CIVIC FEDERATION

Understanding Municipal Debt: A Case Study of the Chicago Public Schools

By Daniel Vesecky

Chicago Public Schools (CPS) carries approximately $9.3 billion in outstanding long-term debt. This impacts nearly every major budget decision the District makes and is projected to require more than $629 million in debt service payments in FY2026 alone. Written as both a primer and a case study, this report explains how municipal debt works and then applies those concepts directly to CPS, one of the most financially strained large school districts in the country.

Compared to peer school districts across the country, CPS is a significant outlier: the District carries approximately $3,629 in debt per capita, more than three times the average among major school districts analyzed in this report and will pay off only 44% of its current debt obligations within ten years, compared to a peer average of 57%. Its below-investment-grade credit rating, a product of years of structural imbalance, meaningfully raises its borrowing costs, with the Civic Federation estimating that a AAA credit rating could have saved the District over $271 million in lifetime interest on its most recent new debt issuance alone.

The analysis draws on CPS' two most recent debt issuances from fall 2025: a $650 million new debt issuance to support the District's capital budget, and a $1.1 billion refinancing deal that generated meaningful savings for the District. The savings from the refinancing were concentrated primarily in FY2026 to help close an immediate budget gap, rather than spread over the life of the debt, a pattern that reflects years of crisis-driven budgeting rather than long-term fiscal strategy. CPS faced a large budget deficit in FY2026, and chose to use debt refinancing to close the gap. This allowed the District to escape painful near-term cuts, but eliminated opportunities for long-term structural savings to reduce future budget deficits.

CPS has repeatedly been forced by difficult financial circumstances to engage in short-term, deficit-driven debt decisions. But those circumstances are increasingly of the District's own making; the product of unsustainable pandemic spending and a structural budget deficit. The report concludes with recommendations for how CPS can begin to shift toward more sustainable debt management including reducing backloading in future issuances, using refinancing to maximize long-term savings rather than patch near-term budget holes, and pursuing structural fiscal reforms to improve its credit position and free up more resources for classrooms and facilities. The window for meaningful course correction remains open, but it is narrowing.