Chicago Public Schools Policy Manual

Title: **FUND BALANCE AND BUDGET MANAGEMENT POLICY**
Section: **403.10**
Board Report: 08-0827-PO8 **Date Adopted:** August 27, 2008

Policy:

THE CHIEF EXECUTIVE OFFICER RECOMMENDS:

That the Chicago Board of Education ("the Board") adopt a new Fund Balance and Budget Management policy.

PURPOSE:
The purpose of this policy is to ensure that the Board manages its budget and finance in a fiscally prudent and responsible way by establishing financial policies about the Balanced Budget, Fund Balance, and Use of One-time Revenue. The Balanced Budget will require that the total expenditure be equal to total revenues unless it meets exceptions described in the policy. The establishment of a Fund Balance will ensure that the Board will accumulate an unreserved fund balance to provide adequate working capital and to ensure stable educational environment. One-time revenues shall only be used for one-time expenditures so that there is no affect to the ongoing operation of the Board.

POLICY TEXT:

I. Definitions:

Balanced Budget: When the total resources, including revenues and spendable prior-year fund balances, can cover or exceed the total budgeted expenditures. The Illinois School Code (ILSC 5/34-43) requires that, at a minimum, all governmental funds meet a statutorily balanced budget requirement.

Fund Balance: Is the difference between fund assets and fund liabilities consistent with the Generally Accepted Accounting Principles. Fund balance is also referred to as net assets.

Reserved Fund Balance: Consists of portions of fund balance that are either legally restricted to a specific future use or are not available for appropriation or expenditure. There are three types of potential restricted future uses of the reserved fund balance:

- **a.** Reserve for Encumbrances: These funds are appropriated and encumbered balances for outstanding purchase orders, contracts, and other commitments for which goods and services have been ordered but not yet received in full.
- **b.** Reserved for Debt Service: These funds are monies that are required by a bond indenture or similar agreement to be reserved for debt service payments.
- **c.** Reserved for Specific Purposes: These reserves are spendable only for programs in specific purpose funds such as Tort and SGSA Funds.

Structurally Balanced Budget: When the total projected revenues that the Board accrues in a fiscal year are equal to or greater than the total expenditures. All governmental funds shall be structurally balanced unless they meet the exceptions listed below.

Unreserved Fund Balance: Unreserved fund balance represents expendable available financial resources and is subdivided into two types of resources:

- **a.** Designated Fund Balance: Represents resources that have no limitations or stipulations placed on them by external agencies or donors but are internally restricted. For CPS, this balance is the same as its Stabilization Fund. The Stabilization Fund represents unreserved, designated fund balance approved and set aside by the Board to ensure adequate working capital and stable financial management and operation.
- **b.** Undesignated Fund Balance: Is expendable financial resources in excess of the Stabilization Fund that can be used to balance budget or meet contingencies. Undesignated fund balance is not obligated to a specific purpose.

II. BALANCED BUDGET

The Board will adopt and maintain a balanced budget throughout its fiscal year for governmental funds which consist of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. For the purposes of this policy, revenues and expenditures are defined in accordance with Generally Accepted Accounting Principles (GAAP). A balanced budget is achieved when the total resources, including revenues and spendable prior-year fund balances, equal or exceed the total budgeted expenditures. A structurally balanced budget is achieved when the total projected revenues that the Board accrues in a fiscal year are equal to or greater than the total expenditures. Each governmental fund shall have a structurally balanced budget unless it includes spendable prior year fund balance that is available under the terms of the Board's Fund Balance Policy.

III. FUND BALANCE

Section 5/34-43 of the Illinois School Code authorizes the Board to accumulate an unreserved fund balance in the General Fund. The stated goals of maintaining a fund balance are to provide adequate working capital, to ensure uninterrupted services in the event of unfavorable budget variances, to provide for capital improvements, and to achieve a balanced budget within a 4-year period. It is the policy of the Board to require that sufficient funds be retained all the time to achieve these goals for operating funds. To achieve this stable financial base, the Chicago Public Schools desires to manage its financial resources by establishing fund balance policies for governmental funds, which consist of the General Fund, Special revenue funds, capital projects funds, and debt service funds.

A. Fund Balance Target

Fund balance targets are established for the General Fund, the Tort Fund, the Supplemental General State Aid Fund (SGSA), funds, Debt Service funds, and Capital Projects Funds. The set amounts differ for each fund and will require an annual review. Factors included in the determination of fund balance targets include predictability of revenues, legal requirements, bond indentures, potential volatility of expenditures, and liquidity requirements.

The operating and debt service budget for the new fiscal year is the basis for calculating the ratio of undesignated fund balance to proposed expenditure. In essence the current fiscal year's budgeted expenditures will determine the prior fiscal year's designated fund balance.

1. General Fund

i. **Unreserved, Designated Fund Balance (Stabilization Funds)** – This policy will require the Board to maintain an unreserved, designated fund balance (assigned fund balance) of a minimum of 5% and a maximum of 10% of the operating and debt service budget for the new fiscal year as a stabilization fund in the General Fund at the annual adoption of the budget.

The 5% is estimated to be the historical minimum cash requirement to provide sufficient cash flow for stable financial operations. The Chief Financial Officer (CFO) will propose to the Board a reasonable target amount that is within this range during the budget process. It is the Board's goal that this stabilization fund will not be utilized unless there is an unforeseen financial emergency and a corresponding consensus decision among the Board members.

ii. **Use of Excess Fund Balance above the Stabilization fund**
When the stabilization fund is adequately established, any excess above the required stabilization funds will be "unreserved, undesignated fund balance (unassigned fund balance)". If necessary, this fund balance in the General Fund can be appropriated in the following budget year for one-time expenditures or under certain circumstances as outlined below:

a. To offset temporary reduction in revenues from local, state, and federal sources

b. When the Board decides to not increase the city of Chicago property taxes to the maximum allowable property tax cap
c. To retire the Board's debt
d. To fund major legal settlements or liability claims made against the Board
e. To fund necessary one-time equipment or capital spending required for the Board
f. To pay for costs related to an unforeseen emergency or natural disaster
g. To pay for specific education initiatives lasting no more than three years

iii. Unreserved Fund Balance Replenishment

It is the policy of the Board to maintain a range of 5% to 10% of its operating and debt service budget in the stabilization fund and to allow unreserved, undesignated fund balance above the stabilization to be used for the purposes listed in Section I.

In the event that the stabilization fund decreases below 5% of the upcoming operating and debt service budget, the CFO will prepare and present to the Board a plan to replenish the reserve requirement. If necessary, any surplus CPS generates will first go towards replenishing the stabilization fund until the minimum 5% goal is achieved and then to the unreserved, undesignated fund balance. The Board must approve and adopt a plan to restore these balances to the target levels within a 12-month period. If restoration of the reserve cannot be accomplished within such period without severe hardship, then the CFO or Budget Director may request that the Board approve and extension of this restoration deadline.

2. Workers Compensation/Tort Fund:

The reserved but spendable fund balance target for the Workers Comp/Tort Fund shall be no less than 1% and no more than 2% of the operating budget. This fund balance will only be used for expenses specified by the Illinois School Code 105 ILSC 5/18-8.05 such as unanticipated large tort, property loss, workers' compensation, or liability claims.

3. Supplemental General State Aid Fund (SGSA):

The reserved but spendable fund balance shall equal the unused SGSA revenues from the previous year. According to the Illinois School Code 105 ILSC 5/18 all spendable fund balance will be re-appropriated in the subsequent year to all schools which did not spend its allocation in the prior years.

4. Capital Projects Funds:

Unreserved fund balance shall equal the unused bond proceeds, revenues, and available fund balance from the previous fiscal year. All unreserved, undesignated fund balance in the Capital Projects Funds will be re-appropriated in the following year for eligible construction and renovation projects.

5. Debt Service Funds:

Funds reserved for debt service are monies held as required by a bond indenture or similar agreement and maintained mostly with escrow agents. Unreserved funds in the Debt Service Funds represent the Board's efforts to cover risks related with swaptions, variable-rate bonds, or auction-rated bonds.

The unreserved fund balance range for the Debt Service Funds shall be sufficient enough to cover potential risks such as termination, counterparty, and basis point. The Treasury Department will determine a proper level of funds every year.

B. Monitoring and Reporting

The CFO shall annually prepare a statement about the status of the fund balance in relation to this policy and present to the Board their findings in conjunction with the development of the annual budget. Should the CFO disclose that the stabilization funds have below 5% of the upcoming operating and debt service budget, a recommendation for fund balance accumulation shall be included in the statement.

IV. ONE-TIME REVENUE

Revenue shall be considered to be one time if it was not present in the prior fiscal year and if it is unlikely that it will be available in the following fiscal year. The Board requires_that the CPS shall not use one-time revenues to fund ongoing expenditures. To do so might mean that CPS would be unable to make up the gap created by the expiration of the one-time revenues in the next budget period, a situation that could lead to service cuts.

One-time revenues will support only one-time expenditure items described below:

1. To retire the Board's debt.
2. To fund major legal settlements or liability claims made against the Board.
3. To fund necessary one-time equipment or capital spending required for the Board.
4. To pay for costs related to an unforeseen emergency or natural disaster.
5. To pay for specific education initiatives lasting no more than three years.
6. To increase the size of CPS' budget stabilization fund

Amends/Rescinds:
Cross References:
Legal References: Illinois School Code 105 ILCS 5/34-43; 5/18-8.05; 745 ILCS 10/9-107