CIVIC FEDERATION REPORT

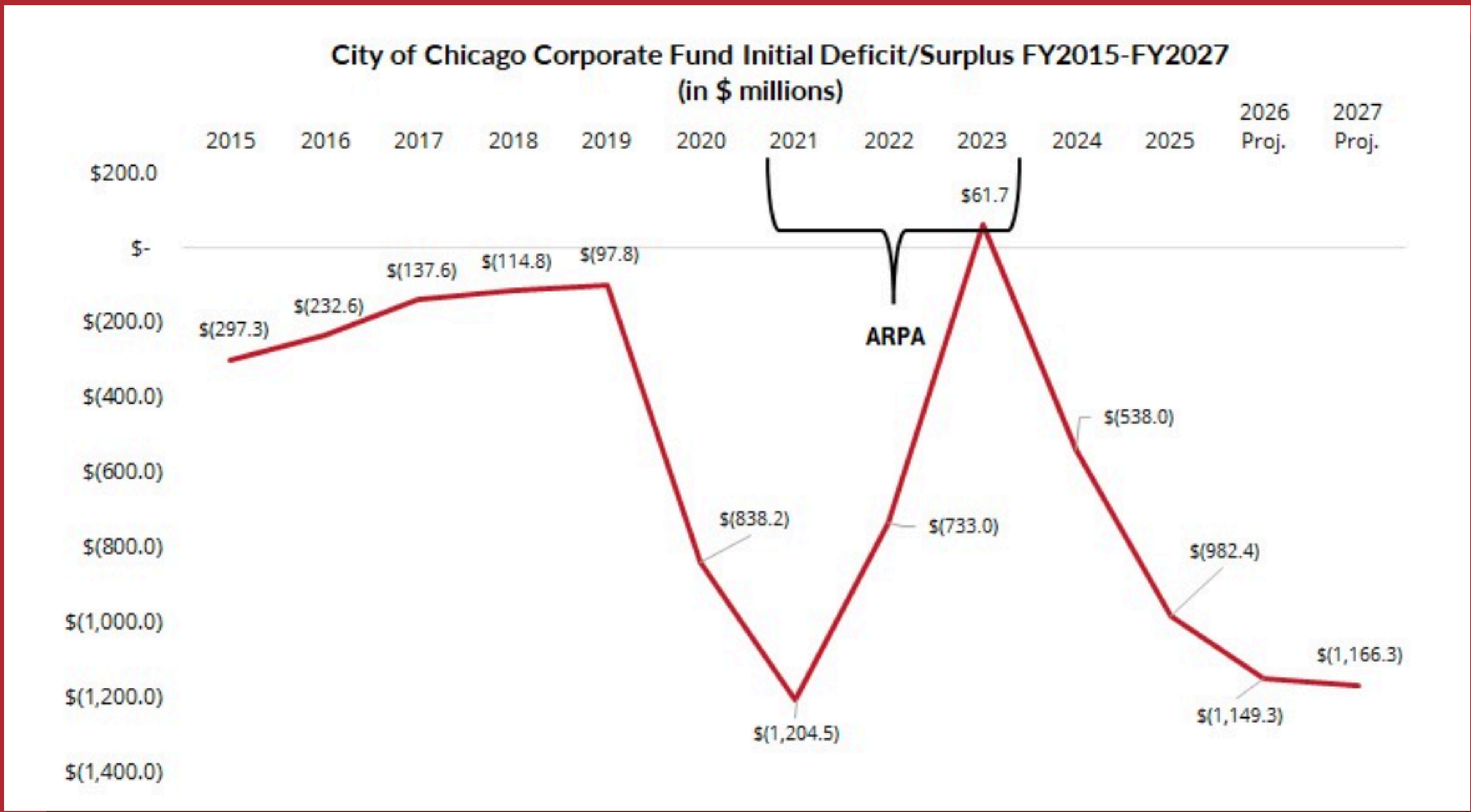
October 9, 2025

SETTING THE STAGE FOR THE FY2026 CHICAGO BUDGET

About the Report

- Chicago enters the FY2026 budget season at a pivotal moment. Ever-mounting taxes and fees, persistent structural budget gaps, high long-term debt, underfunded pensions, and debates over government spending are long-held staples of local political discourse.
- Despite occasional wins, the City's fiscal situation remains largely unchanged, and new financial burdens further threaten an already fragile situation.
- This report outlines the key fiscal issues shaping this year's budget and highlight what has changed since the FY2025 budget cycle. The Civic Federation will closely monitor these and other issues as the Mayor introduces the proposed FY2026 budget and City Council hearings commence.

Structural Budget Deficit



This chart illustrates the trend in budget gaps since 2015.

Structural Budget Deficit

At this time last year, the City projected a $1.12 billion budget deficit for FY2026. The most recent Budget Forecast released in August slightly revised that number to $1.15 billion. This staggering number, which is only expected to increase in FY2027, is nearly as high as the deficits faced during the height of the pandemic.

What's Changed

- Federal pandemic stimulus funds (ARPA) are gone, removing a major source of budget relief.

What to Look Out For

- Whether the Mayor's budget proposal relies on new recurring revenues and sustainable savings and cuts, or instead leans on temporary or one-time fixes.

Uncertainty of Federal Funding

- The federal government's threats to withdraw existing grant funding to states and localities in areas such as infrastructure, environment, public health, and community services are creating a level of uncertainty for the City of Chicago and its sister agencies.
- The magnitude of federal funding that supports Chicago's budget is not slight, representing over $1 billion annually. Some of the City's largest areas of grant funding that have been the focus of threats from the federal administration include the Department of Public Health, the Chicago Department of Transportation, and public-safety-related departments (police, fire, emergency management)—each representing hundreds of millions in grant funds.

Uncertainty of Federal Funding

At the State level, Governor Pritzker recently issued an executive order directing Illinois agencies to identify up to 4% in reserves to mitigate possible negative impacts to services.

With the federal government showing that it is no longer a stable partner to states and local governments, the City would be well-served to consider how it will sustain programs in the event that some federal funds are cut or delayed.

What's Changed

- The federal government has signaled potential cuts or holds on infrastructure, health, and community development funding.

What to Look Out For

- Whether and how the Mayor's FY2026 proposed budget plans for possible declines or delays in federal funding?

Credit Downgrades

The City's inability to rein in its structural deficit has led to three credit downgrades in the past year. While these downgrades do not immediately impact the FY2026 budget gap, they will increase the City's borrowing costs in the future.

What's Changed

- Three credit rating agencies downgraded the City's rating or outlook in the past year.

What to Look Out For

- Whether actions taken in the budget include sustainable structural reforms sufficient to elicit a favorable assessment from the credit rating agencies.

Property Tax Pressures

The property tax situation in Cook County is creating pressure on all sides, with taxpayers feeling overburdened and declining commercial real estate values shifting more of the burden to homeowners.

- Taxpayers feeling overburdened
- Declining commercial real estate shifting burden to homeowners
- Application of Chicago's recent tri-annual property tax reassessment
- Substantial billing delays

Property Tax Pressures

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What's Changed

- The 2024 Chicago reassessment increased the residential share of Chicago's taxable property value.
- The County's ongoing property bill delays.
- Political resistance to property tax increases remains strong, even as fiscal pressures mount.

What to Look Out For

- If the FY2026 budget includes a property tax increase, whether it is minimized through maximization of sustainable structural savings in operations.

Budget Process Improvements

The City and Mayor Johnson have made some improvements in terms of budget process transparency and long-term planning.

What's Changed

- The Management Ordinance requires a Mid-Year Budget Report from both the Office of Budget and Management and the Council Office of Financial Analysis (COFA), as well as a series of mid-year public hearings.
- The Mayor convened a working group to assess potential revenues and efficiencies, with an eye to both the 2026 budget year and long-term planning.

What to Look Out For

- Whether these new oversight mechanisms are effectively informing policymaking, and whether they translate into actionable reforms in the FY2026 budget proposal?

Tensions with Chicago Public Schools

Coming off a hotly debated Chicago Public Schools (CPS or the 'District') budget season this summer, the financial entanglements between the City and CPS are no closer to resolution.

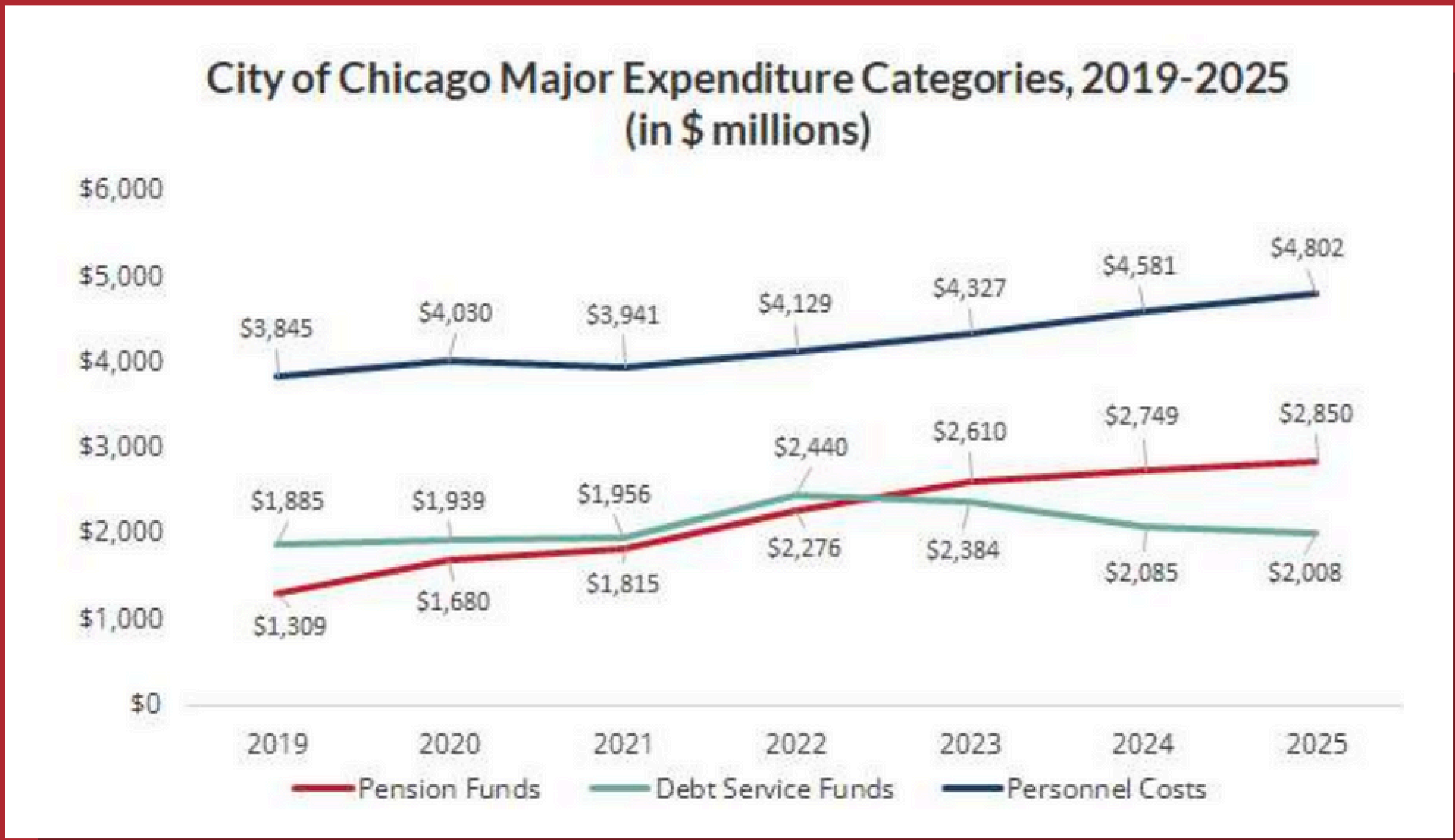
What's Changed

- CPS' decision to stop reimbursing the City for the Municipal Employees Annuity and Benefit Fund (MEABF) payment has put the burden back on the City to cover the full cost, adding to Chicago's year-end deficit.
- CPS' FY2026 budget assumes $379 million in TIF surplus, a figure that is dependent on City decisions this budget cycle.
- The Board of Education is now partially elected, complicating intergovernmental coordination.

What to Look Out For

- Will the Mayor's FY2026 budget proposal, or accompanying legislation, include steps to resolve the MEABF reimbursement issue or clarify shared financial responsibilities between the City and CPS?

Cost Drivers



City of Chicago Major Expenditure Categories

Cost Drivers

There are a number of underlying factors and issues that continue to drive the City's ballooning expenditures and constrain its flexibility to close future deficits. Chief among these are pension and debt obligations, personnel-related costs, overtime, and ongoing judgments and settlements. Each reflects long-standing structural issues that, taken together, threaten to crowd out essential public services and investments.

What's Changed

- Passage of HB3657 expanded pension benefits for police and fire funds, adding $11.5 billion in long-term liabilities and $7 billion in additional payments through 2055.
- The City issued an $830 million bond with a back-loaded payment structure, increasing total costs to $2 billion.
- The City has gone over budget on overtime.
- FY2025 judgment and settlement payouts have already exceeded the budget by more than $120 million.

What to Look Out For

- Whether the proposed budget includes measures to contain and reduce overtime spending and reliably manage vacancies in relation to operational needs, most particularly with respect to police department staffing?
- Whether the Mayor's budget proposal realistically accounts for judgments, settlements based on historical trends, and analysis of existing liability exposure?

Want to learn more?

Read the full report at CivicFed.org