

Capital Budget Basics

While day-to-day expenses come from operating funds, capital funds pay for the construction of new schools, the renovation and expansion of existing schools, and other major projects with a benefit that lasts more than a year (such as a new software system or network wiring).

Most capital funds are generated by issuing bonds (including the entirety of the FY2014 plan), which is similar to taking out a home loan today and repaying it over time. Because we specifically raise bond proceeds for the purpose of capital improvements, we cannot use capital funds on operating expenses such as supplies or teacher salaries. We reserve operating funds for these day-to-day activities.

When CPS issues a bond, it receives money now that it must pay back in the future. Our “debt service” funds are set aside for paying back these loans, including principal and interest.

The remainder of our capital budget is funded through external sources such as grants received from the Capital Development Board or TIF Revenues received from the City of Chicago. A more detailed explanation of our various capital funding sources follows.

Funding Sources

Local Funding Sources

Modern Schools Across Chicago Program - In June 2006, Mayor Richard Daley announced the Modern Schools Across Chicago (MSAC) program, a partnership between the City and CPS, to provide \$1.2 billion for school construction. The program includes city-wide projects representing Chicago's highest priority needs: new high schools to increase capacity and replace outdated facilities, major high school renovations to update existing facilities, and new elementary schools to relieve overcrowding. The plan was funded primarily through City tax increment financing dollars and bond proceeds issued by the Board between 2007 and 2010 and resulted in constructing 24 new buildings and 3 renovations.

Tax Increment Financing (TIF) – Tax Increment Financing is an economic development tool that allows cities to earmark tax revenues from property value growth in a district to finance new development within the same district. In Chicago, certain TIFs that have been successful in generating increased property taxes are providing a revenue stream to support the Modern Schools Across Chicago Program and have helped fund construction of other school projects over the last ten years.

Public Building Commission (PBC) – The PBC issued revenue bonds to finance capital projects for the CPS schools that the Board is leasing from the PBC. These bonds represent a legal obligation of CPS, and bond repayment relies solely on lease payments from CPS, which are funded by property-tax levies. Current lease payments support PBC bonds issued in 1992 and 1993 and refunding bonds issued in 1999 and 2001. All of these revenue bonds will mature by 2020. The lease payments to the PBC totaled \$52 million in FY2013 and consist of principal, interest, and administrative fees.

General Obligation Bonds – The Board is authorized by state law to issue notes and bonds and to enter into lease agreements for capital improvement projects. General Obligation Bonds are a type of financing tool frequently used by local governments and school districts. CPS bonds are funded through two revenue sources: property taxes and specific revenue. Practically, however, CPS uses only specific revenues to repay its bonds. CPS bonds are a special kind of general obligation bonds: Alternate Revenue General Obligation Bonds. The Board is authorized to issue Alternate Revenue Bonds after adopting a resolution and satisfying public notice publication and petition period requirements in lieu of a voter referendum.

CPS bonds are backed by General State Aid, Personal Property Replacement Taxes, or revenues derived from Intergovernmental Agreements with the City of Chicago. The Intergovernmental Agreements stipulate that the City of Chicago provides funds to the Board to pay debt service on alternate bonds issued by the Board to finance its Capital Improvement Program. No property taxes have been used to pay CPS-issued bonds, but as indicated above, property taxes are used to support PBC bonds issued on behalf of CPS.

Interest Income – Bond proceeds earn interest until the funds are actually spent on projects. CPS expects to earn about \$3.5 million in interest in FY2013 in project and debt service reserve funds

State Sources

School Construction Program – As part of the Illinois Jobs Now capital plan passed by the state in 2010 \$1.5 billion was set aside to support a six-year School Construction Program. By statute, CPS receives 20% of the appropriation, or \$600 million over 6 years. The Capital Development Board (CDB), the construction management agency for Illinois state government, and the Illinois State Board of Education jointly administer the program. CPS expects to receive \$114M in funds between FY2013 and FY2014.

Also part of the Illinois Jobs Now capital plan is funding for the School Maintenance Program. Similar to the School Construction Program, CPS receives 20% of the amount allocated for the School Maintenance Program. We are project to receive \$8.33 million from this program, with over \$6 million appropriated in FY2013 and the remainder in FY2014. While these funds can be used only to support small school maintenance projects and are not technically capital funds, we are referencing them to provide a full picture of state funds related to facility projects.

Special Grants – Through the state appropriation process, CPS can also receive special grants for particular projects. These grants can be part of the larger state capital program or can be individual projects included in agency budgets. Many of the individual projects are funded through the Department of Commerce and Economic Opportunity.

DCEO Energy Efficiency Grants – Each year, CPS applies for and receives a series of small grants for energy efficiency projects as part of the Illinois Department of Commerce and Economic Opportunity's programs for local governments in the state.

Federal Sources

Federally Subsidized Bonds – CPS has benefitted from issuing certain types of bonds in which much of the interest costs are paid by the U.S. Government, resulting in a very low cost of borrowing for CPS. These include Qualified Zone Academy Bonds, which provide capital funding for schools in high-poverty areas at reduced interest rates for CPS, Qualified School Construction Bonds (QSCBs) and Build America Bonds (BABs). The American Recovery and Reinvestment Act of 2009 created QSCBs, bonds which only school districts were authorized to sell that provided some of the lowest interest cost financing CPS has ever achieved, and BABs, which were available to school districts and other governments with a substantial subsidy. In total, CPS has paid less than one-third of total typical interest costs on these specialized bonds due to the subsidized nature of the instruments.