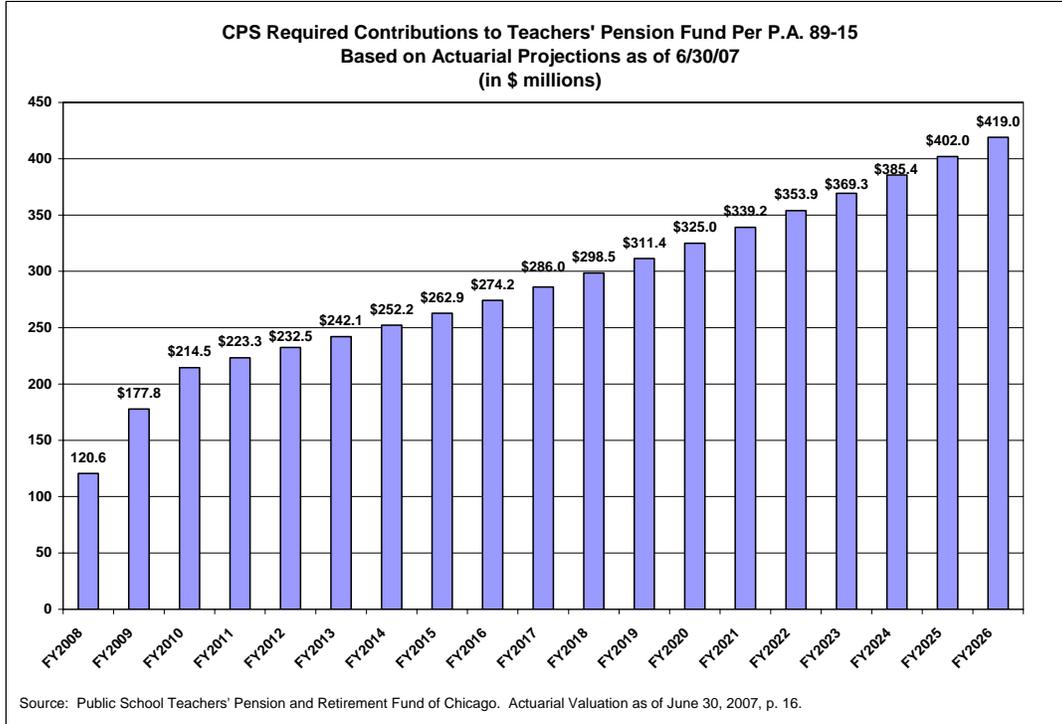
Sources: CPS FY2007 Budget, p. 61; FY2008 Budget, p. 60; FY2009 Budget, p. 50.

⁵⁵ *Chicago Public Schools FY2005 Budget*, p. 72.

⁵⁶ *CPS FY2009 Budget*, p. 61.

Future Actuarial Projections of CPS Funding Costs

The CPS faces mounting pension costs in future years, according to the actuarial valuation report submitted to the District on January 28, 2008.⁵⁷ The exhibit below shows estimates of required CPS contributions to the Pension Fund from FY2008 to FY2026. During that time period, the CPS required contribution per year will rise from \$120.6 million to \$419.0 million. State of Illinois contributions in addition to the \$65 million annual payment will rise from \$10.2 million to \$17.5 million by FY2026.⁵⁸

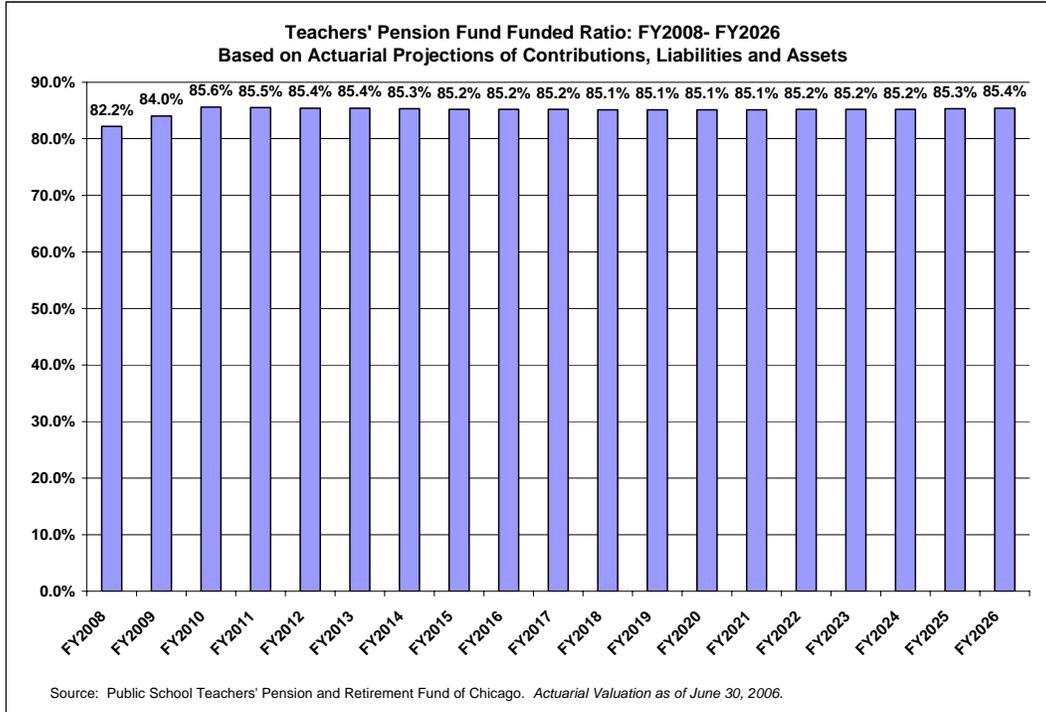


The Actuarial Valuation Report estimates that the Teachers Pension Fund's funded ratio will remain above 80% between F2008 and FY2026.⁵⁹

⁵⁷ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2007.*

⁵⁸ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2007, p. 16*

⁵⁹ Public School Teachers' Pension and Retirement Fund of Chicago. *Actuarial Valuation as of June 30, 2007, p. 16.*

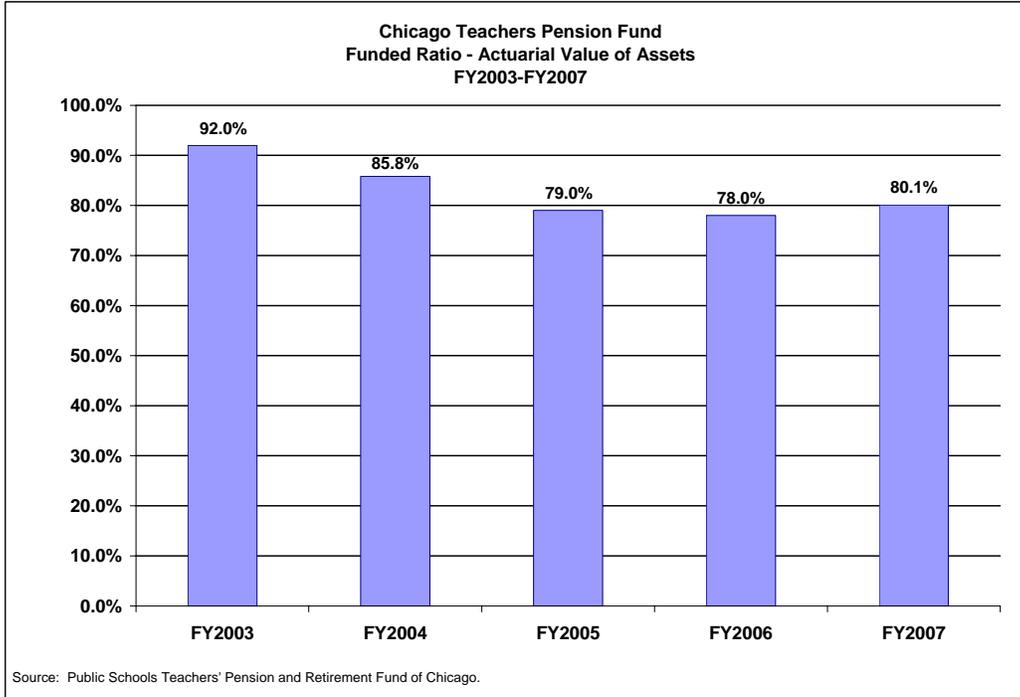


Pension Fund Indicators

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.

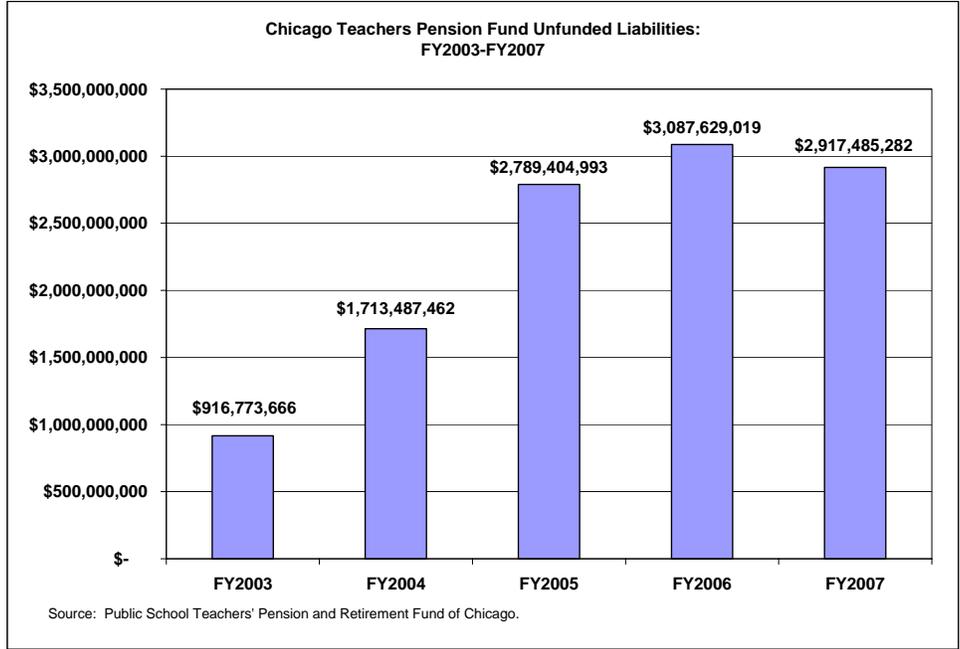
Funded Ratio

The following exhibit shows the funded ratio as reported for the actuarial value of assets 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 fell from 92.0% in FY2003 to 78.0% in FY2006. However, it rose slightly in FY2007 to 80.1%. This reflects increased investment returns and reduced costs due to staffing cuts.



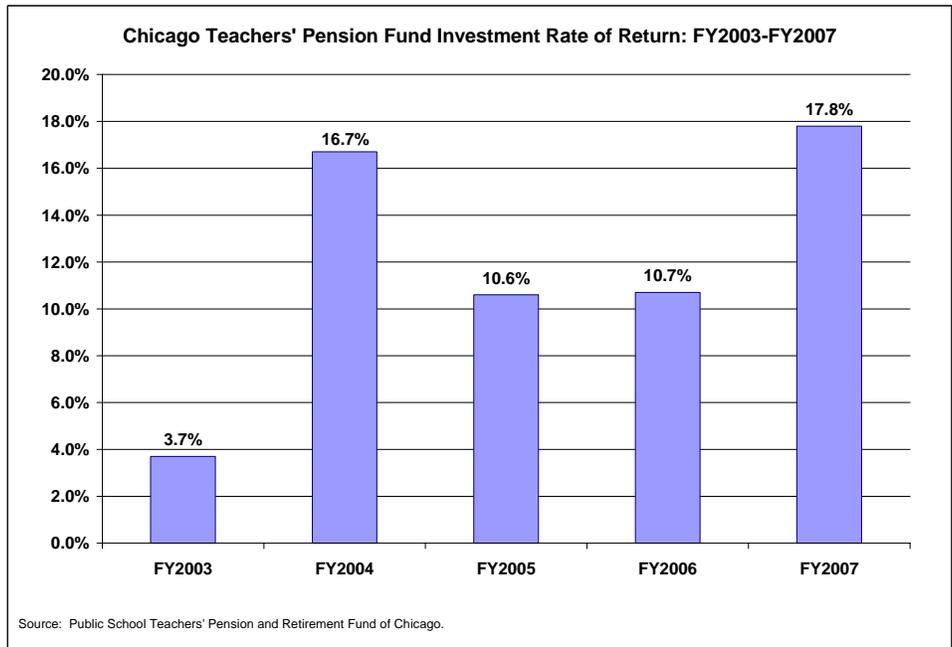
Unfunded Pension Liabilities

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 \$2.9 billion in FY2007. Since FY2003, unfunded liabilities have increased by 218.2%, rising by \$2.0 billion or from \$916.7 million to \$2.9 billion. However, between FY2006 and FY2007, unfunded liabilities declined slightly by 5.5% or \$170.2 million from the previous year.



Investment Rates of Return

Investment returns for the Chicago Public Schools Teachers pension fund rose sharply from 10.7% in FY2006 to 17.8% the following year. Between FY2003 and FY2007, investments returns rose substantially from 3.7%.



Summary of Key Teachers' Pension Fund Benefits

The following information provides a summary of key benefits provided by the Teachers' Pension Fund.⁶⁰

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.
- 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.

OTHER POST EMPLOYMENT BENEFITS (OPEB)

Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits or OPEB. OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation. Chicago Public Schools retirees are provided OPEB benefits by the Public School Teachers' Pension and Retirement System of Chicago. It is important to note that these benefits are funded by the retirement system, not the Chicago Public Schools.

The Chicago Public Schools Pension Fund began reporting information about other post employment benefits (OPEB) in its FY2007 CAFR as required by GASB Statement Number 43. Total payments from the Pension Fund to reimburse retirees may not exceed 75% of total retiree health insurance costs.⁶¹ In recent years, the Fund has provided reimbursements of 70% of the total cost of health insurance coverage. The Illinois Pension Code limits total annual payments

⁶⁰ Public School Teachers' Pension and Retirement Fund of Chicago, *Comprehensive Annual Financial Report for the Year Ended June 30, 2007*, pp. 89-90

⁶¹ 40 ILCS 17-147.1; *FY2007 Public School Teachers' Pension and Retirement System of Chicago Comprehensive Annual Financial Report*, p. 76.

to \$65 million per year plus amounts authorized in previous years but not spent.⁶² In FY2007, \$61.0 million was spent by the Teachers' Pension Fund on OPEB.⁶³

In FY2007, a total of 14,169 retirees and beneficiaries were receiving health insurance benefits. Another 2,752 terminated employees were entitled to OPEB benefits but were not yet receiving them. Therefore, 16,921 participants were eligible for OPEB benefits.⁶⁴

The Chicago Public Schools has not established an irrevocable trust fund to account for its OPEB plan. These obligations are financed on a pay as you go basis.

The next exhibit shows the funded status of the CPS's OPEB plan. The total actuarial liability fell from \$2.3 billion in FY2006 to \$2.0 billion one year later. Assets as a percentage of the actuarial liability were 1.7% in FY2006 and 2.3% in FY2007. These percentages reflect the large size of the unfunded actuarial liability for CPS OPEB: \$2.2 billion in FY2006 and \$1.9 billion in FY2007. The actuarial assumptions used included a 5.0% discount rate and an annual healthcare cost trend rate which is projected to rise from 5.0% in 2008 to 9.0% in 2009 and then fall by 1.0% per year to 5.0% in 2013.⁶⁵

Funded Status of the Chicago Public Schools Pension Fund Other Post Employee Benefit (OPEB) Plan				
	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability (UAL)	Assets as a % of Actuarial Liability
FY2006	\$2,373,773,770	\$41,057,585	\$2,332,716,185	1.7%
FY2007	\$2,022,007,643	\$47,401,758	\$1,974,605,885	2.3%

Source: CPS Pension Fund FY2007 CAFR, p. 81.

Retiree Health Insurance Benefits

Retired CPS teachers and eligible dependents are permitted to enroll in one of three healthcare coverage option: 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 2007 the pension fund rebated 70% of the retiree cost for an individual policy.⁶⁶

⁶² *FY2007 Public School Teachers' Pension and Retirement System of Chicago Comprehensive Annual Financial Report*, p. 76.

⁶³ *FY2007 Public School Teachers' Pension and Retirement System of Chicago Comprehensive Annual Financial Report*, p. 23.

⁶⁴ *FY2007 Public School Teachers' Pension and Retirement System of Chicago Comprehensive Annual Financial Report*, p. 76.

⁶⁵ *FY2007 Public School Teachers' Pension and Retirement System of Chicago Comprehensive Annual Financial Report*, p. 77.

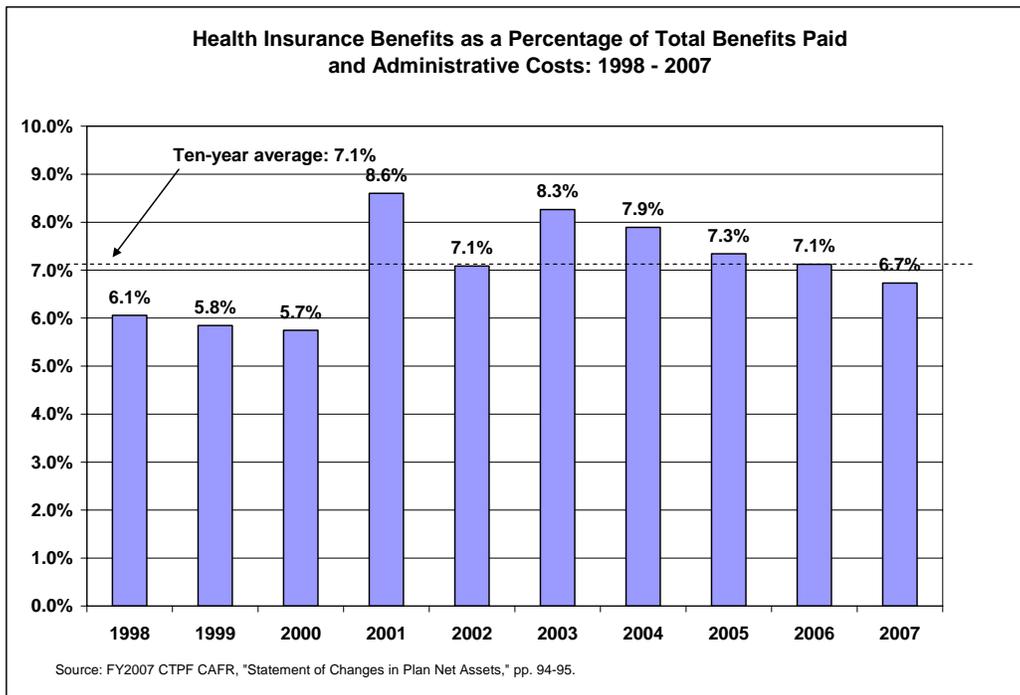
⁶⁶ *Public School Teachers' Pension and Retirement Fund of Chicago CAFR 2007*, p. 25

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 1998 to 2007, total insurance premium rebates paid increased by 151.6% or \$36.8 million.

Health Insurance Premium Rebates Paid to Retired CPS Teachers: 1998 to 2007		
Year	Health Insurance Benefits Paid	% Change over Previous Year
1998	\$ 24,225,631	--
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%
2007	\$ 61,028,841	4.7%
Ten-Year Change	\$ 36,803,210	151.9%

Source: Chicago Teachers' Pension Fund 2007 CAFR, pp. 94-95.

From 1998 to 2007 health insurance has constituted an average of 6.8% of the Pension Fund’s total expenditures on all benefits per year.⁶⁷ This percentage has declined for five consecutive years.



⁶⁷ 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 2007*, p. 94.

A comparison of health insurance payments for current CPS teachers and for retired teachers' rebates between 2003 and 2007, shows that Pension Fund insurance payments rose by 18.7% while the CPS's insurance payments increased by 27.6%.

Health Insurance Payments for Retirees v. Payments for Active Teachers: FY2003 & FY2007 (in \$ millions)				
	FY2003	FY2007	\$ Change	% Change
CTPF Health Insurance Rebates	\$ 51.4	\$ 61.0	\$ 9.6	18.7%
CPS Health Insurance Payments	\$ 196.5	\$ 250.8	\$ 54.3	27.6%

Sources: CPS FY2009 Budget, p. 79, and Chicago Teachers' Pension Fund CAFR, pp. 94-95.