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Fitch: Illinois Bill Would Add to Chicago Public Schools' Labor Challenges

Fitch Ratings-New York/Chicago-17 January 2023: Chicago Public School (CPS) principals are likely to soon gain collective bargaining rights long held by their peers in other states should Illinois House Bill 5107 (HB5107) be signed into law. Efforts to enhance K-12 labor rights in Chicago highlight dynamics occurring in school districts across the country in which public school employees have sought higher wages and improved working conditions after a difficult few years of reduced staffing, low wages, pandemic concerns and teaching adaptations, Fitch Ratings says.

If HB5107 becomes law, CPS will likely see an already contentious labor environment grow more complex. CPS will need to negotiate with both its teachers through Chicago Teachers Union (CTU) and its administrators through their own separate, elected bargaining unit. This adds another layer of labor negotiation in a district well-known for its standoffs between mayors and CPS and union leadership.

CPS saw upticks in resignations and retirements for CPS principals in 2022, substantially above 2021 and 2020 totals. Within CPS, seasoned teachers may be dissuaded from pivoting to an administrative role that may pay less than what they currently earn. HB5107 could potentially lead to hiring more administrators from within a school's teaching ranks if principals successfully bargain to adjust wages.

As Fitch previously commented, US public school districts are facing heightened labor cost pressures due to wage inflation, pre-existing staff shortages exacerbated by the pandemic and a tight post-pandemic labor market. Nationwide teacher and other school staffing challenges will continue to compel districts to make salaries more competitive to attract and retain staff.

CPS spends approximately two-thirds of its general fund budget on employee salaries and benefits, and its budget reflects efforts to absorb the spending pressures associated with the negotiated wage increases and multi-year commitment to increased staffing levels included in the 2020-2024 CTU collective bargaining agreement. CPS is notable compared to most of its peers due to both its large proportion of fixed and essential spending commitments and its challenging labor environment, which may constrain its ability to achieve meaningful expenditure savings in response to an unexpected decline in revenue. While HB5107 will not affect CPS's rating in the short-term, CPS's ability to manage labor conflict could affect credit quality over time.

CPS has a Fitch ESG Relevance Score of '4' (on a 1 to 5 scale, with '1' indicating irrelevance and '5' signifying high relevance for the rating) for Labor Relations & Practices, which reflects the influence of labor-related issues and spending pressures on the credit profile. Fitch recently affirmed the Chicago Board of Education general obligation bond rating at 'BB+'/Stable.

Historically, principals in Illinois have been precluded from unionizing because state labor law classifies them as managerial employees. HB5107 updates collective bargaining rights language for CPS principals specifically to include supervisory individuals engaged predominantly in executive

and management functions, in contrast with managerial individuals who have significant roles in the negotiation of collective bargaining agreements and/or the formulation and determination of employer-wide management policies and practices. The bill, however, prohibits administrators who are required to hold administrative licenses from striking, unlike Illinois teachers, who are generally able to strike over pay and working conditions.

HB5107 was initially publicly opposed by both CPS and Chicago Mayor Lori Lightfoot; however, both have since issued statements of support. Having passed the state House and Senate, the bill is now awaiting signature by Governor Pritzker.

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