

BUDGET GAP EXPLAINER

WHAT IS A BUDGET GAP & WHY DOES IT MATTER?

A **budget gap** – or deficit – occurs when planned spending exceeds projected revenues for a fiscal year. Gaps can result from falling revenues, unexpected expenses, or other economic disruptions. Certain state and local governments like **Illinois and Chicago** are required to have a **balanced budget** – meaning revenues must equal expenditures in each year.

To close a gap, governments can increase or add revenue, cut spending, or find efficiencies. Those solutions may be **structural** – recurring and sustainable – or **one-time fixes**, such as leveraging reserves, surplus TIF funds, or proceeds from asset leases.

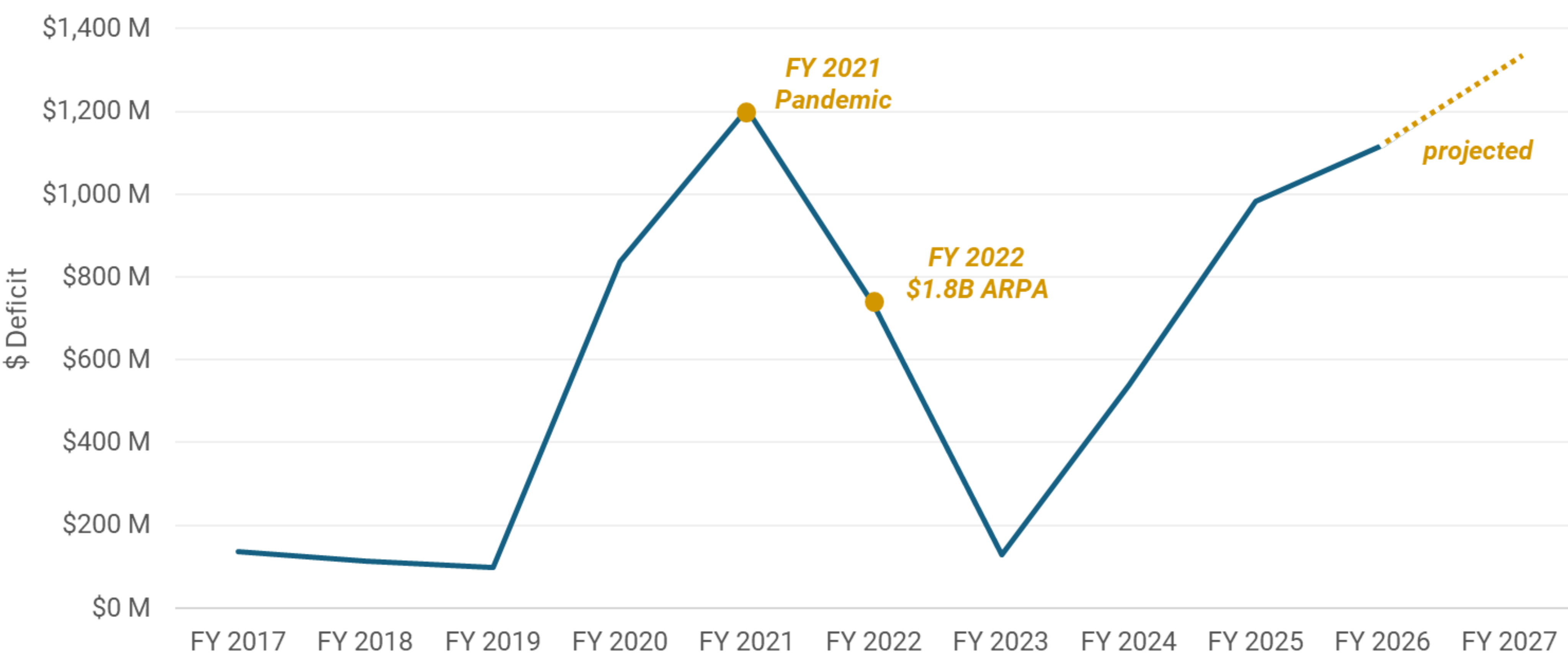
A **structurally balanced budget** signals long-term financial stability to residents and credit rating agencies. In contrast, using one-time revenues may solve the problem temporarily—but the gap is likely to return the following year.

CHICAGO’S BUDGET GAP

While the City of Chicago passes a **technically balanced budget** each year, its **projected budget gap** has been growing. The **Mayor’s Office of Budget and Management (OBM)** releases an annual Financial Forecast estimating the deficit for the upcoming fiscal year.

Federal aid after the COVID-19 pandemic helped stabilize the budget and replace lost revenues—but these **non-recurring funds** will run out by **FY2026**. In **FY2025**, the City balanced the budget using a mix of **increased fines, fees, and minor taxes**, rather than long-term structural solutions.

CITY OF CHICAGO COPORATE FUND BUDGET GAP



CHALLENGES AHEAD

Without a **structurally sound budget**, Chicago has faced **credit downgrades**, undermining its fiscal stability and increasing future deficits.

In **FY2026**, the City faces a significant shortfall, requiring **revenue increases, spending cuts, or operational efficiencies**. Achieving a structurally balanced budget will require **collaboration between the Mayor and City Council**.