SNG-Fiscal mess in Chicago-7-6-15 (revised 7-7-15)

Addressing the fiscal mess in Chicago

By Jim Nowlan

We are in the lull before the storm in Springfield, as politicos watch intently—and rather helplessly—as the longstanding alpha male (Speaker Mike Madigan) is challenged for dominance of the pride by newcomer Gov. Bruce Rauner.

When the tussle is over, be assured that state taxes will have gone back up toward recent levels. The big question is whether the governor will achieve much or any of his business-friendly "turnaround agenda."

Meanwhile, Chicago's major local governments are struggling with fiscal messes that may be even worse than those in Springfield.

The problems facing Chicago, its public schools and the surrounding county of Cook mirror those of the state of Illinois—inexcusable myopia by careerist elected officials in putting off today's budget problems until tomorrow, which has arrived.

The six major public pension plans for Chicagoland are only about 39 percent funded, the same figure as for the several state pension systems.

This has resulted largely from simple and repeated failures to put aside enough money to pay future obligations. In addition, fund managers have made unreasonably optimistic assumptions about what the assets in the funds would likely earn in the future.

The most pressing budget problems lie with the Chicago public schools. The system of 377,000 pupils faced a $600 million pension payment July 1 (on a $5 billion total budget), without the money to pay it. At the last moment, the district did scrape up the money, with yet more borrowing.

For the past several years, the school district has been spending more than it has been receiving in revenues while also failing to make pension payments. In addition, it is in debt up to its collective eyeballs.

Bingo—the school district faces a $1 billion deficit for the coming year.

[The school district complains that the state pays for all other school district pensions (when the state makes payments at all), but not for Chicago.

[On the other hand, the state provides Chicago schools payments way beyond those for other districts for special education and for Chicago's high poverty count.]

To sort this out, I took a look at the school finances in 2013 for Chicago as well as for my Stark County schools, a typical rural school district, and blended, approximate figures for wealthy New Trier High north of Chicago and its underlying Winnetka grade school district. (See table in nearby box.)

Selected financial information for three school districts

	Chicago	**Stark Co.**	**New Trier/ Winnetka**
Property wealth per pupil	$ 212k	$ 122k	$1.365mil
Education property tax rate	2.88%	5.55	4.45
Spending per pupil	$13,791	$10,224	$20,000
Percent of budget from state	34%	27	3.4
Percent low income pupils	85.7%	43.6	1.0
Average teacher salary	$71,739	$46,421	$90,000

A number of things stand out in this table, in addition to the lamentably different circumstances of the three districts.

For example, the Chicago schools tax rate is relatively low; most Illinois school districts have rates in the $4-5 range. In addition, most school costs, about 70 percent, are in salaries for teachers and staff. Thus, spending per pupil is closely tied to salary levels.

Chicago and most other school districts that have less money per pupil than wealthy districts clamor for more state aid to even things out. But that isn't going to happen in the short-term, as it would require state tax increases much higher than Rauner and lawmakers are willing to contemplate.

Thus, the only solutions I can see to address the dire fiscal plight of Chicago schools are to cut costs and raise the relatively low property tax rate.

The Chicago public school district can cost its costs by requiring teachers to pay their own pension contributions, which are paid by the district at present, and possibly increase the share of health care premiums paid by teachers and staff. I say "possibly" because these benefits may be protected by the state constitution.

Even so, that won't close the fiscal gap between revenue and expenditures.

Property taxes cannot be raised without great difficulty because the district is covered by the property tax cap law enacted in the early 1990s. [Since then, property values in Chicago have risen sharply while budget increases have been limited; this causes the tax rate to go down, which is what the tax cap law intended.]

School taxes for Chicago can only be raised by referendum of taxpayers, which is never done in Chicago, though such are common downstate.

The other way to allow a tax increase would be to provide a waiver in state statute from the tax cap law, to allow the Chicago school district to increase its own taxes. This could open a Pandora's Box, yet it appears the only way out, to me anyway.