STATE OF ILLINOIS FY2025 RECOMMENDED BUDGET:

ANALYSIS AND RECOMMENDATIONS

THE CIVIC FEDERATION

MAY 14, 2024

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Acknowledgments

The Civic Federation would like to thank the leadership and staff of the Governor's Office of Management and Budget (GOMB) for providing us with a budget briefing and responding to our questions.

EXECUTIVE SUMMARY

The State of Illinois has made significant progress on stabilizing its finances, ending each of the past four fiscal years with budget surpluses. Those surpluses were driven by several factors: strong revenue performance via a strong economic recovery from COVID-19 and the State's enactment of budgets in better structural balance than past practice. The State has also prioritized payment of outstanding debt including COVID-related borrowing, interfund borrowing, the Unemployment Insurance Trust Fund and increased pension contributions while continuing to build up reserves through its contributions to the Budget Stabilization Fund and sustaining a normal bill payment schedule. Revenue growth has slowed in fiscal year 2024, but one-time revenue increases have nevertheless helped produce better-than-projected revenue performance overall. Together, prudent choices and improved revenue performance have moved the State from a crisis orientation to a more stabilized financial position. However, looking forward, there is more work to do.

The proposed FY2025 budget represents the first year the State has had an initial budget deficit to close since the start of the pandemic. Based on current projections, the State's revenues are expected to come in lower than projected expenditures in FY2025, resulting in a deficit of $970 million. The Governor's proposal introduces a number of tax changes and enhancements that would close the budget deficit if approved by the General Assembly, thereby bringing the budget into technical balance. The Civic Federation understands the need for revenue enhancements to balance this year's budget and regards the Governor's proposal as a reasonable and prudent short-term measure, but we note that the State needs to be working towards sustainable, long-term revenue solutions.

Given signaling from the General Assembly that the proposed tax increases may not have enough support to pass, the Governor asked agency leadership teams to prepare for a budget scenario with $800 million less in revenue.[1] This prudent anticipatory step will help assure a technically balanced budget for FY2025. The Civic Federation supports some of the State's long-term investments included in the proposed FY2025 budget, including an increase to the Evidence-Based Funding (EBF) formula for P-12 education and increased appropriations to the Monetary Award Program (MAP) grants for college students. We also recognize and commend the State's leadership in efforts to support the ongoing migrant crisis in various forms and levels of collaboration with Cook County and the City of Chicago. However, the Governor and Illinois General Assembly will need to balance these and other important programs against other competing priorities, particularly should the proposed tax revenues not be approved.

Given its more sustainable financial position, the logical next step for the State is to convene a public process to evaluate how discretionary spending choices are made and its overall revenue structure in order to better foster its regional competitiveness and overall economic growth. To achieve structural balance in future budgets and alleviate the burden on Illinois taxpayers, the

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[1] Jerry Nowicki, "Analysis: 'Significant enough' opposition to Pritzker's revenue plan leads to call for cuts," *Capitol News Illinois*, May 9, 2024. See also Memorandum from the Office of the Governor to Agency Directors, May 8, 2024.

Civic Federation recommends that the State re-evaluate its tax structure to align better with the modern economy to make Illinois' tax rates more competitive with peer states and set Illinois up for future revenue growth. Again, while much progress has been made, there is more the State can do to address its fiscal challenges through strategic and long-term financial planning in order to alleviate the need for short-term funding solutions in future budgets.

The Civic Federation offers the following **key findings** on the Governor's recommended FY2025 State Budget:

- The $52.7 billion proposed General Funds **operating budget** is a 4.5% increase from estimated year-end FY2024 spending of approximately $50.4 billion—excluding FY2024 supplemental appropriations of $1.2 billion.
- **Agency spending** (excluding pension contributions and transfers out of the General Funds for debt service and other purposes) will increase by $1.9 billion, or 4.9%, from the FY2024 year-end estimate to $40.4 billion.
    - The FY2025 budget includes proposed **supplemental FY2024 agency appropriations** of $1.2 billion, including:
        - $430 million to the Department of Healthcare and Family Services;
        - $346.8 million to the Department of Human Services; and
        - $188.3 million to the Department of Central Management Services.
        - The remaining appropriations are allocated to other agencies including the Department of Innovation and Technology, Department of Corrections, Department on Aging and Department of Children and Family Services.
    - After accounting for the FY2024 proposed supplemental appropriations, agency spending represents an increase of $685 million, or 1.7%, from the prior year estimate.
- General Fund **revenues** are proposed at approximately $53.0 billion for FY2025, an increase of $779 million, or 1.5%, from the FY2024 year-end estimate of $52.2 billion.
- The State is projected to end FY2025 with a $128 million **surplus** after a proposed $170 million contribution to the rainy day fund.
- The Governor's proposed budget fully meets the State's 50-year pension funding plan by making the statutorily required General Funds pension contribution of $10.1 billion in FY2025. It also proposes increasing the 50-year funded ratio goal from 90% to 100%, which will add three additional years to the funding payment plan and extend its end date from FY2045 to FY2048. The proposal to reach 100% funding would therefore pay off the remaining $33.6 billion in unfunded liabilities that would have remained after FY2045 and proposes making additional payments to the pension funds between FY2030 and FY2040 by using revenue freed from the retirement of the backlog and pension obligation bonds that are paid off in those years.
- The State has **paid down** a total of $11 billion in debt between FY2022 and FY2025, which includes:

    - COVID-related borrowing;
    - Interfund borrowing;
    - Delayed health insurance bills;
    - Unemployment Trust Fund debt; and
    - Supplemental contributions to the Pension Stabilization Fund.
- FY2025 is projected to end with $447 million remaining in accounts payable, or outstanding bills. This is a major improvement from the larger backlog of bills in past years and represents a normal bill payment schedule, with the caveat that a significant portion of prior past due payables were settled with bonds, with approximately $3 billion in principal remaining.
- The State of Illinois received approximately $8.4 billion in Coronavirus State Fiscal Recovery Funds and Coronavirus Capital Projects Funds, all of which had been allocated by the end of June 2023 toward debt repayment, revenue replacement and programs and initiatives led by a variety of State agencies.

The Civic Federation **supports** the following aspects of the Governor's recommended FY2025 budget:

- The State's improved financial condition;
- Making statutorily required pension payments;
- Proposal for a new pension funding plan; and
- Proposal to evaluate Tier 2 pensions.

The Civic Federation has the following **concerns** about the Governor's recommended FY2025 budget:

- Spending pressure points in the FY2025 budget;
- Proposed revenue enhancements;
- The effect of the permanent elimination of the grocery sales tax on local governments; and
- The combined fiscal and operational crisis facing the public transit systems in Northeastern Illinois.

The Civic Federation offers the following **recommendations** to the Governor and Illinois General Assembly:

- Develop a long-term financial plan;
- Review and evaluate the effectiveness of all existing tax treatments;
- Develop a tax structure for a sustainable future;
- Identify additional offsetting revenue sources for local governments if the grocery tax is eliminated;
- Sustain a rainy day fund that meets best practice standards; and
- Reform the governance and funding structure of public transit in Northeastern Illinois.

CIVIC FEDERATION POSITION

The Civic Federation recognizes the significant progress the State of Illinois has made over the past several years to stabilize its finances, moving away from a crisis orientation towards one of normalization. The Civic Federation urges the Governor and Illinois General Assembly to use this opportunity to come up with long-term plans to resolve the state's remaining fiscal challenges and put the State in a position to enhance economic growth. The State must continue to take action to address its worst in the nation pension funding levels, build up reserves to a more substantial level and avoid short-term solutions to close future budget gaps.

The following are summaries of the issues the Federation supports in the Governor's FY2025 budget proposal, issues of concern, and our recommendations for future planning for the Governor and General Assembly's consideration as they move through the budget enactment process and look to future years. We encourage long-term thinking about how the State of Illinois can improve its tax structure to be more competitive with other states and to generate enough revenue to support many competing state and local funding priorities.

Issues the Civic Federation Supports

The Civic Federation supports the following aspects of the Governor's FY2025 State of Illinois budget:

The State's Improved Financial Condition

The State of Illinois has made important financial progress in recent years. From fiscal years 2022 through 2024, its financial condition significantly improved, including paying down $11 billion in debt. Included in the $11 billion total was nearly $2.0 billion in COVID-related borrowing, $300 million in interfund borrowing, $3.6 billion in delayed health insurance bills, $4.1 billion repaid to the Unemployment Insurance Trust Fund and $700 million in supplemental payments contributed to the Pension Stabilization Fund.[2] Due in part to these efforts to reduce the state's obligations, all three credit rating agencies have upgraded the State's credit ratings multiple times.

Additionally, the State has remained on a normal bill payment schedule after paying down $16.7 billion in backlogged bills it had accumulated during the FY2015-FY2017 budget impasse. By the end of fiscal year 2023, the State had achieved a more than 97% reduction in accounts payable since FY2017 due in large part to the issuance of a $6 billion General Obligation bond to pay vouchers incurred before July 1, 2017. However, the State still has $3 billion in outstanding principal on the backlog bonds as of December 31, 2023. The reduction in the bill backlog and short-term borrowing has reduced the amount of interest the State pays on penalties. (For more about the State's bill backlog, see the Bill Backlog section of this report beginning on p. 26.) In March 2023, the Comptroller announced the State was on a normal bill

[2] State of Illinois FY2025 Budget, p. 52-54.

payment schedule, with remaining debt comprised of bills due in less than 30 days and State account transfers. Since then, the State has not returned to extending bill payments like it did in previous fiscal years—even though it expects a $970 million deficit in FY2025—which is a good budget practice. The State projects it will end FY2025 with $447 million in payments outstanding by June 30, 2025, a figure representing the total amount of payments due within 30 days.[3] The Civic Federation supports the State's decision to remain on a normal bill payment schedule and believes it is prudent for the State to continue doing so to remain in good financial condition.

Making Statutorily Required Pension Payments

Governor Pritzker's FY2025 budget proposes the State make its full statutorily required general funds pension payment of $10.1 billion, a $323 million increase over the $9.8 billion required payment made in FY2024. The State also contributed supplemental amounts beyond the minimum required to the Pension Stabilization Fund in previous fiscal years. In FY2022 the State contributed an additional $300 million to the Fund, and in FY2023 it contributed $400 million, for a total of $700 million in supplemental pension contributions.[4] The State was able to finance the extra payments by using higher-than-expected revenues.

However, despite these supplemental contributions, pension obligations still make up an extraordinarily high portion of total State spending. Contributions have grown to comprise over 20% of state-source general funds revenues.[5] Illinois' retirement systems are among the most poorly funded of any state in the U.S. and the unfunded liabilities are expected to continue to grow until FY2027[6]. At the end of FY2023, actuarial unfunded liabilities for the State's five pension funds totaled nearly $141.4 billion and the combined funded ratio stood at 44.9%, near the bottom of most every national ranking by state. Under the current 50-year funding plan, the State's unfunded pension liabilities have continued to grow despite pension contributions consuming large portions of the State's spending. This is because the State's current funding plan defers a large portion of required contributions to future years, meaning current contributions fall short of the "tread water" contribution that would keep the unfunded liability from growing.

The State has historically struggled to make its annual statutory contribution and implemented a number of gimmicks and changes to reduce the contribution, ranging from pension holidays to extending the timeline of payments to borrowing money to make the pension payments. Given this history, the Governor's proposal to make the full pension contribution in FY2025, combined with the previous $700 million in supplemental contributions in recent budgets shows progress. The Civic Federation commends the Governor for proposing to meet the statutorily required FY2025 pension payments but also cautions, as set forth in the next section,

[3] State of Illinois FY2025 Budget, p. 54-55.
[4] State of Illinois FY2025 Budget, p. 80 and 82.
[5] For additional detailed analysis of the State's five pension funds, see the Pensions section of this report beginning on p. 46.
[6] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2023, p. 12.

that pensions will remain a significant burden on future State budgets for the next two decades absent creative approaches to shore up funding and reduce liabilities.

Proposal for a New Pension Funding Plan

The Governor's proposed FY2025 budget recommends increasing the State's current 50-year pension funding plan for its five retirement systems from 90% funding by fiscal year 2045 to 100% funding by fiscal year 2048.[7] Adding three additional years to the funding plan would bring the State to a 100% funded level, which is similar to peer states' funding plans. It would also present a plan to pay off the $33.6 billion in unfunded liabilities that would have remained in FY2046. Additionally, the plan would increase the State's contributions toward pensions by utilizing half of the revenue freed up once its backlog bonds and pension obligation bonds are paid off in 2030 and 2034.[8] These plans would represent another step in the right direction for the state on its pension burden.

The current 90% ratio target goal for the State's retirement system, and subsequent statutory changes have enabled the deferment of a large portion of the required contributions to future years, allowing the State to fund more immediate priorities in its annual budgets at the expense of its pension funds. Consequently, the State is still experiencing negative amortization of its pension funds, that is it not contributing enough to decrease the unfunded liability. The State estimates pension contributions will increase from nearly $11 billion in FY2026 to over $18 billion by fiscal year 2045.

The Civic Federation supports the Governor's proposal and believes it is a well-considered option to rationalize the State's pension funding schedule. The General Assembly would need to approve this proposal. We strongly urge them to do so before the spring legislative session ends in May.

Proposal to Evaluate Tier 2 Pensions

The Civic Federation strongly supports the Governor's FY2025 budget proposal to review the Tier 2 pensionable earnings cap and potentially adjust it to match the Social Security Wage Base to ensure compliance with federal law. We agree that first evaluating before making any benefit adjustments is the prudent way to address compliance with federal Safe Harbor guidelines. The Federation has been on record calling for a comprehensive, statewide analysis of Tier 2 benefits before changes are implemented.[9]

The Federation acknowledges that the lower benefit structure of Tier 2 pension plans, which applies to Illinois government employees hired since January 1, 2011, *may* fall out of compliance with Social Security Safe Harbor rules which require that government workers who do not participate in Social Security must receive certain minimum benefits that are deemed

[7] State of Illinois FY2025 Budget, p. 59.
[8] State of Illinois FY2025 Budget, p. 60.
[9] The Civic Federation, "Before Enhancing Tier 2 Benefits, Evaluate the Financial Impact of Illinois Pension Proposals," April 28, 2023.

equivalent to Social Security.[10] Of the State of Illinois' five pension plans, most of the Teachers' Retirement System (TRS) and State Universities Retirement System (SURS) members, including some of the State Employees' Retirement System (SERS) members, are not covered by Social Security.

We also support the Governor's recommendation to adjust the maximum pensionable salary to match the Social Security Wage Base such that both grow at the same rate over time. This is the simplest and least costly way to assure Illinois' pension plans meet Safe Harbor tests. Enacting any other Tier 2 pension benefit enhancements would be far more costly and could undo much of the progress that Tier 2 benefits have made to curb unsustainable growth in pension costs.

Civic Federation Concerns

The Civic Federation has the following concerns about the Governor's recommended FY2025 budget:

Spending Pressure Points in the FY2025 Budget

The Governor's budget proposes significant increases in certain areas of the budget, which are funded by proposed revenue enhancements and increased revenues. Proposed FY2025 operating appropriations will increase by approximately $1.9 billion, or 4.9% from the FY2024 year-end estimate prior to supplemental FY2024 appropriations.[11] This figure includes agency expenditures and employee group health insurance but excludes statutorily mandated pension contributions to the State's five pension funds, the Chicago Teacher's Pension Fund and transfers out of the General Fund to other funds. The Governor's proposal also includes nearly $1.2 billion in supplemental agency expenditures to close out the 2024 fiscal year. These supplemental appropriations, if approved by the General Assembly, will be funded through a projected FY2024 budget surplus. After accounting for the $1.2 billion in supplemental FY2024 appropriations, the FY2025 proposal represents an increase of $685 million, or 1.7% from prior year estimated expenditures.

Before addressing our concerns, the Federation notes there are several positive aspects related to agency spending in this year's budget. First, we appreciate that the FY2025 General Funds budget walk down this year separates the FY2024 supplemental appropriations from the FY2024 year-end estimate, making it easier for the reader to see how those supplementals will impact FY2024 spending in each program area. Second, the Civic Federation supports many increases in spending in the FY2025 budget. Among these are a proposed increase of $350 million to the evidence-based funding formula to fund P-12 education, which addresses historic underfunding of Illinois' education systems, as well as other smaller increases to support higher education and the Monetary Award Program (MAP). We similarly have supported efforts to

[10] See the Civic Federation's issue brief, "Tier 2 Pensions and the Safe Harbor Issue: Explained," November 7, 2023.
[11] State of Illinois FY2025 Budget, p. 75.

restore funding levels for critical programs that were reduced or held flat as a result of the FY2015-2017 budget impasse.

However, the Federation is concerned about how the State will sustain increased spending levels in FY2025 and beyond. In addition to a significant increase in education, spending within the Department of Human Services is set to increase by $716 million, or 7.0%, prior to supplemental appropriations of $420 million, for programs like the Home Illinois initiative and the Home Services program for people with developmental disabilities.[12] The cost of health insurance for employees and retirees is also anticipated to increase significantly. Group health insurance within the General Funds is budgeted to increase by $490 million from the FY2024 estimate, prior to supplemental appropriations. The State expects an increase in total health insurance liabilities of 17%, from $3.2 billion in FY2024 to $3.8 billion in FY2025,[13] which is driven in part by prescription drug prices, including for the expansion of injectable weight-loss drug coverage to all state insurance plans, estimated to add approximately $210 million above existing costs.[14]

The supplemental appropriations, likewise, represent additional spending pressures that are addressed outside of the annual budget enactment process. This raises a broader issue with the budgeting process, which involves passing hundreds of pages of legislation at the tail end of the General Assembly session each spring, with little time for sufficient vetting and explanation. In the absence of immediate improvements to the budget adoption process, the Governor's Office of Management and Budget could do a better job of describing the need for and programs supported by the $1.2 billion in supplemental FY2024 appropriations in the annual budget book.

Increased FY2025 spending levels, some of which are within the State's control and some beyond the State's discretion, may create pressure points that are difficult to sustain in future years in the event of an economic downturn or weak revenue performance. Additionally, the State will need to make choices in the forthcoming years about how to prioritize funding considering the many competing needs of state and local government agencies, including transit systems and school districts will be competing for limited state resources in the near future. The Governor's Office and Illinois General Assembly must develop a plan for prioritizing both reoccurring and new agency spending based on a framework that evaluates spending effectiveness. The Federation also urges the State to re-evaluate Illinois' tax structure to ensure that the State is employing the most effective forms of taxation and generating sustainable revenues that keep pace with rising costs over time.

[12] State of Illinois FY2025 Budget, p. 39 and 339.

[13] Commission on Government Forecasting and Accountability, FY2025 Liabilities of the State Employees' Group Health Insurance Program, March 2024, p. 6.

[14] Dave McKinney, "Weight-loss drug coverage for Illinois State workers could cost hundreds of millions of dollars," *WBEZ*, April 30, 2024.

Proposed Revenue Enhancements

The Governor's budget proposes a number of revenue enhancements to close the $970 million FY2025 budget gap,[15] including:

- Extending the limit on corporate net operating loss deductions, which were set to expire, through tax year 2027, at a new threshold of $500,000 compared to the current limit of $100,000, which is projected to yield $526 million;
- Capping the Retailers' Discount of 1.75% that Illinois retailers are allowed to recoup for the cost of collecting sales taxes on behalf of the state. The proposed cap is $1,000 per month, which would only impact 1% of retailers. This is expected to generate $101 million for the State's General Funds and $85 million for local governments;
- Increasing the Sports Wagering Tax rate from 15% to 35%, of which the increased portion of the tax collected above 15% would be transferred to the General Fund. This is expected to generate an additional $200 million in revenue;
- Setting the standard personal income tax deduction at $2,250, which reflects a one-year Consumer Price Index (CPI) adjustment but is a lower deduction than would otherwise occur under existing state statute. This change would increase General Funds revenue by $93 million;
- Making a supplemental $175 million deposit into the Public Transportation Fund from the Road Fund, thereby reducing the need for General Funds to be diverted; and
- Directing a $25 million increase in the distribution of part of the Real Estate Transfer Tax to the General Fund, rather than the Open Space Lands Acquisition and Development Act (only for FY2025).

While these enhancements represent appropriate short-term solutions to increase revenue and balance this year's budget, they do not comprise a full ongoing solution to the State's structural budget shortfall. Additionally, the possibility that the General Assembly does not support and pass the proposed tax increases could result in a major revenue shortfall. Given this potential scenario, the Governor has asked agency leadership teams to prepare for a budget scenario with $800 million less in revenue.[16] This is a prudent step to maintain a balanced budget for FY2025.

The State's strong pandemic recovery, which has yielded higher-than-expected resources over the past several years, has begun to slow and there is still risk of a future recession. Compounding this issue is the State's tax structure, which is both antiquated and comparatively volatile. According to a recent study, Illinois carries the highest tax burden in the nation for a typical middle-class family, with the highest combined income, sales and property tax rate as a percentage of income.[17] It is also one of the few states that still does not tax services despite

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[15] For more detail about the FY2025 budget gap, see the Budget Balancing and Bill Backlog section of this report beginning on p. 21.
[16] Jerry Nowicki, "Analysis: 'Significant enough' opposition to Pritzker's revenue plan leads to call for cuts," *Capitol News Illinois*, May 9, 2024. See also Memorandum from the Office of the Governor to Agency Directors, May 8, 2024.
[17] Doug Milnes, "Americans Are Moving to the Most Tax-Friendly States in the Country," March 19, 2024.

the fact that it constitutes a significant portion of its overall economy and, if done prudently, is one of the more equitable forms of taxation.[18]

To achieve structural balance in future budgets and alleviate the burden on Illinois taxpayers, the Civic Federation recommends that the State take on a re-evaluation of its revenue structure to position itself for long-term growth. A more updated tax system that aligns with the modern economy would increase the State's competitiveness and alleviate the need for short-term funding solutions in future budgets.

Permanent Elimination of the Grocery Sales Tax

The Civic Federation is concerned about the impact of the elimination of the State's grocery tax on municipal governments. The State of Illinois currently collects a 1% retailer's occupation tax on qualifying food, drugs and medical appliances, which is distributed to municipalities. The Governor's FY2025 budget proposes the permanent elimination of the 1% tax applied to food purchased for consumption at home, often referred to as the grocery tax. The Illinois Municipal League (IML) estimates that the repeal will result in a $325 million reduction in funding to local governments Statewide.[19]

The Governor's FY2023 Budget called for a one-year suspension of the Grocery Tax but included a $360 million reimbursement to municipalities to account for the loss. The State appropriated $325 million as grocery tax replacement to local governments in FY2022 and another $75 million in FY2023. The Federation supported this initiative because the total impact on the State budget was limited and local governments were held harmless.[20]

The proposed permanent repeal contains no such reimbursement, though the Governor's budget notes that several tax treatment changes and revenue enhancements in the proposed budget could increase state revenues distributed to local governments. Among these proposed tax changes is a cap on the retailers' discount which, if approved, could result in $85 million in sales taxes directed to local governments, thereby partially offsetting the loss in revenue from the grocery tax. The Governor also argues that state revenue sources have increased to local governments in recent years based on pass-throughs from State income taxes and a number of other tax sources.[21] Another reason cited for eliminating the grocery tax is that it is regressive and negatively impacts lower and middle-income households. Additionally, local governments would be able to enact their own locally imposed version of the tax.

However, the new revenue sources available to local governments also represent an increase in the overall tax burden paid by taxpayers for things like motor fuel, sales taxes, cannabis and video gaming. The FY2025 budget also does not include an increase for allocations from income

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[18] Amanda Vinicky, "Illinois Taxes Goods. But What About Services?", *WTTW*, July 2, 2019.
[19] Memo from Illinois Municipal League to Local Governments, February 22, 2024.
[20] Civic Federation, State of Illinois FY2023 Recommended Budget: Analysis and Recommendations, p. 6.
[21] See Gov. J.B. Prtizker: Get rid of the grocery tax. Period., *Chicago Tribune*, March 18, 2024; and State of Illinois FY2025 Budget, p. 62-63.

tax revenues to municipalities to account for lost revenue.[22] The loss in revenue could mean significant budget holes for many municipalities. Further, the tax would only offer modest benefits to low- and middle-income households, according to a report by the Institute of Government and Public Affairs at the University of Illinois,[23] although this finding is disputed by the Governor's office.[24]

The Civic Federation offers an accompanying recommendation to address our concern on p. 18 of this report.

Public Transit Systems in Northeastern Illinois Remain in Crisis

Northeastern Illinois' mass transit agencies—CTA, Metra and Pace, which are overseen by the Regional Transportation Authority—are fast approaching a looming fiscal crisis. The transit agencies face an estimated $730 million deficit beginning in 2026 after federal pandemic relief funds are depleted. This represents approximately 20% of the system's operating budget and will continue to grow unless it is addressed. The revenue decline is largely due to reductions in farebox revenue as ridership has failed to return to pre-COVID 19 pandemic levels and federal pandemic relief funds run out. Ridership is projected to increase to 349 million trips in 2024, but this is just 62% of the ridership level of 562 million in 2019. The Illinois General Assembly must take action to significantly reform the governance structure and funding of the Chicago region's transit systems in order to ensure the economic sustainability of the region.

A recent report from the Civic Federation recommends consolidating the Regional Transportation Authority (RTA), CTA, Metra and Pace into a single transit agency as a strong step toward solving these and other problems. In the report, the Civic Federation cites the Plan of Action for Regional Transit (PART) developed by the Chicago Metropolitan Agency for Planning (CMAP), which included analysis of several governance reform options. The PART report also informed proposed legislation for a new Metropolitan Mobility Authority that was introduced to the General Assembly on April 29, 2024. The Civic Federation supports consolidation of the transit agencies; for more on this issue, see our recommendation, Reform the Governance and Funding Structure of Public Transit in Northeastern Illinois, beginning on p. 19.

CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers the following recommendations to the Governor and the General Assembly as they develop the final FY2025 budget:

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[22] University of Illinois, Institute of Government and Public Affairs, Policy Spotlight: Should Illinois Eliminate the State Grocery Tax?, April 11, 2024.
[23] University of Illinois, Institute of Government and Public Affairs, Policy Spotlight: Should Illinois Eliminate the State Grocery Tax?, April 11, 2024.
[24] Joe Deacon, "Pritzker administration official defends grocery tax cut as report projects modest relief for families," *WCBU*, April 29, 2024.

Develop a Long-Term Financial Plan

Illinois is in better financial shape than it has been for a long time. This gives the State an excellent opportunity to develop a long-term, sustainable plan to provide critical services and economic growth.

The Governor and General Assembly undoubtedly recognize the urgency of growing the State's economy while addressing its long-term challenges, such as unfunded pension liabilities and infrastructure needs. While current projections show slowing but still strong revenues, many uncertainties remain regarding the likelihood of a recession. Also, spending pressure from the State's pension systems will continue to mount, rising an estimated $7.3 billion or more in the next 20 years[25] and continuing to crowd out spending for other public services. Thus, it is imperative that key stakeholders work together to carefully consider what the State can afford to spend, reassess its revenue streams and determine how best to address the cost of mounting long-term obligations. The best way to do this would be for the State to develop a long-term financial plan that lays out the challenges the State faces and proposes structural solutions to those challenges.

In order to achieve stability in the State's long-term finances, a comprehensive financial plan should meet the following goals:

- Ensure future annual operating budgets are balanced;
- Prevent a backlog of unpaid bills;
- Provide achievable spending limits;
- Avoid drastic revenue cliffs;
- Broaden the tax base if necessary to provide for sustainable revenue sources;
- Include additional assistance for local governments;
- Set aside reserves for an adequate rainy day fund; and
- Address Illinois' long-term challenges, such as unfunded pension liabilities and infrastructure needs.

The Government Finance Officers Association (GFOA) recommends that "all governments prepare and maintain a long-term financial plan that projects revenues, expenses, financial position, and external factors for all key funds and government operations at least five years into the future."[26] The GFOA additionally recommends that governments update their plans annually. The State of Illinois does release five-year budget forecasts but has not yet taken the next step of developing a long-term financial plan.

An essential element of the long-term financial planning process is that it be an open and public process involving all stakeholders, including legislators and local governments. It is also a key

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[25] Illinois General Assembly, Commission on Government Forecasting and Accountability, Special Pension Briefing, November 2023, p 12.

[26] Government Finance Officers Association, "Best Practices: Long-Term Financial Planning," March 4, 2022.

method of "[c]ommunicating long-term financial position to residents and other stakeholders, including rating agencies and bond investors."[27]

Developing and implementing a long-term financial plan is not an easy undertaking. It involves many painful choices and the investment of time and energy on the part of stakeholders. But Illinois cannot simply hope that its remaining fiscal challenges will disappear on their own. They will not until they are addressed head-on.

Review and Evaluate the Effectiveness of All Existing Tax Treatments

The State of Illinois provides a number of exemptions, deductions, credits, allowances and abatements, referred to as tax expenditures, to individuals or organizations to further public policy goals. They represent reductions to the state treasury. In FY2022, according to the latest information available from the State Comptroller, the total impact of the State's business and agricultural tax expenditures was approximately $2.3 billion. Business tax expenditures provided specifically for economic development purposes totaled $669 million.[28]

Before proposing further changes or enhancements to business and other tax expenditures, the State should commission a comprehensive review of these incentives. The review would clearly identify the goals and objectives of each program, require the transparent reporting of metrics that help determine whether goals are being met and provide for reduction or elimination of tax incentives that fail to produce promised results such as job creation.

The State of Washington, for example, regularly reviews the performance of tax expenditures to determine if they meet the goals set forth by the legislature when incentives are adopted and makes recommendations for changes when needed.[29] Illinois should follow a similar model.

Develop a Tax Structure for a Sustainable Future

The Civic Federation urges the State to re-evaluate its tax structure to align better with the modern economy, to make Illinois more competitive with peer states and to set up the State for future revenue growth. The State of Illinois collects the majority of its revenue every fiscal year from three large tax sources—individual and corporate income taxes and sales taxes. The State also receives grants and reimbursements from the federal government but relies heavily on the above-mentioned tax sources as operating resources to support ongoing programs and services. Revenues have performed better than expected over the past few years, which in FY2024 was due to one-time sources including a higher-than-anticipated transfer from the Income Tax Refund Fund and a retroactive draw of Medicaid matching dollars.[30] The Commission on Government Forecasting and Accountability (COGFA) has also recently released revised revenue estimates for FY2024 showing revenue increases from the Governor's year-end

[27] Government Finance Officers Association, "Best Practices: Long-Term Financial Planning," March 4, 2022.
[28] Illinois State Comptroller, Tax Expenditure Report, Fiscal Year 2022, pp. 6 and 8.
[29] Washington Joint Legislative Audit and Review Committee.
[30] Illinois State FY2025 Budget, p. 83.

estimate of $374 million, or 0.7%, due to strong revenue performance in corporate income taxes and increases in interest income projections.[31]

However, the State's revenue mix has historically shown a high level of volatility. Additionally, the Governor's proposed FY2025 budget includes State source revenue increases of $1.1 billion, which incorporates a number of tax treatments and other changes that must be approved by the General Assembly. The State has also projected budget deficits for fiscal years 2026 through 2029 as expenditures are expected to outpace revenues in future years, though some of the deficits could be offset by the tax treatment changes included by the Governor in the FY2025 budget[32] Now that the State has allocated all of its American Rescue Plan Act funding, it needs to consider how it will continue investing in programs and services with a reliable and secure revenue source. It will be critical for the State to broaden its tax structure to reduce regressivity while promoting economic growth. The Civic Federation encourages the State to evaluate and develop an equitable and sustainable tax structure that would best benefit its economy in future years.

Identify Additional Offsetting Revenue Sources for Local Governments if the Grocery Tax is Eliminated

As noted in an earlier concern (see Permanent Elimination of the Grocery Sales Tax), the Governor's budget proposes the permanent elimination of the 1% grocery sales tax which is collected by the State of Illinois and distributed to municipalities. The Civic Federation is concerned about the impact that this revenue loss could have on local governments, estimated at a total of $325 million statewide. If the General Assembly chooses to move forward with eliminating the grocery tax, the Civic Federation recommends that the State consider both a reasonable timeline within which the tax would be phased out and other revenue sources to offset revenue loss to municipalities. As referenced in a report by the Institute of Government and Public Affairs, if the tax were eliminated effective July 1, 2024, that would not provide enough time for municipalities to levy a local replacement grocery sales tax beginning on July 1, and any efforts to pass local taxes thereafter would not be able to be implemented until mid-fiscal year.[33] The tax could be phased out over a period of time long enough to allow for additional analysis and to give local governments adequate time to implement revenue replacements. Additionally, the State should consider providing other sources of revenue to local governments to fully offset the revenue loss in the absence of a State or locally imposed grocery tax.

Sustain a Rainy Day Fund that Meets Best Practice Standards

Building a financial cushion to deal with economic downturns is a key element in restoring the State to fiscal stability. According to public finance experts, all governments should place a

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[31] Commission on Government Forecasting and Accountability, March 2024 Monthly Briefing, p. 3.
[32] Governor's Office of Management and Budget, Illinois Economic and Fiscal Policy Report, November 15, 2023.
[33] University of Illinois, Institute of Government and Public Affairs, Policy Spotlight: Should Illinois Eliminate the State Grocery Tax?, April 11, 2024.

portion of their general operating revenues in a general reserve or “rainy day” fund.[34] Rainy day funds are savings accounts that governments can use to address revenue shortfalls or unanticipated expenditures and to help stabilize tax rates. Historically, Illinois has not had a functional rainy day fund, although a law was enacted in 2004 with a goal of maintaining 5% of General Funds revenues in an existing account called the Budget Stabilization Fund. The State had essentially no reserves at the onset of the COVID-19 pandemic, which put it at a serious disadvantage when the pandemic hit in 2020 and significantly reduced State revenue. Until recently, the fund had never received significant resources.

However, in FY2023, Public Act 102-1115 was enacted and it raised the targeted balance for the Fund from 5% of revenues to 7.5%. Over the past few fiscal years, the State has made significant contributions to the Fund. At the end of fiscal year 2023, the Budget Stabilization Fund had an account balance of $2 billion. This means that the State would be able to operate for an estimated 13.8 days on its reserves. However, the median state within the Unites States has enough reserves to sustain 46 days of operations at that time. The State is projecting that the Fund will receive $205 million in FY2024 and $170 million in FY2025, which will bring the total estimated balance to $2.3 billion.[35] This would represent 4.3% of FY2025 General Fund revenues.

The Civic Federation has long recommended that once the State has paid off its backlog of bills, it should begin to build up a more robust rainy day fund to be better positioned to deal with contingencies or emergencies in the future.[36] Furthermore, since the State has reduced its outstanding liabilities and contributed to the Pension Stabilization Fund, it should also implement and sustain a Budget Stabilization Fund balance that would allow the State to provide critical services during an economic downturn.

According to Pew Charitable Trusts, individual states’ rainy day fund balances may vary depending upon the state’s economic history. However, they suggest that each state define the purpose of the fund, the volatility of its tax revenue structure, and the level of coverage needed to best provide for its fiscal year budgets.[37] The Federation supports the Governor’s proposed contributions to the Budget Stabilization Fund as a prudent and use of higher-than-expected revenues, but also recommends the state analyze effective ways to build this Fund for a sustainability of spending on programs in the future.

Reform the Governance and Funding Structure of Public Transit in Northeastern Illinois

The current state of mass transit in Illinois impels a change to the governance structure that oversees the delivery of public transit services in the Chicago metropolitan region to improve service delivery and efficiency. In this moment of looming fiscal crisis and operational

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[34] Government Finance Officers Association, Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund, September 2015.
[35] State of Illinois FY2025 Budget, p. 57.
[36] The Civic Federation, 2022 Legislative Agenda.
[37] The Pew Charitable Trusts, States Build Their Reserves Amid Growing Uncertainties, October 18, 2022.

deficiency within Illinois' mass transit systems, the Civic Federation urges seizing the opportunity for true transformation by adopting centralized transit governance reform. Additional funding from the State of Illinois will be critical to resolving the crisis, but financial support must first be linked with structural reforms that would provide a more centralized, efficient governance system that focuses on regional challenges and leverages regional opportunities.

The Civic Federation calls on Governor Pritzker, the Illinois General Assembly, the RTA and the service boards to take this once-in-a-generation opportunity to fully restructure its major mass regional transit system by consolidating the three transit agencies—CTA, Metra and Pace—with the Regional Transportation Authority into a single regional transit agency.[38] Failing to reform the governance structure of the region's transit agencies would only lead to the continuation of flawed, inefficient transit services.

The Federation was pleased to see that legislation sponsored by State Senator Ram Villivalam and Representative Eva-Dina Delgado to accomplish this goal was introduced on April 29, 2024. House Bill 5823, part of a larger package of transit reform legislation, would consolidate the Regional Transportation Authority and its three service boards into a new Metropolitan Mobility Authority. The Federation urges the Illinois General Assembly to continue consideration of this proposal and take action before the $730 million deficit hits the budgets of the RTA and the three transit service boards.

[38] For more on this recommendation, see the Civic Federation's recently released report, "Reforming Mass Transit Governance in the Chicago Region."

BUDGET ANALYSIS AND METHODOLOGY

This report is organized into two key parts: 1) The Civic Federation's position on the Governor's proposed FY2025 budget, which is a critique that highlights our key areas of support, concern and accompanying recommendations; and 2) Descriptive analysis of components of the FY2025 budget proposal.

The remaining sections of the report provide analysis of key budget components including:

- Balancing of the year-end FY2024 budget and upcoming FY2025 budget;
- The State's bill backlog status;
- Use of American Rescue Plan Act funds;
- Revenues;
- Expenditures;
- Pension funds; and
- Debt.

The Federation's analysis focuses primarily on the General Funds budget, which comprises approximately 42% of the total operating budget across all funds, including other state funds and federal funds. The General Funds are the key focus due to the way information is presented in the annual budget book and because the General Funds are where the State has the most discretion regarding how to allocate funds.

Key sources used to compile the analysis of the annual budget include:

- The Fiscal Year 2025 Proposed Operating Budget and other budget sources and reports made available on the Office of Management and Budget website;
- Past year annual operating budgets; and
- Reports published by the Commission on Government Forecasting and Accountability.

BUDGET BALANCING AND BILL BACKLOG

This section presents the financial situation into which the State of Illinois will be entering the upcoming fiscal year, including year-end projections for FY2024 and projections for FY2025. After several years of surpluses, the Governor's proposed budget anticipates the State will enter FY2025 with a deficit, which the Governor proposes to close through a number of tax treatments described below.

Changes to FY2024 Forecast

In November 2023, the Governor's Office of Management and Budget (GOMB) estimated that the State would end FY2024 with a surplus of $1.6 billion.[39] However, the updated forecast released in the Governor's FY2025 proposed budget results in a substantially smaller surplus of

[39] Illinois Governor's Office of Management and Budget, FY2024 Economic and Fiscal Policy Report, p. 8.

$68 million based on projected changes to revenues and proposed supplemental expenditures, including:[40]

- Revenue increases of $199 million;
- Nearly $1.6 billion in expenditure increases, including $1.2 billion in proposed supplemental appropriations and a $350 million transfer out for one-time FY2024 commitments.

The table below summarizes these changes to the year-end FY2024 budget projections.

Changes to FY2024 Budget Projections (in $ millions)

Revenues		Expenditures	
Income Taxes	$ -	Proposed Suppplemental Appropriations	$ (1,183)
Sales Taxes	$ (45)	Reappropriations Adjustment	$ 33
Transfers In	$ 96	Lapsed Appropriations Estimate	$ (60)
Federal Sources	$ 20	Proposed Additional Transfer Out	$ (350)
All Other Changes	$ 128		
Total	**$ 199**	**Total**	**$ (1,560)**

Source: Illinois State FY2025 Budget, p. 64.

The above revenue and expenditure projection changes, combined with a $205 million contribution to the Budget Stabilization Fund, reduce the originally projected surplus of $1.6 billion to $68 million, as shown below.

Revisions to FY2024 Forecast (in $ millions)		
Surplus from 5-Year Report	$	1,620
Increase to Revenue Forecast	$	199
Increase in Projected Expenditures	$	(1,560)
Decrease in Transfers Out	$	14
Budget Stabilization Fund Contribution	$	(205)
Total	**$**	**68**

Source: Illinois State FY2025 Budget, p. 64.

FY2025 Budget Deficit and Gap Closing Actions

In November 2023, GOMB projected a FY2025 budget deficit of $891 million.[41] However, updated revenue and expenditure projections released in February 2024 increased the projected deficit to $970 million, accounting for $350 million in natural revenue growth and a $437 million increase in expenditures.

[40] Illinois State FY2025 Budget, p. 64.

[41] Illinois Governor's Office of Management and Budget, Economic and Fiscal Policy Report, November 15, 2023, p. 9; Illinois Commission on Government Forecasting and Accountability, FY2025 Economic Forecast and FY2024 Revenue Estimate Update, p. 36.

The resulting $970 million budget gap is proposed to be eliminated through the following actions:[42]

- Extending the limit on corporate net operating loss deductions (increased from $100,000 to $500,000) through tax year 2027, yielding $526 million;
- Capping the Retailers' Discount at $1,000 per month, which will generate $101 million;
- An increase in the Sports Wagering Tax rate from 15% to 35%, of which the portion of the tax between 15% and 35% would be transferred to the General Fund. This is expected to generate an additional $200 million in revenue;
- Setting the standard income tax deduction at $2,250, which reflects a one-year Consumer Price Index (CPI) adjustment that results in a lower deduction than would otherwise occur under existing state statute, thereby increasing revenue by $93 million;
- Making a supplemental $175 million deposit into the Public Transportation Fund from the Road Fund (thereby reducing the need for General Funds to be diverted); and
- Directing a $25 million increase in the distribution of part of the Real Estate Transfer Tax to the General Fund, rather than the Open Space Lands Acquisition and Development Act (only for FY2025).

Collectively, the above measures will result in an additional $1.1 billion in projected General Funds revenues. These revenue increases will be partially offset by the following additional measures:

- The creation of a new refundable child tax credit totaling $12 million; and
- An increase in the corporate franchise tax exemption, which is expected to reduce revenues by $10 million.

[42] Illinois State FY2025 Budget, pp. 65-66.

Following these actions, the proposed FY2025 budget proposal anticipates an operating surplus of $128 million. The following table summarizes how the State proposes closing the budget gap through the measures described above.

Closing the FY2025 Budget Deficit

Original Projected Deficit	**$**	**(891)**
Adjustments Made to Close the FY2025 Budget Deficit		
Natural Revenue Growth	$	(358)
Expenditure Increases	$	437
Subtotal Adjustments	**$**	**79**
Adjusted FY2025 Deficit (Deficit -Adjustments)	**$**	**(970)**
Gap Closing Measures		
Standard Deduction Adjustment	$	93
New Refundable Child Tax Credit	$	(12)
Modified Corporate Net Operating Loss Deduction Limitation Extension	$	526
Road Fund Offset for Public Transportation Fund	$	175
Retailer's Discount Cap Increase	$	101
Corporate Franchise Tax Exemption Increase	$	(10)
Real Estate Transfer Tax Transfer Distribution*	$	25
Sports Wagering Tax Increase	$	200
Total Gap Closing Measures	**$**	**1,098**
FY2025 Surplus	**$**	**128**

*Distributes a portion of the Real Estate Transfer Tax to the General Fund rather than the Space Lands Acquisition and Development Fund (FY2025 only).

Source: Illinois Commission on Government Forecasting and Accountability, FY2025 Revenue Forecast and FY2024 Revenue Estimate Update, p. 36; Illinois State FY2025 Budget, pp. 65-66.

State of Illinois Financial Walk Down FY2022-FY2025

The following table shows the operating budget walk down from FY2022 through FY2025. FY2022 (final) and FY2023 (preliminary) will end with surpluses of just under $2 billion and $803 million respectively due to the combination of strong revenue performance and the infusion of the American Rescue Plan Act revenue replacement funds. The State previously estimated a budget surplus of $273 million for FY2024. Included in these numbers are supplemental expenditures and other uses of the projected FY2024 revenue increases, including:[43]

- Approximately $1.2 billion in supplemental FY2024 spending;

[43] Illinois State FY2024 Budget, p. 84.

- A $205 million Budget Stabilization Fund contribution; and
- A $350 million transfer for one-time FY2024 commitments.

After accounting for these changes, the adjusted projected FY2024 surplus totals $68 million.

The FY2025 budget projects a surplus of $298 million. However, the Governor's proposal to transfer $170 million of that surplus to the Budget Stabilization Fund would yield a net year-end surplus of $128 million.

State of Illinois General Funds Financial Walk Down
FY2022-FY2025
($ in Millions)

		FY2022 Final		FY2023 Preliminary		FY2024 Estimated		FY2025 Proposed
Operating Resources								
State Source Revenues	$	43,658	$	43,657	$	45,266	$	46,663
Federal Revenues	$	4,584	$	3,802	$	4,308	$	3,969
Statutory Transfers In	$	2,092	$	3,248	$	2,642	$	2,361
Comptroller Adjustments	$	(38)	$	(7)	$	-	$	-
ARPA Reimbursements	$	736	$	1,064	$	-	$	-
State CURE	$	-	$	1,363	$	-	$	-
TOTAL RESOURCES	**$**	**51,032**	**$**	**53,127**	**$**	**52,216**	**$**	**52,993**
Expenditures								
Operating Budget Expenditures	$	30,763	$	35,178	$	37,842	$	38,037
Pension Contributions	$	9,363	$	9,632	$	9,813	$	10,135
State Group Insurance	$	2,750	$	1,831	$	1,837	$	2,327
TOTAL OPERATING BUDGET EXPENDITURES	**$**	**42,876**	**$**	**46,641**	**$**	**49,492**	**$**	**50,499**
Expenditures: Transfers Out of General Funds								
Statutory Transfers Out	$	722	$	1,282	$	443	$	445
Debt Service	$	1,230	$	1,149	$	1,658	$	1,751
Interfund Borrowing Repayment	$	933	$	-	$	-	$	-
Pension Stabilization Fund	$	-	$	400	$	-	$	-
Property Tax Rebate Checks	$	470	$	50	$	-	$	-
Income Tax Rebate	$	685	$	-	$	-		0
Grocery Tax Replacement	$	325	$	75	$	-	$	-
Short Term Borrowing Repayment	$	1,052	$	-	$	-	$	-
Proposed Transfer to Fund #611*	$	-			$	350		
State CURE**	$	-	$	1,239	$	-		0
TOTAL TRANSFERS OUT	**$**	**5,417**	**$**	**4,195**	**$**	**2,451**	**$**	**2,196**
TOTAL EXPENDITURES	**$**	**48,293**	**$**	**50,836**	**$**	**51,943**	**$**	**52,695**
General Funds Surplus/Deficit	**$**	**2,739**	**$**	**2,291**	**$**	**273**	**$**	**298**
Proposed Set-Aside for Budget Stabilization Fund Contribution	$	746	$	1,188	$	205	$	170
Proposed Additional Penstion Stabilization Fund Contribution	$	-	$	200	$	-	$	-
Proposed Early Childhood Capital Investment	$	-	$	100	$	-	$	-
Adjusted General Funds Surplus/Deficit	**$**	**1,993**	**$**	**803**	**$**	**68**	**$**	**128**

Totals may not sum due to rounding.

FY2024 total includes supplemental appropriations.

* The Proposed Transfer to Fund #611 includes $350 million in FY2024 for the Fund for Illinois' Future through the Budget Implementation Bill (BIMP) proposal.

** An authorized transfer of $1.239 million from the General Fund to the State Coronavirus Urgent Remediation Emergency (CURE) Fund in FY2023 to ensure that the State fully expended its federal dollars within the timeframe set by the federal government.

Source: Illinois State FY2024 Budget, pp. 67, 78; Illinois State FY2025 Budget, pp. 75, 86.

BILL BACKLOG

Historically, Illinois has routinely managed budgetary shortfalls by delaying payments to vendors, school districts, local governments and universities, thereby increasing accounts payable by billions of dollars at the end of the fiscal year. This backlog led the State to begin each fiscal year in a deficit, requiring revenues from the current year to be used to pay off the previous year's bills, which in turn reduced the amount of revenues available for current year spending.

By law, the State has until six months after the end of a fiscal year to pay bills based on that year's appropriations.[44] Certain other bills consisting mainly of group health insurance and Medicaid bills, known as Section 25 liabilities, may be paid from appropriations in future years.[45]

The State has made significant progress in reducing its backlog of unpaid bills since its $16.7 billion peak in 2017.[46] At the time, the State issued a $6 billion General Obligation bond to pay vouchers incurred before July 1, 2017, to address the situation.[47] The $6.5 billion in proceeds from the sale was to cut the unpaid bill backlog by $7.5 billion, saving taxpayers an estimated $4 billion to $6 billion in interest costs through 2029 by paying off billions of dollars that were accruing interest penalties between 9% and 12% per year.[48] As of December 31, 2023, the outstanding principal on these bonds totaled nearly $3 billion.[49]

The State used some of the $3.2 billion in funds borrowed from the Municipal Liquidity Facility in FY2020 and FY2021 to manage the previous year's bills and pay down the Medicaid bill backlog, which generated enhanced federal reimbursements used to pay general obligations. The State paid off these funds in their entirety nearly two years ahead of schedule in January 2022, which will save taxpayers an estimated $82 million in interest costs.[50]

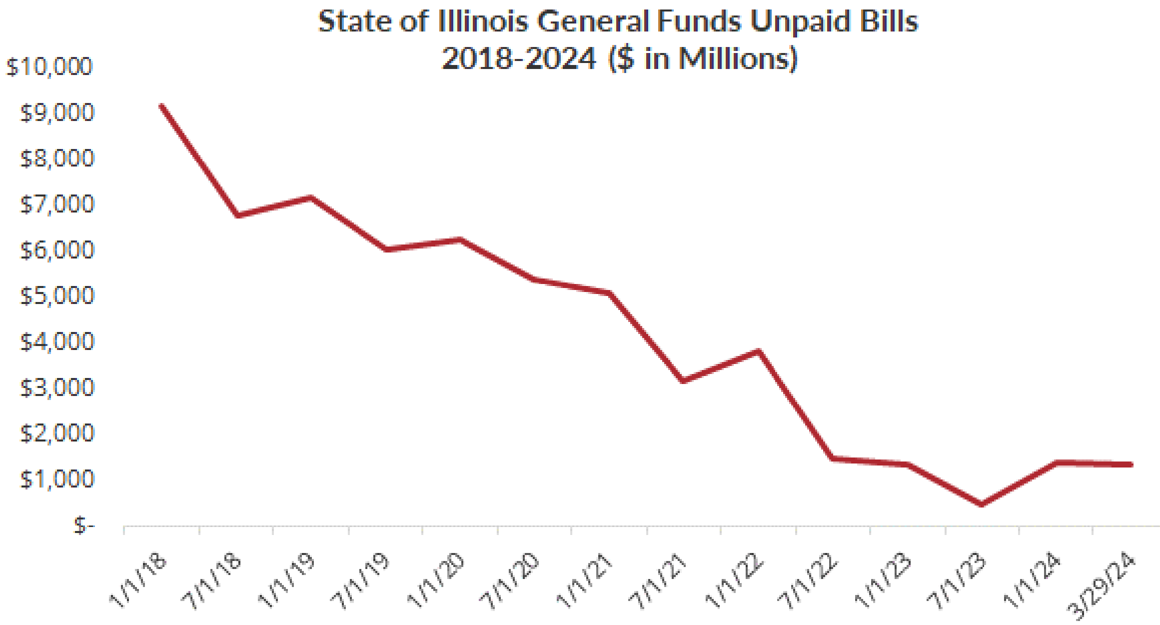
The State also utilized another measure to manage the unpaid bills that allows the State to invest in its own backlogged debt using money from other State funds with sufficient liquidity.[51] The law gives the Illinois Treasurer the authority to invest up to $2 billion with the Comptroller, who uses the funds to pay off pending unpaid bills and avoid high-interest penalties. The remaining $405 million of this program was paid off during FY2021.

The Governor's FY2025 budget projects that there will be approximately $1.5 billion in outstanding accounts payable and short-term debt as of June 30, 2024, consisting primarily of

[44] 30 ILCS 105/25 (m).
[45] 30 ILCS 105/25.
[46] Illinois State Comptroller, Accounts Payable Statement.
[47] The bond sale was authorized by Public Act 100-0023, enacted on July 6, 2017.
[48] Illinois State Comptroller, Accounts Payable Statement.
[49] Illinois State FY2024 Budget, p. 574.
[50] Illinois State Comptroller, "Paying Off Loan Early Will Save Taxpayers $82 Million," January 5, 2022.
[51] Public Act 100-1107.

bills with a due date within 30 days and transfers owed to other State accounts.[52] This is a major improvement from the large backlog of bills in past years and represents a normal bill payment schedule.

The following chart shows the State's bill backlog at the beginning of each fiscal year from 2017-2024. As of March 29, 2024, the State's bill backlog was estimated at $1.4 billion.



Source: Illinois State Comptroller, Accounts Payable Statement at illinoiscomptroller.gov/financial-reports-data/data-sets-portals/accounts-payable-statement.

The Civic Federation has long recommended that the State of Illinois, once it made sufficient progress in paying down its unpaid bill backlog, should begin to rebuild its Budget Stabilization Fund, known as the "rainy day fund."[53] Strong revenues in the previous few fiscal years have allowed the Governor to make more than $2 billion in deposits into the fund since FY2022. The Governor's FY2024 recommended budget includes a $205 million deposit into the Budget Stabilization Fund, and another $170 million for FY2025. Additionally, legislation was enacted that directs a 10-year repayment of $450 million in State funds provided to the Unemployment Insurance Trust Fund into the Budget Stabilization Fund.[54]

AMERICAN RESCUE PLAN ACT

As a result of six pieces of federal legislation enacted by the U.S. Congress in 2020 and 2021 to address the impact of COVID-19, governments across Illinois received a total of $53.8 billion in stimulus funding, including the American Rescue Plan Act (ARPA). As part of ARPA, the State received $8.1 billion in State Fiscal Recovery Funds (SFRF).These funds are allowed to be used

[52] Illinois State FY2024 Budget, pp. 54-55.
[53] See for example current and past Civic Federation Legislative Agendas and State of Illinois Roadmaps.
[54] Illinois State FY2025 Budget, p. 57.

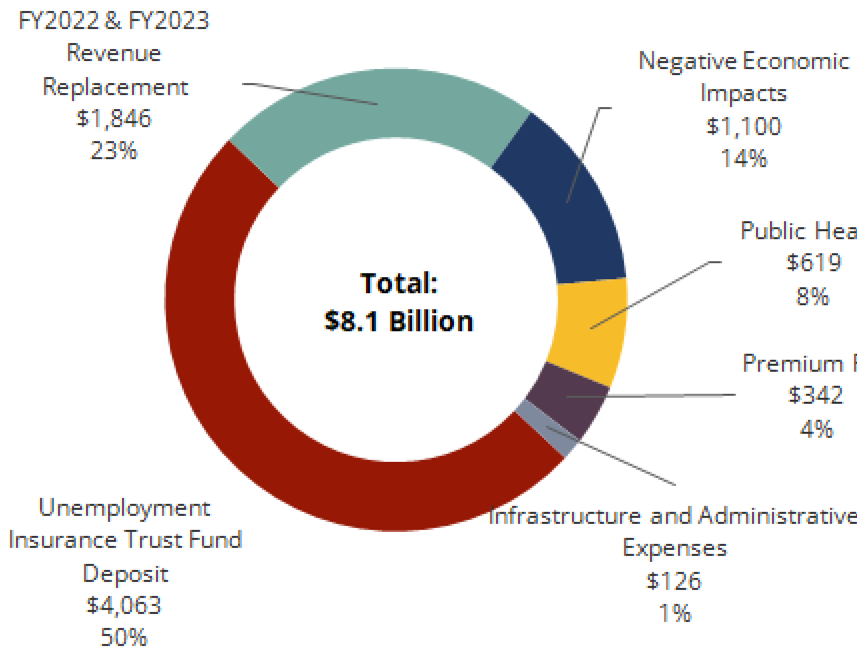
for supporting public health expenditures, addressing negative economic impacts caused by the public health emergency, replacing lost public sector revenue, providing premium pay for essential workers and investing in water, sewer and broadband infrastructure. They must be obligated by December 31, 2024, and spent by December 31, 2026.

The State also received $254 million from the Coronavirus Capital Projects Fund as part of the ARPA funding, for a total of approximately $8.4 billion in federal COVID-era stimulus money.[55] All of this funding had been allocated, and most of it was spent, by the end of FY2023.[56]

As of the end of fiscal year 2023, the State had allocated nearly half of the ARPA funds, or $4.063 billion, to repay the Unemployment Insurance Trust funds the State of Illinois borrowed from the federal government to make unemployment payments during the worst of the pandemic, and another $1.8 billion was allocated for revenue replacement. The remaining $2.2 billion included $1.1 billion allocated to a variety of State agencies for programs to address negative economic impacts of COVID-19, $619 million for public health programs, $88 million for infrastructure, $342 million for premium pay to eligible essential workers and $38 million for expenses to administer state and local recovery projects and programs.[57] These allocations are shown in the chart below.

[55] Illinois State FY2025 Budget, p. 70.
[56] Illinois State FY2025 Budget, p. 71.
[57] Illinois State FY2025 Budget, p. 71. See also the State of Illinois Recovery Plan, State and Local Fiscal Recovery Funds, Governor's Office of Management and Budget, 2023 Report, July 1, 2022-June 30, 2023.

ARPA Allocations: State Fiscal Recovery Fund
(in $ millions)



Source: State of Illinois FY2025 Budget, p. 71; and State of Illinois Recovery Plan, State and Local Fiscal Recovery Funds, Governor's Office of Management and Budget 2023 Report, July 1, 2022-June 30, 2023, p. 3.

REVENUES

The State of Illinois generates annual operating resources by collecting taxes and levying fees. These revenues are augmented by grants and reimbursements provided by the federal government.

The Governor's proposed FY2025 operating budget projects total revenues of $109.8 billion across all funds. Of that amount, $52.3 billion is available for General Funds spending.[58]

The General Funds support the regular operating and administrative expenses of most State agencies and are the funds over which the State has the most control. The operating budget also includes Other State Funds, which are accounts for activities funded by specific revenue sources that may only be used for specific purposes, and Federal Funds (other than those designated for General Funds), which support a variety of State programs with federal revenues. The remaining revenues that are not included in the General Funds are restricted for specific purposes, shared through revolving funds between government agencies, held in trusts or generally not available for discretionary spending by the General Assembly.

[58] State of Illinois FY2025 Budget, pp. 138-139.

This analysis focuses primarily on the revenue projections and proposals in the Governor's proposed FY2025 General Funds budget, and also includes an update on FY2024 revenue projections.

FY2024 Revenue Projection Changes

Since the FY2024 State budget was enacted, projections for FY2024 year-end revenues have increased, but by less than in prior years.

The most recent numbers from February 2024 show a 3.2% increase, from $50.6 billion to $52.2 billion, from original projections in June 2023 when the FY2024 budget was enacted. GOMB attributes this upward revision to higher-than expected investment income returns, a higher-than-anticipated transfer from the Income Tax Refund Fund, and a retroactive draw of Medicaid matching dollars.[59]

FY2024 Revenue Projection Increases

(in $ millions)

	FY2024 Enacted	November 2023 Revision	February 2024 Revision	$ Change	% Change
State Sources					
Individual Income Tax (Net)	$ 25,711	$ 25,711	$ 25,711	$ -	0.0%
Corporate Income Tax (Net)	$ 5,116	$ 5,169	$ 5,169	$ 53	1.0%
Sales Tax (Net)	$ 10,415	$ 10,576	$ 10,531	$ 116	1.1%
Other Revenues	$ 5,487	$ 6,273	$ 6,496	$ 1,009	18.4%
Total State Resources	**$ 46,729**	**$ 47,729**	**$ 47,907**	**$ 1,178**	**2.5%**
Federal Sources	$ 3,883	$ 4,288	$ 4,308	$ 425	10.9%
Total Revenues	**$ 50,612**	**$ 52,017**	**$ 52,215**	**$ 1,603**	**3.2%**

Sources: Illinois State FY2024 Enacted Budget General Funds Walkdown, June 7, 2023; "Illinois Economic and Fiscal Policy Report," Governor's Office of Management and Budget, November 15, 2023; Illinois State FY2025 Budget, p. 75.

Net corporate income tax and net sales tax revenues are projected to increase slightly by 1% and 1.1%, respectively. Individual income tax revenue projections have remained the same. Other revenues, which include all sources outside of individual income taxes, corporate income taxes and sales taxes, show an anticipated $1 billion, or 18.4%, increase.

More recent estimates provided by the Commission on Government Forecasting and Accountability (COGFA) in March 2024 track similarly to GOMB's projections, but with $374 million, or 0.7%, more in total revenue. The changes largely derive from strong revenue performance in corporate income taxes for the month of February 2024 that were not incorporated in GOMB's projections, as well as increases in interest income projections that were offset by lower sales tax projections. COGFA's projections also include an additional $100 million in revenue from a statutory transfer from the Income Tax Refund Fund that was not

[59] Illinois State FY2025 Budget, p. 83.

accounted for in the proposed FY2025 budget.[60] COGFA's estimate for total revenue in FY2024 is nearly $52.6 billion.

FY2025 General Fund Revenues

The following table shows the change in General Funds revenues between FY2024 year-end estimates and the proposed FY2025 budget. The FY2024 numbers incorporate the upward revisions released in February 2024 in the Governor's proposed FY2025 budget, discussed above. Total revenues from all sources are projected to increase by $779 million, or 1.5%, which includes a number of tax treatment and other changes proposed by the Governor in the FY2025 budget, ranging from an extension of the net operating loss deduction limitation to a cap on the Retailers' Discount. See the Budget Balancing and Bill Backlog section for a more in-depth discussion of the revenue adjustments, which total approximately $1.098 billion.

Sports Wagering receipts will contribute to the General Fund for the first time in FY2025 based on a proposed increase from 15% to 35% on adjusted sports gross wagering receipts. Upon authorization in 2019,[61] the State began imposing a 15% tax on adjusted sports wagering revenue to be used to fund infrastructure projects. The Governor's proposed FY2025 budget increases this tax to 35%, the additional 20 percentage points of which are slated to be transferred to the General Fund.[62] The increase is expected to generate $200 million.

[60] Illinois Commission on Government Forecasting and Accountability, FY2025 Economic Forecast and FY2024 Revenue Estimate Update, March 2024, pp. 24 and 29.
[61] See Public Act 101-0031.
[62] Illinois State FY2025 Budget, pp. 65 and 177.

Other transfers will decrease by 36.9%, mostly based on a $405 million decrease in the Income Tax Refund Fund Transfer.[63] Federal revenues will also decrease based on a one-time retroactive Medicaid claim draw in FY2024.[64]

State of Illinois General Funds Revenues: Estimated FY2024 and Governor's Recommended FY2025 (in $ millions)

State Taxes and Fees	FY2024 Est.	FY2025 Proj.	$ Change FY2024-FY2025	% Change FY2024-FY2025
Income Taxes (net)				
Individual (net)	$ 25,711	$ 26,690	$ 979	3.8%
Corporate (net)	$ 5,169	$ 5,477	$ 308	6.0%
Sales Taxes	$ 10,531	$ 10,874	$ 343	3.3%
Public Utility Taxes	$ 700	$ 701	$ 1	0.1%
Cigarette Tax	$ 208	$ 200	$ (8)	-3.8%
Liquor Gallonage Taxes	$ 184	$ 182	$ (2)	-1.1%
Estate Tax	$ 575	$ 525	$ (50)	-8.7%
Insurance Taxes & Fees	$ 514	$ 522	$ 8	1.6%
Corporate Franchise Tax & Fees	$ 228	$ 208	$ (20)	-8.8%
Interest on State Funds & Investments	$ 548	$ 300	$ (248)	-45.3%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 653	$ 741	$ 88	13.5%
Total State Taxes and Fees	**$ 45,265**	**$ 46,664**	**$ 1,399**	**3.1%**
Transfers and Adjustments				
Lottery	$ 850	$ 902	$ 52	6.1%
Gaming	$ 155	$ 177	$ 22	14.2%
Sports Wagering	$ -	$ 200	$ 200	
Adult-Use Cannabis	$ 116	$ 123	$ 7	6.0%
Other Transfers	$ 1,521	$ 959	$ (562)	-36.9%
Total Transfers and Adjustments	**$ 2,642**	**$ 2,361**	$ (281)	-10.6%
Total State Revenues	**$ 47,907**	**$ 49,025**	$ 1,118	2.3%
Federal Sources	$ 4,308	$ 3,969	$ (339)	-7.9%
Total Revenue	**$ 52,215**	**$ 52,994**	**$ 779**	**1.5%**

Note: Numbers may differ slightly from the FY2025 Budget Book due to rounding.

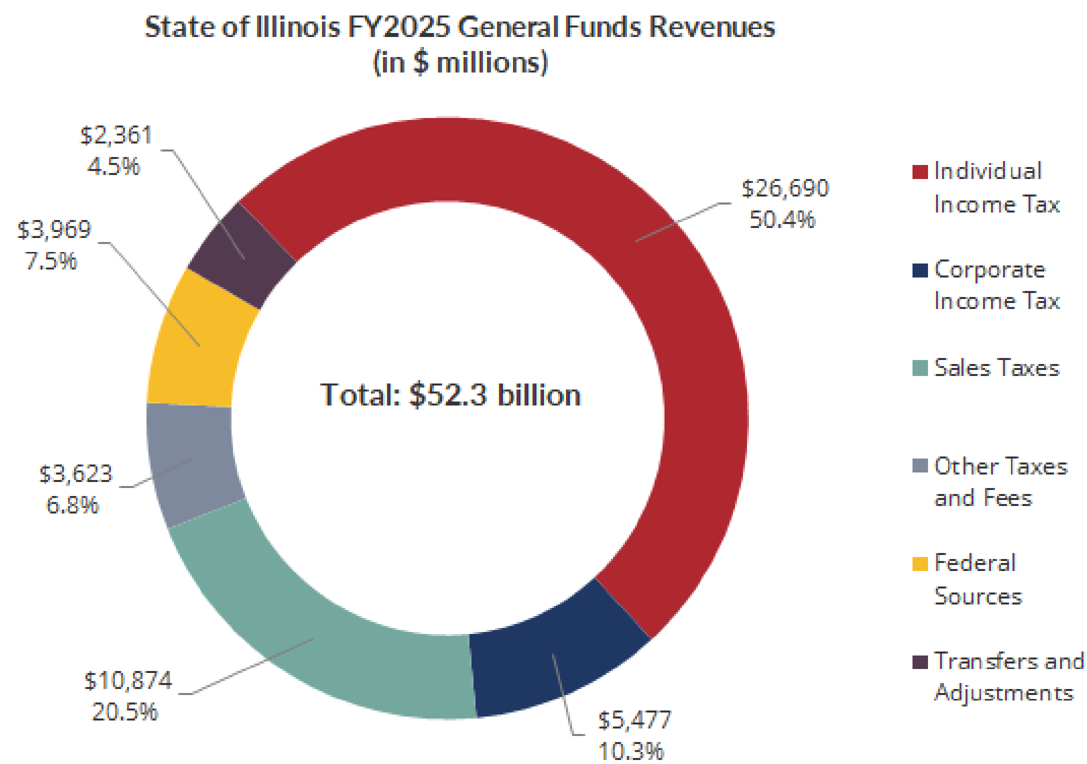
Source: Illinois State FY2025 Budget, p.139.

As shown in the following chart, the State relies heavily on two elastic, or economically sensitive revenues: individual and corporate income and sales taxes, which account for a combined 81.2% of all General Funds revenue.

[63] Illinois State FY2025 Budget, p. 177.

[64] Illinois State FY2025 Budget, p. 178. See Governor's Office of Management and Budget, Internal Review Identifies Additional Federal Match Owed to State For Developmental Disability Services Provided, August 11, 2023.

Individual and corporate income taxes will together provide 60.7% of all General Funds revenue in FY2025, or $32.2 billion. The single largest revenue source for the proposed FY2025 budget is individual income taxes, which are expected to total $26.7 billion, or 50.4%, of all revenues. Sales taxes are projected to be the second-largest revenue source at $10.9 billion, or 20.5%, of all General Funds revenues.



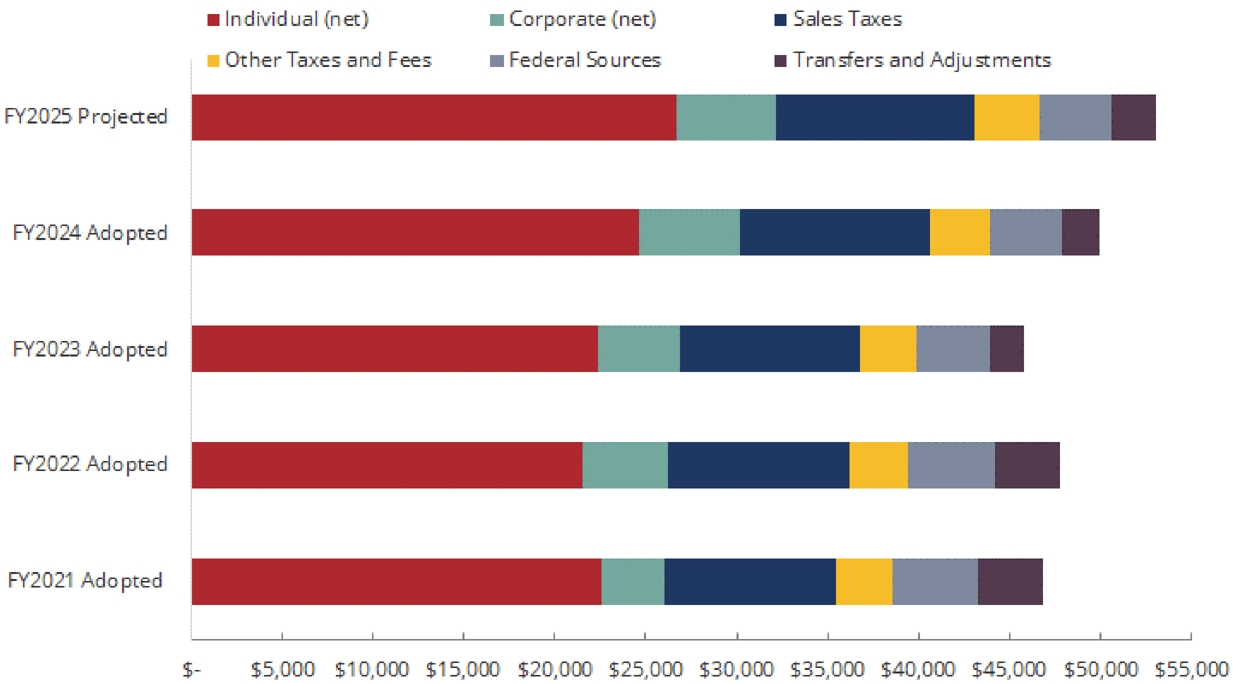
Source: Illinois State FY2025 Budget, p. 139.

The next chart presents a five-year trend of Illinois General Funds revenues by major source. It is important to note that FY2021 income tax numbers are artificially high based on a one-time tax filing extension in FY2020 that shifted a portion of FY2020 revenues into FY2021.[65] Fiscal

[65] Illinois State FY2024 Budget, p. 71.

years 2023 through 2024 reflect stronger-than-expected economic trends, and FY2025 reflects increased revenue from new tax treatments.

State of Illinois General Funds Revenues: FY2021-FY2025
(in $ millions)



Source: Illinois State FY2025 Budget, p. 139.

Income Taxes

Individual and corporate income taxes constitute the State's largest and third-largest individual revenue sources, accounting for more than half of all General Funds revenue. On July 6, 2017, after a number of years in which income tax rates fluctuated, the General Assembly permanently established the corporate income tax rate at 7% and raised the individual rate to 4.95%.[66]

The following table shows gross income taxes collected by the State from FY2021 actuals through FY2025 proposed budget projections, including the funds transferred to pay for tax refunds and provided to local governments through the Local Government Distributive Fund (LGDF). The gross amount less the two deductions is the net income tax revenue amount collected by the State. Over the five-year period, total net income tax proceeds are expected to increase by 23.3%, from $26.1 billion in FY2021 to $32.2 billion. During the same period, net individual income tax proceeds are expected to increase by 18.5%, or $4.2 billion, and net corporate income tax receipts are projected to increase by $1.9 billion, or 53.6%. The share allocated to the LGDF, traditionally 10% of revenues derived from pre-2011 tax rates (equivalent

[66] Public Act 100-0022, July 6, 2017.

to 6.06% of individual income taxes and 6.85% of corporate income taxes at current rates, was reduced by 10% to increase State revenues in FY2018. The holdback was reduced to 5% in fiscal years 2019-2021. Since then, there has not been a holdback.

State of Illinois General Funds: Total Income Tax Revenues
FY2021-FY2025
(in $ millions)

Income Tax Increment	FY2021	FY2022	FY2023	FY2024 Est.	FY2025 Proj.	Five-year $ Change	Five-year % Change
Individual Income Tax							
Tax Rate	4.95%	4.95%	4.95%	4.95%	4.95%		
Individual Income Tax	$ 25,582	$ 26,625	$ 25,641	$ 25,516	$ 26,452	$ 870	3.4%
Pass-Through Entities*	$ 768	$ 2,512	$ 2,401	$ 4,742	$ 4,958	$ 4,190	545.6%
Gross Individual Income Tax	**$ 26,350**	**$ 29,137**	**$ 28,042**	**$ 30,258**	**$ 31,410**	**$ 5,060**	**19.2%**
Refund Fund Transfer	$ (2,372)	$ (2,695)	$ (2,594)	$ (2,769)	$ (2,874)	$ (502)	21.2%
Deposits into LGDF	$ (1,453)	$ (1,602)	$ (1,568)	$ (1,779)	$ (1,846)	$ (393)	27.0%
Net Individual Income Tax	**$ 22,525**	**$ 24,840**	**$ 23,880**	**$ 25,710**	**$ 26,690**	**$ 4,165**	**18.5%**
Corporate Income Tax							
Tax Rate	7.00%	7.00%	7.00%	7.00%	7.00%		
Gross Corporate Income Tax	**$ 4,451**	**$ 6,831**	**$ 7,186**	**$ 6,453**	**$ 6,836**	**$ 2,385**	**53.6%**
Refund Fund Transfer	$ (625)	$ (1,026)	$ (1,042)	$ (903)	$ (957)	$ (332)	53.1%
Deposits into LGDF	$ (262)	$ (398)	$ (421)	$ (380)	$ (403)	$ (141)	53.8%
Net Corporate Income Tax	**$ 3,565**	**$ 5,407**	**$ 5,723**	**$ 5,170**	**$ 5,476**	**$ 1,911**	**53.6%**
Total Income Taxes (net)	**$ 26,090**	**$ 30,247**	**$ 29,603**	**$ 30,880**	**$ 32,166**	**$ 6,076**	**23.3%**

* The State began reporting income from pass-through business entities, such as partnerships and S-corporations, separately from other individual income starting in FY2017.

Note: Numbers may differ slightly from the FY2025 Budget Book due to rounding.

Source: Illinois State FY2025 Budget, pp. 167-168.

Individual Income Tax

Projections for net individual income tax receipts in the General Fund in FY2025 total $26.7 billion, which is $979 million, or 3.7%, above the FY2024 year-end estimate. FY2024 net individual income tax receipts are expected to increase by $1.8 billion from FY2023, which almost entirely reflects a growth in Pass-Through Entity (PTE) payments over the prior year, as well as increases in wages and employment.[67] PTE income includes income received by individuals through partnerships, fiduciaries and S-corporations that "passes through" to individual income statements rather than being taxed as corporate income and were enabled through legislation[68] signed by the Governor in FY2022.[69] The most recent State projections reflect continuing economic growth and proposed changes to the Illinois Income Tax Act, including the creation of the refundable child tax credit and an adjustment to the standard deduction for tax year 2024.[70]

Corporate Income Tax

Net corporate income tax revenue shows an increase of $306 million, or 5.9%, from FY2024 projections, bringing the total from $5.2 billion to $5.5 billion. Corporate income tax receipts

[67] Illinois State FY2025 Budget, p. 168.
[68] Public Act 102-0658.
[69] Illinois Commission on Government Forecasting and Accountability, May 2023 Monthly Briefing, p. 4.
[70] Illinois State FY2025 Budget, p.168.

have begun to decline from their strong pandemic recovery that continued through FY2024 based on cooling inflation and the incorporation of the PTE reconciliation described above. The increase projected for FY2025 is due to the Governor's proposed continuation of the net operating loss deduction limitation at a new threshold over the next three years and also accounts for an anticipated change in the base allocation formula between corporate income tax and PTE withholding tax.[71] Over the five-year period, net corporate income tax receipts have increased by $1.9 billion, or 53.6%.

Sales Tax

Sales taxes were strong during the pandemic as federal stimulus dollars and expanded unemployment benefits supported consumers' disposable personal income. Further, federal stimulus dollars, combined with the shift in consumption patterns from services, which largely are not taxable in Illinois, to goods, which are taxable, engendered an increase of taxable income. This growth is projected to taper off, as taxable consumption has yet to increase in FY2024 based on declining motor fuel prices, high mortgage and interest rates, the spending shift back toward services from goods and consistently high consumer prices.[72] General Fund receipts from sales taxes have also seen decreased growth due to increasing deposits into the Road Fund as the State implements a five-year shift of the State portion of the motor fuel tax from the General Fund to the Road Fund.

Despite these changes, net sales tax receipts are expected to increase by $343 million, or 3.3%, in FY2025, based on an additional $175 million Road Fund offset deposit into the Public Transportation Fund and a proposed $1,000 monthly cap on the 1.75% Retailers Discount.[73]

Other State-Source Revenue

Total General Funds revenues from State sources other than income and sales taxes, including public utility, liquor, cigarette, estate and other taxes, will total $3.6 billion. This reflects an expected decrease of 6%, or $231 million, from FY2024 to FY2025 that is largely based on a decline in interest on State funds and investments.

Transfers and adjustments, such as lottery, gaming and cannabis revenues, are predicted to decrease by $281 million, from $2.6 billion in FY2024 to $2.4 billion in FY2025. The largest source for this decline derives from a lower transfer from the Income Tax Refund Fund. [74] The Commission on Government Forecasting and Accountability (COGFA) reported in January 2024 that the decline in transfers to the Income Tax Refund Fund is due to the transfer value returning to a more typical level when compared to FY2023 levels, which was significantly higher due to stronger than expected income tax performance during that fiscal year.[75]

[71] Illinois State FY2025 Budget, p. 169.
[72] Illinois State FY2025 Budget, pp. 169-170.
[73] Illinois State FY2025 Budget, p. 170.
[74] Illinois State FY2025 Budget, pp. 83 and 177.
[75] Illinois Commission on Government Forecasting and Accountability, January 2024 Monthly Briefing, p. 6

Federal Revenues

Federal revenues are expected to decrease by 7.9%, from $4.3 billion in FY2024 to $4 billion in FY2025, due to a decline in Medical Assistance from a one-time retroactive draw tied to waiver services for Medicaid reimbursements.[76]

APPROPRIATIONS AND EXPENDITURES

The recommended FY2025 operating budget proposes total appropriations of $123.2 billion, including $51.3 billion in General Funds spending authority.[77] The budget proposal also includes $53.6 billion in appropriations from Other State Funds and $18.3 billion in Federal Funds appropriations.

General Funds support the regular operating and administrative expenses of most agencies and are the funds over which the State has the most control.[78] Other State Funds are accounts for activities funded by specific revenue sources that may only be used for specific purposes. Federal Funds (other than those designated for General Funds) use federal revenues to support a variety of State programs.

Proposed General Funds expenditures total $52.7 billion.[79] General Funds expenditures include both spending from appropriations and transfers from General Funds to other State accounts to make interest and principal payments on borrowings as well as for other legislatively required purposes.

TOTAL APPROPRIATIONS BY FUND TYPE

Recommended total appropriations of $123.2 billion in FY2025 represent a decrease of $1.9 billion, or 1.6%, from enacted appropriations of $121.3 billion in FY2024. Proposed FY2025 General Funds appropriations increase by nearly $2.1 billion, or 4.4%, from $49.2 billion the year before. Total appropriations grew by $17.6 billion, or 16.6%, from $105.7 billion in FY2021, while General Funds appropriations increased by $10.6 billion, or 26.2%, over the five-year

[76] Illinois State FY2024 Budget, pp. 83 and 178. See Governor's Office of Management and Budget, Internal Review Identifies Additional Federal Match Owed to State For Developmental Disability Services Provided, August 11, 2023.
[77] Illinois State FY2025 Budget, p. 107.
[78] The definition of General Funds was changed in FY2018 to include three additional funds: the Fund for the Advancement of Education, Commitment to Human Services Fund and Budget Stabilization Fund.
[79] Illinois State FY2025 Budget, p. 86.

period. The following table shows enacted appropriations by type of fund from FY2021 through FY2024 and proposed appropriations for FY2025.

State of Illinois Appropriations by Fund Type: FY2021-FY2025 (in $ millions)

	FY2021 Enacted*	FY2022 Enacted*	FY2023 Enacted*	FY2024 Enacted*	FY2025 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Funds	$ 40,695	$ 43,750	$ 47,722	$ 49,198	$ 51,339	$ 2,141	4.4%	$ 10,644	26.2%
Other State Funds	$ 38,728	$ 43,347	$ 50,103	$ 51,356	$ 53,646	$ 2,291	4.5%	$ 14,919	38.5%
Federal Funds	$ 26,229	$ 30,678	$ 25,132	$ 20,765	$ 18,254	$ (2,511)	-12.1%	$ (7,974)	-30.4%
Total**	**$ 105,651**	**$ 117,775**	**$ 122,956**	**$ 121,320**	**$ 123,240**	**$ 1,920**	**1.6%**	**$ 17,589**	**16.6%**

*Enacted appropriations for FY2021, FY2022 and FY2023 include original and supplemental appropriations. Enacted appropriations for FY2024 include the proposed supplemental appropriations total of approximately $1.2 million.

**Totals may not sum due to rounding.

Source: Illinois State FY2025 Budget, p.107; Illinois State FY2024 Budget, p.98 and Illinois State FY2023 Budget, p. 91.

Total enacted appropriations do not accurately reflect State spending because spending from Other State Funds and Federal Funds is often significantly below appropriated amounts. In FY2023, for example, actual spending from Other State Funds was $39.8 billion, 20.6% below the $50.1 billion appropriated.[80] Actual spending from Federal Funds in FY2023 was $11.1 billion, 56.0% below the $25.1 billion adjusted appropriation. General Funds spending from appropriations typically reflects a much lower level of unspent appropriations. Appropriations from Other State Funds and Federal Funds do not affect the projected operating surplus, which is based on General Funds revenues and expenditures.

Appropriations for Federal Funds declined over the five-year period by $8.0 billion, or 30.4%, from $26.2 billion in FY2021 to $18.3 billion in FY2025. The decrease is due to the State appropriating nearly all of the $8.1 billion provided to them through the American Rescue Plan Act (ARPA) by the end of June 2023, which was allocated through the Coronavirus State Fiscal Recovery Fund (SFRS). The majority of the final allocations of the ARPA funds included $4.063 billion to repay the Unemployment Insurance (UI) Trust Fund advances; $1.8 billion used for revenue replacement; $619 million for public health initiatives; $88 million for infrastructure; $1.1 billion to address negative economic impacts of COVID-19; $342 million for premium pay; and approximately $38 million for expenses to administer state and local recovery projects and programs.[81] The proposed FY2025 budget includes the continued use of the remaining ARPA Coronavirus State and Local Fiscal Recovery Funds (SLFRF) to support capital projects including the improvement of water and sewer infrastructure.

General Funds Appropriated Spending

To understand State spending pressures, it is helpful to distinguish appropriated agency spending from pension contributions and group insurance payments. The legislature generally has more discretion over agency appropriations than the other two spending categories.[82]

[80] Illinois State FY2025 Budget, p. 107.
[81] Illinois State FY2025 Budget, p. 71.
[82] Medicaid is considered as discretionary in this analysis, even though most spending changes in the Medicaid program require changes in State law, administrative rules and/or approval from the federal government.

Pension contributions are based on State law, determined by Illinois' five retirement systems and covered by continuing appropriations. Continuing appropriations are funds that the Illinois Comptroller and Treasurer are statutorily authorized to spend in the event the legislature fails to appropriate or insufficiently appropriates for a particular purpose.[83] Group insurance consists mainly of health insurance for employees and retirees, which is required by State law and union contracts.

The following table shows appropriated spending for these categories from FY2021 through FY2024 and proposed appropriated spending for FY2025. The FY2022 and FY2023 pension contributions in the table below are certified amounts and do not include additional pension stabilization fund contributions totaling $700 million. In FY2022 $300 million above the certified amount was contributed to the fund, to help pay down the State's pension debt, and in FY2023 an additional $400 million was provided to fund. In FY2024, the State increased its contribution to the retirement systems by $181 million from prior year levels based on the certified required amounts. Additionally, these certified contributions will increase again in FY2025 by $322 million. [84]

State of Illinois General Funds Appropriated Expenditures by Category: FY2021-FY2025 (in $ millions)

	FY2021	FY2022	FY2023 Actual	FY2024 Est.	FY2025 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Agency Appropriations Spent*	$ 28,681	$ 30,763	$ 35,178	$ 37,842	$ 38,037	$ 195	0.5%	$ 9,356	32.6%
Pension Contributions**	$ 8,624	$ 9,363	$ 9,632	$ 9,813	$ 10,135	$ 322	3.3%	$ 1,511	17.5%
Group Insurance	$ 2,022	$ 2,750	$ 1,831	$ 1,837	$ 2,327	$ 490	26.7%	$ 305	15.1%
Total	**$ 39,327**	**$ 42,876**	**$ 46,641**	**$ 49,492**	**$ 50,499**	**$ 1,007**	**2.0%**	**$ 11,172**	**28.4%**

*Enacted expenditures in FY2022, FY2023 and FY2024 include supplementary appropriations.

**The FY2022 and FY2023 pension contributions do not include proposed pension stabilization fund contributions totalling $700 million.

Source: Illinois State FY2025 Budget, pp.75 and 86; Illinois State FY2024 Budget, pp.67 and 78; Illinois State FY2023 Budget, pp. 60 and 70.

Proposed agency spending from appropriations is expected to increase by $195 million, or 0.5%, to $38.0 billion in FY2025, up from $37.8 billion in FY2024. The FY2024 Agency Appropriations of $37.8 billion include proposed total supplemental appropriations of approximately $1.2 billion, including $430 million to the Department of Healthcare and Family Services (HFS), $346.8 million to the Department of Human Services (DHS) and $188.3 million to the Department of Central Management Services. The remaining appropriations will be allocated to other agencies including the Department of Innovation and Technology, Department of Corrections, Department on Aging and the Department of Children and Family Services (DCFS).[85]

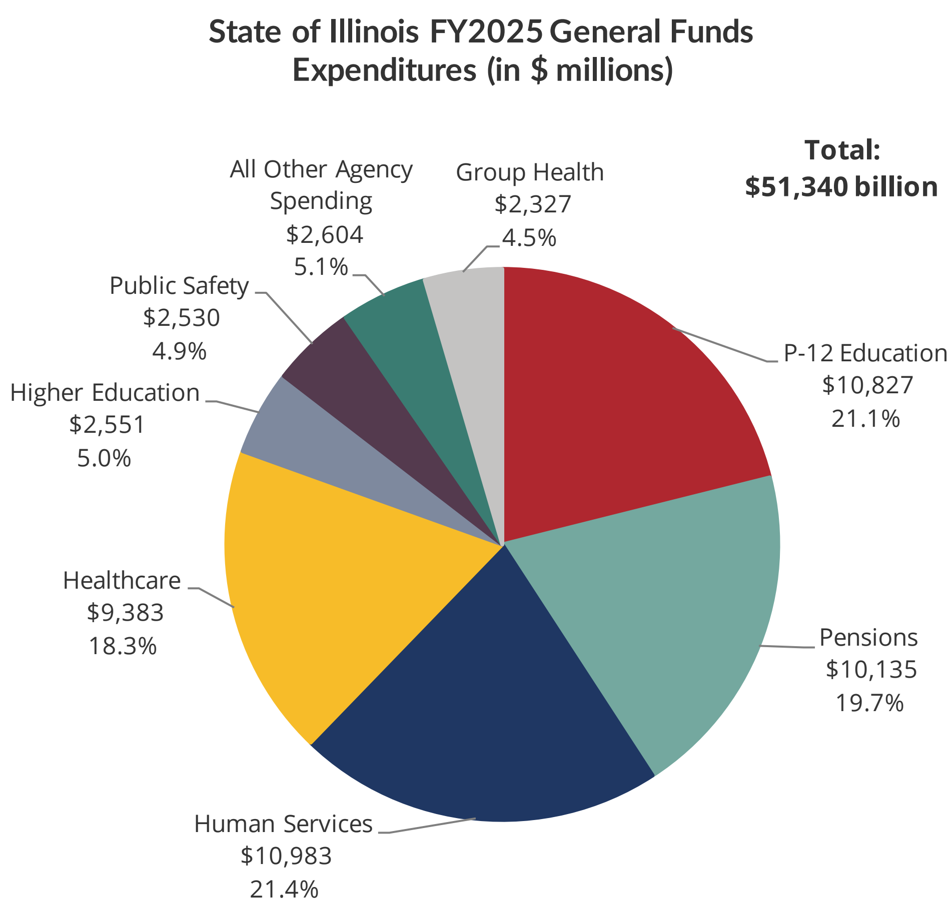
Over a five-year period, agency spending is projected to increase by $9.4 billion, or 32.6%, from $28.7 billion in FY2021.

[83] Illinois State FY2025 Budget, p. 620.
[84] Illinois State FY2025 Budget, p. 80-85.
[85] Illinois State FY2025 Budget, pp. 84 and 136.

The FY2025 budget proposes to increase General Funds pension contributions by $322 million, or 3.3%, to $10.1 billion, up from $9.8 billion in FY2024. The proposed FY2025 contribution is equal to the certified full amount required under existing state law.[86]

Proposed FY2025 General Funds group health insurance payments will increase by $490 million from the prior year to $2.3 billion. The increase is due to 2025 liabilities for statewide Group Insurance through the Department of Central Management Services.[87] However, as of fiscal year 2022, the State has reduced its healthcare liabilities by 56% due to effective negotiations.[88]

GENERAL FUNDS PROPOSED AGENCY EXPENDITURES BY AREA



Source: State of Illinois FY2025 Proposed Budget, p. 75.
Note: Does not include unspent appropriations or transfers out of General Funds.

[86] Illinois State FY2025 Budget, p. 85.
[87] Illinois State FY2025 Budget, p. 272.
[88] Illinois State FY2024 Budget, p. 66.

The chart above shows the State of Illinois' proposed FY2025 General Funds expenditures. These do not include unspent appropriations or transfers out of General Funds. The Proposed FY2025 budget includes P-12 Education appropriations of $10.8 billion, or 21.1% of General Funds. Approximately $11.0 billion, or 21.4%, is for Human Services and $9.4 billion, or 18.3%, is for Healthcare. About $2.3 billion, or 4.5%, of General Funds will go towards Group Health Insurance payments. Additional expenditures include $10.1 billion, or 19.7%, for Pension contributions and $2.6 billion, or 5.0%, for Higher Education. Approximately $2.5 billion, or 4.9%, will go to Public Safety and $2.6 billion, or 5.1%, for All Other Agency Spending. All Other Agency Spending includes State contributions to the Chicago Teacher's Pension Fund and the areas of Economic Development, Environment and Culture and Government Services.[89] The following table explains in detail the agency expenditures and appropriations from FY2021 to FY2025. It details spending by area of government, based on the categories in the budget book.[90] Actual spending by area is shown for FY2021 through FY2023, estimated expenditures for FY2024 and proposed appropriations for FY2025. The list of agencies in each category can be found in the Appendix of this report.

State of Illinois General Funds Agency Expenditures and Appropriations by Area: FY2021-FY2025 (in millions)

	FY2021 Exps.	FY2022 Exps.	FY2023 Exps.	FY2024 Est. Exps.	FY2025 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
P-12 Education*	$ 8,897	$ 9,327	$ 9,764	$ 10,365	$ 10,827	$ 462	4.5%	$ 1,930	21.7%
Higher Education**	$ 1,973	$ 2,292	$ 2,253	$ 2,539	$ 2,551	$ 12	0.5%	$ 578	29.3%
Human Services	$ 7,177	$ 7,705	$ 10,839	$ 10,267	$ 10,983	$ 716	7.0%	$ 3,806	53.0%
Healthcare	$ 8,179	$ 7,853	$ 8,596	$ 9,292	$ 9,383	$ 91	1.0%	$ 1,204	14.7%
Public Safety	$ 1,915	$ 2,036	$ 2,343	$ 2,515	$ 2,530	$ 15	0.6%	$ 615	32.1%
All Other Agency Spending***	$ 1,906	$ 2,423	$ 2,464	$ 2,570	$ 2,604	$ 34	1.3%	$ 698	36.6%
Total	**$ 30,047**	**$ 31,636**	**$ 36,259**	**$ 37,548**	**$ 38,878**	**$ 1,330**	**3.5%**	**$ 8,831**	**29.4%**

*P-12 Education does not include contributions to the Teachers' Retirement System or the Teachers' Retirement Insurance Program.
**Higher Education does not include contributions to the State Universities Retirement System or the College Insurance Program.
***All Other Agency Spending includes the State contribution to the Chicago Teachers' Pension Fund and the areas of Economic Development, Environment and Culture and Government Services (excluding group insurance).
Source: Illinois State FY2025 Budget, p.75; Illinois State FY2024 Budget, p.67 and Illinois State FY2023 Budget, p. 60.

P-12 Education

Among the State's proposed FY2025 expenditures, appropriations for preschool to secondary education will increase from the prior year by $462 million, or 4.5%, from $10.4 billion in FY2024 to $10.8 billion in FY2025. The Governor's proposed budget meets the $350 million annual funding target increase that was part of the State's 2017 evidence-based school funding law. The $350 million increase was also included in the enacted budgets for FY2024, FY2023, FY2022 and FY2020, but not the pandemic-impacted budget for FY2021. Since FY2021, there has been a $1.8 billion increase in annual funding to help achieve the Evidence-Based Funding (EBF) formula statutory target.[91] The five-year increase of $1.9 billion, or 21.7%, in P-12 funding

[89] Illinois State FY2025 Budget, p. 75.
[90] Illinois State FY2025 Budget, p. 75.
[91] Illinois State FY2025 Budget, p. 33.

comes almost entirely from increases in FY2022, FY2023, FY2024 and the projected FY2025 budget.[92]

The EBF school funding reform law required that the State for the first time pay for part of the pension benefits earned each year by Chicago Public Schools (CPS) teachers.[93] However, those CPS pension costs, estimated at $354 million in FY2025, are not included in the education category in the budget; they instead are shown in All Other Agency Spending in the table above.[94]

The proposed FY2025 budget is providing over $400 million in funding for the second year of the Governor's Smart Start Illinois early childhood initiative, which is a multi-year program that will provide a comprehensive approach to investments focused on preparing children to be lifelong learners. The budget is also proposing $13 million in operational funding for the new Department of Early Childhood to develop needed operational infrastructure before merging pieces that support early childhood education in various areas of state government. The budget also appropriates an increase of $75 million for the Early Childhood Block Grant to expand access to support services and preschool availability. Additionally, $200 million, plus additional federal dollars, will go toward increased compensation for early childhood workers.[95]

Higher Education

Proposed spending for higher education increases by $12 million, or 0.5%, to nearly $2.6 billion in FY2025, up from $2.5 billion in FY2024.[96] Higher education includes: nine public universities[97]; the Illinois Community College Board, which distributes funds to 48 community colleges; and the Monetary Award Program (MAP), which provides college tuition grants for low income students.[98] The FY2025 budget increases General Funds support for universities and community colleges by $30.6 million, or 2%, compared to FY2024 levels. The budget will provide an additional $10 million for MAP, which would provide sufficient funding for approximately 146,000 students. The budget is also proposing $5 million in new funds for the continuation of

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[92] P-12 education funding does not include State contributions to the Teachers' Retirement System, the pension fund for teachers outside of Chicago, or to the Teachers' Retirement Insurance Program, which provides health insurance for retired teachers outside of Chicago.
[93] The State has responsibility for both the normal cost and unfunded liability of the Teachers' Retirement System, which covers teachers outside of Chicago.
[94] Illinois State FY2025 Budget, p. 75. The budget book includes CPS normal pension costs (which include retiree health insurance) in the category of Government Services.
[95] Illinois State FY2025 Budget, p. 32.
[96] Illinois State FY2025 Budget, p. 75.
[97] WTTW News reported that the Commission on Equitable Public University Funding issued a new report in March 2024 calculating that public universities in the State are underfunded by approximately $1.4 billion.
[98] Higher education also includes the Illinois Board of Higher Education, Math and Science Academy and State Universities Civil Service System. Higher education budget numbers presented here do not include State contributions to the State Universities Retirement System and College Insurance Program or group health insurance payments for university employees and retirees.

the Early Childhood Access Consortium for Equity scholarships[99], which were previously funded by the federal government.[100]

Human Services

Proposed appropriations for human services increase by $716 million, or 7.0%, to approximately $11.0 billion in FY2025, up from $10.3 billion in FY2024. Over the five-year period, proposed human services spending increases by $3.8 billion, or 53.0%, to $11.0 billion in FY2025, up from $7.2 billion in FY2021. The Human Services category includes not only the Department of Human Services, but the Departments on Aging, Children and Family Services, Juvenile Justice, Employment Security, Human Rights, Public Health, Veterans' Affairs and several others.

The FY2025 General Funds budget proposal for the Department of Human Services (DHS) is $7.3 billion, an increase of $652 million, or 9.0%, up from estimated FY2024 spending of $6.6 billion.[101] The additional funding includes $50 million for services for people with developmental disabilities through programs such as the Home Illinois initiative, which includes investments for eviction mitigation, shelter diversion, scattered site housing and court-based rental assistance. The proposed budget also includes a $116 million increase to support services for people with developmental disabilities through the State's *Ligas* consent decree. Meanwhile, the Home Services Program will receive an increase of $116 million for expected caseload growth and liability increases, and a $19.0 million increase to support mental health care and treatment for forensic inpatient and outpatient services, the suicide and crisis hotline, and the *Williams* and *Colbert* consent decrees.[102]

The proposed FY2025 General Funds budget for the Department on Aging is $1.6 billion, an increase of $165.4 million over estimated spending of $1.4 billion in FY2024. [103] Additional funding includes an increase of $104.4 million to accommodate caseload growth and utilization as well as the proposed rate increase of $1.15 per hour, effective January 1, 2024. There is also a $3.0 million increase for the Home-Delivered Meals Program. [104] The Department of Children and Family Services will receive an additional $76.2 million in General Funds appropriations in FY2025, or a 5.2% increase over FY2024. The increase will support additional staff positions and maintain funding for current programs and various State initiatives, including a modernized case management system and supports for other programs.[105]

[99] The Illinois Student Assistance Commission provides scholarships to students who work in early childhood education that are seeking additional credentials and/or a degree in early childhood education.
[100] Illinois State FY2025 Budget, pp. 34 -35.
[101] Illinois State FY2025 Budget, p. 339.
[102] Illinois State FY2025 Budget, pp. 39 and 339.
[103] Illinois State FY2025 Budget, p. 258.
[104] Illinois State FY2025 Budget, p. 40.
[105] Illinois State FY2025 Budget, pp. 38 and 278.

Healthcare

The State's healthcare category refers to the Department of Healthcare and Family Services (HFS), which is the Illinois agency mainly responsible for Medicaid, the joint federal-state program that pays for healthcare for low-income people. Proposed FY2025 General Funds appropriations for Medicaid of nearly $9.4 billion are projected to increase by $91 million, or 1.0%, from estimated spending of $9.3 billion in FY2024. This represents an increase of $1.2 billion, or 14.7%, over the past five years, up from $8.2 billion in FY2021.

The differences between General Funds spending and appropriations for HFS vary widely because the agency frequently does not spend a sizable portion of its appropriations.[106] Additionally, trends in Medicaid spending are difficult to track because of heavy reliance on other State accounts, shifts in funding such as the increase in the Medicaid reimbursement rate during the pandemic and the reduction to the reimbursement rate this year after the end of the federal pandemic emergency, as well as recent changes in the program including the expansion of Medicaid coverage under the Affordable Care Act (ACA) and the enrollment of recipients in managed care organizations (MCOs).

The projected increase in General Funds appropriations in FY2024 for the Department of Healthcare and Family Services (HFS) is due mostly to Medicaid program rate increases and programmatic changes effective in the middle of fiscal year 2024. Additionally, $629 million will be provided in FY2025 for the Health Benefits for Immigrant Seniors and Health Benefits for Immigrant Adults programs.[107]

Public Safety

The Public Safety area of government includes the Department of Corrections, State Police, Criminal Justice Information Authority and many others, as shown in the Appendix of this report. Proposed General Funds appropriations for Public Safety increase by $15 million, or 0.6%, to $2.53 billion in FY2025, up from the FY2024 total of $2.52 billion. Over a five-year period, public safety appropriations represent an increase of $615 million, or 32.1%, from $1.9 billion in FY2021.

In FY2025, the proposed budget increases appropriations to violence prevention programs like the Reimagine Public Safety Act and the Restore, Reinvest and Renew Grants Program. [108] The Criminal Justice Information Authority (CIJA) will invest $3.1 million for Trauma Recovery Centers and $200 million for the Restore, Reinvest, and Renew Grants Program, which will allow for

[106] HFS' unspent General Funds appropriations relate partly to Medicare premiums, which the State pays for recipients who are eligible for both programs. Instead of waiting for State payments, federal authorities in recent years have deducted the amount owed from Medicaid reimbursements. Because HFS does not know in advance whether the federal government will reduce revenues or require payment, the Medicare premium amount continues to be appropriated in the agency's budget (and included in the lump sum unspent amount for the overall budget).
[107] Illinois State FY2024 Budget, pp. 40 and 381.
[108] Illinois State FY2025 Budget, p. 43.

additional grants to be awarded and flexibility in administering them. The Criminal Justice Information Authority also includes $1 million for a nationally established web-based data collection and reporting system known as InfoNet for victim service providers as well as a $150,000 increase in funding for Bullying Prevention services. [109]

The Department of Corrections will use the $22.6 million proposed increase in funding to increase compensation for staff at 28 correctional facilities across the State and $2 million for the expansion of the construction workforce vocational training program, which is funded by the federal government. [110] The Illinois State Police will also receive $5.3 million in General Funds to support two cadet classes to hire and train 100 additional sworn troopers. Additionally, smaller appropriations in the proposed FY2025 budget will help fund Illinois State Police laboratory enhancements. This includes a voluntary program offered to Illinois schools known as Safe2Help and contractual services.[111]

GENERAL FUNDS EXPENDITURES

Total expenditures from General Funds are expected to increase by $752 million, or 1.4%, to $52.3 billion in FY2025, up from approximately $51.9 billion estimated in FY2024. The increase is due to the state group insurance and pension contributions, which is offset by a decline in total transfers out. Over the five-year period, expenditures increased by nearly $9.0 billion, or 20.5%, from $43.7 billion in FY2021.

State of Illinois General Funds Expenditures:
FY2021-FY2025 (in $ millions)*

	FY2021	FY2022	FY2023 Prelim.	FY2024 Est.	FY2025 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Agency Appropriations[1]	$ 29,995	$ 31,593	$ 36,204	$ 38,732	$ 38,877	$ 145	0.4%	$ 8,882	29.6%
(Unspent Appropriations)[2]	$ (1,314)	$ (830)	$ (1,026)	$ (890)	$ (840)	$ 50	-5.6%	$ 474	-36.1%
Net Agency Appropriations Spent	$ 28,681	$ 30,763	$ 35,178	$ 37,842	$ 38,037	$ 195	0.5%	$ 9,356	32.6%
Pension Contributions	$ 8,624	$ 9,363	$ 9,632	$ 9,813	$ 10,135	$ 322	3.3%	$ 1,511	17.5%
State Group Insurance	$ 2,022	$ 2,750	$ 1,831	$ 1,837	$ 2,327	$ 490	26.7%	$ 305	15.1%
Net Appropriations Spent	**$ 39,327**	**$ 42,876**	**$ 46,641**	**$ 49,492**	**$ 50,499**	**$ 1,007**	**2.0%**	**$ 11,172**	**28.4%**
Statutory Transfers Out									
Legislatively Required Transfers	$ 517	$ 722	$ 1,282	$ 443	$ 445	$ 2	0.5%	$ (72)	-13.9%
Proposed Pension Stabilization Fund Contribution	$ -	$ -	$ 400	$ -	$ -	$ -	0.0%	$ -	0.0%
Property Tax Rebate Checks	$ -	$ 470	$ 50	$ -	$ -	$ -	0.0%	$ -	0.0%
Grocery Tax Replacement to Local Governments	$ -	$ 325	$ 75	$ -	$ -	$ -	0.0%	$ -	0.0%
Income Tax Rebate	$ -	$ 685	$ -	$ -	$ -	$ -	0.0%	$ -	0.0%
Proposed Transfer to Fund #611[3]	$ -	$ -	$ -	$ 350	$ -	$ (350)	-100.0%	$ -	0.0%
State CURE Fund[4]	$ -	$ -	$ 1,239	$ -	$ -	$ -	0.0%	$ -	0.0%
Repayment of Interfund Borrowing[5]	$ 140	$ 933	$ -	$ -	$ -	$ -	0.0%	$ (140)	-100.0%
Total Debt Service[6]	$ 1,529	$ 1,230	$ 1,149	$ 1,658	$ 1,751	$ 93	5.6%	$ 222	14.5%
Municipal Liquidity Facility Repayments	$ 2,209	$ 1,052	$ -	$ -	$ -	$ -	0.0%	$ (2,209)	-100.0%
Total Transfers Out	**$ 4,395**	**$ 5,417**	**$ 4,195**	**$ 2,451**	**$ 2,196**	**$ (255)**	**-10.4%**	**$ (2,199)**	**-50.0%**
Total Expenditures	**$ 43,722**	**$ 48,293**	**$ 50,836**	**$ 51,943**	**$ 52,695**	**$ 752**	**1.4%**	**$ 8,973**	**20.5%**

*Totals may not sum due to rounding.
[1]Agency Appropriations in FY2024 include the proposed supplemental appropriations of $1,183 million.
[2]Unspent appropriations include Comptroller prior year adjustments of $43 million in FY2022 and $55 million in FY2023.
[3]The Proposed Transfer to Fund #611 includes $350 million in FY2024 for the Fund for Illinois' Future through the Budget Implementation Bill (BIMP) proposal.
[4]An authorized transfer of $1,239 million from the General Fund to the State Coronarvirus Urgent Remediation Emergency (CURE) Fund in FY2023 to ensure that the State fully expended its federal dollars within the timeframe set by the federal government.
[5]Repayment of interfund borrowing includes $140 million in FY2021 and $933 million in FY2022 from the FY2018 - FY2022 interfund borrowing authority.
[6]Total Debt Service includes: Capital Bonds, Pension Bonds, Section 7.6 Bonds and Pension Acceleration Bonds.
Sources: Illinois State FY2025 Budget, pp. 75, 86, 570; Illinois State FY2024 Budget, pp. 67, 78, 546; Illinois State FY2023 Budget, pp. 60, 70, 516.

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109 Illinois State FY2025 Budget, p. 44.
110 Illinois State FY2025 Budget, p. 44.
111 Illinois State FY2025 Budget, p. 46.

Transfers out of General Funds consist of legislatively required transfers and debt service transfers. Legislatively required transfers move funds from General Funds to Other State Funds for various programs and purposes. Outgoing debt service transfers are used to make debt service payments. Total transfers out in FY2024 will decline by $255 million, or 10.4%, to $2.3 billion in FY2025, down from $2.5 billion in FY2024, and by $2.2 billion, or 50.0%, from $4.4 billion in FY2021.

In FY2025 legislatively required transfers will remain relatively flat, only increasing by $2 million, or 0.5%, to $445 million, up from $443 million in FY2024. The increase is due to a multitude of small investments including Tourism Promotion, Revolving Workers' Compensation claims and the School Infrastructure Fund.[112] Debt service transfers will increase by $93 million to $1.8 billion in FY2025, up from $1.7 billion in FY2024. Debt service includes payments to capital bonds, pension bonds, section 7.6 bonds and pension acceleration bonds.

PENSIONS

Illinois' retirement systems are among the most poorly funded of any state.[113] At the end of FY2023, actuarial unfunded liabilities totaled nearly $141.4 billion and the combined funded ratio stood at 44.9%. The unfunded liability and funded ratio based on the market value of assets were $142.2 billion and 44.6%.[114] Based on a wide array of economic and demographic assumptions, if the funded ratio were 100%, pension assets would be sufficient to cover projected pension benefits when they are owed.

The State's 50-year funding plan, which began in FY1996, requires the five retirement systems to reach 90% funding by FY2045. The five systems are: the Teachers' Retirement System, which covers public school teachers outside Chicago; the State Employees' Retirement System, for most State employees who are not eligible for another State plan; the State Universities Retirement System, for faculty and staff of universities and community colleges; the Judges' Retirement System; and the General Assembly Retirement System. To achieve the 90% funding goal, annual State contributions for all funds are currently projected to rise to $18.7 billion in the next 21 years[115] from $10.9 billion in FY2024.[116]

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[112] Illinois State FY2025 Budget, General Transfers Out Addendum, pp. 49 and 137.
[113] The Pew Charitable Trusts, "States Shored Up Pension Plans in 2021, but More Is Needed," *Issue Brief*, November 8, 2023..
[114] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2023, p. 2-3.
[115] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2023, p. 12.
[116] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2023, p. 12. The $10.9 billion contribution is for all funds.

The State's unfunded pension liabilities are expected to continue growing until FY2027 despite increasing contributions.[117] The State's funding plan and subsequent statutory changes deferred a large portion of required contributions to future years, which funded other priorities in annual budgets at the expense of the pension funds. This means the State is still experiencing negative amortization of its pension funds and is not contributing enough to decrease the unfunded liability.

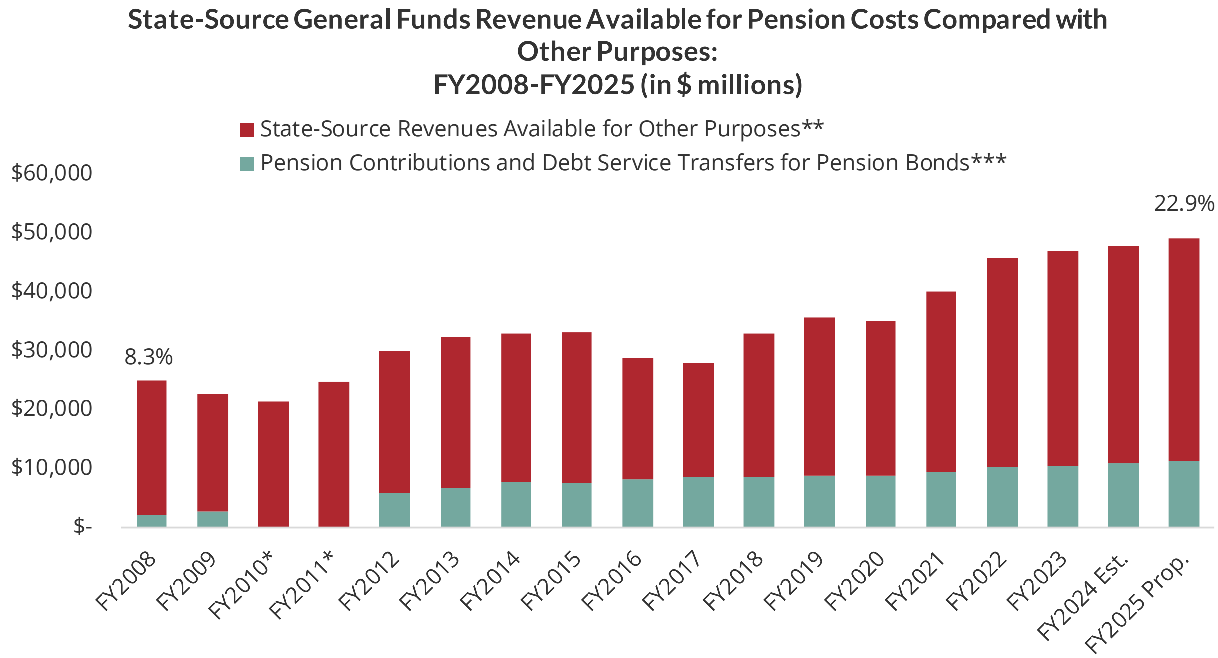
The Governor's FY2025 budget includes a proposal to increase the goal of the 50-year funding program to 100% by FY2048, which would increase the State's contributions to the pensions from half of the budgetary savings when its backlog bonds and pension obligation bonds are paid off in 2030 and 2034. The Governor additionally proposes making changes to how annual gains and losses in the funds, compared to actuarial assumptions, are amortized in order to prevent swings in State payments during the final years of the funding schedule. The Civic Federation supports these proposals as well-considered options to rationalize the State's pension funding schedule.

Finally, the FY2025 proposed budget recommends that the State's pension funds and the General Assembly review changing the Tier 2 pensionable salary cap to the Social Security wage base for State employees who do not receive Social Security to ensure the Tier remains compliant with federal law. This recommendation is in line with the Civic Federation's recommendations as expressed in its analysis of the FY2024 proposed State budget, its testimony provided to the Illinois House Committee on Personnel and Pensions in 2023 and a joint Tier 2 safe harbor explainer released in November 2023 with the Civic Committee of the Commercial Club of Chicago.[118]

The next chart shows the State's annual pension contributions within the General Funds, including transfers from pension bonds, as a portion of General Funds revenue from State sources (which exclude federal funding or other non-State revenue sources).[119] Pension costs as a share of General Funds State-source-only revenue grew from 8.3% in FY2008 to an estimated 22.9% in the proposed FY2025 budget.[120] The peak was 30.7% in FY2017 during the budget impasse. Total pension costs increased over this period from $2.1 billion in FY2008 to

[117] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2023, p. 12.
[118] See FY2024 Proposed State Budget Analysis, Written Testimony, Tier 2 Safe Harbor Explainer.
[119] General Funds revenues in Illinois include State-source revenues as well as federal revenues, which are mainly reimbursements for Medicaid spending.
[120] General Funds pension contributions account for approximately 89% of total State contributions. State of Illinois, General Obligation Bonds, Series of December 2023ABC, *Official Statement*, November 28, 2023, p. A-16.

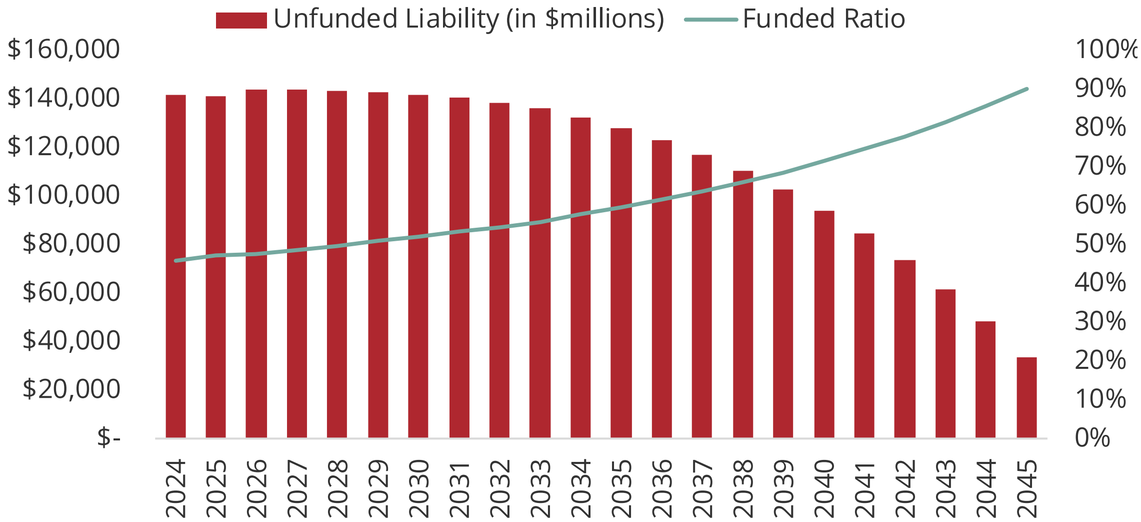
$11.2 billion in FY2025. Pension contributions for FY2010 and FY2011 are not shown in the chart because they were paid from bond proceeds instead of General Funds.



* Pension contributions in FY2010 and FY2011 were made through issuance of bonds and are not included in this chart.
** State-source revenues exclude interfund and other borrowing.
*** Pension bonds debt service includes pension acceleration bonds.

The following chart shows the most recent estimates of total unfunded liabilities and combined funded ratios for the State's five retirement systems from FY2024 through FY2045. The projections are based on preliminary data from FY2023 and do not account for the Governor's pension funding proposal included in the FY2025 proposed budget. For charts showing the potential impact of the Governor's proposed changes to the funding schedule and enhanced contributions, see page 59-61 of the FY2025 Illinois State Budget book.[121]

State of Illinois Retirement Systems Projected Financial Condition: FY2024 to FY2045



Source: Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2023, p. 12.

Condensed History of the State of Illinois' Efforts to Address State Pension Benefits

The following sections provide brief summaries of the State of Illinois' initiatives to address public pension benefit levels.

Tier 2

To address budgetary pressures due to increasing pension costs, the State in 2011 created a second, significantly less generous Tier 2 of benefits for new employees.[122] Among other benefit changes, new employees receive automatic annual increases upon retirement of 3% or one-half of the rise in the Consumer Price Index, whichever is less, on a simple-interest basis. The increase for workers hired before 2011 is 3% per year on a compounded basis. State contributions are expected to decline over time as new employees represent a larger share of the workforce.[123] However, the low Tier 2 benefits, which were not matched by lower employee

[121] Illinois State FY2025 Budget.

[122] Public Act 96-0889, enacted on April 14, 2010.

[123] State of Illinois, General Obligation Bonds, Series of December 2023ABC, *Official Statement*, November 28, 2023, B-32.

contributions, may not be sustainable due to legal and equity issues. Many Tier 2 members are paying more than the full cost of their benefits, effectively subsidizing the State by helping to pay down its unfunded liability. Most State employees are not currently covered by Social Security, but Tier 2 benefit caps might eventually be considered too low to meet minimum standards for exemption from Social Security coverage.[124] For more on Tier 2 pensions and the Civic Federation's position on this issue, see p. 10.

Tier 1 Pension Reform

Efforts to reduce pension benefits for existing employees and retirees have been blocked by the Illinois Supreme Court. Legislation enacted in 2013 for four of the five State funds included an actuarially sound employer pension contribution schedule and a limitation on the automatic annual benefit increase for both current employees and retirees, among other provisions.[125] The high court ruled in 2015 and 2016 that the State law and subsequent benefit changes enacted for two City of Chicago pension funds[126] violated the pension protection clause in the Illinois Constitution.[127] That clause states that pension benefits are part of a contractual relationship and cannot be diminished or impaired.[128]

Pension Buyout Programs

Public Act 100-0587, which was effective June 4, 2018, created two voluntary pension buyout plans for members of the three largest retirement systems: TRS, SERS and the State Universities Retirement System (SURS). The two voluntary plans are intended to reduce State costs by allowing members to give up future benefits in exchange for immediate payments.[129] One offers certain employees who are about to retire upfront cash payments in exchange for lower automatic annual increases in their benefits. The other offers an opportunity for inactive members of the pension plans to take a lump sum payment of 60% of the current value of their benefits. While the programs were slow to roll out, they are now accounting for some liability reductions and budgetary savings. According to GOMB, the buyout program has reduced liabilities by approximately $2.0 billion and the State's FY2025 contributions to SERS and TRS are

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[124] Civic Federation and Civic Committee, "Tier 2 Pensions and Safe Harbor Explained," November 7, 2023.
[125] Public Act 98-0599, enacted on December 5, 2013.
[126] Public Act 98-0641, enacted on June 9, 2014.
[127] The Illinois Supreme Court opinions are available at http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf and http://www.illinoiscourts.gov/Opinions/SupremeCourt/2016/119618.pdf (last accessed on May 15, 2019).
[128] Ill. Const. art. XIII, sec. 5.
[129] For more information, see the Institute for Illinois' for Fiscal Sustainability at the Civic Federation blogs: "Examining Pension Savings in Illinois' FY2019 Budget," July 5, 2018, https://www.civicfed.org/iifs/blog/examining-pension-savings-illinois-fy2019-budget; "Illinois FY2019 Budget Still Faces Major Hurdles," October 5, 2018, https://www.civicfed.org/iifs/blog/illinois-fy2019-budget-still-faces-major-hurdles; State of Illinois Pension Contributions to Rise in FY2020, but by how Much," November 9, 2018, https://www.civicfed.org/iifs/blog/state-illinois-pension-contributions-rise-fy2020-how-much; "Illinois Budget Deficit Projected to Exceed $1 Billion in FY2019," November 20, 2018, https://www.civicfed.org/iifs/blog/illinois-budget-deficit-projected-exceed-1-billion-FY2019; "Illinois' Pension Buyout Savings Far Less than Expected," July 18, 2019, https://www.civicfed.org/iifs/blog/illinois-pension-buyout-savings-far-less-expected.

$40 million and $96 million lower, respectively, than they would have been absent the buyout program.[130]

To pay for the buyouts, the legislation originally authorized the issuance of up to $1 billion in bonds and included a sunset date for the program of June 30, 2024. Public Act 102-718 increased the authorization to $2 billion and extended the sunset date to June 30, 2026. As of December 2023, the State had issued $1.5 billion in pension buyout bonds.[131]

Of the three funds, SERS was the system with the largest expected savings and has had the highest take-up rate. As of October 2023, SERS has processed payments totaling $422.1 million for the accelerated pension benefits, with 26.2% of eligible retirees opting into the automatic annual increase (AAI) reduction program, and $20.6 million for the buyout program. Participation in the AAI reduction program is 26.7% and the average payout is $119,600. Participation in the pension buyout program is less than 1%. TRS has expended bond proceeds of $809.1 million as of October 2023, with a 20.3% participation rate in the AAI reduction program with an average payout of $130,841, and 10.8% participation in the buyout program with an average payout of $123,432. SURS has expended bond proceeds of $41.3 million as of June 30, 2023, and participation ranged between 1-1.6%.[132]

DEBT BURDEN AND RATINGS

The State of Illinois currently pays debt service on four major types of bonds: General Obligation (GO) bonds for capital projects, GO bonds for pension obligations, GO bonds to pay backlogged bills and Build Illinois revenue Bonds.

All GO bonds are guaranteed by a pledge of the full faith and credit of the State. This is a legally binding commitment to pay both principal and interest on these loans as required by the bond agreements prior to directing revenues to any other use of State funds. The State is authorized under the General Obligation Bond Act to issue bonds to fund a variety of capital investments including roads, schools, mass transit, environmental projects and other facilities.[133]

In 2003, the State amended the GO Bond Act to include the authorization to issue $10 billion in ***Pension Obligation bonds*** (POBs) to increase the assets in its pension funds and make required annual contributions to the State's five retirement systems. The State issued additional POBs in FY2010 and FY2011; these were retired in 2015 and 2019, respectively. There is no ongoing statutory authority to issue additional POBs at this time. The outstanding principal for POBs as

[130] Illinois State FY2025 Budget, p. 58.
[131] State of Illinois, General Obligation Bonds, Series of December 2023ABC, *Official Statement*, November 28, 2023, p. B-36.
[132] State of Illinois, General Obligation Bonds, Series of December 2023ABC, *Official Statement*, November 28, 2023, p. B-36.
[133] General Obligation Bond Act, 30 ILCS 330/1.

of December 31, 2023, was approximately $7.2 billion and total debt service outstanding, including interest, was nearly $9.3 billion.[134]

In 2018, the General Assembly authorized the issuance of up to $1 billion in ***pension acceleration bonds*** to reduce pension liabilities. In May 2022, the State increased the authorization for these bonds to $2 billion.[135] Pension acceleration bonds are intended to finance the cost of two programs:[136]

- The first program provides an accelerated pension benefit payment equal to 60% of the actuarial present value of future pension benefits in lieu of all future benefits to inactive, vested members of the Teachers' Retirement System (TRS), State Universities Retirement System (SURS) and State Employees' Retirement System (SERS) who have terminated employment but have not yet received a retirement annuity.
- The second program provides an accelerated pension benefit payment at the time of retirement to any Tier 1 member of TRS, SURS or SERS who elects to receive pension annuities with a reduced 1.5 percent non-compounded Annual Automatic Increase (AAI) in lieu of the standard 3 percent compounded Tier 1 AAI. This payment is equal to 70% of the difference in the actuarial present value of the AAIs.

The principal outstanding on these pension acceleration bonds as of December 31, 2023, was $1.3 billion.[137]

The General Assembly approved legislation in 2017 authorizing the issuance of $6 billion in bonds to pay down the State's ***unpaid bill backlog***.[138] These are called ***Section 7.6 bonds***. In November 2017, the State issued the bonds at an interest rate of 3.5%. The bonds will mature in November 2029. The principal outstanding on these bonds as of December 31, 2023, was $3 billion.[139] Public Act 101-0300 amended Section 7.6 to authorize the issuance of an additional $1.2 billion in backlog bonds. The state has not yet declared its intentions as to when these bonds will be issued.[140]

Illinois also uses several types of revenue bonds to fund capital projects. Unlike GO bonds, revenue bonds are not guaranteed by the full faith and credit of the State, but rather pledge a portion of specific State revenues. The largest ongoing revenue bond issuances are the ***Build Illinois Bonds***, which were first issued in 1985. Build Illinois Bonds are backed by a pledge of the State's portion of sales tax receipts[141] and by various revenue sources that fund the Capital Projects Fund. As of December 31, 2023, there were nearly $2.3 billion in principal outstanding for Build Illinois Bonds.[142]

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[134] Illinois FY2025 State Budget, p. 587.
[135] Illinois FY2025 State Budget, p. 574.
[136] Illinois FY2025 State Budget, p. 574.
[137] Illinois FY2025 State Budget, p. 587.
[138] 30 ILCS 330/7.6 *General Obligation Bond Act. Income Tax Proceed Bond.*
[139] Illinois FY2025 State Budget, p. 573.
[140] Illinois FY2025 State Budget, p. 573.
[141] Build Illinois Bond Act, 30 ILCS 425.
[142] Illinois FY2025 State Budget, p. 588.

In 2019, the General Assembly approved and Governor Pritzker signed into law a $45.0 billion multi-year capital plan called ***Rebuild Illinois***. This was the first state capital plan since the Illinois Jobs Now! capital plan that was approved in 2010.[143] The FY2025 capital budget proposes appropriations of approximately $51.0 billion; this includes new spending and reappropriation authority.[144] Additional information about the FY2025 capital budget will be provided in a subsequent Civic Federation report.

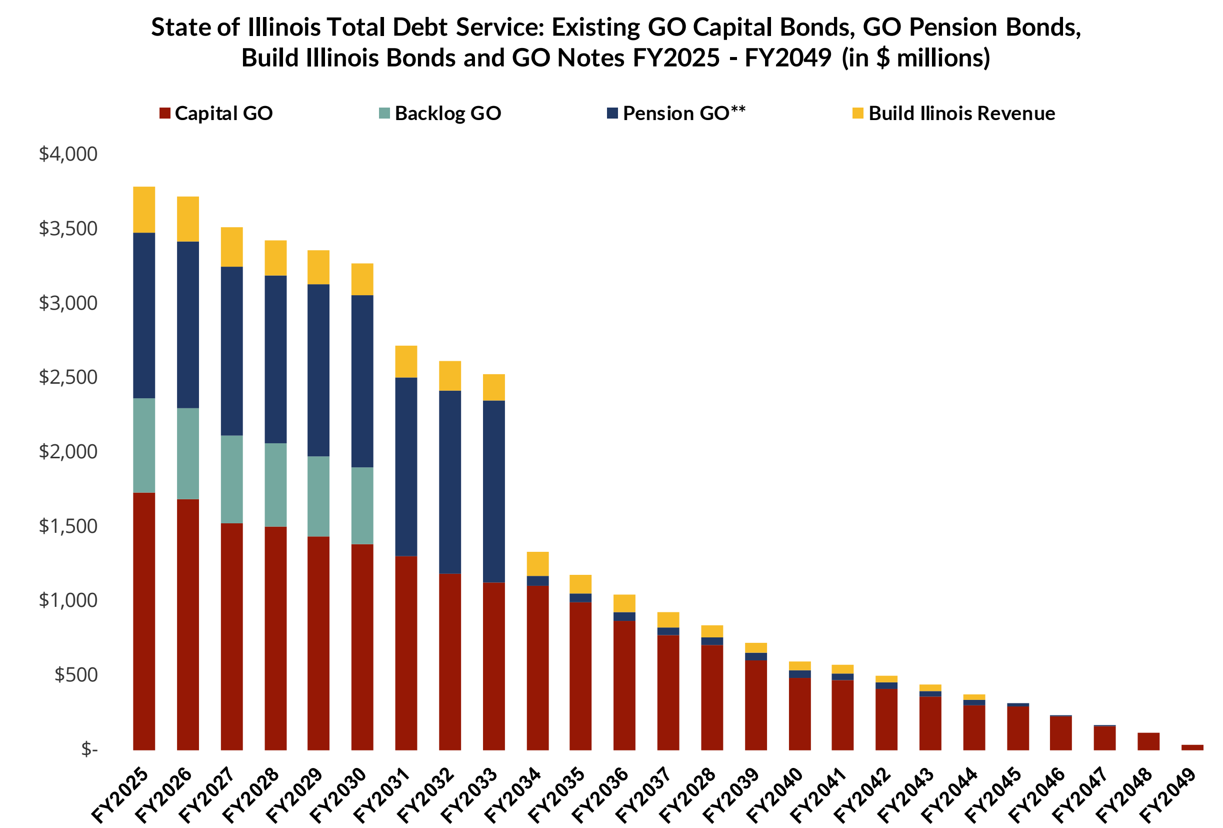
Furthermore, two state-related agencies, the Illinois Sports Facilities Authority and the Metropolitan Pier and Exposition Authority, also issue debt that is not backed by the full faith and credit of the State.

DEBT SERVICE

Debt service is the total cost of issuing debt, including the principal or the amount originally borrowed and interest. In FY2025, the State of Illinois is scheduled to pay debt service totaling nearly $3.8 billion. The largest portion of the FY2025 debt service payment is due on capital purpose GO bonds totaling $1.7 billion, followed by Pension Obligation and Pension Acceleration bonds at $1.1 billion, backlog bonds at $635.5 million, and Build Illinois revenue Bonds at $308.0 million. Total cumulative debt service on existing GO and revenue bonds will be $38.3 billion from FY2025 through FY2049.

[143] Public Acts 96-0004, 96-0035, 96-0039, 96-0819.
[144] Illinois FY2025 State Capital Budget, p. 20.

The following chart shows total debt service for existing Pension Obligation bonds, GO capital bonds, other capital bonds and GO notes from FY2025 through FY2049, as of the issuance of the FY2025 recommended state budget.



** Includes Pension Acceleration and Pension Obligation Bonds
Source: Illinois FY2025 State Budget, pp. 586-588.

Debt Service Transfers

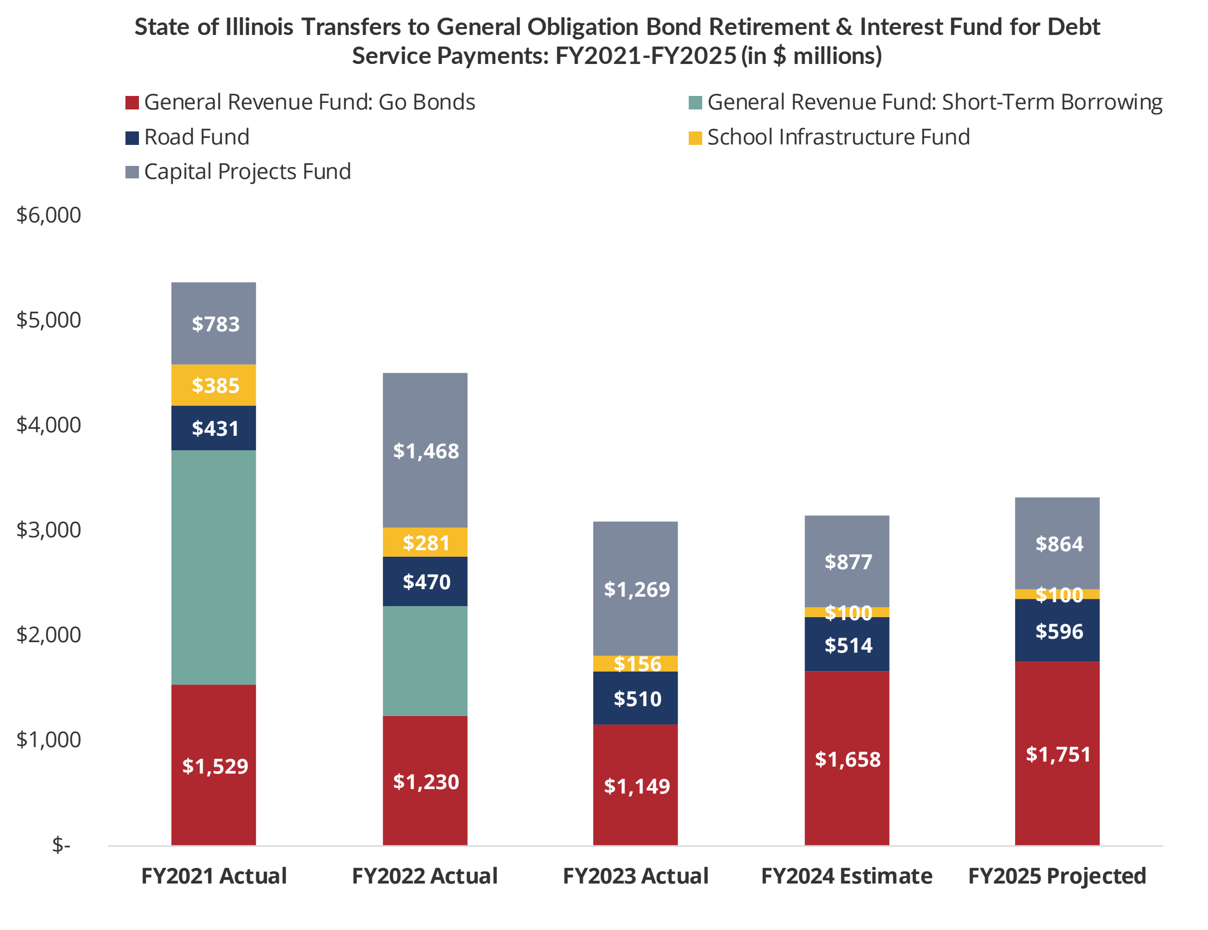
A portion of the State's total debt service repayment each year is made through a transfer from the General Revenue Fund to the General Obligation Bond Retirement and Interest Fund (GOBRI). In addition, transfers are also made from the Road Fund, School Infrastructure Fund and Capital Projects Fund to GOBRI. Build Illinois Bonds are paid through sales taxes diverted outside the General Funds and through the Capital Projects Fund. Other funds are used to pay for the remaining debt service.

The total debt service transfer to GOBRI for FY2025 will total $3.3 billion. This is an increase of $162 million from FY2024. Between FY2021 and FY2025, these costs will fall by 38.3% or $2.0 billion, due primarily to the retirement of short-term debt, falling from $5.3 billion to $3.3 billion.[145]

[145] Illinois FY2025 State Budget, p. 570.

Transfers to GOBRI from the General Funds alone will total $1.8 billion in FY2025, up from $1.7 billion in FY2024.

The following chart shows the transfers to the General Obligation Bond Retirement and Interest Fund for FY2021 through FY2025.



BUILD ILLINOIS BOND PROGRAM

Part of the funding to pay for Build Illinois Bonds debt service is diverted from the State's portion of sales tax receipts prior to being deposited into the General Funds. The State is required to transfer the larger of either 3.8% of its share of the sales taxes collected each year or one-eighth of the certified annual debt service requirement owed on all outstanding Build Illinois revenue bonds. Although these bonds are not paid for through a General Funds transfer, the cost of the Build Illinois revenue bonds reduces the amount of sales tax revenues that would otherwise be available to fund the annual operating budget.[146]

[146] Illinois FY2025 State Budget, p. 575 and 30 ILCS 425, Sec. 13; 35 ILCS 120, Sec. 3.

OUTSTANDING DEBT

The following table shows the total principal, interest and debt service for State of Illinois debt outstanding in FY2021 and FY2025. Total debt service will decline by 15.6%, or $7.1 billion, falling from $45.4 billion to $38.3 billion.

Between FY2021 and FY2025, the State of Illinois is expected to reduce the principal on outstanding bonds by 13.9% or $4.5 billion. This is a decrease from $32.6 billion to $28.0 billion.

Total interest owed on the State's outstanding debt will decline by roughly $2.6 billion over this five-year period. Interest owed on pension bonds will be $1.6 billion less in FY2025 than it was in FY2021. Outstanding interest on capital purpose GO bonds will decrease by $49.0 million over the five-year period. The interest owed on all outstanding Build Illinois Bond debt will rise by $40.3 million over five years, from $711.9 million in FY2021 to $752.2 million in FY2025.

The GO Note debt service represents payments due for the $2 billion three-year short-term note borrowed on December 17, 2020, from the federal Municipal Liquidity Facility to fund costs associated with the COVID-19 pandemic. This debt was retired by January 2022.[147]

[147] Illinois FY2023 State Budget, p. 60.

Total pension debt service will decline by approximately $2.3 billion, from $13.4 billion to $11.1 billion between FY2021 and FY2025. In the same period, general obligation debt service will rise slightly by $32.3 million to an amount of $20.7 billion.

State of Illinois Total Outstanding Debt Service:
General Obligation and Build Illinois Bonds Five-Year Comparison 2021-2050
(in $ millions)

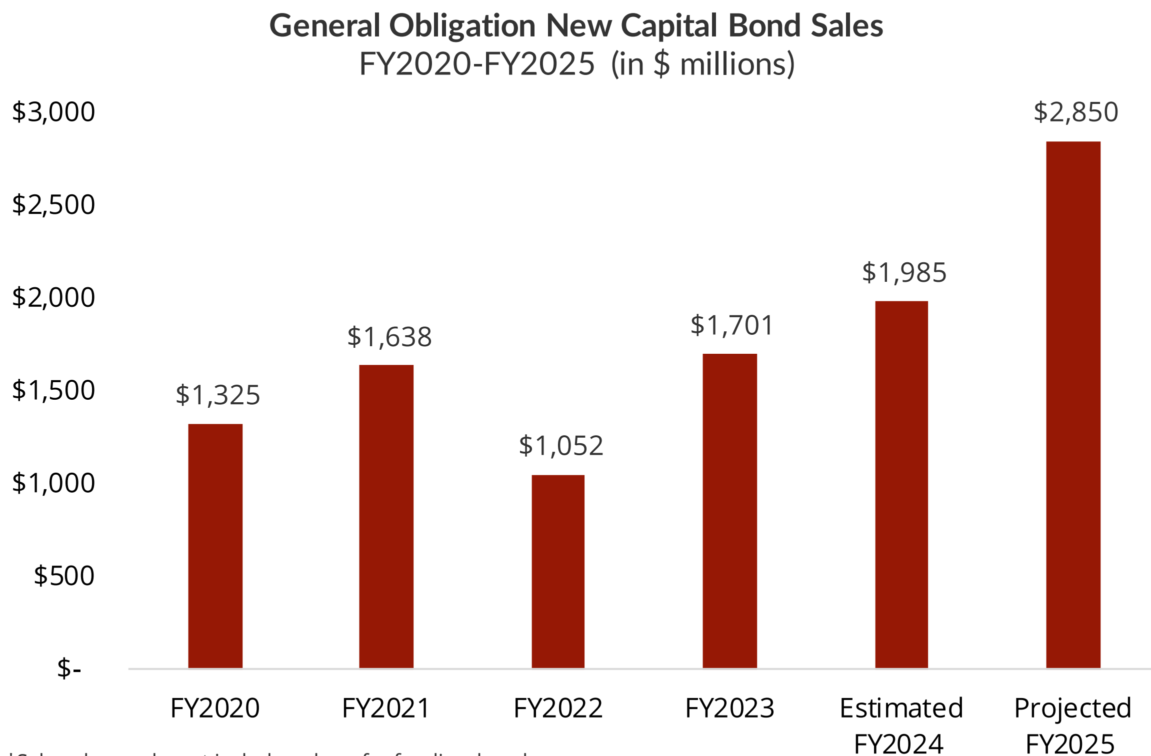
	FY2021	FY2022	FY2023	FY2024	FY2025	5-Year $ Change	5-Year % Change
Principal							
GO Capital	$ 14,186.9	$ 14,335.0	$ 14,640.3	$ 15,335.5	$ 14,268.0	$ 81.1	0.6%
GO Pension	$ 9,263.0	$ 9,201.6	$ 9,114.1	$ 7,650.0	$ 8,494.5	$ (768.5)	-8.3%
GO Backlog	$ 5,000.0	$ 4,500.0	$ 4,000.0	$ 3,500.0	$ 3,000.0	$ (2,000.0)	-40.0%
GO Note	$ 2,000.0	$ -	$ -	$ -	$ -	$ (2,000.0)	-100.0%
Build Illinois	$ 2,108.9	$ 2,246.5	$ 2,047.3	$ 2,459.4	$ 2,278.7	$ 169.8	8.1%
Other Revenue	$ 5.4	$ -	$ -	$ -	$ -	$ (5.4)	---
Total Principal	**$ 32,564.2**	**$ 30,283.1**	**$ 29,801.7**	**$ 28,944.9**	**$ 28,041.2**	**$ (4,523.0)**	**-13.9%**
Interest							
GO Capital	$ 6,507.2	$ 6,387.6	$ 6,643.9	$ 7,194.9	$ 6,458.4	$ (48.8)	-0.7%
GO Pension	$ 4,155.3	$ 3,294.8	$ 3,458.1	$ 3,054.3	$ 2,596.5	$ (1,558.8)	-37.5%
GO Backlog	$ 1,243.7	$ 1,007.2	$ 795.7	$ 609.3	$ 447.8	$ (795.9)	-64.0%
GO Note	$ 204.8	$ -	$ -	$ -	$ -	$ (204.8)	-100.0%
Build Illinois	$ 711.9	$ 685.5	$ 597.7	$ 838.6	$ 752.2	$ 40.3	5.7%
Other Revenue	$ 0.20	$ -	$ -	$ -	$ -	$ (0.2)	---
Total Interest	**$ 12,823.1**	**$ 11,375.1**	**$ 11,495.4**	**$ 11,697.1**	**$ 10,254.9**	**$ (2,568.2)**	**-20.0%**
Debt Service							
GO Capital	$ 20,694.1	$ 20,722.6	$ 21,284.2	$ 22,530.4	$ 20,726.4	$ 32.3	0.2%
GO Pension	$ 13,418.3	$ 12,496.4	$ 12,572.2	$ 10,704.3	$ 11,091.0	$ (2,327.3)	-17.3%
GO Backlog	$ 6,243.7	$ 5,507.2	$ 4,795.7	$ 4,109.3	$ 3,447.8	$ (2,795.9)	-44.8%
GO Note	$ 2,204.8	$ -	$ -	$ -	$ -	$ (2,204.8)	-100.0%
Build Illinois	$ 2,820.8	$ 2,932.0	$ 2,645.0	$ 3,298.0	$ 3,030.9	$ 210.1	7.4%
Other Revenue	$ 5.6	$ -	$ -	$ -	$ -	$ (5.6)	---
Total Debt Service	**$ 45,387.3**	**$ 41,658.2**	**$ 41,297.1**	**$ 40,642.0**	**$ 38,296.1**	**$ (7,091.2)**	**-15.6%**

Note: Figures as of December 31 of each calendar year.
Sources: Illinois FY2021 State Budget, pp. 525-527; and Illinois FY2022 State Budget, pp. 516-518; FY2023 Illinois State Budget, pp. 531-533; Illinois FY2024 Budget, pp. 561-563; and Illinois FY2025 Budget, pp. 586-588.

New General Obligation Debt Issues in FY2024 and FY2025

In the FY2025 Budget Book, the State announced that it would issue nearly $2.9 billion in new GO bonds to fund capital projects. This is an increase from the $1.9 billion planned for issuance in the current 2024 fiscal year. The new bond issues will be used to finance a number of capital projects that have progressed from the planning and design stages to the construction phase.[148] The bond issues over the five years from FY2021 through FY2025 will support projects in the State's Rebuild Illinois capital plan approved in June 2019.

[148] State of Illinois FY2025 Budget, p. 570.



*Sales shown do not include sales of refunding bonds.
Source: Illinois FY2025 State Budget, p. 571.

BOND RATINGS

Bond ratings are one of the factors that weigh heavily in determining the interest rates the State must pay to issue debt. The following chart shows the current ratings for Illinois' General Obligation Bonds and Build Illinois Bonds. The current State of Illinois ratings are all investment grade.

State of Illinois: Current Bond Ratings as of March 2024

	GO Bonds		Build Illinois Bonds	
Company	**Rating**	**Outlook**	**Rating**	**Outlook**
Moody's Investor's Services	A3	Stable	A3	Stable
S & P Global Ratings	A-	Stable	A	Stable
Fitch Ratings	A-	Stable	A+	Stable
Kroll Bond Rating Agency	Not Rated	N/A	AA+	Stable

Source: State of Illinois FY2025 Budget, p. 582.

RECENT RATING AGENCY ACTIONS

In January 2024 **Fitch Ratings** assigned an A+ with a stable outlook credit rating for $600 million in new State of Illinois Build Illinois sales tax revenue bonds and affirmed the same rating for Illinois Build Illinois senior and junior obligation sales tax revenue bonds.[149]

In November 2023 **Fitch Ratings** upgraded the State of Illinois' general obligation bonds to A- with a stable outlook from the previous rating of BBB+ with a positive outlook. The rating was based on the State's increased reserves, improved budget management and the significant paydown of outstanding accounts payable. Fitch also upgraded the State's Build Illinois revenue bonds to A+ from A; the upgrade reflected the improved financial situation of the State and confidence that state sales tax deposits would increase over time.[150]

In March 2023 **Fitch Ratings** revised the State of Illinois's rating outlook to positive from stable and assigned a BBB+ rating to the State's $2.5 billion in general obligation bonds. The change reflected the State's plans to increase its reserve fund contributions and its improved fiscal resilience.[151]

Moody's Investors Services upgraded the State of Illinois' issuer rating from Baa1 to A3 on March 14, 2023. Concurrently, it also increased the credit ratings of the State's general obligation and Build Illinois sales tax bonds to A3 from Baa1. Moody's cited continued improvement in the State's financial situation for the upgraders, including expansion of fiscal reserves, increased payments toward outstanding liabilities such as the pension funds and improved governance processes. The rating agency warned, however, that Illinois continues to face large long-term liability pressures that constrain its fiscal flexibility.[152]

In February 2023 **Standard and Poor's Global Ratings** raised its credit rating to A- from BBB+ with a stable outlook on the State of Illinois' outstanding long-term general obligation debt. It also raised the rating to A from A- on the State's Build Illinois junior and senior lien sales tax bonds. The reasons given for the upgrade were the State's increased repayment of its liabilities, increases in the Budget Stabilization Fund and a slowing of growth in statutorily required pension fund growth.[153]

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[149] Fitch Ratings. Fitch Rates $600MM Build Illinois Bonds 'A+'; Outlook Stable, January 3, 2024.
[150] Fitch Ratings. Fitch Upgrades Illinois' IDR to 'A-' and Rates $875MM GO Bonds 'A-'; Outlook Stable, November 7, 2023.
[151] Fitch Ratings. Rating Action Commentary. Fitch Revises State of Illinois's Rating Outlook to Positive; Rates Illinois' $2.5B GO Bonds 'BBB+', March 29, 2023, at https://www.fitchratings.com/research/us-public-finance/fitch-revises-state-of-illinois-rating-outlook-to-positive-rates-illinois-2-5b-go-bonds-bbb-29-03-2023.
[152] Moody's Investors Services, Rating Action: Moody's upgrades the State of Illinois to A3; outlook stable, March 14, 2023, at https://www.moodys.com/research/Moodys-upgrades-the-State-of-Illinois-to-A3-outlook-stable--PR_908032205.
[153] S & P Global Ratings. State of Illinois GO Debt Rating Raised to 'A-' from 'BBB+' on Improved Liquidity. February 23, 2023.

APPENDIX:

LIST OF STATE OF ILLINOIS AGENCIES BY OUTCOME AREA

The appendix shows the categorization of State agencies that appears in the FY2025 budget.[154]

P-12 Education
Illinois State Board of Education

Higher Education
Illinois Board of Higher Education
Chicago State University
Eastern Illinois University
Governors State University
Northeastern Illinois University
Western Illinois University
Illinois State University
Northern Illinois University
Southern Illinois University
University of Illinois
Illinois Community College Board
Illinois Student Assistance Commission
Illinois Mathematics and Science Academy
State Universities Civil Service System

Economic Development
Agriculture
Commerce and Economic Opportunity
Labor
Transportation
Illinois Commerce Commission
Human Rights Commission
Illinois Sports Facilities Authority
Southwestern Illinois Development Authority

Public Safety
Corrections
Financial and Professional Regulation
Insurance
Military Affairs

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[154] State of Illinois, Governor's Office of Management and Budget, "Illinois Economic and Fiscal Policy Report," p. 16, November 15, 2023.

State Police
Environmental Protection Agency
Illinois Criminal Justice Information Authority
Illinois Workers' Compensation Commission
Law Enforcement Training and Standards Board
Prisoner Review Board
Property Tax Appeal Board
Illinois Emergency Management Agency
Illinois Labor Relations Board
State Fire Marshal

Human Services
Aging
Children and Family Services
Juvenile Justice
Employment Security
Human Rights
Human Services
Public Health
Veterans' Affairs
Illinois Deaf and Hard of Hearing Commission
Illinois Guardianship and Advocacy Commission
Illinois Council on Developmental Disabilities

Healthcare
Healthcare and Family Services

Environment and Culture
Natural Resources
Illinois Arts Council
Abraham Lincoln Presidential Library and Museum

Government Services (including employee health insurance)
General Assembly and Legislative Agencies
Auditor General
Supreme Court and Illinois Court System
Supreme Court Historic Preservation Commission
Courts Commission
Judicial Inquiry Board
State Appellate Public Defender
State's Attorneys Appellate Prosecutor
Court of Claims
Governor
Lieutenant Governor
Attorney General

Secretary of State
State Comptroller
State Treasurer
State Board of Elections
Central Management Services
Innovation and Technology
Lottery
Revenue
Governor's Office of Management and Budget
Office of the Executive Inspector General
Executive Ethics Commission
Capital Development Board
Civil Service Commission
Commission on Equity and Inclusion
Procurement Policy Board
Illinois Independent Tax Tribunal
Illinois Gaming Board
Illinois Racing Board
Liquor Control Commission
Other Government Services[155]
Chicago Teachers' Pension and Retirement System

Pensions
Teachers' Retirement System
State Universities' Retirement System
General Assembly Retirement System
Judges' Retirement System
State Employees' Retirement System

[155] Includes contributions to the Teachers' Retirement Insurance Program, College Insurance Program, operational expenses of the State Employees' Retirement System, and any additional appropriation authority needed to address the shortfall in contributions to the system in prior years (approximately $99 million in fiscal year 2024).