



THE CIVIC FEDERATION

STATE OF ILLINOIS FY2024
RECOMMENDED BUDGET:

***ANALYSIS AND
RECOMMENDATIONS***



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MAY 11, 2023

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EXECUTIVE SUMMARY

The Governor's proposed FY2024 budget reflects the State's continued recovery from the pandemic recession. Since FY2021 State budgets have had year-end surpluses, much of which the State has directed toward several priorities strongly supported by the Civic Federation, such as paying down debt, increasing reserves and making supplemental pension payments. The State remains in a stronger position than it has been in for many years, as recognized by several credit rating upgrades between FY2022 and FY2023. However, the Federation has some concerns regarding the sustainability of the large increases in recurring agency spending proposed in this budget.

The State of Illinois entered the COVID-19 pandemic with the lowest credit rating of all states, chronic budget deficits, a severely underfunded pension system and no rainy day fund—each of which put the State in a worse condition to address the economic disruptions caused by the pandemic. However, through federal support provided to the national economy, states and local governments mitigated the impact of the pandemic recession and helped spur an increase in State revenues as the economy improved. With an increasing rainy day fund and fewer liabilities outstanding thanks to smart choices about how to spend unexpected revenue growth, the State is in a much better position to weather future economic instability and support future growth.

The Civic Federation therefore **supports** the Governor's recommended budget for FY2024. The Federation supports some of the State's long-term investments included in the budget, such as increased appropriations to the Monetary Award Program (MAP) grants for college students and to the Evidence-Based Funding (EBF) formula, which supports P-12 education. Others, such as increases to Medicaid, are substantially related to federal policy changes and therefore unavoidable. However, the Civic Federation urges caution related to the size of the increase in agency spending of \$2.7 billion, or 8.3%, from the prior year. These agency spending increases must be evaluated with a focus on whether they will be sustainable over the long term, particularly in the context of states across the country seeing weakening revenue projections for FY2024.¹

The Civic Federation also continues to have concerns regarding the State's long-term fiscal challenges, which require the development of a long-term financial plan. Despite Illinois' improved financial condition, strong economic rebound and the alleviated pressure from chronic deficits and backlogged bills, the Federal Reserve Bank and many economists anticipate a national recession in the coming fiscal year.² Additionally, the inflationary burden for states and taxpayers remains high and budget shortfalls are projected to return to the state budget in coming years.³ And, ever-looming is the State's massive unfunded pension burden, which puts pressure on the State budget and limits other priority areas of spending. The State should establish a long-term vision to sustain its stronger financial position and ensure future long-term stability.

¹ Tim Henderson, "States Feel Budget Pinch Amid Darkening Revenue Projections," *Stateline*, April 10, 2023. Available at <https://stateline.org/2023/04/10/states-feel-budget-pinch-amid-darkening-revenue-projections/>.

² Jeff Cox, "Fed Expects Banking Crisis to Cause a Recession This Year, Minutes Show," *CNBC*, April 12, 2023. Available at <https://www.cnbc.com/2023/04/12/fed-expects-banking-crisis-to-cause-a-recession-this-year-minutes-show.html>.

³ Illinois Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, November 14, 2022, p. 18.

The Civic Federation offers the following **key findings** on the Governor's recommended FY2024 State Budget:

- The \$49.6 billion General Funds **operating budget** is \$50 million, or 0.1%, below estimated FY2023 spending of nearly \$49.7 billion.
- **Agency spending** (excluding group insurance payments, pension contributions, required transfers for debt service and other purposes) will increase in FY2024 by \$2.7 billion, or 8.3%, from the FY2023 adopted budget. When including FY2023 proposed supplemental appropriations of \$2.3 billion (described below), agency spending will increase by \$435 million, or 1.2%, from the prior year.
- The State is projected to end FY2024 with a \$165 million **surplus** after a proposed \$138 million contribution to the rainy day fund.
- General Funds revenues are budgeted at \$49.9 billion for FY2024, a decrease of \$652 million, or 1.3%, from \$50.6 billion in FY2023.
 - The revenue estimates for both FY2023 and FY2024 were significantly revised upward by the Governor's Office of Management and Budget (GOMB) twice—in November 2022 and again in February 2023 in the Governor's FY2024 budget proposal. Projected General Funds revenues for FY2024 increased by \$2.3 billion from the State's expectations in November 2022. Year-end FY2023 revenue projections made in the Governor's proposed FY2024 budget increased by \$4.9 billion from the FY2023 budget adopted in June 2022. However, an update from GOMB in May 2023 revised the year-end FY2023 revenue projection downward by \$616 million, or 1.2%, to approximately \$50 billion.
 - A report by the Illinois General Assembly's Commission on Government Forecasting and Accountability (COGFA) released in May 2023 projects that year-end FY2023 revenues will be \$51.2 billion, which is above the Governor's projections but \$728 million less than earlier COGFA revenue projections released in March.
 - COGFA also updated its FY2024 revenue estimates in March 2023 to include data from January and February that came in after the Governor's budget was released. COGFA's FY2024 estimates are higher than the Governor's by \$466 million.
- The budget fully satisfies the State's 50-year pension funding plan by making the statutorily required pension contribution of \$9.8 billion in FY2024. The FY2024 budget also proposes an additional supplemental pension contribution of \$200 million in FY2023. In total, the State has contributed \$700 million in **supplemental pension contributions** above the statutorily required contributions between FY2022 and FY2023.
- The FY2024 budget includes several updates to the FY2023 budget:
 - FY2023 expenditures include \$2.3 billion in proposed supplemental agency appropriations:
 - \$1.8 billion payment to the Unemployment Trust Fund; and
 - \$490 million in proposed spring supplemental appropriations.
 - Total FY2023 proposed expenditures also include an additional proposed \$1.2 billion contribution to the Budget Stabilization Fund.
- The State will retire the remaining \$450 million in Railsplitter Tobacco Settlement bonds. The original bonds were issued based on tobacco settlement revenues in the amount of \$1.5 billion in 2010 to address a portion of the State's unpaid bill backlog resulting from the Great Recession. The move will allow tobacco settlement revenues to flow through to support the State's Medicaid program and will save interest costs.

- The overdue **bill backlog** of \$8 billion from FY2019 has been reduced and is now on a normal payment schedule. However, as of December 31, 2022, the outstanding principal on the \$6 billion in bill backlog bonds issued by the state in 2017 was \$3.5 billion plus \$609.1 million owed in interest, for total outstanding debt service of \$4.1 billion.
- The State of Illinois received \$8.3 billion in Coronavirus State Fiscal Recovery Funds and Coronavirus Capital Projects Funds within the American Rescue Plan Act. In FY2023, the State appropriated the remaining \$4 billion in ARPA funds, including \$2.7 billion towards the Unemployment Insurance Trust Fund.

The Civic Federation offers the following **recommendations** on the FY2024 State Budget:

- Create a short-term plan in the event revenues do not meet forecast;
- Develop a long-term financial plan;
- Conduct a comprehensive, statewide actuarial analysis of Tier 2 Benefits before passing benefit enhancement legislation;
- Increase transparency of the Illinois General Assembly by archiving videos of committee meetings and floor debate online;
- Develop a plan for public transit in Northeastern Illinois;
- Review and evaluate the effectiveness of all existing tax treatments;
- Consolidate and streamline government in Illinois;
- Build a rainy day fund of 10% of General Funds revenues; and
- Develop a plan for Illinois' tourism and hospitality industries.

CIVIC FEDERATION POSITION

The Governor's proposed FY2024 budget reflects the State's continued recovery from the pandemic recession. Since FY2021 State budgets have had year-end surpluses, much of which the State has directed toward several priorities strongly supported by the Civic Federation, such as paying down debt, increasing reserves and making supplemental pension payments. The State remains in a stronger position than it has been in for many years, as recognized by several credit rating upgrades between FY2022 and FY2023. However, the Federation has some concerns regarding the sustainability of the large increases in recurring agency spending proposed in this budget.

The State of Illinois entered the COVID-19 pandemic with the lowest credit rating of all states, chronic budget deficits, a severely underfunded pension system and no rainy day fund—each of which put the State in a worse condition to address the economic disruptions caused by the pandemic. However, through federal support provided to the national economy, states and local governments mitigated the impact of the pandemic recession and helped spur an increase in State revenues as the economy improved. With an increasing rainy day fund and fewer liabilities outstanding thanks to smart choices about how to spend unexpected revenue growth, the State is in a much better position to weather future economic instability and support future growth.

The Civic Federation therefore **supports** the Governor's recommended budget for FY2024. The Federation supports some of the State's long-term investments included in the budget, such as increased appropriations to the Monetary Award Program (MAP) grants for college students and to the Evidence-Based Funding (EBF) formula, which supports P-12 education. Others, such as increases to Medicaid, are substantially related to federal policy changes and therefore unavoidable. However, the Civic Federation urges caution related to the size of the increase in

agency spending of \$2.7 billion, or 8.3%, from the prior year. These agency spending increases must be evaluated with a focus on whether they will be sustainable over the long term, particularly in the context of states across the country seeing weakening revenue projections for FY2024.⁴

The Civic Federation also continues to have concerns regarding the State's long-term fiscal challenges, which require the development of a long-term financial plan. Despite Illinois' improved financial condition, strong economic rebound and the alleviated pressure from chronic deficits and backlogged bills, the Federal Reserve Bank and many economists anticipate a national recession in the coming fiscal year.⁵ Additionally, the inflationary burden for states and taxpayers remains high and budget shortfalls are projected to return to the state budget in coming years.⁶ And, ever-looming is the State's massive unfunded pension burden, which puts pressure on the State budget and limits other priority areas of spending. The State should establish a long-term vision to sustain its stronger financial position and ensure future long-term stability.

ISSUES THE CIVIC FEDERATION SUPPORTS

The Civic Federation supports the following aspects of the Governor's FY2024 State of Illinois budget:

Improved Financial Condition

For many years, the State of Illinois has struggled with chronic budget deficits, pension funding levels that are among the worst in the nation and a tendency to rely on budget gimmicks such as pension holidays and payment delays to vendors. The State has slowly made progress in righting its financial ship after the unprecedented two-year budget impasse from 2015-2017 that lowered its credit ratings and seriously reduced the provision of critical services. However, when the COVID-19 pandemic hit in 2020, that recovery was still fragile and the State was in a more difficult financial position than its peers to deal with a significant loss in revenues and the extraordinary need for government services during the stay-at-home order and high pandemic unemployment. The State was forced to borrow a total of \$3.2 billion on a short-term basis from the Federal Reserve Bank's Municipal Liquidity Facility at a high interest rate to maintain essential services because it had no rainy day fund.

Today, the State of Illinois is in a much better financial position. The State repaid the Municipal Liquidity Fund borrowing in January 2022, almost two years ahead of schedule. The State's revenue performance has been strong due to a better-than-expected national and local economic recovery. The State received several credit upgrades between FY2022 and FY2023 and is now able to pay its bills and short-term debt on a normal payment schedule. The Civic Federation has supported Governor Pritzker's emphasis on reducing liabilities and increasing contributions to the rainy day fund as a prudent use of higher-than-expected revenue over the last several years. While much remains to be done, it is important to recognize the financial progress the State has made even during pandemic disruptions.

⁴ Tim Henderson, "States Feel Budget Pinch Amid Darkening Revenue Projections," *Stateline*, April 10, 2023. Available at <https://stateline.org/2023/04/10/states-feel-budget-pinch-amid-darkening-revenue-projections/>.

⁵ Jeff Cox, "Fed Expects Banking Crisis to Cause a Recession This Year, Minutes Show," *CNBC*, April 12, 2023. Available at <https://www.cnbc.com/2023/04/12/fed-expects-banking-crisis-to-cause-a-recession-this-year-minutes-show.html>.

⁶ Illinois Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, November 14, 2022, p. 18.

Making Statutorily Required Pension Payments and Supplemental Pension Payments

Governor Pritzker's FY2024 budget proposes making the full statutorily required general funds pension payment of \$9.8 billion, a \$200 million increase over \$9.6 billion in FY2023. In addition to the increase in the statutory contribution, the Governor's proposed budget includes an additional \$200 million as a supplemental pension contribution above what was already approved in the FY2022 enacted budget (\$300 million) and the FY2023 enacted budget (\$200 million), for a total of \$400 million in supplemental FY2023 contributions. In total, the State will make \$700 million in supplemental pension contributions between FY2022 and FY2023. The State has been able to finance these extra payments due to higher-than-expected revenues.

Pension obligations make up an extraordinarily high portion of total State spending and contributions have grown to comprise over 20% of the State's available general funds revenues. Illinois' retirement systems are among the most poorly funded of any state in the U.S. At the end of FY2022, actuarial unfunded liabilities for the State's five pension funds totaled \$139 billion and the combined funded ratio stood at 44.1%.⁷ Under the current 50-year funding plan, the State's unfunded pension liabilities have continued to grow despite pension contributions taking up large portions of the State's budget. The funding plan defers a large portion of required contributions to future years, meaning 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 FY2024, as well as the \$700 million in supplemental contributions in recent budgets, is another step in the right direction. The Governor's Office of Management and Budget projects the supplemental payments will save the State \$2.4 billion in contributions through FY2045 by paying down the pensions more in the short term, therefore requiring less in payments over the long term.⁸

The Civic Federation strongly supports the Governor's proposed supplemental pension payments as a responsible use of higher-than-expected revenues. However, the Federation must also caution 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.

Reducing the State's Bill Payment Cycle to a Normal Schedule

As of March 31, 2023, the Comptroller estimated that the State's accounts payable totaled \$1.6 billion, compared to the \$16.7 billion peak during the FY2015-FY2017 budget impasse.⁹ The State is now on a normal bill payment schedule, with the remaining debt comprising bills due in less than 30 days and State account transfers. If the General Assembly approves supplemental appropriations proposed for FY2023 and FY2024, the projected FY2024 year-end accounts payable debt will be reduced to \$963 million, according to GOMB.¹⁰ The reduction in outstanding bills has reduced State spending on late-payment interest penalties by \$290 million

⁷ Illinois State FY2024 Budget, p. 176.

⁸ Illinois State FY2024 Budget, p. 57.

⁹ Illinois State Comptroller, "Debt Transparency Report," March 31, 2023. Available at <https://illinoiscomptroller.gov/financial-reports-data/find-a-report/debt-transparency-report>

¹⁰ Illinois State FY2024 Budget, p. 54.

per year on average. In 2022, the State paid \$35 million in interest penalties, compared to nearly \$1.2 billion the State paid between 2016 and 2017 as a result of the budget impasse.¹¹

While it is important to remember that the State will still have \$4.1 billion in outstanding principal and interest on bonds to pay backlogged bills in FY2024 and will be paying for those bonds through 2029, the State's efforts to eliminate the bill backlog represent significant progress toward reducing an expensive liability that has negatively impacted Illinois' financial position for many years.

Paying Off Unemployment Insurance Trust Fund Debt

The Civic Federation supports the State's use of federal American Rescue Plan Act (ARPA) COVID-19 relief funds to pay down debt on the Unemployment Insurance Trust Fund. During the height of the COVID 19 pandemic, the State of Illinois had to borrow \$4.5 billion from the U.S. Department of Labor to make payments from the Unemployment Insurance Trust Fund. The Civic Federation recommended last year that the State use some of its federal ARPA funds to pay off the outstanding \$4.5 billion debt. The Governor had also raised the idea of using some of the remaining ARPA funds to pay off some of the debt.¹²

In the spring of 2022 as part of the FY2023 enacted budget process, the State of Illinois used approximately \$2.7 billion in ARPA funds to pay down part of the \$4.5 billion in outstanding Unemployment Insurance (UI) Trust Fund debt. Another payment of \$450 million was made toward the loan balance in September 2022. This payment was made from the UI fund itself due to a large fund balance that resulted from historically low unemployment claims. In December 2022, the Governor signed an Unemployment Insurance Agreement developed by a bipartisan group of lawmakers in concert with business groups and labor, which laid out a plan to pay down the State's remaining \$1.36 billion in UI debt using supplemental FY2023 appropriations.¹³ The final payment was made possible by higher than expected FY2023 revenues.

Public Act 102-1121, enacted in January 2023 allocated a total of \$1.8 billion to the UI Trust Fund, including \$1.36 billion to pay off the last remaining UI loans. An additional \$450 million was placed into the UI Trust Fund as an interest-free loan to be repaid over the next decade.¹⁴ These loan repayments will be deposited into the "rainy day fund", also known as the Budget Stabilization Fund. The FY2024 proposed budget includes these allocations as part of FY2023 supplemental appropriations.

Proposed Rainy Day Fund Contributions

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 portion of their general operating revenues in a general reserve or "rainy day" fund.¹⁵ Rainy day funds are savings accounts that governments can use to address revenue shortfalls or unanticipated expenditures and to help stabilize tax rates.

¹¹ Illinois State FY2024 Budget, pp. 54-55.

¹² The Civic Federation, "State of Illinois FY2023 Recommended Operating and Capital Budgets: Analysis and Recommendations," p. 10. Available at https://www.civiced.org/sites/default/files/final_-_state_of_illinois_fy2023_budget.pdf.

¹³ Illinois State FY2024 Budget, p. 53.

¹⁴ Illinois Public Act 102-1121.

¹⁵ Government Finance Officers Association, "Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund," September 2015.

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, given unexpectedly high State revenue performance, Governor Pritzker's amended FY2023 and proposed FY2024 budget would contribute approximately \$1.3 billion into the Budget Stabilization Fund from budget surpluses in those years. This is in addition to the \$746 million that was deposited into the fund in FY2022. If the contributions in the proposed FY2024 budget are approved, the State is projecting the Fund total to be approximately \$1.9 billion by the end of FY2023 and \$2.1 billion at the end of FY2024.¹⁶ 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.¹⁷ The Federation supports the Governor's proposed contributions to the Budget Stabilization Fund as a prudent and sustainable use of higher-than-expected revenues.

Retiring Outstanding Liabilities

The FY2024 State Budget proposes to retire \$455 million in outstanding Railsplitter Tobacco Settlement Authority (RTSA) bonds, which will free up tobacco settlement revenue and provide funding for the State Medicaid Program and save the State up to \$60 million in interest costs. The bonds were originally issued in 2010 and were used to help the State pay for its unpaid bill backlog.¹⁸

The Civic Federation commends the Governor and other State leaders for moving to further reduce the State's outstanding liabilities and thereby improve its financial condition.

CIVIC FEDERATION CONCERNS

The Civic Federation has the following concerns about the Governor's recommended FY2024 budget:

Agency Spending Increases Given Uncertain Economic Future

In addition to paying down liabilities in FY2023 and FY2024, the Governor's budget proposes significant increases in certain areas of the budget, funded by increased revenues. Proposed FY2024 agency appropriations will grow by \$2.7 billion, or 8.3% from the prior year.¹⁹ A significant portion of the increases are concentrated in education, public safety, human services and healthcare. The recommended FY2024 budget includes, among other spending increases:

- The statutorily required \$350 million increase to the P-12 evidence-based funding formula;

¹⁶ Illinois State FY2024 Budget, pp. 55-56.

¹⁷ See, for example, the Civic Federation's 2022 Legislative Agenda, available at <https://www.civiced.org/2022priorities>.

¹⁸ Illinois State FY2024 Budget, pp. 52-53.

¹⁹ Illinois State FY2024 Budget, p. 67.

- A \$100 million increase for Monetary Award Program (MAP) grants to low income college students;
- \$250 million for the Governor's Smart Start Illinois early childhood initiative; and
- \$100 million in new capital funds for the expansion of the Early Childhood Construction Grant Program, which allows early childhood providers to expand on Rebuild Illinois investments.²⁰

In addition to the increases listed above, healthcare spending within the Department of Healthcare and Family Services will increase by \$709 million, or 8.5%, due primarily to increases in the Federal Medical Assistance Percentage (FMAP) enhancement and the resumption of the health insurance redetermination process.²¹ Overall, education spending will increase by nearly \$800 million from the prior year, and human services spending is proposed to increase by over \$900 million.

These significant spending increases are not as easy to see when looking at the budget's overall spending trends. After accounting for large supplemental appropriations of \$2.3 billion for FY2023 that were included in the FY2024 proposed budget, agency spending represents an increase of \$435 million, or 1.2%, from the prior year.

The Civic Federation is supportive of many of these spending programs. For example, we have supported efforts to reverse historic levels of underfunding for elementary and secondary education by increasing funding provided to schools through the evidence-based funding formula. We have also supported efforts to restore funding levels for critical programs that were reduced or held flat as a result of the budget impasse. Other budget increases are unavoidable, such as Medicaid spending increases due to the end of the enhanced pandemic federal reimbursement.

However, the Civic Federation is concerned about the sustainability of these sizeable long-term increases in agency spending given the Federal Reserve Bank and other economists' projection of a possible recession in the coming fiscal year and given increasing signs that State revenues are not growing as fast as in the past two years.²² There are also additional spending pressures that are not accounted for in the FY2024 proposed budget. Chief among these is collective bargaining agreements (CBAs) that have yet to be finalized and are likely to result in increases to personnel costs in the coming year.

Ongoing Pension Stress

The State's five pension funds saw significant investment losses in FY2022, which offset much of the previous year's extraordinary returns. The State's five pension funds remain significantly underfunded. As of the end of FY2022, their unfunded liability was nearly \$139.0 billion and the funds were only 44.1% funded—which is a major burden on the State budget.²³ Illinois will be required to dedicate approximately a quarter of state-source revenues, or over 20% of expenditures, to pensions and pension debt to stay on its 50-year funding plan. This is over \$10 billion dollars in revenue that will not be available to fund other state priorities. It is not guaranteed that the State will be able to maintain its funding formula through 2045. Unfortunately, in the past the State has frequently resorted to gimmicks and changes to reduce

²⁰ Illinois State FY2024 Budget, p. 31.

²¹ Illinois State FY2024 Budget, p. 38.

²² Illinois General Assembly, Commission on Government Forecasting and Accountability, April 2023 Monthly Briefing.

²³ Illinois State FY2024 Budget, p.176.

the contribution, ranging from pension holidays to extending the timeline of payments to borrowing money to make pension payments. Even if the schedule is maintained, the pensions will not be fully funded since the State's goal is only 90%. For all of these reasons, the Civic Federation retains significant concerns about the State's pension system and the drag it exerts on the State's financial condition and debt ratings.

Proposals to Enhance Tier 2 Pension Benefits with No Supporting Analysis

The Civic Federation is concerned about proposals to enhance Tier 2 pension benefits (applicable to most state and local government employees hired on or after January 1, 2011) without any analysis completed first to understand the extent to which enhancements are necessary and how much they would cost governments, and in effect taxpayers, in future years.

A number of different pension bills proposed in the current 103rd General Assembly would enhance benefits for those hired since 2011. SB1629 and SB1630 would increase Tier 2 pension benefits for Chicago firefighters. SB1690 would increase the pensionable salary cap for Cook County workers. An earlier 2019 bill made Tier 2 enhancements for the police and fire pension funds outside of Chicago that were promoted as a potential "fix" to the Safe Harbor issue part of a larger public safety pension consolidation legislation.²⁴ The changes in the bill allowed salary caps to grow at a faster rate (3% or the inflation rate, whichever is less) than the previous formula (3% or one-half of the inflation rate, whichever is less) and restored the Tier 1 calculation of final average salary.

The legislative sponsors and supporters of these proposals argue that the benefit enhancements are needed to preemptively solve a problem related to IRS Safe Harbor rules, which require that government workers receive a retirement benefit from their public pension plan that is at least equal to the benefit they would receive under Social Security. Most public employees in Illinois (with the exception of the Chicago Transit Authority and most members of the State Employees' Retirement System) do not participate in Social Security. There is wide agreement that Tier 2 pension benefits are not keeping pace with Social Security benefits because the pensionable salary cap has not increased as fast as the Social Security wage base (the maximum amount of salary subject to Social Security tax is \$160,200 as of 2023). The Tier 2 pensionable salary cap increases each year by 3% or half of the annual inflation increase, whichever is less, which has been smaller than the annual inflation-based increases in the Social Security wage base.

However, no statewide actuarial analysis has been conducted to understand what changes specifically should be made to the current Tier 2 pension benefit structure to ensure that benefits are at least as generous as Social Security benefits would be. The proposals so far have been piecemeal and fail to identify what solution is truly needed. It is critical for analysis to be done prior to making benefit enhancements because once pension benefits are provided, they are protected under the Illinois Constitution and cannot be reduced later. These benefit enhancements come at a tremendous cost to the governments responsible for funding the pensions. The cost of SB1630, for example, is estimated to be \$350 million over the next few decades.²⁵

Tier 2 was originally created to reduce Illinois' overwhelming outstanding pension obligations. The General Assembly should proceed cautiously before approving a Safe Harbor fix to be sure

²⁴ Public Act 101-0610.

²⁵ Yvette Shields, "Illinois lawmakers advancing Tier 2 firefighters pension 'fix' over Chicago's objections," *Bond Buyer*, April 21, 2023.

that it solves the problem at hand without unduly burdening taxpayers and dramatically increasing pension fund liabilities. This requires actuarial analyses of the future financial impact of benefit proposals before they are enacted.

Financial Sustainability of Public Transit Systems in Northeastern Illinois

Public transportation is a major economic asset for Northeastern Illinois, serving millions of riders each day. However, public transit agencies are facing a major funding crisis. The pandemic has caused lasting shifts in work and travel patterns, significantly disrupting ridership and therefore resulting in a severe revenue shortfall. This issue, along with other challenges including staffing shortages and increased operational costs, has placed the public transit system in an unsustainable financial position.

The Regional Transportation Authority (RTA), which oversees the finances of the Chicago Transportation Authority (CTA), Metra and Pace systems, has relied on use of federal relief dollars to maintain operational functionality since the pandemic began in 2020. Federal aid accounts for 20% of RTA's operating budget for 2023. However, this funding will begin to run out in 2025, and without further action, the RTA will face a \$732 million budget gap by FY2026 and \$1.2 billion by FY2031.²⁶

CTA, Metra and Pace are required by State law to generate revenues sufficient to cover 50% of the regional transit system's day-to-day operating budget each year.²⁷ This percentage is known as the system-generated revenue recovery ratio, or farebox recovery ratio. The 50% threshold for RTA agencies is considerably higher than other cities across the country and is unattainable given current ridership patterns.²⁸ The farebox recovery ratio was suspended through 2023. However, ridership across the three agencies is currently only at 56% of 2019 levels and is not expected to completely rebound at any point in the future.²⁹ Additionally, inflationary pressures are likely to increase expenditures in the years to come, which reinforces the need for a sustainable financial structure for transit agencies.

Alleviating this crisis requires action from the Illinois General Assembly, with input from the Governor's Office, to create a new transit funding structure supported by sustainable revenue sources and a governance structure that ensures better control, accountability and coordination. Studies have found that the Chicago region's transit governance structure and the absence of the State's role is a major factor contributing to persistent underfunding.³⁰ The General Assembly must examine how the RTA's governance structure likely leads to inefficiencies, lack of coordination and underfunding of public transit. Importantly, the State must revisit the outdated funding formula, including the farebox recovery ratio. The Civic Federation therefore supports Public Act 102-1028, passed last year, which requires the Chicago Metropolitan Agency for Planning (CMAP) and the RTA to develop and submit recommendations to the Governor and Illinois General Assembly that will "ensure the long-term financial viability of a comprehensive and coordinated regional public transportation system." The Civic Federation is participating in the process as a member of the steering committee and looks forward to a robust set of recommendations, which are due by January 1, 2024.

²⁶ Regional Transportation Authority, "2023 Regional Transit Strategic Plan: Memo Summarizing Work of the Ten-Year Financial Plan Technical Working Group," September 2022, p. 41.

²⁷ Public Act 102-678.

²⁸ Regional Transportation Authority, "Transit is the Answer," February 2023, p. 24.

²⁹ Civic Federation calculations, based on Regional Transportation Authority budgets.

³⁰ Eno Center for Transportation and TransitCenter, "Getting to the Route of It: The Role of Governance in Regional Transit," October 2014.

CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers the following recommendations to the Governor and the General Assembly as they develop the final FY2024 budget:

Create a Short-Term Plan in the Event Revenues Do Not Meet Forecast

In recent fiscal years, the State has benefited from higher-than-expected revenue performance based on strong performance across several tax sources. The State's forecast for FY2024 notes a slight decrease in revenues based on an anticipated mild recession in the coming fiscal year. However, despite making conservative revenue assumptions, recent economic events including banking sector instability and continued inflationary pressures could threaten the sustainability of future budgets if revenues do not come in as expected, as was indicated by COGFA's most recent FY2023 revenue projections.³¹ Additionally, the State is currently negotiating collective bargaining agreements (CBAs) with several unions. These negotiations have the potential to increase expenditures for the State, which may require additional revenue to cover salary and wage increases. Additionally, the projected cost of a State program that provides healthcare for undocumented and other immigrants over 42 who do not qualify for Medicaid has significantly increased.³²

The Civic Federation encourages the State to develop a contingency plan in the event that revenues do not meet expectations, particularly as recurring agency spending is increasing by \$2.7 billion in the coming fiscal year. It is imperative that the State maintain its financial position and examine ways in which savings and efficiencies can be achieved, if needed, to support its continued financial stability.

Develop a Long-Term Financial Plan

Illinois is in better budgetary shape than it has been for a long time. This gives the State an excellent opportunity to develop a long-term sustainable plan to address its ongoing structural budget problems.

The Governor and General Assembly must recognize the urgency of the State's problems and act now. While current projections show 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 21 years³³ 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:

³¹ Illinois General Assembly, Commission on Government Forecasting and Accountability, "Monthly Briefing for the Month Ended: April 2023," May 3, 2023.

³² Dan Petrella and Jeremy Gerner, "Ballooning cost of insuring undocumented immigrants complicating state budget negotiations," *Chicago Tribune*, May 7, 2023. Available at <https://www.chicagotribune.com/politics/ct-undocumented-immigrant-health-care-illinois-budget-20230507-77il2hnu2jcb5g5frgxbfwotzm-story.html>.

³³ Illinois General Assembly, Commission on Government Forecasting and Accountability, Special Pension Briefing, November 2022, p 13.

- 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.”³⁴ 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 method of “[c]ommunicating long-term financial position to residents and other stakeholders, including rating agencies and bond investors.”³⁵

Developing and implementing a long-term financial plan is not an easy undertaking. It involves many painful choices and 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.

Conduct a Comprehensive, Statewide Actuarial Analysis of Tier 2 Pension Benefits Before Passing Benefit Enhancement Legislation

As noted in the earlier concern on this topic, the Civic Federation disagrees with the passage of any legislation to enhance Tier 2 benefits without first conducting a comprehensive and statewide actuarial analysis of the urgency and necessity of such benefit enhancements. Benefit enhancements could increase the cost of pensions to State and local governments, and ultimately taxpayers, by billions of dollars at a time when the State is only in the beginning stages of pulling itself out of a massive pension liability hole. The cost of pension benefits is \$139.0 billion for the State of Illinois' five pension funds alone, plus approximately \$71.3 billion more for local government pension funds across the State. The State cannot afford to add more to the bill, especially at a time when local governments are still struggling to recover from the economic hardship caused by the COVID-19 pandemic.

Before passing legislation to enhance Tier 2 pension benefits, the State must first find evidence of when Tier 2 benefits will actually violate the Safe Harbor rules and evaluate the cost to the government entities left liable to these actions made by the State. Until a complete analysis is done, there should be no urgency to pass these supposed Safe Harbor “fixes.”

³⁴ Government Finance Officers Association, “Best Practices: Long-Term Financial Planning,” March 4, 2022. <https://www.gfoa.org/materials/long-term-financial-planning>.

³⁵ Government Finance Officers Association, “Best Practices: Long-Term Financial Planning,” March 4, 2022. <https://www.gfoa.org/materials/long-term-financial-planning>.

Increase Transparency in the Illinois General Assembly by Archiving Videos of Committee and Floor Debate Online

According to the National Conference of State Legislatures (NCSL), all 50 state legislatures now livestream floor proceedings and most legislatures, including Illinois, also livestream all or selected committee hearings.³⁶ While Illinois began livestreaming hearings before the pandemic, such feeds became more important than ever when the State reduced access to in-person meetings and conducted some committee hearings remotely to reduce exposure to the virus.

However, Illinois is unlike other states in the way that the General Assembly archives video recordings of meetings and proceedings. NCSL reports that a growing number of state legislatures are archiving and making available on-demand recordings of floor and committee proceedings online and at no charge. Some archives are reported to go as far back as the 1990s and others to the mid-2000s.³⁷ Unfortunately Illinois is one of just four states that do not archive legislative hearings online. Per the Legislative Materials Act, copies of proceedings can be obtained for a fee.³⁸ Transcripts of floor proceedings are also eventually made available on the Illinois General Assembly website, but usually not until several weeks afterward.

By comparison, all of the major local governments in the Chicago area provide livestreams and archived video recordings of committee and floor proceedings online, including the City of Chicago, Cook County, Chicago Transit Authority, Chicago Park District, Metropolitan Water Reclamation District and Chicago Public Schools.³⁹ The State of Illinois should join these governments in this practice.

While it is positive that the Illinois General Assembly livestreams proceedings, archiving video recordings online would be an even greater step towards transparency and public access to government. Illinois' legislative hearings are usually scheduled during the workday when many residents are not able to view them live, and frequent scheduling changes can make it difficult for the general public to keep track of those proceedings.

Requiring the General Assembly to archive videos of its proceedings would entail some investment in online storage and organization. However, since many proceedings are already livestreamed and recorded, there may not be as much of an up-front cost. An analysis by the California Legislative Analyst's Office of a 2016 ballot initiative that required, in part, the California legislature to video record and make available online within 24 hours all open legislative proceedings estimated the initiative would require a \$1-2 million upfront investment and ongoing costs of approximately \$1 million to implement.⁴⁰

The Civic Federation recommends that the Illinois General Assembly begin to post recordings of floor debates and committee hearings on the General Assembly website. The General

³⁶ National Conference of State Legislatures, Legislative Broadcasts and Webcasts, May 27, 2022. Available at <https://www.ncsl.org/resources/details/legislative-broadcasts-and-webcasts>.

³⁷ National Conference of State Legislatures, Legislative Broadcasts and Webcasts, May 27, 2022. Available at <https://www.ncsl.org/resources/details/legislative-broadcasts-and-webcasts>.

³⁸ Illinois General Assembly website, House of Representatives – Live Video/Audio. See <https://www.ilga.gov/houseaudiovid.asp>.

³⁹ See Civic Federation blog posts on this topic at <https://www.civiced.org/civic-federation/blog/livestreaming-chicago-school-board-meetings-should-be-priority-incoming> and <https://www.civiced.org/civic-federation/blog/chicago-public-schools-begins-livestreaming-and-changes-format-board-education>.

⁴⁰ California Legislative Analyst's Office, Proposition 54, November 8, 2016. Available at <https://lao.ca.gov/BallotAnalysis/Proposition?number=54&year=2016>.

Assembly should amend the Legislative Materials Act as needed to allow the Clerk of the House and the Secretary of the Senate to post the recordings, and the law should also specify how long after a meeting the recording must be posted and for how many years it must be archived.

Develop a Plan for Public Transit in Northeastern Illinois

Public transit agencies in Illinois are in a crisis due to lost ridership from the pandemic, which has resulted in a significant decline in revenue, service reductions and inflationary spending pressures. These issues have placed the public transit system in an unsustainable financial position. The Regional Transit Authority (RTA) and the three service boards overseen by RTA—the Chicago Transit Authority (CTA), Metra and Pace—are governed by state statute requiring the transit agencies to generate at least half of their revenue from rider fares.⁴¹ However, this is no longer sustainable because of the persistent decrease in ridership, and the funding structure must be reconsidered. The RTA predicts that the transit agencies together will face a \$730 million budget deficit beginning in 2025, which will only grow worse if no action is taken.

The General Assembly plays a pivotal role in the future viability of the RTA and must identify long-term funding sources and develop a sustainable governance structure for the public transit agencies. As noted above, Public Act 102-1028⁴² requires the Chicago Metropolitan Agency for Planning (CMAP) and the RTA to develop recommendations for the Governor and the Illinois General Assembly on funding structures and governance of the transit agencies by January 1, 2024, to ensure long-term financial viability. The RTA Board of Directors also released a Regional Transit Strategic Plan, which includes plans to improve the transit system beginning in 2023.⁴³

The Civic Federation urges the General Assembly to work with RTA, CMAP, and other transit experts, analysts and researchers to identify long-term funding sources and a viable governance structure. A number of strategies and potential revenue sources were discussed at a recent Transit Policy Forum cohosted by the Civic Federation, the Federal Reserve Bank of Chicago and the Commercial Club of Chicago.⁴⁴ Additionally, studies have identified deficiencies in the Chicago region's transit system and offer recommendations for governance structure and funding distribution.⁴⁵ It is imperative for Illinois legislators to consider the options available and craft legislation that will sustain public transit service in Illinois well into the future.

Review and Evaluate the Effectiveness of All Existing Tax Treatments

Tax expenditures are exemptions, deductions, credits, allowances or abatelements that the State of Illinois provides to individuals or organizations to further public policy goals. They represent reductions to the state treasury. In FY2021, according to the latest information available from the State Comptroller, the total impact of the State's business and agricultural tax expenditures

⁴¹ Illinois Public Act 102-678.

⁴² Illinois Public Act 102-678.

⁴³ Regional Transit Authority, "Transit is the Answer," February 2023, available at <https://www.rtachicago.org/region/transit-is-the-answer>.

⁴⁴ A full video recording of the conference, "Public Transit in a Post-COVID World: Building a Financially Stable, Equitable, and Accessible Mass Transit System," as well as the agenda and presentations, is available here: <https://www.chicagofed.org/events/2023/public-transit-post-covid-world>.

⁴⁵ See for example, Eno Center for Transportation and TransitCenter, "Getting to the Route of It: The Role of Governance in Regional Transit," October 2014. Available at <https://transitcenter.org/publication/getting-to-the-route-of-it/>.

was approximately \$1.9 billion. Business tax expenditures provided specifically for economic development purposes totaled \$556 million.⁴⁶

Before proposing 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 to 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. Illinois should follow a similar model.⁴⁷

Consolidate and Streamline Government in Illinois

The Civic Federation has over many years developed a number of recommendations that would help stabilize the State of Illinois and local governments' financial positions.

The Civic Federation recommends that the Chicago Teachers' Pension Fund be consolidated with the downstate and suburban Teachers' Retirement System and that the State assume payments for the unfunded liability. The Federation also recommends that the Chicago Public Schools resume paying for the normal cost of Chicago teachers' pensions and that responsibility for the normal cost of pensions for all teachers outside of Chicago be shifted from the State of Illinois to local school districts over three years.

In addition to merging CTPF with TRS, the Civic Federation continues to support other government consolidation initiatives:

- Consolidate local pension funds;
- Merge the offices of the Illinois Comptroller and Treasurer;
- Authorize any township to be dissolved by referendum;
- Consolidate property tax administration roles in Cook County; and
- Dissolve the Illinois International Port District.

Build a Rainy Day Fund of 10% of General Funds Revenues

Governments that maintain adequate reserves are better positioned to deal with funding issues in negative situations, such as the initial economic and revenue disruptions of the COVID-19 pandemic. It is a best financial practice for governments to build a reserve, or rainy day fund, and use year-end surpluses to build a financial backstop, rather than spend surplus funds on new or expanded programs. The median rainy day fund balance among states in FY2022 was 11.6% of General Funds spending, according to a survey by the National Association of State Budget Officers (NASBO). NASBO also reported that reserve fund balances increased in 43 states in FY2022 over the prior year based on increased revenue growth.⁴⁸

⁴⁶ Illinois State Comptroller, Tax Expenditure Report Fiscal Year 2021, pp. 6 and 8. Available at <https://illinoiscomptroller.gov/financial-reports-data/find-a-report/tax-expenditure-report/fiscal-year-2021/>.

⁴⁷ State of Washington, Citizen Commission for Performance Measurement of Tax Preferences. Available at <http://www.citizen taxpref.wa.gov/default>.

⁴⁸ National Association of State Budget Officers, "The Fiscal Survey of States," Fall 2022, p. 69. Available at https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Fiscal%20Survey/NASBO_Fall_2022_Fiscal_Survey_of_States_S.pdf.

Illinois was one of only a handful of states with a rainy day fund balance of less than 1% of expenditures in FY2020.⁴⁹ It was one of only two governments nationwide and the only state forced to borrow from the Federal Reserve Bank's Municipal Liquidity Facility to manage pandemic-related revenue disruptions and maintain services. While the short-term borrowing was paid off early, it was a costly reminder of the consequences of not setting aside reserves to deal with emergencies. The State has made significant progress in the building of its reserves over the past two fiscal years and recently raised the target balance of General Funds revenue to the rainy day fund from 5% to 7.5% of General Funds revenues.⁵⁰

Now that the backlog of bills has been paid down, the State should work toward building a rainy day fund equal to 10% of General Funds revenues to cushion the budget from the next economic downturn. This goal was suggested by the General Assembly's Commission on Government Forecasting and Accountability (COGFA) in light of the State's revenue volatility.⁵¹ COGFA examined two funding strategies – making deposits into the fund only when revenues are growing rapidly or making regular deposits regardless of revenue growth – and determined that each presented challenges. While funding mechanisms that depend on excess revenues can have wide variations in annual funding, regular funding puts annual pressure on the budget.⁵² The Civic Federation strongly recommends that any legislation must explicitly indicate when deposits will be made, in what amount and the circumstances under which withdrawals will be allowed.

Develop a Plan for Illinois' Tourism and Hospitality Industries

The convention and hospitality industries were hit hard by the COVID-19 pandemic. The number of visitors to Chicago plummeted from 61 million in 2019 to just 29 million in 2021.⁵³ Downtown Chicago hotels reported an occupancy of 43% for 2021, well below the 74% average in 2019.⁵⁴

The first two months of calendar year 2023 show that occupancy rates for hotels in the Chicago Loop have increased 7% from 2019 levels.⁵⁵ And although the statewide budget projections anticipate hotel tax receipts to return to 2019 levels in the next fiscal year,⁵⁶ the City of Chicago's Mid-Year Budget Forecast still places the City's hotel tax recovery below the pre-pandemic trajectory.⁵⁷

⁴⁹ National Association of State Budget Officers, "The Fiscal Survey of States," Fall 2022, p. 76. Available at <https://www.nasbo.org/reports-data/fiscal-survey-of-states>.

⁵⁰ Illinois State FY2024 Budget, p. 56.

⁵¹ Illinois General Assembly, Commission on Government Forecasting and Accountability, Illinois Revenue Volatility Study Public Act 98-0682, Updated February 17, 2015, p. 99.

⁵² Illinois General Assembly, Commission on Government Forecasting and Accountability, Illinois Revenue Volatility Study Public Act 98-0682, Updated February 17, 2015, p. 103.

⁵³ Sarah Freishtat, "New Leader Named for City Tourism Arm Choose Chicago," *Chicago Tribune*, March 17, 2022 at <https://www.chicagotribune.com/business/ct-biz-choose-chicago-ceo-lynn-osmond-20220316-75au7biv3rci3ahszfbypqitm-story.html>.

⁵⁴ Robert Channick, "After two years of empty show floors and hotel rooms, McCormick Place gears up for the return of conventions to Chicago," *Chicago Tribune*, March 16, 2022 at <https://www.chicagotribune.com/business/ct-biz-mccormick-place-conventions-return-20220316-7j3ullv6gnc73j4n4wzwf3zjb4-story.html>.

⁵⁵ Chicago Loop Alliance, "State of the Loop: Quarter One (January-March 2023)." Available at <https://loopchicago.com/assets/FINAL-Q1-State-of-the-Loop.pdf>.

⁵⁶ Illinois State FY2024 Budget, p. 167.

⁵⁷ City of Chicago Mid-Year Budget Forecast, April 2023, p. 57.

Chicago's recent selection for the 2024 Democratic National Convention could provide a potential lifeline to the City's hotel and tourism industries, but these revenues will be one-time in nature and will not provide structural solutions. Given the enormous economic and financial importance of the convention and hospitality industries to the Illinois economy, the State should develop a **strategic plan** to help them regain and expand their market share. These industries may need additional assistance in order to return to their pre-pandemic levels of activity. Failure to do so will have a large negative impact on the State's economy and revenue base.

BUDGET BALANCING AND BILL BACKLOG

In November 2022, the State estimated that the FY2023 budget would have a surplus of \$1.7 billion and the FY2024 budget a surplus of \$279 million.⁵⁸ However, revenue forecasts for FY2023 and FY2024 have undergone updates since November. The Governor's FY2023 budget now projects a year-end surplus of \$1.7 billion after some supplemental spending, but before Budget Stabilization Fund contributions.⁵⁹

However, there were also revenue increases for FY2023 revenue projections between the enactment of the FY2023 budget in April 2022 and the State's November 2022 "Economic Fiscal and Policy Report," which increased projections by almost \$3.7 billion, as illustrated in the table below.

Revisions to FY2023 General Funds Revenue Forecast Between FY2023 Enacted Budget and Mid-Year Report (\$ in millions)

	Enacted (April 2022)	Mid-Year Report (November 2022)	Difference
Net Individual Income Tax	\$ 22,577	\$ 23,215	\$ 638
Net Corporate Income Tax	\$ 4,608	\$ 5,262	\$ 654
Net Sales Tax	\$ 10,080	\$ 10,261	\$ 181
Federal Sources	\$ 4,000	\$ 4,100	\$ 100
Other Sources and Transfers	\$ 5,164	\$ 7,281	\$ 2,117
Total	\$ 46,429	\$ 50,119	\$ 3,690

Source: Illinois State FY2023 Enacted Budget Walkdown and November 2022 Economic and Fiscal Policy Report, p. 18.

Revenues continued to increase following the November 2022 projections. The table below shows the increases in FY2023 and FY2024 revenues between the November updates and the release of the FY2024 budget in February 2023. The table below summarizes these additional increases, which appear in the State's November 2022 "Economic Fiscal and Policy Report" as

⁵⁸ Illinois Governor's Office of Management and Budget, "Illinois Economic and Fiscal Policy Report," November 14, 2022.

⁵⁹ Illinois State FY2024 Budget, p. 67.

well as its FY2024 Budget Book released in. These updates projected an additional \$1.2 billion in FY2023 revenues and an additional \$2.3 billion for FY2024.

**Revisions to FY2023 and FY2024 General Funds Revenue Forecasts
Between November 2022 and February 2023 (\$ in Millions)**

	FY2023	FY2024
Net Individual Income Tax	\$666	\$750
Net Corporate Income Tax	\$461	\$609
Net Sales Tax	\$129	\$245
Federal Sources	(\$87)	\$324
Other Sources and Transfers	\$71	\$412
Total	\$1,240	\$2,340

Source: Illinois State FY2024 Budget, p. 67 and November 2022 Economic and Fiscal Policy Report, p. 18.

The Governor is proposing a number of supplemental expenditures and other uses of the projected FY2023 revenue increase:⁶⁰

- Supplemental FY2023 spending:
 - \$200 million in supplemental Pension Stabilization Fund contributions;
 - \$490 million in supplemental FY2023 appropriations; and
 - \$100 million in funding for early childhood capital investments.

STATE OF ILLINOIS FINANCIAL WALK DOWN FY2021-FY2024

The following table shows the operating budget walk down from FY2021 through FY2024. The FY2021 year ended with a surplus of nearly \$3 billion due to the transfer of income tax revenue from FY2020 to FY2021 (due to a federal change in the date, taxes were due July 15, 2020, and could not be recognized until FY2021), as well as \$2 billion in Municipal Liquidity Fund (MLF) funding the State borrowed in December 2020 and better-than-expected revenue performance during the year. Revenues continued to perform strongly in FY2022, allowing the State to pay off its MLF borrowing early, and were additionally supported by \$736 million in American Rescue Plan Act revenue replacement funds. The State estimates a budget surplus totaling \$1.7 billion for FY2023. After accounting for contributions to the Budget Stabilization Fund, Pension Stabilization Fund and Early Childhood Capital Investments, the adjusted FY2023 surplus totals \$194 million.

⁶⁰ Illinois State FY2024 Budget, p. 60.

The updated projections show that the FY2024 budget is expected to have a surplus of \$303 million.⁶¹ The Governor proposes a transfer of \$138 million of the FY2024 surplus to the Budget Stabilization Fund, which would yield a year-end surplus of \$165 million.

State of Illinois General Funds Financial Walk Down FY2021-FY2024 (\$ in Millions)				
	FY2021 Final	FY2022 Preliminary	FY2023 Estimated	FY2024 Proposed
Operating Resources				
State Source Revenues	\$ 38,558	\$ 43,658	\$ 43,315	\$ 43,880
Federal Revenues	\$ 4,744	\$ 4,584	\$ 4,013	\$ 4,014
Statutory Transfers In	\$ 1,550	\$ 2,092	\$ 3,268	\$ 2,050
Comptroller Adjustments	\$ 224	\$ (38)	\$ -	\$ -
ARPA Reimbursements	\$ -	\$ 736	\$ 763	\$ -
Municipal Liquidity Facility	\$ 1,998	\$ -	\$ -	\$ -
TOTAL RESOURCES	\$ 47,074	\$ 51,032	\$ 51,359	\$ 49,944
Expenditures				
Operating Budget Expenditures	\$ 28,675	\$ 30,763	\$ 35,505	\$ 35,939
Pension Contributions	\$ 8,624	\$ 9,363	\$ 9,632	\$ 9,833
State Group Insurance	\$ 2,028	\$ 2,750	\$ 1,831	\$ 1,837
TOTAL OPERATING BUDGET EXPENDITURES	\$ 39,327	\$ 42,876	\$ 46,968	\$ 47,609
Expenditures: Transfers Out of General Funds				
Statutory Transfers Out	\$ 517	\$ 722	\$ 873	\$ 436
Debt Service	\$ 1,529	\$ 1,230	\$ 1,525	\$ 1,596
Interfund Borrowing Repayment	\$ 140	\$ 933	\$ -	\$ -
Treasurer's Investment Borrowing Repayment	\$ 405	\$ -	\$ -	\$ -
Pension Stabilization Fund	\$ -	\$ -	\$ 200	\$ -
Property Tax Rebate Checks	\$ -	\$ 470	\$ 50	\$ -
Income Tax Rebate	\$ -	\$ 685	\$ -	\$ -
Grocery Tax Replacement	\$ -	\$ 325	\$ 75	\$ -
Short Term Borrowing Repayment	\$ 2,209	\$ 1,052	\$ -	\$ -
TOTAL TRANSFERS OUT	\$ 4,800	\$ 5,417	\$ 2,723	\$ 2,032
TOTAL EXPENDITURES	\$ 44,127	\$ 48,293	\$ 49,691	\$ 49,641
General Funds Surplus/Deficit	\$ 2,947	\$ 2,739	\$ 1,668	\$ 303
Proposed Set-Aside for Budget Stabilization Fund Contribution	\$ -	\$ 746	\$ 1,174	\$ 138
Proposed Additional Pension Stabilization Fund Contribution	\$ -	\$ -	\$ 200	\$ -
Proposed Early Childhood Capital Investment	\$ -	\$ -	\$ 100	\$ -
Adjusted General Funds Surplus/Deficit	\$ 2,947	\$ 1,993	\$ 194	\$ 165

Totals may not sum due to rounding.

Source: Illinois State FY2024 Budget, pp. 67, 78.

BILL BACKLOG

Historically, Illinois has often dealt with budgetary shortfalls by delaying payments to vendors, school districts, local governments and universities, resulting in billions of dollars in unpaid bills at the end of the fiscal year. This backlog has lead 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 reduces the amount of revenues available for current year spending.

The State has until six months after the end of a given fiscal year to pay bills based on that year's appropriations.⁶² 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.⁶³

⁶¹ Illinois State FY2024 Budget, Governor's Letter of Transmittal and p. 67.

⁶² 30 ILCS 105/25 (m)

⁶³ 30 ILCS 105/25

The backlog of unpaid bills peaked at \$16.7 billion on November 8, 2017, according to the Illinois Comptroller's Office.⁶⁴ To address the situation, the State issued a \$6 billion General Obligation bond to pay vouchers incurred before July 1, 2017.⁶⁵ The State received \$6.5 billion in proceeds from the bond sale, which it issued to cut the unpaid bill backlog, primarily for outstanding group health insurance and Medicaid bills, by \$7.5 billion. According to the Comptroller, the State's borrowing saved taxpayers an estimated \$4 billion to \$6 billion in interest costs through 2029 by paying off billions of dollars in bills that were accruing interest penalties between 9% and 12% per year.⁶⁶ As of December 31, 2022, the outstanding principal on these bonds totaled \$3.5 billion.⁶⁷

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 additional 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.⁶⁸

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.⁶⁹ 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 FY2024 budget projects there will be \$1 billion in outstanding accounts payable and short-term debt as of June 30, 2023, consisting primarily of bills with a due date within 30 days and transfers owed to other State accounts.⁷⁰ This is a major improvement from the large backlog of bills in past years and represents a normal bill payment schedule.

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.⁷¹ Strong FY2022 revenues allowed the Governor and General Assembly to deposit \$746 million to the fund that year.⁷² The Governor's recommended budget includes a nearly \$1.2 billion deposit in FY2023 into the Budget Stabilization Fund, and another \$138 million in FY2024. 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. The FY2024 contribution to the fund will be \$45 million.⁷³

⁶⁴ Illinois State Comptroller, Accounts Payable Statement at <https://illinoiscomptroller.gov/financial-reports-data/data-sets-portals/accounts-payable-statement>

⁶⁵ The bond sale was authorized by Public Act 100-0023, enacted on July 6, 2017.

⁶⁶ Illinois State Comptroller, Accounts Payable Statement at <https://illinoiscomptroller.gov/financial-reports-data/data-sets-portals/accounts-payable-statement>.

⁶⁷ Illinois State FY2024 Budget, p. 548.

⁶⁸ Illinois State Comptroller, "Paying Off Loan Early Will Save Taxpayers \$82 Million," January 5, 2022.

⁶⁹ Public Act 100-1107.

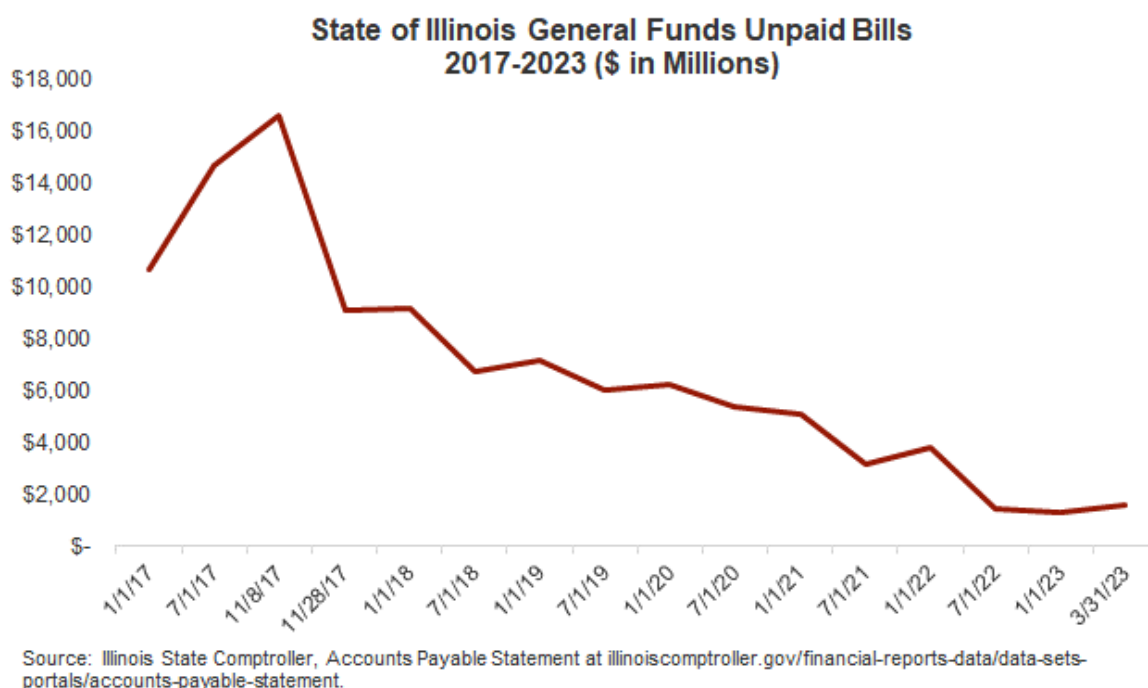
⁷⁰ Illinois State FY2024 Budget, p. 54.

⁷¹ See for example current and past Civic Federation Legislative Agendas and State of Illinois Roadmaps. <https://www.civiced.org/iifs/FY2020IllinoisRoadmap>.

⁷² Illinois State FY2024 Budget, p. 55.

⁷³ Illinois State FY2024 Budget, p. 55.

The following chart shows the State's bill backlog at the beginning of each fiscal year from 2017 through 2023, and the current bill backlog on March 15, 2023. As of March 31, 2023, the State's bill backlog was estimated at \$1.6 billion.⁷⁴



AMERICAN RESCUE PLAN ACT

As a result 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. The State of Illinois received \$8.1 billion in State Fiscal Recovery Funds (SFRF) through the \$1.9 trillion American Rescue Plan Act (ARPA). These funds are allowed to be used 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.

In addition to the \$8.1 billion in SFRF, the State of Illinois also received \$254 million for the Coronavirus Capital Projects Fund as part of the ARPA funding, for a total of approximately \$8.4 billion.⁷⁵ All of this funding has been allocated as of the end of FY2023.⁷⁶

The FY2022 State Budget appropriated \$2.8 billion in SFRF funding to key areas, including infrastructure, violence prevention, education, healthcare, affordable housing and economic recovery.⁷⁷ This included \$1 billion allocated to capital funds and \$1.8 billion directed to a

⁷⁴ Illinois State Comptroller, Debt Transparency Report at <https://illinoiscomptroller.gov/financial-reports-data/find-a-report/debt-transparency-report>.

⁷⁵ Illinois State FY2024 Budget, p. 64.

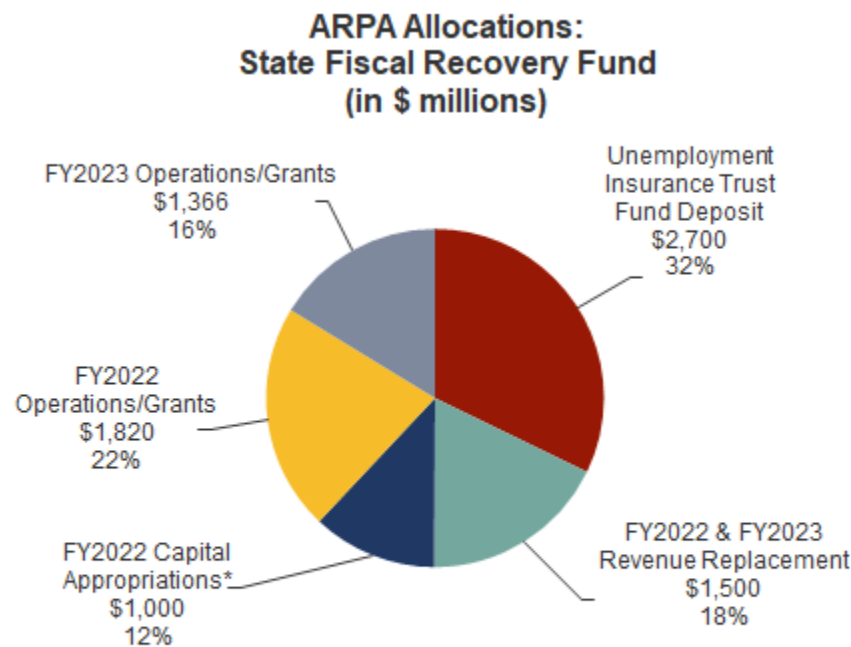
⁷⁶ Illinois State FY2024 Budget, p. 64.

⁷⁷ Illinois State FY2024 Budget, p. 64.

variety of state agencies for operational purposes and grants. Another \$1.5 billion was allocated to replace lost revenues within the General Revenue Funds. Half of this revenue replacement, \$736 million, was appropriated in FY2022 and the other half, \$763 million, was appropriated in FY2023.⁷⁸

The FY2023 budget appropriated the remaining \$4 billion in SFRF funding. Of that amount, \$2.7 billion was deposited into the Unemployment Insurance Trust Fund and \$1.37 billion was directed to a number of agencies for COVID-19-related response. The agencies are the Illinois Emergency Management Agency and the departments of Commerce and Economic Opportunity, Corrections, Human Services, Healthcare and Family Services, and Public Health.⁷⁹

The State Fiscal Recovery Fund and Coronavirus Capital Projects Fund allocations totaling \$8.4 billion are shown in the chart below.



*Includes \$254 million from the Coronavirus Capital Projects Fund.
Source: State of Illinois FY2024 Budget, p. 64; and State of Illinois Recovery Plan, State and Local Fiscal Recovery Funds, Governor's Office of Management and Budget 2022 Report, July 1, 2021-June 30, 2022, p. 3.

⁷⁸ Illinois State FY2024 Budget, p. 67.

⁷⁹ Illinois State FY2024 Budget, p. 64.

REVENUES

The State of Illinois generates annual operating resources by collecting taxes and fees levied by the State, as well as grants and reimbursements provided by the federal government.

The Governor's proposed FY2024 operating budget projects total revenues of \$103.3 billion across all funds. Of that amount, \$49.9 billion is available for General Funds spending.⁸⁰

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.

This analysis focuses primarily on the revenue projections and proposals in the Governor's proposed FY2024 General Funds budget, but also includes an update on FY2023 revenue projections.

FY2023 REVENUE PROJECTION CHANGES

Since the FY2023 State budget was enacted, revenue collections have continued to exceed expectations, prompting the Governor's Office of Management and Budget (GOMB) to make significant upward revisions in November 2022, as well as in February 2023, in the Governor's FY2024 budget. The most recent numbers show a 9% increase from original projections in the FY2023 budget enacted in May 2022. The table below illustrates these changes.

FY2023 Revenue Projection Increases
(in \$ millions)

	FY2023 Enacted	November 2022 Revision	February 2023 Revision	\$ Change	% Change
State Sources					
Individual Income Tax (Net)	\$ 22,577	\$ 23,215	\$ 23,881	\$ 1,304	5.8%
Corporate Income Tax (Net)	\$ 4,608	\$ 5,262	\$ 5,723	\$ 1,115	24.2%
Sales Tax (Net)	\$ 10,080	\$ 10,261	\$ 10,390	\$ 310	3.1%
Other Revenues	\$ 5,164	\$ 6,518	\$ 6,589	\$ 1,425	27.6%
Total State Resources	\$ 42,429	\$ 45,256	\$ 46,583	\$ 4,154	9.8%
Federal Sources	\$ 4,000	\$ 4,100	\$ 4,013	\$ 13	0.3%
Total Revenues	\$ 46,429	\$ 49,356	\$ 50,596	\$ 4,167	9.0%

Sources: Illinois State FY2023 Enacted Budget General Funds Walkdown, April 22, 2022; "Illinois Economic and Fiscal Policy Report," Governor's Office of Management and Budget, November 14, 2022; Illinois State FY2024 Budget, p. 131.

Net corporate income tax revenue is expected to increase by 24.2% from enacted FY2023 projections. GOMB attributes this strong performance to high inflation, growth in corporate profits and changes to the Illinois Income Tax Act (IITA), which included limitations on

⁸⁰ Illinois State FY2024 Budget, pp. 130-131.

deductions for net losses, changes in reporting standards for foreign dividends and a decoupling from federal bonus depreciation.⁸¹

“Other Revenues,” which include all sources outside of individual income taxes, corporate income taxes and sales taxes, show an anticipated 27.6% increase. Most of this increase comes from a transfer into the General Fund from the Income Tax Refund Fund in FY2023.⁸²

In March 2023, more recent estimates provided by the Illinois General Assembly's Commission on Government Forecasting and Accountability (COGFA) support GOMB's positive projections, but with even larger gains based on stronger-than-anticipated revenue growth. COGFA notes that their original assessment did not include American Rescue Plan Act (ARPA) reimbursement for essential government services, whereas the GOMB estimates did include \$764 million in ARPA reimbursements. Similar to GOMB, however, COGFA's assessment also anticipates a slowdown of General Fund receipts in the later part of FY2024. COGFA's estimate for total revenue in FY2023 was \$51.1 billion.⁸³ A subsequent April 2023 projection by COGFA reduced FY2023 revenue projections by \$728 million to a total of \$51.2 billion, close to the GOMB February projections.⁸⁴

GENERAL FUNDS REVENUES

The following table shows the change in General Funds revenues between FY2023 year-end estimates and the proposed FY2024 budget. The FY2023 numbers incorporate the upward revisions released in February 2023 in the Governor's FY2024 budget discussed above. Total revenues from state taxes and federal funds will decrease by \$651 million, or 1.3%, from \$51.4 billion in FY2023. Revenues from total state taxes and fees are projected to increase by \$566 million, or 1.3%.

Total resources, including the use of ARPA funds, will decrease by \$1.4 billion, or 2.8%. The State has allocated a second tranche of \$763 million in American Rescue Plan Act (ARPA) revenue replacement within the General Funds in FY2023. This ARPA revenue accounts for nearly half of the total decrease in resources for FY2024. Other transfers will also decrease

⁸¹ Illinois State FY2024 Budget, p. 160.

⁸² Illinois State FY2024 Budget, p. 75.

⁸³ Illinois General Assembly, Commission on Government Forecasting and Accountability, “Monthly Briefing for the Month Ended April 2023,” May 3, 2023, p. 6.

⁸⁴ Illinois General Assembly, Commission on Government Forecasting and Accountability, “A,” March 7, 2023, p. 33.

significantly due to a much larger-than-usual transfer from the Income Tax Refund Fund in FY2023. Federal revenues are expected to remain relatively flat with a \$1 million increase.

State of Illinois General Funds Revenues: Estimated FY2023 and Governor's Recommended FY2024 (in \$ millions)					
	FY2023 Est.	FY2024 Proj.	\$ Change FY2023-FY2024	% Change FY2023-FY2024	
State Taxes and Fees					
Income Taxes (net)					
Individual (net)	\$ 23,881	\$ 24,659	\$ 778	3.3%	
Corporate (net)	\$ 5,723	\$ 5,548	\$ (175)	-3.1%	
Sales Taxes	\$ 10,390	\$ 10,415	\$ 25	0.2%	
Public Utility Taxes	\$ 731	\$ 721	\$ (10)	-1.4%	
Cigarette Tax	\$ 244	\$ 237	\$ (7)	-2.9%	
Liquor Gallonage Taxes	\$ 181	\$ 184	\$ 3	1.7%	
Estate Tax	\$ 475	\$ 400	\$ (75)	-15.8%	
Insurance Taxes & Fees	\$ 464	\$ 472	\$ 8	1.7%	
Corporate Franchise Tax & Fees	\$ 212	\$ 208	\$ (4)	-1.9%	
Interest on State Funds & Investments	\$ 205	\$ 185	\$ (20)	-9.8%	
Cook County Intergovernmental Transfer	\$ 244	\$ 244	\$ -	0.0%	
Other Sources	\$ 565	\$ 608	\$ 43	7.6%	
Total State Taxes and Fees	\$ 43,315	\$ 43,881	\$ 566	1.3%	
Transfers and Adjustments					
Lottery	\$ 718	\$ 759	\$ 41	5.7%	
Gaming	\$ 157	\$ 175	\$ 18	11.5%	
Adult-Use Cannabis	\$ 114	\$ 116	\$ 2	1.8%	
Other Transfers	\$ 2,279	\$ 1,000	\$ (1,279)	-56.1%	
Total Transfers and Adjustments	\$ 3,268	\$ 2,050	\$ (1,218)	-37.3%	
Total State Revenues	\$ 46,583	\$ 45,931	\$ (652)	-1.4%	
Federal Sources	\$ 4,013	\$ 4,014	\$ 1	0.0%	
Total Revenue	\$ 50,596	\$ 49,945	\$ (651)	-1.3%	
ARPA Reimbursement for Government Services	\$ 763	\$ -	\$ (763)	-100.0%	
Total Resources with ARPA Receipts	\$ 51,359	\$ 49,945	\$ (1,414)	-2.8%	

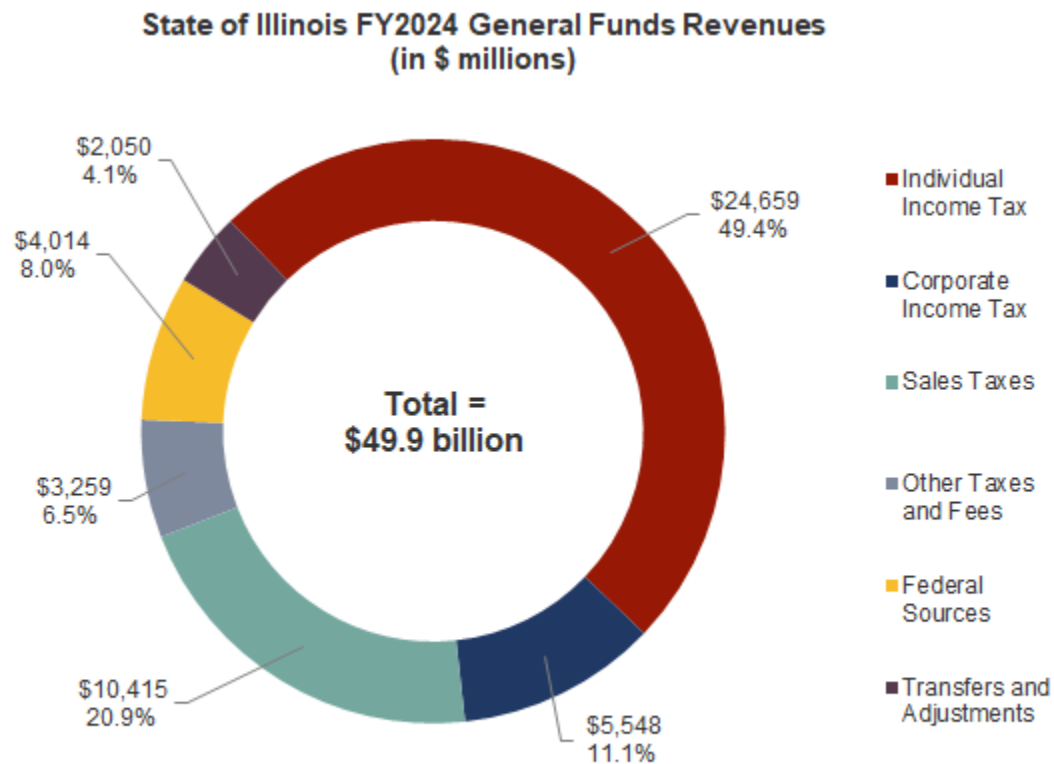
Note: Numbers may differ slightly from the FY2024 Budget Book due to rounding.

Source: Illinois State FY2024 Budget, p. 131.

As shown in the following chart, the State relies heavily on two elastic, or economically sensitive, revenues: income and sales taxes, which account for a combined 81.4% of all General Funds revenue.

Individual and corporate income taxes will together provide 60.5% of all General Funds revenues in FY2024, or \$30.2 billion. The single largest revenue source for the proposed FY2024 General Funds budget is individual income taxes, which are expected to total \$24.7

billion, or 49.4%, of all revenues. Sales taxes are projected to be the second-largest revenue source at \$10.4 billion, or 20.9%, of all General Funds revenues.

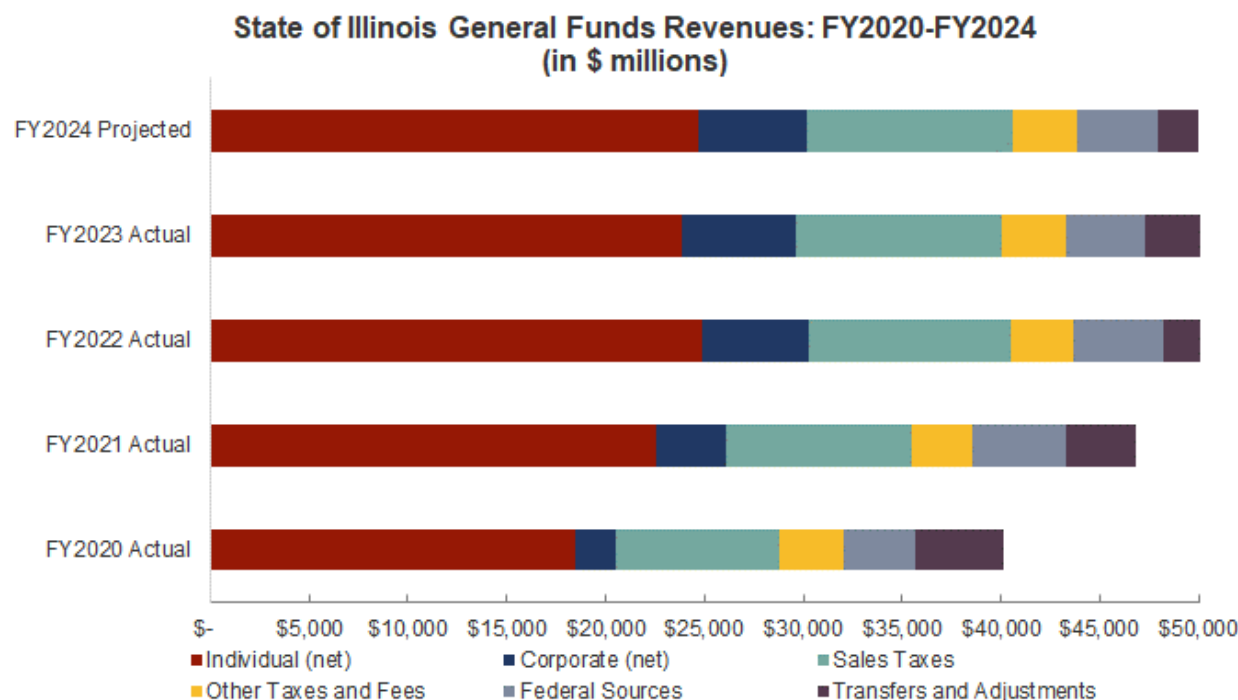


Source: FY2024 Illinois State Budget, p. 131.

The next chart presents a five-year trend of Illinois General Funds revenues by major source. The chart illustrates a marked increase in General Funds revenues beginning in FY2021. However, FY2020 included a one-time tax filing extension that shifted a portion of FY2020 revenues into FY2021.⁸⁵ Consequently, the revenues for FY2020 are artificially low, and the

⁸⁵ Illinois State FY2024 Budget, p. 71.

revenues for FY2021 are artificially high. Fiscal years 2023 and 2024 reflect the aforementioned stronger-than-expected economic trends.



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%.⁸⁶

The following table shows gross income taxes collected by the State from FY2020 actuals through FY2024 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 47%, increasing from \$20.6 billion in FY2020 to \$30.2 billion. During the same period, net individual income tax proceeds are expected to increase by 33.5%, or \$6.2 billion, and net corporate income tax collections are projected to increase by \$3.5 billion, or 166.8%. The share allocated to the LGDF, traditionally 10% of revenues derived from pre-2011 tax rates (equivalent to 6.06% of individual income taxes and 6.85% of corporate income taxes at current

⁸⁶ Public Act 100-0022.

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 be a holdback.

State of Illinois Total Income Tax Revenues FY2020-FY2024 General Funds (in \$ millions)								
	FY2020	FY2021	FY2022	FY2023 Est.	FY2024 Proj.		Five-year \$ Change	Five-year % Change
Income Tax Increment								
Individual Income Tax								
Tax Rate	4.95%	4.95%	4.95%	4.95%	4.95%			
Individual Income Tax	\$ 21,052	\$ 25,582	\$ 26,625	\$ 25,641	\$ 26,449	\$ 5,397	25.6%	
Pass-Through Entities*	\$ 605	\$ 768	\$ 2,512	\$ 2,401	\$ 2,507	\$ 1,902	314.4%	
Gross Individual Income Tax	\$ 21,657	\$ 26,350	\$ 29,137	\$ 28,042	\$ 28,956	\$ 7,299	33.7%	
Refund Fund Transfer	\$ (2,058)	\$ (2,372)	\$ (2,695)	\$ (2,594)	\$ (2,678)	\$ (620)	30.1%	
Deposits into LGDF	\$ (1,128)	\$ (1,453)	\$ (1,602)	\$ (1,568)	\$ (1,619)	\$ (491)	43.5%	
Net Individual Income Tax	\$ 18,471	\$ 22,525	\$ 24,840	\$ 23,880	\$ 24,659	\$ 6,188	33.5%	
Corporate Income Tax								
Tax Rate	7.00%	7.00%	7.00%	7.00%	7.00%			
Gross Corporate Income Tax	\$ 2,596	\$ 4,451	\$ 6,831	\$ 7,186	\$ 6,926	\$ 4,330	166.8%	
Refund Fund Transfer	\$ (370)	\$ (625)	\$ (1,026)	\$ (1,042)	\$ (970)	\$ (600)	162.2%	
Deposits into LGDF	\$ (145)	\$ (262)	\$ (398)	\$ (421)	\$ (408)	\$ (263)	181.4%	
Net Corporate Income Tax	\$ 2,081	\$ 3,565	\$ 5,407	\$ 5,723	\$ 5,548	\$ 3,467	166.6%	
Total Income Taxes (net)	\$ 20,552	\$ 26,090	\$ 30,247	\$ 29,603	\$ 30,207	\$ 9,655	47.0%	

* 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 FY2024 Budget Book due to rounding.

Source: Illinois State FY2024 Budget, pp. 159-160.

Individual Income Tax

Projections for net individual income tax receipts in the General Fund in FY2024 total \$24.7 billion, which is \$779 million, or 3.3%, above the FY2023 year-end estimates. FY2023 net individual income tax receipts are expected to decline by \$960 million from FY2022. The FY2022 estimate also reflects the end of enhanced unemployment benefits in the first quarter of FY2022, as well as a higher refund rate in the same fiscal year. The most recent projections from national consulting firm IHS Markit foresee an expected decline in real State GDP and nonfarm employment in the first half of fiscal year 2024. This pattern aligns with the anticipated mild recession in the first two quarters of the calendar year due to international conflict, increasing interest rates and inflation. Both national and state trends are expected to moderate in the latter half of FY2023.⁸⁷

Corporate Income Tax

The net corporate tax revenue shows a slight decline from FY2023 projections, from \$5.7 billion to just over \$5.5 billion. Corporate income tax receipts continued to grow amid the strong recovery from the pandemic recession based on high inflation and increased corporate profits. However, changes in the Illinois Income Tax Act (IITA) that included changes to foreign dividends reporting, limitations on net loss deduction use, and the expiration of 100% federal bonus depreciation may impede further revenue growth. These increases will fade, and possibly reverse, in the coming year based on the net loss deduction changes in the IITA.⁸⁸

Sales Tax

Sales taxes were strong during the pandemic, as federal stimulus dollars and expanded unemployment benefits supported consumers' disposable personal income. Further, the federal stimulus, 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.

⁸⁷ Illinois State FY2024 Budget, pp. 151, 155.

⁸⁸ Illinois State FY2024 Budget, p. 160.

These patterns, combined with inflation-based price increases for taxable goods and then-low interest rates, resulted in a near-record \$10.2 billion in sales tax revenue for FY2022. Net general funds sales tax receipts continued to increase in FY2023 to nearly \$10.4 billion. However, the amount of State taxes on motor fuel transferred to the road fund increased in FY2023 due to a change in State law, resulting in reduced General Funds deposits.

The State cautions that the positive effects on sales tax revenue are likely to diminish in the coming year, with decreasing real incomes, high inflationary interest rates, low consumer confidence and stock market declines threatening to constrain taxable consumption.⁸⁹ The State projections reflect this trend, as FY2024 revenue estimates show revenues nearly flat with a 0.2% increase over FY2023.⁹⁰

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, are predicted to decrease slightly from FY2023 to FY2024.

Transfers and adjustments, such as lottery, gaming and cannabis revenues are predicted to decrease by 37.3% from \$3.3 billion in FY2023 to \$2 billion in FY2024. The largest source of this decline derives from an unusually high transfer from the Income Tax Refund Fund in FY2023, which saw a nearly 512% increase from the year prior.⁹¹ The nearly \$1.3 billion estimated reduction in Income Tax Refund Fund transfers in FY2024 is reflective of this change. Revenues from gaming tax transfers are projected to increase by 5.7% over FY2023, with lottery and cannabis transfers increasing by 5.7% and 1.8%, respectively.

Federal Revenues

Federal revenues are forecasted to remain nearly flat from FY2023, at approximately \$4 billion in FY2024. Federal revenues in general funds are primarily reimbursements for Medicaid expenditures and fluctuate from year to year depending on the level of Medicaid spending. The State will no longer be collecting Coronavirus Relief Fund Reimbursements (to reimburse the General Fund for pandemic-related expenditures) in FY2024. This is partially offset, however, by a \$42 million increase in projected federal Medicaid Assistance funding.⁹²

APPROPRIATIONS AND EXPENDITURES

The recommended FY2024 budget proposes total appropriations of \$118.9 billion, including \$48.3 billion in General Funds spending authority.⁹³ The budget proposal also includes \$50.1 billion in appropriations from Other State Funds and \$20.4 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.⁹⁴ Other State Funds are accounts for activities funded by specific revenue sources that may only be used for specific purposes.

⁸⁹ Illinois State FY2024 Budget, pp. 161.

⁹⁰ Illinois State FY2024 Budget, p. 161, 169.

⁹¹ Illinois State FY2024 Budget, p. 75.

⁹² Illinois State FY2024 Budget, p. 170.

⁹³ Illinois State FY2024 Budget, p. 98.

⁹⁴ 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.

Federal Funds (other than those designated for General Funds) use federal revenues to support a variety of State programs.

Proposed General Funds expenditures total \$49.6 billion.⁹⁵ 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 and for other legislatively required purposes.

TOTAL APPROPRIATIONS BY FUND TYPE

Recommended total appropriations of \$118.9 billion in FY2024 represent a decrease of \$2.8 billion, or 2.3%, from enacted appropriations of \$121.7 billion in FY2023. Proposed FY2024 General Funds appropriations increase by nearly \$1.1 billion, or 2.3%, from \$47.2 billion the year before. Total appropriations grow by \$34.3 billion, or 40.5%, from \$84.6 billion in FY2020, while General Funds appropriations increase by \$9.2 billion, or 23.5%, over the five-year period. The following table shows enacted appropriations by type of fund from FY2020 through FY2023 and proposed appropriations for FY2024.

State of Illinois Appropriations by Fund Type:
FY2020-FY2024 (in \$ millions)

	FY2020 Enacted*	FY2021 Enacted*	FY2022 Enacted*	FY2023 Enacted*	FY2024 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
General Funds	\$ 39,113	\$ 40,695	\$ 43,750	\$ 47,223	\$ 48,309	\$ 1,086	2.3%	\$ 9,196	23.5%
Other State Funds	\$ 33,064	\$ 38,728	\$ 43,347	\$ 49,320	\$ 50,146	\$ 827	1.7%	\$ 17,082	51.7%
Federal Funds	\$ 12,436	\$ 26,229	\$ 30,678	\$ 25,120	\$ 20,429	\$ (4,691)	-18.7%	\$ 7,993	64.3%
Total**	\$ 84,613	\$ 105,651	\$ 117,775	\$ 121,663	\$ 118,884	\$ (2,779)	-2.3%	\$ 34,271	40.5%

*Enacted appropriations for FY2020, FY2021 and FY2022 include original and supplemental appropriations.

**Totals may not sum due to rounding.

Source: Illinois State FY2024 Budget, p.98; Illinois State FY2023 Budget, p. 91 and Illinois State FY2022 Budget, p. 86.

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 FY2022, for example, actual spending from Other State Funds was \$35 billion, 19.2% below the \$43.3 billion appropriated.⁹⁶ Actual spending from Federal Funds in FY2022 was \$13.8 billion, 55.2% below the \$30.7 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 increased over the five-year period by \$8 billion, or 64.3%, from \$12.4 billion in FY2020 to \$20.4 billion in FY2024. The increase is due to the American Rescue Plan Act (ARPA) becoming law in March 2021. The State of Illinois received about \$8.4 billion in funds. The funds were allocated through the Coronavirus State and Local Fiscal Recovery Fund (SLFRF), the Elementary and Secondary Emergency Relief Fund (ESSER) and the Higher Education Emergency Relief Fund (HEERF).

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

⁹⁵ Illinois State FY2024 Budget, p. 78.

⁹⁶ Illinois State FY2024 Budget, p. 98.

has more discretion over agency appropriations than the other two spending categories.⁹⁷ 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.⁹⁸ 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 FY2020 through FY2023 and proposed appropriated spending for FY2024. The FY2022 and FY2023 pension contributions in the table below are certified amounts and do not include proposed pension stabilization fund contributions totaling \$700 million. In FY2022, \$300 million was provided to pensions above the certified amount and was processed as an appropriation instead of a transfer, which is why it does not appear in the Pension Stabilization Fund contribution line in the budget book. The additional \$300 million is reflected in the FY2022 operating expenditures.⁹⁹ The Governor proposes increasing the \$200 million FY2023 pension stabilization fund contribution that was originally enacted by an additional \$200 million, bringing the total to \$700 million over the two-year period. There are no supplemental pension contributions proposed for FY2024.

**State of Illinois General Funds Appropriated Expenditures by Category:
FY2020-FY2024 (in \$ millions)**

	FY2020	FY2021	FY2022 Actual	FY2023 Est.*	FY2024 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Agency Appropriations Spent*	\$ 27,222	\$ 28,681	\$ 30,763	\$ 35,505	\$ 35,939	\$ 434	1.2%	\$ 8,717	32.0%
Pension Contributions**	\$ 8,113	\$ 8,624	\$ 9,363	\$ 9,632	\$ 9,833	\$ 201	2.1%	\$ 1,720	21.2%
Group Insurance	\$ 2,028	\$ 2,022	\$ 2,750	\$ 1,831	\$ 1,837	\$ 6	0.3%	\$ (191)	-9.4%
Total	\$ 37,363	\$ 39,327	\$ 42,876	\$ 46,968	\$ 47,609	\$ 641	1.4%	\$ 10,246	27.4%

*Enacted expenditures in FY2022 and FY2023 include supplementary appropriations.

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

Source: Illinois State FY2024 Budget, pp.67 and 78; Illinois State FY2023 Budget, pp. 60 and 70; Illinois State FY2022 Budget, pp. 55 and 66; Illinois State FY2021 Budget, pp. 51 and 62.

Proposed agency spending from appropriations is expected to increase by \$434 million, or 1.2%, to \$35.9 billion in FY2024, up from \$35.5 billion in FY2023. The FY2023 Agency Appropriations of \$35.5 billion include estimated total supplemental appropriations of \$2.3 billion, including \$1.8 billion in the Unemployment Insurance (UI) Trust Fund debt already approved by the General Assembly and the Governor's recommended \$490 million for proposed spring supplemental appropriations. The \$490 million in supplemental appropriations for the General Funds are intended to fund agencies like the Department of Corrections, Department of Commerce and Economic Opportunity, Environmental Protection Agency, Department of Natural Resources and Department of Employment Security.¹⁰⁰

Over a five-year period, agency spending is projected to increase by \$8.7 billion, or 32%, from \$27.2 billion in FY2020.

⁹⁷ 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.

⁹⁸ Illinois State FY2024 Budget, p.593

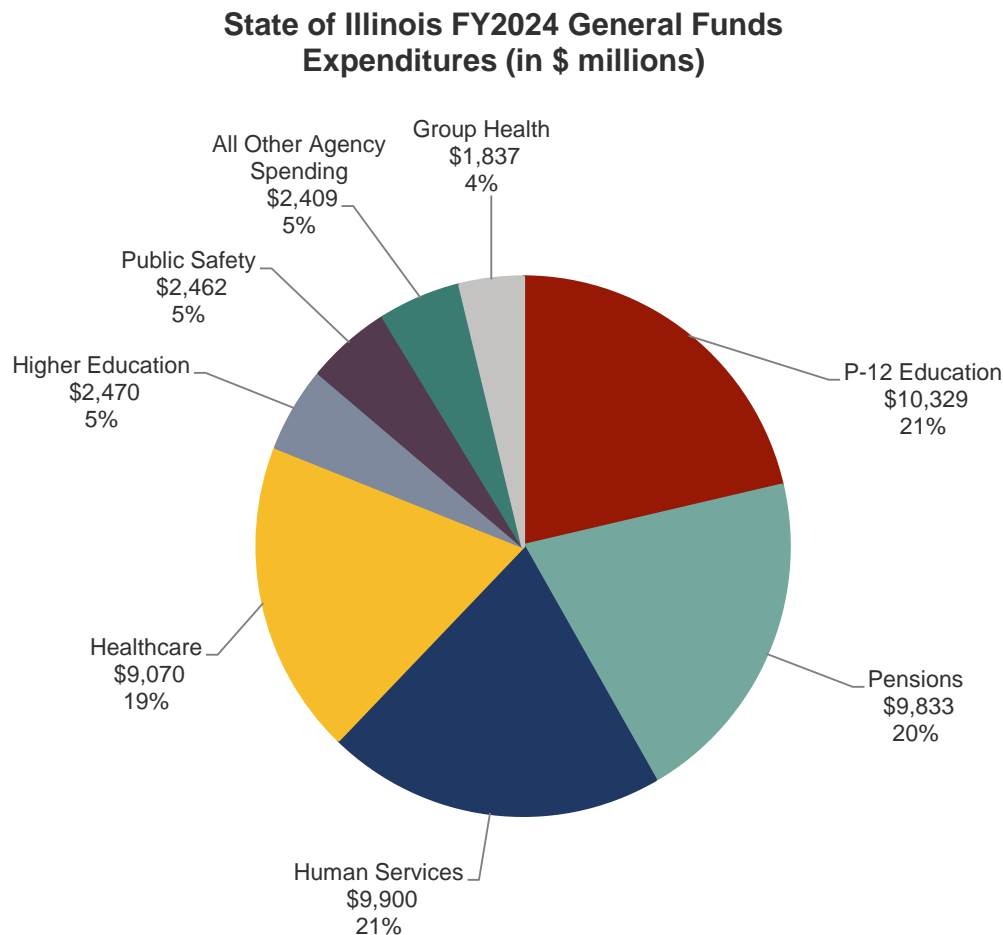
⁹⁹ Illinois State FY2024 Budget, p.79

¹⁰⁰ Illinois State FY2024 Budget, p. 128.

The FY2024 budget proposes to increase General Funds pension contributions by \$201 million, or 2.1%, to \$9.8 billion, up from \$9.6 billion in FY2023. The proposed FY2024 contribution is equal to the certified full amount required under existing state law.¹⁰¹

Proposed FY2024 General Funds group health insurance payments are relatively flat, increasing by \$6 million from the prior year to \$1.84 billion. The stability is due to collective bargaining agreements (CBAs) that were negotiated in FY2019 and included provisions to reduce health care spending. In FY2022, an additional \$898 million in supplemental appropriations was allocated to eliminate the backlog of unpaid employee group health insurance for a total of \$2.8 billion.¹⁰²

GENERAL FUNDS AGENCY SPENDING AND APPROPRIATIONS BY AREA



Source: State of Illinois FY2024 Proposed Budget.

Note: Does not include unspent appropriations or transfers out of General Funds.

¹⁰¹ Illinois State FY2024 Budget, p. 77.

¹⁰² Illinois State FY2024 Budget, pp. 60 and 73.

The chart above shows the State of Illinois proposed FY2024 General Funds expenditures. These do not include unspent appropriations or transfers of General Funds. The Proposed FY2024 budget includes P-12 Education appropriations of \$10.3 billion, or 21% of General Funds. Approximately \$9.9 billion, or 21%, is for Human Services and \$9.1 billion, or 21%, is for Healthcare. About \$1.8 billion, or 4%, of General Funds will go towards Group Health Insurance payments. Additional expenditures include \$9.8 billion, or 20%, for Pension contributions and \$2.5 billion, or 5%, for Higher Education. Approximately \$2.5 billion, or 5%, will go to Public Safety and \$2.4 billion, or 5%, 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.¹⁰³

The following table explains in detail the agency expenditures and appropriations from FY2020 to FY2024. It details spending by area of government, based on the categories in the budget book.¹⁰⁴ Actual spending by area is shown for FY2020 through FY2022, estimated expenditures for FY2023 and proposed appropriations for FY2024. 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:
FY2020-FY2024 (in millions)**

	FY2020 Exps.	FY2021 Exps.	FY2022 Exps.	FY2023 Est. Exps.	FY2024 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
P-12 Education*	\$ 8,894	\$ 8,897	\$ 9,327	\$ 9,757	\$ 10,329	\$ 572	5.9%	\$ 1,435	16.1%
Higher Education**	\$ 1,943	\$ 1,973	\$ 2,292	\$ 2,251	\$ 2,470	\$ 219	9.7%	\$ 527	27.1%
Human Services	\$ 6,628	\$ 7,177	\$ 7,705	\$ 8,988	\$ 9,900	\$ 912	10.1%	\$ 3,272	49.4%
Healthcare	\$ 7,846	\$ 8,179	\$ 7,853	\$ 8,361	\$ 9,070	\$ 709	8.5%	\$ 1,224	15.6%
Public Safety	\$ 1,904	\$ 1,915	\$ 2,036	\$ 2,238	\$ 2,462	\$ 224	10.0%	\$ 558	29.3%
All Other Agency Spending***	\$ 1,753	\$ 1,906	\$ 2,423	\$ 2,345	\$ 2,409	\$ 64	2.7%	\$ 656	37.4%

*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. Higher Education includes funding from the Personal Property Tax Replacement Fund of \$105.6 million in FY2020.

***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 FY2024 Budget, p. 67; Illinois State FY2023 Budget, p. 60 and Illinois State FY2022 Budget, p. 55.

P-12 Education

Among the State's proposed FY2024 expenditures, appropriations for preschool to secondary education will increase from the prior year by \$572 million, or 5.9%, up from \$9.8 billion in FY2023 to \$10.3 billion in FY2024. The Governor's proposed budget funds the \$350 million annual 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 FY2023, FY2022, FY2020 and FY2019, but not the pandemic-impacted budget for FY2021. Since FY2020, there has been a \$1.4 billion increase in annual funding to help achieve the Evidence-Based Funding (EBF) formula statutory target.¹⁰⁵ The five-year increase of \$1.4 billion, or 16.1%, in P-12 funding comes entirely from increases in FY2020, FY2022, FY2023 and the projected FY2024.¹⁰⁶

¹⁰³ Illinois State FY2024 Budget, p. 67.

¹⁰⁴ Illinois State FY2024 Budget, p. 67.

¹⁰⁵ Illinois State FY2024 Budget, p. 32.

¹⁰⁶ 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.

The EBF school funding reform law required the State for the first time to pay for part of the pension benefits earned each year by Chicago Public Schools (CPS) teachers.¹⁰⁷ However, those CPS pension costs, estimated at \$323 million in FY2024, are not included in the education category in the budget; they instead are shown in All Other Agency Spending in the table above.¹⁰⁸ The Proposed FY2024 budget is providing \$250 million in funding for the first 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 also appropriates an additional \$75 million for the Early Childhood Block Grant to increase preschool availability. Another \$130 million, plus additional federal dollars, will go to increased compensation for early childhood workers.¹⁰⁹

Higher Education

Proposed spending for higher education increases by \$219 million, or 9.7%, to nearly \$2.5 billion in FY2024, up from \$2.3 billion in FY2023.¹¹⁰ Higher education includes: nine public universities; 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.¹¹¹ The FY2024 budget increases General Funds support for universities and community colleges by \$100 million, or 7%, compared to FY2023 levels. The budget will provide an additional \$100 million for MAP, which would provide sufficient funding for a combination of MAP and Pell grants to fund the full tuition and fees of the more than 40% of public university students who are at or below median income level. It would also increase the maximum amount of the grant award to \$8,508 and the average grant award to \$4,846.¹¹²

Human Services

Proposed appropriations for human services increases by \$912 million, or 10.1%, to \$9.9 billion in FY2024, up from \$9.0 billion in FY2023. Over the five-year period, proposed human services spending increases by \$3.3 billion, or 49.4%, to \$9.9 billion in FY2024, up from \$6.6 billion in FY2020. 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 FY2024 General Funds budget proposal for the Department of Human Services (DHS) is \$6.3 billion, an increase of \$659 million, or 11.6%, up from estimated FY2023 spending of \$5.7 billion.¹¹³ The additional funding includes \$200 million in funding for services for people with developmental disabilities, through programs such as the Home Illinois initiative, to address caseload growth and negotiated rate increases in keeping with the State's *Ligas* consent decree.¹¹⁴ The proposed budget also includes a \$50 million increase to Temporary Assistance for Needy Families (TANF). Of that amount, \$20 million will support cost-of-living increases and

¹⁰⁷ The State has responsibility for both the normal cost and unfunded liability of the Teachers' Retirement System, which covers teachers outside of Chicago.

¹⁰⁸ Illinois State FY2024 Budget, p. 67. The budget book includes CPS normal pension costs (which include retiree health insurance) in the category of Government Services.

¹⁰⁹ Illinois State FY2024 Budget, p.31.

¹¹⁰ Illinois State FY2024 Budget, p.67.

¹¹¹ 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.

¹¹² Illinois State FY2024 Budget, p. 34.

¹¹³ Illinois State FY2024 Budget, p. 322.

¹¹⁴ Illinois State FY2024 Budget, pp.37-38 and 322.

address caseload increases and \$30 million will be used to increase the monthly grant payment from 30% to 40% of the Federal Poverty Level (FPL).¹¹⁵

The proposed FY2024 General Funds budget for the Department on Aging is \$1.4 billion, an increase of \$55.9 million over estimated spending of \$1.34 billion in FY2023.¹¹⁶ Additional funding includes \$27.4 million to cover the costs of a proposed rate increase effective January 1, 2023, and March 1, 2023, for the Community Care Program, which is designed to keep seniors out of nursing homes.¹¹⁷

The Department of Children and Family Services will receive an additional \$54.6 million in General Funds appropriations in FY2024, or 4.1%, over FY2023. The increase will support a modernized case management system and address staff shortages.¹¹⁸

Healthcare

Proposed FY2024 General Funds appropriations for Medicaid of nearly \$9.1 billion are projected to increase by \$709 million, or 8.5%, from estimated spending of \$8.4 billion in FY2023. This represents an increase of \$1.2 billion, or 15.6%, over the past five years, up from \$7.8 billion in FY2020. The State's healthcare category refers to the Department of Healthcare and Family Services (HFS), the Illinois agency mainly responsible for Medicaid, the joint federal-state program that pays for healthcare for low-income people.

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.¹¹⁹ 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 the phase-out of an enhanced Medicaid match from the federal government during the pandemic.¹²⁰

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. Proposed General Funds appropriations for Public Safety increase by \$224 million, or 10%, to \$2.5 billion in FY2024, up from the FY2023 total, and increases by \$558 million, or 29.3%, from \$1.9 billion in FY2020. Operational costs of the Illinois Department of Corrections (IDOC) were not fully

¹¹⁵ Illinois State FY2024 Budget, pp. 38 and 322.

¹¹⁶ Illinois State FY2024 Budget, p. 249.

¹¹⁷ Illinois State FY2024 Budget, p. 39.

¹¹⁸ Illinois State FY2024 Budget, pp. 37 and 266.

¹¹⁹ 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).

¹²⁰ Illinois State FY2024 Budget, p. 358.

covered during the budget impasse, and so additional funding was included in subsequent years to make up for prior years' shortfalls.

In FY2024, the proposed budget increases appropriations to violence prevention programs like the Reimagine Public Safety Act; the Restore, Reinvest and Renew Grants Program and the SAFE-T Act.¹²¹ The Criminal Justice Information Authority (CIJA) will invest \$200 million for the Restore, Reinvest, and Renew Grants Program, which will allow for additional grants to be awarded and flexibility in administering them. The Criminal Justice Information Authority also includes \$30 million for the Violent Crime Witness Protection Program to provide temporary housing support, relocation expenses and costs associated with transitional housing needs.¹²²

The Department of Corrections will use the \$155 million proposed increase in funding to increase compensation for staff at 28 correctional facilities across the State as well as funding for the recently operational Joliet Inpatient Treatment Center (JITC). The Illinois State Police will also receive \$17.5 million in General Funds to support two cadet classes to hire and train 200 additional sworn troopers.¹²³

GENERAL FUNDS EXPENDITURES

Total expenditures from General Funds are expected to decrease by \$350 million, or 0.7%, to \$49.6 billion in FY2024, down from approximately \$50.0 billion estimated in FY2023. This is due to a decline in total transfers out, which is offset by the increase in agency appropriations and pension contributions. Over the five-year period, expenditures increase by \$9.7 billion, or 24.2%, from nearly \$40 billion in FY2020.

State of Illinois General Funds Expenditures: FY2020-FY2024 (in \$ millions)*									
	FY2020	FY2021	FY2022 Prelim.	FY2023 Est.	FY2024 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Agency Appropriations**	\$28,970	\$29,995	\$31,593	\$ 36,250	\$ 36,639	\$ 389	1.1%	\$ 7,669	26.5%
(Unspent Appropriations)***	\$ (1,748)	\$ (1,314)	\$ (830)	\$ (745)	\$ (700)	\$ 45	-6.0%	\$ 1,048	-60.0%
Net Agency Appropriations Spent	\$27,222	\$28,681	\$30,763	\$ 35,505	\$ 35,939	\$ 434	1.2%	\$ 8,717	32.0%
Pension Contributions	\$ 8,113	\$ 8,624	\$ 9,363	\$ 9,632	\$ 9,833	\$ 201	2.1%	\$ 1,720	21.2%
State Group Insurance	\$ 2,028	\$ 2,022	\$ 2,750	\$ 1,831	\$ 1,837	\$ 6	0.3%	\$ (191)	-9.4%
Net Appropriations Spent	\$37,363	\$39,327	\$42,876	\$ 46,968	\$ 47,609	\$ 641	1.4%	\$ 10,246	27.4%
Statutory Transfers Out									
Legislatively Required Transfers	\$ 440	\$ 517	\$ 722	\$ 873	\$ 436	\$ (437)	-50.1%	\$ (4)	-0.9%
Proposed Pension Stabilization Fund Contribution	\$ -	\$ -	\$ -	\$ 400	\$ -	\$ (400)	-100.0%	\$ -	0.0%
Property Tax Rebate Checks	\$ -	\$ -	\$ 470	\$ 50	\$ -	\$ (50)	-100.0%	\$ -	0.0%
Grocery Tax Replacement to Local Governments	\$ -	\$ -	\$ 325	\$ 75	\$ -	\$ (75)	-100.0%	\$ -	0.0%
Income Tax Rebate	\$ -	\$ -	\$ 685	\$ -	\$ -	\$ -	0.0%	\$ -	0.0%
Proposed Early Childhood Capital Investment	\$ -	\$ -	\$ -	\$ 100	\$ -	\$ (100)	-100.0%	\$ -	0.0%
Repayment of Interfund Borrowing****	\$ 280	\$ 140	\$ 933	\$ -	\$ -	\$ -	0.0%	\$ (280)	-100.0%
Total Debt Service*****	\$ 1,870	\$ 1,529	\$ 1,230	\$ 1,525	\$ 1,596	\$ 71	4.7%	\$ (274)	-14.7%
Municipal Liquidity Facility Repayments	\$ -	\$ 2,209	\$ 1,052	\$ -	\$ -	\$ -	0.0%	\$ -	0.0%
Total Transfers Out	\$ 2,590	\$ 4,395	\$ 5,417	\$ 3,023	\$ 2,032	\$ (991)	-32.8%	\$ (558)	-21.5%
Total Expenditures	\$39,953	\$43,722	\$48,293	\$ 49,991	\$ 49,641	\$ (350)	-0.7%	\$ 9,688	24.2%

*Totals may not sum due to rounding.

**Agency Appropriations in FY2022 include proposed supplemental appropriations of \$1,615 million and \$2,310 million in FY2023.

***Unspent appropriations include Comptroller prior year adjustments of \$34 million in FY2019, \$23 million in FY2020 and \$54 million in FY2021.

****Repayment of interfund borrowing includes \$13 million for Treasurer's investments in FY2019, \$7 million in FY2020 and \$405 million in FY2021.

*****Total Debt Service includes: Capital Bonds, Pension Bonds, Section 7.6 Bonds and Pension Acceleration Bonds.

Sources: Illinois State FY2024 Budget, pp. 67,78,546; Illinois State FY2023 Budget, pp. 60,70,516; Illinois State FY2022 Budget, pp. 55, 66, 500.

¹²¹ Illinois State FY2024 Budget, p. 42-43.

¹²² Illinois State FY2024 Budget, p. 43.

¹²³ Illinois State FY2024 Budget, p. 44-45.

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 \$991 million, or 32.8%, to \$2.0 billion in FY2024, down from \$3.0 billion in FY2023, and by \$588 million, or 21.5%, from \$2.6 billion in FY2020.

In FY2024 legislatively required transfers will decline by \$437 million, or 50.1%, to \$436 million, down from \$873 million in FY2023. The decrease is due to reduced funding for Disaster Response and Recovery, General Assembly Technology and the Large Business Attraction Fund, which the Governor uses to incentivize businesses to expand in Illinois.¹²⁴ Debt service transfers will increase by \$71 million to \$1.6 billion in FY2024, up from \$1.5 billion in FY2023. 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.¹²⁵ At the end of FY2022, actuarial unfunded liabilities totaled nearly \$139.0 billion and the combined funded ratio stood at 44.1%. The unfunded liability and funded ratio based on the market value of assets were \$139.7 billion and 43.8%.¹²⁶ The significant difference between the two numbers is due to asset smoothing. The market value funded ratio fully incorporates both historic investment returns of \$14.3 billion during FY2021 and significant losses in FY2022, while the actuarial investment returns are incorporated over a period of five years. 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; State Employees' Retirement System, for most State employees who are not eligible for another State plan; 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 \$18.2 billion in the next 22 years¹²⁷ from \$10.8 billion in FY2023.¹²⁸

The State's unfunded pension liabilities are expected to continue growing until FY2027 despite increasing contributions.¹²⁹ 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

¹²⁴ Illinois State FY2024 Budget, General Funds Transfers Out, p. 129.

¹²⁵ The Pew Charitable Trusts, "State Pension Contributions Hit Important Benchmark," *Issue Brief*, October 2022. Available at <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/10/state-pension-contributions-hit-important-benchmark>.

¹²⁶ Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2022, p. 2. Available at <https://cgfa.ilga.gov/Upload/1122%20SPECIAL%20PENSION%20BRIEFING.pdf>.

¹²⁷ Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2022, p. 13.

¹²⁸ Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2022, p. 13. The \$10.8 billion contribution is for all funds.

¹²⁹ Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2022, p. 13.

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 funded ratio.

Additionally, due to the liquidity crisis following the 2008 recession, Illinois covered its pension contributions in FY2010 and FY2011 by selling bonds, which were paid off in FY2019. Total pension-related expenditures, including \$674.6 million of debt service on pension bonds issued in 2003,¹³⁰ were estimated at \$9.9 billion in FY2020.¹³¹

General Funds pension contributions account for approximately 89% of total State contributions.¹³² 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).¹³³ Pension costs as a share of General Funds State-source only revenue grew from 8.3% in FY2008 to an estimated 23.5% in the proposed FY2024 budget. The peak was 30.7% in FY2017 following the income tax rate reductions in 2015; the share declined in the next two years due to the income tax rate increases in FY2018. These pension costs increased over this period from \$2.1 billion in FY2008 to \$10.8 billion in FY2024. Pension contributions for FY2010 and FY2011 are not shown in the chart because they were paid from bond proceeds instead of General Funds.

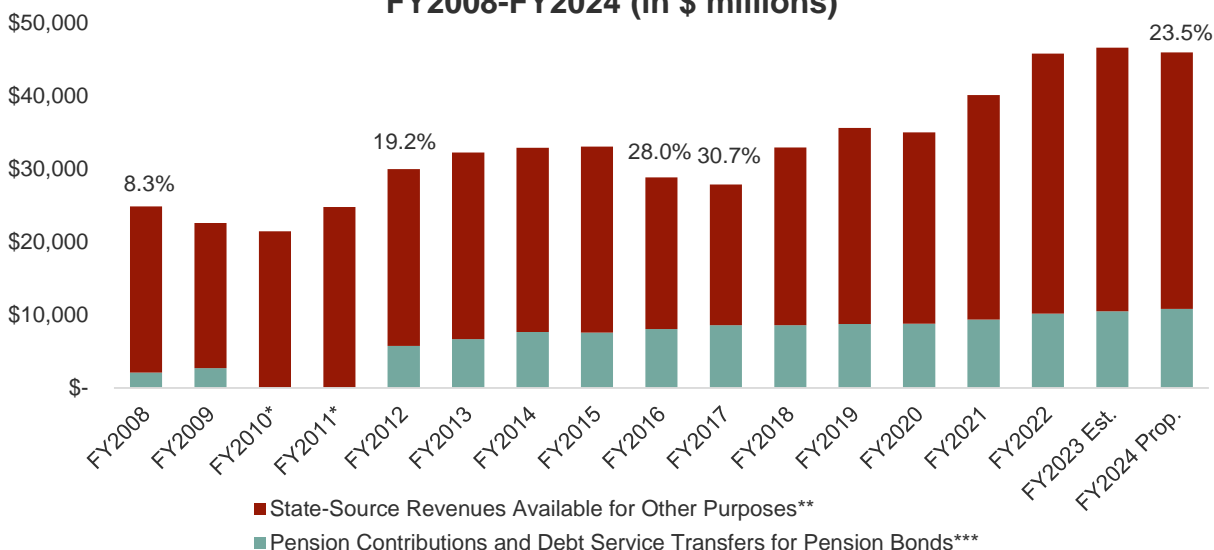
¹³⁰ Illinois issued \$10 billion of Pension Obligation Bonds in June 2003. From the proceeds, \$7.3 billion was used to increase pension fund assets and about \$2.2 billion went for required pension contributions in FY2003 and FY2004, replacing General Funds contributions.

¹³¹ Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2019*, June 2020, p. 48.

¹³² State of Illinois, Official Statement: General Obligation Bonds, Series of October 2022, October 5, 2022, p. A-16. Available at <https://capitalmarkets.illinois.gov/content/dam/soi/en/web/capitalmarkets/documents/recent-bond-sales/State-of-Illinois-General-Obligation-Bonds-Series-of-October-2022ABC-Official-Statement.pdf>.

¹³³ General Funds revenues in Illinois include State-source revenues as well as federal revenues, which are mainly reimbursements for Medicaid spending.

State-Source General Funds Revenue Available for Pension Costs Compared with Other Purposes: FY2008-FY2024 (in \$ millions)



* 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.

Source: Illinois State FY2024 Budget, p. 67 and prior Illinois State Budget Books.

To address budgetary pressures, the State in 2011 created a second, significantly less generous tier of benefits for new employees.¹³⁴ 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.¹³⁵ However, the low Tier 2 benefits, which were not matched by lower employee 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.¹³⁶

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.¹³⁷ The high court ruled in 2015 and 2016 that the State law and subsequent benefit changes enacted for two City of Chicago pension funds¹³⁸ violated the pension protection clause in the Illinois

¹³⁴ Public Act 96-0889.

¹³⁵ State of Illinois, Official Statement: General Obligation Bonds, Series of October 2022, October 5, 2022. B-33.

¹³⁶ Tara Garcia Mathewson, "Illinois Issues: The Next Pension Time Bomb," *NPR Illinois* 91.9 UIS, March 30, 2016.

¹³⁷ Public Act 98-0599.

¹³⁸ Public Act 98-0641.

Constitution.¹³⁹ That clause states that pension benefits are part of a contractual relationship and cannot be diminished or impaired.¹⁴⁰

State pension contributions stabilized in FY2018 due to statutory changes included in that year's budget legislation.¹⁴¹ The main change involved smoothing of State pension contributions, which is intended to moderate the budgetary impact of new actuarial assumptions adopted by the retirement systems. Smoothing spreads the contribution increase over a number of years, reducing State costs in the near-term but increasing costs over time due to forgone investment income. Before the smoothing provisions were enacted, the State's total FY2018 contributions were expected to increase by nearly \$1 billion, from \$7.8 billion in FY2017 to \$8.8 billion, because of revised actuarial assumptions by the Teachers' Retirement System (TRS) and State Employees' Retirement System (SERS). Smoothing reduced total FY2018 contributions by \$909 million to \$7.9 billion.¹⁴²

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.¹⁴³ 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.

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 October 2022, the State had issued \$1.2 billion in pension buyout bonds.¹⁴⁴ Of the three funds, SERS was the system with the largest expected savings and has had the highest take-up rate. As of August 2022, SERS has processed payments totaling \$308.2 million for the accelerated pension benefits, with 26.2% of eligible retirees opting into the automatic annual increase reduction program and less than 1% into the buyout program. TRS has expended bond proceeds of \$611.8 million as of August 2022, with a 18.7% participation rate in the automatic annual increase reduction program and 11.0% in the buyout program. SURS has expended bond proceeds of approximately \$33.6 million as of July 2022 and participation rates were

¹³⁹ 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).

¹⁴⁰ Ill. Const. art. XIII, sec. 5.

¹⁴¹ Public Act 100-0023.

¹⁴² State of Illinois, Office of the Auditor General, *State Actuary's Report*, December 2017, pp. 11-12, available at <https://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/State-Actuary-Reports/2017-State-Actuary-Rpt-Full.pdf>.

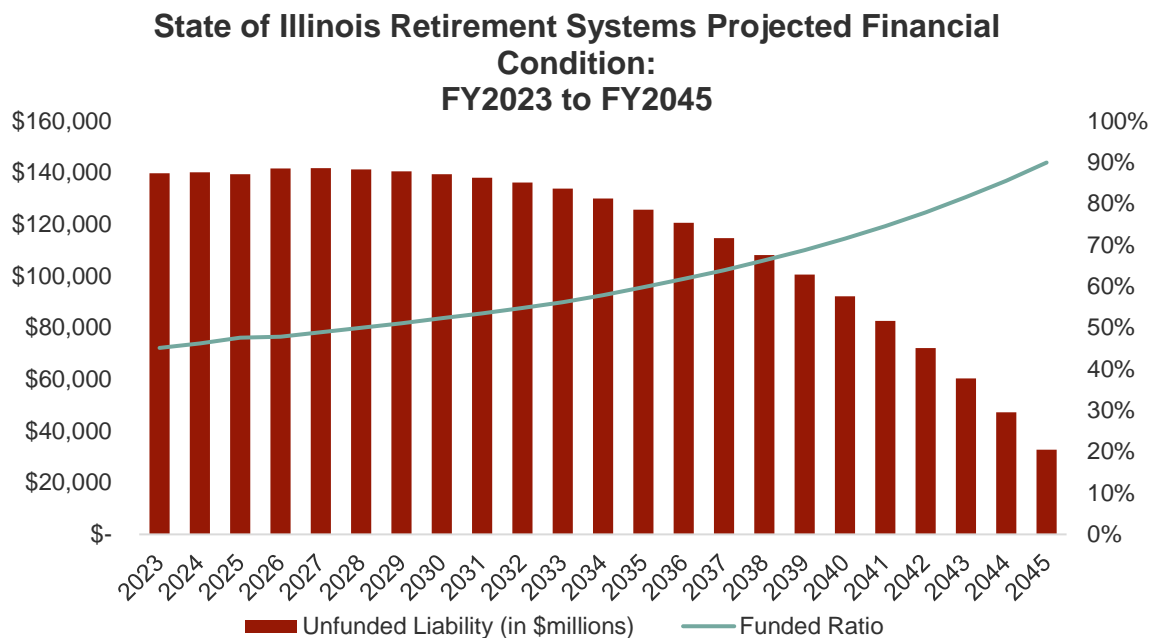
¹⁴³ For more information, see the Institute for Illinois' for Fiscal Sustainability at the Civic Federation blogs: "Examining Pension Savings in Illinois' FY2019 Budget," July 5, 2018, <https://www.civiced.org/iifs/blog/examining-pension-savings-illinois-fy2019-budget>; "Illinois FY2019 Budget Still Faces Major Hurdles," October 5, 2018, <https://www.civiced.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.civiced.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.civiced.org/iifs/blog/illinois-budget-deficit-projected-exceed-1-billion-fy2019>; "Illinois' Pension Buyout Savings Far Less than Expected," July 18, 2019, <https://www.civiced.org/iifs/blog/illinois-pension-buyout-savings-far-less-expected>.

¹⁴⁴ State of Illinois, Official Statement: General Obligation Bonds, Series of October 2022, October 5, 2022, p. B-37.

approximately 1.6% and less than 1% for the programs.¹⁴⁵ The Governor's Office in the FY2024 recommended budget cited an estimated value of liability reductions, due to the buyout program, of \$1.57 billion and a reduced contribution to SERS in FY2024 of approximately \$44 million.¹⁴⁶

The Governor's FY2024 budget proposal includes an increase to supplemental pension payments during FY2023 of \$200 million. The FY2023 budget proposed \$500 million total in payments in FY2022 and FY2023 to be paid from higher-than-expected revenues.¹⁴⁷ The supplemental payments totaling \$700 million are projected to save the State \$2.4 billion in contributions through FY2045 by paying down the pensions more in the short term.¹⁴⁸

The following chart shows the most recent estimates of total unfunded liabilities and combined funded ratios for the State's five retirement systems from FY2023 through FY2045. The projections are based on preliminary data from FY2022.



* For data, see Appendix.

Source: Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2022, p. 13.

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. In previous years, the State has also issued short-term

¹⁴⁵ State of Illinois, Official Statement: General Obligation Bonds, Series of October 2022, October 5, 2022, p. B-37-38.

¹⁴⁶ Illinois State FY2024 Budget, p. 57.

¹⁴⁷ Illinois State FY2023 Budget, p. 53.

¹⁴⁸ Illinois State FY2024 Budget, p. 57.

debt: the Illinois Constitution, the Short-Term Borrowing Act and the 2020 Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act all authorize the issuance of short-term debt.¹⁴⁹

All GO bonds are guaranteed by a pledge of the full faith and credit of the State, which is a legally binding pledge 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.¹⁵⁰

In 2003, the State amended the GO Bond Act to include the authorization to issue **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 of December 31, 2022, was approximately \$8 billion and total debt service outstanding, including interest, was \$10.9 billion.¹⁵¹

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.¹⁵²

Pension acceleration bonds are intended to finance the cost of two programs:¹⁵³

- 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 AAI.

The State issued \$525 million in pension acceleration bonds in FY2020, \$212 million in FY2021, \$273 million in FY2022 and \$149 million in FY2023.¹⁵⁴ The principal outstanding on these bonds as of December 31, 2022, was \$1.1 billion.¹⁵⁵

¹⁴⁹ See Illinois State Constitution Article IX, Section 9(d): State Debt and Borrowing for Failure of Revenues (also 30 ILCS 340/1.1; Short Term Borrowing Act (30 ILCS 340/1 from Ch. 120, par. 406); and Illinois FY2024 State Budget, p. 550. In addition, the 2020 Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act also authorized the borrowing of up to \$5 billion from the Federal Reserve Bank's Municipal Liquidity Facility to address revenue shortfalls and increased spending pressures resulting from the continued COVID-19 pandemic. On December 17, 2020, the State issued \$2 billion in General Obligation notes with a three-year maturity. These notes were fully retired on January 26, 2022, two years ahead of schedule. See Illinois FY2022 State Budget, pp. 505-506.

¹⁵⁰ General Obligation Bond Act, 30 ILCS 330/1.

¹⁵¹ Illinois FY2024 State Budget, p. 562.

¹⁵² Illinois FY2024 State Budget, p. 549.

¹⁵³ Illinois FY2024 State Budget, p. 549.

¹⁵⁴ Illinois FY2024 State Budget, p. 549.

¹⁵⁵ Illinois FY2024 State Budget, p. 562.

The General Assembly approved legislation in 2017 authorizing the issuance of \$6 billion in bonds to pay down the State's **unpaid bill backlog**.¹⁵⁶ 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, 2022, was \$4 billion.¹⁵⁷ 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.¹⁵⁸

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 receipts¹⁵⁹ and by various revenue sources that fund the Capital Projects Fund. As of December 31, 2022, there were \$2 billion in principal outstanding for Build Illinois Bonds.¹⁶⁰

In 2019, the General Assembly approved and Governor Pritzker signed into law a new \$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 2010.¹⁶¹ The FY2024 capital budget proposes appropriations of approximately \$41.6 billion; this includes new spending and reappropriation authority.¹⁶² Information about the FY2024 capital budget will be provided in a subsequent Civic Federation report.

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.

The Railsplitter Tobacco Settlement Authority (RTSA) has issued limited obligation debt backed by funds received under a Master Settlement Agreement between several states and tobacco companies. The FY2024 State budget proposes to use \$455 million to retire the bonds. The State will transfer \$455 million in funds to the RTSA. The RTSA in turn will purchase government securities to deposit into an escrow account until the bonds are callable. Scheduled debt service payments will be made from the escrow account to retire the debt. The escrow deposit will be offset by interest earnings on the government securities. Because high quality securities will collateralize the bonds, the transaction will be considered to be legally retired. This transaction will free up operating funds for the State Medicaid program and save the State as much as \$60 million in interest costs.¹⁶³

DEBT SERVICE

In FY2024, the State of Illinois is scheduled to pay debt service totaling \$3.6 billion. The largest portion of the FY2024 debt service payment is due on capital purpose GO bonds totaling \$1.7 billion, followed by Pension Obligation and Pension Acceleration bonds at \$965.9 million, backlog bonds at \$661.5 million, and Build Illinois revenue Bonds at \$256.9 million. Total

¹⁵⁶ 30 ILCS 330/7.6.

¹⁵⁷ Illinois FY2024 State Budget, p. 561.

¹⁵⁸ Illinois FY2024 State Budget, p. 548.

¹⁵⁹ Build Illinois Bond Act, 30 ILCS 425.

¹⁶⁰ Illinois FY2024 State Budget, p. 563.

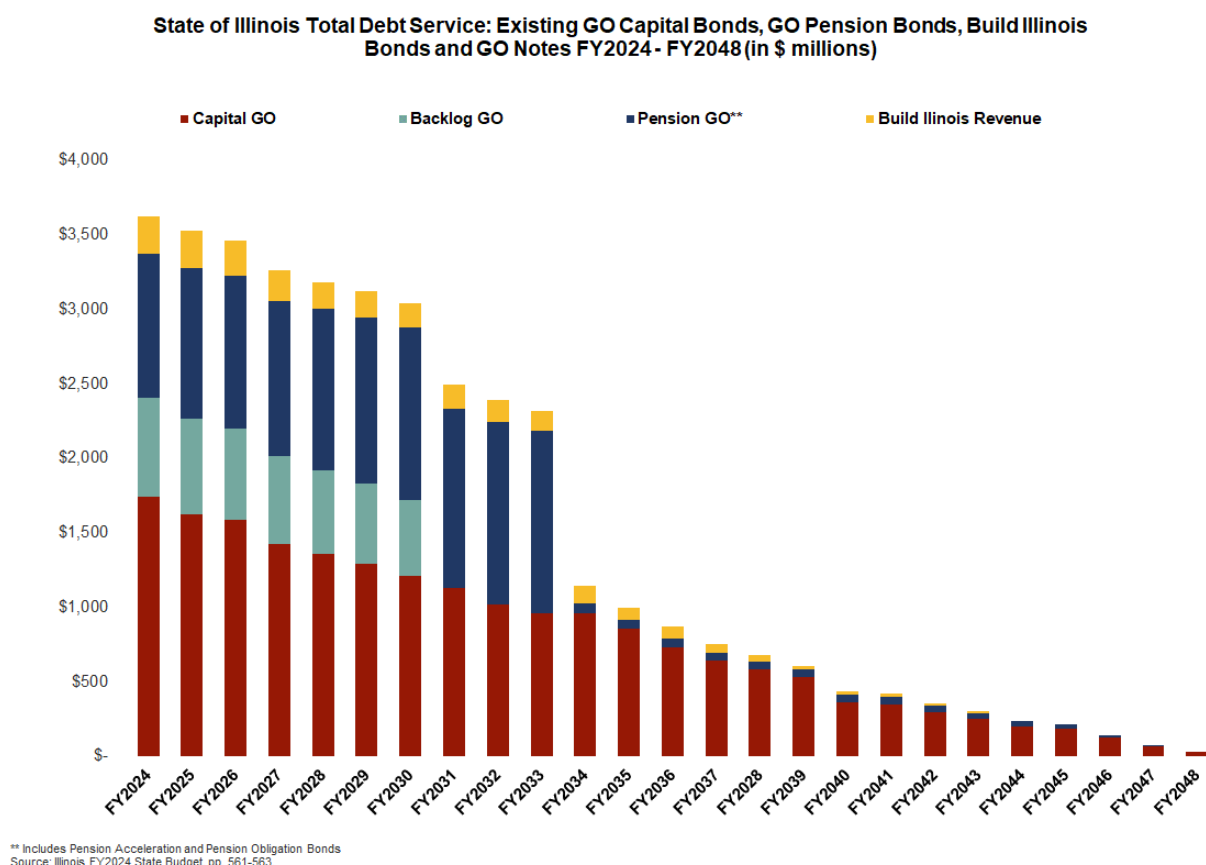
¹⁶¹ Public Acts 96-0004, 96-0035, 96-0039 and 96-0819.

¹⁶² Illinois FY2024 State Capital Budget, p. 20.

¹⁶³ Illinois FY2024 State Budget, pp. 52-53.

cumulative debt service on existing GO and revenue bonds will be \$37.6 billion from FY2024 through FY2046.

The following chart shows total debt service for existing Pension Obligation bonds, GO capital bonds, other capital bonds and GO notes from FY2022 through FY2048, as of the issuance of the FY2024 recommended state budget.



In general, the State is required under the General Obligation Bonds Act and the Build Illinois Bonds Act to issue bonds with level principal payments for the life of each bond series.¹⁶⁴ Moreover, refunding bonds are generally prohibited from extending the principal maturities of the bonds they refund.¹⁶⁵ Because interest accrues on only the outstanding portion of each bond series, these rules result in a downward-sloping debt service schedule for both types of capital bonds and the backlog bonds. However, the State made exceptions to the level principal rule for Pension Obligation bonds authorized in FY2010 and FY2011. These bonds have been retired.

DEBT SERVICE TRANSFERS

Although total debt service represents the entire annual payment due to bond holders during the fiscal year, a portion of that repayment is made through a transfer from the General Revenue Fund to the General Obligation Bond Retirement and Interest Fund (GOBRI). In addition,

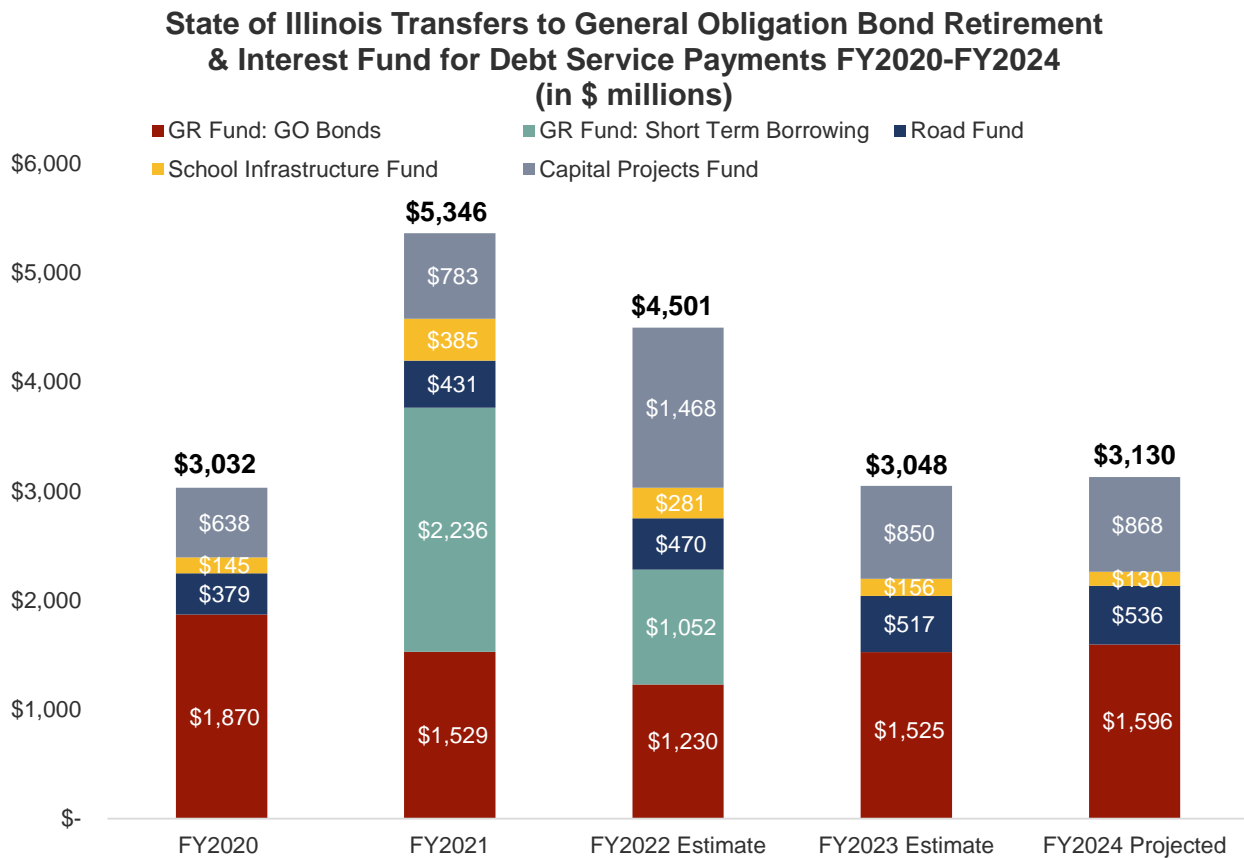
¹⁶⁴ General Obligation Bond Act, 30 ILCS 330/9; Build Illinois Bond Act, 30 ILCS 425/6.

¹⁶⁵ General Obligation Bond Act, 30 ILCS 330/16.

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.

The total debt service transfer to GOBRI for FY2024 will total \$3.1 billion. This is an increase of \$82 million from FY2023. Total transfers from all funds increased from \$3 billion in FY2020 to \$5.3 billion in FY2021, primarily driven by short-term borrowing purposes. Between FY2021 and FY2024, these costs will fall by 41.6% due primarily to the retirement of short-term debt. Transfers to GOBRI from the General Funds alone will total \$1.6 billion in FY2024, up slightly from \$1.5 billion in FY2023. Since FY2020, this represents a decrease from nearly \$1.9 billion.¹⁶⁶

The following chart shows the transfers to the General Obligation Bond Retirement and Interest Fund for FY2020 through FY2024.



Source: Illinois FY2024 State Budget, p. 546.

¹⁶⁶ Illinois FY2024 State Budget, p. 546.

TRANSFERS TO GENERAL FUNDS FOR SHORT-TERM BORROWING

The State is authorized to borrow funds in an amount that does not exceed 15% of the State's appropriations for that fiscal year to meet deficits caused by emergencies or failures of revenue. The debt must be repaid within one year of the date when it is incurred.¹⁶⁷

On June 5, 2020, the State used that authorization to issue \$1.2 billion in General Obligation certificates to deal with shortfalls in revenues caused by the COVID-19 pandemic. The certificates were sold to the federal Municipal Liquidity Facility. The State fully retired this obligation on June 5, 2021.¹⁶⁸

In May 2020, the Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act was approved by the General Assembly. It authorized the borrowing of up to \$5 billion from the Federal Reserve Bank's Municipal Liquidity Facility to address revenue shortfalls and increased spending pressures resulting from the continued COVID-19 pandemic. On December 17, 2020, the State issued \$2 billion in General Obligation notes with a three-year maturity. The notes were fully retired on January 26, 2022.¹⁶⁹

BUILD ILLINOIS BOND PROGRAM

The State is authorized to borrow funds in an amount that does not exceed 15% of the State's appropriations for that fiscal year to meet deficits caused by emergencies or failures of revenue. The debt must be repaid within one year of the date when it is incurred.¹⁷⁰

On June 5, 2020, the State used that authorization to issue \$1.2 billion in General Obligation certificates to deal with shortfalls in revenues caused by the COVID-19 pandemic. The certificates were sold to the federal Municipal Liquidity Facility. The State fully retired this obligation on June 5, 2021.¹⁷¹

In May 2020, the Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act was approved by the General Assembly. It authorized the borrowing of up to \$5 billion from the Federal Reserve Bank's Municipal Liquidity Facility to address revenue shortfalls and increased spending pressures resulting from the continued COVID-19 pandemic. On December 17, 2020, the State issued \$2 billion in General Obligation notes with a three-year maturity. The notes were fully retired on January 26, 2022.¹⁷²

OUTSTANDING DEBT

The following table shows the total principal, interest and debt service for State of Illinois debt outstanding in FY2023 and FY2024.

Total outstanding principal on capital purpose GO bonds will decrease by \$1.1 billion, from \$14.6 billion in FY2023 to \$13.5 billion in FY2024. The total debt service owed on all outstanding capital GO bonds will correspondingly decrease by \$1.8 billion. The interest owed on these bonds will decrease by \$716.4 million to \$5.9 billion in FY2024.

¹⁶⁷ Illinois State Constitution Article IX, Section 9(d); and 30 ILCS 340/1.1.

¹⁶⁸ Illinois FY2023 State Budget, p. 520.

¹⁶⁹ Illinois FY2023 State Budget, p. 521.

¹⁷⁰ Illinois State Constitution Article IX, Section 9(d); and 30 ILCS 340/1.1.

¹⁷¹ Illinois FY2023 State Budget, p. 520.

¹⁷² Illinois FY2023 State Budget, p. 521.

The total principal owed on all outstanding pension (including pension acceleration) bonds in FY2024 will total nearly \$8.7 billion, a decrease of \$423.9 million from the total of \$9.1 billion in the previous year. The outstanding interest owed on pension debt will decline by \$458.3 million to \$3 billion, from nearly \$3.5 billion in the previous year. Total debt service, including both principal and interest, on the State's pension bonds will total \$11.7 billion in FY2024, compared to \$12.6 billion in the previous year, a 7% or \$882.2 million decrease.

The GO backlog bonds will decline by \$500 million in principal and \$186.5 million in interest between FY2023 and FY2024.

In FY2024, the principal on the outstanding Build Illinois Bonds will total nearly \$1.9 billion compared to \$2 billion in FY2023, a \$187.9 million decrease. The interest owed on the loans through FY2048 will total \$513.6 million as of FY2024, which will be a decrease of \$84.1 million from FY2023. Total outstanding debt service on Build Illinois Bonds will decrease by \$272 million to \$2.4 billion.

**State of Illinois Total Outstanding Debt Service: General
Obligation and Build Illinois Bonds 2023-2024 (in \$ millions)**

	FY2023	FY2024	\$ Change	% Change
Principal				
GO Capital	\$ 14,640.3	\$ 13,544.8	\$ (1,095.5)	-7.5%
GO Pension	\$ 9,114.1	\$ 8,690.2	\$ (423.9)	-4.7%
GO Backlog	\$ 4,000.0	\$ 3,500.0	\$ (500.0)	-12.5%
Build Illinois	\$ 2,047.3	\$ 1,859.4	\$ (187.9)	-9.2%
Total Principal	\$ 29,801.7	\$ 27,594.4	\$ (2,207.3)	-7.4%
Interest				
GO Capital	\$ 6,643.9	\$ 5,927.5	\$ (716.4)	-10.8%
GO Pension	\$ 3,458.1	\$ 2,999.8	\$ (458.3)	-13.3%
GO Backlog	\$ 795.7	\$ 609.2	\$ (186.5)	-23.4%
Build Illinois	\$ 597.7	\$ 513.6	\$ (84.1)	-14.1%
Total Interest	\$ 11,495.4	\$ 10,050.1	\$ (1,445.3)	-12.6%
Debt Service				
GO Capital	\$ 21,284.2	\$ 19,472.3	\$ (1,811.9)	-8.5%
GO Pension	\$ 12,572.2	\$ 11,690.0	\$ (882.2)	-7.0%
GO Backlog	\$ 4,795.7	\$ 4,109.2	\$ (686.5)	-14.3%
Build Illinois	\$ 2,645.0	\$ 2,373.0	\$ (272.0)	-10.3%
Total Debt Service	\$ 41,297.1	\$ 37,644.5	\$ (3,652.6)	-8.8%

Sources: FY2023 Illinois State Budget, pp. 531-533 and Illinois FY2024 State Budget, pp. 561-563.

The next table compares the outstanding principal, interest and total debt service on all Build Illinois Bonds, GO capital bonds, GO backlog bonds and POBs from FY2020 to FY2024.

Between FY2020 and FY2024, the State of Illinois is expected to reduce the principal on outstanding bonds by 10.4% or \$3.2 billion. This is a decrease from \$30.8 billion to nearly \$27.6 billion.

Total interest owed on the State's outstanding debt will decline by roughly \$3.1 billion over this five-year period. Interest owed through FY2048 on pension bonds will be \$1.4 billion less in FY2024 than it was in FY2020. Outstanding interest on capital purpose GO bonds will decrease by \$501.2 million over the five-year period; the State will owe \$5.9 billion in interest on capital GO bonds for debt repaid through FY2048 compared to \$6.4 billion in FY2020. The interest owed on all outstanding Build Illinois Bond debt through FY2048 will fall by \$297.8 million over five years, from \$811.4 million in FY2020 to \$513.6 million in FY2024.

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 2022.¹⁷³

Total pension obligation debt service will decline by approximately \$1.9 billion, from \$13.6 billion to \$11.7 billion between FY2020 and FY2024. This includes a drop of \$459.8 million in pension debt principal expenses and \$1.4 billion in pension debt interest expenses.

Total debt service between FY2020 and FY2024 will decline by 14.4%, or \$6.3 billion, falling from \$43.9 billion to \$37.6 billion.

State of Illinois Total Outstanding Debt Service: General Obligation and Build Illinois Bonds Five-Year Comparison 2020-2024 (\$Millions)

	FY2020	FY2021	FY2022	FY2023	FY2024	\$ Change	% Change
Principal							
GO Capital	\$ 13,825.1	\$ 14,186.9	\$ 14,335.0	\$ 14,640.3	\$ 13,544.8	\$ (280.3)	-2.0%
GO Pension	\$ 9,150.0	\$ 9,263.0	\$ 9,201.6	\$ 9,114.1	\$ 8,690.2	\$ (459.8)	-5.0%
GO Backlog	\$ 5,500.0	\$ 5,000.0	\$ 4,500.0	\$ 4,000.0	\$ 3,500.0	\$ (2,000.0)	-36.4%
GO Note	\$ -	\$ 2,000.0	\$ -	\$ -	\$ -	\$ -	---
Build Illinois	\$ 2,307.5	\$ 2,108.9	\$ 2,246.5	\$ 2,047.3	\$ 1,859.4	\$ (448.1)	-19.4%
Other Revenue	\$ 11.5	\$ 5.4	\$ -	\$ -	\$ -	\$ (11.5)	-100.0%
Total Principal	\$ 30,794.1	\$ 32,564.2	\$ 30,283.1	\$ 29,801.7	\$ 27,594.4	\$ (3,199.7)	-10.4%
Interest							
GO Capital	\$ 6,428.7	\$ 6,507.2	\$ 6,387.6	\$ 6,643.9	\$ 5,927.5	\$ (501.2)	-7.8%
GO Pension	\$ 4,406.1	\$ 4,155.3	\$ 3,294.8	\$ 3,458.1	\$ 2,999.8	\$ (1,406.3)	-31.9%
GO Backlog	\$ 1,505.3	\$ 1,243.7	\$ 1,007.2	\$ 795.7	\$ 609.2	\$ (896.1)	-59.5%
GO Note	\$ -	\$ 204.8	\$ -	\$ -	\$ -	\$ -	---
Build Illinois	\$ 811.4	\$ 711.9	\$ 685.5	\$ 597.7	\$ 513.6	\$ (297.8)	-36.7%
Other Revenue	\$ 8.5	\$ 0.20	\$ -	\$ -	\$ -	\$ (8.5)	-100.0%
Total Interest	\$ 13,160.0	\$ 12,823.1	\$ 11,375.1	\$ 11,495.4	\$ 10,050.1	\$ (3,109.9)	-23.6%
Debt Service							
GO Capital	\$ 20,253.80	\$ 20,694.10	\$ 20,722.60	\$ 21,284.20	\$ 19,472.30	\$ (781.5)	-3.9%
GO Pension	\$ 13,556.10	\$ 13,418.30	\$ 12,496.40	\$ 12,572.20	\$ 11,690.00	\$ (1,866.1)	-13.8%
GO Backlog	\$ 7,005.30	\$ 6,243.70	\$ 5,507.20	\$ 4,795.70	\$ 4,109.20	\$ (2,896.1)	-41.3%
GO Note	\$ -	\$ 2,204.80	\$ -	\$ -	\$ -	\$ -	---
Build Illinois	\$ 3,118.90	\$ 2,820.80	\$ 2,932.00	\$ 2,645.00	\$ 2,373.00	\$ (745.9)	-23.9%
Other Revenue	\$ 20.00	\$ 5.60	\$ -	\$ -	\$ -	\$ (20.0)	-100.0%
Total Debt Service	\$ 43,954.10	\$ 45,387.30	\$ 41,658.20	\$ 41,297.10	\$ 37,644.50	\$ (6,309.6)	-14.4%

Figures as of December 31 of each calendar year.

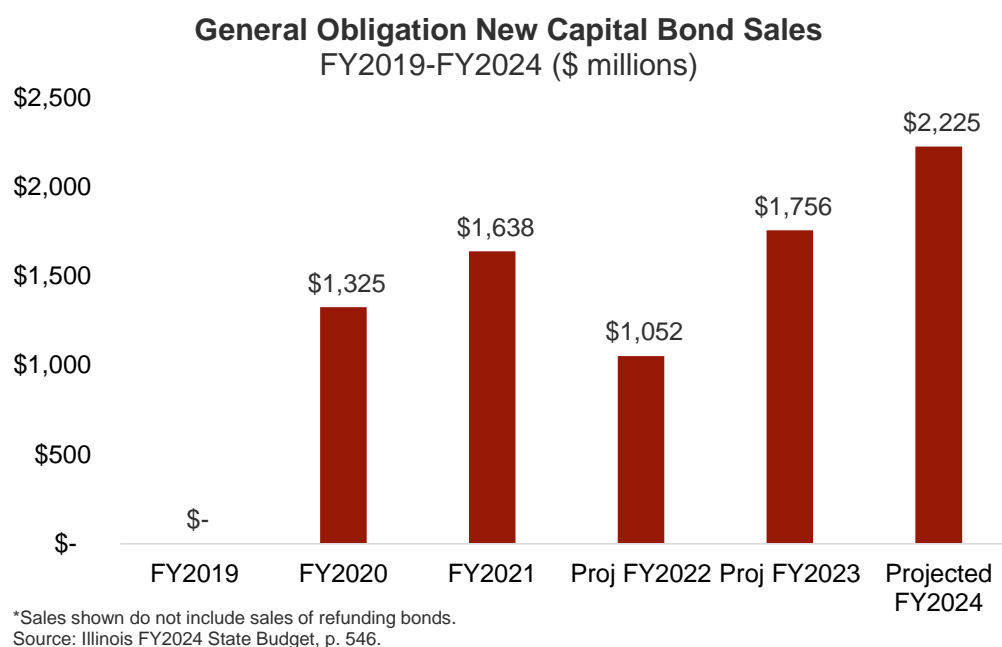
Sources: Illinois FY2020 State Budget, pp. 506-508; Illinois FY2021 State Budget, pp. 525-527; and Illinois FY2022 State Budget, pp. 516-518; FY2023 Illinois State Budget, pp. 531-533; Illinois FY2024 Budget, pp. 561-563.

¹⁷³ Illinois FY2023 State Budget, p. 60.

NEW GENERAL OBLIGATION DEBT ISSUES IN FY2023 AND FY2024

In the FY2024 Budget Book, the State announced that it would issue nearly \$2.2 billion in new GO bonds to fund capital projects. This is an increase from the \$1.8 billion planned for issuance in the current 2023 fiscal year. The bond issues over the five years from FY2020 through FY2024 will support projects in the State's Rebuild Illinois capital plan approved in June 2019.

In March 2023 the State updated its initial bond issuance figure by indicating that it would be issuing approximately \$2.5 billion in general obligation bonds in May. These bonds will be used to fund accelerated pension benefit payments, to finance Rebuild Illinois capital expenditures and to fund information technology projects under previous capital programs as well as the Rebuild Illinois program.¹⁷⁴



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.

¹⁷⁴ State of Illinois Preliminary Official Statement. \$2,450,000 State of Illinois General Obligation Bonds. \$200,000,000 Taxable Series of May 2023A, \$1,000,000,000 Series of May 21023B, \$150,000,000 Series of May 2023C, \$1,100,000,000 Refunding Series of May 2023D, March 31, 2023, p. 1.

State of Illinois: Current Bond Ratings as of May 11, 2023

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

Sources: Illinois State Comptroller Bond Ratings at <https://illinoiscomptroller.gov/financial-reports-data/data-sets-portals/bond-ratings>; Illinois FY2024 State Budget, p. 557 and Moody's Investors Services. Rating Action: Moody's upgrades the State of Illinois to A3; outlook stable, March 14, 2023; 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.p.1>.

RECENT RATING AGENCY ACTIONS

In 2022 and 2023 three of the rating agencies – Moody's Investors Services, Standard & Poor's Global Ratings and Fitch Ratings – each upgraded the credit ratings for State of Illinois debt.

Moody's Investors Services upgraded the State of Illinois's 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.¹⁷⁵

On April 21, 2022, Moody's had upgraded the rating of State of Illinois debt from Baa2 to Baa1 with a stable outlook. The rating agency cited the State's steady revenue growth, which has allowed Illinois to increase its reserves and make additional payments towards pension liabilities as a key reason for the upgrade. At the same time, Moody's also upgraded its rating for outstanding Build Illinois sales tax bonds from Baa2 to Baa1 with a stable outlook.¹⁷⁶

In May 2023, **Fitch Ratings** revised the outlook on the State's general obligation bonds to positive from stable due to the State's improved economic outlook and increased reserves.¹⁷⁷

¹⁷⁵ Moody's Investors Services, Rating Action Commentary: "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.

¹⁷⁶ Moody's Investors Services, Rating Action Commentary: "Moody's upgrades the State of Illinois to Baa1; outlook stable," April 21, 2022, at https://www.moodys.com/research/Moodys-upgrades-the-State-of-Illinois-to-Baa1-outlook-stable--PR_907672146.

¹⁷⁷ Fitch Ratings. Correction: Fitch Revises State of Illinois's Outlook to Positive; Rates \$2.5B GO Bonds 'BBB+', April 7, 2023 at: [https://www.fitchratings.com/research/us-public-finance/correction-fitch-revises-state-of-illinois-outlook-to-positive-rates-2-5b-go-bonds-bbb-07-04-2023#:~:text=Additionally%2C%20Fitch%20has%20affirmed%20the,\(IDR\)%20at%20%27BBB%2B%27%3B.](https://www.fitchratings.com/research/us-public-finance/correction-fitch-revises-state-of-illinois-outlook-to-positive-rates-2-5b-go-bonds-bbb-07-04-2023#:~:text=Additionally%2C%20Fitch%20has%20affirmed%20the,(IDR)%20at%20%27BBB%2B%27%3B.)

In March 2023 Fitch 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.¹⁷⁸

In May 2022 Fitch made the following ratings upgrades:

- State of Illinois general obligation bonds were upgraded to BBB+ with a stable outlook from BBB-;
- Senior and Junior obligation Build Illinois sales tax revenue bonds were upgraded to A with a stable outlook from the previous BBB+ rating; and
- The issuer default rating was raised to BBB+ with a stable outlook from BBB-.

Fitch cited the State's increased contributions to its reserves, the ending of certain pandemic-related non-recurring fiscal measures and the return to normal fiscal decision-making processes as the primary reasons for the upgrades.¹⁷⁹

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.¹⁸⁰

Standard and Poor's Global Ratings previously raised its rating on State of Illinois general obligation debt to BBB+ from BBB with a stable outlook in May 2022. At that time, it also raised the rating on Build Illinois senior and junior lien sales tax bonds to A- from BBB+. The upgrade was due to the State's increased financial flexibility, improved revenue reporting transparency, increased funding for the stabilization fund, additional contributions to the State's pension funds, the elimination of the State's bill backlog and the use of surplus revenues to reduce liabilities.

¹⁷⁸ 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>.

¹⁷⁹ Fitch Ratings, Rating Action Commentary: "Fitch Upgrades Illinois IDR to 'BBB+'; Outlook Stable," May 5, 2022.

¹⁸⁰ S & P Global Ratings, Rating Action Commentary: "State of Illinois GO Debt Rating Raised to 'A-' from 'BBB+' on Improved Liquidity," February 23, 2023.

APPENDIX: STATE OF ILLINOIS AGENCIES BY OUTCOME

The appendix shows the categorization of State agencies that appears in the FY2024 budget.¹⁸¹

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

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

¹⁸¹ State of Illinois, Governor's Office of Management and Budget, "[Illinois Economic and Fiscal Policy Report](#)," p. 19, November 14, 2022.

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 Services¹⁸²
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

¹⁸² 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 \$33 million in fiscal year 2023).