UNDERSTANDING MUNICIPAL DEBT: A CASE STUDY OF THE CHICAGO PUBLIC SCHOOLS

CIVIC FEDERATION

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The Civic Federation would like to thank Justin Marlowe (University of Chicago/Center for Municipal Finance), Conor Durkin (A City that Works), and professionals at Chicago Public Schools

Introduction

Debt is an essential part of every local government's budget, but often a confusing one. In the Chicago region, many local governments are overburdened by debt, often citing it as a high "legacy" cost that constrains discretionary spending. This report will serve as a basic primer on how municipal debt works and how it is meant to be used, using the debt load of one local government as a case study: the Chicago Public School District (CPS or 'the District'). The report is grounded in widely accepted principles from public finance literature, guidance from organizations such as the Government Finance Officers Association, and research by government finance experts.

What is Municipal Debt?

Before we understand what CPS' debt load looks like and why it is structured the way it is, we must first lay out the basic workings of municipal debt. The following explanation and definitions are highly influenced by public finance expert Justin Marlowe's forthcoming book, *Public Debt Management*.

The Purpose of Debt

Debt is a key part of any government entity's budget, whether federal, state, or local. Local and state governments typically use debt to support capital and infrastructure projects, such as building a new train station or renovating aging water reclamation facilities. These types of projects often carry hefty price tags and are too expensive to pay for within a single year's budget. Capital and infrastructure projects also tend to provide long-term benefits once completed, so the rationale for using debt to pay for them is that the project cost can be spread evenly over many years of interest and principal payments, ideally over a timeframe that matches the expected lifetime of the project itself. The use of debt to finance major projects thus makes their costs more consistent and predictable, both of which are highly beneficial to budget planners.

Debt spending for long-term projects also provides intergenerational equity, as each generation of taxpayers is asked to pay for a service that they receive, rather than paying upfront for a service that future taxpayers will get for free. However, if poorly structured, debt can also violate the principle of intergenerational equity. If debt repayment is backloaded or lasts longer than the useful life of the project it pays for, future generations can end up paying the bill for services provided in the past. This principle explains why the first rule of municipal debt is: Do not use debt to pay for day-to-day operating costs.

If governments were to use debt to pay for core services, these costs would not be paid for by those receiving the services but would instead be passed on to future generations. In addition, when debt is used to cover operating costs, governments address immediate budget concerns at the expense of making future fiscal challenges even more difficult to overcome.

How Municipal Debt Works

When a local government determines that it needs to take on long-term debt, it sells a certain amount of bonds to the municipal debt market. A **bond** is a formal promise to repay a set amount of money (called the principal) over time, along with regular interest payments.

Debt sales can either be negotiated directly with a single underwriter – typically a large firm or a syndicate of multiple firms with which the issuing government has a preexisting relationship – or sold competitively, with underwriters bidding against one another in an auction to offer the best price for the debt. The underwriter who purchases the government's debt will then resell that debt to individual investors. This process is called **debt issuance**.

Once the debt is issued, the government receives a lump-sum payment from the investor to finance projects. In return, it pledges to pay a certain interest rate on the principal each month and defines a plan whereby it will pay back the principal by the end of the bonds' lifetime. The total amount of money that a government must pay to cover its principal repayments and interest in a given year is called **debt service.**

The plan for repaying a debt issuance over time is called the **debt service schedule**. Debt service schedules can be structured in many ways. **Level debt service** (sometimes also referred to as straight-line repayment) is perhaps the most common structure; it aims for the issuer to pay roughly the same total of principal and interest each year for the lifetime of the debt. This type of repayment schedule is helpful because it provides consistency and predictability to both the issuer and the investor.

Governments that expect rapid inflows of revenue may **frontload debt**, paying off more of it at the beginning of the schedule than at the end. This can be helpful because paying larger amounts of principal early in the life of a debt issuance reduces annual interest costs, thereby lowering the overall cost of borrowing.

Conversely, governments may also **backload debt**, pushing larger payments to the end of the debt schedule instead of the front. Backloaded debt makes sense if the government expects significant revenues later in the lifetime of the debt. For example, a bond issuance used to pay for a toll road might not generate any revenue while the road is still being constructed, but could begin to pay for itself once the work is done. In this case, a backloaded debt structure can be a sensible decision. However, some governments also use backloaded debt schedules to avoid paying for capital costs in a timely manner and to push present costs onto the shoulders of future taxpayers. In this case, a backloaded debt structure can be a highly irresponsible fiscal decision.

Finally, when governments issue debt, they identify the revenue source that will be used to pay the cost of debt service each year. Some debt issuances are called **'general obligation' or GO bonds** and are repaid from the government's general revenue sources, such as property taxes and other tax revenues. GO bonds are backed by the "full faith and credit" of the government and are considered a binding pledge to pay back the debt.

Unlimited GO bonds carry an unconditional pledge to repay the debt and are therefore viewed by investors as lower-risk investments than other types of bonds. **Limited GO bonds** also pledge debt repayment, but they restrict the amount of taxes the issuing government can levy to repay them.

Other bonds are funded by a specific revenue source and are referred to as **'revenue bonds.'** For example, debt used to finance water-sewer lines, airports, or toll roads might be repaid with fee revenue generated by the infrastructure once it is constructed. Revenue bonds are often considered higher risk than GO debt because they rely on a single revenue source. However, for fiscally precarious governments, the inverse can sometimes be true if the revenues are specifically pledged to the lender, meaning that the creditor gets access to the revenue before the government does.

Yield and Credit Rating

When a government issues a bond, potential creditors closely analyze the specific bond offering, or issue, and the government issuing it to determine how much the bond is worth. Many things can influence investors' analysis of a given bond issue. A few key factors include: the broader municipal bond market at that moment; expectations of future interest rates; the duration of the bonds; the revenue sources that will be used to pay debt service costs; and the perceived reliability of the issuing government.

Investors use that information and their professional expertise to determine the interest rate they expect for a given bond, and how much they are willing to pay for it upfront. Bonds that are priced **"at par"** (face value) sell for exactly the bond's principal amount; in other words, the investor pays 100 cents on the dollar. Investors may also offer a **premium** price for a bond that has an interest rate higher than the market rate for bonds of its type. For example, if a $1 million bond has an interest rate above the market average, an investor might be willing to buy it at a 102% premium, providing $1.02 million upfront but only receiving interest on the $1 million principal. Alternatively, investors can pay a **discount** price for a bond that would otherwise carry too low of an interest rate to be worth purchasing at par. In this example, a bond with a lower interest rate might sell at a 98% discount, meaning an investor would pay only $980,000 upfront while still receiving interest on the full $1 million principal amount.

The part of a debt issuance that tends to get the most attention is the interest rate the government pays for its bonds. Yet, because investors may pay more or less than face value for a bond, the stated interest rate alone does not fully reflect the government's true borrowing cost. If a government is paying high interest rates but sells its bonds at a significant premium, that might still be a worthwhile deal. Bonds that have a lower interest rate but are sold for a steep discount might also not be as attractive as they appear on the surface.

To get a true sense of any particular bond issuance, investors combine the price and interest rate of a given debt issuance into a single variable called the bond's "**yield**." The yield reflects an investor's overall return on investment for a particular bond. It is easiest to think of yield as a

measure of a bond's interest rate, adjusted to reflect the true price an investor paid for that bond. If a bond sells at par, its yield will be the same as its interest rate. If it sells at a discount, its yield will be higher than the interest rate, since the investor is getting the same return for a lower upfront investment. Likewise, if a bond sells at a premium, its yield will be lower as investors paid more in the first place.

For a government issuing debt, the goal is generally to achieve the lowest possible yield. Lower yields mean the government is able to borrow at lower overall cost, either because investors accepted lower interest rates or were willing to pay higher prices for the bonds.

One of the most significant assessments of an issuer's reliability is its **credit rating**. Credit ratings play a key role in an investor's assessment of a bond's quality and the yield it carries. A lower credit rating indicates that rating agencies see a stronger possibility that a government will be unable to repay its bonds. Lower-rated governments are thus perceived as riskier investments. To compensate for this higher risk, investors tend to demand higher yields on bonds issued by governments with lower credit ratings. Higher yields mean borrowing is more expensive, so fiscally prudent governments often seek to keep their credit rating as high as possible to achieve lower borrowing costs.

Having a credit rating below investment grade, often called 'junk status' and beginning at BB+ ratings, is particularly dangerous for municipalities. Due to legal restrictions, many types of investors are not legally allowed to invest in junk bonds. This means the investor base for those bonds is much smaller than that of higher-rated bonds. This makes junk-rated bonds less liquid – less easy for the investor to sell quickly – which can make them even riskier to hold. As a result, investors tend to demand even higher yields for junk-rated bonds.

Chicago Public Schools: A Case Study

The Chicago Public Schools (CPS or 'the District') carries a debt load of approximately $9.3 billion. Of that, approximately $8 billion is in GO bonds, which will be the focus of this piece. These bonds are Alternate Revenue General Obligation bonds – a hybrid of general obligation and revenue bonds. They are technically backed by both the District's property tax levy and its state funding, as well as CPS' full faith and credit.

In 2026, the District is projected to pay over $629 million in total debt service – the combination of annual interest and scheduled principal repayments. Debt service makes up a considerable portion of CPS' annual expenses at approximately 6.17% of CPS' total $10.2 billion budget, so how the District manages its debt can save or cost it significantly. Therefore, understanding CPS' debt portfolio and management is a critical part of understanding its budget.

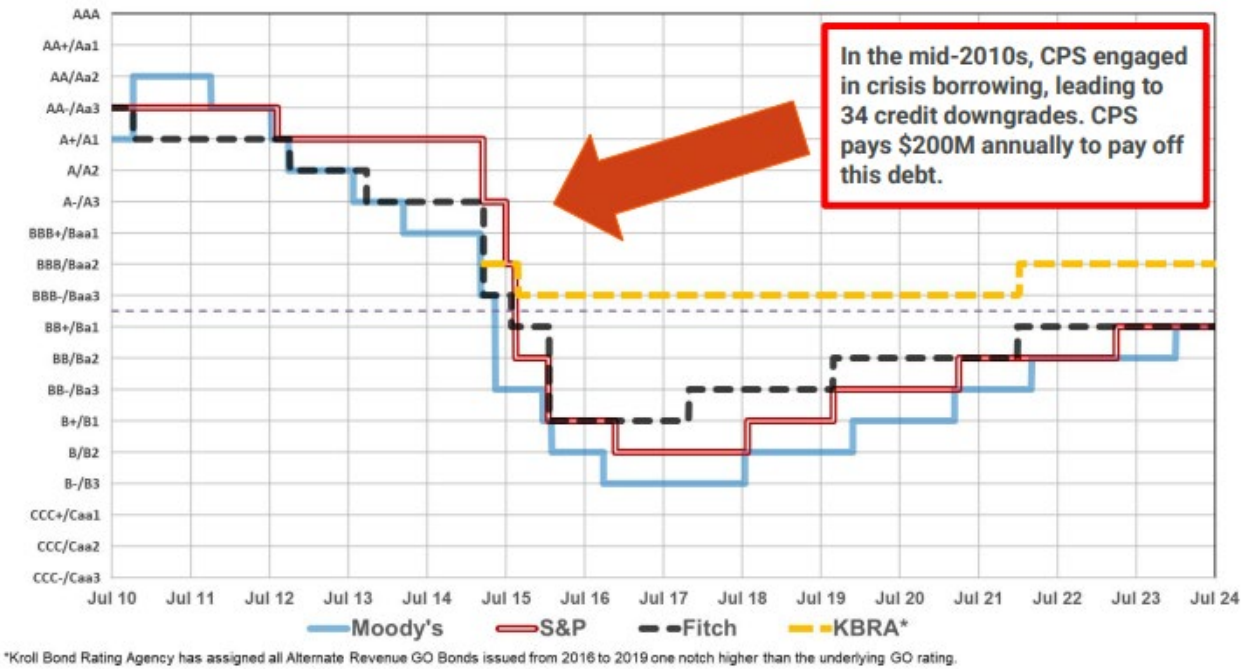
CPS Facilities – The Drivers of Debt

As mentioned earlier, the primary use of debt is to cover the costs of large, long-term projects, typically major investments in infrastructure. For CPS, that mostly means renovating and repairing school facilities. Despite consistent growth in the District's debt load, it faces a $14

billion backlog of unfunded capital needs – everything from leaky roofs to broken water fountains. These costs are so high because CPS owns 803 buildings, the average age of which is 85 years old. Enrollment in CPS has also declined significantly in recent decades, creating a situation where the District owns more facilities than it needs to accommodate its students. The District's large portfolio of aging buildings leads to an intense demand for debt spending to meet capital needs, a demand which CPS must balance with its already tight budget constraints. This means that capital dollars are stretched thin across many aging schools, making effective debt management especially important. Every dollar saved by lowering borrowing costs is another dollar that can be put towards reducing the backlog.

Credit Rating and the Mid-2010s Funding Crisis

In the early 2010s, CPS had a strong investment-grade credit rating: AA- from S&P and Fitch, and A+ from Moody's. The District was fresh off a wave of federal funding aimed at combating the fallout of the 2008 recession and was granted a pension holiday by the State of Illinois (Illinois or 'the State') as unfunded pension liabilities grew in the late 2000s. However, in 2013 the pension holiday ended and CPS began to struggle with large structural deficits. In 2015, 2016, and 2017, CPS experienced rapidly declining credit ratings as the District struggled to finance its mounting debt and pension obligations, was faced with suddenly restricted funding from the State due to the State budget impasse, and concurrently depleted its reserves. In FY2018, the financial situation improved as Illinois passed a budget and approved legislation providing substantial financial support through an Evidence-Based Funding formula. This stopped rating downgrades and even led to a handful of upgrades in that year. As federal support during the COVID-19 pandemic further buoyed the District's financial situation, ratings agencies steadily upgraded CPS' credit rating between 2018 and 2023, leaving it at BB+. However, the District's credit remains below "junk status," indicating a continued lack of confidence from ratings agencies in the District's credit reliability. Junk status bonds are considered to be below investment grade and frequently carry much higher yields than non-junk bonds.



Source: Chicago Public Schools Presentation on 2026 Budget.

CPS has continually struggled to improve its credit rating amid ongoing financial challenges. As federal pandemic assistance funding ended in FY2025, CPS has struggled to maintain its current spending level. In its 2026 fiscal year, the District passed a budget that successfully closed a $734 million deficit, but came with substantial spending cuts. Future budget projections signal further deficits in FY2027 and the coming years. During the FY2026 cycle, as the Board of Education looked for solutions, some floated the idea of covering the District's operating costs with short-term debt to avoid making further spending cuts – a move that goes against the primary rule of municipal debt – not to borrow for operating costs – and would surely cause rating agencies to reduce the District's credit rating even further. The District ultimately chose not to pursue this course.

What exactly does CPS' low credit rating mean for the District's debt? In short, it means higher borrowing costs.

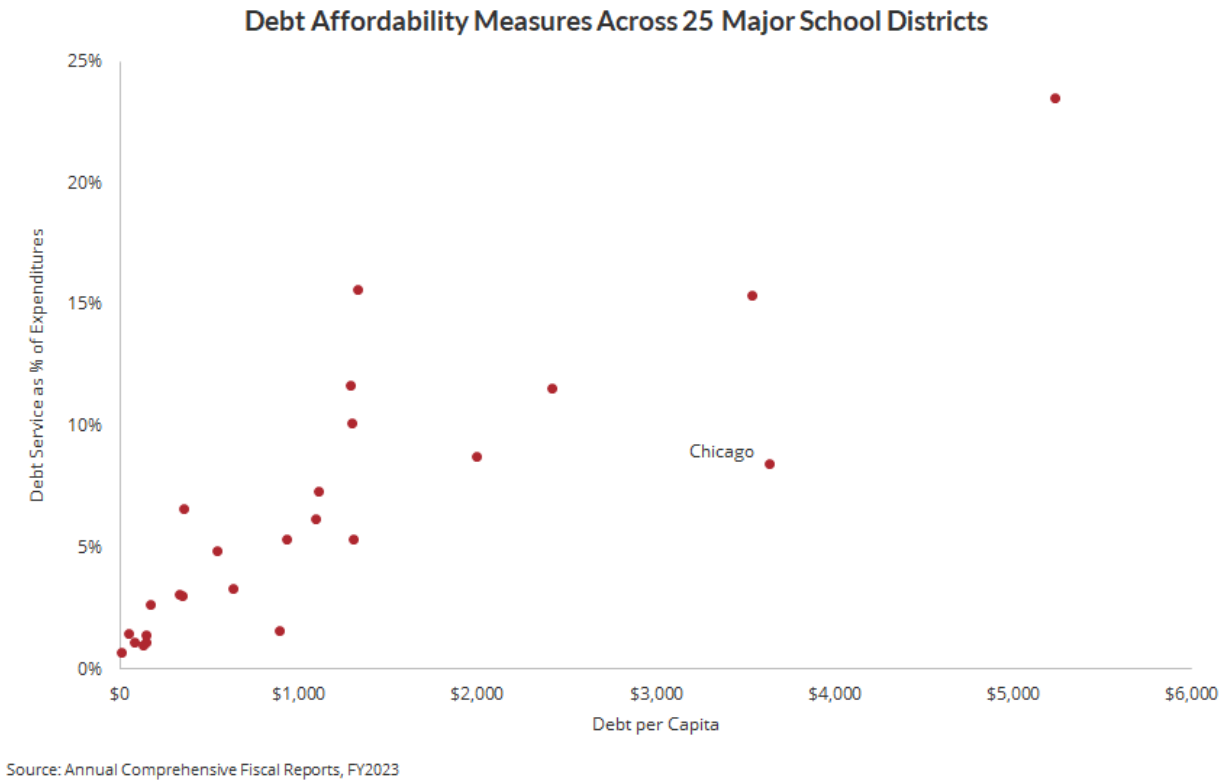
To understand how much more expensive borrowing is for the District, we can compare the yields on CPS bonds to those on bonds sold by governments rated at AAA (the highest rating level). For the District's most recent issuance of new debt (its 2025A issuance), the average yield was 5.78%. By contrast, the average 25-year AAA bond issued on September 25 (the date of the bond's placement) carried a yield of 4.11% according to Tradeweb's AAA municipal bond index. The difference between the yields—known as the spread—is 1.67%. If the District's yields on this bond were 1.67% lower, it could have saved $10.9 million in interest payments each year, leading to over $271 million saved over the 25-year lifetime of the debt. This spread reflects CPS' lower credit rating and broader fiscal challenges, as investors demand higher returns to compensate for the higher perceived risk of lending to the District.

Debt Affordability

When evaluating the size of a government's debt burden, there are a few key metrics to examine: debt load, debt per capita, and debt service ratio.

The first is the government's overall **debt load,** measured by the principal outstanding (not including interest). Higher debt loads mean higher debt service costs in future years. This can constrain a government's ability to issue additional debt to cover future capital costs and support operations as more funding is directed toward debt service. CPS currently has a total debt load of approximately $9.3 billion, but this measure alone doesn't allow for a direct comparison to other large school districts as each school district serves a different population size and has a different tax base and budget.

To better compare debt burdens across governments, analysts often use metrics such as debt per capita and debt service as a percentage of total expenditures. A government's **debt per capita** ratio gives a rough idea of the size of its debt relative to the number of people who live within it. Calculating debt service as a percentage of a government's total expenditures provides a measure of how much debt crowds out spending on operational costs. Lower scores on these metrics indicate a lower overall debt burden, which is a good thing for any government. The following graph compares CPS' debt burden by both of these metrics to the 25 largest school districts in the country.



Source: Annual Comprehensive Fiscal Reports, FY2023

Compared with peer school districts, CPS has an unusually high debt per capita ratio. CPS' debt per capita is $3,629, more than three times the average of $1,158. Only San Diego exceeds CPS' debt per capita ratio.

The debt service ratio as a percentage of its total expenditures answers the crucial question: how much money is CPS' debt actually costing it on a year-to-year basis? At 8.45% of expenditures going towards debt service, CPS is notably above the average of 6.46% for major school districts, but not as much of an outlier as it is on measures of its total debt load.

At first glance, this might seem reassuring, but there is a reason that the District's debt service costs are lower than its debt load might suggest. CPS' debt service is not structured evenly: a large portion of its debt repayment schedule has been pushed into future years through a practice known as backloading. This means that although the District's debt payments are not overwhelmingly high at the moment, they will increase in the future as larger portions of the District's debt come due. Information about how CPS' debt is backloaded and what that means for the District is provided below.

Analysis of Recent CPS Debt Issuances

The remainder of this report analyzes CPS' two most recent debt issuances to understand common pitfalls in municipal debt issuance and to evaluate CPS' debt structure and policies.

CPS has issued debt twice in its current 2026 fiscal year, which runs from July 1, 2025, through June 30, 2026. The first issuance, known as 2025A, was placed in September for $650 million in new debt. The second, known as 2025B/C, was placed in October for a $1.1 billion refinancing deal.

The 2025A issuance is new debt, meaning it will generate funds for CPS to support its capital budget and for spending on the maintenance and repair of school facilities. The $650 million in debt was broken into two series:

- $325 million sold at a discounted price of 98.551% and an interest rate of 5.75%, resulting in a yield of 5.86%.
- $325 million sold at a premium price of 104.273% and an interest rate of 6.25%, resulting in a yield of 5.69%.

Note that although the first package has a lower interest rate than the second, it actually carries a higher yield. This is because the first package was sold at a discount, whereas the second was sold at a premium. When CPS sold the first package of debt, it received 98.6% of $325 million, or about $320 million; when it sold the second package, it received 104% of $325 million, or about $339 million. In both cases, it is expected to pay interest on, and eventually repay, the principal of $325 million. The bonus price CPS received for the second package outweighs the additional interest cost, resulting in a lower yield.

All $650 million of the debt is due to be repaid by December 1 of 2050, giving it a 25-year lifespan from its issuance in September of 2025. However, the District will be required to pay a portion of the debt back before its final due date by depositing it in a 'sinking fund,' which holds principal repayments before their final due date. Examining the structure of principal repayments on this debt leads us to a broader theme in municipal debt: backloading.

Backloading Debt

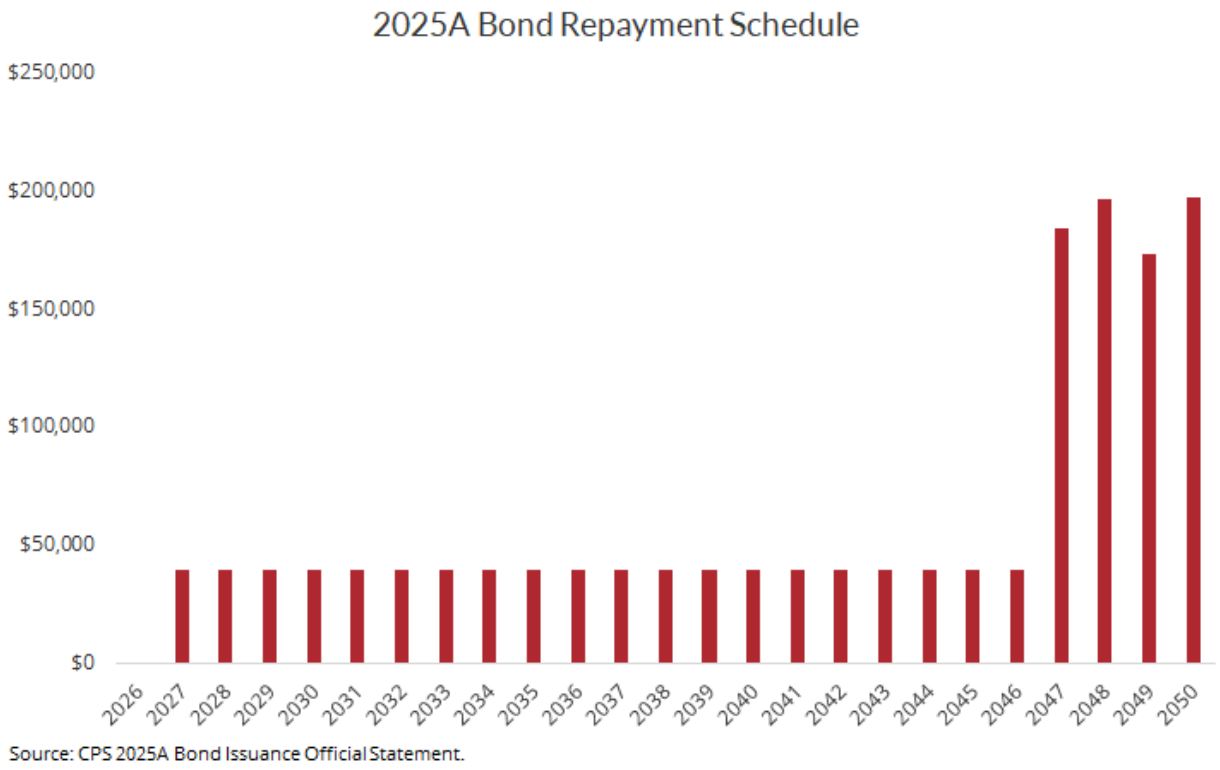
When evaluating a government's debt structure, the total amount of debt outstanding is not the only thing that matters. Another relevant factor is the **debt structure,** or how the repayment of the debt is spread out over time. A well-balanced structure might ensure that debt service (the combination of principal repayments and annual interest payments) remains roughly constant over time or is allowed to climb slowly with inflation. However, governments looking to keep costs low in the near-term will often shift a disproportionate share of their debt service payments into the future, effectively kicking the can down the road. Reducing principal repayments earlier in the debt's lifetime forces the issuer to pay higher amounts of interest for a longer period of time, until they finally pay off their debt. Functionally, backloading debt can crowd out future non-debt spending, contribute to capital backlogs like the one CPS faces, and eventually become unsustainable.

To achieve consistent debt service schedules and avoid backloading, many governments structure their debt issuances to distribute payments evenly over the bond's life. This means that the issuer will pay higher amounts of interest and lower amounts of principal at the beginning of the bond's lifetime, and lower amounts of interest and higher amounts of principal at the end of the bond's lifetime. The following table illustrates a hypothetical example of what such an evenly distributed issuance might look like. Under this schedule, the issuer pays roughly the same total debt service (the sum of principal and interest) each year until the debt is fully paid down.

Serial	Maturity	Principal	Coupon	Price	Yield	Interest	Debt Service
1	1/1/26	$ 2,285,000	2.00%	100	2.00%	$ 1,986,700	$ 4,271,700
2	1/1/27	$ 2,330,000	2.50%	100	2.50%	$ 1,941,000	$ 4,271,000
3	1/1/28	$ 2,385,000	3.00%	100	3.00%	$ 1,882,750	$ 4,267,750
4	1/1/29	$ 2,460,000	3.50%	100	3.50%	$ 1,811,200	$ 4,271,200
5	1/1/30	$ 2,545,000	4.00%	100	4.00%	$ 1,725,100	$ 4,270,100
6	1/1/31	$ 2,645,000	4.00%	100	4.00%	$ 1,623,300	$ 4,268,300
7	1/1/32	$ 2,750,000	5.00%	100	5.00%	$ 1,517,500	$ 4,267,500
8	1/1/33	$ 2,890,000	5.00%	100	5.00%	$ 1,380,000	$ 4,270,000
9	1/1/34	$ 3,035,000	5.00%	100	5.00%	$ 1,235,500	$ 4,270,500
10	1/1/35	$ 3,185,000	5.00%	100	5.00%	$ 1,083,750	$ 4,268,750
11	1/1/36	$ 3,345,000	5.00%	100	5.00%	$ 924,500	$ 4,269,500
12	1/1/37	$ 3,515,000	5.00%	100	5.00%	$ 757,250	$ 4,272,250
13	1/1/38	$ 3,690,000	5.00%	100	5.00%	$ 581,500	$ 4,271,500
14	1/1/39	$ 3,875,000	5.00%	100	5.00%	$ 397,000	$ 4,272,000
15	1/1/40	$ 4,065,000	5.00%	100	5.00%	$ 203,250	$ 4,268,250
Total		$45,000,000				$ 19,050,300	$ 64,050,300

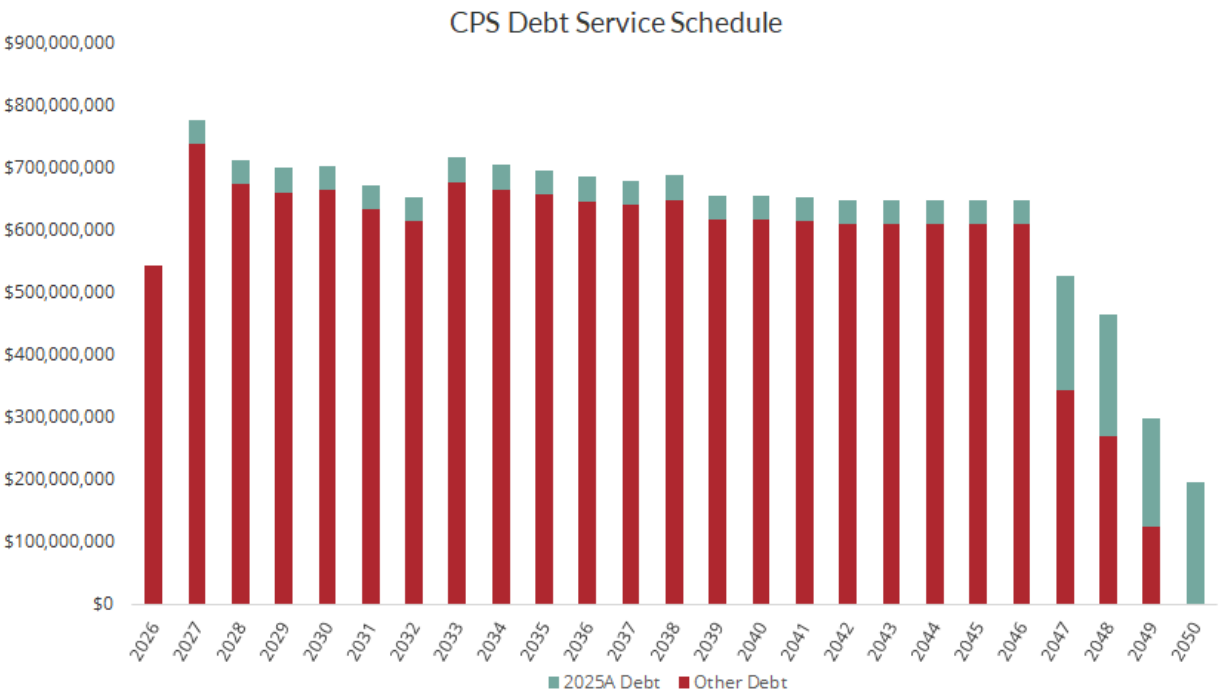
Source: The Center for Municipal Finance, Harris School of Public Policy.

CPS' issuances for new debt do not tend to look like this example. Most of the District's issuances are significantly more backloaded. For example, the schedule for the 2025A bonds calls for CPS to pay only interest until 2046, and then to pay down the full principal of the bonds between 2047 and 2050. The following chart shows the overall schedule of payment for this debt issuance, including both interest and principal repayments.



Source: CPS 2025A Bond Issuance Official Statement.

Since most of CPS' individual issuances of debt are severely backloaded, this results in a steadily climbing debt load. The next chart shows CPS' debt service structure as of February 2026, with the most recent issuance highlighted.



Source: CPS 2025A and 2025B/C Bond Issuance Official Statements.

There are a few important conclusions to draw from this chart. First, CPS' debt service in 2026 is significantly lower than in future years. This is due to a refinancing bond issuance used to close the FY2026 budget deficit, which will be discussed in greater detail below. Second, annual debt service payments remain roughly constant from 2028 to 2038, and then decline gradually until a sudden drop-off in 2049. At first glance, this debt load might not seem to be increasing, but instead to be holding roughly constant over a period of about 20 years. However, this graph only shows service for debt that has already been sold. CPS issues new debt every year or two, and as time goes on, more debt will be issued, growing the total debt service costs in future years. This dynamic means CPS can expect its debt service costs to continue climbing year-over-year.

CPS' backloaded debt structure creates a cycle where each new issuance pushes even more costs into the future, making the problem worse over time. When CPS adds new debt, spreading it evenly over the full lifetime of the debt would require the District to significantly increase the debt payments for years that already have a high amount of debt spending budgeted. Since the District's debt load is so large, this is difficult to do. Instead, the District is incentivized to shift the principal repayments on its new debt to the back of its schedule, where scheduled payments are not yet as high. That sharply increases the scheduled debt service for those years, forcing the district to push back repayment on its next debt issuance even further.

Comparison to Other School Districts

While each school district does have slight differences in debt policies, a good metric for comparison of CPS' debt service schedule to Chicago's peer school districts is the portion of each district's total debt schedule that it will have paid out over a set period of time—within the next five years and the next ten years. Using this metric, we find that CPS will have paid down approximately 22% of its existing debt obligations (principal and interest) in five years, and approximately 44% in ten years. The following table contrasts this ratio with some of CPS' most comparable peer school districts.

Debt Repayment Patterns of CPS and its Peers

City	% of obligations paid in 5 Years	% of obligations paid in 10 Years
Miami	19.7%	39.5%
San Deigo	19.9%	36.4%
Broward County	21.1%	42.1%
CPS	**22.0%**	**44.0%**
Dallas	23.1%	48.5%
Denver	29.3%	52.3%
Cypress-Fairbanks	31.8%	58.3%
Clark County	36.8%	66.8%
LA	37.5%	68.8%
Philadelphia	38.5%	68.8%
Houston	43.7%	68.5%
Albuquerque	63.2%	90.3%
Average	**32.2%**	**57.0%**

Source: Bond Issuance Disclosure Documents.

As the table shows, Chicago lags most of its peers. The average major metropolitan school district is scheduled to pay off 32% of its debt load within five years, ten percentage points above CPS. Likewise, the average district will pay off 57% of its current debt load within ten years, 13 percentage points above CPS. This indicates that, compared with its peer districts, CPS is backloading its debt, which contributes to rising debt service costs and limits the amount of money CPS can borrow in the future.

Refinancing Debt

Refinancing is when governments issue new debt in order to pay back old debt immediately**.** The new bonds issued under this arrangement then carry a new debt repayment schedule with different terms. Ideally, this is done because the issuing government can get a better deal on debt now than it did in the past, allowing it to save money while still repaying its obligations.

In order to refinance, the bonds must be eligible for early repayment. Many municipal bonds are issued with a 'call feature,' an agreement that allows the issuer to pay the bonds back early after a certain period of time (usually ten years). Governments like to include call features

because they act as a hedge against the possibility that the government might be able to get a better deal on its debt in the future. For example, if a city were to issue $1 billion in debt in 2015 with a 5% yield, a 25-year debt service schedule, and a ten-year call feature, in 2025, $300 million of that debt has already been paid back, but the remaining $700 million would be outstanding. The call feature gives the municipality the option to pay that $700 million back immediately, thereby forgoing the additional interest payments that would accrue over the remaining 15 years of debt service.

Of course, this government is unlikely to just have $700 million available. So, if it wants to exercise the call feature, the most practical option is to take on more debt. If the government can take out a new $700 million loan, it can use that money to pay back the first 2015 debt issuance and effectively substitute the debt schedule of its new loan for that of its old one.

There are two good rules of thumb for assessing whether a specific refinancing deal is a good idea:

1) **It should generate savings.** If the government can issue debt at a notably lower yield than it did ten years ago, then it makes sense to refinance and replace the current debt service schedule with one that results in lower costs. If not, refinancing is not worthwhile. At worst, it could even cost the government money or distort its existing debt structure.
2) **It should not extend or backload the debt repayment schedule.** Ideally, refinancing should maintain or shorten the original repayment timeline and preserve a balanced distribution of debt service over time.

However, governments can—and do—use refinancing to stretch debt repayments out further than they were originally scheduled for. This is a tactic known as "**scoop and toss**." Imagine that the 2015 issuance from the example above was originally set to be fully paid down by 2040. If a government refinances that debt in 2025 with a new repayment date of 2050 instead of 2040, it has effectively extended the duration of the original debt issuance by ten years, pushing the costs of that debt onto future generations. Alternatively, if the refinancing maintained the 2040 due date but reduced near-term principal repayments at the expense of increasing repayments closer to the end of the bond's lifetime, this would be a form of backloading. Either of these scenarios is an example of scoop and toss. Scoop and toss refinancing has negative implications for a government's long-term ability to repay its debt, as well as its future budget deficits and credit rating.

Refinancing CPS Debt: The 2025B and 2025C Debt Issuances

In November 2025, CPS issued a $1.1 billion refinancing deal, its 2025B/C debt issuance. CPS was able to achieve $136 million in savings from this refinancing—a significant amount—because it was replacing issuances of debt from a decade ago, which carried very high yields. One of the bonds refinanced in 2025B/C, 2016A bonds, carried yields between 7.75% and 8.5%. By contrast, this refinancing issuance carried yields between 4.33% and 5.54% - a very large improvement.

When comparing the debt service schedule of the old debt to that of the new debt in 2025B/C, we can see that CPS keeps two cardinal rules: the refinancing does result in savings and does not constitute scoop and toss borrowing. The following table shows that the refinancing issue results in either savings or no change in debt service for every year between 2026 and 2045. The new issuance also maintains the same repayment schedule as the refinanced portion of the debt, with both expiring by 2045. Additionally, no debt is pushed forward into the future through this refinancing issue.

CPS 2025B and 2025C Bond Issuance Savings (in $ thousands)

Fiscal Year	Pre-Issuance Debt Service	2025 Refinancing Service	Savings From Refunding	Net Service Change	Total Annual Debt Service
2025	$794,503	$0	$0	$0	$793,542
2026	$765,169	$21,905	-$157,635	-$135,730	$629,439
2027	$862,116	$67,637	-$67,642	-$5	$862,111
2028	$797,694	$67,642	-$67,642	$0	$797,693
2029	$805,325	$67,638	-$67,642	-$4	$805,321
2030	$774,856	$67,639	-$67,642	-$3	$774,853
2031	$743,571	$67,640	-$67,642	-$2	$743,570
2032	$581,500	$103,001	-$103,002	-$1	$581,499
2033	$588,381	$108,363	-$108,364	-$1	$588,381
2034	$575,398	$124,265	-$124,272	-$7	$575,391
2035	$566,648	$85,902	-$85,903	-$1	$566,647
2036	$555,190	$95,608	-$95,610	-$2	$555,189
2037	$549,050	$97,390	-$97,399	-$9	$549,041
2038	$555,538	$97,756	-$97,760	-$4	$555,534
2039	$522,180	$98,063	-$98,066	-$3	$522,177
2040	$521,009	$121,943	-$121,950	-$7	$521,001
2041	$516,568	$121,698	-$121,703	-$5	$516,562
2042	$511,939	$122,086	-$122,092	-$6	$511,933
2043	$511,934	$166,312	-$166,315	-$3	$511,932
2044	$511,937	$127,887	-$127,896	-$9	$511,928
2045	$511,936	$160,993	-$160,996	-$3	$511,933
2046	$511,936				$511,936
2047	$390,717				$390,717
2048	$329,731				$329,731
2049	$298,395				$298,395
2050	$197,372				$197,372
Total	**$14,850,593**	**$1,991,368**	**-$2,127,173**	**-$135,805**	**$14,713,828**

Although this refinancing ultimately saved the District money, it was driven by immediate budgetary pressures rather than long-term strategic thinking. In 2026, CPS faced a massive deficit with few options to close it other than making cuts. This refinancing was one of the tools the District used to reduce the size of the deficit and keep cuts out of the classroom. Therefore, CPS structured the deal to prioritize short-term relief—taking the savings up front rather than

spreading them out over the long term. This helped to cushion the blow of the structural deficit in 2026, but it did not relieve the long-term pressures on CPS' finances and left it with even fewer options for future years.

Although the refinancing does not backload CPS' debt schedule by increasing expenses in future years, it does earmark almost all the savings for the 2026 fiscal year, reducing the debt service by almost $136 million. Yet, in the years between 2027 and 2045, CPS saves less than $10,000 each year. Instead of reducing its overall debt load evenly by spreading the refinancing savings across the entire debt schedule, the District chose to concentrate all the savings in the first year. By 2027, those savings will be exhausted, and the overall debt structure will be largely unchanged.

Another approach that prioritized near-term budget relief over greater long-term benefits was the decision to refund bonds that had not yet reached their call date. While the 2025B issuance refunded the remaining principal on the District's 2015 and early 2016 bonds, which had reached their call date of December 2025, the 2025C issuance partially refunded bonds issued in 2016 and 2017 that had not yet reached their ten-year call date of December 2026. The District was able to repay the 2025B refunded bonds at par – paying only the outstanding principal. However, since the bonds refinanced as part of the 2025C were not yet callable, CPS was forced to buy them outright at a price set by the creditor and then cancel them. This meant paying a premium – more than the outstanding principal – to reclaim and cancel the bonds. The bonds were only one year away from their call date, at which point the District could have refinanced them at par.

The decision to refinance the 2016 and 2017 bonds early still saved the District money because they carried very high yields, so it was cheaper to refinance them than to continue to pay those high interest rates for decades. However, the District could have saved even more money if it had waited one additional year to refinance these bonds at par in 2026, rather than buying them at a premium in 2025.

These recent refinancing decisions reflect a broader pattern of crisis-driven budgeting, in which short-term solutions are used to address immediate budget pressures. The FY2026 refinancing is a clear example of this tradeoff. In the budget process leading up to FY2026, CPS faced a $734 million deficit and a bitter political battle to pass a budget. To avoid highly undesirable choices such as cutting classroom resources or taking on short-term debt to cover operating costs, CPS chose to refinance as much outstanding debt as possible and to concentrate the savings in FY2026. This allowed the District to close its immediate budget hole but deprived it of savings that would have lessened the fiscal pinch in future years. In FY2027, CPS will likely face another difficult deficit but will have fewer refinancing options to generate savings.
serving a student population that requires additional resources for costly programs such as special education.

Conclusion and Next Steps

Decades of structurally imbalanced budgets and reactive financial decision-making have placed CPS in a difficult position. It is important to note that many of these problems are self-inflicted, such as expanding staffing levels with temporary pandemic relief funding. Some, in turn, are structural, such as maintaining extensive capital infrastructure, declining enrollment, and serving a student population that requires additional resources for costly programs such as special education.

However, regardless of the cause, persistent annual deficits have pushed the District into a cycle of near-term problem-solving, relying on one-time measures to close recurring budget gaps rather than implementing changes that would improve its long-term fiscal outlook. This dynamic is self-reinforcing: when CPS faces a large annual deficit, it must focus solely on balancing the budget without enacting catastrophic cuts. But by focusing primarily on balancing the current year's budget, CPS limits its ability to make the structural adjustments necessary to break out of the cycle of recurring deficits.

One important long-term goal the District could aim for is improving its credit rating. A higher rating would reduce borrowing costs, saving CPS tens or even hundreds of millions of dollars annually in debt service. However, credit rating upgrades occur gradually, and only after a government has demonstrated prudent fiscal stewardship. Rating agencies look for disciplined financial decision-making over long periods of time, so the District will need to demonstrate a long-term commitment to righting its financial ship by passing balanced budgets, finding sustainable solutions to structural revenue and expenditure problems, and unwinding its backloaded debt structure. Most importantly, CPS would have to restore its cash balance – which is currently nonexistent – to a significant portion of its annual budget in order to provide flexibility and resiliency in the eyes of ratings agencies. If the District commits to consistent and sound financial decision-making, it could eventually restore its credit ratings to the level held in the early 2010s.

In the meantime, CPS can take several steps to strengthen its debt management policies and support long-term fiscal stability.

First, the District can work to reduce backloading in future debt issuances. Future debt cannot afford to be as backloaded as past issuances have been. Although unwinding the backloaded nature of CPS' debt will lead to higher debt service costs in the short-term, it will save taxpayer money in the long term and restore intergenerational equity.

Second, debt refinancing should not be used to close any future budget gaps. The District's tendency to concentrate savings in the near term does not solve long-term problems and undermines both intergenerational equity and CPS' ability to take out new debt to finance its growing capital needs. Refinancing deals should be structured to maximize long-term savings, and those savings should be spread over the life of the debt, consistent with how costs are incurred.

CPS did not arrive at its current debt position because of a single decision or administration. Rather, decades of structurally imbalanced budgets and recurring fiscal pressures have led the District to rely on debt decisions that prioritize near-term budget relief over long-term fiscal sustainability. The result has been a heavily backloaded debt portfolio, high annual debt service costs, and a debt burden that will continue to constrain the District's financial flexibility for years to come.

With such a sizeable structural deficit, long-term planning is difficult for the current District administration. Yet if CPS is to achieve structural balance and improve its long-term fiscal outlook, debt management must be part of the solution. Future debt issuances and refinancing decisions should be structured to maximize long-term value and support long-term fiscal stability rather than serving as tools for balancing annual budgets. While these changes alone will not solve the District's broader fiscal challenges, they can help reduce future costs, restore flexibility, and position CPS to make progress toward a more sustainable financial future.

GLOSSARY OF TERMS

At Par
A bond prices at par when it sells for exactly its principal.

Backloaded Debt
A debt repayment structure in which a larger share of the principal is paid later in the life of the debt, resulting in lower principal payments upfront and higher payments in later years.

Credit Rating
An official assessment of the level of risk involved in lending to a government. Governments with higher credit ratings are considered less risky and therefore tend to get lower yields on their debt issuances, reducing the cost of borrowing.

Debt Load
The overall amount of debt a government carries, as measured by the outstanding principal of all issuances.

Debt per Capita Ratio
The ratio of a government's debt load to the number of people under its jurisdiction.

Debt Refinancing
The practice of replacing old debt with new debt, typically with a goal of reducing costs and lowering yields.

Debt Service
The scheduled payments a government is required to make each year to repay its debt obligations, including both principal and interest.

Debt Service Schedule
The plan of repayment of a bond's principal and interest over time.

Discount
A bond is priced at a discount when the investor buys it for less cash upfront than the principal.

Frontloaded Debt
A debt repayment structure in which a larger share of the principal is paid earlier in the life of the debt, resulting in higher principal payments upfront and lower payments later.

General Obligation (GO) Bonds
Bonds that are paid for out of the government's general revenue sources, such as taxes, fines, fees, and funding from other governments. Backed by the 'full faith and credit of the issuing government.'

Interest
Also known as 'the cost of borrowing,' interest is the amount a borrower agrees to pay investors in exchange for the use of borrowed money. It is typically a percentage of the unpaid principal.

Investment Grade Rating
An investment-grade bond is rated BB+ or higher and considered to be relatively low-risk by credit ratings agencies.

Investor
The entity that is buying bonds. Could be a major institutional investor such as a bank, or a retail investor such as a household investing in a mutual fund which buys municipal debt.

Issuer
The entity that is selling bonds. Usually, a state or local government.

Junk Status Rating
Junk status bonds are considered to be below investment grade by the rating agencies. Governments offering junk status bonds are thought to have a notable risk of inability to pay back principal. Many types of institutional investors are not legally allowed to invest in junk bonds, making the overall market for junk-rated municipal bonds smaller than the market for investment-grade bonds. For all of these reasons, junk bonds frequently carry significantly higher yields than investment-grade bonds.

Level Debt Service
A debt repayment structure in which the issuer pays roughly the same total amount of principal and interest each year over the lifetime of the debt.

Limited GO Bonds
GO bonds that are backed by the full faith and credit of the issuer, but put limitations on the issuing government's ability to raise taxes or other revenue sources to pay off the debt. Generally considered to be more risky than unlimited GO bonds.

Premium
A bond is priced at a premium when the investor buys it for more cash upfront than the principal.

Price
The price of a bond is the amount that an investor pays the issuer up front to purchase a bond. Note that the bond's price is not necessarily equal to the principal—the price may be above or below the bond's principal (par value) depending on market conditions, interest rates, and investor demand.

Principal
The amount of money borrowed by an issuer of debt, which it must repay the creditor by the end of the debt's term.

Revenue Bonds
Debt that is repaid using a dedicated source of revenue, typically generated for a specific project or service. For example, tolls, user fees, or water/sewer fees may be used to repay revenue bonds, rather than general tax revenues.

Scoop and Toss
The practice of refinancing to avoid making short-term debt payments by backloading or extending the lifetime of the initial debt issuance. Typically considered a poor fiscal approach and frowned upon by credit rating agencies.

Spread
The difference between the yields of two different bonds. Analysts often use the spread between a given bond and the AAA municipal bond index (an index of bonds from local governments with the highest possible credit rating) to evaluate how much the issuer's risk factor is increasing their yields.

Unlimited GO Bonds
GO bonds that carry an unconditional promise to pay back the debt.

Yield
A bond's yield is its return on investment, a measure of the profitability of buying the bond for the investor. Yield can be thought of as the bond's interest rate, adjusted to reflect the price that was initially paid for it. Higher prices and lower interest rates drive yields down, and lower yields are typically better for issuers.