

Ron Huberman
Chief Executive Officer

To: All CPS Employees
From: Ron Huberman
Date: February 25, 2010
Subject: **State of the Budget**

I am writing to you about the unprecedented \$700-900 million budget deficit CPS faces next year. Closing a gap of this magnitude through budgetary cuts would result in a devastating decrease in educational supports to our students and would undermine the gains in student achievement CPS has seen in recent years. That is why we will be taking every action possible, including fighting in Springfield for fair state funding, to avoid making these cuts.

I want you to know how much I recognize and appreciate the hard work and dedication that CPS employees show every day. You – our teachers, our principals and the staff that support them – are the front-line in our work to ensure that every student graduates from high school ready for college or work. I do not wish to make any of the difficult choices that I outline below; however, our current financial reality dictates that tough decisions must be made. My guiding principle throughout this budget process will be to do everything possible to protect the critical school-based services and educational supports that you provide to our students.

It is critically important to me that every CPS employee has accurate, up-to-date information on our budget issues, and I pledge to provide regular status updates to you. This memo will provide the following information:

1. Why next year's deficit is so large;
2. What has been done so far to reduce costs;
3. CPS' plan to address the deficit.

Why Is The Deficit So Large?

Four major factors drive CPS' budget deficit:

- Decrease in State Funding: As you know, Illinois ranks 49th in state funding for education. The Illinois Education Funding Advisory Board, the state organization specifically charged with determining the appropriate level of student funding, determined this year that the correct amount of state funding per student is \$7,992. The gap between this amount and what CPS currently receives is, in total, approximately \$650 million.

Because of its own financial stress, the state is more than four months (over \$200 million) behind in its critical state payments to CPS. This year, for the first time in seven years, the state provided no regular funding increase. Instead, the state drastically cut funding to CPS in a number of areas, including \$21 million in bilingual education and \$14 million in early childhood education. The state also cut \$33 million in funding for the CPS teachers' pension fund.

Next year's funding scenario from the state is even bleaker. The Illinois State Board of Education is currently projecting a \$1 billion deficit. As a rough estimate, CPS can expect to absorb at least 20 percent, or \$200 million, of these state cuts.

- **Increased Pension Costs:** I want to be clear that CPS is committed to honoring its pension obligations. This is a promise that has been made to teachers and retirees and we have every intention of continuing to honor it. However, the enormous \$3 billion (26%) decline in value of the pension fund places tremendous short-term stress on CPS' budget. The projected 2011 pension payment for CPS is \$587 million, a \$279 million increase from just last year. All of the funding for these increased pension costs comes directly from CPS' operating budget, the same fund that is used to buy textbooks and pay for salaries.
- **Increased Salary and Benefit Costs:** Personnel costs are by far the largest part of CPS' budget—69 percent of the total budget. Our contract with the CTU, our largest union, provides for a 4 percent raise per year as well as step and lane increases. These raises are, in large part, a reward for the incredible hard work of our employees. However, they are also a significant cost, contributing \$135 million towards CPS' budget deficit. Further, healthcare and benefits costs continue to rise, adding \$34 million in new expenses for next year.
- **Increased Operational and Financial Costs:** Every year, costs increase to provide essential services, such as food service and transportation. These increases amount to another \$86 million in new expenses for next year. Further, the amount that CPS pays in debt service, which is used to fund school construction, additions and critical repairs, will also increase by \$47 million.

What Has Been Done So Far To Reduce Costs?

Over the past year, we have worked to close the budget deficit by focusing on Central Office and Citywide departments. These cuts were very difficult, but our primary goal was to minimize direct impact on schools. Cuts to date include:

- In June 2009, we cut \$100 million in operational and staff costs. This resulted in over 500 staff reductions from Central Office and Citywide departments and operations.
- In January 2010, we identified \$61 million for additional Central Office and Citywide cuts.
- Since February 2009, we have cut 44 \$100,000+ positions from Central Office and Citywide departments.
- In 2009, CPS Central Office employees were not paid for 6 holidays and received no merit increases.
- Over the next twelve months, Central Office and Citywide employees making over \$50,000 will take a combination of 15 unpaid holidays and regularly scheduled work days and again will not receive merit increases.
- This week we announced a further reduction of 500 Central Office and Citywide employees. We also committed to cutting an additional \$45 million from the Central Office and Citywide units in the coming fiscal year.

We appreciate the hardship these cuts and unpaid days have placed on our Central Office and Citywide employees, and it is no reflection on the value we place on the vital services they provide.

CPS Deficit Relief Plan

Resolving this budget deficit will require hard work and difficult sacrifices from everyone. We do not want to ask for these sacrifices, but there are no other options. Here is what we will be working towards:

- Fair State Funding
CPS will be working closely with the state legislature to advocate for fair state funding. By the state's own measurement, the funding gap is \$650 million. Instead of providing a regular increase in funding, the state drastically cut funding this year. The state's failure to adequately fund education is having a crippling impact on our school system and we will be doing everything possible to advocate for an increase in state funding.
- Further Central Office and Citywide Services Cuts
We will make significant additional cuts from Central Office and Citywide services. These are not cuts that we make lightly, but it is critical that we protect classroom learning to the greatest extent possible. However, it does mean that vital support services and programs will be impacted. In addition, as noted above, Central Office and Citywide employees will not receive merit increases for the second consecutive year and all will take a combination of 15 unpaid holidays and regularly scheduled work days over the rest of this calendar year.
- Short-Term Relief from Current Pension Payments
I want to reiterate again that CPS is committed to honoring its pension obligation. However, CPS cannot afford the drastically increased pension cost next year. I will be working with the Chicago Teachers' Pension Fund, the Chicago Teachers' Union, and the Illinois General Assembly to identify a way to restructure CPS' short-term payment obligations until after this fiscal crisis has passed.
- Work with CPS' Unions to Achieve Critical Cost Savings
We will work closely with all of our unions to identify ways to save money this year. We will be asking all of our unions to make difficult and unpopular decisions. We want to make sure you know that these requests are in no way a reflection of our understanding of all your hard work and dedication. Over the past year, I have seen countless examples of teachers and staff going far beyond the call of duty to support our students. Instead, these requests are an unfortunate reflection of our terrible fiscal reality. We also want you to know that all CPS employees, Central Office, Citywide, school-based, unionized and non-unionized, will be asked to share in this sacrifice.

Achieving success with this plan is absolutely critical because of how devastating the alternative would be. Cutting \$700-900 million from our budget would be absolutely destructive to the fabric of our schools and to our individual students. We will do everything in our power to stop this from happening. I know that the deficit relief plan that is proposed requires difficult sacrifices from all of us, but the alternative plan is so much worse.

In the upcoming weeks we will be working closely with our unions and legislators to move towards the best solution possible. We will continue to advocate for students first, protecting the most critical educational supports in our schools. I ask that you continue to educate yourself about CPS' current budget situation. The most up-to-date information will always be available online at www.cps.edu. There will also be a series of webinars and follow-up conversations scheduled soon to further address questions raised and next steps.

Thank you again for everything that you do for our students.