



FY2026 CPS Budget



Chicago Public Schools

A Budget That Protects Our Schools

Despite the challenges posed by persistent revenue shortfalls, growing costs, and a deficit of \$734 million, CPS has outlined a balanced \$10.25 billion FY2026 budget that will protect the progress made by students.

CPS' FY2026 budget:

- Fully protects the level of school funding from the previous year
- Funds all of CPS' contractual commitments to the District's labor partners
- Delivers on the promise to stabilize school budgets, eliminating the risk of cuts to classrooms, both now and later in the school year
- Includes only borrowing that provides current or future savings to the District and is required for necessary capital investments
- Allows for CPS to reimburse the City for MEABF with new state or local revenues, **unlike the FY2025 budget that did not allow for this possibility**

Meeting the Urgency of the Moment

We must protect our schools.

This budget reflects many difficult decisions that were made in order to protect school funding now and into the future.

- **Our schools are already underfunded.** Putting schools at risk for cuts now or in the future sets us back even further and jeopardizes the over \$1 billion in funding gains we've made for our schools.
- **We need to provide families with certainty.** Recent budgets have bolstered confidence in the District's financial future. We must maintain the confidence of our communities to build on this progress.
- **We refuse to go back.** CPS has lived through years of forced austerity. This budget takes necessary steps to protect our schools from reliving the past.

Meeting the Urgency of the Moment

CPS' current proposal is based on realistic expectations.

State Funding

- **State lawmakers have expressed interest in partnering with CPS on long-term reform** to address underfunding, especially as CPS has presented a serious, balanced FY2026 budget proposal.
- **However, State lawmakers have not committed to additional funding this year,** and CPS cannot budget on unrealistic expectations. When CPS made this mistake in the past, it caused mid-year cuts, mass layoffs, furlough days, and billions in crisis borrowing that burden CPS today.

City Funding

- **CPS' expectation of additional TIF funding is reasonable.** TIF surpluses have increased steadily in recent years, and TIF balances remain one of the few viable revenue options for a City facing a \$1 billion deficit.
- **Withholding TIF surplus funding from CPS would contradict established City policy or violate state law and would hurt CPS students.**

Meeting the Urgency of the Moment

We cannot risk our future.

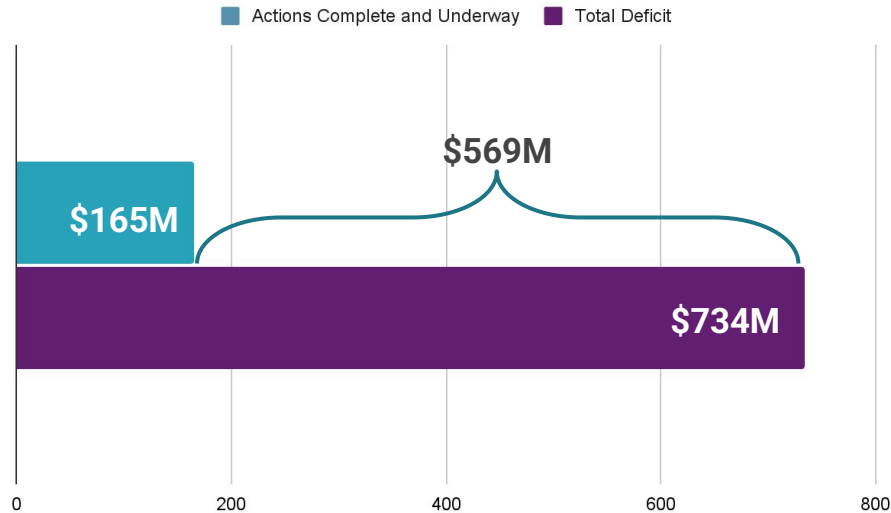
Taking out debt when it is not absolutely necessary will send the District into a downward spiral that will have real impact on our schools.

- **Borrowing money today at the expense of tomorrow has always been short-sighted.** The District did this a decade ago when the State was actively working on funding solutions for CPS, and it still resulted in downgrades, cuts, furloughs, and borrowing. No such proposals are under consideration today.
- **CPS's \$9 billion debt burden is already a drain on limited District resources.** Taking on more debt when it is not needed compounds the financial pressures of the future and steals resources from our classrooms.
- **More borrowing may not even be possible.** Banking on a risky strategy subjects our schools to the possibility of mid-year cuts.

Previous Status on Solving \$734M Deficit

Over the spring, CPS identified \$165M in deficit reducing actions primarily related to departmental budget reductions.

With these actions completed, CPS still needed to identify \$569M of additional strategies to balance the budget.



Budgetary Actions Through June

The **\$165 million** in deficit reducing strategies included the following:

- **\$146 million** in department budget reductions, including a \$48M (15%) cut to central office spending and a \$96M (6%) cut to overall citywide spending
- **\$34 million** in school-based grant strategies and programming adjustments
- **\$12 million** in savings from a more targeted process for fall enrollment adjustments implemented in FY2025
- **\$23 million** in projected savings from the District's \$40 million fund to stay within contractual class size limits; because CPS preserved teacher staffing levels, the District projects that the full \$40 million will not be needed for schools with unique situations leading to oversized classrooms

During this initial phase of budget adjustments, CPS also identified two new liabilities adding to the FY2026 deficit:

- **\$30 million** required in a reserve fund for new special education positions
- **\$20 million** required in a reserve fund for districtwide IT projects

Community Engagement

In July, under the leadership of Interim Superintendent/CEO Dr. Macquiline King, the District spearheaded an extensive community engagement campaign to ensure that budget decisions were being driven by those who are most impacted by them.

During the summer, CPS hosted information briefings, in-person and virtual feedback sessions, and an online survey where students, parents, educators, labor leaders, and community partners could grow their understanding of the District's financial situation and offer solutions on how best to reduce the deficit.

Community Engagement

Several themes emerged from these community conversations. By-and-large, CPS stakeholders said they wanted the District to:

- Keep cuts as far away from classrooms as possible, and avoid cuts that would diminish the overall student experience
- Work collaboratively with state and local partners to identify new streams of revenue to support schools
- Ensure a more equitable distribution of resources across schools
- Resist any further borrowing that would drive up the District's existing debt
- Forgo reimbursing the City of Chicago for non-teacher pensions
- Continue to engage the community around budget decisions

Budget Solutions to Protect Schools

Following the community feedback sessions and faced with a remaining deficit of \$569 million, we have reviewed every line of the budget to develop a plan that protects our schools and students.

The strategies we are proposing to balance the budget include the following:

- **\$126 million** in additional savings away from the classroom
- **\$149 million** in additional available revenues
- **\$29 million** in accelerating debt refunding savings
- **\$90 million** in one-time funding sources
- **\$175 million** from defining that reimbursement to the City for MEABF is contingent upon additional state revenue, additional TIF surplus revenue, or other local resources above budget assumptions

Additional Cuts Away From the Classroom: \$126M

In addition to the \$146 million already cut from centrally-managed spending in the initial round of budget adjustments, the District identified **\$126 million** in further savings in late July and early August, as outlined below:

- **\$50 million** in savings by additional reductions to central office personnel, streamlining business operations, data teams, and professional development costs, and transferring some functions from the central office level to the network level to provide more direct support to schools
- **\$29 million** in savings from repurposing existing state and federal grant dollars to cover existing costs
- **\$10 million** in savings due to a hiring freeze of central office staff; CPS will only fill staffing vacancies that are mission critical or revenue-related

Additional Cuts Away From the Classroom: \$126M

Continued:

- **\$10 million** less for incubation costs for transitioning five Acero campuses to become CPS-managed schools, as recent estimates have reduced this liability from \$30 million to \$20 million
- **\$7 million** in savings from delaying centrally-funded IT projects
- **\$6 million** in administrative reductions to departments and central programs that were substantially expanded during the COVID-19 pandemic
- **\$5 million** in savings from eliminating food and travel budgets for staff
- **\$4 million** in savings from a negotiated increase in employee health care contributions for staff making over \$90,000
- **\$3 million** in savings from reducing the CPS marketing budget
- **\$2 million** in savings from reducing the budget for non-union employee raises

Additional Available Revenues: \$149M

After receiving favorable information from the state and reviewing all possible revenue options, CPS has identified \$149M in additional revenue to support gap closing.

Apply \$45 million from Evidence-Based Funding above initial projections

On August 1, the state released data for FY2026 Evidence-Based Funding allocations to all school districts. The data showed that CPS returned to “Tier 1,” the tier of schools furthest from funding adequacy in the state’s formula, providing CPS \$76 million in new funding for FY2026. This provides an **increase of \$45 million** above previous projections for new EBF funding.

Apply \$25 million in projected grant carryover

CPS projects to have \$25 million of remaining federal grant carryover available from FY2025 to apply to FY2026 expenses.

Increase FY2026 TIF Revenue Assumption by \$79 Million

In its initial FY2026 budget outline, CPS had assumed that the City would again supply \$300 million in TIF surplus revenue. At this point, CPS is increasing its assumption that an **additional \$79 million** will be provided to CPS via additional TIF surplus, matching final 2025 distributions.

Accelerating Debt Refunding Savings: \$29M

In FY2026, CPS plans to issue \$1.8 billion in new debt in FY2026 to refund existing debt to provide future savings for the District.

The District's finance team annually reviews and takes advantage of any opportunities for savings in the debt market; the opportunity is higher this year as many bonds issued at high interest rates in the mid-2010s are now callable.

The initial deficit of \$734 million included the assumption of \$100 million in savings, with additional savings targeted for future years. Based on the current deficit, CPS will **accelerate \$29 million of savings** initially targeted for FY27 to help close the FY26 budget gap.

One-Time Funding Sources: \$90M

To avoid cuts to schools and the option of furlough days, CPS is leveraging **\$90 million** in one-time funding sources in the FY26 budget.

Repurpose \$65 Million From Debt Service Stabilization Fund

As a short-term strategy to help avoid cuts to schools or unsustainable borrowing, CPS will use up to **\$65 million** in one-time resources from the account balance of the Debt Service Stabilization Fund to help close this year's budget gap.

This fund was established as a reserve fund to assist with interim fiscal year debt service expenses and temporary operating fund liquidity issues. It has previously been fully depleted and used to assist with operational expenses, but due to recent investment returns, it has grown enough to allow for this single use.

Leverage \$25 Million in Existing Philanthropic Funding

Continuing the District's approach of examining every dollar spent and received to determine options to keep cuts away from schools, CPS is leveraging a major philanthropic donation received in 2023. CPS will use **\$25 million** of this funding to help close the FY2026 deficit.

MEABF Pension Reimbursement Contingent on Adequate Funding

Finally, the FY2026 budget defines that **CPS reimbursing the City of Chicago for the Municipal Employees Annuity and Benefit Fund (MEABF) is contingent upon the District receiving additional FY2026 state revenue, additional FY2026 TIF surplus revenue from the City, or other local resources beyond budgeted assumptions.**

Without a dedicated revenue source for this cost and given the financial challenges facing the District, CPS cannot make this reimbursement absent additional revenue without short- or long-term impact to our schools.

Fulfilling Labor Commitments

The strategies taken to balance the FY2026 budget ensure that CPS is able to **meet all commitments to wages, staffing, and programming included in the District's labor contracts.**

On top of negotiated wage increases for our teachers, support staff, and administrators, this budget proudly commits funding to new **sustainable community schools, new dual language and world language programs, athletic programs, along with additional librarians, tech coordinators, case managers, bilingual coordinators, and other important investments.**

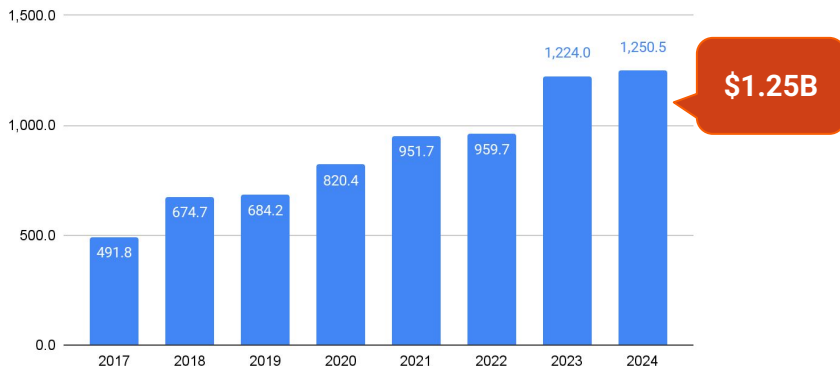
Additionally, the budget **avoids furlough days** as a savings strategy, preserving staff wage gains and protecting the important work happening across the District.

Counting on Realistic Revenues - TIF Surplus Funds

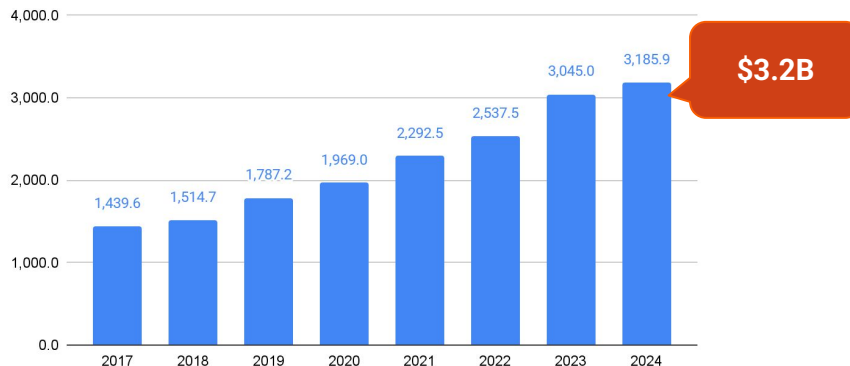
CPS has limited options to raise revenue and relies on a few key, consistent revenue sources to continue our progress toward financial health and continued investments in our schools.

While property taxes and state funding continue to grow and remain reliable sources of revenue for CPS, so does the amount of revenue diverted to TIF coffers that can be surplused. TIF revenues have grown 266% since 2014; balances now exceed \$3 billion.

TIF Revenues: Annual incremental property tax generated (\$M)



TIF Revenues: Fund balance (\$M)



City TIF Policy

In addition to the rapid growth of TIF collections and TIF surplus distributions, TIF surplus distributions are governed by State law (TIF Act) and City policy (2013 Executive Order 2013-3, OBM policy adopted in 2019 and revised in 2025.)

The City's policy requires the City to regularly surplus unallocated amounts from TIF Districts that meet the following qualifications:

1. Districts that are set to expire at the end of the following fiscal year
2. Downtown or financial district TIFs
3. Districts containing industrial corridors
4. Districts that are not created for a specific project or otherwise categorized as a Neighborhood TIF.

The unallocated funds in these TIFs districts are surplused according to the following formula:

1. All funds in expiring TIFs after closeout date
2. Full balance in downtown TIFs
3. For all other TIFs, the City uses a tiered structure:
 - a. 100% of available funds over \$2.5M
 - b. 75% of available funds between \$1.5M - \$2.5M
 - c. 25% of available funds between \$750k - \$1.5M
 - d. None of available funds under \$750k

State Law - TIF Act

- Beyond City policy, the TIF Act in State law requires that **“moneys not required, pledged, earmarked, or otherwise designated for payment...shall be calculated annually and deemed to be ‘surplus’ funds.”**
- Once a surplus is declared, this law guarantees that the funds be distributed in proportion to the percentage of property taxes collected by taxing agencies, with about 52 percent going to CPS, and about 23 percent going to the City.
- This means that if the City uses TIF surplus to close its billion-dollar budget gap, CPS will automatically will receive more than double that amount.

CPS and MEABF

- The MEABF was established in 1921 to provide retirement benefits to qualified employees of the City of Chicago and non-teacher CPS employees
- Illinois law obligates the City, not CPS, to cover MEABF funding obligations
 - Historically, Illinois statute required the City to contribute amounts that were substantially less than the actuarially-determined amounts that would have kept the funded ratio from declining
 - For nearly 100 years the City did not request funding from CPS and CPS did not pay the city for their obligation
- Beginning in 2020, the City requested that CPS reimburse the city for a portion of their costs with the commitment of additional TIF surplus funding to help cover the cost
 - The first payment CPS made to the City was in their fiscal year 2020 for \$60M, followed by \$100M for 2021 and \$175M for each of 2022 and 2023. CPS did not reimburse the City in 2024.

CPS and MEABF

- State law is clear that the obligation for MEABF resides with the City, and that the obligation to the fund must be met by the City.
- The City has an authorized property tax levy to raise funds to make the payment to the MEABF pension fund.
 - Despite budgetary pressures and requests for increased funding from CPS since 2020, the City has not increased this levy to help cover costs.
 - CPS does not have the same authority to raise funding for this, hence the need for cuts or additional resources to make this payment.
- In the spirit of partnership with the City, CPS would support a change in state law as long as CPS was given authority similar to the City to raise revenues for this obligation.

Avoiding Risky Borrowing Strategies

CPS has not included adding to the District's \$9 billion debt burden as a strategy to close the FY2026 gap.

A market for additional debt for budgetary relief may not exist as the District is already issuing \$2.4 billion in new long-term debt this year, including:

- \$1.8 billion in new debt to save \$129 million through debt refinancing and reduce the District's overall debt service costs, and
- \$650 million in new debt for capital projects and to reimburse the District for capital expenditures already incurred.

If CPS planned to borrow for budgetary relief but could not execute on the transaction, **schools could be forced to make mid-year cuts.**

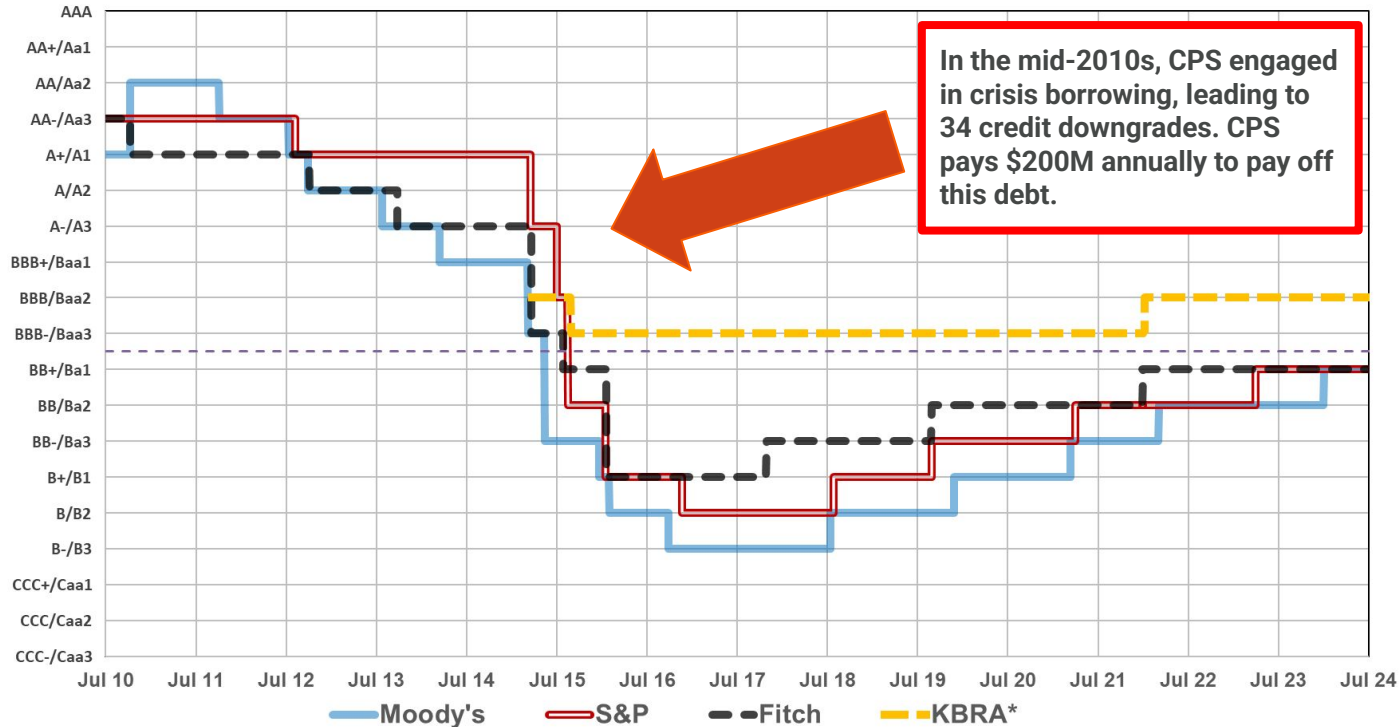
Avoiding Risky Borrowing Strategies

Most importantly, borrowing for operating expenses would send the District into a downward spiral of credit downgrades, higher interest rates, and steeper cuts to staff, programs, and services in the future.

When CPS engaged in this type of borrowing between FY2016 and FY2018, the District received 34 credit downgrades, going from an AA rating to junk.

CPS is now paying nearly \$200 million per year for this crisis debt. If CPS had access to this funding today, we could hire at least 2,000 additional teachers.

CPS Credit Rating History



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

Borrowing for Operating Expenses Likely to Trigger Rating Downgrade

We could consider a negative rating action within the one-year outlook period if the Board fails to implement sufficient structural budget-balancing measures in its fiscal 2026 budget and pushes out significant budget imbalance into outyears, resulting in recurrence of sizable operating deficits and materially weakened reserve and liquidity positions that are no longer commensurate with the current rating.” (Standard & Poor’s report of April 17, 2025)

“CPS’ structural stability appears to be on a downward trajectory; as such, any additional one-time solutions—such as short-term loans—would be viewed as temporary fixes that are unlikely to support long term credit quality,” Ying Huang, a director of S&P public finance ratings, said in a Aug. 14 statement. (“Chicago Schools Seeks \$1 Billion of Short-Term Debt as Cash Gone” *Bloomberg*, August 18, 2025.)

Cost of Downgrade Uncertain

- Based upon conversations with CPS' advisors and underwriting firms familiar with CPS' debt portfolio, we expect such a downgrade would result in an **increase in borrowing cost of at least 0.25% per year on every dollar borrowed in 2025 and in the future**
- CPS is "below investment grade" and the impact could drive our rating even lower
- This would impact:
 - The ~\$1.8 billion refinancing transaction necessary to produce the \$129 million in savings already included in the FY26 budget
 - The \$650 million transaction planned this fall for capital funds
 - The potential borrowing related to the MEABF payment
 - All future general obligation transactions

Estimated Impact

- Refinancing savings declines an estimated ~\$1.2MM for every 0.01% increase in CPS borrowing cost
- Assuming a 0.25% increase in borrowing cost, impacts would include:
 - **\$30 million in lower refinancing savings**, adding to the FY26 deficit
 - **\$13 million in fewer dollars available for capital** in FY26
 - The **need to borrow these amounts**, in addition to the MEABF contribution, to overcome the FY26 deficit
 - **Additional amounts borrowed for capitalized interest** to avoid further additions to the FY26 deficit resulting from a larger borrowing to cover operating costs

Summary Impacts: FY26 and Over Time

	FY26 Budget	Annual Deficit Increase	Total Cost of Loan Repayment
\$200MM Borrowing for MEABF (15yr term)	\$ (200,000,000)	\$ 12,000,000- \$ 46,000,000	\$ 324,000,000
Additional Borrowing to Offset Loss of Savings & Capital Due to Credit Downgrade (average of 11.5yr term)	(43,000,000)	\$6,000,000	70,000,000
TOTALS	\$ (243,000,000)	\$ 18,000,000 - \$ 52,000,000	\$ 394,000,000

Note: Negative numbers reduce deficit/positive numbers increase deficit

Material Risk of Much Higher Cost

- CPS' market penalty for not being a 'AAA' issuer in recent months has been approximately 1.45% to 1.60%, as measured by evaluating the price investors pay to buy to/sell from each other
- CPS saw market penalties in 2015-2018 that were **two to three times** this amount
- CPS is now paying nearly \$200 million per year for this crisis debt
- Even with a half-decade of very strong financial performance, CPS struggles with market credibility given the legacy of financing for operating expenses a decade ago.
- The penalty charged by investors **could be much higher**

Scoop and Toss Today Makes Future Decisions Harder

- CPS is **already facing large deficits in FY27** and beyond
 - “Scoop and Toss” effectively borrows money today —instead of making the December 2025 interest payments—shifting repayment obligations off to the future, with the pain of additional, high-cost interest due in those years
- The total impact of proposed \$200 million in financing today creates **~\$400 million of additional budget gap** to be overcome in future years
 - CPS borrows \$600-650M annually for capital, creating compounding impacts
 - To avoid a loss of purchasing power, future capital borrowings will also suffer a **0.25% increase in borrowing cost, increasing interest costs by an estimated \$37 million** for each new financing
 - This **increment accumulates with each year** CPS issues new capital bonds

Proposed FY26 Budget Makes Long-Term Progress on Deficit

At the start of this year's budget process, CPS projected deficits reaching nearly \$1 billion in FY2027 and exceeding that in future years.

After closing the projected FY2026 budget deficit in a responsible manner that protects schools and labor commitments, CPS's long-term budget outlook is improved by **\$468 million in FY2027** and similar levels in future years.

- Actions taken by CPS to balance the budget reflect a net **\$263 million** of structural deficit relief, primarily from structural cuts to District spending away from the classroom and increased structural funding from the State.
- Because this budget defines that reimbursement to the City for MEABF is contingent on additional TIF surplus revenue or additional state revenue above budget assumptions, **future year deficits are reduced by another \$175 million.**
- Lastly, CPS's jump back into Tier 1 of the state's EBF formula earlier than expected adds another **\$30 million** to projected revenue increases in FY2027 and beyond.

Proposed FY26 Budget Makes Long-Term Progress on Deficit

While CPS still requires long-term revenue solutions, the District's future outlook is significantly improved.

PREVIOUS CPS FIVE-YEAR FORECAST

FISCAL YEAR	FY2026 BUDGET	FY2027 BUDGET	FY2028 BUDGET	FY2029 BUDGET	FY2030 BUDGET
Projected Budget Gap	(\$734M)	(\$988M)	(\$1,041M)	(\$1,144M)	(\$1,333M)

UPDATED CPS FIVE-YEAR FORECAST

FISCAL YEAR	FY2026 BUDGET	FY2027 BUDGET	FY2028 BUDGET	FY2029 BUDGET	FY2030 BUDGET
Projected Budget Gap	-	(\$520M)	(\$582M)	(\$665M)	(\$835M)

FY26 Proposed Budget Recap

Over the last few months, we have worked to close a \$734 million budget gap and propose a budget that protects our schools both today and into the future.

The proposed FY2026 CPS budget:

- Fully protects the level of school funding from the previous year
- Funds all of CPS' contractual commitments to the District's labor partners
- Delivers on the promise to stabilize school budgets, eliminating the risk of cuts to classrooms, both now and later in the school year
- Includes only borrowing that provides current or future savings to the District and is required for necessary capital investments
- Allows for CPS to reimburse the City for MEABF with new state or local revenues, **unlike the FY2025 budget that did not allow for this possibility**

Next Steps

Following these hearings, the District will present the balanced FY2026 budget to the Chicago Board of Education for approval on August 28, 2025.