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Analysis of Illinois’ Fiscal Year 2020 Enacted General Fund Budget

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# Table of Contents

1. **INTRODUCTION** .......................................................................................................................... 1

2. **KEY FINDINGS** .......................................................................................................................... 2

3. **REVENUE PROJECTIONS** ........................................................................................................... 6
   3.1. FY2019 Update ......................................................................................................................... 6
   3.2. FY2020 General Fund Revenue Summary ................................................................................ 7
   3.3. New General Fund Revenue Sources for FY2020 ................................................................. 8
   3.4. Historical Revenue Comparisons ............................................................................................ 12

4. **FY2020 GENERAL FUND SPENDING APPROPRIATIONS** .................................................. 16
   4.1. Differentiating Between Hard Costs and Current Service Expenditures ............................... 16
   4.2. FY2020 Spending on Hard Costs ............................................................................................ 18
   4.3. FY2020 Discretionary Spending on Current Services .......................................................... 20

5. **GENERAL FUND SPENDING TRENDS OVER TIME** ........................................................ 22
   5.1. Nominal Dollar Comparison of Enacted Appropriations for Current Services, FY2019-FY2020 .......................................................................................................................... 22
   5.2. In Real Terms, Appropriations for Most Core Services in the FY2020 General Fund Budget Remain Less than They Were Two Decades Ago—in FY2000 ................................................................. 23

6. **DETAIL OF FY2020 GENERAL FUND CURRENT SERVICES SPENDING BY MAJOR CATEGORY** ...... 26
   6.2. Higher Education Appropriations Increase Under FY2020 General Fund Budget ............... 28
   6.3. Human Services ....................................................................................................................... 31
   6.4. Healthcare ............................................................................................................................... 32

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7. FY2020: PENSION FUNDING.................................................................................................................. 36

8. THE ACCUMULATED DEFICIT.............................................................................................................. 39

9. ILLINOIS’ LONG-TERM STRUCTURAL DEFICIT............................................................................ 40

10. ENDNOTES.......................................................................................................................................................... 43
1. Introduction

In his first year in office, Governor J. B. Pritzker signed a General Fund budget that the General Assembly passed into law — something it took his predecessor four years to accomplish. And while both the General Fund budget for fiscal year ("FY") 2020 and the Governor are new, the fiscal problems which continue to afflict the General Fund are not. In fact, they are both longstanding and structural.

As in prior years, these longstanding General Fund shortcomings have two primary drivers, one revenue based the other cost based. On the revenue side, Illinois’ current tax policy is not designed to work in the modern economy. Because of structural shortcomings in Illinois’ tax policy, General Fund revenue growth does not keep pace with growth in the cost of providing the same level of core public services from one fiscal year to the next. This is known as a "structural deficit," and it means even when no public service programs are added or increased, the accumulated deficit grows annually. Basically then, a structural deficit describes the anticipated year-to-year growth in the deficit, caused by an ongoing mismatch between revenue and service cost growth over time, that will occur if there is no change in policy. This differs from an "accumulated deficit," which is simply the current, total deficit that exists in the General Fund in a given fiscal year.

On the spending side, the annual increases in debt service payments under the 1995 “Pension Ramp” (detailed in Section 7 of this report) that establishes the repayment schedule for the $135 billion in unfunded liability payments Illinois owes to its five public employee pension systems, continue to grow at unaffordable rates. Indeed, the annual increases in debt service payments under the Pension Ramp greatly exceed both inflation and what the state’s tax policy can accommodate.

To deal with some of the long-term, structural deficiencies in the state’s tax policy that have contributed to the structural deficit in Illinois’ General Fund, Governor Pritzker has proposed that Illinois move from having a flat rate income tax to a graduated rate income tax. The Governor refers to his proposal as the "Fair Tax," because it would modify the state income tax to more closely comport with a taxpayer’s ability to pay, by imposing higher tax rates on higher levels of income, and lower rates on lower levels of income. However, before the Fair Tax can become law, the Illinois Constitution, which requires that any state income tax be imposed at one, flat rate across all levels of income would have to be amended.1 If enacted, the Fair Tax is projected to raise some $3.6 billion in new revenue per year.

A resolution to authorize amending the Illinois Constitution to permit a graduated rate income tax structure passed the General Assembly this last legislative session and has been signed by the Governor.2 However, said amendment will not become law unless it is ratified by voters in the next general election, which will be held in November of 2020. That is at least five months into FY2021. As a result, Gov. Pritzker has called his FY2020 budget proposal a "bridge budget" designed to get the state through FY2020 until revenue from the graduated rate income tax can be realized at some point during the ensuing fiscal year of 2021.
2. **Key Findings**

- General Fund revenue for FY2020 is projected to be $40.29 billion, representing a modest 0.23 percent increase from FY2019.³
- In real, inflation-adjusted terms total FY2019 revenue was still slightly less than it was four years ago in FY2015. In fact, after adjusting for inflation, in real 2019 dollars, General Fund revenue for FY2019 was some $1.42 billion, or 3.46 percent, less than it was in FY2013.⁴
- Although the final General Fund revenue the state acknowledged it had for FY2019 totaled $40.2 billion, actual revenue was $39.45 billion. This is because $750 million of FY2019 “revenue” was actually the loan proceeds from short-term borrowing used to pay for General Fund expenses.⁵
- In real, inflation-adjusted terms, that $39.45 billion in FY2019 revenue is virtually equivalent to the $39.26 in total General Fund revenue Illinois’ tax system generated two decades ago in FY2000.⁶
- This means that despite all the changes in income tax rates the state has enacted recently, General Fund tax revenue collections in Illinois have not grown in real terms for 20 years.
- As the actual revenue growth data verify, Illinois’ tax policy does not generate real growth in revenue over time.
- Until the structural flaws with Illinois’ tax policy are redressed, Illinois’ fiscal system will not generate adequate revenue to sustain the same level of service delivery from one fiscal year into the next.
- Stagnation and decline typify the performance of other state taxes that feed the General Fund. When measured in real, 2019, inflation-adjusted dollars, the state has realized little to no revenue growth over the past 20 years from its sales taxes; liquor gallonage taxes; insurance taxes; and corporate franchising taxes and associated fees.⁷
- Net sales tax revenues in FY2019 were $8.41 billion, or roughly 21 percent of all General Fund revenue. This represents a significant decline in importance over time, given that in inflation-adjusted dollars, sales tax revenue comprises $1.77 billion or five percent less of total General Fund revenue in FY2019 than the 26 percent sales taxes accounted for in FY2000.
- The primary reason sales tax revenues have declined in real terms over time is that Illinois has one of the narrowest sales tax bases of the 45 states that impose a general sales tax, because Illinois’ sales tax applies mainly to the sale of goods rather than services.⁸
- Between 1990 and 2016, the sale of goods went from accounting for 25.4 percent of Illinois’ GDP to just 17.4 percent, while the sale of services increased from 64.7 to 73 percent of state GDP. Leaving the largest and fastest growing segment of the economy out of the state’s sales tax base obviously restricts revenue from growing with the economy over time, and thereby impedes Illinois’ ability to generate adequate revenue to fund core services from year-to-year.⁹
- Revenue from several other state tax sources that feed the General Fund have experienced real declines over the FY2000 – FY2019 sequence, including: corporate income taxes; public utility taxes; cigarette taxes; and vehicle use taxes. Federal contributions to the state General Fund have also decreased during this period.¹⁰
- Corporate income tax revenues have experienced one of the most precipitous real declines from its peak. Corporate income tax revenues are projected to decline by some 33.4 percent from $3.59 billion in FY2013 to a projected $2.39 billion in FY2020.
Indeed, federal transfers to the Illinois General Fund have dropped from a peak of $8.07 billion in FY2009, to a projected $3.61 billion in FY2020.\textsuperscript{11}

FY2020 General Fund appropriations for all major service categories are scheduled to receive a nominal dollar increase over FY2019.

This is remarkable, given that such an across the board increase has not happened in over a decade. That said, in nominal, non-inflation-adjusted dollars, the $27.19 billion in net, total spending on Current Services projected for FY2020 is still $500 million less than it was at the end of the Great Recession 11 years ago in FY2009.

Departing from the state’s long-term spending trend, most service categories are actually scheduled to experience a real, inflation-adjusted year-to-year increase in gross appropriations in the FY2020 budget.

And while healthcare appears to be the only Current Service area that will experience a year-to-year cut in real appropriations, the reality is that such spending will actually increase, because $614 million in Medicaid expenditures covered by the General Fund in FY2019, have been transferred to other funds – but are still being made.

In real terms, appropriations for most core services in the FY2020 General Fund budget remain less than they were two decades ago in FY2000.

Real appropriations for both K-12 and early childhood education are scheduled to be higher in FY2020 than they were in FY2000. The FY2020 General Fund budget represents the first time K-12 appropriations will have caught up to FY2000 levels after years of lagging behind. FY2020 Early Childhood Education appropriations are scheduled to be 81.9 percent greater they were in FY2000 in real terms.

The bad news is that every other major service category has experienced a cut since FY2000 in real terms. Despite the 6.72 percent year-to-year increase in Higher Education funding included in the FY2020 General Fund budget, Higher Education appropriations are scheduled to be at least 48.8 percent less than they were in FY2000 after adjusting for inflation and changes in population. General Fund appropriations for Higher Education have been cut nearly in half in real terms over the past two decades. FY2020 Human Services appropriations also fall below FY2000 levels by at least 22 percent in real terms. The qualifier “at least” is used because the differential could be greater after the $918 million in Unspent Appropriations are applied.

The data on General Fund spending for Current Services reveals that Illinois decision makers have implemented a long-term policy of resolving the state’s fiscal problems, in large part, through service spending cuts. This course of action is difficult to justify given Illinois’ status as a low spending state nationally. Consider that, in calendar year 2017, Illinois had the fifth highest state GDP overall, the 12\textsuperscript{th} highest state GDP per capita, and sixth largest population of any state.\textsuperscript{12} As of FY2017, Illinois ranked just 37\textsuperscript{th} out of all 50 states in General Fund spending as a percentage of state GDP.\textsuperscript{13}

The enacted FY2020 General Fund budget demonstrates a state commitment to an enhanced investment in Early Childhood Education by increasing the year-to-year appropriations by $50 million or over 10 percent in nominal dollars, and $42 million or over eight percent in real dollars. This continues a multi-year trend of increasing General Fund appropriations for Early Childhood Education.

The FY2020 enacted General Fund budget also contains a year-to-year increase in appropriations for K-12 Education in both nominal and inflation-adjusted terms, in part due to the state’s new school funding law, the “Evidence Based Funding for Student Success Act” (EBF).
The good news is that Illinois now has a funding formula in place with the potential to build every school's capacity to meet the needs of all children it serves. The bad news is that, according to ISBE, the state's $7.89 billion appropriation for K-12 was still $7.35 billion short of what was needed to fund the EBF fully.\textsuperscript{14}

Overall, the FY2020 General Fund budget increases K-12 Education funding by $448 million over FY2019 levels in nominal dollars. Of that total $448 million increase, $375 million is new general state aid funding under the EBF. If the full $375 million in additional funding for the EBF is disbursed in FY2020, funding for K-12 Education under the EBF will have increased by over $1 billion in nominal dollars since its implementation in FY2018.\textsuperscript{15}

The year-to-year $375 million increase in K-12 Education funding appropriated for FY2020 is a positive step. That said, it is nowhere near adequate if the EBF's statutory requisite that it be fully funded within ten years is to be satisfied.\textsuperscript{16} In fact, if the state were to make year-to-year increases in K-12 funding by the minimum $350 million each fiscal year, it would take 29 years to fund the EBF fully after accounting for inflation. To satisfy the EBF's statutory goal of being fully funded within ten years, K-12 funding would need to increase by at least $843 million every fiscal year, or more than double the $350 million high-end minimum established under the EBF.\textsuperscript{17}

Early Childhood and K-12 Education are the only two major Current Service categories under the enacted FY2020 General Fund budget that are scheduled to receive a real, inflation-adjusted increase in funding over FY2000 levels.

Though K-12 appropriations in FY2019 were below real FY2000 levels, for the first time in two decades, the K-12 appropriation for FY2020 is scheduled to be greater than the FY2000 appropriation in real terms.

The $154 million nominal-dollar increase in appropriations for Higher Education between FY2019 and FY2020 is a much-needed step forward. However, it is nowhere near enough to reverse the significant disinvestment in Higher Education that began during the early 2000's under the administration of Democratic Governor Rod Blagojevich, and became vastly exacerbated during the budget impasse of FY2016 and FY2017 under the administration of Republican Governor Bruce Rauner.

The FY2020 proposed appropriation for Higher Education is still below pre-impasse levels in both nominal and inflation-adjusted terms.

But FY2015 funding levels should not be the benchmark, as they were woefully inadequate when viewed over the long-term.

Illinois is providing less support for Higher Education in FY2020 than it did in FY2000 in both \textit{nominal} and inflation-adjusted terms. In fact, the FY2020 appropriation for Higher Education is just over half of the inflation-adjusted appropriation from two decades earlier.

Illinois would have to nearly double the FY2020 appropriation for Higher Education increasing it by at least $1.85 billion to reach FY2000 appropriation levels.

Under-funding of Higher Education by the state has had numerous negative repercussions. One is that it has made attending public institutions of higher learning in Illinois significantly less affordable because declining state support for colleges and universities has contributed to their increased reliance on revenues from student tuition and fees.

In FY2002, University Income Funds ("UIF") — which are comprised primarily of student tuition and fees — made up just 28 percent of total public university revenue. By FY2017, however, UIF made up 62 percent.\textsuperscript{18}
Between FY2000 and FY2017, average in-state tuition at Illinois’ four-year public universities more than doubled — an increase of 136 percent.\textsuperscript{19} Over the same period, median household income in Illinois declined by 1.74 percent.\textsuperscript{20}

Underfunding Higher Education makes it harder for many Illinois students to attend college at a time when a college degree is more important than ever for success in the labor market.

Consider that, in 1980, full-time American workers with Bachelor’s degrees or higher had median weekly earnings that were 41 percent greater than workers whose highest level of education was a high school diploma. By 2017, that wage gap has nearly doubled to 79.6 percent.\textsuperscript{21}

The FY2020 enacted General Fund budget’s gross, scheduled appropriation for all Human Services is $6.3 billion, which represents a 11.39 percent increase from the final FY2019 appropriation of $5.65 billion in nominal dollars.

The FY2020 General Fund budget includes increases for seven Human Services agencies.

The Human Services agency with the largest scheduled nominal dollar year-to-year increase in FY2020 is DHS. Its total $436 million increase represents an 11.41% increase from FY2019.

Human Services funding over the long-term reveals the extent of the state’s disinvestment in this area, as real General Fund appropriations for Human Services in FY2020 are 22 percent less than they were two decades ago in FY2000. Put another way, Illinois would need to invest an additional $1.7 billion in Human Services in FY2020 to provide the same level of funding that pertained in FY2000.

Overall, including both General Fund and non-General Fund outlays, Medicaid expenditures have increased significantly in the past decade, even after accounting for inflation and changes in population.

In inflation- and population-adjusted 2018 dollars, Medicaid expenditures grew from $17.7 billion in FY2007 to $23.8 billion in FY2018.\textsuperscript{22}

However, because of a simultaneous increase in federal funding, the portion of Medicaid expenditures actually paid for by state, own-source tax revenue grew in inflation-adjusted dollars by just $500 million over this ten-year period, from $6 billion in FY2007 to a projected $6.5 billion in FY2018.

In FY2020, the state enacted a new MCO assessment. About $500 million in revenue from this new Managed Care Provider Assessment, plus additional federal matching funds, will be deposited into the HPRF to cover Medicaid services that prior to FY2020 were paid for through the General Fund.\textsuperscript{23}

To gain a more accurate understanding of how Medicaid spending in Illinois is changing over time, for FY2020 and beyond, consideration of total Healthcare appropriations under both the General Fund and HPRF is required. Taking that approach, it becomes clear that Healthcare appropriations are scheduled to increase by over $1.6 billion between FY2019 and FY2020.

Illinois’ General Fund is projected to end FY2020 with a $8.04 billion accumulated deficit.

The accumulated General Fund deficit projected for FY2020 is primarily the result of the state’s long-term “structural deficit” or the anticipated year-to-year growth in the deficit, caused by an ongoing mismatch between revenue and service cost growth over time.

At this juncture, eliminating the structural deficit by further cutting service spending is not a responsible option. As shown further in this report, Illinois has cut real, per-capita General Fund spending on nearly every service area since FY2000.

Despite some increases for education, Illinois is spending over 24.4 percent less in real terms on all public services in FY2020 than it did in FY2000.
3. Revenue Projections

3.1. FY2019 Update

Before analyzing FY2020 revenue projections, a quick recap of the changes made to the initial revenue estimates for FY2019 is appropriate. The Governor’s Office of Management and Budget (“GOMB”) under former Governor Bruce Rauner originally projected that the General Fund would have $37.66 billion in revenue for FY2019.24 Subsequently in August of 2019, the Commission on Government Forecasting and Accountability (“COGFA”) issued a report estimating revenues of $40.2B for FY2019,25 or $2.53 billion greater than the original GOMB estimate for the year. As detailed in Figure 1, the actual revenue realized in FY2019 was $40.195 billion, as much as COGFA’s revised estimate forecast. Ultimately, FY2019 revenue was greater than GOMB initially estimated for a variety of reasons, but most notably because of stronger than anticipated individual and corporate income tax collections and sales tax receipts.

As illustrated in Figure 1, the greatest anticipated jump in estimated General Fund revenue for FY2019 is the gain of $1.47 billion in net state income tax revenue. COGFA identified the following factors as having contributed materially to increased state income tax revenue for FY2019: non-wage earnings (dividends, capital gains, etc.), under withholding, changes to Federal tax law and the impact those changes had on taxpayer behavior.26
## FY2019 General Fund Revenue Forecast and Update ($ Millions)

<table>
<thead>
<tr>
<th>Type</th>
<th>Item</th>
<th>February 2018 GOMB Forecast</th>
<th>August 2019 COGFA Receipts</th>
<th>Difference</th>
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<tbody>
<tr>
<td><strong>State Sources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net Individual Income Tax</td>
<td>$18,153</td>
<td>$19,236</td>
<td>$1,083</td>
</tr>
<tr>
<td></td>
<td>Net Corporate Income Tax</td>
<td>$1,998</td>
<td>$2,389</td>
<td>$391</td>
</tr>
<tr>
<td></td>
<td>Net Sales Tax</td>
<td>$8,110</td>
<td>$8,409</td>
<td>$299</td>
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<tr>
<td></td>
<td>Public Utility Taxes (regular)</td>
<td>$868</td>
<td>$863</td>
<td>($5)</td>
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<tr>
<td></td>
<td>Cigarette Tax</td>
<td>$348</td>
<td>$361</td>
<td>$13</td>
</tr>
<tr>
<td></td>
<td>Liquor Gallonage Taxes</td>
<td>$173</td>
<td>$172</td>
<td>($1)</td>
</tr>
<tr>
<td></td>
<td>Vehicle Use Tax</td>
<td>$30</td>
<td>$31</td>
<td>$1</td>
</tr>
<tr>
<td></td>
<td>Inheritance Tax (Gross)</td>
<td>$275</td>
<td>$388</td>
<td>$113</td>
</tr>
<tr>
<td></td>
<td>Insurance Taxes and Fees</td>
<td>$397</td>
<td>$396</td>
<td>($1)</td>
</tr>
<tr>
<td></td>
<td>Corporate Franchise Tax &amp; Fees</td>
<td>$203</td>
<td>$247</td>
<td>$44</td>
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<tr>
<td></td>
<td>Interest on State Funds &amp; Investments</td>
<td>$46</td>
<td>$145</td>
<td>$99</td>
</tr>
<tr>
<td></td>
<td>Cook County Intergovernmental Transfer</td>
<td>$244</td>
<td>$244</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>Other Sources</strong></td>
<td>$693</td>
<td>$669</td>
<td>($24)</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lottery</td>
<td>$733</td>
<td>$731</td>
<td>($2)</td>
</tr>
<tr>
<td></td>
<td>Gaming Fund Transfer (and related)</td>
<td>$273</td>
<td>$279</td>
<td>$6</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>$766</td>
<td>$1,035</td>
<td>$269</td>
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<tr>
<td></td>
<td><strong>Interfund Borrowing</strong></td>
<td>$600</td>
<td>$950</td>
<td>$350</td>
</tr>
<tr>
<td><strong>Federal Sources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total Revenues</strong></td>
<td><strong>$37,664</strong></td>
<td><strong>$40,195</strong></td>
<td><strong>$2,531</strong></td>
</tr>
</tbody>
</table>

### 3.2. FY2020 General Fund Revenue Summary

After initially estimating $38.9 billion in General Fund revenue for FY2019, GOMB now projects that FY2020 revenue will reach $40.29 billion. That represents a modest $92 million or 0.23 percent increase from the actual receipts for FY2019.
GOMB opted to increase its FY2020 revenue estimate after revenue collections from both the individual and corporate income taxes exceeded initial expectations in April of 2019. That said, the Governor’s office has not yet released a detailed report on all current projections used to calculate the $40.29 billion revised revenue estimate for FY2020. Because of that, the FY2020 revenue projection set forth in Figure 2 is based on CTBA’s analysis of various sources including: COGFA’s revenue projection of 2019, revenue estimates from recently enacted laws, projected additional federal transfers due to reimbursements for state spending and transfers from various fund sweeps.

Figure 2

General Fund Revenue, FY2019 – FY2020 ($ Millions)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>FY2019 (Receipts)</th>
<th>FY2020 (COGFA Estimate)</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Individual Income Tax</td>
<td>$19,236</td>
<td>$19,702</td>
<td>$466</td>
<td>2.42%</td>
</tr>
<tr>
<td>Net Corporate Income Tax</td>
<td>$2,389</td>
<td>$2,444</td>
<td>$55</td>
<td>2.30%</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$8,409</td>
<td>$8,543</td>
<td>$134</td>
<td>1.59%</td>
</tr>
<tr>
<td>Other Sources</td>
<td>$3,516</td>
<td>$3,595</td>
<td>$79</td>
<td>2.25%</td>
</tr>
<tr>
<td>Transfers In</td>
<td>$2,045</td>
<td>$2,206</td>
<td>$161</td>
<td>7.87%</td>
</tr>
<tr>
<td>Interfund Borrowing</td>
<td>$1,000</td>
<td>$100</td>
<td>($900)</td>
<td>-90.00%</td>
</tr>
<tr>
<td>Federal Sources</td>
<td>$3,600</td>
<td>$3,697</td>
<td>$97</td>
<td>2.69%</td>
</tr>
<tr>
<td><strong>Total General Funds</strong></td>
<td><strong>$40,195</strong></td>
<td><strong>$40,287</strong></td>
<td><strong>$92</strong></td>
<td><strong>0.23%</strong></td>
</tr>
</tbody>
</table>

Source: COGFA – August Update, GOMB

3.3. **New General Fund Revenue Sources for FY2020**

To address some of Illinois’ long-standing, structural fiscal problems, Governor Pritzker has proposed — and the General Assembly has passed — a resolution to amend the Illinois constitution to permit creating a graduated rate income tax for the State. However, that amendment will not become law, unless voters ratify it in the next general election, which occurs in November of 2020.

Since the Fair Tax proposal cannot become law — if at all — until at least five months into FY2021, Governor Pritzker proposed creating various new revenue sources for FY2020 to help fund services until the Fair Tax becomes law. These new revenue sources would support the General Fund, while most of the Managed Care Organization Assessment and Video Gaming proposal were slated to fund a special Medicaid trust fund and capital projects respectively. Figure 3 identifies all of Pritzker’s proposed new revenue sources, which of those were enacted, and how much each was projected to generate in revenue for FY2020.
Following is a short summary of each of the new revenue sources Governor Pritzker proposed for FY2020.

i. **Recreational Cannabis**

Governor Pritzker proposed to legalize the use of recreational cannabis, and to impose a similar license and tax structure to that of sports wagering. His administration projected that initial fee-only revenue will be around $170 million in FY2020. The proposal was enacted into law. Updated estimates now project the initiative will generate around $57 million in FY2020.32

ii. **Managed Care Organization (MCO) Assessment**

Governor Pritzker proposed creating a new, per-member, per-month assessment charged to MCOs to generate approximately $390 million in new revenue annually. All revenue from the MCO assessment goes to a Medicaid trust fund and will be used solely to pay for a portion of Illinois’ Medicaid costs. By dedicating this new revenue source to covering Medicaid payments, it creates the added fiscal advantage of generating millions in additional federal Medicaid matching dollars. This proposal was enacted.33

iii. **Delinquent Tax Payment Incentive Program**

Governor Pritzker proposed an incentive program to accelerate collection of delinquent income tax revenue that is already owed to the state. Under the program, delinquent taxpayers save some penalty and interest charges by paying back-taxes.34 Estimates project this will result in $175 million in delinquent income tax payments being made in FY2020. This proposal was enacted.35
iv. **Decoupling from Federal Repatriation Credit**

Both of Illinois’ individual and corporate income tax codes are based upon federal law.36 This means whenever federal income tax law changes, that change automatically impacts Illinois’ income tax codes, unless the state “decouples” from the federal change. Under the federal Tax Cuts and Jobs Act of 2017, passed by Congress and signed into law by President Trump, corporations received the right to deduct certain foreign derived income from their federal taxes.37 Governor Pritzker proposed decoupling Illinois from this new federal corporate income tax deduction, thereby allowing Illinois to tax the full amount of a corporation’s foreign derived income which is attributable to Illinois. This is projected to save $94 million in corporate income tax revenues Illinois would have lost had it not decoupled from this new federal deduction. The proposal to decouple was enacted.38

v. **Sports Wagering**

Governor Pritzker proposed legalizing sports wagering, and then imposing a 20 percent tax on the total dollar amount wagered annually. GOMB projected this would generate between $77 million and $136 million in new revenue per year. Additionally, the Governor proposed assessing a $10 million fee for approval to operate a sports wagering business, with a renewal fee of $5,000. The proposal included a tax credit whereby approved operators would be able to reduce the annual wagering tax they owed by an amount equal to 90% of one-fifth of the initial license fee they paid, each year for the first five years after they began operations. As a package, the combination of new tax revenues and license fees, minus credits, was projected to net $200 million in new revenue for FY2020. Initially, the Governor proposed that this revenue would support the General Fund. However, when the proposal was enacted, all new revenue from sports wagering was dedicated to support the capital fund instead.39

vi. **Online Sales Tax Collection**

While not proposed initially by Governor Pritzker, legislation was enacted to require marketplace facilitators (such as Amazon or eBay) to collect sales taxes from third-party online sellers.40 New revenue from this initiative is projected to be $80 million, annually.

vii. **Capping the Private School Scholarship Credit**

Since 2017, Illinois has granted a tax credit to individuals and businesses who make qualified contributions to state authorized “scholarship granting authorities” to fund private school scholarships.41 Governor Pritzker proposed to cap the total value of this credit at $50 million annually. It was estimated this would save $6 million in General Fund revenue annually. This proposal was not enacted.

viii. **Bag Tax**

Governor Pritzker proposed creation of a five cent per bag tax on single use plastic bags.42 His administration projected this would generate between $19 million and $23 million in new revenue annually, dependent on whether the legislation authorizing this tax at the state level exempted the City of Chicago, as the City currently has its own bag tax. This proposal was not enacted.
ix. **Progressivity in Video Gaming**

Governor Pritzker proposed moving away from the state’s current flat tax on video gaming[^43], to create two tiers of taxation for video gaming operators, based on their total revenue. Under this proposal the state would impose a lower tax rate of 30% on all “net terminal income” — which is the difference between revenue generated by an individual video gaming machine and the winnings paid out by said terminal to individuals — below $2.5 million, and a higher rate of 50% on all net terminal income at or above $2.5 million.[^44] This was projected to generate an additional $89 million for the capital projects fund, but was not enacted.

x. **Cap Retailers Discount**

Pursuant to a program called the “Retailer's Discount,” businesses that charge and collect the State’s sales and use tax are allowed to keep 1.75% of what they collect as an administrative fee.[^45] Under current law, there is no limit on the amount a retailer may keep. Of the states with similar legislation, Illinois has one of the most generous retailer's discount programs. Governor Pritzker proposed to create a $1,000 per month cap on the Retailer's Discount, which was projected to increase net sales tax revenue to the state by $75 million dollars per year. Under this structure, 99% of retailers would not lose any of their discount fee. This proposal was not enacted.
3.4. Historical Revenue Comparisons

As indicated previously, actual revenue for FY2019 totaled $40.20 billion, or $2.53 billion greater than the initial estimate for that year. However, in real, inflation-adjusted terms total FY2019 revenue was still slightly less than it was four years ago in FY2015. In fact, after adjusting for inflation, in real 2019 dollars, General Fund revenue for FY2019 was some $1.42 billion, or 3.46 percent, less than it was in FY2013, as shown in Figure 4. The sharp decline in General Fund revenues from FY2015 to FY2017 highlighted in Figure 4 was due in large part to a reduction in the State’s individual and corporate income tax rates.46

Figure 4
Total General Fund Revenue, FY2000 – FY2020
(Millions of Dollars), Inflation-Adjusted Using 2019 Dollars

Source: COGFA Historical Revenue Tables
For the purposes of structural historical analysis, CTBA does not include short-term borrowing in the calculation for General Fund revenue. Thus, while the state of Illinois technically recognized it had $40.20 billion in revenue for FY2019, $750 million of that was from short-term borrowing to fund general expenses and hence does not actually constitute revenue.

Indeed, the single most important reason for fluctuation in state revenues over the last several years has been changes to Illinois’ individual and corporate income tax rates. For instance, in 2011, Illinois’ individual income tax rate was increased temporarily from three percent to five percent.48 Then by law in January of 2016, the individual income tax rate automatically decreased from five percent (5%) to 3.75 percent.49 Then in FY2018, the individual income tax rate was increased by legislative action to 4.95 percent under Public Act 100-0022.50 Not surprisingly, net individual income tax revenues the state realized declined in real, inflation-adjusted, dollars by $2.58 billion from FY2015 to FY2016, when the income tax rates were cut.51

During this period, corresponding changes were made in the corporate income tax rates which also lead to similar fluctuations in corporate income tax revenue collected, as more fully explicated below in this section.
Although the final General Fund revenue the state acknowledged it had for FY2019 totaled $40.2 billion, actual revenue was $39.45 billion. This is because $750 million of FY2019 “revenue” was actually the loan proceeds from short-term borrowing used to pay for General Fund expenses.52

This is eye-opening because in real, inflation-adjusted terms, that $39.45 billion in FY2019 revenue is virtually equivalent to the $39.26 in total General Fund revenue Illinois’ tax system generated two decades ago in FY2000.53 This means that despite all the changes in income tax rates the state has enacted recently, General Fund tax revenue collections in Illinois have not grown in real terms for 20 years. That in turn highlights how poorly functioning Illinois’ overall revenue system is, as currently designed. As CTBA has maintained for years, and as the actual revenue growth data verify, Illinois’ tax policy does not generate real growth in revenue over time. Unless and until the structural flaws with Illinois’ tax policy are redressed, Illinois’ fiscal system will not generate adequate revenue to sustain the same level of service delivery from one fiscal year into the next.

Digging deeper into the various revenue sources that feed the General Fund, some interesting details emerge. For instance, as shown in Figure 5, after adjusting for inflation, individual income tax revenue for FY2019 will exceed its previous peak that occurred in FY2013 by roughly $498 million.54 This is primarily due to an unexpected jump in income tax collections that occurred in April of 2019.55 This gain was somewhat offset by a decline in income tax receipts realized in May of 2019.

Figure 5
Net Individual Income Tax Revenue, FY2000 – FY2020
(Millions of Dollars), Inflation-Adjusted Using 2019 Dollars

Source: COGFA Historical Revenue Tables

Meanwhile, despite the unexpected growth in FY2019 income tax receipts, stagnation and decline typify the performance of other state taxes that feed the General Fund. Indeed, when measured in real, 2019, inflation-adjusted dollars, the state has realized little to no revenue growth over the past 20 years from its sales taxes; liquor gallonage taxes; insurance taxes; and corporate franchising taxes and associated fees.56
The most important of these revenue sources to exhibit little to no growth over the past twenty years is the sales tax. Consider that net sales tax revenues in FY2019 were $8.41 billion, or roughly 21 percent of all General Fund revenue. This represents a significant decline in importance over time, given that in inflation-adjusted dollars, sales tax revenue comprises $1.77 billion or five percent less of total General Fund revenue in FY2019 than the 26 percent sales taxes accounted for in FY2000. The real decline in sales tax revenue experienced in Illinois since FY2000 is shown in Figure 6.

Figure 6

The primary reason sales tax revenues have declined in real terms over time is that Illinois has one of the narrowest sales tax bases of the 45 states that impose a general sales tax. The “base” of a tax is simply what the tax is assessed against. In the case of the sales tax, the “base” is comprised of the type of sales transactions the tax covers. Illinois has one of the narrowest sales tax bases of any state because Illinois’ sales tax applies mainly to the sale of goods rather than services.

That’s problematic because the economy has transitioned from being primarily products-based to being primarily service-based. Illinois’ sales tax has failed to respond to this fundamental transformation. Consider that, between 1990 and 2016, the sale of goods went from accounting for 25.4 percent of Illinois’ GDP to just 17.4 percent, while the sale of services increased from 64.7 to 73 percent of state GDP. Leaving the largest and fastest growing segment of the economy out of the state’s sales tax base obviously restricts revenue from growing with the economy over time, and thereby impedes Illinois’ ability to generate adequate revenue to fund core services from year-to-year.

Revenue from several other state tax sources that feed the General Fund have experienced real declines over the FY2000 – FY2019 sequence, including: corporate income taxes; public utility taxes; cigarette taxes; and vehicle use taxes. Federal contributions to the state General Fund have also decreased during this period.
Of these declining revenue sources, corporate income tax revenues have experienced one of the most precipitous real declines from its peak. Corporate income tax revenues are projected to decline by some 33.4 percent from $3.59 billion in FY2013 to a projected $2.39 billion in FY2020, as shown in Figure 7.

Meanwhile, although federal transfers to Illinois have seen some variation over the past 20 years, since FY2009 the clear trend has been a notable decline. Indeed, federal transfers to the Illinois General Fund have dropped...
from a peak of $8.07 billion in FY2009, to a projected $3.61 billion in FY2020, as shown in Figure 8.\textsuperscript{50} The significant year-to-year increase in federal transfers Illinois realized over the FY2017–FY2018 sequence was primarily due to enhanced federal matching dollars received following the state’s utilization of $6 billion in general obligation bond proceeds to pay past due Medicaid bills in FY2018.\textsuperscript{61}

### 4. FY2020 General Fund Spending Appropriations

#### 4.1. Differentiating Between Hard Costs and Current Service Expenditures

A state’s General Fund is its primary budget — the one which both covers most current services and reveals actual legislative and gubernatorial priorities. Illinois’ General Fund budget consists of two main elements: “Hard Costs” and “Current Services.”

“Hard Costs” are mandatory spending obligations over which decision makers have no discretion. Hard Costs are required to be paid by either existing law, such as debt service payments owed to bondholders, or contractual obligations, like paying health insurance benefits for state workers. In the FY2020 General Fund budget, $13.6 billion, or 33 percent, of the $40.8 billion in total, net spending appropriations are for Hard Costs.

“Current Services” cover spending on public services over which elected officials generally have at least some discretion. Currently, 96 cents out of every $1 of General Fund spending on Current Services goes to the core areas of Education, Healthcare, Human Services, and Public Safety. After accounting for nondiscretionary Hard Costs in FY2020, the remaining General Fund budget contains a \textit{gross} appropriation of $27.93 billion for spending on Current Services.

However, the final net appropriation for Current Services in FY2020 will be $27.01 billion, or $918 million less than the gross appropriation. The reason for this is the FY2020 General Fund budget — as is typical for most General Fund budgets — identifies a dollar amount of gross appropriations that despite being authorized will not actually be spent. This line item is generally dubbed “\textit{Unspent Appropriations}.” Though the total dollar amount that will not be spent is identified, there is no detail about which specific spending categories will be reduced when the Unspent Appropriations are applied to spending levels that were initially appropriated in the budget. Figure 9 shows the FY2020 proposed Hard Cost and Current Service appropriations by major category.
Figure 9

FY2020 Enacted General Fund Appropriations ($ Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Item</th>
<th>Enacted Appropriation, CTBA analysis of P.A. 101-0007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Hard Costs</td>
<td></td>
<td>$13,564</td>
</tr>
<tr>
<td></td>
<td>Debt Service (Pension &amp; Capital Bonds)</td>
<td>$2,175</td>
</tr>
<tr>
<td></td>
<td>Other Statutory Transfers Out</td>
<td>$854</td>
</tr>
<tr>
<td></td>
<td>Pension Contributions</td>
<td>$8,507</td>
</tr>
<tr>
<td></td>
<td>Group Health Insurance</td>
<td>$2,028</td>
</tr>
<tr>
<td>General Fund Service Appropriations (Gross)</td>
<td></td>
<td>$27,926</td>
</tr>
<tr>
<td></td>
<td>Healthcare (including Medicaid)</td>
<td>$7,619</td>
</tr>
<tr>
<td></td>
<td>Early Childhood Education</td>
<td>$545</td>
</tr>
<tr>
<td></td>
<td>K-12 Education</td>
<td>$8,339</td>
</tr>
<tr>
<td></td>
<td>Higher Education</td>
<td>$1,943</td>
</tr>
<tr>
<td></td>
<td>Human Services</td>
<td>$6,298</td>
</tr>
<tr>
<td></td>
<td>Public Safety</td>
<td>$1,979</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>$1,203</td>
</tr>
<tr>
<td></td>
<td>Unspent Appropriations</td>
<td>($918)</td>
</tr>
<tr>
<td>Net General Fund Service Appropriations</td>
<td></td>
<td>$27,007</td>
</tr>
<tr>
<td>Net Total General Fund Appropriations</td>
<td></td>
<td>$40,756</td>
</tr>
</tbody>
</table>

Sources: CTBA analysis of FY2020 Enacted Budget

Figure 10 provides a breakdown of how every $1 of gross appropriations in the FY2020 enacted General Fund budget is intended to be spent, including both Hard Costs and Current Services spending.
As shown in Figure 10, for every $1 in taxes paid into the General Fund, approximately $0.33 go to aspects of the budget the Governor and General Assembly have little to no discretion over — like pension debt and debt service on bonds — while the remaining $0.67 will be spent on current year services. Out of that $0.67: $0.20 is for K-12 Education; $0.18 is for Healthcare; $0.15 goes to Human Services; $0.05 goes to Public Safety; $0.05 for Higher Education; $0.01 for Early Childhood Education; and $0.03 is targeted for all other government services, including environmental protection, economic development, and Illinois’ Constitutional offices.

### 4.2. FY2020 Spending on Hard Costs

Expenditures are categorized as “Hard Costs” because they are either required to be paid by current law or required to be paid under a binding state contract. Hence, neither the General Assembly nor Governor has the discretion to reduce or eliminate them without changing law. That is an important qualification given that the Pritzker Administration did in fact propose a change in funding under the Pension Ramp, which is detailed in Section 7 of this report, but which did not pass the legislature. The Hard Costs payable in FY2020 are for “Group Health Insurance,” “Debt Service,” “Pension Contributions,” and “Other Statutory Transfers Out.” Collectively, a total of $13.6 billion has been appropriated to cover these Hard Costs in FY2020, which represents a $419 million (3.6 percent) nominal dollar decrease from FY2019.

Since Hard Costs must be paid, they constitute an automatic charge against the revenue available to fund core services in a fiscal year — which are primarily Education, Healthcare, Human Services, and Public Safety. As a corollary, because the Hard Costs for a Fiscal Year must be paid, any accumulated deficit the state may be carrying in its General Fund impacts solely the discretionary appropriations made for Current Services in the applicable fiscal year.
Figure 11 details how the Hard Cost appropriations enacted for FY2020 differ from both the initial proposal therefor made by Governor Pritzker, as well as the current estimate for actual Hard Cost expenditures for FY2019.

The first item listed under Hard Costs in Figure 11 is “Group Health Insurance” or “Group Health,” which covers the cost of the state’s health insurance program provided to current employees and retirees. In FY2020, the appropriation for Group Health is $2.028 billion, a $2 million (0.1 percent) nominal dollar increase from FY2019.62

The next item listed in Figure 11 is “Debt Service.” Debt service payments are payments made on general obligation bonds. Proceeds from the sale of general obligation bonds have primarily been used to finance capital projects and meet the state’s required pension contribution. In the FY2020 enacted budget, $2.175 billion is appropriated to spend on debt service, a $484 million nominal decrease from FY2019. This year-to-year decrease is largely the result of expiring pension obligation bonds.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Health Insurance</td>
<td>$2,026</td>
<td>$2,028</td>
<td>$2,028</td>
<td>$2</td>
<td>0.10%</td>
</tr>
<tr>
<td>Debt Service (Pension &amp; Capital Bonds)</td>
<td>$2,659</td>
<td>$2,282</td>
<td>$2,175</td>
<td>($484)</td>
<td>-4.69%</td>
</tr>
<tr>
<td>Pension Contributions</td>
<td>$7,847</td>
<td>$7,525</td>
<td>$8,507</td>
<td>$660</td>
<td>8.41%</td>
</tr>
<tr>
<td>Other Statutory Transfers Out</td>
<td>$1,541</td>
<td>$749</td>
<td>$854</td>
<td>($686)</td>
<td>-44.58%</td>
</tr>
<tr>
<td>Total</td>
<td>$14,073</td>
<td>$12,584</td>
<td>$13,564</td>
<td>($419)</td>
<td>-3.62%</td>
</tr>
</tbody>
</table>

Sources: CTBA Analysis of FY2020 Enacted Budget

The third Hard Cost line in Figure 11 is for “Pension Contributions”. The FY2020 General Fund appropriation for Pension Contributions covers $8.507 billion of the $8.454 billion in total FY2020 payments the state is required to make to the five public employee pension systems it has the responsibility to fund: the Teachers’ Retirement System (“TRS”), State University Retirement System (“SURS”), State Employees Retirement System (“SERS”), the General Assembly Retirement System (“GARS”), and the Judicial Retirement System (“JRS”). Also included in the “Pension Contributions” line is an additional $395 million in appropriations of which $4.3 million goes to SERS for the College Insurance Program, $132 goes to TRS for the Teachers’ Retirement Insurance Program, and $257 million goes to the Public School Teachers’ Pension and Retirement Fund of Chicago. Total pension contributions are $660 million — or 8.4 percent — greater in FY2020 than they were in FY2019.63 This jump is due to the back-loaded schedule for repaying debt the state owes to its five pension systems that was created under “the 1995 Pension Ramp.” A more detailed analysis of pension funding at the state level in Illinois is set forth in Section 7 of this report.
The fourth Hard Cost listed in Figure 11 is "Other Statutory Transfers Out." As the name implies, Other Statutory Transfers Out covers expenditures other than for pension debt and debt service that, pursuant to existing state legislation, must be paid from the General Fund annually. FY2020 appropriations for Other Statutory Transfers Out of General Fund are scheduled to be $854 million – or 44.6 percent less than in FY2019.

The largest cause of the year-to-year decrease in Other Statutory Transfers Out is not due to an actual reduction in spending. Under the FY2020 enacted budget, some $500 million in new revenue from a special assessment created on MCOs will go directly into the Healthcare Provider Relief Fund ("HPRF"). This replaces a $500 million Other Statutory Transfer Out in General Fund revenue that went to the HPRF in FY2019. This of course means that, while the Other Statutory Transfers Out column was reduced, there was no actual reduction in spending, because the newly created MCO assessment that raised $500 million to cover the Medicaid costs paid for through the HPRF in FY2020, simply replaced the $500 million in FY2019 General Fund revenue that went to the HPRF.

4.3. FY2020 Discretionary Spending on Current Services

Since Hard Costs are mandatory expenditures required by law, they do not provide much insight into current legislative or gubernatorial policy priorities. Discretionary spending, on the other hand, does. Discretionary spending in the FY2020 enacted General Fund budget is represented by the appropriations made for Current Services. The vast majority of those appropriations — 96 percent — go to the four core areas of Education, Healthcare, Human Services, and Public Safety.

Appropriations for “Education” cover three subcategories: “Early Childhood Education,” “K-12 Education,” and “Higher Education." The agency responsible for administering appropriations for both Early Childhood Education and K-12 Education is the Illinois State Board of Education ("ISBE"). The Higher Education category includes appropriations made to the Board of Higher Education, the Illinois Community College Board, the Illinois Mathematics and Science Academy, the Illinois Student Assistance Commission, the State Universities Civil Service System, and Illinois’ nine public universities.

The “Human Services” category includes all appropriations made for the three agencies primarily responsible for delivering those services: the Department on Aging ("DOA"), Department of Children and Family Services ("DCFS"), and the Department of Human Services ("DHS"). Several other agencies that receive small amounts of General Fund appropriations are also grouped into the Human Services category. The “Public Safety” category includes appropriations for the Department of Corrections ("DOC"), Department of Juvenile Justice ("DJJ"), the Illinois State Police, and several smaller agencies.

The “Healthcare” category consists of appropriations for the Department of Health and Family Services ("DHFS") and the Department of Public Health. Note that the vast majority of General Fund appropriations for DHFS — over 95 percent — is targeted for Medicaid.

The category of "Other" includes appropriations for every other service provided by and function of state government, including appropriations for: legislative agencies such as the General Assembly and Commission on Government Forecasting and Accountability ("COGFA"); state Constitutional Offices; smaller state agencies such as the Department of Central Management Services ("CMS"), Department of Commerce and Economic

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Opportunity, and Department of Revenue ("IDOR"); all environmental protection expenditures; and various boards, commissions, and authorities, such as the Capital Development Board and East St. Louis Financial Advisory Authority.

As shown in Figure 12, the FY2020 General Fund budget for Current Services continues to prioritize the same core services of Education (38.8 percent), Healthcare (27.3 percent), Human Services (22.6 percent), and Public Safety (7.1 percent) the state has historically devoted its General Fund to providing. Combined, these core service areas account for about 96 cents out of every dollar of gross FY2020 enacted General Fund appropriations for Current Services.

Although Figure 12 shows the breakdown of the $27.93 billion in *gross* appropriations for Current Services, spending reductions authorized by the $918 million in "Unspent Appropriations" budget line would likely reduce total, net appropriations just $27.01 billion. However, there currently is no detail available to allocate to specific service categories the cuts authorized pursuant to the Unspent Appropriation line.
5. General Fund Spending Trends Over Time

5.1. Nominal Dollar Comparison of Enacted Appropriations for Current Services, FY2019-FY2020

As shown in Figure 13, FY2020 General Fund appropriations for all major service categories are scheduled to receive a nominal dollar increase over FY2019. This is remarkable, given that such an across the board increase has not happened in over a decade. That said, in nominal, non-inflation-adjusted dollars, the $27.19 billion in net, total spending on Current Services projected for FY2020 is still $500 million less than it was at the end of the Great Recession 11 years ago in FY2009.69

Figure 13
FY2020 Proposed and Enacted Gross General Fund Appropriations Compared to FY2019 Appropriation – Nominal Dollars ($ Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2019 Approp (Nominal)</th>
<th>FY2020 Enacted</th>
<th>Diff FY2019 &amp; FY2020 Enacted</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 Education</td>
<td>$7,891</td>
<td>$8,339</td>
<td>$448</td>
<td>5.67%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>$6,949</td>
<td>$7,619</td>
<td>$670</td>
<td>9.64%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$5,654</td>
<td>$6,298</td>
<td>$644</td>
<td>11.39%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$1,841</td>
<td>$1,979</td>
<td>$138</td>
<td>7.5%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$1,789</td>
<td>$1,943</td>
<td>$154</td>
<td>8.60%</td>
</tr>
<tr>
<td>Early Childhood</td>
<td>$494</td>
<td>$545</td>
<td>$51</td>
<td>10.27%</td>
</tr>
<tr>
<td>Education</td>
<td>$1,137</td>
<td>$1,203</td>
<td>$66</td>
<td>5.84%</td>
</tr>
<tr>
<td>Total</td>
<td>$25,754</td>
<td>$27,926</td>
<td>$2,171</td>
<td>8.43%</td>
</tr>
</tbody>
</table>

Source: CTBA Analysis of FY2020 Enacted Budget

Under the enacted FY2020 General Fund budget, total gross service appropriations are scheduled to increase by $2.2 billion or 8.4 percent over FY2019 enacted appropriation levels. However, there is one caveat. Figure 13 shows the maximum potential appropriations possible for FY2020. Many of these maximum authorized spending amounts will not be realized, however, because there remains $918 million in “Unspent Appropriations” for FY2020, which, when applied over the course of the fiscal year, will reduce actual spending below gross appropriation authority in various categories. Moreover, the FY2020 General Fund budget is predicated on a $1.2 billion year-to-year increase in forecasted revenue — based on a combination of new revenue sources as well as adjustments to prior forecasts. If any of those estimates are overly optimistic, cuts in
General Fund service spending in various areas, or growth in the state’s accumulated General Fund budget deficit, will result.

5.2. **In Real Terms, Appropriations for Most Core Services in the FY2020 General Fund Budget Remain Less than They Were Two Decades Ago—in FY2000**

Of course, a nominal dollar comparison does not provide an accurate barometer of whether spending on services is actually growing, staying flat, or declining. That is because nominal dollar comparisons do not adjust for either inflation or population change, both of which make it more expensive to provide the same level of services from one fiscal year into the next.

There are two major inflation metrics published by the Federal Bureau of Labor Statistics ("BLS") that are used to determine how much the cost of products and services increase over time. The first is the Consumer Price Index ("CPI"). The CPI is a comprehensive inflation measure that broadly covers the change in price for all goods and services in the economy — from bread to bowling. However, state government purchases very few goods included in the CPI, which means the CPI is not the best measure for evaluating public sector spending.

The second major inflation metric is the Employment Cost Index ("ECI"). As the name implies, the ECI focuses on changes in the cost of paying compensation to workers over time. Public services are very labor intensive, and the vast majority of public sector expenditures on services made through the Illinois General Fund — 75 to 85 percent annually — cover the compensation paid to the Healthcare workers, teachers, correctional officers, social workers and other civil servants who provide the public services consumed in communities across the state. Hence, the ECI is the more accurate metric for analyzing the inflationary cost increases that impact public sector expenditures on services.

Calculating inflation adjustments over time is relatively simple. Say expenditures on Public Safety were $100 in year one, and the inflation rate for that year was three percent. In year two, the appropriation for Public Safety would have to be $103 to purchase the same level of services provided in year one, in what is referred to as "real" — i.e. inflation-adjusted — terms. If instead Public Safety received an appropriation of $101 in year two, then despite the $1 increase in nominal appropriations, in real, inflation-adjusted terms, spending was actually cut by $2.

Figure 14 shows how FY2020 General Fund appropriations for Current Services compare to FY2019 General Fund budget appropriations in real, inflation- and population-adjusted dollars. Departing from the state’s long-term spending trend, most service categories are actually scheduled to experience a real, inflation-adjusted year-to-year increase in gross appropriations in the FY2020 budget.
**Figure 14**

**General Fund Spending: Enacted FY2019 Compared to Enacted FY2020, Adjusted for Inflation and Population Growth ($ Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2019 Approp (Nominal)</th>
<th>FY2019 Approp (Infl/Pop Adj)</th>
<th>FY2020 Enacted</th>
<th>$ Difference (After Inflation)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 Education</td>
<td>$7,891</td>
<td>$8,030</td>
<td>$8,339</td>
<td>$308</td>
<td>3.84%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>$6,949</td>
<td>$7,071</td>
<td>$7,619</td>
<td>$547</td>
<td>7.74%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$5,654</td>
<td>$5,754</td>
<td>$6,298</td>
<td>$545</td>
<td>9.46%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$1,841</td>
<td>$1,873</td>
<td>$1,979</td>
<td>$106</td>
<td>5.64%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$1,789</td>
<td>$1,821</td>
<td>$1,943</td>
<td>$122</td>
<td>6.72%</td>
</tr>
<tr>
<td>Early Childhood Education</td>
<td>$494</td>
<td>$503</td>
<td>$545</td>
<td>$42</td>
<td>8.36%</td>
</tr>
<tr>
<td>Other</td>
<td>$1,137</td>
<td>$1,157</td>
<td>$1,203</td>
<td>$46</td>
<td>4.00%</td>
</tr>
<tr>
<td><strong>Total (Gross)</strong></td>
<td><strong>$25,754</strong></td>
<td><strong>$26,196</strong></td>
<td><strong>$27,926</strong></td>
<td><strong>$1,729</strong></td>
<td><strong>6.60%</strong></td>
</tr>
<tr>
<td><strong>Total (Net)</strong></td>
<td><strong>$25,754</strong></td>
<td><strong>$26,196</strong></td>
<td><strong>$27,007</strong></td>
<td><strong>$811</strong></td>
<td><strong>3.10%</strong></td>
</tr>
</tbody>
</table>

*Sources: CTBA analysis of FY2020 Enacted Budget; Healthcare appropriations inflation-adjusted using Midwest Medical Care CPI; all other appropriations adjusted using ECI from the BLS as of May 2019 and population growth from the Census Bureau as of January 2019.*

Though FY2020 Current Service appropriations appear $2.2 billion higher than FY2019 appropriations in nominal dollars, after adjusting for inflation and population growth, total spending on Current Services for FY2020 is just $1.7 billion greater than in FY2019, as shown in Figure 14. Note that Figure 14 compares FY2019 authorized spending on Current Services to enacted spending in FY2020. Actual spending in FY2019 was $25.8 billion in nominal dollars, which translates to $26.2 billion in real, inflation-adjusted dollars for FY2020. This means that, after accounting for the $918 million in “Unspent Appropriations” budgeted for FY2020, total service spending in FY2020 will likely be $811 million more in real terms than in FY2019.

While total net FY2020 General Fund appropriations represent a needed 3.1 percent increase compared to FY2019 after inflation, most appropriations for Current Services in FY2020 are still far behind FY2000 levels in real terms. In fact, net FY2020 appropriations for current services are scheduled to be 24.4 percent less than they were two decades ago in FY2000, as shown in Figure 15.

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### Figure 15

**Illinois General Fund Spending On Core Services: FY2020 Enacted Compared to FY2000 Enacted ($ Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2000 Enacted Aprop (Nominal)</th>
<th>FY2000 (Adj for Inflation &amp; Population)</th>
<th>FY2020 Enacted</th>
<th>$ Difference (Infl/Pop Adjusted)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 Education</td>
<td>$4,674</td>
<td>$8,234</td>
<td>$8,339</td>
<td>$104</td>
<td>1.27%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>$5,022</td>
<td>$8,847</td>
<td>$7,619</td>
<td>($1,228)</td>
<td>-13.89%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$4,599</td>
<td>$8,102</td>
<td>$6,298</td>
<td>($1,804)</td>
<td>-22.27%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$1,350</td>
<td>$2,378</td>
<td>$1,979</td>
<td>($399)</td>
<td>-16.78%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$2,152</td>
<td>$3,791</td>
<td>$1,943</td>
<td>($1,848)</td>
<td>-48.75%</td>
</tr>
<tr>
<td>Early Childhood Education</td>
<td>$170</td>
<td>$299</td>
<td>$545</td>
<td>$245</td>
<td>81.89%</td>
</tr>
<tr>
<td><strong>Total Net General Fund Service Appropriations</strong></td>
<td><strong>$20,064</strong></td>
<td><strong>$35,347</strong></td>
<td><strong>$26,722</strong></td>
<td>(<strong>$8,625</strong>)</td>
<td><strong>-24.40%</strong></td>
</tr>
</tbody>
</table>

*Sources: FY2000 unadjusted appropriations from Governor’s final budget summary for FY2000; and FY2020 appropriations from CTBA analysis of P.A. 101-0007. Healthcare appropriations inflation-adjusted using Midwest Medical Care CPI; all other appropriations adjusted using ECI-C from the BLS as of May 2019 and population growth from the Census Bureau as of January 2019.*

The good news is that real appropriations for both K-12 and early childhood education are scheduled to be higher in FY2020 than they were in FY2000. Indeed, the FY2020 General Fund budget represents the first time K-12 appropriations will have caught up to FY2000 levels after years of lagging behind. Meanwhile, FY2020 Early Childhood Education appropriations are scheduled to be 81.9 percent greater than they were in FY2000 in real terms.

The bad news is that every other major service category has experienced a cut since FY2000 in real terms. Despite the 6.72 percent year-to-year increase in Higher Education funding included in the FY2020 General Fund budget, Higher Education appropriations are scheduled to be at least 48.8 percent less than they were in FY2000 after adjusting for inflation and changes in population. In other words, General Fund appropriations for Higher Education have been cut nearly in half in real terms over the past two decades. Meanwhile, FY2020 Human Services appropriations also fall below FY2000 levels by at least 22 percent in real terms. The qualifier “at least” is used because the differential could be greater after the $918 million in Unspent Appropriations are applied.

It is worth noting that although scheduled General Fund Healthcare appropriations in FY2020 are 15.6 percent lower than FY2000 levels, some Healthcare appropriations formerly covered by the General Fund are now paid from other sources, including other state funds and federal funds, as discussed more fully in Section 6.4 of this report.

The general appropriation trends displayed in Figure 15 indicate that Illinois decision makers have implemented a long-term policy of resolving the state’s fiscal problems, in large part, through service spending cuts. This course of action is difficult to justify given Illinois’ status as a low spending state nationally. Consider
that, in calendar year 2017, Illinois had the fifth highest state GDP overall, the 12th highest state GDP per capita, and sixth largest population of any state. Spending as a percentage of state GDP is an informative indicator of whether a state is low- or high-spending, given that it takes into account a state's total wealth, and hence measures effort versus capacity. As of FY2017, Illinois ranked just 37th out of all 50 states in General Fund spending as a percentage of state GDP.

6. Detail of FY2020 General Fund Current Services Spending by Major Category


In his budget address, Governor Pritzker acknowledged the importance of restoring and improving the state's education system. Legislators clearly agree, as Early Childhood and K-12 Education are both scheduled to receive a year-to-year increase in appropriations between FY2019 and FY2020, in both nominal and inflation-adjusted terms, as shown in Figure 16.

Figure 16
**FY2020 Early Childhood and K-12 Education Appropriations Compared to FY2019 in Nominal and Inflation-Adjusted Dollars ($ Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2019 Approp (Nominal)</th>
<th>FY2020 Enacted</th>
<th>$ Diff (Nominal)</th>
<th>% Change (Nominal)</th>
<th>FY2019 Approp (Infl/Pop Adj)</th>
<th>$ Difference (After Inflation)</th>
<th>% Change (Infl/Pop Adj)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Childhood Education</td>
<td>$494</td>
<td>$545</td>
<td>$51</td>
<td>10.27%</td>
<td>$503</td>
<td>$42</td>
<td>8.36%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>$7,891</td>
<td>$8,339</td>
<td>$448</td>
<td>5.67%</td>
<td>$8,030</td>
<td>$308</td>
<td>3.84%</td>
</tr>
<tr>
<td>Total</td>
<td>$8,385</td>
<td>$8,883</td>
<td>$498</td>
<td>5.94%</td>
<td>$8,533</td>
<td>$351</td>
<td>4.11%</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY2020 Enacted Budget

Gov. Pritzker asserted that investment in early childhood education is "the single most important education policy government can make," citing the significant return on investment taxpayers receive from funding quality programming that promotes learning from birth to age five. The enacted FY2020 General Fund budget demonstrates a state commitment to an enhanced investment in Early Childhood Education by increasing the year-to-year appropriations by $50 million or over 10 percent in nominal dollars, and $42 million or over eight percent in real dollars. This continues a multi-year trend of increasing General Fund appropriations for Early Childhood Education.

The FY2020 enacted General Fund budget also contains a year-to-year increase in appropriations for K-12 Education in both nominal and inflation-adjusted terms. This is in part due to the state’s new school funding law. In 2017, Illinois decision makers replaced the state’s prior inequitable, inadequate funding formula with the “Evidence Based Funding for Student Success Act” (EBF) (For a summary of this new school funding formula, see © 2019 Center for Tax and Budget Accountability
CTBA’s report “Moving Forward”). The good news is that Illinois now has a funding formula in place with the potential to build every school’s capacity to meet the needs of all children it serves. The bad news is that, according ISBE, the state’s $7.89 billion appropriation for K-12 was still $7.35 billion short of what was needed to fund the EBF fully.\textsuperscript{73}

By its express terms, the EBF requires the state to increase K-12 funding each year by at least $300 million, with an additional investment of up to $50 million if the property tax relief fund in that amount established under the EBF is not fully utilized for property tax abatements in a fiscal year. Overall, the FY2020 General Fund budget increases K-12 Education funding by $448 million over FY2019 levels in nominal dollars. Of that total $448 million increase, $375 million is new general state aid funding under the EBF, which is $25 million more than the $350 million required by law. If the full $375 million in additional funding for the EBF is disbursed in FY2020, funding for K-12 Education under the EBF will have increased by over $1 billion in nominal dollars since its implementation in FY2018.\textsuperscript{74}

The year-to-year $375 million increase in K-12 Education funding appropriated for FY2020 — which is greater than statutorily required — is a positive step toward funding the EBF fully. That said, it is nowhere near adequate if the EBF’s statutory requisite that it be fully funded within ten years is to be satisfied.\textsuperscript{75} In fact, if the state were to make year-to-year increases in K-12 funding by the minimum $350 million each fiscal year, it would take 29 years to fund the EBF fully after accounting for inflation. To satisfy the EBF’s statutory goal of being fully funded within ten years, K-12 funding would need to increase by at least $843 million every fiscal year, or more than double the $350 million high-end minimum established under the EBF.\textsuperscript{76}

Of course, that $843 million is predicated on simply funding the existing gap on an inflation-adjusted basis by FY2028 — which is 10 years after the EBF was first implemented. If certain cost factors covered under the EBF are recalibrated to higher amounts than currently identified in the legislation, then the minimum annual increase in K-12 funding would have to be greater than $843 million.

One such cost factor is sure to increase at a faster rate than anticipated when the EBF passed: average teacher salary. The reason for this is P.A. 101-0443, which was signed into law in August 2019. That legislation requires that the minimum teach salary in Illinois be $40,000 annually by FY2024. This legislation establishes a four-year phase in period for this increase, beginning in FY2021.

Though Illinois still has a long way to go to overcome historic underfunding and reach the goal of fully covering the evidence based cost of providing an adequate education to all students in the state under the EBF, Early Childhood and K-12 Education are the only two major Current Service categories under the enacted FY2020 General Fund budget that are scheduled to receive a real, inflation-adjusted increase in funding over FY2000 levels. Indeed, appropriations for Early Childhood Education in FY2020 are scheduled to be 82 percent greater than FY2000 appropriations in real terms. Though K-12 appropriations in FY2019 were below real FY2000 levels, for the first time in two decades, the K-12 appropriation for FY2020 is scheduled to be greater than the FY2000 appropriation in real terms, as shown in Figure 17.
6.2. **Higher Education Appropriations Increase Under FY2020 General Fund Budget**

Additionally, Governor Pritzker made a commitment to improving college affordability and “reversing the damage done to Higher Education by the budget impasse.” The enacted FY2020 budget begins to do just that by appropriating $1.94 billion to Higher Education, which represents a $154 million, or 8.6 percent, nominal increase over the $1.79 billion in FY2019, as shown in Figure 18. This aggregate $1.9 billion appropriation for Higher Education includes a $50 million year-to-year increase for MAP grants. “MAP” grants, or “Monetary Assistance Program” grants, provide financial aid to low-income students to attend college that does not have to be repaid. The FY2020 year-to-year increase of $50 million will enhance the average MAP grant by $220 (from $3,030 to $3,250), while providing financial assistance to 6,700 more students than was possible under FY2019 funding levels.  

The $1.9 billion Higher Education appropriation for FY2020 also includes a five percent across-the-board funding increase for community colleges and public universities.  

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million or 6.7 percent is substantially greater than the year-to-year increase between FY2018 and FY2019, which was just $14 million — or less than one percent.79

The $154 million nominal-dollar increase in appropriations for Higher Education between FY2019 and FY2020 is a much-needed step forward. However, it is nowhere near enough to reverse the significant disinvestment in Higher Education that began during the early 2000’s under the administration of Democratic Governor Rod Blagojevich, and became vastly exacerbated during the budget impasse of FY2016 and FY2017 under the administration of Republican Governor Bruce Rauner. For instance, in FY2016, the first year of the budget impasse, Higher Education experienced a $1.3 billion, or 68 percent, year-to-year decrease in appropriations from FY2015 levels.80 The good news is that, in real terms, the FY2020 proposed appropriation for Higher Education is more than double (136 percent) the $823 million in state funding for Higher Education in FY2016.81 That said, the FY2020 proposed appropriation is still below pre-impasse levels in both nominal and inflation-adjusted terms, as shown in Figure 19.

Figure 19
Total FY2015 Higher Education Appropriation & FY2020 Enacted ($ Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2015 Approp (Nominal)</th>
<th>FY2015 Approp (Infl/Pop Adj)</th>
<th>FY2020 Enacted</th>
<th>$ Difference (Infl Adj)</th>
<th>% Difference (Infl Adj)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Education</td>
<td>$1,950</td>
<td>$2,164</td>
<td>$1,943</td>
<td>($221)</td>
<td>(10.2%)</td>
</tr>
</tbody>
</table>


To restore Higher Education funding in real, inflation-adjusted terms to what it was in FY2015, before the major cuts experienced during the impasse, overall Higher Education appropriations would have to be increased by at least $221 million over the enacted FY2020 level of $1.9 billion. But FY2015 funding levels should not be the benchmark, as they were woefully inadequate when viewed over the long-term. As shown in Figure 20, Illinois is providing less support for Higher Education in FY2020 than it did in FY2000 in both nominal and inflation-adjusted terms. In fact, the FY2020 appropriation for Higher Education is just over half of the inflation-adjusted appropriation from two decades earlier. In other words, Illinois would have to nearly double the FY2020 appropriation for Higher Education increasing it by at least $1.85 billion to reach FY2000 appropriation levels.

Figure 20
Total FY2000 Appropriation & FY2020 Proposed ($ Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2000 Approp (Nominal)</th>
<th>FY2000 Approp (Infl/Pop Adj)</th>
<th>FY2020 Proposed</th>
<th>$ Difference (Infl Adj)</th>
<th>% Difference (Infl Adj)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Education</td>
<td>$2,152</td>
<td>$3,791.20</td>
<td>$1,943</td>
<td>($1,848)</td>
<td>-48.75%</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of P.A. 101-0007; FY2000 unadjusted appropriations from Governor’s final budget summary for FY2000; Inflation-adjusted using ECI from the BLS and population from the Census Bureau.

The under-funding of Higher Education by the state has had numerus negative repercussions. One of the greatest consequences of this under-funding is that it has made attending public institutions of higher learning in Illinois significantly less affordable. That is because declining state support for colleges and universities has
contributed to their increased reliance on revenues from student tuition and fees. In FY2002, University Income Funds (“UIF”) — which are comprised primarily of student tuition and fees — made up just 28 percent of total public university revenue. By FY2017, however, UIF made up 62 percent.\(^82\) Though nationally, public university revenue is also trending more toward tuition and fees, the national shift is not as drastic as the shift in Illinois, as shown in Figure 21.\(^83\)

**Figure 21**

**Total Public University Revenue by Source, FY2002 and FY2017**

![Bar chart showing the percentage of revenue sources for public universities in Illinois and the U.S. between FY2002 and FY2017.]

*Sources: IBHE, “Examining the relationship between state appropriation support and tuition,” June 2018; and SHEEO, “State Higher Education Finance: FY2017”*

Between FY2000 and FY2017, average in-state tuition at Illinois’ four-year public universities more than doubled — an increase of 136 percent.\(^84\) Over the same period, median household income in Illinois declined by 1.74 percent.\(^85\) The net price of attending a public university — that is, total tuition and fees minus average financial aid — has become unaffordable for many Illinois families. In fact, as of 2017, middle-income families would have to set aside nearly a quarter of their total income to pay the average net cost of attending a public university in Illinois, while low-income families would need to set aside 63 percent of their income to do so.\(^86\)

Underfunding Higher Education makes it harder for many Illinois students to attend college at a time when a college degree is more important than ever for success in the labor market. For instance, the only workers in America who have seen their incomes grow faster than the rate of inflation since 1980 — meaning they’ve seen real growth in wages and hence purchasing power — are those with a college degree.\(^87\) Indeed, the economic importance of attaining a post-high school credential has grown significantly. Consider that, in 1980, full-time American workers with Bachelor’s degrees or higher had median weekly earnings that were 41 percent greater than workers whose highest level of education was a high school diploma. By 2017, that wage gap has nearly doubled to 79.6 percent.\(^88\)
6.3. Human Services

Human Services consist of a broad array of programs that cover everything from aiding adults with developmental disabilities, to providing childcare to single, working parents, assisting homebound seniors, caring for abused and neglected children, and supporting individuals with substance abuse or mental health concerns. Most of these services are delivered under the auspices of one of the DHS, DOA, or DCFS.

In the FY2020 enacted General Fund budget, the gross, scheduled appropriation for all Human Services is $6.3 billion, which represents a 11.39 percent increase from the final FY2019 appropriation of $5.65 billion in nominal dollars. As illustrated in Figure 22, the FY2020 General Fund budget includes increases for seven Human Services agencies categorized by CTBA.

![Figure 22](image-url)

**FY2020 Human Services Appropriations by Agency Compared to FY2019 Enacted Appropriations in Nominal Dollars ($ Millions)**

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY2019</th>
<th>FY2020</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Children and Family Services</td>
<td>$763.3</td>
<td>$852.3</td>
<td>$89</td>
<td>11.66%</td>
</tr>
<tr>
<td>Department of Human Rights</td>
<td>$9.9</td>
<td>$10.7</td>
<td>$1</td>
<td>8.08%</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>$3,819.0</td>
<td>$4,254.7</td>
<td>$436</td>
<td>11.41%</td>
</tr>
<tr>
<td>Department of Veterans’ Affairs</td>
<td>$69.9</td>
<td>$93.6</td>
<td>$24</td>
<td>33.91%</td>
</tr>
<tr>
<td>Department on Aging</td>
<td>$979.9</td>
<td>$1,054.9</td>
<td>$75</td>
<td>7.65%</td>
</tr>
<tr>
<td>Human Rights Commission</td>
<td>$2.4</td>
<td>$3.1</td>
<td>$1</td>
<td>29.17%</td>
</tr>
<tr>
<td>Guardianship and Advocacy Commission</td>
<td>$9.5</td>
<td>$10.2</td>
<td>$1</td>
<td>7.37%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,654</strong></td>
<td><strong>$6,280</strong></td>
<td><strong>$626</strong></td>
<td><strong>11.07%</strong></td>
</tr>
</tbody>
</table>

*Sources: CTBA analysis of FY2020 Enacted Budget; Inflation-adjusted using ECI from the BLS and population from the Census Bureau.*

The aggregate $644 million year-to-year increase in Human Services General Fund appropriations made in FY2020 includes an additional $80 million to DCFS to hire 300 more frontline workers, rate increases for providers, and the development and implementation of a new Child Welfare Information System. This new information system is intended to modernize the way DCFS receives and investigates reports of possible child abuse and neglect, which is particularly important in light of the numerous failings of DCFS in this area. In fact, according to a recent DCFS Inspector General’s report, 98 Illinois children died this past fiscal year within 12 months of having become involved in the state’s child welfare system — which has been about average for the past decade. The additional 300 frontline workers are part of the state’s effort to reduce caseloads and prevent more children from slipping through the cracks.

The Human Services agency with the largest scheduled nominal dollar year-to-year increase in FY2020 is DHS. Its total $436 million increase includes funding to address numerous cost drivers, like minimum wage increases.
for workers. It also includes funding to expand child care assistance eligibility from 185 percent of the Federal Poverty Level ("FPL") to 200 percent of the FPL, which would provide childcare for an additional 10,000 children. 

Though Human Services as a whole is scheduled to receive an 11.4 percent year-to-year increase in appropriations in FY2020, a view of Human Services funding over the long-term reveals the extent of the state’s disinvestment in this area, and what it will take for Illinois to restore funding to historic levels. As shown in Figure 23, real General Fund appropriations for Human Services in FY2020 are 22 percent less than they were two decades ago in FY2000. Put another way, Illinois would need to invest an additional $1.7 billion in Human Services in FY2020 to provide the same level of funding that pertained in FY2000.

Figure 23
FY2020 Human Services Enacted Appropriations Compared to Enacted FY2000 in Nominal and Inflation-Adjusted Dollars ($ Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2000 Enacted</th>
<th>FY2000 Enacted (Infl + Pop Adj)</th>
<th>FY2020 Enacted</th>
<th>$ Difference (Infl + Pop Adj)</th>
<th>% Change (Infl + Pop Adj)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Services</td>
<td>$4,599</td>
<td>$8,102</td>
<td>$6,298</td>
<td>($1,699)</td>
<td>-22.27%</td>
</tr>
</tbody>
</table>


6.4. **Healthcare**

6.4.1. **Medicaid**

Most Healthcare spending in Illinois is for Medicaid. For instance, in FY2018, Illinois General Fund spending on Medicaid was $6.45 billion, which accounted for 97 percent of total General Fund Healthcare expenditures across all categories for the year. Overall, the Medicaid program administered under DHFS ranks as the largest insurer in Illinois, with 3.13 million of the state’s 12.7 million residents projected to be enrolled in Medicaid medical assistance programs in FY2020.

Beginning in January of 2014, Illinois expanded Medicaid eligibility under the Affordable Care Act ("ACA") to cover non-pregnant, non-elderly individuals with incomes up to 138 percent of the federal poverty level. At the time the expansion was approved, Illinois officials estimated that 342,000 additional Illinois residents would qualify. By the end of FY2014, 398,000 residents had actually enrolled in medical assistance through Medicaid expansion. By FY2017, that number had risen to over 659,000 residents. Since then, enrollment under the Medicaid expansion has decreased somewhat, though total enrollment has remained relatively constant, as shown in Figure 24.
Over the FY2014 through FY2016 sequence, the full cost for covering those who newly enrolled in the state’s Medicaid program under the ACA’s expanded eligibility provisions was covered by Federal programs and grants. However, starting on January 1, 2017, states that expanded Medicaid became responsible for paying 5 percent of the costs of covering newly eligible individuals. That percentage grew to 6 percent in 2018, and 7 percent in 2019. Going forward, states that have expanded Medicaid coverage under the ACA will have to cover 10 percent of expansion costs in 2020 and beyond.101

Overall, including both General Fund and non-General Fund outlays, Medicaid expenditures have increased significantly in the past decade, even after accounting for inflation and changes in population. In inflation- and population-adjusted 2018 dollars, Medicaid expenditures grew from $17.7 billion in FY2007 to $23.8 billion in FY2018.102 However, because of a simultaneous increase in federal funding, the portion of Medicaid expenditures actually paid for by state, own-source tax revenue grew in inflation-adjusted dollars by just $500 million over this ten-year period, from $6 billion in FY2007 to a projected $6.5 billion in FY2018, as shown in Figure 25.
6.4.2. **General Fund and Other Fund Appropriations**

Spending on healthcare services is made through two agencies: the DHFS and the Department of Public Health ("DPH"). In FY2020, funding for healthcare in Illinois’ General Fund consists mainly of appropriations for DHFS to cover around $6.7 billion of total state Medicaid spending on poor, disabled, and low-income populations, as well as another $155 million in appropriations for the DPH. Taken together, total General Fund, appropriations for healthcare in FY2020, excluding statutory transfers to the HPRF, are scheduled to be over $7 billion, which is $56 million, or 0.8 percent, higher than the FY2019 enacted healthcare appropriation, as shown in Figure 26.

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**Figure 25**
**Medicaid Spending in Illinois by Funding Source (Federal, State and Local)**

![Bar chart showing Medicaid spending by funding source.](chart.png)

**Sources:** National Association of State Budget Officers, State Expenditure Reports: FY2007-2018, Ch. 4. Note: FY2018 numbers are projected.

**Figure 26**
**Comparison of FY2019 Enacted and FY2020 General Fund Appropriations for Healthcare ($ Millions)**

<table>
<thead>
<tr>
<th></th>
<th>FY2019 Enacted</th>
<th>FY2020 Enacted</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Of Healthcare And Family Services</td>
<td>$6,823.1</td>
<td>$6,850</td>
<td>$27</td>
<td>0.4%</td>
</tr>
<tr>
<td>Department Of Public Health</td>
<td>$125.7</td>
<td>$154.7</td>
<td>$29</td>
<td>23.07%</td>
</tr>
<tr>
<td>Total Healthcare – General Funds</td>
<td>$6,948.8</td>
<td>$7,004.8</td>
<td>$56</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

**Sources:** FY2019 CTBA analysis of H.B. 109-002 and FY2018 CTBA analysis of P.A. 100-0021.
This year-to-year increase may at first blush seem negligible. The reality, however, is quite different. As previously indicated, FY2020 direct General Fund spending on Healthcare is $56 million greater than in FY2019. However, after including Medicaid spending from the HPRF, total Healthcare appropriations in FY2020 are scheduled to increase $1.6 billion from FY2019, or 10.5 percent, as shown in Figure 27.

Figure 27

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$6,949</td>
<td>$7,005</td>
<td>$56</td>
<td>0.8%</td>
</tr>
<tr>
<td>GF Transfer to HPRF</td>
<td>$1,107</td>
<td>$614</td>
<td>($493)</td>
<td>-44.52%</td>
</tr>
<tr>
<td>Healthcare Provider Relief Fund</td>
<td>$7,387</td>
<td>$9,447</td>
<td>$2,060</td>
<td>27.88%</td>
</tr>
<tr>
<td>Total General Fund and HPRF</td>
<td>$15,443</td>
<td>$17,065</td>
<td>$1,616</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of P.A. 101-0007

One reason Medicaid spending is moving from the General Fund to other special funds like the HPRF is the Pritzker Administration’s desire to create new sources of Medicaid funding that correlate to how Medicaid services are provided to enrollees in the program. Specifically, in 2014, Illinois Medicaid enrollees began to transition into managed care arrangements with a focus on preventative care, which is intended to keep program participants healthy and lower costs for the state. Through this process, Medicaid benefits are delivered to enrollees through contracts between the state and MCOs.

Prior to this transition to MCOs as providers, Medicaid in Illinois was distributed via a fee-for-service process through which doctors would perform a service, submit a claim to the state, and get reimbursed. Under managed care, the state pays a fee per enrollee to the MCOs, and the MCOs then cover all healthcare costs enrollees incur, whether or not those costs are in excess of the fees MCOs receive from the state. Current projections are that in FY2020 over 75 percent of the state’s three million plus Medicaid enrollees will receive care from MCOs in FY2020.

As indicated previously in the revenue portion of this report, to help fund Medicaid services in FY2020, the state enacted a new MCO assessment. About $500 million in revenue from this new Managed Care Provider Assessment, plus additional federal matching funds, will be deposited into the HPRF. Because of this, Medicaid services that prior to FY2020 were paid for through the General Fund, will from FY2020 forward be covered by the HPRF. This means to gain a more accurate understanding of how Medicaid spending in Illinois is changing over time, for FY2020 and beyond, consideration of total Healthcare appropriations under both the General Fund and HPRF is required. Taking that approach, it becomes clear that Healthcare appropriations are scheduled to increase by over $1.6 billion between FY2019 and FY2020.
7. FY2020: Pension Funding

The enacted FY2020 General Fund budget includes $8.51 billion in pension spending, including $8.11 billion in spending for the five major state pension funds: TRS; SERS; SURS; JRS; and GARS. The remaining appropriations will go to the Teachers’ Retirement Insurance Program, the College Insurance Program, and the state’s contribution to the Chicago Teachers’ Pension Fund. This is the General Fund contribution required for FY2020 under the 1995 Pension Ramp.

Initially, however, Governor Pritzker proposed spending only $7.53 billion on pensions through the General Fund in FY2020, which would have cut General Fund contributions to the five major state pension funds down from $8.11 billion to $7.13 billion, as shown in Figure 28.

Figure 28
Pension Spending in the Proposed and Enacted FY2020 General Funds Budget
($ Millions)

<table>
<thead>
<tr>
<th>Type</th>
<th>Item</th>
<th>Proposed</th>
<th>Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>State pension funds</td>
<td>Teachers’ Retirement System</td>
<td>$4,237</td>
<td>$4,814</td>
</tr>
<tr>
<td></td>
<td>State Employees’ Retirement System</td>
<td>$1,304</td>
<td>$1,489</td>
</tr>
<tr>
<td></td>
<td>State University Retirement System</td>
<td>$1,427</td>
<td>$1,640</td>
</tr>
<tr>
<td></td>
<td>Judges’ Retirement System</td>
<td>$133</td>
<td>$144</td>
</tr>
<tr>
<td></td>
<td>General Assembly Retirement System</td>
<td>$24</td>
<td>$26</td>
</tr>
<tr>
<td></td>
<td>State pension funds subtotal</td>
<td>$7,125</td>
<td>$8,113</td>
</tr>
<tr>
<td>Other costs</td>
<td>State contribution to Chicago teachers’ pension fund</td>
<td>$257</td>
<td>$257</td>
</tr>
<tr>
<td></td>
<td>Teachers’ Retirement Insurance Program</td>
<td>$139</td>
<td>$132</td>
</tr>
<tr>
<td></td>
<td>College Insurance Program</td>
<td>$4</td>
<td>$4</td>
</tr>
<tr>
<td></td>
<td>Other cost subtotal</td>
<td>$400</td>
<td>$393</td>
</tr>
<tr>
<td></td>
<td>Total pension costs</td>
<td>$7,525</td>
<td>$8,506</td>
</tr>
</tbody>
</table>
This proposed reduction in FY2020 General Fund pension spending by $1 billion from the amount required under the 1995 Pension Ramp was the projected savings from two changes to the state’s pension programs also proposed (but not enacted) for FY2020:

1. First, it was proposed that the expiring temporary worker Buyout Programs (defined below) previously enacted be made permanent, thereby generating $125 million in FY2020 General Funds savings; and
2. Second, Governor Pritzker proposed extending the period for paying off the aggregate unfunded liability the state owes to its five pension systems by seven years, to reach a 90 percent funded ratio in FY2052 rather than FY2045, as under current law, thereby generating around $878 million in savings for FY2020.109

Illinois has two different sets of pension benefits, “Tier One” and “Tier Two.” Tier One provides significantly greater retirement benefits than Tier Two, such as a guaranteed three percent Cost of Living Adjustment ("COLA") that compounds annually. The “Buyout Programs” were created in FY2019 to give some Tier One members of the state’s pension systems the option to receive lump sum payouts now in exchange for giving up future pension benefits. For instance, an option created under the Buyout Programs which was for inactive members (that is, members who are no longer working for the state but are not yet collecting their state pension), offers a lump sum payment worth 60 percent of the estimated present value of his or her lifetime pension benefits in exchange for giving up all future pension payments.

Another option which was made available to retiring Tier One members, offers them a lump sum payment worth 70 percent of the value of the difference between: (i) the Tier One COLA currently in place — which is three percent compounded annually — and (ii) a 1.5 percent simple COLA; in exchange for receiving a 1.5 percent simple COLA instead of three percent compounded COLA going forward.110

The FY2019 budget made the Buyout Programs available to eligible members until June 30, 2021. The proposal put on the table in FY2020 was to extend that window indefinitely, with the intention of inducing more members to opt in. However, there is some reason to believe that removing the deadline to opt into these programs will result in members waiting longer to make a decision, reducing short-term savings to the state. The proposal to extend the life of the Buyout Program was approved, allowing eligible members to participate until FY2024.111

The second proposal was to extend the period for repaying pension debt by seven years from FY2045 as it is under current law to FY2052. Recall that the current schedule created for repaying the pension debt — known as the “Pension Ramp” — passed in 1995, when Governor James Edgar signed PA 88-0593 into law. Supporters at that time claimed that the Pension Ramp would bring the pension systems up to a healthy funding level by 2045. However, for the first 15 years of the Pension Ramp, the payments it required were dramatically below the actuarially required contribution ("ARC"). Hence by law, the Pension Ramp simply continued the prior practice of intentionally underfunding public pensions and diverting what should have gone to cover the ARC to instead pay for current service delivery. Effectively, this meant the state was borrowing from the pensions to pay for services. The Pension Ramp then provided for the repayment of this debt by substantially “ramping-up” the annual pension payments from FY2011-2045. Figure 29 shows that under the current Pension Ramp, the annual, all funds contribution to the five state pension systems is projected to reach $17.26 billion by FY2040, and $19.82 billion by FY2045.112

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Gov. Pritzker’s proposal would have extended this repayment period by seven years, to FY2052. With more time to make payments, each year’s payment level would be somewhat reduced. However, this proposed extension retained the backloaded, “level percent of payroll” funding schedule, making it just as unaffordable in out-years as the Pension Ramp.

Worse, because it spread payments over more years, it would have actually increased the total interest costs to the state over the already unaffordable costs contained in the existing Pension Ramp. Fortunately, this proposal was not enacted.

A better alternative to the current Pension Ramp, which calls for pension contributions that are simply not affordable and would require drastic cuts to current services and drastic increases to current revenue to fulfill, is implementing a “level-dollar” reamortization, that eliminates back-loading. This would require higher up-front contributions than what’s required under the current Pension Ramp, but these new payments would be level over time — meaning that, in real, inflation-adjusted terms, the cost to the state — and taxpayers — of funding it would be substantially less than under the current Pension Ramp. In 2018, CTBA laid out one possible version of level-dollar reamortization that would save $67 billion through FY2045 and move the state pension systems to a 72 percent funded ratio by that year, as shown in Figure 30.\textsuperscript{113}
8. The Accumulated Deficit

As things currently stand, Illinois’ General Fund is projected to end FY2020 with a $8.04 billion accumulated deficit. This is because, in addition to the revenues and expenditures identified specifically for FY2020 in the enacted General Fund budget, the state has a large “carry-forward” or “accumulated” deficit of bills that are projected to remain unpaid at the end of FY2019. This accumulated deficit grew significantly during the two-year budget impasse over FY2016 and FY2017, when the state legislature and Governor Bruce Rauner were unable to agree on full-year General Fund budgets. Indeed, at the end of FY2017, the total accumulated deficit, sometimes also called the “bill backlog,” reached $15.46 billion.\(^{114}\)

The FY2018 budget authorized the issuance of $6 billion in general obligation bonds to pay some of these past-due bills. That was a practical move which saved taxpayers money, because the statutory interest for past-due bills owed by the state is higher than the interest rates the state gets on issuing bond debt.\(^{115}\) Moreover, a significant portion of the proceeds from this $6 billion bond issuance was used to pay Medicaid bills — which generates federal matching dollars. Largely as a result of this issuance and the additional federal matching funds received when some of those bond proceeds were used to pay down Medicaid bills, the accumulated deficit fell from $15.46 billion at the end of FY2017 to $8.76 billion at the end of FY2018. At the end of FY2019, CTBA projected the bill backlog would stand at $7.76 billion, and that it will rise to $8.04 billion at the end of FY2020, as shown in Figure 31.\(^{116}\)
Figure 31
FY2020 Estimated Accumulated Deficit ($ Millions)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Remaining Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FY2020 General Funds Revenue</td>
<td>$40,287</td>
<td>$40,287</td>
</tr>
<tr>
<td>Accumulated Deficit Carry Forward From FY2019</td>
<td>($7,760)</td>
<td>$32,527</td>
</tr>
<tr>
<td>FY2020 Hard Costs</td>
<td>$13,564</td>
<td>$18,963</td>
</tr>
<tr>
<td>FY2020 General Fund Net Service Appropriations</td>
<td>$27,007</td>
<td>($8,044)</td>
</tr>
</tbody>
</table>

Projected Accumulated FY2020 General Fund Deficit ($8,044)

Accumulated Deficit as a Percent of General Fund Service Appropriations (29.8%)

Source: CTBA analysis of GOMB FY2020 Budget Book.

9. Illinois’ Long-Term Structural Deficit

The accumulated General Fund deficit projected for FY2020 is primarily the result of the state's long-term "structural deficit." For nearly two decades CTBA has shown how the data consistently demonstrate that the Illinois tax system has historically failed to generate enough General Fund revenue to cover both the cost of: (i) maintaining delivery of the same level of public services from year-to-year, after adjusting solely for inflation and population changes; and (ii) repaying the state’s debt service, which in Illinois is primarily the debt service owed to the state’s pension systems. The ongoing mismatch in the state’s General Fund between the lower rates of growth for revenue than the pace of increase in the cost of maintaining service levels plus paying existing debts is called a "structural deficit." Figure 32 is a graphic depiction of the structural deficit in the Illinois General Fund.

To address a structural deficit, either real spending on services has to be cut, revenue has to be raised, or some combination thereof has to be enacted. Illinois’ current structural deficit will continue to grow if there is no change in law.
At this juncture, eliminating the structural deficit by further cutting service spending is not a responsible option. Indeed, as shown in this report, Illinois has cut real, per-capita General Fund spending on nearly every service area since FY2000. Indeed, despite some increases for education, Illinois is spending over 24.4 percent less in real terms on all public services in FY2020 than it did in FY2000.

The two most important changes Illinois could make to address its structural deficit are:

1. A graduated state income tax, which would tax higher levels of income at higher rates than lower levels of income. Currently the state’s “flat” income tax taxes all income at the same rate.
2. Replacing the state’s backloaded pension debt repayment plan, called the “Ramp,” with a level-dollar payment plan that reaches a 72 percent funded ratio by FY2045.

In 2018, CTBA published a report modeling a potential graduated state income tax that would raise $2 billion in new annual revenue while cutting income taxes for 98 percent of state filers. In 2019, the General Assembly passed Gov. Pritzker’s “Fair Tax” proposal to create a graduated rate income tax that would raise $3.6 billion in new annual revenue while cutting taxes for 97 percent of state filers. To become law, however, Pritzker’s Fair Tax graduated state income tax legislation requires a constitutional amendment. A resolution to amend the state constitution was passed the General Assembly in May 2019. To take effect, this resolution will have to be approved by Illinois voters in the general election scheduled for November 2020.

Figure 33 shows how the structural deficit changes based on whether the state enacts one or both of the Fair Tax proposed by the Governor, and the pension reamortization plan recommended by CTBA. It also assumes full funding of the Evidence Based Model, or EBF, over ten years.
CTBA has used the estimated $3.6 billion in revenue from the Fair Tax, with implementation in the second half of FY2021, and the first full year of revenue in FY2022. The level dollar reamortization plan in the structural deficit model follows the principles laid out in CTBA’s May 2018 report. Debt payments are set at a flat rate each year at a level that will make the pension systems 72 percent funded by FY2045. For the first eight years, pension obligation bonds cover the difference between the pension contribution called for under current law and the contribution called for under the reamortization. Debt service on those bonds at a 6.5 percent interest rate over 25 years is included in the model.

As shown in Figure 33, if Illinois passes both proposals, it completely eliminates the structural deficit in 24 years.
10. Endnotes


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https://www2.illinois.gov/rev/research/taxinformation/income/Pages/partnership.aspx


41 Illinois Department of Revenue, “Invest in Kids”, Springfield, IL.  
https://www2.illinois.gov/rev/programs/InvestInKids/Pages/default.aspx


46 CTBA Original Research Using Historical Data from COGFA.


50 Illinois Department of Revenue, *Income Tax Rates, Individual Income Tax*. [https://www2.illinois.gov/rev/research/taxrates/Pages/income.aspx](https://www2.illinois.gov/rev/research/taxrates/Pages/income.aspx)

51 CTBA Original Research Using Historical Data from COGFA.


53 CTBA Original Research Using Historical Data from COGFA.

54 CTBA Original Research Using Historical Data from COGFA.


56 CTBA Original Research Using Historical Data from COGFA.


59 CTBA Original Research Using Historical Data from COGFA.

60 CTBA Original Research Using Historical Data from COGFA.


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65 Human Services category also includes the following agencies: Department of Human Rights, Department of Veterans’ Affairs, Human Rights Commission, and the Illinois Guardianship and Advocacy Commission.


67 The Healthcare category also includes the Comprehensive Health Insurance Plan (CHIP).

68 CTBA analysis of P.A. 101-0007.

69 CTBA analysis of (i) FY2000 unadjusted appropriations from Governor’s final budget summary for FY2000; and (ii) FY2020 appropriations from CTBA analysis of P.A. 101-0007.

70 CTBA analysis of Governor's Office of Management and Budget FY2019 adjusting for inflation using CPI-U.


74 CTBA analysis of (i) ISBE Evidence-Based Funding Formula Distribution Full Calculations FY2018 and FY2019, and (ii) Governor’s Office of Management and Budget, Governor Pritzker’s FY2020 Proposed Operating Budget Book, Springfield, IL, February 2019.

75 CTBA, Fully Funding the Evidence-Based Formula: Four Scenarios, March 27, 2019. https://www.ctbaonline.org/reports/fully-funding-evidence-based-formula-four-scenarios


77 Illinois Student Assistance Commission, FY 2020 Monetary award Program Recompute Formula, June 25, 2019.
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89 All budget figures have been rounded to the nearest tenth in this figure. Totals may not add due to rounding.


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92 Office of the Governor, 2019 Operating Budget Highlights, (June 2019), 2. [https://www2.illinois.gov/IISNews/20172019_Operating_Budget_Highlights.pdf](https://www2.illinois.gov/IISNews/20172019_Operating_Budget_Highlights.pdf)

93 Office of the Governor, 2019 Operating Budget Highlights, (June 2019), 2. [https://www2.illinois.gov/IISNews/20172019_Operating_Budget_Highlights.pdf](https://www2.illinois.gov/IISNews/20172019_Operating_Budget_Highlights.pdf)

94 National Association of State Budget Officers, State Expenditure Report: FY 2016-2018 (Washington, DC: NASBO, 2018), 55. Note: The $6.45 billion in Medicaid expenditures in FY2018 include $2.5 billion in General Fund revenue from the sale of bonds to address backlogged bills.

95 National Association of State Budget Officers, State Expenditure Report: FY 2016-2018 (Washington, DC: NASBO, 2018), 55. Note: The $6.45 billion in Medicaid expenditures in FY2018 include $2.5 billion in General Fund revenue from the sale of bonds to address backlogged bills.


103 CTBA Analysis of GOMB FY2019 and P.A. 101-0007.


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Governor’s Office of Management and Budget, *Governor JB Pritzker’s Illinois State Budget Fiscal Year 2020*, Springfield, IL, February 2019, 156.


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116 CTBA analysis of Governor’s Office of Management and Budget, Governor JB Pritzker’s Illinois State Budget Fiscal Year 2020, Springfield, IL, February 2019, 58.