

Budget 'deficit' claims are more Duncan deceptions

By George N. Schmidt

By April Fool's Day 2006, every citizen of Chicago who had been paying attention to the news about Chicago's public schools knew that once again Chicago's public schools faced an enormous deficit!

Something terrible was going to happen if the Illinois General Assembly didn't give the schools more money! The schools also needed a "pension holiday"! (so the CPS could continue to renege on its promise to maintain the full-funding of the city's teacher pension fund).

Between January and April, with nothing but talking points and scripts to prove his claims, Chicago Public Schools Chief Executive Officer Arne Duncan had been claiming that the school system was facing a deficit of more than \$300 million. Repeating talking points since January, Duncan said it was a terrible problem and everyone should worry about it. He was more than willing to issue statements about the deficit, but never with any specifics.

The Chicago Board of Education is required by "No Child Left Behind" to inform parents whether teachers and principals are "highly qualified" or not. But the Board refuses requests under the Freedom of Information Act (FOIA) for the curriculum vitae of its highest paid executives, citing "personal privilege." Above: Jennifer Muss ("Assistant to the Board", \$115,000 per year), David Pickens ("Deputy to the Chief Executive Officer", \$133,000 per year), James Bebley ("First Assistant Attorney", \$138,000 per year), and Robert Runcie ("Chief Information Officer," \$165,000 per year). Usually seated between Muss and Pickens is retired Bank One executive David Vitale, the lowest paid employee of the Board of Education, who is budgeted for \$1 per year as Chief Administrative Officer. Vitale, a Hyde Park neighbor of Arne Duncan, also worked as an executive at the Chicago Board of Trade before taking on the school board. Pickens is routinely dispatched to local schools when the Board plans to disrupt them through closings or other changes and has widely been accused of arrogance, doubletalk, and outright lies. Runcie's department botched the \$50 million overhaul of the Board's computer scheduling systems in the summer of 2005, causing a major crisis. Others, not Runcie, were fired during Duncan's cover-up. Photo by George N. Schmidt.

But was Duncan's story more spin than substance?

Consider:

Next year, the "\$100,000 Club" will surpass 1,000 members. By January 2006, Arne Duncan's budget was paying more than 900 employees of the school system in excess of \$100,000 per year, more than double the number (405) who had been earning that much prior to Duncan's appointment as CEO in July 2001. For the first time in the history of the Chicago Board of Education, the majority of the highest paid people at the central office have no classroom experience, and the Board of Education refuses to release information about their qualifications for the highly paid jobs they currently hold.

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Of the 900, more than 200 were at the top levels of executive positions in the system's central and area offices, where more of the most expensive patronage jobs were held by loyalists from the various parts of Mayor Daley's vast empires. For the first time in CPS history, most of the people sitting "behind the railing" in the executive seats at school board meetings were patronage hires whose first loyalty was to the mayor and his myths, not long-term educators who had worked their way up.

Duncan's computer debacle has cost the city at least \$50 million. Despite carefully crafted talking points about cutting back on school and central office expenses, among other things Duncan ignored a \$50 million goof at the top of his own administration. The goof, part of a long series of expensive computer reorganizations, had caused the city's high schools to be reprogrammed frantically last summer, when multi-million dollar computer system ordered up by Duncan failed to work and had to be scrapped. The cover up persisted through Duncan's January claims of "deficit" for next year.

Borrowing for pet projects, not spending on instruction, is breaking the bank. A careful examination of the Board of Education's books shows that the increase in expenses over the past four years has been in debt service as a result of massive borrowing, not in the cost of services to the schools.

Deregulation and privatization are draining the schools, while pouring millions into unregulated charter schools. Since Duncan took over, the privatization of public schools has reduced the number of teachers working in the city's public schools while massively expanding the number of unregulated charter schools, most of which were awarded to politically connected groups and individuals with ties to the Daley administration.

Dr. Grady Jordan (above, speaking) was one of hundreds who protested the Chicago Board of Education's plan to close Collins High School by cutting off 9th grade enrollment. Speaking at the February 22 Board meeting, Dr. Jordan pointed out that the Board was proposing to send prospective Collins students to other segregated inner-city high schools where test scores were not substantially better. Those around Jordan during his remarks included Alderman Michael Chandler (to Jordan's left) as well as Collins teachers, parents, and students. Substance photo by George N. Schmidt.

Spinning an unreal "deficit"

Illinois law requires the Chicago Board of Education to present its proposed annual budget to the public during June, hold hearings on that budget, and then vote on it after the hearings.

"Where did all those white ladies come from?" was one of the questions asked at the February 22, 2006, Chicago Board of Education meeting. While hundreds of parents, teachers, and students were forced into "holding rooms" on the 19th floor of CPS headquarters at 125 S. Clark St. in Chicago, dozens of seats were filled by "social worker interns" (above). Under Board President Michael Scott and CEO Arne Duncan, whenever large scale protests are expected at the monthly school board meetings, seats in the Board Chambers on the fifth floor are reserved for dozens of executive staff — and visiting social worker interns. Meanwhile, parents, teachers, and even principals are forced to shuttle back and forth from the 19th floor (where they are given closed circuit TV — and treat bags— to watch the meeting) and the fifth floor, where the

meeting is taking place. The above photo, taken at the height of the February 22 meeting, shows empty "reserved" seats inside the Board chambers, while hundreds were bottled up 12 floors above the meeting. Prior to the first round of school closings in April 2002, the Chicago Board of Education alternated its meetings between the tightly controlled CPS headquarters three blocks south of City Hall and local schools. Massive protests at the April 2002 meeting (at Herzl Elementary School) against the proposed closings of Williams, Dodge and Terrell schools resulted in a decision by Duncan and Scott to stop holding school board meetings where large numbers of people could attend. The women in the above phot, when asked about their presence by Substance, had no idea they were being manipulated by Duncan and Scott to deny the public seats at a public meeting. Substance photo by George N. Schmidt.

The main reasons for this procedure is that the budgets of school districts in Illinois are not predictable until after the Illinois General Assembly ends its session, which generally isn't until May. Until the General Assembly has worked out school funding, there is no way to estimate revenues for most Illinois school districts, because the state is the second largest source of revenue (after local property taxes) for schools in Illinois.

West Side community activist Derrick Harris (above, speaking) was one of dozens of men who held a press conference in the lobby of 125 S. Clark St. during the Board of Education's executive session meeting. Harris and the group denounced the school closings and other attacks on the North Lawndale community. One of those organizing with the group was Illinois Black Panther leader Fred Hampton Jr. (bottom of page, right). Substance photos by George N. Schmidt.

Instead of following the legal procedure and submitting information to the public, Duncan chose to inform the public about his budget "deficit" in a typical way: he gave a speech to a carefully selected audience, no questions allowed, during a meeting of a wealthy private group (in this case, the City Club of Chicago). Instead of a budget briefing and documentation, Duncan read from a prepared text, repeating talking points. This immediately generated scare headlines in the Chicago Tribune and in those media which follow the lead of the Tribune. But the text of Duncan's speech, despite its dire warnings, was long on spin and short on particulars.

Once the "deficit" story was in play as talking point and sound bite, those who own the major Chicago media simply let it stay there, without criticism. As of April 1, more than two months after he first announced Chicago's massive school budget deficit, Duncan was still refusing to provide backup data to support his claims or to be interviewed by reporters to go over the various pieces that supposedly added up to the claim.

In March and April, the results of creative accounting were on display in a Houston, Texas, courtroom as the former CEOs of Enron went on trial for various forms of creative accounting. At the same time, Chicago's schools CEO was emerging unscathed from what was at least as much creative accounting as has resulted in numerous corporate CEOs and other executives either facing time or doing time.

No numbers for the public to review

When the Chicago Board of Education finally releases its "Tentative Budget" to the public in June or early July (Duncan last year missed deadlines and didn't get the budget to the public until a month after it was legally required), several documents are necessary to understand it and ask intelligent questions.

A budget is a simple thing, but the larger the budget the more complex it can become. Basically, a proposed budget is an estimate of revenues and expenditures for a period that stretches into the future. A deficit can be projected based on any number of assumptions regarding either revenues or expenses, and both have to be examined before any "deficit" claims can have credibility.

Similarly, when an organization such as Chicago's public schools claims that a solution to a "deficit" is to freeze required legal payments into teachers' pensions while covering up a major executive level debacle (such as the tens of millions of

dollars wasted on computer software between 2002 and 2005), some scrutiny is needed.

Decades of hard realities have taught Chicago to examine its public school budgets carefully, although to this day there are very few individuals or groups that devote the time and resources to the largest public budget in the city. During the 1970s, a mayor named Richard Daley, who at the time had almost dictatorial control over the public schools, forced the school board to play tricks with the budget that resulted in financial problems. The tricks that were played (while accountants blessed the results each year) were fairly simple and don't need to be reviewed here.

The result of the trickery was that by late 1979, audits of the Board of Education's books revealed that there were serious questions about whether the Board could pay its bills. Before the dust had settled, Chicago's schools began a 15-year period during which they were under the control of an entity called the "Chicago School Finance Authority."

The Chicago School Finance Authority was abolished, in all of its key powers, in 1995 when a mayor named Richard Daley was given dictatorial control over the city's public schools. Hailed as a new era, the models supposedly being followed by the Chicago Board of Education came from "business". Despite the fact that the first leaders of the new school board were political appointees (Paul Vallas and Gery Chico) who had spent their careers at Daley's beck and call, the "business model" was supposedly in place.

(Both Chico and Vallas were political appointees and would have been called "hacks" or patronage workers prior to the 1990s. Neither had any business experience as it is understood by corporate America or the thousands of Chicago area small business entrepreneurs who try to survive by selling products and services in the "open market" every day. Chico's one foray into the free market — after he was out of political jobs for the first time in his adult life in 2001 and 2002 — resulted in the bankruptcy of the law firm of which he had been a senior partner. Vallas never managed anything larger than a family restaurant in the private sector. Chico and Vallas were followed by Arne Duncan and Michael Scott. Prior to becoming CEO of the Chicago Public Schools, Duncan had no serious experience at anything except second-rate professional basketball. Board President Michael Scott, who had been even more attached to Daley through a series of patronage jobs than Vallas or Chico, came from a series of patronage positions — most recently before CPS at the Chicago Park District — during which he always did what Daley told him).

Announcing a "deficit"

In order to evaluate the budgets of a major public institution, a great deal of information is needed.

Some of the hundreds of people who were forced by the Board of Education to attend the February 22 Board meeting by closed circuit TV from the "overflow" rooms on the 19th floor of CPS headquarters, while seats in the meeting room on the fifth floor were filled with CPS executives and "social workers interns" (see photo, Page Eighteen) to ensure that the Board's TV broadcast didn't show the extent of opposition to the Daley administration's school closing policies. Each month, the Board carefully orchestrates individuals and groups, often subsidized by the Board itself or by the Mayor's office, to speak effusively in favor of Board policies, while critics are shunted off camera. Substance photo by George N. Schmidt.

The first bit of information is a summary of all reasonably anticipated revenues and expenditures. Prior to public discussion of the annual Chicago Public Schools budgets, the public is presented with a preliminary budget document. By law, the preliminary thing is supposed to be at every public library, at every ward office, and in every school prior to three public hearings. Since 1995, that document has been called either the "Tentative Budget in Brief" or the "Proposed Budget." The first year after Richard M. Daley took over the public schools, that document (called in June 1995 the "Tentative Budget in Brief") was 555 pages long. By June 2005, it had doubled in size, to 1126 pages (and had been renamed, for reasons unknown, the "Proposed Budget").

Whether the public was getting more accurate information for its printing bills as the Proposed Budget grew in size, at least it could be said that the public was getting some information on the basis of which it could evaluate projections for the coming year. Although other documents are necessary before anyone can have confidence in the budget's integrity

(and Enron and other scandals should have warned people against the “trust me” school of budgeting), at least the proposed budget provided some general information.

Arne Duncan didn't bring any 1,000-page documents with him when he announced the “deficit” for the 2006-2007 school year.

Instead, Duncan made the announcement in press releases and at a speech at the private “City Club of Chicago” on January 23, 2006. According to a CPS press release, “During his annual address to the City Club of Chicago, CPS Chief Executive Officer Arne Duncan laid out budget challenges facing the school system next year and called on Springfield to significantly increase operating funding for schools to avoid damaging cuts in classroom programs.”

During the weeks that followed the City Club speech, Duncan provided the public with no additional information about the alleged \$328 million “deficit” he was claiming.

A careful reading of both Duncan's speech and the press releases that followed it made it clear that at least one of the targets of the claim of the deficit was the Chicago teachers' pension fund. Unlike the Illinois teachers' pension fund, Chicago's fund has been generally well-funded. Duncan was trying to get the General Assembly into allowing Chicago to skip a required \$70 million payment into the fund.

Considering the importance of Duncan's claim, what was to some amazing about the media coverage of the “deficit” was that Duncan was not asked hard questions about his current or past claims. Getting back to the two pieces of any budget — revenues and expenses — this becomes more and more important if the public is to have confidence in the claims of its school leaders. Instead of 1,100 pages of financial information, Chicago's public received talking points, sound bites, and the refusal of its schools CEO to be interviewed about the specifics of his claims regarding the budget.

Back to 26 Area Offices

A great deal rests on the credibility of the Chief Executive Officer of any corporation, public or private. When budgetary matters are at issue, Arne Duncan's credibility is about at the level of the executives of Enron.

Consider the question of administrative expenses.

No large system can operate efficiently and effectively without administrative sub-units. In most major cities in the United States, sub units have traditionally been referred to as “districts.” In Chicago, prior to Mayor Daley's takeover of the schools, there were ten elementary subdistricts and one high school sub-district, each headed by a subdistrict superintendent. Under Paul Vallas, these were collapsed into six “Regions.”

When Duncan took over as CEO of CPS in July 2001, the school system had been subdivided into six “regions” for five years. Each region was headed by a “Region Education Officer” (REO) and had its own office and staff. Some region offices were located in schools, and some were located in rental space that was provided after long-term no-bid contracts were awarded, despite the availability of public space in the area.

Within six months after he took office, by Christmas 2001, Duncan had changed the structure of the sub-districts. He increased the number of sub-districts fourfold, creating 24 “area instructional offices”, six for high schools and 18 for elementary schools. Each “area” was headed by an “Area Instructional Officer” (AIO), with staff and offices. During the next two years, Duncan added two additional “area” offices, one for small schools and a second for military schools. By the end of 2003, the fine print in the Board of Education's budget showed that there were 26 areas within the CPS administrative structure. Duncan had also increase the cost of the sub-districts more than 500 percent while assuring the public that he was reducing administrative overhead.

During budget hearings and discussions in July 2005, Duncan told the public that he had closed two of the area offices as part of what he claimed were reductions in administration.

A July 2, 2005, press release by the Board of Education's Office of Communications was headlined: "CPS administration down 197 positions; Non-teacher pay hikes held to 2% while teachers to get 4%; Two area offices eliminated as part of efficiency measures..."

"CPS has eliminated two of the 24 area offices for next year to future reduce non-school personnel in the system, bringing total administrative spending to less than five percent of the overall operating budget."

It was not true, either at the time Duncan supposedly said it or by the time the actual operational budget was in place for the 2005-2006 school year.

Here is what really happened.

At the time of the July 2005 budget hearings, Chicago had 26 "Area Instructional Offices" including one for "small" and specialty schools ("Area 25", under Cynthia Barron) and one for military schools ("Area 26" under Rick Mills).

An examination of the Board of Education's operating expenses for the current school year show that "Area 25" is still in operation under AIO Cynthia Barron. Currently, Unit 525 (Area 25) has six administrators and a number of others working in it. In October 2005, Barron's salary was listed in the board's operations budget at \$133,000 per year, and her "Unit" was listed as "AREA INSTR OFF 25" according to documents released to Substance after a Freedom of Information Act request. Between July and October 2005, Barron had already been paid \$44,583 out of her annual budgeted salary of \$133,000 — for a position that Duncan had told the city he had abolished in July!

The Military Area Office was buried for a couple of months in the budget, then revived. In November 2005, Duncan proposed that the Board of Education recreate the Military Area Instructional Office. Duncan's motion (Board Report 05-1116-EX26) did not appear on the public agenda for the November 16 Board of Education meeting, and there was no discussion about it from the members of the Board of Education before they voted in favor of it.

The motion to recreate the "military area" passed the board on November 16, 2005, by unanimous vote with no discussion. In response to a Freedom of Information request, the Board of Education reported to Substance that Rick Mills now holds the title of "Military Area Officer" (at a salary of \$113,626 per year). The military area office that Mills heads has 14 people working in it. The cost for salaries and benefits alone is approximately \$1 million this year [see related story on Page One of this Substance]. The only difference between the "Military Area" and "Area 25" is that the military area is still buried in the budget under the "Office of High School Programs" (Unit 470). In the Board's operational budget, Mills is still listed as "Director ROTC" at a salary of \$113,637, of which he had received \$39,426 by October 2005.

Almost routinely, Arne Duncan claims that he has reduced administration. But his claims have never been accurately checked out. Duncan continues to refuse to be interviewed for Substance, preferring instead to present his budgetary claims in press releases or at events like the City Club, where reporters and critics are not allowed to ask critical or even probing questions.

Cuts hit schools, not Duncan's patronage army

There have been massive cuts in employees at CPS since Mayor Daley took over, primarily as a result of privatization, which continues unabated to this day.

During the first years of the Vallas administration, Daley privatized many of the jobs once done by Board of Education employees, especially more than 2,000 school custodians and other lower-paid employees, whose wages and benefits were in many cases driven down below poverty level. Instead of saving money and improving services, the cost of the services increased, but the money went to corporations paying minimum wages with few or no benefits. Not all custodians in CPS were privatized, but many of the custodians now employed in Chicago schools are paid at near-poverty level wages, there was no improvement in services or cost savings, despite a decade of propaganda (including from "school reform" groups and several university professors who were on the Board of Education's payroll at one time or

another. that claimed there would be).

The privatization of non-teaching activities was one of the most noteworthy activities during the Vallas and Chico years.

By the time Arne Duncan took over, the privatization of instruction was the main topic on the agenda.

Between 2002 and 2005, Duncan reduced the number of teachers in the Board's operational budget by 1,190 full-time teaching positions that had been filled with actual teachers (as opposed to a trick sometimes used, which has been to "close" vacant positions and claim that cuts were made). The number of children receiving education at public expense has remained roughly the same in Chicago, but it is impossible to track where these positions went, because the Board of Education maintains that the operational budgets of charter schools are not subject to the Freedom of Information Act.

Many are now talking about "The Great Charter School Giveaway!" as a new feature of the Duncan and Daley years. According to the Board of Education's Office of Communications, it's not the public's business to know how much money is being spent at charter schools, and how. Each charter school has to be asked individually for its operational budget. Substance has begun to file those requests, although to date the charter schools have dropped a veil of secrecy over both their operations and their activities, claiming that they are also exempt from public scrutiny. Except for well-publicized public relations tours, the charters are not open to public scrutiny. For example, the Aspira Haugan charter school was opened this year with an operational budget of more than \$3 million from Board of Education funds, additional funding from foundations that support Aspira, and the gift of a building estimated to have cost between \$18 and \$21 million in public money. For more than a year, Aspira CEO Jose Rodriguez, like CPS CEO Arne Duncan, has refused numerous Substance requests for interviews.

While the number of teachers has been reduced and a large number of teaching jobs deregulated and privatized under Arne Duncan, Duncan refuses to be interviewed on the facts of these massive shifts in public policy. Instead, he hides behind public relations press releases and carefully rehearsed sound bites about his concern for children.

Since Duncan attended the National Governor's Conference and met with Bill Gates in February 2005, the destabilization of Chicago's public high schools has accelerated. Not only are most of the city's general high schools threatened with closings, but all of the city's high schools, including the academic stars of the system — the "college prep" magnet schools — have been forced to undergo massive cuts since Duncan took over the schools. This has led many high school teachers and principals to wonder out loud whether Arne Duncan's main mission in CPS is to undermine the high schools so that as many as possible can be privatized before he is finally forced out of office.

In the coming months, Substance will provide more and more detailed analysis of the patronage and political clout that infests every portion of the CPS budget today. This month, our main focus is on the patronage in the executive budget, where uncertified and inexperienced patronage appointees — beginning with Arne Duncan — now dominate the highest-paid positions in Chicago's public school system for the first time in Chicago history since the most corrupt years of the Great Depression.