DEBT SERVICE FUNDS

Debt Service Funds are established to account for annual property-tax levies and other revenues that are used for the payment of principal, interest, and lease obligations. To service alternate general-obligation bonds and PBC leases, the FY2010 Proposed Budget recommends a total appropriation of $499.7 million for debt service, an increase of $211.6 million over the FY2009 budget of $288.1 million.

FY2008 - FY2010 Summary of Debt Service Funds
(In Millions)

	FY2008 Actual	FY2009 Budget	FY2010 Budget
Beginning-Year Fund Balance	$423.3	$451.0	$486.7
Reserved for Debt Service	(423.3)	(431.0)	(404.7)
Fund balance to be appropriated	0.0	20.0	82.0
Revenues:			
Property taxes	50.6	11.8	11.8
PPRT	55.7	55.7	55.7
State Revenues	153.6	180.4	225.7
Other local (City IGA)	42.8	20.2	124.5
Total Revenue	302.7	268.1	417.7
Expenditures:			
Principal, Interest, & Fees	260.4	288.1	499.7
Other Financing Sources/(Uses)	(14.7)	0.0	0.0
End-of-Year Fund Balance	$451.0	$431.3	$404.7

The large increases in debt service costs result primarily from the first-year payment of $91 million for 1998B-1, 1999A, 2007BC and 2008A bonds, payment of $42 million for the new $665 million bonds, payment of $35.0 million for the delayed FY2009 $550.0 million bonds, debt service cost increase of $22.0 million for existing bonds, and $30 million of the CDB revenues that the Board will save for the next year's bond issue. This budget assumes that the Board will receive $25.0 million from the residual fund balance that the School Finance Authority (SFA) has when SB0235 becomes law. Now that the SFA paid off its debt in June 2009, this bill allows CPS to receive any remaining balance with the SFA. Since this fund is one-time revenue, this amount is appropriated for the new bond issue.

The Board is authorized by state law to issue notes and bonds and to enter into lease agreements for capital-improvement projects and cash requirements. The following is an explanation of two categories of bonds that the Board has utilized to finance its capital programs.

Alternate Revenue Bonds (Unlimited Tax General Obligation Bonds): The Local Government Debt Reform Act of the State of Illinois, as amended, allows the Board to issue

alternate revenue bonds or general obligation bonds payable from a dedicated revenue source subject to certain provisions. The Board is authorized to issue such bonds after adopting an authorizing resolution and satisfying certain public notice publication and petition period requirements in lieu of a voter referendum.

To support construction and renovation of school buildings, the Board has been utilizing mostly alternate revenue bond mechanisms since 1996, and most of these bonds are funded primarily from Personal Property Replacement Taxes, General State Aid revenues, or revenues related to Intergovernmental Agreements (IGAs) with the City of Chicago.

The IGAs are unique financing arrangements between the CPS and the City of Chicago. The Agreements stipulate that the City of Chicago provides funds to the Board to pay debt service on bonds issued by the Board to finance its Capital Improvement Program. Depending on the Intergovernmental Agreement, the City will provide these funds to the Board by either levying direct annual property taxes or remitting property-tax revenues from certain Tax Increment Financing (TIF) districts.

In 1997, the U.S. Congress adopted the Tax Payer Relief Act, which created Qualified Zone Academy Bonds (QZABs) to provide capital funding for schools in high-poverty areas. These bonds allow local school districts to renovate, rehabilitate, or equip certain high-poverty schools located within a school district. Since 1998, the Board has issued six series of QZABs within the meaning of Section 1397E of the Internal Revenue Code of 1986 as amended. The Chicago Public Schools does not pay interest on the bonds; rather, eligible taxpayers who own the bonds will be entitled to a credit against federal income taxes. The principal of the QZABs is payable at maturity, and the first QZAB which the Board issued in September 1998 will mature in FY2012.

The American Recovery and Reinvestment Act of 2009 (ARRA) extended QZABs through 2010 and authorized $1.4 billion for QZABs for 2009 and 2010 each. The Board plans to utilize QZABs up to the maximum allocation available, which is estimated at $21 million for FY2011.

In addition to the expansion of QZABs, ARRA also made Qualified School Construction Bonds (QSCBs) and Build America Bonds (BABs) available to school districts and other governments for the first time. These bonds provide funding for new construction as well as renovation. Purchasers of QSCBs receive a federal income tax credit just like QZABs. The U.S. Treasury Department establishes allocation limits and sets a tax-credit rate for QSCBs which, on average, equals the amount of interest schools would ordinarily pay on debt. The 2009 allocation of QSCBs is $254.3 million for the Chicago Public Schools.

BABs are taxable bonds that can be used to finance a wide range of projects, including construction and modernization of school facilities. The BABs program allows municipal bond issuers in 2009 and 2010 to offer an unlimited amount of taxable debt and to elect either to receive a cash subsidy from the federal government or to provide bondholders with a tax credit. Both the payment and the tax credit would be equal to 35% of the interest paid on the bonds. CPS plans to utilize the most economical type of bonds for its issuance of bonds in FY2010.

Debt service for alternate revenue bonds in FY2010 includes the appropriation of $42.0 million for the proposed new $665 million bonds, $35.0 million for the delayed $550.0 million bonds

scheduled for FY2009, and $325.9 million for existing alternate bonds such as Series 1996, 1997, 1999A, 2000A, 2000BCD, 2001A, 2001C, 2002A, 2003A, 2004A, 2004CDE, 2004G, 2005AB, 2005D, 2006B, 2007D, 2008AB, 2008C, 2009A, 2009B, 2009C, 2009D; and swap payments related to the Series 2008AB, 2009A, 2009B, 2009C and a portion of the 2000C, 2004C, and 2005D issues.

PBC Leases: The lease payments for the Public Building Commission (PBC) are for revenue bonds that the PBC sold to fund capital projects for the schools that the Board is leasing from the PBC. These are the only outstanding bonds that the Board has which rely solely on property-tax levies. The current lease payments relate to PBC bonds issued in 1992, 1993, and refunding bonds issued in 1999. To reduce the tax burden for Chicago residents, the Board has decided to abate property-tax levies required to pay for these bonds by $40.0 million and use the fund balance to pay for the difference in lease payments for FY2010.

Not included in the debt-service fund is the last debt payment of $2.7 million for the EPA Asbestos-in-Schools Abatement Loans, which is appropriated in the Building Operation & Maintenance Fund.

Legal Debt Limit and Debt Management

As of June 30, 2008, the Board had approximately $4.7 billion of total debt principal outstanding, which consists of $4.3 billion of principal in alternate revenue bonds and $411.7 million of principal in PBC bonds. By June 30, 2009, the total principal outstanding will decrease to $4.6 billion. The total debt in alternate revenue bonds will decrease to $4.2 billion, while the principal balance in PBC leases will decline to $386.4 million. None of these totals includes interest payments or fees related with these bonds.

The Illinois School Code imposes a statutory limit of 13.8% on the ratio of the total outstanding property-tax-supported debt that a school district may borrow compared with a school district's equalized assessed value. At the end of FY2008, the Board's ratio of total outstanding property-tax supported debt to equalized assessed value was 0.8%, well below the legal debt limit of 13.8%, and it is expected to be similar in FY2010.

Since 1996, the Board has issued alternate revenue bonds to provide funds for new school construction and renovation. Because property-tax levies are not extended to support these debt issues, the alternate revenue bonds do not count against the legal debt limit imposed by the Illinois School Code.

As a result of these school construction and renovation projects, the Board's debt burden in terms of debt per capita has increased significantly in the last decade. Debt per capita is the result dividing the total bonded debt by the population of the City of Chicago. According to the Chicago Public Schools' FY2008 Comprehensive Annual Financial Report, debt per capita in FY1999 was $942; by FY2008, debt per capita reached $1,622.

Another way of measuring the total debt burden is by dividing annual debt service expenditures by operating-fund expenditures. Based on this method, the debt burden for FY2008 was 5.9% of operating expenditures. For FY2009 debt-service payments are estimated at 5.8% of total operating expenditures. With the proposed bond issues, the debt burden is anticipated to increase to 9.4% in FY2010.

The Debt Management Policy of CPS provides guidance for debt management and capital planning and enhances the Board's ability to manage its debt in a conservative and prudent manner. One of the main goals of the policy is to ensure that CPS maintains the highest possible credit rating among the credit agencies. In FY2008, the credit rating was upgraded to AA- by Standard & Poor's and remained at A+ by Fitch Ratings and A2 by Moody's Investors Service. The ratings are expected to be unchanged in FY2009. Another main goal of the policy is to stay in compliance with various rules and regulations.

As part of the Debt Management Policy, CPS is authorized to use a number of tools to manage its portfolio of debt. Some of the tools and techniques employed are: refunding of existing debt, using derivative instruments, issuing fixed or variable-rate bonds, and issuing short-term or long-term debt. These tools are used to manage various types of risks, to generate cost savings, and to exchange capital-asset planning. A copy of the Debt Management Policy is available at the Board's website at http://policy.cps.k12.us/documents/404.1.pdf. The table below lists all the outstanding debt as of June 30, 2009:

Debt Outstanding at 6/30/08 Chicago Public Schools	**Closing Date**	**Maturity Date**	**Principal Outstanding At 6/30/09**	**Pledged Funding Source for Debt Service**
PBC Series A of 1992	1/1/92	1/1/2020	$238,800,000	Property Tax
PBC Series A of 1993	4/1/93	12/1/2011	33,105,000	Property Tax
PBC Series B of 1999	3/1/99	7/1/2018	114,480,000	Property Tax
Unlimited Tax G.O. Series 1996	4/25/96	12/1/2012	46,070,000	PPRT
Unlimited Tax G.O. Series 1997	5/7/97	12/1/2012	50,710,000	PPRT
Unlimited Tax G.O. Series 1997A*	12/3/97	12/1/2030	37,985,204	1997 IGA / PPRT
Qualified Zone Academy Bond	9/24/98	9/23/2011	14,000,000	1997 IGA
Unlimited Tax G.O. Series 1998B-1*	10/28/98	12/1/2031	328,714,364	1997 IGA / PPRT
Unlimited Tax G.O. Series 1999A*	2/25/99	12/1/2031	529,029,285	1997 IGA / PPRT
QZAB IDFA 1999A	12/22/99	12/21/2011	12,000,000	State Aid
Unlimited Tax G.O. Series 2000A	7/20/00	12/1/2021	16,525,000	State Aid
Unlimited Tax G.O. Series 2000BC D	9/7/00	3/1/2032	303,000,000	State Aid
QZAB Series 2000E	12/19/00	12/18/2013	13,390,000	State Aid
Unlimited Tax G.O. Series 2001A	3/1/01	12/1/2012	3,895,000	State Aid
QZAB Series 2001B	10/24/01	10/23/2015	9,440,000	State Aid
Unlimited Tax G.O. Series 2001C	12/11/01	12/1/2012	19,620,000	State Aid
Unlimited Tax G.O. Series 2002A	9/24/02	12/1/2022	46,040,000	IGA - TIF
Unlimited Tax G.O. Series 2003A	2/13/03	12/1/2016	53,585,000	State Aid
QZAB Series 2003C	10/28/03	10/27/2017	4,585,000	State Aid
Unlimited Tax G.O. Refunding, Series 2004A	4/6/04	12/1/2020	205,410,000	PPRT / State Aid
Unlimited Tax G.O. Series 2004CDE	11/10/04	3/1/2035	131,095,000	State Aid

Debt Outstanding at 6/30/08 Chicago Public Schools	**Closing Date**	**Maturity Date**	**Principal Outstanding At 6/30/09**	**Pledged Funding Source for Debt Service**
Unlimited Tax G.O. Series 2004G	12/1/04	12/1/2022	12,500,000	IGA - TIF
Unlimited Tax G.O. Series 2005AB	6/27/05	12/1/2032	246,180,000	PPRT / State Aid
Unlimited Tax G.O. Series 2005DE	12/8/05	3/1/2036	157,055,000	State Aid
QZAB Series 2006A	6/7/06	6/1/2021	6,852,800	State Aid
Unlimited Tax G.O. Series 2006B	9/27/06	12/1/2036	347,145,000	State Aid
Unlimited Tax G.O. Series 2007BC	9/4/07	12/1/2024	204,635,000	1997 IGA / PPRT
Unlimited Tax G.O. Series 2007D	12/13/07	12/1/2029	233,065,000	State Aid
Unlimited Tax G.O. Series 2008A	5/13/08	12/1/2030	262,785,000	1997 IGA / PPRT
Unlimited Tax G.O. Series 2008B	5/13/08	3/1/2034	236,150,000	State Aid
Unlimited Tax G.O. Series 2008C	5/1/08	12/1/2032	464,655,000	State Aid
Unlimited Tax G.O. Series 2009A	3/18/09	3/1/2026	130,000,000	State Aid
Unlimited Tax G.O. Series 2009BC	6/25/09	3/1/2031	95,675,000	State Aid
Total Principal Outstanding			**4,608,176,653**	