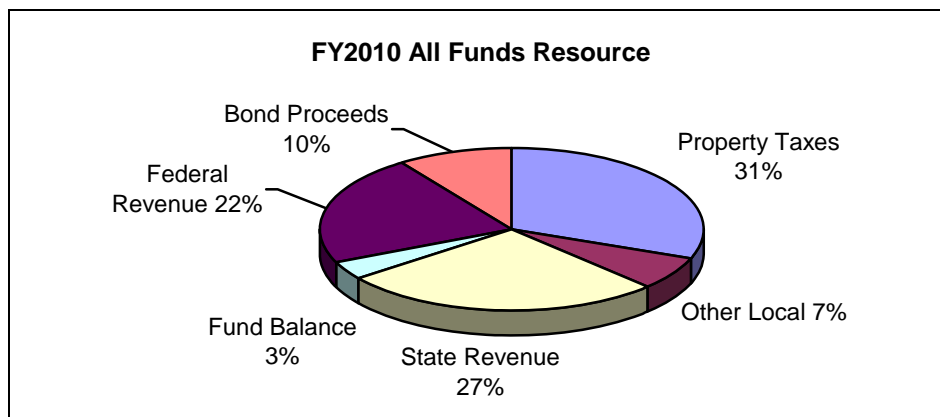


FY2010 RESOURCE OVERVIEW

I. ALL FUNDS

The FY2010 proposed budget projects total resources for all funds at \$6,863.0 million, an increase of \$705.6 million or 11.5% over the FY2009 budget of \$6,157.4 million. Excluding the one-time federal stimulus grants, the total budget declines to \$6,480.5 million, representing an increase of 5.2%. The total resources for FY2010 consist of current revenues of \$6,009.5 million, \$665.0 million of proceeds from proposed bond issues for the Capital Improvement Program, and the prior-year fund balance of \$188.4 million for the General Fund, Supplemental General State Aid Fund, and the Debt Service Funds.



Because of its financial crisis, the State of Illinois has delayed its payment obligations and cut the budget for K-12 by \$142.0 million for FY2010. Chicago Public Schools (CPS) has not yet received \$173 million of the FY2009 obligation from the state. Additionally, the state budget cut will decrease our state revenues by \$42.0 million for FY2010. As a result, this budget proposes a 1.5% increase in property-tax extension, which will increase an average homeowner's tax bill by \$18 a year. To capture tax-revenue growth without affecting homeowners, CPS will also utilize tax extensions on only new property. Offsetting this decline is the one-time federal stimulus grants, which funds are dedicated to specific purposes and cannot be used for deficit reduction. The budget includes a one-time infusion for FY2010 of \$382.5 million from the American Recovery and Reinvestment Act of 2009 (ARRA). These funds will be used over two years. Budgeted resources by fund type are shown below:

FY2010 Resource Budget for All Funds (In Millions)

Fund Type	FY2008 Actual	FY2009 Budget	FY2010 Budget	10 vs. 09 \$ Change	% Change
Operating Funds					
General Fund	\$3,398.3	\$3,550.3	\$3,666.0	\$115.7	3.3%
Special Revenue	1,187.4	1,304.6	1,661.9	357.3	27.4%
Total	4,585.7	4,854.9	5,327.9	473.0	9.7%
Capital Projects Fund	389.0	1,014.4	1,035.4	21.0	2.1%
Debt Service Funds	302.7	288.1	499.7	211.6	73.4%
Total Resources	\$5,018.4	\$6,157.4	\$6,863.0	\$705.6	11.5%

II. RESOURCE ASSUMPTIONS

The FY2010 revenues are estimated based on the assumptions listed below.

LOCAL SOURCES

- **Property Taxes:** The property-tax levy for Public Building Commission (PBC) leases will be reduced by \$40.0 million in FY2010 as it was in FY2009, and there will be 1.5% increase in property taxes as well as extension increases from new property growth. The budget also assumes that SB 2125 will become law. Starting in FY2010, this bill will produce a permanent acceleration in spring property-tax collections. The acceleration will increase revenues only in FY2010: there will be no increase from this change in subsequent fiscal years. As a result of these three assumptions, total CPS property-tax revenue will increase by \$180.9 million from \$1,896.0 million in FY2009 to \$2,076.9 million in FY2010. .
- **Personal Property Replacement Taxes (PPRT):** The Illinois economy is anticipated to deteriorate further and corporate profits are projected to decline significantly in FY2010. The proposed budget for PPRT is \$161.5 million in FY2010, a decrease of 14.3% from the FY2009 actual receipts of \$188.5 million.
- **Interest income:** The average investment earnings on money-market funds, agency notes, and commercial paper are estimated at 0.5% for the coming fiscal year. The operating cash on hand is assumed to decline to \$725.0 million in FY2010, resulting from the protracted delay in state payments and late billing for fall property-tax collection.
- **Capital Bond Issue:** The FY2010 budget assumes new alternate bond issues of \$665.0 million for school construction and renovation. In addition, the \$550.0 million alternate bonds scheduled to issue in FY2009 will be issued in FY2010.

STATE SOURCES

The final FY2010 state budget for K-12 education operating programs is a result of P.A. 96-42, 96-45, 96-46, 96-113, the July 21, 2009 appropriation allocations by the State Board of Education, and the Governor's appropriation allocation on July 31, 2009. The end result is a total statewide decrease of \$142 million for K-12 operating programs. CPS anticipates a total decrease of \$42.0 million in state revenues from the FY2009 level.

- **General State Aid:** The foundation level assumed for the FY2010 regular General State Aid claim is \$6,119 based on the budget implementation bill (P.A. 96-45). This is an increase of \$160 over the FY2009 level of \$5,959. This foundation level reflects no growth in the total general state-aid appropriations over FY2009. All of the increase in the foundation level is a result of the use of more current school-district data for average daily attendance, DHS poverty count, and local resources from property value and replacement taxes. The new foundation level will increase total General State Aid grant by \$18.5 million for CPS in FY2010.
- **State Categorical Program Revenues:** CPS receives fixed percentages of statewide categorical appropriations for K-12. Total appropriations for state categorical programs decreased by \$142.0 million. This was the result of an increase of \$144.0 million for the

mandated categorical programs, which was offset by a decrease of \$286.0 million for all of the other state categorical programs. Included in this decrease were decreases of \$56.0 million for the ADA block grant, \$43.0 million for the Textbook Loan Program, \$38.0 million for Early Childhood, \$8.0 million for Reading Improvement, \$8.0 million for Bilingual Education, \$37.0 million for the Transitional Assistance Grant, and \$96.0 million for many small grants.

- General State Aid Equalized Assessed Value (EAV) Adjustment: This budget reflects the impact of P.A. 93-845, which allows CPS and other districts to file for a prior-year EAV adjustment in FY2010. Out of the \$25.0 million that is available statewide, CPS expects to receive \$16.3 million in FY2010, which is the same amount as prior years.
- State Pension Aid: The State budget appropriates \$37.6 million for state pension aid for CPS teachers for FY2010, which represents a 50% reduction from FY2009.
- State Capital Funding: The state adopted a major new capital program which was the result of P.A.96-4, 96-34, 96-35 and 96-36, 96-37, 96-38, and 96-39. Included in this program was funding for the following state K-12 Capital programs. This funding will be spread over six years. At this point, there is little guidance from the state for the year-by-year grant and funding schedule for these programs.
 - School Construction Program of \$1.5 billion: CPS will get 20% of the total or \$300 million over six years.
 - School Maintenance Program of \$100.0 million: CPS will get \$20.0 million over six years.
 - School Energy Efficiency program of \$50.0 million: CPS will get \$10.0 million over six years.
 - Early Childhood Construction program of \$45.0 million: CPS will get \$9.0 million.
 - Over-crowding Relief grant of \$25 million: CPS may receive up to \$19.0 million.
 - \$75.0 million of capital grant for CPS vocational schools.
 - \$13.0 million of capital grants for specific CPS schools

In total, CPS expects to eventually get \$446.0 million from these new school capital appropriations for the coming six years. However, the state has significant fiscal issues and it is not clear when the state will provide actual funding. As a result, this budget tentatively appropriates only \$175.6 million in FY2010 for new state capital funding.

FEDERAL SOURCES

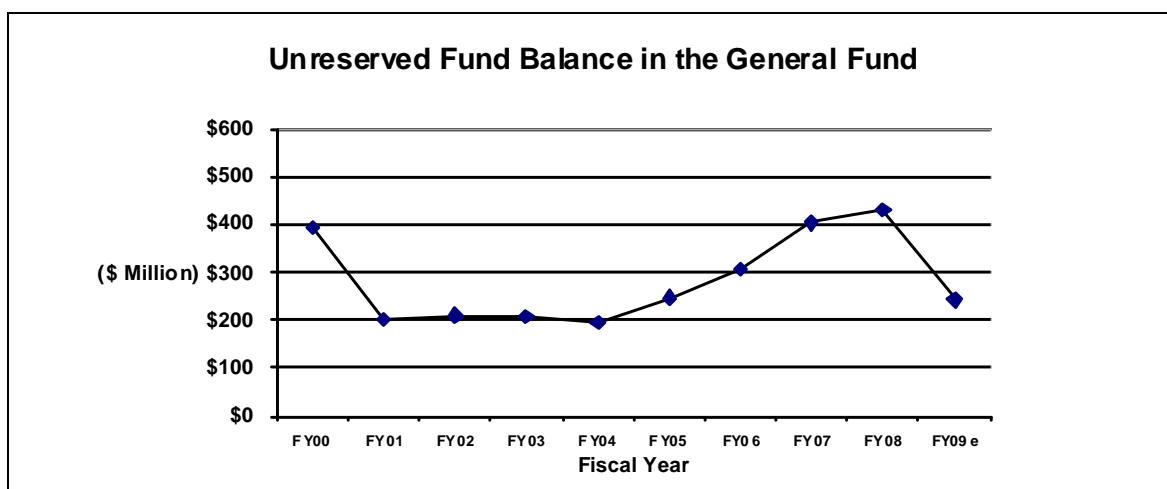
- FY2010 federal categorical revenues are based on the Federal Fiscal Year 2009 Omnibus Appropriations Bill in P.L.111-8, which was signed into law by President Obama on March 11, 2009. The total federal education appropriations increased by 5.5% over federal FY2008. Federal revenue estimates include both current-year allocations or grant awards and carry-over balances from the prior year as long as grantors permit them. Federal fiscal year 2009 budget provides funding for FY2010.
- Additionally, FY2010 federal revenues include one-time education funding from the ARRA. The ARRA (P.L.111-5) is an economic stimulus package enacted by the 111th

United States Congress and signed it into law by President Obama on February 17, 2009. The ARRA is intended to stimulate the economy in the short term and invest in education and other essential public services to ensure the long-term economic health of the nation. The authorization is nominally worth \$787.0 billion and includes approximately \$90.9 billion for education. The Act includes federal tax relief, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. Education funding included as part of the stimulus package is to be considered as federal FY2009 funding, and is in addition to the regular federal fiscal year 2009 appropriations that school districts receive. The U.S. Department of Education expects the majority of funding to be obligated by September 30, 2011.

- The ARRA created several new types of tax-exempt bonds and tax credit bonds under the Internal Revenue Code. Qualified School Construction Bonds provide \$22.0 billion in interest-free bonding authority for school construction, renovation, repair, and land acquisition for two years. CPS received bonding authority in the amount of \$254.2 million for FY2010. In addition, the ARRA authorized \$2.8 billion in interest-free bonding authority to the states for Qualified Zone Academy Bonds (QZABs) for 2009 and 2010. CPS plans to issue \$21.0 million of QZABs in FY2011.

FUND BALANCE ASSUMPTIONS FOR FY2010

As a result of the recession and political grid-lock, the State of Illinois has been unable to make payments to vendors and other governments on time. Currently, the State owes \$173.0 million to CPS for FY2009, reflecting a four-month delay and has missed its July obligation for FY2010. The direct impact of this delay is a corresponding decline in the unreserved fund balance for FY2009. The unreserved fund balance for the General Fund is estimated to decrease from \$432.4 million at June 30, 2008 to \$242.0 million at June 30, 2009. When the state catches up with its payment obligations, this balance will reach the previous level. The delay of payments by the state has increased from less than one month in FY2008 to four months in FY2009.

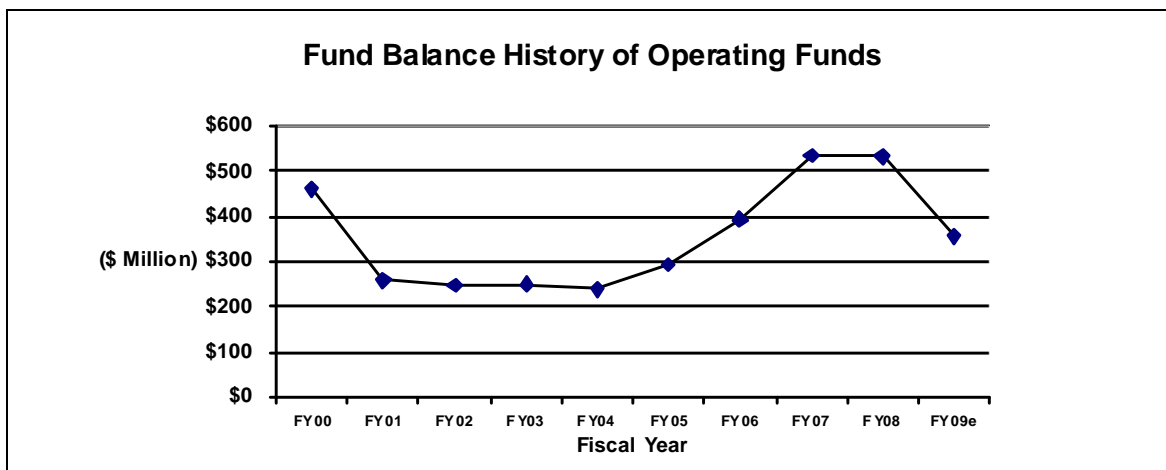


To pay for contractual salary increases and teacher-pension costs, the General Fund will use \$60.8 million from the estimated fund balance of \$242.0 million for FY2010. After this draw-

down, the fund balance in the General Fund is anticipated to decrease to \$181.2 million, or 4.9% of the General Fund budget.

This significant decline in fund balance will violate the current fund-balance policy. To ensure stable financial operation, CPS requires a stabilization fund of 5% of the operating and debt-service budget in the General Fund. The amount required for the stabilization fund is \$291.4 million for FY2010 and, since the current balance does not meet this requirement, this budget will include a replenishment plan.

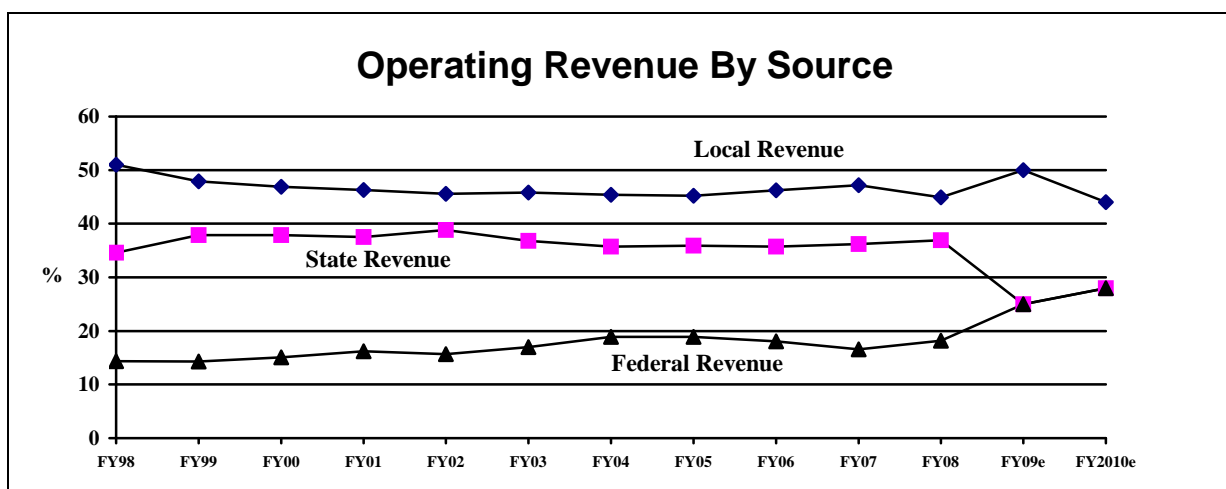
At the beginning of FY2009, Operating Fund maintained \$535.1 million of appropriable fund balance for future operating purposes. This beginning-year fund balance in operating funds consists of \$432.4 million for the General Fund; \$56.6 million for the Tort Fund; and \$46.1 million for the Supplemental General State Aid (SGSA). By the end of FY2009, appropriable fund balance in the Tort Fund is projected to increase from \$56.6 million to \$68.9 million. At 6/30/2009, the SGSA Fund is expected to have the appropriable fund balance of \$45.6 million. In total, the operating fund balance is expected to decrease from \$535.1 million to \$356.5 million at the beginning of FY2010 as a direct result of the delay of payments by the state.



This budget assumes that the fund balance in operating funds will decline further from \$356.5 million to \$250.1 million by the end of FY2010 for three reasons. First, the General Fund will use \$60.8 million of prior-year fund balance to balance the FY2010 budget. Second, based on the State law, the full fund balance of \$45.6 million should be re-appropriated to the SGSA Fund in FY2010. Third, CPS does not expect the state to catch up with the four-month delay in payments by the end of FY2010.

III. EDUCATION FINANCING FOR CPS OPERATING FUNDS

CPS is financed through a combination of local, state, and federal revenues. Operating revenues include all amounts of money received by CPS from external sources during its fiscal year excluding issuance of debt, refunds, sale of investments, and fund balances. Their composition for operating funds reflects which level of government is bearing how much of the current financial burden to support ongoing educational costs at CPS.



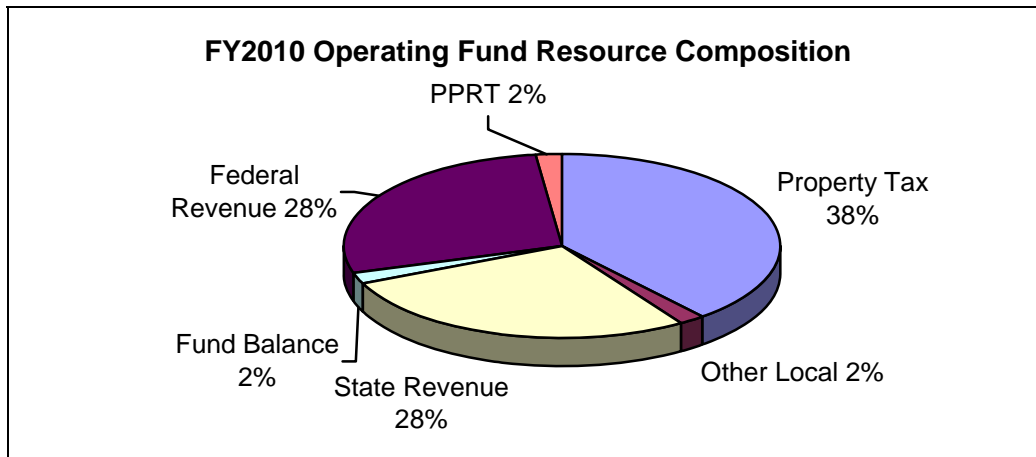
For the first time in CPS history, federal revenues will slightly exceed state revenues in FY2009 and FY2010 as a result of one-time federal stimulus grants and the state's use of the federal Stabilization Funds for two years. This temporary event will reverse completely by FY2012 because there will be no more stabilization funds that the State can replace with education funding after FY2010 and the stimulus grants will run out by the end of FY2011. Local sources are anticipated to raise 44% of operating revenue for CPS, while the State provides 28%, and the federal government 28%. The single largest portion of revenue comes from local property taxes, which amount to 40% of total operating revenues.

The state provides much of its support through General State Aid and block grants. Most of the contributions from the federal government come as categorical grants under the No Child Left Behind Act (NCLB). The FY2010 budget contains one-time federal grants from the ARRA, which are also categorical. These ratios clearly indicate that property owners in Chicago bear the largest financial burden to support public education in Chicago. Over-reliance on property taxes creates inequity in education between property-rich and property-poor districts.

According to the National Center for Education Statistics, states provided, on average, 48% of operating revenues for public elementary and secondary education in FY2007. The State of Illinois provided 31% of operating revenues for elementary and secondary schools in that year, ranking 49th in the nation. As a result of a higher proportion of children from poor families, CPS did better than the rest of the Illinois school districts, receiving 36% of operating revenues from Illinois, still far below the national average in FY2007 of 48%.

IV. OPERATING FUNDS

Operating funds includes the General Fund, Tort Fund, School Lunch Funds, Supplemental General State Aid Fund (SGSA), and state and federal grant funds. Operating funds proposed for FY2010 will be supported by a total resource of \$5,327.9 million, which represents an increase of \$473.0 million or 9.7%. Without \$382.5 million of one-time stimulus federal grants, operating funds will total \$4,945.4 million, an increase of \$90.5 million or 1.9% over FY2009. Operating funds will be supported by current revenues of \$5,221.4 million and the prior-year fund balance of \$106.4 million. The prior-year fund balance legally required to be re-appropriated is \$45.6 million for SGSA and the General Fund will utilize \$60.8 million to balance the budget.



**FY2010 Resources for Operating Funds
(In Millions)**

Fund Type	FY2008 Actual	FY2009 Budget	FY2010 Budget	10 vs. 09 \$ Change	% Change
General Fund	\$3,398.3	\$3,550.3	\$3,666.0	\$115.7	3.3%
Special Revenue	1,187.4	1,304.6	1,661.9	357.3	27.4%
Tort Fund	74.3	78.7	82.3	3.6	4.6%
SGSA (State Chap 1)	271.7	316.1	314.6	(1.5)	(0.5%)
Lunchroom Funds	202.1	207.0	229.9	22.9	11.1%
Federal ESEA	350.6	340.8	596.1	255.3	74.9%
IDEA special ed.	106.0	113.5	169.4	55.9	49.3%
Other Grants	182.7	248.5	269.6	21.1	8.5%
Total Resources	\$4,585.7	\$4,854.9	\$5,327.9	\$473.0	9.7%

A. LOCAL REVENUES

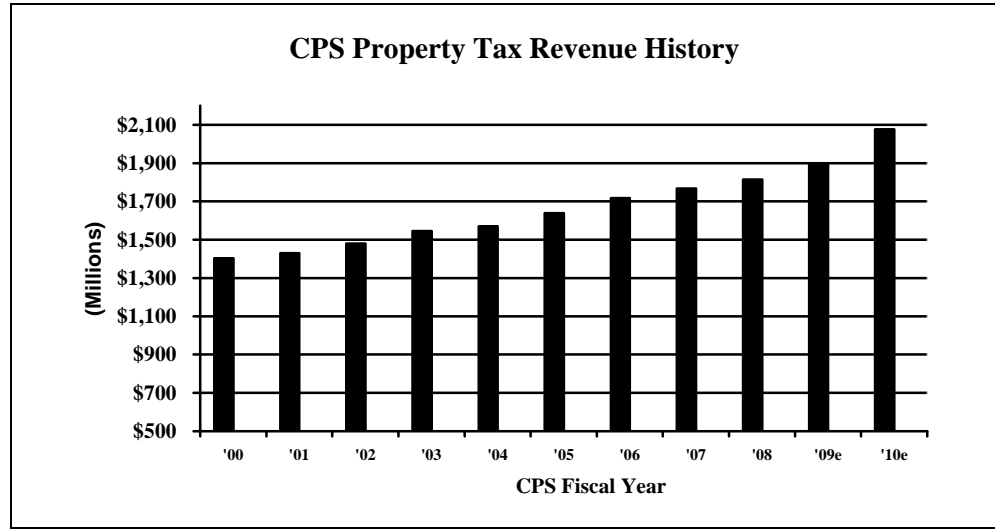
Total resources from local sources for operating funds are budgeted at \$2,282.7 million, an increase of \$148.9 million over the FY2009 estimate of \$2,133.8 million. The increase results primarily from increases in property taxes.

(1) Property Taxes

Property tax revenues support the General Fund, Tort Fund, and PBC lease payments. Property-tax revenues for these funds are projected to total \$2,076.9 million, an increase of \$180.9 million or 9.5% over the FY2009 estimate of \$1,896.0 million.

The FY2010 budget assumes that the Board will increase taxes by 1.5%, instead of going to the 4.1% tax cap and will also capture property tax growth from new property. These two actions will increase property tax revenues by \$84.9 million. The budget also assumes that SB 2125 will become law. SB2125 changes the amount of spring bills that property owners receive from the historical 50% to 55% of prior-year total taxes. Because CPS fiscal year starts July 1 and ends June 30, this change in billing produces a one-time increase of \$96.0 million in property tax

receipts in FY2010. To limit the overall growth in property-tax burden, the tax levy for PBC bonds will be reduced again by \$40.0 million in 2009, from \$51.8 million to \$11.8 million.



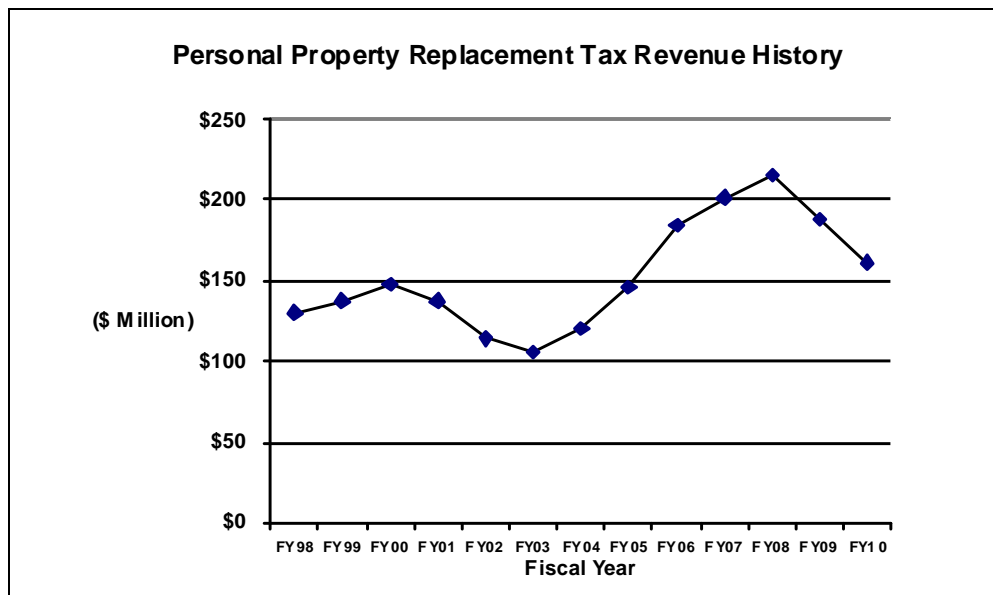
The tax levy for the General Fund is constrained by the property-tax cap, statutory property-tax rates, and the use of the prior-year EAV. Specifically, the General Fund tax rate cannot exceed \$4.00 per \$100 of EAV according to P.A.94-976. The actual tax rate for the General Fund was \$2.38 in 2008. The property-tax rate for the Workers' & Unemployment Compensation/Tort Immunity Fund is not limited by law, but is subject to the tax cap.

Property-tax revenues in the budget are equal to property-tax cash collections from August through the end of July in each fiscal year. These fiscal-year collections are different from calendar-year property-tax extensions because tax extensions are the total amount of property-tax bills sent to taxpayers each calendar year.

Allocations of the tax revenues are as follows: the General Fund: \$1,986.7 million; the Worker's & Unemployment Compensation Tort Immunity Fund: \$78.4 million; and PBC lease payments: \$11.8 million.

(2) Personal Property Replacement Taxes (PPRT)

PPRT include an additional state income tax on corporations and partnerships, a tax on businesses that sell gas or water, a 0.5% fee on all gross charges for telecommunications services excluding wireless services, and a per-kilowatt tax on electricity distributors. The primary driver of PPRT is the corporate income-tax receipts which are closely tied to corporate profits.



The State collects and distributes the revenue to local taxing districts. Taxing districts in Cook County receive 51.7% of collections, which is divided among the County's taxing bodies based on each district's share of personal property collections in 1976. CPS receives 27.1% of the Cook County share, which is equivalent to 14.0% of the statewide total.

Corporate income-tax revenue is extremely sensitive to the economy because it is driven by corporate profits. The U.S. economy, however, has been in recession since December, 2007, and according to Moody's, the Illinois economy will remain in recession through most of 2009. The bursting of massive credit bubbles, which started with the sub-prime mortgage meltdown, triggered a collapse of the financial markets, resulting in a liquidity crisis and broad economic downturn in 2008. Job loss nationally is close to 7 million since December, 2007. The Illinois unemployment rate posted 9.9% in May, 2009, and employment forecasts for Illinois for the next 12 months suggest a further loss of over 300,000 jobs.

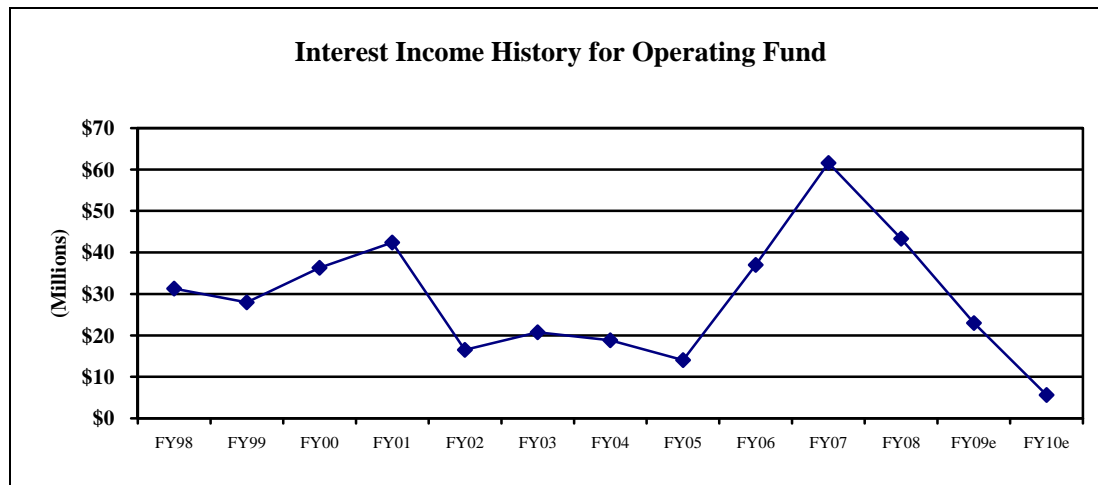
To stabilize and strengthen the financial system, the federal government enacted a \$787 billion fiscal stimulus package and the Treasury and Federal Reserve Bank implemented massive capital-injection programs. Now there is increasing optimism nationally about signs of economic recovery. However, the housing downturn and declining consumer and business spending will depress economies for some time, which does not bode well for corporate profits.

Based on these negative elements, PPRT are assumed to decrease from the estimated \$188.5 million in FY2009 to \$161.5 million in FY2010. Out of \$161.5 million, \$55.7 million is pledged for debt-service payments for bonds issued for school construction; \$34.0 million will support lunchroom operations; and the residual balance of \$71.8 million will go to the General Fund.

(3) Other Local Revenues

Other miscellaneous local revenues for operating funds are estimated to decline from the estimated \$135.2 million to \$111.8 million in FY2010, primarily because of lower investment earnings.

Interest income for the operating fund is budgeted at \$5.6 million, a decrease of \$18.0 million from the FY2009 estimate of \$23.6 million. The reduction in interest income mirrors a significant reduction in the federal funds rate. The interest rate is assumed to stay low at 0.5% in FY2010 and the average cash balance in FY2010 is projected at \$725 million. The operating interest income is allocated to three property-tax supported funds based on average cash balance. Out of \$5.8 million, \$5.1 million goes to the General Fund and \$0.5 million is budgeted for the Tort Fund.



In addition, other local revenue contains \$2.0 million of rental income, \$3.9 million of daycare-fee receipts, \$39.4 million of private foundation grants and donations, \$8.8 million of food-sale revenues, and \$2.0 million for other miscellaneous. In FY1998, the Board adopted Governmental Accounting Standards Board Statement No. 24, which requires that on-behalf payments made by other governments should be included as revenues and expenditures as long as they are for employee benefits. By law, the City of Chicago has been contributing to the Municipal Employees' Annuity and Benefit Fund of Chicago on behalf of the Board's educational support personnel. As a result, the Board includes the estimated flow-through employer contributions as revenues under Other Miscellaneous Local Revenue. The on-behalf pension payment by the City of Chicago is estimated at \$50.1 million for FY2010.

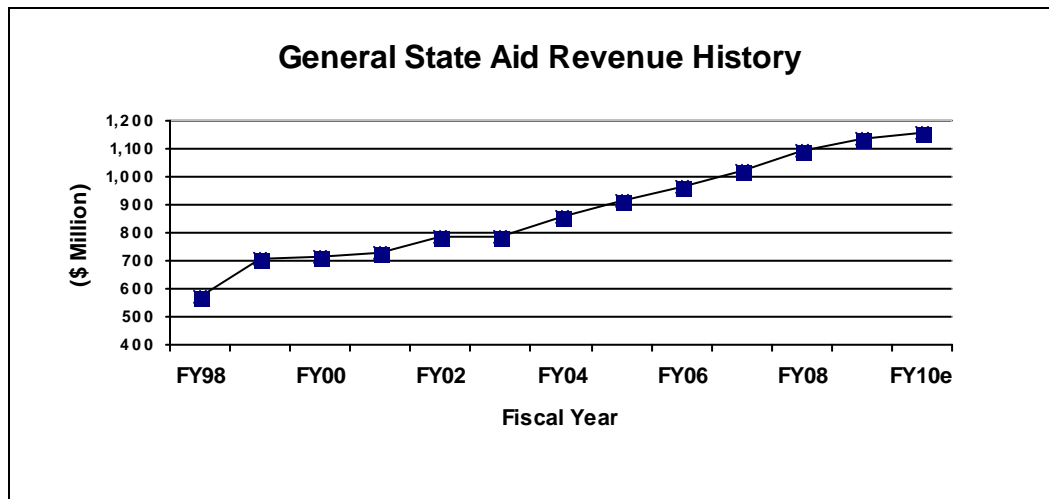
B. STATE REVENUES

Based on the Governor's budget announcement on July 31, 2009, total state revenues excluding capital grants are estimated at \$1,896.1 million for FY2010, a decrease of \$42.0 million or 2.2% from the FY2009 grant allocation of \$1,938.1 million. The state has been delaying its payments to CPS by four months and as a result, our FY2009 state revenues are lower than its grant allocation by \$173 million.

General State Aid (GSA)

P.A.96-45 establishes a foundation level of \$6,119 for FY2010, an increase of \$160 over the FY2009 level of \$5,959. Based on this foundation level, GSA is assumed to increase by \$18.5 million, growing from \$1,139.7 million in FY2009 to \$1,158.2 million in FY2010.

GSA represents the major portion of state support for Illinois public elementary and secondary schools. A district's GSA consists of regular GSA and a poverty grant. Regular GSA utilizes many factors in its allocation formula such as average daily attendance, a specified annual foundation level, available local resources, tax rates depending on the type of a school district, etc. The poverty grant is allocated based on low-income concentration and poverty data prepared by the Department of Human Services. The FY2010 poverty grant is based on a three-year average of the 2006, 2007, and 2008 unduplicated counts of children who were eligible for any one of four low-income assistance programs: Medicaid, KidCare, Food Stamps, and Temporary Assistance to Needy Families (TANF).



The American Recovery and Reinvestment Act contains one-time \$48.3 billion of fiscal stabilization funds for states. The Stabilization Funds consist of Education Stabilization Fund and Government Services Fund. The Education Stabilization Fund will help stabilize state government budgets in order to minimize and avoid reductions in education. The Government Services Stabilization Fund is for states to ensure public safety and other essential public services including education.

To reduce the deficit, Illinois utilized \$1.0 billion of the Education Stabilization Fund for GSA in FY2009 and plans to include \$601.7 million of the Education Stabilization Fund and \$335.7 million of Government Services Fund for FY2010. This budget assumes that these will be paid through GSA as federal funds. CPS received \$260.0 million of the Stabilization Funds through GSA in FY2009 and anticipates \$234.0 million of these funds in FY2010. These funds are not additional revenues to CPS: they are simply a replacement of state revenues with federal funds.

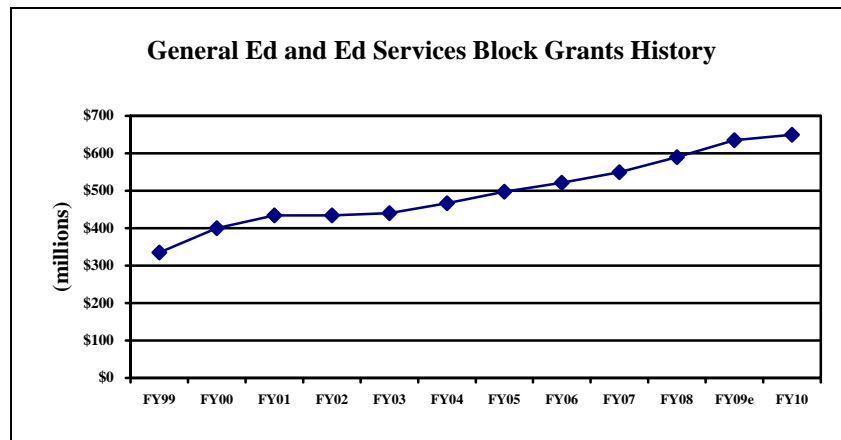
In every other district in the state, GSA funds can be expended at the discretion of the local school districts. However, CPS is required by state law to dedicate a minimum of \$261.0 million from its GSA revenue to supplemental programs in the Supplemental General State Aid Fund (SGSA, formerly State Chapter 1 Fund) for children from low-income families.

The allocation to SGSA will stay at \$261.0 million, which is consistent with the provisions of P.A. 89-15. Debt service will require \$195.7 million for bonds issued or to be issued for school construction. The General Fund will receive the residual balance of \$701.5 million in FY2010.

In addition, the Illinois legislature adopted P.A. 93-845 which allows school districts to continue to file claims for adjustments on prior-year GSA allocations which were initially based on property values not reduced by future property-tax refunds. These adjustments allow school districts to partially offset the negative impact of property-tax refunds. CPS expects to get a net adjustment of \$16.3 million for FY2010.

(2) General Education and Educational Services Block Grants

Illinois Public Act 89-15 created a general education block grant and an educational services block grant to allow flexibility and efficiency in the distribution and use of certain grants to CPS.



The grant amounts are computed by multiplying the State fiscal-year appropriation for the programs included in the grant by the Board's percentage share of those programs in FY1995.

The State appropriated cash payments of \$659.1 million of General Education and Educational Services block grants for FY2009. GASB 33 and the Board revenue recognition rule allow CPS to record receivables as revenues as long as they come in within 30 days after a fiscal year ends. Because of financial crisis, the State has recently delayed these payments for four months, owing \$165 million of two block grants currently to CPS. For FY2010, the allocation of these two block grants for CPS stays virtually flat at \$660.7 million, an increase of \$1.7 million over FY2009 allocation of \$659.1 million. From the Educational Services block grants, \$13.3 million of the Illinois Free Lunch grant will support the Lunchroom Fund.

(3) State Aid Pension

State FY2010 budget reduced the State contribution to the Chicago Teachers Pension Fund (CTPF) by 50%. The State again failed to meet the P.A.88-593 commitment, which stated the Illinois legislature's intention to fund the CTPF at 20% of the downstate teachers' pension funding. The State aid to CTPF will decline from \$74.8 million in FY2009 to \$37.5 million in FY2010. This amount reflects 50% of \$65.0 million of State employer contribution aid and \$10.1 million of the statutorily required costs of the increase in annual pension credit to 2.2% when the funded ratio of the Pension Fund drops below 90%. Had the state funded the CTPF at 20% of what it provides to downstate pension fund, CPS would receive \$482.0 million in FY2010.

(4) Other State Revenues

Other state funding includes small categorical state grants that are not accounted for anywhere else. Because of the fiscal crisis, the state either eliminated or reduced many of these small state grants for FY2010. Grants such as Class-Size Reduction Program, Transition Impact Aid, Jobs for Illinois Graduates, and Healthy Kids/Healthy Mind are eliminated for FY2010. Below is a brief description of state grants under Other State Resources that survived the budget cut:

- School Safety & Educational Improvement Block Grant, which supports school safety, textbook purchases, and teacher training, will decline from \$12.6 million to \$3.1 million in FY2010.
- State reimbursement for educational services to children residing in orphanages, children's homes, state welfare, or penal institutions will remain flat at \$4.5 million.
- Reimbursement for driver education remains flat at \$3.6 million.
- Funding for the Career and Technical Education programs will total \$4.8 million; the Work Experience Career Exploration program, with \$1.0 million funding, provides career education to 14-year-old and 15-year-old students who are at risk of dropping out.
- Alternative Education will decrease to \$3.0 million in FY2010, which will provide academic, counseling, and community service to students who are transferred to alternative schools as a result of gross misconduct.
- As more CPS teachers have achieved or are applying for the National Board for Professional Teaching Standards certification, the State is anticipated to provide \$2.0 million for application fees and annual stipend for these teachers.

C. FEDERAL RESOURCES

As a result of one-time federal stimulus education funding and higher 2009 federal appropriations, total federal grant awards for operating funds will increase significantly from \$871.3 million in FY2009 to \$1,470.5 million in FY2010. The increase results from new \$382.5 million of stimulus federal grants such as Title I and IDEA and \$234.0 million of stabilization funds that the state is replacing with their General State Aid payments to reduce its deficit. Total federal grant awards are often much bigger than federal revenues realized from these awards because actual spending is often smaller than grant awards as a result of grant periods starting later or delayed program implementation.

The ARRA also provides \$22.0 billion nationwide for 2009 and 2010 in interest-free bonding authority for school construction, renovation, repair, and land acquisition under Qualified School Construction Bonds. It also extended Qualified Zone Academy Bonds by two years and authorized \$2.8 billion of interest-free bonding authority to states for two years.

(1) Federal grants under the America Recovery and Reinvestment Act of 2009

The ARRA contains significant one-time funding for education, including a number of programs that provide direct funding for local school districts. The majority of funding is required to be spent or obligated by September 30, 2011. Illinois is expected to receive approximately \$1.0 billion for existing K-12 education programs from the ARRA and about \$2 billion from another portion of the ARRA, called the State Fiscal Stabilization Funds. CPS anticipates a total award of approximately \$440 million from ARRA grants and \$494.0 million from the Stabilization Funds for FY2010 and FY2011.

The State Fiscal Stabilization Funds are intended to prevent reductions in critical education funds for elementary and secondary education as well as public institutions of higher education.

They consist of the education-stabilization and government-service funds. Illinois will receive \$2.0 billion from the Stabilization Funds and has decided that most of these funds will fill the budget shortfall by partially replacing General State Aid for school districts, while decreasing state funded GSA by the same amount. Approximately \$2.0 billion of the Stabilization Funds will flow through General State Aid to all eligible school districts in FY2009 and FY2010.

ARRA Stabilization Funds (In Millions)

Stabilization Funds	Federal Appropriation	Illinois Allocation	FY2009 CPS GSA	FY2010 CPS GSA
Ed Stabilization Fund	\$39,524	\$1,641	\$260	\$150
Govn't Services Fund	8,794	336	0	84
TOTAL	\$48,318	\$1,977	\$260	\$234

This funding constituted the last five General State Aid payments in FY2009, totaling approximately \$1.0 billion in FY2009. The remainder of \$898 million will be paid out by the State through GSA in FY2010. CPS received \$260.0 million of federal GSA in FY2009 and anticipates \$225.0 million in FY2010. These do not represent additional funds to CPS or any other Illinois school districts; the State simply replaced the GSA funding source with the Stabilization Funds to minimize budgetary cuts in education.

The following tables summarize grants under the ARRA that CPS expects to receive and how much of the grants CPS proposed to budget for FY2010. While the allocations for major formula grants are known, few competitive grants have started processes and their allocations are unknown currently.

ARRA Formula Grants (In Millions)

Awards under the ARRA	Federal Appropriation	Illinois Allocation	CPS Estimates	FY2010 Budget
Title I – basic	\$10,000	\$420.1	\$260.7	\$260.7
IDEA - flow-through	11,300	506.5	115.0	57.0
IDEA – pre-school	400	18.3	4.2	4.2
*Education technology	650	26.5	8.0	8.0
Lunch equipment	100	3.7	1.5	1.5
Neglected/ Delinquent			0.9	0.9
TOTAL	\$22,450	\$1,011.4	\$389.9	\$332.3

ARRA Competitive Grants (In Million)

Grants under the ARRA	Federal Appropriation	Illinois Allocation	CPS Estimates	FY2010 Budget
*Homeless education	\$70	\$2.2	\$0.8	\$0.8
WIA Youth Service	600	62.8	2.3	2.3
*School Improvement	3,000	125.2	25.0	25.0
*Race to the Top – State	4,350		20.0	20.0
*Innovation Fund	650		2.0	2.0
*Teacher Incentive Fund	200		0.0	0.0
TOTAL	\$8,920		\$50.1	\$50.1

* These CPS awards are not actual allocations; they are projected.

The ARRA also provides \$22.0 billion in interest-free bonding authority for school construction, renovation, repair, and land acquisition under Qualified School Construction Bonds (QSCBs) for 2009 and 2010. It also extended bonding authority for QZABs by two years and added \$1.4 billion in each of calendar years 2009 and 2010. Below is a summary of estimated allocations for these two bonds:

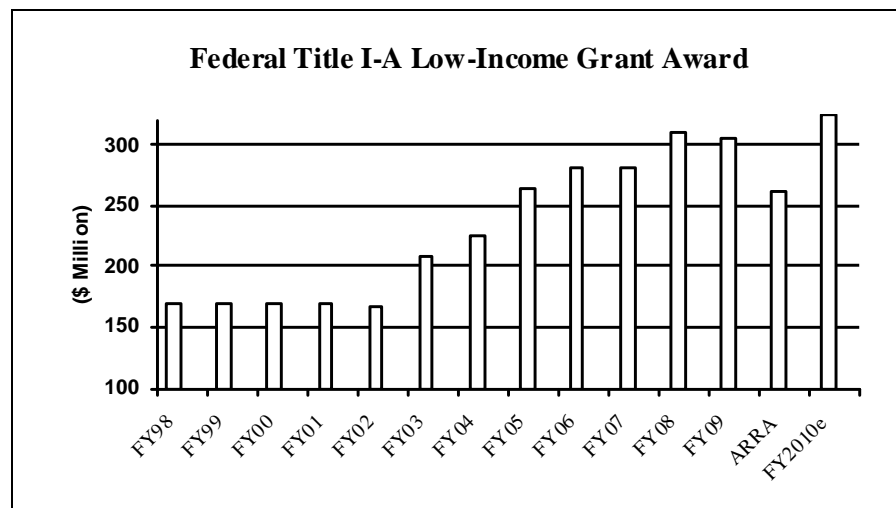
ARRA for School Construction and Renovation

Estimated Bonding Authority	Federal 2009/10	Illinois Share	CPS FY2010	CPS FY2011
Qualified School Construction	\$22,000	\$998	\$254	\$254
Qualified Zone Academy Bonds	2,800	104	0	21
TOTAL	24,800	1,102	254	\$275

(2) ESEA Program Grants (Elementary and Secondary Education Act)

Excluding grants under the ARRA, total ESEA grant awards are projected to decline to \$413.0 million in FY2010, a decrease of \$27.9 million from the FY2009 budget. The decrease results primarily from the elimination of Reading First and lower School Improvement Grants.

- **Title I-A: Low Income** – This is the largest entitlement grant received under No Child Left Behind Act. The grant allows the district to provide supplemental programs to improve the academic achievement of low-performing students. As a result of a \$593 million increase in federal appropriation for this program, CPS anticipates a \$17.9 million increase in current-year Title I allocation from \$306.2 million in FY2009 to \$324.1 million in FY2010.



- **Title I-A: System of Support** - This grant provides services for underperforming Title I schools to improve the overall academic achievement of their students. The current funding level will stay flat at \$9.2 million in FY2010 with a carry-over of \$0.9 million.
- **School Improvement Grants** - School Improvement Grants help States and districts fulfill their responsibilities to improve schools and ensure that all students are reading

and doing math on grade-level by 2014. Under No Child Left Behind, a school is considered in need of improvement if it does not make adequate yearly progress for at least two consecutive years. These grants will help meet a growing demand for more comprehensive improvement measures so States and schools can work to address problems before facing restructuring. CPS expects to receive \$2.0 million of School Improvement Grants for FY2010.

- **Title I-D: Neglected/Delinquent** - The purpose of this grant is to improve the educational services for children and youth in local and state institutions for neglected or delinquent children and youth so that they have the opportunity to meet the same challenging State academic achievement standards. Programs include academic tutoring, counseling, and other curricular activities. The current-year allocation for FY2010 will stay flat at \$1.4 million. With the anticipated carry-over of \$0.7 million, total awards available will be \$2.1 million, almost the same as FY2009. Additionally, the ARRA will provide \$0.9 million for these programs in FY2010.
- **Title II-A: Improving Teacher Quality** - Programs funded through this grant include class-size reduction, recruitment and training, mentoring, and other support services to improve teacher quality. This grant is anticipated to increase to \$43.4 million in FY2010. Including the estimated carry-over of \$10.0 million, the total award available for FY2010 is estimated at \$53.4 million. Additionally, \$2.8 million is expected to come from other competitive grants under Title II-A.
- **Title II-D: Ed Technology** - A variety of technology-related grants is consolidated into Educational Technology Grants. Congress kept flat federal appropriations for education technology for FY2010; however, Illinois share will increase by 6%. The total award is estimated at \$3.2 million, which consists of current-year grant award of \$2.5 million and \$0.7 million of carry-over from the prior year.
- **Title III-A: Language Acquisition** - Funds are used to provide supplemental instructional services to students with limited English proficiency throughout CPS who meet the eligibility requirements. Although Congress increased this grant by 4.2%, no increase is anticipated for CPS because the number of students with limited English proficiency has been flat. The total funding available for the Language Acquisition grant is budgeted at \$10.0 million, which comprises the estimated current-year allocation of \$9.4 million and the carry-over of \$0.6 million.
- **Title IV-A: Safe and Drug-Free** - This grant supports programs that provide services to students in the areas of violence and violence prevention, safety and security, conflict resolution, and a host of other activities. Although Congress maintained the same funding level for the Title IV funding for FY2010, funding for FY2010 is anticipated to grow from \$3.4 million in FY2009 to \$3.7 million in FY2010 because of relatively higher share of Title I amount.
- **Title IV-B: 21st Century Community Learning Centers** – These grants provide opportunities for communities to establish schools as community learning centers and provide activities after-school and evening hours. The federal appropriation for 21st Century Community Learning Center grants increased by 4% for FY2010 but the Illinois

share declined by 10%. Consequently, CPS expects the grant to decrease to \$5.8 million for FY2010. With the estimated carry-over of \$1.7 million, the total spending level will remain unchanged at \$7.5 million.

- **Title VII-A: Indian Education** - Funds from this grant are used to support efforts in meeting the educational and culturally related academic needs of American Indian and Alaska Native students. Funds for FY2010 are expected to be level at \$110,000.
- **Title VIII: Impact Aid** - Funds for this grant are used to help offset loss of revenue relating to federal acquisition of real property. Based on the declining number of students from public housing in Chicago, the Impact Aid is expected to decline from \$121,000 in FY2009 to \$100,000 in FY2010.

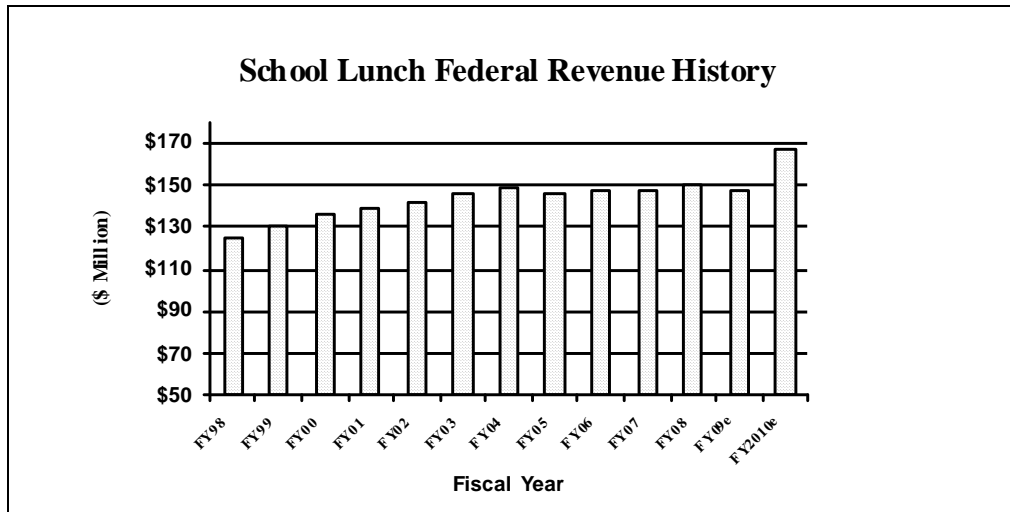
(3) Individuals with Disabilities Education Act (IDEA)

IDEA grants provide supplemental funds for special education and related services to all children with disabilities from age 3 through age 21. The first priority of this program is to provide service to all children with disabilities who are not served. The second priority is to offer additional services to children who do not have adequate services or who have the most severe disabilities in each category of disabilities.

IDEA grants comprise a variety of programs. Part B flow-through is the largest IDEA grant, which is allocated based on a formula established by the State of Illinois. Congress increased this funding by 5.1% or \$557.7 million and as a result, the flow-through formula grant will generate \$95.2 million, an increase of \$4.8 million over the FY2009 level. Room & board reimbursement for students who stay at special facilities outside of Chicago is estimated at \$2.5 million. Part B Preschool grant offers both formula and competitive grants for special education programs for children with disabilities who are three to five years old. These preschool programs are expected to have \$1.3 million from the formula grant and \$0.5 million from a competitive grant for FY2010. The State will provide \$2.7 million plus the estimated carry-over of \$5.0 million through IDEA funding for Corey-H programs. Including small competitive grants and carry-overs from the previous year, total IDEA funding is estimated at \$108.2 million for FY2010, a decrease of \$5.3 million from FY2009 as a direct result of no carry-overs from FY2009. Additionally, there is stimulus IDEA funding of \$115.0 million and \$4.2 million for Pre-school programs. This budget includes 50% of stimulus IDEA funding and \$4.2 million for Pre-school programs.

(3) Federal Meal Reimbursement for School Lunch Program

CPS offers breakfasts, lunches, and dinners for children who participate in the programs during the school year and provide lunches in summer. The federal government provides reimbursement for free, reduced-price, and paid lunches and breakfasts under the National School Lunch Program. The federal government also reimburses costs for the dinner program under the Child Care and Adult Food Program. In addition, the federal government also provides free surplus commodities based on the number of meals served.



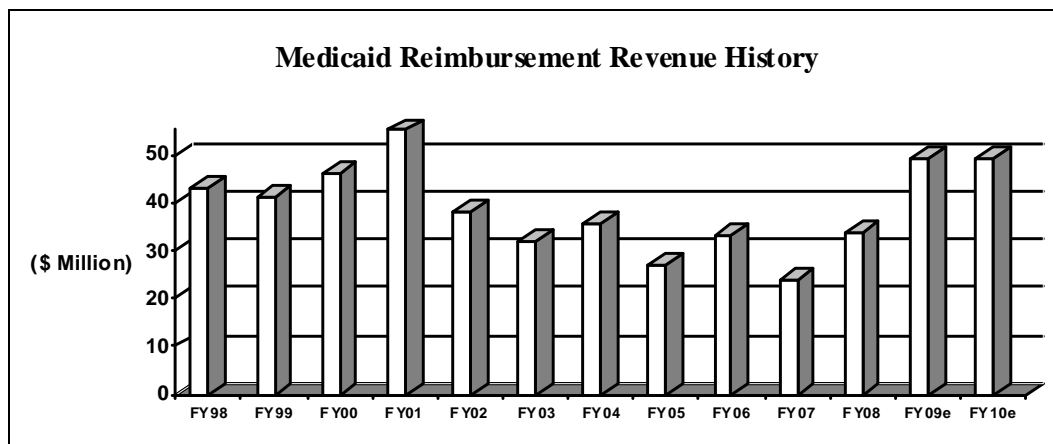
Under the National School Lunch Program and the Child and Adult Care Food Programs, children must meet the federal income guidelines for free or reduced-price meals or be determined as categorically eligible for free meals as members of Food Stamp or TANF households. Federally reimbursed revenues are computed by multiplying a type of meals by a fixed reimbursement amount.

CPS plans to implement universal breakfast programs at all schools, effective FY2010. Universal school breakfast offers breakfast at no charge to all students, regardless of income. Universal school breakfast programs provide breakfast in the classroom when school starts in the morning, rather than in the cafeteria before school starts, which makes it easier for children to participate.

As a direct result of the expansion of breakfast programs, federal reimbursements are projected to total \$166.7 million in FY2010, an increase of \$18.3 million. These revenues comprise \$38.9 million from Universal breakfast programs; \$113.9 million from school lunches; \$4.3 million from after-school dinner programs; and \$9.6 million of donated food from the U.S. Department of Agriculture.

(4) Medicaid Reimbursement

CPS provides a variety of services to students with disabilities that address their diverse needs. These include medical services such as speech therapy, physical therapy, occupational therapy, mental health service, and special transportation. Under federal and Illinois law and regulations, CPS qualifies for Medicaid reimbursement for these covered medical services and the costs of administrative outreach activities provided to eligible students. Medicaid reimbursement is administered directly by the Illinois Department of Health and Family Services.



Since 2001, the federal government has imposed many restrictions that have caused Medicaid claims to decline. A number of reimbursable service items were eliminated, while the rules for currently reimbursable activities were more narrowly re-defined and interpreted. These new regulations reversed the growing trend of Medicaid revenues which peaked in FY2001. The graph above illustrates the impact of this unfavorable change on Medicaid revenues.

In December of 2007, the Centers for Medicare and Medicaid Services (CMS), the organization that manages the Medicaid program for the Federal government, published rules that made changes to the School Medicaid program. The new rules would eliminate reimbursement for administrative outreach and transportation services, which would reduce CPS's annual Medicaid revenue by \$14.0 million.

However, PL 110-173 imposed a moratorium on these new rules until July 2008. In June 2008, the House and the Senate adopted a bill that would again extend this moratorium to April 2009 and President Bush signed the bill into law at the end of June 2008. The ARRA extended this moratorium to July 1, 2009. On June 29, 2009, the Department of Health and Human Services (HHS) Secretary, Kathleen Sebelius, announced that the administration would rescind all or part of three Medicaid regulations that were subject to Congressional moratoria set to expire July 1, 2009. CMS and HHS rescinded a rule that would have eliminated reimbursement for school-based administrative costs and costs of transportation to and from schools. This rescission will ensure that children will continue receiving medical services through their schools and schools will be reimbursed for the Medicaid administrative outreach activities and transportation costs.

Effective FY2009, the Illinois Department of Healthcare and Family Services started applying cost-based rates to Medicaid reimbursement, the method of which was adopted several years ago. Because these new rates are retroactive to FY2004, temporary increases in Medicaid reimbursement are anticipated for FY2009 and FY2010. Reflecting these retroactive rate adjustments, Medicaid revenues are estimated at \$49.3 million for FY2009 and \$44.5 million for FY2010.

(5) Other Federal Grants

Most of “Other Federal Grants” are competitive grants for specific purposes which are not described above. They are federal grants directly from the federal government, or indirectly through state, city intermediary agencies, or universities. These grants are expected to generate \$117.4 million, a decrease of \$22.7 million from the FY2009 budgeted level of \$140.1 million. Below is a brief description of major grants under this category.

- Head Start is a program of the United States Department of Health and Human Services that focuses on assisting children from low-income families. It provides comprehensive education, health, nutrition, and parent involvement services to low-income children and their families. CPS provides Head Start programs which are funded through the City of Chicago. Funding for Head Start stays level at \$40.2 million for FY2010.
- The Carl D. Perkins grant was established to improve career-technical education programs, integrate academic and career-technical instruction, serve special populations, and meet gender-equity needs. This grant has been used mostly for high-school career and vocational training. Because Congress provided no increase for Perkins programs, the Perkins grant is anticipated to remain flat at \$8.4 million for FY2010. With the estimated \$1.0 carry-over, the grant will provide \$9.4 million for the program.
- The Striving Readers program is aimed at transforming teaching and learning in 32 middle schools serving 6th to 8th graders who are reading below grade level. This program will provide intensive reading instruction after school. CPS secured a five-year Striving Readers grant through FY2011 and funding for FY2010 will be \$4.8 million.
- The Recognizing Excellence in Academic Leadership program is based on five-year \$27.5 million funding from Teacher Incentive Fund since FY2007. It will allow CPS to explore performance-based compensation system, multiple evaluations, recruitment, development, and retention of quality staff at 40 high-need schools. The allocation for FY2010 is set at \$8.4 million.
- The Voluntary Public School Choice grant (ESEA Title V-B-3) intends to provide students currently attending schools in need of improvement with transportation services or to reduce the achievement gap by creating more high quality seats for students currently attending schools in need of improvement. CPS secured this five-year grant for \$11.5 million in FY2008 and the allocation for FY2010 is \$2.3 million.
- The Smaller Learning Community grant will be used to implement smaller high schools to improve academic achievement, graduation rates, and learning climate and culture. CPS was awarded two five-year grants and one three-year grant. The allocations from these three Smaller Learning Community grants total \$3.0 million for FY2010.