FINANCIAL LANDSCAPE ANALYSIS OF THE CHICAGO PUBLIC SCHOOL DISTRICT

FY2025

THE CIVIC FEDERATION

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EXECUTIVE SUMMARY

The Chicago Public School District (CPS or the "District") faces a critical financial juncture, highlighted by structural budget imbalances, rising expenditures, declining enrollment, significant near-term infrastructure investment needs, and substantial long-term liabilities. A new 21-member Board of Education (the "Board"), partially elected for the first time, inherits these challenges as it assumes oversight on January 15, 2025.

The existing FY2025 CPS budget is structurally imbalanced, heavily relying on temporary revenues and lacking provisions for impending collective bargaining costs. These financial strains, coupled with long-term issues such as declining enrollment, rising expenditures, pension liabilities, and looming credit downgrades, demand immediate and strategic action. To stabilize CPS, the Board must implement a forward-looking financial plan, addressing budget deficits with cost-saving measures, operational efficiencies, sustainable revenue sources, and advocacy for increased state support.

This new report by the Civic Federation is intended to provide the new Board, as well as other officials, advocates, parents, and community members, with a complete picture of the financial landscape of the District. To guide the Board, the report also offers several concrete suggestions rooted in the urgent need for long-term financial planning.

Financial Overview

While not an exhaustive compilation, the report provides background information and additional context about the financial challenges the Board must consider while addressing near- and long-term solutions. The Civic Federation report, *Chicago Public Schools FY2025 Proposed Budget: Analysis and Recommendations*, addresses further details about the District's budget and the Civic Federation's recommendations.

- **Structural Budget Imbalance:** The FY2025 budget, though technically balanced, relies heavily on non-recurring revenues such as federal pandemic aid, which will be depleted by fiscal year-end. This approach masks ongoing fiscal issues.
- **Revenue Limitations:** CPS depends heavily on property taxes (47% of revenue) and State funding (25% of revenue). However, constraints on property tax increases and insufficient state contributions create fiscal pressures.
- **Rising Costs:** Personnel expenditures have increased significantly due to staff expansions funded by temporary COVID-19 relief dollars. Additionally, unresolved collective bargaining agreements with the unions are expected to add hundreds of millions of dollars in costs in FY2025 and over the next three years.
- **Declining Enrollment and Underutilized Infrastructure:** Enrollment has dropped by over 21% since FY2010, leading to underutilized school buildings and inefficiencies in resource allocation. More than half of CPS schools are operating below 70% capacity.

- **Debt and Pension Liabilities:** CPS carries $9.3 billion in long-term debt and a severely underfunded teacher pension fund, with a funded ratio of 47.2%. These financial obligations limit operational flexibility and increase borrowing costs.
- **Credit Risk:** CPS' credit ratings remain below investment grade. Continued fiscal mismanagement, such as an overreliance on short-term borrowing to cover annual cash flow needs, could lead to downgrades, increasing borrowing costs and restricting market access.

Immediate Challenges the Board of Education Must Address

1. **Collective Bargaining Negotiations:** The current FY2025 budget excludes costs from ongoing contract negotiations with CTU and CPAA, with CTU demands totaling $1.8 billion in first-year costs. The final collective bargaining agreement will likely necessitate budget amendments and additional revenue sources.
2. **Projected Budget Deficits:** Despite temporary measures to balance the FY2025 budget, unresolved pension costs and backloaded union agreements risk deficits of $508.7 million in FY2026 and $557.8 million in FY2027. These projections require long-term solutions to avoid fiscal instability, especially since they do not include the additional costs associated with ongoing collective bargaining agreements.
3. **District Resource Allocation**: CPS has increased staffing despite declining enrollment, leading to inefficiencies; the Board must address underused facilities and align resources to actual enrollment and outcomes.
4. **Financial Entanglements with the City of Chicago:** The Board must resolve contested financial agreements with the City, including a $175 million pension reimbursement, and integrate decisions into a long-term financial plan as CPS transitions to full independence.

Concluding Recommendations

By adopting some or all of these recommendations, the new Board can navigate immediate challenges while setting CPS on a path toward fiscal stability and fulfilling its core mission of providing quality education for Chicago's students.

1. **Develop a Long-Term Financial Plan:** The Board must prioritize sustainable revenue generation and cost-saving measures while aligning spending with strategic goals.
2. **Right-Size District Operations:** In partnership with the community, address enrollment declines through resource reallocation, including an immediate assessment of the best use of facilities and program resources to align with educational goals.
3. **Advocate for State Funding:** Pursue equitable State contributions for pensions and expanded Evidence-Based Funding to close adequacy gaps.
4. **Resolve City Financial Entanglements:** Clarify ongoing fiscal obligations with the City of Chicago to establish financial independence.

5. **Conduct Financial Projections:** The District should conduct a financial analysis to accompany its five-year strategic plan.
6. **Strengthen Reserves:** Build unrestricted fund balances to provide liquidity and reduce reliance on short-term borrowing.
7. **Enhance Financial Transparency:** Increase public disclosure of expenditure details and personnel changes to improve accountability.
8. **Strengthen Board Capacity:** Expand the Board of Education’s resources, staffing, and training to ensure they have the expertise needed to handle the District’s complex issues and fulfill their fiduciary responsibilities.

INTRODUCTION

The Chicago Board of Education (the "Board") faces a confluence of financial challenges that threaten the Chicago Public School District's ("CPS" or the "District") fiscal viability. These challenges also threaten the District's ability to fulfill its core mission to provide the quality education necessary to prepare the City of Chicago (the "City") students for success and achievement upon graduation. These challenges have a direct bearing on critical decisions the new 21-member, partially elected Board will need to make in the coming weeks and months after they are sworn in on January 15, 2025. Solving these challenges responsibly requires a close examination of expenditures and revenues and careful planning oriented to prioritizing its core mission of ensuring successful educational outcomes for students across the city. This report from the Civic Federation aims to lay out the current financial landscape as a resource for Board members, District administrators, other policymakers, public officials, parents, and taxpayers.

The new Board's immediate task is to remedy an existing structurally imbalanced budget likely to be exacerbated by the addition of tens to hundreds of millions of dollars in costs associated with ongoing collective bargaining negotiations. The Board of Education approved a Fiscal Year (FY) 2025 budget in July 2024 that was technically balanced with budgeted costs and expenditures zeroed out. However, the budget as passed was structurally imbalanced in at least two significant respects. First, it relies heavily on temporary and non-recurring sources of revenue.[1] Second, and more concerning, it fails to account for several expected additional costs this year, including the cost of collective bargaining agreements with the Chicago Teachers Union and the Chicago Principals & Administrators Association (CPAA) that are still under negotiation. According to information provided during recent public bargaining sessions, the low end of the estimated first-year costs of a new contract with the CTU range to upwards of $150 million. The contract is also expected to be heavily backloaded, with costs in FY2026-2028 rising even more than in FY2025.

These anticipated cost increases related to the collective bargaining agreements will require a two-thirds majority of the newly constituted hybrid Board's passage of an amended (or supplemental) FY2025 budget. Through that budget amendment process, CPS and the Board will need to identify immediate spending cuts or additional sources of revenue on top of the temporary sources already appropriated in the existing FY2025 budget. Solutions must avoid resorting to unsound fiscal practices, particularly given the District's precarious below-investment-grade credit rating. This includes fiscal practices such as borrowing for operations and drawing upon the financial operating reserves, which were rebuilt after the State of Illinois (the "State") budget crisis in the 2010s and yet still fall short of acting as a proper rainy day fund as they are continually drawn on to bridge gaps in the timing of revenue inflows and the

[1] A structurally balanced budget is one in which recurring revenues equal or exceed recurring expenditures. This provides financial stability for a government in the long-term. A non-structurally balanced budget uses non-recurring revenues, such as spending prior year fund balance or borrowing to fund regular operations, to balance the budget. Using nonrecurring, one-time revenues to repeatedly fund budgets masks serious systemic financial problems and is not a sustainable practice.

resulting short-term borrowing the District relies on to maintain operational expenses throughout the fiscal year. Such actions could adversely impact the District's credit rating, effectively raising its cost of borrowing and, in a worst-case scenario, crimping District access to the bond market.

Along with these immediate vulnerabilities, this report highlights several long-term issues that the Board must address, including declining enrollment, ballooning expenditures, spending pressures associated with the cost of long-term debt and employee pension contributions, and junk-status credit ratings, among others. Many of these problems are the product of decades of structurally imbalanced budgets and poor fiscal planning. In addition, overreliance on one-time revenue sources, such as TIF surplus sweeps from the City of Chicago, spending down general operating reserves, and, most recently, the use of federal COVID-19 relief money to pay for a significant expansion of staff and programming, has set the District on a path of financial instability that it has, in the recent past, been rightly characterized as "fragile."[2]

The persistent use of these practices and the cumulative effects of their use are often ascribed to successive District administrations. However, they equally reflect a shortcoming in generations of the Board itself, as the District's governing fiduciary, to challenge and prevent these practices. This failure on the Board's part could be argued to represent a comparative neglect of the District's core mission: achieving successful educational outcomes for Chicago's children. The Board now faces the significant yet achievable task of course correction, which will require a fundamental reset of its focus and capacity to fulfill its state-mandated responsibilities as a fiduciary of the school district.

A failure by the Board to demonstrate responsible fiscal management for the crisis at hand could have significant consequences. Rating agencies have warned that any actions to further jeopardize the CPS' financial stability, including drawing on reserves or issuing debt to pay for teacher salaries, would result in credit rating downgrades.[3] Further downgrades would result in increased interest rates for borrowing at a time when the District is already paying high interest on debt due to its below-investment-grade ratings. In a worst-case scenario, CPS could lose access to debt markets if the lenders view the financial risk so significant as to require piercing the 9% threshold for tax-exempt bonds. The current situation is so serious that a State financial takeover, similar to the Chicago School Finance Authority created to address the 1980 CPS financial crisis, is not and should not be out of the question.[4] To avoid such a drastic response, which could stabilize the District but harm its reputation, it is incumbent on the new Board to provide responsible oversight.

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[2] See, Chicago Public Schools, "Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools," October 31, 2022.

[3] Sarah Macaraeg, "S&P issues Chicago Board of education a warning: Find revenue or 'scale down' operations to fund CPS," *Chicago Tribune*, December 14, 2024.

[4] For more on the School Finance Authority, see the Civic Federation's School Finance Authority: From Creation to Dissolution, (May 19, 2010).

With large deficits projected over the next several years and no readily available revenue sources sufficient to address them as pandemic relief funding ends, the Board of Education must commit in earnest to a long-term financial planning process that moves the District away from crisis management to sustainability. Solutions to these issues will require implementing both cost-saving and revenue-generating measures, including operational efficiencies, spending cuts, and newly structured, sustainable revenue sources, potentially including increases to the property tax levy and additional financial assistance from the State of Illinois. Solutions must be forward-thinking and long-term, as CPS' financial challenges will only grow as the District spends down the last tranche of federal pandemic relief dollars in FY2025 and awaits the conclusion of ongoing labor contract negotiations. By laying out a full picture of the financial landscape, the Civic Federation hopes to support the Board in the monumental task ahead.

FINANCIAL AND GOVERNANCE CONTEXT

Legal Authority and Governance

The Board of Education of the City of Chicago derives its authority from the State of Illinois, as established under and governed by Article 34 of the School Code (105 ILCS 5) (the "School Code") of the State. The Board maintains a system of public schools within its boundaries for pre-kindergarten through grade twelve. The District has boundaries coterminous with the boundaries of the City of Chicago and serves the children of residents of the City.

For nearly thirty years, the Board, as the governing fiduciary body of the District, has been constituted as a seven-member body appointed by the Mayor of Chicago. The Board operates on a Fiscal Year ending June 30. In addition to its governing body, CPS has a system of elected local school councils composed of parents, teachers, principals, and community representatives exercising certain powers relating to the operation of the individual schools in the system, including selection of principals.

Under the School Code, the governing body, i.e., the Board, is responsible for approving the annual budget, approving contracts (including collective bargaining agreements), levying property taxes, and establishing general policies of the Board. The foregoing powers are executed in the service of its core responsibility of "fostering excellence for every student in the areas of student learning and well-being, as well as healthy, safe, engaging, and academically challenging school experiences, that prepare each student for college, career, and civic life."[5]

In July 2021, Illinois Governor JB Pritzker signed the Elected School Board Legislation (PA 102-0177), which amended the School Code to provide a two-step transition from the current mayoral-appointed governing body. The process begins in January 2025 with a transition to a hybrid board comprised of ten mayoral-appointed and ten elected members and a president appointed by the Mayor, and then in 2027 to an all-elected 21-member board (20 members elected from single-member districts and a president elected City-wide).

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[5] Chicago Board of Education Rules, Section 2-19-c, "*Board Member Expectations and Conduct*."

The Elected School Board Legislation does not affect any of the Board's existing powers to levy taxes, issue debt obligations, or adopt an annual budget. It does not otherwise alter the administrative, operational, or financial structure or systems of the Board. Nor does the legislation substantially expand the Board's powers or impose additional requirements for its operation as a 21-member governing body.

As a result of this transition, the legislation provides for an eventual complete separation between the Board and the City, effective January 2027. It also institutes a moratorium on school closings, consolidations, or phase-outs until the members of the hybrid board are seated in January 2025. In September 2024, the Board voted to extend the school closure moratorium until the end of the 2026-27 school year, when the fully elected 21-member board will be in place.

School Finance Authority (105 ILCS 5/34A)

In any conversation about the Chicago Public School District and, in particular, due to ongoing concerns about the District's fiscal condition, it is important to note the potential existence of an additional governance component that may operate parallel to the Board. To address the financial crisis that existed at CPS in the late 1970s, in 1980, the Illinois General Assembly established the Chicago School Finance Authority (CSFA) pursuant to the State School Finance Authority Act (105 ILCS 5/34A). The CSFA operated for approximately 30 years, expiring once all bonds and notes it issued had matured. Despite being dissolved on June 1, 2010, the enabling legislation remains on the books, available for activation by the General Assembly when any board of education faces financial difficulties that threaten the continuing effective operation of a school system. Once re-activated, it would be constituted of five directors appointed in combination by the Governor and the Mayor.

In addition to bond and tax levy authority, the CFSA's statutory powers during its operation included:

- Approving (or rejecting) the Board's annual budget;
- Ensuring the Board's annual budget was balanced in accordance with recognized accounting standards and procedures approved by the CSFA;
- Annual approval (or rejection) of the Board's two-year financial plans;
- Approving major contracts submitted to the Board, including collective bargaining agreements;
- Approving the appointment of the Board's CFO, with the power to remove such officeholder;
- Reviewing and approving the revenue estimates upon which the Board's annual budget and multi-year financial plans were based; and
- Undertaking a management assessment audit of the Board and its operations at least once every two years to determine if the Board is utilizing and maintaining its resources economically and efficiently in the service of its core educational mission (conferred in

1993 by the General Assembly in response to the District's then-growing budget deficits).

In 1988, the CSFA was additionally granted the power to implement educational reforms at its discretion. However, the principal authority for the education policies of the system remained with the Board.

FINANCIAL OVERVIEW

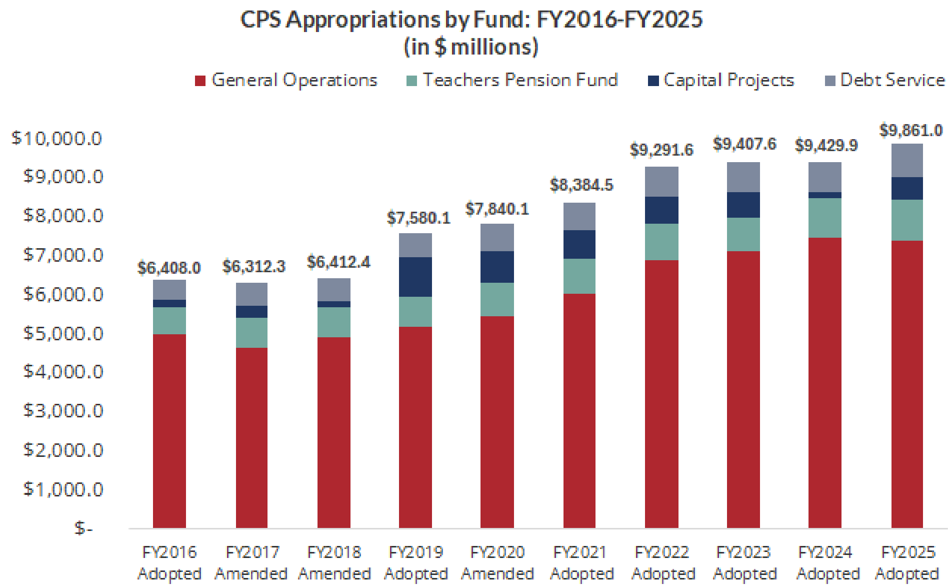
The following sections describe key elements of the overall financial situation that constitute the current CPS fiscal landscape. While not an exhaustive compilation, this is intended to provide background and additional context about the financial challenges the Board must consider while addressing near-term and long-term solutions. Further details about the District's budget and the Civic Federation's recommendations can be found in its annual analysis of the Chicago Public Schools budget proposal.[6]

Rising Budgeted Spending Levels

Over the past ten years, CPS' adopted budget appropriations have increased by more than 50% from $6.4 billion in FY2016 to $9.9 billion in FY2025. Much of this increase occurred in FY2021 and FY2022 during the COVID-19 pandemic when the District received federal relief dollars through the Elementary and Secondary School Emergency Relief Fund (ESSER) as part of the American Rescue Plan Act. This funding also coincided with the timing of the last teacher contract which called for increases in support staff over the term of the contract from 2019 to 2024.

The following chart shows CPS appropriations over the ten-year period from FY2016 through FY2025, broken down by the following funds: general operating, teachers' pension fund, capital projects fund, and debt service fund. All four of these spending areas increased proportionately to the total budget over this period. General operating appropriations, not including pension contributions to the Chicago Teachers' Pension Fund, grew by nearly 50% in the ten-year period from FY2016 through FY2025, from just under $5 billion to $7.4 billion. Appropriations to the Chicago Teachers' Pension Fund, funded with State and local dollars, increased by 45% from approximately $700 million to $1 billion.

[6] See the Civic Federation's analysis of the FY2025 Chicago Public Schools budget, released in July 2024, available at https://www.civicfed.org/CPS_FY2025.



Source: Chicago Public Schools Adopted Budgets & Interactive Online Budget Reports, FY2016-FY2025.

General operations, not including amounts set aside for pension contributions, account for approximately 75% of total appropriations in the District's budget. This includes all spending outside of teacher pension contributions, annual debt service to pay down long-term debt, and capital projections appropriations. General operating funds support district-run schools, charter schools, central office functions, and citywide support functions that are budgeted centrally, including custodians, nurses, social workers, and security personnel. Each of these areas of spending within the operating funds has remained relatively constant in proportion to total operational budgets over time, but this is because the budget has been expanded in all areas of school-based and central office spending.

Debt service, which is the amount a government must allot annually to pay down the principal and interest on outstanding long-term debt, has consistently made up about 8% of total appropriations. Debt service spending has increased over the past ten years from $538.6 million in FY2016 to $816.9 million in FY2025, an increase of about 52%. Over time, general operating appropriations have increased concurrently, keeping the ratio of debt-to-operating spending relatively stable. However, there is concern that this ratio could quickly climb as temporary pandemic-era funding sources that were applied to operations are exhausted.

The final large spending area—capital appropriations—varies from year to year depending on the size of the District's capital budget. The FY2024 budget was balanced in part through a suspension of many capital expenditures, which is not sustainable given the District's seriously aging physical infrastructure. The average facility age is over 84 years old, with critical facility needs totaling more than $3 billion[7] and total facility needs totaling $14.4 billion.[8]

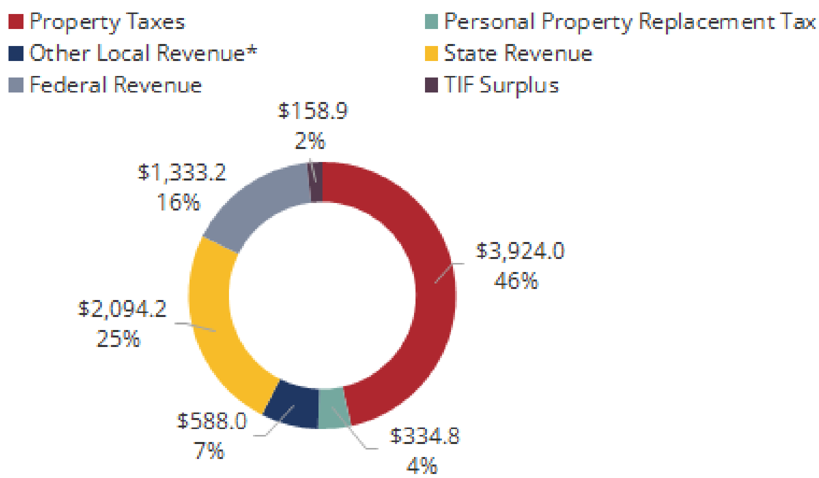
[7] Chicago Public Schools FY2025 Budget, Capital Budget.
[8] Chicago Public Schools 2023 Educational Facilities Master Plan.

Revenue Limitations

CPS is limited in its ability to generate additional revenue because of tax caps that apply to the District's property tax levy[9] and limitations in allocations from the State of Illinois. It is important to note that both of these revenue sources have been expanded significantly since the implementation of the State Evidence-Based Funding law (discussed further below). The District's general property tax levy can only increase each year by the rate of inflation or 5%, whichever is less.[10]

This is particularly important because the District's operations are funded primarily through property taxes (47%). The second largest source of revenue in FY2025 is funding from the State of Illinois ($2.1 billion, or 25%), including $1.3 billion in Evidence-Based Funding (EBF). The operational impact of the State EBF is constricted by the fact that the District uses a portion of its EBF funds to partially defray the annual costs of debt service and pension obligations rather than on programming in schools. Federal funding accounts for $1.3 billion, which represents 16% of general operating revenue and includes the use of the remaining $233 million in ESSER federal pandemic relief funds.

CPS FY2025 General Operating Revenue Sources



Source: Chicago Public Schools FY2025 Adopted Budget.

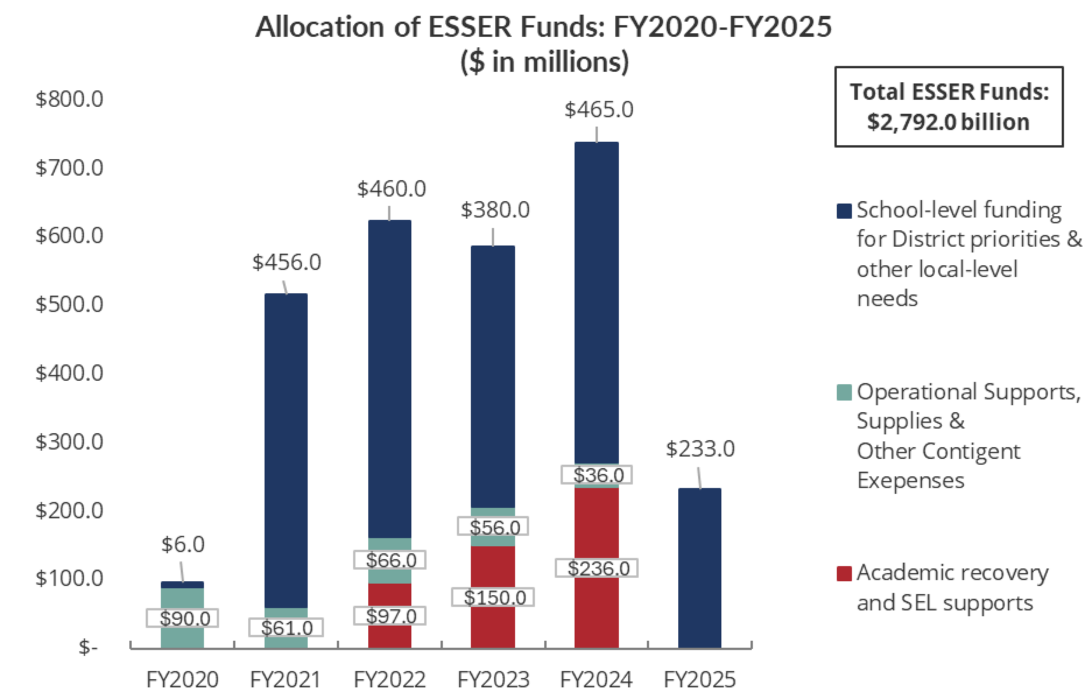
[9] For an explanation of the limitations on CPS' property tax levy, see the Civic Federation's analysis of the FY2024 Chicago Public Schools budget proposal: Chicago Public Schols FY2024 Proposed Budget: Analysis and Recommendations, June 27, 2023, p. 26.

[10] The Illinois Property Tax Extension Limitation Law (PTELL) limits the CPS tax extension on existing property to rise each year by the lesser of 5.0% or the increase in the Consumer Price Index the previous year. An exception to this is the CPS pension levy, which is not subject to tax caps under PTELL, and instead is a flat rate applied to the equalized assessed value of property in Chicago.

Federal Pandemic Aid

Chicago Public Schools received nearly $2.8 billion in federal ESSER COVID-19 pandemic relief funds. The pandemic funding enabled the District to significantly increase its spending on personnel and operations. Now that additional federal funding has been expended, the District faces a revenue cliff.

CPS distinguished itself from many other units of government locally and nationally by utilizing a far greater portion of its federal pandemic-era funding for expanding operations rather than applying it as short-term revenue replacement for status quo operations and for temporary programming to address the adverse curricular and developmental effects of the pandemic on students.[11] Given the historical underfunding of the District and the significant diversion of funds from operations to meet debt service and pension obligations, this impulse was understandable. However, no appreciable work was done to identify new sustainable revenue sources for the future or to plan for a winding down of pandemic-funded operations. The following chart shows the use of these funds between FY2020 and FY2025. This funding will be exhausted by the end of the current 2025 fiscal year.



Source: FY2025 Chicago Public Schools Approved Budget, p. 7-8.

[11] Reema Amin, "From 'winning the lottery' to 'leaner schools': How the end of federal COVID money could impact Chicago schools," *Chalkbeat Chicago*, April 10, 2024.

State Evidence-Based Funding (EBF)

The passage of the State of Illinois' 2017 Evidence-Based Funding (EBF) Formula[12] was transformative for CPS. The Evidence-Based Funding formula changed the way the State distributes statewide P-12 education funding based on school districts' needs and their local capacity to fund schools. The same EBF legislation also contained two important provisions that increased pension funding for Chicago Public Schools. (1) It allocated additional State funding to cover the Chicago Teachers' Pension Fund (CTPF) normal cost.[13] Previously, the State only covered a minuscule fraction of the CTPF contribution, but in FY2025, it will contribute $353.9 million for the normal cost,[14] which covers about 35% of the total employer contribution to the CTPF. (2) The EBF legislation also increased the CPS property tax levy dedicated to teachers' pension funding.[15] Both of these measures resulted in additional property tax revenue to fund teacher pensions, which has helped reduce the amount of operating funds the District must use to make its annual teacher pension contribution, thereby freeing up school resources.

Yet despite the influx of revenue from EBF, CPS, like many of its peers, remains underfunded relative to need. The EBF formula was created with the intent that all school districts in the State would be 90% funded by FY2027, but based on the current funding schedule, adequacy funding targets are not projected to be fully satisfied until FY2034.[16] Per the formula, CPS is presently funded at approximately 80% of adequacy based on its classification as a Tier 2 school district. CPS was previously categorized as a Tier 1 school district, which is the highest level of funding need, but shifted to a Tier 2 district in FY2023 based on the formula. Accordingly, the share of EBF funding that CPS receives has declined in proportion to the total EBF funding distributed statewide, from 24% in FY2018 to 21% in FY2025.[17] Each year, with the exception of FY2021, the Illinois legislature has allocated an additional $350 million to EBF. CPS' share of that funding has decreased from $58 million in FY2018 to $23 million in FY2025. The District would need an additional $1.2 billion from the State to reach the 90% funding target.[18]

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[12] 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.

[13] The normal cost is the annual cost of retiree benefits earned by employees in the current year. A portion of the State contribution goes to retiree healthcare costs.

[14] The $353.9 million contribution from the State includes $65 million for retiree healthcare.

[15] Public Act 99-0521, enacted by the Illinois General Assembly in June 2016, reinstated a property tax levy for CPS dedicated to teacher pension funding at a rate of 0.383%. Public Act 100-0465, the law enacting the EBF formula, later increased the rate for the pension levy to 0.567%. 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.

[16] See Center for Tax and Budget Accountability, Fully Funding the Evidence-Based Formula: FY2025 Proposed General Fund Budget, May 14, 2024; and Judith Brown, "A lifeline for CPS and other school districts is ending. What's next?," *Crain's Chicago Business*, June 24, 2024.

[17] Reema Amin, "Amid financial woes, Chicago Public Schools to receive similar state funding increase this year," *Chalkbeat Chicago*, August 5, 2024.

[18] Reema Amin, "Amid financial woes, Chicago Public Schools to receive similar state funding increase this year," *Chalkbeat Chicago*, August 5, 2024.

CPS has urged the State to increase funding to help the District reach the 90% Adequacy level. CTU has taken a different tack in the service of the same objective by arguing that the State owes the District additional funding to reach 100% of adequacy based on the EBF formula. However, the EBF formula does not and was never intended to create an enforceable obligation. Moreover, the EBF funding issue is not unique to CPS. A majority of other school districts around the State are also not yet receiving the State's prescribed 90% of adequacy funding target. Tier 1 schools are those with the highest need for state resources, followed by Tier 2. Tier 3 and 4 schools are considered to be fully funded. CPS is one of Illinois's 234 school districts (27.5%) categorized as Tier 2 based on the funding formula. The table below shows the distribution of school districts in different regions of the State across the four tiers.

FY2024 Evidence-Based Funding Formula Tiers by County

County	Number of School Districts	Tier 4	Tier 3	Tier 2	Tier 1
Cook County	144	60	12	34	38
Collar Counties*	143	57	22	26	38
Downstate Counties**	564	115	60	174	215
Total	**851**	**232**	**94**	**234**	**291**

Source: Illinois State Board of Education, 2024 School District Financial Profile Scores.

*Includes schools districts in DuPage, Kane, Lake, McHenry and Will county.

**Includes all other school districts outside of Cook County and the five collar counties.

Rising Personnel and Associated Personnel Expenditures

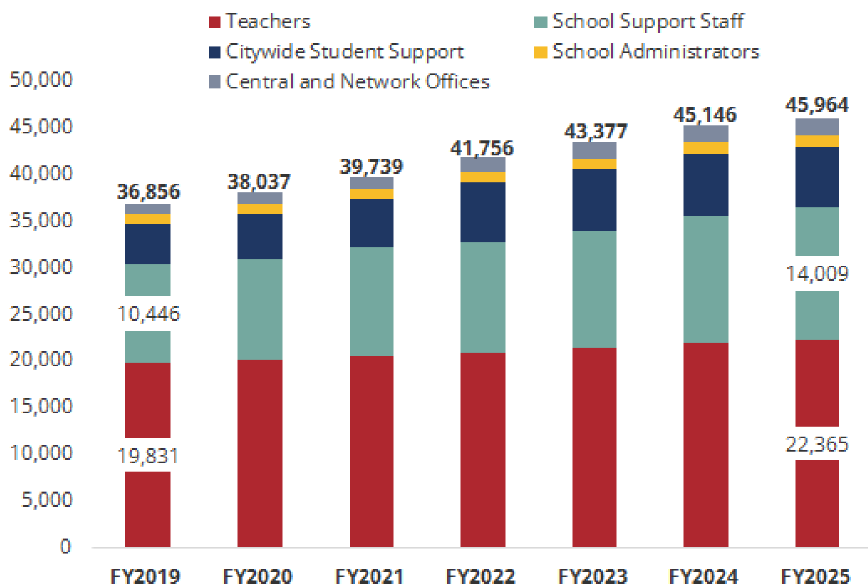
The number of budgeted personnel at CPS has increased by approximately 25% since FY2019, the last year before the COVID-19 pandemic, as well as before the most recent contract with the CTU was finalized in 2019. The contract, adopted in November 2019, called for hundreds of new positions for school support staff, including nurses, social workers, and case managers.[19] With the onset of the COVID-19 pandemic in 2020, CPS received an influx of federal relief money. This short-term and soon-to-expire funding has been devoted to new and expanded programs that CPS intends to continue despite not yet identifying long-term revenue sources.

Full-time equivalent (FTE) positions at CPS increased by 9,108 FTEs between FY2019 and FY2025, reaching 45,964 authorized positions this year. The majority of that increase is comprised of support positions. School support positions, which include teacher assistants, special education classroom assistants, security officers, cooks, and a number of other positions, have increased by 3,562 FTEs, or 34.1%, during this period. Citywide support positions, which are budgeted centrally and include social workers, school psychologists, nurses, school bus aides, occupational therapists, speech pathologists, and administrative positions, have increased by 2,225.5 FTEs, or 51.2%. Teacher positions have also increased significantly over this period by

[19] The Civic Federation, "Chicago Public Schools Amends FY2020 Budget Based on Contract Agreements Reached with CTU and SEIU," November 26, 2019.

2,533.9 FTEs, or 12.8%. Central office and network office staff have increased by 730.8 FTE positions, or 64%. The number of school-specific administrators has remained fairly level, increasing by just 5%.

CPS Full-Time Equivalent Positions by Type: FY2019-FY2025



Source: Chicago Public Schools, FY2019-FY2023 Interactive Budget Reports, Positions, available at www.cps.edu.

The majority of the ESSER funds went toward ongoing operations and personnel. In the past five years, salary spending has increased by $712.8 million, or 24.6%. Employee benefits have increased by $562.0 million, or 33.9%.

CPS Appropriations for Operating Funds by Type: FY2021- FY2025 ($ in millions)

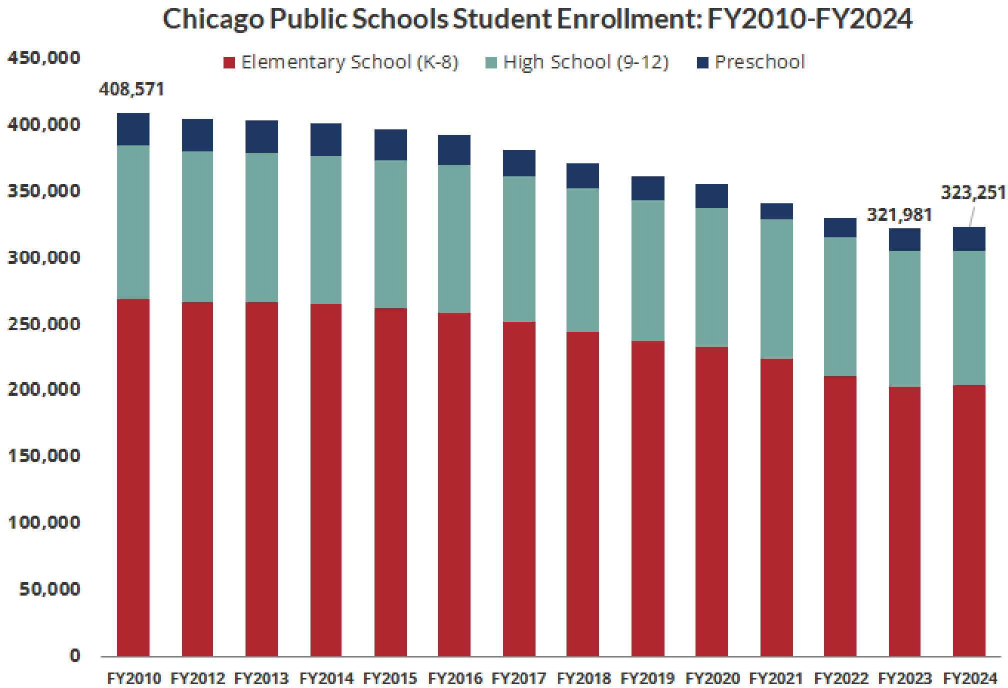
	FY2021 Adopted	FY2022 Adopted	FY2023 Adopted	FY2024 Adopted	FY2025 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 2,901.5	$ 3,070.5	$ 3,283.8	$ 3,518.3	$ 3,614.3	$ 96.0	2.7%	$ 712.8	24.6%
Benefits	$ 1,655.5	$ 1,730.9	$ 1,869.9	$ 2,112.0	$ 2,217.5	$ 105.5	5.0%	$ 562.0	33.9%
Contracts	$ 1,438.1	$ 1,542.5	$ 1,636.2	$ 1,754.7	$ 1,790.4	$ 35.7	2.0%	$ 352.3	24.5%
Commodities	$ 297.7	$ 270.0	$ 362.2	$ 352.1	$ 344.4	$ (7.7)	-2.2%	$ 46.7	15.7%
Equipment	$ 39.0	$ 17.6	$ 13.1	$ 28.2	$ 31.4	$ 3.2	11.3%	$ (7.6)	-19.5%
Contingencies/Other	$ 584.2	$ 1,190.2	$ 828.5	$ 724.1	$ 435.1	$ (289.0)	-39.9%	$ (149.1)	-25.5%
Total	**$ 6,916.0**	**$ 7,821.7**	**$ 7,993.7**	**$ 8,489.4**	**$ 8,433.1**	**$ (56.3)**	**-0.7%**	**$ 1,517.1**	**21.9%**

Source:CPS FY2025 Proposed Budget, p.14-15; 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.

Declining Enrollment

Since FY2010, enrollment in CPS schools declined by about 21%, dropping from 408,571 students to 323,251, representing a loss of more than 85,000 students. The ongoing decline has been attributed to a number of causes, including declining birth rates, the slowing growth of

Latine families, and the exodus of Black families from the City.[20] A 35% decline in Black student enrollment has been a primary component in the overall district enrollment decline during this period.[21] FY2024 was the first time enrollment increased in at least the last two decades, which, as measured on the 20th day of fall 2023, increased by 1,270, with most of that increase occurring in preschool enrollment. The uptick was also attributable to new migrant arrival students enrolling in the District.[22] CPS reports that the current 2024-2025 school year (FY2025) saw another marginal uptick over the prior year, landing at 324,311 students on the 20th day of fall 2024.[23] CPS continues to project a flat to marginally declining overall enrollment in the coming years.



Source: CPS FY2025 Proposed Budget, p. 266.

Building Underutilization

Declining enrollment in CPS has led to significant building underutilization, a long-term issue for the District. The last major effort to address this issue occurred in 2013 during the Emanual Administration when the District closed 50 schools (46 closed buildings). By 2015, only 11 of these facilities had been sold or repurposed.[24] As of 2023, only 20 buildings, or 43%, of the 46 closed facilities, are in use. These repurposed buildings were redeveloped for a range of uses,

[20] Kids First Chicago, Chicago's Enrollment Crisis: Part 1 | Exploring Root Causes, January 2022.
[21] Calculated based on CPS Racial/Ethnic Reports datasets downloadable at https://www.cps.edu/about/district-data/demographics/.
[22] CPS FY2025 Approved Budget, p. 39.
[23] Sarah Karp and Nader Issa, "CPS enrollment increases for second year in a row, sees bump in English language learners," *Chicago Sun Times*, September 26, 2024.
[24] Great Cities Institute, University of Illinois at Chicago, Why these schools? Explaining school closures in Chicago, 2000-2013, November 2016

including housing, administrative staff offices, a CHA Call Center, a Chicago Park District Fieldhouse, private schools, and neighborhood community spaces. However, the remaining 26 buildings remain vacant, including those that were sold but show no signs of redevelopment and those that would require substantial rehabilitation investment.[25] Repurposing efforts continue under District program criteria.[26]

The 2013 closures followed an extensive facilities analysis that considered not only utilization percentages but also other factors, such as building condition and the associated costs of modernizing them to code. While there was sound rationale for the closures, they were undertaken without meaningful notice and engagement with the affected communities. As a result, the move was highly controversial in ways that made considering mergers, consolidations, and closures a sensitive and politically fraught issue.

Meanwhile, as previously noted, District-wide enrollment continues to decline, leading to a growing number of under- to severely under-enrolled schools. CPS defines underutilization as enrollment below 70% of a school's capacity. Schools with enrollment below 50% capacity have more than doubled since 2015. In 2015, there were 75 such schools, representing 16% of the total number of schools. By 2024, this number had risen to 163, or 34% of the total of all CPS schools.

Today, there exists a significant mismatch between the number of students enrolled in the District and the amount of space available throughout the City. Based on FY2025 CPS data,[27] 56% of District school buildings are underutilized.[28] Only approximately 36% of schools are classified as efficiently utilized, and 5% are classified as overcrowded. The remaining 3% did not have data available as of FY2024.

The following table lists the CPS schools that are at or below 33% of capacity based on FY2025 Space Utilization Data.[29] As shown, Douglass High School, the lowest enrolled school, has only 28 students enrolled based on FY2025 adjusted 20th-day enrollment compared to capacity for 912 students. A total of 49 schools are operating at 33% capacity or less. The cost of operation per student at those schools substantially exceeds the costs at better-enrolled counterparts. The average operating cost per student among the elementary schools shown in the following table is about $28,000, and the average operating cost among these high schools is nearly $36,000 per year.

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[25] Lauren FitzPatrick, Nader Issa, Sarah Karp, and Alden Loury, "Ten years later, more than half of Chicago's closed schools remain unused," *Chicago Sun Times*, May 18, 2023.
[26] Chicago Public Schools, School Repurposing: 2013 School Actions Building Repurposing and Sale Process, March 2023
[27] Space Utilization Data set published on the Chicago Public Schools' Facility Standards web page.
[28] CPS defines underutilization as schools that are at less than 70% capacity, based on a formula involving enrollment and number of classrooms. See Capacity Utilization Standards Described.
[29] Space Utilization Data set published on the Chicago Public Schools' Facility Standards web page.

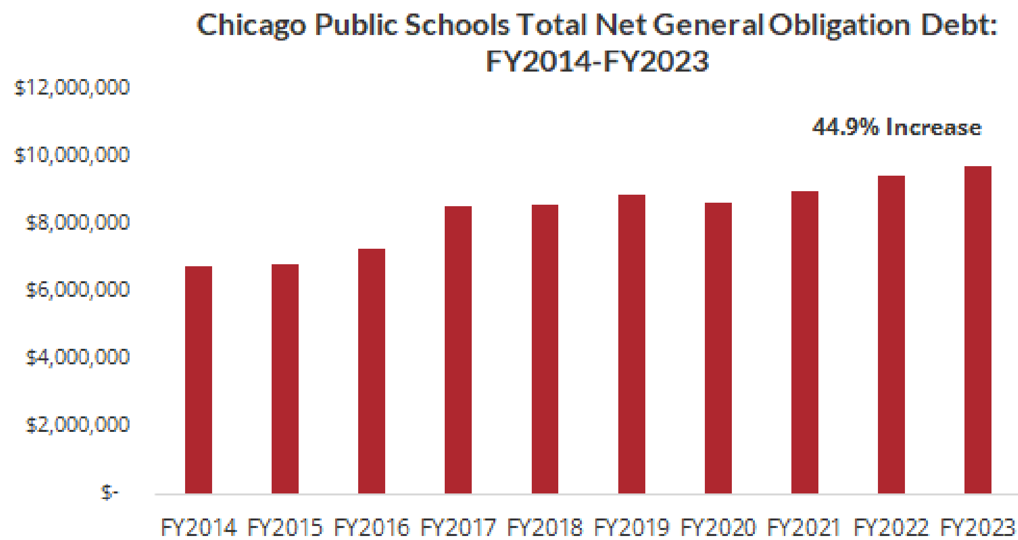
CPS Schools with 33% or Lower Enrollment

School Name	Grade Level	FY2025 Adjusted 20th Day Enrollment	FY2025 Adjusted Ideal Capacity	FY2025 Utilization Rate	Space Use Status	Operational Spending Per Student, 2024
DOUGLASS HS	High School	28	912	3%	Underutilized	$93,787
AUSTIN CCA HS	High School	140	1,776	8%	Underutilized	$33,383
RABY HS	High School	76	744	10%	Underutilized	$46,655
HIRSCH HS	High School	102	960	11%	Underutilized	$40,717
MANLEY HS	High School	128	1,176	11%	Underutilized	$41,956
MASON	Elementary School	208	1,800	12%	Underutilized	$26,482
CROWN	Elementary School	94	690	14%	Underutilized	$36,639
HARLAN HS	High School	157	1,056	15%	Underutilized	$34,817
MARSHALL HS	High School	199	1,368	15%	Underutilized	$36,883
TILDEN HS	High School	223	1,512	15%	Underutilized	$31,228
SUMNER	Elementary School	176	1,110	16%	Underutilized	$30,154
FENGER HS	High School	196	1,248	16%	Underutilized	$33,771
AIR FORCE HS	High School	130	720	18%	Underutilized	$47,363
CRANE MEDICAL HS	High School	283	1,536	18%	Underutilized	$29,018
EVERETT	Elementary School	74	390	19%	Underutilized	$39,589
FRAZIER PERSPECTIVES	Elementary School	130	690	19%	Underutilized	$31,893
HOLMES	Elementary School	134	660	20%	Underutilized	$28,423
DUNBAR HS	High School	325	1,632	20%	Underutilized	$26,834
URBAN PREP - BRONZEVILLE HS	High School	143	696	21%	Underutilized	$23,441
YATES	Elementary School	216	990	22%	Underutilized	$30,393
SOUTH SHORE ES	Elementary School	142	630	23%	Underutilized	$33,912
FARRAGUT HS	High School	414	1,800	23%	Underutilized	$24,990
DAVIS M	Elementary School	102	420	24%	Underutilized	$28,289
CHICAGO VOCATIONAL HS	High School	506	2,088	24%	Underutilized	$27,879
FIELD	Elementary School	150	600	25%	Underutilized	$25,353
ROBINSON	Elementary School	94	360	26%	Underutilized	$29,554
PHILLIPS HS	High School	402	1,512	27%	Underutilized	$25,609
UPLIFT HS	High School	199	744	27%	Underutilized	$49,751
COURTENAY	Elementary School	186	660	28%	Underutilized	$30,943
PENN	Elementary School	169	600	28%	Underutilized	$28,169
ASPIRA - HAUGAN	Elementary School	83	300	28%	Underutilized	$37,059
CHALMERS	Elementary School	174	600	29%	Underutilized	$27,194
JULIAN HS	High School	392	1,344	29%	Underutilized	$25,861
COLLINS ACADEMY STEAM HS	High School	198	672	29%	Underutilized	$35,188
FARADAY	Elementary School	161	540	30%	Underutilized	$29,400
HERZL	Elementary School	335	1,110	30%	Underutilized	$23,438
KING ES	Elementary School	198	660	30%	Underutilized	$22,424
LAWNDALE	Elementary School	164	540	30%	Underutilized	$25,269
PARKER	Elementary School	308	1,020	30%	Underutilized	$24,750
DRAKE	Elementary School	258	840	31%	Underutilized	$26,574
DAISY BATES	Elementary School	184	570	32%	Underutilized	$24,714
WEBSTER	Elementary School	152	480	32%	Underutilized	$27,538
YOUNG ES	Elementary School	381	1,200	32%	Underutilized	$20,217
CLEMENTE HS	High School	654	2,064	32%	Underutilized	$21,159
BURNSIDE	Elementary School	217	660	33%	Underutilized	$26,450
HUGHES C	Elementary School	148	450	33%	Underutilized	$24,762
LOWELL	Elementary School	228	690	33%	Underutilized	$25,597
MANN	Elementary School	259	780	33%	Underutilized	$21,446
CARVER MILITARY HS	High School	416	1,272	33%	Underutilized	$23,136
DOOLITTLE	Elementary School	228	690	33%	Underutilized	$24,705

Source: Chicago Public Schools Space Utilization Standards Data, FY2025; Illinois State Board of Education Report Card Data, FY2024.

Outstanding Debt

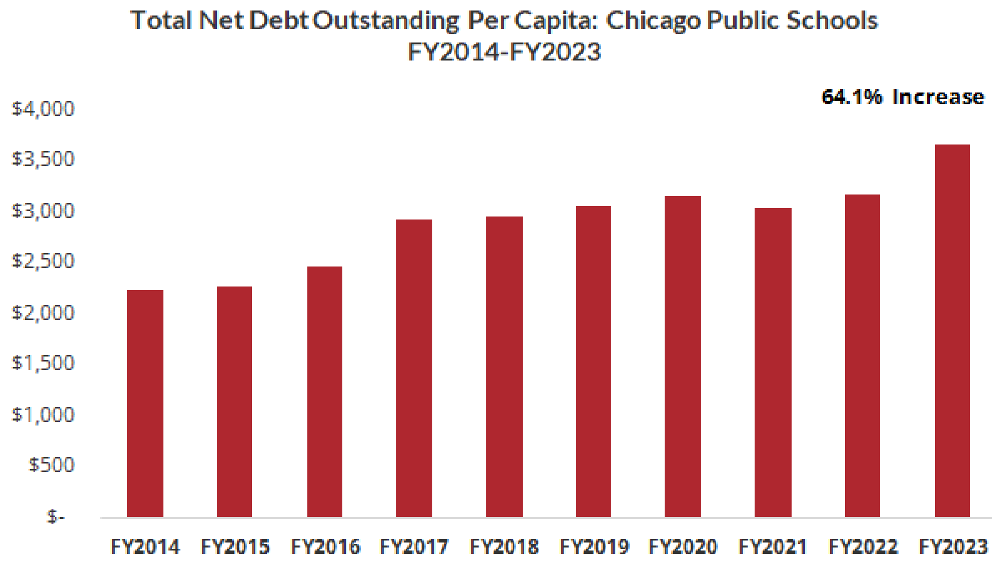
The vast majority of Chicago Public Schools' outstanding debt consists of (1) general obligation debt, which is funded by state funds, personal property replacement taxes[30], and property taxes; and (2) capital improvement tax debt, which specifically is funded by a dedicated capital improvement property tax levy and State of Illinois funds. As of FY2025, the District has approximately $9.3 billion in outstanding long-term debt. Between FY2014 and FY2023, the District's total net outstanding debt increased substantially by 44.9%, from $6.7 billion to nearly $9.8 billion.



Source: Chicago Public Schools Annual Comprehensive Financial Reports.

A commonly used measure of the debt burden on residents and taxpayers is debt outstanding per capita. This indicator is calculated by dividing the amount of debt outstanding by the total population of the jurisdiction. Increases over time in the ratio are a potential sign of increasing financial risk in much the same manner as increases in total debt outstanding figures. Chicago Public Schools' debt outstanding per capita in the ten-year period between FY2014 and FY2023 rose significantly by 64.1%, increasing from $2,230 to nearly $3,659.

[30] Personal property replacement taxes are an income tax that certain businesses pay on their net Illinois income in addition to the state corporate income tax. See more information at the Illinois Department of Revenue.



Source: Annual Comprehensive Financial Reports, US Census Bureau.

Another commonly used measure of debt burden is the debt service ratio, which divides debt service appropriations by total operating appropriations. Rating agencies view a debt service ratio of 15-20% as high. CPS' debt service ratio has remained well below that threshold over the past five years, averaging 9.7%. However, despite the debt ratio remaining relatively flat over this ten-year period, the dollar amount of total debt service appropriations rose substantially by 23.5% from $661.5 million to $816.9 million. As a result, the debt service ratio remained relatively flat while the District's total operating expenditures correspondingly increased by 23.7% over the past five years. Going forward, this debt service ratio could increase as the District reduces expenditures to balance out the wind-down of federal pandemic relief funding.

CPS Budgeted Debt Service Appropriations as % of Operating Appropriations: FY2021-FY2025
(in $ millions)

	FY2021 Actual	FY2022 Actual	FY2023 Actual	FY2024 Actual	FY2025 Proposed	5-Year $ Change	5-Year % Change
Debt Service Appropriations	$ 661.5	$ 714.2	$ 769.4	$ 785.5	$ 816.9	$ 155.40	23.5%
Operating Appropriations	$ 6,820.0	$ 7,821.6	$ 7,993.7	$ 8,489.5	$ 8,433.0	$ 1,613.00	23.7%
Debt Service as a % of Total Appropriations	9.7%	9.1%	9.6%	9.3%	9.7%		

Sources: CPS Proposed FY2025 Budget, pp. 15 and 248; CPS Adopted FY2024 Budget, pp. 11 and 202 for FY2022, FY2023 and FY2024 figures).

Bond Ratings at Junk Status

CPS' credit ratings have improved significantly since 2015, driven by an improved financial situation thanks to increased fiscal support from the State of Illinois' Evidence-Based funding formula, increased local property taxes, and federal ESSER funding from the American Rescue Plan. However, CPS' general obligation bond ratings, with one exception, continue to remain below investment grade, also known as junk status.

Chicago Public Schools Credit Ratings (as of July 2024)

Type of Bonds	Moody's	Standard & Poor's	Fitch	Kroll
General Obligation Bonds	Ba1	BB+	BB+	BBB+/BBB*

* 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/.

Moreover, the current ratings appear fragile. In December 2024, global ratings agency S&P warned that "failure to sustain structural solutions by either increasing ongoing revenues or containing costs to offset the financial impact of a new CTU contract could mark a turning point in the board's recent positive financial trend and jeopardize its fiscal stability." The stated causes for concern were a combination of CPS finances, reserves, management, and governance, as well as the uncertain resolution of the negotiations of a new CTU contract. To maintain its current "BB+/Stable" rating, S&P counseled against the District drawing upon its $1 billion in reserves or taking on new debt to fund cost increases resulting from the teachers' contract still in negotiation.[31] Any further bond rating downgrades would increase CPS' interest costs (i.e., the cost of credit) and possibly threaten its ability to issue new or refinance existing debt.

Pension Funding

The Chicago Teachers Pension Fund (CTPF) covers approximately 96,000 members, of which approximately one-third are active CPS employees. The CTPF is a defined benefit plan, with benefits determined by final average salary, years of service, and a contract-determined "multiplier." It has assets of approximately $12.9 billion and liabilities of $26.8 billion, meaning it has unfunded liabilities of $13.9 billion. Unfunded liabilities have steadily risen since 2014 but have leveled off in the last few years.

CPS is the only school district in the State required to support the majority of its own pension costs, as the State continues to fund CTPF at a lower rate than the Teachers' Retirement System (TRS) of the State of Illinois, which serves all other public-school teachers in the state. State law (P.A. 100-0465 (2017)) mandates that the State of Illinois is obligated to make annual contributions necessary to cover normal costs for the CTPF while it covers normal cost-plus unfunded liability for all other districts in TRS. In FY2025, employer contributions in the CTPF totaled just over $1 billion, of which the State provided only $353.9 million to cover the normal annual cost. The State's contribution to CTPF in FY2025 represents 35% of the total employer contribution, compared to the State's contribution to TRS of $6.2 billion, which amounts to nearly 99% of total TRS contributions.[32]

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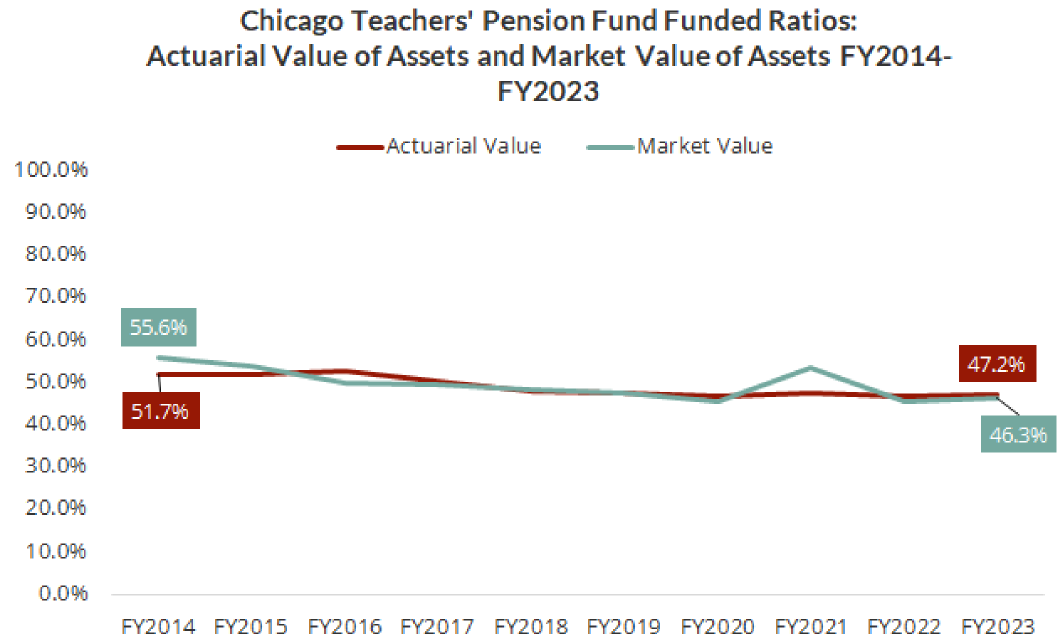
[31] Sarah Macaraeg, "S&P issues Chicago Board of Education a warning: Find revenue or 'scale down' operations to fund CTU contract," *Chicago Tribune,* December 14, 2024.
[32] The Civic Federation, Chicago Public Schools FY2025 Proposed Budget, p. 10.

In short, the Chicago Teachers' Pension Fund is severely underfunded. Ideally, a pension fund should hold enough assets to cover all its actuarial accrued liabilities, constituting a funded ratio of 100%. Most state and local pensions nationally have funded ratios above 70% and, in FY2023, had an aggregate funding ratio of 78%.[33] In 2000, CTFP's funded ratio was 100%, yet by the end of FY2023, it was 47.2% (a slight increase from the prior year's level of 46.8%).[34]



Source: Civic Federation calculations based on Chicago Teachers' Pension Fund Financial Statements, FY2014-FY2023.

With the current state-mandated funding schedule, the CTPF is on track to reach a level of 90% funding by the year 2059.[35] Best practice indicates that pension funds should aim to be 100% funded, meaning assets are sufficient to cover liabilities.

The following chart shows that the FY2025 pension contribution to the Chicago Teachers' Pension Fund represents 7.8% of total operating expenditures. The contribution is comprised of $353.9 million in State dollars and $661.2 million contributed from CPS' operating funds. The proportion of CPS' operating budget dedicated to teacher pension funding has decreased since the State of Illinois began making normal cost pension payments on behalf of CPS in FY2018. This helped to reduce the portion of total operating spending that needed to be dedicated to pension contributions. The percentage of the operating budget dedicated to pensions declined from 13.5% in FY2017 to 9.7% in FY2018 and has continued to decline slowly over the ensuing years as the District's spending on school personnel and programming increased.

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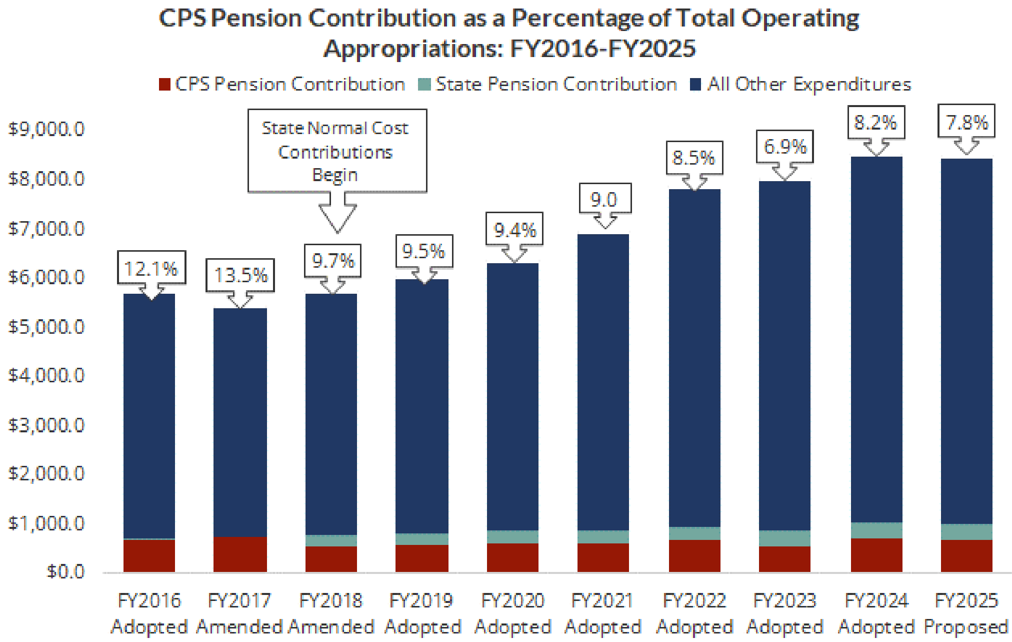
[33] Jean-Pierre Aubrey and Yimeng Yin, "Public Pension Funding Levels Improve Amidst Rising Interest Rates," *Issue Brief 23-15.* Center for Retirement Research at Boston College.
[34] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation Report as of June 30, 2023, p. 1.
[35] CPS FY2025 Approved Budget, p. 37.



Source: Chicago Public Schools Adopted Budgets, FY2015-FY2024 and FY2025 Proposed Budget

Reserves and Cash Flow

Since FY2017, the District has significantly rebuilt its operating reserves after depleting them in response to the financial crises of past years. As used here, the term reserves refers to the "unrestricted general operating fund balance" reported in the District's annual audited financial statements. This balance is the difference between assets and liabilities held in a government's general operating funds at the end of each fiscal year. The Government Finance Officers Association recommends that governments generally maintain two months of unrestricted general operating fund balance, although this may vary depending on each government's specific circumstances.[36] These reserves are intended to be used as a cushion in times of financial emergency.

The District's unrestricted general operating fund balance is approximately $1.2 billion. This is an enormous improvement from a few years ago when the fund balance fell from a high of $819 million in FY2013 to negative levels in FY2016 and FY2017. The unrestricted fund balance fell so significantly because the District used fund balance to close several budget deficits when State revenue declined during the State of Illinois budget impasse, while pension obligations increased.[37] $1.2 billion represents about 15% of the District's operating budget, which is on track with the GFOA recommendation and the District's own budget stabilization policy.

[36] Government Finance Officers Association, Fund Balance Guidelines for the General Fund, September 30, 2015. See also: The Civic Federation, GFOA Recommends Governments Rethink Their Reserve Policies, September 15, 2023.
[37] Chicago Public Schools FY2017 Comprehensive Annual Financial Report, p. 8.

CPS Unrestricted General Operating Fund Fund Balance Ratio: FY2013-FY2023

	General Operating Fund Balance	General Fund Expenditures	Ratio
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%
FY2023	$ 1,180,404,000	$ 7,714,007,000	15.3%

However, despite the significant improvement in the total reserve level, this fund balance is still insufficient to cover the District's cash flow needs throughout the year. As a practical matter, it is effectively unavailable to draw on because it is already used by the District during the year to cover short-term borrowing used to bridge gaps between when revenues come in. It also does not represent the amount of cash actually available at the end of the fiscal year because of a decision made in 2015 to extend the period of time within which revenues can be recorded from 30 to 60 days after the fiscal year-end. As of June 30, the District only had three days of cash on hand. This shortfall is due to the timing of debt and pension payments the District must make annually, which occur just before it receives its two installments of property tax revenue.

Ideally, the District would rely on its budgetary reserves (i.e., the general operating fund balance) during periods of low cash flow to make payroll and vendor payments consistently throughout the year. These reserves serve as a bridge while awaiting revenue proceeds and are the only safeguard to maintaining outgoing payments throughout the year. However, CPS' operating reserves alone are not sufficient to provide enough cash flow. Because of this, the District relies on short-term borrowing to fund cash-flow needs through short-term tax anticipation notes (TANs). These TANs carry an interest cost, budgeted at $9.5 million for FY2025.

Capital Planning

CPS' public-facing five-year financial plans are lacking. The District is required by state law to publish a five-year capital improvement plan, but the published plans lack sufficient detail to justify the prioritization of projects. CPS does publish other planning documents, such as the Educational Facilities Master Plan, which provides helpful information and details about CPS population shifts and school building utilization. Yet, they do not provide any project-specific information to help the public understand whether capital funding allocations throughout the District are fair or justified. With immediate critical facility needs totaling $3 billion and the larger facilities investment need totaling more than $14 billion, CPS should produce a five-year capital plan on an annual basis with significantly more detail about projects and financing and, given serious uneven and under-enrollment challenges, how individual projects will serve system-wide mission objectives.

IMMEDIATE CHALLENGES THE BOARD OF EDUCATION MUST ADDRESS

Of immediate concern are the following key issues that the Board of Education will need to address directly upon taking office.

Collective Bargaining Negotiations

The $9.9 billion CPS FY2025 budget adopted in July did not account for the first-year cost of the collective bargaining agreements currently being negotiated between CPS and the Chicago Teachers Union and CPS and the Chicago Principals & Administrators Association. In the negotiations for a new collective bargaining agreement to replace the contract that expired on June 30, 2024, the CTU has pressed a proposal that includes hundreds of demands. For financial purposes, the demands most notably include substantial annual pay increases, staffing increases at each school irrespective of need or enrollment, and facility investments.[38]

The CTU originally proposed a 9% annual cost of living salary increase, which would cost $405 million in FY2025, the first year of the contract. CPS countered this with a lower 4% annual increase, which is estimated to cost the school district an additional $124 million in FY2025.

For context, it merits noting that Chicago teachers are already among the highest-paid in the nation. According to a Board of Education briefing on the negotiations, the starting salary for a CPS teacher is about $66,000, and the median salary is about $95,000. By comparison, the median teacher salary is $78,000 in the Chicago suburbs, and the average salary for teachers nationwide is approximately $69,600.[39]

The following table presents six of the major contract areas that CTU has proposed compared to CPS' counterproposals, along with their associated estimated costs. In total, the CTU's proposed contract provisions would cost more than $1.8 billion in the first year and $9.2 billion over four years. Apart from increased compensation, the staffing increases proposed by the CTU would be the most costly to cover. CTU proposes the addition of 10,400 personnel positions at a cost of $1 billion in the first year for new staff, including teacher assistants, restorative justice coordinators, case managers, and newcomer liaisons, among others. CPS' counterproposal would cost $205 million in the first year and $1.6 billion over four years, although CPS budget officials note that the actual FY2025 costs for new staffing and programming may be lower due to the timing of the contract negotiations stretching into the middle of the school year.

[38] Chicago Public Schools, Summer Update on CPS/CTU Contract Negotiations, July 9, 2024.
[39] National Education Association, 2024 Educator Pay in America Report, April 18, 2024.

CTU and CPS Collective Bargaining Agreement: Projected Costs
($ in millions)

	CTU Proposal: Year 1	CPS Proposal: Year 1	CTU v. CPS Year 1 Cost Difference	CTU Proposal : Over 4 Years	CPS Proposal: Over 4 Years	CTU v. CPS 4-Year Cost Difference
Sustainable Community Schools[1]	$ 5.0	$ 4.0	$ (1.0)	$ 29.0	$ 24.0	$ (5.0)
Compensation and Benefits	$ 405.0	$ 124.0	$ (281.0)	$ 3,700.0	$ 1,300.0	$ (2,400.0)
Staffing[2]	$ 1,000.0	$ 6.0	$ (994.0)	$ 4,000.0	$ 24.0	$ (3,976.0)
Class Size	$ 320.0	$ 64.0	$ (256.0)	$ 1,200.0	$ 248.0	$ (952.0)
Sports and Clubs	$ 10.0	$ 7.0	$ (3.0)	$ 43.0	$ 30.0	$ (13.0)
Housing	$ 87.0	$ -	$ (87.0)	$ 305.0	$ -	$ (305.0)
Total	**$ 1,827.0**	**$ 205.0**	**$ (1,622.0)**	**$ 9,277.0**	**$ 1,626.0**	**$ (7,651.00)**

Source: Chicago Public Schools, Board of Education Briefing, November 14, 2024.

[1]In 2018, CPS and CTU started the implementation of the Sustainable Community Schools (SCS) Initiative to prioritize undesrved communities through community strengths, cohort-based collaboration and community partnerships. For the new contract agreement, CTU proposes expanding the number of SCS schools from 20 in 2024 to 75 schools by 2028. CPS proposes expanding the number of schools from 20 to 65 schools by 2028 as well as ensure that all 65 schools are fully staffed and resourced by 2028.

[2]Staffing includes 10,400 additional personnel positions that CTU is requesting in the new contract outside of what CPS has already included in its FY2025 Budget.

As of the publication of this report, public hearings and statements suggest CPS and CTU have closed the salary gap that existed in their original compensation demands, with the more likely outcome being one closer to CPS' position. Either way, the outcome will tip the FY2025 budget into deficit. Once negotiations are concluded, the new Board will need to incorporate the added costs of the contract into the current year's budget, identify revenue sources not identified and appropriated in the original budget for these increased expenditures, and adopt an amended budget, which will require a two-thirds majority of the new 21-member Board. How these costs would be covered remains an open question.

Projected Budget Deficits

The District's adopted FY2025 budget closed an initially projected $505 million deficit by identifying a series of marginal cost-cutting measures and operational efficiencies totaling $197 million, a few of which are temporary or one-time. An additional $196 million in deficit offset was achieved through a combination of measures that included leveraging federal grant carryovers, new grant funding, increased vacancy savings assumptions, and a central office hiring freeze.[40] More than half of the remaining was addressed through debt restructuring and reductions in short-term borrowing costs.

Thanks to the measures listed above, the District announced that the budget for FY2025 was balanced. However, there were two substantial expense categories it did not address – an unresolved dispute with the City over responsibility for approximately $175M annual employer pension contribution for non-teacher employees covered under the MEABF pension plan and as previously noted, any increased costs incurred in the new collective bargaining agreements.

[40] CPS FY2025 Budget, p. 9-11.

The District has projected increasingly larger budget deficits over the next five years, including an FY2026 budget gap of $508.7 million in FY2026 and $557.8 million in FY2027. These projections also do not include hundreds of millions of dollars in increased costs associated with what is expected to be a significantly backloaded final CTU collective bargaining agreement.[41] In short, the projected deficits should be seen as conservative estimates that represent the minimum expected shortfalls rather than the potentially much larger deficits that are more likely to occur.

Without federal pandemic-era funds that it has relied upon in recent years to fall back on and in the absence of a significant influx of new revenue, the District will likely need to make spending cuts to balance an amended FY2025 budget with far more drastic cuts in FY2026 and beyond. The Board will need to come up with a plan to address the District's structural financial problems and avoid falling back on poor financial practices used in the past, such as borrowing to pay for operations and depleting the general operating fund balance.

Right-Sizing District Operations

Distinct from peer jurisdictions, CPS devoted a significant portion of its one-time federal pandemic funding to increases in personnel and associated operating costs. Unquestionably, some of that increase in staffing helped offset COVID-related adverse impacts on the student population. However, during that same span, enrollment continued the downward trend of the past 20 years. As a result, today, the District has more personnel and a substantially higher payroll for a smaller student population than pre-COVID. Additionally, while the District has conducted a facilities analysis, it has not acted on the findings that highlight a significant number of schools in need of major rehabilitation and infrastructure investment, as well as many schools that are severely under-enrolled—some to the extent that they can no longer support the vibrant community necessary for robust curricular, co-curricular, and extra-curricular activities. Despite this analysis and amidst the ongoing collective bargaining and governance strife with CTU, the District agreed not to close any of its 634 schools, including the 514 District-run schools.

Resources across the District are, therefore, not aligned with actual enrollment and core statutory mission responsibilities and objectives. Working from a student-oriented, outcome-based model, the new Board should closely examine the personnel increases of recent years and call the Administration to account for the best and highest use of and investment in under-utilized and aging facilities. A thoughtful assessment involving all stakeholders should be conducted to align resource allocation with actual enrollment distribution. Where under-enrollment is assessed as counter to educational and developmental objectives, the school closure experience of 2013 and best practices nationally suggest that there should be an extensive, collaborative community engagement process to identify and debate options, including consolidation of schools and the multi-purpose utilization of excess space to serve curricular, extra-curricular and community purposes. The Board should also draw upon the

[41] CPS FY2025 Approved Budget, p. 12.

experience of other major city school districts in the middle of making similar difficult decisions prompted partly by long-term declining enrollment and budget constraints.[42]

As noted earlier, the District has significantly increased its operational spending over the past five years despite a declining student population with little chance of recovery, underutilized school facilities, and the impending depletion of one-time COVID-19 relief funds. CPS' spending per student exceeds that of peer districts which suggests that there are opportunities for efficiency in resource allocation. With no sign of an influx in additional revenue from the State of Illinois and otherwise limited sources of revenue, the Board must focus on right-sizing district personnel and operations to align with the student population and facility needs based on the level of fiscal resources available. As part of this process, the Board will need to prioritize programming and operations and identify areas for efficiencies based on desired outcomes.

Financial Entanglements with the City of Chicago

Whether existing financial agreements and partnerships between CPS and the City of Chicago should continue has still not been discussed publicly and remains unresolved. In particular, the contribution to the Chicago Municipal Employees Annuity and Benefit Fund (MEABF) remains an outstanding and publicly contentious question. The City of Chicago is legally responsible for making the employer contribution to the MEABF, one of the four major City pension funds. The curiosity is that 65% of participants are not City employees but rather non-teacher employees of CPS. CPS began reimbursing the City for a portion of the annual pension contribution in FY2019 under a memorandum of understanding entered during the Lightfoot administration. The CPS reimbursement in the first year of this arrangement was $60 million, which gradually increased to $175 million in FY2023. This year, CPS did not account for the $175 million payment in the adopted FY2025 budget.

There are also several other intergovernmental agreements between the City of Chicago and CPS that need to be addressed as the District moves towards becoming a completely independent unit of government with a fully elected school board in 2027. These intergovernmental agreements are laid out in a Civic Federation financial entanglements report.[43]

As the District moves toward independence from City control, the Board of Education must work to resolve financial entanglements with the City as soon as possible, determine whether any or all existing agreements will continue, and incorporate them into a long-term financial plan. The Civic Federation strongly urges the new Board to seek insight into the District's

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[42] See, e.g., https://mynorthwest.com/4013544/seattle-public-schools-superintendent-shelves-plan-close-schools/; https://www.statenews.org/section/the-ohio-newsroom/2024-06-05/ohio-districts-are-considering-shuttering-schools-and-the-backlash-is-intense.

[43] See the Civic Federation's analysis of the financial entanglements: Addressing the Financial Entanglements Between the City of Chicago and Chicago Public Schools, June 8, 2023. *See also, Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools*, Chicago Public Schools, October 31, 2022.

current governance structure, finances, and formal and informal relationship with the City of Chicago.

CONCLUDING RECOMMENDATIONS

The current financial situation at CPS demands urgent attention as it transitions to a newly elected hybrid school board and looks to approve a FY2025 amended budget. The District's enrollment, which has been in a long-term decline, stabilized in the last two years due to an influx of children from families of recent migrants, but there are no signs of a meaningful turnaround. At the same time, the District significantly expanded staff using temporary pandemic funding for which future revenue sources have not been identified. The FY2025 budget did not account for expected increases from the contract negotiations and did not resolve a multi-million-dollar payment of non-teacher employee pensions. The precarious financial situation is further exacerbated by the fact that CPS does not receive equal funding from the State of Illinois for teacher pensions relative to other school districts in Illinois. Neither borrowing to fund operations and payroll nor depleting already significantly dedicated reserves are viable options, as these solutions would only exacerbate an already seriously impaired credit rating.

These urgent fiscal issues must be addressed soon to alleviate fiscal pressures the District will face late in FY2025 and in the years immediately following. To guide the Board of Education in addressing this fiscal crisis, the Civic Federation offers a number of concrete suggestions, all of which are rooted in the need for the undertaking of a long-term financial planning process.

- **Conduct long-term financial planning with involvement from all levels of the CPS community**. A long-term financial plan would go far beyond simply making revenue and expenditure projections for the future. It would entail (1) assessing the District's financial policies, infrastructure needs, long-term liabilities, and financial risks; (2) setting goals and priorities; and (3) integrating revenue and expenditure forecasts with the District's strategic plan and capital plan.[44] As part of that long-term financial planning process, the Board and CPS leadership should consider realistic revenue options.

- **Begin a process of right-sizing the district's spending.** As noted earlier, the District has significantly increased its operational spending over the past five years despite a declining student population with little chance of recovery, underutilized school facilities, and the impending depletion of one-time COVID-19 relief funds. CPS' spending per student exceeds peer districts which suggests that there are opportunities for efficiency in resource allocation. With no sign of an influx in additional revenue from the State of Illinois and otherwise limited sources of revenue, the Board must focus on right-sizing district personnel and operations to align with the student population and facility needs based on the level of fiscal resources available. As part of this process, the Board

[44] The Government Finance Officers Association (GFOA) offers resources and best-practice guidance on long-term financial planning. See for example Long-Term Financial Planning, 10 Steps to Long-Term Financial Planning, and Smarter School Spending Framework.

will need to prioritize programming and operations and identify areas for efficiencies based on desired outcomes.

- **Consider revenue options and develop an advocacy plan around revenue.** With limited revenue options and absent increased funding from the State of Illinois, the District's primary revenue source is property tax. Unfortunately, taking the annual property tax increases to the limit allowed under Illinois law will not generate anywhere near the amount needed to address the structural budget deficit. A July 2024 Kids First Chicago report laid out several revenue options that warrant further Board assessment.[45] The proposals have varying strengths and weaknesses, and several would require action from the State of Illinois. For example, the District could initiate a referendum for a property tax levy increase, the State could implement a concentrated poverty adjustment to the Evidence-Based Funding formula to allocate more resources to districts with greater socioeconomic challenges, or the District could work with the City on a plan to sunset Tax Increment Financing (TIF) districts and allow the property value in those expired TIFs to be recaptured by CPS and other taxing bodies. The Board should assess the options available and implement a targeted advocacy plan in partnership with the State, City and community organizations.

- **Advocate for additional State funding**. The Civic Federation recognizes that the State's current contributions to the Evidence-Based Funding formula are not sufficient to reach the target level of 90% funded by FY2027. We also acknowledge that CPS, unlike all other school districts, is required to fund the vast majority of its employer contribution to the teachers' pension fund. The Board will need to identify a strategy for advocating for a path to full funding of EBF and pension parity of CPS with other school districts.

- **Resolve financial entanglements with the City of Chicago**. The Board of Education must work to resolve financial entanglements with the City as soon as possible and incorporate them into a long-term financial plan. There are a number of existing agreements and partnerships between the two governments, and in particular, an outstanding question as to whether CPS will continue to reimburse the City for a portion of the pension contribution to the Municipal Employees' pension fund, as the District has done for the past several years. The newly elected members need to be aware of the challenges facing the District now and in the future in order to best serve CPS community members and students. The Board also needs to be informed about the existing partnerships with the City in order to determine how that partnership will be affected in the future.

- **Accompany the five-year strategic plan with financial requirements and align it with realistic fiscal capacity.** The District should conduct financial projections to accompany the five-year plan recently passed by the Board of Education and factor this into the District's long-term budgeting and planning process.

[45] Kids First Chicago, Revenue Options to Address Chicago Public Schools' Deficit, July 2024.

- **Continue building general operating reserves**. The District has built up general operating reserves (unrestricted fund balance) over the past several years. That effort must continue, especially given that much of the existing reserves must be used as temporary bridge funding within the school year because the revenue stream and school year are not aligned. Ideally, CPS would have enough operating reserves to supply sufficient liquidity to get the District through the year without needing to do short-term borrowing as is currently required. The new Board should review the District's fund balance policy compared to actual current practice, update the policy, and incorporate a plan for general operating fund balance into a long-term financial plan.

- **Request public disclosure of additional budget information**. CPS' annual budget book and online interactive reports provide ample details in many areas of the budget, such as revenue, pensions, and debt but lack descriptions of personnel and expenditures. Additional information about actual expenditures and changes in the number of personnel from year to year is needed to make true assessments of the District's spending and resource allocation. For example, the FY2025 budget does not describe the changes in the position count line items that resulted in a net increase in 805 FTE positions. A major part of the budget gap-closing measures used by the District to close the $500 million FY2025 budget deficit was an increase in vacancy rate assumptions, but there is no information provided about the vacancy rates and expected staff turnover rates. There are also frequent changes in the amount of money budgeted for contingencies and little description of what this line item includes.

- **Define and bolster the Board of Education's authority, structure, and resources to meet its obligations under state law**. The Civic Federation's conversations with past board members have yielded a near-unanimous view that the Board is not sufficiently resourced or guided in its primary fiduciary responsibilities. The expansion of the Board from a seven-member to a 21-member board necessitates additional internal capacity-building and training. The Board will need a larger full-time staff than currently exists to conduct the level of information gathering and analysis necessary to position the board with independent oversight of the District's finances and operations. While many members of the recent, existing, and incoming boards have first-hand experience as parents, advocates, and/or educators, a majority of incoming members may have limited governance experience and could benefit from formal, in-depth, and continuing training on best practices for school boards. A permanent central staff of professionals supporting the board and working collaboratively but independently of CPS administrative staff will be essential to provide the technical expertise necessary for the Board to effectively fulfill its fiduciary responsibilities. This may require supplementing CPS-led orientation and onboarding with national board governance experts, establishing a professional development fund, and reallocating central office CPS staff to Board-directed support.[46]

[46] See, e.g., Chuck Dervarics and Eileen O'Brien, "*Eight Characteristics of Effective School Boards*," Center for Public Education (Dec. 2019); A.J. Crabhill, "*Great on Their Behalf: Why School Boards Fail, How Yours Can Become Effective,*" Lioncrest Pub. (2023).