Chicago Public Schools FY2010 Budget Overview

I. FY2010 Budget Overview

A number of factors have made this one of the most challenging environments in which to prepare a budget in CPS history. The economic crisis results in poor financial conditions; rising costs to provide quality education are higher than ever before; state budget reductions and political grid-lock exacerbate planning and funding challenges; one-time federal infusions provide current year funding opportunities but, complicate long-term planning with targeted spending requirements and funding cliff; and increasing pension, health-care and other costs leave few choices to make when it comes to cost cutting. The FY2010 budget is a result of these challenges. Separating FY2010 budget by fund type below explains some of these factors in more detail.

FY2010 Proposed Budget for All Funds (In Millions)

Fund Type	**FY2008 Expense**	**FY2009 Adopted**	**FY2010 Proposed**	**FY09-FY10 $Change**	**FY09-FY10 %Change**
General Fund	$ 3,280.9	$ 3,550.3	$ 3,666.1	$ 115.8	3.3%
Special Revenue	$ 1,113.7	$ 1,304.6	$ 1,661.9	$ 357.3	27.4%
Operating Total	*$ 4,394.7*	*$ 4,854.9*	*$ 5,328.0*	*$ 473.1*	*9.7%*
Debt Service Funds	$ 260.4	$ 288.1	$ 499.7	$ 211.6	73.4%
Capital Projects Funds	$ 463.1	$ 1,014.4	$ 1,035.4	$ 21.0	2.1%
Total Appropriation	$ 5,118.2	$ 6,157.4	$ 6,863.0	$ 705.6	11.5%

Operating Funds - The proposed appropriation for the FY2010 operating budget, which supports day-to-day operations, totals more than $5.3 billion, an increase of $473 million (9.7%) over FY2009. This is largely driven by temporary federal stimulus funding in the special revenue funds. When you exclude the one-time federal stimulus budget of $383 million and the annual teacher pension-cost increase of $130 million, the actual budget looks completely different. Considering this, the operating budget has actually declined from the prior-year level by $40 million. Excluding the annual teacher pension cost increase of $130 million, the General Fund also decreases from the prior-year level by $15 million. This decrease in the size of budget reflects the difficulty of this budget and our efforts to reduce the cost without affecting the classrooms.

Debt Service Funds - The Debt Service Fund will see a net increase of $211.6 million (73.4%), due primarily to first-year full payment of $91 million for bonds issued in late 1990s supported by the City's tax levy. These bonds reflect the City of Chicago's efforts to help support the CPS capital improvement programs. The City's first full levy of property taxes for these bonds is scheduled to start in 2009 in anticipation of the School Finance Authority tax levy expiration in 2008. As a result, there will be no net growth in total tax levy for home owners. Also, this debt cost does not increase the debt burden for CPS because the cost is paid for by the City's tax levy. Additionally, the debt-service budget includes $30 million of the CDB revenues that the Board will save for the next year's bond issue since it is not clear when the state will start funding its construction grants. Other contributing factors to the increase are payment for new bonds to support school construction projects and debt service cost increases for existing bonds.

II. CPS Financial Challenges

In preparing the FY2010 budget, CPS is again faced with multiple challenges, some new and others ongoing:

- Macro fiscal environment impacting CPS - The U.S. economy has been in recession since December, 2007, and according to Moody's, the Illinois economy will remain in recession through most of 2009. Total job loss nationally is about 6.7 million since December, 2007. The Illinois unemployment rate posted 10.5% in June, 2009, and employment forecasts for Illinois for the next 12 months suggest a further loss of over 300,000 jobs.

  To stabilize and strengthen the financial system, the federal government enacted a $787 billion fiscal stimulus package, and the Treasury and Federal Reserve Bank implemented massive capital-injection programs. Now there is increasing optimism nationally about signs of economic recovery as the pace of job losses recently slowed. However, the housing downturn and declining consumer and business spending will depress economies for some time.

- Great uncertainty regarding the state fiscal situation - The state's FY2010 budget includes $3.4 billion of borrowing and $5.6 billion of one-time measures such as not paying $3.9 billion of prior-year obligations to vendors and using $1.0 billion in federal one-time stimulus to fill the budget deficit. Typically the state budget will not change during a fiscal year; however, because this fiscal year the state did not deal with its fiscal crisis, it may have to make further budgetary adjustments to its FY2010 budget before the fiscal year ends.

- Delayed approval of state budget - the state budget was not approved until July 31st – one month after the start of the CPS fiscal year (which is also the fiscal year for the state). In a normal year, the state would have approved its budget by May 31. Since the CPS budget must be approved within 60 days of the start of the fiscal year and released in tentative form by August 10th, the late state budget approval required very quick decisions about how to deal with the negative impact of the state budget.

- Significant slowdown of state payments to school districts - As of the printing of this document, the state is approximately $173M in arrears for its FY2009 block grant payments to CPS. This constitutes approximately 4 months in late payments. In the recent past, the state has been at most one month late. The delay in payment has put incredible pressure on the general fund balance as will be later outlined.

- CPS pension costs - CPS is faced with dramatically increasing teacher pension costs of more than $130 million in FY2010 and more than $220 million for FY2011. The legislature has failed to address this difficult issue. In fact, for FY2010, the state reduced its CPS teacher-pension contribution by 50% and now provides only 1.6% of what the state provides to the Teacher Retirement System (TRS) for the rest of Illinois. This is well below the legislature's intent of funding 20% of TRS amounts to CPS. CPS is the only public school district in Illinois that is required to pay the employer contribution for teacher-pension benefits.

- One time resources - CPS faces considerable challenges in addressing its structural deficit over the long and medium term. This current budget includes several short term solutions that are unsustainable beyond the next two years:

    - The state used a portion of its ARRA federal stabilization aid, which expires at the end of this year, to help maintain its general state aid funding level. This constitutes approximately $234 million for CPS in FY2010.

    - CPS also expects a funding cliff within the next two years as its ARRA Title I Part A and ARRA IDEA Part B (federal stimulus) of more than $380M expires. Approximately $94 million of these funds will be used in FY2010 to maintain supplemental programs that were reduced by the state and to support cost increases as approved by ISBE. $130 million of these funds will be reserved for use in FY2011 to support supplemental programs, school improvement and meet budgetary needs as allowed.

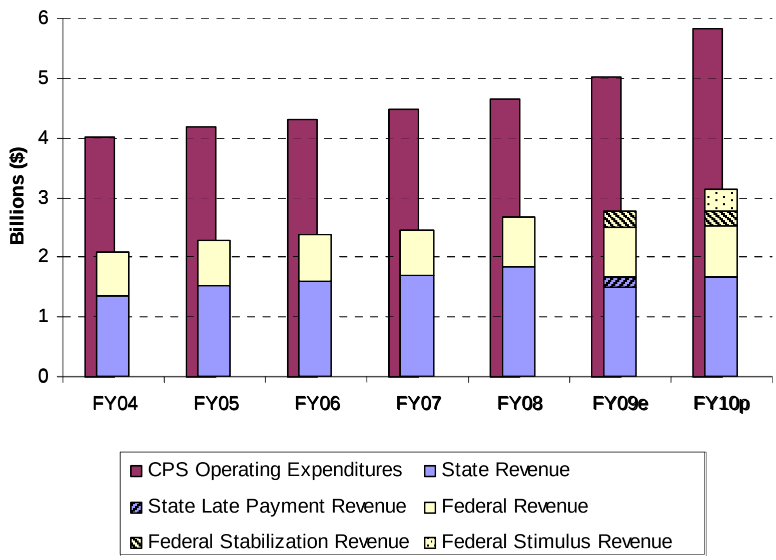
    - CPS is also balancing its FY2010 budget with a few one-time resources such as $61 million of prior-year fund balance, $96 million of one-time acceleration of property taxes as a result of an accounting change, and $25 million of SFA fund-balance transfer. These revenues will not occur again next year and that poses a great challenge. Although, in the coming weeks CPS will outline a plan to reduce its FY2010 planned expenditures by another $61M to eliminate the need to draw down on fund balance.

- Uncertainty of the new state capital program - For the first time in several years, the state adopted a major new capital program, which includes several programs for K-12 capital opportunities. This funding will extend over six years and there is currently little guidance from the state detailing when the program will start and how much will be available.

III. CPS Structural Deficit

CPS faces a structural deficit each year, where the growth in basic costs to provide quality education – salaries, pension, and healthcare for teachers and staff – outstrips the growth in revenues from the federal government and the State of Illinois. As a result, the district is forced to make up this “funding gap” through increases in property taxes and withdrawals from the fund balance. For FY2010, the funding gap – the difference between expenditures and state and federal revenues – is projected to be nearly $2.7 billion. Furthermore, CPS has not yet received $173 million in FY09 payments owed from the state. In fact, CPS sees a net reduction of $42M from the state between FY2009 budget and FY2010 budget. Furthermore, the gap is expected to widen again in the coming years as costs continue to increase and one-time federal revenues are exhausted.

Revenue does not Keep Pace with Expenses



Budget increases will primarily benefit classroom instruction as administrative costs for the Central Office and Area Instructional Offices have decreased and total less than 4 percent of the total operating and debt service budget for FY2010. This is the smallest percentage of administration in recent years.

Almost 70% of the district's operating budget is dedicated to personnel costs, excluding costs paid indirectly through contractual obligations with charter schools and other educational service providers, such as those providing after-school tutoring and early childhood services. The district's obligations to its teachers and staff require increases in personnel costs every year. These increases occur even if the district does not increase its level of services. These increases are even higher when the cost of teachers and staff at charter schools and other educational service providers are considered, which form the bulk of the increase in tuition/contractual services. CPS' obligation to the Chicago Teachers' Pension Fund constitutes most of the increase in benefits costs. CPS is the only district in Illinois required to make employer contributions to the teachers' pension fund, by statute. Alongside these personnel costs, the district is also facing higher operational costs, particularly due to the increased cost of transportation and a new nutritional services initiative.

IV. Selected Cost Drivers and Balancing the Budget

To address its structural deficit, CPS made significant budget cuts for FY2010 and this budget focuses those cuts on administrative and centrally controlled activities that take place outside the classroom. These activities, just like all CPS expenses, face significant cost drivers including contractually obligated salary increases, exploding pension obligations, and health care cost inflation. After absorbing these cost drivers on top of its FY2009 budget, CPS made over $100 million in cuts outside the classroom through reorganizations to tackle administrative inefficiencies as well as reducing other operational and service level inefficiencies.

Description of Reduction (after absorbing FY09 and FY10 Cost Drivers)	Reduction
Reductions in Administrative Personnel and Services	$ 25,608,557
Reduction/Elimination of Inefficient Programs/Service Delivery	$ 26,549,461
Reduction in Information Technology Services (Non-Critical)	$ 11,833,530
Efficiencies in Food Service Operations	$ 11,194,000
Efficiencies in Facilities Operations	$ 10,048,000
Efficiencies in Student Transportation (Bell Time Consolidation)	$ 10,000,000
Other Program Reductions	$ 6,484,983
Efficiencies in Literacy Coach Service Delivery	$ 2,500,000
Total Itemized Reductions	**$ 104,218,531**

Changes from FY2009 approved budget to the FY2010 proposed budget are outlined below.

After administrative and service level efficiencies
Changes in Budgeted Appropriations (FY09 Approved Budget to FY10 Proposed)

Operating Budget	*millions*
Salaries and benefit Increases - including 4% contractual increase and pens	162.6
Charter and contract schools tuition - including new and expanding schools	72.0
Food Services - including new universal breakfast program	16.2
Transportation services	11.7
Other net changes	(12.4)
Performance Management, Assessments and School Data Support	17.0
ARRA Title I Mandates and Other Initiatives FY2010[1]	76.0
Reserved ARRA Title I Appropriation for FY2011	130.0
Operating Budget Increases	**473.1**

Debt Services Budget	
1997 IGA Bonds	91.0
$665M in new bonds	42.0
$550M in bonds delayed from prior year	35.0
Debt services increases for existing bonds	13.6
CDB Revenue	30.0
Debt Service Increases	**211.6**
Net Capital Budget Increase	**21**
Total Budget Increases	**705.6**

Changes in Budgeted Appropriations (FY09 Approved Budget to FY10 Proposed)

Operating Budget	*millions*
Revenue Growth from New Property (not a tax increase)	100
Acceleration of property tax collection (not a tax increase)[1]	96
1.5% of Tax Cap CPI	43
All other local revenue	(64.4)
Title I and IDEA ARRA - Total[1]	382.5
Lunchroom	19.4
Federal ARRA Stabilization Funds in lieu of GSA[1]	234
Other Federal	(34.2)
State GSA Decline	(234.0)
Other state decline	(30.00)
Fund balance[1]	(39.0)
Total Change in Operating resources	**473.1**

Debt Services Budget Resources	
State Aid	45.3
Local funding IGA revenue for 1997 IGA Bonds	91
Other Local	13.3
Fund Balance	62
Total Change in Debt Services resources	**211.6**

Fund Balance	(352.2)
Local Revenue	115.3
State Revenue	145.6
Federal Revenue	3.5
Other Financing Sources	109.1
Total Change in Capital Resources	**21.0**
Total Change in Resources	705.6

* Small differences due to rounding
[1] Represents one-time revenue opportunity

To balance FY2009 general fund appropriations and revenues, CPS planned to draw down $100 million from unreserved general fund balance and over $40 million related to unspent school funds that must be carried forward into the next year. If all receivables were current, it is estimated that no more than a $25 million decline would be required from the general fund balance due to better than budgeted property taxes and Medicaid revenue retroactive rate adjustments. Unfortunately, the State of Illinois is further delayed in making payments to vendors and other governments and owes $173M to CPS for FY2009. As a direct impact of this delay the unreserved fund balance for the general fund will see a corresponding decline, bringing the balance at the close of FY2009 to $242M. When the state catches up with its payment obligations, this balance will reach the previous level.

To balance the gap between increasing educational costs and decreasing state revenues, the FY2010 budget assumes a property tax increase of 1.5% and a further draw down of unreserved general fund balance of approximately $60.8 million. Recognizing the financial challenges impacting the taxpayer, the tax cap will only increase a fraction of the 4.1% allowable cap. Over the next several weeks, CPS will

develop a plan for an additional $61M in cost reductions during FY2010 in order to offset the reserve draw down.

V. Strategically Aligning Limited Funds

CPS must ensure that the limited resources available, both financial and human, are used efficiently and effectively to advance educational priorities. The FY2010 budget is designed to improve students' performance through efficient allocation of resources to classrooms. This publication seeks to improve transparency around those allocations. The budgets for each school and each department are summarized in "snapshots" in addition to the aggregate reports. A district-wide report (see District-wide Report section for details) and school segment reports (see School Based Budgeting section for details) are also included within the budget.

In planning for FY2010, CPS made strong efforts to fund effective programs and key educational priorities. The district is focused on providing students and their families with choice and will support new and turnaround schools in FY2010. Programs and initiatives to recruit and develop great teachers and principals are also funded in FY2010, as well as proven supplemental education programs like literacy, math and science instruction. Programs designed to prepare students for high school and providing comprehensive curricula for high schools will continue to receive support in FY2010. Technology and data programs for schools to support performance management are also critical investments for CPS in FY2010.

The federal stimulus package will provide CPS over $400 million new funding for several existing programs over two years. ARRA Title I Part A grant for educating economically disadvantaged youth will be used to support early childhood centers, services to English Language Learners, school improvement efforts, professional development, parent involvement, and after school programs. ARRA IDEA Part B funds for educating students with disabilities will pay for salary and benefit costs for special education teachers at specialty schools which are dedicated to educating children with disabilities.

State underfunding, combined with continued enrollment declines, makes it all the more important that we put the dollars we have where they make the biggest difference for our children. During FY2010, aligning resources to student outcomes will be a priority.