CHICAGO PUBLIC SCHOOLS FY2026 BUDGET OVERVIEW

Highlights from the Approved $10.2 Billion Plan

THE CIVIC FEDERATION

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EXECUTIVE SUMMARY

On August 28th, 2025, Chicago Public Schools (CPS, or the "District") passed a balanced budget for its 2026 fiscal year, covering the 2025-2026 school year. The budget successfully closed a $734 million deficit. The District's choice to avoid short-term borrowing as a deficit-closing method likely prevented a credit downgrade. Highlights from the budget include:

- A $514 million increase in revenue from FY2025, driven by a large bond issuance and increased property taxes;
- A $430 million projected decrease in federal revenue from FY2025 as COVID-19 pandemic funds have been expended;
- A $224 million increase in expenditures, driven primarily by increases in salaries and benefits;
- A decrease of over 1,000 personnel due to cuts to central office staff and district-wide support as measures to balance the budget;
- An assumption of a $379 million TIF surplus, based on the amount CPS received in FY2025; and
- No plan to make a payment of $175 to the municipal pension fund as requested by the City of Chicago, unless additional state or local funding becomes available.

Although the District managed to balance the FY2026 budget, it faces numerous challenges going forward, most notably a continued structural deficit, estimated at $520 million for FY2027 and projected to grow in future years. Other challenges include:

- Severely underfunded pensions as CPS continues to receive less state assistance than other districts in Illinois;
- High debt costs due to low credit ratings;
- Inefficiently allocated resources due to long-term declining enrollment, creating a need for right-sizing operations; and
- Unresolved financial entanglements with the City of Chicago.

INTRODUCTION

On August 28th, 2025, the Board of Education of the Chicago Public Schools (CPS, or the "District") voted 12-7 to pass its budget for fiscal year 2026. The vote came after weeks of contentious debate centered around the measures that CPS took to close its $734 budget deficit. Those measures included operational cuts to non-classroom elements, such as custodians and crossing guards, as well as one-time revenue sources and financial maneuvers, including debt refinancing. The District further declined to take out short-term debt to pay the City of Chicago a $175 million pension reimbursement and assumed a large Tax Increment Finance (TIF) District surplus, equal to that of FY2025.

Though the FY2026 budget is technically balanced, serious challenges remain for CPS. The District faces future structural budget deficits of over $500 million and continues to be burdened by poor credit ratings, high pension obligations, aging facilities in need of modernization, and a misalignment of resources to a long-term declining trend in student enrollment.

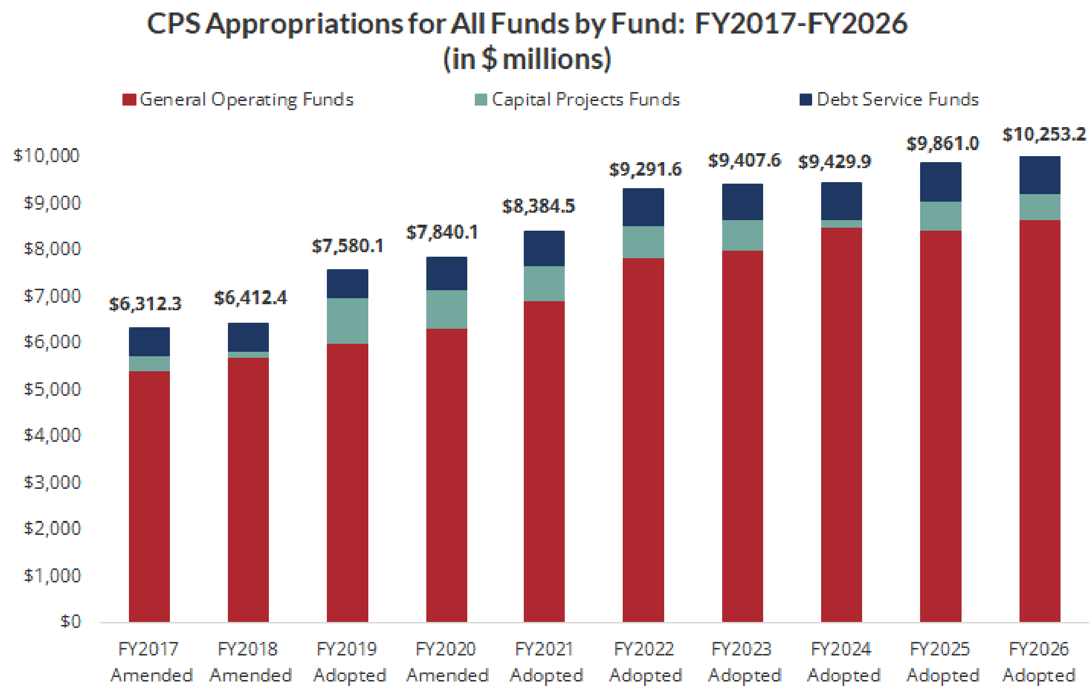
APPROPRIATIONS

The Chicago Public Schools' FY2026 approved budget totals $10.2 billion, comprised of approximately $8.7 billion in General Operating Funds, $1.0 billion in Debt Service Funds, and $556 million in Capital Projects Funds. The General Operating Funds represent 84.4% of the total budget, Debt Service Funds represent 10.1% and Capital Projects Funds represent 5.4% of total appropriations.[1]

The General Operating Funds finance employees' salaries and benefits, contractual services, charter school tuition transfers, and other day-to-day expenditures. The Capital Project Funds are for building renovations and construction activities. The Debt Service Funds are used for the payment of principal and interest on long-term debt.[2]

The chart below shows CPS appropriations for all funds from FY2017-FY2026. Over this ten-year period, CPS' budget increased by 62.4%.

[1] Chicago Public Schools, FY2026 Adopted Budget, Overview, pp. 3-22.
[2] Chicago Public Schools, FY2026 Adopted Budget, Fund Descriptions, pp. 235-237.



Source: CPS FY2017-2026 Interactive Budget Reports, Revenues and Expenditures.

The following table shows appropriations by type of expense within the General Operating Funds from FY2022-FY2026. This year's appropriations for salaries and benefits will see the largest increase from last year, primarily due to the recently ratified collective bargaining agreement between CPS and the Chicago Teachers Union (CTU), which is estimated to cost $325 million in FY2026. This increase is primarily applied to salaries and benefits, but is partially offset in FY2026 by non-teacher staffing cuts.

CPS Appropriations for Operating Funds by Type: FY2022- FY2026
($ in millions)

	FY2022 Adopted	FY2023 Adopted	FY2024 Adopted	FY2025 Adopted	FY2026 Adopted	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Salaries	$ 3,070.5	$ 3,283.8	$ 3,518.3	$ 3,614.3	$ 3,860.4	$ 246.1	6.8%	$ 789.9	25.7%
Benefits	$ 1,730.9	$ 1,869.9	$ 2,112.0	$ 2,217.5	$ 2,287.8	$ 70.3	3.2%	$ 556.9	32.2%
Contracts	$ 1,542.5	$ 1,636.2	$ 1,754.7	$ 1,790.4	$ 1,853.4	$ 63.0	3.5%	$ 310.9	20.2%
Commodities	$ 270.0	$ 362.2	$ 352.1	$ 344.4	$ 363.9	$ 19.5	5.7%	$ 93.9	34.8%
Equipment	$ 17.6	$ 13.1	$ 28.2	$ 31.4	$ 12.1	$ (19.3)	-61.5%	$ (5.5)	-31.3%
Contingencies/Other	$ 1,190.2	$ 828.5	$ 724.1	$ 435.1	$ 279.5	$ (155.6)	-35.8%	$ (910.7)	-76.5%
Total	**$ 7,821.7**	**$ 7,993.7**	**$ 8,489.4**	**$ 8,433.1**	**$ 8,657.1**	**$ 224.0**	**2.7%**	**$ 835.4**	**10.7%**

Source:CPS FY2026 Adopted Budget, p. 14; CPS FY2025 Adopted Budget, p.14-15; CPS FY2024 Proposed Budget, p. 11; CPS FY2023 Adopted Budget, pp. 22-23; CPS FY2022 Adopted Budget, p. 17.

The appropriations earmarked for personnel costs, including salaries and benefits, account for the largest share of spending at approximately 71.0%. Contracts, which include tuition for charter and therapeutic schools, payments for clinicians, and other school support services, total 21.4% of the general operating budget. Many of these school support services are paid to outside organizations that offer repairs, janitorial services, waste removal, and engineering. Appropriations for contingencies, equipment, transportation, and other expenses comprise 3.2% of the operating budget. Contingencies have fallen significantly in recent years due to the expiration of pandemic-era federal funding. Appropriations for commodities, which include utilities, food, and instructional supplies, account for 4.2% of the general operating budget.

REVENUES

The largest revenue source in FY2026 will be the property tax levy of $4.2 billion, followed by Evidence-Based Funding from the State of Illinois at $1.8 billion. The District's projection of $1.2 billion in funding from other local revenue sources includes an assumed $379 million TIF surplus, as well as personal property replacement tax revenue and intergovernmental agreements with the City. Other financing sources for capital, which are anticipated proceeds from the sale of bonds to fund the District's capital projects, are expected to account for $600 million. The District will also utilize a $25 million philanthropic donation as one-time revenue.

The following table details the total revenues estimated in FY2026 by fund.

CPS FY2026 Revenues by Fund Type
(in $ millions)

	General Operating	Capital	Debt Service	Total
Property Taxes	$ 4,156.5	$ 5.5	$ 79.7	$ 4,241.7
Replacement Tax	$ 240.0	$ -	$ 10.2	$ 250.2
Other Local Revenue*	$ 1,033.0	$ 25.7	$ 163.0	$ 1,221.7
Subtotal Local Revenue	**$ 5,429.5**	**$ 31.2**	**$ 252.9**	**$ 5,713.6**
Evidence-Based Funding	$ 1,437.0	$ -	$ 394.8	$ 1,831.8
Other State Grants	$ 862.8	$ 25.0	$ -	$ 887.8
Subtotal State Revenue	**$ 2,299.8**	**$ 25.0**	**$ 394.8**	**$ 2,719.6**
Federal Revenue	$ 902.8	$ 5.0	$ 23.8	$ 931.6
Total Revenues	**$ 8,632.1**	**$ 61.2**	**$ 671.5**	**$ 9,364.8**
Other Financing Sources	$ 25.00	$ 600.00	$ -	$ 625.0
Appropriated Fund Balance	$ -	$ -	$ -	$ -
Total Resources	**$ 8,657.1**	**$ 661.2**	**$ 671.5**	**$ 9,989.8**
Percent of Total	***86.7%***	***6.6%***	***6.7%***	

*Other Local Revenue includes interest income and TIF surplus.

Note: Figures in table may not match budget figures exactly due to rounding.

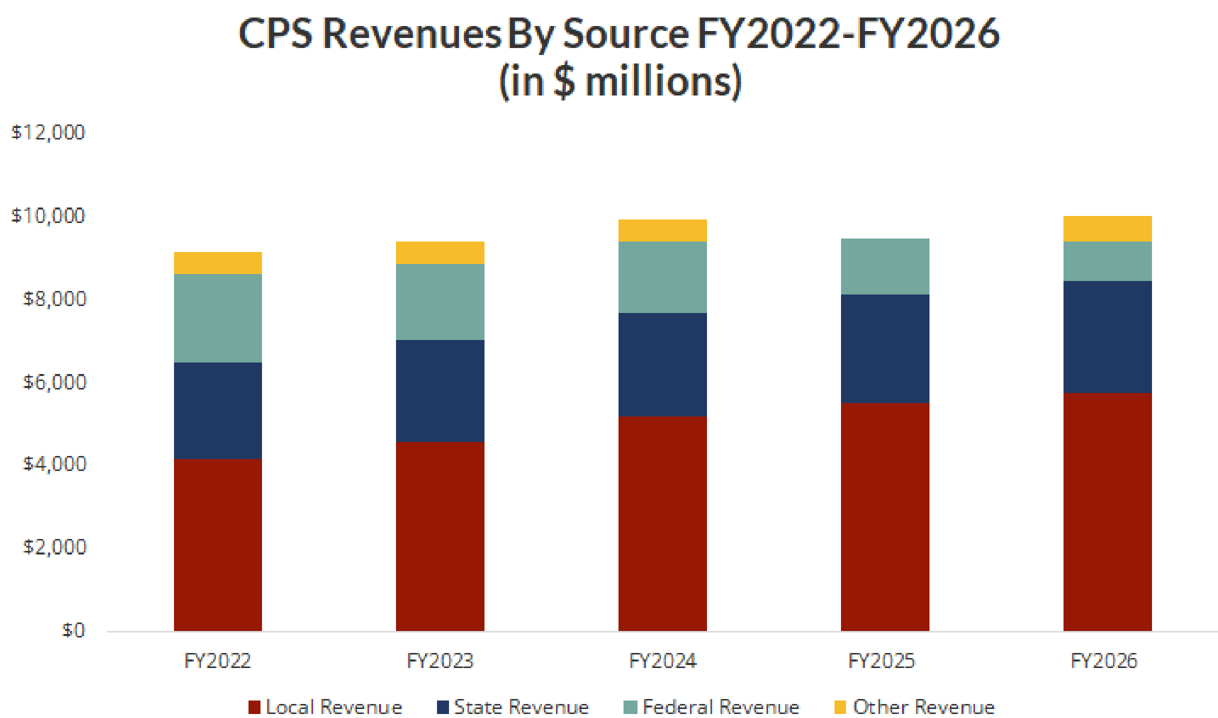
Source: CPS FY2026 Adopted Budget, pp. 24-25.

The table and chart below present total revenues across the five-year period from FY2022 to FY2026.

CPS Revenues All Funds by Source: FY2022-FY2026
(in $ millions)

Source	FY2022 Actual	FY2023 Actual	FY2024 Actual	FY2025 Amended	FY2026 Adopted	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Property Taxes	$ 3,374.2	$ 3,685.3	$ 3,816.0	$ 4,009.2	$ 4,241.7	$ 232.5	5.8%	$ 867.5	25.7%
Replacement Taxes	$ 234.9	$ 379.9	$ 579.1	$ 375.2	$ 250.2	$ (125.0)	-33.3%	$ 15.3	6.5%
Other Local Revenue	$ 553.6	$ 500.2	$ 784.3	$ 1,105.5	$ 1,246.7	$ 141.2	12.8%	$ 693.1	125.2%
Subtotal Local Revenue	**$ 4,162.7**	**$ 4,565.4**	**$ 5,179.4**	**$ 5,489.9**	**$ 5,738.6**	**$ 248.7**	**4.5%**	**$ 1,575.9**	**37.9%**
Evidence-Based Funding	$ 1,705.8	$ 1,746.5	$ 1,735.1	$ 1,758.5	$ 1,831.8	$ 73.3	4.2%	$ 126.0	7.4%
Other State Revenue	$ 625.5	$ 704.4	$ 756.2	$ 866.6	$ 887.8	$ 21.2	2.4%	$ 262.3	41.9%
Subtotal State Revenue	**$ 2,331.3**	**$ 2,450.9**	**$ 2,491.3**	**$ 2,625.1**	**$ 2,719.6**	**$ 94.5**	**3.6%**	**$ 388.3**	**16.7%**
Federal Revenue	$ 2,107.9	$ 1,824.7	$ 1,699.1	$ 1,361.3	$ 931.7	$ (429.6)	-31.6%	$ (1,176.2)	-55.8%
Total Revenues	**$ 8,601.9**	**$ 8,841.0**	**$ 9,369.8**	**$ 9,476.3**	**$ 9,389.9**	**$ (86.4)**	**-0.9%**	**$ 788.0**	**9.2%**
Bond Proceeds	$ 543.5	$ 541.2	$ 550.5	$ (0.1)	$ 600.0	$ 600.1	N/A	$ 56.5	10.4%
Reserves	$ 10.0	$ -	$ -	$ -	$ -	$ -	N/A	$ (10.0)	-100.0%
Other Sources	**$ 553.5**	**$ 541.2**	**$ 550.5**	**$ (0.1)**	**$ 600.0**	**$ 600.1**	**N/A**	**$ 46.5**	**8.4%**
Total Resources	**$ 9,155.4**	**$ 9,382.2**	**$ 9,920.3**	**$ 9,476.2**	**$ 9,989.9**	**$ 513.7**	**5.4%**	**$ 834.5**	**9.1%**

Source: CPS FY2022 Adopted Budget, pp. 20-22, 182 and 210; CPS FY2023 Adopted Budget, pp. 26-28, 188 and 193-194; CPS FY2024 Adopted Budget, pp.18-20, 196 202 ; CPS FY2025 Adopted Budget, pp.21-23, 238, 242 and 248; and CPS FY2026 Adopted Budget pp. 23-24 and 217.



Source: CPS FY2022 Adopted Budget, pp. 20-22, 182 and 210; CPS FY2023 Adopted Budget, pp. 26-28, 188 and 193-194; CPS FY2024 Adopted Budget, pp.18-20, 196 202 ; CPS FY2025 Amended Budget, pp.21-23, 238, 242 and 248; and CPS FY2026 Adopted Budget pp. 23-24 and 217.

LOCAL REVENUE

Local revenues consist of property taxes, Personal Property Replacement Tax, and other local revenue sources from the City of Chicago.[3]

Property Tax

CPS' total property tax revenue has several sources. The primary source is the general levy, which is subject to the Property Tax Extension Limitation Law (PTELL), [4] which allows tax extensions on existing property to rise each year by the lesser of 5.0% or the increase in the Consumer Price Index the previous year. For tax year 2025 (payable in 2026), the limit is 2.9%.[5] Since the property tax extension limitation law took effect in 1994, CPS' property tax levy has increased by $3.0 billion, at a compound annual growth rate of 4.6% and an average annual growth rate of 4.0%.[6]

The District also has a dedicated pension levy, which is a fixed, rate-based property tax and finances the District's pension obligations, as well as a capital levy that funds debt service and capital improvements.

Property tax revenue is used to support the District's general operations and pensions. Outside of the operating budget, CPS also levies a Capital Improvement Tax, which is expected to generate $85.2 million in FY2026.

Property tax revenue will increase by $233 million between FY2025 and FY2026, driven by three main factors:

- A $41 million increase in revenue from the Transit TIF district[7];
- A $44 million increase in pension levy collections; and
- A $137 million increase in the Education Fund levy, reflecting inflation, new property, and expiring TIF districts.[8]

The District's dedicated property tax levy for the Chicago Teachers' Pension Fund (CTPF) is expected to generate $602 million, a $44 million increase from FY2025. The pension levy accounts for 14.5% of the total property tax levy. This dedicated property tax levy to fund the CTPF was reinstated in FY2017 at a tax rate of 0.383%, then increased to a rate of 0.567% in

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[3] Chicago Public Schools, FY2026 Adopted Budget, p. 26.
[4] Illinois Department of Revenue, *What is the Property Tax Extension Limitation Law (PTELL)?*
[5] Chicago Public Schools, FY2026 Adopted Budget, p. 26.
[6] PTELL has several exceptions that allow property tax levies to grow past the limit such as levying for the value of new construction and expiring TIF Districts and exempting specific funds such as pension levies and bond funds.
[7] Note: This Transit TIF district was created to fund the Red-Purple Modernization rail project on the north side of Chicago. Unlike other TIF districts, CPS immediately receives a share of each transit TIF's revenue based on its share of the property tax distribution when the revenue arrives, rather than in a surplus later in the year.
[8] Chicago Public Schools, FY2026 Adopted Budget, p. 26.

FY2018 through Public Act 100-0465, the law enacting the Evidence-Based Funding formula[9]. The pension levy is not subject to limitations on increases to the levy under PTELL, and instead is a flat rate applied to the equalized assessed value of property in Chicago. This has allowed CPS to receive additional property tax revenue outside of the PTELL limit.

Personal Property Replacement Tax

The Personal Property Replacement Tax (PPRT) is a State corporate income tax collected from corporations and other business entities and distributed to local taxing districts. In FY2025, CPS Personal Property Replacement Tax revenues underperformed expectations by $118 million for a total of $257 million. This was because PPRT revenues had been unusually high in the previous years due to unique post-COVID economic conditions that led to an increase in taxable corporate profits.[10] In FY2026, revenues are projected to be similar to FY2025 levels.[11]

Other Local Revenue

Other local revenues include a property tax levied by the City of Chicago on behalf of CPS, rental and facility fees, intergovernmental agreements with the City of Chicago, interest income, and other miscellaneous revenue sources.[12] The largest portion of this revenue consists of a $379 projected TIF surplus. Local revenue also includes intergovernmental agreements with the City of Chicago, which provide $142 million to CPS for debt service and $31 million in reimbursements for capital projects that involve other local governments.

CPS is anticipating $379 million in TIF surplus revenues from the City of Chicago in FY2026, based on the amount of funding received in the prior year. TIF surplus is the excess money remaining in a TIF fund after revenues have been pledged for development projects.[13] The City of Chicago can declare a TIF surplus annually and distribute the remaining funds to taxing districts based on the portion of a tax bill each taxing body receives.

State Revenue

CPS, like all other school districts in Illinois, receives state funding based on the Evidence-Based Funding (EBF) formula established in 2017.[14] The Evidence-Based Funding formula sets funding adequacy targets for each school district based on its needs and calculates the district's local funding capacity based on the assessed value of taxable property. School districts are separated into four tiers based on how close they are to their adequacy target.

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[9] Illinois General Assembly, Public Act 100-0465.
[10] Center for Tax and Budget Accountability, Corporate Personal Property Replacement Tax Revenue and K12 Education Funding in Illinois, June 2024, p. 1.
[11] Chicago Public Schools, FY2026 Adopted Budget, p. 28.
[12] Chicago Public Schools, FY2026 Adopted Budget, p. 29.
[13] Civic Federation, Setting the Record Straight: How Tax Increment Financing (TIF) Actually Interacts with the Chicago Public Schools, August 2025.
[14] Public Act 100-0465, signed into law on August 31, 2017, and effective beginning in FY2018, instituted a new Evidence-Based Funding (EBF) formula to replace General State Aid.

CPS is currently a Tier 1 school district, which means it falls into the tier with the highest funding need. As of FY2026, CPS has an adequacy funding level of 73.3%. Until FY2023, CPS was a Tier 1 district but was shifted to the lower-funded Tier 2 level due to favorable short-term changes in revenue and expense factors in the Evidence-Based Funding formula. This year, CPS returned to the greater need Tier 1 category. CPS anticipates receiving approximately 11.1% of the additional $307 million in total new statewide funding this year, plus an additional $16 million due to property tax adjustments.[15] Overall, this is a $73 million increase in EBF funding from last year.

Due to the hold harmless provisions of the EBF formula, the District cannot receive less funding than the prior year, regardless of enrollment or demographic trends, unless the State decides to reduce the total amount of EBF funding available.[16] The only year since the implementation of the EBF formula that CPS did not receive an increase to EBF funding was in FY2021, when the State held its EBF allocation flat.

In addition to EBF, CPS anticipates $888 million in other state revenue, including a $363 million contribution to the Chicago Teachers' Pension Fund, $525 million in categorical grants, and $25 million in capital funding.

Federal Revenue

Historically, federal revenue typically accounted for 10-15% of CPS' total revenues and was declining since 2009. However, during the COVID-19 pandemic, CPS received an influx of federal funding, and by FY2022, federal funding accounted for 23.1% of total revenues. Since FY2021, CPS has received more than $2.8 billion in Elementary and Secondary School Emergency Relief Funds (ESSER). In FY2025, CPS used the last of its pandemic relief funding, and federal revenue has now returned to pre-pandemic levels, comprising 9% of the FY2026 budget.

With ESSER funding now expended, the District's federal revenue consists primarily of restricted grants that can only be used to provide supplemental programs and services, such as those for low-income, non-English-speaking, or delinquent children, or for school food programs.

The District's federal funding consists of:

- **Every Student Succeeds Act (ESSA) grants,** the largest of which is for the Title I – Low-Income Grant, for which CPS anticipates $448 million in FY2026, including funds rolled over from previous years. This represents a $99 million increase from FY2025 to FY2026. Title I funds are calculated based on Census data related to the number of children in poverty relative to other districts.

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[15] Chicago Public Schools, FY2026 Adopted Budget, p. 30.
[16] Illinois State Board of Education, Understanding Evidence-Based Funding, p. 15.

- **Individuals with Disabilities in Education Act (IDEA) grants**, which provide supplemental funding for special education and related services totaling $116 million.

- **Child Nutrition Programs**, including the National School Lunch Program, for which CPS expects to receive $214 million.

- **Medicaid reimbursements** for the delivery of medical services and administrative activities for children with special needs, for which CPS expects $63 million.

- **Other small grants** for things like occupational training, HeadStart, and e-rate funding for telecommunications and internet access.[17]

OTHER SOURCES

Other resources not included in local, state, or federal revenue include proceeds from the sale of bonds, miscellaneous one-time revenue sources, and the use of fund balance from the prior year.

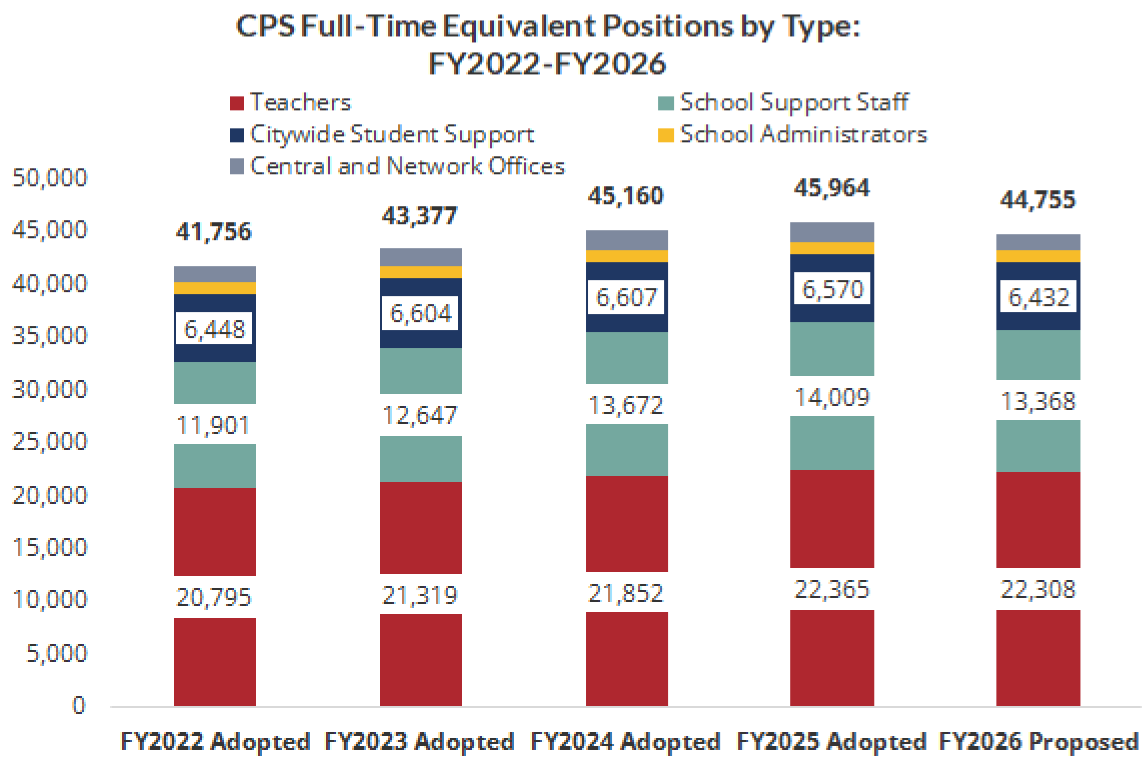
The District anticipates receiving $600 million to the Capital Fund from bond proceeds of debt issuances to fund capital projects.[18] The amount of bond proceeds fluctuates from year to year based on the timing of capital projects. It is important to note that the District's total capital appropriations of $661 million in FY2026 represent allocations for capital projects regardless of the year the funds are spent and are funded through bond proceeds as well as state and local resources.

In past years, CPS has relied heavily on using prior-year general operating fund balances to close annual budget deficits. In FY2015, CPS drained most of its reserves, using $940.4 million in operating fund balance to close the budget gap. Since then, the District has reduced the amount of fund balance budgeted each year. In FY2026, the District will not appropriate any general operating funds, as it has no meaningful balance to utilize.

[17] Chicago Public Schools, FY2026 Adopted Budget, p. 33.
[18] Chicago Public Schools, FY2026 Adopted Budget, p. 217.

PERSONNEL

The following chart shows the change in CPS personnel over the last five years. School support staff includes classroom assistants, paraprofessionals, security officers, school clerks, and lunchroom staff. The FY2026 number of school support staff will decline by 641 FTEs, or 4.6%, as compared to the FY2025 budget, as part of efforts to close the deficit. Citywide support includes centrally budgeted positions that provide direct support to schools, including nurses, social workers, custodians, and other administrative positions. As part of deficit-closing strategies, citywide student support staff will decrease by 138 FTE positions, or 2.1% in FY2026. Additionally, central and network office positions will decrease by 363 FTEs, or 19.4%.



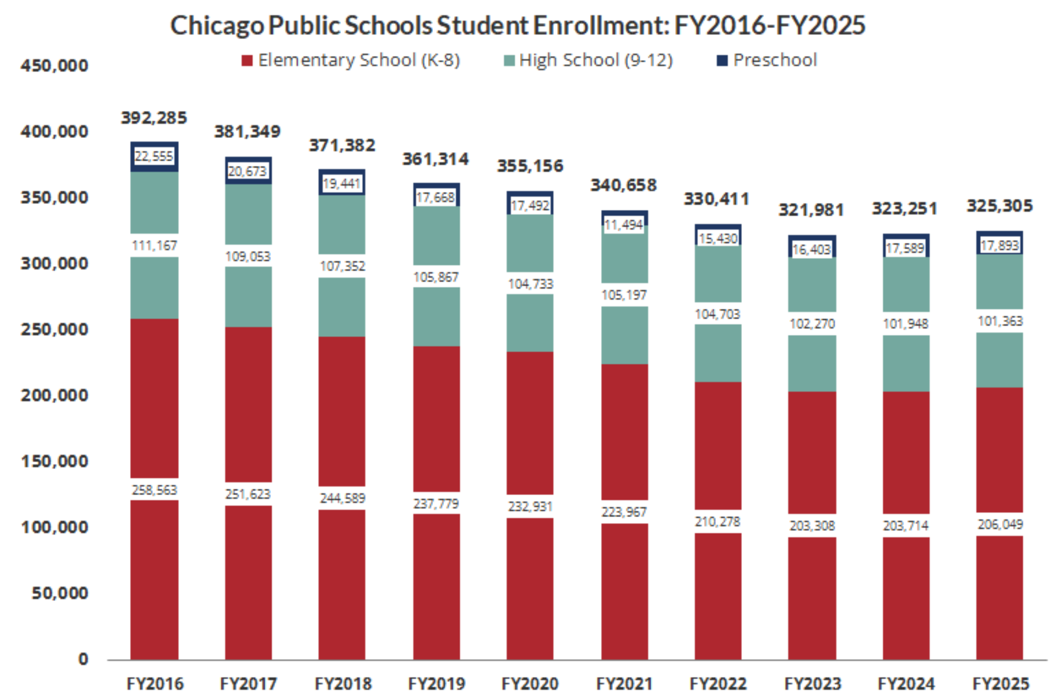
Source: Chicago Public Schools FY2022-FY2026 Interactive Budget Reports, Positions, available at www.cps.edu.

ENROLLMENT

FY2026 budget allocations are based on 20th-day enrollments for each school during the 2024-2025 (FY2025) school year. Previously, CPS used enrollment projections for the upcoming year to determine its budget. In FY2019, the District began using the 20th day enrollment from the prior school year for budgeting purposes. Because of this change in policy, schools that experience an enrollment decline in the fall do not see a budget reduction the following year.

Schools with enrollment increases receive additional funding to compensate for growing student populations, including schools with enrollment increases after 20th day enrollment.[19] CPS student enrollment increased in FY2025 for the second consecutive year, following decades of annual enrollment declines. The District had 325,305 students on the 20th day of the 2024-2025 school year, an increase of 2,054, or 0.6%, from the prior year. The increase is mostly in elementary enrollments. The increase in enrollment between fall 2023 and fall 2024 is at least partially due to new migrant arrivals to the City of Chicago.[20] This slight increase in enrollment may be short-lived, however, as preliminary reports from the beginning of the 2025-2026 school year estimate that CPS enrollment has decreased by about 12,000 students, erasing the gains of the last two years and falling below 2023-2024 enrollment levels.[21]

The broader reduction in enrollment over the last decade is due to several factors, including population declines in Black and Latino communities, lower birth rates, and families opting for other school choices.[22] Additionally, the COVID-19 pandemic contributed to a significant decline in student enrollment in 2020, especially among pre-k and kindergarten students.[23] Preschool enrollment fell 34% in the fall of 2020 from the prior year, but has rebounded in more recent years.



Source: CPS FY2026 Adopted Budget, p. 240.

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19 Chicago Public Schools, FY2026 Adopted Budget, p. 40.
20 Reema Amin, "Chicago Public Schools enrollment is stable for first time in more than a decade," Chalkbeat Chicago, September 19, 2023.
21 Mila Koumpilova, Chicago Public Schools enrollment drops, preliminary data show, Chalkbeat Chicago, September 8, 2025.
22 Crains Chicago Business, "What's driving enrollment declines at CPS?" February 15, 2022; and Bridgette Adu-Wadier, Selena Kuznikov and Samantha Aguilar, Medill School of Journalism, "More Chicago Families Turning to Private, Charter Schools as CPS Enrollment Declines," Crain's Chicago Business, January 14, 2023.
23 Sarah Karp, "Chicago Public Schools Enrollment Plummets," *WBEZ Chicago*, October 16, 2020.

RESERVES AND LIQUIDITY

It is essential that governments keep reserves on hand, often called a rainy-day fund, large enough to mitigate potential risks such as a broader financial downturn or revenue shortfall.[24] The Government Finance Officers Association (GFOA) recommends that "general purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[25] Two months is approximately 16.7% of a year's operating expenditures.

CPS has no meaningful reserve funds. Although the District once had significant reserves, it spent them down over time to close budget holes, as it did in FY2015 when facing a large deficit exacerbated by the State's budgetary crisis. Although the District lists over $1 billion on paper at the end of each fiscal year, in reality, that balance must immediately be used to pay short-term borrowing costs from the previous year's budget.[26]

Short-Term Borrowing

CPS uses short-term debt to generate cash flow throughout the year. Many of the District's large debt and pension payments occur just before it receives its two installments of property tax revenue, and payroll and vendor payments must be disbursed consistently throughout the year. Ideally, the District would rely on using its reserves during these periods of low cash flow, but CPS' operating reserves are not sufficient to draw on.

Because the District has no reserves to provide a cushion, its lack of available fund balance requires it to draw on Tax Anticipation Notes (TANs), which are short-term loans used to cover payroll and other operational costs while it waits for tax revenue to arrive.[27] The District carries over $1.2 billion in TANs annually, and the FY2025 budget includes appropriations of approximately $23 million to pay interest costs for TANs.[28] The District's lack of reserves also leaves it without a cushion to rely on should projected revenues fall short during the year. Given the District's high degree of reliance on other governments for revenue, including state funding, federal grants, and TIF surplus funds from the City of Chicago, this lack of reserves leads to a dangerous amount of risk for CPS.

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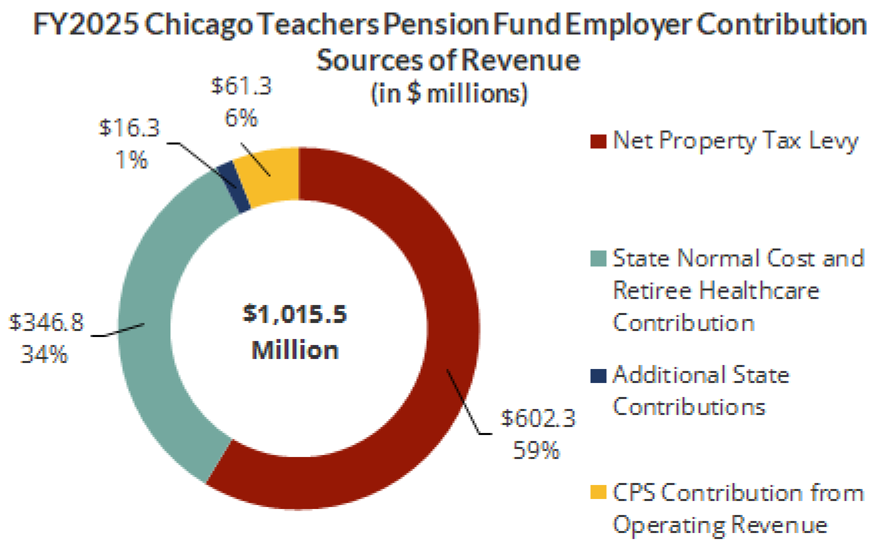
[24] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund (Adopted September 2015).
[25] Government Finance Officers Association (GFOA), Fund Balance Guidelines for the General Fund (Adopted September 2015).
[26] Civic Federation, Chicago Public Schools' Reserves and Cash Flow Issues, Explained, January 28, 2025.
[27] Chicago Public Schools, FY2026 Approved Budget, p. 11.
[28] Chicago Public Schools, FY2026 Approved Budget, p. 222.

PENSIONS

CHICAGO TEACHERS' PENSION FUND

The Chicago Teachers' Pension Fund (CTPF) provides retirement, survivor, and disability benefits to certain certified teachers and employees of Chicago Public Schools. As of June 30, 2024, the CTPF had 27,359 retirees and beneficiaries receiving benefits and 33,089 active employees, for a total of 60,448 members.[29] The CTPF is governed by a 12-person Board of Trustees. Six trustees are elected by active teachers within the fund, one by the active principals and administrators, and three by the retired members. The final two trustees are appointed by the Board of Education.[30] This structure results in a Board with a majority of trustees who are also members of the Chicago Teachers Union (CTU). The Board sets investment priorities and hires outside professionals to manage CTPF's investment portfolio.

In FY2026, Chicago Public Schools is required to contribute $1.03 billion to the pension fund. The chart below shows the sources of revenue from which CPS will make its employer contribution to CTPF.



Source: Chicago Public Schools FY2026 Adopted Budget, p. 35.

As shown in the following chart, the State of Illinois began making pension payments on behalf of CPS in FY2018.[31] Public Act 100-0465 included an ongoing State appropriation for the Chicago Teachers' Pension Fund. Thus the State covers the annual normal cost, or the cost of future benefits earned each year by current employees, as well as other post-employment benefits (OPEB) for retirees.[32] The State's contribution of $363 million toward the pension fund

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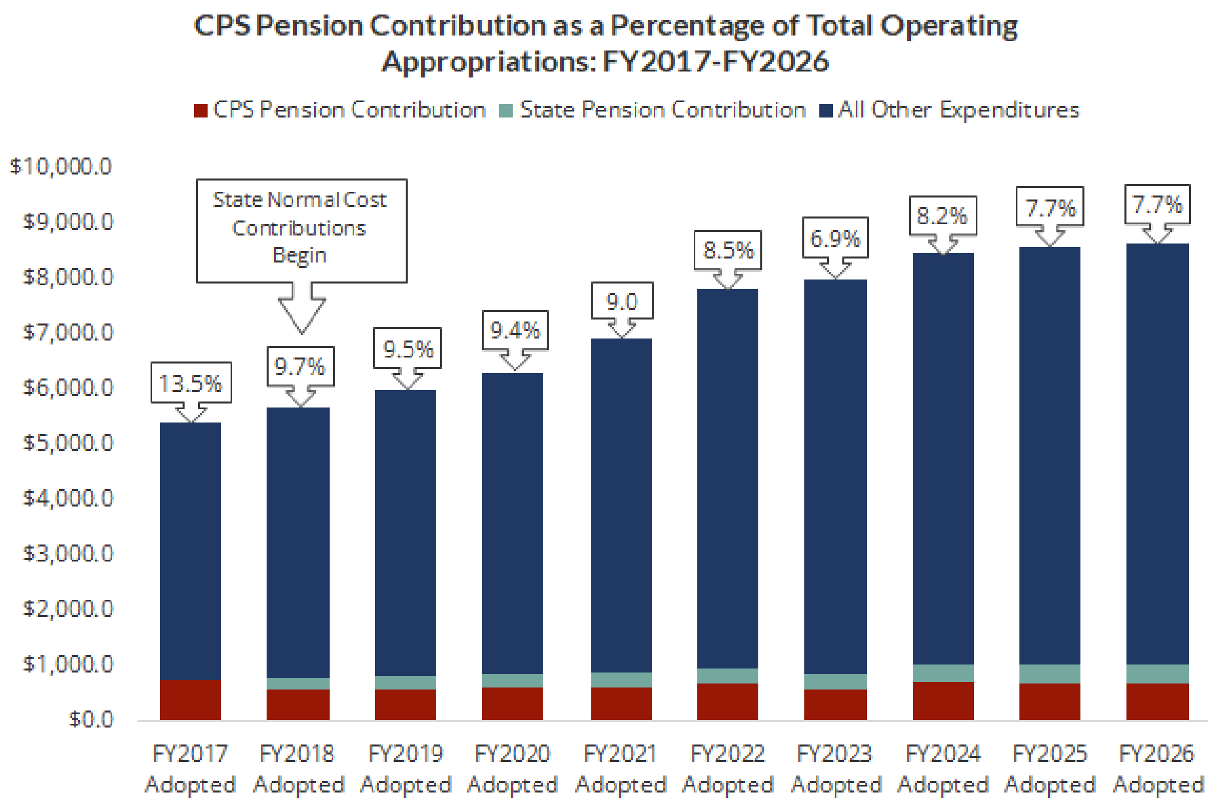
[29] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation Report as of June 30, 2024, p. 120.
[30] Chicago Teachers' Pension Fund, Board of Trustees, 2025.
[31] Civic Federation, How Chicago Public Schools' Pensions Work: An Explainer, June 16, 2025.
[32] Illinois General Assembly, Public Act 100-0465

in FY2026 is an increase of $9.2 million from the prior year.[33] This contribution helps to reduce the portion of CPS' total operating spending that needed to be dedicated to pension contributions. However, as CPS' overall budget has increased and CPS has significantly increased its personnel count, pension contribution costs have also risen.



Source: Chicago Public Schools Adopted Budgets, FY2017-FY2026.

Teacher Pension Pick-Up

In addition to the $1.03 billion employer contribution, CPS also covers a portion of employees' contributions from their salaries, a trend that started in the early 1990s. This expense, known as the teacher pension "pick-up," is projected to be $134 million in FY2026.[34]

Employee contributions to CTPF are statutorily set at 9.0% of the employee's salary.[35] One percent of that 9.0% amount is for survivors' and children's pension benefits. However, for teachers hired before January 1, 2017, CPS "picks up" or pays seven percentage points of the employees' 9.0% contribution on behalf of teachers. Therefore, these teachers effectively pay 2.0% of their annual salary toward their pension.

[33] Chicago Public Schools, FY2026 Adopted Budget, p. 30.
[34] Chicago Public Schools FY2026 Online Interactive Budget Reports, Revenues & Expenditures.
[35] Illinois General Assembly, 40 ILCS 5/17-130.

However, the 2015-19 and 2020-24 Collective Bargaining Agreements with the Chicago Teachers Union ended the pension pick-up for teachers hired on or after January 1, 2017. Thus, the total pick-up cost is slowly declining and will, in several decades, be fully phased out.

Pension Funding Status

The Chicago Teachers' Pension Fund is severely underfunded. Ideally, a pension fund should hold exactly enough assets to cover all its actuarial accrued liabilities, which would constitute a funded ratio of 100%. The CTPF has a funded ratio of 48.1% as of the most recent actuarial valuation for the FY2023 fiscal year.[36] The funded ratio has been largely constant over the last decade, fluctuating in a range between 47% and 50%. Best practices defined by the GFOA recommend that local governments adopt a pension plan aiming at a 100% funded ratio or higher.[37]

Another measure of pension funding is the unfunded actuarial accrued liability (UAAL), which are pension obligations not covered by assets. Unfunded liability is calculated by subtracting the value of assets from the actuarial accrued liability of a fund. For example, if a plan had $90 million in assets and $100 million in liabilities, its unfunded liability would be $10 million. CPS' unfunded liabilities as of FY2024 were $13.9 billion. Over the past ten years, the unfunded liabilities of the pension fund have grown by $4.4 billion, or 45.4%, from $9.6 billion in FY2015.

MUNICIPAL EMPLOYEES' PENSION FUND

Eligible non-teaching employees of CPS participate in the City of Chicago's Municipal Employees' Annuity and Benefit Fund (MEABF).[38] Approximately 24,385, or 63.2% of the 38,594 active Municipal Fund members are CPS employees.[39]

The employer contribution for CPS employees participating in MEABF is made by the City of Chicago, not by CPS. However, in 2019, CPS entered into an intergovernmental agreement with the City to partially reimburse those contributions. The City makes most of the MEABF employer contribution through its property tax levy, supplemented by revenue from the Corporate Fund, the water and sewer usage tax on consumers, and reimbursements from its enterprise and special revenue funds.[40] In FY2019, CPS first reimbursed the City of Chicago $60 million, before increasing the reimbursement to $100 million in FY2022 and $175 million in FY2023. In FY2024, as ESSER funding dried up after the COVID-19 pandemic, CPS stopped making this reimbursement. In the FY2026 budget, CPS does not commit to making another $175 million reimbursement. Instead, CPS leaves the reimbursement contingent on additional funding from the City or the State, pledging to make the payment only if the District receives

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[36] Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation Report as of June 30, 2024, p. 22.
[37] Government Finance Officers Association (GFOA), Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB) (Adopted March, 2023)
[38] Illinois General Assembly, 40 ILCS 5/8-110.
[39] City of Chicago Mid-Year Budget Forecast, August 2025, p. 22.
[40] City of Chicago FY2023 Budget Overview, p. 55.

$175 million more revenue than it assumed. According to the City of Chicago, the MEABF contribution for CPS employees (CPS' share of the full contribution) was estimated to be approximately $452 million in FY2025, out of the entire MEABF contribution of approximately $941 million.[41]

Like the teacher pension pick-up, CPS also makes some additional contributions to the Municipal Fund on behalf of its employees. In a similar system to the teacher pension "pick up", CPS "picks up" seven percentage points of non-teacher employees' pension contribution, set at 8.5% of their salaries. For non-union, non-teacher employees, CPS partially phased out the pick-up in FY2016 but still contributes 5% out of the 8.5% employee contribution.[42] The District's FY2026 cost for the non-teacher employee pick-up is approximately $52 million.[43] The District also reimburses the City for the employer cost of municipal employees funded by federal grants; this reimbursement is budgeted at $12.3 million in FY2026.[44]

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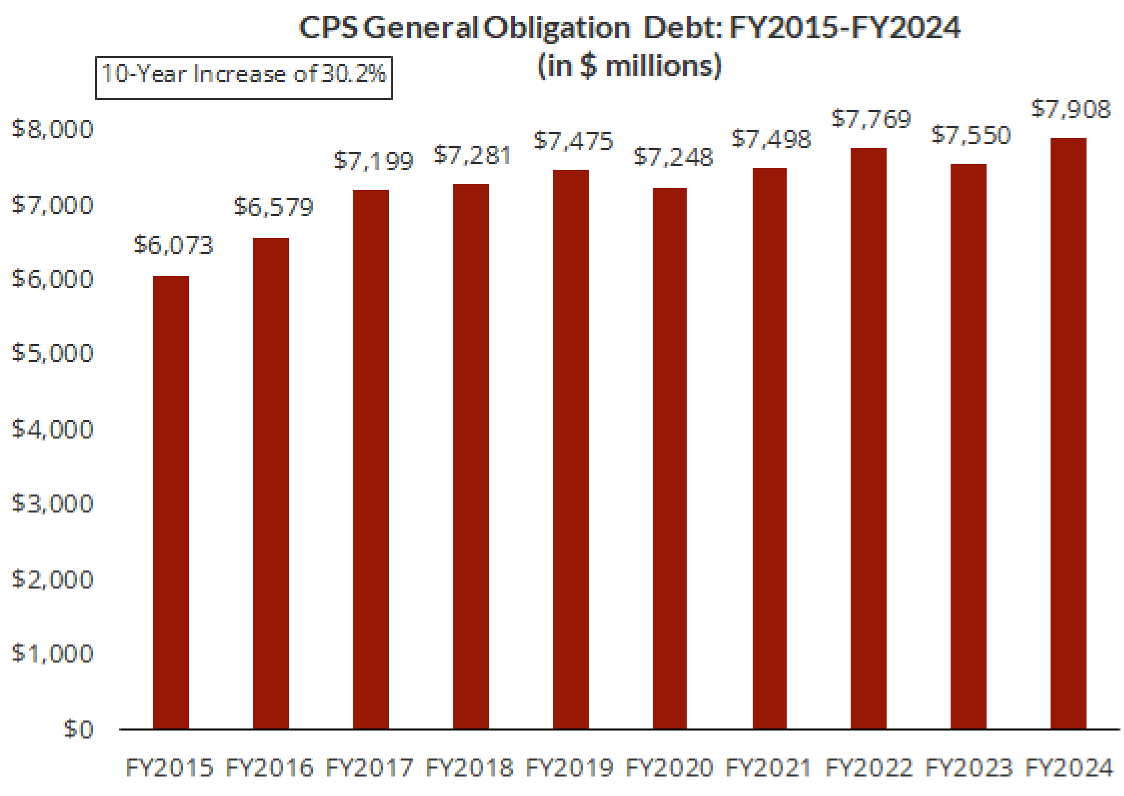
[41] City of Chicago Mid-Year Budget Forecast, August 2025, p. 22.
[42] Chicago Public Schools FY2024 Annual Comprehensive Financial Report, p. 90.
[43] Chicago Public Schools FY2026 Online Interactive Budget Reports, Revenues & Expenditures.
[44] Chicago Public Schools FY2026 Online Interactive Budget Reports, Revenues & Expenditures.

LONG-TERM DEBT

CPS has a fairly high debt burden as compared to peer school districts, at 104% of annual revenue.[45] The District also carries a credit rating that is below investment grade, also known as a "junk rating."[46] As a result, the District faces high debt service costs, which both strains its budget and makes it difficult to borrow affordably. The District's high debt costs and limited ability to take on more debt are especially troubling given its massive capital needs – an estimated $14 billion in backlogged maintenance costs.[47]

The District's primary method of financing capital projects is alternate revenue general obligation debt, backed by specific revenue sources. In 2025, CPS had about $7.7 billion in outstanding general obligation debt. The District's outstanding GO debt has been rising steadily over the past decade.



Source: CPS FY2024 Annual Comprehensive Financial Report, p. 167.

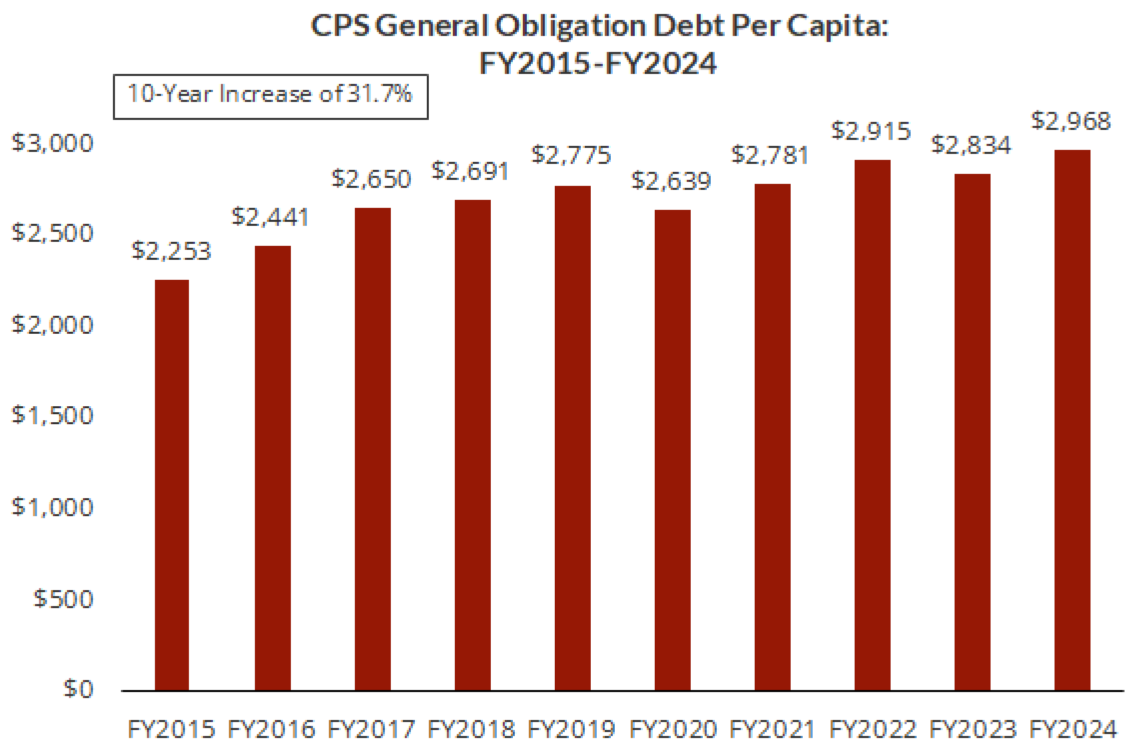
[45] Mila Koumpilova, Chicago Public Schools' debt has hit over $28,000 per student. Here's what that means., Chalkbeat, August 26, 2025.
[46] Chicago Public Schools, Credit Ratings.
[47] The Chicago Public Education Fund, Four Scenarios to Consider for Balancing the 2026 CPS Budget, August 2025.

In addition to general obligation debt, CPS also issues Capital Improvement Tax (CIT) bonds to fund certain capital projects. As of FY2026, CPS has $1.4 billion in total outstanding CIT bonds. The FY2026 budget includes a separate CIT levy and appropriations of approximately $80 million to pay debt service on the CIT bonds.[48]

As of June 30, 2025, total CPS debt outstanding, including general obligation plus capital improvement tax debt, was $9.1 billion.[49]

General Obligation Debt Per Capita

A commonly used measure of the debt burden on taxpayers is general obligation debt per capita. This indicator divides CPS' general obligation debt by the population of the jurisdiction. Increases in the ratio are a potential sign of increasing financial risk, much like increases in total debt outstanding figures. CPS' debt per capita has risen over the past decade, in line with increases to its total debt load.



Source: CPS FY2024 Annual Comprehensive Financial Report, p. 166.

[48] Chicago Public Schools, FY2026 Adopted Budget, p. 220.
[49] Chicago Public Schools, FY2026 Adopted Budget, p. 227.

Debt Service Appropriations as a Percentage of Operating Appropriations

The ratio of debt service expenditures as a percentage of total Governmental Fund expenditures is frequently used by rating agencies to assess debt burden. The rating agencies consider a debt burden high if the ratio is between 15% and 20%.[50] The CPS debt service ratio has been below the 15% threshold between FY2022 and FY2026 and has remained relatively stable. Over the five-year period, the ratio has averaged 9.2%.

CPS Budgeted Debt Service Appropriations as % of Operating Appropriations: FY2022-FY2026
(in $ millions)

	FY2022 Actual	FY2023 Actual	FY2024 Actual	FY2025 Actual	FY2026 Proposed	5-Year $ Change	5-Year % Change
Debt Service Appropriations	$ 714.2	$ 769.4	$ 785.5	$ 764.3	$ 777	$ 62.30	8.7%
Operating Appropriations	$ 7,821.6	$ 7,993.7	$ 8,489.5	$ 8,572.3	$ 8,657	$ 835.40	10.7%
Debt Service as a % of Total Appropriations	9.1%	9.6%	9.3%	8.9%	9.0%		

Sources: CPS Approved FY2026 Budget, pp. 15 and 223; CPS Adopted FY2025 Budget, pp. 15 and 248; CPS Adopted FY2024 Budget, pp. 11 and 202.

CPS General Obligation Bond Ratings

In 2015, 2016, and 2017, Chicago Public Schools experienced steadily declining credit ratings as the District struggled to finance its mounting debt and pension obligations, while concurrently depleting its reserves. In FY2018, the financial situation improved as the State of Illinois approved legislation providing substantial financial support through an Evidence Based Funding formula. The federal American Rescue Plan Act, approved in 2021, also provided additional financial assistance. As federal support buoyed the District's financial situation, rating agencies upgraded CPS' credit rating several times.[51]

While the credit upgrades in recent years signal improvements in the District's financial situation, CPS' general obligation bond ratings, except for the Kroll's rating, remain below investment grade, or "junk status." The District's current general obligation credit ratings are provided below.[52]

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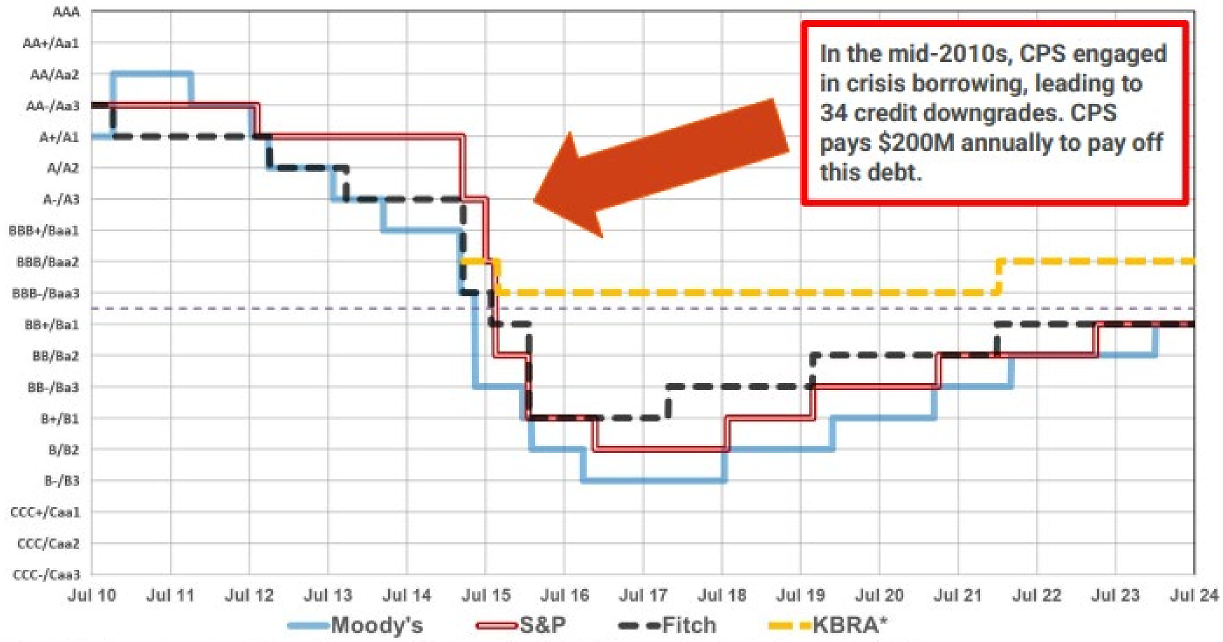
[50] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.
[51] In late 2021 and in 2022, Moody's Investors Services, Kroll, and Fitch all upgraded CPS' credit ratings. In 2023, Standard & Poor's followed suit. In 2024, Moody's upgraded CPS general obligation debt from Ba2 to Ba1, citing the District's increased operating fund cash balance, and revenue increases from local taxes and State support. CPS' credit rating remained constant from 2024 to 2025.
[52] Chicago Public Schools. [Credit Ratings].



*Kroll Bond Rating Agency has assigned all Alternate Revenue GO Bonds issued from 2016 to 2019 one notch higher than the underlying GO rating.

Source: Chicago Public Schools.

CPS' Capital Improvement Tax bonds receive standalone credit ratings. Currently, Fitch Ratings rates these bonds as A with a stable outlook, and Kroll rates them as BBB+ with a stable outlook.[53] These bonds receive a higher credit rating than general obligation bonds because they are backed by a dedicated revenue source – the CIT property tax levy – as well as State funds.

VULNERABILITIES FACING CPS

Although CPS successfully passed a balanced budget for FY2026, the District still faces several long-term challenges. A January 2025 landscape analysis report by the Civic Federation lays out the challenges and our recommendations in more detail, but the following are the key problems to be addressed by the new Board of Education and administration. [54]

STRUCTURAL DEFICITS

CPS passed a FY2026 budget that eliminated its $734 million deficit. However, that deficit is set to continue in the coming years as expenditures outpace revenue growth. Additionally, while a large portion of the cuts CPS made to close the deficit are permanent and will also reduce future deficits, part of the strategy to close the gap included one-time revenue sources that will not be available in future years. Consequently, CPS still faces a structural budget deficit that, in

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[53] Chicago Public Schools, FY2026 Adopted Budget, p. 221-222.

[54] See the Civic Federation's analysis of the financial entanglements: *Addressing the Financial Entanglements Between the City of Chicago and Chicago Public Schools*, June 8, 2023. See also, *Analysis of District Finances and Entanglements Between the City of Chicago and the Chicago Public Schools*, Chicago Public Schools, October 31, 2022.

the absence of new revenues or cuts, will continue to be a significant challenge in the coming years. The District predicts that it will face a $520 million deficit in FY2027, growing to $582 million in FY2028, $665 million in FY2029, and $835 million in FY2030.[55]

The District must begin work immediately with stakeholders of all levels of state and local government to alleviate these deficits. With deep cuts already made to non-classroom areas in the FY2026 budget, the District will have very few options for short-term savings next year. Longer-term efforts, such as right-sizing spending and working with the State and other partner governments, must begin now in order to prepare for next year's budget season.

Underfunded Pensions

CPS continues to face enormous pension liabilities with almost $14 billion in unfunded liabilities for the Chicago Teachers' Pension Fund. The District is responsible for over $1 billion in annual pension contributions, only about a third of which is covered by the state. These costs are exacerbated by CPS' pension pick-ups for teachers and municipal employees, and the potential for a MEABF reimbursement to the City. The MEABF is also drastically underfunded and, if CPS covers its full share, doing so could cost up to $450 million annually. CPS' high pension expenses will continue to grow annually due to its statutory funding ramp, placing increasing pressure on the District's budget in the coming years.

The District should work with state legislators and the State Board of Education to continue exploring pension funding options. Due to the imbalance in pension funding between Chicago and other municipalities in Illinois, the Civic Federation considers pension funding to be the best target for requesting additional state funding for CPS. Such a deal should be predicated on the consolidation of the CTPF with the downstate Teachers' Retirement System (TRS) to give the state control over the pension funds that it is required to finance and to eliminate redundancies.

Poor Credit Rating

CPS' junk-status credit rating makes borrowing significantly more expensive for the District. The District has slowly been rebuilding its credit rating over the past decade, but in order to continue receiving upgrades, it must avoid risky short-term financial decisions. Recent conversations about covering the MEABF payment with short-term debt or including contingency borrowing in the District's budget have unsettled credit rating agencies.[56]

The District's ultimate decision in August to not borrow helped stave off another downgrade, and CPS leadership should continue to make these types of farsighted decisions. In order to escape junk status, CPS must continue to pass balanced budgets, not take on any debt for operational costs, build up reserves, and make decisions that telegraph responsible fiscal stewardship to the credit markets.

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[55] Chicago Public Schools, FY2026 Approved Budget, p. 12-13.
[56] Bond Buyer, *CPS Budget Doesn't Provide for Disputed Pension Payment*, August 2025

Right-Sizing District Operations

CPS devoted a significant portion of its one-time federal pandemic funding to increases in personnel and associated operating costs. Unquestionably, some of that increase in staffing helped offset COVID-related adverse impacts on the student population. However, during that same span, enrollment continued the downward trend of the past 20 years. Although enrollment has recently stabilized, the District today has more personnel and a substantially higher payroll for a smaller student population than it had pre-COVID. Additionally, while the District has conducted a facilities analysis, it has not acted on findings that highlight a significant number of schools in need of major infrastructure investment, as well as schools that are severely under-enrolled, some to the extent that they can no longer support robust curricular, co-curricular, and extra-curricular activities. Resources across the District are, therefore, not aligned with actual enrollment and mission responsibilities and objectives.

The District should begin the process of rightsizing by identifying the schools where resources are least efficiently utilized. Right-sizing operations should learn lessons from CPS' school closures in 2013 by beginning with in-depth community engagement and developing plans for the sale or use of unused buildings in order to alleviate its substantial capital costs.

Financial Entanglements with the City of Chicago

Whether existing financial agreements and partnerships between CPS and the City of Chicago should continue remains an unresolved issue. In particular, the reimbursement to the MEABF remains an outstanding and publicly contentious question.

The District should reach an agreement with the City of Chicago on the disputed pension reimbursement before next year's budget season. This may include working with state legislators to facilitate changes to state law. A potential compromise would involve shifting the legal obligation for CPS' costs to the District and providing CPS with a new pension levy to cover these costs. The District should aim to resolve all entanglements before the fully elected board of education is seated in January of 2027.