



Ernst & Young LLP
155 N Wacker Drive
Chicago, IL 60606

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Forrest Claypool
Chief Executive Officer
Board of Education of the City of Chicago
42 W. Madison
Chicago, Illinois 60602

December 11, 2015

Mr. Claypool:

Per your request, below is an outline of CPS' near-term cash outlook.

Cash shortfall in January 2016

As described in our report dated May 22, 2015, CPS was on a trajectory to run out of cash by the summer of 2015. CPS received a temporary reprieve from the cash crisis primarily due to increasing short-term borrowings.

As of the end of November 2015, CPS had already borrowed approximately \$700 million of its \$870 million line of credit in order to maintain operations. By January 2016, it is projected that CPS will completely exhaust its current line of credit and cash resources. The near-term cash shortfall is expected to be addressed by issuing additional debt (planned for the end of January), thereby further increasing CPS' liabilities and future debt service obligations.

In the interim, additional actions are planned by management in order to maintain sufficient operating funds throughout the month of January, including:

- I. **Additional short-term borrowing.** \$195 million of incremental TANs (\$65 million already approved by the Board).
- II. **Other operating liquidity actions.** This includes the deferral of certain large vendor payments and the acceleration of one-off receipts (e.g. termination of investment contracts).

Key drivers of cash flow forecast

While CPS' critical liquidity position is a function of its structural deficit, it is further exacerbated by a number of delays / timing issues, including:

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Page 2 of 2

- I. **Block grants.** Receipt of State block grants of approximate
For example, management expects September 2015 scheduled receipts (\$119 million) to be received in March 2016.
- II. **Capital reimbursements.** There is an increased burden on the operating fund to cover past and ongoing capital costs due to a delay in the capital bond issuance.

Post January

While the actions noted above may mitigate cash shortages in the near-term, additional remedial actions must be implemented to address ongoing cash needs. These savings will only be realized through your team's relentless focus throughout the remainder of the school year.

- I. CPS' proposed re-organization of non-education administrative personnel, likely to begin in the coming months, is estimated to result in tens of millions of dollars in cost reductions. However, it will take the remainder of the fiscal year and a new organizational structure to realize the majority of savings related to this initiative.
- II. The non-personnel efficiencies identified by CPS management will also require the remainder of the fiscal year to validate and implement. While the success of these initiatives cannot be assured, the \$100 million targeted savings can only be achieved with an organized plan and effective execution thereof. These cuts and organizational changes are neither insignificant nor easy to implement and they will continue to require the ongoing dedication of your team.

Finally, as you are aware, there remains substantial risk to both the ability to balance the budget and cash flow due to the uncertainty surrounding the State "equitable funding" request. As you have stated on a number of occasions, should the \$450 - \$500 million of additional State funding not be received, further substantial cuts will be required. Furthermore, CPS has already been placed on negative credit watch by S&P and there continues to be risk of further negative actions by the agencies absent meaningful progress in addressing CPS' structural deficit.

Please let me know if you would like to discuss further.

Regards,

G. Malhotra
Principal, Ernst & Young LLP

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