The Institute for Illinois' Fiscal Sustainability

AT THE CIVIC FEDERATION

STATE OF ILLINOIS FY2020 RECOMMENDED OPERATING AND CAPITAL BUDGETS:

Analysis and Recommendations

May 16, 2019

The Civic Federation ● 10 N. Dearborn Street ● Chicago, IL 60602 ● civicfed.org

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EXECUTIVE SUMMARY

Amid one of the longest economic expansions in U.S. history, the State of Illinois still faces daunting fiscal challenges.[1] The list includes chronic operating deficits, a multi-billion dollar backlog of unpaid bills, crushing public pension costs and five consecutive years of population loss. Illinois has the lowest credit rating of any state[2] and is ranked as one of the worst prepared states to weather the next recession.[3]

These challenges now confront Governor J.B. Pritzker, who took office in January 2019. A month later, his administration estimated that the Governor's first budget—for the fiscal year that begins on July 1, 2019 and ends on June 30, 2020—would have to address an operating deficit of $3.2 billion.[4] That gap was $440 million above the deficit projected by the prior administration.[5]

Governor Pritzker's preferred solution for closing the operating deficit and beginning to resolve the State's other fiscal problems centers on replacing Illinois' flat income tax with a graduated rate structure. However, a graduated tax could not be implemented until January 2021 at the earliest because of Illinois' lengthy constitutional amendment process.[6] The Governor has described his FY2020 budget recommendation as a bridge to financial stability based on a graduated tax.[7]

The Federation is **encouraged** that Governor Pritzker has moved quickly to address the looming FY2020 budget deficit by introducing specific new revenues and limiting spending growth. The Civic Federation **supports** the proposed FY2020 budget but still has **significant concerns** about the reliance on uncertain revenues and the adequacy of the Governor's long-term plan to deal with the State's bill backlog and pension obligations.

Initially the Civic Federation **would not have been able to support** the budget proposal due to its recommended seven-year extension of the statutory pension funding schedule. That plan, which was designed to help close the budget deficit by reducing State contributions, would have continued the State's practice of pushing costs into the future and further jeopardized the

[1] The Pew Charitable Trusts, "In ninth year of recovery, states' fiscal and economic prospects perked up," April 23, 2019, https://www.civicfed.org/sites/default/files/pew_fiscal50_april2019.pdf (last accessed on May 15, 2019).
[2] Karen Pierog, "Illinois' credit rating pressured by need for more revenue – S&P," *Reuters*, March 14, 2019.
[3] Moody's Analytics, *State of Illinois Economic Forecast Prepared for State of Illinois Commission on Government Forecasting and Accountability*, February 2019, p. 13, http://cgfa.ilga.gov/Upload/2019MoodysEconomyILForecast.pdf (last accessed on May 15, 2019).
[4] State of Illinois, Deputy Governor Dan Hynes, *Digging Out: The Rauner Wreckage Report*, February 7, 2019, p. 10, https://www2.illinois.gov/IISNews/19698-Digging_Out_-_The_Rauner_Wreckage_Report.pdf (last accessed on May 15, 2019).
[5] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018, https://www2.illinois.gov/sites/budget/Documents/Economic%20and%20Fiscal%20Policy%20Reports/FY%202018/General-Funds-Financial-Walk-FY19.pdf (last accessed on May 15, 2019).
[6] Ill. Const. art. XIV, sec. 2. The amendment would require approval by three-fifths of each chamber of the General Assembly before being placed on the ballot at the next general election at least six months after passage. To become effective, the amendment would require the approval of three-fifths of those voting on the question or a majority of those voting in the election.
[7] State of Illinois, Office of the Governor, *Gov. Pritzker's FY20 Budget Address*, February 20, 2019, https://www2.illinois.gov/Pages/news-item.aspx?ReleaseID=19722 (last accessed on May 15, 2019).

financial condition of Illinois' severely underfunded retirement systems. However, the Pritzker administration dropped the idea of extending the funding schedule after a surge in income tax collections in April 2019 led to higher revenue projections for the current and upcoming fiscal years.[8] The Civic Federation **supports** the Governor's announced intention to use additional revenues in FY2020 for statutorily required pension contributions rather than for new State spending.

Although it is unclear whether the administration will proceed with a plan to issue $2 billion in pension bonds, the Federation **opposes** that proposal, which would have minimal impact on pension funding while exposing the State to interest rate risk and reducing capacity to borrow for other purposes.

While supporting the dedication of new receipts in FY2020 to pensions, the Federation is **concerned** that April's strong revenue performance might not be sustainable. The Federation is also **concerned** that several of the proposed new revenue sources used to balance the FY2020 budget, including taxes on recreational cannabis and sports betting, may be difficult to implement in a short time frame with adequate attention to social costs and are based on accelerating future revenues.

The Governor's other plans to address pension obligations are still evolving. The Civic Federation **supports** the administration's creation of task forces to consider transferring valuable State assets to the State retirement systems and consolidating pension funds across Illinois. The Federation is also **troubled** that a proposal to devote only $200 million of additional annual revenue from a potential graduated income tax to the pension funds does not correspond to the scale of the $134 billion problem.

The Civic Federation **continues to recommend** that the State of Illinois broaden its income tax base by eliminating the tax exclusion for all federally taxable retirement income. This will enhance the State's fiscal stability by providing access to a faster growing portion of the income tax base, generate FY2020 revenues of over $2.5 billion and bring Illinois in line with other states' policies. Finally, the extension can be implemented immediately, unlike the Governor's graduated income tax proposal that requires a constitutional amendment that could be adopted in November 2020 at the earliest.

The Civic Federation is **concerned** that with pressure to pass an operating budget for FY2020 by the end of the session on May 31, the General Assembly and Governor may not be able to adequately consider sustainable revenue sources or develop a comprehensive project prioritization plan for a capital budget. A better outcome for the State could be passing the Governor's $3.7 billion maintenance capital budget. Then the Governor and General Assembly should spend the summer identifying sustainable revenues, such as a gas tax increase, and fully vetting a comprehensive prioritization of needs, which will help to justify increased revenues to Illinoisans.

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[8] Illinois Department of Revenue, Letter to the Illinois General Assembly, May 7, 2019, https://www.civicfed.org/sites/default/files/pritzker_administration_letter_to_general_assembly_5-7-2019.pdf (last accessed on May 15, 2019).

The Civic Federation has the following **recommendations** to better stabilize the State's operating budget and establish a balanced financial path out of its ongoing fiscal crisis:

- Limiting agency spending growth to 2.4% annually (the maintenance level identified by the previous administration as reasonable when accounting for existing court orders and other mandated spending requirements) through at least FY2024;
- Consolidating and streamlining government units, including local pension funds;
- Merging the Chicago and State Teachers' Pension Funds;
- Restructuring Illinois' public university system to reflect State demographic changes, eliminate duplicative programs and more effectively allocate resources across program and campuses;
- Enacting a constitutional amendment to clarify the pension protection clause to allow reasonable changes to current employee and retiree benefits;
- Implementing reforms designed to lower Illinois' prison population and generate meaningful cost reductions;
- Examining investment expense and asset allocation in the State's pension funds;
- Reducing late-payment penalties on overdue State bills;
- Broadening the income tax base by eliminating the exclusion of federally taxed retirement income;
- Expanding the sales tax to include services taxed by the State of Wisconsin;
- Working toward the establishment of a functional rainy day fund to cushion the budget from economic downturns;
- Making supplemental pension payments to its underfunded pension funds to replace debt service on maturing pension obligation bonds;
- Delay implementing a new major capital program until sustainable revenues are identified and a comprehensive prioritization plan is created; and
- Refraining from unwise budgetary practices, including:
    - Relying on illusory savings, accounting gimmicks or one-time revenues;
    - Reducing or extending the pension funding target;
    - Ending level principal debt repayment;
    - Implementing new revenue sources without proper consideration of their reliability and social impact; and
    - Ignoring the State's essential role in addressing financial condition of Illinois' local governments.

The Civic Federation offers the following key **findings** on the Governor's recommended FY2020 budget:

- The originally proposed FY2020 budget had an operating surplus of $155 million.
- If the $155 million surplus were realized, the budgetary backlog at the end of FY2020 would have been $7.9 billion. This forecast assumed that the State would issue $1.5 billion in backlog bonds during FY2019.

- After accounting for $800 million of unexpected revenue announced in May 2019[9] and the Governor's cancelation of a plan to extend the pension funding target, the FY2020 budget has an expected surplus of approximately $92 million.
- The $39.7 billion revised revenue estimate for FY2020 represents an increase of $858 million, or 2.2%, from $38.8 billion in FY2019.[10] The increase is composed of four factors:
  - A forecast of strong economic growth leading to a $366 million increase in existing revenues;
  - Policy changes expected to bring in an additional $350 million from existing sources;
  - New revenues of $401 million; and
  - A shift of $259 million in cigarette tax revenues out of the General Funds.
- The total one-time revenue included in the FY2020 budget is $525 million. Of this, $350 million derives from sources new to Illinois: legalized sports wagering and recreational cannabis.
- Under the revised proposal General Funds expenditures increase by $287 million, or 0.7%, to $39.6 billion from $39.3 billion in FY2019.
- Net agency expenditures increase by $211 million, or 0.8% from FY2019, but this increase excludes Medicaid spending that is shifted to a special account outside of General Funds.
- The shift of Medicaid spending includes the cigarette taxes, $65 million from new tobacco-related taxes and $390 million from a new assessment on managed care organizations that goes directly to the other fund, relieving pressure on General Funds.
- If the portion of shifted expenditures traditionally associated with General Funds is included, net agency expenditures grow by 2.0% over FY2019.
- Higher education receives an additional $157 million in FY2020, but average annual funding for the State's nine public universities over the past five years is still only about 82% of the FY2015 level, due to shortfalls during the budget impasse.
- Agency spending in FY2020 includes $185 million in step increases for members of the American Federation of State, County and Municipal Employees (AFSCME). The State's largest union is operating under a contract that expired at the end of FY2015, but a court ruled that step increases must continue.
- Under the originally proposed budget, FY2020 pension contributions would have been only $7.1 billion due to a seven-year extension of the statutory funding schedule.
- After the Governor's cancelation of the partial pension holiday, pension contributions increase by approximately $509 million to $8.0 billion in FY2020 from $7.5 billion in FY2019.
- Incorporating the May 2019 changes, the share of State-source General Funds revenue devoted to pension payments, including debt service on pension bonds, grew from 8.3% in FY2008 to a projected 24.3% in FY2020.
- General Funds debt service on existing backlog bonds will be nearly $800 million in FY2020, bringing total debt service to at least $2.0 billion.

[9] Approximate amount estimated in the Illinois Department of Revenue's Letter to the General Assembly on May 7, 2019.
[10] The FY2019 revenue figure is before interfund borrowing.

- If it were not for the 2017 backlog borrowing, General Funds debt service expenditures would have declined by nearly $1.1 billion since FY2018 to $1.3 billion in FY2020 due to the final maturity of the 2011 pension bonds.
- The proposed maintenance capital budget contains $3.7 billion of new appropriations. This is close to the average during the years since the FY2010 Illinois Jobs Now! program and represents a maintenance level of appropriation and spending.
- The Governor has announced support for a major new capital program that would exceed the proposal contained in the FY2020 budget, but so far has not provided any detailed plans for funding or spending.

CIVIC FEDERATION POSITION

Amid one of the longest economic expansions in U.S. history, the State of Illinois still faces daunting fiscal challenges.[11] The list includes chronic operating deficits, a multi-billion dollar backlog of unpaid bills, crushing public pension costs and five consecutive years of population loss. Illinois has the lowest credit rating of any state[12] and is ranked as one of the worst prepared states to weather the next recession.[13]

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[11] The Pew Charitable Trusts, "In ninth year of recovery, states' fiscal and economic prospects perked up," April 23, 2019, https://www.civicfed.org/sites/default/files/pew_fiscal50_april2019.pdf (last accessed on May 15, 2019).
[12] Karen Pierog, "Illinois' credit rating pressured by need for more revenue – S&P," *Reuters*, March 14, 2019.
[13] Moody's Analytics, *State of Illinois Economic Forecast Prepared for State of Illinois Commission on Government Forecasting and Accountability*, February 2019, p. 13, http://cgfa.ilga.gov/Upload/2019MoodysEconomyILForecast.pdf (last accessed on May 15, 2019).
[14] State of Illinois, Deputy Governor Dan Hynes, *Digging Out: The Rauner Wreckage Report*, February 7, 2019, p. 10, https://www2.illinois.gov/IISNews/19698-Digging_Out_-_The_Rauner_Wreckage_Report.pdf (last accessed on May 15, 2019).
[15] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018, https://www2.illinois.gov/sites/budget/Documents/Economic%20and%20Fiscal%20Policy%20Reports/FY%202018/General-Funds-Financial-Walk-FY19.pdf (last accessed on May 15, 2019).
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[18] Illinois Department of Revenue, Letter to the Illinois General Assembly, May 7, 2019, https://www.civicfed.org/sites/default/files/pritzker_administration_letter_to_general_assembly_5-7-2019.pdf (last accessed on May 15, 2019).

Issues the Civic Federation Supports

The Civic Federation supports the following aspects of the Governor's FY2020 State of Illinois budget.

Dedicating New Revenues to Pension Funds

Governor Pritzker's initial budget proposal called for reducing statutorily required General Funds pension contributions by about $1.0 billion, or 12.3%, to $7.1 billion[19] from $8.1 billion.[20] Most of the savings—$878 million—came from delaying the date to reach the State's goal of 90% funding by seven years to FY2052 from FY2045. Under the Governor's proposal, the systems would have been only 65% funded in FY2045 instead of 90%.[21]

Illinois' retirement systems are already among the most poorly funded of any state.[22] At the end of FY2018, unfunded liabilities totaled $133.7 billion and the combined funded ratio stood at 40.1%.[23] Under the existing 50-year funding plan, unfunded liabilities are expected to continue growing until FY2029.[24] The State's funding plan and subsequent statutory changes deferred a large portion of required contributions to future years, which propped up annual budgets at the expense of the pension funds.

Critics of the proposed partial pension holiday, including credit rating firms, said it repeated Illinois' pattern of deferring difficult decisions[25] and increased costs for future generations.[26] Trustees of the Teachers' Retirement System, the largest of the State's five pension funds, opposed the proposal on the grounds that it could increase the system's risk of insolvency in the event of an economic downturn.[27]

On May 7, the Pritzker administration announced that it was dropping the proposal after the State collected more than $4.1 billion in income tax revenues in April—an increase of $1.5 billion, or

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[19] Illinois State FY2020 Budget, p. 35, https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2020-Budget-Book/Fiscal-Year-2020-Operating-Budget-Book.pdf (last accessed on May 15, 2019).
[20] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. iii, http://cgfa.ilga.gov/Upload/FinConditionILStateRetirementSysApril2019.pdf (last accessed on May 15, 2019). This figure does not include debt service and assumes a $215 million transfer from the State Pensions Fund.
[21] Illinois State FY2020 Budget, p. 36.
[22] Moody's Investors Service, "Unfunded US state pension liabilities surge in fiscal 2017 due to poor investment returns," *news release*, August 27, 2018.
[23] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 34. These figures are based on asset smoothing. The unfunded liability and funded ratio based on the market value of assets were $133.5 billion and 40.2%.
[24] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 111.
[25] S&P Global Ratings, *Illinois Budget Proposal Places Risky Bets on Asset Transfers and Graduated Income Tax*, February 22, 2019, p. 5.
[26] Teachers' Retirement System of the State of Illinois, *2019 Spring – Topics and Report Newsletter*, March 29, 2019, https://www.trsil.org/news-and-events/spring2019-Topics-and-Report (last accessed on May 15, 2019).
[27] Teachers' Retirement System of the State of Illinois, "TRS Board Calls for Responsible Pension Funding," *news release*, March 19, 2019, https://www.trsil.org/news-and-events/TRS-Board-calls-for-responsible-funding (last accessed on May 15, 2019).

58%, from internal projections for the month.[28] The additional revenues led to a higher revenue estimate for the current fiscal year and a revised projection for FY2020.

The Civic Federation supports the decision to use additional income tax revenues for statutory pension payments, rather than for new spending. Even if the projected revenue increases do not materialize, required pension contributions will be paid under continuing appropriations and officials will have to find spending reductions in other areas. Illinois' pension contributions under current law are insufficient to keep unfunded liabilities from growing, and further reductions increase the risk that the funds will not be able to make promised benefit payments.

Over the past five years, efforts to reduce pension benefits for existing employees and retirees have been blocked by the Illinois Supreme Court's stringent interpretation of the Illinois Constitution's pension protection clause. The high court has also made it clear that State and local governments are ultimately responsible for paying pension benefits, regardless of the financial condition of the funds themselves.
The Federation has supported a constitutional amendment to permit reasonable reductions in pension benefits, but the successful enactment of such an amendment is not guaranteed. In the meantime, the State should use available resources to supplement inadequate statutory payments and mitigate the underfunding of the pension systems.

Efforts to Bring Operating Budget Closer to Balance

When Governor Pritzker took office in January 2019, his administration faced an estimated operating deficit of $3.2 billion in the upcoming fiscal year. The Governor's proposed budget for FY2020, issued in February, relied on new and increased taxes, reduced pension contributions, delayed repayment of interfund borrowing and a rosier revenue forecast to close the gap. The pension savings were largely eliminated from the budget proposal in May, after the unexpected influx of income tax revenues in April led to a revision in the FY2020 revenue forecast.

Despite concerns about aggressive revenue assumptions, the Civic Federation is encouraged that the new administration moved quickly to identify concrete revenue sources for FY2020 and to advance legislation in the General Assembly.[29] The Governor also announced details of his graduated tax proposal,[30] which was subsequently modified and passed by the Senate.[31]

These efforts are a positive development for a State that developed a national a reputation for political dysfunction during the budget impasse in FY2016 and FY2017.[32] The specific revenue proposals are a welcome change from the recent past, when one annual budget recommendation was said to be balanced because it offered to close an estimated $4.6 billion operating deficit through an unspecified "grand bargain" with the General Assembly.[33]

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[28] Illinois Department of Revenue, Letter to the Illinois General, May 7, 2019.
[29] 101st Illinois General Assembly, Senate Bill 7, filed on May 6, 2019.
[30] State of Illinois, Office of the Governor, "Gov. Pritzker Unveils Fair Tax Plan with 97 Percent of Taxpayers Getting Tax Relief," *news release*, March 7, 2019, https://www2.illinois.gov/Pages/news-item.aspx?ReleaseID=19772 (last accessed on May 15, 2019).
[31] 101st Illinois General Assembly, Senate Bill 687, filed on April 30, 2019.
[32] Matt Egan, "Illinois avoids downgrade to 'junk' – for now," *CNN Business*, July 12, 2017.
[33] Illinois State FY2018 Budget, p. 30.

The Civic Federation is also encouraged that the Pritzker administration has avoided some other recent fiscal practices, such as using proceeds from asset sales for operating revenues. The enacted budgets in both FY2018 and FY2019 included $300 million in revenues from the sale of the James R. Thompson Center in Chicago, even though the building has not yet been sold. In April Governor Pritzker enacted legislation that paved the way for the sale,[34] but his administration has pledged to use any proceeds to strengthen the State's pension funds rather than to balance the budget.[35]

In addition to about $1.1 billion in new and increased taxes, the $38.7 billion FY2020 budget includes hundreds of millions of dollars in spending increases, which are mainly concentrated in the areas of education and human services. Certain increases are mandated by State law, including the recently enacted increase in the minimum wage,[36] or federal consent decrees. In other cases, including a $100 million increase in funding from FY2019 for early childhood education, the increases reflect the Governor's spending priorities. Higher education receives an additional $157 million, but average annual funding for the State's nine public universities over the past five years is still only about 82% of the FY2015 level, due to shortfalls during the budget impasse.

The overall year-to-year change in proposed General Funds agency spending from FY2019 to FY2020 is difficult to measure because of a proposed shift in Medicaid spending from General Funds to a special account called the Healthcare Provider Relief Fund in FY2020. A portion of the proposed shift related to cigarette and tobacco taxes could have been included in General Funds spending in past years. If this amount, totaling $324 million, is included in net agency spending in FY2020, then the proposed budget increases net agency spending by about 2.0%, which is less than the previous administration's maintenance level increase of 2.4%.[37]

While much of the additional proposed spending appears to be mandated or worthwhile, it is important that any revenue gaps be matched by spending reductions. The Civic Federation is encouraged that both the administration and House are considering potential cuts for FY2020.[38]

Task Forces on Asset Transfers to Pension Funds and Pension Fund Consolidation

In February 2019 the Pritzker administration announced a five-point plan to address the long-term financial health of pension funds across Illinois.[39] As part of that plan, the Governor appointed two task forces: one on the sale or transfer of State assets to the five State retirement

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[34] Public Act 100-1184, enacted on April 5, 2019.
[35] Amanda Vinicky, "Pritzker Signs Bill Paving Way for Sale of Thompson Center, *WTTW*, April 15, 2019.
[36] Public Act 101-0001, enacted on February 19, 2019.
[37] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018.
[38] Shia Kapos and Adrienne Hurst, "Pritzker Reflects on First 100 Days," *Politico Illinois Playbook*, April 23, 2019, https://www.politico.com/newsletters/illinois-playbook/2019/04/23/pritzker-reflects-on-first-100-days-sports-betting-study-wirtz-rips-emanuel-427713 (last accessed on May 15, 2019); Grant Morgan and Lindsey Salvatelli, "Madigan: Pritzker revenue plan being 'ratcheted down' by lawmakers," *Capitol News Illinois*, May 6, 2019.
[39] State of Illinois, Office of the Governor, "Deputy Gov. Hynes Presents Ideas and Solutions for Digging Out of Illinois' Fiscal Mess at City Club of Chicago," *news release*, February 14, 2019, https://www2.illinois.gov/Pages/news-item.aspx?ReleaseID=19711 (last accessed on May 15, 2019).

systems and the other on the consolidation of local and State pension funds.[40] Both task forces are expected to issue recommendations in the coming months.[41]

The Civic Federation supports these efforts to consider a broad range of ideas to reduce the State's overwhelming pension costs. The share of State-source General Funds revenue devoted to pension payments, including debt service on pension bonds, grew from 8.3% in FY2008 to a projected 24.3% in FY2020.[42] For the State and for local governments in Illinois, it has become increasingly difficult to balance the need to make payments toward unfunded pension liabilities with commitments to provide current services.
The Federation has long supported the consolidation of Illinois' more than 650 local pension funds, each with its own governing board, most of which are police and fire funds for individual municipalities. While these funds may enjoy local control over investing and disability decisions, the Federation believes that overall investment performance and administrative efficiency generated by economies of scale would greatly improve if funds were consolidated.

The Federation has also recommended the merger of the Chicago Teachers' Pension Fund with the Teachers' Retirement System.[43] This merger would eliminate the current inequitable funding structure under which Chicago taxpayers pay for most of the unfunded pension liability costs of Chicago teachers as well as teachers outside the city. It would also achieve some cost efficiencies as duplicative functions were eliminated.

The Pension Asset Value and Transfer Task Force is charged with analyzing State real estate and infrastructure for possible sale or transfer to the State pension funds. The administration has specifically cited the James R. Thompson Center as an asset that could be considered to reduce the pension funds' unfunded liabilities.[44]

Civic Federation Concerns

The Civic Federation has the following concerns about the Governor's recommended FY2020 budget.

Uncertain Revenues

Three of the proposed budget's new revenue sources are structured to pull forward revenues from future years into FY2020. Of the $212 million expected from the legalization of sports

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[40] State of Illinois, Office of the Governor, "Pritzker Administration Names Leaders to Make Recommendations to Improve Health of Pension Funds," *news release*, February 11, 2019, https://wwwtest.illinois.gov/Pages/News-Item.aspx?ReleaseID=19704 (last accessed on May 15, 2019).
[41] Illinois Department of Revenue, Letter to the Illinois General Assembly, May 7, 2019.
[42] For more information, see the Institute for Illinois' Sustainability at the Civic Federation blog, "Governor Cancels FY2020 Pension Holiday Plan after April Income Tax Surge," May 9, 2019, https://www.civicfed.org/iifs/blog/governor-cancels-fy2020-pension-holiday-plan-after-april-income-tax-surge (last accessed on May 15, 2019). For more information about State pension costs prior to the Governor's decision to cancel the partial pension holiday, see p. 49 of this report.
[43] For more information, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2020 Budget Roadmap*, p. 35, https://www.civicfed.org/sites/default/files/illinoisroadmapfy2020.pdf (last accessed on May 15, 2019).
[44] Amanda Vinicky, "Pritzker Signs Bill Paving Way for Sale of Thompson Center, *WTTW*, April 15, 2019.

wagering, $12 million is actual tax revenue and $200 million is assumed to come from the sale of twenty operators' licenses at $10 million apiece.[45] License holders would be allowed to deduct 90% of the cost of these licenses from their taxes over five years. Similarly, the estimated revenue of $170 million from legalizing cannabis is assumed to come entirely from the upfront sale of producer licenses, which would be deducted over several years.[46] These proposal also have possible negative social consequences that must be addressed.[47] Finally, the proposed delinquent tax incentive program would result in the collection of $175 million in FY2020 that would have eventually been collected in future years.[48]

The total one-time revenue included in the FY2020 budget from all three sources is $525 million. Of this, $350 million derives from sources new to Illinois. Actual revenues produced by sports wagering and cannabis could vary greatly depending on the structure of the enacting legislation and on implementation. Prudent budgeting practice indicates that these revenues should not be used to cover recurring expenses, but instead should be directed to addressing the State's long-term obligations, such as reducing the bill backlog or the unfunded pension liability.

In addition to the proposed new revenues, the Illinois Department of Revenue increased its projection of total income tax collections in FY2020 by roughly $800 million, from $21.2 billion to nearly $22 billion, based on stronger-than-expected collections in April 2019. [49] The precise reasons for the April 2019 surge in revenue have not yet been determined, and it remains to be seen whether the strong growth will continue into FY2020. The legislature's Commission on Government Forecasting and Accountability (COGFA) warned in its April Monthly Briefing that "this significant one month over performance cannot safely be extrapolated into future underlying growth."[50] COGFA was specifically concerned that much of the April growth might have involved investment income, which is highly volatile. The commission said other states with similarly strong April revenue are generally "urging caution of future expectations."

However, administration officials said the revised FY2020 forecast was conservative because it assumed that only a portion of the April 2019 growth would be sustained. In the letter, they said the new FY2020 revenue projection factors in continued strong employment growth but does not include likely one-time sources such as the stock market's performance and taxpayers' adjustments in their withholdings because of the new federal tax law.

The Governor based his decision to refrain from extending the pension schedule on the unexpected FY2020 revenues. While the Civic Federation applauds investing additional resources in the pensions, the Governor and General Assembly should make adequate contingency plans to ensure that FY2020 does not end in a deficit if revenues do not perform as anticipated.

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[45] Illinois State FY2020 Budget, p. 33.
[46] Illinois State FY2020 Budget, p. 33.
[47] Jason Grotto, Sandhya Kambhampati and Dan Mihalopoulos, "How Illinois Bet on Video Gambling and Lost," *ProPublica Illinois* and *WBEZ*, January 16, 2019.
[48] Illinois State FY2020 Budget, p. 35.
[49] Illinois Department of Revenue, Letter to the Illinois General Assembly, May 7, 2019.
[50] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Monthly Briefing for the Month Ended: April 2019*, p. 7, http://cgfa.ilga.gov/Upload/0419revenue.pdf (last accessed on May 15, 2019).

Adequacy of Proposed Pension Reforms

The announcement that the pension contribution schedule would not be extended left unclear what would happen to most of the remaining proposals in the five-point pension plan announced by the Pritzker administration in early February.[51] The plan includes issuing $2 billion in pension obligation bonds to improve the systems' funding levels; dedicating $200 million per year from a future graduated income tax to supplement statutorily required State contributions and making buyout programs introduced in FY2019 permanent. The Governor has committed to continuing the two task forces exploring pension consolidation and transfers of State assets, as discussed above.

The Civic Federation opposes the proposal to issue $2 billion in bonds to contribute to pensions. The contribution would only slightly reduce the five systems' combined $133.7 billion in unfunded liabilities. According to State officials, the bonds would have minimal effect on the contribution schedule.[52] Moreover, the transaction exposes the State to interest rate risk. If the investment return on the proceeds is less than the interest rate on the bonds, the State will be responsible for the additional cost. At a time when the State with the lowest General Obligation credit ratings is also weighing a multibillion dollar capital plan, the Governor and General Assembly should carefully weigh the risks of using up vital access to capital markets.

The Civic Federation has long supported making supplemental cash payments in addition to the statutory contribution schedule,[53] and accordingly supports the Governor's plan to contribute an additional $200 million per year beginning in FY2021. Additionally, the permanent extension of the buyout programs appears to offer real reductions in system liabilities. However, the Federation remains concerned that neither of these initiatives is sufficient to the scale of unfunded pension liabilities.

Bill Backlog

If the FY2020 budget achieves structural balance, it will still do little to address the backlog of unpaid bills that currently stands at over $6 billion.[54] The FY2020 budget proposes the sale of $1.5 billion in bonds in FY2019 to further reduce the backlog and curb interest penalties.[55] A similar issuance of $6.0 billion in October 2017 succeeded in reducing the backlog by $8.7 billion from a high of $16.7 billion due to premiums on the bonds and federal reimbursements of backlogged Medicaid expenditures. [56]

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[51] State of Illinois, Office of the Governor, "Deputy Gov. Hynes Presents Ideas and Solutions for Digging Out of Illinois' Fiscal Mess at City Club of Chicago," *news release*, February 14, 2019.
[52] Communication between the Civic Federation and the Governor's Office of Management and Budget, February 21, 2019.
[53] Institute for Illinois' Fiscal Sustainability at the Civic Federation, *State of Illinois FY2017 Budget Roadmap*, February 11, 2016, pp. 45-47, https://www.civicfed.org/iifs/publications/FY2017IllinoisRoadmap (last accessed on May 15, 2019).
[54] State of Illinois Comptroller's Office, *Backlog Voucher Report*, https://illinoiscomptroller.gov/financial-data/backlog-voucher-report-bvr/ (last accessed on May 15, 2019).
[55] State of Illinois, Office of the Governor, *Budget in Brief: Fiscal Year 2020*, p. 28, https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2020-Budget-Book/Fiscal-Year-2020-Budget-in-Brief.pdf (last accessed on May 15, 2019).
[56] State of Illinois, General Obligation Bonds, Series of September, *Official Statement*, August 22, 2018, p. 31, https://www2.illinois.gov/sites/capitalmarkets/RecentBondSales/State%20of%20Illinois,%20General%20Obligation

Issuing additional bonds to refinance the backlog could save the State money because the bonds would likely carry a lower interest cost than the 9-12% penalty rates on overdue bills mandated by State statute.[57] However, the backlog will only be completely cleared by running substantial surpluses. Furthermore, the State needs to begin building up a rainy day fund, the opposite of a backlog, in order to prepare for the next economic downturn.

Stability of Local Governments

Local governments are creations of state government. Illinois needs to recognize that it has a responsibility to the many local governments throughout the State that are experiencing financial distress. For instance, Chicago, the largest city and economic hub in the State, faces unfunded pension liabilities of over $28 billion and a pension funding schedule that will require an additional $1.2 billion annually by FY2023. Other municipalities and pension funds throughout the State are also financially stressed, and therefore a source of concern. In addition to its own challenges, the State of Illinois needs to think strategically about assisting local governments with their financial challenges.

Civic Federation Recommendations

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

- Ensure future annual operating budgets are balanced;
- Eliminate the backlog of unpaid bills;
- Provide achievable spending limits;
- Avoid drastic revenue cliffs;
- Broaden the tax base to provide 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.

To continue stabilizing the State of Illinois' financial position The Civic Federation offers the following recommendations to the Governor and the General Assembly as they develop the final FY2020 budget.[58] The revenue proposals are offered as supplements or alternatives to the uncertain revenues in the proposed budget, which could be redirected to backlog reduction or the pensions. The recommendations are as follows:

%20Refunding%20Bonds,%20Series%20of%20September%202018AB%20-%20Official%20Statement.pdf (last accessed on May 15, 2019).

[57] 30 ILCS 540; 215 ILCS 5/368(a). Certain payables, such as transfers to local governments and other State funds, are not eligible for penalty interest.

[58] These recommendations are discussed in more detail in the Institute for Illinois' Fiscal Sustainability at the Civic Federation's *FY2020 State Budget Roadmap*, February 13, 2019.

Spending Controls

The Civic Federation recommends that the State of Illinois continue to limit net agency spending growth to 2.4% annually through at least FY2024. This growth rate was identified by the previous gubernatorial administration as a maintenance level of spending in light of court orders and other spending requirements. Illinois should also pursue reasonable savings in State employee salary increases and health insurance costs.

Consolidating and Streamlining Government Units in Illinois

In addition to recommending the merger of CTPF with TRS, the Civic Federation supports the following 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.

Merging the Chicago and State Teachers' Pension Funds

The Civic Federation recommends that the Chicago Teachers' Pension Fund be consolidated with the Teachers' Retirement System and that the State assume responsibility for the unfunded liability of CTPF. 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.

Restructuring Illinois' Public University System

The Civic Federation recommends that the Governor create a bipartisan commission to address the need to allocate resources more rationally among the State public universities. The commission should propose a new funding formula and consider the elimination of duplicative programs and the potential need to close or consolidate campuses. The Federation also recommends that the nine universities be governed by a single Board of Trustees to facilitate the establishment of statewide goals and rational allocation of State resources.

Constitutional Amendment to Limit the Pension Protection Clause

The Illinois General Assembly should vote to place a constitutional amendment on the ballot no later than the 2020 general election that would limit the pension protection clause and allow reasonable, moderate changes to current employee and retiree benefits necessary to secure the financial sustainability of the State and local governments and the pension systems themselves.

Prisons

The Civic Federation recommends that the Governor and General Assembly continue to implement reforms designed to lower Illinois' prison population, not only to achieve widely acknowledged social benefits, but also with the goal of safely and legally generating meaningful cost reductions.

Pension Investment Expense and Asset Allocation

The Civic Federation recommends that the Illinois General Assembly create a commission to review the investment operations of the State's public pension funds, including investment expenses, asset allocation and investment approach, with the goal of improving fund performance and transparency.

Interest Penalties on Overdue Bills

The Civic Federation recommends that the State reduce the late payment penalty in the Prompt Payment Act to a rate that reflects lower economy-wide rates of return, such as the five-year Treasury rate plus one percentage point. The General Assembly and Governor should also consider a reduction in the timely payment rate in the Insurance Code.

Retirement Income Exclusion

The Civic Federation recommends that the State of Illinois broaden its income tax base by eliminating the tax exclusion for all federally taxable retirement income. This will enhance the State's fiscal stability by providing access to a faster growing portion of the income tax base, generating FY2020 revenues of over $2.5 billion. Such a change broadens the tax base without raising rates, and it would bring Illinois in line with other states' policies. Out of the 41 states that impose an income tax, Illinois is one of three that exclude all pension income and one of 27 that exclude all federally taxable Social Security income.[59] Finally, the extension can be implemented immediately, unlike the Governor's graduated income tax proposal that requires a constitutional amendment.

Sales Tax on Services

The Civic Federation recommends that the State of Illinois expand the sales tax base to include the fourteen services taxed by the State of Wisconsin.

Rainy Day Fund

After the backlog of bills is paid off, the State of Illinois should work toward building a rainy day fund equal to 10% of General Funds revenues to cushion the budget from the next economic downturn. Legislation must explicitly indicate when deposits will be made and in what amount and the circumstances under which withdrawals will be allowed.

Supplemental Pension Payments

In order to mitigate the underfunding of the State's pension systems due to inadequate statutory payments, the Civic Federation recommends identifying revenues to make annual supplemental payments sufficient to reach 100% funding by FY2045.

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[59] Excludes the District of Columbia. National Conference of State Legislatures, *State Personal Income Taxes on Pensions and Retirement Income: Tax Year 2014*, April 3, 2015. At the federal level, between 15% and 100% of Social Security benefits are excluded from taxation. Generally, Social Security benefits are not taxable if they represent a taxpayer's only income. If base income is up to $25,000 for an individual or $32,000 for joint filers, then no tax is owed. Base income is the sum of half of Social Security benefits plus all other income. Internal Revenue Service, Publication 915, "Social Security and Equivalent Railroad Retirement Benefits, 2018," January 9, 2019, pp. 2-4.

Comprehensive Capital Improvement Planning and Funding

The Civic Federation recommends that before State of Illinois embarks on a new capital plan, it should comprehensively assess and prioritize its needs for both transportation infrastructure and State facilities. In addition, the State should identify reliable, long-term funding sources. The road and transit portion of the plan should be initially funded by an increase in the motor fuel tax, which has not been raised since 1990. The State should further consider vehicle miles traveled and congestion taxes to ensure the long-term sustainability of transportation funding revenues. The State facilities portion of the plan will require other sources of funding, and these must be more reliable than those used for the FY2010 Illinois Jobs Now! capital plan.

Prudent Budget Practices

The Civic Federation believes it is important to warn against certain unwise budgetary practices that have been used in the past and imprudent steps that might be under consideration for the future, such as:

- Relying on illusory savings, accounting gimmicks or one-time revenues;
- Reducing or extending the pension funding target;
- Ending level principal debt repayment;
- Implementing new revenue sources without proper consideration of their reliability and social impact; and
- Ignoring the condition of local governments.

BUDGET OVERVIEW

Amid one of the longest economic expansions in U.S. history, the State of Illinois still faces daunting fiscal challenges.[60] The list includes chronic operating deficits, a multi-billion dollar backlog of unpaid bills, crushing public pension costs and five consecutive years of population loss. Illinois has the lowest credit rating of any state[61] and is ranked as one of the worst prepared states to weather the next recession.[62]

These challenges now confront Governor J.B. Pritzker, who took office in January 2019. A month later, his administration estimated that the Governor's first budget—for the fiscal year that begins on July 1, 2019 and ends on June 30, 2020—would have to address an operating deficit of $3.2 billion.[63] That gap was $440 million above the deficit projected by the prior administration.[64]

Governor Pritzker's preferred solution for closing the operating deficit and beginning to resolve the State's other fiscal problems involves replacing Illinois' flat income tax with a graduated rate structure. However, a graduated tax could not be implemented until January 2021 at the earliest because of Illinois' lengthy constitutional amendment process.[65] The Governor has described his FY2020 budget recommendation as a bridge to financial stability based on a graduated tax.[66]

As discussed below, Governor Pritzker's administration on May 7 announced major revisions to projected income tax revenues for FY2019 and FY2020 and cancelled a proposed partial pension holiday for FY2020. **While the Civic Federation's position on the budget incorporates these changes, much of the analysis in the following chapters does not, because updated detailed data are not available.**

Recent Budget History

According to the Illinois Constitution, neither the Governor's proposed budget nor the appropriations adopted by the General Assembly may exceed estimated revenues.[67] Nevertheless, Illinois has run budgetary deficits in its general operating funds in seven of the last eleven years and is expected to end FY2019 with another budget gap. Excluding borrowing, there were only three years without deficits.

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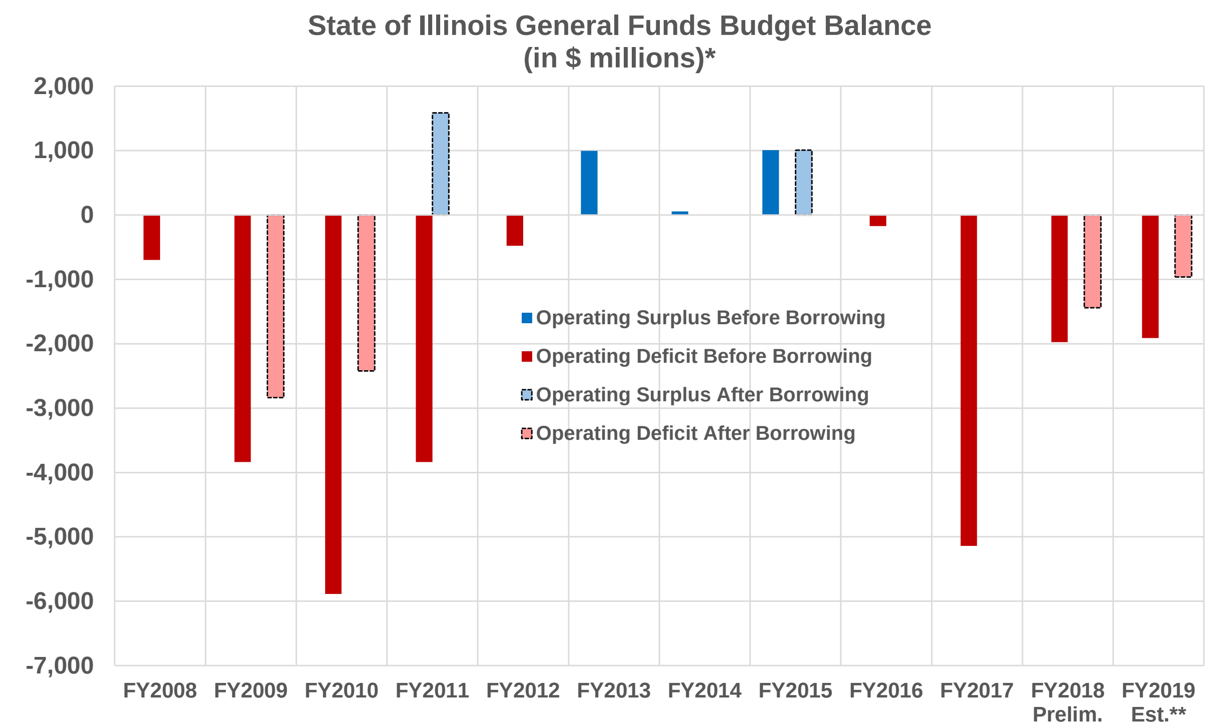
[60] The Pew Charitable Trusts, "In ninth year of recovery, states' fiscal and economic prospects perked up," April 23, 2019.
[61] Karen Pierog, "Illinois' credit rating pressured by need for more revenue – S&P," *Reuters*, March 14, 2019.
[62] Moody's Analytics, *State of Illinois Economic Forecast Prepared for State of Illinois Commission on Government Forecasting and Accountability*, February 2019, p. 13.
[63] State of Illinois, Deputy Governor Dan Hynes, *Digging Out: The Rauner Wreckage Report*, February 7, 2019, p. 10.
[64] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018.
[65] Ill. Const. art. XIV, sec. 2. The amendment would require approval by three-fifths of each chamber of the General Assembly before being placed on the ballot at the next general election at least six months after passage. To become effective, the amendment would require the approval of three-fifths of those voting on the question or a majority of those voting in the election.
[66] State of Illinois, Office of the Governor, *Gov. Pritzker's FY20 Budget Address*, February 20, 2019.
[67] Ill. Const. art. VIII, sec. 2. There is no provision requiring that a budget be enacted or prohibiting the carrying over of a deficit from one year to the next.

The next chart shows the State's General Funds budget balance from FY2008 through FY2019. Detailed information about revenues and expenditures during this period can be found in Appendix A of this report.



*For more information and sources, see Appendix A. There was no borrowing for operations in FY2008, FY2012, FY2014, FY2016 or FY2017. In FY2015 there was $377 million of interfund borrowing that was later forgiven. Bonds issued in FY2018 to reduce the backlog of unpaid bills are excluded.
** Does not reflect the revised revenue estimates announced in May 2019.

The Great Recession began midway through FY2008, in December 2007, and officially ended in June 2009. Although Illinois' financial problems predate that downturn,[68] the State has never fully recovered from the dramatic decline in income and sales tax revenues that followed in its wake.

Illinois initially dealt with the revenue shortfall by borrowing and delaying bill payments. Temporary increases in income tax rates, beginning in 2011, were allowed to expire at the end of 2014. The State subsequently endured two years without a complete budget in FY2016 and FY2017 due to a political dispute that prevented action on the fiscal cliff. The impasse ended in FY2018 with a budget enacted over the veto of then Governor Bruce Rauner. The FY2018 budget included a permanent increase in income tax rates and the sale of bonds to pay down a backlog of bills that peaked at $16.7 billion during the budget deadlock.[69]

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[68] State of Illinois Comptroller, "The State Fiscal Crisis-How Did We Get Here?" *Fiscal Focus*, September 2011, https://illinoiscomptroller.gov/linkservid/AA5E4822-1CC1-DE6E-2F4835ECF5BB3C62/showMeta/0/ (last accessed on May 15, 2019).
[69] State of Illinois Comptroller, Backlog Voucher Report.

The enacted budgets for FY2018 and FY2019 were narrowly balanced on paper using aggressive assumptions that were not borne out. Both budgets included revenues of $300 million from the sale of the James R. Thompson Center in Chicago, which has not yet occurred.[70] The FY2018 budget assumed the State would realize $500 million in savings from a Tier 3 pension plan that has not yet been implemented. The FY2019 budget did not account for any payment of step increases to members of the American Federation of State, County and Municipal Employees (AFSCME), despite an Illinois Supreme Court decision that effectively meant the State would have to make those payments—now estimated at $381 million—dating back to FY2016. In addition, the FY2019 budget assumed $445 million in pension savings from voluntary member buyouts and other changes, but those savings are still being determined and are no longer reflected in the FY2019 expenditure estimate.[71]

Illinois' inability to balance its budget and pay its bills stems in large part from the State's overwhelming pension obligations. The unfunded liability of the State's five retirement systems totaled $133.7 billion at the end of FY2018 and the combined funded ratio stood at 40.1%.[72] Although State contributions were scheduled to rise sharply under the back-loaded 50-year pension funding plan that began in FY1996, this effect was exacerbated by the stock market crash during the Great Recession.[73] The drop in stock prices eroded pension asset values and forced the funds to lower their assumed rates of investment return, which are used to determine the present value of liabilities. Required General Funds pension contributions are expected to reach $8.2 billion in FY2020 under existing law, or 23.9% of projected State-source revenues.[74]

In a report in early February 2019, Governor Pritzker's administration incorporated these statutorily required pension contributions in its $3.2 billion forecast of the FY2020 operating deficit.[75] The deficit estimate was $440 million higher than the $2.8 billion gap shown in a five-year budget projection issued in November 2018 by the prior administration due to increased expenditures.[76] Governor Pritzker's deficit estimate reflected caseload growth and legislated wage increases for human services programs, as well as new spending required by medical care-related consent decrees and settlement agreements at public safety agencies. Other expenses,

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70 Legislation paving the way for the sale was passed by the General Assembly on May 29, 2017 but was not sent to the Governor's Office until February 7, 2019, after Governor J.B. Pritzker took office. Public Act 100-1184 was enacted on April 5, 2019. For more information, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, "Bill to Facilitate Thompson Center Sale Finally Goes to Governor," February 12, 2019, https://www.civicfed.org/iifs/blog/bill-facilitate-thompson-center-sale-finally-goes-governor (last accessed on May 15, 2019).

71 The final FY2019 State contribution amounts will not be known until the retirement systems recertify the amounts in June 2019 based on the results of the buyout programs, as required by Public Act 100-0587, enacted on June 4, 2018.

72 Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 34. These figures are based on the actuarial value of assets, which is based on asset smoothing. Based on the market value of assets, the unfunded liability was $133.5 billion and the combined funded ratio was 40.2%.

73 Illinois State FY2020 Budget, p. 31.

74 State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018.

75 State of Illinois, Deputy Governor Dan Hynes, *Digging Out: The Rauner Wreckage Report*, February 7, 2019, p. 10.

76 State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018.

such as training new troopers for the Illinois State Police, were intended to make up for shortfalls during the budget impasse.

Certain increases were also based on the new administration's spending priorities, including investing in early childhood education and raising the State's minimum wage requirement. On February 19—a day before his FY2020 budget address—Governor Pritzker signed a bill raising the minimum wage to $15 per hour by 2025 from the current $8.25.[77] The $1-per-hour increase in January 2020 will mean higher State costs for low-wage workers.

Governor's Recommended FY2020 Budget

Governor Pritzker's proposed budget for FY2020, issued on February 20, closes the $3.2 billion operating deficit mainly by reducing pension contributions, imposing a variety of new taxes and delaying repayment of interfund borrowing. The budget also includes hundreds of millions of dollars of new agency spending.

The result is a modest operating surplus of $155 million, which would slightly lower the State's backlog of bills. The Governor also proposes a new round of borrowing in June 2019 to pay down the backlog and reduce the steep interest penalties paid by the State on overdue bills. At the end of FY2020, the backlog is projected to be $7.9 billion on a budgetary basis, down from $8.4 billion in FY2019 and $8.8 billion in FY2018.[78]

If proposed tax increases of $1.1 billion are not enacted, the administration said the alternative is a 4% across-the-board reduction to net agency spending—not including debt service, pension contributions and employee health insurance.[79]

[77] Public Act 101-0001, enacted on February 19, 2019.
[78] Illinois State FY2020 Budget, p. 58. This backlog figure reflects unpaid General Funds and Health Insurance Reserve Fund costs incurred as of the end of FY2020 that are not paid from that year's revenues.
[79] Illinois State FY2020 Budget, p. 44.

The following table shows how the Pritzker administration proposes to close the $3.2 billion deficit. The table compares the initial and adjusted five-year projections for FY2020 with Governor Pritzker's FY2020 recommended budget, as issued on February 20, 2019.

State of Illinois General Funds Budget: FY2020
Five-Year Projection vs. Governor's Recommended Budget
(in $ millions)*

	FY2020 Five-Year Projection	FY2020 Adjusted Projection	FY2020 Rec. Budget	$ Change Adjusted vs. Rec.	% Change Adjusted vs. Rec.
Revenues					
Net Individual Income Taxes	*$ 18,497*	*$ 18,497*	*$ 18,851*	*$ 354*	*1.9%*
Net Corporate Income Taxes	*$ 2,290*	*$ 2,290*	*$ 2,338*	*$ 48*	*2.1%*
Net Sales Taxes	*$ 8,283*	*$ 8,283*	*$ 8,537*	*$ 254*	*3.1%*
Public Utility Taxes	*$ 846*	*$ 846*	*$ 846*	*$ -*	*0.0%*
Other Taxes and Fees	*$ 2,500*	*$ 2,500*	*$ 2,961*	*$ 461*	*18.4%*
Lottery	*$ 748*	*$ 748*	*$ 745*	*$ (3)*	*-0.4%*
Riverboat Gaming Taxes	*$ 264*	*$ 264*	*$ 258*	*$ (6)*	*-2.3%*
Other Transfers	*$ 841*	*$ 841*	*$ 820*	*$ (21)*	*-2.5%*
Total State Source Revenues	**$ 34,269**	**$ 34,269**	**$ 35,356**	***$ 1,087***	***3.2%***
Federal Revenues	$ 3,605	$ 3,445	$ 3,547	*$ 102*	*3.0%*
Total Revenues	**$ 37,873**	**$ 37,713**	**$ 38,903**	***$ 1,190***	***3.2%***
Expenditures					
1. Education	*$ 10,591*	*$ 10,661*	*$ 10,803*	*$ 142*	*1.3%*
K-12 Education	*$ 8,785*	*$ 8,785*	*$ 8,883*	*$ 98*	*1.1%*
Higher Education	*$ 1,806*	*$ 1,876*	*$ 1,920*	*$ 44*	*2.3%*
2. Economic Development	*$ 63*	*$ 63*	*$ 56*	*$ (7)*	*-11.1%*
3. Public Safety	*$ 1,770*	*$ 1,800*	*$ 1,855*	*$ 55*	*3.1%*
4. Human Services	*$ 5,955*	*$ 6,230*	*$ 6,448*	*$ 218*	*3.5%*
5. Healthcare	*$ 8,327*	*$ 7,997*	*$ 7,228*	*$ (769)*	*-9.6%*
6. Environment and Culture	*$ 59*	*$ 59*	*$ 59*	*$ -*	*0.0%*
7. Government Services (excl. Group Health)	*$ 1,403*	*$ 1,468*	*$ 1,389*	*$ (79)*	*-5.4%*
Unspent Appropriations	*$ (985)*	*$ (985)*	*$ (975)*	*$ 10*	*-1.0%*
Agency Expenditures	$ 27,183	$ 27,293	$ 26,863	$ (430)	-1.6%
AFSCME Step Increases Current Year**	$ 207	$ 207	$ -	$ (207)	-100.0%
Net Agency Expenditures	**$ 27,391**	**$ 27,501**	**$ 26,864**	**$ (637)**	**-2.3%**
Group Insurance Payments	$ 2,057	$ 2,227	$ 2,028	$ (199)	-8.9%
K-12 Education Pensions	*$ 4,813*	*$ 4,813*	*$ 4,238*	*$ (575)*	*-11.9%*
State Universities' Pensions	*$ 1,716*	*$ 1,716*	*$ 1,427*	*$ (289)*	*-16.8%*
State Employees' Pensions	*$ 1,659*	*$ 1,659*	*$ 1,460*	*$ (199)*	*-12.0%*
Net Pension Contributions	$ 8,188	$ 8,188	$ 7,124	$ (1,064)	-13.0%
Statutory Transfers	$ 395	$ 395	$ 364	$ (31)	-7.8%
Pension and Capital Bonds Debt Service	*$ 1,351*	*$ 1,351*	*$ 1,208*	*$ (143)*	*-10.6%*
Backlog Bonds Debt Service	*$ 757*	*$ 757*	*$ 982*	*$ 225*	*29.7%*
Pension Buyout Bonds Debt Service	*$ 99*	*$ 99*	*$ 92*	*$ (7)*	*-7.1%*
Total Debt Service	$ 2,207	$ 2,207	$ 2,282	$ 75	3.4%
Interfund Borrowing Repayment	$ 400	$ 400	$ 85	$ (315)	-78.8%
Total Expenditures	**$ 40,638**	**$ 40,918**	**$ 38,748**	**$ (2,170)**	**-5.3%**
Operating Surplus (Deficit)	**$ (2,765)**	**$ (3,204)**	**$ 155**	**$ 3,359**	**-104.8%**

*Totals may not sum due to rounding.

**The FY2020 proposed budget includes $185 million in step increases distributed across agency budgets.

Source: State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018; State of Illinois, Deputy Governor Dan Hynes, *Digging Out: The Rauner Wreckage Report*, February 7, 2019, p. 10; Illinois State FY2020 Budget, p. 45; Civic Federation calculations.

Total recommended revenues in FY2020 increase by $1.2 billion from the adjusted five-year projection to $38.9 billion, due partly to a more optimistic forecast of baseline revenues. The Governor also proposes several new revenue sources:

- Legalizing and taxing recreational cannabis and sports betting is expected to produce $170 million and $212 million, respectively. In both cases, the State will sell costly license fees up front, then allow the license holders to claim credits to defray the cost of the license in the next several years of tax returns.
- Taxing plastic shopping bags is expected to provide $19 to $23 million for General Funds.
- Other proposed changes include a delinquent tax payment incentive program to speed up payment of overdue taxes; phasing out the private school scholarship tax credit enacted as part of the 2017 school funding reform bill;[80] decoupling from a new federal tax change that allows corporations to deduct foreign-derived intangible income; and capping the retailer's discount.[81]

In addition to the revenues produced for General Funds, some of the Governor's proposals provide revenues for other State funds. These additional revenues include $58 million for the Local Government Distributive Fund from capping the retailer's discount and $89 million for the Capital Projects Fund from a restructuring of the cost of video gaming licenses that would make larger vendors pay higher fees. Another $455 million of new revenues—from a tax on managed care organizations, increased cigarette taxes and a new tax on e-cigarettes—are deposited into the Healthcare Provider Relief Fund (HPRF), allowing a reduction in Medicaid spending out of General Funds.

Proposed FY2020 General Funds spending of $38.7 billion represents a decrease of $2.2 billion, or 5.3%, from the previous projection of $40.9 billion. Contributions to the State's five retirement systems are reduced by $1.0 billion, with most of the savings from delaying the date to reach 90% funding to FY2052 from FY2045. Under the Governor's proposal, the systems would be 65% funded in FY2045 instead of 90%. The FY2020 budget also proposes issuing $2 billion in pension obligation bonds to improve the systems' funding levels. The pension-related measures are part of a five-point pension plan announced by the Pritzker administration in the week prior to the release of the FY2020 budget.[82]

General Funds appropriations for the State's main Medicaid agency (shown as Healthcare in the table) decline by $769 million, or nearly 10%, from the adjusted projection due to a shift in funding. The new revenue sources described above, along with certain existing sources, are deposited directly into the HPRF. Excluding Medicaid, other agency appropriations increase by $574 million from the initial projection by the prior administration. The biggest increases are for early childhood education and human services programs.

The proposed budget also reduces expenditures by $315 million by delaying repayment of interfund borrowing. Other debt service transfers increase by $75 million due to Governor Pritzker's plan to issue $1.5 billion in bonds to shrink the unpaid bill backlog. This additional

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[80] Public Act 100-0465, enacted on August 31, 2017.

[81] The retailer's discount is the percentage of sales tax due on a transaction that retailers are allowed to retain as reimbursement for collecting sales taxes and remitting them to the state.

[82] State of Illinois, Office of the Governor, "Deputy Gov. Hynes Presents Ideas and Solutions for Digging Out of Illinois' Fiscal Mess at City Club of Chicago," *news release*, February 14, 2019.

expense more than offsets a decrease in pension bond debt service resulting from the final expiration of bonds that were issued in 2011 to pay for the State's annual pension contributions.

Increased Revenue Projections and other Recent Developments

Since it was released in February, Governor Pritzker's budget proposal has undergone significant changes due to an unexpected influx of income tax revenues in April. As a result, the administration adopted a more optimistic revenue forecast and cancelled plans for a partial pension holiday on the grounds that the savings were no longer needed to balance the FY2020 budget.

Budget Revisions Due to April 2019 Revenues[83]

In a letter to General Assembly leaders on May 7, administration officials said the State collected more than $4.1 billion in income tax revenues in April—an increase of $1.5 billion, or 58%, from internal projections for the month.[84] The additional revenues in April led to a higher revenue estimate for the current fiscal year and a revised projection for FY2020.

For FY2019 estimated individual income tax revenues were increased by $1.2 billion, or 6.8%, from $18.3 billion to $19.5 billion, according to the letter. Estimated FY2019 corporate income tax revenues were increased by $186 million, or 8.4%, from $2.2 billion to $2.4 billion. Overall income tax revenue estimates for FY2019 were raised by $1.4 billion, or 7.0%, from $20.5 billion to $21.9 billion.

Based on the strong April 2019 receipts, the Illinois Department of Revenue increased its projection of total income tax collections in FY2020 by roughly $800 million, from $21.2 billion to nearly $22 billion. The letter did not provide a breakdown of individual and corporate income tax projections in FY2020.

[83] For more information, see the Institute for Illinois' Sustainability at the Civic Federation blog, "Governor Cancels FY2020 Pension Holiday Plan after April Income Tax Surge," May 9, 2019.
[84] Illinois Department of Revenue, Letter to the Illinois General Assembly, May 7, 2019.

The following table shows how the new revenue forecasts will affect the FY2019 and FY2020 General Funds budgets. The table shows the numbers included in the Governor's budget proposal on February 20, 2019, as well as revised numbers based on the administration's May 7 letter.

State of Illinois General Funds Budget: Revised vs. Original FY2019 Estimate and FY2020 Proposed Budget (in $ millions)*	FY2019 Estimated	FY2019 Revised	FY2020 Proposed	FY2020 Revised
Revenues				
Net Individual Income Taxes	*$ 18,251*	*$ 19,500*	*$ 18,851*	*$ 21,989*
Net Corporate Income Taxes	*$ 2,207*	*$ 2,393*	*$ 2,338*	
Other State Source Revenues	*$ 13,733*	*$ 13,733*	*$ 14,167*	*$ 14,167*
Total State Source Revenues	**$ 34,190**	**$ 35,625**	**$ 35,356**	**$ 36,156**
Federal Revenues	$ 3,220	$ 3,220	$ 3,547	$ 3,547
Total Revenues Before Interfund Borrowing	**$ 37,410**	**$ 38,845**	**$ 38,903**	**$ 39,703**
Interfund Borrowing	$ 250	$ 250	$ -	$ -
Total Resources Including Interfund Borrowing	**$ 37,660**	**$ 39,095**	**$ 38,903**	**$ 39,703**
Expenditures				
Net Agency Expenditures	**$ 26,653**	**$ 26,653**	**$ 26,864**	**$ 26,864**
Group Insurance Payments	$ 2,026	$ 2,026	$ 2,028	$ 2,028
Net Pension Contributions**	$ 7,478	$ 7,478	$ 7,124	$ 7,987
Statutory Transfers & Debt Service	$ 3,167	$ 3,167	$ 2,731	$ 2,731
Total Expenditures	**$ 39,324**	**$ 39,324**	**$ 38,748**	**$ 39,611**
Operating Surplus (Deficit)	**$ (1,663)**	**$ (228)**	**$ 155**	**$ 92**

*Totals may not sum due to rounding.

** Assumes implementation of the Governor's proposal to save $125 million in FY2020 by making pension buyout programs permanent.

Source: Illinois State FY2020 Budget, p. 45; Illinois Department of Revenue, Letter to the Illinois General Assembly, May 7, 2019; Civic Federation calculations.

The estimated increase in income tax revenues in FY2019 eliminates most of the previously expected operating deficit in that year. The estimated FY2019 budget gap is reduced to $228 million from $1.66 billion.

In FY2020 required General Funds pension contributions under existing State law total $8.1 billion, excluding debt service on previously issued pension bonds.[85] The Governor's budget recommended a decrease of $1.0 billion to $7.1 billion. Of the $1 billion reduction, $878 million was due to the extension of the funding deadline and $125 million related to making permanent two voluntary pension buyout plans that were set to expire in FY2021.

Based on the May 7 letter, the table assumes that the initial FY2020 income tax revenue estimate is increased by $800 million and that pension contributions are increased by $878 million from the budget proposal. It is also assumed that the buyout proposal will be implemented. The result is a reduction in the modest projected operating surplus to $92 million from $155 million in the recommended budget.

[85] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. iii. This figure does not include debt service and assumes a $215 million transfer from the State Pensions Fund.

The precise reasons for the April 2019 surge in revenue have not yet been determined, and it remains to be seen whether the strong growth will continue into FY2020. The legislature's Commission on Government Forecasting and Accountability (COGFA) warned in its April Monthly Briefing that "this significant one month over performance cannot safely be extrapolated into future underlying growth."[86] COGFA was specifically concerned that much of the April growth might have involved investment income, which is highly volatile. The commission said other states with similarly strong April revenue are generally "urging caution of future expectations."

However, administration officials said the revised FY2020 forecast was conservative because it assumed that only a portion of the April 2019 growth would be sustained. In the letter, they said the new FY2020 revenue projection factors in continued strong employment growth but does not include likely one-time sources such as the stock market's performance and taxpayers' adjustments in their withholdings because of the new federal tax law.

It is not yet clear if the decision to cancel the partial pension holiday might affect the proposed pension bond sale. In light of the reduced FY2019 deficit, it is also not certain whether the administration will proceed with the plan to sell backlog bonds, which was scheduled to occur in June 2019.

Governor's Graduated Income Tax Plan

On March 7, Governor Pritzker announced details of his graduated income tax plan, which replaces Illinois' current flat tax of 4.95% on all taxable individual net income (after certain exemptions) with a schedule of tax rates that increase at higher income levels.[87] The plan is intended to bring in $3.4 billion of additional revenue by raising effective tax rates on fewer than 3% of tax filers while lowering rates slightly for the remaining 97%.

Under the Governor's proposal, only tax filers with net income over $250,000 would face a higher marginal rate, the tax rate applied to the last dollar of income. However, filers with net income up to $252,321 would see a lower effective tax rate (the ratio of the total tax paid to net income) due to the tax cuts on their first dollars of income. The largest tax increase under the Governor's plan is for filers with more than $1 million of income. Not only would they pay the highest marginal rate of 7.95%, but all of their income would be subject to that top rate instead of having their first dollars of income taxed at lower rates.[88]

[86] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Monthly Briefing for the Month Ended: April 2019*, p. 7.
[87] State of Illinois, Office of the Governor, "Gov. Pritzker Unveils Fair Tax Plan with 97 Percent of Taxpayers Getting Tax Relief," *news release*, March 7, 2019.
[88] For more information on the graduated tax plan, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, "Governor Offers More Details on Graduated Income Tax Plan," March 21, 2019, https://www.civicfed.org/iifs/blog/governor-offers-more-details-graduated-income-tax-plan (last accessed on May 15, 2019).

On May 1 the Senate approved a package of legislation related to the graduated tax plan. The bills would amend the Illinois Constitution to allow for graduated tax rates;[89] implement a revised version of the Governor's graduated rate structure that contains different brackets for single and married filers;[90] repeal Illinois' estate tax.;[91] and freeze property tax rates if certain educational funding is provided by the State.[92] The last three bills would take effect in January 2021, but only if the constitutional amendment is passed by the legislature and approved by voters.

Other Recent Developments

Legislation to fulfill another of the Governor's goals, to legalize and tax recreational cannabis, was introduced on May 6.[93] Revenue estimates for the proposal have not yet been made available.

Legislation has also been filed to legalize sports wagering. The bill has five competing amendments, each of which contains a different model of legalization.[94] The competing models contain varying roles for brick-and-mortar casinos, racetracks, video gaming operators, online platforms, professional sports leagues and the Illinois State Lottery, and could result in a wider range of revenues for the State.[95]

The House Revenue and Finance Committee advanced legislation that would fund the transportation component of a major capital plan.[96] The bill would increase the gas tax from $0.19 per gallon to $0.44 per gallon, as well as increase license and registration fees.

Meanwhile, the Pritzker administration is taking steps to limit costs in the remainder of FY2019 and in FY2020.[97] In an April 22 memo, budget officials asked agency directors to try to cut 4% from remaining unspent appropriations and 5% from major contracts in the current fiscal year, with any savings to be extended into the next fiscal year.[98] The administration also imposed limits on travel and car purchases and leases and plans to review staffing and compensation to find potential savings. According to recent reports, House budget committees are also considering reductions to the Governor's proposed FY2020 spending levels, in case revenue sources such as recreational cannabis do not win legislative approval.[99]

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[89] 101st Illinois General Assembly, Senate Joint Resolution Constitutional Amendment 1, Senate Committee Amendment 1, filed on April 9, 2019.
[90] 101st Illinois General Assembly, Senate Bill 687, filed on April 30, 2019.
[91] 101st Illinois General Assembly, Senate Bill 689, filed on April 30, 2019.
[92] 101st Illinois General Assembly, Senate Bill 690, filed on April 30, 2019.
[93] 101st Illinois General Assembly, Senate Bill 7, filed on May 6, 2019.
[94] 101st Illinois General Assembly, House Bill 3308, filed on February 15, 2019.
[95] Testimony before the Illinois General Assembly House Revenue and Finance Committee, March 28, 2019.
[96] 101st Illinois General Assembly, House Bill 391, filed on May 8, 2019.
[97] Shia Kapos and Adrienne Hurst, "Pritzker Reflects on First 100 Days," *Politico Illinois Playbook*, April 23, 2019.
[98] The request to hold 4% of unspent appropriations in reserve in FY2019 and FY2020 is different from the administration's suggestion of 4% across-the-board agency spending cuts in FY2020 as an alternative to $1.1 billion in tax increases. The latter applies to all agency spending in FY2020, while the former involves only spending authority that has not been used three-quarters of the way through the fiscal year.
[99] Grant Morgan and Lindsey Salvatelli, "Madigan: Pritzker revenue plan being 'ratcheted down' by lawmakers," *Capitol News Illinois*, May 6, 2019.

REVENUES

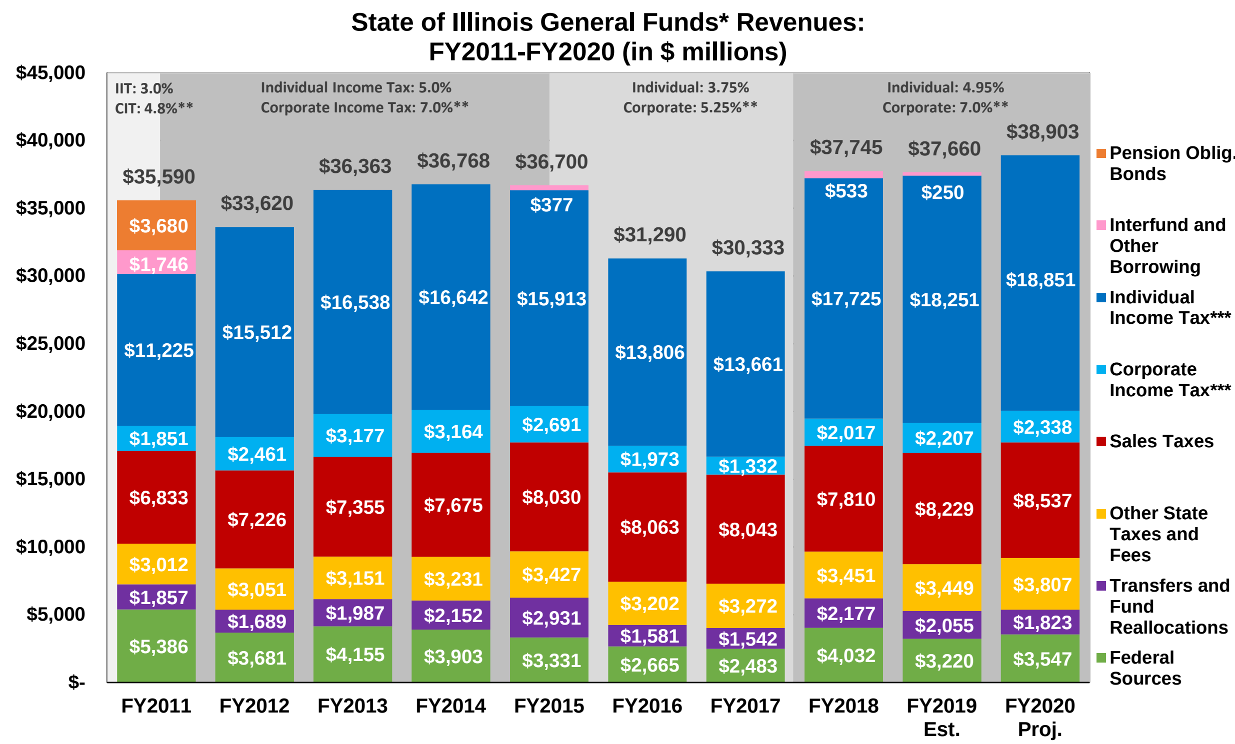
This section analyzes the Governor's originally proposed FY2020 budget. For more information about subsequent changes that increase projected revenues for FY2019 and FY2020, *see page 26.*

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 FY2020 budget projects total revenues of $72.1 billion, of which $38.9 billion are available for General Funds spending.[100] 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.[101]

[100] Illinois State FY2020 Budget, pp. 108-109. 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.

[101] Beginning in February 2015 the Illinois Income Tax Act required that 1/15 of the individual income taxes collected by the State be diverted to two restricted-use special funds to support human service programs and education spending. In FY2018 the State recategorized these funds as General Funds. Throughout this Report these funds are treated as General Funds for all years.

The following chart shows the 10-year trend in General Funds revenue by major source.



* Includes revenues allocated to the General Funds, Fund for the Advancement of Education, Committment to Human Services Fund and Budget Stabilization Fund. Income tax amounts are net of diversions to the Income Tax Refund Fund.
** Corporations also pay a Personal Property Replacement Tax of 2.5%.
*** The FY2018, FY2019 and FY2020 Budgets exclude income tax revenues transferred to the Local Government Distributive Fund and transit districts.
Source: Illinois State FY2020 Budget, pp. 57-58 and 139-149; Illinois State FY2019 Budget, pp. 62-63 and 143-155; Illinois State FY2018 Budget, pp. 78-79 and 160-169; Illinois State FY2017 Budget, pp. 160-168; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, p. 15.

The $38.9 billion revenue estimate for FY2020 represents an increase of $1.5 billion, or 4.0%, from $37.4 billion in FY2019.[102] The increase is composed of four factors: a forecast of strong economic growth leading to a $1.0 billion increase in existing revenues, policy changes expected to bring in an additional $350 million from existing sources, new revenues of $401 million and a shift of $259 million in cigarette tax out of the General Funds.

[102] The FY2019 revenue figure is before interfund borrowing.

The following table shows the change in revenues from FY2019 to the Proposed FY2020 budget.

State of Illinois General Funds Revenues: Estimated FY2019 and Governor's Recommended FY2020 (in $ millions)				
	FY2019 Est.	**FY2020 Rec.**	**$ Change**	**% Change**
State Taxes and Fees				
Income Taxes (net)	$ 20,457	$ 21,189	$ 732	3.6%
Individual (net)	$ 18,251	$ 18,851	$ 600	3.3%
Corporate (net)	$ 2,207	$ 2,338	$ 131	5.9%
Sales Taxes	$ 8,229	$ 8,537	$ 308	3.7%
Public Utility Taxes	$ 868	$ 846	$ (22)	-2.5%
Cigarette Tax*	$ 347	$ 72	$ (275)	-79.3%
Liquor Gallonage Taxes	$ 174	$ 176	$ 2	1.1%
Estate Tax	$ 315	$ 305	$ (10)	-3.2%
Insurance Taxes & Fees	$ 428	$ 419	$ (9)	-2.1%
Corporate Franchise Tax & Fees	$ 206	$ 205	$ (1)	-0.5%
Interest on State Funds & Investments	$ 100	$ 100	$ -	0.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Sports Wagering License Fees		$ 200	$ 200	n/a
Recreational Cannabis License Fees		$ 170	$ 170	n/a
Other Sources	$ 767	$ 1,070	$ 303	39.5%
Total State Taxes and Fees	**$ 32,135**	**$ 33,533**	**$ 1,398**	**4.4%**
Transfers and Adjustments				
Lottery	$ 731	$ 745	$ 14	1.9%
Riverboat Transfers & Receipts	$ 263	$ 258	$ (5)	-1.9%
Other Transfers	$ 1,061	$ 820	$ (241)	-22.7%
Fund Reallocations	$ -	$ -	$ -	n/a
Interfund Borrowing	$ 250	$ -	$ (250)	-100.0%
Total Transfers and Adjustments	**$ 2,305**	**$ 1,823**	**$ (482)**	**-20.9%**
Total State Revenues	**$ 34,440**	**$ 35,356**	**$ 916**	**2.7%**
Federal Sources	**$ 3,220**	**$ 3,547**	**$ 327**	**10.2%**
Total Revenue	**$ 37,660**	**$ 38,903**	**$ 1,243**	**3.3%**

*The FY2020 Budget Proposes shifting $259 million of cigarette tax revenues from the General Revenue Fund to the Health Care Provider Relief Fund. The rest of the decline is caused by falling cigarette sales.

Source: Illinois State FY2020 Budget, pp. 57, 109.

Existing Revenue Sources

Income Tax

The individual and corporate income taxes are the State's largest and third largest revenue sources, respectively, and together provide over half of all General Funds revenues. Accordingly, the fluctuations in the rates during the past decade have played a large role in Illinois' financial condition.

Halfway through the FY2011 fiscal year, the State approved temporary increases for both the personal and corporate income tax rates, from 3.0% to 5.0% and from 4.8% to 7.0%, respectively.[103] After four years at temporarily increased rates, the individual income tax rate automatically declined on January 1, 2015, to 3.75% and the corporate income tax rate declined to 5.25%.

Fiscal year 2016 was the first full year of the lower rates, which resulted in a $4.0 billion decline in net income tax revenues from the peak year of FY2014, or a 20.3% drop. Income tax revenues remained low in FY2017 at $15.0 billion, the lowest since FY2011.

On July 6, 2017, after two years with no budget and facing a nearly $15 billion bill backlog, the General Assembly permanently restored the corporate rate to 7.0% and raised the individual rate to 4.95%.[104] In FY2018 individual income tax revenues increased by $5.1 billion and corporate income tax revenues by $818 million.[105]

FY2020 will be the third fiscal year at the increased rates, reaching a projected all-time high of $18.9 billion in individual income tax revenue and $2.3 billion in corporate income tax revenue. Expecting strong economic growth, the Governor's office has revised FY2020 income tax revenues upwards by a total of $402 million over the previous administration's forecast last November. Part of the increase is due to the recent hike in the minimum wage, which is scheduled to increase to $9.25 per hour on January 1, 2020 and to $15.00 per hour by 2025.[106] Increased earnings by minimum wage workers, offset by tax credits to ease the transition for small businesses, will result in approximately $20 additional net revenues.[107]

The Governor has proposed two policy changes that would affect FY2020 income tax revenues. First, he is proposing to phase out a private school scholarship tax credit program created as part of the 2017 school funding reform package.[108] By capping deductible contributions at $50 million, the Governor's office expects to increase individual income tax revenues by $6 million. Second, the Governor proposes to decouple from federal tax changes that allow corporations to deduct foreign-derived intangible income. This change would increase corporate income tax revenue by $94 million.

The following table shows income taxes collected by the State of Illinois from FY2016 through the proposed FY2020 budget projections, including the amounts diverted to pay for tax refunds and to local governments. The share allocated to the Local Government Distributive Fund,

[103] Public Act 96-1496, enacted on January 13, 2011.
[104] Public Act 100-0022, enacted over the Governor's veto on July 6, 2017.
[105] General Funds received only $4.8 billion of the $5.9 billion increase because the General Assembly directed the share of income tax designated for local governments to be deposited directly into the Local Government Distributive Fund, bypassing General Funds.
[106] Public Act 101-0001, enacted on February 19, 2019.
[107] Illinois Department of Revenue, Testimony before the Illinois General Assembly House Revenue and Finance Committee, February 28, 2019.
[108] Public Act 100-0465, enacted on August 31, 2017.

traditionally 10% of the revenues derived from the pre-2011 tax rates (equivalent to 6.06% of individual income taxes and 6.85% of corporate income taxes at current rates), was reduced by 10% to increase State revenues in the FY2018 budget. The holdback was reduced to 5% in the FY2019 budget. The FY2020 budget proposes to continue the holdback at 5%.[109]

State of Illinois Total Income Tax Revenues FY2016-FY2020
General Funds (in $ millions)

Income Tax Increment	FY2016	FY2017	FY2018 Prelim.	FY2019 Est.	FY2020 Rec.	Five-year $ Change	Five-year % Change
Individual Income Tax							
Tax Rate	3.75%	3.75%	4.95%	4.95%	4.95%		
Individual Income Tax	$ 15,301	$ 14,929	$ 20,266	$ 20,896	$ 21,581	$ 6,280	35.5%
Pass-Through Entities*	n/a	$ 456	$ 519	$ 550	$ 583	n/a	n/a
Gross Individual Income Tax	**$ 15,301**	**$ 15,384**	**$ 20,784**	**$ 21,445**	**$ 22,164**	**$ 6,863**	**38.8%**
Refund Fund Transfer	$ (1,494)	$ (1,723)	$ (2,037)	$ (2,080)	$ (2,161)	$ (667)	37.7%
Deposits into LGDF**	**	**	$ (1,023)	$ (1,115)	$ (1,152)	n/a	n/a
Net Individual Income Tax	**$ 13,806**	**$ 13,661**	**$ 17,725**	**$ 18,251**	**$ 18,851**	**$ 5,045**	**31.7%**
Corporate Income Tax							
Tax Rate	5.25%	5.25%	7.00%	7.00%	7.00%		
Gross Corporate Income Tax	**$ 2,336**	**$ 1,610**	**$ 2,607**	**$ 2,793**	**$ 2,933**	**$ 597**	**19.1%**
Refund Fund Transfer	$ (362)	$ (278)	$ (457)	$ (433)	$ (433)	$ (71)	16.2%
Deposits into LGDF**	**	**	$ (133)	$ (154)	$ (163)	n/a	n/a
Net Corporate Income Tax	**$ 1,973**	**$ 1,332**	**$ 2,017**	**$ 2,207**	**$ 2,338**	**$ 365**	**13.6%**
Total Income Taxes (net)	**$ 15,779**	**$ 14,993**	**$ 19,742**	**$ 20,458**	**$ 21,189**	**$ 5,410**	**29.1%**

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

** In FY2018 the State began removing income tax distributions to the Local Government Distributive Fund from both revenues and expenditures in General Funds reporting.

Source: Illinois State FY2020 Budget, pp. 137-139.

Sales Tax

Sales tax revenue is expected to grow by $308 million from FY2019, mostly due to strong recent economic growth. However, the Governor's office warned that these conditions could deteriorate during FY2020.[110]

The increase is also partly due to policy changes at the federal and state level. For the second year, Illinois will benefit from the U.S. Supreme Court decision in *South Dakota v. Wayfair*,[111] which allows states to assess sales tax on out of state online sellers. As part of the FY2019 budget, Illinois enacted legislation that requires collection of sales tax from online sellers with at least $100,000 in Illinois sales or at least 200 Illinois transactions. After FY2020 the Governor's office expects little year-on-year increase in sales tax revenue as a result of this decision, but the increases experienced thus far will be a permanent addition to the revenue base.[112]

The FY2018 Budget trimmed distributions to public transit districts by 10% and arranged for them to be deposited directly into those funds, lowering the General Funds total.[113] The State

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[109] Illinois State FY2020 Budget, p. 138.
[110] Illinois State FY2020 Budget, p. 141.
[111] 585 U.S. ___, 138 S. Ct. 2080 (2018).
[112] Illinois State FY2020 Budget, p. 141.
[113] Illinois State FY2019 Budget, p. 146.

also imposed a 2.0% fee on sales tax collected on behalf of local governments, but these revenues are directed to a special fund for sales tax administration and do not affect General Funds receipts.[114] The FY2019 Budget reduced these holdbacks to 5% and 1.5%, respectively, and the FY2020 budget proposes to continue them at these levels.[115]

Increased spending by workers earning the recently increased minimum wage is expected to result in $11 million of the total growth in sales tax revenues.[116]

The major policy change regarding sales tax proposed in the FY2020 budget is capping the retailer's discount. Illinois retailers currently retain 1.75% of the sales tax due to the State to help defray the cost of collection. The Governor proposes to cap the discount for each retailer at $1,000 per month. The proposal would provide the State $75 million in additional revenue.

Other State-Source Revenues

Revenues from existing State sources other than income and sales tax are expected to be nearly the same in FY2020 as they were in FY2019, with the notable exception of cigarette taxes. The Governor proposes to raise the rate from $1.98 per pack to $2.30 per pack, resulting in $55 million in additional revenues. This increase counteracts an expected decline of about $15 million due to lower smoking rates, for a net increase of about $40 million.

However, the Governor also proposes to shift $259 million of cigarette tax revenues out of General Funds and into the Healthcare Provider Relief Fund (HPRF). This shift would be accompanied by a similar shift in Medicaid expenditures, described in further detail on page 46.

The final proposed change to existing State-source General Fund revenues is a delinquent tax incentive program that is projected to increase revenues from all sources by $175 million.[117] The program is similar to another delinquent tax incentive the State implemented in FY2011 and FY2012. However, because these revenues would have eventually been collected without the incentive, the program is best viewed as a one-time source that pulls forward future-year revenue into FY2020.

Federal Revenues

Federal revenues are forecast to increase by $327 million from FY2019 to FY2020. Federal revenues in General Funds are primarily reimbursements for Medicaid expenditures, and fluctuate from year to year depending on the level of Medicaid spending.

Federal sources were artificially low during the two-year budget impasse in FY2016 and FY2017 because of the lack of appropriations. Medicaid bills accumulated as part of the State's bill

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[114] Public Act 100-0023.
[115] Illinois State FY2020 Budget, p. 141.
[116] Illinois Department of Revenue, Testimony before the Illinois General Assembly House Revenue and Finance Committee, February 28, 2019.
[117] Illinois State FY2020 Budget, p. 35.

backlog until a federal court ordered expedited payment and the State finally adopted full-year appropriations for FY2018.[118]

Once the State began catching up on bills, federal reimbursements increased dramatically, especially with the help of $6.0 billion in General Obligation Bonds issued by the State in late 2017 to refinance the backlog. Directing the proceeds of the bonds to Medicaid bills, the State triggered $2.2 billion of federal reimbursements.[119] Of these, $1.0 billion was booked as federal revenue in FY2018 and $1.2 billion was allocated directly to additional backlog reduction.[120] The Governor now proposes to issue an additional $1.5 billion of backlog reduction bonds in FY2019, which would also result in additional federal reimbursements applied directly to the backlog.[121]

New Revenue Proposals

The FY2020 budget proposes three new revenue sources for General Funds. The first, and simplest, is a tax on plastic bags, similar to the one enacted by the City of Chicago in 2017. According to the proposed bill, the tax would be $0.07 per bag, of which the retailer and wholesaler would each retain $0.02 and the State would receive $0.03.[122] State revenue would total $23 million if the tax were applied to the entire State, and $19 million if municipalities that already have a bag tax were exempted.[123]

The largest proposed new revenue source is the legalization of sports wagering. In 2018 the U.S. Supreme Court struck down a 1992 federal law that prohibited sports wagering in states that did not already allow it.[124] Many states have since moved to legalize and tax sports wagering. The Governor's budget projects revenues of $212 million in FY2020. Of this amount, $12 million is actual tax revenue and $200 million is assumed to come from the sale of twenty operators' licenses at $10 million apiece.[125] License holders would be allowed to deduct 90% of the cost of these licenses from their taxes over five years. Accordingly, $180 million of this proposal should be viewed as a one-time revenue source.

However, the actual amount of revenue produced by sports wagering, whether one-time or ongoing, depends heavily on the structure of legalization. The legislation currently being considered in the General Assembly has five competing amendments, each of which contains a different model of legalization.[126] The competing models contain varying roles for brick-and-

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[118] State of Illinois, General Obligation Bonds, Series of May 2018, *Official Statement*, April 25, 2018, pp. 28-29 https://www2.illinois.gov/sites/capitalmarkets/RecentBondSales/State%20of%20Illinois%20General%20Obligation%20Bonds,%20Series%20of%20May%202018%20AB-Official%20Statement.pdf (last accessed on May 15, 2019).
[119] State of Illinois Comptroller, *Backlog Voucher Report*.
[120] Illinois State FY2020 Budget, p. 45.
[121] Illinois State FY2020 Budget, p. 45.
[122] Illinois General Assembly, Senate Bill 1240, filed on February 6, 2019.
[123] Illinois State FY2020 Budget, p. 34.
[124] *Murphy v. National Collegiate Athletic Association*, 584 U.S. ___, 138 S. Ct. 1461, (2018). The four states exempted were Delaware, Nevada, Montana and Oregon.
[125] Illinois State FY2020 Budget, p. 33.
[126] Illinois General Assembly, House Bill 3308, filed on February 15, 2019.

mortar casinos, racetracks, video gaming operators, online platforms, professional sports leagues and the Illinois State Lottery, and could result in a wider range of revenues for the State.[127]

The Governor's proposal to legalize recreational cannabis is similar in structure to the proposal for sports wagering. The estimated revenue of $170 million is assumed to come entirely from the upfront sale of producer licenses. The license holders would then deduct the cost of the licenses from taxes owed to the State over several years.[128] Accordingly, recreational cannabis revenues are also structured as a one-time source for the FY2020 budget. As with sports wagering, the revenues actually produced for the State in FY2020 and beyond depend heavily on the form legalization takes.

Other State Funds

In addition to General Funds, the FY2020 budget proposes revenue increases and new revenues other State funds. The Healthcare Provider Relief Fund, which makes payments to Medicaid providers, is the largest beneficiary of the proposals. The $55 million increase in cigarette taxes would be directed to this fund, as would a new proposed tax on e-cigarettes, expected to bring in $10 million.[129] HPRF would also receive a shift of $259 million in existing cigarette taxes from General Funds.

HPRF would also receive $867 million in new revenues under a proposed assessment on Managed Care Organizations that is designed to maximize federal reimbursements.[130] Of the total assessments, $390 million would be used to replace a Medicaid deposit from General Funds. The remainder, when matched by the federal government, would provide for an estimated $1.2 billion to both reimburse MCOs that provide Medicaid services for their new tax cost and generate new Medicaid spending. The assessment would also apply to non-Medicaid MCOs.

The Capital Projects Fund, created as part of the last major capital program in FY2010, would receive $89 million under a proposed restructuring of the existing video gaming tax.[131] Currently all terminal operators pay a 30% tax on net income. Under the Governor's proposal, net income that exceeds $2.5 million per year would be subject to a 50% tax.

Finally, two of the Governor's revenue proposals would provide significant revenues for the Local Government Distributive Fund. The graduated video gaming tax would result in an additional $18 million and capping the retailers discount would provide $58 million in additional sales tax revenue.[132]

[127] Testimony before the Illinois General Assembly House Revenue and Finance Committee, March 28, 2019.
[128] Illinois State FY2020 Budget, p. 33.
[129] Illinois State FY2020 Budget, p. 33-34.
[130] Illinois State FY2020 Budget, p. 33. Communication between the Civic Federation and the Governor's Office of Management and Budget, February 21, 2019.
[131] Illinois State FY2020 Budget p. 34.
[132] Illinois State FY2020 Budget p. 34.

APPROPRIATIONS AND EXPENDITURES

This section analyzes the Governor's originally proposed FY2020 budget. For more information about subsequent changes to the FY2020 budget that affect pension contributions, see page 26.

The recommended FY2020 budget proposes total appropriations of $77.0 billion, including $37.0 billion in General Funds spending authority.[133] The budget proposal also includes $31.4 billion in appropriations from Other State Funds and $8.7 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.[134] Other State Funds are accounts for activities funded by specific revenue sources that may only be used for specific purposes. Federal Funds (other than those designated for General Funds) use federal revenues to support a variety of State programs.

Proposed General Funds expenditures total $38.7 billion.[135] 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 $77.0 billion in FY2020 represent an increase of $1.2 billion, or 1.6%, from enacted appropriations of $75.8 billion in FY2019. Proposed FY2020 General Funds appropriations increase by $257 million, or 0.7%, from $36.7 billion the year before. Total appropriations grow by $13.3 billion, or 20.8%, from $63.8 billion in FY2016, while General Funds appropriations increase by $8.0 billion, or 27.6 %, over the five-year period.

Comparisons with FY2016 are skewed because of the State's two-year budget impasse, which began that year. During the standoff, Illinois did not have a complete General Funds budget, but most historical State spending continued because of court orders, federal consent decrees and existing statutory requirements. Appropriations were enacted for elementary and secondary education, ensuring that public schools could open on time.The main areas of State government not fully paid were higher education, employee group health insurance, social service programs not covered by Medicaid and operational costs of certain agencies.

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133 Illinois State FY2020 Budget, p.77.

134 Before FY2018 General Funds consisted of four funds: the General Revenue Fund, Education Assistance Fund, Common School Fund and General Revenue-Common School Fund. 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. For year-to-year comparisons in this report, all seven funds are included in General Funds.

135 Illinois State FY2020 Budget, p. 57.

Due to the budget impasse, tables in this section start with FY2015 for purposes of comparison with a more typical year.[136] Appropriation figures for FY2016 and FY2017 include funding compelled by continuing appropriations, court orders and consent decrees. The impasse ended on July 6, 2017, with the enactment of a budget for FY2018 that included supplemental appropriations for FY2017.[137]

The following table shows appropriations by type of fund from FY2015 through FY2019 and proposed appropriations for FY2020.

State of Illinois Appropriations by Fund Type: FY2015-FY2020 (in $ millions)

	FY2015 Enacted	FY2016 Enacted*	FY2017 Enacted*	FY2018 Enacted	FY2019 Enacted	FY2020 Rec.	FY2019-FY2020 $ Change	Two-Year % Change	FY2016-FY2020 $ Change	Five-Year % Change
General Funds	$ 32,183	$ 28,983	$ 33,470	$ 36,179	$ 36,734	$ 36,991	$ 257	0.7%	$ 8,008	27.6%
Other State Funds	$ 26,678	$ 26,651	$ 28,613	$ 28,337	$ 30,488	$ 31,379	$ 891	2.9%	$ 4,728	17.7%
Federal Funds	$ 8,186	$ 8,137	$ 8,419	$ 8,514	$ 8,573	$ 8,665	$ 92	1.1%	$ 528	6.5%
Total**	**$ 67,047**	**$ 63,771**	**$ 70,502**	**$ 73,029**	**$ 75,795**	**$ 77,035**	**$ 1,240**	**1.6%**	**$ 13,264**	**20.8%**

*Enacted appropriations in FY2016 and FY2017 include appropriations under statutory continuing appropriation authority, court orders and consent decrees.
**Totals may not sum due to rounding.
Source: Illinois State FY2020 Budget, p. 77; Illinois State FY2019 Budget, p. 84; Illinois State FY2018 Budget, pp. 78, 98 and 99; Illinois State FY2017 Budget, p. 97.

Total appropriations do not accurately reflect State spending because spending from Other State Funds and Federal Funds is often significantly below appropriated amounts. In FY2018, for example, actual spending from Other State Funds was $23.4 billion, 17.42% below the $28.3 billion appropriated amount.[138] Actual spending from Federal Funds in FY2018 was $4.9 billion, 42.8% below the $8.5 billion appropriation.

Appropriations from Other State Funds and Federal Funds do not affect the projected operating deficit, which is based on General Funds revenues and expenditures. General Funds spending from appropriations typically reflects a much lower level of unspent appropriations.

General Funds Appropriated Spending

To understand State spending pressures, it is helpful to distinguish appropriated agency spending from pension contributions and group insurance payments. The legislature generally has more discretion over agency appropriations than the other two spending categories.[139] Pension contributions are based on State law, determined by Illinois' five retirement systems and covered by continuing appropriations. Group insurance consists mainly of health insurance for employees and retirees, which is covered by State law and union contracts.

The following table shows appropriated spending for these categories from FY2015 through FY2019 and proposed appropriated spending for FY2020. The FY2019 number includes not yet enacted supplemental appropriations of $473 million, of which $381 million relates to step

[136] The FY2015 General Funds figure is also somewhat artificially depressed. In order to improve the budget balance in FY2015, $600 million was appropriated from General Funds for Medicaid in FY2014, deposited into another State fund and used to pay FY2015 Medicaid bills.
[137] Public Act 100-0021, enacted on July 6, 2017.
[138] Illinois State FY2020 Budget, p. 77.
[139] 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.

increases dating from FY2016 that are owed to members of the American Federation of State, County and Municipal Employees (AFSCME), not including any potential interest.[140] Of the total amount owed, $272 million is for increases before FY2019 and $109 million is for FY2019 increases through the end of March. In April the administration began issuing paychecks that reflected the increased wage steps;[141] these higher salaries for the last three months of the current fiscal year will be covered by existing appropriations. Proposed agency appropriations for FY2020 include $185 million in step increases.[142]

State of Illinois General Funds Appropriated Expenditures by Category: FY2015-FY2020 (in $ millions)										
	FY2015	FY2016	FY2017	FY2018 Prelim.	FY2019 Est.	FY2020 Rec.	FY2019-FY2020 $ Change	Two-Year % Change	FY2016-FY2020 $ Change	Five-Year % Change
Agency Appropriations Spent*	$ 23,534	$ 20,564	$ 24,060	$ 26,509	$ 26,653	$ 26,864	$ 211	0.8%	$ 6,300	30.6%
Pension Contributions	$ 6,047	$ 6,632	$ 6,951	$ 7,014	$ 7,478	$ 7,124	$ (354)	-4.7%	$ 492	7.4%
Group Insurance	$ 1,565	$ -	$ -	$ 1,858	$ 2,026	$ 2,028	$ 2	0.1%	$ 2,028	na
Total	**$ 31,146**	**$ 27,196**	**$ 31,011**	**$ 35,381**	**$ 36,157**	**$ 36,016**	**$ (141)**	**-0.4%**	**$ 8,820**	**32.4%**

*Enacted appropriations in FY2016 and FY2017 include appropriations under statutory continuing appropriation authority, court orders and consent decrees. FY2019 agency appropriations spent include supplemental appropriations of $473 million that have not yet been enacted.

Source: Illinois State FY2020 Budget, pp. 45 and 57; Illinois State FY2019 Budget, pp. 31 and 62; Illinois State FY2018 Budget, pp. 30 and 78; Illinois State FY2017 Budget, p. 63.

Proposed agency spending from appropriations increases by $211 million, or 0.8%, to $26.9 billion in FY2020 from $26.7 billion in FY2019 and by $6.3 billion, or 30.6%, from $20.6 billion during the budget impasse in FY2016. The overall year-to-year change in proposed General Funds agency spending from FY2019 to FY2020 is difficult to measure because of a proposed shift in Medicaid spending from General Funds to a special account called the Healthcare Provider Relief Fund in FY2020. A portion of the proposed shift related to cigarette and tobacco taxes could have been included in General Funds spending in past years. If this amount, totaling $324 million, is included in net agency spending in FY2020, then the proposed budget increases net agency spending by about 2.0%, which is less than the previous administration's maintenance level increase of 2.4%.[143]

The FY2020 budget proposes to reduce General Funds pension contributions by $354 million, or 4.7%, to $7.1 billion from $7.5 billion in FY2019. The proposed FY2020 contributions of $7.1 billion are approximately $1.0 billion below the $8.1 billion required under existing State law.[144]

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[140] Illinois State FY2020 Budget, p. 106. Illinois' Fifth District Appellate Court ruled in November 2017 that the State violated the law when it ended automatic annual increases for early-career employees after AFSCME's contract expired at the end of FY2015. The Illinois Supreme Court in March 2018 declined to hear the case, but the Rauner administration maintained that it did not owe anything after January 2016, when it declared an impasse in contract negotiations. The State's Fourth District Appellate Court rejected the impasse claim in October 2018 and sent the issue back to the Illinois Labor Relations Board for reconsideration.

[141] American Federation of State, County and Municipal Employees Local Council 31, "State employees go to proper step after illegal freeze," April 30, 2019, https://www.afscme31.org/news/state-employees-go-to-proper-step-after-illegal-freeze (last accessed on May 15, 2019).

[142] Communication between the Civic Federation and the Governor's Office of Management and Budget, February 26, 2019.

[143] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, November 15, 2018.

[144] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. iii. This figure does not include debt service and assumes a $215 million transfer from the State Pensions Fund. For more information about pensions, see p. 49 of this report.

Pension savings would come mainly from delaying by seven years—from FY2045 to FY2052—the State's deadline for achieving 90% funding.[145] Additionally, two voluntary pension buyout plans that were scheduled to end in FY2021 would be extended indefinitely.

Proposed FY2020 General Funds group insurance payments are virtually flat from FY2019 at $2.0 billion. During the two-year budget impasse, the State did not make General Funds payments for group health insurance, resulting in a backlog of unpaid bills that peaked at $5.2 billion in October 2017.[146] State officials plan to pursue various efficiency measures that are intended to save up to $100 million in FY2020 and offset the impact of medical inflation,[147] including an audit to verify the eligibility of employee dependents.[148]

Health insurance was a major sticking point in contract negotiations between the State and AFSCME, its largest union, during the prior administration.[149] Former Governor Bruce Rauner included hundreds of millions of dollars of health insurance savings in each of his four proposed budgets. However, the savings never materialized due to union opposition, and the dispute over insurance and other issues led to a court battle. The Pritzker administration has resumed negotiations with AFSCME, which has not had a contract with the State since the end of FY2015. The FY2020 budget does not assume changes in employee health insurance premiums or coverage.

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145 Illinois State FY2020 Budget, pp. 35-36.

146 Illinois General Assembly, Commission on Government Forecasting and Accountability, *FY2020 Liabilities of the State Employees' Group Health Insurance Program*, March 2018, p. 14, http://cgfa.ilga.gov/Upload/FY2020GroupInsuranceReport.pdf (last accessed on May 15, 2019.

147 Illinois General Assembly, Commission on Government Forecasting and Accountability, *FY2020 Liabilities of the State Employees' Group Health Insurance Program*, March 2018, p. 8.

148 Illinois Department of Central Management Services, Testimony before the Commission on Government Forecasting and Accountability, April 30, 2019, http://cgfa.ilga.gov/MeetingInformation.aspx?id=111 (last accessed on May 15, 2019).

149 Kim Geiger, "Rauner wants lawmakers' help to cut state workers' health insurance by $470 million," *Chicago Tribune*, February 16, 2018.

General Funds Agency Spending and Appropriations by Area

The next table shows General Funds spending by area of government, based on the categories in the budget book.[150] Actual spending by area is shown for FY2015 through FY2018, estimated expenditures for FY2019 and proposed appropriations for FY2020. The list of agencies in each category can be found in Appendix B of this report.

State of Illinois General Funds Agency Expenditures and Appropriations by Area: FY2015-FY2020 (in millions)										
	FY2015 Exps.	FY2016 Exps.	FY2017 Exps.	FY2018 Exps.	FY2019 Est. Exps.	FY2020 Rec. Approps.	FY2019-FY2020 $ Change	Two-Year % Change	FY2016-FY2020 $ Change	Five-Year % Change
P-12 Education*	$ 6,745	$ 7,001	$ 7,459	$ 7,980	$ 8,378	$ 8,883	$ 505	6.0%	$ 1,882	26.9%
Higher Education**	$ 1,940	$ 623	$ 2,150	$ 1,826	$ 1,869	$ 2,026	$ 157	8.4%	$ 1,403	225.2%
Human Services	$ 5,434	$ 4,680	$ 5,713	$ 5,601	$ 5,877	$ 6,448	$ 571	9.7%	$ 1,768	37.8%
Healthcare	$ 6,524	$ 6,090	$ 5,990	$ 7,601	$ 7,591	$ 7,228	$ (363)	-4.8%	$ 1,138	18.7%
Public Safety	$ 1,597	$ 1,129	$ 1,475	$ 2,191	$ 1,724	$ 1,855	$ 131	7.6%	$ 726	64.3%
All Other Agency Spending***	$ 1,328	$ 1,058	$ 1,376	$ 1,449	$ 1,459	$ 1,508	$ 49	3.4%	$ 450	42.5%

*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 Replacenent Fund of $97.1 million in FY2017, $103.5 million in FY2018 and $105.6 million in FY2019 and FY2020.

***All Other Agency Spending includes the areas of Economic Development, Environment and Culture and Government Services (excluding group insurance).

Source: Civic Federation calculations based on Illinois State Operating Budget Detail, FY2017-FY2020, https://www.illinois.gov/gov/budget/pages/default.aspx.

In the table, the actual expenditure numbers for FY2015 through FY2018 are not strictly comparable to the figures for FY2019 and FY2020. The FY2020 appropriations overstate expected spending because they do not include estimated unspent appropriations, which are shown as a lump sum of $975 million in the budget book. The FY2019 estimated expenditures are probably inflated because they reflect agencies' estimates of unspent appropriations, which are below the aggregate estimate of $1.1 billion by the Governor's Office of Management and Budget (GOMB).[151] On the other hand, the FY2019 figures are understated because they do not include AFSCME step increases; the budget book shows a total of $381 million in appropriations required for step increases in FY2019 but does not provide a breakdown by agency or area.

P-12 Education

Funding for preschool to secondary education increases by $505 million, or 6.0%, in FY2020 to $8.9 billion from $8.4 billion in FY2019 and by $1.9 billion, or 26.9%, from $7.0 billion in FY2016.[152] P-12 education is the only area of agency spending that has shown consistent growth since FY2015. The State Board of Education was one of the few agencies that received full General Funds appropriations in FY2016 and FY2017, despite the budget impasse.

The increase in proposed spending on P-12 education in FY2020 includes $375 million for the State's new school funding formula.[153] That amount is $25 million higher than the annual target increase of $350 million in a law enacted in August 2017 that replaced the existing school

[150] Illinois State FY2020 Budget, p. 45.
[151] Illinois State FY2020 Budget, p. 45. Communication between the Civic Federation and the Governor's Office of Management and Budget, May 3, 2019.
[152] P-12 education funding does not include State contributions to the Teachers' Retirement System, the pension fund for teachers outside of Chicago, or the Teachers' Retirement Insurance Program, which provides health insurance for retired teachers outside of Chicago.
[153] Illinois State FY2020 Budget, p. 442.

funding formula with an evidence-based model.[154] Under the new law, $300 million of the increase in FY2019 was used for school funding, while $50 million went into a fund designed to provide property tax relief grants to eligible school districts.[155]

The school funding reform law required the State for the first time to pay for the pension benefits earned each year by Chicago Public Schools (CPS) teachers.[156] However, those CPS normal pension costs, estimated at $245.5 million in FY2020, are not included in the education category in the budget and are shown in All Other Agency Spending in the table.[157] The school funding legislation also created a private school scholarship tax credit program, but the Governor has proposed to phase out the program over the next three years, beginning in FY2020.[158]

Additionally, the FY2020 budget proposes increases of $100 million for early childhood education[159] to increase program enrollment and $5 million for career and technical education to expand vocational programs.[160]

Higher Education

Proposed funding for higher education increases by $157 million, or 8.4%, to $2.03 billion in FY2020 from $1.87 billion in FY2019.[161] 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.[162]

The FY2020 budget provides across-the-board funding increases of about 5% for universities and community colleges and an additional $50 million for MAP to serve more students and increase award amounts. Aim High, a merit-based university scholarship program created in August 2018[163] to reverse the flow of students to institutions outside of Illinois, receives its first funding, $35 million, in FY2020.

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[154] Public Act 100-0465, enacted on August 31, 2017. The new funding model sets a target State funding level based on each school district's needs and resources, rather than setting the same funding level for every student, as did the previous formula.
[155] Communication between the Civic Federation and the Governor's Office of Management and Budget, April 30, 2019.
[156] The State has responsibility for both the normal cost and unfunded liability of the Teachers' Retirement System, which covers teachers outside of Chicago.
[157] Illinois State FY2020 Budget, p. 445. The budget book includes CPS normal pension costs (which include retiree health insurance) in the category of Government Services.
[158] Illinois State FY2020 Budget, p. 34. For more information on the tax credit program, see p. 32 of this report.
[159] Illinois State FY2020 Budget, p. 442.
[160] Illinois State FY2020 Budget, p. 441.
[161] Illinois State FY2020 Budget, pp. 447-481.
[162] 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.
[163] Public Act 100-1015, enacted on August 21, 2018.

The following table provides a breakdown of General Funds funding for higher education by agency from FY2015 through FY2020. The numbers in the table include additional funding for the Community College Board starting in FY2017 from the Personal Property Replacement Tax (PPRT) Fund, a special account not previously used for higher education. The numbers do not include State payments for pensions or health insurance.

State of Illinois General Funds Expenditures and Appropriations for Higher Education: FY2015-FY2020 (in $ thousands)*

	FY2015 Exps.	FY2016 Exps.	FY2017 Exps.	FY2018 Exps.	FY2019 Est. Exps.	FY2020 Proposed Approps.	FY2019-FY2020 $ Change	Two-Year % Change	FY2016-FY2020 $ Change	Five-Year % Change
Chicago State	$ 36,102	$ 20,107	$ 36,331	$ 32,625	$ 33,351	$ 35,019	$ 1,668	5.0%	$ 14,912	74.2%
Eastern Illinois	$ 42,903	$ 12,457	$ 42,976	$ 38,678	$ 39,452	$ 41,424	$ 1,972	5.0%	$ 28,968	232.5%
Governors State	$ 23,858	$ 6,974	$ 24,072	$ 21,656	$ 22,089	$ 23,194	$ 1,105	5.0%	$ 16,220	232.6%
Northeastern Illinois	$ 36,899	$ 10,695	$ 36,957	$ 33,209	$ 33,873	$ 35,567	$ 1,694	5.0%	$ 24,872	232.6%
Western Illinois	$ 51,445	$ 14,911	$ 51,445	$ 46,301	$ 47,227	$ 49,588	$ 2,361	5.0%	$ 34,677	232.6%
Illinois State	$ 72,227	$ 20,935	$ 72,263	$ 65,004	$ 66,304	$ 69,619	$ 3,315	5.0%	$ 48,684	232.5%
Northern Illinois	$ 90,985	$ 26,403	$ 91,093	$ 81,984	$ 83,623	$ 87,804	$ 4,181	5.0%	$ 61,401	232.6%
Southern Illinois	$ 199,558	$ 57,482	$ 199,819	$ 180,914	$ 184,512	$ 193,631	$ 9,119	4.9%	$ 136,149	236.9%
University of Illinois	$ 643,719	$ 180,094	$ 650,898	$ 583,006	$ 594,645	$ 621,432	$ 26,787	4.5%	$ 441,338	245.1%
Total Universities	**$ 1,197,696**	**$ 350,059**	**$ 1,205,854**	**$ 1,083,377**	**$ 1,105,076**	**$ 1,157,278**	**$ 52,202**	**4.7%**	**$ 807,219**	**230.6%**
Board of Higher Education	$ 10,002	$ 2,070	$ 25,142	$ 9,801	$ 10,088	$ 10,123	$ 35	0.3%	$ 8,053	389.0%
Community College Board**	$ 338,319	$ 75,918	$ 384,304	$ 307,324	$ 319,666	$ 334,793	$ 15,127	4.7%	$ 258,875	341.0%
ISAC***	$ 10,690	$ 6,023	$ 13,218	$ 10,040	$ 13,364	$ 52,399	$ 39,035	292.1%	$ 46,376	770.0%
ISAC/MAP***	$ 364,050	$ 169,793	$ 502,621	$ 396,841	$ 401,342	$ 451,342	$ 50,000	12.5%	$ 281,549	165.8%
Math and Science Academy	$ 17,859	$ 17,956	$ 17,733	$ 18,007	$ 18,392	$ 18,944	$ 552	3.0%	$ 988	5.5%
State Universities Civil Service	$ 1,158	$ 712	$ 1,206	$ 998	$ 1,082	$ 1,115	$ 33	3.0%	$ 403	56.7%
Total	**$ 1,939,774**	**$ 622,531**	**$ 2,150,078**	**$ 1,826,388**	**$ 1,869,010**	**$ 2,025,994**	**$ 156,984**	**8.4%**	**$ 1,403,463**	**225.4%**

*Does not include funding for the State Universities Retirement System, College Insurance Program or State Employees' Group Insurance Program.

**Includes Personal Property Replacement Tax Fund resources of $97.1 million in FY2017, $103.5 million in FY2018 and $105.6 million in FY2019 and FY2020.

***The Illinois Student Assistance Commission administers the Monetary Award Progam.

Source: Illinois State FY2020 Budget, pp. 447-482; Illinois State FY2016-FY2019 Operating Budget Details, https://www.illinois.gov/gov/budget/Pages/default.aspx; Civic Federation calculations.

Higher education was one of the areas of State government hit hardest by the two-year budget deadlock. In FY2016, higher education received $623 million in State general operating funds—less than one-third of the FY2015 level of $1.9 billion. Most agencies will not have recovered from that shortfall even after the relatively large funding increase proposed for FY2020. For higher education as a whole, average annual funding from FY2016 through FY2020 would be $1.7 billion, or 87.6% of the FY2015 level of $1.9 billion.[164] While universities receive an average of 81.9% of FY2015 funding during the five-year period, average annual MAP funding slightly exceeds the FY2015 level.

The budget does not address the financial problems of College Illinois, the State's prepaid tuition program, which had an unfunded liability of $308 million as of June 30, 2018.[165] The program is currently backed by a moral obligation commitment of the State, but bills pending in the General Assembly would provide the State's full faith and credit guarantee.[166]

Human Services

Proposed funding for human services increases by $571 million, or 9.7%, to $6.4 billion in FY2020 from $5.9 billion in FY2019 and by $1.8 billion, or 37.8%, from $4.7 billion in FY2016. Human services funding was reduced significantly during the budget standoff.

[164] For calculations related to the higher education funding shortfall since FY2015, see Appendix C.

[165] Illinois State FY2020 Budget, p. 500.

[166] 101st Illinois General Assembly, Senate Bill 2137, filed on March 15, 2019, and House Bill 3630, filed on February 15, 2019.

The FY2020 General Funds budget proposal for the Department of Human Services (DHS) is $4.2 billion, an increase of $357.6 million, or 9.4%, from estimated FY2019 spending of $3.8 billion.[167] The additional funding includes $107.4 million to address the State's recently enacted minimum wage increase, which affects reimbursements to social service agencies.[168] The increase also reflects the Pritzker administration's decision to pay enacted wage increases that had been withheld by the prior administration for workers in the Child Care Assistance Program (CCAP) and Home Services Program (HSP).[169] CCAP, which helps low income families pay for child care so parents can work or go to school, receives an additional $30 million in the FY2020 budget to increase enrollment by raising the program's income eligibility threshold to 200% of the Federal Poverty Level from 185%.[170] HSP, which provides home and community care for the physically disabled, receives an increase of $103.2 million to fund growth in enrollment and cover unfunded costs, including unpaid health insurance and wage increases, in FY2019.[171]

The proposed FY2020 General Funds budget for the Department on Aging is $1.1 billion, an increase of $122.5 million from estimated spending of $961.8 million in FY2019.[172] Additional funding includes $65 million for increases in the minimum wage and rates for workers in the Community Care Program, which is designed to keep seniors out of nursing homes.[173] There is also a $24 million increase to fund an FY2019 statutory requirement to assist seniors in applying for Medicaid in order to maximize federal reimbursements.[174]

The Department of Children and Family Services receives an additional $51.0 million in FY2020 for purposes including the implementation of a federally mandated computer system upgrade and the hiring of 126 investigators and caseworkers to remain in compliance with federal consent decrees.[175] The Department of Veterans' Affairs receives $20.6 million to open a new veterans' home in Chicago.[176]

Despite the wage increases discussed above, advocates are pressing for higher reimbursement rates for social service agencies that provide home- and community-based care for children, seniors and disabled individuals.[177] A federal judge ruled in August 2017 that the State was out of compliance with a consent decree involving community care for the developmentally

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[167] Illinois State FY2020 Budget, p. 289.
[168] Public Act 101-0001, enacted on February 19, 2019. The current minimum wage of $8.25 per hour increases by $1 on January 1, 2020. The cost to the State does not account for offsetting federal Medicaid reimbursements.
[169] Tina Sfondeles, "Pritzker agrees to pay raises for unionized home and child care workers," *Chicago Sun-Times*, March 18, 2019.
[170] Illinois State FY2020 Budget, p. 283.
[171] Illinois Department of Human Services, *FY2020 Budget Briefing: Operating Division Detail Pages, Home Services Program – GRF*, http://www.dhs.state.il.us/page.aspx?item=116309 (last accessed on May 15, 2019). A supplemental appropriation of $80 million is requested for FY2019, and the increased base spending is built into the FY2020 budget.
[172] Illinois State FY2020 Budget, p. 228.
[173] Illinois State FY2020 Budget, p. 40.
[174] Public Act 100-0587, enacted on June 4, 2018.
[175] Illinois State FY2020 Budget, p. 39.
[176] Illinois State FY2020 Budget, p. 343.
[177] Peter Hancock, "Human services providers push Illinois lawmakers to approve higher reimbursements," *Capitol News Illinois*, May 8, 2019.

disabled, owing largely to the lack of caregivers, whose wages had not been increased by the State for many years.[178] Notwithstanding some progress, a court monitor's report at the end of 2018 said the State had still not met the terms of the decree.[179]

Healthcare

Proposed FY2020 General Funds appropriations for healthcare of $7.2 billion decline by $363 million, or 4.8%, from estimated spending of $7.6 billion in FY2019 and increase by $1.1 billion, or 18.7%, from $6.1 billion during the budget impasse in FY2016. 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.

In the case of HFS, comparisons between General Funds spending and appropriations are particularly problematic because the agency frequently does not spend a sizable portion of its appropriations.[180] Additionally, trends in Medicaid spending are difficult to track because of heavy reliance on other State accounts, shifts in funding and 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).

HFS' proposed FY2020 General Funds appropriations of $7.2 billion are $702.4 million, or 8.9%, below the FY2019 appropriation of $7.9 billion. General Funds deposits to the Healthcare Provider Relief Fund (HPRF), a special account used for Medicaid spending, are reduced by $722 million, but the decrease is offset by new and existing revenues deposited directly into that fund. The HPRF will receive $390 million due to a new assessment on MCOs, $259 million from a shift of existing cigarette taxes, $55 million from an increase in cigarette taxes and $10 million from a new tax on e-cigarettes.[181]

In addition to reducing the State's General Funds' needs, the proposed MCO assessment, like the existing assessment on Illinois hospitals, is designed to generate additional federal reimbursements for the Medicaid program.[182] Although details are still being worked out, the proposal calls for MCOs to pay $867 million in assessments into the HPRF.[183] Because of a federal uniformity requirement, the assessment would apply to MCOs that service Medicaid

[178] The opinion is available at https://www.equipforequality.org/wp-content/uploads/2017/08/Ligas-Order-Granting-Motion-to-Enforce.pdf (last accessed on May 15, 2019).
[179] Ligas v. Norwood, (Case No. 05-cv-4331, N.D. Ill.), *6th Annual Report of the Monitor*, filed December 31, 2018.
[180] 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 agency's budget (and included in the lump sum unspent amount for the overall budget).
[181] In addition to the new revenues and the shift in revenues, the appropriation decline by $8 million due to declining cigarette sales.
[182] Department of Healthcare and Family Services, Testimony before the Illinois General Assembly Senate Appropriations I Committee, March 19, 2019.
[183] Communication between the Civic Federation and the Governor's Office of Management and Budget, February 21, 2019.

clients as well as to those not participating in the program.[184] Of the total tax revenues, $390 million would be used to replace existing Medicaid spending from General Funds. The remaining $477 million, when matched by the federal government, would provide for an estimated $1.2 billion to both reimburse Medicaid MCOs for new tax and generate more than $300 million for additional Medicaid spending.

The $477 million is expected to turn into $1.2 billion due to federal reimbursements. Most Medicaid spending in Illinois is currently reimbursed by the federal government at 50.31%; for every $1 in appropriations, net State spending is 49.69 cents.[185] Medicaid spending for individuals who became eligible under the ACA is currently 93% and declines to 90% in January 2020. Of the 3.1 million Medicaid recipients projected to be enrolled in FY2020, 631,144 or 20.2%, were eligible due to the ACA.[186] Total enrollment also includes the State Children's Health Insurance Program (CHIP), which currently has a match rate of 88.22%.[187]Assuming an average reimbursement rate of about 60% results in total expected resources of $1.2 billion from the MCO tax of $477 million.

The proposed increase in Medicaid spending from the HPRF and certain other funds in FY2020 continues a trend of reduced reliance on General Funds resources. In FY2019 estimated General Funds spending of $7.6 billion represents about 32% of the HFS total,[188] compared with 43.5% in FY2013.[189] This shift is partly a result of the ACA expansion, as ACA-related bills are paid from the HPRF and mainly funded by the federal government. It also reflects the diversion of general operating revenues such as cigarette taxes to Medicaid and away from other uses.

Public Safety

Proposed General Funds funding for Public Safety increases by $131 million, or 7.65%, to $1.9 billion in FY2020 from $1.7 billion in FY2019 and by $726 million, 64.3%, from $1.1 billion in FY2016. Operational costs of the Illinois Department of Corrections (IDOC) were not fully covered during the budget impasse.

In FY2020 IDOC's proposed budget includes $70 million of additional funding to comply with court-ordered medical- and mental health-related requirements.[190] Recommended appropriations

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[184] U.S. Department of Health and Human Services, Office of the Inspector General, *Ohio's and Michigan's Sales and Use Taxes on Medicaid Managed Care Organization Services Did Not Meet the Broad-Based Requirement But Are Now in Compliance*, April 2017, p. 2.
[185] Illinois' general reimbursement rate declines to 50.14% in federal fiscal year 2020, which begins on October 1, 2019.
[186] From January 2014 through the end of calendar year 2016, the federal government paid the entire bill for recipients who became eligible under the ACA. Federal reimbursement declined to 95% in January 2017, 94% in January 2018 and 93% in January 2019 and is scheduled to be 90% beginning in January 2020 and thereafter. Total enrollment also includes the State Children's Health Insurance Program, which currently has a match rate of 88.22% that will decline to 76.60% in FY2020.
[187] The CHIP match rate will decline to 76.60% in federal fiscal year 2020, which begins on October 1, 2019.
[188] Illinois State FY2020 Budget, p. 72.
[189] Illinois State FY2015 Budget, p. 2-36.
[190] Illinois State FY2020 Budget, p. 46.

for the State Police include $7.6 million for two new cadet classes that are expected to graduate 170 troopers.[191]

General Funds Expenditures

Expenditures from General Funds decline by $574 million, or 1.5%, to $38.7 billion in FY2020 from $39.3 billion in FY2019 due to decreases in both appropriated spending and transfers out. As previously discussed, the decrease in appropriated spending relates to proposed pension savings and Medicaid spending shifts, which offset other spending increases. Additionally, it should be noted that the FY2019 spending figure includes proposed supplemental appropriations of $473 million that have not yet been enacted. Over the five-year period, expenditures increase by $7.1 billion, or 22.4%, from $31.6 billion during the budget impasse in FY2016.

State of Illinois General Funds Expenditures: FY2015-FY2020 (in $ millions)*

	FY2015	FY2016	FY2017	FY2018 Prelim.	FY2019 Est.	FY2020 Rec.	FY2019-FY2020 $ Change	Two-Year % Change	FY2016-FY2020 $ Change	Five-Year % Change
Agency Appropriations**	$ 24,583	$ 22,351	$26,520	$27,307	$27,703	$27,839	$ 136	0.5%	$ 5,488	24.6%
(Unspent Appropriations)***	$ (1,049)	$ (1,787)	$ (2,460)	$ (798)	$ (1,050)	$ (975)	$ 75	-7.1%	$ 812	-45.4%
Net Agency Appropriations Spent	$ 23,534	$ 20,564	$24,060	$26,509	$26,653	$26,864	$ 211	0.8%	$ 6,300	30.6%
Pension Contributions	$ 6,047	$ 6,632	$ 6,951	$ 7,014	$ 7,478	$ 7,124	$ (354)	-4.7%	$ 492	7.4%
State Group Insurance	$ 1,565	$ -	$ -	$ 1,858	$ 2,026	$ 2,028	$ 2	0.1%	$ 2,028	na
Net Appropriations Spent	**$ 31,146**	**$ 27,196**	**$31,011**	**$35,381**	**$36,157**	**$36,016**	**$ (141)**	**-0.4%**	**$ 8,820**	**32.4%**
Statutory Transfers Out										
Legislatively Required Transfers	$ 2,489	$ 2,472	$ 2,385	$ 582	$ 434	$ 364	$ (70)	-16.1%	$ (2,108)	-85.3%
Debt Service on Pension Bonds	$ 1,502	$ 1,423	$ 1,609	$ 1,576	$ 1,243	$ 708	$ (535)	-43.0%	$ (715)	-50.2%
Debt Service on Capital Bonds	$ 592	$ 556	$ 626	$ 797	$ 608	$ 500	$ (108)	-17.8%	$ (56)	-10.1%
Repayment of Interfund Borrowing****	$ -	$ -	$ 15	$ 128	$ 73	$ 85	$ 12	16.4%	$ 85	na
Debt Service on Backlog Borrowing	$ -	$ -	$ -	$ 527	$ 801	$ 982	$ 181	22.6%	$ 982	na
Debt Service on Pension Accleration Bonds	$ -	$ -	$ -	$ -	$ 7	$ 92	$ 85	1214.3%	$ 92	na
Total Transfers Out	**$ 4,583**	**$ 4,451**	**$ 4,635**	**$ 3,609**	**$ 3,165**	**$ 2,731**	**$ (434)**	**-13.7%**	**$ (1,720)**	**-38.6%**
Total Expenditures	**$ 35,729**	**$ 31,647**	**$35,646**	**$38,991**	**$39,322**	**$38,748**	**$ (574)**	**-1.5%**	**$ 7,101**	**22.4%**

*Totals may not sum due to rounding.

**Agency appropriations for FY2019 include supplemental appropriations of $473 million that have not yet been enacted.

***Unspent appropriations include Comptroller prior year adjustments of $12 million in FY2015; $12 million in FY2016; $5 million and $51 million of appropriated intrafund deposits of $51 in FY2017; and $28 million in FY2018.

****Repayment of interfund borrowing includes $13 million for Treasurer's investments in FY2019. The principal repayment of the Treasurer's investment is not included because it was an intrayear borrowing.

Transfers out of General Funds consist of legislatively required transfers and debt service transfers. Total transfers out decline by $434 million, or 13.7%, to $2.7 billion in FY2020 from $3.2 billion in FY2019 and by $1.7 billion, or 38.6% from $4.5 billion in FY2016.

In FY2020 legislatively required transfers decline by $70 million, or 16.1%, to $364 million from $434 million in FY2019. The decrease reflects a recommendation to suspend transfers to six funds during FY2020.[192]

Legislatively required transfers decline by $2.1 billion, or 85.3%, from $2.3 billion in FY2016. Beginning in FY2018, income taxes and sales taxes to be distributed to local governments and public transit districts were no longer deposited into General Funds and then transferred to special accounts. Since that time, the revenues have been deposited directly into the Local Government Distributive Fund, Public Transportation Fund and Downstate Public Transportation Fund so local governments can access the money more quickly. Before the change, the three

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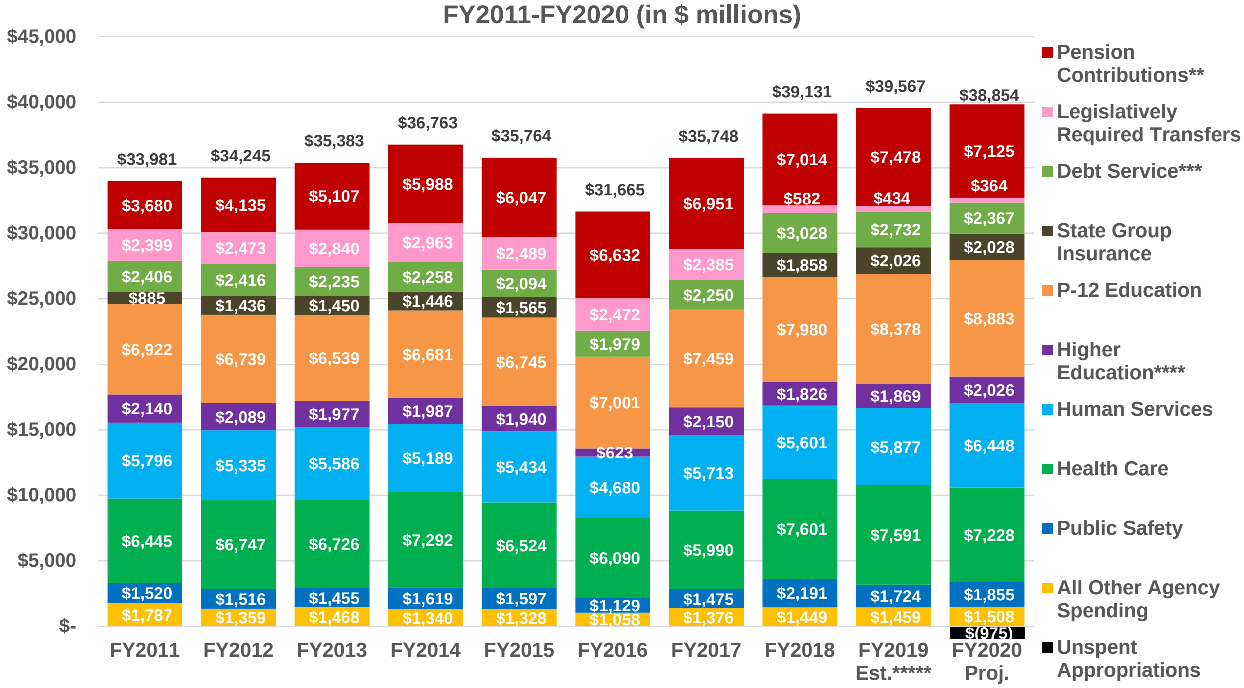
[191] Illinois State FY2020 Budget, p. 47.
[192] Illinois State FY2020 Budget, pp. 56 and 107.

transfers were by far the largest legislatively required transfers, totaling $1.9 billion in FY2017.[193]

Transfers out to pay debt service decline by $365 million, or 13.4%, to $2.4 billion in FY2020 from $2.7 billion in FY2019 due mainly to the final expiration of pension bonds sold in 2011 to pay for the State's General Funds pension contributions.[194] Over the five-year period, debt service transfers grow by $388 million, or 19.6%, from $1.9 billion in FY2016 as a result of debt service required on $6 billion in bonds issued to pay down the backlog of bills in FY2018 and an additional $1.5 billion of backlog bonds proposed to be sold in June 2019.

The next chart shows General Funds expenditures from FY2011 to FY2020, including a breakdown of agency spending by area. The totals differ somewhat from those in the previous table due to discrepancies in State data. In addition, the chart includes the Personal Property Replacement Tax Fund as a funding source for higher education, while the table is strictly limited to General Funds.

State of Illinois General Funds* Expenditures FY2011-FY2020 (in $ millions)



* Includes expenditures from the General Funds, Fund for the Advancement of Education, Commitment to Human Services Fund and Budget Stabilization Fund.
** Pension contributions in FY2011 were paid from bond proceeds.
*** Debt service includes interfund borrowing repayment. FY2011 includes $189 million for Medicaid borrowing.
**** Higher Education includes funding from the Personal Property Tax Replacement Fund of $97.1 million in FY2017, $103.5 million in FY2018 and $105.7 million in FY2019 and FY2020.
***** Excludes $473 million in proposed supplemental appropriations.
Source: Governor's Office of Management and Budget, Operating Budget Detail Spreadsheets, FY2014-FY2020; Illinois State FY2020 Budget, pp. 45 and 57; Illinois State FY2019 Budget, p. 62; Illinois State FY2018 Budget, p. 78; Illinois State FY2017 Budget, p. 75; State of Illinois, General Obligation Bonds, Series ofMay 2014, *Official Statement*, April 25, 2014, p. 15; Illinois State FY2011 Budget, pp. 2-17 to 2-26.

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[193] Illinois State FY2019 Budget, p. 113.
[194] For more information on debt service transfers, see p. 61 of this report.

Over the past decade, only pension contributions have shown nearly consistent growth. The exception is FY2020, when State payments would decline due to the Governor's proposal to extend the schedule for paying down the unfunded liability.

PENSIONS

This section analyzes the Governor's originally proposed FY2020 budget. Major changes to pension contributions in FY2020 have since been announced. See page 26 for more details.

Illinois' retirement systems are among the most poorly funded of any state.[195] At the end of FY2018, unfunded liabilities totaled $133.7 billion and the combined funded ratio stood at 40.1%.[196] If the funded ratio were 100%, pension assets would be sufficient to cover projected pension benefits when they are owed—based on a wide array of economic and demographic assumptions.

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; and the Judges' and General Assembly Retirement Systems. To achieve the 90% funding goal, annual State contributions are currently projected to rise to $19.1 billion in the next 26 years[197] from $8.5 billion in FY2019.[198]

Even with those contribution increases, unfunded pension liabilities are expected to continue growing until FY2029.[199] The State's funding plan and subsequent statutory changes deferred a large portion of required contributions to future years, which propped up annual budgets at the expense of the pension funds.

Additionally, due to the liquidity crisis following the last recession, Illinois covered its pension contributions in FY2010 and FY2011 by selling bonds. Total pension-related expenditures,

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195 Moody's Investors Service, "Unfunded US state pension liabilities surge in fiscal 2017 due to poor investment returns," *news release*, August 27, 2018.

196 Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 34. These figures are based on asset smoothing. The unfunded liability and funded ratio based on the market value of assets were $133.5 billion and 40.2%.

197 Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 111.

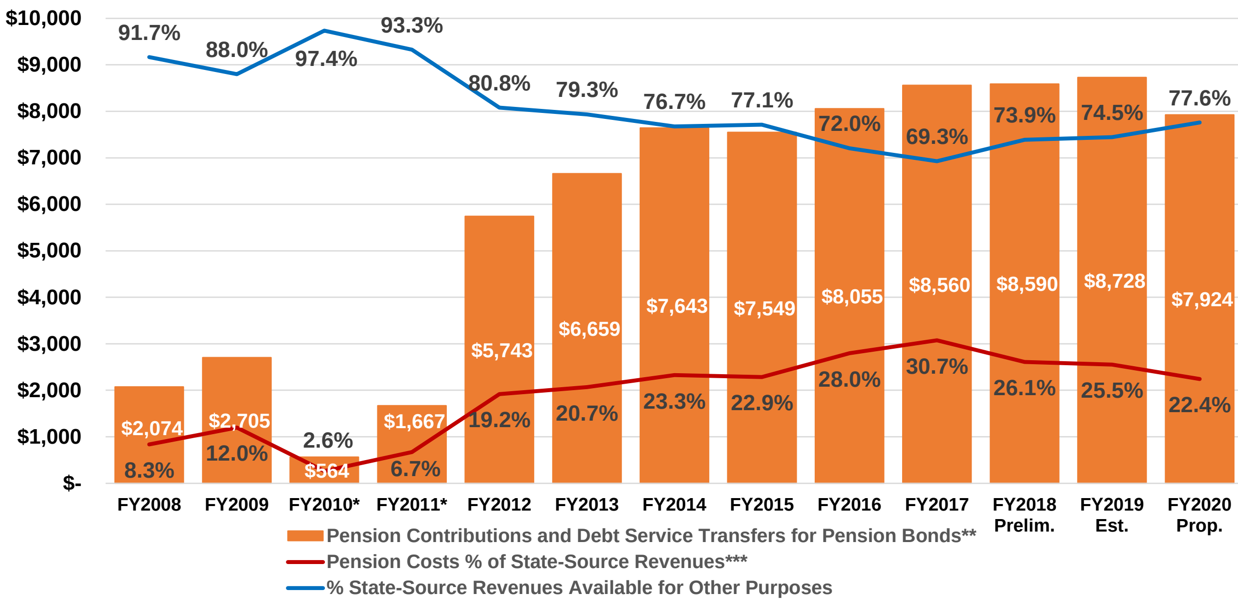
198 Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 40. This figure, and other pension contribution numbers used in this chapter, do not include debt service. The final FY2019 State contribution amounts will not be known until the retirement systems recertify the amounts in June 2019 based on the results of pension buyout programs, as required by Public Act 100-0587, enacted on June 4, 2018.

199 Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 111.

including $1.6 billion of debt service on those bonds and on pension bonds issued in 2003,[200] are currently estimated at $10.1 billion in FY2019.[201]

General Funds pension contributions account for approximately 89% of total State contributions.[202] The next chart shows the portion of State-source General Funds revenue devoted to pension costs compared with other purposes.[203] The share of revenue grew from 8.3% in FY2008 to an estimated 25.5% in FY2019. 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. Pension contributions for FY2010 and FY2011 are not shown in the chart because they were paid from bond proceeds instead of General Funds.

State-Source General Funds Revenue Available for Pension Costs Compared with Other Purposes: FY2008-FY2020 (in $ millions)



* Pension contributions in FY2010 and FY2011 were made through issuance of bonds and are not included in this chart.
** Pension bonds debt service includes pension acceleration bonds.
*** State-source revenues exclude interfund and other borrowing.
Source:Illinois State FY2020 Budget, p. 57; Illinois State FY2019 Budget, p. 62; Illinois State FY2018 Budget, p. 78; Illinois State FY2017 Budget, p. 75; Illinois State FY2015 Budget, pp. 2-22; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, p. 15; Illinois State FY2011 Budget, p. 2-10; Illinois State FY2010 Budget, p. 2-12; Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems, Financial Condition as of June 30, 2018*, April 2019, pp. 125-129.

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200 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.
201 Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 40.
202 State of Illinois, General Obligation Bonds, Series of April 2019, *Official Statement*, March 26, 2019, p. 152, https://www2.illinois.gov/sites/capitalmarkets/RecentBondSales/State%20of%20Illinois,%20General%20Obligation%20Bonds,%20Series%20of%20April%202019%20-%20Official%20Statement.pdf (last accessed on May 15, 2019).
203 General Funds revenues in Illinois include State-source revenues as well as federal revenues, which are mainly reimbursements for Medicaid spending.

To address the budget pressures, the State in 2011 created a second, significantly less generous tier of benefits for new employees.[204] 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% on a compounded basis. State contributions are expected to decline sharply over time as new employees represent a larger share of the workforce.[205] However, the low Tier 2 benefits, which were not matched by lower employee contributions, may not be sustainable due to legal and equity issues.[206]

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.[207] The high court ruled in 2015 and 2016 that the State law and subsequent benefit changes enacted for two City of Chicago pension funds[208] violated the pension protection clause in the Illinois Constitution.[209] That clause states that pension benefits are part of a contractual relationship and cannot be diminished or impaired.[210]

State pension contributions stabilized in FY2018 due to statutory changes included in that year's budget legislation.[211] 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.[212]

The enacted General Funds budget in FY2019 assumed $445 million in savings on pension contributions, mainly due to new buyout plans for members of the three largest retirement

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[204] Public Act 96-0889, enacted on April 14, 2010.
[205] State of Illinois, General Obligation Bonds, Series of April 2019, *Official Statement*, March 26, 2019, p. E-30.
[206] Tara Garcia Mathewson, "Illinois Issues: The Next Pension Time Bomb," *NPR Illinois 91.9 UIS*, March 30, 2016. 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.
[207] Public Act 98-0599, enacted on December 5, 2013.
[208] Public Act 98-0641, enacted on June 9, 2014.
[209] 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).
[210] Ill. Const. art. XIII, sec. 5.
[211] Public Act 100-0023, enacted on July 6, 2017.
[212] State of Illinois, Office of the Auditor General, *State Actuary's Report*, December 2017, pp. 11-12, https://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/State-Actuary-Reports/2017-State-Actuary-Rpt-Full.pdf (last accessed on May 15, 2019).

systems. The two voluntary plans are intended to reduce State costs by allowing members to give up future benefits in exchange for immediate payments.[213] The plans began to be midway through the fiscal year by two of the systems and are not expected to start until June 2019 at the third. SERS, the system with the largest expected savings, recently announced that early participation in the major buyout plan is running at close to the assumed rate.[214] Because of the late start, savings from the buyouts have been eliminated from estimated FY2019 expenditures in the FY2020 budget,[215] but the systems are required to recalculate required State contributions in June 2019 to reflect any savings.[216] The General Assembly authorized the sale of up to $1 billion of bonds to pay for the buyouts, and $300 million of the bonds were issued in March 2019.

In FY2020 General Funds pension contributions were expected to be $8.1 billion under existing law.[217] The Governor's FY2020 budget proposes to change the law to reduce required contributions by $1.0 billion to $7.1 billion. Most of the savings—$878 million from the statutorily required amount—comes from delaying the date to reach 90% funding by seven years to FY2052 from FY2045. Under the Governor's proposal, the systems would be only 65% funded in FY2045 instead of 90%.[218] Additional assumed savings of about $125 million are tied to making the buyout plans permanent; they had been scheduled to expire in FY2021.

Trustees of TRS, the State's largest retirement system, opposed the proposed seven-year funding delay on the grounds that it would increase the fund's risk of insolvency in the event of an economic downturn.[219] In a recent newsletter, TRS officials said the proposed TRS contribution of $4.2 billion in FY2020 is $576 million below the $4.8 billion required by existing State law and $3.6 billion less than the $7.9 billion recommended by actuaries.[220] The State will have to pay two and a half to three dollars in the future for every dollar in current contribution reductions, according to the newsletter.

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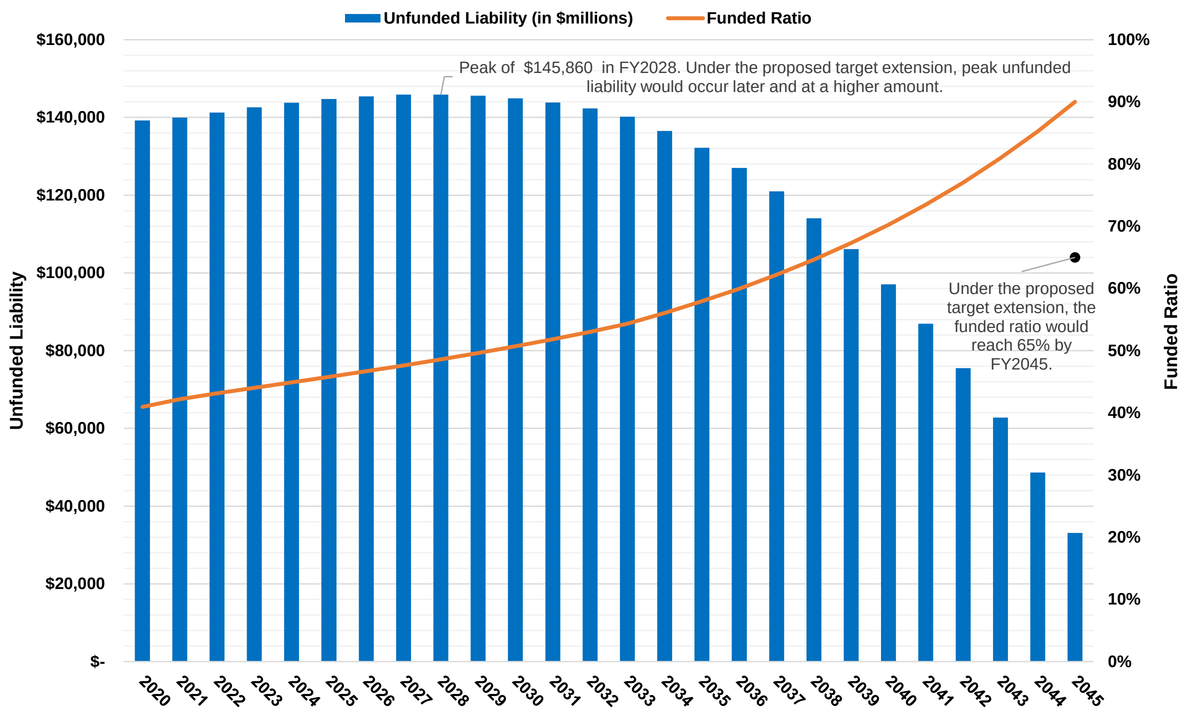
[213] For more information, see the Institute for Illinois' for Fiscal Sustainability at the Civic Federation blogs: "Examining Pension Savings in Illinois' FY2019 Budget," July 5, 2018, https://www.civicfed.org/iifs/blog/examining-pension-savings-illinois-fy2019-budget; "Illinois FY2019 Budget Still Faces Major Hurdles," October 5, 2018, https://www.civicfed.org/iifs/blog/illinois-fy2019-budget-still-faces-major-hurdles; State of Illinois Pension Contributions to Rise in FY2020, but by how Much," November 9, 2018, https://www.civicfed.org/iifs/blog/state-illinois-pension-contributions-rise-fy2020-how-much; "Illinois Budget Deficit Projected to Exceed $1 Billion in FY2019," November 20, 2018, https://www.civicfed.org/iifs/blog/illinois-budget-deficit-projected-exceed-1-billion-FY2019 (last accessed on May 15, 2019).
[214] State Employees' Retirement System, Testimony before the Illinois General Assembly House Personnel and Pensions Committee, May 2, 2019.
[215] Illinois State FY2020 Budget, p. 58.
[216] Public Act 100-0587, enacted on June 4, 2018.
[217] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. iii. This figure does not include debt service and assumes a $215 million transfer from the State Pensions Fund.
[218] Illinois State FY2020 Budget, p. 36.
[219] Teachers' Retirement System of the State of Illinois, "TRS Board Calls for Responsible Pension Funding," *news release*, March 19, 2019.
[220] Teachers' Retirement System of the State of Illinois, *2019 Spring – Topics and Report Newsletter*, March 29, 2019.

The FY2020 pension proposals are part of a five-point pension plan announced by the Pritzker administration in early February.[221] The plan includes issuing $2 billion in pension obligation bonds to improve the systems' funding levels; dedicating $200 million per year from a future graduated income tax to supplement statutorily required State contributions and transferring State assets to the pension funds. The Governor has created a task force to identify potential assets to shift to the funds' books, as well as a task force to consider the consolidation of local and State funds.[222]

The following chart shows the most recent estimates of total unfunded liabilities and combined funded ratios for the State's five retirement systems from FY2020 through FY2045. The projections are based on data from FY2018 and do not reflect the proposals in the FY2020 budget. The chart indicates the proposed funding level of 65%--instead of 90%—that would be achieved in FY2045 under the Governor's proposal.

State of Illinois Retirement Systems Projected Financial Condition: FY2020 to FY2045



* For data, see Appendix D.
Source: Illinois General Assembly, Commission on Government Forecasting and Accountibility, *Illinois State Retirement Systems Financial Condition as of June 30, 2018*, April 2019, p. 111.

[221] State of Illinois, Office of the Governor, "Deputy Gov. Hynes Presents Ideas and Solutions for Digging Out of Illinois' Fiscal Mess at City Club of Chicago," *news release*, February 14, 2019.
[222] State of Illinois, Office of the Governor, "Pritzker Administration Names Leaders to Make Recommendations to Improve Health of Pension Funds," February 11, 2019.

BUDGET BALANCE AND BACKLOG

This section analyzes the Governor's originally proposed FY2020 budget. For more information about subsequent events that have affected the budget balances for FY2019 and FY2020, *see page 26.*

The proposed FY2020 budget has a modest operating surplus of $155 million, which would be used to reduce the State's bill backlog. The following table shows operating results and plans from FY2015 through FY2020.

State of Illinois General Funds Budget Results and Plans: FY2015-FY2020 (in $ millions)[1]

	FY2015	FY2016	FY2017	FY2018 Prelim.	FY2019 Est.	FY2020 Rec.
Operating Revenues						
State Source Revenues[2]	$ 33,404	$ 28,810	$ 28,021	$ 32,985	$ 34,190	$ 35,356
Federal Revenues	$ 3,331	$ 2,665	$ 2,483	$ 4,032	$ 3,220	$ 3,547
Total Operating Revenues	**$ 36,735**	**$ 31,475**	**$ 30,504**	**$ 37,017**	**$ 37,410**	**$ 38,903**
Operating Expenditures						
Net Agency Appropriations Spent[3]	$ 23,534	$ 20,564	$ 24,060	$ 26,509	$ 26,653	$ 26,864
Pension Contributions	$ 6,047	$ 6,632	$ 6,951	$ 7,014	$ 7,478	$ 7,124
State Group Insurance	$ 1,565	$ -	$ -	$ 1,858	$ 2,026	$ 2,028
Total Appropriations Spent	$ 31,146	$ 27,196	$ 31,011	$ 35,381	$ 36,157	$ 36,016
Statutory Transfers Out						
Legislatively Required Transfers	$ 2,489	$ 2,472	$ 2,385	$ 582	$ 434	$ 364
Debt Service[4]	$ 2,094	$ 1,979	$ 2,250	$ 3,027	$ 2,731	$ 2,367
Total Statutory Transfers Out	$ 4,583	$ 4,451	$ 4,635	$ 3,609	$ 3,165	$ 2,731
Total Operating Expenditures	**$ 35,729**	**$ 31,647**	**$ 35,646**	**$ 38,991**	**$ 39,322**	**$ 38,748**
Operating Surplus (Deficit) Before Borrowing for Operations	**$ 1,006**	**$ (172)**	**$ (5,142)**	**$ (1,974)**	**$ (1,912)**	**$ 155**
Borrowing for Operations[5]	$ -	$ -	$ -	$ 533	$ 250	$ -
Operating Surplus (Deficit) After Borrowing for Operations	**$ 1,006**	**$ (172)**	**$ (5,142)**	**$ (1,440)**	**$ (1,662)**	**$ 155**

[1]Totals may not sum due to rounding.
[2]In FY2015 includes fund transfers of $1.234 billion and net interfund borrowing of $377 million that was forgiven. In FY2018 includes $269 million in fund transfers.
[3]In FY2019 includes $473 million of supplemental appropriations that have not yet been enacted.
[4]Includes interfund borrowing repayments of $15 million in FY2017; $128 million in FY2018; $60 million in FY2019 and $85 million in FY2020. Treasurer's Investment borrowing principal of $700 million in FY2019 is netted out of revenues and expenditures, but interest of $13 million is included in FY2019 debt service.
[5]In FY2018 and FY2019 does not reflect backlog borrowing or federal reimbursement due to Medicaid backlog payments.
Source: Illinois State FY2017 Budget, p. 91; Illinois State FY2018 Budget, pp. 30 and 93; Illinois State FY2019 Budget, pp. 62 and 77; Illinois State FY2020 Budget, pp. 45 and 57.

Despite the rollback of income tax rates midway through FY2015, the State reported a $1.0 billion surplus that year due to fund transfers and advance funding of Medicaid. In FY2016 the impact of the tax rate rollback was partially offset by a drop in spending due to the budget impasse, but the bill backlog grew as expenses continued to accrue in the absence of a complete budget. The deficit reached $5.1 billion in FY2017, fueled by lower than expected revenues and increased spending, based partly on supplemental appropriations in the enacted FY2018 budget.

The increase in income tax rates approved as part of the FY2018 budget did not fully close the budget gap. The enacted budgets for FY2018 and FY2019 were narrowly balanced on paper using aggressive assumptions that were not borne out, resulting in actual and estimated deficits of $1.4 billion and $1.7 billion, respectively. Both budgets included revenues of $300 million from the sale of the James R. Thompson Center in Chicago, which has not yet occurred.[223] The FY2018 budget assumed the State would realize $500 million in savings from a Tier 3 pension plan that has not yet been implemented. The FY2019 budget did not account for any payment of step increases to members of the American Federation of State, County and Municipal Employees (AFSCME), despite an Illinois Supreme Court decision that effectively meant the State would have to make those payments dating back to FY2016. The payments—now estimated at $381 million—are proposed as supplemental appropriations for FY2019 and are reflected in the $1.7 billion operating deficit in the table. In addition, the FY2019 budget assumed $445 million in pension savings from voluntary member buyouts and other changes, but those savings are still being determined and are no longer reflected in the FY2019 expenditure estimate.[224]

The projected surplus of $155 million in FY2020 is based on an assumption of strong economic growth and the enactment and implementation of $1.1 billion in new taxes and tax policy changes. The positive budget balance also depends on pension savings of about $1.1 billion, mainly from the proposed seven-year extension of the deadline for reaching 90% funding.

Illinois has dealt with its 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. Because of the backlog, the State begins each fiscal year in a hole, using revenues from the current year to pay off its previous year's bills and limiting revenues available for current spending.

The State has six months after the end of a given fiscal year to pay bills based on that year's appropriations.[225] Certain other bills, known as Section 25 liabilities and consisting mainly of group health insurance and Medicaid bills, may be paid from appropriations in future years.[226] During the budget impasse in FY2016 and FY2017, State agencies also entered into contracts for historically purchased goods and services without any appropriation authority but with vendors expecting future payments.[227]

The backlog of unpaid bills peaked at $16.7 billion on November 8, 2017, according to the Illinois Comptroller's Office, which measures the backlog at a point in time instead of on a budgetary basis.[228] Many of the bills involved State employee group health insurance, which had

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[223] Legislation paving the way for the sale was passed by the General Assembly on May 29, 2017 but was not sent to the Governor's Office until February 7, 2019, after Governor J.B. Pritzker took office. Public Act 100-1184 was enacted on April 5, 2019. For more information, see the Institute for Illinois' Fiscal Sustainability at the Civic Federation blog, "Bill to Facilitate Thompson Center Sale Finally Goes to Governor," February 12, 2019.
[224] The final FY2019 State contribution amounts will not be known until the retirement systems recertify the amounts in June 2019 based on the results of the buyout programs, as required by Public Act 100-0587, enacted on June 4, 2018.
[225] 30 ILCS 105/25 (m).
[226] 30 ILCS 105/25.
[227] State of Illinois, General Obligation Bonds, Series of May 2018, *Official Statement*, April 25, 2018, p. 22.
[228] State of Illinois Comptroller, Backlog Voucher Report. On a budgetary basis, the backlog consists of obligations incurred by the end of one fiscal year that are not covered by that year's revenues.

received no general operating funds since the end of FY2015. In November 2017, the State cleared out a significant portion of the bills using the proceeds of a $6 billion sale of General Obligation Bonds that was authorized by the General Assembly as part of the FY2018 budget.[229]

The bond sale immediately reduced the backlog by about $8.7 billion and was mainly used to pay down group health insurance and Medicaid bills.[230] In addition to the authorized par amount of $6 billion, the State received a premium of roughly $500 million on the bond price and $2.2 billion in federal Medicaid reimbursements.[231]

The bond sale was financially prudent because the State's coupon rate of 3.5% on the bonds was far below the steep interest penalties it pays on many overdue bills.[232] Under the State Prompt Payment Act, interest accrues at 1% a month, or 12% annually, on proper bills that are not paid within 90 days.[233] Other claims, including those from healthcare providers, accrue interest at 9% a year after 30 days under the timely payment provisions of the Illinois Insurance Code.[234] According to the Comptroller's Office, the State accrued $1.1 billion in interest penalties during the budget impasse and paid more than $711 million in interest penalties in calendar year 2018.[235]

Another recent measure to manage the unpaid bills allows the State to invest in its own backlogged debt using money from other State funds with sufficient liquidity.[236] The law gives the Illinois Treasurer the authority to invest up to $2 billion with the Comptroller, who will use the funds to pay off pending bills and avoid high interest penalties. Since the fall of 2018, the Treasurer's Office invested $700 million under this authority at interest rates between 3.59% and 3.78%, for an estimated savings to the State of $31.0 million.[237]

The FY2020 budget proposes the sale of an additional $1.5 billion in bonds in FY2019 to further reduce the backlog and curb interest penalties.[238] Of the total proceeds, $900 million would be used to pay down health insurance bills and the remainder would be used for Medicaid and other bills that accrue penalty interest. The sale, tentatively scheduled for June 2019, is expected to reduce the backlog to $8.3 billion in FY2019 from $8.4 billion in FY2018, on a budgetary basis.[239] On a budgetary basis, the backlog consists of obligations incurred by the end of one fiscal year that are not covered by that year's revenues. The impact of the bonds and related

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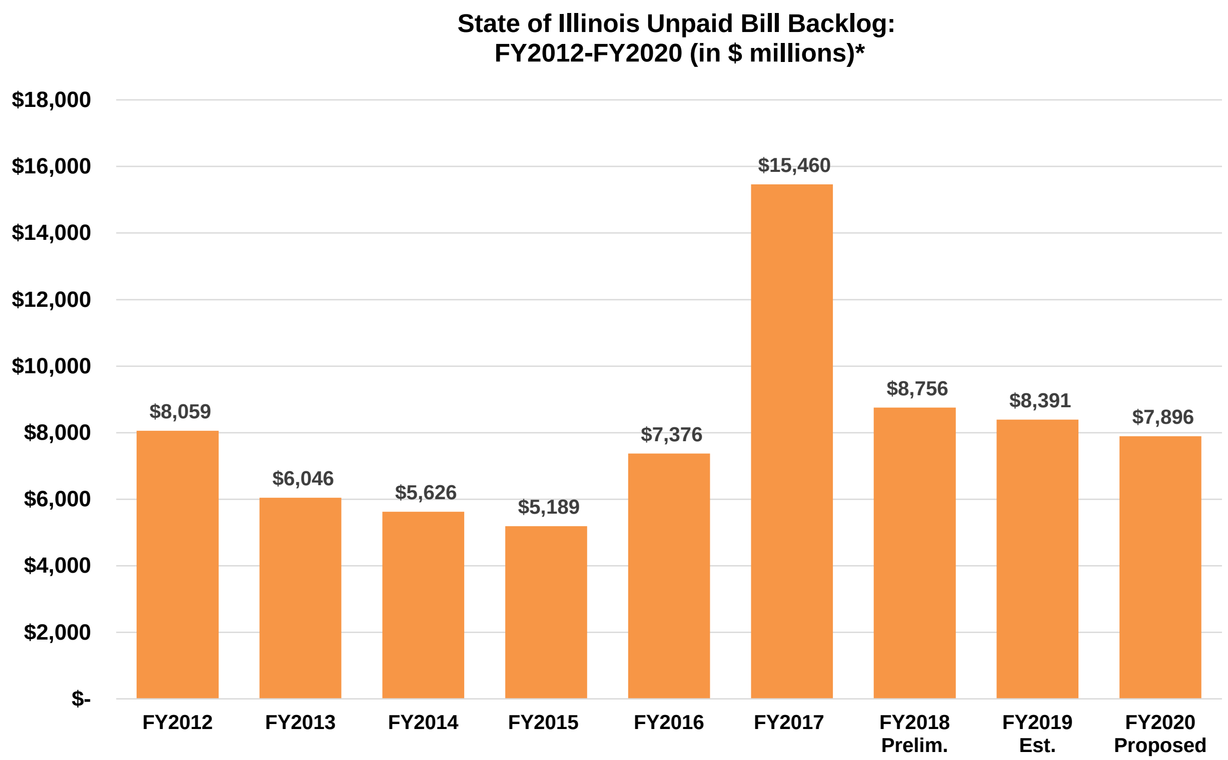
[229] Public Act 100-0023, enacted on July 6, 2017.
[230] State of Illinois, General Obligation Bonds, Series of September, *Official Statement*, August 22, 2018, p. 31.
[231] State of Illinois, General Obligation Bonds, Series of September, *Official Statement*, August 22, 2018, pp. 28 and 31.
[232] Certain payables, such as transfers to local governments and other State funds, are not eligible for penalty interest.
[233] 30 ILCS 540. Proper bills are defined as those that include the information needed to process the payment.
[234] 215 ILCS 5/368(a).
[235] State of Illinois Comptroller, *Special Report on Illinois' Finances and Future*, January 30, 2019, p. 4, https://illinoiscomptroller.gov/comptroller/assets/file/DTA/SpecialReportOnIllinoisFinancesAndFuture.pdf (last accessed on May 15, 2019).
[236] Public Act 100-1107, enacted on August 27, 2018.
[237] Illinois State Treasurer, Investing to Reduce Illinois' Backlog, https://stories.opengov.com/illinoistreasurer/published/95gvCe0XZ (last accessed on May 15, 2019).
[238] State of Illinois, Office of the Governor, *Budget in Brief: Fiscal Year 2020*, p. 28.
[239] Illinois State FY2020 Budget, p. 58.

federal Medicaid reimbursements is offset by the estimated FY2019 operating deficit. In FY2020 the backlog is projected at $7.9 billion.

The following chart shows the State's actual and projected bill backlog at the end of each fiscal year from 2012 through 2020 on a budgetary basis.



*General Funds and Health Insurance Reserve Fund costs incurred as of June 30 but not paid from that fiscal year's revenues.
Source: Illinois State FY2020 Budget, p. 58; Illinois State FY2019 Budget, p. 63; Illinois State FY2018 Budget, p. 79; Illinois State FY2017 Budget, p. 76; Illinois State FY2016 Budget, p.3-7; Illinois State FY2015 Budget, p. 2-23.

The backlog of health insurance bills, which peaked at $5.2 billion at the end of FY2017, is expected to stand at $722 million at the end of FY2020 after the bond sale. If the bonds are issued, the State is expected to pay health insurance bills within 90 days,[240] compared with delays of more than two years in the fall of 2017.[241]

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[240] Illinois General Assembly, Commission on Government Forecasting and Accountability, *FY2020 Liabilities of the State Employees' Group Health Insurance Program*, March 2018, p. 15.
[241] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Monthly Briefing for the Month Ended: September 2017*, p. 8, http://cgfa.ilga.gov/Upload/0917revenue.pdf (last accessed on May 15, 2019).

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 Bonds.[242]

All three types of 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 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.[243]

In 2003 the State amended the Act to include the authorization to issue Pension Obligation bonds (POBs), used to increase the assets in its pension funds and make the required annual contributions to the State's five retirement systems. The State issued additional POBs in FY2010 and FY2011. In April 2019 the State issued $300 million to fund pension buyout offers designed to lower pension costs.[244] These bonds were authorized as part of the FY2019 budget and the State intends to issue up to $700 million more as buyout offers are accepted by retiring State employees and inactive fund members.[245]

As part of its FY2018 budget, the General Assembly approved borrowing up to $6 billion to pay off bills that had rapidly accumulated during the State's two-year budget impasse.[246] The Governor's Office of Management and Budget issued all $6 billion in November 2017.[247] The bonds will be repaid over twelve years and cost the State $1.9 billion in interest. Governor Pritzker has proposed to issue an additional $1.5 billion of backlog reduction bonds in the remainder of FY2019.[248]

Illinois also depends on 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. By far the largest ongoing revenue bond issuances are the Build Illinois Bonds, which began in 1985. Build Illinois Bonds are backed by a pledge of the State's portion of sales tax receipts[249] and by various revenue sources that fund the Capital

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[242] The State also has $11.5 million outstanding civic center bonds, which are limited obligations subject to annual appropriation. Two state-related agencies, the Illinois Sports Facilities Authority and the Metropolitan Pier and Exposition Authority also issue debt which is not backed by the full faith and credit of the State. The Railsplitter Tobacco Settlement Authority has issued limited obligation debt backed by funds received under a Master Settlement Agreement between several states and tobacco companies. The Illinois Finance Authority administers an agricultural loan guarantee program. Finally, several entities issue moral obligation debt, including College Illinois, the State's prepaid tuition program, which had an unfunded liability of $308 million as of the beginning of FY2019. Illinois State FY2020 Budget, pp. 496-500.
[243] General Obligation Bond Act, 30 ILCS 330/1.
[244] State of Illinois, General Obligation Bonds, Series of April 2019, *Official Statement*, March 26, 2019.
[245] Illinois State FY2020 Budget, p. 491.
[246] Public Act 100-0023, enacted on July 6, 2017.
[247] State of Illinois, General Obligation Bonds, Series of November 2017D, *Official Statement*, October 25, 2017, pp. i, ii.
[248] Illinois State FY2020 Budget, p. 45.
[249] Build Illinois Bond Act, 30 ILCS 425.

Projects Fund.[250] The total bond authorization under the Build Illinois Bonds Act has been increased by the General Assembly on several occasions since the late 1980s.[251] The State most recently issued $250 million of capital bonds under the Build Illinois credit in October 2018.[252]

Debt Service

In FY2019 the State of Illinois is scheduled to pay debt service totaling $4.4 billion.[253] This amount is an all-time peak, after which payments on existing debt drop to $3.4 billion and continue to decline through FY2044. The large drop is due to the final maturity of the pension obligation bonds issued in FY2011. The largest portion of the FY2020 debt service payment is due on capital purpose GO bonds totaling just over $1.6 billion, followed by backlog bonds at $762 million, pension obligation bonds at $702 million and Build Illinois Bonds at $298 million.

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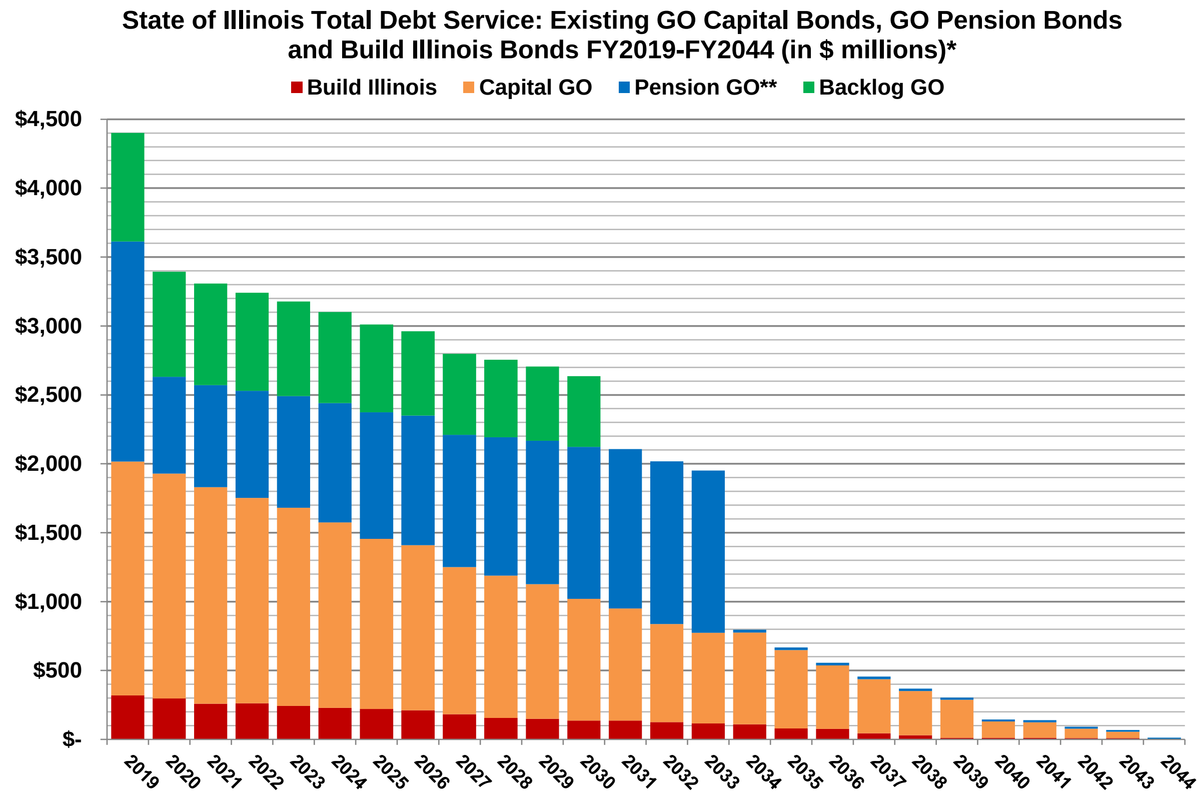
[250] State of Illinois, Build Illinois Bonds, Junior Obligation Series of October 2018, *Official Statement*, October 16, 2018, p. 8, https://www2.illinois.gov/sites/capitalmarkets/RecentBondSales/State%20of%20Illinois,%20Build%20Illinois%20Bonds,%20Series%20of%20October%202018%20-%20Official%20Statement%20with%20Supplement.pdf (last accessed on May 15, 2019). Funding for the Capital Projects Fund is discussed in more depth below on page 74.
[251] Build Illinois Bond Act, 30 ILCS 425.
[252] State of Illinois, Build Illinois Bonds, Junior Obligation Series of October 2018, *Official Statement*, October 16, 2018.
[253] State of Illinois, General Obligation Bonds, Series of May 2018, *Official Statement*, April 25, 2018, pp. 34, 40.

The following chart shows total debt service for existing Pension Obligation bonds, GO capital bonds and other capital bonds through FY2044.



* As of May 1, 2019. Includes the General Obligation Series of April 2019.
** Includes Pension Buyout Bonds General Obligation Series of April 2019A.
Source: State of Illinois, General Obligation Bonds, Series of April 2019, Official Statement, March 26, 2019, pp. 36, 41.

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.[254] Moreover, refunding bonds are generally prohibited from extending the principal maturities of the bonds they refund.[255] 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.

The State made exceptions to the level principal rule for the Pension Obligation bonds. Under the 2003 pension bond authorization, the State issued $10 billion in POBs that are repaid through FY2033, of which $7.2 billion was used to increase the assets of the State's retirement systems. The remainder was used to make the part of the State's statutorily required contributions that would have otherwise been made from General Funds resources in FY2003 and the entire FY2004 contribution. The pension bond authorization was increased in FY2010 by $3.5 billion and again in FY2011 by $3.7 billion to make the annual contributions that otherwise would have come from the State's General Funds. The FY2010 POBs were repaid through FY2015 and the

[254] General Obligation Bond Act, 30 ILCS 330/9; Build Illinois Bond Act, 30 ILCS 425/6.
[255] General Obligation Bond Act, 30 ILCS 330/16.

FY2011 POBs completely matured on March 1, 2019.

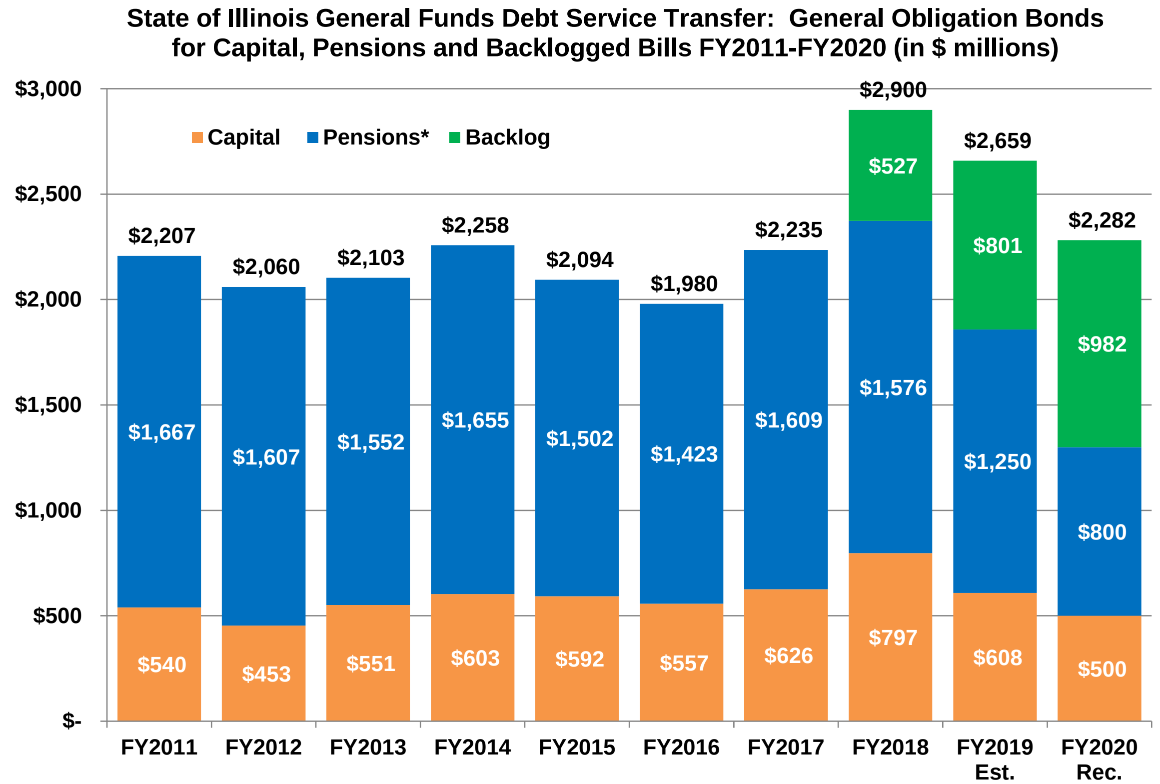
The FY2011 POBs backloaded the principal repayment into the later years of the bonds and paid mostly interest only until the FY2010 bonds were completely paid off in FY2015. The FY2003 POBs are also backloaded. The State paid interest only on that series through FY2007, then annual principal amounts increased to $50 million per year from FY2008 through FY2011 and to $100 million per year from FY2012 through FY2016. In FY2017, principal repayment began increasing annually by increments of $25 million, $50 million or $100 million through FY2033, when $1.1 billion is due in the final year of the series. More than 75% of the principal borrowed will be repaid in the final 10 years of the debt service schedule, leading to interest costs of $11.9 billion over 30 years due on the original $10 billion of borrowed funds.

Debt Service Transfers

Although the total debt service represents the entire annual payment due to bond holders during the fiscal year, only a portion of the repayment is made through a transfer from the General Funds to the General Obligation Bond Retirement and Interest Fund (GOBRI). Build Illinois Bonds are paid through sales taxes diverted outside the General Funds and through the Capital Projects Fund. The General Funds debt service transfer for FY2020 totals $2.3 billion, or 6.5% of projected state-source General Funds resources and a decrease of $377 million from FY2019.[256] In addition to General Funds, GO capital bonds are funded through transfers from the Road Fund, Capital Projects Fund, School Infrastructure and State Construction Fund.[257]

[256] Illinois State FY2020 Budget, p. 57.
[257] Illinois State FY2020 Budget, p. 487.

The following chart shows the General Funds cost of debt service paid on the State's General Obligation Bonds, both capital and pension related, for FY2011 through FY2020.



* Includes Pension Buyout Bonds General Obligation Series of April 2019A.
Source: Illinois State FY2020 Budget, p. 487; Illinois State FY2019 Budget, p. 501; Illinois State FY2018 Budget, p. 525; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, p. 15.

The debt service transfer associated with capital GO bonds in FY2020 decreases by $108 million, totaling $500 million compared to $608 million in FY2019. Over the last five years the General Funds debt service cost for capital bonds has decreased $57 million from a total of $557 million in FY2016. The operating budget incurs higher costs for capital purpose debt service due to the shortfall in revenues in the Capital Projects Fund.[258] Despite an enacted package of revenues to fund the new borrowing associated with the *Illinois Jobs Now!* capital program, the State has incurred additional General Funds cost. The FY2018 budget relieved some pressure on the Capital Projects Fund by requiring $1.1 billion for certain transportation-related bonds to come from the Road Fund instead.[259]

The structure of the debt service on the State's POBs was designed to remain relatively flat as the FY2010 and FY2011 bonds were repaid. The transfer for POB debt service totaled $1.7 billion in FY2011 and remained relatively flat through FY2018. Because GOBRI is pre-funded

[258] For more information on the Capital Projects Fund see page 74 of this report.
[259] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2020*, April 2019, p. 11, http://cgfa.ilga.gov/Upload/FY2020CapitalPlanAnalysis.pdf (last accessed on May 15, 2019).

in advance of debt service, the 2019 final maturity of the 2011 series caused transfer payments to step down over two fiscal years—to $1.3 billion in FY2019 and $800 million in FY2020.[260]

The $6.0 billion of backlog bonds were issued in FY2018, requiring only half a year of transfers totaling $527 million that year. The transfer amount rose to $801 million in FY2019 and will be $982 million in FY2020. After that year the transfer amount should start declining due to the bond's level principal structure, unless the issues more backlog bonds in FY2019, as Governor Pritzker has proposed.

Part of the funding to pay for Build Illinois Bonds debt service is diverted from the State's portion of sales tax receipts prior to being deposited into the General Funds. The State is required to transfer the larger of 3.8% of its share of the sales taxes collected each year or the certified annual debt service owed on all outstanding Build Illinois Bonds.[261] Although these bonds are not paid for through a General Funds transfer, the cost of the Build Illinois Bonds reduces the amount of sales tax revenues that would otherwise be available to fund the annual operating budget.

[260] Illinois State FY2020 Budget, p. 487.
[261] 30 ILCS 425, Sec. 13; 35 ILCS 120, Sec. 3.

Outstanding Debt

During FY2019 the State has issued $250 million of Build Illinois Bonds[262] and no General Obligation Bonds for capital projects. Illinois also issued $1.1 billion in General Obligation refunding bonds and $300 million to pay for pension buyouts.[263] The following chart shows the total principal, interest and debt service at the beginning of FY2020 compared to FY2019 for all GO bonds and Build Illinois Bonds currently outstanding.

State of Illinois Total Outstanding General Obligation and Build Illinois Bonds FY2019 and FY2020 (in $ millions)*				
	FY2019	**FY2020**	**$ Change**	**% Change**
Principal				
GO Capital	$14,021.5	$13,075.1	$ (946.4)	-6.75%
GO Pension	$ 9,925.0	$ 9,138.0	$ (787.0)	-7.93%
GO Backlog	$ 6,000.0	$ 5,500.0	$ (500.0)	-8.33%
Build Illinois	$ 2,272.1	$ 2,307.5	$ 35.4	1.56%
Total Principal	**$32,218.6**	**$30,020.6**	**$ (2,198.0)**	**-6.82%**
Interest				
GO Capital	$ 6,907.8	$ 6,013.3	$ (894.5)	-12.95%
GO Pension	$ 4,693.3	$ 4,406.1	$ (287.2)	-6.12%
GO Backlog	$ 1,791.8	$ 1,505.3	$ (286.5)	-15.99%
Build Illinois	$ 772.5	$ 811.4	$ 38.9	5.04%
Total Interest	**$14,165.4**	**$12,736.1**	**$ (1,429.3)**	**-10.09%**
Debt Service				
GO Capital	**$20,929.3**	**$19,088.4**	**$ (1,840.9)**	**-8.80%**
GO Pension	**$14,618.3**	**$13,544.1**	**$ (1,074.2)**	**-7.35%**
GO Backlog	**$ 7,791.8**	**$ 7,005.3**	**$ (786.5)**	**-10.09%**
Build Illinois	**$ 3,044.6**	**$ 3,118.9**	**$ 74.3**	**2.44%**
Total	**$46,384.0**	**$42,756.7**	**$ (3,627.3)**	**-7.82%**

* As of the beginning of the fiscal year.
Source: State of Illinois, General Obligation Bonds, Series of April 2019, Official Statement, March 26, 2019, pp. 36, 41; State of Illinois, General Obligation Bonds, Series of May 2018, Official Statement, April 25, 2018, pp. 34, 40.

Total outstanding capital purpose GO bonds decreased by $946 million from $14.0 billion at the beginning of FY2019 to $13.8 billion at the beginning of FY2020. The combined total debt service owed on all outstanding capital GO bonds totals $19.1 billion at the beginning of FY2020 compared to $20.9 billion in FY2019. The interest owed these bonds decreased by $895 million to $6.0 billion in FY2020.

The backlog GO bonds began amortizing in FY2019, declining by $500 million in principal and $289 million in interest.

Total principal owed on all outstanding pension bonds in FY2020 totals $9.1 billion, a decrease of $787 million from the total of $9.9 billion in FY2019, despite the issuance of $300 million for

262 State of Illinois, Build Illinois Bonds, Junior Obligation Series of October 2018, *Official Statement*, October 16, 2018.
263 State of Illinois, General Obligation Bonds, Series of September 2018, *Official Statement*, August 22, 2018; State of Illinois, General Obligation Bonds, Series of April 2019, *Official Statement*, March 26, 2019.

pension buyouts. The outstanding interest owed on pension debt declined by $287 million to $4.4 billion during FY2019 from $4.7 billion at the beginning of that fiscal year. The remaining debt service, including principal and interest, on the State's pension bonds totals $13.5 billion in FY2020 compared to $14.6 billion in FY2019.

In FY2020 the outstanding Build Illinois Bonds principal totals $2.3 billion compared to just under $2.3 billion in FY2019, as the issuance of $250 million in new debt slightly outpaced amortization of older principal. The interest owed on the loans through FY2043 totals $811 million as of FY2020, which is an increase of $39 million from FY2019. Total outstanding debt service on Build Illinois Bonds increased by $74 million to $3.1 billion.

The following chart compares the outstanding principal, interest and total debt service on all Build Illinois Bonds, GO capital bonds, GO backlog bonds and POBs from FY2016 to FY2020.

State of Illinois Total Outstanding Debt Service: General Obligation and Build Illinois Bonds Five-Year Comparison FY2016 to FY2020 (in $ millions)*

	FY2016	FY2017	FY2018	FY2019	FY2020**	5-year $ Change	5-year % Change
Principal							
GO Capital	$14,144.9	$ 15,244.8	$13,710.7	$14,021.5	$13,075.1	$ (1,069.8)	-7.6%
GO Pension	$12,700.0	$ 12,000.0	$10,975.0	$ 9,925.0	$ 9,138.0	$ (3,562.0)	-28.0%
GO Backlog	$ -	$ -	$ -	$ 6,000.0	$ 5,500.0	$ 5,500.0	
Build Illinois	$ 2,748.9	$ 2,514.6	$ 2,489.1	$ 2,272.1	$ 2,307.5	$ (441.4)	-16.1%
Total Principal	**$31,294.8**	**$ 29,759.4**	**$27,174.8**	**$32,218.6**	**$30,020.6**	**$ (1,274.2)**	**-4.1%**
Interest							
GO Capital	$ 7,599.7	$ 7,411.2	$ 6,892.4	$ 6,907.8	$ 6,013.3	$ (1,586.4)	-20.9%
GO Pension	$ 6,540.7	$ 5,884.3	$ 5,261.9	$ 4,693.3	$ 4,406.1	$ (2,134.6)	-32.6%
GO Backlog	$ -	$ -	$ -	$ 1,791.8	$ 1,505.3	$ 1,505.3	
Build Illinois	$ 1,084.3	$ 965.1	$ 878.3	$ 772.5	$ 811.4	$ (272.9)	-25.2%
Total Interest	**$16,390.0**	**$ 14,260.6**	**$13,032.7**	**$14,165.4**	**$12,736.1**	**$ (3,653.9)**	**-22.3%**
Debt Service							
GO Capital	**$22,261.1**	**$ 22,656.0**	**$20,603.1**	**$20,929.3**	**$19,088.4**	**$ (3,172.7)**	**-14.3%**
GO Pension	**$21,220.6**	**$ 17,884.3**	**$16,236.9**	**$14,618.3**	**$13,544.1**	**$ (7,676.5)**	**-36.2%**
GO Backlog	**$ -**	**$ -**	**$ -**	**$ 7,791.8**	**$ 7,005.3**	**$ 7,005.3**	
Build Illinois	**$ 4,203.2**	**$ 3,479.7**	**$ 3,367.4**	**$ 3,044.6**	**$ 3,118.9**	**$ (1,084.3)**	**-25.8%**
Total	**$47,684.9**	**$ 44,020.0**	**$40,207.4**	**$46,384.0**	**$42,756.7**	**$ (4,928.2)**	**-10.3%**

* As of the beginning of the fiscal year.

** For all debt outstanding as of May 1, 2019.

Source: State of Illinois, General Obligation Bonds, Series of April 2019, Official Statement, March 26, 2019, pp. 36, 41; State of Illinois, General Obligation Bonds, Series of May 2018, Official Statement, April 25, 2018, pp. 34, 40; Illinois State FY2018 Budget, pp. 543, 544; State of Illinois, General Obligation Bonds, Series of June 2016, Official Statement, June 23, 2016, p. 28; Illinois State FY2017 Budget, pp. 527, 528; Illinois State FY2016 Budget, pp. 7-10, 7-11; State of Illinois, General Obligation Bonds, Series May 2014, *Official Statement*, April 25, 2014, p.53; State of Illinois, Build Illinois Bonds, Series of March 2014, *Official Statement*, March 11, 2014, p. 20;

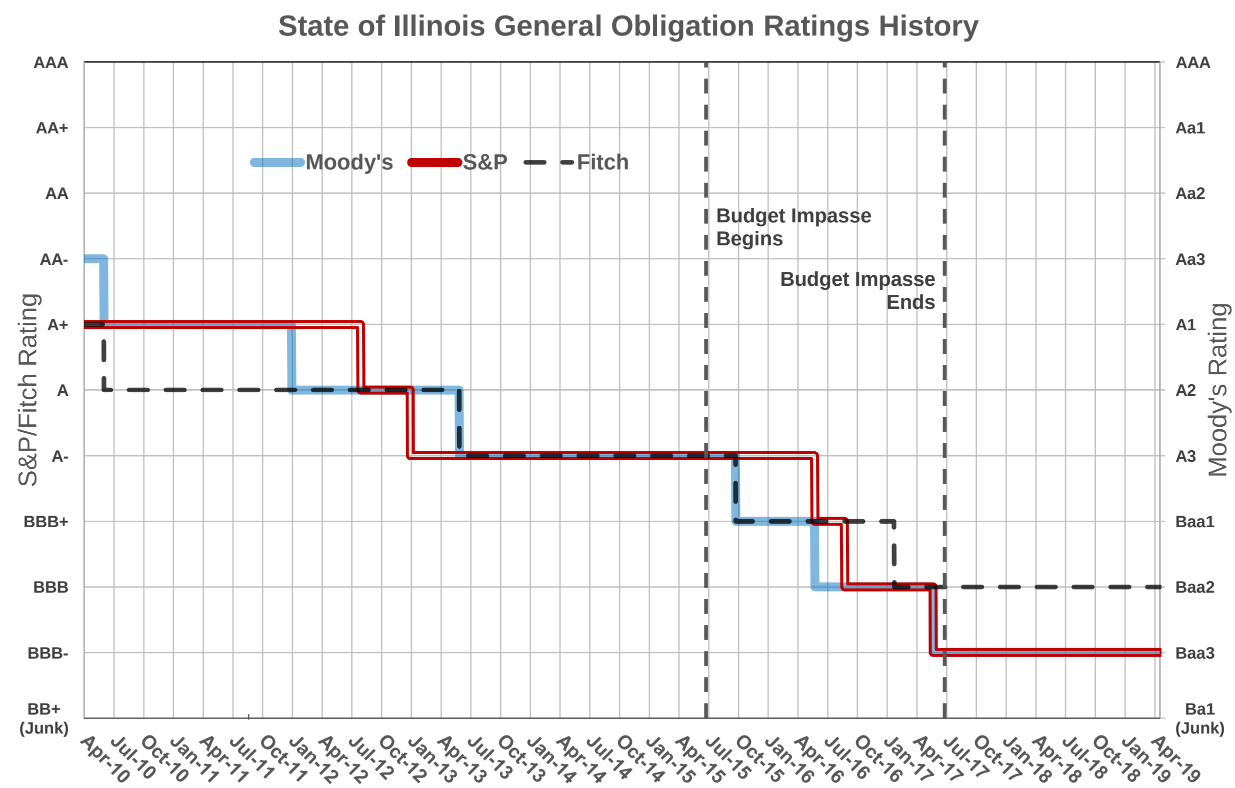
Even including the backlog bonds, the State of Illinois has paid off more principal debt than it has issued over the last five fiscal years, decreasing the total outstanding principal by $1.3 billion. Total interest owed on the State's outstanding debt has declined by $3.6 billion over the last five years, primarily due to the decreased interest payments on the State's outstanding pension bonds and low prevailing interest rates on new issuances. Interest owed through FY2044 on pension bonds is $2.1 billion less in FY2020 than it was in FY2016.

Outstanding interest on capital purpose GO bonds has decreased by $1.6 billion over five years due to and low prevailing interest rates throughout the period. New issuances generally carried lower rates than maturing bonds, and the State was able to issue refunding transactions for interest savings.[264] The State owes $6.0 billion in interest on capital GO bonds for debt repaid through FY2043 compared to $7.6 billion in FY2016.

The interest owed on all outstanding Build Illinois Bond debt through FY2043 declined by $273 million over five years, from $1.1 billion in FY2016 to $811 million in FY2020.

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 State of Illinois' GO ratings have been lowered by all three rating agencies multiple times over the last several years, which has led to an overall increase in debt service costs above better rated governments. The following chart shows the history of GO Bond ratings since 2010.



Source: Illinois General Assembly, Commission on Government Forecasting and Accountablity, *State of Illinois Budget Summary Fiscal Year 2019*, August 1, 2018, p. 160; Illinois State Comptroller's Office, Bond Ratings, www.illinoiscomptroller.gov/financial-data/fiscal-focus-blog/bond-ratings (Last Accessed May 1, 2019).

[264] State of Illinois, General Obligation Bonds, Series of April 2019, *Official Statement*, March 26, 2019.

Illinois currently has the lowest GO rating of any state by all three ratings agencies. At the time of this report, both Standard and Poor's and Moody's place the State's general obligation credit at the lowest investment grade, one notch above junk. Fitch rates the bonds one notch higher. Fitch maintains a negative outlook, indicating their view that there will be further downgrades. Standard & Poor's changed its outlook to stable following the adoption of the FY2018 budget[265] and Moody's changed its outlook to stable in July 2018.[266]

All three companies affirmed their current ratings when the State went to market with the April 2019 General Obligation series.[267] Moody's warned that underfunding the State's five pension systems or inaction in addressing the State's bill backlog could lead to further downgrades.[268] S&P suggested that finding new revenues could save the State from additional downgrades.[269]

Illinois' Build Illinois Bonds program received two five-notch downgrades in 2018: From AA+ to A- by Fitch in May[270] and from AA- to BBB by S&P in October.[271] Both "superdowngrades" were caused by changes in the ratings criteria of the two companies that more directly link revenue bonds to an issuer's underlying rating. Accordingly, the companies cited Illinois' low General Obligation credit as a major factor in the downgrades.

The following chart shows the current ratings for Illinois' General Obligation Bonds and Build Illinois Bonds.

State of Illinois: Current Ratings				
	GO Bonds		Build Illinois Bonds	
Company	**Rating**	**Outlook**	**Rating**	**Outlook**
Fitch Ratings	BBB	Negative	A-	Negative
Moody's Investors Service	Baa3	Stable	Baa3	Negative
Standard & Poor's	BBB-	Stable	BBB	Stable

Source: Illinois State Comptroller's Office, Bond Ratings, www.illinoiscomptroller.gov/financial-data/fiscal-focus-blog/bond-ratings (Last Accessed May 1, 2019)

Variable Rate Debt and Swaps

In September 2018, the State terminated its five swap agreements, using the $74.6 million in proceeds from the General Obligation refunding series issued that month. Prior to the termination, Illinois' debt portfolio included five derivative instruments, also known as swaps,

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265 Karen Pierog, "Illinois avoids downgrade to junk as S&P affirms BBB-minus rating," *Reuters*, July 12, 2017.
266 Moody's Investors Service, "Rating Action: Moody's revises Illinois outlook to stable, affirms Baa3 GO rating," *news release*, July 19, 2018.
267 Reuters, "Illinois' credit rating pressured by need for more revenue -S&P," March 14, 2019; Fitch Ratings, "Fitch Rates Illinois' $455MM GOs 'BBB'; Outlook Remains Negative," *news release*, March 13, 2019; Moody's Investors Service, "Rating Action: Moody's assigns Baa3 to Illinois' $452 million April 2019 GO offering; outlook stable," *news release*, March 15, 2019.
268 Moody's Investors Service, "Rating Action: Moody's assigns Baa3 to Illinois' $452 million April 2019 GO offering; outlook stable," *news release*, March 15, 2019.
269 Reuters, "Illinois' credit rating pressured by need for more revenue -S&P," March 14, 2019.
270 Rich Saskal, "Criteria change sends Build Illinois sales tax bonds down five notches," *The Bond Buyer*, May 25, 2018.
271 Brian Chappatta, "Credit Rating Superdowngrades Only Confuse Investors," *Bloomberg*, November 1, 2018.

associated with variable rate bonds that were issued in 2003.[272] These swap contracts converted the State's variable rate debt to synthetically fixed rate payments through agreements with counterparties that are intended to offset interest rate risk.

Under the terms of the contract, if the State's credit rating fell below certain thresholds the deal would be automatically terminated and the State would have to pay the market value of the deals at the time of the termination. Due to the State's deteriorating credit quality, the State twice negotiated lower termination thresholds with its counterparties in 2016 and 2017.

During the same period, changes in prevailing interest rates caused the net present value of the swaps to improve for Illinois. The enacted FY2019 budget authorized the state to issue debt to refund the remaining variable rate bonds and voluntarily pay to terminate the swaps.[273] The Governor's Office executed the plan on September 6, 2018 in the amount of $76.4 million.[274]

The following chart shows the net present value to the State of the five swap agreements from December 2015 until their termination. Following the deal, all of the State's remaining debt is fixed rate.

State of Illinois Interest Rate Swap Agreements
Interest Rates and Present Value (in $ thousands)

Current Counterparty	Notional Value	Fixed Rate Paid	Variable Rate Received	Present Value 12/31/2015	Present Value 12/31/2016	Present Value 12/31/2017	Termination Payment 9/6/2018
Barclays	$ 54,000	3.89%	82.7% of 1M LIBOR	$ (11,999)	$ (9,490)	$ (8,216)	*
Barclays	$ 54,000	3.89%	80.82% of 1M LIBOR	$ (12,091)	$ (9,677)	$ (8,390)	*
Bank of America	$ 54,000	3.89%	SIFMA	$ (12,091)	$ (10,109)	$ (9,567)	*
JP Morgan Chase	$ 54,000	3.89%	SIFMA	$ (12,586)	$ (10,388)	$ (8,783)	*
Deustche Bank	$384,000	3.89%	SIFMA	$ (89,274)	$ (74,519)	$ (64,466)	*
Total	**$600,000**			**$(138,040)**	**$(114,184)**	**$ (99,423)**	**$ (74,589)**

* The Governor's Office has not disclosed the breakdown of the termination payments among the five swap agreements. The total market value of the swaps at termination was $78.4 million. The State negotiated discounts totalling $3.8 million.

Source: Illinois State FY2020 Budget, p. 492; State of Illinois, General Obligation Bonds, Series of September 2018, Official Statement, August 22, 2018, p. 7; State of Illinois, General Obligation Bonds, Series of May 2018, Official Statement, April 25, 2018, p. 37; Illinois State FY2019 Budget, pp. 505, 506; Illinois State FY2018 Budget, pp. 529, 530; Illinois State FY2017 Budget, p. 515.

[272] Series 2003B. Prior to the refunding, these were the State's only variable-rate series. Illinois State FY2018 Budget, p. 529.
[273] Public Act 100-0587, enacted June 4, 2018.
[274] State of Illinois, General Obligation Bonds, Series of September 2018, *Official Statement*, August 22, 2018, p. 7.

CAPITAL BUDGET

Unlike the State's General Funds budget, which is intended to cover only the cost of the State's operations for the current fiscal year, capital appropriations are reauthorized over multiple years as planning, engineering and construction of capital investments commences. The total spending proposed in the FY2020 capital budget includes funding from the State, grants from the federal government and local matching funds. Since 2005 the capital budget has been proposed in a separate document from the State's operating budget and is not part of the annual General Funds expenditures.

Proposed FY2020 Capital Budget

Governor's recommended FY2020 capital budget includes a total of approximately $17.7 billion in new and reauthorized projects and marks the tenth year since the initiation of the $31 billion *Illinois Jobs Now!* capital spending program (IJN).[275]

Now, ten years after IJN, Governor J.B. Pritzker has said that he supports enacting a new major capital bill this year.[276] If enacted, such a bill would replace the Governor's formally proposed FY2020 capital budget. The Governor's Office has characterized the published proposal as a maintenance budget that spends down remaining authority from IJN using existing revenues.[277] This section discuss the revenues and expenditures of the proposed budget, then turn to the possibility of a larger capital program.

After IJN's enactment, total appropriations in the State's capital budget declined to approximately $14.1 billion in the enacted FY2018 capital budget from $29.1 billion in FY2010.[278] Total appropriations grew to $18.0 billion in FY2019. That year new appropriations totaled $8.3 billion, the highest since the first year of IJN and significantly higher than the average new appropriations of $3.3 billion over the prior eight years.

However, FY2019 reappropriations, at $9.7 billion, were the lowest since the program started.[279] Due to the addition of new projects and the lack of a comprehensive capital improvement plan to explain the annual prioritization and completion of projects, it is unclear which of the original projects have been completed and how much of the current budget represents additional authorizations passed in the intervening years.

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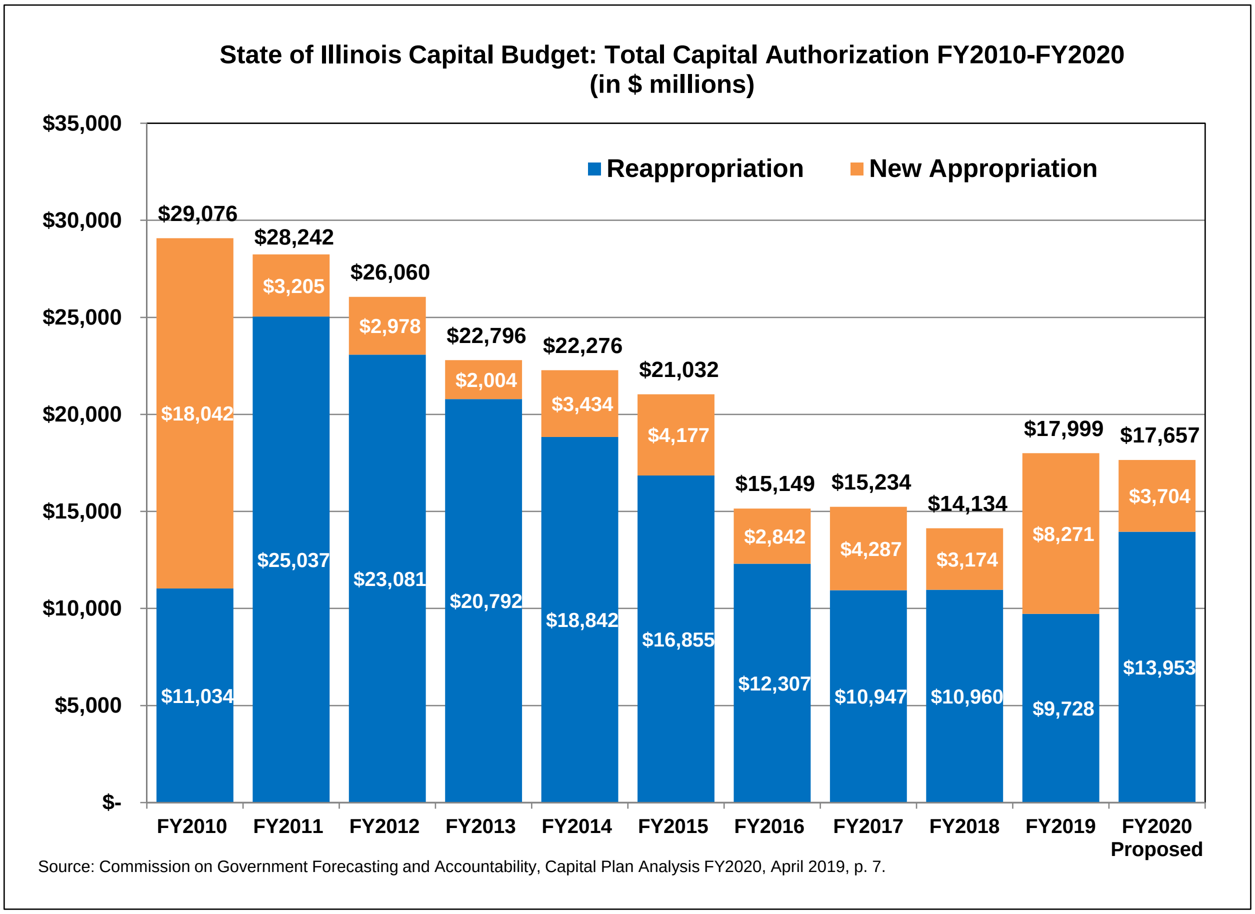
[275] Illinois State FY2020 Capital Budget, p. 38.
[276] Joseph Bustos, "Pritzker Discusses Capital Budget," *Belleville News Democrat*, January 17, 2019.
[277] Communication between the Civic Federation and the Governor's Office of Management and Budget, February 21, 2019.
[278] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p.7.
[279] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p.7.

The following chart shows the total new and reappropriated amounts in the capital budget approved by the State of Illinois from FY2010 through FY2020.



Revenues

The FY2020 proposal does not include any new revenue sources or increases in existing sources. Projects funded using bond proceeds make up $7.4 billion of the total proposed spending in FY2020, while $10.3 billion are pay-as-you-go projects financed with currently available State and federal resources.[280]

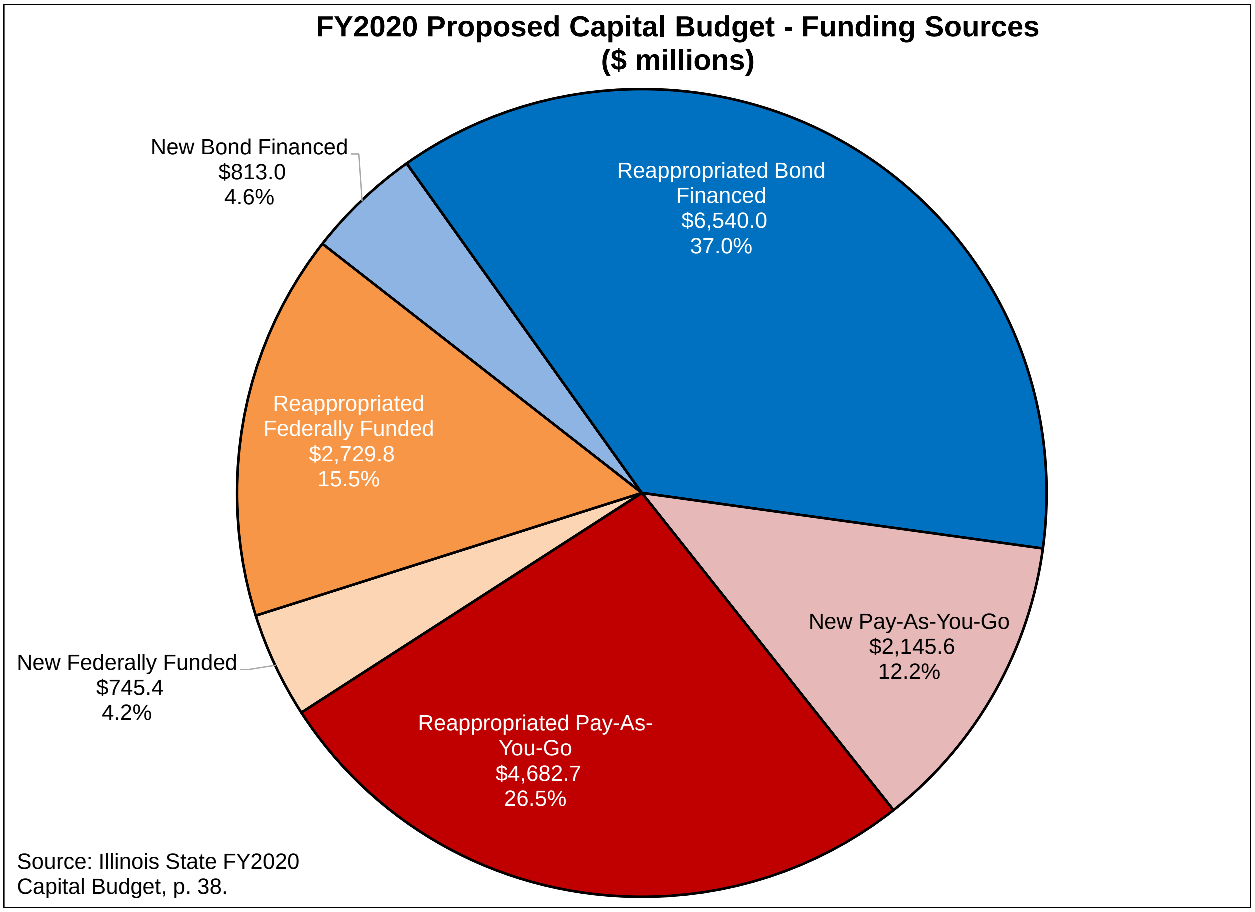
The State relies heavily on the sale of bonds to fund the capital budget. The State has issued $14.5 billion in General Obligation and Build Illinois Bonds to pay for capital projects since the beginning of the *Illinois Jobs Now!* program in FY2010. The proposed FY2020 capital budget includes $813 million of new appropriations and $6.5 billion of previously approved spending authority proposed for reauthorization.

The largest single source of current funding comes from the federal government. In the FY2020 budget, federal funds would support $745 million of new projects and $2.7 billion of

[280] Illinois State FY2020 Capital Budget, p. 38.

reappropriations, for a total of $3.5 billion in capital funds.[281] The State collects the remaining pay-as-you-go funding through a number of sources, including motor fuel taxes, vehicle fees, licensing and other related charges. The FY2020 capital budget includes $2.1 billion in new projects and $4.7 billion in reappropriations funded by State sources.[282]

The following chart shows the total FY2020 capital budget by the type of project funding.



[281] Illinois State FY2020 Capital Budget, p. 38.
[282] Illinois State FY2020 Capital Budget, p. 38.

Expenditures

The following table compares the capital budget proposed by the Governor for FY2020 to the proposed and enacted capital budgets for FY2019.

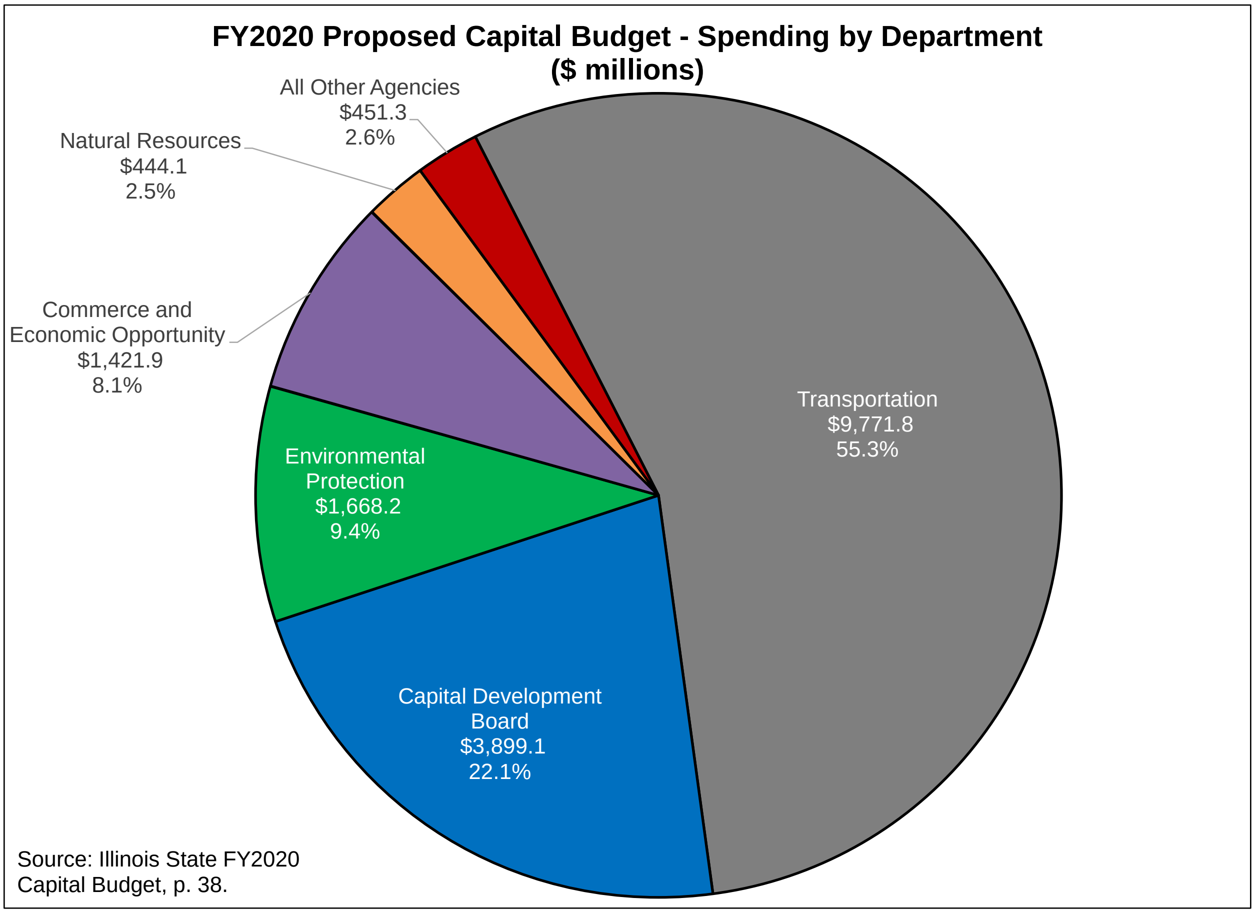
State of Illinois Capital Budget: FY2018 and FY2019 (in $ millions)						
	FY2018 Proposed		FY2019 Enacted		FY2020 Proposed	
New Appropriations						
Transportation	$	2,710.6	$	2,939.1	$	2,177.7
Environmental Protection	$	1,768.1	$	1,158.0	$	690.0
Capital Development Board	$	1,158.0	$	1,759.1	$	750.0
Comm. & Econ. Opportunity	$	1,344.0	$	1,403.6	$	-
Natural Resources	$	400.8	$	415.1	$	51.2
All Other	$	436.0	$	596.3	$	35.0
Total New Appropriations	**$**	**7,817.4**	**$**	**8,271.2**	**$**	**3,703.9**
Reappropriations						
Transportation	$	7,024.4	$	7,418.3	$	7,594.1
Environmental Protection	$	854.3	$	1,221.7	$	1,587.7
Captial Development Board	$	964.4	$	905.3	$	2,539.6
Comm. & Econ. Opportunity	$	34.8	$	31.1	$	1,421.9
Natural Resources	$	129.0	$	146.3	$	392.9
All Other	$	6.6	$	5.5	$	416.3
Reappropriations	**$**	**9,013.5**	**$**	**9,728.2**	**$**	**13,952.5**
Total Capital Appropriations	**$**	**16,830.9**	**$**	**17,999.4**	**$**	**17,656.5**

Source: Illinois State FY2020 Capital Budget, p. 38; Illinois State FY2019 Capital Budget, p. 38; Illinois State FY2020 Budget Detail Spreadsheet, https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2020-Budget-Book/FY20-Operating-Budget-Detail.xls (last visited May 6, 2019).

Funding for statewide road and bridge construction remains the largest portion of the State's capital expenditures. The proposed FY2020 capital budget includes $9.8 billion in total spending for the Illinois Department of Transportation including the annual road program for ongoing surface transportation improvements (roads, bridges and mass transit).[283] Of the total allocated to IDOT, $7.6 billion represents amounts proposed for reauthorization from previous years and $2.2 billion is new funding.[284]

[283] Illinois State FY2020 Capital Budget, p. 38.
[284] Illinois State FY2020 Capital Budget, p. 38.

The following chart shows the total FY2020 capital budget by department.



Lessons from Illinois' Last Capital Plan

The General Assembly has been holding hearings throughout the State to assess capital needs in preparation for a bill. There is near universal agreement that major infrastructure investment is necessary to maintain and expand Illinois' transportation systems and address a large maintenance backlog at State facilities and educational institutions.[285] However, whether any bill that emerges adequately addresses Illinois' capital needs depends on whether the General Assembly and Governor incorporate the lessons offered by the last major capital bill.

[285] Kennedy Nolen, "'A constant concern': Central Illinois community leaders tout infrastructure spending needs," *Herald & Review*, March 18, 2019; Chris Kaergard, "Local officials outline capital project needs at Peoria legislative hearing," *East Peoria Times-Courier*, April 8, 2019; Daisy Contreras, "Illinois Needs A Trained Workforce, Money To Update Crumbling Water Infrastructure," *NPR Illinois 91.9 UIS*¸ March 20, 2019; John O'Connor, "Illinois schools hungry for capital-program funding," *AP*, March 9, 2019; Peter Hancock, "Long, costly road ahead to fix Illinois' crumbling infrastructure," *Belleville News-Democrat*, February 22, 2019, Mary Hansen, "Illinois Highways Need Up To $15 Billion For Maintenance Over Next 10 Years," *NPR Illinois 91.9 UIS*¸ February 22, 2019.

The General Assembly approved the IJN plan in May 2009, ten years after Illinois' previous major capital program, Governor George Ryan's $12 billion Illinois FIRST (Fund for Infrastructure, Roads, Schools & Transit).[286] The vote for IJN was conducted hurriedly in the depths of the Great Recession in order to qualify for federal stimulus funds distributed through the American Recovery and Reinvestment Act.[287] Unfortunately, the lack of strategic planning ensured that the resulting capital program was underfunded and insufficient to meet the long term needs of Illinois.

Because the State faced its own fiscal and economic strain during the Great Recession, the General Assembly and Governor Pat Quinn opted not to fund the new program with traditional sources, such as the motor fuel tax, which at that point had been not been raised from $0.19 per gallon for over nineteen years.[288] Instead, the plan relied on a variety of new revenue sources, such as video gambling, leasing the state lottery, liquor taxes, vehicle license fees and expanding the sales tax on candy, sweetened beverages and some hygiene products. [289]

The proceeds from these sources are deposited in the Capital Projects Fund and used to pay for debt service on new capital bonds and some ongoing capital expenses.[290] This was intended to limit the General Funds impact of the additional debt sold to pay for the new capital budget. Additionally, surplus revenues not needed for debt service were supposed to flow into General Funds.

However, the taxes and fees have yet to produce the funding levels projected when *Illinois Jobs Now!* was originally approved.[291] In FY2020 Capital Projects Fund revenues are projected to total $939.0 million compared to an estimated $879.0 million in FY2019. However, the legislative projections provided when the spending was approved in FY2010 anticipated revenues of $943 million to $1.2 billion annually.[292]

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[286] Public Acts 91-0020 and 91-0708, enacted May 21, 1999.
[287] Pub.L. 111-5, enacted February 17, 2009.
[288] 35 ILCS 505/2 Sec. 2(a).
[289] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2011, pp. 9-10.
[290] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 9.
[291] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, pp. 9-10.
[292] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2011, pp. 9-10.

The following table shows the revenues deposited into the Capital Projects Fund from FY2010 through the projections for FY2020. The original legislative projections are also included in the table for comparison. Actual revenues meeting or exceeding the original projections are highlighted.

Capital Projects Fund: Revenues by Source
(in $ millions - revenues that meet or exceed original projections are highlighted)

Source	Original Projections	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 Est.	FY2020 Est.
Video Poker Tax*	$288 - $534	$ -	$ -	$ -	$ 24.5	$ 114.4	$ 195.7	$ 251.6	$ 296.3	$ 347.2	$ 381.0	$ 408.0
Lottery Fund	$ 150	$ 33	$ 54.1	$ 65.2	$ 135.0	$ 145.0	$ 8.0	$ -	$ 15.0	$ 9.3	$ -	$ 30.0
Sales Tax	$ 65	$ 39	$ 52.0	$ 52.7	$ 54.0	$ 55.0	$ 55.9	$ 56.9	$ 58.0	$ 59.0	$ 60.0	$ 61.0
Liquor Tax	$ 108	$ 78	$ 105.2	$ 114.8	$ 115.1	$ 115.0	$ 116.4	$ 118.4	$ 122.9	$ 123.8	$ 125.0	$ 127.0
Vehicle Related	$ 332	$ 117	$ 294.6	$ 299.7	$ 298.4	$ 304.0	$ 310.6	$ 308.1	$ 316.6	$ 314.6	$ 311.0	$ 311.0
Other	$ -	$ -	$ (0.1)	$ 0.1	$ 0.3	$ 0.4	$ 0.4	$ 0.1	$ 0.5	$ 2.6	$ 2.0	$ 2.0
Total	**$943 - $1,189**		**$ 505.8**	**$ 532.5**	**$ 627.3**	**$ 733.8**	**$ 687.0**	**$ 735.1**	**$ 809.3**	**$ 856.5**	**$ 879.0**	**$ 939.0**

*FY2013 does not include one-time video poker operator fees totaling $33.5 million.

Source: Commission on Government Forecasting and Accountability, *Capital Plan Analysis FY2020* , April 2019, p. 10; Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2011, pp. 9-10.

Historically, only the liquor tax has regularly produced revenues in excess of the original projections. The largest historical shortfalls in revenues were related to the gaming sources from leasing the management of the lottery out to a private company and the legalization of video poker in Illinois.[293]

The lease to manage the State's lottery has been especially problematic. It was assumed that the contract would earn the State $150 million annually when *Illinois Jobs Now!* was enacted, but revenues have been *de minimus* since FY2015.[294] After several years of delays in the management bidding process and then disputes over performance requirements, the State requested the termination of the agreement with its vendor.[295] Only one vendor responded to the RFP and it began managing the lottery in January 2018. However, due to the costs of terminating the prior agreement, no revenues are expected for the Capital Projects Fund in FY2019.

In FY2017 video gaming revenue totaling $296.3 million was for the first time within the original projected range of $288 million to $534 million annually. Due to administrative delays, the first video gaming machines were not put into service until September 2012,[296] and thus FY2013 was the first year that the capital budget received any revenue from the 30% tax on video gaming.

From FY2013 through FY2016, video gaming under performance was largely been due to the ability of local governments to opt out of video gaming or to continue existing local bans on the machines. Under the law establishing legalized video gaming, five-sixths of the tax revenues generated are used for capital project funding and the remainder is shared with local

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293 Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 10.
294 Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 10.
295 Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 9.
296 Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 12.

governments where the machines are in service.[297] According to a report from the Commission on Government Forecasting and Accountability, 36.2% of the Illinois population lives in communities where video gaming is illegal.[298] However, this represents a significant expansion in video gaming since FY2017, when the percentage was 46.5%.[299] Moreover, the legalization of video gambling has resulted in social costs that are only now being evaluated.[300] In Chicago, which represents approximately 21% of the State's population, video gaming remains prohibited.[301]

Although gaming-related revenues have accounted for the largest shortfall in capital funding, as shown in the table above, all other major sources of capital projects revenue except liquor taxes continue to fall short.

The Capital Projects Fund is statutorily required to make an annual payment of $245 million to General Funds.[302] However, the payment is often offset by additional General Funds resources used to cover debt service costs not accounted for by the Capital Projects Fund. When the Capital Projects Fund does not have adequate revenue to cover the debt service and other statutory expenses, the State uses resources from the Road Fund or the General Funds to make up the difference.[303] These additional debt service costs are repaid in the subsequent year.

Because revenues have been insufficient to support all required transfers out of the Capital Projects Fund, the Comptroller is $1.7 billion behind on transfers out, including $1.4 billion for General Obligation debt service and $315 million for General Funds.[304] The FY2018 budget relieved some pressure on the Capital Projects fund by requiring that debt service on the $1.1 billion Transportation Series D bonds be paid instead by the Road Fund.

IJN's second flaw was the lack of a comprehensive plan to prioritize projects and ensure that funds were being spent efficiently and with maximal impact on Illinois' economy. While Governor Pat Quinn's office released a list of projects to be included in the plan, it offered no explanation of how they were selected.[305] The last ten years of capital budgets have similarly included project lists, as well as some emphasis on various priorities. But they have fallen far short of offering a comprehensive assessment of capital needs or a clear understanding of how each project fits into the whole plan.

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[297] Public Act 96-0034, enacted July 13, 2009.
[298] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 12.
[299] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2017, April 2016, p. 11.
[300] Jason Grotto, Sandhya Kambhampati and Dan Mihalopoulos, "How Illinois Bet on Video Gambling and Lost," *ProPublica Illinois* and *WBEZ*, January 16, 2019.
[301] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 12.
[302] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 11.
[303] Public Act 96-0034, enacted on July 19, 2009.
[304] Illinois General Assembly, Commission on Government Forecasting and Accountability, Capital Plan Analysis FY2020, April 2019, p. 11.
[305] Institute for Illinois' Fiscal Sustainability at the Civic Federation, "State of Illinois Enacted FY2010 Budget: A Review of the Operating and Capital Budgets Enacted for the Current Fiscal Year," January 22, 2010.

Illinois' Next Capital Plan

Ten years after IJN it is clear that Illinois has not kept pace with its capital needs. The most recent state report card issued by the American Society of Civil Engineers gives Illinois a C- for the overall quality of its infrastructure.[306] The road and transit categories each received a D. The Federal Highway Administration reports 2,303 structurally deficient bridges in Illinois, 8.6% of the State's total.[307] In addition to transportation infrastructure, the Governor's FY2020 Capital Budget calls attention to other infrastructure needs, such as the $7.8 billion backlog in deferred maintenance at State facilities.[308]

The revenues needed to address the State's capital needs are considerable. The Illinois Department of Transportation estimates that over $25 billion in funding will be needed just to maintain transportation infrastructure over the next decade.[309] This includes at least $19 billion for public transit, up to $15 billion for highways, $4 billion for freight rail, $800 million for passenger rail, $250 million to qualify for federal matching funds for airports other than O'Hare and Midway, and hundreds of millions for locks and dams.

It has now been 29 years since Illinois last raised its gas tax. Since that time, construction costs have doubled while gas tax revenue has grown by only 20%.[310] In the last decade, 30 other states have raised their gas tax, including all but two of Illinois' immediate neighbors.[311]

Despite the relative stability of the MFT, transportation experts have concerns about its long-term viability. Average fuel efficiency has risen and is expected to continue rising.[312] Transportation planners have recommended examining both congestion pricing and a vehicle miles traveled (VMT) tax, which would assess drivers based on the distance they drive, ensuring the reliability of revenues even as cars become more fuel efficient.[313] A number of other states are testing VMT pilot programs to assess the feasibility of implementation and address the

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306 American Society of Civil Engineers, Illinois Section, *Report Card for Illinois Infrastructure*, 2018, https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/FINAL-REPORT-CARD-FOR-2018-IL-Infrastucture.pdf (last visited May 15, 2018).

307 Federal Highway Administration, *Deficient Bridges by Highway System 2017*, December 31, 2017, https://www.fhwa.dot.gov/bridge/nbi/no10/defbr17.cfm (last visited May 15, 2019).

308 Illinois State FY2020 Capital Budget, p. 21.

309 Illinois Department of Revenue, Testimony before the Illinois General Assembly Senate Transportation and Appropriations II Committees, March 4, 2019.

310 Chicago Metropolitan Agency for Planning, "Adequate Transportation Funding: Reforming the Motor Fuel Tax," p. 3, http://www.cmap.illinois.gov/documents/10180/17016/FY15-0061+ADEQUATE+TRANSPORTATION+FUNDING.pdf/60dc6491-b463-436c-b877-ac82e54f0ce3, (last accessed on May 15, 2018).

311 Carl Davis, "Most States Have Raised Gas Taxes in Recent Years," Institute on Taxation and Economic Policy, April 4, 2019.

312 U.S. Bureau of Transportation Statistics, "Table 4-23M: Average Fuel Efficiency of U.S. Light Duty Vehicles," https://www.bts.gov/archive/publications/national_transportation_statistics/table_04_23 (last accessed on May 15, 2018).

313 Chicago Metropolitan Agency for Planning, "Transportation System Funding Concepts," August 2016, p. 5, http://www.cmap.illinois.gov/documents/10180/570463/Transportation+System+Funding+Concepts/a40cfa4a-4743-4cfb-83c3-44f1d1d0ef02 (last accessed on May 15, 2018).

privacy concerns inherent in tracking vehicles.[314] However, a bill to implement such a tax in Illinois was tabled by its sponsor in February.[315]

In November 2016 voters approved a lockbox amendment to the Illinois Constitution that restricts some transportation-derived revenue sources to transportation-related expenditures.[316] While proponents argued that the amendment would prevent fund sweeps that divert transportation funds for other uses, the amendment did not result in expanded revenues for those funds. However, the amendment could made funding improvements to State facilities more difficult. Other new revenue proposals in FY2020, such as legalized sports wagering and cannabis and a tax on e-cigarettes, have been identified by the Governor to help close the operating deficit.

In addition to the challenge of funding capital improvements, other states offer models of planning and prioritizing projects. One prominent example is the Virginia Department of Transportation's SMART SCALE. Virginia statute requires the use of an objective, weighted scoring system for each proposed transportation project that takes into account the project's impact on congestion, safety, accessibility, economic development, the environment and transportation-efficient land use.[317] The resulting scores guide lawmakers' allocation of funding resources.

With pressure to pass an operating budget for FY2020 by the end of the session on May 31, the General Assembly and Governor may not be able to adequately consider sustainable revenue sources or develop a comprehensive project prioritization plan. A better outcome for the State could be passing the Governor's maintenance capital budget, then taking the time to make sure a major capital expansion is done right.

[314] Daniel Vock, "With Gas Taxes in Peril, More States Study Alternatives," *Governing*, January 16, 2018.
[315] 101st Illinois General Assembly, House Bill 2864, filed on February 14, 2019.
[316] Rummana Hussain, "Illinois voters approve 'Safe Roads Amendment'," *Chicago Sun-Times*¸ November 8, 2016.
[317] Code of Virginia, § 33.2-214.1; Virginia Smart Scale, http://vasmartscale.org/ (last accessed on May 15, 2019).

APPENDIX A: STATE OF ILLINOIS BUDGET RESULTS

The following table shows General Funds revenues, expenditures, and budget balances from FY2008 through the projection for FY2020. The numbers for FY2019 and FY2020 are based on the Governor's proposed FY2020 budget; for more information about subsequent changes that affect the budget balances in those years, see page 26.

State of Illinois General Funds Budget: FY2008-FY2020
(in $ millions)

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 Prelim.	FY2019 Est.	FY2020 Rec.
Revenues													
State-Source Revenues	$24,844	$22,577	$21,446	$24,778	$29,939	$32,208	$32,855	$33,404	$28,810	$28,021	$32,985	$34,190	$35,356
Federal Revenues	$4,815	$6,567	$5,920	$5,386	$3,681	$4,155	$3,903	$3,331	$2,665	$2,483	$4,032	$3,220	$3,547
Total Revenues	**$29,659**	**$29,144**	**$27,366**	**$30,164**	**$33,620**	**$36,363**	**$36,758**	**$36,735**	**$31,475**	**$30,504**	**$37,017**	**$37,410**	**$38,903**
Expenditures													
Net Agency Spending*	$ 24,491	$ 26,478	$ 24,313	$ 24,610	$ 23,637	$ 24,235	$ 24,046	$ 23,534	$ 20,564	$ 24,060	$ 26,508	$ 26,653	$ 26,864
Pension Contributions	$ 1,607	$ 2,239	$ 3,466	$ 3,680	$ 4,136	$ 5,107	$ 5,988	$ 6,047	$ 6,632	$ 6,951	$ 7,014	$ 7,478	$ 7,124
Group Health Insurance	$ 1,055	$ 1,058	$ 1,146	$ 885	$ 1,436	$ 1,450	$ 1,446	$ 1,565	$ -	$ -	$ 1,858	$ 2,026	$ 2,028
Statutory Transfers	$ 2,735	$ 2,082	$ 2,007	$ 2,399	$ 2,472	$ 2,340	$ 2,963	$ 2,489	$ 2,472	$ 2,385	$ 582	$ 434	$ 364
Debt Service Transfer for Pension Bonds	$ 467	$ 466	$ 564	$ 1,667	$ 1,607	$ 1,552	$ 1,655	$ 1,502	$ 1,423	$ 1,609	$ 1,576	$ 1,243	$ 708
Other Debt Service Transfer**	$ 3	$ 660	$ 1,759	$ 761	$ 809	$ 683	$ 603	$ 592	$ 556	$ 641	$ 1,451	$ 1,488	$ 1,659
Total Expenditures	**$ 30,358**	**$ 32,983**	**$ 33,255**	**$ 34,002**	**$ 34,097**	**$ 35,367**	**$ 36,701**	**$ 35,729**	**$ 31,647**	**$ 35,646**	**$ 38,991**	**$ 39,322**	**$ 38,748**
Operating Surplus (Deficit) before Borrowing for Operations* **	**$ (699)**	**$ (3,839)**	**$ (5,888)**	**$ (3,838)**	**$ (477)**	**$ 996**	**$ 57**	**$ 1,006**	**$ (172)**	**$ (5,142)**	**$ (1,974)**	**$ (1,912)**	**$ 155**
Borrowing for Operations		$ 1,000	$ 3,466	$ 5,426				$ -	$ -	$ -	$ 533	$ 950	
Operating Surplus (Deficit) after Borrowing for Operations	**$ (699)**	**$ (2,839)**	**$ (2,422)**	**$ 1,588**	**$ (477)**	**$ 996**	**$ 57**	**$ 1,006**	**$ (172)**	**$ (5,142)**	**$ (1,441)**	**$ (962)**	**$ 155**

*FY2019 net agency spending include $473 million in supplemental appropriations that have not been enacted.

**Debt service transfers include $1.0 billion in FY2010 to repay failure of revenue borrowing in FY2009 and exclude $700 million in FY2019 to repay initra-year Treasurer's Investment borrowing.

***Totals may not sum due to rounding.

Source: Illinois State FY2020 Budget, pp. 45 and 57; Illinois State FY2019 Budget, pp. 31 and 62; Illinois State FY2018 Budget, pp. 63 and 78; Illinois State FY2017 Budget, p. 75; Illinois State FY2016 Budget, p. 3-21; Illinois State FY2015 Budget, pp. 2-22 and 3-21; Illinois State FY2014 Budget, pp. 2-16 and 2-29; Illinois State FY2013 Budget, pp. 2-18 and 2-31; Illinois State FY2012 Budget, p. 2-26; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, p. 15; Illinois State FY2011 Budget, pp. 2-10 and 2-20; Illinois State FY2010 Budget, pp. 2-12 and 2-24; Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems, Financial Condition as of June 30, 2017*, March 2018, pp. 123-127.

APPENDIX B: STATE OF ILLINOIS AGENCIES BY OUTCOME

This appendix shows the categorization of State agencies that appears in the FY2020 budget.[318]

P-12 Education[319]
Illinois State Board of Education

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 Math and Science Academy
University Civil Service System

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

Public Safety
Corrections
Financial and Professional Regulation
Insurance
Military Affairs
State Police
Environmental Protection
Criminal Justice Information Authority
Educational Labor Relations Board
Workers' Compensation Commission

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[318] State of Illinois, Governor's Office of Management and Budget, *General Funds Financial Walk Down*, p. 2, November 15, 2018.
[319] The designation for preschool to secondary education, shown as K-12 in the budget, is changed to P-12 in this report.

Law Enforcement Training Standards Board
Prisoner Review Board
Property Tax Appeal Board
Emergency Management Agency
Labor Relations Board
State Police Merit Board
State Fire Marshal

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

Healthcare
Department of 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
Supreme Court Historic Preservation 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
Lottery
Revenue

Innovation and Technology
Management and Budget
Office of the Executive Inspector General
Executive Ethics Commission
Capital Development Board
Civil Service Commission
Drycleaner Environmental Response Trust Fund Council
Procurement Policy Board
Independent Tax Tribunal
Gaming Board
Racing Board
Other Retiree Health Insurance Payments
Chicago Teachers' Pension and Retirement System

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

APPENDIX C: STATE OF ILLINOIS HIGHER EDUCATION FUNDING SHORTFALL

The table below shows the shortfall in average annual State funding for higher education in the five years since FY2015 as a result of the State's budget impasse in FY2016 and FY2017.

Shortfall in State of Illinois Higher Education Funding: FY2015-FY2020 (in $ thousands)*

	FY2015 Exps.	Average Annual Funding FY2016-FY2020	Average Annual Funding as % of FY2015
Chicago State	$ 36,102	$ 31,487	87.2%
Eastern Illinois	$ 42,903	$ 34,997	81.6%
Governors State	$ 23,858	$ 19,597	82.1%
Northeastern Illinois	$ 36,899	$ 30,060	81.5%
Western Illinois	$ 51,445	$ 41,894	81.4%
Illinois State	$ 72,227	$ 58,825	81.4%
Northern Illinois	$ 90,985	$ 74,181	81.5%
Southern Illinois	$ 199,558	$ 163,272	81.8%
University of Illinois	$ 643,719	$ 526,015	81.7%
Total Universities	**$ 1,197,696**	**$ 980,329**	**81.9%**
Board of Higher Education	$ 10,002	$ 11,445	114.4%
Community College Board**	$ 338,319	$ 284,401	84.1%
ISAC***	$ 10,690	$ 19,009	177.8%
ISAC/MAP***	$ 364,050	$ 384,388	105.6%
Math and Science Academy	$ 17,859	$ 18,206	101.9%
State Universities Civil Service	$ 1,158	$ 1,023	88.3%
Total	**$ 1,939,774**	**$ 1,698,800**	**87.6%**

*General Funds and Personal Property Replacement Tax Fund. Does not include funding for the State Universities Retirement System, College Insurance Program or State Employees' Group Insurance Program.

***The Illinois Student Assistance Commission administers the Monetary Award Progam.

Source: Illinois State FY2020 Budget, pp. 447-482; Illinois State FY2016-FY2019 Operating Budget Details, https://www.illinois.gov/gov/budget/Pages/default.aspx; Civic Federation calculations.

APPENDIX D: STATE OF ILLINOIS RETIREMENT SYSTEMS' FINANCIAL CONDITION

The following table shows the most recent estimates of total unfunded liabilities and combined funded ratios for the State of Illinois' five retirement systems from FY2020 through FY2045.

State of Illinois Retirement Systems Financial Condition: FY2020 to FY2045				
Fiscal Year	**Accrued Liabilities**	**Actuarial Value of Assets**	**Unfunded Liabilities (in $ millions)**	**Funded Ratio**
2020	$ 235,785	$ 96,581	$ 139,204	41.0%
2021	$ 242,146	$ 102,177	$ 139,969	42.2%
2022	$ 248,535	$ 107,255	$ 141,280	43.2%
2023	$ 254,817	$ 112,186	$ 142,631	44.0%
2024	$ 260,970	$ 117,183	$ 143,787	44.9%
2025	$ 266,969	$ 122,235	$ 144,734	45.8%
2026	$ 272,799	$ 127,385	$ 145,414	46.7%
2027	$ 278,427	$ 132,637	$ 145,790	47.6%
2028	$ 283,834	$ 137,975	$ 145,859	48.6%
2029	$ 289,017	$ 143,440	$ 145,577	49.6%
2030	$ 293,949	$ 149,023	$ 144,926	50.7%
2031	$ 298,604	$ 154,742	$ 143,862	51.8%
2032	$ 302,964	$ 160,657	$ 142,307	53.0%
2033	$ 307,010	$ 166,825	$ 140,185	54.3%
2034	$ 310,794	$ 174,250	$ 136,545	56.1%
2035	$ 314,245	$ 182,067	$ 132,178	57.9%
2036	$ 317,355	$ 190,330	$ 127,026	60.0%
2037	$ 320,118	$ 199,104	$ 121,014	62.2%
2038	$ 322,521	$ 208,452	$ 114,069	64.6%
2039	$ 324,585	$ 218,465	$ 106,120	67.3%
2040	$ 326,296	$ 229,207	$ 97,088	70.2%
2041	$ 327,679	$ 240,774	$ 86,905	73.5%
2042	$ 328,776	$ 253,284	$ 75,492	77.0%
2043	$ 329,642	$ 266,870	$ 62,773	81.0%
2044	$ 330,344	$ 281,677	$ 48,667	85.3%
2045	$ 330,953	$ 297,856	$ 33,096	90.0%

Source: Illinois General Assembly, Commission on Government Forecasting and Accountibility, *Illinois State Retirement Systems Financial Condition as of June 30, 2018* , April 2019, p. 111.

APPENDIX E: TOTAL DEBT SERVICE

This appendix shows the debt service of all outstanding State of Illinois bonds.

State of Illinois Total Debt Service: GO Bonds and Build Illinois Bonds Bonds Principal and Interest*
(in $ millions)

Fiscal Year	Capital GO	Backlog GO	Pension GO**	Build Illinois	Other Revenue Bonds	Total Debt Service
2019	$ 1,696.8	$ 786.5	$ 1,598.1	$ 318.8	$ 14.4	**$ 4,414.7**
2020	$ 1,631.4	$ 761.5	$ 702.2	$ 298.0	$ 14.4	**$ 3,407.5**
2021	$ 1,571.5	$ 736.5	$ 741.0	$ 258.7	$ 5.6	**$ 3,313.3**
2022	$ 1,490.5	$ 711.5	$ 776.9	$ 262.3	$ -	**$ 3,241.2**
2023	$ 1,437.2	$ 686.5	$ 810.4	$ 243.2	$ -	**$ 3,177.4**
2024	$ 1,345.2	$ 661.5	$ 866.3	$ 228.8	$ -	**$ 3,101.8**
2025	$ 1,235.7	$ 636.5	$ 917.9	$ 220.3	$ -	**$ 3,010.4**
2026	$ 1,197.7	$ 611.5	$ 940.5	$ 211.4	$ -	**$ 2,961.2**
2027	$ 1,067.2	$ 587.0	$ 960.7	$ 182.7	$ -	**$ 2,797.6**
2028	$ 1,033.6	$ 562.5	$ 1,003.2	$ 155.2	$ -	**$ 2,754.5**
2029	$ 976.8	$ 537.5	$ 1,041.9	$ 149.2	$ -	**$ 2,705.4**
2030	$ 884.7	$ 512.5	$ 1,101.7	$ 136.2	$ -	**$ 2,635.1**
2031	$ 813.5	$ -	$ 1,156.4	$ 136.9	$ -	**$ 2,106.7**
2032	$ 711.7	$ -	$ 1,181.0	$ 125.7	$ -	**$ 2,018.4**
2033	$ 658.1	$ -	$ 1,176.7	$ 115.7	$ -	**$ 1,950.5**
2034	$ 666.2	$ -	$ 19.9	$ 109.3	$ -	**$ 795.4**
2035	$ 568.9	$ -	$ 19.2	$ 80.1	$ -	**$ 668.1**
2036	$ 460.6	$ -	$ 18.5	$ 77.1	$ -	**$ 556.2**
2037	$ 393.9	$ -	$ 17.8	$ 43.9	$ -	**$ 455.6**
2038	$ 322.2	$ -	$ 17.0	$ 29.7	$ -	**$ 368.9**
2039	$ 276.1	$ -	$ 16.3	$ 11.7	$ -	**$ 304.2**
2040	$ 118.5	$ -	$ 15.6	$ 11.3	$ -	**$ 145.4**
2041	$ 113.6	$ -	$ 14.9	$ 10.9	$ -	**$ 139.4**
2042	$ 67.6	$ -	$ 14.2	$ 10.5	$ -	**$ 92.2**
2043	$ 45.8	$ -	$ 13.4	$ 10.0	$ -	**$ 69.2**
2044	$ -	$ -	$ 12.7	$ -	$ -	**$ 12.7**
Total	**$ 20,785.2**	**$ 7,791.8**	**$ 15,142.2**	**$ 3,437.7**	**$ 34.4**	**$ 47,191.3**

* As of March 1, 2019. Includes the General Obligation Series of April 2019.

** Includes Pension Buyout Bonds General Obligation Series of April 2019A.

Source: State of Illinois, General Obligation Bonds, Series of April 2019, Official Statement, March 26, 2019, pp. 36, 41.