FY14 Budget Proposal

July 24, 2013

CHICAGO PUBLIC SCHOOLS | CPS

Overview

- CPS is forced to deal with a staggering financial challenge
- We also must keep investing in programs that support our mission of serving Chicago's children
- We continue to change the way we operate to focus our resources, cut non-essential spending, and streamline non-classroom departments
- While reserves are helping significantly in FY14, there is still no way to keep *all* pain away from classrooms
- We need help - the State needs to adequately fund education and pass pension reform

Agenda

- FY13 Summary of Results
- FY14 Operating Budget
- FY14 Capital Budget
- Outlook through FY16

Summary of projected FY13 results

- Projected operating deficit of ($273M), but better than budget by $159M
- Deficit covered by fund balance reserves, as planned.
- Capital spending of $473M reflects investment in school transitions, but is lower than recent years
- Better management of debt reduced and delayed debt service burden
- This improved performance helps limit pain in FY14

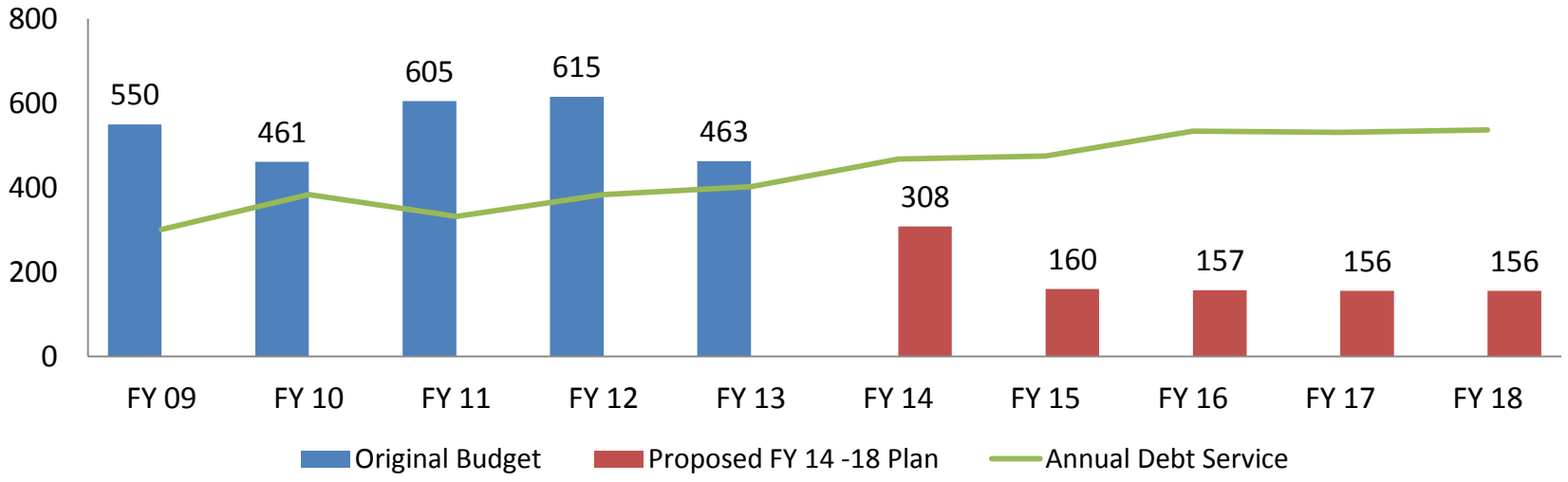
FY13 Operating result better than budget

	Budget	Projected	Difference	*Comment*
Revenue				
Property Tax	2,052.8	2,052.8	-	
Replacement Tax	105.7	128.3	22.6	*Higher corporate tax collections*
All Other Local	134.4	134.4	-	*Includes $30M TIF surplus*
Total Local	**2,292.9**	**2,315.5**	**22.6**	
State	1,593.2	1,645.2	52.0	*Catch up on past due*
Federal	910.8	891.7	(19.1)	*Lower Medicaid/Nutrition reimb.*
Investment Income	3.5	3.5	-	
Total Revenue	**4,800.4**	**4,855.9**	**55.5**	
Total Expenses	**5,232.2**	**5,128.5**	**(103.7)**	
Net Deficit	(431.8)	(272.6)	159.2	
Use of Reserves				
General Unrestricted	348.9	229.8	(119.1)	*$563M remaining at EOY*
SGSA	57.8	17.8	(40.0)	*Carryover released to schools*
Tort	25.0	25.0	-	*$68M remaining at EOY*
Total Reserves Appropriated	**431.8**	**272.6**	**(159.1)**	

CHICAGO PUBLIC SCHOOLS | CPS

FY13 Capital budget reflects critical investments

- Spending lower than past years even with supplemental budget investments in student transitions
- Debt burden from these begins in FY15



Active management lowered debt service burden, providing almost $300M more revenue since FY10

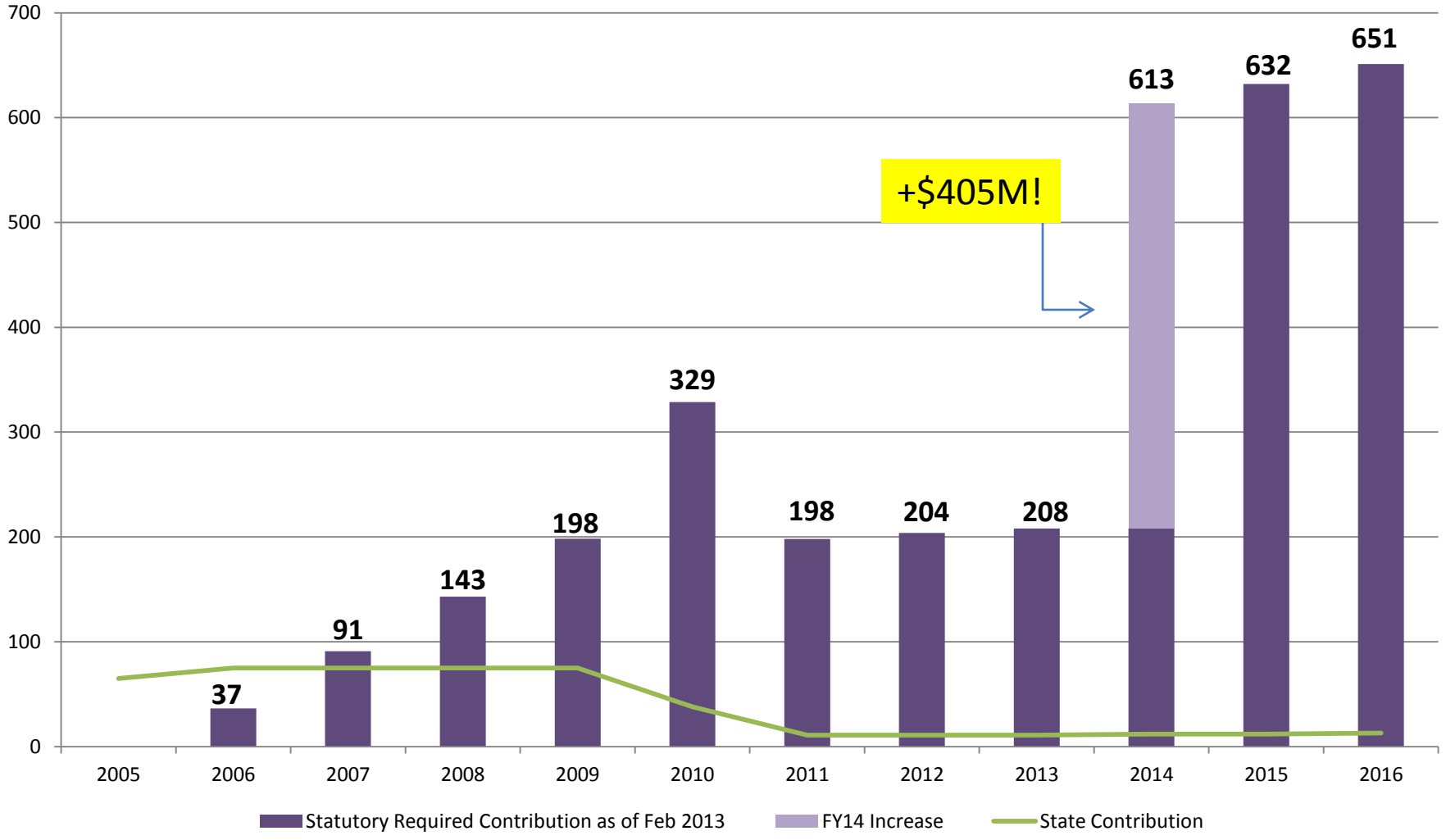
$ millions	FY10	FY11	FY12	FY13	FY14	FY15
Debt Service "Before"	***399***	***430***	***469***	***498***	***541***	***489***
Refinancings	1	5	5	-	2	7
Line of Credit	-	-	-	-	10	8
Restructuring/ Capitalized Interest	14	93	80	96	61	(2)
Net Impact	***15***	***98***	***85***	***96***	***73***	***13***
Debt Service Act/Proj	***384***	***332***	***384***	***402***	***468***	***475***

FY14 Operating Budget

FY14 Operating Budget Summary

- CPS faced historic $1 billion deficit
- Our financial picture worsens dramatically due to state's failure on pension reform and low overall funding
- Modestly higher revenues overwhelmed by $405M increase in pension expense
- Savings from school closings reinvested this year in supports for students at welcoming schools, as planned
- Budget reflects aggressive actions to limit pain to schools and preserve key programs:
  - Further cuts to admin/operations/central office
  - Took property tax to the cap
  - Debt restructuring
  - Use of reserves, including restricted
- Funds remaining not sufficient to keep school spending flat

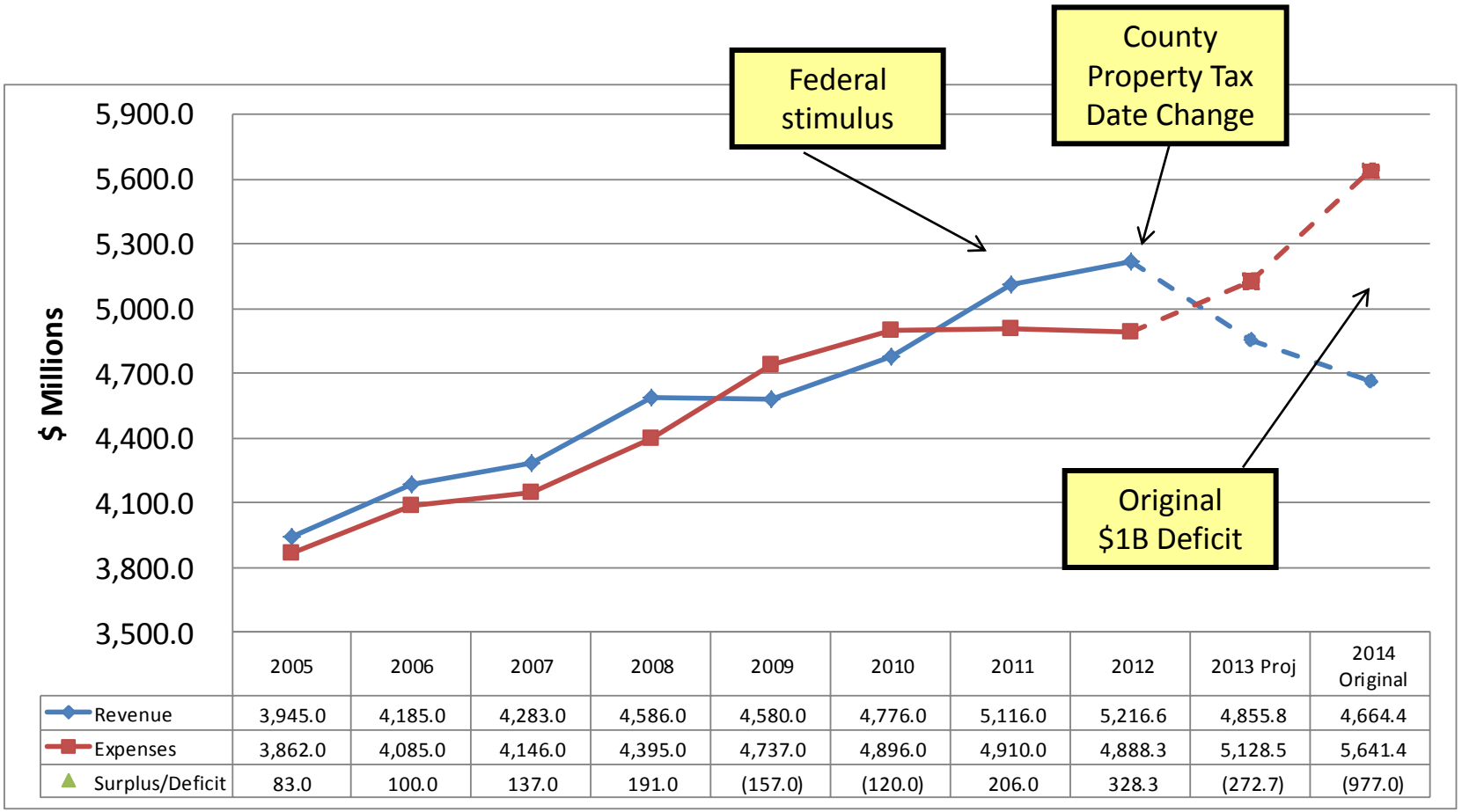
Pension relief ends, creating enormous cliff for us to absorb



The State provides insufficient funding for CPS

- Illinois ranks 48th among states in percent of education funding it provides (32% versus 48% average)
- FY14 funding is 3rd year in a row Illinois districts won't receive *the statutory minimum* of $6,119/pupil); now 9% below at $5,720
- Other large districts like NY, LA, Philadelphia, and Milwaukee receive over *50% more per pupil* from their states (each more than $8,500)
- Illinois Education Funding Advisory Board has asserted that $8,672 is an "adequate" level of funding; *we are 36% below that*
- No other districts in Illinois and no large districts nationally are required to fund almost all teacher pension expense (including unfunded liability)
- As bad as this is, the outlook in Illinois is for *less* education funding due the pension crisis

Our problem really started in FY09; one-time actions and timing have made recent years look rosy, but big deficits begin in FY13 and FY14



	2005	2006	2007	2008	2009	2010	2011	2012	2013 Proj	2014 Original
Revenue	3,945.0	4,185.0	4,283.0	4,586.0	4,580.0	4,776.0	5,116.0	5,216.6	4,855.8	4,664.4
Expenses	3,862.0	4,085.0	4,146.0	4,395.0	4,737.0	4,896.0	4,910.0	4,888.3	5,128.5	5,641.4
Surplus/Deficit	83.0	100.0	137.0	191.0	(157.0)	(120.0)	206.0	328.3	(272.7)	(977.0)

Budget actions reduce the $1 billion deficit

	$ millions
Projected FY13 deficit (as of Jan 2013)	**(334.6)**
Higher pension expense	(405.0)
Contractual salary increases	(93.0)
Lower State and local revenues	(41.0)
Higher Program investments	(12.4)
Higher debt service	(91.0)
Original FY14 deficit projection	**(977.0)**
Reductions to ops/admin/central office	111.6
Property tax to cap	88.6
Reductions to school budgets	68.0
Better FY 13 performance	12.2
FY14 use of reserves	**(696.6)**

CHICAGO PUBLIC SCHOOLS | CPS

FY14 Operating Budget

$ millions	FY13 Proj	FY14 Budget	Difference	*Comment*
Revenue				
Property Tax	2,052.8	2,141.4	*88.6*	*Tax to the cap*
Replacement Tax	128.3	105.5	*(22.8)*	*One time growth in FY13*
All Other Local	134.4	169.7	*35.3*	
Total Local	**2,315.5**	**2,416.6**	***101.1***	
State	1,645.2	1,621.5	*(23.7)*	*No "catch up";*
Federal	891.7	908.4	*16.7*	*Carryover funds*
Other revenue	3.5	3.1	*(0.4)*	
Total Revenue	**4,855.9**	**4,949.6**	***93.7***	
Total Expenses	**5,128.5**	**5,592.3**	**463.8**	*Pension and contract increases*
Net (Gap b/f Reserves)	(272.6)	(642.7)	(370.1)	
Use of Reserves				
General Unrestricted	229.9	562.6	*332.8*	***Zero** balance at 6/30/14*
SGSA	17.8	41.3	*23.5*	*Carryover at schools*
Tort	25.0	38.8	*13.8*	*Balance at 6/30/14: $29M*
Debt Service	--	53.8	*53.8*	*Adds to operating revenue*
Reserves Appropriated	**272.7**	**696.5**	***423.9***	

Even with funding challenges, budget reflects priorities outlined in *The Next Generation: Chicago's Children*

- **Pillar 1: High Standards, Rigorous Curriculum, Powerful Instruction**
  - Support for Magnet, Gifted, and Talented programs ($60M total, including $7M new for 18 Welcoming Schools' IB/STEM programs)
  - Establish full day Kindergarten for all students ($15M)
  - Launch "Chicago Ready to Learn" pre-K initiative and expanded opportunities for over 700 children
- **Pillar 2: System of Supports that Meet Student Needs**
  - New Office of Strategic School Support Services (OS4) invests in transformative improvement for high-need schools ($20M)
  - Expansion of Safe Passage for Welcoming Schools ($9M)
  - Supports to promote attendance ($5.4M) and dropout prevention/recovery programs ($7.1M)
  - Adding 2,692 seats in 11 new options schools to re-engage drop outs and provide a path to a HS diploma ($13.9M)

The Next Generation: Chicago's Children, cont'd

- **Pillar 3: Engaged and empowered families and communities**
  - Investment in five new Parent Engagement Centers to help address parents' school-related needs ($700K)
  - Expansion of Safe Haven program to serve up to 1,500 more children ($290K)
- **Pillar 4: Committed and effective teachers, leaders, and staff**
  - Chicago Executive Leadership Academy ($6.4M) and Chicago Leadership Collaborative ($8.7M) programs to develop, train and coach new and rising principals, chiefs, deputies, and select central staff
  - Investment in teacher professional development ($10.6M), including supplemental PD in the 22 OS4 schools ($2.9M)
  - Support for new teacher and principal evaluations processes ($4.2M)
  - Student Based Budgeting model gives principals more control over their school budgets ($2B restructured), and opportunities for school-based PD

Our investments impact tens of thousands of students

# students enrolled	FY13	FY14	Increase
Total CPS enrollment	**403,625**	**405,519**	**1,894**
IB/STEM	10,189	21,999	11,810
Full Day Kindergarten	26,567	30,362	3,795
Pre-K	24,507	25,225	718
OS4 schools	N/A	9,000	9,000
Magnet/Selective	44,872	45,460	588
Schools with Safe Passage	30,463	60,982	30,519
Education Options Schools	6,242	8,934	2,692

FY14 budget reflects continuing pattern of central office, administration, and operations reductions

Since FY11, we have made nearly $700M in cuts to maximize funds available for the classroom

	FY11	FY12	FY13	FY14	TOTAL
Administration	17.2	107.0	12.0	33.7	169.9
Operations	14.1	127.0	116.0	59.5	316.6
Programs	0.0	87.0	49.0	18.4	154.4
Debt Obligations*	44.0	--	--	--	44.0
TOTAL	**75.3**	**321.0**	**177.0**	**111.6**	**684.9**

* Initiatives to lower annual debt service expense add to Operating Fund revenue

Comprehensive approach to keep cuts as far from the classroom as possible

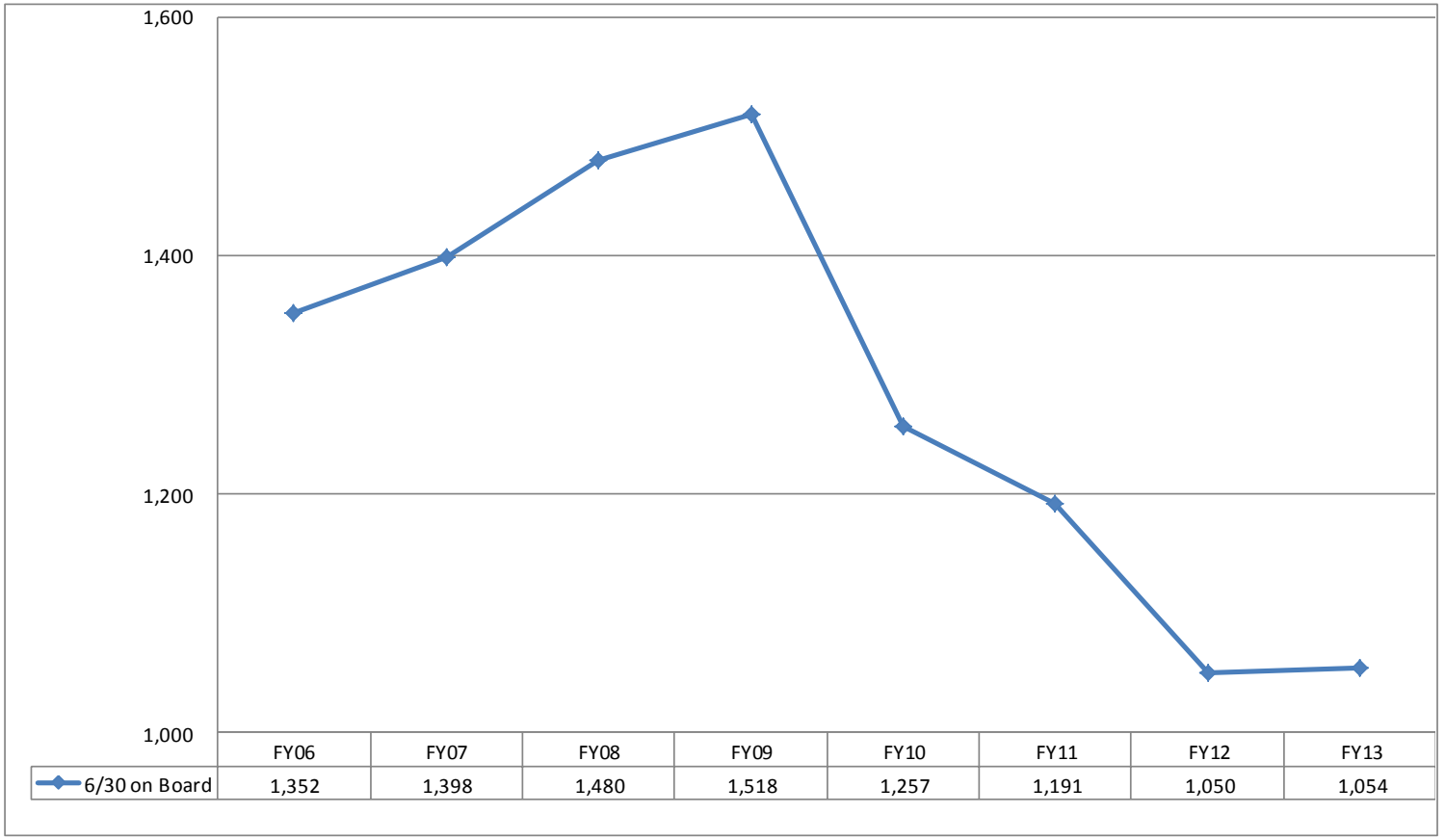
Department	Description	$ millions
Operations Total		**$59.5**
Facilities	Identify new approach to facilities management (cleaning, etc.) Continue to reduce engineers and outside spending on maintenance	$32.0
Foodservice	Reduce lunchroom staff based on industry standards and observations RFP for new food provider(s)	$21.0
Transportation	Paratransit vans for routes with few riders Bus aide rationalization	$6.5
Admin. Total		**$33.7**
Finance/IT	Reduce staffing in Accounting and Treasury Reduce total headcount by 28, and convert 22 consultants to employees to reduce cost	$5.2
Diverse Learners	Various central admin consolidation moves	$7.5
Networks	Reduce # of networks and staff to support	$1.6
Other	Central office streamlining/move, improved supplier mgmt, etc.	$19.4
	Operations/Admin TOTAL	**$93.2**

Most central program cuts reduce administrative positions and free up funds for *all* schools

Description	$ millions
	$18.4
Completes rationalization of magnet clusters started in FY13; planned 2 year phase-in. Consistent staffing of 1 supplemental FTE per school	$8.6
Reduce selected magnet positions for schools with large SBB increases	$0.7
Reduce portion of school intervention supports	$1.5
Shift costs of school-based athletic directors from central office to schools	$1.3
Transition LPN program to schools; shift funding for counselors to grants; expand dual credit/enrollment services to more students but more cost effectively	$1.6
Reduce early childhood central office staff by 8 and spending on PD; limit outreach services	$1.8
Various reductions in central office positions and non-personnel costs	$2.9
TOTAL Central Office and Operations Cuts (both slides):	**$111.6**

Central office headcount down 34% since FY09

On-Board Staff as of June 30



	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
6/30 on Board	1,352	1,398	1,480	1,518	1,257	1,191	1,050	1,054

Consolidating underutilized schools will save $41M per year in operating costs

	FY14 Savings ($M)
Food Service Workers	5.4
Engineer Reductions	3.5
Custodial Reductions	7.7
Utility Savings	3.4
Academic Counselors	5.4
Clerks	3.8
Principals	9.1
Supplemental Resources	2.6
Estimated Annual Savings	**$40.9**
Average Per School	**$0.75**

Those savings reinvested in welcoming schools in FY14 to ensure student success

	$M
Social/emotional supports	16.0
Moving assets/logistics	16.4
Safe Passage/Safety	9.2
Transportation	1.2
Welcoming school fund	5.7
New STEM/IB programs	12.1
Teacher transition support	14.5
Principal/ESP transition	7.0
Total	**$67.8M**

Unfortunately reductions to school budget were unavoidable

- There was no alternative to making some reductions to school budgets after Springfield left us with $405M pension increase
- Overall reduction of 3.5% to core instruction ($68M)
- We reduced the challenge with early release of SGSA funds to all schools ($36M)
- Student based budgeting (SBB) created more transparency and equity, but some first year transitions were tough

Only use of reserves is saving us from deeper cuts

Reserve Detail	EOY FY12	Used in FY13	EOY FY13	Needed for FY14	EOY FY14
General Unrestricted	792.5	229.8	562.7	562.7	-
Tort Fund Balance	92.7	25.0	67.7	38.8	28.9
SGSA for Schools	59.1	*17.8*	41.3	41.3	-
Restricted/Not Avail for Gap Closing	*124.5*	-	*124.5*	-	*124.5*
Operating Reserve Total	**1,068.8**	**272.6**	**796.2**	**642.8**	**153.4**
Debt Service Reserve*	**255.0**	**6.0**	**249.0**	**53.8**	**195.2**
TOTAL RESERVES	**1,323.8**	**278.6**	**1,045.2**	**696.6**	**348.6**

*Amount used in FY13 were not related to the Operating Budget. Similarly, additional amounts may be used in FY14 that do not relate to the Operating Budget

CHICAGO PUBLIC SCHOOLS | CPS

FY14 Capital Budget

FY14 Capital Budget Summary

- Proposed CPS investment level is lower than past years at $187.7M – despite enormous capital needs
- Other funds from State ($110M) and TIF's ($9.9M) help, and lead to $308M total budget
- Disciplined screening process focuses on critical priorities
- We cannot meet all district needs now without more funds to cover future debt service burden
- Closing 57 buildings will save over $400M in future capital investment, freeing funds for remaining 600+ facilities

Capital priorities receiving reduced FY14 investments

$ millions	FY13	FY14
Building condition	39.2	$125.7
Relieve overcrowding		
In existing schools	-	4.5
New annex	-	20.0
Education program support	120.5	5.8
Technology/Security	22.2	23.7
Playgrounds/remove modulars	4.8	5.1
Welcoming Schools	155.0	-
Co-location Schools	51.3	-
Legal/Regulatory Requirements	5.6	2.9
CPS Funded Projects	**$398.6**	**$187.7**
State Funded New School Construction	-	110.0
TIF & Grant Funded Projects	74.8	9.9
Total Capital Budget	**$473.3**	**$307.6**

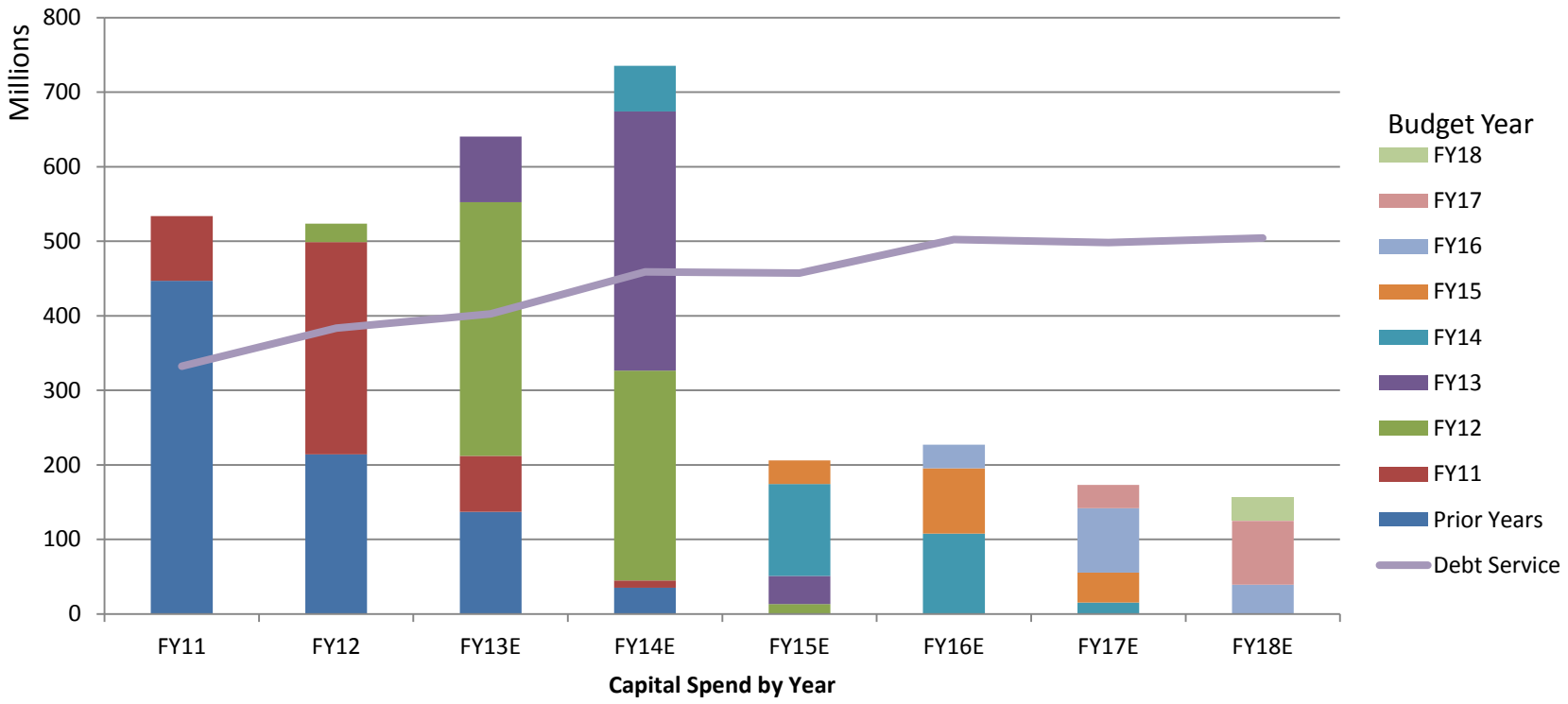
FY14 Building Condition and Maintenance Projects

- $125.7M in Building Condition projects
  - Chicago High School for the Arts - $30M - Renovation for new space
  - Taft - $17.0M - New windows, lockers and labs
  - White School - $6.6M: Replace roof, windows, and rooftop mechanical heating/cooling units
  - Carson School - $6.4M - Replace Roof, Masonry, Parapets at Main Building and replace fire alarm. Replace Roof at Annex building.
  - Hamline Branch - $2.0M - New roof. Repair all masonry parapets. Replace damaged ceiling tile.
  - Shoesmith School - $4.5M - Replace existing boilers with new. Provide Air Conditioning
  - Chimney repair (various schools) - $5M
  - Auditorium seating replacement - $0.5M
  - Contingency - $25.0M

FY14 Education, Technology, and IT Investments

- $6.0M in maintenance priorities to address smaller facility-related capital projects throughout the District
- Career and Technical Education lab upgrades/ build outs at: Hyde Park, Clemente, South Shore Occupational, Ray Graham, and Bowen ($4.2M)
- Technology addressing bandwidth, laptops and other user devices, infrastructure, disaster recovery plans, and move to new central office ($21.1M)
- New security camera systems and alarm systems ($2.5M)
- Mobile classrooms to support full day kindergarten at Nightingale ($1.6M)
- Furniture, fixtures, and equipment ($4M)

Necessary capital spending leads debt service



Future Outlook

Outlook for FY15 and FY16 continues grim

	FY 14 Budget	FY 15 Projection	*FY 15 Change*	FY 16 Projection	*FY 16 Change*
Revenue					
Property Tax	2,141.4	2,157.4	*16.0*	2,229.4	*72.0*
Replacement Tax	105.5	105.5	*0.0*	105.5	*0.0*
All Other Local	169.7	151.7	*(18.0)*	151.7	
Total Local	**2,416.6**	**2,414.6**	***(2.0)***	**2,486.6**	***72.0***
State	1,621.5	1,455.5	*(166.0)*	1,459.5	*4.0*
Federal	908.4	908.4		908.4	
Investment Income	3.1	3.1		3.1	
Total Revenue	**4,949.6**	**4,781.6**	***(168.0)***	**4,857.6**	***76.0***
Appropriations Base	**5,592.3**	5,592.3		5,695.9	
Net Surplus/(Gap)	(642.7)	(810.7)		(838.3)	
Cost Increases					
Pension Increase		18.8		19.4	
Salary Increases		93.8		114.9	
Health Care inflation@3%		11.0		11.0	
School action savings		(20.0)		(23.0)	
Total Cost Changes		**103.6**		**122.3**	
Revised Appropriation	**5,592.3**	**5,695.9**		**5,818.2**	
Net Surplus/(Deficit)		(914.3)		(960.6)	

CHICAGO PUBLIC SCHOOLS | CPS

Conclusion

- CPS is forced to deal with a staggering financial challenge
- But we must keep investing to improve student outcomes
- We have made tremendous changes to keep cuts away from the classroom, but can no longer avoid cuts to schools
- Our use of reserves was necessary to stay on mission
- Future years require significant help from Springfield; we cannot continue to absorb financial shocks like in FY14
- Our entire team is dedicated to succeed