

RESOURCES ANALYSIS

The Chicago Public Schools (CPS) is financed through a combination of federal, state, and local revenues. The single largest portion of revenue comes from local sources through property taxes; the state provides much of their support through General State Aid; and the federal government provides most of their resources to CPS for programs in the No Child Left Behind Act (NCLB).

Major Assumptions for FY2007 Resources

A number of assumptions, as detailed below, were used to formulate the final budget. These assumptions consider local economic conditions, state FY2007 K-12 appropriations contained in P.A. 94-798 and federal FY 2006 appropriations in P.L.109-149

LOCAL

- **Property Taxes:** The Board will increase the property tax extension to the tax-cap limit in 2006 and 2007. Property tax revenues are based on 3.3% inflation for the proposed 2006 extension and 3.4% for the 2007 extension. The assumed collection rate is 96.5%.
- **Personal Property Replacement Tax:** FY2007 replacement taxes are expected to increase by \$10 million over the FY2006 budgeted level based on the 7% increase in corporate profits projected by the State.

STATE

- **State Categorical Program Revenues:** Categorical funding depends on the Statewide K-12 FY2007 appropriations adopted by the legislature in P.A. 94-798. Statewide, this includes: a \$56.7 million increase for mandated categorical programs; \$45 million increase for the Early Childhood Block Grant; \$11.9 million increase for the After School Program; \$10 million increase for the ADA block grant, \$10 million for a new class size reduction program, \$5 million for a new school security program, \$5 million increase for the National Teacher Certification Program, and a \$4 million increase for bilingual education. The Chicago Public Schools will receive a portion of the above statewide increases.
- **General State Aid Claim:** The foundation level assumed for the FY2007 regular General State Aid claim is \$5,334 per student as adopted by the legislature in P.A. 94-835. This is an increase of \$170 per student over the FY2006 level. Supplemental General State Aid is based on the poverty formula adopted in 2003 (P.A. 93-21).
- **General State Aid EAV Adjustment:** This budget reflects the impact of P.A. 93-845, which will allow the CPS and other districts to file for a prior year Equalized Assessed Value (EAV) adjustment in FY2007. Out of the \$25.0 million that is available statewide, CPS expects to receive \$16.3 million in FY 2007.

- **State Pension Aid:** P.A. 94-798 appropriates \$75.3 million for state pension aid to the Chicago teacher pension fund for FY2007.
- **CDB School Maintenance Grant:** No state appropriations were approved for the CDB construction grant program for FY2007.

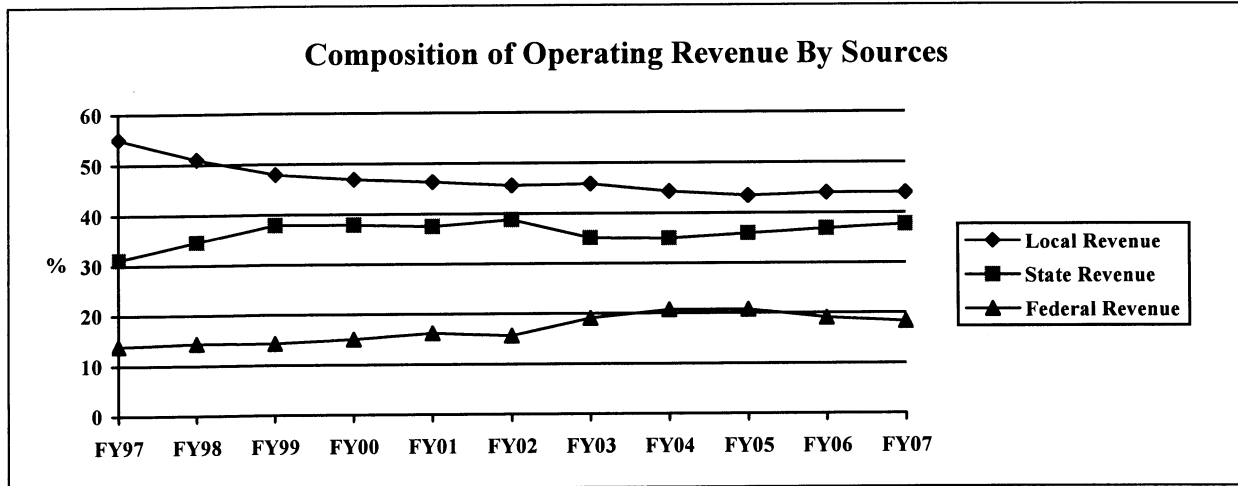
FEDERAL

- **Federal Revenue:** CPS FY2007 revenues are based on the federal fiscal year 2006 appropriations in P.L.109-149 plus carry over balances from the prior year. .

DISCUSSION OF RESOURCES

The FY2007 revenues budgeted for operating funds and debt service are \$4,564.4 million, an increase of \$177.3 million over the FY2006 budget of \$4,387.2 million. The total resources for FY2007 are estimated at \$4,669.4 million, including a prior-year fund balance of \$105.0 million.

The federal government will contribute 18.3% of all revenues to CPS in FY2007 and the state's contribution will reach 37.7% in FY2007. The remaining 44.0% of the revenue will be raised locally in Chicago. Local property taxes alone provide 38.0% of all operating revenues, or 86.9% of all local revenues. Other local revenues come from personal property replacement taxes, interest income, lunchroom fees, and miscellaneous items.



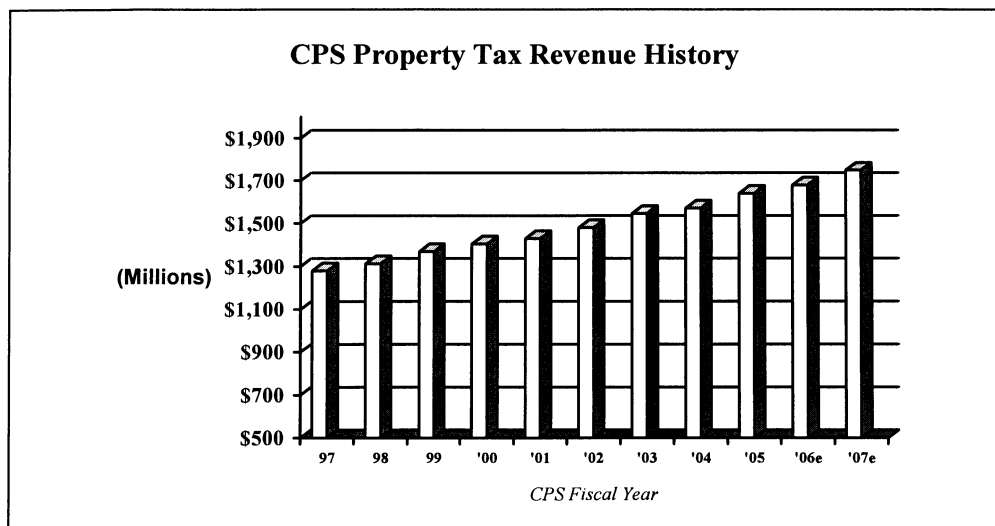
I. LOCAL RESOURCES

Total local revenues for FY07 are budgeted at \$2,010.5 million, an increase of \$80.0 or 4.1% over FY06.

A. Property Taxes

Property-tax revenues for all funds are projected at \$1,748.3 million in FY2007, an increase of \$70.0 million over the estimated FY2006 receipts. Of the \$70 million, \$15 million is generated by new construction in the City of Chicago and \$55 million is generated by increasing property taxes by 3.3%. Although property taxes provide 38.0% of all operating revenues for the Chicago Public Schools, the Board cannot rely on growth in property-tax revenues to pay for increasing financial needs. The property-tax cap, combined with statutory property-tax rates and the use of the prior-year EAV, restricts the growth in property-tax revenues. Specifically, the consolidated Education Fund tax levy cannot exceed \$3.07 per \$100 of EAV, plus the difference between \$0.50 per \$100 EAV and the rate of taxes extended for School Finance Authority Bonds. Property-tax rates for the Medicare Fund, Workers' & Unemployment Compensation/Tort Immunity Fund, and PBC Operation & Maintenance Fund are not limited by law, but are subject to the tax cap.

The chart below provides a history of the growth in property-tax revenue.



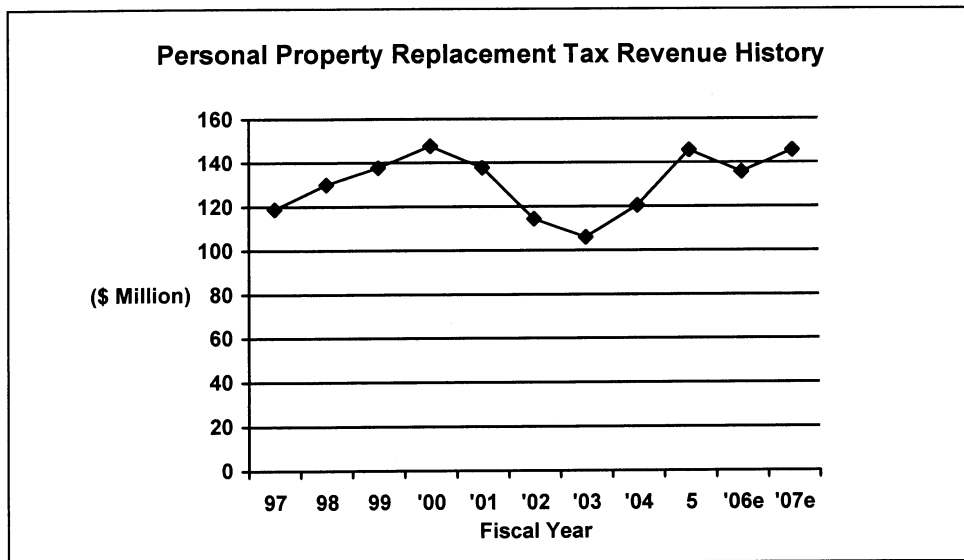
Property-tax revenues in the budget are equal to property-tax cash collections from September through the end of August in each fiscal year. These fiscal-year collections are different from calendar-year property-tax extensions because tax extensions are the total amount of property-tax bills sent to taxpayers each calendar year. Allocations of the revenues are as follows: the General Fund: \$1,236.5 million; PBC Operations & Maintenance: \$343.6 million; the Worker's & Unemployment Compensation Tort Immunity Fund: \$116.5 million; and PBC rental lease payment: \$51.8 million.

B. Personal Property Replacement Taxes

The growth in corporate profits will translate into a total of \$145.6 million personal property replacement tax (PPRT) revenues for FY2007, \$10.0 million higher than the FY2006 budgeted revenues of \$135.6 million. Out of \$145.6 million, \$54.1 million is pledged to make debt-

service payments for bonds, while the residual balance of \$91.5 million will be deposited into the General Fund.

The Personal Property Replacement Tax (PPRT) includes 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 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. The Chicago Public Schools receives 27.1% of the total Cook County share, which is equivalent to 14.0% of the statewide total. Effective April 1996, a portion of the Board's revenue from the Replacement Taxes is pledged to the payments of debt service on some bonds for capital-improvement projects. The Board needs to allocate \$54.1 million of PPRT revenues to pay for debt services in FY2007.

C. Other Local Resources

Total miscellaneous local revenue is expected to stay relatively level at \$116.9 million in FY07. Included here is \$21.3 million of investment earnings, up by \$4.8 million from last year due to higher interest rates and better cash management; and \$80 million of on-behalf pension contribution by the City of Chicago, private foundation grants, donations and other intergovernmental revenues. The increase is offset by a decrease of \$4.5 million in lunchroom sales, which is largely due to lower student enrollment and less participation in the lunch programs provided.

II. STATE RESOURCES

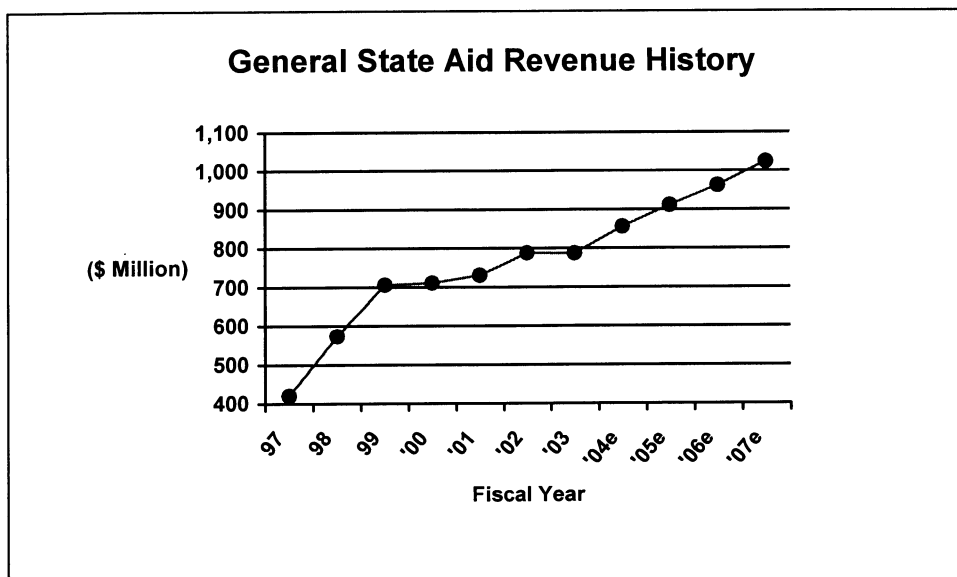
Total state revenues for FY07 are budgeted at \$1,718.7 million, up \$100.0 million from the FY06 budget of \$1,618.7 million. This represents an increase of 6.2% from the the previous year. The estimated FY2007 state share of operating revenues will increase from 36.9% to 37.7% of operating revenues.

A. General State Aid (GSA)

GSA increased by \$61.4 million, going from \$962.5 million in FY06 to \$1,023.9 million in FY07. The increase is the result of the \$170 increase in the foundation level from \$5,164 to \$5,334 and full-funding of poverty grants.

General State Aid (GSA) represents the major portion of state support for Illinois public elementary and secondary schools. Kindergarten through grade 12 and eligible prekindergarten students who receive public school educational services benefit from General State Aid.

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



General State Aid utilizes a specified annual foundation level, no grade-level weightings, newly established tax rates for use in the calculations, and a separate calculation for poverty. In May, 2003, the General Assembly adopted a new poverty grant formula. Instead of the most recent federal census poverty data, a new poverty count prepared by the Department of Human Services is used, starting FY2004. The FY2007 count will use a three-year average of the 2003, 2004, and 2005 count of children who are eligible for any one of four low-income assistance programs: Medicaid, Kidcare, Food Stamps, and Temporary Assistance to Needy Families (TANF).

A district's GSA revenue is a combination of the poverty grant together with whatever amount is needed to bring total basic revenue per student up to the foundation level of \$5,334 for FY2007, given the property tax revenue per student available in the district. Based on the foundation level of \$5,334 per student and the new poverty formula, the Chicago Public Schools will receive a total of \$1,023.9 million for FY07, an increase of \$61.4 million over the final FY2006 allocation.

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 FY2007.

The allocation of General State Aid to Supplemental General State Aid (SGSA) programs will remain at \$261.0 million, which is consistent with the provisions of P.A. 89-15 that require a SGSA allocation of at least \$261.0 million. . In addition to payments to the SGSA Fund, \$134.7 million will support debt-service payments for bond issues for the Capital Improvement Program. The General Fund will receive the residual balance of \$628.2 million in FY2007.

B. General Education and Educational Services Block Grants

Based on the final state budget, the Board expects to receive a total of \$549.8 million of General Education and Educational Services block grants from the state for FY07, an increase of \$33.0 million over the FY2006 original allocation of \$516.8 million. From the Educational Services block grants, \$10.4 million of the Illinois Free Lunch grant will support the Lunchroom Fund.

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 the Chicago Public Schools. 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.

C. State Aid Pension

State FY07 appropriation for the Chicago Teachers Pension Fund is \$75.3 million. This is \$0.4 million greater than last year's amount of \$74.9 million. This increase reflects a small increase in the statutory requirement in Section 17-127 of the Pension Code that the State pay for a portion of the costs of the increase in annual pension credit to 2.2% whenever the funded ratio of the Chicago Teachers Pension Fund drops below 90% (which it has since FY 2004).

D. Other State Resources

The categorical funding is based on the statewide K-12 FY 2007 appropriations adopted by the legislature in P.A. 94-798. Statewide, this includes a \$45.0 million increase for the Early Childhood Block Grant, \$10.0 million increase for the ADA block grant, \$11.9 million increase for the afterschool program, \$10.0 million for a new class size reduction program, \$5.0 million for a new school security program, and \$4.0 million increase for bilingual.

The \$10.0 million growth in statewide appropriation for the School Safety and Educational Improvement Block Grant will generate \$14.7 million for CPS in FY2007, an increase of \$1.7 million over \$12.9 million in FY2006. The Charter School Transitional Aid Program, created to help local school districts that have charter schools in operation for their first three years, is expected to generate \$3.0 million. As a result of several new new programs created for FY2007, CPS expects to get a total of \$37.7 million of revenues for miscellaneous other state program in FY 2007 (which includes \$3.0 million for the CPS Health Kids–Health Minds Expanded vision program and \$3.7 million for the regional safe schools program). This is an increase of \$3.4 million over FY 2006. The Illinois Free Lunch and Breakfast block grant will also provide \$10.4 million, the same as FY06.

III. FEDERAL RESOURCES

Total federal revenues for FY07 are budgeted at \$834.9 million, a decrease of \$3.1 million from the FY06 budget of \$838.0 million. This decline occurs primarily in the NCLB and IDEA allocations as a result of a small decrease in the Chicago poverty count by the Census Bureau.

A. ESEA (Elementary and Secondary Education Act) NCLB

Total ESEA program revenue is projected at \$407.3 million for FY2007, down just over \$1.1 million from \$408.4 million in FY2 006.

1. **Title I-A: Low Income** – The largest entitlement grant received under NCLB, this grant allows the district to provide supplemental programs to improve the academic achievement of low performing students. For FY 2007, CPS is estimated to receive \$ 279 million, down 1% from FY 2006. However, with the expected carryover from FY 2006, the funding level for supplemental educational programs is expected to remain the same at \$300 million
2. **Title I-A: System of Support** – This grant provides services to school in school improvement to improve the overall academic achievement of the students. For FY 2007, funds are expected to increase by \$1 million from FY 2006 to a total of \$15 million for FY 2007.
3. **Title I-B: Reading First** – Funds from this grant are used to provide services in the area of reading to grades K through 3 at eligible schools. This grant supports reading specialists and coaches. For FY 2007, CPS is expected to receive \$13 million, a 30% increase from \$10 million in FY06.

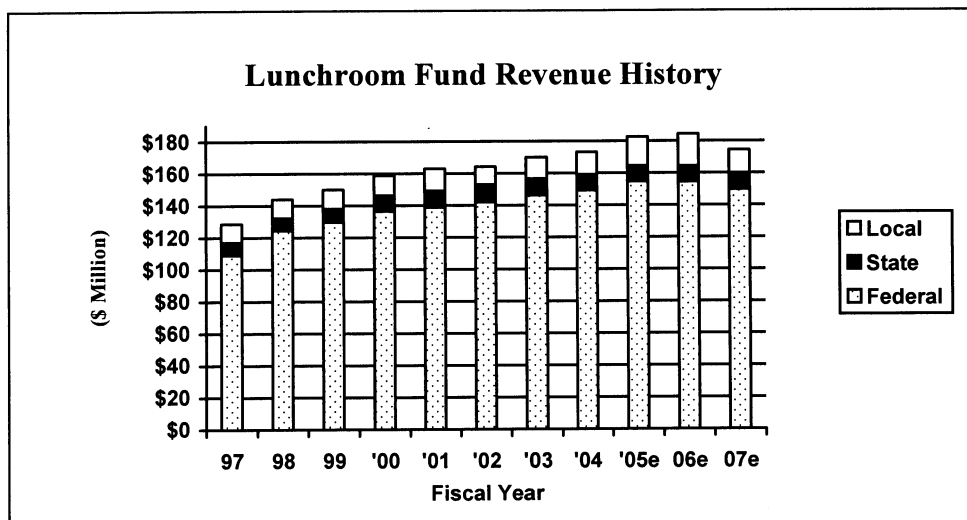
4. **Title I-D: Neglected/Delinquent** – The purpose of this grant is to improve the educational services for children and youth in local and state institutions for neglected or delinquent children and youth so that such children and youth have the opportunity to meet the same challenging State academic achievement standards. Programs include academic tutoring, counseling, and other curricular activities. For FY 2007, funds are expected to remain flat at \$2 million.
5. **Title II-A: Improving Teacher Quality** – Programs funded through this grant include reduced class size, recruitment and training, mentoring, and other support services to improve teacher quality. Funding for FY2007 is expected at \$ 48 million, a 4.3% increase over the FY 2006 \$46 million.
6. **Title II-D: Ed Technology** - A host of technology-related grants are consolidated into Educational Technology Grants. For FY2007, the estimated grant award of \$3.5 million decreased 50% from last year.
7. **Title III-A: Language Acquisition** – Funds are used to provide services to English language learners throughout CPS that meet the eligibility requirements. Funding levels for this grant are expected to remain almost constant at \$11.0 million for FY2007.
8. **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. Funding for FY 2007 is expected at \$5.5 million, an 8.3% decrease from the FY 2006 allocation of \$6.0 million.
9. **Title IV-B: 21st Century Comm** – The purpose of these funds is to provide opportunities for communities to establish or expand activities in community learning centers. For FY 2007, the grant allocation will stay flat at \$4.8 million.
10. **Title V-A: Innovative Programs** - The Innovative Program (ESEA V-A) supports local educational reform efforts to improve student achievement. As a result of a 47.8% decrease in the federal funding, this grant will decline from \$6.7 million to \$3.5 million
11. **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 FY 2007 are expected to be at level at \$600,000.
12. **Title VIII: Impact Aid** – Funds for this grant are used to help offset loss of revenue relating to federal acquisition of real property. Funds for FY 2007 are expected to remain level at \$0.4 million.

B. Total Child Nutrition Program

The Child Nutrition Program is expected to decrease from \$154.5 million in FY 2006 to \$149.6 million in FY 2007. Included in the program is food worth \$10.5 million from the U.S. Department of Agriculture, which will be used by vendors to reduce food costs.

The Lunchroom Funds account for school breakfasts and lunches for all children who participate in the programs during the school year. The federal government provides a basic level of reimbursement for all lunches and breakfasts plus supplemental reimbursement for free and reduced-price lunches and breakfasts. In addition to the reimbursement, the federal government also provides cash in lieu of commodities based on the number of meals served.

The Illinois Free Breakfast and Lunch Program also supports the program. Under the National School Lunch Program and the Child Care and Adult 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 AFDC households.



C. Individuals with Disabilities Education Act (IDEA)

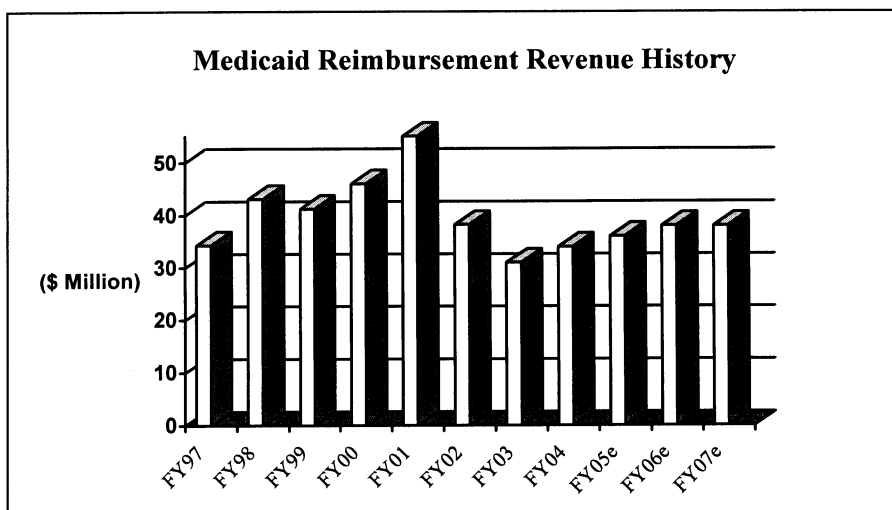
Total IDEA funding declines from \$114.9 million in FY2006 to \$100.5 million in FY 2007. This represents a decrease of \$14.4 million, or 12.5%.

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.

D. Medicaid Reimbursement under the Health Services Management Program

It is expected the the FY07 budgeted amount for Medicaid will remain the same as last fiscal year, \$38 million. The Individuals with Disabilities Education Act (IDEA) required school districts to provide health services to students with disabilities.

Through the Omnibus Budget Reconciliation Act (OBRA), and an interagency agreement was signed by the Illinois Department of Public Aid (IDPA) and the Illinois State Board of Education (ISBE), local education agencies were able to seek reimbursement from IDPA for services covered by IDPA's Medicaid program. An amendment later expanded the range of covered services (Illinois School Based Health Services Program).



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.

Board pursues many changes through the State that could result in higher revenues such as fair and equitable cost-based rates; the Chicago Public Schools expect minimal growth in this revenue for FY2007.

E. Other Federal Resources

The Chicago Public Schools (CPS) strives to increase supplemental funding for the development of innovative educational programs by generating and submitting written proposals for a variety of formula-driven and competitive grants which originate in federal and state agencies, foundations, and the corporate community. Various governmental agencies and private donors award funds to schools and districts based on formulas, the quality of written proposals, and the promise demonstrated by the proposed programs.