

FY 16 Budget Overview

Presentation to the Board

August 26, 2015



Overview

- Students have made great strides—increasing graduation, attendance rates, better performance on standardized tests, more students enrolling in college
- Have continued to make cuts within our control, nearly \$1 billion-\$740M since FY 11 and \$200M more this year
- While many of these cuts are painful, we are doing everything we can to keep cuts away from the classroom
- Progress is threatened by declining state funding and growing pension costs
 - Pensions cost more than \$1 billion in last two years and \$700 million more this year
 - State pays pension costs for all other districts--\$3.7 billion this year-- but will give only \$12 million for CPS teacher pensions
 - Equates to \$2,266 per student outside of Chicago v. \$31 for CPS students



Overview, continued

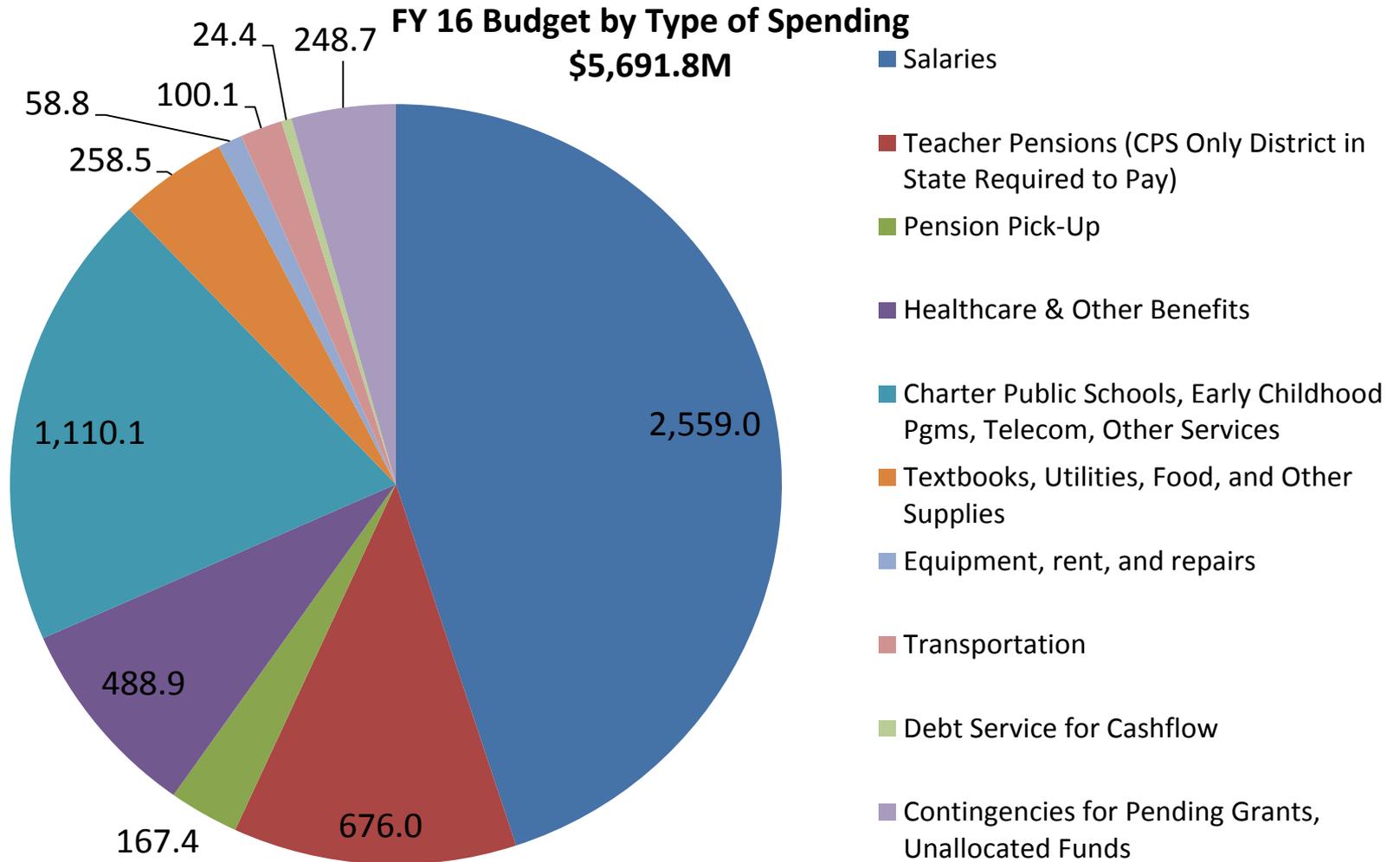
- Budget is far from ideal, but reflects fiscal reality
- Governor, Senate President, House Speaker, others agree funding system is inequitable and must be changed
- Will work with partners for pension funding parity and to fully fund education

Operating Budget Overview

- FY 16 total operating spending \$64.3M below FY 15
 - Slight change from released budget due to community feedback
 - Revised transportation bell times
 - Restored funds for diverse learner services
 - Began phase-out of pension pick-up for non-union employees
- \$1.1B gap closed by cuts/cost reductions through efficiencies, state pension equity, unsustainable debt restructuring, additional property taxes and TIF surplus, plus reserves
- State funding decline, failure to equitably fund pensions, and increasing CPS pension obligations is squeezing CPS from both ends and why we need state partnership
- Cashflow is manageable only with \$900M in short-term lines of credit



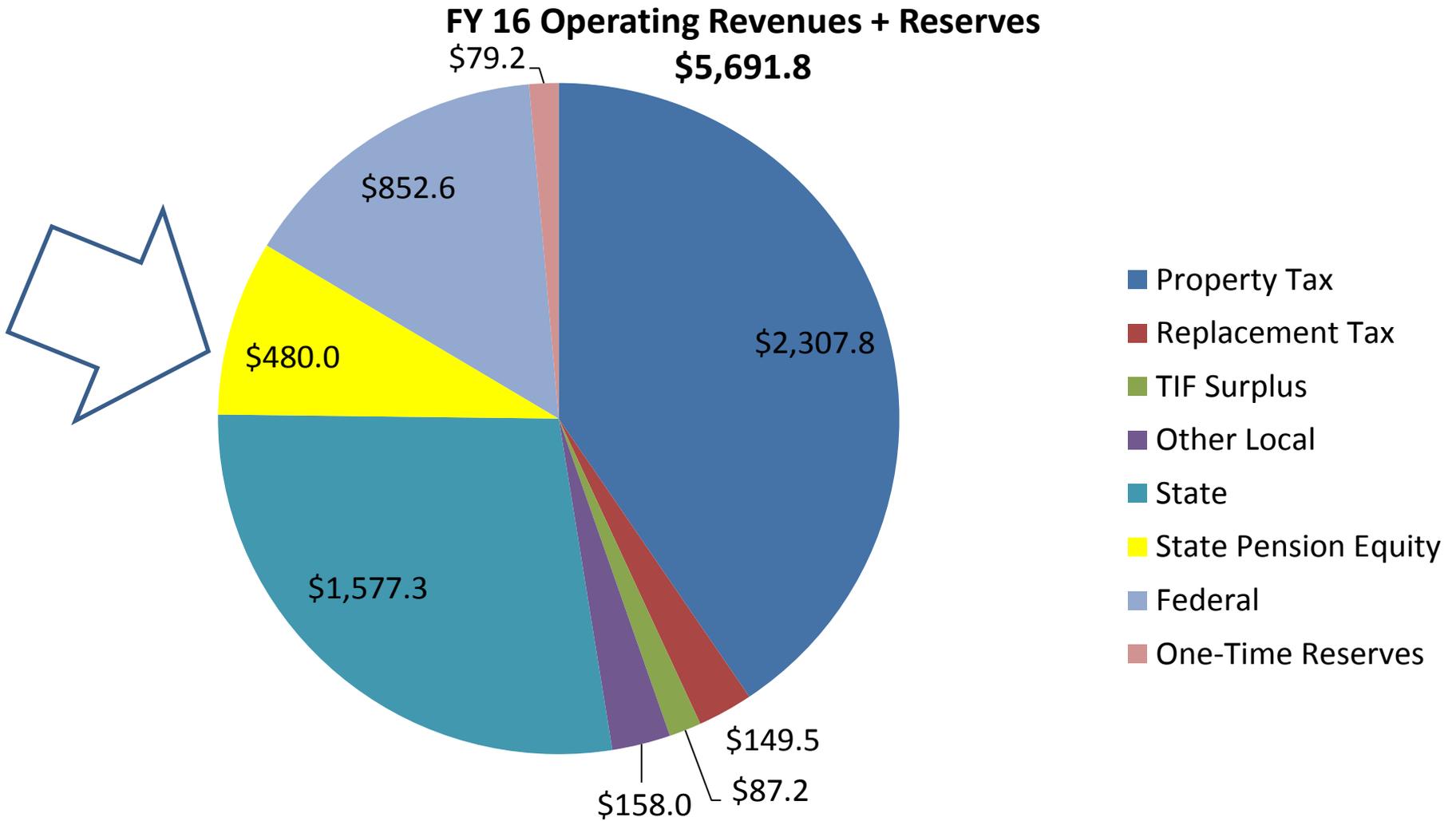
Salaries and benefits are 68% of spending



CPS is only district in the state that must pay its own teacher pension cost



Budget relies on \$480M from state pension equity

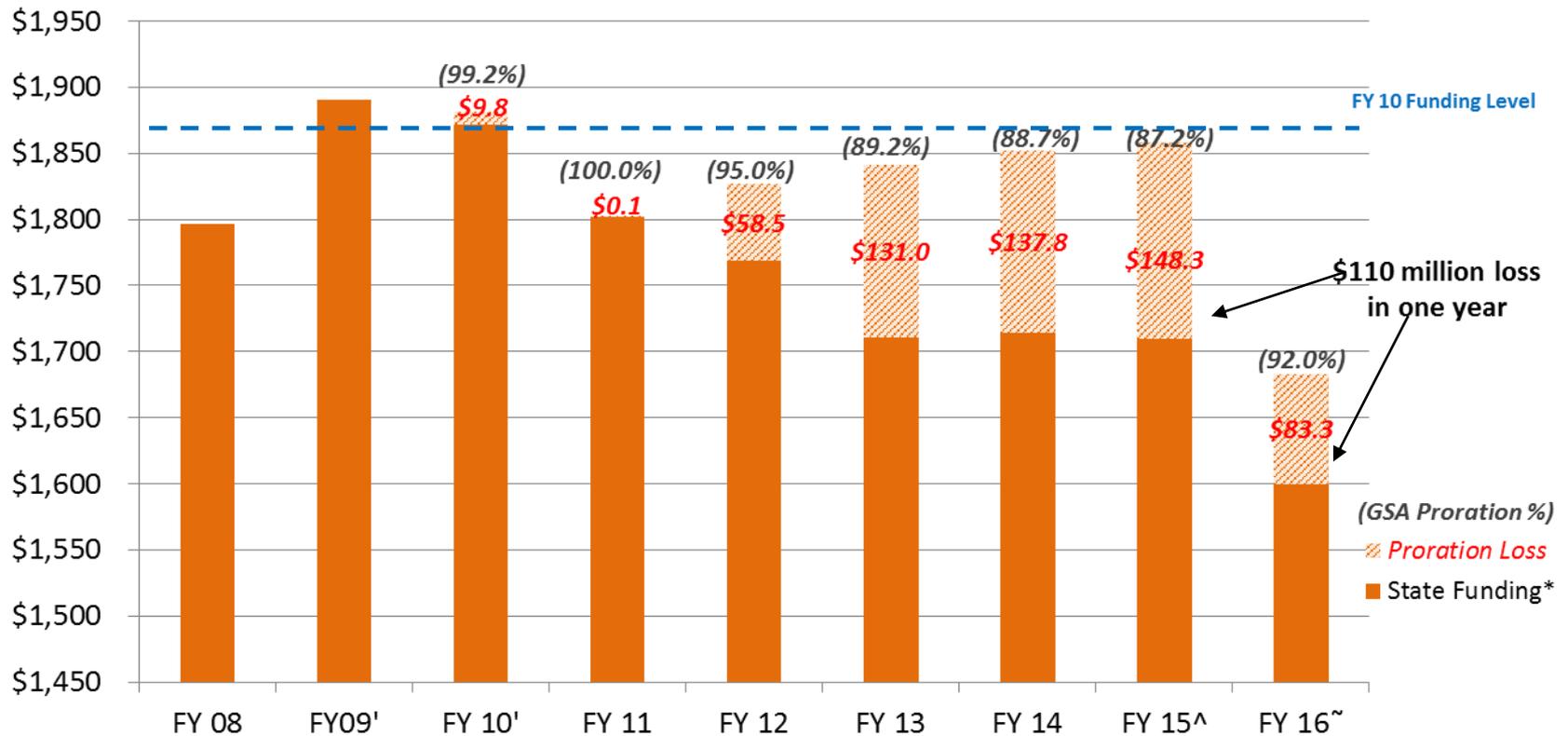


State failure to fund statutory formula cost CPS \$500M since FY10

State funding is down over \$100M since FY15

State Funding for Chicago Public Schools

\$ in millions



* Includes GSA, Block Grants, Bilingual Funding, and State CTPF Contribution (for consistency in comparisons)

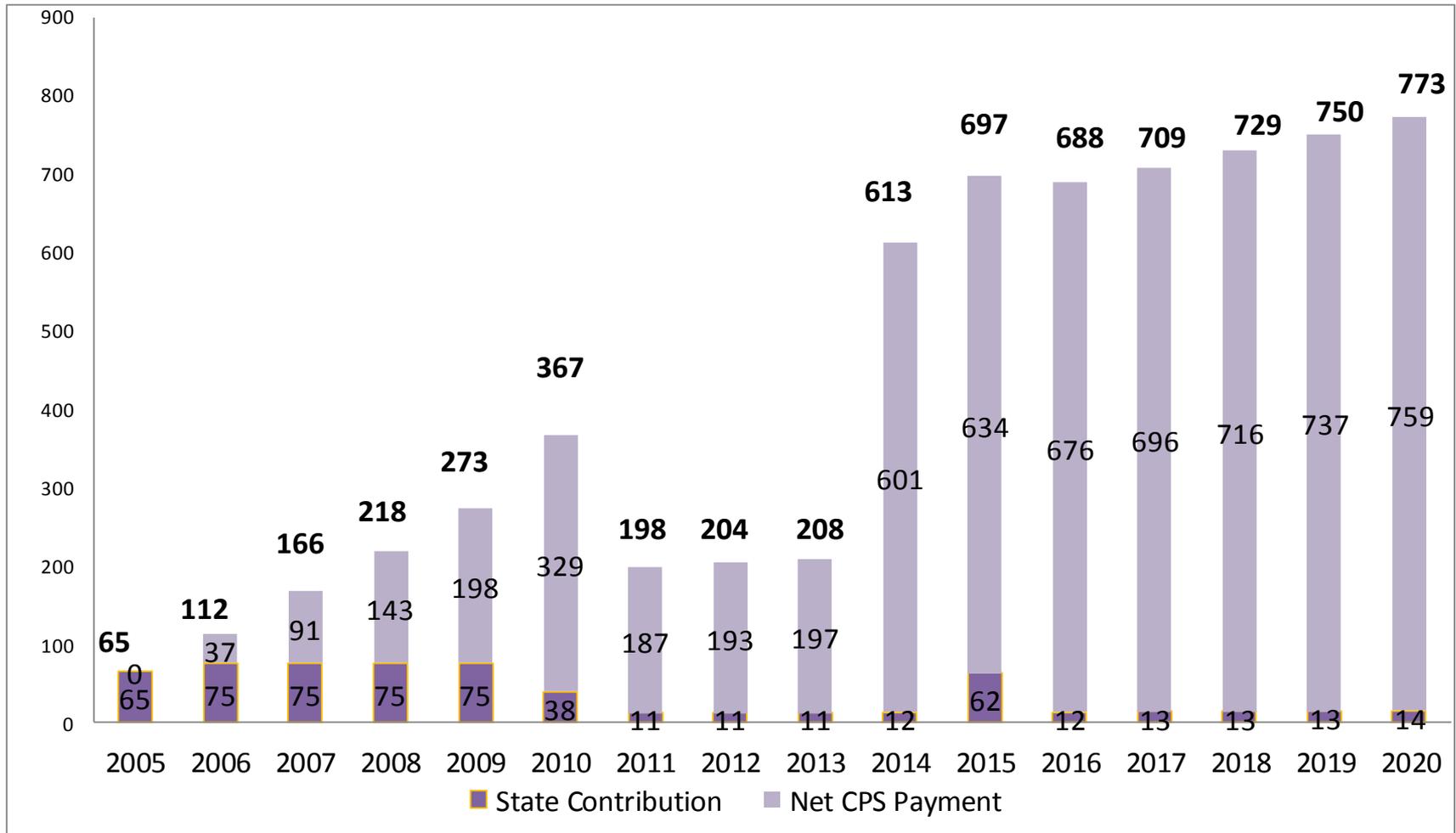
' Includes \$260.1M (FY 09) and \$166.7M (FY 10) of Federal stimulus funding

^ Includes funding reductions in PA 099-0001 and \$29.1M in Hold Harmless funding

~ Funding levels in PA 99-0005. Proration %, district claim, projected enrollment and ADA subject to change as newer data becomes available



CPS will spend over \$1,700 per student on statutorily- required pension contributions this year...



\$ in millions

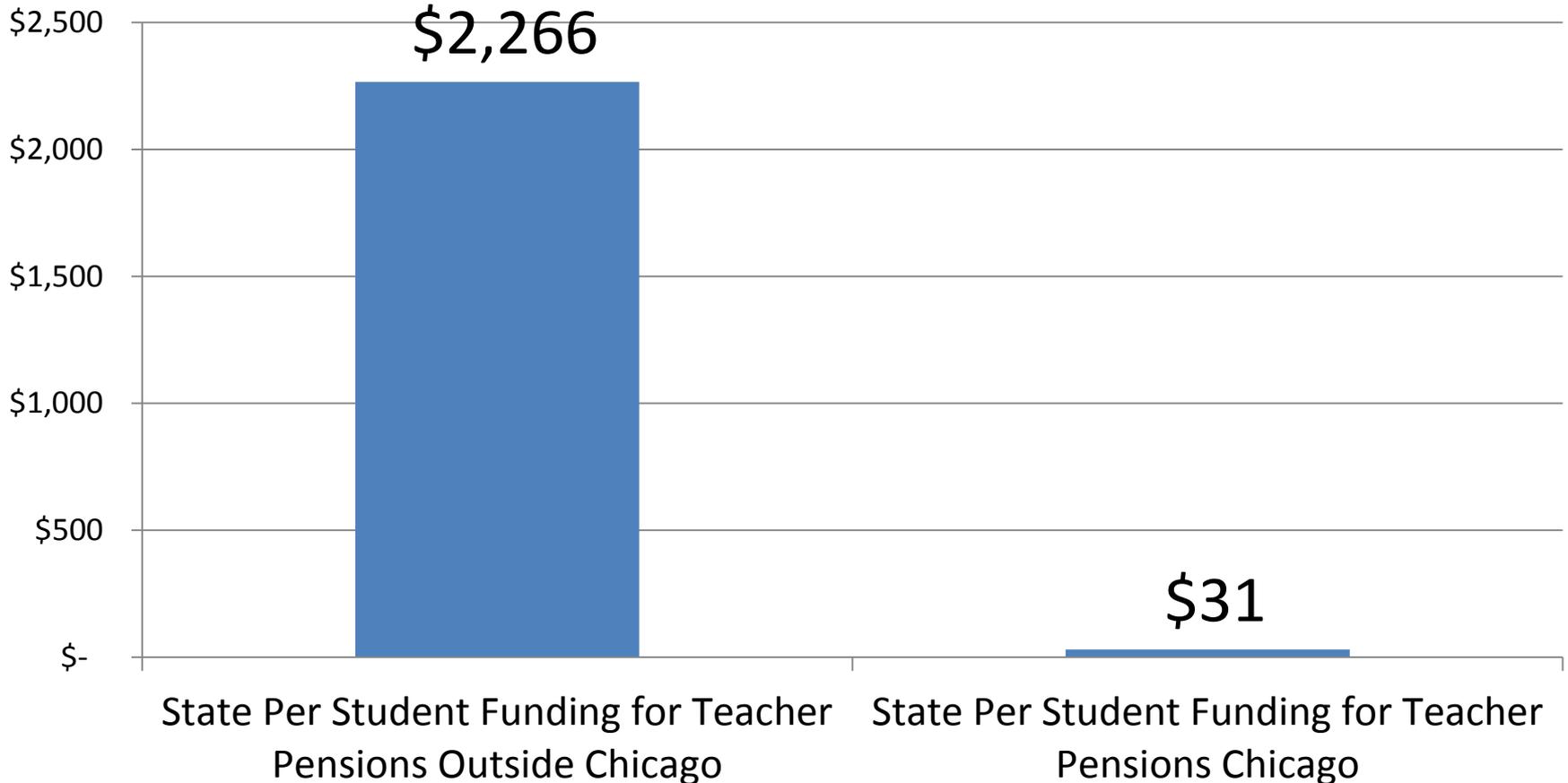
6/30/14 actuarial valuation; FY 16 certified + projections
Assumes CPS nets state contribution from payment



...while the state will provide only \$31 per student

State is providing \$3.7B for other teacher pensions and only \$12M for CPS

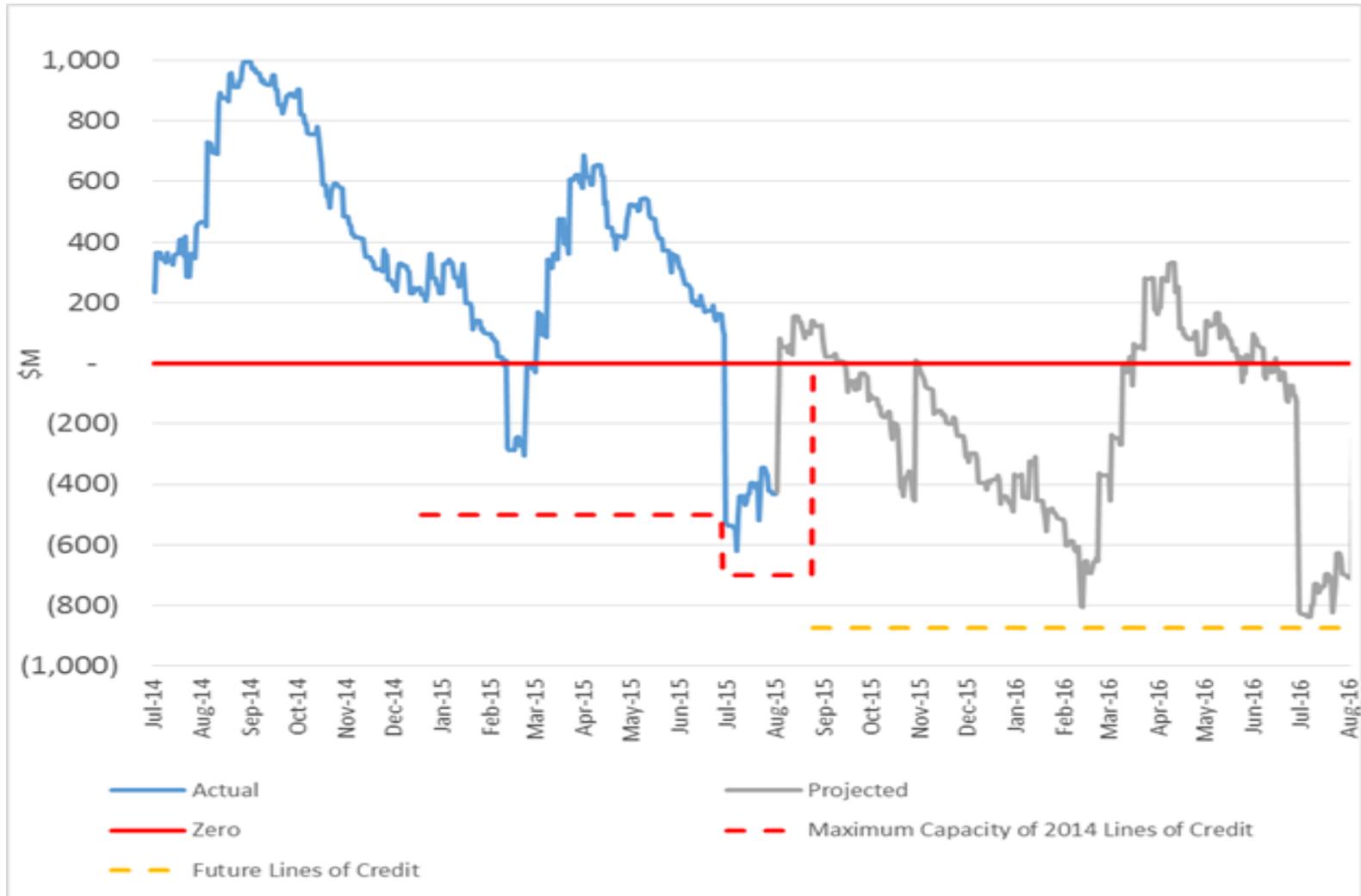
State Provides \$2,266 Per Student for Teacher Pensions Outside of Chicago v. \$31 for Chicago



Funding and pension equity for CPS is essential to avoid deep mid-year cuts or more unsustainable borrowing

CPS Actions to Close \$1.1B Budget Gap		\$1.1Billion
Savings from Cuts/Cost Reductions Through Efficiencies	196.0	
State Pension Equity	480.0	
Savings from Debt Restructuring/One-Time Funds	255.0	
Property Tax (\$19M from taxing at cap; balance from new property and timing)	80.0	
TIF Surplus	62.0	
Reserves	79.0	
Total		\$1,152.0

Cashflow is manageable this year only through lines of credit; not sustainable for the long-run; need structural budget solution

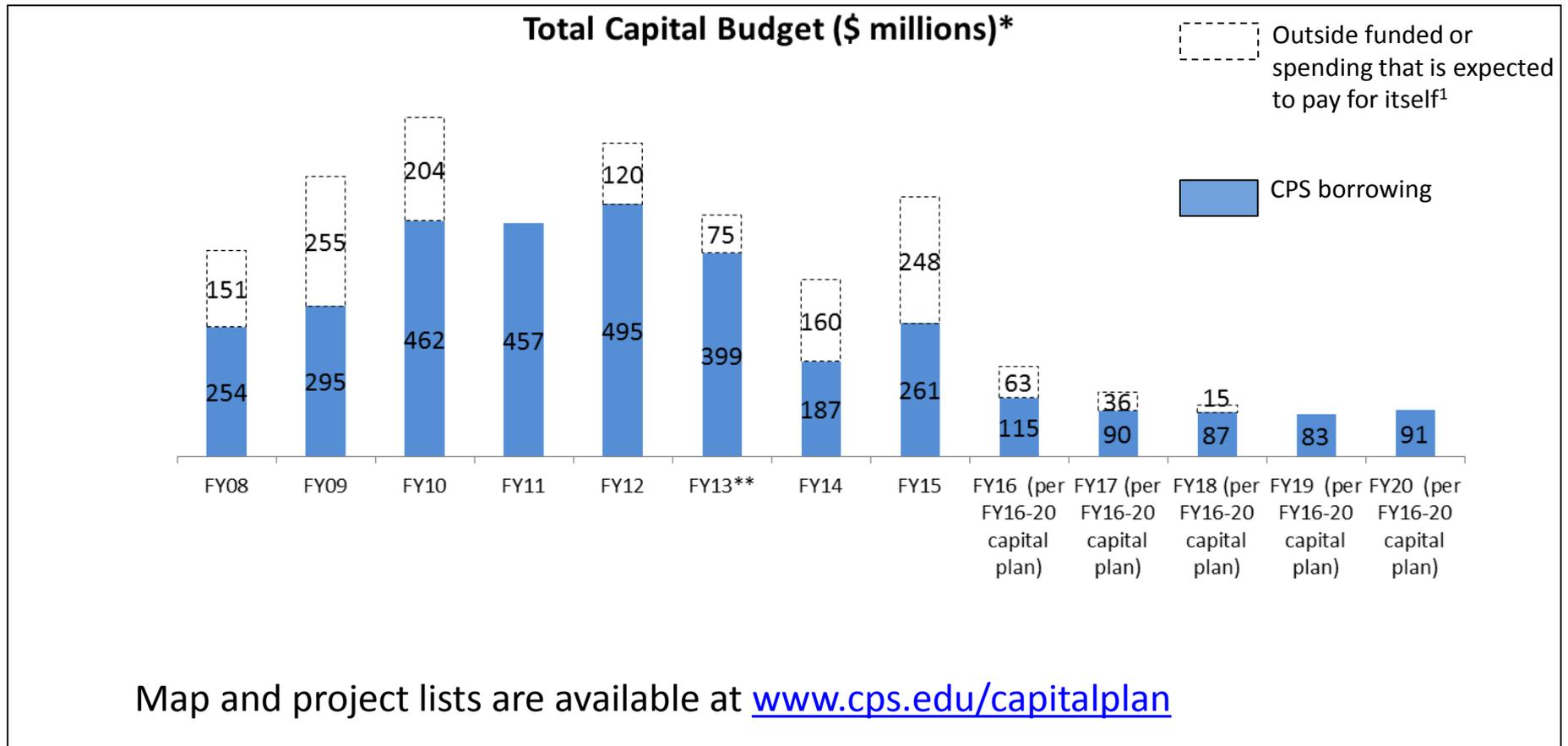


Capital Budget Overview

- CPS has over 700 buildings, with an average age of 75 years
- \$3.5 billion of needs for roof repairs, mechanical systems, masonry. Does not include upgrades, such as new labs.
- Due to our difficult financial circumstances, the plan released for FY 16 is the smallest plan since FY 96.
- Plan is insufficient to keep up with aging buildings; leads to greater future costs, another reason this budget is not the budget we want but the budget we can afford right now
- Maps and project lists are available at www.cps.edu/capitalplan



Due to fiscal condition, five-year plan calls for reduced capital spending, even though will lead to greater costs in long-run



* Figures are not adjusted for inflation.

** Includes supplemental capital plan

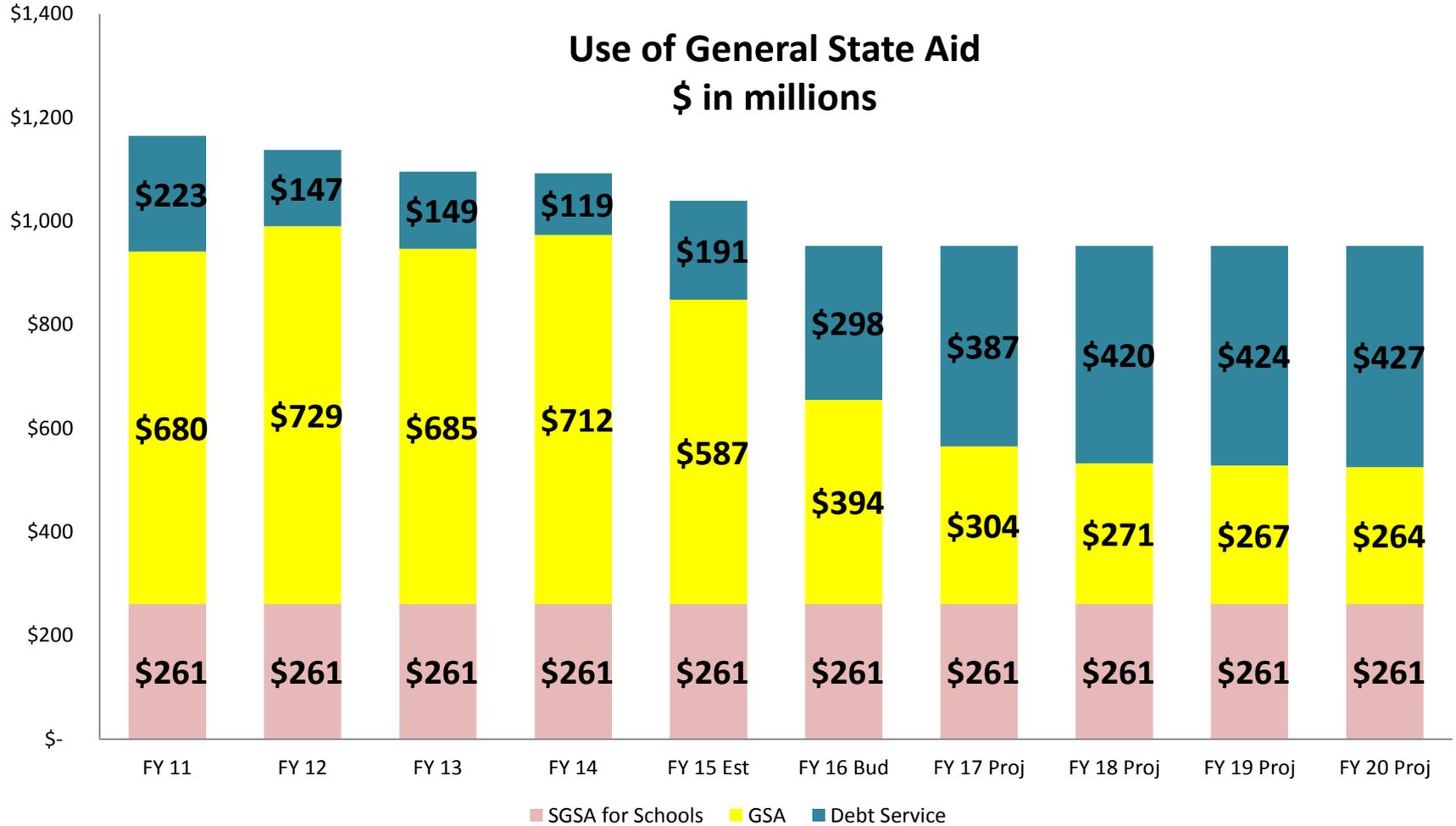


Debt Budget Overview

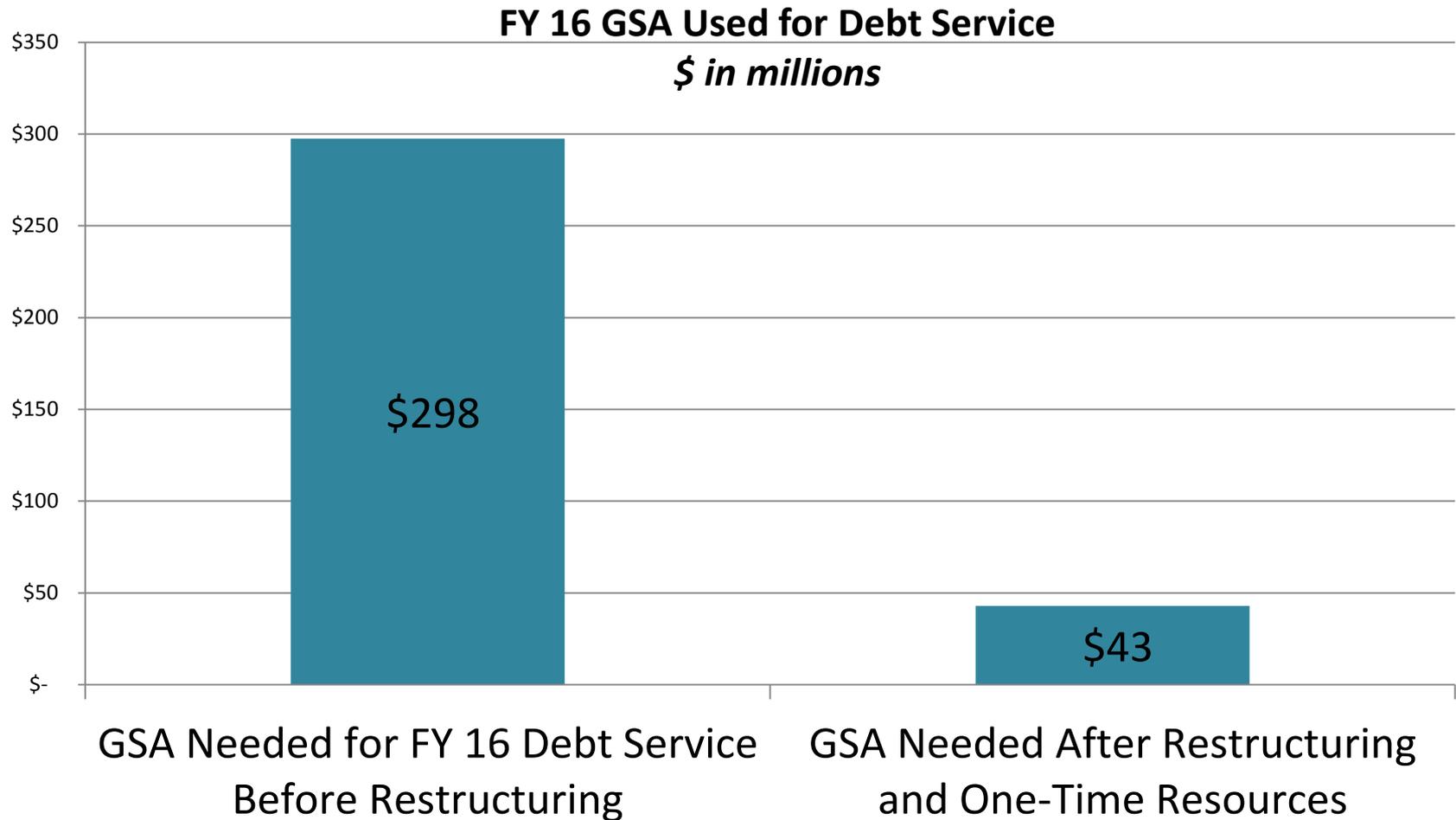
- Approximately \$6B in bonds outstanding
- Largest funding source for bonds is General State Aid, key source of funding for operating budget.
- Debt service payments are taking greater share of GSA, which ultimately is unsustainable
- Full debt cost from GSA in FY16 is \$298M
 - But budget relies on \$200M of debt restructuring
 - \$54M of other one-time funds
 - Leaves \$43M to be paid from GSA
- Pushes greater costs into future, yet another example of unsustainable borrowing that demonstrates the need for the state to fully fund education and end Chicago's pension funding inequity



By 2020, debt service will consume 62% of unrestricted GSA



Budget is balanced with \$254M of debt savings that will cost more in the long-run



Three budget hearings held for public input

Key themes emerged:

- Concern over funding for diverse learners
- Concern over changes to school start times and transportation
- Borrowing proposed in budget is not sustainable
- Concern over potential cuts if partnership with Springfield does not come through
- Suggestions of other revenue sources that could be considered, such as additional TIF surplus

Full transcripts of the hearings were provided to Board members and are posted on the budget website

As a result of input:

- Bell times at 42 schools were changed
- Funding was restored at 30 schools to provide 10 additional teachers and 50 paraprofessionals for diverse learners



Conclusion

- This is not the budget we want to be presenting, but reflects the reality of where we are: less state funding to pay bills as pension obligations swell
- This budget protects classroom spending today, but relies on partnership with Springfield to address both pension and funding inequity before the second half of the year
- Encouraged that in recent days Governor, Senate President, House Speaker, and others have agreed that funding is inequitable and must be changed
- Full budget detail is available at www.cps.edu/budget



Bond Overview



Issuing bonds is a multi-step process governed by state statute



Bond Resolution is second step in the bond process

- In the Bond Resolution:
 - Board approves the amount and specific purposes of each issuance of bonds
 - Multiple Bond Resolutions may be adopted under one broader Bond Authorization
- As we indicated last month, we are asking for approval of a specific Bond Resolution this month



Board asked to approve \$1.04 billion in bonds

- \$1.2B authorization approved last month:
 - Capital projects already underway (\$600 - \$650M)
 - Refinance existing debt to provide budgetary relief (\$150 - \$250M)
 - Replace variable rate debt with fixed rate and any associated swap payments (\$250 - \$300M)
- \$1.04B in bonds will covers three purposes:
 - \$536M: Capital projects already underway
 - \$229M: Refinance existing debt to free GSA for operating expenses, as described in the Budget Overview
 - \$275M: Converting variable rate bonds to fixed rate and paying swap terminations, consistent with long-term strategy to reduce variable rate debt and an orderly exit from swaps

Sole Source Update: Process Assessment

August 26, 2015



Report Summary

Review of the CPS Sole Source Process showed sound practices

- Accenture Report on the CPS sole source process states that our process is sound and similar to peer organizations
 - The report includes 6 recommendations to further enhance the process
- Included thorough review of CPS process, and comparison to peer districts, public universities, and local government agencies
- We generally agree with the recommendations; implementation begins immediately
- Full implementation will take 6 months -- want to do it in a thoughtful way
- Internal audit team will review the new process to confirm it is working and assess need for further refinements.
- The full Accenture report will be published and available on the CPS Procurement website.

Recommendations

Based on the analysis there are 6 recommendations.

1. Distinguish between **sole** source and **single** source
 - *Sole Source* indicates situations where only one supplier exists in the market that is able to deliver goods or services as specified by CPS.
 - *Single Source* indicates situations where multiple suppliers are available, but factors specific to a procurement justify the selection of one supplier.
2. Modify NPRC* voting procedures to be a secret ballot
3. Create NPRC charter
 - Include committee's intended mission, authority, scope, team structure and roles.
 - Outline procedures for initiating a non-competitive procurement request, approval criteria, and possible outcomes of an opinion rendered by the committee.
4. Notification of sole source/single source procurements
 - Post notification of intent for sole and single source procurements on CPS' public procurement site.
5. Expand company ownership info to include CPS relationships with supplier
6. Clarify biddable and non-biddable definitions