

CPS Finance Update

October 2023



School Funding

Despite enrollment losses, direct school funding has grown by \$1B since 2019



FY19 average per-pupil funding: \$10,278 FY24 average per-pupil funding: \$14,989

Change from FY19 to FY24: +\$4,711 per-pupil (+46%)



Over 2,300 teachers have been added since FY2019



Includes all teacher class positions; reflects total staffed in September of each FY.

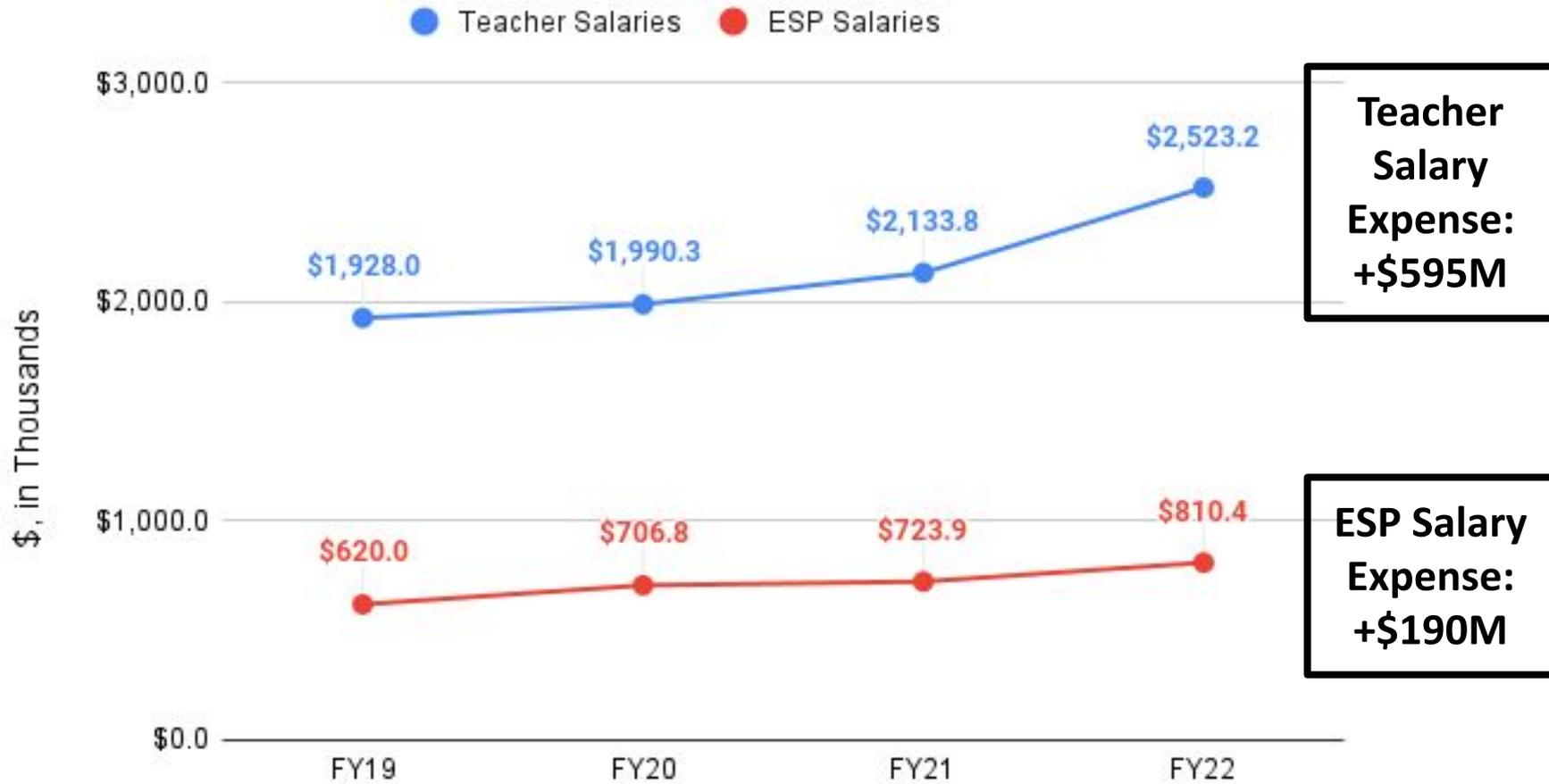


CPS has added positions in key areas since FY2019

Employee Group	FY2019 Budgeted Positions	FY2024 Budgeted Positions	Increase from FY2019
Counselors	700	869	169
Nurses	322	661	339
Social Workers	308	691	383
Instructional Coaches	47	259	212
Dedicated Case Managers	-	306	306
Students in Temporary Living Situation Advocates	-	50	50
School-Based Athletic Directors	-	20	20
Custodians	2,018	2,593	575
Engineers	520	708	188
Security Guards	1,310	1,458	148



Actual salary expenses: FY2019 - FY2022



Source: CPS Annual Consolidated Financial Reports, FY19-22.



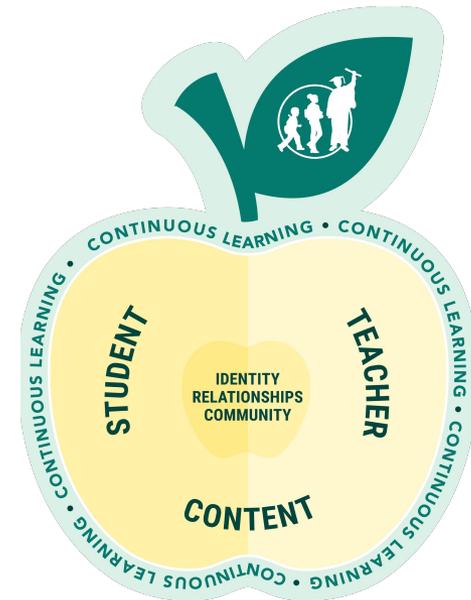
CPS has added \$480M in new direct school funding over last two budgets

The FY2024 budget included \$4.8 billion in direct school funding, reflecting the resources controlled and managed by schools and LSCs.

The FY2024 budget reflected an increase of \$243 million, for a total of more than \$480 million in new funding over the past two years.

As part of our commitment to the instructional core, this allows us to ensure every school has the resources to provide:

- reasonable class sizes
- limited split classrooms
- access to high-quality arts education
- intervention supports
- funding for local-level priorities



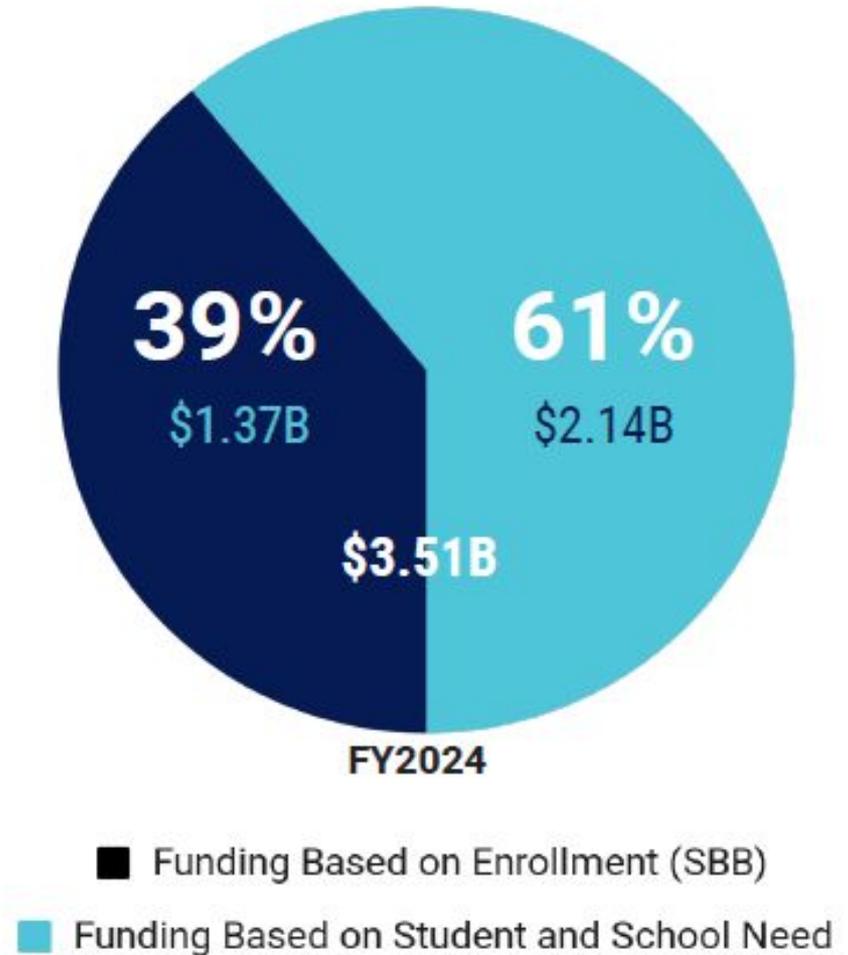
Reducing reliance on Enrollment Based Funding

In FY2024, CPS is continuing to reduce reliance on enrollment-based funding.

For the district's 499 schools that receive per-pupil funding through Student-Based Budgeting, this represents only 39 percent of the total resources allocated to these schools.

The factors contributing to school resource allocations through our Opportunity Index include:

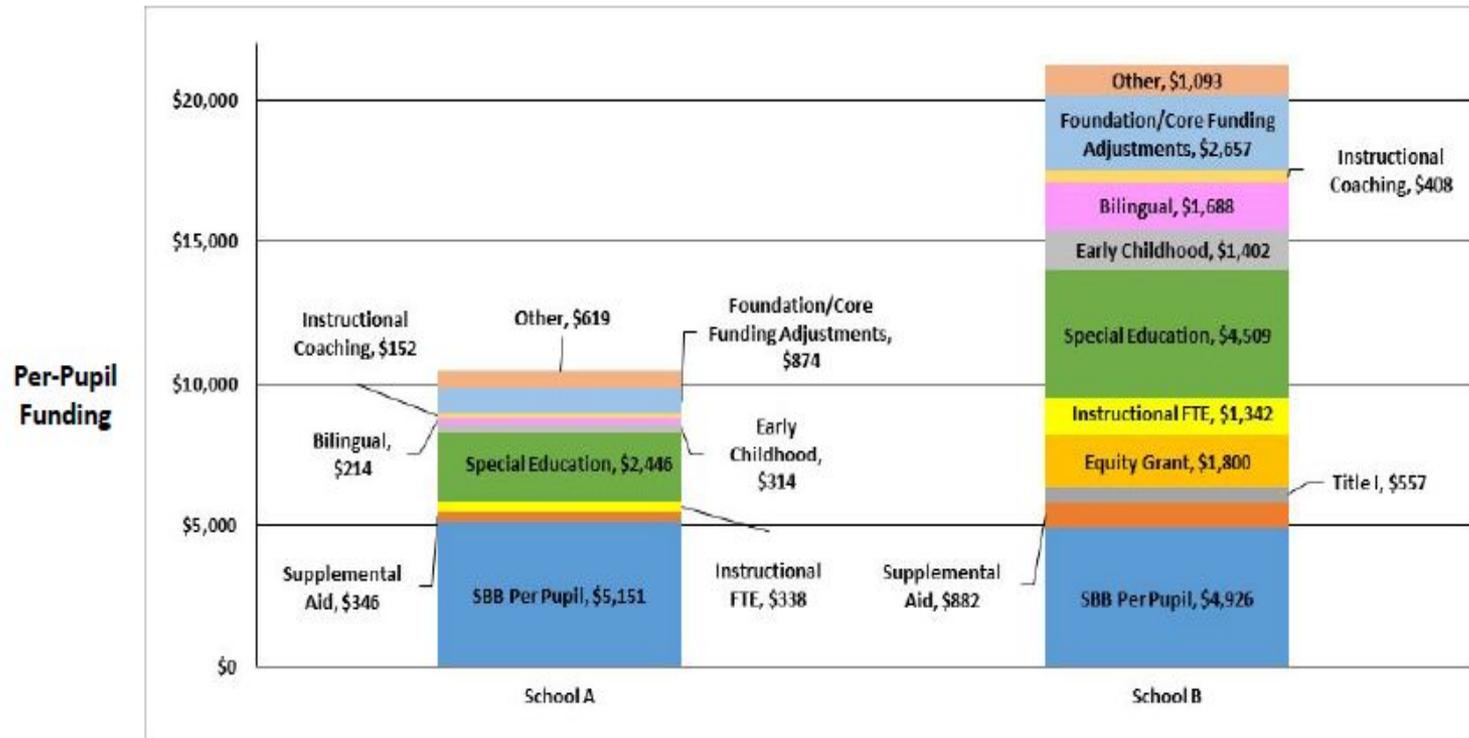
- Diverse learner population
- English language learners
- Community Hardship
- Medicaid eligibility
- STLS
- Community life expectancy
- Teacher turnover



Schools with greater needs receive more funding

School B receives more funding through a variety of need-based allocations, nearly doubling the per-pupil funding total of School A, a school with lower overall need-based indicators.

	School A	School B
Opportunity Index	29	50
Low Income	29%	79%
English Learner	7%	69%
Special Education	18%	21%



Investments have increased staff at smaller schools

Shifts away from enrollment-based funding along with investments in priority student populations have created significantly lower student to staff ratios at smaller schools.

School Type	Number of Schools	Average Student to Teacher Ratio	Average Student to All Staff Ratio
Elementary			
Below 300 students	165	10.6 : 1	5.4 : 1
Above 300 students	250	13.2 : 1	7.4 : 1
High			
Below 300 students	23	7.9 : 1	4.0 : 1
Above 300 students	61	13.9 : 1	8.2 : 1



FY2025 Budget Forecast

FY2025 budget overview

- CPS's FY2024 budget includes \$670 million in federal relief from Elementary and Secondary School Emergency Relief (ESSER) funding. **Only \$300 million projects to be available for the FY2025 budget.**
- FY2025 recurring (non-ESSER) revenues project to increase by \$102 million, due mainly to increased property tax collections if CPS once again taxes to the cap, offset by reduced levels of Personal Property Replacement Tax funding.
- FY2025 expense obligations project to increase by \$123 million due primarily to increases in teacher pension costs, debt service, healthcare, and inflation.
 - This does not include any expenses increase that CPS has control over, such as salary increases, new bonds for capital investments, increases to staff, or payments to city for MEABF.
- **This means that CPS faces an structural deficit of \$691 million prior to any increased costs beyond our basic obligations. In FY2025, the deficit projects to be \$391 million due to the availability of remaining ESSER funds.**



Inequitable and inadequate funding

Though the state's Evidence Based Funding formula has improved funding for education, CPS still faces inequities and inadequacies compared to other districts in the state.

- **\$1.1 billion** would be available with full funding from the state's Evidence-Based funding formula
- **\$700 million** would be available if CPS teacher pensions received the same support as other districts
- **\$543 million** would be available if CPS did not have to use Evidence-Based Funding and other unrestricted revenues to cover debt service costs

Progress in addressing any of these funding gaps would help to solve the revenue challenges CPS faces moving forward.



Updates to previous forecast

Included in the updated budget forecast is new information recently received regarding the following:

Personal property replacement tax (PPRT)

- CPS's share of PPRT revenues is expected to drop by over \$100 million from FY24 budget to FY25 budget based on updated current year projections from the state
- Previous FY25 assumption: +\$8M
- Updated FY25 assumption: **(\$118M)**
- **Overall impact on forecast: (\$126M)**

Teacher pensions

- CPS expects soon to be certified FY2025 pension costs to be nearly \$60 million more favorable than previous projections, due to increases to state contributions and lower overall costs
- Previous FY25 assumption: +\$4M state contribution; +\$21M overall expense
- Updated FY25 assumption: +\$31M state contribution; **(\$7M)** overall expense
- **Overall impact on forecast: +\$55M**



Key Assumptions

Revenue

- Property taxes increase to tax cap, estimated at 3%
- Personal Property Replacement Taxes drop from historically high levels by over \$100 million
- CPS remains Tier 2 in state Evidence Based Funding formula
- Only \$300M of ESSER funding remains, down from \$670M in FY24
- No new revenues identified yet to replace decrease in ESSER funding

Expenses

- Increases included are only those out of our control
- Not included are the following
 - New investments in school resourcing
 - New investments in future collective bargaining agreements
 - Funding for new capital investments
 - Other new investments



FY2025 budget forecast summary

	\$M
Beginning deficit - One-Time ESSER Revenues Supporting FY2024 Budget	(670)
Projected Increase/(Decrease) in Structural Revenue	102
Projected (Increase)/Decrease in Expense Obligations	(123)
Projected Structural Budget Gap	(691)
Projected ESSER III available to support FY2025	300
Remaining FY2025 Budget Gap	(391)



Projected Changes in Structural Revenue

Revenue category	FY25 Impact (\$M)	Notes
Property taxes	166	Projected property tax cap of 3%, plus impact of new property growth/TIF expirations
Personal Property Replacement Tax (PPRT)	(118)	Year over year budget change based on projection of state corporate income tax collections
Evidence Based Funding (EBF)	23	Tier II funding estimate (based on \$350M of new funding)
State pension support	31	Increase in state contribution to pension normal costs
Recurring Federal revenues	-	
Projected FY2025 revenue increase/(decrease)	102	



Projected Changes in Structural Expenses

Expenditure category	FY25 Impact (\$M)	Notes
Pensions & Debt Service		
Teacher pensions (CTPF)	7	Based on required amount due to CTPF
Debt service	(52)	Increase in EBF funding diverted for debt service
Labor & Healthcare		
Healthcare costs	(28)	Projected growth based on consultant estimates
School Funding & Programmatic Investments		
Proportionate share increase to charter schools	(20)	Estimated increase based on district cost growth
Operational costs		
Operational inflationary costs	(30)	Estimate in contractual inflation based on CPI
Projected FY2025 expenditure (increase)/decrease	(123)	



Key Takeaways

- CPS faces a structural budget deficit of nearly \$700 million.
- By law, CPS must have a balanced budget, with operating revenues matching operating expenses.
- With projected ESSER funding of \$300 million available, the FY2025 budget gap is estimated to be \$391 million. CPS will need to find additional revenues or reduce expenses to balance this budget.
- Any additional costs for expense increases beyond our mandatory obligations will add to the projected deficit that the district needs to close.



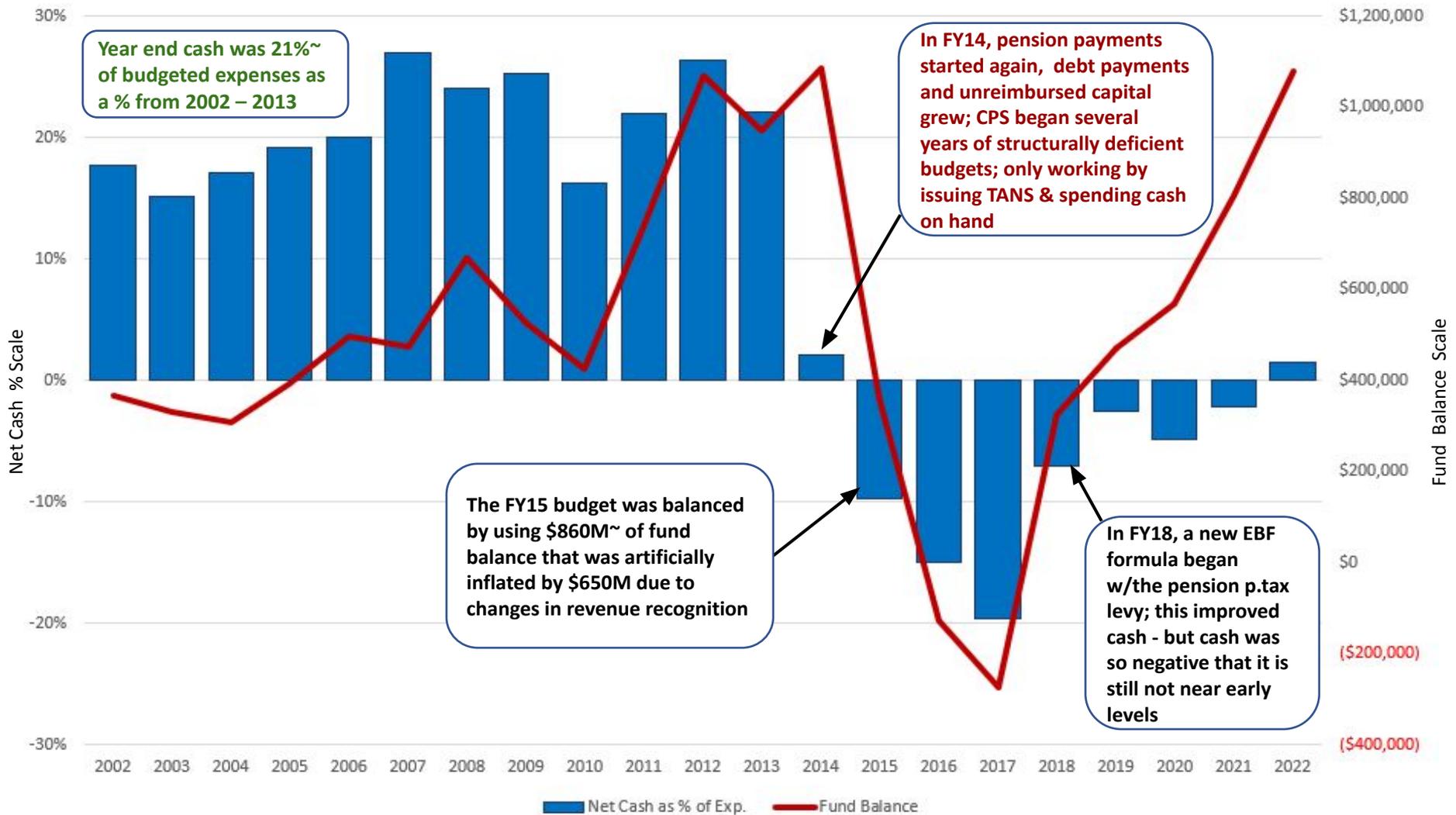
Budget Roundtable Discussions

CPS will be hosting budget community roundtable sessions, where participants will be able to share the needs of their school communities and offer suggestions on how to make the school funding process more equitable, transparent, and sustainable.

LOCATION	DATE	TIME
Sullivan High School 6631 N Bosworth Ave, Chicago, IL 60626	November 6th (In-Person)	6:00-8:00 p.m.
Roberto Clemente Community Academy 1147 N Western Ave, Chicago, IL 60622	November 9th (In-Person)	6:00-8:00 p.m.
Tilden High School 4747 S Union Ave, Chicago, IL 60609	November 11th (In-Person)	10:00-12:00 p.m.
Harlan Community Academy 9652 S Michigan Ave, Chicago, IL 60628	November 14th (In-Person)	6:00-8:00 p.m.
Link will be provided	November 16th (Virtual)	6:00-8:00 p.m.

Fund Balance and Cash

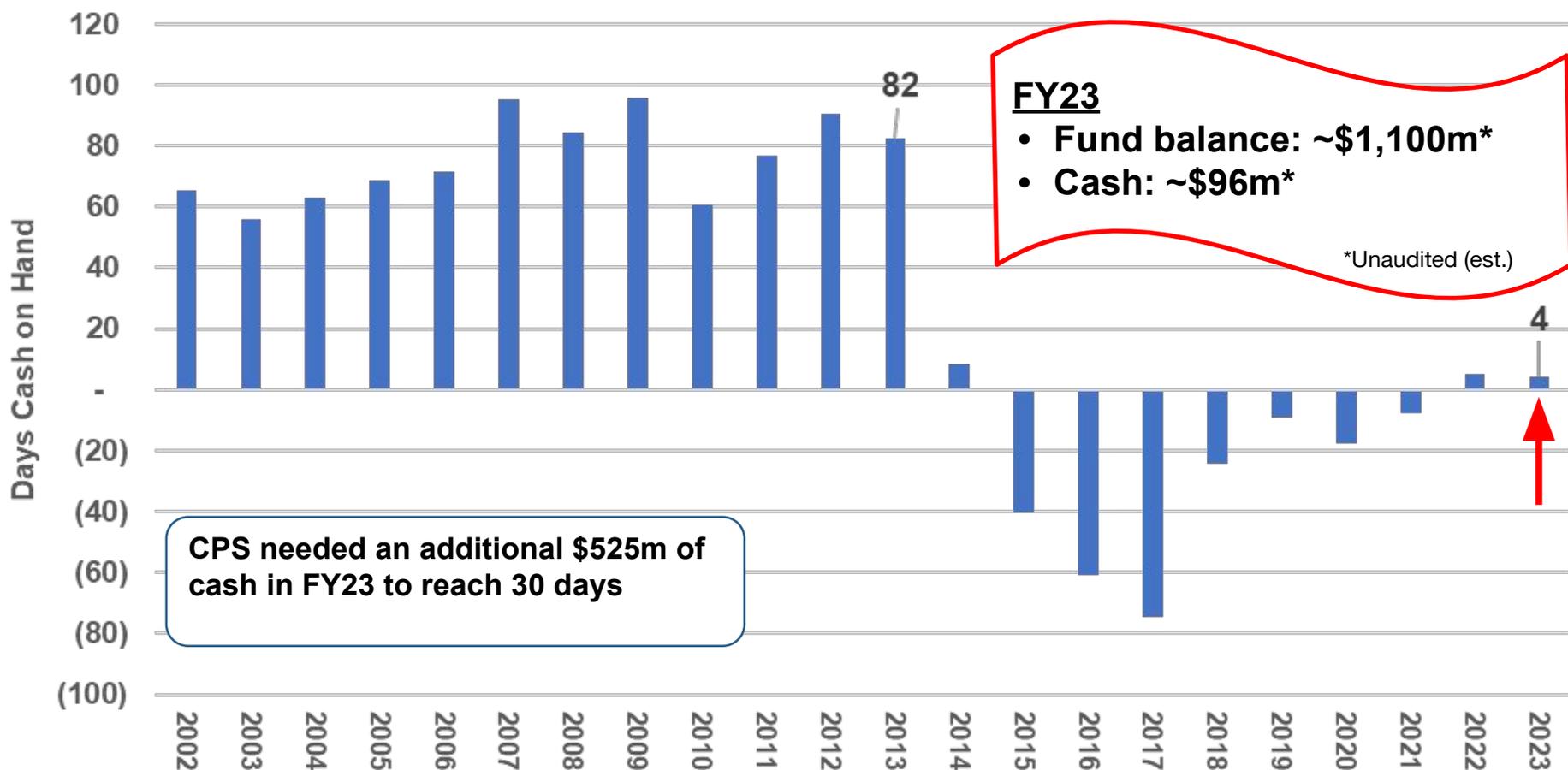
History of CPS Net Cash as % of Exp. vs. Fund Balance FY 2002 to 2022



CPS Ended FY23 with Only 4 Days Cash

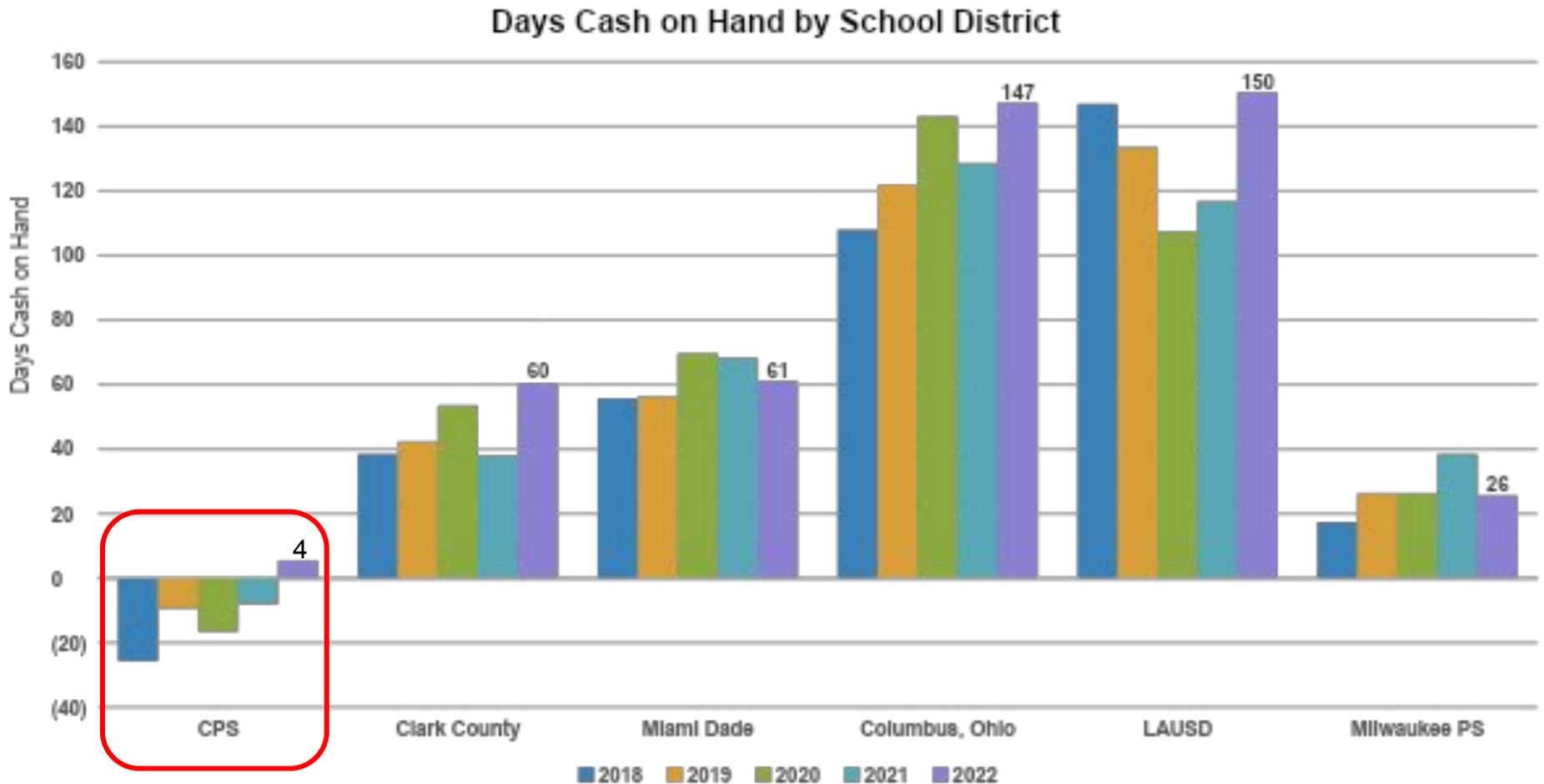
- Days cash on hand = Net Cash Available / (Operating expenses / 365)
- Despite \$1.3B of fund balance, CPS only has 4 days cash on hand on June 30th

Days Cash on Hand on June 30th



CPS Days Cash on Hand vs. Other School Districts

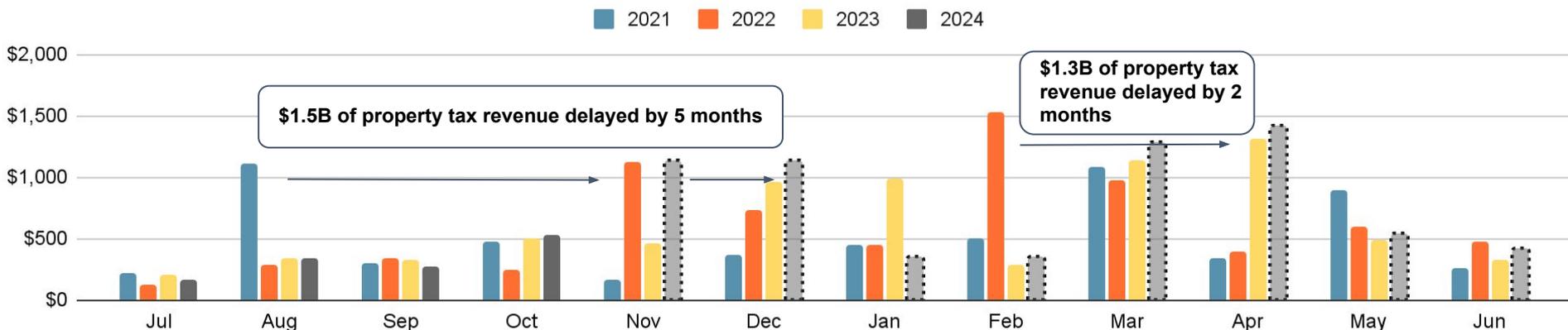
- CPS' liquidity is worst among several large urban school districts analyzed
- Liquidity concerns are a top concern for investors and rating agencies



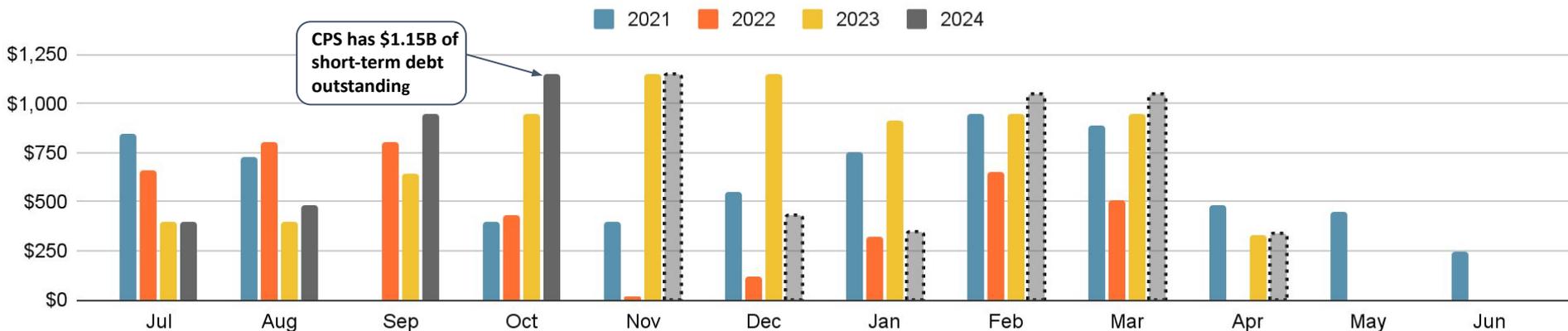
Revenue Inflow Timing vs. Max TANS Outstanding

- TANS use typically peaks annually in February and July, just prior to receiving property tax installment payments in March and August
- Delays in property tax collections have shifted revenue timing and increased the need to use TANS

Revenue Inflow Timing by Month

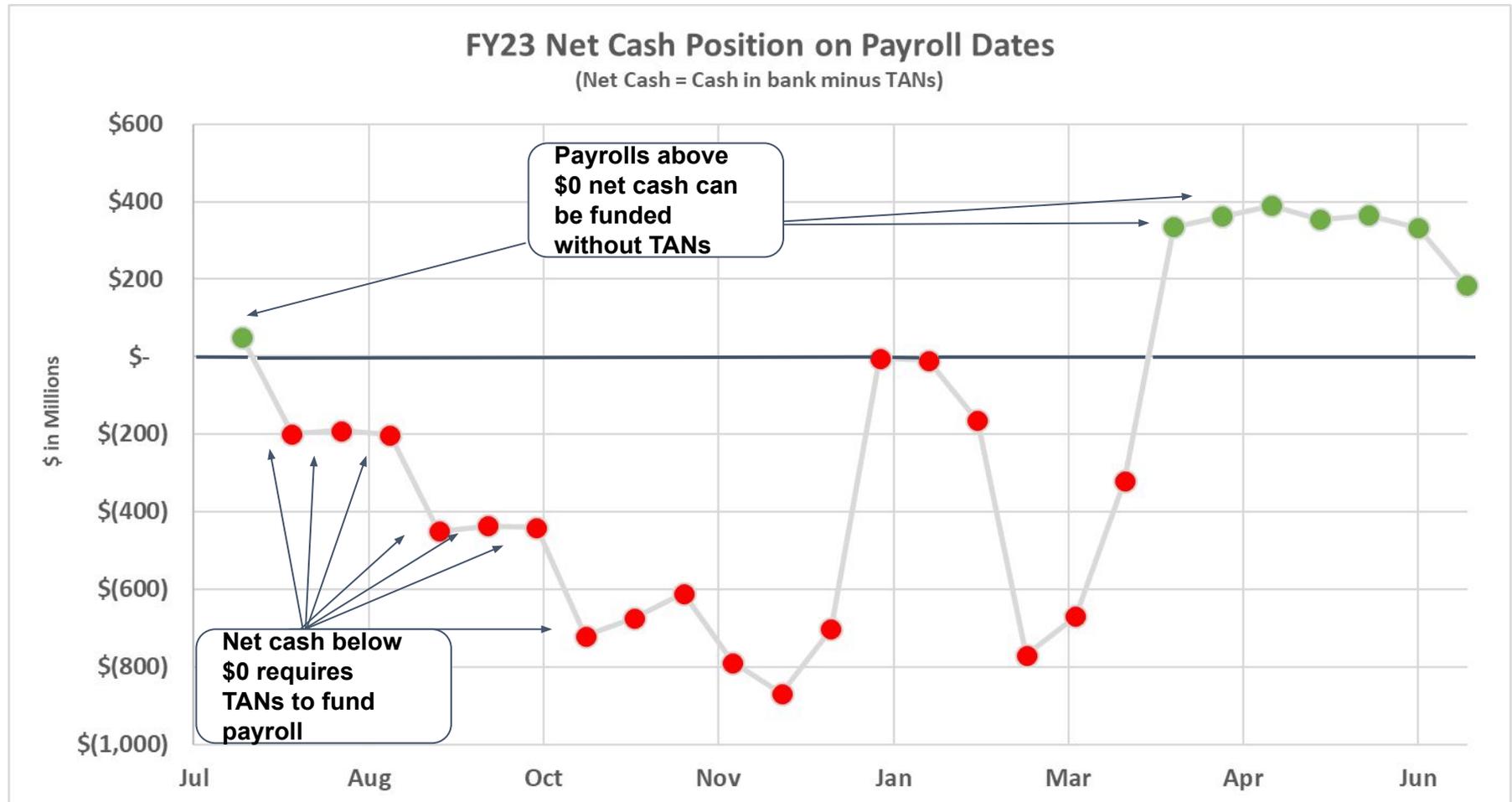


Monthly Maximum TANS Outstanding



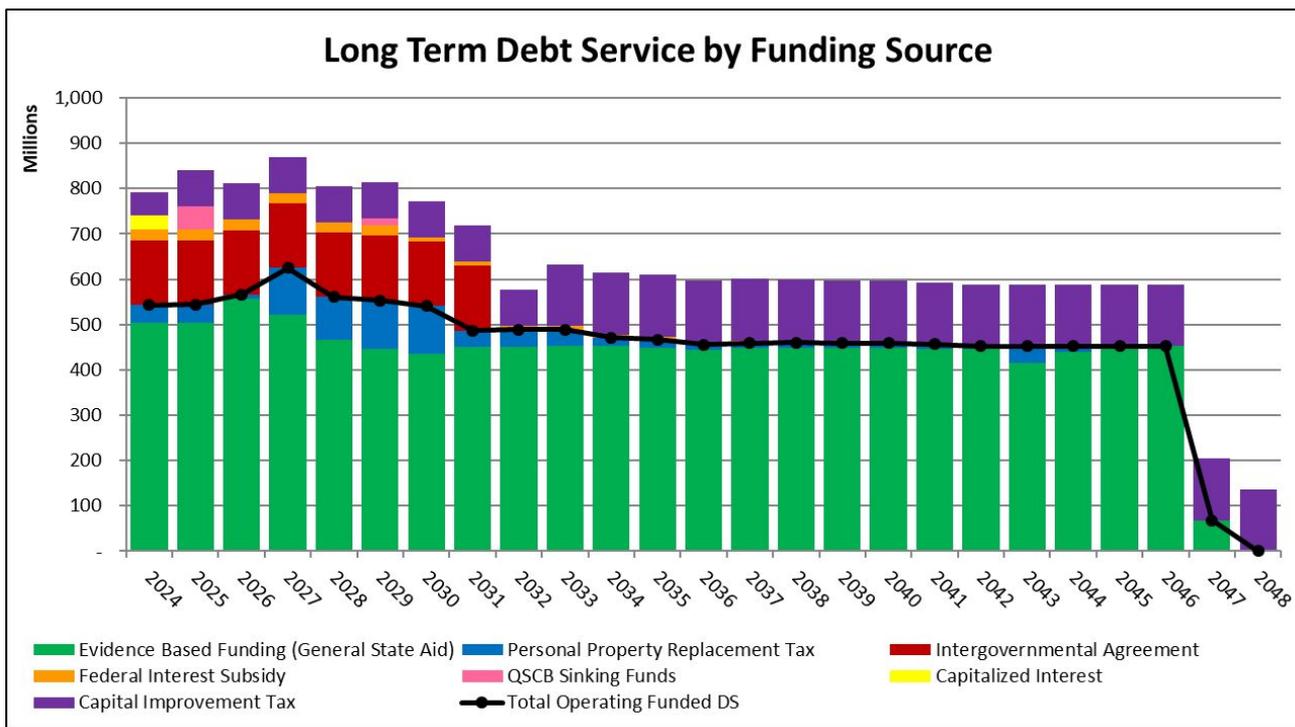
69% of Payrolls Cannot be Funded Without TANs

- CPS does not have enough positive cash balances to fund payroll throughout the year.
- In FY23, 69% of payrolls (18 of 26) required short-term debt (TANs) because our cash position was too low.



Outstanding Long-Term Debt Service Profile

- CPS has 34 Series of long-term bonds or approx. \$9.6B of debt (all fixed rate) that have primarily been issued to fund capital needs.
- Our current annual repayment of principal is locked into a relatively slow structure at approximately \$250M~ per year and rising slightly.
- About 20% of our State Aid & PPRT Revenues (otherwise... “operating monies”) are currently used to pay debt service.



Operating-Funded Debt (EBF, PPRT)	\$7.6B
Non-Operating-Fund ed Debt (IGA, CIT)	\$1.9B
Total Debt Outstanding	\$9.6B
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Historical CPS Bond Credit Ratings

- Currently, despite improved financial performance over the last six fiscal years, CPS is still largely a sub-investment grade credit or a “Junk Bond” issuer.

	S&P	Moody's	Fitch	Kroll
AAA	AAA	Aaa	AAA	AAA
AA+	AA+	Aa1	AA+	AA+
AA	AA	Aa2	AA	AA
AA-	AA-	Aa3	AA-	AA-
A+	A+	A1	A+	A+
A	A	A2	A	A
A-	A-	A3	A-	A-
BBB+	BBB+	Baa1	BBB+	BBB+
BBB	BBB	Baa2	BBB	BBB*
BBB-	BBB-	Baa3	BBB-	BBB-
BB+	BB+	Ba1	BB+	BB+
BB	BB	Ba2	BB	BB
BB-	BB-	Ba3	BB-	BB-
B+	B+	B1	B+	B+
B	B	B2	B	B
B-	B-	B3	B-	B-
CCC+	CCC+	Caa1	CCC+	CCC+
CCC	CCC	Caa2	CCC	CCC
CCC-	CCC-	Caa3	CCC-	CCC-

Investment grade ↑

Sub-Investment Grade ↓

Current CPS GO Ratings

CPS Capital Improvement Tax Credit

Aug. 2012 CPS GO Ratings

Lowest CPS GO Ratings
Before the new State educational funding, CPS has secured 12 notch upgrades since then

	Kroll	Fitch	S&P	Moody's
General Obligation				
Ratings:	BBB*	BB+	BB+	Ba2
Outlook:	Stable	Stable	Stable	Positive
Capital Improvement Tax				
Ratings:	BBB+	A	NR	NR
Outlook:	Stable	Stable	NR	NR

*Underlying rating is BBB. Series issued from 2016 and 2019 carry a rating of BBB+, based on a special revenue opinion for those series.