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Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools¹



¹ Drafted to satisfy the requirements of P.A. 102-0177 and P.A. 102-0691, ILCS 5/34-18.70

Disclosure

This report was prepared with the assistance of Columbia Capital Management, LLC, an independent financial and investment advisor serving state, regional and local governments, and nonprofits, around the country with respect to issues of municipal finance, bond issuance, debt management, investment of idle funds and bond proceeds, and tax-exempt bond post-issuance compliance. With more than 25 years of experience, the firm is owned by seven of its employees, has no debt and no outside investors. Columbia Capital is registered with the US Securities and Exchange Commission (SEC) as a registered investment adviser and with the SEC and the Municipal Securities Rulemaking Board (MSRB) as a registered municipal advisor. Columbia Capital's staff team members have prior experience in law, economics, investment banking and state and local government.

Columbia Capital is an active provider of municipal advisory services in Illinois and, particularly, in the Chicago region. At times, CCM has advised the State of Illinois, Cook County, City of Chicago, Chicago Public Schools, Chicago Transit Authority, Chicago Park District, City Colleges of Chicago and others who may have interactions with CPS.

Columbia Capital does not believe any prior, current or future work with these entities impairs its ability to provide the independent analysis supporting this report.

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Statutory Mandate for this Report

The Board of Education of the City of Chicago (the “Board” or “CPS”) is a body politic and corporate of the State of Illinois (the “State”). The Board is established under and governed by Article 34 of the School Code (105 ILCS 5) (the “School Code”) of the State. The Board maintains a system of public schools within its boundaries (the “District”) for pre-kindergarten through grade twelve. The District has boundaries coterminous with the boundaries of the City of Chicago (the “City”). A seven-member board of education currently serves as the governing body of the District. The members serve four-year terms and are appointed by the Mayor of the City (the “Mayor”). The Board operates on a Fiscal Year ending June 30 (a “Fiscal Year” or “FY”).

In addition to its governing body, CPS has a system of elected local school councils related to each school location, composed of parents, teachers, principals and community representatives exercising certain powers relating to the operation of individual schools in the public school system, including selection of principals. Under the School Code, the governing body is responsible for approving the annual budget, approving contracts (including collective bargaining agreements), levying real property taxes and establishing general policies of the Board.

In July 2021, Illinois Governor JB Pritzker signed legislation (PA 102-0177) (the “Elected School Board Legislation”), which amends the School Code to provide for a two-step transition from the current mayoral-appointed governing body, first in 2025 to a hybrid board comprised of 10 mayoral-appointed and 10 elected members and a president appointed by the Mayor, and then in 2027 to an all elected 21-member board (20 members elected from single-member districts and a president elected City-wide). The Elected School Board Legislation does not affect any of the Board’s current powers to levy taxes, issue debt obligations or adopt an annual budget and does not otherwise change or modify the administrative, operational or financial structure or systems of the Board. The Elected School Board Legislation does, however, provide for an eventual separation between the Board and the City and institutes a moratorium on school closings, consolidations, or phase-outs until the members of the hybrid board are seated in January 2025.

In December 2021, Governor Pritzker signed “Trailer Bill” legislation (P.A. 102-0691) which requires the Board to commission for completion by October 2022 an independent financial review to assess its finances and its “entanglements with the City of Chicago.” The Illinois State Board of Education (“ISBE”) will then be required to assess the financial review and make recommendations to the General Assembly on the Board’s “ability to operate with the financial resources available to it as an independent unit of local government,” and presumably without assistance from the City.

This report defines an “entanglement” as a financial, economic or operational connection between CPS and the City of Chicago or its sister agencies, whether formal or informal, that confers a direct or indirect benefit on CPS that is directly measurable or that the City does not confer on other governmental agencies in the city. The report also identifies certain financial, economic or operational connections that exist primarily for the benefit of the City or a sister agency, or that have bilateral benefit. It will almost certainly be the case that this report does not contemplate or catalog all entanglements that will be revealed at or shortly after the point at which the fully-elected school board is seated. The parties have relationships spanning generations; each has thousands of employees and operating budgets in the billions of dollars.

CPS, with the assistance of the independent municipal financial advisor, Columbia Capital Management, LLC (“Columbia Capital”), completed this report related to an independent financial review of CPS and its entanglements with the City of Chicago. In addition, Crowe LLP, a public accounting and consulting firm, participated in early data collection efforts related to entanglements, but was not involved in the drafting of the report.

This report is intended for the purposes of providing the information required by the Trailer Bill. In preparing this report, CPS provided information and gathered additional resources from MEABF’s actuarial and pension consultant, the Segal Company, the City, and other City related entities, including from publicly-available data. There is no assurance opinion contained within this report or related to the work conducted by Columbia Capital. There may be differences between any projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

Executive Summary: Is CPS Able to Operate as an Independent Unit of Local Government with the Financial Resources Available to It?

Even without a transition to an independent unit of local government, CPS faces significant challenges to its ability to ensure its long-term financial stability while meeting its obligations to the communities it serves. The prospect of disentangling relationships with the City and other partners creates additional uncertainties and risks, both for CPS's operating budget and for the finances of its students and their families.

CPS's financial condition is fragile. Serving more than 330,000 students, CPS is more than \$1 billion per year below the State of Illinois's school aid adequacy funding target. In order to fund its capital program, CPS redirects hundreds of millions of dollars per year of the State aid it does receive to pay principal and interest on bonds rather than to support educational programming. And, as a fully urban district, CPS serves a disproportionate number of students from low-income families, students without permanent housing and students for whom English is not their first language, all increasing CPS's relative cost of service provision compared with other Illinois districts. ISBE's focus on accelerating CPS's path to adequate State funding and addressing inequities in the way CPS funds its pension obligations versus the approach afforded to other districts will be critical to CPS's long-term financial health.

During the COVID-19 global pandemic, CPS has benefitted from significant allocations of Federal pandemic aid and sustained state aid payments, permitting CPS to generate budgetary balance in FY21 and FY22, with projections for budgetary balance through FY25. As CPS exhausts these resources through FY25, however, it has concerns about ongoing demands to dedicate operating dollars toward continued pandemic relief and recovery for CPS students, teachers and staff without access to extraordinary funding. As a result, CPS projects a potential return to operating deficits starting in FY26.

CPS relies heavily on short-term borrowing to meet its liquidity needs, in large part due to the statutory funding provisions of the "alternate" bonds it uses to pay for capital expenditures but also due to the challenges associated with the timing of the receipt of local property tax revenues. The scale of its physical locations used to serve students throughout the city on an equitable basis, additionally, requires ongoing and significant investment, most of which is financed with long-term debt. As recently as 2015, CPS was rated in the 'AA' category—the second highest category of the bond rating agencies. Unfortunately, after suffering a significant amount of fiscal stress in the intervening years, CPS's bond ratings now lie largely in the "below investment grade category," resulting in market access risk and subjecting it to relatively high borrowing costs.

Meanwhile, the process of disentangling has already begun with the City shifting tens of millions of dollars of costs onto CPS's books that it had historically borne on CPS's behalf: \$175 million for FY23 in funding for non-teacher pensions and \$30 million per year for school resource officers and crossing guards, as examples. To the extent continued disentanglement creates unfunded mandates for CPS, these actions could also negatively impact CPS's operating budget.

CPS is obligated to balance its budget each year. Given the scale of its budget, CPS can typically rely upon some expenditure flexibility to allow it to overcome budget surprises within a fiscal year. But long term, with EBF growth projected to be more or less fully consumed each year from alternate bond debt service on financings necessary to fund the capital program, with most property tax levies capped by PTELL, and with limited other means to generate new streams of revenue over time, CPS could find itself in a similar position by the end of this decade as it did in the middle of the last decade: having to rely upon one-time budget gimmicks and draws on fund balance to avoid significant cuts in educational services.

Reader's Guide

This analysis is divided into **two primary sections** following the the language of the Trailer Bill: **a review of CPS's finances** starting on page 7, providing important context for understanding CPS's primary funding tools and their limitations; and, an **assessment of entanglements**, starting on page 16, identifying key financial relationships between CPS, the City and its "sister agencies."

The **financial review** contains important information on CPS's use of Federal pandemic aid (page 7) and the Evidence Based Funding (EBF) state aid formula (page 9), the impact of pension contributions on CPS's operating budget

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(page 11) and a discussion of expected mid-term budgetary challenges (page 13). The financial review section concludes with a summary assessment of financial challenges CPS faces today and in coming years (page 14).

The analysis attempts to catalog the **key entanglements** between CPS and the City (and, in some cases, other public agencies), all of which will have an impact on CPS's ability to stand as an independent unit of local government. A discussion of the report's approach to cataloging and reporting these is provided on page 16. Key entanglements include the City's subsidy of pension costs for CPS employees/retirees *not* covered by the Chicago Teachers Pension Fund (page 24), the impact of tax increment financing dollars on CPS's operating and capital budgets (pages 19 and 20), and the City's levy of and remittance to CPS of certain property tax dollars for payment of CPS debt service (page 18).

The report's **conclusion** (page 35) provides a risk-based summary of the impediments CPS will face in transitioning to and operating as an independent unit of local government.

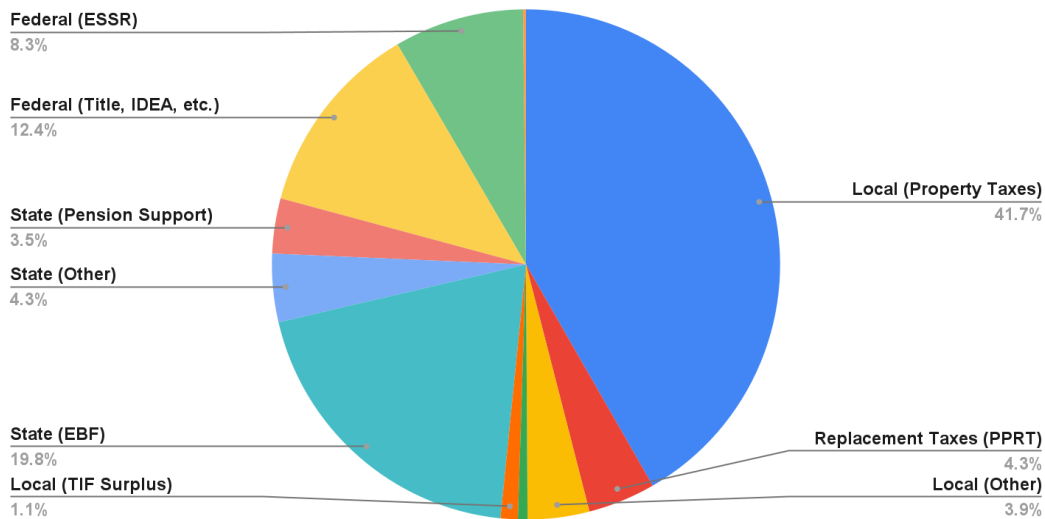
District Finances

This section provides a snapshot of CPS’s current financial condition, as contemplated in the Trailer Bill, along with detailed discussion of key financial drivers today and expected in the coming few years.

Financial Structure

CPS, like all school districts in Illinois, is financed through a combination of local, state and federal sources. Property tax revenue is the largest CPS revenue source. Budgeted revenues for FY23 are as follows:

Figure 1 – CPS Budgeted FY23 Revenues



Source: CPS FY23 budget document.

The largest share of local revenue comes from the Board's ability to tax District residents on the value of their property. The stability of this revenue source is vital to the financial health and viability of the District. The ability of CPS to extend taxes is governed in most cases by the Property Tax Extension Limitation Law (“PTELL”) which limits the amount by which CPS can increase its property tax collections from year-to-year by either the change in the Consumer Price Index (“CPI”) or five percent, whichever is less.

The largest portion of state funding is allocated to CPS and other Illinois districts through Evidence-Based Funding (“EBF”). The EBF model allocates additional funding through a tiering system that directs new investments in state education funding to districts most in need of resources.

The federal government's response to the pandemic by delivering aid to school districts nationally through its Elementary and Secondary School Emergency Relief Fund I, II, and III programs (“ESSER”) has provided a historic level of temporary federal funding to CPS to combat the effects of the pandemic on student achievement and well-being. CPS expects to exhaust these one-time relief dollars during FY25.

CPS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. CPS has three funds: the General Operating Fund, Capital Projects Fund, and Debt Service Fund.

Use of One-Time Pandemic Aid

Federal legislation provided allocations to CPS of more than \$2.8 billion in reimbursable Federal pandemic relief funds through the three rounds of ESSER. Like all districts, CPS has significant latitude in using ESSER dollars to assist its students and teachers in recovering from COVID-19 pandemic. CPS used approximately 45 percent (\$1.26 billion) of its total ESSER allocation through June 30, 2022 (unaudited) to support students and families throughout the pandemic. CPS used these funds to implement new health and safety measures in schools, to adjust to a temporary period of remote

learning, to hire additional staff to support academic recovery, to increase social-emotional learning resources for students, and to address other school-level priorities, including retaining quality staff.

The table below identifies how CPS has used its ESSER allocation in the recent past and how it plans to deploy the balance through the end of the Federal program. ESSER is a reimbursement based program, meaning that CPS must first spend local resources on eligible costs and then seek reimbursement for those costs from the Federal government.

Table 3—CPS Use of One-Time Pandemic Aid

(\$ in Millions)	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Operational supports & supplies and contingency	90	61	66	96	25	-
Academic recovery and social-emotional learning supports	-	-	97	230	200	-
School-level funding for district priorities and other local-level needs	6	475	460	404	382	200
TOTALS	96	536	623	730	607	200

Source: CPS FY23 Adopted Budget

Financial Risk of Continued Pandemic Impacts

CPS notes that, as the pandemic lingers, its impact on students, teachers and staff persists. CPS expects to invest approximately \$600 million a year through the end FY25 on pandemic-related recovery and response programming. If pandemic-related academic needs extend beyond FY25, CPS will not have a funding source to continue providing academic recovery, social-emotional learning supports and locally-directed relief needs to the communities it serves.

Impacts on CPS Due to its Uniqueness Versus Other Illinois School Districts

Due to its sheer size and scale—according to ISBE data,² CPS has 9.4 times the number of students and 8.4 times the State aid of the next largest school district—CPS is unique in the state. The table below illustrates some of these key challenges:

Table 1 – Scale of CPS’s Educational Commitment

	CPS Students Served	CPS’s Share of Illinois Students
Total K-12 Students	331,263	17.67%
Low-Income K-12 Students	250,962	28.86%
Homeless K-12 Students	14,198	38.84%
English Learner K-12 Students	70,855	27.74%

Source: ISBE 2022 data

² <https://www.isbe.net/pages/illinois-state-report-card-data.aspx>

The impact of CPS’s size and scale differential imposes burdens on its finances that may not impact other public school districts at all or to the same extent. The table below highlights certain differences between CPS and other Illinois school districts codified in Illinois law.

Table 2 – Comparison of CPS Statutory Differences from Other School Districts

Category	CPS	Other Illinois Districts
Teacher Pensions	Chicago Teachers Pension Fund -State pays normal cost -CPS pays legacy cost, in part with a local property tax levy	Teachers Retirement System of Illinois (TRS) -State pays 100% of employer cost
Other Staff Pensions	Municipal Employees Annuity and Benefit Fund of Chicago (Shared with the City) -current CPS payments to MEABF are made by CPS operating funds through an IGA with the City	Illinois Municipal Retirement Fund (IMRF) -School districts pay 100% of employer cost
Referenda	Limited ability to call for a local voter approved referendum for operating rate increases and property tax-supported bond measures to support capital needs (both amounts and question types constrained by current school law governing CPS); referenda also require unique additional steps of City approvals	Ability to call for a referendum for an operating rate increase and or up to a specific debt Community Unit School District debt limit of 13.8% of total Equalized Assessed Value;
Facility Utilization Policy	Constrained by state law	Done at local discretion

Source: CPS internal document

A New Approach to State School Funding: Evidence Based Funding

Public Act 100-465. On August 31, 2017, Public Act 100-465 became effective and provided a significant revision to the State’s funding of the Board by establishing the “evidence based funding” (“EBF”) formula for allocating State Aid to school districts, beginning with the 2017-2018 school year, replacing the historical state aid formula. The historical state aid funding formula had resulted in historically flat or declining State Aid Revenues for CPS. The EBF Formula ties school district funding to 27 evidence-based best practices shown to enhance student achievement in the classroom and sets a target funding level (“Adequacy Target”) based on a school district’s demographics and local capacity to fund schools.

Funding Adequacy. Under the EBF Formula, State Aid in excess of the amount needed to fund the Base Funding Minimum for all school districts (“New State Funds”) is distributed to school districts based on “Tier” placement. “Tier 1” and “Tier 2” are those school districts that are the furthest away from their Adequacy Targets and “Tier 3” and “Tier 4” are those school districts that are the closest to (or above) their Adequacy Targets. CPS has been a Tier 1 school district since the inception of the new formula in 2017. In Fiscal Year 2022, the Board was 212th of the 320 districts within Tier 1 and funded at an adequacy level of 67.8%. CPS estimates the additional amount of state aid necessary to bring it to its Adequacy Target for Fiscal Year 2022 was \$1.6 billion.

Unexpected Drop to Tier 2. In August 2022, ISBE advised CPS that in Fiscal Year 2023 it would move to Tier 2 as the result of both an unexpected decline in the Fiscal Year 2023 contribution requirements to the Chicago Teachers’ Pension Fund (“CTPF”) and significant one-time increases in CPS’s Personal Property Replacement Tax (“PPRT”) receipts. CPS expects both of these positive improvements to be transitory. A single year’s investment performance by the fund largely contributed to the reduced CTPF payment contribution, and the post-COVID economic rebound with increases in both individual and corporate State income taxes was a factor contributing to the upswing in PPRT receipts.

The move into Tier 2 meant that CPS achieved an adequacy target of 74.6%. The cutoff between Tier 1 and Tier 2 was at a 73.1% adequacy target. ISBE estimates that the move of CPS to Tier 2 will result in a Fiscal Year 2023 reduction in EBF totaling approximately \$29 million. At 74.6%, CPS was still \$1.419 billion below its Adequacy Target under the EBF formula.

Repayment Due to EBF Calculation Error. In spring 2022, the State informed CPS of its miscalculation in tier funding totals dating back to FY2019. This error will reduce the amount of EBF funding CPS is projected to receive in future years by approximately \$45 million annually and requires CPS to pay back \$87 million in over-funding received from FY19 to FY22. CPS expects to repay these funds over eight years, beginning in FY23.

Budgetary Pressure, Historical Deficits, and Cash Flow Pressures

A substantial portion of the revenues supporting CPS are largely outside the Board's control. The Board's authority to increase its property tax revenues for operations is largely restricted by PTELL. CPS revenues from property taxes, PPRT receipts, and State and federal funding are limited by State and federal laws; legislation will be required to provide new or increased revenues to CPS. Certain State and federal revenues are allocated based on statutory formulas and limited by State and federal appropriations and, thus, are dependent in part on the competing demands for funding at the State and federal level.

In addition, certain factors that affect a substantial portion of the operating expenses of CPS, such as its required pension fund contributions, are largely outside the Board's control, limiting the Board's ability to adjust such expenses in relation to the Board's operating revenues. CPS is the only district in the State that directly funds its teachers' retirement program.

The Board's largest source of expenditures—salaries and wages—are largely governed by contractual agreements with the Board's various collective bargaining units. In Fiscal Year 2021, the Board's annual salaries, wages and benefits were approximately \$4.5 billion and constituted approximately 70% of the Board's annual operating expenses. In Fiscal Year 2020, the Board entered into the current four-year agreement with the Chicago Teachers Union ("CTU"). The agreement governs the cost of salaries and benefits for approximately 65% of the Board's employees. The Board's various labor agreements expire on a rolling schedule. The Board expects to experience inflationary pressures in the renegotiation of each of its labor agreements largely driven by general inflationary pressures currently impacting the US economy.

Since Fiscal Year 2018, CPS's funding has improved based primarily on the State's changes to EBF provided by P.A. 100-465 and the State authorized Pension Property Tax Levy with its allowable increase above the property tax levy rate cap. But, in the recent past, CPS experienced structural budgetary deficits. These structural deficits peaked mid-year in Fiscal Year 2016 at approximately \$1.1 billion; CPS took a number of one-time actions, including using reserves, to reduce that imbalance to approximately \$490 million by FY16 year-end. CPS mitigated these operating deficits in certain years by the use of non-recurring revenue, the spend-down of operating reserves, the restructuring of debt to avoid current year principal payments and to extend maturities, by using short-term borrowings, and through the reduction of operating expenditures. As a result of these deficits, CPS's General Operating Fund balance declined between the beginning of Fiscal Year 2015 (a balance of approximately \$1.2 billion) to the end of Fiscal Year 2017 (a balance of approximately *negative* \$275.2 million). While the Board's liquidity position has improved since Fiscal Year 2017, operating reserve funds remain below target levels, budgetary pressures continue to arise and CPS has continuously needed to address periods of interim fiscal year negative cash flow positions through short-term borrowing.

These periods of negative cash flow arise largely because CPS does not receive revenues that are timed to when it pays expenses. Although the State makes EBF payments to CPS consistently throughout the year, CPS receives its most significant revenue stream—property taxes—with a pattern largely tied to the twice-annual installments afforded to individual taxpayers. On occasion, this situation is exacerbated by the timing of Cook County's release of tax bills, as in 2022, for instance, where CPS expects to suffer an additional \$6 million in short-term borrowing interest costs with the delayed release of fall tax bills. As a result, CPS experiences cash flow peaks and valleys throughout the year, depending on when revenues and expenditures are received and paid. Further, revenues are generally received later in the fiscal year, while expenditures, mostly payroll, are level across the fiscal year—with the exception of debt service and pensions. The timing of these two large payments (debt service and pensions) occur just *before* major revenue receipts. The timing of revenues and expenditures creates persistent cash flow pressure on the District. CPS estimates it would need to achieve a cash balance of more than \$1 billion to support liquidity without regular short-term cash flow borrowings.

Pension Funding Approach Unique in the State

Unlike other Illinois school districts, CPS is responsible for covering employee retirement plan contributions from its operating budget. In 2017, the Illinois General Assembly gave CPS the authority to impose a special property tax levy to fund pension contributions. CPS’s board took action to impose the levy at the maximum rate and began collections in FY18. Through FY22, revenues raised through the dedicated levy have not been sufficient to fully cover CPS’s net statutorily-required annual contributions to the CTPF. In addition, in recent years, CPS has also made voluntary contributions to the City’s Municipal Employees’ Annuity and Benefit Fund (“MEABF”) for a portion of the CPS employee-related liabilities of the plan. These MEABF payments are currently not fully accounted for in the State’s EBF payment calculations. Because MEABF is the City’s plan, CPS historically relied on the City to make the statutorily-required employer contributions to the plan, even for CPS employees/retirees. The table below illustrates CPS’s net pension funding costs from its operating budget.

Table 4—CPS Net Pension Fund Contributions from Operating Budget

(\$ in Millions)	FY19 Actual	FY20 Actual	FY21 Actual	FY22 Budget	FY23 Budget	FY24 Proj.	FY25 Proj.
CTPF Contributions	924.2	968.1	1,003.9	1,109.2	860.3	TBD	TBD
MEABF IGA Contributions	-	-	60.0	100.0	175.0	TBD	TBD
State CTPF Normal Cost Contribution	(238.9)	(257.3)	(266.9)	(277.5)	(308.7)	TBD	TBD
Dedicated CTPF Tax Levy Receipts	(442.8)	(481.1)	(489.3)	(463.8)	(551.6)	TBD	TBD
Net Operating Fund Support	242.5	229.7	307.7	467.9	175.0	TBD	TBD

Source: CPS audited financial statements and budget documents.

Although the combination of State funding covering the CTPF normal cost contribution and receipts from CPS’s dedicated pension levy is expected to fully cover CPS’s FY23 CTPF annual contribution, future state contributions may not keep pace with CPS’s employer contribution costs as they increase over time to allow CTPF to reach a 90 percent funding ratio by 2059, as required by state law. The normal cost borne by the State will also gradually decline as a greater share of the workforce covered by CTPF comprises “Tier II” and “Tier III” teachers who are entitled to lower levels of benefits in the CTPF plan. Future adjustments to CPS’s State funding may be necessary to ensure it is not again required to use operating budget resources to make CTPF contributions.

CPS’s Capital Financing Needs Negatively Impact its Operating Resources

CPS’s facility portfolio includes 522 campuses and 803 buildings. The average facility age is more than 82 years old, and the total CPS critical facility funding need is more than \$3 billion. Since FY16, CPS has invested over \$3 billion into capital improvements across the District. CPS continues this investment in FY23 with an adopted capital improvements budget of \$645 million. These projects include major renovations to ensure schools are weather-tight and climate-controlled, to provide a safe environment for children and staff, to address pandemic-related safety improvements, and to make renovations to aid programmatic enhancements.

Beginning in Fiscal Year 2016, CPS started to receive for the first time a Board-approved and statutorily-authorized annual levy of capital improvement property taxes (the “CIT Levy”) to aid in the funding of ongoing capital improvement programs. The CPS CIT Levy was established under 405 ILCS 5/34-53.3 passed in 2002. For Fiscal Year 2022, the Capital Improvement Tax generated approximately \$70 million (unaudited). The statute establishing the levy authorizes annual increases to the amount of the levy based on inflation, and further provides for the amount of the levy to increase by an additional \$142.5 million in Fiscal Year 2031. This timing coincides with the conclusion of the

City's funding of a portion of CPS bond debt service via intergovernmental agreement as described more fully later in this report. Annual growth Capital Improvement Tax collections is not subject to the limitations of PTELL.

In order to begin to address its significant deferred capital investment challenge, in Fiscal Year 2017 CPS began to issue dedicated capital improvement tax bonds payable from and secured by a lien on the revenues from the CIT Levy. Currently, CPS has a total of \$880.5 million in bonds outstanding and payable from the CIT Levy. Substantially all of the CIT Levy is consumed by principal and interest payments annually.

Despite the creation of the CIT Levy, CPS's primary funding source for capital investment is its issuance of long-term alternate bonds secured by its EBF funding. As a non-home rule unit of government, CPS routinely relies upon the mechanism provided in the Local Government Debt Reform Act ("Debt Reform Act") permitting it to issue "alternate bonds": general obligation bonds pledging an additional revenue stream (other than property taxes) to bond repayment, largely EBF receipts. Unfortunately, this dynamic means that, for every dollar CPS spends on alternate bond debt service, it has one less dollar to invest in its educational mission. With more than \$3 billion in critical, unfunded capital needs, the Board has no current alternative to issuing EBF-supported bonds annually to address high-importance capital needs. CPS expects that, in some years, its incremental debt service costs from bonds issued to support its capital needs could consume a substantial portion of any net new funding under the EBF formula.

As an additional side effect of its reliance on alternate bonds to fund capital, consistent with the Debt Reform Act, CPS is obligated to escrow its entire debt service obligation for each calendar year by February 15 of such calendar year, creating a very significant challenge for CPS's cash flow: the debt service escrow date falls just ahead of CPS's receipt of first installment property taxes from Cook County each year. Debt service costs for outstanding long-term debt of CPS in Fiscal Year 2022 totaled approximately \$763 million.

The par amount of CPS long-term debt outstanding was approximately \$8.6 billion as of June 30, 2022. Payments on long-term debt currently extend through Fiscal Year 2048. Future financings may increase outstanding long-term general obligation debt and debt service costs. From time to time in the past, CPS has issued bonds to refund and restructure outstanding bonds to extend maturities to obtain budgetary relief which has the effect of extending and increasing the Board's overall debt levels.

Bond Ratings and Market Access

Background. CPS maintains outstanding debt with ratings from all four primary municipal market credit rating agencies. While each agency uses its own proprietary evaluation criteria, the approaches of the four agencies are largely similar with respect to school district ratings. The rating agencies provide a window into potential bond investor perceptions of CPS's financial condition and provide an independent viewpoint on the financial strength of the Board.

Current Ratings. With respect to EBF-backed alternate general obligation bonds, CPS's current bond ratings are:

Kroll Bond Rating Agency: BBB (stable outlook) | ninth highest rating

Fitch Ratings: BB+ (stable outlook) | eleventh highest rating

S&P Global Ratings: BB (stable outlook) | twelfth highest rating

Moody's Investors Service: Ba2 (stable outlook) | twelfth highest rating

A "stable outlook" means the rating agency does not expect positive or negative movement in the rating in the 12-18 month subsequent to issuance of the outlook.

Market Access. With three of four of its long-term bond ratings in the below-investment-grade category (below Baa3/BBB-), CPS remains exposed to the vagaries of the municipal high yield bond market. This market has fewer investors and, thus, lower liquidity than the investment grade municipal market and can see market dynamics that are disconnected from those in the broader market, leading to periods where market access can be challenging and expensive.

FY22 Operating Results

Based upon preliminary, unaudited results for FY22, CPS anticipates reporting General Operating Fund revenues of approximately \$7.94 billion and expenses of approximately \$7.71 billion, resulting in a projected operating surplus of approximately \$229 million. A key budget driver in FY22 was CPS’s use of Federal pandemic relief funds—approximately \$630 million. CPS also saw significant budgetary overperformance in its PPRT receipts, likely a transitory event driven by a recent legislative change.

Despite the positive budget result in FY22, CPS’s liquidity position continues to show the effects of years of deficit spending. CPS saw positive ending cash for the first time in more than eight years on June 30, 2022 (unaudited). As described in more detail below, CPS continues to rely heavily on tax anticipation notes (TANs) to support intra-year liquidity and had a maximum TANs outstanding amount of \$950 million in FY22. This maximum required TANs amount has risen in the pandemic to accommodate delays in the Cook County property tax collection and distribution cycle.

Forecasted Mid-Term Operating Results

CPS notes that positive operating results in FY21 and FY22 (unaudited) were largely driven by one-time unexpected budget surprises. For FY21, CPS budgeted assuming a full-year of in-person classes but saw reductions in expenditures resulting from a substantial period of remote learning. For FY22, CPS saw routine operating expenditures return to typical levels with fully in-person classes, but benefitted from a one-time revenue surprise in PPRT receipts resulting from a legislative change. In future budget years, CPS assumes a return to typical revenue and expenditure patterns and forecasts a growing imbalance between revenues available and the expenditures necessary to continue to provide the same level of educational services as it provided in FY22. Table 5 provides CPS’s internal projections of future operating results. In addition, CPS faces the ongoing risk that pandemic-related costs do not wane at the same pace as Federal pandemic aid does, potentially creating additional pressure on budgetary balance. As noted in Table 3 above, CPS expects to exhaust its Federal pandemic aid during FY25.

Table 5—Projected Results for CPS General Operating Fund

(\$ in Millions)	FY23	FY24	FY25	FY26	FY27	FY28
Projected Surplus/(Deficit)	-	-	-	(628)	(733)	(650)

Source: Internal CPS projections.

Expected neutral operating results for FY24 and FY25 mask growing, underlying challenges that could result in very significant budget challenges beginning in FY26 if CPS were to take no action. Key factors that could drive potential long-term budget imbalances include:

- growth in annual pension contributions, particularly for MEABF but also associated with wage base growth; CPS’s contributions to MEABF have grown from \$0 in FY20 to \$175 million in FY23, and the plan’s pension actuary expects the share of annual MEABF contributions attributable to CPS employees and retirees to grow to \$315 million by FY27
- nearly \$30 million in new expenditures for crossing guards and school resource officers, shifted to CPS from the City’s operating budget
- \$170 million of cumulative, structural negative impacts from a lower EBF revenue base and a smaller share of net new state contributions to K-12 funding due to CPS’s move into Tier 2, totaling approximately \$25 to 30 million per year, plus a loss of \$45 million related to the FY22 EBF correction
- growth in the wage base and benefits contributions that compound at approximately \$120 million per year
- continued reliance on alternate bond issuance to finance capital investment, reducing the effective amount of EBF available for instruction at a compounding cost of approximately \$30 million per year
- at least over the next two to three fiscal years, significant losses in purchasing power due to the expected extraordinary growth in consumer prices vs. the growth in property tax and other revenues

- reductions in potential growth in property tax receipts due to TIF expiration resulting from the City extending certain TIFs pursuant to state law

Although these factors are already negatively impacting CPS today, through FY25 it expects to continue to benefit from extraordinary revenue offsets and some transitory expenditure factors which should allow it to balance its budget:

- the thoughtful spend-down of ESSER pandemic relief dollars into FY25
- the unexpected reduction in operational support required to make statutory contributions to CTPF due a single year's investment performance by the fund
- extraordinary PPRT receipts driven by a change in State law (where the State projects a reversion to historical levels of receipts within a couple of budget cycles)
- at least in the very short term, savings generated through CPS's inability to fill budgeted positions due to very tight labor market conditions

The implications of these projections are that CPS's fund balance and cash balances will have peaked at the end of FY22 with the potential for significant reductions to each starting in FY26 if no action is taken by then to resolve the accumulation of factors leading to a structural deficit.

CPS is obligated to balance its budget each year. Given the scale of its budget, CPS can typically rely upon some expenditure flexibility to allow it to overcome budget surprises within a fiscal year. But long term, with EBF growth projected to be more or less fully consumed each year from alternate bond debt service on financings necessary to fund the capital program, with most property tax levies capped by PTELL, and with limited other means to generate new streams of revenue over time, CPS could find itself in a similar position by the end of this decade as it did in the middle of the last decade: having to rely upon one-time budget gimmicks to avoid significant cuts in educational services.

Financial Conclusion: Financial Risks Persist

Pandemic-Related Challenges Could Linger Beyond the Term of Federal Pandemic Relief. CPS's mid-term budget forecast anticipates that pandemic-related service demands will cease in FY25 as it plans to deploy its final ESSER dollars. If pandemic-related service demands from teachers, students and CPS families persist, however, these demands could place material pressure on budgetary balance in the coming years.

CPS Remains Substantially Underfunded. The General Assembly's creation of the EBF formula, first benefitting CPS in Fiscal Year 2018, has provided a framework for stability for CPS's operating budget, especially when coupled with the authority for CPS to extend a property tax levy dedicated to pension costs and another dedicated to capital funding. Despite the implementation of these new tools, CPS still remains substantially underfunded under the EBF model. For FY2023, the State will allocate to CPS EBF dollars at only approximately 75% of what the State's EBF formula calculates the District needs to receive in order to be "adequately" funded. This alone will leave CPS more than \$1.4 billion short of resources that could support schools and students, based upon the students CPS currently serves.

In addition, as described later in this report, the State reimburses only 37% of CPS's cost to provide early education programs. In FY22, CPS used nearly \$115 million in local resources to cover the gap in State funding for these early education programs.

CPS's pension contributions create a significant drag on its operating budget. In FY22, CPS made operating fund contributions of \$110 million for CTPF and \$100 million (to the City) for MEABF. In all other school districts in Illinois, teacher retirement contributions are paid by the State.

Operational Underfunding Drives the Need for Debt Issuance. Systematic operational underfunding has forced CPS over the years to defer maintenance on and replacement of school facilities, creating a \$3 billion backlog in high-priority capital improvements. CPS's EBF-supported annual debt service obligations, totaling more than \$500 million in FY23, are largely related to addressing these capital improvements. For the foreseeable future, CPS will need to issue debt each year to address its multi-billion capital investment backlog. The incremental annual cost of this debt will consume a substantial portion of any annual increases in EBF funding it receives.

Although the bond rating agencies have recognized the recent improvement in CPS's fiscal stability with rating upgrades, only one—Kroll—considers CPS to be an “investment grade” credit risk to investors. Given the size of its typical borrowings, CPS relies on the interest of large mutual fund complexes to buy its bonds. Investor appetite for non-investment grade (or “junk”) bonds is volatile based upon market conditions and, in Illinois, based upon the amount of recent issuance by the State, the City and its sister agencies.

Use of Alternate Bonds and Reliance on Local Property Tax Create Liquidity Challenges. CPS also remains at risk with respect to its need annual to access short-term bond markets to provide cash flow liquidity, particularly related to the mismatch in timing between the statutory date to pre-fund its alternate bond debt service for the year (February 15) and its initial receipt of first installment property taxes from Cook County (generally, in March). Although CPS's fund balance growth recently has the prospect of lowering its need for short-term borrowing, pandemic-related delays in property tax collections in Cook County have actually exacerbated CPS's liquidity challenges over the past few property tax cycles. CPS reports additional expected borrowing costs of approximately \$6 million in FY23 to cover delays caused by the late timing of Cook County's mailing of Fall 2022 tax bills.

Statutory Constraints and CPS's Unique Characteristics Compound Financial Risk. As a general law entity in Cook County, CPS is subject to PTELL, limiting both its ability to keep up with inflation and to raise additional sources of revenues. Particularly in the current environment where the inflation rate exceeds the maximum PTELL growth amount and where every employer is fighting for access to quality workers, CPS runs the risk of falling behind in its purchasing power, particularly with respect to funding personnel costs.

CPS's Financial Condition Remains Fragile. Because of the nature of its population served—particularly with respect to low-income and homeless students—CPS faces outsized challenges in meeting the needs of its communities. Systematic funding below its adequacy target historically has caused CPS to make financial choices that sacrificed future flexibility in favor of meeting its operating and educational obligations today. The entanglements CPS has with the City and its sister agencies described in detail in the next section of this report, are, in many ways, unique to Chicago. The State's evaluation of and proposed solutions to these entanglements will need to take into account the unique nature of a wholly-urban district along with CPS's limited flexibility to accommodate material, new demands on its financial resources.

Catalog of Entanglements

Approach

Except for the “Other Entanglements” section which addresses relationships that may have bilateral benefits and costs, this catalog attempts to report entanglements from two perspectives:

- The benefit to CPS is measured through the lens of its operating budget. *Direct benefits* to CPS are those that either reduce or offset CPS’s expenditures or increase CPS’s revenues, while *indirect benefits* to CPS are those that impact its employees/retirees, its students, their family or the broader community it services.
- The cost to the City is measured through the lens of its operating budget, as well. *Direct appropriations* are those where the City (or sister agencies) is increasing its operating expenditures to fund items that benefit CPS. *Reduced payments* are those items where the City (or sister agencies) is foregoing revenue, but for the entanglement, would have positively impacted its receipts.

As an example of categorization, a City pension plan, the Municipal Employees’ Annuity and Benefit Fund (MEABF), provides retirement benefits to CPS employees and retirees who are not eligible to participate in the Chicago Teachers’ Pension Fund. Because MEABF is the City’s plan, the City has historically made the statutorily-required employer contributions to the plan, even for CPS employees/retirees. In very recent times, CPS via intergovernmental agreement has agreed to cover a portion of the annual employer contribution costs to MEABF, but the City still covers a material portion of the estimated CPS employee/retiree share of plan contributions. This report discusses CPS’s growing payments to MEABF in the prior section (see Table 9, for instance) discussing CPS’s financial condition. The remaining subsidy by the City of CPS employees’/retirees’ share of MEABF, however, is an entanglement discussed in this section. Because the plan is the City’s plan and because CPS does not have any direct legal responsibility for it, the remaining City payments benefitting CPS employees/retirees are categorized as an indirect benefit to CPS via direct appropriation by the City.

Identified entanglements are organized as follows:

DIRECT BENEFIT TO CPS

Direct appropriation. This category includes financial, economic and organizational connections that provide measurable benefit to CPS—through third-party payment of its own obligations or avoidance of cost borne by third-party—which are supported by a direct budgetary obligation of the City. These are obligations reflected on the expenditure side of the City budget.

Reduced Payments. This category includes financial, economic and organizational connections that provide measurable benefit to CPS—through third-party payment of its own obligations or avoidance of cost borne by third-party—which are supported by foregone revenues to the City. These are obligations which do not appear in the City budget, because they represent revenues never received by the City.

INDIRECT BENEFIT TO CPS

Direct appropriation. This category includes financial, economic and organizational connections that provide benefits to CPS that may not be measurable or quantifiable which are supported by a direct budgetary obligation of the City. These are obligations reflected on the expenditure side of the City budget.

Reduced Payments. This category includes financial, economic and organizational connections that provide benefits to CPS that may not be measurable or quantifiable which are supported by foregone revenues to the City. These are obligations which do not appear in the City budget, because they represent revenues never received by the City.

OTHER ENTANGLEMENTS

Other relationships. This category includes a handful of items where dollars flow from CPS to the City or a sister agency, or where the share of value is bilateral between the City and CPS.

Summary of Quantification of Entanglements

The tables below attempt to quantify the value to CPS of each entanglement described in this report. The tables provide three fiscal years of historical data, a projection of value for the CPS fiscal year just ended on June 30, 2022, and estimates for the current CPS fiscal year (FY23) and two additional years.

It is important to note that the City uses a calendar fiscal year, while CPS uses a July-June fiscal year. The report can only tie-back, where applicable, to a single set of audited financials; the report uses a July-June fiscal year and ties, where possible, to CPS audited financials.

Table 6—Summary of Financial Impacts of Entanglements

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Category: Direct Benefit to CPS—Direct Appropriation							
IGA/Bond Debt Service	112.5	142.3	142.3	142.3	142.3	142.3	142.3
TIF Surplus	93.8	155.6	163.9	150.2	97.0	97.0	97.0
IGA/TIF School Improvements	32.8	14.3	0.3	TBD	TBD	TBD	TBD
Category: Direct Benefit to CPS—Reduced Payments							
User Fee Waivers	11.0	9.0	10.0	11.0	11.0	12.0	12.0
Category: Indirect Benefit to CPS—Direct Appropriation							
MEABF Pension Contributions	n/a	n/a	187.8	259.4	272.7	283.4	293.9
CPS MEABF Payments to City	-	-	(60.0)	(100.0)	(175.0)	TBD	TBD
Modern Schools Bonds	2.8	21.2	10.5	20.7	7.9	11.8	6.6
Grant Programs	3.3	3.1	2.8	TBD	TBD	TBD	TBD
Category: Indirect Benefit to CPS—Reduced Payments							
Student Transportation	35.0	11.0	19.0	23.0	27.0	31.0	35.0
Category: Other Relationships							
Early Childhood Preschools	(72.8)	(80.2)	(80.2)	(80.2)	(80.2)	TBD	TBD
School Resource Officers	-	(16.5)	(12.1)	(11.1)	(10.2)	TBD	TBD
Safe Passage Program	1.0	1.0	1.0	1.0	TBD	TBD	TBD
Leases	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
PBC Fees	(4.7)	(5.3)	(1.9)	N/A	N/A	N/A	N/A

Notes: Positive values are costs paid by other parties to or on behalf of CPS; negative values are costs paid by CPS to or on behalf of other parties. MEABF's actuary did not calculate pension contributions on CPS's behalf for FY19 or FY20.

Entanglement Category: Direct Benefit to CPS—Direct Appropriation

Intergovernmental Agreements for Payments of Long-Term Bond Debt Service

Certain intergovernmental agreements (“IGAs”) between CPS and the City include those IGAs created for the purpose of providing a debt service payment ability on long-term bonds issued for school improvements.

CPS, like other school districts in Illinois, is a non-home rule entity that is limited in its taxing capacity by the Property Tax Extension Limitation Law (“PTELL”).³ The authority for CPS to borrow is dependent on both Board approval as well as statutory authorization. CPS does not have independent authority to issue unlimited tax general obligation bonds, but instead issues debt backed by either a specific capital improvement property tax levy,⁴ or by an alternate revenue source under the Local Government Debt Reform Act.⁵ Historically the Board has primarily relied on alternate revenue source bonds that require the availability of a source of operating fund pledged revenues to cover debt service and an additional coverage factor (10% or 25% dependent on the source of revenue) as its primary source of borrowing for long-term capital needs.

The City, as a home rule entity, faces no PTELL restrictions on its ability to levy property taxes or issue debt. In 1997 the City and CPS entered an IGA in which a City property tax levy became the alternate revenue source payment for bonds issued by CPS. The agreement runs until the end of calendar year 2031. The purpose was for the City to support capital improvements in schools. Under the existing agreement, the City has committed to collect the tax levy annually on behalf of CPS and remit the monies to CPS for debt service. The following chart shows recent and future remaining amounts of the IGA between the City and CPS for the alternate revenue bond long-term debt.

Table 7—Schedule of IGA Payments by City to CPS for Bond Debt Service

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Series 1998B-1	41.9	64.3	64.3	64.3	59.0	59.0	59.0
Series 1999A	31.1	31.0	31.0	31.0	31.1	31.1	31.1
Series 2008A	13.8	-	-	-	-	-	-
Series 2017F	25.7	32.1	32.1	32.1	37.3	37.3	-
Series 2017H	-	7.0	7.0	1.1	1.1	1.1	-
Series 2019A	-	7.8	7.8	7.8	7.8	7.8	43.6
Series 2021A	-	-	-	6.0	6.0	6.0	8.6
TOTALS	112.5	142.3	142.3	142.3	142.3	142.3	142.3

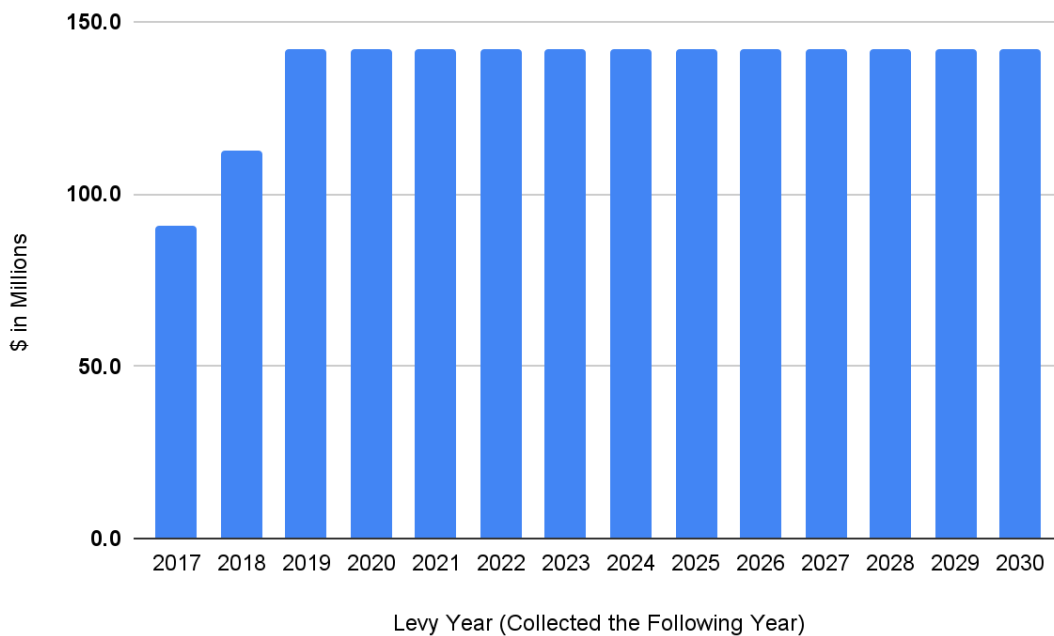
Notes: Payments continue from FY26 through FY31 and total \$711.5 million in aggregate. Totals may not sum precisely due to rounding.

³ 35 ILCS 200/18

⁴ 105 ILCS 5/34-53.5

⁵ 30 ILCS 350/

Figure 2 – IGAs - Payments Made by the City for CPS Long-Term Bonds



According to the schedule, the tax levy reached its maximum amount of \$142.3 million in levy year 2019 and will continue through levy year 2030 (collections in calendar year 2031), after which both the levy and the IGA will expire. The IGA revenues are currently pledged to six outstanding series of bonds issued by CPS, the last of which will mature on December 1, 2031.

Tax Increment Financing (TIF) Surplus

The City's Tax Increment Financing (TIF) program, which currently includes 132 TIF districts throughout the City, are used primarily to fund certain eligible infrastructure, affordable housing, and economic development activities to revitalize blighted parts of the City. The TIF program is governed by a State law allowing municipalities to capture property tax revenues derived from the incremental equalized assessed value (EAV) above the base EAV that existed when the area was designated as a TIF district and use those incremental revenues to finance certain statutorily-eligible costs, including public improvements and infrastructure, as well as, incentives to attract private investment to the area. The policy intention in Illinois and other states is that the thoughtful TIF increment in blight removal and community revitalization increase the amount of private reinvestment within the district, and ultimately increase the property tax base for all affected taxing jurisdictions.

As required by State law, funds not needed for projects are to be returned to the County Clerk to be redistributed back to the taxing bodies in the same manner as regular property taxes. The City, in its sole discretion and after evaluating whether TIF balances could be used to fund TIF-eligible expenses or might be needed in an adjacent TIF, annually declares surplus funds as part of its operating budget after thoroughly examining planned projects and determining the balance required to fund those projects.

The City declares TIF surplus in three primary ways:

- "Downtown Freeze" TIFs are those in and around the Central Business District that have been reserved only for major infrastructure projects. Currently, the City declares the full available balance in these TIFs as surplus each year.
- TIFs being terminated or otherwise ending must have any balance after closing-out projects returned as surplus.
- Currently, for the remaining TIFs, surplus is declared in TIFs which have a cash balance over \$750,000. The City declares 25 percent of the balance over \$750,000 as surplus, increasing to 100 percent of the balance over \$2.5

million.

The City’s Fiscal Year 2022 budget included a TIF surplus of \$271.6 million, resulting in \$150.2 million for CPS. Presuming the City approved no new TIF districts and did not seek extensions on any TIF districts already approved, the City’s last active TIF would expire in 2043.

Table 8—CPS Receipts of Surplus Incremental Taxes (TIF)

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
TIF Surplus	93.8	155.6	163.9	150.2	97.0¹	97.0¹	97.0¹

Notes: figures for FY23 through FY25 are estimates and tie to CPS’s normal budgeting practice with respect to expected TIF surplus receipts. Annual TIF surplus was as low as \$82MM in FY17. The value of TIF surplus to CPS can vary dramatically from year-to-year, based both upon growth in valuations within TIF districts and the number and scale of TIF-eligible projects identified within each district

¹ CPS assumes a baseline future annual budget for TIF surplus of \$97 million. The City’s FY23 budget included a TIF surplus of approximately \$315 million of which approximately \$218 million would be allocated to CPS. This funding would be received by CPS in both FY23 and FY24, but the exact timing and amounts in each year are still to be determined.

Intergovernmental Agreements for Tax Increment Financing for School Improvements

In addition to the IGA for the payment of debt service by the City on bonds issued by CPS, the City also has IGA agreements with CPS to more directly provide funding from Tax Increment Financing (“TIF”) districts for capital improvements in schools. Some of these TIF IGAs were begun as part of the Modern Schools Across Chicago (“MSAC”) program. Under this program, the City directly issued bonds for capital improvements at schools, totalling approximately \$460 million since 2007. The City’s payments for debt service on these bonds are discussed elsewhere in this report. Other TIF revenue IGAs directly support specific capital projects. Finally, four IGAs supported the refunding of outstanding CPS bond series by City MSAC bonds.

From Fiscal Year 2017 through Fiscal Year 2021, CPS received \$94.6 million under various capital IGAs of which \$9.7 million was for MSAC projects. As of June 30, 2021, \$23.6 million was pending to be paid on unfinished projects.

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Table 9—Tax Increment Financing Payments for CPS School Improvements

Intergovernmental Agreement Program	Amount Received (\$ in Millions)						Total
	Prior to Fiscal Year 2017	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	
Modern Schools Across Chicago							
Chicago Ag West High School (Al Raby Horticultural)	13.3	1.2	-	0.4	-	-	14.9
Brighton Park II Elementary	0	5.5	2.2	-	-	-	7.7
Other MSAC Projects	437.0		0.4	-	-	-	437.3
Total MSAC	450.2	6.8	2.6	0.4	-	-	460.0
Americans with Disabilities Act Projects	9.7	-	4.7	-	-	-	14.4
Other Capital IGAs							
Refunding of CPS Series 2004FGH and 2005C (Albany Park, Juarez, DePriest, Westinghouse)	126.8	-	-	-	-	-	126.8
Jones High School	165.1	-	-	-	-	-	165.1
New South Loop Elem. School	-	5.4	19.6	28.3	4.1	-	57.5
Other Projects	146.1	5.2	2.9	4.1	10.2	0.3	168.8
Total Other Capital IGAs	438.0	10.6	22.5	32.4	14.3	0.3	518.1
TOTALS	898.0	17.4	29.8	32.8	14.3	0.3	992.6

Source: CPS ACFRs, FY2016-21

Entanglement Category: Direct Benefit to CPS—Reduced Payments

Water and Sewer Usage Fee Waivers and City Permitting Fee Waivers

CPS, like most school districts in Illinois, pays various utility bills such as gas, trash collection, electricity, internet and telephone. Pursuant to City ordinance⁶ CPS benefits from fee waivers for its water and sewer usage in properties owned, leased or occupied by CPS. As with permit waivers, the City confers full or partial water and sewer user fee waivers on other organizations doing business in the city, including National Guard armories; county and non-profit hospitals; City Colleges of Chicago facilities; and public museums.

For most of the year, CPS hosts 40,000 employees and more than 300,000 students in its facilities on weekdays. CPS's real estate school building footprint consists of over 62 million square feet of space across hundreds of locations with individual water and sewer connections at each location. The Environmental Protection Agency has estimated that commercial and institutional buildings, such as schools, use large portions of municipally supplied water in the United States.⁷ The majority of CPS's school buildings have older lead pipe water connections and do not contain water meters.

The US Energy Information Administration (EIA) administered a survey in 2012, with data released in 2017, looking at water usage across a wide variety of commercial uses, including education.⁸ It found that average educational use averaged 14.6 gallons per square foot per year or 25,000 gallons per employee per year. Interestingly, the survey also found that water use did not vary materially between older commercial buildings and newer commercial buildings.

Based upon EIA data, CPS might expect to generate water demand of 905.2 million gallons per year using the per square foot metric or 1,000.0 million gallons per year using the per employee method. Averaging, then, to 950 million gallons per year, at current City water and sewer rates, CPS could expect to pay:

- \$4.1 million per year for water, plus
- \$4.1 million per year for sewer

Because the Chicago City Council establishes the water and sewer fee waiver via ordinance and has the authority to modify or rescind that ordinance at any time, there is no guarantee that the City will continue to waive water and sewer fees into the future.

Other than through the use of survey data like the EIA's, CPS has no ability to quantify these benefits, but they are likely substantial. This is based on the understanding of both the size of the CPS real estate portfolio footprint and number of students and employees using CPS facilities throughout the year for basic necessities. The largest uses of water in educational facilities are restrooms, landscaping, heating and cooling and cafeteria kitchens.²

Pursuant to City ordinance, CPS benefits from the waiver of a number of permitting and related fees normally charged to individuals and businesses operating in the city. Importantly, the City provides full or partial fee waivers to other governmental and non-profit organizations operating in the city. For the most part, the benefits CPS derives from these waivers are also available to a number of other institutions, including City Colleges of Chicago facilities, non-profit hospitals and public museums, also benefit from the waivers provided by the City ordinance. CPS benefits from fee waivers for programs including, but not limited to: driveway permitting; building inspections; vacant building registration; sprinkler inspections; and, fire pump tests.

For CPS, the number of permit fees waived varies each year. Neither CPS nor the City track the total permit fees waived.

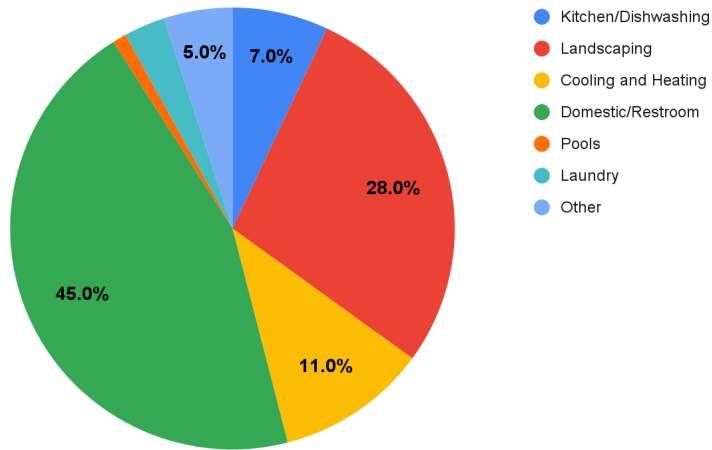
⁶ On November 16, 2011, as part of the 2012 budget, the City of Chicago, by ordinance, fundamentally restricted its process for granting fee waivers. The water fee exemptions for Chicago Public Schools remained the same.

https://www.chicago.gov/content/dam/city/depts/fin/supp_info/Revenue/Summary_of_Municipal_Code_11-12-540.pdf

⁷ <https://www.epa.gov/sites/default/files/2017-01/documents/ws-commercial-factsheet-educational-facilities.pdf>

⁸ <https://www.eia.gov/consumption/commercial/reports/2012/water/>

Figure 3—End Uses of Water in Schools



Source: Environmental Protection Agency

The City’s estimates of the value of the waivers (in reduced payments) are provided in table below.

Table 11—Value of Permitting and Water/Sewer Fee Waivers

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Water and Sewer Fees	10.0	8.0	9.0	10.0	10.0	11.0	11.0
Permitting Fees	1.0	1.0	1.0	1.0	1.0	1.0	1.0
TOTALS	11.0	9.0	10.0	11.0	11.0	12.0	12.0

Notes: neither the City nor CPS tracks the value of permit fees waived. All data reported are CPS estimates. The value of reduced payments is perpetual as long as the waivers continue. The declines in FY20 and FY21 were due to the use of remote schooling during the pandemic.

Entanglement Category: Indirect Benefit to CPS—Direct Appropriation

MEABF Pension Contributions

Background. Employees of CPS participate in one of two defined benefit retirement funds (the “Retirement Funds”) which provide benefits upon retirement, death or disability to CPS employees and their beneficiaries in lieu of participation in the United States Social Security Administration’s Old Age, Survivors and Disability Insurance (“OASDI”) program.

CPS remains the only school district in the state with its own teachers’ pension system that is separate from the statewide Teachers’ Retirement System (“TRS”). Full-time salaried CPS teachers and other licensed teaching staff are part of the Chicago Teachers’ Pension Fund (“CTPF”), which, until recently, has been funded entirely by Chicago taxpayers with little support from the state. Under this arrangement, Chicago taxpayers have faced the unique burden of having to support both the CTPF and the TRS. Like all other working Illinoisans, their income, corporate, and sales taxes paid to the state fund TRS costs, but Chicagoans alone support the CTPF through property taxes and other local revenue streams. As part of education funding reform, the State has taken steps to address this long-standing inequity. Beginning in FY2018, the State has contributed funding in the amount of CPS teacher pension normal costs (i.e., the cost of the benefits that are projected to be created in the current year), but not funds sufficient to cover CPS’ pension payments related to past unfunded liabilities. In FY23, the state will provide \$308.7 million for these costs and CPS will provide \$667.1 million through a combination of the State approved CPS pension property tax levy and other CPS operating fund contributions.

History. Employees of CPS that do not participate in the CTPF participate in the Municipal Employees’ Annuity and Benefit Fund (“MEABF”). The MEABF is a City of Chicago pension annuity fund established to fund retirement for most civil servant employees of the City of Chicago. Under current State Statutes, CPS is not legally obligated to fund annual statutory requirements of the MEABF. Historically, the City did not request and CPS did not make annual payments into MEABF. The City alone provided any and all employer statutory funding contributions to the MEABF. As a result of this arrangement, a legacy of pension liabilities exists for a total of approximately 32,290 retired, former and current CPS employees that are participants of the MEABF.

Valuation of CPS’s Portion of MEABF Liabilities. During 2022, CPS engaged with Segal, the current actuarial consultant to the MEABF, to provide an independent analysis of the level of financial entanglement that CPS has related to the MEABF. Segal used recent MEABF actuarial valuations and the associated underlying asset and membership data to derive their conclusions. Segal determined that at December 31, 2021, approximately 45.0% of the MEABF’s normal cost and approximately 32.9% of its accrued actuarial liability was related to CPS. Segal also concluded that if the CPS-attributable portion of the MEABF were its own pension plan, CPS’s Fiscal Year 2022 actuarially-driven payment would have been \$423.4 million while its statutorily-derived payment would have been \$259.4 million. Segal’s analysis is included as **Appendix A** to this report.

Table 12 – FY22 and FY23 MEABF Actuarial Payment: Allocation to CPS

(\$ in Millions)	Actuarial Accrued Liability	Normal Cost	Actuarial Value of Assets	2022 Actuarially Determined Contribution	2023 Actuarially Determined Contribution
Overall MEABF Plan Total	18,401.6	264.0	4,041.9	1,262.4	976.0
CPS Members’ Liability	6,050.5	118.8	1,329.0	423.4	272.7
CPS Percentages of Total	32.9%	45.0%	32.9%	33.5%	27.9%

Source: Segal (MEABF plan actuary).

Recent CPS Contributions to MEABF. In FY21, for the first time, the City and CPS finalized an intergovernmental agreement related to MEABF payments (the “MEABF IGA”) whereby CPS began to make employer

contribution payments to the City to be applied toward MEABF’s statutory funding requirements. The parties structured the MEABF IGA to renew annually, but not past calendar year 2059. CPS paid an initial amount to the City under the MEABF IGA of \$60 million in FY21. The parties renewed the MEABF IGA, increasing CPS contributions to a total of \$100 million for FY22. The most recent IGA renewal amendment, approved by CPS in May 2022, increased CPS’s contributions to \$175 million for FY23. As a result of the FY23 MEABF IGA, CPS will pay approximately 66 percent of the estimated statutorily-derived employer contribution requirement for CPS’s participants in MEABF. The City and CPS have not agreed on CPS’s contribution amounts to the MEABF for subsequent years as of the date of this report, but are expected to renew the MEABF IGA annually and gradually raise the payment amounts so that CPS is eventually contributing a proportionate share equal to the statutorily-derived employer contributions for CPS employees/retirees participating in the plan.

CPS reports that its MEABF payments to the City are not currently fully accounted for in the State’s EBF payment calculations and that the State is not contributing funding to CPS in the amount of CPS’s MEABF pension normal costs.

The table below summarizes the statutory contributions CPF would be making to the MEABF per Segal’s calculations if it were fully responsible for its attributable share of plan costs versus the amounts CPS has agreed to make under the MEABF IGA.

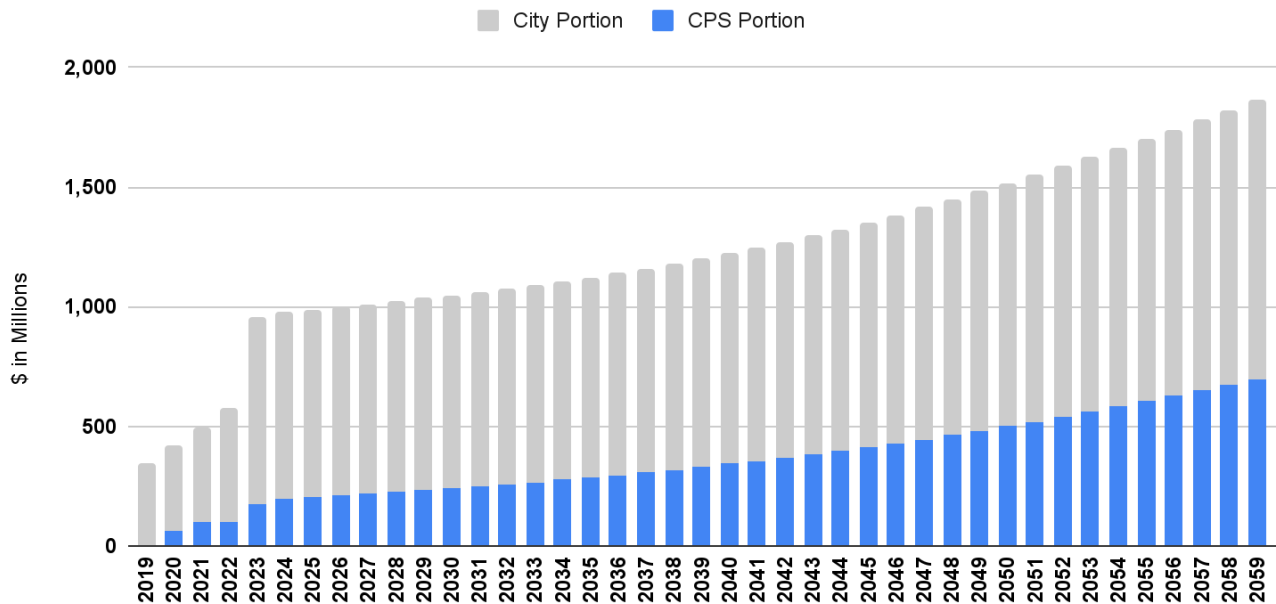
Table 13 – Estimated MEABF Obligations Allocated to CPS; CPS Payments

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Total Overall MEABF Statutorily-Determined Contribution	421.0	499.0	576.0	959.9	976.0	987.6	999.6
CPS’s Share of MEABF Statutorily-Determined Contribution	n/a	n/a	187.8	259.4	272.7	283.4	293.9
CPS’s Actual Contribution to the MEABF via the IGA	-	-	(60.0)	(100.0)	(175.0)	TBD	TBD

Notes: FY24 and beyond amounts are projected and are subject to change. Negative amounts reflect payments actually made by CPS to the City to offset the City’s MEABF contribution amounts related to CPS employees and retirees.

MEABF Governance. Under Illinois statute, the MEABF Board is composed of three elected members, the City Comptroller and the City Treasurer. CPS has no ex-officio representation. Moreover, the statute governing eligibility of elected members has been interpreted to exclude many CPS employees and all CPS central office staff. As a result, CPS has no direct influence on plan decisions that might materially impact its funding obligations over time.

Figure 4 – Summary of Past and Projected MEABF Contribution Amounts



Notes: CPS internal projections. Projected CPS contributions for MEABF for FY24 forward are estimated based upon the FY23 contribution level. These amounts are currently determined annually through IGA with the City.

Table 14 – Summary of CPS Key Valuation MEABF Results for FY20 and FY21

	2020	2021
Membership as of December 31:		
Number of CPS retirees and beneficiaries	11,323	11,346
Numbers of CPS inactive members	14,658	15,498
Numbers of CPS active members	17,469	19,920
Total CPS pensionable salary supplied by the MEABF	\$790,332,690	\$912,738,723
Average CPS pensionable salary	\$45,241	\$45,820
Valuation results as of December 31:		
Percentage of actuarial accrued liability attributable to CPS members	32.6%	32.9%
Percentage of normal cost attributable to CPS members	42.3%	45.0%
Contribution requirements for Fiscal Year:	2021	2022

	2020	2021
Membership as of December 31:		
Number of CPS retirees and beneficiaries	11,323	11,346
Numbers of CPS inactive members	14,658	15,498
Numbers of CPS active members	17,469	19,920
Total CPS pensionable salary supplied by the MEABF	\$790,332,690	\$912,738,723
Average CPS pensionable salary	\$45,241	\$45,820
Valuation results as of December 31:		
Statutorily required CPS contribution	\$187,776,000	\$259,363,284
Actuarially determined CPS contribution	\$404,429,161	\$423,412,595

Source: Report of Segal, MEABF's actuary.

Modern Schools Across Chicago Bond Program

The City created the Modern Schools Across Chicago ("MSAC") program in 2006 in support of CPS's ongoing effort to give all Chicago children the same opportunity for a good neighborhood education, regardless of where they live. MSAC delivered 18,000 student seats and over 2.5 million square feet of program space in neighborhood schools throughout Chicago with a total of \$1.25 billion of capital investment. Overall, MSAC led to the renovation or new construction of 27 school facilities over an approximately six-year period from 2007 through 2013. The City financed the MSAC through the issuance of its own general obligation bonds. The last of the outstanding MSAC bonds matures in FY29.

Table 15—Scheduled Debt Service Costs for City's MSAC Bonds

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Series 2010B	2.8	1.64	5.7	15.9	3.8	11.6	6.4
Series 2020A-2	-	4.0	4.0	4.0	3.2	-	-
Series 2020A-3	-	0.8	0.8	0.8	0.9	0.2	0.2
TOTALS	2.8	21.2	10.5	20.7	7.9	11.8	6.6

Source: City records. Debt payments continue past FY25 until FY29 and total \$9.2 million in aggregate.

Grant Programs

The City provides multiple grants to CPS as a form of benefit. The grants support partnership in programs for categories such as: employment, sports, training, and cultural/arts. Each grant program is governed by an intergovernmental agreement between the City and CPS.

After School All Stars. After-School All-Stars provides free, comprehensive after-school programs that keep children safe and help them succeed in school and life. Founded in 1992, After-School All-Stars helps students and supports working families through free, comprehensive after-school programs. After-School All-Stars partners with schools on innovative enrichment programs to help students and their communities.

Chicago Police and Fire. The Chicago Police and Firefighter Training Academy (CPFTA) is a training program for students interested in careers in public safety, law enforcement, criminal justice, and fire science. The two-year program was developed jointly by the Chicago Public Schools’ Department of Career and Technical Education (CTE), the Chicago Police Department (CPD), the Chicago Fire Department (CFD), and the City Colleges of Chicago (CCC). The program recruits and trains up to 125 public and non-public high school students each year. One of the immediate goals is to provide a pool of qualified applicants for the city’s police and fire academies. The CPFTA program fulfills the two career education or elective credits that all CPS high school students need in order to graduate. The CPFTA curriculum allows juniors and seniors who are city residents to progress seamlessly from high school directly into any City College of Chicago to complete their associate’s degree.

City Year. City Year helps students and schools succeed by delivering holistic support to students, classrooms and the whole school. Drawing from its 30 years of experience in human and youth development, City Year is committed to supporting the development of its students. Using best practices from research and practice, City Year’s “Whole School, Whole Child” model is a holistic, integrated model that builds skills and supports mindsets critical for students’ success in school and beyond.

Out of School Time Awards. Built to create a citywide support system for Chicago’s after-school programming, the Out-of-School Time Project is a program housed at the City’s Department of Family and Support Services. The Project was started in 2006, when Chicago was chosen by the Wallace Foundation as one of five cities to receive funding to create a stronger, sustainable public after-school system. Not unlike an industry coalition or nonprofit association, the Project brings together leaders from the city’s after-school providers and works to create technical assistance and professional development opportunities meant to benefit all programs. The Project works to address challenges currently facing urban teens and to maximize their opportunities for success.

Summer Youth. Summer programs are designed to support students’ continued learning, growth, and achievement over summer break. Summer programs fall into four categories: academic, enrichment, transition, and athletics.

Table 16—City Grants to CPS

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
After School All Stars	0.6	0.4	0.3	TBD	TBD	TBD	TBD
Chicago Police & Fire	0.1	0.1	0.1	TBD	TBD	TBD	TBD
City Year	0.9	0.9	0.9	TBD	TBD	TBD	TBD
Out of School Time Awards	1.0	1.0	1.0	TBD	TBD	TBD	TBD
Summer Youth	0.7	0.7	0.8	TBD	TBD	TBD	TBD
TOTALS	3.3	3.1	2.8	TBD	TBD	TBD	TBD

Notes: Data derived from City’s vendor payment database and organized by CPS fiscal year. Although CPS anticipates City funding for the programs to continue at or near historical levels, funding for each year is established by a one-year IGA, subject to approval by the Board and the City Council.

Student Health Programs

CPS provides student health initiatives to students attending its schools. The health initiatives include vision, dental and adolescent health costs. CPS student health centers are funded, in part, by the City. The City does not fund student health programs at non-CPS schools within the city. In addition to direct support for programming, the City funds 50% of CPS’s Health Officer’s salary.

Chicago Healthy Adolescents & Teens Program

Known by the program name CHAT (Chicago Healthy Adolescents & Teens) is a program that provides onsite sexual-health education, optional (and confidential) testing for gonorrhea and chlamydia, confidential one-on-one

Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools

counseling, and links to health care services. This program serves not only CPS high schools but colleges and community-based organizations in Chicago that serve youth.

Dental

The school-based dental program in partnership with the Chicago Department of Public Health (CDPH) provides all consenting students with access to dental exams at no cost to families. Exams are comprehensive and include dental cleaning, fluoride treatment, and dental sealants as necessary.

Vision

CPS offers a variety of resources to assist students as well as parents and caregivers in obtaining vision screenings. Vision screenings are required annually for students in Pre-K, K, 2nd, and 8th Grades. Students who are new to the district and students with an IEP must also receive vision screenings. Vision screenings are conducted to determine if a student requires a full vision exam. Vision exams are done by a doctor to determine overall health and prescribe eyeglasses if needed.

School Based Health Centers

School-based health centers are primary health care sites located in schools or nearby schools. The centers are often located in communities with limited healthcare accessibility to the nearby population. There are 33 school-based health centers (SBHCs) in Chicago. The City assisted in the funding and establishment of a portion of the initial construction costs. The centers provide services that include but are not limited to: immunizations, physical exams, sports physicals, behavioral healthcare, chronic condition management, sexual and reproductive health care, and acute care.

Entanglement Category: Indirect Benefit to CPS—Reduced Payments

Student Transportation

CPS’s student transportation model is significantly different from most other districts in the state due to the mostly urban nature of its footprint. Student busing—incredibly common in suburban and rural districts—is the exception rather than the norm for CPS.

Historically, CPS used a neighborhood school model that resulted in most students attending a school within one and one-half miles of their homes. As a result, student transportation was not a significant issue. With changes in the recent decades to a model where families of CPS students can choose to attend a school at a location different from their neighborhood school, transportation challenges have emerged. Attendance away from neighborhood schools is most prevalent in high schools, where approximately one out of four students leaves their neighborhoods to receive instruction. Currently, GoCPS⁹—CPS’s attendance management system—allows families to learn, research, explore, and apply to nearly every CPS school and program.

Student travel outside neighborhood boundaries has increased student needs for effective transportation methods. CPS’s FY2023 budget contains \$136 million in funding for transportation services, however, CPS currently provides its own funded transportation program only for special needs students with disabilities or a certain Individualized Education Program (IEP), and for elementary school students attending a magnet school. CPS supports its transportation budget primarily with general fund dollars, \$131.7 million for FY2023, with \$4.5 million from ongoing Federal funds. The majority of high school students do not currently receive transportation services provided by CPS. As of the 2021/22 school year, approximately 75% CPS students were responsible for arranging their own method of transportation to school on a daily basis.

Given the urban nature of the district and the inability—logistically or financially—for CPS to provide busing for all CPS students, the Chicago Transit Authority (CTA) provides a free or reduced fare program to CPS students year-round. The program offers students \$0.75 rates during pre-determined “school” hours and a reduced fare of \$1.10-\$1.25 during all other times. The reduced fares are offered to all elementary and high school students enrolled in public, private, or parochial schools. Some suburban public elementary and high schools are eligible for the benefit of reduced CTA fares, as well.

According to a 2017 study by the Urban Institute, this bifurcated approach—limited district busing plus substantial reliance on public transit—is common in urban districts, such as New York and Washington, DC.¹⁰

The CTA estimates that CPS students represent 90% of all student fares and 6% of all fares in total. CPS is not able to directly track student benefits related to student fares. The CTA estimates, however, that it has provided upwards of \$140 million in free or reduced fares to CPS students during years 2017 through 2021.

Table 17—Value to CPS Students of Free or Reduced CTA Fares

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Free or Reduced CTA Fares	35.0	11.0	19.0	23.0	27.0	31.0	35.0

Notes: Chicago Transit Authority provided estimates of actual fare reductions and projections of future fare reductions. The cost to CTA of the program is perpetual provided it continues to offer the program.

⁹ <https://www.cps.edu/GoCPS>

¹⁰ https://www.urban.org/sites/default/files/publication/88481/student_transportation_educational_access_0.pdf

Entanglement Category: Other Relationships

CPS maintains a number of relationships with the City or a sister agency where CPS is the payor or where the share of value is bi-lateral between CPS and the other entity.

Early Childhood Preschools

CPS and the City of Chicago have historically collaborated to provide and expand access to early childhood education. In 2018 both governments announced a four-year plan to provide universal access to high-quality, full-day early childhood education. The plan was for CPS to educate the majority of four-year-olds, while the City would partner with existing child care organizations to expand access for children up to age three. The City’s portion of the program is administered by the Department of Family and Support Services (DFSS) with employees that previously worked for CPS to administer early childhood funding.

Funding for the partnership is provided by CPS, which allocates a portion of the State’s Early Childhood Block Grant (ECBG). By statute, 37% of the statewide ECBG is distributed to CPS, totalling \$221 million in FY2023. The ECBG funds approximately 66% of CPS’s \$336 million in early childhood expenditures, with the rest being funded locally. A portion of the ECBG is reserved for educating the birth to three age group; this is the portion that CPS pays to DFSS, totalling \$80 million in FY23.

Table 18—CPS Funding to City for Early Childhood Preschool Programs

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Early Childhood Payments to the City’s DFSS	72.8	80.2	80.2	80.2	80.2	TBD	TBD

Student Safety Programs

The CPS Office of Safety and Security (“OSS”) supports schools so that all students feel safe, both physically and emotionally, and are welcomed, supported, and respected by both peers and adults so that they can reach their full potential. This team uses a combination of methods, including prevention, intervention, and enforcement, to proactively address issues in order to ensure the safety of our students. They also partner with other stakeholders, including city agencies and community-based organizations, to proactively identify risks in the community that could affect student safety.

The City has historically partnered with CPS to provide support to CPS safety programs in several ways: 1) various agreements for security cost funding; 2) supplemental security resource officers (on-site school Chicago Police Department (“CPD”) personnel); 3) organizational and management assistance of the Safe Passage program (designed to keep students safe as they travel to and from school); and 4) crossing guards. The City has directly hired, trained and employed personnel who have been deployed to work at designated CPS locations, and CPS has provided reimbursements through certain IGAs. The City has also periodically obtained Federal grant funds with the intention to purchase technology and to organize training activities that benefit CPS. The genesis of CPS and the City working together by formal IGAs can be traced back to at least 2009.

In FY2018, the City provided CPS with \$80 million in one-time funding for security costs. Of those, \$66 million were provided by TIF surplus distribution that year and the remaining \$14 million was provided directly by the City. The most recent IGA was approved in July 2022 and covers CPS FY23. Pursuant to this agreement, certain school resource

officers provided by the City are now funded by CPS. The cost of crossing guards had also been part of past IGAs, but this has recently moved fully to the CPS budget starting in FY22.

Safety School Resource Officers

The Chicago Police Department provides sworn, full-duty police officers at each designated school for full tours of duty as school resource officers (“SRO”) to deter crime and ensure the safety of students. Although CPS has historically used CPD SROs as part of its safety strategy for many of its schools, there has been a recent review and reimagined vision for the future of safety in schools that considers reduction or even elimination of the SRO program. CPS has given each school community the flexibility in assigning proactive and supportive safety resources in lieu of SROs. Currently 81 schools have at least one SRO. In FY23, CPS has budgeted \$10.2 million for payments to the City for the cost of SROs used in its schools, as specified in the most recent IGA with the City.

School Crossing Guards

Historically, the City funded the cost of school crossing guards serving CPS schools. Crossing guards were then employees of the City’s Office of Emergency Management and Communications. After January 1, 2021, all crossing guards became CPS employees. Beginning in FY2022, CPS absorbed the full cost of this program at \$13.5 million. The budget for FY23 has increased to \$16.6 million.

The following table shows the cost to CPS of the safety services discussed above. Of these, only costs for School Resource Officers are paid to the City.

Safe Passage Program

Safe Passage is a program that uses community workers and Parent Patrol volunteers to ensure routes to and from school are safe. Historically, Safe Passage has led to a 20 percent decline in criminal incidents around Safe Passage schools, a 27 percent drop in incidents among students, and a 7 percent increase in attendance among high school students. In FY23, CPS will invest \$22 million in the Safe Passage program, including \$1.5 million to engage Safe Passage staffers to support CPS Summer Programs and Chicago Park District programming so students can continue to have safe access to activities while out of school. In FY23, CPS completed a process to formally engage 17 community-based organizations to support the work of the Safe Passage Program. The budget for the Safe Passage Program in FY23 is \$22 million. In recent years, the City has provided grants of \$1 million per year to support this program.

Table 19—CPS Safety Services Related Entanglements

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
School Resource Officers ¹	-	16.5	12.1	11.1	10.2	TBD	TBD
Crossing Guards ²	-	-	5.8	13.5	16.6	TBD	TBD
Safe Passage Grant from City ³	(1.0)	(1.0)	(1.0)	(1.0)	TBD	TBD	TBD
TOTALS	(1.0)	15.5	17.9	24.6	26.8	TBD	TBD

Notes:

1. CPS payments to the City through multiple IGAs. The FY20 IGA specified a payment of \$33.0 million but CPS received a credit for school non-attendance days due to the COVID-19 pandemic.
2. Crossing guards were formerly City employees (OEMC) paid by the City. They became paid CPS employees on January 1, 2021; the table reflects the costs shifted to CPS’s budget.
3. The value of the entanglement for Safe Passage, historically a CPS-paid program, is the City’s \$1 million per year grant to CPS to support the program.

Leases

CPS, the City and certain sister agencies serve as lessor or lessee across various spaces in the city. CPS has leases with the City at free rates as well. These lease arrangements typically result in free or below-market rent between the agencies. The table below identifies these relationships, however, none of the parties have endeavored to assess the value of rent not paid/received.

Table 20 – Leases

Lease Use/Description	Location	Landlord	Lessee	Amount	Frequency
Azuela Elementary School Parking	4607 W 63rd	City of Chicago	CPS	\$1	Yearly
Northside Learning Center	3730 W. Bryn Mawr	City of Chicago	CPS	\$1	Yearly
Chicago Academy and High School	3400 North Austin Avenue	City Colleges	CPS	\$70,000	Monthly
CPS OIG Office	567 West Lake Street	Chicago Transit Authority	CPS	\$243,548	Monthly
Back of the Yards High School	2111 West 47th	City of Chicago	CPS	\$0	Yearly
Aspira Haugan Middle School (Charter)	3729 W. Leland Avenue	City of Chicago	CPS	\$1	Yearly
Tarkington Elementary School	3330 W. 71st Street	City of Chicago	CPS	\$1	Yearly
McCutcheon Elementary School	4850 N. Kenmore Avenue	City of Chicago	CPS	\$0	Yearly
Gately Stadium	810 E. 103 St.	City of Chicago	CPS	\$1	Yearly
Adam Clayton Powell, Jr. Paideia Academy	7511 S. South Shore Drive	City of Chicago	CPS	\$1	Yearly

Source: CPS records.

CPS’s Use of Public Building Commission for Project Management

The Public Building Commission of Chicago (the “Commission”) is a municipal corporation created under the provisions of the Public Building Commission Act of the Illinois Revised Statutes. The Commission is authorized and empowered to construct; acquire; or enlarge public improvements, buildings, and facilities to be made available for use by governmental agencies and to issue bonds, which are payable solely from the revenues to be derived from the operation, management, and use of the buildings or other facilities constructed by the Commission or pledged revenues. CPS uses the Chicago Public Building Commission (“PBC”) to provide construction management for its capital projects. CPS pays

the PBC for these services according to its standard fee schedule. The table below provides the historical value of CPS projects managed by the PBC, the total value of projects managed by the PBC and CPS's fee revenue paid to the PBC in each year.

Table 21—CPS Use of PBC Project Management Services; Fees Paid

(\$ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Total PBC Project Value Managed	216.0	247.2	92.3	N/A	N/A	N/A	N/A
CPS PBC Project Value Managed	189.4	213.3	76.8	N/A	N/A	N/A	N/A
CPS % of Total Project Value	87.7%	86.3%	83.2%	N/A	N/A	N/A	N/A
PBC Fee Payments by CPS	4.7	5.3	1.9	N/A	N/A	N/A	N/A

Source: PBC FY2021 audited financials; data are presented by PBC fiscal year PBC fees paid by CPS are estimated based upon a 2.5% average construction management fee.

Chicago Roadmap Program, Free Tuition for CPS Students and Programs Providing Joint Credit

Over an 8-month period in 2019, CPS and City Colleges of Chicago (CCC) leadership developed a strategic plan, redesigning the student journey between CPS and CCC to create more equitable outcomes for Chicago's students. This process led to the creation of the "Chicago Roadmap"—an equity and inclusion framework to support our most marginalized students. The Chicago Roadmap is a comprehensive partnership between CPS and the City Colleges of Chicago (CCC) to increase degree attainment and career success among CPS graduates that enroll in CCC. It features a written strategy that centers programmatic innovations and improvements in five domains: (1) Academic Readiness and Success; (2) Access to High-Quality Programs; (3) Student Advising and Supports; (4) Career Exploration, Experience, and Preparedness; (5) Transparency, Alignment, and Collaboration. Dozens of employees across CPS and CCC collaborate in committees and workgroups to execute the work embedded in the Chicago Roadmap.

According to an October 2021 progress report¹¹, the Chicago Roadmap partners reported they had achieved approximately \$16.4 million in fundraising, including Federal dollars and philanthropic contributions from foundations and corporations, toward a \$35.0 million program sustainability goal.

CCC's Star Scholarship program, created in 2015, provides free tuition and books to students graduating from CPS and charter schools who maintained at least a 3.0 GPA in high school and who enroll in CCC degree programs. Additionally, common for community colleges around the country, CCC also provides joint credit programming for CPS high school students where students can meet their class obligations toward graduation while also gaining college credit.

Student Internet Connectivity

At the onset of the COVID-19 pandemic, it became more apparent than ever that a digital divide existed across Chicago: tens-of-thousands of families had no access to the internet or to proper technology for school learning. These

¹¹ https://chicagoroadmap.org/wp-content/uploads/2021/10/Chicago-Roadmap-Progress-Report_2021.pdf

families faced significant barriers to fully participating in remote learning. In response, CPS, the City and many other partners created Chicago Connected¹², the largest no-cost high speed internet program in the country.

The mission of Chicago Connect was to predominantly serve Chicago's poorest communities with the lowest internet connectivity rates. The Chicago Connect program quickly gained traction and served more than 41,000 families representing more than 60,000 students. Chicago Connected greatly increased digital literacy and ensured students were equipped to participate in remote learning. The City spearheaded program funding with additional financial support provided by CPS, United Way, private philanthropy partners, and more than 30 community-based organizations. Chicago's philanthropic community raised \$47 million for this program that runs through July 1, 2024. The City contributed \$2.5 million in fiscal year 2021.

Administrative Complications

City Treasurer is a Duplicate Backstop Treasurer to Appointed CPS Treasurer. Article 34 of the School Code contains a number of provisions unique to CPS. Among these is the concept that the City of Chicago Treasurer serves as ex-officio Treasurer for CPS. Similar to other Illinois School Districts, CPS has its own Board-appointed treasurer that conducts financial and other business matters on a day-to-day basis for the Board. CPS maintains dialogue with City officials, but the City Treasurer is not involved in day-to-day CPS financial or other business such that this language does not presently create any additional burden on either the City or CPS but, with CPS's move to an independent unit of local government, current statutory language could cause confusion or overlapping duties in the future.

Multiple Signatures Across Organizations Required on Physical Checks. Physical checks issued by CPS currently require five signatures: Mayor, City Treasurer, CPS Board President, CPS Board Secretary and CPS Controller. While a small issue, the administrative headache associated with this entanglement highlights other administrative challenges resulting from the long-standing relationship between the City and CPS.

Expected Incremental Costs Associated with Larger Elected School Board

While not an entanglement, CPS expects to experience increased annual costs resulting from a larger, elected board. CPS estimates its incremental cost to support a board consisting of 21 members may range from \$2.5 million per year to \$11.5 million per year based upon the additional workload demands and the potential need to upscale support of the new board members. CPS derived this estimate, in part, from the board office costs of other large, urban districts, including Los Angeles Unified and Miami-Dade. CPS found in evaluating board support approaches used by other urban districts that some assign dedicated staff members to each elected board member, while some provide pooled staff support. The wide range of estimated incremental costs noted here is largely dependent upon the approach to board support preferred by CPS's new board. These potential costs are not yet included in CPS's expenditure forecasts.

¹² <https://www.cps.edu/strategic-initiatives/chicago-connected/>

Conclusion

The legislative genesis of this report, P.A. 102-0691, tasked CPS with commissioning an independent financial review of its finances and the impacts of the entanglements described herein. P.A. 102-0691 then requires ISBE to use this report's findings to make recommendations to the State legislature on CPS's ability to function as a stand-alone unit of government given the "financial resources available to it."

As identified in this report, CPS faces a number of financial risks as an independent unit of local government:

Risk Related to Persistent Pandemic Impacts. CPS supports a unique student population, marked by a disproportionate number of low-income, homeless and English learner students. Many of these same students and their families have been most impacted by the COVID-19 pandemic. CPS expects to invest approximately \$600 million a year through the end of FY25 on pandemic-related recovery and response programming in support of students, teachers and local schools. As impacts of the pandemic linger, CPS faces an increasing risk of being unable to support students and their families with relief-focused programming due to a lack of continued Federal or state aid beyond the term of the current ESSER programs. This situation could force challenging decisions between support for impacted students and the educational needs of the district as a whole.

Risk Related to Underfunded State Aid. CPS remains more than a billion dollars per year below its adequacy target for State aid. The impact of this underfunding is compounded by the unique nature of CPS as a wholly-urban district supporting a greater percentage of students with unique needs than most districts in the state. In addition to shortfalls on EBF funding, CPS suffers from the State funding only about four-tenths of the costs of its early learning programs. CPS's local subsidy of early learning programs creates a \$100+ million drag on its operating budget annually.

CPS's statutory underfunding will be compounded in FY23 due to a move from Tier 1 to Tier 2 under the EBF formula. CPS believes the conditions driving this move to be transitory: growth in the historically-volatile PPRT funding and a one-time reduction in CTPF contributions due to that plan's decision to reamortize its liabilities in conjunction with a lowering in its actuarial plan assets earning rate.

Risk Related to Local Pension Funding Demands. Unlike other Illinois school districts, CPS relies on a mix of local funding and its own operating budget to cover the cost of teacher and non-teacher pensions. With recent growth in its dedicated pension levy receipts along with a reamortization of the CTPF unfunded liability, CPS estimates that, for the first time, in FY23 it will not be required to provide operating budget subsidy for its CTPF obligations. In recent years, however, CPS has agreed via intergovernmental agreement with the City to make contributions to the City's MEABF plan to cover a portion of the obligations of that plan related to CPS employees and retirees. These contributions have grown from \$0 as recently as FY20 to \$175 million in FY23. According to a report of Segal, MEABF's actuary, CPS's payment in FY23 would have needed to be \$273 million to cover its full share of the statutory funding obligation of the MEABF system. CPS reports that the EBF formula does not fully account for its payments to the City for MEABF contributions.

Risk Related to Backlog in Capital Investment. CPS serves more than nine times the number of students served by the next largest Illinois school district. The scale of its physical plant is massive. CPS's financial challenges over the last decade have led to underinvestment in its infrastructure and the creation of a \$3 billion backlog in high-priority capital needs. As a general law entity, CPS uses the provisions of the Local Government Debt Reform Act to issue "double-barrel" general obligation bonds, with repayment secured by a pledge of its EBF. CPS's annual incremental debt service cost consumes much of its expected annual EBF growth and every dollar of debt service on these bonds is a dollar that cannot be spent on educational programming. CPS's status as a below-investment grade bond issuer further compounds this risk by creating both market access risk and causing CPS to borrow at materially higher interest rates than issuers with greater credit quality.

Risk Related to Statutory Constraints. As a general law unit of government in Cook County, CPS is subject to PTELL, limiting the growth in its general purpose property tax levy to certain limitations (generally, the lesser of the rate of CPI growth or five percent) and imposing substantial barriers to its ability to issue unlimited tax general obligation bonds directly paid with property taxes. Additionally, under state law, CPS does not currently have authority to impose additional property tax levies for other purposes operating or capital purposes.

To issue bonds supporting its capital program, CPS uses alternate bonds, pledging its EBF receipts as the primary source of repayment to the bonds. This not only reduces dollars available for educational purposes, it also, per State law, requires CPS to pre-fund 100 percent of its debt service costs for any calendar year by February 15 of that

year, well ahead of the actual bond debt service payment dates. CPS pre-funds approximately \$500 million per year in bond debt service on the February 15 date, creating a liquidity challenge that forces CPS to enter into yet an additional borrowing—tax anticipation notes—to avoid a negative cash position between that February 15 date and CPS’s receipt of first installment property taxes from Cook County. In recent fiscal years, CPS has needed \$850 million to \$950 million in tax anticipation note borrowing capacity to avoid periods of negative cash due to timing mismatches between its receipt of key revenues (particularly property taxes) and periods of high expenditure demands.

Even as CPS’s fund balance grows, it anticipates continuing to need to access short term bond markets for tax anticipation notes to meet its cash flow needs.

Risk Related to Other Entanglements. In addition to the key entanglements noted in this report—CPS’s contribution to the City’s MEABF pension plan—CPS’s relationships with the City and other governmental agencies currently provide important financial benefits, both to CPS’s operating budget and directly to the students it serves. Although certain of these financial benefits—permit waivers, for instance—are also currently available to other units of government and some non-profits, CPS remains at risk that its counterparties determine to reduce or eliminate these subsidies. For items like water and sewer waivers, this could result in an immediate, negative impact on its operating budget. For other entanglements, like CTA’s subsidy of student transit fares, if subsidies are reduced or eliminated by CPS’s counterparties, CPS could be faced with a difficult choice of replacing the subsidy/benefit afforded to its students/families from its own operating budget or allowing the full burden of those costs to pass through to CPS students and families. Again, because of the outsized population of low-income and homeless students served by CPS, its inability or unwillingness to replace subsidies discontinued by CPS’s counterparties could be financially devastating for those students/families.

Risk Related to CPS Unfunded Mandates Resulting from the Process of Disentangling. The prospect of disentangling relationships with the City and other partners creates additional uncertainties, both for CPS’s operating budget and for the finances of its students and their families. As an example, CPS anticipates receipt of approximately \$100 million of TIF surplus annually in its operating budget.

It is likely a number of entanglements will remain in place after CPS transitions fully to an elected board as the benefit of the entanglements is, in part at least, bilateral or because their benefit inures to the entire community. It is also important to note that, with respect to entanglements that are ultimately property tax-supported, CPS and the City share the same tax base: it matters not at all to taxpayers which entity is imposing the taxes they are required to pay. As a home rule entity, the City benefits from its ability to avoid the constraints of PTELL and to impose new levies that the Chicago City Council determines are necessary. CPS does not share this same flexibility.

CPS’s financial condition remains fragile. ISBE’s focus on accelerating CPS’s path to adequate state funding and addressing inequities in the way CPS funds its pension obligations versus the approach afforded to other Illinois districts will be critical to CPS’s long-term financial health, as will a thoughtful process of disentangling CPS from its historical relationships with the City and other public agencies in Chicago. In the short-term, CPS’s success in winding-down pandemic era support to students concurrent with the expiration of Federal pandemic funding is an immediate challenge and an ongoing threat to structural budgetary balance. In the mid-term, due to CPS’s reliance on short-term borrowing for liquidity, heavily driven by the mechanics of funding alternate bond debt service, and its need to borrow to support capital investment, it is important for CPS to quickly return to the “investment grade” rating categories across each of its bond ratings. Its ability to produce structurally balanced budgets, add to fund balance and increase the amount of cash-funded capital it is able to afford are each critical to CPS’s success in doing so.

Appendix

Appendix A—Analysis by MEABF Plan Actuary, Segal, on CPS-Employee/Retiree Related Assets and Liabilities



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Via Email

July 12, 2022

Ms. Miroslava Mejia Krug
Chief Financial Officer
Chicago Public Schools
42 West Madison St. 2nd Floor
Chicago, IL 60602

Re: Chicago Public Schools Financial Entanglements with the Municipal Employees' Annuity and Benefit Fund of Chicago Based on the December 31, 2021, Valuation

Dear Ms. Krug:

As requested, we have completed calculations to determine the Chicago Board of Education's (BOE) financial entanglements with the City of Chicago through the Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF").

The results of our analysis are shown in the attached exhibits and discussed in this letter.

Highlights and Comparison to the Prior Analysis

The following key findings were the result of this actuarial valuation:

- For the year ended December 31, 2021, Segal estimated the asset return on a fair value basis for MEABF to be 13.6%. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 9.7%, which exceeded the assumed rate of 7.0% and generated an actuarial gain with respect to investments of \$97 million.
- With respect to the MEABF actuarial accrued liability, the net experience variation from individual sources other than investments was approximately 0.7% of the total, which amounted to an experience loss of \$120 million related to liabilities.
- The total experience for MEABF during 2021 was a net loss of \$23 million, which contributed to an overall increase in required contributions for Fiscal Year 2023 compared to what was projected from the prior actuarial valuation.
- The number of total BOE members increased from 43,450 to 46,764, which was primarily driven by an increase in the number of active BOE members (17,469 to 19,920). The number of non-BOE members in MEABF decreased slightly, so overall, the concentration of MEABF membership attributable to BOE members increased from the prior year (from 56.5% to 58.5%).

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- In terms of normal cost, the percentage attributable to BOE members increased from 42.3% to 45.0%. In terms of actuarial accrued liability, the percentage attributable to BOE members increased only slightly, from 32.6% to 32.9%.

Summary of Key Valuation Results		
	2021	2020
Membership as of December 31:		
Number of retirees and beneficiaries	11,346	11,323
Number of inactive members	15,498	14,658
Number of active members	19,920	17,469
Total pensionable salary supplied by the Fund	\$912,738,723	\$790,322,690
Average pensionable salary	\$45,820	\$45,241
Valuation results as of December 31:		
Percentage of actuarial accrued liability attributable to BOE members	32.9%	32.6%
Percentage of normal cost attributable to BOE members	45.0%	42.3%
Contribution requirements for Fiscal Year*:		
	2022	2021
Statutorily required contribution	\$259,363,284	\$187,776,000
Actuarially determined contribution	423,412,595	404,429,161

* The contributions are shown in the year they will be booked; contributions will be paid to the Fund in the following year.

Census Data

These calculations were completed on the census data used for the December 31, 2021, actuarial valuation of MEABF. The census data provided an indicator as to which members were employed by the Board of Education. For participants marked as having BOE as their last employer, we treated all their reported service as having been earned while working for the BOE. We did not include a provision for possible job classification changes earlier in the participant's career. The impact of any such job changes is assumed to be negligible. A summary of the BOE census data as of December 31, 2021, can be found in the attached Exhibit A.

Calculation Results

Based on the census data described above, we determined the liability of BOE members in MEABF as of December 31, 2021. The results were used to calculate a 2022 actuarially determined contribution and a 2023 statutorily required contribution for BOE. The statutorily required contribution is calculated based on the amount the City is required to pay by law. These statutory contributions are calculated as the sum of the employer normal cost for that

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fiscal year plus an amount determined as a level percent of payroll sufficient to bring the total assets of the fund up to 90% of the actuarial accrued liability by the end of 2058.

The actuarially determined contribution is calculated according to the funding policy established by MEABF's Board (a 30-year "rolling" level-dollar amortization of the unfunded actuarial accrued liability plus employer normal cost) and is a measure of the adequacy of the statutorily required contribution amounts. The table below summarizes the results of our calculations.

Allocation based on December 31, 2021, Actuarial Valuation:

	Actuarial Accrued Liability (\$ millions)	Normal Cost (\$ millions)	Actuarial Value of Assets* (\$ millions)	2022 Actuarially Determined Contribution (\$ millions)	2023 Statutorily Required Contribution (\$ millions)**
Total MEABF Plan	\$18,401.6	\$264.0	\$4,041.9	\$1,262.4	\$976.0
Board of Education Members	\$6,050.5	\$118.8	\$1,329.0	\$423.4	\$272.7
BOE Percentage	32.9%	45.0%	32.9%	33.5%	27.9%

* The actuarial value of assets allocated to Board of Education members is based on the ratio of BOE actuarial accrued liability to total MEABF actuarial accrued liability.

**Payable in 2024.

The calculation of the BOE actuarially determined contribution is provided in Exhibit B, and a 5-year projection of the statutorily required contribution is provided in Exhibit C.

The ratio of BOE actuarial accrued liability to total actuarial accrued liability is significantly less than the ratio of BOE payroll to total payroll¹. This results in a smaller required payment on unfunded actuarial liability relative to MEABF as a whole. BOE payroll is also projected to increase at a higher rate than the non-BOE participants. This results in a slower increase in the funded ratio in the early years of the projection, but a more rapid increase in the later years of the projection.

Since the actuarially determined contribution is generally based on values of actuarial accrued liability, normal cost, and assets as of the valuation date, the allocation of this amount to BOE members is close to the allocation of actuarial accrued liability for BOE members relative to total MEABF. The statutorily required contribution is based, in part, on projected values of payroll and actuarial accrued liability, and therefore the relative allocation of this amount to BOE members is initially lower, as described in the previous paragraph.

¹ The projected BOE payroll for 2022 of \$942.3M is 45.7% of total MEABF payroll of \$2,060.7. This percentage is projected to increase to 60.5% by 2058.

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Although the Fund is projected to avoid insolvency, the projected funded ratios and asset levels are dangerously low throughout most of the projection period. Low funded ratios and asset levels throughout the projection period leave the Fund susceptible to cash flow challenges if adverse experience emerges.

The analysis was based upon the data, plan provisions, methods and actuarial assumptions used in the December 31, 2021, valuation report of MEABF dated May 26, 2022. Any actual demographic or financial experience occurring after December 31, 2021, is not reflected in this analysis unless otherwise noted. Use of this information is subject to the caveats and limitations of use described in that report. A definition of pension/actuarial-related terms used throughout this letter is included as Exhibit D.

Risk

This analysis is based on a single set of assumptions. There is a risk that emerging experience may differ from these assumptions, which could affect the projected values of funding metrics. In particular, these risks include:

- Investment experience (actual returns will be different than assumed)
- Actuarial assumption changes (possible assumption changes may increase plan liabilities)
- Demographic experience (participant experience, primarily mortality and retirement, will be different than assumed)
- Employment experience (the number of active participants and their demographics may be different than assumed)

Specifically related to this analysis of determining the Chicago Board of Education's financial entanglements with the City of Chicago through MEABF, an additional risk to be aware of is related to the relative proportion of BOE members to total MEABF members. The results of this analysis are based on the assumption that the relative proportion remains constant over time. However, to the extent that there is a relatively higher or lower proportion of BOE members to total MEABF members, the BOE's financial entanglements with the City may also increase or decrease relative to the results of our analysis.

Comments about Projections

Projections, by their nature, are not a guarantee of future results. The modeled projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed upon assumptions and methodologies described herein. Emerging results may differ significantly if actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment. The longer the projection period, the less predictable the projections become.

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Please let us know if you have any questions.

Sincerely,



Matthew A. Strom, FSA, MAAA, EA
Senior Vice President and Actuary

Segal does not practice law, and therefore cannot and does not provide legal advice. Any statutory interpretation included in this memo reflects Segal's understanding as an actuarial firm. Due to the complexity of the statute and the significance of its ramification, Segal recommends that the Board consult with legal counsel before making any decisions regarding compliance with governing statutes and law.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

The actuarial calculations were completed under the supervision of Matthew Strom, FSA, MAAA, EA. Matthew is a member of the American Academy of Actuaries and meets the Qualification Standards of the Academy to render the actuarial opinion rendered herein.

Table of Plan Coverage For BOE/Non-BOE Members

Category	Year Ended December 31, 2021		
	BOE	Non-BOE	Total MEABF
Active members in valuation:			
Number*	19,920	13,005	32,925
Average age	43.8	48.9	45.8
Average years of service	8.5	13.6	10.5
Total pensionable salary supplied by the Fund	\$912,738,723	\$1,088,442,020	\$2,001,180,743
Average pensionable salary	\$45,820	\$83,694	\$60,780
Total active vested members	6,386	6,812	13,198
Male members	5,086	7,409	12,495
Female members	14,834	5,596	20,430
Tier 1 members	7,695	7,543	15,238
Tier 2 members	4,391	2,394	6,785
Tier 3 members	7,834	3,068	10,902
Inactive members	15,498	5,806	21,304
Retirees:			
Number in pay status	9,881	11,692	21,573
Average age	74.0	73.3	73.6
Average monthly benefit	\$2,617	\$4,460	\$3,616
Surviving spouses:			
Number in pay status	1,381	2,499	3,880
Average age	78.2	78.4	78.3
Average monthly benefit	\$1,170	\$1,581	\$1,435
Reversionary annuitants:			
Number in pay status	33	98	131
Average age	70.5	71.8	71.5
Average monthly benefit	\$319	\$422	\$396
Children	51	48	99
Total number of members	46,764	33,148	79,912
Valuation results:			
Actuarial accrued liability	\$6,050,475,568	\$12,351,104,404	\$18,401,579,972
Normal cost	118,840,258	145,153,105	263,993,363
Actuarial value of assets	1,328,994,215	2,712,934,896	4,041,929,111
Actuarially determined contribution	423,412,595	839,000,719	1,262,413,314
Statutorily required contribution	272,695,496	703,332,045	976,027,541

* Includes 24 and 273 members receiving disability benefits for BOE and MEABF, respectively.

Actuarially Determined Contribution: BOE

		Year Beginning January 1, 2022	
		Amount	% of Payroll
1.	Total normal cost*	122,929,319	13.05%
2.	Administrative expenses	2,198,810	0.23%
3.	Expected employee contributions**	<u>(83,630,585)</u>	<u>(8.88%)</u>
4.	Employer normal cost: (1) + (2) + (3)	41,497,544	4.40%
5.	Employer normal cost, adjusted for timing***	42,925,393	4.56%
6.	Actuarial accrued liability	6,050,475,568	
7.	Actuarial value of assets	<u>1,328,994,215</u>	
8.	Unfunded/(overfunded) actuarial accrued liability: (6) – (7)	4,721,481,353	
9.	Payment on unfunded actuarial accrued liability, adjusted for timing***	<u>380,487,201</u>	<u>40.38%</u>
10.	Actuarially determined contribution: (5) + (9)	<u>423,412,595</u>	<u>44.93%</u>
11.	Statutorily required contribution****	<u>259,363,284</u>	<u>27.52%</u>
12.	Contribution sufficiency/(deficiency) (11) – (10)	<u>(164,049,311)</u>	<u>(17.41%)</u>
13.	Projected payroll	\$942,306,353	

* Reflects timing adjustment to the middle of the year.

** Based on payroll, adjusted to the middle of the year

*** Employer contributions are assumed to be paid at the end of the year

**** Statutory contribution for Fiscal Year 2022 for MEABF was \$960 million per statute. We estimated an allocable amount to the BOE based on the current statutory requirements.

Exhibit C

Development of City Contribution Requirements: BOE

	Fiscal Year 2022	Projected Fiscal Year 2023	Projected Fiscal Year 2024	Projected Fiscal Year 2025	Projected Fiscal Year 2026	Projected Fiscal Year 2027
Preliminary Determination of Contribution						
Projected Payroll	\$942,306,353	\$980,862,829	\$1,019,109,573	\$1,056,846,795	\$1,094,591,019	\$1,131,811,852
Statutory Contribution Rate	27.52%	27.80%	27.80%	27.81%	27.82%	27.82%
Statutory Contribution*	\$259,363,284**	\$272,695,496***	\$283,361,703	\$293,903,591	\$304,464,878	\$314,888,897
Actuarially Determined Contribution	\$423,412,595	\$433,030,143	\$437,685,310	\$443,671,169	\$449,676,979	\$456,537,502
Actuarial Accrued Liability at the Beginning of the Year	\$6,050,475,568	\$6,212,451,199	\$6,372,302,750	\$6,532,522,643	\$6,692,884,555	\$6,852,857,001
Actuarial Value of Assets at the Beginning of the Year	\$1,328,994,216	\$1,392,319,611	\$1,490,294,071	\$1,571,649,739	\$1,652,052,368	\$1,720,459,585
Funded Ratio	21.97%	22.41%	23.39%	24.06%	24.68%	25.11%

* Per Public Act 100-0023, city contributions for MEABF are a specified amount for payment years 2018 through 2022, and the sum of employer normal cost and an amount determined as a level percent of payroll sufficient to bring the total assets of the Fund up to 90% of the actuarial accrued liability by the end of 2058 for all years thereafter. The city contributions are shown in the year that they will be booked. The contributions will be paid to the Fund in the following year.

** Statutory contribution for Fiscal Year 2022 for MEABF was \$960 million. An estimated \$259 million is allocated to the BOE based on the current statutory requirements. CPS is scheduled to pay \$175 million for Fiscal Year 2022.

*** It is estimated that CPS will pay \$175 million again for Fiscal Year 2023.

Definition of Pension Terms

Actuarial Accrued Liability for Actives:	The equivalent of the accumulated normal costs allocated to the years before the valuation date.
Actuarial Accrued Liability for Pensioners:	The single-sum value of lifetime benefits to existing pensioners. This sum takes into account life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.
Actuarial Cost Method:	A procedure allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability that are used to determine the actuarially determined contribution.
Actuarial Present Value (APV):	<p>The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. Each such amount or series of amounts is:</p> <ol style="list-style-type: none"> a. Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.) b. Multiplied by the probability of the occurrence of an event (such as survival, death, disability, withdrawal, etc.) on which the payment is conditioned, and c. Discounted according to an assumed rate (or rates) of return to reflect the time value of money.
Actuarial Present Value of Future Plan Benefits:	The Actuarial Present Value of benefit amounts expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, anticipated future compensation, and future service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive members entitled to either a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.
Actuarial Valuation:	The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial Valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB, such as the Actuarially Determined Contribution (ADC) and the Net Pension Liability (NPL).
Actuarial Value of Assets (AVA):	The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly plans use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ADC.

Exhibit D

Actuarially Determined:	Values that have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.
Actuarially Determined Contribution (ADC):	The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under the Plan's funding policy. The ADC consists of the Employer Normal Cost and the Amortization Payment.
Amortization Method:	A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization Payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.
Amortization Payment:	The portion of the pension plan contribution, or ADC, that is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.
Assumptions or Actuarial Assumptions:	The estimates upon which the cost of the Fund is calculated, including: <ul style="list-style-type: none"> a. <u>Investment return</u> - the rate of investment yield that the Fund will earn over the long-term future; b. <u>Mortality rates</u> - the death rates of employees and pensioners; life expectancy is based on these rates; c. <u>Retirement rates</u> - the rate or probability of retirement at a given age; d. <u>Withdrawal rates</u> - the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.
Employer Normal Cost:	The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.
Funded Ratio:	The ratio of the Actuarial Value of Assets (AVA) to the Actuarial Accrued Liability (AAL). Plans sometimes calculate a fair value funded ratio, using the fair value of assets, rather than the AVA, as another measure of the Plan's health.
Investment Return:	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.

Exhibit D

Normal Cost:	That portion of the Actuarial Present Value of pension plan benefits and expenses allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits that are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated.
Open or “Rolling” Amortization Period:	An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. If the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount, or in relation to covered payroll, if the actuarial assumptions are realized.
Unfunded Actuarial Accrued Liability:	The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.
Valuation Date or Actuarial Valuation Date:	The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

[END]