

# Chicago Board of Education: Finance And Audit Committee

*July 25, 2018*



# Financial Update

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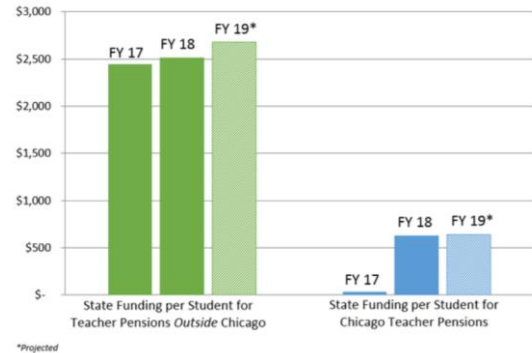
# Equitable State Funding Improved CPS Finances

- ***State revenue risk is largely removed – proven in FY18 and passage of FY19 state budget***
- ***FY19 budget is balanced for the second year in a row***
- ***Fund balance has been restored and is nearing CPS' fund balance targets***
  - \$300M projected by end of FY18, assuming state grant payments catch up
  - FY18 fund balance target was \$317M
- ***Cash improved by \$455M in FY18 and is projected to improve by \$100M in FY19***
  - FY18 summer cash borrowing will be \$700M - CPS last borrowed \$700M in this timeframe when it was rated investment grade
- ***The market is trading assuming an improved CPS' financial position***



# CPS Pension Funding is a Matter of Equity

- CPS pensions cost drove deficits and drained fund balance
- CPS is the only school district in State to pay its own pensions
- New legislation provided CPS with \$233M more State funding in FY18 to fund pensions making progress towards equity



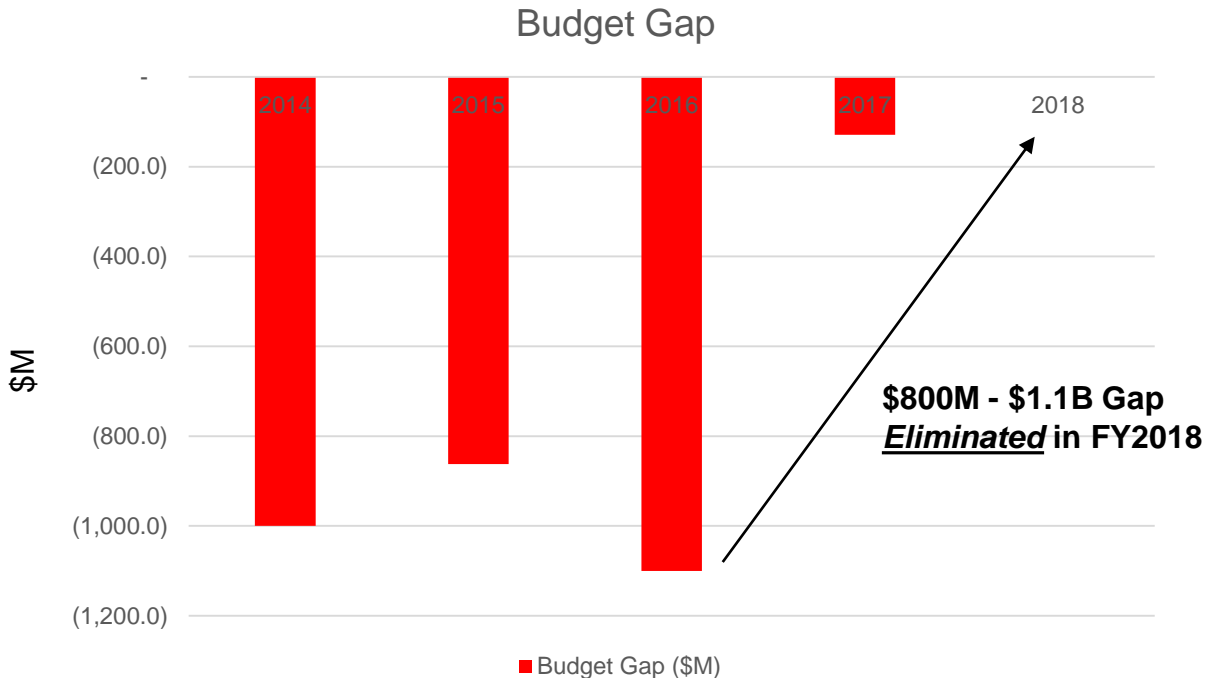
\$M	FY12	FY13	FY14	FY15	FY16	FY17	FY18*
Surplus/(Deficit)	328	(120)	(509)	(711)	(486)	(207)	238
Pension Paid by CPS Operating	193	197	601	613	676	733	551
General Fund Balance			436	360	(127)	(275)	300

\*Projected, unaudited



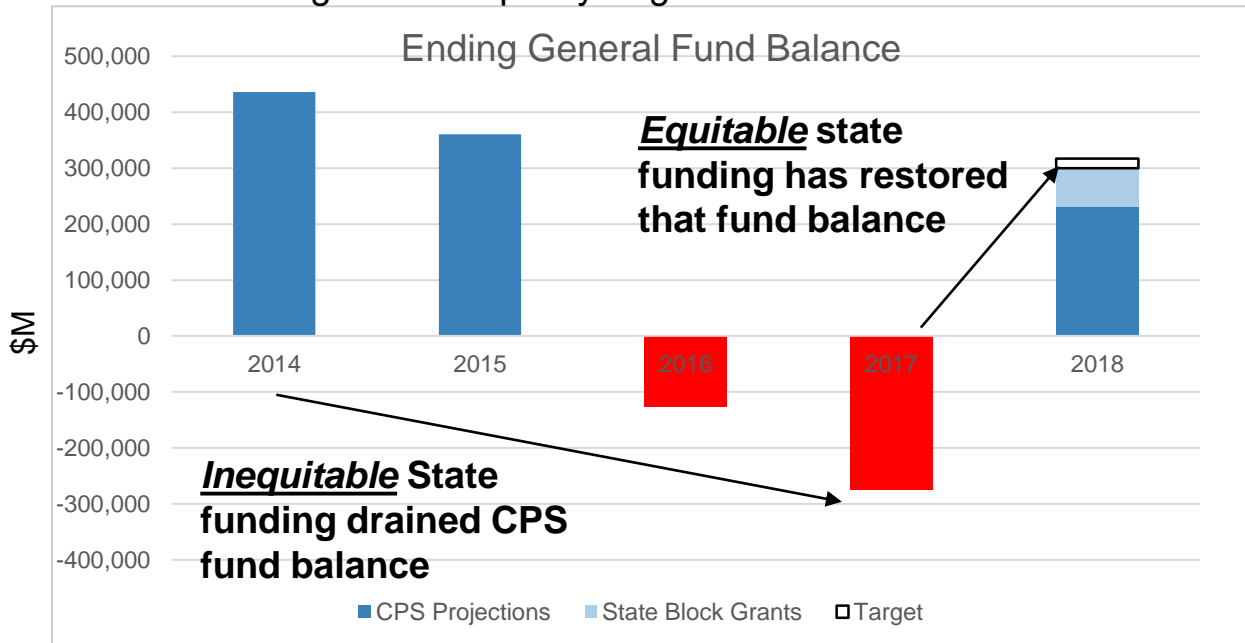
# Budget Gap Eliminated in FY2018

- CPS has two years of balanced budgets more equitable state funding to low income school districts and a passage of a State budget



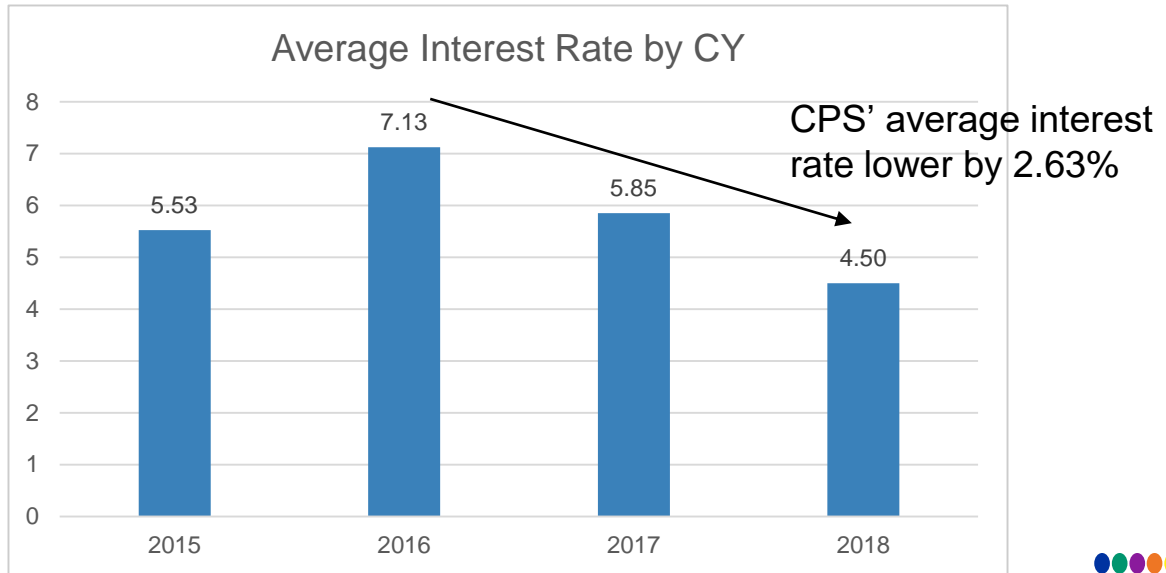
# CPS Fund Balance is Nearly Restored

- \$404M increased pension payments in FY14 drained fund balance
- Fund balance was drained in order to protect funding in the classrooms
- Recent equitable funding has allowed CPS to nearly restore fund balance to the low end range of CPS' policy targets



# CPS Borrowing Rates have Declined

- The market believes the financial turnaround
- CPS borrowing rates have declined
- Rating agencies have upgraded CPS several times and CPS expects this trend to continue given the FY18 financial performance and FY19 budget



# Significantly Increased Revenues

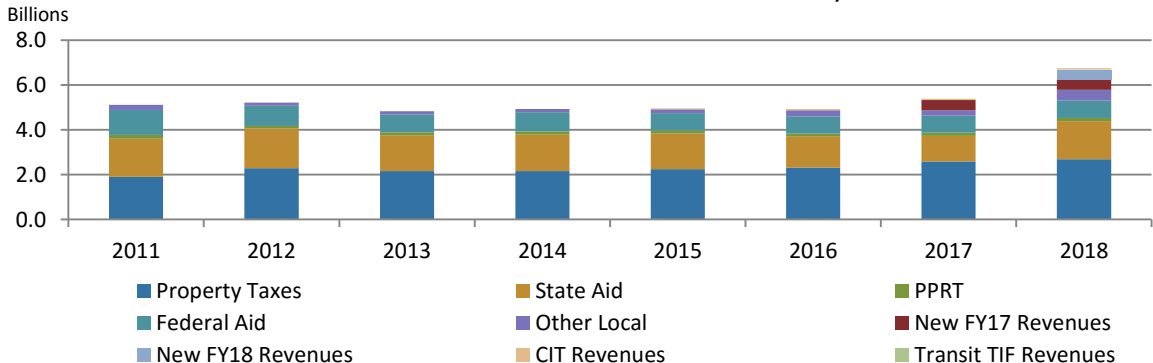
- CPS has ***structurally*** increased its revenues by \$898M over the past two years

## **FY17: CPS secured \$454M in new structural revenues**

- \$250M new pension levy which will grow based on EAV
- \$102M new Equity Grant from the State within GSA, held harmless in P.A. 100-465
- \$74M GSA hold harmless which will continue with P.A. 100-465
- \$28M increase in the Early Childhood Grant

## **FY18: P.A. 100-465 increases structural revenues by \$444M, incremental to FY17 revenues**

- \$221M State pick-up of normal cost
- \$130M property tax levy for pension which will grow based on EAV
- \$70M new formula funding
- \$19M early childhood and \$4M other
- State approval allows CPS implementation without City action



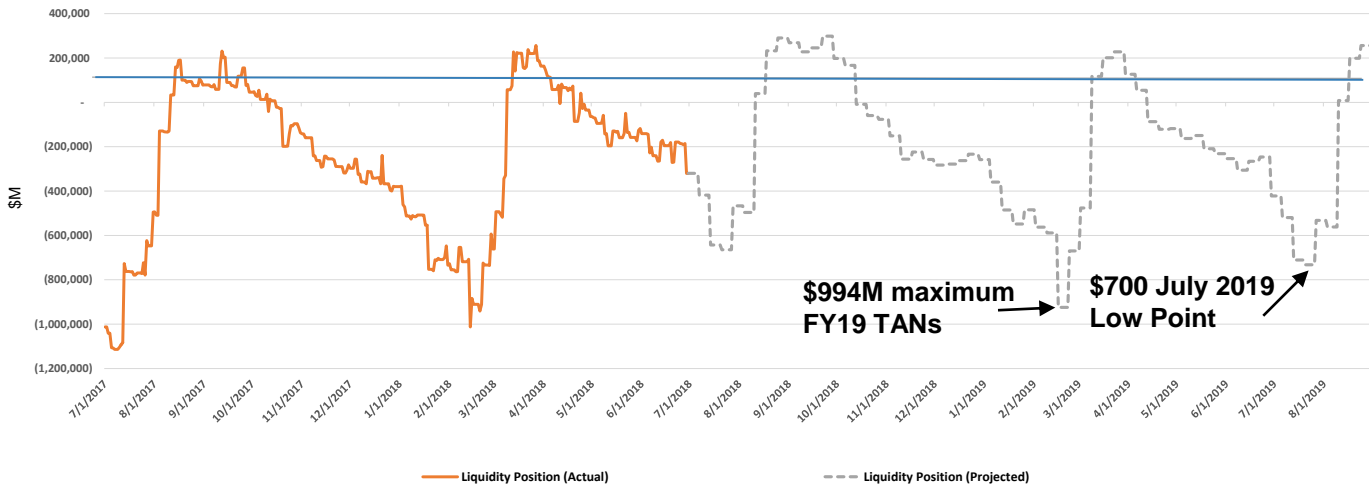


# FY19 Cash Forecast

- FY18 cash is improved by \$455M versus FY2017
- FY19 cash projected to be \$100M improved
  - \$133M due to more timely EBF funding offset by \$33M of conservative assumptions

TAN Use	February Low Point	July Low Point
FY17	\$1.55B	\$1.337B
FY18	\$1.1B <i>(\$455M less)</i>	\$700M <i>(\$637M less)</i>
FY19	\$994M <i>(\$100M less)</i>	\$700M <i>(\$0M Less)</i>

FY18-19 Liquidity Position



# Recent Rating Changes

Date	Rating Agency (S&P/Fitch/Kroll)	Rating Change
October 2017	S&P	Upgraded Outlook from Negative to Stable
November 2017	Fitch	Upgraded from B+ to BB- and Upgraded Outlook from Negative to Stable
November 2017	Kroll	Upgraded Outlook from Negative to Stable
April 2018	S&P	Upgraded Outlook from Stable to Positive



# May Year to Date Budget to Actual & Full Year Projection For The General Operating Fund (Unaudited)

*July 25, 2018*

# Fiscal Year 2018 Financial Summary (Unaudited)

**GENERAL OPERATING FUND**  
**CONDENSED SCHEDULE OF REVENUES, EXPENDITURES AND NET CHANGES IN FUND BALANCE**  
**FINAL APPROPRIATIONS VERSUS ACTUAL (UNAUDITED)**  
 For Fiscal Year 2018-Year to Date as of May 31, 2018  
 (Amounts in Millions)

	YEAR TO DATE COMPARISON			FISCAL YEAR COMPARISON		
	May 2018 Final Appropriations	May 2018 YTD Actual	Over (under) Budget	Fiscal Year 2018 Final Appropriations	Fiscal Year 2018 End of Year Projections	Over (under) Budget
<b>Revenues:</b>						
Property taxes.....	\$ 1,455	\$ 1,465	\$ 10	\$ 2,809	\$ 2,809	\$ -
Replacement taxes.....	75	81	6	90	110	20
State aid.....	1,547	1,323	(224)	1,699	1,848	149
Federal aid.....	695	537	(158)	773	677	(96)
Interest and investment earnings.....	1	5	4	1	5	4
Other.....	210	217	7	270	268	(2)
SubTotal.....	\$ 3,983	\$ 3,628	\$ (355)	\$ 5,642	\$ 5,717	\$ 75
Other financing sources (uses)	-	277	277	-	277	277
Total revenues.....	\$ 3,983	\$ 3,905	\$ (78)	\$ 5,642	\$ 5,994	\$ 352
<b>Expenditures:</b>						
Salaries.....	\$ 2,319	\$ 2,272	\$ (47)	\$ 2,434	\$ 2,358	\$ (76)
Benefits.....	1,272	878	(394)	1,380	1,360	(20)
Services.....	1,142	1,108	(34)	1,294	1,270	(24)
Commodities.....	193	170	(23)	258	256	(2)
Other.....	308	74	(234)	333	241	(92)
Total expenditures.....	\$ 5,234	\$ 4,502	\$ (732)	\$ 5,699	\$ 5,485	\$ (214)
Change in fund balance.....		\$ (597)			\$ 509	



# Fiscal Year 2018 Financial Summary (Unaudited)

## **Year to Date Comparison**

**The Year to Date comparison provides a snapshot of CPS' actual results as of May 2018 vs original budget estimates.**

- Property tax and PPRT revenues are on target with the budget.
- State aid, as of the report date, is below original estimates by \$224MM, due to the timing of state payments. The majority of this amount has now been received, including FY2017 amounts not received last fiscal year.
- Federal aid currently shows a shortfall of \$158MM and is driven primarily by timing differences, but additional reimbursements of \$62MM are expected before the end of the CPS' revenue recognition period.
- Interest and investment earnings are higher than estimates by \$4MM due to increased investment activity for unrestricted operating funds.



# Fiscal Year 2018 Financial Summary (Unaudited)

## **Year to Date Comparison Continued**

- Other revenues are on track & include TIF Surplus funds, MEABF Pension Contributions, school-based funds, etc.
- \$47MM underspend in salaries is due to vacancies in schools and departments.
- \$394MM underspend in benefits is due to timing of the recording of pension expense and other benefit liabilities.
- \$57MM underspend in services and commodities due to timing of spend, lower than anticipated utilities costs, and lower than anticipated school spending.
- \$234MM variance in other/miscellaneous accounts primarily reflects transfer of appropriation out to spending accounts (i.e. salaries, benefits, etc.). Includes contingency amounts for Federal grants.



# Fiscal Year 2018 Financial Summary (Unaudited)

## Year End Projections

**The year end projections provide a snapshot of where CPS expects to be by fiscal year end, based on current activities.**

- Property tax revenues are projected to be near budgeted levels-\$2.8 billion for 2018.
- PPRT revenues are projected at \$20MM over budget due to increased corporate income taxes collected by the state.
- State aid is expected to be \$149MM over budget due to the State catching up on prior year and current year payments.
- Federal aid projected at \$96MM under budget due to lower than expected Federal spending.
- Projected underspend of \$76MM on salaries and benefits due to vacancies in schools and departments throughout the year.
- Projected underspend of \$26MM on services and commodities due to lower than anticipated utilities costs and underspend and lower than anticipated school spending.



# Fiscal Year 2018 Financial Summary (Unaudited)

## Year End Projections Continued

- Other/miscellaneous spending projections are trending lower to reflect lower than anticipated interest cost on TANs (including \$51MM of reduced short-term interest costs due to active cash management and improved cash flow).

### Notes:

1. *The variance between the May 2018 YTD change in net fund balance of (\$597MM) and the end of year projected change in net fund balance of \$509MM is mostly driven by 2nd installment property tax collections and state aid receipts thru the end of August 2018 (CPS' 60 Day Revenue Recognition Period).*

*Estimated \$1.4B.*

2. *CPS expects to end the year with positive ending fund balance, but we are still in the year end close process. With the Fiscal Year 2018 annual financial audit just beginning, more information will be presented as it becomes available.*

3. *The Fiscal Year 2017 Popular Annual Financial Report is now available on the CPS website.*





# Fiscal Year 2018 Financial Summary (Unaudited)

Questions?

