# THE CIVIC FEDERATION

## CHICAGO PUBLIC SCHOOLS FY2024 PROPOSED BUDGET:

### *ANALYSIS AND RECOMMENDATIONS*

*for more information, visit civicfed.org/CPS_FY2024*

**JUNE 27, 2023**

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# EXECUTIVE SUMMARY

The Civic Federation continues to have significant reservations about the long-term viability of the District's finances. The CPS budget of $9.8 billion for the coming year is stable due to a combination of federal COVID-19 relief funds and local tax sources, including a property tax increase to the maximum allowed under the state tax cap law. However, CPS faces a fiscal cliff of $628 million beginning in FY2026 after federal relief funds are spent. With no guarantee that State or local revenues will be able to keep up with rising expenditures, and no long-term plan in place, the Civic Federation has substantial concerns about how the District will handle a budget shortfall without further straining property taxpayers or reversing the fiscal progress made in recent years.

With a new Mayoral administration in office, and an elected school board set to be phased in beginning in just a year and a half, now is a critical time for Chicago Public Schools to plan for its financial future. The current Chicago Public Schools leadership and Board of Education should use this opportunity to work in partnership with the City of Chicago on a long-term financial plan. The plan must include a resolution of the financial entanglements between the City and CPS, and proposed solutions for solving the massive looming budget gap.

The Civic Federation recognizes that CPS and many other school districts across the State of Illinois cannot sustainably solve the impending financial cliff on their own. The State of Illinois will likely need to play an even more significant role in supporting Illinois' school districts. Even with the Evidence-Based Funding formula and additional infusions of $350 million annually, Chicago Public Schools is still only funded at 75% of adequacy based on the formula, and a majority of other school districts around the State are also under 80% of their targets.[1]

At the same time that school districts are anticipating financial shortfalls, so are other agencies that provide critical government services, including public transit. The demand for funding from the State from multiple local government agencies at the same time could result in competition for the same revenue sources by multiple agencies. Making the case for an infusion of State support for schools would be much stronger coming from school districts together in partnership. The Civic Federation urges Chicago Public Schools to work with other districts and the Illinois State Board of Education on arriving at a comprehensive statewide funding solution that also includes increased efficiency and spending reductions where possible.

Despite the Federation's concerns, there are some positive aspects of CPS' financial situation. We are encouraged by the recent credit rating upgrade from S&P. The District continues to rebuild its general operating reserves. Increases in State funding to CPS through the evidence-based funding formula and the normal cost contribution to teacher pensions, as well as the dedicated property tax levy for pensions, have provided the District with much needed ongoing annual revenue sources.

But much more needs to be done to put CPS on a path to true financial sustainability. Declining enrollment, underfunded teachers' pensions, continued reliance on short-term borrowing and imbalances in the District's capital footprint continue to strain the budget. Property taxpayers are shouldering a significant burden, and the District continues to take the maximum property tax increases. The District needs to establish long-term stability through a combination of solutions that should involve both State support and local control, including improving efficiency and cutting costs where possible.

[1] Advance Illinois, Investing in Illinois' Students: Illinois' Evidence-Based Funding, 2017-2022.

The Civic Federation offers the following **key findings** from Chicago Public Schools' FY2024 Proposed Budget:

- The FY2024 proposed total spending plan for all funds is $9.8 billion, which is an increase of $462.5 million, or 4.7%, from the FY2023 adopted budget of $9.3 billion;
- Proposed FY2024 general operating appropriations of $8.5 billion are an increase of $495.7 million, or 6.2% above the FY2023 operating budget of $8.0 billion;
- Projected capital expenditures of $500 million represent a decrease of $49.3 million, or 9% from the prior year. The District plans to approve $155 million in new appropriations for capital projects in FY2024;
- The debt service budget of $785.5 million is an increase of $16.1 million, or 2.0%, from the FY2023 adopted budget;
- Property tax revenue is projected to increase by $130.7 million, or 3.5%, over the prior year to $3.8 billion in FY2024;
- CPS is budgeting for a total of 45,159 full-time equivalent (FTE) positions in FY2024, which is an increase of 1,782 positions, or 4.1% from the prior year. Since FY2020, personnel has increased by 18.7%, or 7,122 positions;
- Salary expenses of $3.5 billion in FY2024 are an increase of $234.5 million, or 7.1%, from the FY2023 adopted budget. Benefit expenses are expected to be approximately $2.1 billion in FY2024, an increase of $242.1 million, or 12.9% from the prior year;
- Student enrollment has declined by 78,564, or 19.6% over the past decade from 400,545 students in FY2014 to 321,981 in FY2023. Over this ten-year period, preschool enrollment decreased by 30.7%, K-8 enrollment declined by 23.2%, and high school enrollment declined by 8.7%. The total enrollment decline in FY2023 from the prior year was 2.6%;
- The District's long-term debt increased by 28.2% in the ten years from FY2013 through FY2022, rising from $6.1 billion to $7.8 billion in long-term debt (principal only) outstanding as of June 30, 2022;
- The total required employer pension contribution to the Chicago Teachers' Pension Fund in FY2024 is approximately $1 billion. CPS is required to contribute $699.8 million of this amount. The State of Illinois will cover $322.7 million of the contribution, including $308.1 million to cover the normal cost and retiree healthcare plus an additional statutorily required contribution of $14.6 million. Approximately $557 million of the CPS contribution will be covered by the dedicated property tax levy for teachers' pensions;
- The Chicago Teachers' Pension Fund was 46.8% funded on an actuarial basis as of June 30, 2022, compared to 49.7% funded 10 years prior. The Pension Fund had an Unfunded Actuarial Accrued Liability of $13.8 billion as of June 30, 2022, compared to $9.6 billion 10 years prior;
- CPS received a credit rating upgrade from S&P in March 2023 to BB+ with a stable outlook. The upgrade was based on the District's improved liquidity position, strong cash reserves and reduced reliance on short-term borrowing; and
- The District plans to release a Facilities Master Capital Plan later this fiscal year.

The Civic Federation has **concerns** about the following aspects of the CPS FY2024 Proposed Budget and financial situation:

- Increasing the District's property tax levy to the maximum amount allowed under the Property Tax Extension Limitation Law;
- Sustainability of increased spending levels after federal COVID-19 relief funds are expended;
- Increased required Chicago Teachers' Pension Fund pension contributions due to recent investment losses; and

- Financial entanglements with the City of Chicago still need to be resolved.

The Civic Federation makes the following **recommendations** to Chicago Public Schools and the Chicago Board of Education:

- Chicago Public Schools should collaborate with suburban and downstate school districts and the State of Illinois on a comprehensive solution to an impending federal funding cliff;
- Prepare for implementation of the elected school board by addressing outstanding financial entanglements with the City of Chicago;
- Consolidate the Chicago Teachers' Pension Fund with the Teachers' Retirement System in order to equalize state pension funding for teachers;
- Provide more time between budget release, public hearings and board approval;
- Resume holding Finance Committee meetings on a regular basis;
- Include expenditures and personnel sections in the budget book; and
- Include actual revenues in the budget book.

# CIVIC FEDERATION POSITION

The Civic Federation continues to have significant reservations about the long-term viability of the District's finances. The CPS budget of $9.8 billion for the coming year is stable due to a combination of federal COVID-19 relief funds and local tax sources, including a property tax increase to the maximum allowed under the state tax cap law. However, CPS faces a fiscal cliff of $628 million beginning in FY2026 after federal relief funds are spent. With no guarantee that State or local revenues will be able to keep up with rising expenditures, and no long-term plan in place, the Civic Federation has substantial concerns about how the District will handle a budget shortfall without further straining property taxpayers or reversing the fiscal progress made in recent years.

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At the same time that school districts are anticipating financial shortfalls, so are other agencies that provide critical government services, including public transit. The demand for funding from the State from multiple local government agencies at the same time could result in competition for the same revenue sources by multiple agencies. Making the case for an infusion of State support for schools would be much stronger coming from school districts together in partnership. The Civic Federation urges Chicago Public Schools to work with other districts and the Illinois State Board of Education on arriving at a comprehensive statewide funding solution that also includes increased efficiency and spending reductions where possible.

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But much more needs to be done to put CPS on a path to true financial sustainability. Declining enrollment, underfunded teachers' pensions, continued reliance on short-term borrowing and imbalances in the District's capital footprint continue to strain the budget. Property taxpayers are shouldering a significant burden, and the District continues to take the maximum property tax increases. The District needs to establish long-term stability through a combination of solutions that should involve both State support and local control, including improving efficiency and cutting costs where possible.

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[2] Advance Illinois, Investing in Illinois' Students: Illinois' Evidence-Based Funding, 2017-2022.

# Issues Facing Chicago Public Schools

While the Civic Federation is concerned about the District's long-term financial picture, the Federation also acknowledges that the District's finances are much more stable now than they were several years ago. There are positive aspects of CPS' financial situation, including a recent credit rating upgrade from S&P and a continuation of building up general operating reserves. Additionally, increases in State funding to CPS through the Evidence-Based Funding formula and normal cost contribution to teacher pensions, as well as the dedicated property tax levy for pensions, have provided the District with much needed ongoing annual revenue sources. Nevertheless, the Civic Federation continues to have significant concerns about the District's financial sustainability in future years. With this in mind, the Civic Federation highlights the following **concerns**.

## Increasing the District's Property Tax Levy to the Maximum Amount Allowed Under the Property Tax Extension Limitation Law

While the Civic Federation recognizes the need for resources to support the FY2024 budget proposal, the Federation is concerned that the school district is raising its property tax levy to 5%, the maximum allowed under law, for the second year in a row. The Property Tax Extension Limitation Law (PTELL), also known as "tax caps," generally limits growth of a non-home rule taxing district's property tax levy to either the rate of inflation from the prior year or 5%, whichever is less.[3] FY2023 was the first time the inflation rate was higher than the 5% cap since PTELL went into effect in the 1990s. The Consumer Price Index (CPI) for FY2024 has been calculated to be 6.5%, which means that CPS can increase its levy from the prior year by up to 5%.[4] For FY2024, the District proposes to increase its education levy to the full 5% maximum, which will generate an estimated $139 million.

The Civic Federation is concerned about this increase in the education levy by the maximum allowable limit of 5% given the economic pressures facing Chicago residents and businesses. Chicago property taxpayers have already shouldered a significant additional property tax burden since 2017 to fund Chicago Teachers' pensions, in addition to previous years' education levy increases. Further, there are many other local governments that receive property taxes from Chicagoans, and without consideration and restraint by taxing districts, taxpayers will face substantially increased burdens this year if all taxing bodies impose a maximum property tax increase. It is important to recognize that property taxes are not tied to a property owner's ability to pay and therefore taxing districts must be aware of how much of a burden they collectively place on their taxpayers. CPS must weigh its reliance on property taxes against the impact on taxpayers and the Chicago economy.

However, the Federation recognizes that CPS is facing increased costs due to inflation, needed personnel increases, salary increases and increased required pension contributions. To avoid needing to make large property tax increases in years to come, it is critical that the Board of Education and CPS leadership develop a long-term plan to stabilize its finances after federal COVID-19 Relief funds have been spent in FY2025.

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[3] PTELL applies to non-home rule taxing districts in the 39 counties subject to the law, including Cook County since 1994. Some functions for which local governments collect property taxes are not subject to the tax cap, such as debt service. Additionally, governments can ask voters to approve increases higher than the PTELL limit via referendum. See Civic Federation, "What is a PTELL Referendum and How Does it Work?," September 13, 2019.
[4] Chicago Public Schools Proposed FY2024 Budget, p. 21.

## Sustainability of Increased Spending Levels After Federal COVID-19 Relief Funds Are Expended

CPS' finances are stable in the short-term due to Elementary and Secondary Emergency Relief (ESSER) funds that were allocated as part of the federal American Rescue Plan Act (ARPA). However, the District continues to increase spending significantly, most of which is comprised of ongoing personnel costs. The proposed operating budget for FY2024, totaling $8.5 billion, is a 6.2% increase over the prior year. A continuation of these trends is unsustainable over the long term without a continued infusion of revenue. The Civic Federation is very concerned about the District's ability to cover rising costs in future years, especially after the ESSER funds are spent in FY2025 and the District will face a budget gap of over $600 million in two years.

The Civic Federation recognizes that some spending increases are unavoidable, including those tied to contractual obligations in the collective bargaining agreement with the Chicago Teachers Union and statutorily required increases in pension contributions. However, there is no apparent cost containment strategy over the long-term, as the budget and personnel levels continue to increase annually. The Federation urges Chicago Public Schools to partner with other school districts around the State to work with State leaders on a comprehensive solution to address the fiscal cliff coming to CPS and many other school districts in 2026.

## Increase in the Required Chicago Teachers' Pension Fund Pension Contributions Due to Recent Investment Losses

The Chicago Teachers' Pension Fund (CTPF) 2022 actuarial report calculated that the total statutory employer contribution to the Fund for FY2024 will be just over $1.0 billion, a large increase of nearly 19% over the prior year.[5] Of the $1.0 billion total, the State of Illinois will pay $322.7 million, which includes the projected normal costs of $308.1 million and $14.6 million to offset certain benefit increases enacted during the 1990s.[6] The District's FY2024 statutory contribution to the Chicago Teachers' Pension Fund from its operating revenues is $142.7 million and a projected $557.1 million will be allocated to the fund from the dedicated pension property tax levy to meet the total required contribution for CPS of $699.8 million.[7]

Despite revenue from the pension property tax levy increasing for FY2024 by $5.5 million from $551.6 million the prior year, the increase was not enough to offset the spike in required contributions due to significant investment losses of 8.2% in FY2022. The Chicago Teachers' Pension Fund 2021 actuarial report estimated the total required employer contributions to be $880.1 million for FY2024. However, the 2022 investment losses increased the required contribution by $142.4 million, or 16% to $1.0 billion. This unplanned increase in the required contribution affects the District instead of the State because the State's contributions remain constant and CPS is required to absorb increases in the statutorily required contribution from its own resources.[8] CPS is still the only school district in the State that is required to support the majority of its pension system.

[5] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation Report, June 30, 2022.
[6] Public Act 90-0582.
[7] Chicago Public Schools FY2024 Proposed Budget, p. 30.
[8] Chicago Public Schools FY2024 Proposed Budget, p. 30-31.

## Financial Entanglements with the City of Chicago Still Need to Be Resolved

With the upcoming implementation of an elected school board to oversee Chicago Public Schools, the governance of CPS will become fully separated from the City of Chicago. The 21-member elected school board, set to replace the existing seven-member board appointed by the Chicago mayor, will be phased in with a hybrid board beginning in 2025, and the fully elected board in place beginning in 2027. The separation raises questions about the ongoing financial responsibility of the City to CPS and whether partnerships between the two agencies will continue. Before the elected school board takes office, there are two key questions that still need to be answered:

1. How much financial responsibility should the City of Chicago have to CPS once the school district governance becomes fully independent?
2. How will Chicago Public Schools deal with the looming budget deficit of $628 million projected to begin in FY2026?

Historically, the Chicago Public Schools and the City of Chicago have had a close financial relationship, partly established in State statute and partly through intergovernmental agreements. As a result, the City provides the school district with significant annual subsidies. With Chicago Public Schools set to become a fully independent government, it is not clear that the City would or should be obligated to fund CPS pension, debt and other related costs. These are issues that the current Board of Education must address *before* the elected school board comes into place.

An analysis of entanglements between the City of Chicago and Chicago Public Schools released in October 2022 lays out in detail each of the financial entanglements that need to be resolved.[9] Based on the report, the City provides CPS with approximately $383 million in financial benefits, either through direct appropriations or reduced payments in FY2023.[10] These include a $142.3 million payment from the City to CPS through property taxes levied by the City on CPS' behalf to pay for the debt service on bonds and $97.7 million in pension contributions made by the City on behalf of CPS employees and retirees who are members of the Chicago Municipal Employees Annuity and Benefit Fund (MEABF). It also includes smaller amounts of capital funding intergovernmental agreements, free or reduced CTA fares for students and waivers for water and sewer bills and permits. In addition to these entanglements, the City and CPS have other partnerships for programs like early childhood education.

The question of whether these partnerships and subsidies will continue need to be resolved before the elected school board is implemented. The Illinois State Board of Education is expected to deliver recommendations to the State legislature on the Chicago Board of Education's ability to operate with the financial resources available to CPS as an independent unit of local government by July 1, 2023. Once these recommendations are released, the Chicago Board of Education should work to address these financial entanglements with the City of Chicago and incorporate the plan into a long-term financial plan.

[9] Public Act 102-0691 required the Chicago Board of Education to commission an independent review of the district's finances and entanglements with the City of Chicago by October 31, 2022. The legislation also requires the State Board of Education to make recommendations on the Chicago Board of Education's ability to operate with the financial resources available to CPS as an independent unit of local government, based on the review of financial entanglements. The recommendations are due to the State legislature July 1, 2023.
[10] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022, p. 17. (Prepared by Columbia Capital Management, LLC to satisfy the requirements of Public Act 102-0177 and Public Act 102-0691)

## Civic Federation Recommendations

The Civic Federation makes the following **recommendations** to Chicago Public Schools and the Chicago Board of Education.

### Chicago Public Schools Should Collaborate with Suburban and Downstate School Districts and the State of Illinois on a Comprehensive Solution to the Impending Federal Funding Cliff

As discussed in an earlier concern, CPS faces a fiscal cliff in FY2026 after federal ESSER funds are spent, as do other Illinois school districts. Without State assistance, school districts that are able will likely turn to the property tax to balance their budgets. With inflation still running high, the result could be maximum property tax increases of 5% in tax capped counties, with a potential for higher increases via referendum and in non-tax capped counties. The property tax burden in Illinois is already among the highest in the nation and such a spike could make Illinois an even bigger outlier.

Since CPS is not the only school district or government to face the end of federal pandemic funds, it would be helpful for the District to collaborate with suburban and downstate Illinois school districts to advocate together and work with the State in the coming fiscal years to develop a comprehensive plan to address projected budget deficits in school districts across the State, which could include additional funding distributed through the EBF model in order to improve equity. Such a plan would also need to include commitments by the school districts to find efficiencies and areas where spending could be reduced.

The State of Illinois must recognize that it needs to play a significant role in developing a sustainable plan to fund school districts after the end of federal pandemic funding. The size and scope of the problem is not likely to be something CPS can solve by itself sustainably, nor is the current trajectory of the EBF formula enough to supplement Chicago Public Schools' local property tax sources. For school districts statewide to avoid large property tax increases or significant budget cuts in future years, there needs to be a comprehensive effort with the Illinois State Board of Education, General Assembly and Governor to address the funding problem. The Civic Federation recommends that CPS collaborate with suburban and downstate Illinois school districts to advocate for State assistance in the coming fiscal years.

### Prepare for Implementation of the Elected School Board and Address Outstanding Financial Entanglements

As noted in a concern above, the Chicago Board of Education will need to make a plan for addressing the financial entanglements with the City of Chicago and determine which financial partnerships will continue in future years. The Board of Education should work together with the City of Chicago to develop a plan for how each of the entanglements will be handled in future years and develop a long-term financial plan that sets up the elected school board with clear guidance on the City's financial responsibility to CPS after 2024.

In addition to addressing the entanglements, Chicago Public Schools desperately needs a long-term financial plan to address its unstable finances. The District relies on short-term borrowing each year to generate enough cash-flow throughout the year to pay for ongoing operations and personnel costs. The CPS budget currently also relies heavily on federal COVID-19 pandemic relief funding; 8.3% of the CPS budget is funded through federal ESSER funds in FY2023. This one-time federal funding is projected to run out in FY2025. Deficits are projected beginning in FY2026, with a deficit of $628 million estimated for FY2026, increasing to $733 million in FY2027.[11] Additionally, operating reserve levels remain below targets.

Because many of the District's revenue sources are largely out of its control, legislation may be required to provide new or increased revenues if they are needed to keep up with rising costs. Given the District's fragile financial condition, coupled with the potential for CPS to lose even more revenue as it becomes independent of the City of Chicago, the City and District must plan ahead for the inevitable fiscal cliff looming after federal COVID relief funds run out, with input from the Illinois State Board of Education's pending report on the District's ability to operate with the financial resources available to CPS.

## Consolidate the Chicago Teachers' Pension Fund with the Teacher's Retirement System in Order to Equalize State Pension Funding for Teachers

State pension funding for Chicago teachers versus teachers in the rest of Illinois is inequitable. The State of Illinois pays for the normal cost and the unfunded liability for all downstate and suburban districts, but only covers for the normal pension costs for Chicago teachers' pensions. The FY2024 State contribution to the Teachers' Retirement System (TRS), the pension fund for teachers in all school districts outside of Chicago, is $6.0 billion. In contrast, the FY2024 State contribution to the Chicago Teachers' Pension Fund (CTPF) is $322.7 million. Even after an increase in teacher pension contributions from the State enacted in 2017, CPS is still the only school district in the State that is required to support the great majority of its pension system.

A more equitable solution for State funding of teacher pensions would be for the State of Illinois to assume financial responsibility for the unfunded liability of all school districts ($80.6 billion in unfunded liability for TRS and $13.8 billion in unfunded liability for CTPF as of FY2022), and for school districts to cover the normal cost for their teachers' pensions (the future benefits accrued by active employees in the current year).

One way to ensure a more equitable funding structure would be to consolidate the CTPF with TRS. Consolidating the CTPF and TRS would eliminate the current inequitable funding structure under which Chicago taxpayers pay for most of the cost of Chicago teachers' pensions and also contribute downstate and suburban teachers' pension costs. It could also achieve some cost efficiencies as duplicative functions are eliminated. The State of Illinois is significantly responsible for the unfunded liabilities that have accumulated in both pension funds over time, and as such should be required to help pay for them. The Civic Federation continues to recommend that CPS work with the General Assembly and the Teachers' Retirement System to consolidate the two pension funds.

Under a consolidation plan, the CTPF and TRS systems would be managed by a single pension board that would have proportional representation for both teachers' pension funds. However, the current member plans would be maintained as separate accounts, so contributions by and for Chicago teachers would not be comingled with downstate and suburban teacher pension funds. The State of Illinois would assume responsibility for the unfunded liability of CTPF, while CPS would resume paying for the pension fund's normal cost.

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[11] City of Chicago Board of Education, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools, October 31, 2022, p. 13. (Prepared by Columbia Capital Management, LLC to satisfy the requirements of Public Act 102-0177 and Public Act 102-0691)

## Provide More Time between Budget Release, Public Hearings and Board Approval

The timeline between when the CPS budget is released and when public budget hearings and the vote by the Board of Education are held is typically a period of approximately two weeks. This year, the budget proposal was released on June 13 and public hearings on the proposed budget were held one week later on June 20 and 21. The Board vote is two weeks later on June 28. In order to allow CPS community members enough time to fully comprehend the details of the budget proposal for the coming year and provide input before it is adopted by the Board of Education, the Civic Federation recommends that the Board extend the length of time between the budget release, public hearings and the vote by the Board.

## Resume Holding Finance Committee Meetings on a Regular Basis

The Civic Federation recommends that the District resume their Board of Education Finance and Audit Committee meetings on a regular basis in order to provide the public with a financial update, an audit update and allow public participation. We also recommend that the District include financial updates about their use of ESSER funds in these Committee meetings. The last Finance and Audit Committee Meeting was held on January 27, 2021. These meetings informed the public about the District's financial plans and audit status on a regular basis. There was only one Finance and Audit Committee Meeting in FY2021 but prior that, the meetings were on a quarterly basis throughout the year and provided important financial updates to the CPS community and those tuning into government meetings.

## Include Expenditures and Personnel Sections in the Budget Book

The Civic Federation recommends that CPS add narrative sections to the annual budget books going forward that include a more in-depth explanation of expenditures and personnel levels. The CPS budget book does include some broad summary information on spending and staffing levels, but they should also be described in more detail in standalone sections similar to the revenue section of the budget book. Revenues are explained in detail in a standalone revenue section, which helps stakeholders understand the changes that occur from year to year among various revenue sources.

While the interactive reports provide very detailed data, there is no textual explanation to describe why certain expenditure or personnel categories are changing from one year to another. Additionally, this year the interactive reports are not yet available online. Given the recent significant increases in expenditures and staffing levels, more detail is needed to understand why increases are occurring. Both the FY2023 and FY2024 budgets include large expenditure increases in personnel. Additional details are needed to understand the year over year changes—for example, how much of the salary increases are due to cost of living adjustments versus new positions, and what kinds of contracts are driving the increases.

Total FTE count in FY2024 is increasing by 1,781, which is a 4.1% increase over the prior year. This follows another large personnel increase of 3.9% last year. A portion of the FY2024 increase—1,025 positions —is due to the addition of school assistants, security officers and special education classroom assistants. Another 533 positions are for teacher positions, 109 for additional central office personnel, and 107 positions are for school nurses, social workers and psychologist positions. Context for the rationale behind the staffing increases in each of these categories is needed in order to understand year over year changes. Additionally, the position counts in the online interactive reports by school and position title are not grouped in such a way that makes it possible to determine the total number of positions that fall into broader categories such as special education teachers, social workers, nurses and librarians. CPS should provide a summary overview of FTEs within these types of categories in the budget book with an explanation for why certain categories are increasing or decreasing.

## Include Actual Revenues in the Budget Book

The revenue section of the annual CPS budget book includes a substantial explanation about revenues anticipated in the upcoming year, as well as comparisons to the prior year budget and year-end estimates. However, the budget does not provide any actual revenues from prior years for the general operating fund. The Civic Federation recommends that the District begin to include actual revenues from the fiscal year two years prior to the proposed budget year in the General Operating Fund. For the FY2024 proposed budget, this would mean including actual revenues from FY2022. Actuals from two years prior are included in the debt management and capital budget sections of the budget book. This recommendation would bring the general operating fund in line with the capital and debt funds, and would provide a more complete picture of actual revenues received in past years across all three major funds.

# ACKNOWLEDGEMENTS

*The Civic Federation would like to express our appreciation to Chicago Public Schools Chief Financial Officer Miroslava Krug, Treasurer Walter Stock, Budget Director Heather Wendell and Deputy Budget Chief Michael Sitkowski for their work in preparing the budget, providing the Federation staff with a budget briefing and answering the Federation's questions about the proposed budget.*

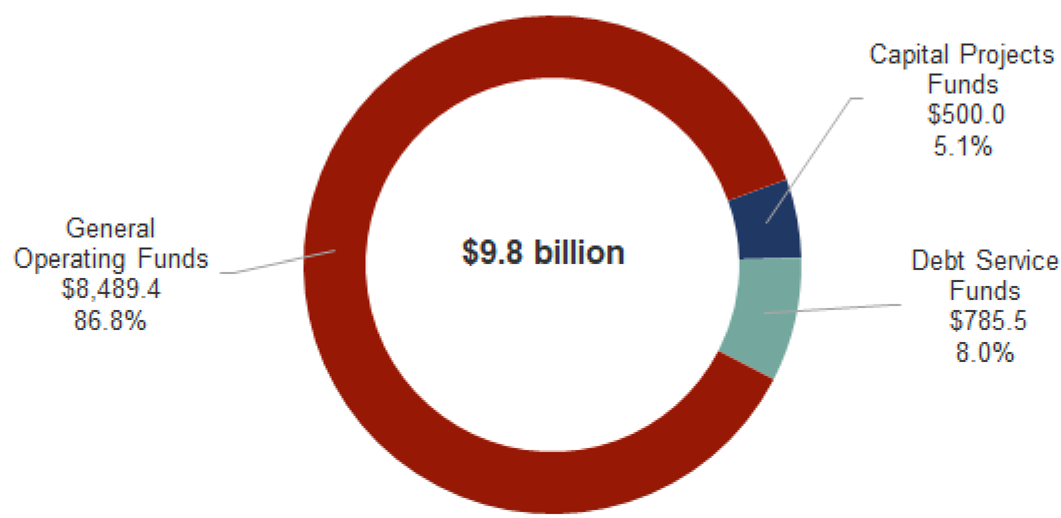
# APPROPRIATIONS

This section presents an analysis of CPS' proposed FY2024 appropriations, including by fund and by type. It includes a comparison of adopted appropriations over the past five years, from FY2020 through the FY2024 proposed budget. FY2020 figures are amended appropriations approved in November 2019, after the FY2020 budget was originally adopted in August 2019. At the time of issuing this report, some analysis could not be completed because data from the online interactive budget is not yet available.

## FY2024 Total Appropriations For All Funds

The chart below shows total FY2024 proposed appropriations for all funds. The Chicago Public Schools' FY2024 proposed budget of $9.8 billion is comprised of approximately $8.5 billion in General Operating Funds, $785.5 million in Debt Service Funds and $500.0 million in Capital Projects Funds. The General Operating Funds represent 86.8% of the total budget, Debt Service Funds represent 8.0% and Capital Projects Funds represent 5.1% of total appropriations for all funds. The capital projects figure used here represents the amount of capital outlay, or expenditures, that the District expects to spend in FY2024, regardless of when the appropriations for the capital projects were approved. In contrast, CPS is appropriating $155.0 million in new projects for the coming year, which will be completed over the next several years. The District also plans to issue a supplemental FY2024 capital plan later in the fiscal year after the Master Facilities Plan is complete.[12]

**CPS FY2024 Appropriations for All Funds by Fund (in $ millions)**




Source: CPS FY2024 Proposed Budget, pp. 11, 196, 202.

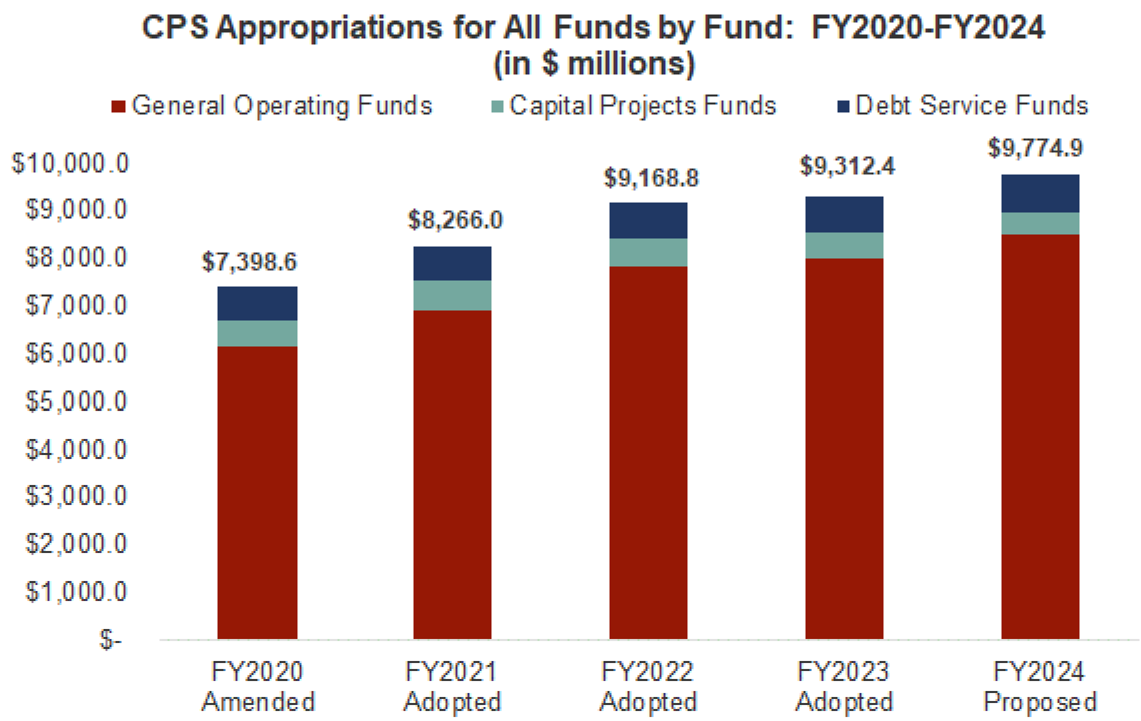
The General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers and other day-to-day expenditures. The General Operating Funds include the General Fund and the Special Revenue Funds. The General Fund is the

[12] Chicago Public Schools FY2024 Proposed Budget, p. 197.

primary fund that is used for operational and educational purposes. The Special Revenue Funds receive revenues that are restricted for or committed to specific projects, such as workers' compensation, school lunch and other grant funds. The Capital Project Funds are for building renovations and construction activities. The Debt Service Funds are for revenues and appropriations that are used for the payment of principal and interest on long-term debt.[13]

## FIVE-YEAR APPROPRIATION TREND: ALL FUNDS BY FUND

The chart below shows CPS appropriations for all funds from FY2020-FY2024.




Source: CPS FY2024 Proposed Budget, pp. 11, 196, 202; CPS FY2023 Adopted Budget, pp. 22-23, 188, 193-194; CPS FY2022 Adopted Budget, pp. 17, 204, 210; CPS FY2021 Adopted Budget, pp. 17, 185-186, 191-192; CPS FY

The FY2024 total proposed budget of $9.8 billion across all funds is an increase of $462.5 million, or 5.0, from the FY2023 adopted budget of $9.3 billion. Appropriations for General Operating Funds of nearly $8.5 billion represent an increase of 6.2%, or $495.7 million, from the FY2023 operating budget. The Capital Projects Funds will decrease by $49.3 million, or 9.0%, from FY2023. The Debt Service Funds will increase by $16.1 million over the two-year period to $785.5 million.

Over the five-year period from FY2020 to FY2024, total appropriations for all funds will increase by $2.4 billion, or 32.1%, from $7.4 billion in the FY2020 amended budget to $9.8 billion in the FY2024 proposed budget. General Operating Funds will see the largest increase over this time period, increasing by approximately $2.3 billion, or 37.5%. Debt Service Funds will also increase by $85.2 million, or 12.2%, over the same time period. Conversely, Capital Projects Funds will decrease by $22.8 million, or 4.4%, over the five-year period.

[13] Chicago Public Schools FY2024 Proposed Budget, Fund Descriptions, p. 212-214.

# GENERAL OPERATING FUNDS APPROPRIATIONS BY TYPE

The following table shows appropriations by type of expense between the FY2020 amended budget and the FY2024 proposed budget. Appropriations for benefits will see the largest dollar increase from last year, rising $242.1 million, or 12.9%, due to an increase in the District's statutorily required contribution to the Chicago Teachers' Pension fund and increased expenses as CPS absorbs some of the cost of contributions to the Municipal Employees' Annuity and Benefit on behalf of CPS employees.[14] Similarly, salary appropriations are expected to increase by $234.5 million, or $7.1%, from $3.3 billion to $3.5 billion based on contractual increases for union employees, as well as the cost of hiring additional instructional and support staff.[15]

Contract spending will increase over FY2023 by $118.5 million, or 7.2%, based on contractual increases for several services, as well as technical support investments and a funding shift that moved the early childhood programs funding to FY2024 contractual services from FY2023 contingency appropriations.[16] Appropriations for contingencies and other expenses will decrease by $104.4 million, or 12.6%, from FY2023 adopted expenditures due to reductions in federal and State pandemic grant funding.[17] Equipment expenditures will increase by $15 million over FY2023.

Over the five-year period between FY2020 and FY2024, total operating funds appropriations will increase by $2.3 billion, or 37.5%. The largest dollar increase over the five-year period is for salaries, which will increase by $879.5 million, or 33.3%. Benefits will increase by $594.6 million, or 39.2%. Contingencies and other expenses will increase by 63.7%, or $281.9 million. Commodity appropriations will increase by $111 million, or 46%. Appropriations for equipment will increase by $15 million, or 113.6%.

**CPS Appropriations for Operating Funds by Type: FY2020- FY2024**
**($ in millions)**

| | FY2020 Amended | FY2021 Adopted | FY2022 Adopted | FY2023 Adopted | FY2024 Proposed | FY23-FY24 $ Change | FY23-FY24 % Change | FY20-FY24 $ Change | FY20-FY24 % Change |
|---|---|---|---|---|---|---|---|---|---|
| Salaries | $ 2,638.8 | $ 2,901.5 | $ 3,070.5 | $ 3,283.8 | $ 3,518.3 | $ 234.5 | 7.1% | $ 879.5 | 33.3% |
| Benefits | $ 1,517.4 | $ 1,655.5 | $ 1,730.9 | $ 1,869.9 | $ 2,112.0 | $ 242.1 | 12.9% | $ 594.6 | 39.2% |
| Contracts | $ 1,322.7 | $ 1,438.1 | $ 1,542.5 | $ 1,636.2 | $ 1,754.7 | $ 118.5 | 7.2% | $ 432.0 | 32.7% |
| Commodities | $ 241.1 | $ 297.7 | $ 270.0 | $ 362.2 | $ 352.1 | $ (10.1) | -2.8% | $ 111.0 | 46.0% |
| Equipment | $ 13.2 | $ 39.0 | $ 17.6 | $ 13.1 | $ 28.2 | $ 15.1 | 115.3% | $ 15.0 | 113.6% |
| Contingencies/Other | $ 442.2 | $ 584.2 | $ 1,190.2 | $ 828.5 | $ 724.1 | $ (104.4) | -12.6% | $ 281.9 | 63.7% |
| **Total** | **$ 6,175.4** | **$ 6,916.0** | **$ 7,821.7** | **$ 7,993.7** | **$ 8,489.4** | **$ 495.7** | **6.2%** | **$ 2,314.0** | **37.5%** |

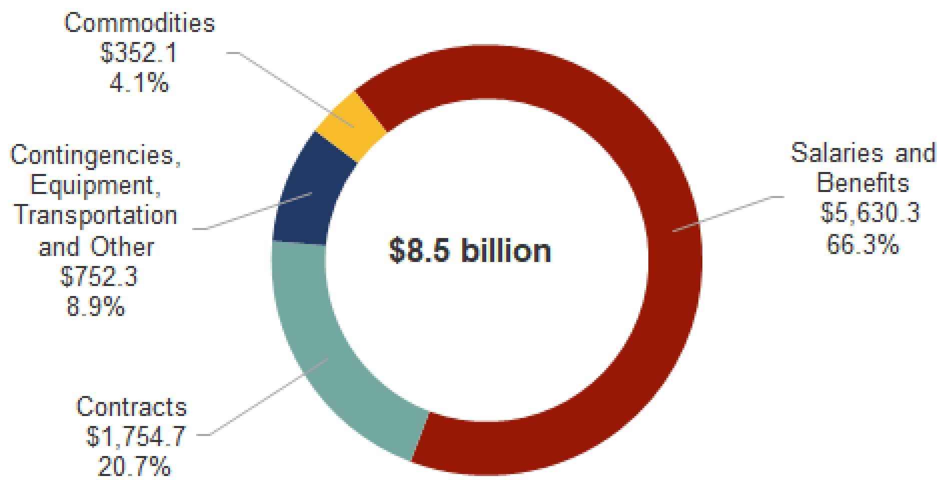
Source: CPS FY2024 Proposed Budget, p. 11; CPS FY2023 Adopted Budget, pp. 22-23; CPS FY2022 Adopted Budget, p. 17; CPS FY2021 Propsed Budget, Interactive Budget Reports, Revenues and Expenditures, available at www.cps.edu.

The chart below shows the proposed FY2024 General Operating Funds appropriations by type. Appropriations earmarked for salaries and benefits account for the largest share of spending at approximately $5.6 billion, or 66.3%. Contracts total nearly $1.8 billion, or 20.7%, of the general operating budget, which includes tuition for charter and therapeutic schools, payments for clinicians and other school support services. Many of these school support services are paid to outside organizations that offer repairs, janitorial services, waste removal and engineering. Appropriations for contingencies, equipment, transportation and other expenses comprise $752.3 million, or 8.9%, of the operating budget. Equipment includes furniture, computers and

[14] Chicago Public Schools FY2024 Proposed Budget, p. 12, 211.
[15] Chicago Public Schools FY2024 Proposed Budget, p. 11-12.
[16] Chicago Public Schools FY2024 Proposed Budget, p. 12.
[17] Chicago Public Schools FY2024 Proposed Budget, p. 12.

other non-consumable items. Transportation includes bus service and Chicago Transit Authority (CTA) passes and reimbursement. Appropriations for commodities, which include utilities, food, instructional supplies and other supplies, account for $352.1, or 4.1% of the general operating budget.

**FY2024 General Operating Funds Appropriations by Type (in $ millions)**




Source: CPS FY2024 Proposed Budget, p.11.

# RESOURCES

This section presents total proposed resources that CPS plans to use in FY2024, including a discussion of resource and revenue trends and the property tax levy. Resources include all local, state and federal revenue plus other non-revenue sources such as appropriated fund balance and income from debt financing. Proposed FY2024 resources are compared with FY2023 adopted resources, FY2022 amended resources, FY2021 adopted resources and FY2020 amended resources. At the time of issuing this report, some analysis is not possible because data from the online interactive budget is not yet available.

## TOTAL RESOURCES FOR ALL FUNDS IN FY2024

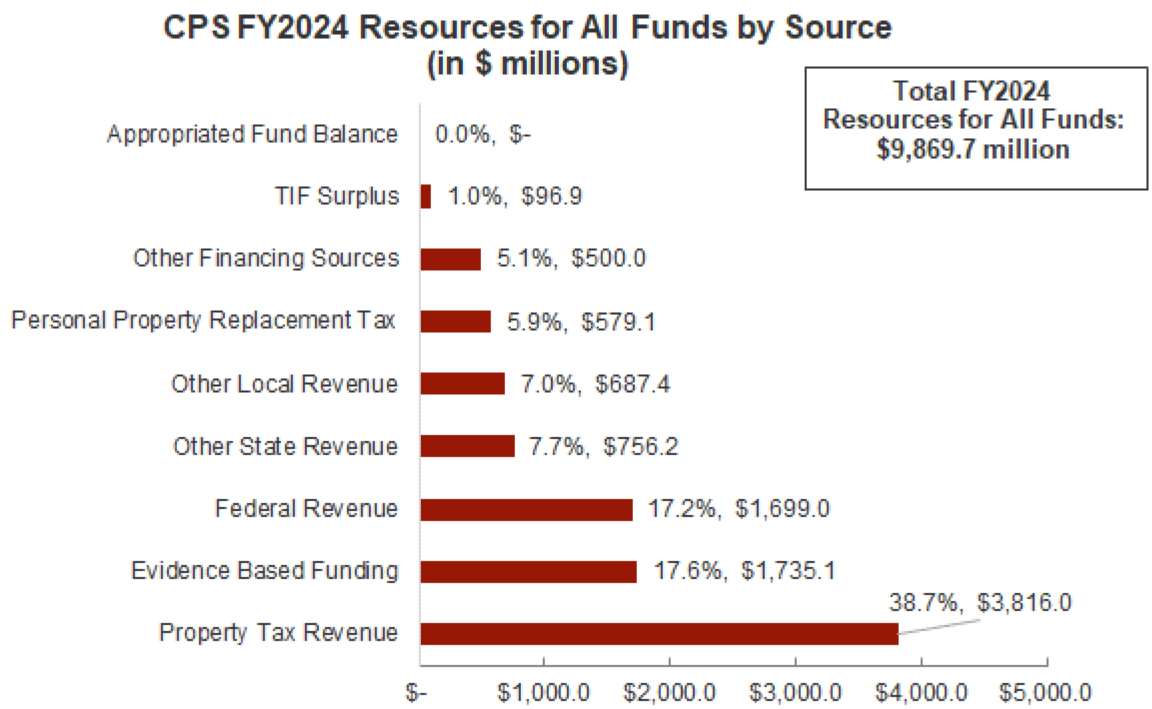
CPS projects total resources for all funds in FY2024 to be nearly $9.9 billion,[18] an increase of $571.7 million, or approximately 6%, from $9.3 billion the prior year.

The following chart presents the District's total projected resources by source for FY2024. The largest revenue source is the property tax, which is expected to generate $3.8 billion, or 38.7%, of the District's total resources. Evidence-Based Funding from the State of Illinois is the second-largest revenue source, at 17.6% or $1.7 billion. Federal revenue, which includes the Elementary and Secondary School Emergency Relief (ESSER) Fund is $1.7 billion, or 17.2%.

[18] FY2024 resources presented here of $9.9 billion across all funds are larger than the all funds resources of $9.4 billion presented in the budget book because it includes a more comprehensive review of the funds expected to be generated across each fund, including for capital spending and debt service.

Other State revenue is 7.7%, or $756.2 million of total revenue, and includes block grants, other grants, State pension funding for teachers and funding for capital projects. Other local revenue is expected to account for $680.4 million, or 6.9%, of revenue in FY2024. This category includes City of Chicago pension contributions for non-teacher CPS employees and debt funding provided to CPS through intergovernmental agreements with the City of Chicago Personal Property Replacement Tax, which is an income tax on businesses, partnerships, trusts, corporations and public utilities, accounts for 5.9%, or $579.1 million.

Other financing sources, which are anticipated proceeds from the sale of bonds to fund the District's capital projects, are expected to account for 5.1%, or $500 million, or 5.1% of resources. A smaller portion of resources, $96.9 million, includes Tax Increment Financing (TIF) Surplus, which are excess TIF funds declared by the City of Chicago and distributed to local taxing bodies. For FY2024, the District does not plan to appropriate any funds from the prior year fund balance.




Source: CPS FY2024 Proposed Budget, pp. 18-20, 196 and 202.

The following table details the total resources proposed for FY2024 by fund. The General Operating Fund accounts for the majority, 86.0%, of total resources. The District projects general operating revenue from local, state and federal sources to be nearly $8.4 billion, plus an additional $96.9 million in TIF Surplus, which brings the total general operating resources to $8.5 billion. This represents an increase of $495.8 million, or 6.2%, from the FY2023 adopted operating budget of approximately $8 billion.

Capital funding is proposed at $603.1 million in FY2024. This amount reflects the revenues and other sources that are anticipated to flow into the Capital Fund in FY2024. This includes $103.1 million in local, state and federal revenue, and $500 million in other financing sources, which are anticipated bond proceeds. The debt service fund is budgeted to receive $777.2 million in revenue from local, state and federal sources. The capital fund accounts for 6.1% of total FY2024 resources and the debt service fund accounts for 7.9%.

**CPS FY2024 Revenues and Resources by Fund Type**
**(in $ millions)**

| | General Operating | Capital | Debt Service | Total |
|---|---|---|---|---|
| Property Taxes | $ 3,751.9 | $ 13.0 | $ 51.1 | $ 3,816.0 |
| Replacement Tax | $ 538.7 | $ - | $ 40.4 | $ 579.1 |
| Other Local Revenue* | $ 460.1 | $ 69.0 | $ 158.3 | $ 687.4 |
| **Subtotal Local Revenue** | **$ 4,750.7** | **$ 82.0** | **$ 249.8** | **$ 5,082.5** |
| Evidence-Based Funding | $ 1,232.1 | $ - | $ 503.0 | $ 1,735.1 |
| Other State Grants | $ 739.1 | $ 17.1 | $ - | $ 756.2 |
| **Subtotal State Revenue** | **$ 1,971.2** | **$ 17.1** | **$ 503.0** | **$ 2,491.3** |
| Federal Revenue | $ 1,670.6 | $ 4.0 | $ 24.4 | $ 1,699.0 |
| **Total Revenues** | **$ 8,392.5** | **$ 103.1** | **$ 777.2** | **$ 9,272.8** |
| Other Financing Sources | $ - | $ 500.0 | $ - | $ 500.0 |
| TIF Surplus | $ 96.9 | $ - | $ - | $ 96.9 |
| Appropriated Fund Balance | $ - | $ - | $ - | $ - |
| **Total Resources** | **$ 8,489.4** | **$ 603.1** | **$ 777.2** | **$ 9,869.7** |
| ***Percent of Total*** | ***86.0%*** | ***6.1%*** | ***7.9%*** | |

*Other Local Revenue includes interest income.
Note: Figures in table may not match budget figures exactly due to rounding.
Source: CPS FY2024 Proposed Budget, pp. 18-20, 196 and 202.

## Two-Year and Five-Year Trends for Resources in All Funds

The table below presents total revenues and resources across the five-year period from FY2020 to FY2024. In the two-year period between FY2023 and FY2024, the proposed FY2024 budget represents a 6.2% increase of $571.7 million to $9.9 billion from the FY2023 budget of $9.3 billion.

Over the five-year period from FY2020 to FY2024, total budgeted resources have increased by 28.8%, or $2.2 billion, from $7.7 billion to $9.9 billion. During this period, several revenue sources have increased significantly. Property tax revenue is projected to increase by 21.7%, or $681.5 million, from $3.1 billion in FY2020 to $3.8 billion in FY2024. Evidence-Based Funding (EBF) has increased by 3.7%, or $61.4 million. Total state revenue is projected to increase by $209.5 million, or 9.2%. Over the five-year period, federal funding has increased by 121.4%, or $931.5 million, to $1.7 billion in FY2024 from $767.5 million in FY2020. CPS has received an influx of federal funding through the Elementary Secondary School Emergency Relief (ESSER) I, II and III Fund due to the federal government’s response to the pandemic to combat the effects of the pandemic on student achievement. Since FY2020, CPS has been allocated $2.8 billion in ESSER Funds.[19]

[19] Chicago Public Schools FY2024 Proposed Budget, p. 18.

Each funding source shown in the following table is discussed in detail below.

**CPS Revenues and Resources All Funds by Source: FY2020-FY2024**
**(in $ millions)**

| Source | FY2020 Amended | FY2021 Adopted | FY2022 Amended | FY2023 Adopted | FY2024 Proposed | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year % Change |
|---|---|---|---|---|---|---|---|---|---|
| Property Taxes | $ 3,134.5 | $ 3,260.4 | $ 3,374.5 | $ 3,685.3 | $ 3,816.0 | $ 130.7 | 3.5% | $ 681.5 | 21.7% |
| Replacement Taxes | $ 215.3 | $ 194.9 | $ 234.9 | $ 379.9 | $ 579.1 | $ 199.2 | 52.4% | $ 363.8 | 169.0% |
| Other Local Revenue* | $ 442.7 | $ 484.6 | $ 453.9 | $ 403.3 | $ 680.4 | $ 277.1 | 68.7% | $ 237.7 | 53.7% |
| **Subtotal Local Revenue** | **$ 3,792.5** | **$ 3,939.9** | **$ 4,063.3** | **$ 4,468.5** | **$ 5,075.5** | **$ 607.0** | **13.6%** | **$ 1,283.0** | **33.8%** |
| Evidence-Based Funding | $ 1,673.7 | $ 1,665.7 | $ 1,705.7 | $ 1,746.5 | $ 1,735.1 | $ (11.4) | **-0.7%** | $ 61.4 | 3.7% |
| Other State Revenue | $ 608.0 | $ 673.0 | $ 649.5 | $ 704.4 | $ 756.2 | $ 51.8 | **7.4%** | $ 148.2 | 24.4% |
| **Subtotal State Revenue** | **$ 2,281.8** | **$ 2,338.7** | **$ 2,355.2** | **$ 2,450.9** | **$ 2,491.3** | **$ 40.4** | **1.6%** | **$ 209.5** | **9.2%** |
| Federal Revenue | $ 767.5 | $ 1,336.7 | $ 2,107.9 | $ 1,824.7 | $ 1,699.0 | $ (125.7) | **-6.9%** | $ 931.5 | 121.4% |
| **Total Revenues** | **$ 6,841.8** | **$ 7,615.2** | **$ 8,526.4** | **$ 8,744.1** | **$ 9,265.8** | **$ 521.7** | **6.0%** | **$ 2,424.0** | **35.4%** |
| Bond Proceeds | $ 598.3 | $ 411.0 | $ 450.0 | $ 450.0 | $ 500.0 | $ 50.0 | **11.1%** | $ (98.3) | -16.4% |
| TIF Surplus | $ 163.1 | $ 96.9 | $ 136.9 | $ 96.9 | $ 96.9 | $ - | **0.0%** | $ (66.2) | -40.6% |
| Fund Balance Use / (Sources) | $ 56.0 | $ 22.0 | $ 10.0 | $ - | $ - | $ - | **0.0%** | $ (56.0) | -100.0% |
| **Other Sources** | **$ 817.4** | **$ 529.9** | **$ 596.9** | **$ 546.9** | **$ 596.9** | **$ 50.0** | **9.1%** | **$ (220.5)** | **-27.0%** |
| **Total Resources** | **$ 7,659.2** | **$ 8,145.1** | **$ 9,123.3** | **$ 9,291.0** | **$ 9,862.7** | **$ 571.7** | **6.2%** | **$ 2,203.5** | **28.8%** |

*Other Local Revenue includes interest income.

Note: Fund balance budgeted in FY2021 is unspent restricted funds from prior years that must be used for specific purposes. Due to the availability of funding from the Elementary and Secondary School Emergency Relief (ESSER) fund, the District will not rely on any reserves or prior year revenues to cover FY2024 fund balances.

Source: CPS Budget Interactive Online Reports FY2019-FY2023, Revenues & Expenditures, available at www.cps.edu; and CPS FY2019 Adopted Budget, pp. 161 and 171; FY2020 Amended Budget, pp. 163 and 169; FY2021 Adopted Budget, pp. 182 and 191; FY2022 Adopted Budget, pp. 20-22, 182 and 210; FY2023 Adopted Budget, pp. 26-28, 188 and 193-194 and FY2024 Proposed Budget, pp.18-20, 196 and 202.

## Local Revenue

Local revenue is expected to total nearly $5.1 billion in FY2024, which is an increase of 13.6% over the prior year budget and a 33.8% increase over the five-year period beginning in FY2020. Local revenues consist of property taxes, Personal Property Replacement Tax and other local revenue sources from the City of Chicago.

Property tax revenue will increase by 3.5%, or $130.7 million, in the two-year period between FY2023 and FY2024. The increase includes a $15.8 million increase in Transit TIF collections, $7.5 million in increased Capital Improvement Tax collections, $5.5 million in increased pension levy collections and $102 million in additional property tax revenue for general operations.[20] The District plans to increase its Education Fund property tax levy by 5.0%, which is the maximum increase allowed under the Property Tax Extension Law Limit (PTELL) based on the 2023 inflation rate.[21] This levy increase plus amounts for new property and expiring tax increment financing (TIF) increment will account for an additional $139 million. However, this amount will be partially offset by $37 million due to an adjustment after several TIF districts were extended via state statute after the FY2023 budget that expected them to expire on schedule was passed.

While overall property tax revenue is expected to increase in FY2024 compared to the FY2023 budget, adjustments to property values made by the Cook County Assessor to account for the impact of COVID-19 affected property tax revenue collected by CPS in FY2021 as well as historically inaccurate assessments from prior years. An estimated growth of 2% is projected for FY2024, the normal rate of growth expected in an off-cycle assessment year.[22] The District's dedicated property tax levy for the Chicago Teachers' Pension Fund (CTPF) is $557 million, which is a $5.4 million increase from FY2023 and reduces the need for additional operating

[20] Chicago Public Schools FY2024 Proposed Budget, p. 21.
[21] Chicago Public Schools FY2024 Proposed Budget, p. 21-22.
[22] Chicago Public Schools FY2024 Proposed Budget, p. 22.

revenues to be contributed to the CTPF in FY2024. However, the District will have to contribute operating revenues in FY2024 to fully satisfy its statutory contribution obligations due to inadequate investment return and higher-than-expected salary increases in the prior fiscal year.[23] Property tax revenue from the Transit TIF district for the Red-Purple Modernization rail project on the north side of Chicago also will increase by $15.8 million to $111 million compared to the FY2023 budgeted revenue of $95 million as a result of the Assessor's property adjustment.

The Personal Property Replacement Tax (PPRT) is a corporate income tax the State collects from corporations and other business entities and distributes to local taxing districts. Replacement tax revenue is expected to increase by $199.2 million, or 52.4%, from $379.9 million budgeted in FY2023 to $579.1 million in FY2024. In FY2023, Personal Property Replacement Tax revenues outperformed expectations by $225 million for a total of 605 million. They are projected to decrease by 4.3% in FY2024 from FY2023 actuals but will still be available to support the District's operating costs.[24]

Other local revenues include City of Chicago pension contributions, donations, rental and facility fees, intergovernmental agreements with the City of Chicago, interest income and other miscellaneous revenue sources.[25] Other local revenues are projected to be $680.4 million in FY2024, which is an increase of $277.1 million, or 68.7%, from the prior year. The largest portions of this revenue consist of intergovernmental agreements with the City of Chicago, including $142.3 million from the City for debt service funding and $65 million for capital funding. In the past the City of Chicago made a pension contribution on behalf of CPS to the Municipal Employees Pension Fund to cover the pension payment for non-teacher CPS employees (which is recorded as revenue). This subsidy from the City has decreased over the past three years as the CPS contribution to the fund has increased. In FY2020 CPS first agreed to begin absorbing a portion of those payments to the Municipal Fund in FY2020. In the spring of 2023, the District contributed $175 million to the Municipal Fund and is no longer picking up the District's full employer costs.[26]

## State Revenue

FY2024 will be the seventh year CPS will receive State revenue according to the Evidence-Based Funding (EBF) formula for P-12 public school districts across Illinois.[27] Prior to EBF in FY2018, the State of Illinois funded school districts primarily via General State Aid (GSA) and other grants, including block grants for specific services. The General State Aid formula established a base foundation level per student. However, due to the foundation level funding not being fully funded, the State often prorated the foundation level and provided lower amounts of GSA to CPS and other school districts. The EBF formula is based on funding adequacy targets set for each school district based on a school district's needs and calculates local capacity to fund schools based on the assessed value of property available to the school district for taxing, rather than setting the same funding level for every student. School districts are separated into four tiers based on how close they are to their adequacy target.

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[23] Chicago Public Schools FY2024 Proposed Budget, p. 30.

[24] Chicago Public Schools FY2024 Proposed Budget, p. 23. For a description of why PPRT revenues grew so much compared to expectation and why they will decline again in future years, see Commission on Forecasting and Accountability, "Monthly Briefing for the Month Ended: May 2023," p. 5-7.

[25] Chicago Public Schools FY2024 Proposed Budget, p. 20-23.

[26] Chicago Public Schools FY2024 Proposed Budget, p. 211.

[27] Public Act 100-0465, signed into law on August 31, 2017 and effective beginning in FY2018, instituted a new Evidence-Based Funding (EBF) formula to replace General State Aid.

CPS is currently a Tier 2 school district, which means it falls into the second-highest tier of funding need. As of FY2024, CPS has an adequacy funding level of 74.6%. Until FY2023, CPS had been a Tier 1 district, but fell to Tier 2 according to CPS due to "short-term changes in revenue and expense factors within the Evidence-Based Funding formula."[28] CPS anticipates that it will remain a Tier 2 district in FY2024 and will receive less than 8% of the additional $350 million in new funding allocated by the State this year, which is a total of $27 million.[29] Overall, this is an $11 million decrease in tier funding from the original FY2023 budget since CPS expected to remain a Tier 1 district in FY2023. CPS is budgeting for a total of nearly $2.5 billion in State funding in FY2024, compared to $2.3 billion in FY2020, which is an increase of $209.5 million, or 9.2% over the past five years. Evidence-Based Funding is the largest portion of funding that CPS receives from the State, representing 70% total State revenue. In FY2024, CPS expects to receive $1.7 billion in EBF, which is a decrease from the prior year of $11.4 million, or 0.7% and $756.2 million in other state revenue.

Other State revenue in FY2024 includes a $322.7 million state contribution to the Chicago Teachers' Pension Fund, $434 million in categorical grants and $17.1 million in capital funding. Public Act 100-0465 included an ongoing State appropriation for the Chicago Teachers Pension Fund to cover the normal cost, or the cost of future benefits earned annually by current employees, and other post-employment benefits (OPEB) for retirees. The State's contribution of $322.7 million toward the pension fund in FY2024 is an increase of $14 million from the prior year.[30]

Due to the hold harmless provisions of the EBF formula, the District cannot receive less funding than the prior year regardless of enrollment or demographic trends, unless the State decides to reduce the amount of EBF funding available. The only year since the implementation of the EBF formula that CPS did not receive an increase to EBF funding was in FY2021, when the State held its EBF allocation flat due to the impact of the COVID-19 pandemic on its revenues.

## Federal Revenue

In past years, federal revenue typically accounted for less than 20% of CPS' total revenues, except for FY2022, where it accounted for 23.1% of total revenues. Federal funds will account for 17.2% of total revenue for CPS in FY2024, which is a decrease of 2.4% from the prior year.

Federal funding across all funds in FY2024 of $1.7 billion represents a decrease of $125.7 million over the prior year, or 6.9%.

CPS has received more than $2.8 billion in Elementary and Secondary School Emergency Relief Funds (ESSER) since FY2021 and has used $1.82 billion, or 65%, of the funds to support spending during the pandemic. In FY2024, the District plans to allocate $670 million of the remaining funds to support school-level funding, and academic and social and emotional programming.[31] Approximately $2.5 billion in the federal ESSER funds will be used through FY2024, leaving the remaining $300 million for use in future years.

[28] Chicago Public Schools FY2024 Proposed Budget, p. 24.
[29] Chicago Public Schools FY2024 Proposed Budget, p. 24.
[30] Chicago Public Schools FY2024 Proposed Budget, p. 25.
[31] Chicago Public Schools FY2024 Proposed Budget, p. 7.

The District plans to allocate $670 million in ESSER funds in FY2024 toward a number of purposes:

- $409 million to support school-level funding for district priorities and other local-level needs;
- $228 million to support investments in academic recovery, social and emotional learning, and other student supports; and
- $33 million to cover school-based operational positions, other pandemic-related needs and other contingent expenses.[32]

The remainder of the District's federal revenue consists of grants that are mostly restricted and can only be used to provide supplemental programs and services, such as those for low-income, non-English-speaking or delinquent children, or for school food programs. Federal revenue had been decreasing annually before the COVID-19 relief funds arrived in FY2021. In FY2020, federal funding was budgeted at $767.5 million, down from approximately $900 million five years prior.

The District's other federal funding consists of:

- Every Student Succeeds Act (ESSA) Title funds, the largest of which is for the Title I – Low-Income Grant, for which CPS anticipates $265.7 million in FY2024. This is an increase of $40.3 million from FY2023 to FY2024. Title I funds are calculated based on Census data related to the number of children in poverty relative to other districts;
- Individuals with Disabilities in Education Act (IDEA) grants, which provide supplemental funding for special education and related services;
- Child Nutrition Programs, including the National School Lunch Program, for which CPS expects to receive $214 million;
- Medicaid reimbursements for the delivery of medical services and administrative activities for children with special needs, for which CPS expects to receive $50.9 million in FY2024; and
- Other smaller grants for things like occupational training, Headstart and e-rate funding for telecommunications and internet access.

## Other Sources

Other resources not included in local, state or federal revenue include proceeds from the sale of bonds, tax increment financing (TIF) surplus, and the use of fund balance from the prior year.

The District anticipates receiving $500.0 million from bond proceeds of debt issuances to the Capital Fund in FY2024 to fund capital projects. The amount of bond proceeds fluctuates from year to year based on the timing of capital projects. It is important to note that the District's capital appropriations of $155 million in FY2024 represent allocations for capital projects regardless of the year the funds are spent.

CPS is anticipating $96.9 million in TIF surplus revenues from the City of Chicago in FY2024, which is the same amount the District received in FY2023. TIF surplus is excess money remaining in a TIF fund after revenues have been pledged for development projects. The City of Chicago can declare a TIF surplus annually and distribute the remaining funds to taxing districts based on the portion of a tax bill each taxing body receives. TIF surplus is considered a one-time rather than a recurring source of revenue. TIF surplus funds have fluctuated since FY2020

[32] Chicago Public Schools FY2024 Proposed Budget, p. 7-8.

when TIF surplus was budgeted at $163.1 million. The FY2024 TIF surplus amount represents a decrease of 40.6% over the past five years.

In past years, CPS has relied heavily on using prior-year general operating fund balances to close annual budget deficits. In FY2015, CPS drained most of its reserves, using $940.4 million in operating fund balance to close the budget gap. Since then, the District has reduced the amount of fund balance budgeted each year. In FY2024, the District will not appropriate any use of funds from the general operating fund balance. Over the five-year period from FY2020 to FY2024, the amount of budgeted fund balance has decreased by 100.0% from $56.0 million.

# Property Tax Levy and Revenue

CPS and other non-home rule taxing bodies in Cook County have been subject to the Property Tax Extension Limitation Law (PTELL) since tax year 1994 (payable in 1995). In general, the tax cap law allows tax extensions on existing property to rise each year by the lesser of 5.0% or the increase in the Consumer Price Index the previous year. For tax year 2023 (payable in 2024), the tax cap law permits a 5.0% increase on existing property value for property tax funds subject to the law, based on the rate of inflation of 6.2%, which is higher than the cap. The tax cap law also allows the tax rate calculated on the value of existing property to be applied to new property, thus generating additional revenue.

Property tax years are calendar years, while the CPS fiscal year runs July 1 to June 30. There is also a one-year lag in Cook County between when property taxes are levied and when they are collected. For example, taxes levied in 2022 will actually be received in 2023.

The tax year 2023 extension is paid by taxpayers in calendar year 2024 in first and second installments. The first installment is equal to 55.0% of the prior year's total tax bill and is usually due March 1.[33] The second installment includes the full year's tax extension minus the amount already paid in the first installment, so extension increases for a tax year are recognized by the second installment when new tax rates are computed. Prior to a change in the District's revenue recognition period in FY2015, CPS' property tax revenue was drawn from two separate tax years. However, the District extended the period for which property tax revenue can be collected and recorded after the end of its fiscal year on June 30. Since this change, CPS typically receives the majority of both installments in the same fiscal year.

## Property Tax Revenue Distribution

CPS expects its FY2024 property tax revenues to total $3.8 billion, compared to $3.7 billion in the FY2023 adopted budget. This represents an increase of $130.7 million, or 3.5%, over the prior year.

The majority of FY2024 property tax revenue is restricted for specific uses, such as the General Education Fund, Workers' Compensation/Tort Fund, Public Building Commission (PBC) Fund, Pension Levy Fund and Special Education Fund, which all fall within the District's General

[33] P.A. 96-490 changed this amount from 50% to 55% of the prior year's tax bill for tax year 2009 (first installment due March of 2010) and thereafter. The rationale for this change was that it would mitigate taxpayers' "sticker shock" resulting from tax increases that appear on second installment tax bills. In 2023 the Illinois General Assembly delayed the due date for first installment Tax Year 2022 property tax bills to April 3 due to the delay in second installment property tax bills for Tax Year 2021 to December 2022. See this announcement on the Cook County Property Tax Portal for more information.

Operating Funds.[34] Within the operating budget, the District projects that the Chicago Teachers' Pension Fund property tax levy will generate $557.1 million property tax revenue in FY2024, accounting for 15.0% of the levy. The remainder will be available for other operating purposes. Outside of the operating budget, CPS also levies a Capital Improvement Tax, which will generate $64 million in FY2024.

A dedicated property tax levy to fund teacher pensions was reinstated in FY2017 at a tax rate of 0.383%. CPS then received authority to increase the rate for the pension levy to 0.567% through Public Act 100-0465, the law enacting the new EBF formula. The pension levy is not subject to tax caps under PTELL, and instead is a flat rate applied to the equalized assessed value of property in Chicago.

## Trend in Property Tax Revenue

The next table presents CPS' property tax revenues from FY1991 through FY2024. Figures for FY1991 through FY2022 are actual property tax revenues received based on the most recent audited data available, while FY2023 figures are year-end estimates and FY2024 figures are proposed. The PTELL tax cap law went into effect for governments in Cook County in 1994, and effectively began limiting the amount of property tax revenue collected by Chicago Public Schools during the District's 1996 fiscal year.

Over this period, property tax revenues are projected to increase by 353.0%, or $3.0 billion, from $842.3 million in FY1991 to $3.8 billion in FY2024. Since FY1996, the first fiscal year that the tax cap law could limit CPS property tax revenues, the compound annual growth rate of revenues has been 4.2%. The average annual growth rate is also 4.2%.

As noted previously, a dedicated property tax levy to fund the Chicago Teachers' Pension Fund took effect beginning in FY2017 at a tax rate of 0.383%, then was increased to a rate of 0.567% in FY2018. This has allowed CPS to receive additional property tax revenue outside of the PTELL tax cap. In FY2017, CPS saw an increase in property tax revenue of 12.7% over the prior year due to the reinstatement of the dedicated pension levy. The District estimated the pension levy would allow it to capture $250.0 million new revenue in its first year.[35] This amount has grown to an estimated $557.1 million in FY2024. The FY2024 budgeted increase in property tax revenue of $131 million from the FY2023 budget is largely due to the increase in

[34] Fund classifications in the online interactive budget reports differ from the fund classifications in the budget book. In the budget book, the General Fund includes the Education Fund (consisting of the Regular Education, Special Education, Tuition-Based Preschool and School Special Income Funds), the Building Operations and Maintenance Fund, and the Special Revenue Funds (Supplemental General State Aid Fund, Workers' and Unemployment Compensation/Tort Fund, School Lunch Funds and Federal and State Grant Funds).
[35] Chicago Public Schools FY2017 Amended Budget, p. 26-27.

the CPS education levy and levying for new property and expiring TIF increment. The total estimated property tax revenue for FY2024 is a 3.5% increase over FY2023 year-end estimates.

**CPS Property Tax Revenue: FY1991-FY2024**
**(in $ thousands)**

| Fiscal Year | Property Tax Revenue | $ Change from Previous Year | % Change from Previous Year |
|---|---|---|---|
| FY1991 | $ 842,339 | -- | -- |
| FY1992 | $ 882,181 | $ 39,842 | 4.7% |
| FY1993 | $ 1,008,481 | $ 126,300 | 14.3% |
| FY1994* | $ 1,205,322 | $ 196,841 | 19.5% |
| FY1995 | $ 1,206,008 | $ 686 | 0.1% |
| FY1996 | $ 1,245,539 | $ 39,531 | 3.3% |
| FY1997 | $ 1,239,249 | $ (6,290) | -0.5% |
| FY1998 | $ 1,311,664 | $ 72,415 | 5.8% |
| FY1999 | $ 1,368,081 | $ 56,417 | 4.3% |
| FY2000 | $ 1,403,657 | $ 35,576 | 2.6% |
| FY2001 | $ 1,429,871 | $ 26,214 | 1.9% |
| FY2002 | $ 1,479,968 | $ 50,097 | 3.5% |
| FY2003 | $ 1,546,335 | $ 66,367 | 4.5% |
| FY2004 | $ 1,571,065 | $ 24,730 | 1.6% |
| FY2005 | $ 1,639,237 | $ 68,172 | 4.3% |
| FY2006 | $ 1,718,249 | $ 79,012 | 4.8% |
| FY2007 | $ 1,767,760 | $ 49,511 | 2.9% |
| FY2008 | $ 1,813,917 | $ 46,157 | 2.6% |
| FY2009 | $ 1,896,540 | $ 82,623 | 4.6% |
| FY2010 | $ 2,047,163 | $ 150,623 | 7.9% |
| FY2011 | $ 1,936,655 | $ (110,508) | -5.4% |
| FY2012 | $ 2,352,136 | $ 415,481 | 21.5% |
| FY2013 | $ 2,211,568 | $ (140,568) | -6.0% |
| FY2014 | $ 2,204,252 | $ (7,316) | -0.3% |
| FY2015 | $ 2,304,656 | $ 100,404 | 4.6% |
| FY2016 | $ 2,408,416 | $ 103,760 | 4.5% |
| FY2017 | $ 2,714,956 | $ 306,540 | 12.7% |
| FY2018 | $ 2,897,870 | $ 182,914 | 6.7% |
| FY2019 | $ 2,984,026 | $ 86,156 | 3.0% |
| FY2020 | $ 3,074,091 | $ 90,065 | 3.0% |
| FY2021 | $ 3,157,474 | $ 83,383 | 2.7% |
| FY2022 | $ 3,374,200 | $ 216,726 | 6.9% |
| FY2023 Estimated | $ 3,685,300 | $ 311,100 | 9.2% |
| FY2024 Proposed | $ 3,816,000 | $ 130,700 | 3.5% |

*The Property Tax Extension Limitation Law went into effect for non-home rule governments in Cook County in 1994, which limited the amount CPS could raise its property tax rate by the lesser of 5% or the rate of inflation.

Source: CPS Annual Comprehensive Financial Reports, FY2021, pp. 118-119; FY2017, pp.114-115; FY2007, pp. 92-93; FY1999, pp. 80-81; CPS FY2022 Proposed Budget, p. 20 and FY2023 Proposed Budget, p. 28 and FY2024 Proposed Budget, p. 20.

## Trend in Property Tax Extension

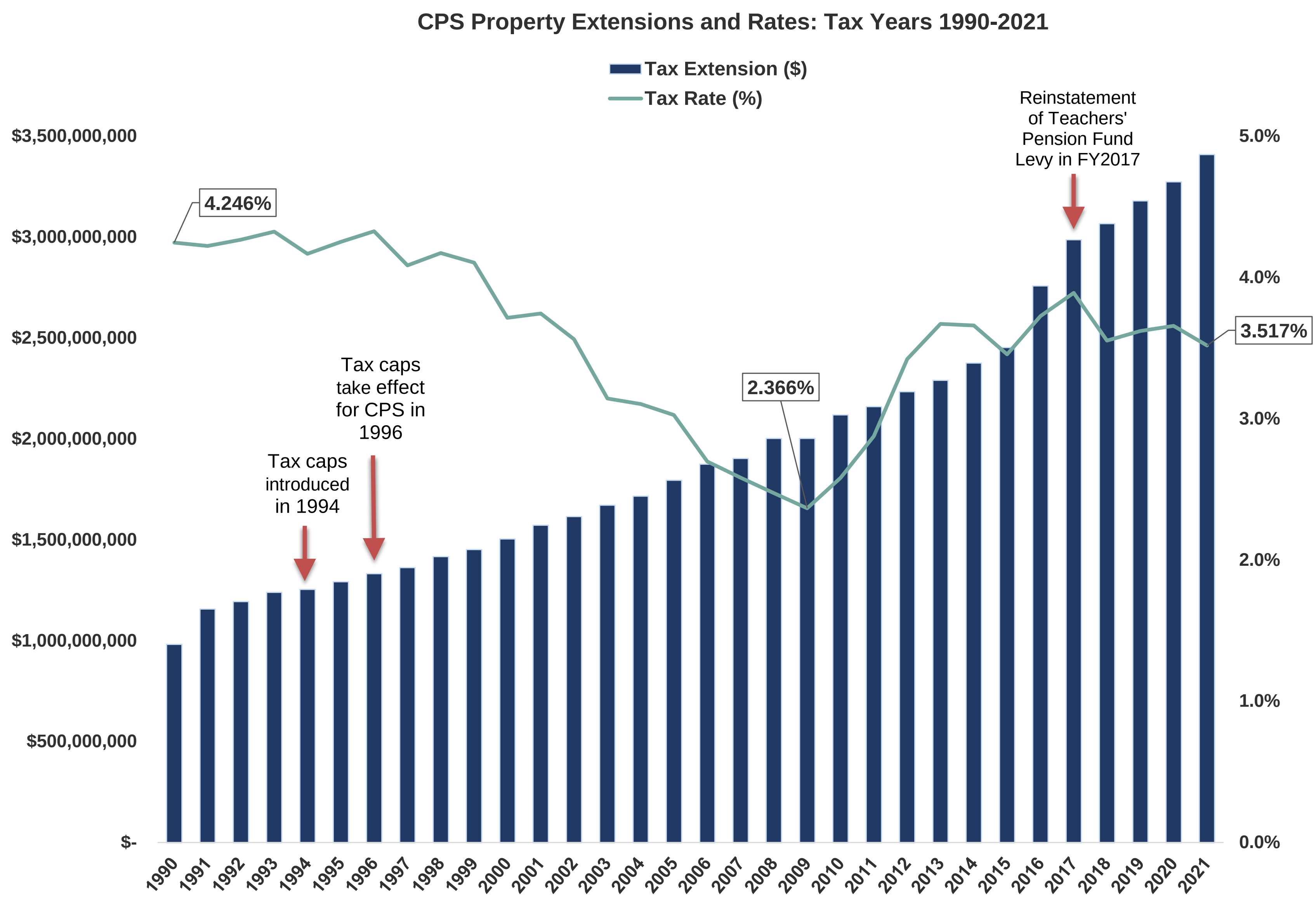
The Property Tax Extension Limitation Law, or tax caps, limits maximum growth in the CPS levy. Prior to 1994, the District's tax extension was limited by a maximum rate for each property tax fund. Some of the fund rate limits still exist, but the tax cap law, not rate limits, has been the operative limit on CPS tax increases since 1994.[36]

The limiting effect of the tax cap has also meant that **since 1994, tax increment financing has not diverted property tax revenue away from CPS**. CPS receives the full extension to which it is entitled by the tax cap law. The effect of TIF is to raise tax rates for all property taxpayers, not to divert revenue from local governments.[37]

The following graph illustrates the increase in CPS property tax extensions between tax year 1990 (payable in 1991) and tax year 2021 (payable in 2022) and the change in tax rates during that period. Tax year 2021 is the most recent year for which tax extension and rate data are available from the Cook County Clerk as of the date of this report's publication. The property tax extension is the amount of property tax revenue a government is authorized to receive and bill to taxpayers. CPS' property tax extension increased from $981.0 million in tax year 1990 to $3.4 billion in tax year 2021. There was a 12.5% increase in the tax extension in tax year 2016 to $2.76 billion from $2.45 billion in tax year 2015 due to the new tax levy dedicated to funding teacher pensions. The extension increased by another 8.3% in tax year 2017, followed by smaller increases in 2018 and 2019. As of the publication of this report, tax year 2022 tax rates were not publicly available.

While the tax extension has steadily increased since 1990, the tax rate has decreased. The tax rate decreased from 4.246% in tax year 1990 to 2.366% in tax year 2009, its lowest point during the period. The District's tax rate fell after the implementation of the tax cap law in 1994 even though its extension rose because taxable property value grew at a faster rate than tax extensions (tax rate = tax extension ÷ taxable value). The tax rate then started to grow again in tax year 2010 because the taxable value of property in Chicago fell significantly. The tax rate decreased again in tax year 2015, rose again to 3.89% in tax year 2017, then fell slightly to 3.620% in tax year 2019. For 2021, the tax rate is 3.517%, which is a 3.80% decrease from 2020.

[36] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June 22, 2013.
[37] Civic Federation, "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps and the Effect of Tax Increment Financing Districts," June 22, 2013.




Note: Taxes are payable in the year following the tax year.
Source: Cook County Clerk Annual Tax Rates Reports.

### Timing of CPS Property Tax Receipts and Change in the Revenue Recognition Policy

Prior to FY2015, property tax revenues that arrived after the end of the fiscal year could be accounted for in that fiscal year as long as the revenues were received within 30 days of the close of the fiscal year, or through July 30. This window of time is known as the revenue recognition period. Historically, Cook County sent second installment property tax bills out late and thus local governments received payments late. Late payments led to delayed distributions of revenue to all of the County's taxing bodies, including CPS, therefore falling outside of the revenue recognition period. In summer 2012, for the first time in over 30 years, the County sent out property tax bills on time with a due date of August 1 and CPS received the property tax funds within its 30 day revenue recognition period. The accelerated property tax receipts left the FY2012 year-end audited General Fund with an unexpected additional fund balance. The District then assumed the same property tax revenue receipts would occur in subsequent fiscal years.

Beginning in FY2015, CPS adopted a new revenue recognition policy extending the period in which property tax revenues can be recognized from 30 days after the close of the fiscal year to 60 days after the close of the fiscal year.[38] It is acceptable under standard accounting rules to have a revenue recognition period of 30-60 days. CPS noted that this change would reduce the volatility in property tax collection timing. The District acknowledges that its policy does not impact the total amount of property tax revenue received by the District but that the timing of the property tax receipts does impact the fiscal year in which the revenue must be recorded.[39] More importantly, the revenue recognition policy was used as an accounting mechanism to close the budget gap in FY2015.

In 2022 second installment tax year 2021 property tax bills went out late with a due date of December 30, 2022. CPS extended its property tax revenue recognition period through January 19, 2023 to account for fiscal year 2022.[40] As of the date of publication of this report, the Cook County Treasurer mailed out the first installment tax year 2022 property tax bills in March 2023 with a due date of April 3.[41] The due date for second installment 2022 tax bills has not been solidified yet. In order to avoid a significant shift of property tax revenue to FY2024 from FY2023, the District may have to extend its revenue recognition period again.

# PERSONNEL

This section presents the District's full-time equivalent (FTE) position count by type and personnel appropriation trends within the general operating funds. The analysis compares the FY2024 proposed budget to the adopted budgets over the five-year period beginning from FY2020.

## Budgeted FTE Positions by Type: FY2020-FY2024

The CPS budget proposes a total of approximately 45,159 full-time equivalent (FTE) positions in FY2024. This is an increase of 1,782 positions, or 4.1%, from 43,377 positions budgeted in FY2023. Teacher positions will total 21,852 FTEs, representing about half (48.4%), of total CPS

[38] Chicago Public Schools FY2019 Adopted Budget, p. 217.
[39] Chicago Public Schools FY2015 Adopted Budget, p. 9-10.
[40] Chicago Public Schools, FY2022 ACFR, p. 35.
[41] Lizzie Kane, "Cook County property taxes are due April 3. Here's what to know.," *Chicago Tribune*, March 5, 2023.

personnel. School support staff make up 13,672.5 FTE positions, or 30% of all positions. School support staff includes classroom assistants, security officers, school clerks and lunchroom staff. Citywide student support positions will total 6,711 FTEs in FY2024, representing 14.9% of personnel. Citywide student support positions include nurses, social workers, custodians and other administrative and support staff positions. School Administrators, which include principals and assistant principals, will compose 2.5% of CPS personnel, and Central Office and Network Offices staff will compose 4% or 1,774 FTEs.

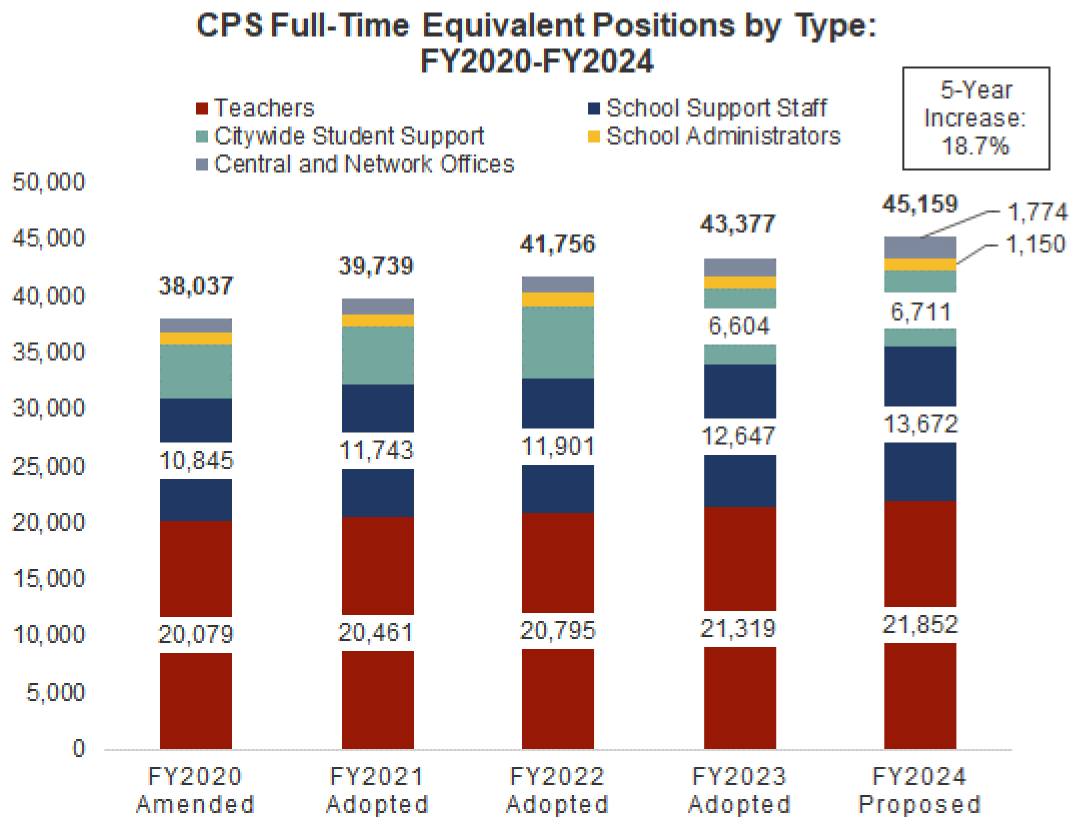
The following key changes are proposed in the FY2024 budget compared to FY2023:

- Teacher positions will increase by 533 FTEs, or 2.5%. This increase primarily includes the addition of special education teachers;
- School support staff positions will increase by 1,025 FTEs, or 8.1%, from the prior year, including additional paraprofessionals, youth intervention specialists, security guards, restorative justice coordinators;
- Citywide student support positions will increase by 107 FTEs or 1.5%, including the addition of school nurses, social workers and other school-based personnel;
- Central and Network Office positions will increase by 103 FTEs, or 6.2%, from the prior year;
- School Administrator positions (principals and assistant principals) will increase by 13 FTEs or 1.2%.[42]

Over the five-year period from FY2020 to FY2024, the number of budgeted personnel will increase by 18.7%, or 7,122 FTE positions, from 38,037 to 45,159 FTEs. The chart below shows the CPS personnel levels over this timeframe. Personnel levels have increased annually in each of the past five years, with the largest increase occurring in FY2022 with the addition of approximately 2,000 budgeted positions. The FY2022 budget included 734 crossing guard positions transferred from the City of Chicago budget to the CPS budget, as well as 400 new custodians and 170 various services providers.[43]

[42] Chicago Public Schools FY2024 Proposed Budget Book, p. 16.
[43] Information provided to the Civic Federation by Chicago Public Schools budget staff on July 13, 2021.

Over the past five years, the number of teacher positions has grown by 1,773 FTEs, or 8.8%. School support staff positions have increased by 2,2827 FTEs, or 26.1%. Citywide student support positions have increased by 1,992 FTEs, or 42.2%.




Source: FY2020-FY2023 Interactive Budget Reports, Positions, available at www.cps.edu; Information provided by Chicago Public Schools, August 22, 2019; and CPS FY2024 Proposed Budget Book, p. 15.

# ENROLLMENT

The FY2024 budget is based on 20th-day enrollments for each school during the 2022-2023 school year. Previously, CPS used enrollment projections for the upcoming year to determine its budget. In FY2019, the District began using the 20th-day enrollment from the prior school year for budgeting purposes. Because of this change in policy, schools that experience an enrollment decline in the fall will not see a budget reduction the following year. Schools with enrollment increases will receive additional funding to compensate for growing student populations, including schools with enrollment increases after 20th-day enrollment.[44]

As the fourth-largest school district in the country, CPS has more students of color, low-income students and English learners than the rest of Illinois, and a larger proportion in comparison to the City's general population: 72% of the CPS student population qualifies as low-income and 22% are English-language learners.[45] Funding is provided to individual schools using a student-based budgeting formula based on enrollment, which represents about half of direct school

[44] Chicago Public Schools FY2024 Proposed Budget, p. 37.
[45] Chicago Public Schools FY2024 Proposed Budget, p. 216.

funding, as well as additional allocations based on special education, English learner and other needs. In FY2024, CPS is providing $55 million in Equity Grants to 257 small, under-enrolled schools, a $5 million dollar increase from the prior budget year. In line with Title I funding, CPS has increased Supplemental Aid allocation from $1,025 to $1,061 for students coming from low-income households.[46] To prevent drastic financial impacts on schools experiencing losses in local funding due to dropping enrollment, CPS is allocating $11.3 million to prevent schools from losing more than 3% of their local funding from FY2023 to FY2024.[47]

CPS student enrollment has been declining annually for the past two decades. Within the ten-year period from FY2014 to FY2023, enrollment declined by 78,564 students, or 19.6%, falling from 400,545 students to 321,981 students during the 2022-2023 school year. Preschool enrollment saw the largest percentage decline over this period, with a decrease of 30.7%. Elementary school enrollment decreased by 23.2%, or 61,537 students. High school enrollment declined by 9,759 students or 8.7%. These enrollment figures are shown in the following chart.

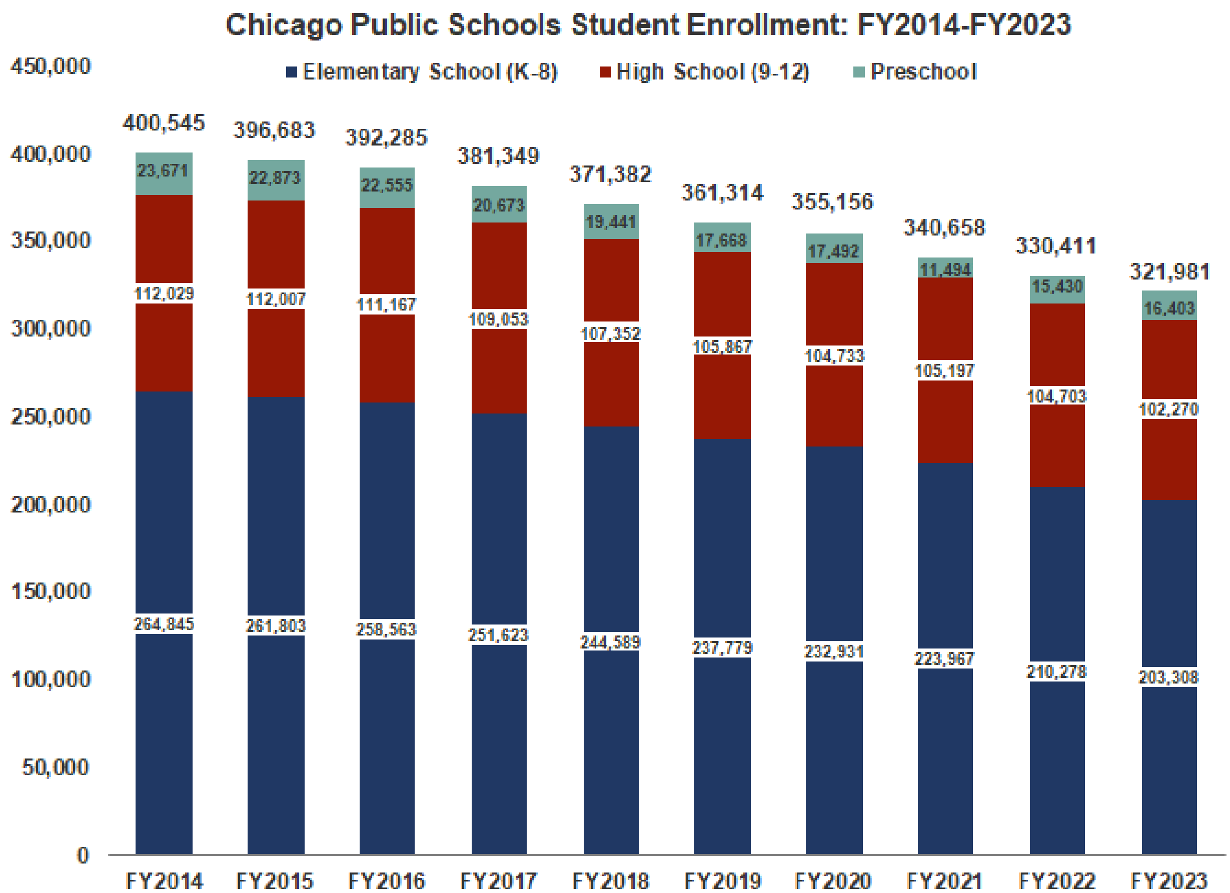
The reduction in enrollment is likely due to several factors, including population declines in Chicago among Black and Latine communities, families moving out of Chicago, lower birth rates and families opting for other school choices.[48] Additionally, the COVID-19 pandemic contributed to a major decline in student enrollment in 2020, especially among pre-k and kindergarten students.[49] Preschool enrollment fell 34% from the prior year in fall of 2020, but has partially rebounded since that time.

Pre-K enrollment actually increased between FY2022 and FY2023 from 15,430 to 16,403 pre-K students (an increase of 6.3%) due to a strategic Chicago Early Learning pre-K outreach, marketing and recruitment campaign.[50] The FY2023 budget continued CPS' expansion of universal pre-K, by adding 25 classrooms in 9 nine schools. In FY2024 this initiative will expand further into the final 11 community areas, with 24 additional classrooms planned to launch in fall of 2023.[51]

Both elementary and high school enrollment declined between FY2022 and FY2023. Elementary school enrollment decreased by 3.3% or 6,970 students, while high school enrollment decreased by 2.3%, or 2,433 students. Overall, the enrollment decline in FY2023

[46] Chicago Public Schools FY2024 Proposed Budget, p. 36.
[47] Chicago Public Schools FY2024 Proposed Budget, p. 221.
[48] *Crains Chicago Business*, "What's driving enrollment declines at CPS?" February 15, 2022; and *Bridgette Adu-Wadier, Selena Kuznikov and Samantha Aguilar, Medill School of Journalism, "*More Chicago Families Turning to Private, Charter Schools as CPS Enrollment Declines*," Crain's Chicago Business, January 14, 2023*.
[49] Sarah Karp, "Chicago Public Schools Enrollment Plummets," *WBEZ Chicago*, October 16, 2020.
[50] Chicago Public Schools FY2024 Proposed Budget, p. 78 and 132.
[51] Chicago Public Schools FY2024 Proposed Budget, p. 79.

(based on 20th day enrollment in fall of 2022) represents a decrease of 8,430 students, or 2.6%, from the prior year.



Source: CPS FY2024 Proposed Budget, p. 217.

# RESERVES

This section describes the Chicago Public Schools' fund balance and other reserve funds. Fund balance is a term used to describe the net assets of a governmental fund and serves as a measure of budgetary reserves.[52]

The Governmental Accounting Standards Board (GASB) Statement No. 54 has established five components of fund balance:

- ***Nonspendable fund balance*** – resources that inherently cannot be spent such as pre-paid rent or the long-term portion of loans receivable. In addition, this category includes

[52] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund (Adopted September 2015). Available at http://www.gfoa.org/fund-balance-guidelines-general-fund.

resources that cannot be spent because of legal or contractual provisions, such as the principal of an endowment.

- ***Restricted fund balance*** – net fund resources subject to legal restrictions that are externally enforceable, including restrictions imposed by the constitution, creditors or laws and regulations of non-local governments.
- ***Committed fund balance*** – net fund resources with self-imposed limitations set at the highest level of decision-making which remain binding unless removed by the same action used to create the limitation.
- ***Assigned fund balance*** – the portion of fund balance reflecting the government's intended use of resources, with the intent established by government committees or officials in addition to the governing board. Appropriated fund balance, or the portion of existing fund balance used to fill the gap between appropriations and estimated revenues for the following year, would be categorized as assigned fund balance.
- ***Unassigned fund balance*** – in the General Fund, the remaining surplus of net resources after funds have been identified in the four categories above.[53]

The first two components of fund balance involve legal or contractual limitations on the use of those funds. The other three components involve constraints that can be lifted by the government; they are guidelines rather than legal limitations.[54] **Unrestricted fund balance** that could potentially be used for any purposes, therefore, includes all funds identified as:

- Committed fund balance;
- Assigned fund balance; and
- Unassigned fund balance.

## GFOA Fund Balance Best Practices

The Government Finance Officers Association (GFOA) provides guidelines on the appropriate level of fund balance that governments should maintain. GFOA recommends that "general purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[55] Two months of operating expenditures is approximately 16.7%. GFOA also states that in practice, a level of unrestricted fund balance lower than the recommended minimum may be appropriate for states and America's largest governments, such as cities and counties, because they can often better predict contingencies and they typically have diverse revenue streams. Further, the statement directs governments to consider the financial resources available in other funds when determining an adequate unrestricted General Fund fund balance level.

GFOA also recommends that governments establish a formal unrestricted fund balance policy that considers the government's specific circumstances.[56] GFOA specifies several factors that should be considered when establishing a fund balance policy: revenue predictability and expenditure volatility; perceived exposure to one-time disasters or immediate expenses; the potential drain on general fund resources from other funds and the availability of resources in

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[53] Steven Gauthier, "Fund Balance: New and Improved," *Government Finance Review*, April 2009.
[54] GFOA, Fund Balance Guidelines for the General Fund (Adopted September 2015).
[55] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015). Available at http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund.
[56] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).

other funds; the potential impact on the government's bond rating and borrowing costs; and funds that are already committed or assigned for specific purposes.

## CHICAGO PUBLIC SCHOOLS UNRESTRICTED FUND BALANCE

This section examines the Chicago Public Schools General Operating Fund unrestricted fund balance as a percent of general fund expenditures based on audited data from the District's most recent Annual Comprehensive Financial Reports. This ratio is a measure of whether a government is maintaining adequate levels of fund balance to mitigate current and future risks and ensure stable tax rates.[57]

The District's unrestricted general operating fund balance fell from a high of 18.5% of expenditures in FY2012 to negative levels in FY2016 and FY2017. The unrestricted fund balance fell significantly during this period due to the fact that reserves were used to balance several budgets. The decline to negative numbers in FY2016 and FY2017 resulted from an operating deficit caused in part by a decline in State funding and an increase in pension obligations.[58] The unrestricted fund balance was restored to a positive balance of $261.7 million in FY2018, or 4.7% of General Fund expenditures, due to an increase in revenues related to the new statewide Evidence-Based Funding formula law passed in 2017.[59] The fund balance improved again annually between FY2019 and FY2022, rising from 7.5% to 13.5% of general fund expenditures.

**CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2012-FY2022**

| | General Operating Fund Balance | General Fund Expenditures | Ratio |
|---|---|---|---|
| **FY2012** | $ 902,872,000 | $ 4,888,328,000 | 18.5% |
| **FY2013** | $ 819,004,000 | $ 4,946,370,000 | 16.6% |
| **FY2014** | $ 354,719,000 | $ 5,450,131,000 | 6.5% |
| **FY2015** | $ 254,328,000 | $ 5,620,366,000 | 4.5% |
| **FY2016** | $ (227,031,000) | $ 5,414,846,000 | -4.2% |
| **FY2017** | $ (354,861,000) | $ 5,297,758,000 | -6.7% |
| **FY2018** | $ 261,715,000 | $ 5,513,880,000 | 4.7% |
| **FY2019** | $ 441,029,000 | $ 5,858,860,000 | 7.5% |
| **FY2020** | $ 488,799,000 | $ 6,163,647,000 | 7.9% |
| **FY2021** | $ 738,749,000 | $ 6,507,858,000 | 11.4% |
| **FY2022** | $ 999,091,000 | $ 7,396,311,000 | 13.5% |

Sources: CPS Annual Comprehensive Financial Reports, Statements of Revenues, Expenditures and Changes in Fund Balance and Balance Sheets - Governmental Funds.

[57] GFOA, "Appropriate Level of Unrestricted Fund Balance in the General Fund" (Adopted September 2015).
[58] Chicago Public Schools FY2017 Comprehensive Annual Financial Report, p. 8.
[59] Chicago Public Schools FY2018 Comprehensive Annual Financial Report, p. 13.

## CPS Fund Balance Policy

Chicago Public Schools adopted a new fund balance policy in January 2021 to replace a previous policy adopted in 2008.[60] The policy establishes a target fund balance level for its general operating funds, referred to as the stabilization fund. The CPS policy requires the Board to maintain an assigned fund balance totaling 15% of the operating and debt service budget (net of any budgeted non-cash expenditures or budgeted expenses derived from the dedicated Chicago Teachers' Pension Fund property tax levy) in each year. According to the policy, this 15% level is estimated to be the historical minimum cash required to provide sufficient cash flow for stable financial operations and to reduce short-term borrowing costs. The stabilization fund will not be utilized unless there is an unforeseen financial emergency and a corresponding consensus decision among the Board members.

Annually, CPS sets a fund balance target based on this policy. The fund balance target is arrived at by calculating 15% of the general operating expenditures plus debt service expenditures, less certain non-cash expenditures related to the Municipal Employees Pension Fund, State of Illinois pension contributions to the Chicago Teachers' Pension Fund and property tax levy expenditures related to the CTPF. CPS is then supposed to set aside the target amount within the General Operating Fund as a stabilization fund at the annual adoption of the budget. Information about the amount of fund balance for FY2024 is not available at this time.

# MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.[61] As of December 31, 2021, approximately 19,920, or nearly 60.5%, of the 32,925 active Municipal Fund members were CPS employees.[62]

The employer contribution for CPS employees participating in the Municipal Fund is made by the City of Chicago, not by CPS. However, CPS entered into an intergovernmental agreement with the City in 2019 to partially reimburse those contributions. The City makes most of the Municipal Fund employer contribution through its property tax levy, the Corporate Fund, the water-sewer usage tax on consumers and through reimbursements from its enterprise and special revenue funds.[63] The City of Chicago in the April 2023 Mid-Year Budget Forecast estimated that the FY2024 Municipal Fund contribution for CPS employees will be $301.4 million.[64]

CPS does make some additional contributions to the Municipal Fund on behalf of its employees. For union employees, CPS "picks up" seven percentage points of the annual non-teacher employee pension contribution of 8.5%. CPS partially phased out the pick-up for non-union, non-teacher employee pensions in FY2016. The District's FY2024 cost for the non-teacher employee pick-up is approximately $43.3 million and is part of the District's budgeted pension appropriation.[65] The District additionally reimburses the City for the employer pick-up of

[60] Fund Balance and Budget Management Policy, Adopted January 27, 2021 through Board Report 21-0127-PO2. Found in Section 403.10 of the Chicago Public Schools Policy Manual.
[61] 40 ILCS 5/8-110.
[62] Chicago Public Schools FY2022 Annual Comprehensive Financial Report, p. 90.
[63] City of Chicago FY2023 Budget Overview, p. 55.
[64] City of Chicago Mid-Year Budget Forecast, April 2023, p. 35.
[65] Communication with the Chicago Public Schools Budget Office, June 21, 2023.

employees funded by federal grants; this reimbursement is budgeted at $12.6 million in FY2024.[66]

Budget legislation approved in July 2017 included provisions to change the way the City of Chicago must fund its Municipal and Laborers' pension plans.[67] Public Act 100-0023 statutorily mandates increased employer funding of the Municipal Fund and the increased contributions are partially funded through a water-sewer usage tax on consumers imposed through the City's home rule powers. The City will increase payments over a 40-year plan to get to 90% funded. Another provision of the legislation creates a new tier of benefits for employees hired after January 1, 2017, that will increase employee contributions by three percentage points and reduce the retirement age to 65 from the Tier 2 level of 67.

The financial status of the Municipal Fund is examined in the Civic Federation's annual analysis of the City's budget proposal.[68] The next section focuses on the Chicago Teachers' Pension Fund.

# TEACHERS' PENSION FUND

This section examines the budgetary impact of Chicago Public Schools' contributions to its pension fund. The Civic Federation additionally analyzes indicators of the fiscal health of its pension funds and presents multi-year trend data. Additional descriptive information about teachers' pension benefits and history can be found in past budget analyses.[69]

Certified CPS teachers are enrolled in the Public School Teachers' Pension and Retirement Fund of Chicago (known as the Chicago Teachers' Pension Fund or CTPF). The data presented below are for the Teachers' Pension Fund only. Members of the Chicago Teachers Pension Fund do not participate in the Social Security program, so they are not eligible for Social Security benefits related to their CPS employment when they retire. Along with most other public pension plans in the State of Illinois, pension benefits for new Chicago teachers were reduced in 2011.

[66] Communication with the Chicago Public Schools Budget Office, June 21, 2023.
[67] Public Act 100-0023. See also http://www.meabf.org/legislature for more information about the legislation.
[68] All reports are available at civicfed.org.
[69] See for example Civic Federation, "Chicago Public Schools FY2022 Proposed Budget: Analysis and Recommendations," July 28, 2021, p. 52-66.

In FY2022, there were 31,261 active teachers participating in the pension fund and 27,638 beneficiaries. The following table shows the changes in CTPF membership over time and the ratio of actives to beneficiaries.

**CPS Teachers' Pension Fund Membership: FY2013-FY2022**

| Fiscal Year | Retirees & Beneficiaries Receiving Benefits | Active Employee Members | Total | Ratio of Active to Beneficiary |
|---|---|---|---|---|
| FY2012 | 25,926 | 30,366 | 56,292 | 1.17 |
| FY2013 | 27,440 | 30,969 | 58,409 | 1.13 |
| FY2014 | 27,722 | 30,654 | 58,376 | 1.11 |
| FY2015 | 28,114 | 29,706 | 57,820 | 1.06 |
| FY2016 | 28,298 | 29,543 | 57,841 | 1.04 |
| FY2017 | 28,439 | 28,855 | 57,294 | 1.01 |
| FY2018 | 28,549 | 28,958 | 57,507 | 1.01 |
| FY2019 | 28,317 | 29,295 | 57,612 | 1.03 |
| FY2020 | 28,015 | 30,091 | 58,106 | 1.07 |
| FY2021 | 27,610 | 31,215 | 58,825 | 1.13 |
| FY2022 | 27,638 | 31,261 | 58,899 | 1.13 |

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

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2013-FY2022.

## PENSIONS IN THE FY2024 CHICAGO PUBLIC SCHOOLS BUDGET

The Chicago Teachers' Pension Fund is severely underfunded. A combination of pension holidays, statutory underfunding, benefit enhancements, optimistic assumptions and other long-term problems have all contributed to its condition. The CTPF was put on a 50-year funding plan in 1995, which requires employer contributions from CPS when the fund falls below a 90% funded ratio. Relatively small additional amounts are required from the State and from CPS pursuant to benefit enhancements enacted in P.A. 90-582. Effectively, this meant that CPS did not make more than a minimal employer contribution between 1995 and 2004, when the funded ratio fell to 86% and CPS resumed payments in 2006.[70] The funding schedule was altered in April 2010 by Public Act 96-0889, which reduced the CPS required pension contribution for FY2011, FY2012 and FY2013 to an amount estimated to be equivalent to the employer's normal cost as a response to a budget crisis at the District.[71] The law also delayed the year the pension fund must be 90% funded to 2059 from 2045.

In 2016 a State law passed as part of the State's stopgap budget allowed CPS to levy a property tax dedicated to the Chicago Teachers' Pension Fund, without the levy being subject to the Property Tax Extension Limitation Law (PTELL). The District had a dedicated pension levy until 1990, when it was transferred to fund general operating expenses and salary increases.[72] The original 0.383% rate was expected to generate approximately $250 million a year starting in FY2017, partially offsetting the CPS contribution from funds that would otherwise go to classrooms. A year later, the rate was increased to 0.567%. The pension levy is projected to generate $557.1 million in FY2024.

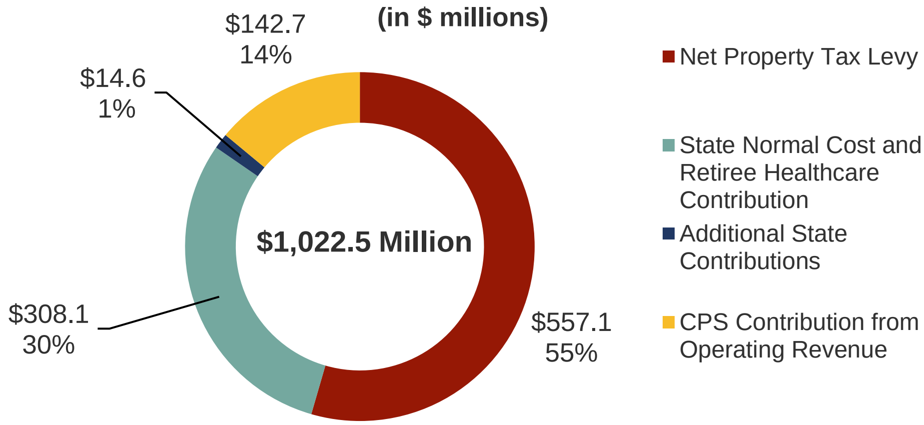
70 Chicago Public Schools FY2024 Proposed Budget, p. 35.
71 "Normal cost" is an actuarially-calculated amount representing that portion of the present value of pension plan benefits and administrative expenses, which is allocated to a given valuation year.
72 See Civic Federation, "Chicago Public Schools Reinstates Teachers Pension Levy," August 26, 2016.

The State of Illinois had traditionally contributed $65 million per year to the Teachers' Fund pursuant to State statute, which declares the General Assembly's "goal and intention" to contribute an amount equivalent to 20%-30% of the contribution it makes to the downstate Teachers' Retirement System.[73] However, $65 million provided nowhere near the 20-30% goal. The State is also required to make small additional contributions to offset a portion of the cost of benefit increases enacted under Public Act 90-0582.

Illinois State legislation to change how P-12 education is funded, Public Act 100-0465, which was signed into law on August 31, 2017, included provisions to increase the State's funding to Chicago teachers' pensions starting in FY2018 to an amount equal to the annual cost of the pension plan's benefits —the normal cost—and $65 million for retiree healthcare. The State normal cost and healthcare contribution offsets part of the statutorily required contribution. In FY2023, the total required contribution is $1,022.5 million, of which the State of Illinois will contribute $322.7 million, effectively reducing the CPS contribution to $699.8 million.

The following chart breaks down the sources of revenue for the employer contribution to CTPF. The chart does not include CPS' expense for the pension "pick up" that offsets most teachers' contributions. That expense is projected to total $132.6 million in FY2024.[74]

**FY2024 Chicago Teachers Pension Fund Employer Contribution Sources of Revenue (in $ millions)**



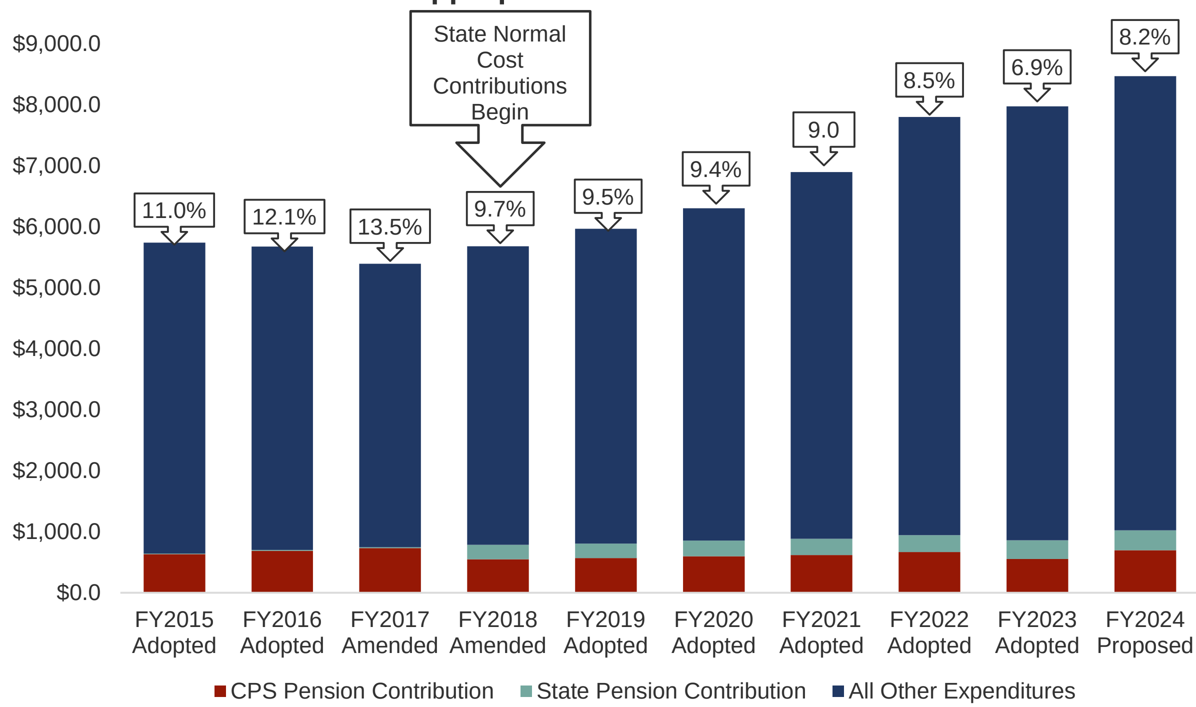

Source: FY2024 CPS Proposed Budget, p. 31.

As shown in the following chart, the year before the State started making normal cost pension payments, pensions made up $733.2 million or 13.5% of CPS's operating spending in FY2017. However, the following year that decreased to $551.4 million or 9.7%. The percentage of the operating budget dedicated to pensions declined slowly over the next several years and in FY2023, CPS's pension contribution declined to 6.9% of the operating budget because of increases in the budget but also because the required contribution declined due to extraordinary

[73] 40 ILCS 5/17-127
[74] Communication with the Chicago Public Schools Budget Office, June 21, 2023.

investment returns in FY2021. However, the percentage of the budget going to pensions increased again in FY2024 due to significant investment losses the year after in FY2022.

**CPS Pension Contribution as a Percentage of Operating Appropriations: FY2015-FY2024**



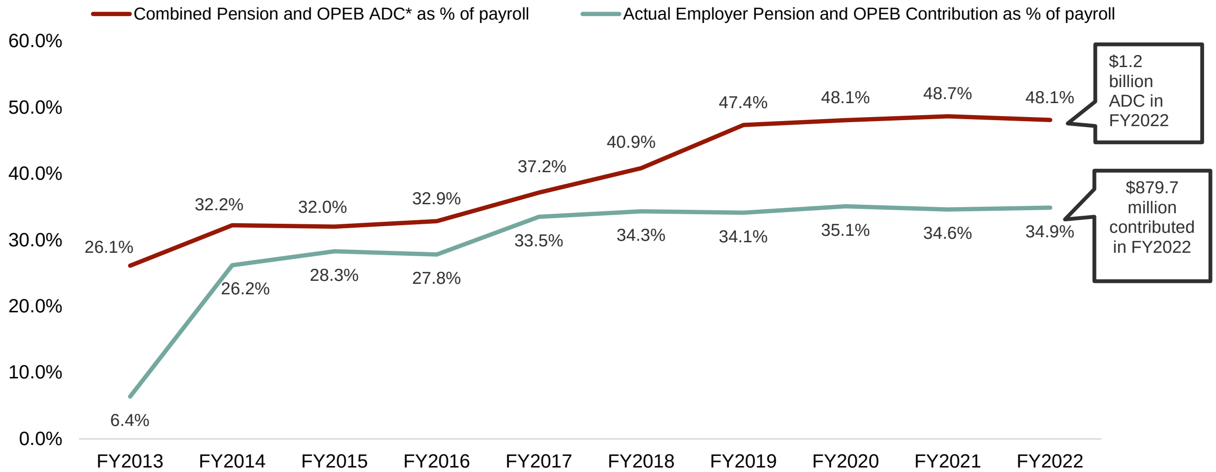

Source: CPS Budgets, FY2015-FY2024.

In order to analyze how far short of sufficient past years' contributions have been, it is useful to compare the District's actual contributions to an objective measure of how much it would need to contribute in order to pay off its unfunded liability over a set period of time. That measure, the Actuarially Determined Contribution (ADC), is a reporting requirement of the Governmental Accounting Standards Board and is reported in each pension fund's annual actuarial reports.

The following chart compares the total actual employer contribution made by CPS and the State of Illinois to the CTPF as a percentage of payroll to the ADC as a percentage of payroll. The spread between the two amounts fell from a shortfall in FY2012 of 13.7 percentage points, or $371.4 million, during the District's three-year pension funding holiday, to a gap of 3.7 percentage points in FY2018 due to CPS resuming pension funding, before growing again to a gap of 13.3 percentage points. In other words, to fund the pension plans at a level that would both cover normal cost and amortize the unfunded liability over 21 years, CPS and the State of

Illinois would have needed to contribute an additional 13.3% of payroll, or nearly $334.3 million, in FY2022.

**CPS Actuarially Determined Contribution* vs. Actual Total Employer Contribution**: FY2013-FY2022**




* Annual Required Contribution prior to FY2014.
** Total Employer Contribution includes both CPS and State contributions to CTPF.
Source: Chicago Teachers' Pension Fund Financial Statements and Combined Actuarial Valuations, FY2013-2022.

### Employee Contributions

Employee contributions to the Teachers' Pension Fund are statutorily set at 9.0% of the employee's salary. One percent of that 9.0% amount is for survivors' and children's pension benefits.

For teachers hired before January 1, 2017, CPS "picks up" 7.0% of the 9.0% annual employee pension contribution, meaning it pays seven percentage points of the employee 9.0% contribution on behalf of teachers and most teachers effectively pay 2.0% of their annual salary toward their pensions. The 2015-19 and 2020-24 Collective Bargaining Agreements with the Chicago Teacher's Union ended the pension pick-up for teachers hired on or after January 1, 2017.

## Funding Status of the Chicago Teachers' Pension Fund

In addition to evaluating whether an employer is contributing enough to the pension fund through a comparison to the ADC, it is important to understand how well-funded a pension plan is and whether funding is improving or declining over time. Pension fund status indicators show how well a pension fund is meeting its goal of accruing sufficient assets to cover its liabilities. Ideally, a pension fund should hold exactly enough assets to cover all of its actuarial accrued liabilities.

The Civic Federation analyzes three measures over time to evaluate funding status:

- Funded ratio;
- Unfunded actuarial accrued liabilities; and
- Investment rate of return.

Funded Ratio: The most basic indicator of pension fund status is its ratio of assets to liabilities, or “funded ratio.” In other words, this indicator shows how many pennies of assets a fund has per dollar of liabilities. For example, if a plan had $100 million in liabilities and $90 million in assets, it would have a 90% funded ratio and about 90 cents in assets per dollar of obligations to its employees and retirees.

When a pension fund has enough assets to cover all its accrued liabilities, it is considered 100% funded. This does not mean that further contributions are no longer required. Instead, it means that the plan is funded at the appropriate level at a certain date. A funding level under 100% means that a fund does not have sufficient assets on the date of valuation to cover its actuarial accrued liability.

Unfunded Liability: Unfunded actuarial accrued liabilities (UAAL) are obligations not covered by assets. Unfunded liability is calculated by subtracting the value of assets from the actuarial accrued liability of a fund. For example, if a plan had $90 million in assets and $100 million in liabilities, its unfunded liability would be $10 million.

One of the purposes of examining the unfunded liability is to measure a fund’s ability to bring assets in line with liabilities. Healthy funds are able to reduce their unfunded liabilities over time. On the other hand, substantial and sustained increases in unfunded liabilities are a cause for concern.

Investment Rate of Return: A pension fund invests the contributions of employers and employees in order to generate additional revenue over an extended period of time. Investment income provides the majority of revenue for an employee’s pension over the course of a typical career. In addition to the actual annual rate of return, the assumed investment rate of return plays an important role in the calculation of actuarial liabilities. It is used to discount the present value of projected future benefit payments and has been the subject of considerable debate in recent years.[75] The assumed rate of return for CTPF was reduced to 6.5% in FY2021 from 6.75% in FY2020.

Other major contributors to a pension fund’s financial status in addition to employer contributions and investment returns are benefit enhancements and changes to actuarial assumptions.

## Funded Ratio

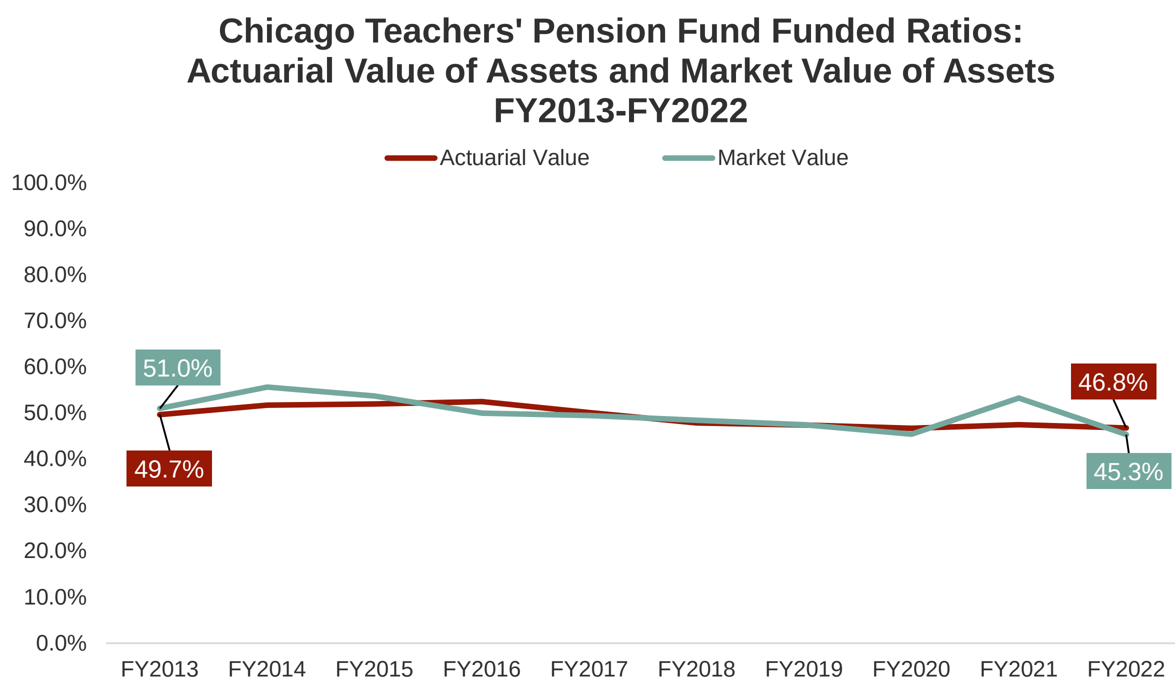
This section uses two measurements of pension plan funded ratio: the actuarial value of assets measurement and the market value of assets measurement. These ratios show the percentage of pension liabilities covered by assets. The lower the percentage, the more difficulty a government may have in meeting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

The actuarial value of assets measurement presents the ratio of assets to liabilities and accounts for assets by recognizing unexpected gains and losses smoothed out over a period of three to five years.[76] The market value of assets measurement presents the ratio of assets to

[75] For a short description of the debate see Thomas J. Healey, “Commentary: A note on the discount rate,” *Pensions and Investments*, October 8, 2019.
[76] For more detail on the actuarial value of assets, see Civic Federation, *Status of Local Pension Funding FY2012,* October 2, 2014.

liabilities by recognizing investments only at current market value. Market value funded ratios are more volatile than actuarial funded ratios due to the smoothing effect of actuarial value. However, market value funded ratios represent how much money is actually available at the time of measurement to cover actuarial accrued liabilities.

The following exhibit shows actuarial and market value funded ratios for the fund. The market value funded ratio fell significantly from 53.2% in FY2021 to 45.3% in FY2022 due to the investment losses experienced by the fund, also described below. The actuarial value funded ratio of 46.8% was also a decline from the prior year, but smaller than the market value loss due to the fact that the investment losses will be accounted for over four years rather than all in one year, as with the market value ratio. The funded ratio for the CTPF has declined somewhat over the last decade.

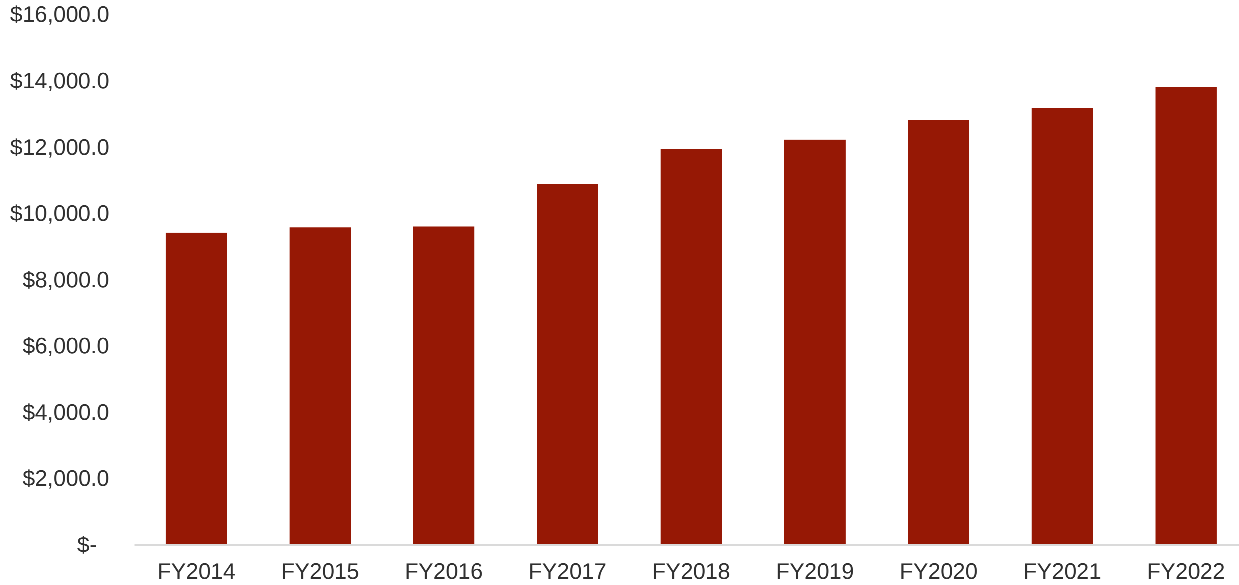



Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2013-FY2022.

## Unfunded Actuarial Accrued Liability

Over the past 10 years, the unfunded liabilities of the pension fund have grown by $4.2 billion, or 44.1%. This was an increase from $9.6 billion in FY2013. The total unfunded liabilities increased to $13.8 billion in FY2022 from $13.2 billion in FY2021, or by 4.7%. The unfunded liability increased in FY2022 mostly because of investment losses and higher than expected salary increases.

## Chicago Teachers' Pension Fund Unfunded Actuarial Accrued Liabilities: FY2013-FY2022 (in $ millions)




Source: Chicago Teachers' Pension Fund, Financial Statements, FY2013-FY2022.

A breakdown of the causes of the change in unfunded liability each year is available in the annual actuarial valuations of the fund. The table below summarizes the changes as calculated by the fund actuary from FY2013 to FY2022. The single largest contributor to the increase in unfunded liability is the has been changes to actuarial assumptions at $4.7 billion, followed by the consistent failure of the employer contribution to be sufficient to cover the employer's normal cost for service earned that year, as well as the interest accrued on the existing unfunded liability.[77] This deficiency in employer contributions added $3.6 billion to the unfunded liability between FY2012 and FY2022. Over the past 10 years, investment returns higher than assumed has reduced the unfunded liability by $469.7 million.

| | Employer Contribution Lower/(Higher) than Normal Cost Plus Interest on Unfunded Liability | Investment Return Lower/(Higher) Than Assumed | Salary Increase (Lower)/Higher Than Assumed | Benefit Increases | Change in Actuarial Assumptions, Methods or Data | Other | Total Net UAAL Change |
|---|---|---|---|---|---|---|---|
| **FY2013** | $ 621,672,350 | $ (281,738,207) | * | $ - | $ 1,021,937,507 | $ 246,886,533 | **$ 1,608,758,183** |
| **FY2014** | $ 319,107,731 | $ (454,691,436) | * | $ - | $ - | $ (28,259,604) | **$ (163,843,309)** |
| **FY2015** | $ 241,161,140 | $ (45,212,951) | * | $ - | $ - | $ (33,120,109) | **$ 162,828,080** |
| **FY2016** | $ 260,150,252 | $ (81,129,490) | * | $ - | $ - | $ (149,058,710) | **$ 29,962,052** |
| **FY2017** | $ 459,668,378 | $ (80,937,857) | $ (180,217,505) | $ - | $ 1,074,523,844 | $ 778,007 | **$ 1,273,814,867** |
| **FY2018** | $ 233,351,269 | $ 131,839,730 | $ 6,927,266 | $ - | $ 621,772,494 | $ 71,037,664 | **$ 1,064,928,423** |
| **FY2019** | $ 264,851,308 | $ 98,317,079 | $ (62,859,630) | $ - | $ - | $ (23,864,119) | **$ 276,444,638** |
| **FY2020** | $ 247,324,028 | $ (22,146,029) | $ (118,074,777) | $ - | $ 565,206,537 | $ (77,500,095) | **$ 594,809,664** |
| **FY2021** | $ 224,017,626 | $ (460,056,077) | $ (46,401,560) | $ - | $ 727,707,442 | $ (86,088,534) | **$ 359,178,897** |
| **FY2022** | $ 192,713,352 | $ 40,273,676 | $ 407,976,795 | $ - | $ 727,707,442 | $ (20,566,149) | **$ 1,348,105,116** |
| **10-Year Total** | **$ 3,596,400,567** | **$ (469,737,731)** | **$ 7,350,589** | **$ -** | **$ 4,738,855,266** | **$ (140,410,292)** | **$ 7,732,458,399** |

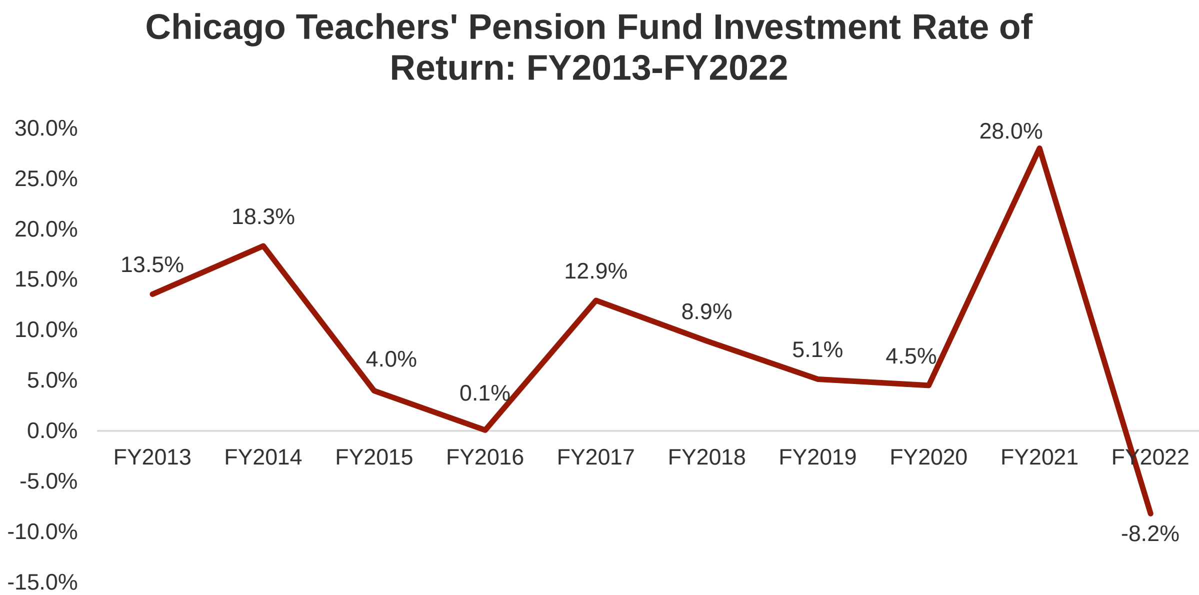
* Change in UAAL due to salary assumptions restored in FY2017 with new actuary. Previous actuary combined salary assumptions with Other between FY2012 and FY2016.

Source: Chicago Teachers' Pension Fund, Actuarial Valuations, FY2013-FY2022.

[77] Total increase in unfunded liability includes increase in FY2013 over FY2012, included in the first line of the chart below.

### Investment Return

In FY2022 the CTPF experienced extraordinary investment losses far lower than its expected rates of return on investments, at -8.2%.[78] As noted above, the FY2022 investment assumption was 6.5%.




Source: Civic Federation calculation based on Chicago Teachers' Pension Fund, Financial Statements, FY2013-FY2022.

# OTHER POST EMPLOYMENT BENEFITS (OPEB)

Non-pension benefits provided to employees after employment ends are referred to as Other Post Employment Benefits (OPEB). OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and long-term care coverage. It does not include termination benefits such as accrued sick leave and vacation. CPS has not established an irrevocable trust fund to account for its OPEB plan. Rather, these obligations are financed on a pay-as-you-go basis through the Chicago Teachers' Pension Fund (CTPF). This means that neither CTPF nor CPS are accumulating assets to pay for future OPEB benefits. Instead, benefit expenses are paid for as they come due.

The 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 additional cost of enrolling eligible dependents. However, the rebate does apply to eligible dependents who are survivors of deceased retirees. The Fund had previously provided

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

reimbursement of 70.0% of the cost of pensioners' health insurance coverage, but it was reduced to 60.0% on January 1, 2011, and to 50.0% on January 1, 2015. According to Illinois statute, total payments from the Teachers' Pension Fund to reimburse retirees may not exceed 75.0% of total retiree health insurance costs.[79]

Beginning in FY2018, Public Act 100-0465 required the State of Illinois to begin contributing $65 million annually to the Chicago Teachers' Pension Fund health insurance subsidy. State law limits the amount of OPEB payments in any one year to $65 million plus any amounts unpaid from the preceding year.[80] Even though CPS does not contribute directly to OPEB benefits, it is required to report total OPEB liabilities in its Statement of Net Position starting in FY2018, according to GASB 75.

As of June 30, 2020, a total of 16,248 retirees and beneficiaries received health insurance benefits. There were also 11,767 retirees and beneficiaries entitled to benefits but not currently receiving them.[81] In FY2022 the Teachers' Pension Fund allocated $62.0 million to the Health Insurance Fund.[82]

The following exhibit shows the extent to which the aggregate cost of the CTPF's health insurance subsidy has changed over the past decade. From FY2013 to FY2022, insurance premium rebates paid to beneficiaries decreased by 14.6%, or $10.5 million. The health

[79] 40 ILCS 17-142.1.
[80] Chicago Teachers' Pension Fund, FY2022 Annual Comprehensive Financial Report, p. 38; 40 ILCS 17-142.1.
[81] Chicago Public Schools, FY2022 Comprehensive Annual Financial Report, p. 93.
[82] Chicago Teachers' Pension Fund, FY2022 Annual Comprehensive Financial Report, p. 86.

insurance rebate has represented approximately 3.2% to 5.7% of total pension and OPEB benefit expenditures over the 10-year period.

**Total Health Insurance Premium Rebates Paid to Retired CPS Teachers: FY2013-FY2022**

| | Health Insurance Rebate Paid | % Change over Previous Year |
|---|---|---|
| **FY2013** | $71,763,523 | -- |
| **FY2014** | $72,874,594 | 1.5% |
| **FY2015** | $79,316,153 | 8.8% |
| **FY2016** | $66,104,598 | -16.7% |
| **FY2017** | $48,451,055 | -26.7% |
| **FY2018** | $66,333,655 | 36.9% |
| **FY2019** | $58,611,532 | -11.6% |
| **FY2020** | $51,433,976 | -12.2% |
| **FY2021** | $50,715,931 | -1.4% |
| **FY2022** | $61,286,124 | 20.8% |
| **Ten-Year Change** | **($10,477,399)** | **-14.6%** |

Source: Chicago Teachers' Pension Fund, Annual Comprehensive Financial Report FY2022, p. 32, 144-145.

# OPEB LIABILITIES

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

Previously, governments reported OPEB liabilities in the Statement of Net Position to the extent the required contribution was not funded. The new statement requires the full net liability to be reported. As noted above, Chicago Public Schools has not set aside assets in trust for OPEB, so the District reports Total OPEB Liability, which is similar in concept to the previously reported actuarial accrued liability, but the method by which the OPEB liability is measured has changed.

CPS reported a total OPEB liability as of June 30, 2022, but measured as of June 30, 2021, of $3.3 billion, up FY2021 total OPEB liability of $2.9 billion.[83] The District reported the liability in its Statement of Net Position for the first time in FY2018. However, it is important to note that the cost of the program has not increased—it is how the obligation is measured that has changed.

[83] Chicago Public Schools, FY2022 Comprehensive Annual Financial Report, p. 93.

# DEBT AND LONG-TERM LIABILITIES

This section examines trends in CPS long-term liabilities. It includes a review of trends in the District's total long-term liabilities and a discussion of its tax-supported long-term debt.

Long-term liabilities are all obligations owed by a government over time. Increases in long-term liabilities over time may be a sign of fiscal stress. They include long-term debt as well as: [84]

- *Accrued Sick Pay Benefits*: CPS provides sick pay benefits for nearly all of its employees. After July 1, 2012, unused sick days at the end of a fiscal year are no longer carried over to the next fiscal year except under the contract between the Chicago Teacher's Union and CPS. Sick days under the union contract Article 37-3 awarded on and after July 1, 2012, that remain unused at the end of the fiscal year may be rolled over for future use up to a maximum of 244 days and may be used for three purposes: (a) as sick days or for purposes of leave under the Family and Medical Leave Act; (b) to supplement the short-term disability pay in days 31 through 90 to reach 100% income during such period or (c) for pension service credit upon retirement;
- *Accrued Vacation Pay Benefits*: For eligible employees, the maximum number of accumulated unused vacation days permitted is 25 days for those employees with up to 10 years of service, 30 days for those with 11 to 20 years of service and 35 days for those with more than 20 years of service. Eligible employees are entitled to receive 100.0% of accumulated vacation days at their current salary rate when they retire. These amounts are paid from the General Operating Fund;
- *Accrued Workers Compensation Claims, Accrued General and Automobile Claims and Tort Liabilities and Other Claims*: CPS is substantially self-insured and assumes risk of loss as follows: CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $10 million;
- *Net Pension Liabilities*: CPS reports 100% of the Chicago Teachers' Pension Fund's (CTPF) net pension liability in the Statement of Net Position to comply with GASB Statement 68 requirements; and
- *Net Other Post Employment Benefit (OPEB) Obligation*s:[85] Beginning with the FY2018 CAFR, Chicago Public Schools implemented GASB Statement 75 requirements to report net OPEB liability as the portion of the present value of projected benefit payments to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the OPEB plan's fiduciary net position.[86] Prior to FY2018, under the requirements of GASB Statement 45, net Other Post-Employment Benefit (OPEB) liabilities were reported as the cumulative difference between the annual OPEB cost and the employer's contributions to its OPEB Plan.

[84] Descriptions of accrued sick pay benefits, accrued vacation pay benefits, accrued workers compensation claims, and accrued general and automobile claims and tort liabilities and other claims are found in Note 11: Other Benefits and Claims, CPS FY2022 Annual Comprehensive Financial Report, p. 84-85.

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

[86] Governmental Accounting Standards Board, Summary of Statement No. 75: Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions at: https://www.gasb.org/cs/ContentServer?cid=1176166370763&d=&pagename=GASB%2FPronouncement_C%2FGASBSummaryPage.

Between FY2018 and FY2022, total CPS long-term liabilities rose by 16.7%, or by $3.9 billion, rising from approximately $23.3 billion to $27.2 billion.

Total other long-term liabilities, which includes accrued sick leave and vacation pay, net pension liabilities and net OPEB obligations, grew by 22.4%, or $3.4 billion, over the five-year period. Net pension liabilities alone increased by 18.9%, or $2.3 billion, while net OPEB obligations grew by 45.5%, or $1.0 billion rising from approximately $2.3 billion to $3.3 billion.

Total long-term debt increased by nearly $500.0 million, or 6.1%, over the five-year period, to $8.6 billion. CPS long-term debt includes general obligation bonds, leases securing Public Building Commission bonds, capital leases and Capital Improvement Tax bonds. These liabilities are secured by property tax revenues or State of Illinois school construction grants.

**CPS Long-Term Liabilities: FY2018-FY2022**
**(in $ thousands)**

| Type of Obligation | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | Five-Year $ Change | Five-Year % Change |
|---|---|---|---|---|---|---|---|
| General Obligation Bonds* | $ 7,281,448 | $ 7,475,068 | $ 7,247,856 | $ 7,498,076 | $ 7,769,268 | $ 487,820 | 6.7% |
| Leases Securing PBC Bonds | $ 875 | $ 700 | $ 525 | $ - | $ - | $ (875) | -100.0% |
| Capital Leases | $ 73,520 | $ 27,675 | $ - | $ - | $ - | $ (73,520) | -100.0% |
| Dedicated Capital Improvement Tax Bonds | $ 794,480 | $ 880,480 | $ 880,480 | $ 880,480 | $ 880,480 | $ 86,000 | --- |
| **Subtotal Long-Term Debt** | **$ 8,150,323** | **$ 8,383,923** | **$ 8,128,861** | **$ 8,378,556** | **$ 8,649,748** | **$ 499,425** | **6.1%** |
| | | | | | | | |
| Other Accrued Liabilities | $ 26,808 | $ 30,187 | $ 23,256 | $ 23,912 | $ 30,135 | $ 3,327 | 12.4% |
| Accrued Sick Pay Benefits | $ 272,526 | $ 246,264 | $ 231,373 | $ 236,727 | $ 287,811 | $ 15,285 | 5.6% |
| Accrued Vacation Pay Benefits | $ 48,764 | $ 61,701 | $ 57,606 | $ 62,500 | $ 61,513 | $ 12,749 | 26.1% |
| Accrued Workers' Compensation Claims | $ 103,672 | $ 92,902 | $ 90,692 | $ 87,121 | $ 88,063 | $ (15,609) | -15.1% |
| Accrued General and Automobile Claims | $ 30,009 | $ 29,961 | $ 29,738 | $ 26,337 | $ 22,227 | $ (7,782) | -25.9% |
| Tort Liabilities and Other Claims | $ 16,388 | $ 16,549 | $ 8,034 | $ 18,233 | $ 30,300 | $ 13,912 | 84.9% |
| Net Pension Liability | $ 12,382,417 | $ 13,442,717 | $ 14,127,342 | $ 15,440,803 | $ 14,727,410 | $ 2,344,993 | 18.9% |
| Net OPEB Obligation | $ 2,270,891 | $ 2,272,125 | $ 2,554,892 | $ 2,908,390 | $ 3,304,981 | $ 1,034,090 | 45.5% |
| **Subtotal Other Long-Term Liabilities** | **$15,151,475** | **$16,192,406** | **$17,122,933** | **$18,804,023** | **$18,552,440** | **$3,400,965** | **22.4%** |
| | | | | | | | |
| **Grand Total Long-Term Liabilities** | **$ 23,301,798** | **$ 24,576,329** | **$ 25,251,794** | **$ 27,182,579** | **$ 27,202,188** | **$ 3,900,390** | **16.7%** |

* Outstanding principal - par value.
Source: CPS Annual Comprehensive Financial Reports, Notes 8, 9, 11 and 12, FY2018-FY2022.

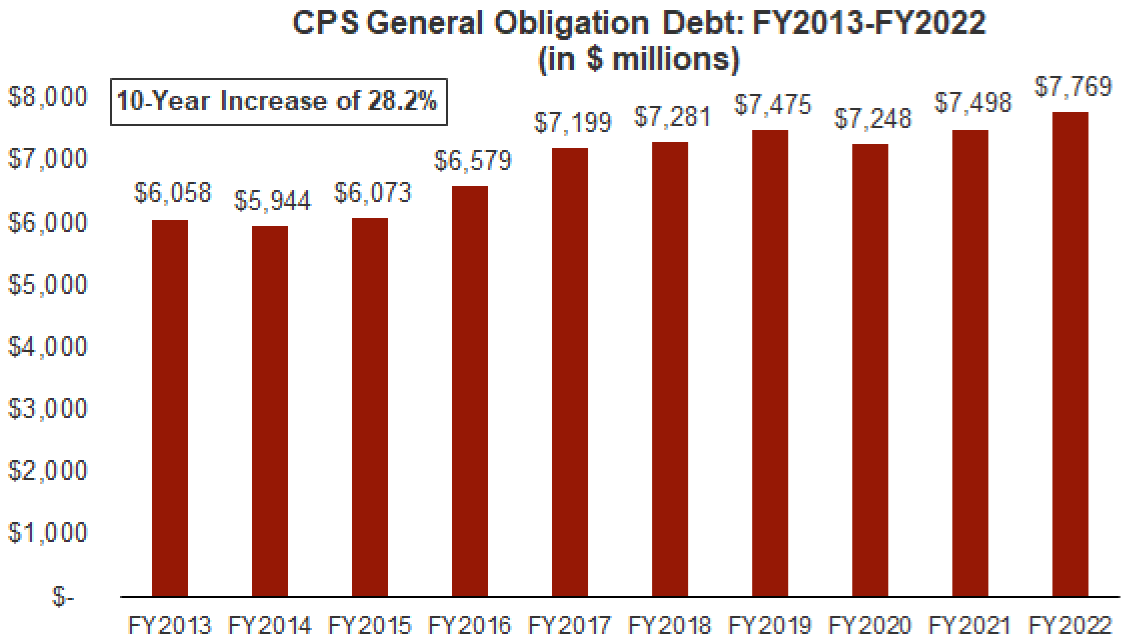
## CPS LONG-TERM DEBT

Increases in government-issued general obligation debt bear watching as they are a potential sign of escalating financial risk. The concern is that unless a government secures additional revenues or reduces spending at the same time that it increases its debt burden, it may have difficulty making principal and interest payments at some point in the future.

CPS long-term tax supported debt increased by 28.2% between FY2013 and FY2022, rising from $6.0 billion to $7.7 billion. The large debt burden for CPS continues to be a cause for concern because the District will continue to face challenges in meeting rising expenditures in areas such as personnel and retirement.

In February 2023, CPS issued $520.8 million in dedicated capital improvement tax bonds. These bonds are payable from capital improvement taxes. The issuance has been given an A rating with a stable outlook by Fitch Ratings and BBB+ with a stable outlook by Kroll Bond Rating Agency.[87]

[87] Chicago Public Schools, $520,835,000 Board of Education of the City of Chicago Dedicated Capital Improvement Tax Bonds Series 2023 Official Statement, February 28, 2023, p. 1.



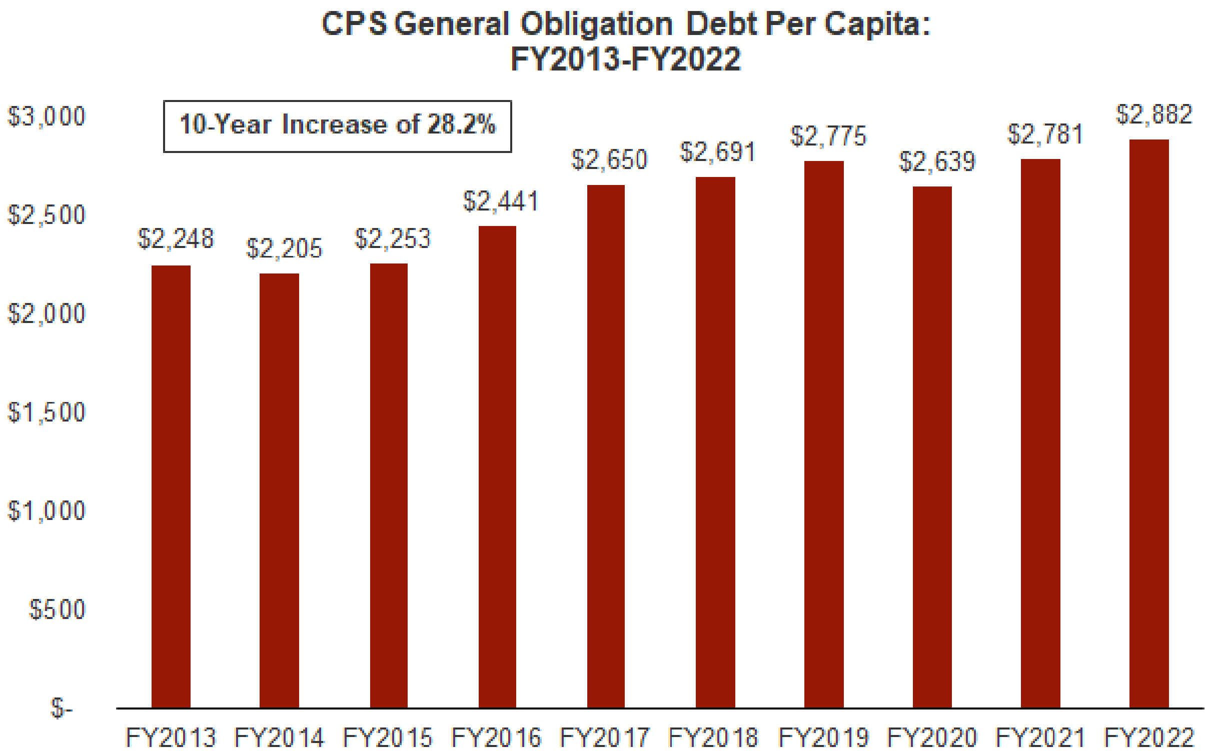
Source: CPS FY2022 Annual Comprehensive Financial Report, p. 166.

In addition to the level of long-term debt outstanding, CPS uses short-term debt to generate cash flow throughout the year. The District issued up to a maximum of $1.15 billion in FY2023. CPS anticipates issuing short-term tax anticipation notes (TANs) in FY2024 to fund operating liquidity and cash flow needs. The FY2024 operating budget includes appropriations of approximately $19.5 million to pay debt service on the TANs.[88]

A commonly used measure of the debt burden on taxpayers is general obligation debt per capita. This indicator divides CPS general obligation debt by the population of the jurisdiction. Increases in the ratio bear watching as a potential sign of increasing financial risk in much the same manner as increases in total debt outstanding figures do.

Overall, CPS general obligation debt per capita increased by 28.2% between FY2013 and FY2022, rising from $2,248 to $2,882. This increase reflects a significant increase in direct debt. Direct debt per capita rose steadily to $2,775 in FY2019, before dipping slightly to $2,639 in FY2020 and then rising again to $2,882 the two subsequent years.

[88] Chicago Public Schools FY2024 Proposed Budget, p. 201.



Source: CPS FY2022 Annual Comprehensive Financial Report, p. 167.

## Debt Service Appropriations as a Percentage of Operating Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if this ratio is between 15% and 20%.[89] The CPS debt service ratio has been below the 15% threshold between FY2020 and FY2024. It has declined from 10.6% to 9.3%. Over the five-year period reviewed, the ratio is expected to average 9.7%.

**CPS Budgeted Debt Service Appropriations as % of Operating Appropriations: FY2020-FY2024**
**(in $ millions)**

| | FY2020 Actual | FY2021 Actual | FY2022 Actual | FY2023 Estimated | FY2024 Proposed | $ Change | % Change |
|---|---|---|---|---|---|---|---|
| **Debt Service Appropriations** | $ 653.8 | $ 661.5 | $ 714.2 | $ 769.4 | $ 785.5 | $ 131.70 | 20.1% |
| **Operating Appropriations** | $ 6,163.6 | $ 6,820.0 | $ 7,821.6 | $ 7,993.7 | $ 8,489.5 | $ 2,325.90 | 37.7% |
| **Debt Service as a % of Total Appropriations** | **10.6%** | **9.7%** | **9.1%** | **9.6%** | **9.3%** | | |

Sources: CPS Propsed FY2024 Budget, pp. 11 and 202 for FY2022, FY2023 and FY2024 figures); CPS Proposed FY2023 Budget, pp. 16, 193-194 (for FY2021 figures), CPS Adopted FY2022 Budget, p. 210 (for FY2020 figures).

## CPS General Obligation Bond Ratings

In 2015, 2016 and 2017, Chicago Public Schools was on a path of steadily falling credit ratings as the District struggled to finance its mounting debt and pension obligations and concurrently

[89] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

depleted its reserves. In FY2018, the financial situation improved as the State of Illinois approved legislation providing substantial financial support through an Evidence Based Funding formula. The federal American Rescue Plan Act approved in 2021 also provided additional financial assistance. In late 2021 and in 2022, Moody's Investors Services, Kroll and Fitch upgraded CPS' credit ratings as the District's financial situation had improved from prior years. In 2023 Standard & Poor's followed suit. The district's current general obligation credit ratings are provided below.

**Chicago Public Schools General Obligation Bond Credit Ratings: 2013-2023**

| Name of Agency | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Kroll Bond Rating Agency* | | | BBB+ | BBB- | BBB- | BBB- | BBB- | BBB- | BBB- | BBB | BBB |
| Fitch Ratings | A- | A- | BBB- | B+ | BB- | BB- | BB- | BB | BB | BB+ | BB+ |
| Standard & Poor's | A+ | A+ | A- | BB | B | B | B+ | BB- | BB | BB | BB+ |
| Moody's Investor Services | A3 | Baa1 | Ba3 | B2 | B3 | B3 | B2 | B1 | Ba3 | Ba2 | Ba2 |

* Kroll rates general obligation bond series issued from 2016 to 2019 as BBB+. All other outstanding bonds are rated BBB.

Source: Chicago Public Schools Credit Ratings at https://www.cps.edu/about/finance/credit-ratings/.

<u>2023 Credit Upgrades</u>

Standard & Poor's raised its credit rating for Chicago Public Schools' existing general obligation debt as well as its alternative revenue bonds to BB+ with a stable outlook from BB in March 2023. The upgrade was based on the District's improved liquidity position and reduced reliance on short-term borrowing. The stable outlook reflected CPS' operating surpluses and strong cash reserves.[90]

<u>2022 Credit Upgrades</u>

Moody's Investors Services upgraded CPS' general obligation bonds to a Ba2 rating from Ba3 on March 3, 2022. The upgrade was based on the District's improved liquidity situation as well as its revenue increases provided in large part by federal stimulus funding. However, Moody's warned that CPS cash position is much more limited than its peers and that the District will continue to require cash flow borrowing. In addition, the District will face revenue declines when federal aid terminates in 2024.[91]

Kroll Bond Rating Agency rated CPS' Series 20922A and 2022B general obligation bonds as BBB with a stable outlook in January 2022. At the same time, Kroll upgraded the District's unlimited tax general obligation bonds to BBB with a stable outlook from BBB-. The upgrade reflected the improved financial position of CPS due to increased support from the State of Illinois, dedicated funding for the pension system and federal stimulus funding. Kroll expressed several concerns in its rating report. While the liquidity position had improved, it remained narrow, forcing the District utilize short-term borrowing to support operations. Finally, the funded ratio of the District's retirement system remained less than 50%.[92]

[90] Standard and Poor's Global Ratings, "Chicago Board of Education Bond Rating Raised To 'BB+ On Stronger Reserves and Improved Liquidity Position," March 31, 2023.
[91] Moody's Investor's Services. Rating Action: Moody's upgrades to Ba2 Chicago Board of Education, IL's issuer and GOULT; outlook stable, March 3, 2022.
[92] Kroll Bond Rating Agency. Rating Report: Chicago Public Schools (CPS) General Obligation Bonds. January 5, 2021.

### CPS Capital Improvement Bond Ratings

In FY2017, two rating agencies gave CPS bonds backed by the District's new Capital Improvement Tax (CIT) separate investment grade ratings. Fitch rated the CIT credit as A grade and Kroll gave it a BBB with a stable outlook rating.[93] In 2022, Kroll changed its CIT credit ratings to BBB+ from BBB. Fitch reduced the rating to A- in 2021, but then upgraded the rating to A in 2022.[94]

# CAPITAL SPENDING

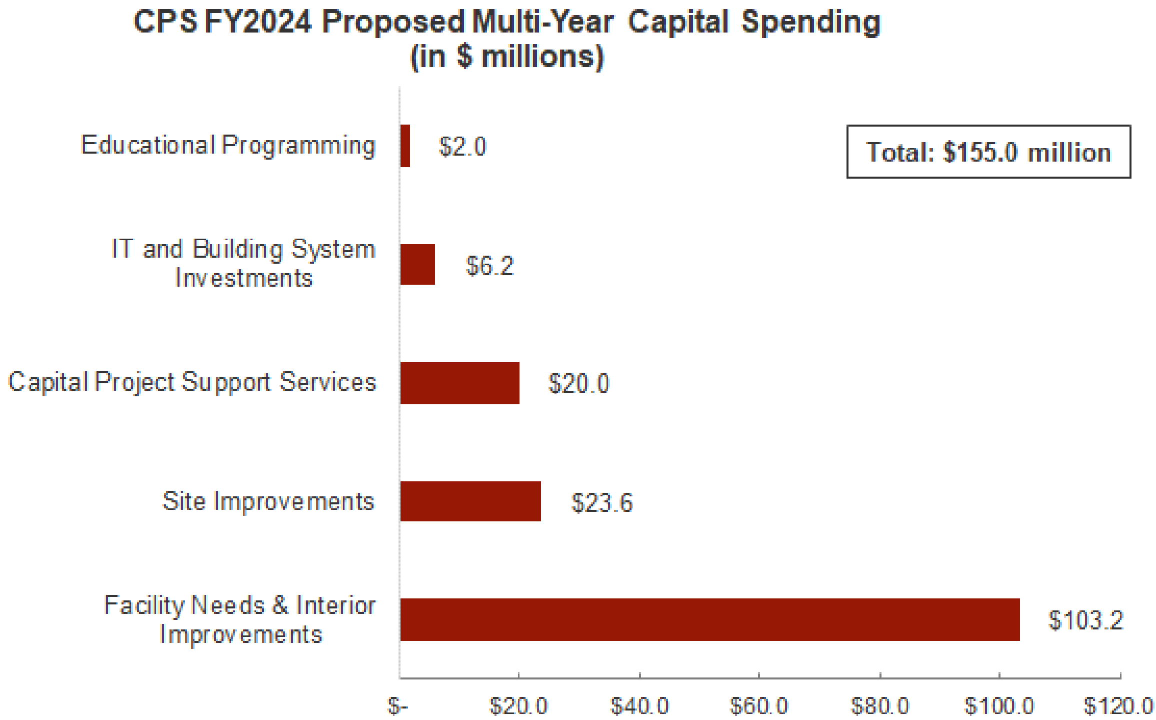
CPS proposes appropriating $155.0 million in capital projects in FY2024.[95] This appropriation will be spent over time as the capital budget provides funding for projects that will be built over a period of several years. This is different than the operating budget, which includes spending for the upcoming fiscal year.

The FY2024 capital plan is a scaled down plan that is intended to address immediate District needs. CPS will develop a comprehensive review this fiscal year of facility needs to include in a new Educational Facilities Master Plan. A supplemental capital plan will be released later in the fiscal year.[96]

The largest single amount in the proposed FY2024 capital spending plan, $103.2 million or 66.6% of the total, will be spent on facility needs and interior improvements, including renovations to ease overcrowding, improve ventilation and HVAC systems and to install security cameras. The second largest amount, $23.6 million, is expected to be used for site

[93] Chicago Public Schools FY2022 Proposed Budget, p. 192.
[94] Chicago Public Schools FY2023 Proposed Budget, p. 192.
[95] Chicago Public Schools FY2024 Proposed Budget, p. 194.
[96] Chicago Public Schools FY2024 Proposed Budget, p. 196-197.

improvements. Smaller amounts will be earmarked for capital project support services, information technology and building system investments and educational programming.[97]

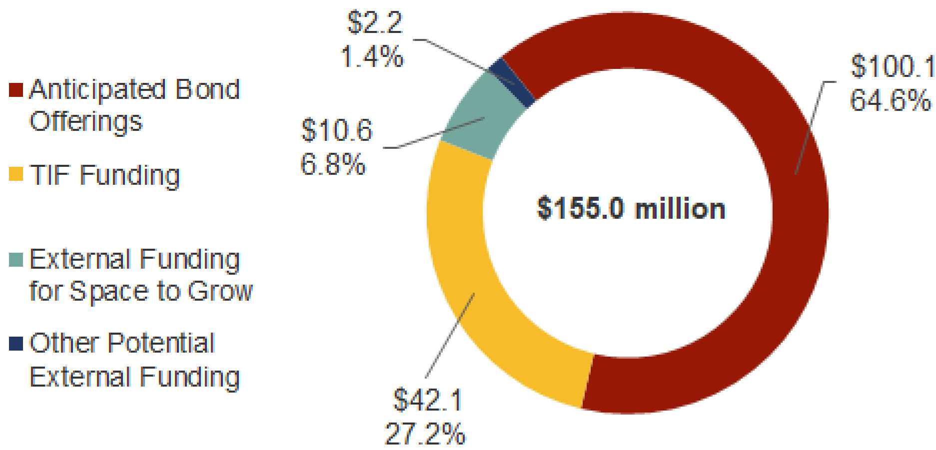



Source: CPS FY2024 Proposed Budget, p. 194.

The FY2024 capital spending plan will be funded over several years, primarily with debt proceeds. Approximately $100.1 million, or 64.6% of all resources used, will be financed by debt issuances that will be repaid with evidence-based funding resources from the State of Illinois. About 27.2%, or $42.1 million, will come from tax-increment financing (TIF) funds. Other funding sources will include $10.6 million from the Space to Grow initiative, which is a site improvement program operated with the Chicago Department of Water Management and Metropolitan Water Reclamation District and $2.2 million from other unidentified potential external sources.[98]

[97] Chicago Public Schools FY2024 Proposed Budget, p. 194.
[98] Chicago Public Schools FY2024 Proposed Budget, p. 193.

**CPS FY2024 Proposed Capital Funding Sources**
**(in $ millions)**




Source: CPS FY2023 Proposed Budget, p. 193.

## Capital Project Revenues and Spending: FY2020-FY2024

This section presents information about trends in CPS capital plan spending in the five-year period between FY2020 to FY2024.

Capital outlays, or expenditures of $500.0 million in FY2024 will be incurred that year regardless of the year in which projects were appropriated. The fund balance amount shown in the table below is the difference between expected FY2024 capital expenses versus revenues. The amount unspent in one fiscal year carries forward into the next fiscal year.[99]

The following are some of the significant changes in capital revenue sources between the FY2023 estimated and the FY2024 proposed budget:

- Total capital revenues from state, local and federal sources will increase by $15.3 million, or 17.4%, from $87.8 million to $103.1 million;
- State of Illinois revenues are expected to decrease from $28.3 million to $17.1 million;
- Local revenues will rise from $59.5 million in FY2023 to $82.0 million; and
- Federal revenues will total $4.0 million in FY2024; no federal revenues were available in FY2023.

On the expenditure side, capital outlays will fall from $549.3 million in FY2023 to $500.0 million in FY2024, a decrease of 9.0%, or $49.3 million. The $500.0 million figure represents amounts originally budgeted in prior years that will be spent in FY2024, as well as funds budgeted and spent in FY2024.[100]

[99] Chicago Public Schools FY2024 Proposed Budget, p. 196.
[100] Chicago Public Schools FY2024 Proposed Budget, p. 196.

In the same two-year period from FY2023 to FY2024, proceeds from bond issuances will increase from $450.0 million to $500.0 million, an 11.1% increase. The capital fund's end-of-year fund balance is expected to rise by 67.7%, or from $152.2 million to $255.3 million. There will be no proceeds from the sale of capital assets in FY2024.

Over the five-year period between FY2020 and FY2024, total capital revenues are expected to increase by 113.5% or $54.8 million. Capital outlays will decrease by 14.3% or $83.4 million, falling from $583.4 million to $500.0 million. Proceeds from bond issuances will increase from $0 in FY2020 to $500.0 million. The end-of-year fund balance will rise from $182.1 million to $255.3 million, a 40.2%, or $73.2 million, increase. The FY2024 capital budget will begin the year with a $152.2 million balance of unspent revenue received in prior years.

**CPS Capital Revenues and Expenses (Outlays) FY2020-FY2024**
**(in $ millions)**

| | FY2020 Actual Budget | FY2021 Actual Budget | FY2022 Actual Budget | FY2023 Estimated Budget | FY2024 Proposed Budget | Two-Year $ Change | Two-Year % Change | Five-Year $ Change | Five-Year % Change |
|---|---|---|---|---|---|---|---|---|---|
| **Beginning of Year Fund Balance** | **$ 716.7** | **$ 182.1** | **$ 188.8** | **$ 163.7** | **$ 152.2** | **$ (11.50)** | **-7.0%** | **$ (564.5)** | **-78.8%** |
| **Revenues** | | | | | | | | | --- |
| Local Revenue | $ 24.8 | $ 12.7 | $ 32.7 | $ 59.5 | $ 82.0 | $ 22.50 | 37.8% | $ 57.2 | 230.6% |
| State Revenue | $ 10.7 | $ 17.5 | $ 13.8 | $ 28.3 | $ 17.1 | $ (11.20) | -39.6% | $ 6.4 | 59.8% |
| Federal Revenue | $ - | $ 7.6 | $ 10.7 | $ - | $ 4.0 | $ 4.00 | --- | $ 4.0 | --- |
| Interest & Investment Earnings | $ 12.8 | $ 1.1 | $ 0.4 | $ - | $ - | | | $ (12.8) | --- |
| **Total Revenue** | **$ 48.3** | **$ 38.9** | **$ 57.6** | **$ 87.8** | **$ 103.1** | **$ 15.30** | **17.4%** | **$ 54.8** | **113.5%** |
| **Expenditures** | | | | | | | | | |
| Capital Outlay | $ 583.4 | $ 565.7 | $ 626.2 | $ 549.3 | $ 500.0 | $ (49.30) | -9.0% | $ (83.4) | -14.3% |
| **Bond Proceeds** | $ - | $ 533.4 | $ 543.5 | $ 450.0 | $ 500.0 | $ 50.00 | 11.1% | $ 500.0 | --- |
| **Sales of Capital Assets** | $ 0.4 | $ - | $ - | $ - | $ - | | | $ (0.4) | ---- |
| **End of Year Fund Balance** | **$ 182.1** | **$ 188.7** | **$ 163.7** | **$ 152.2** | **$ 255.3** | **$ 103.10** | **67.7%** | **$ 73.2** | **40.2%** |

Total figures may not sum due to rounding.

Sources: CPS FY2021 Proposed Budget, pp. 186-187; CPS FY2022 Proposed Budget, p. 204; CPS FY2023 Proposed Budget, p. 188; CPS FY2024 Propsed Budget, p. 196.

## CPS Capital Improvement Plan

Public Act 97-0474 requires CPS annually to prepare and publish a five-year capital improvement plan (CIP). This requirement was amended by P.A. 97-1133 to also require development of a 10-year Educational Facilities Master Plan. That plan is supposed to be used to guide completion of capital budgets and a five-year capital improvement plan. The plan's goals include: 1) using educational goals to guide the direction of capital programming; 2) maintaining health and safety of students and staff; 3) supporting a full school day; 4) relieving overcrowding; and 5) identifying partners for external funding support. The latest update to the Master Plan is dated October 1, 2018.[101] The CPS website does provide summary information on the district's five-year capital plan,[102] but CPS has not yet published a full FY2024-FY2028 capital improvement plan. The last full five-year capital plan was published in FY2016. It consisted of a project list with appropriations over a five-year period.

As noted above, CPS will develop a comprehensive review this fiscal year of facility needs to include in a new Educational Facilities Master Plan. A supplemental capital plan will be released

[101] Chicago Public Schools, Educational Facilities Master Plan Update, October 1, 2018.
[102] Chicago Public Schools FY2023 Capital Plan.

later in FY2024. CPS intends to spend approximately $535 million in annual capital funding in FY2025 through FY2028 as part of the updated capital plan. [103]

[103] Chicago Public Schools FY2024 Proposed Budget, p. 196-197 and CPS FY2024 Capital Plan.