ANALYSIS OF ILLINOIS’ FY 2022 PROPOSED GENERAL FUND BUDGET

March 10, 2021
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<td>Actuarially Required Contribution</td>
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<td>Department of Central Management Services</td>
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1. Introduction

If nothing else, Governor Pritzker’s FY 2022 Proposed General Fund Budget (the “FY 2022 GF Proposal”) makes one fact abundantly clear: spending on services is not driving the state’s fiscal problems. After acknowledging he had bolder plans for the upcoming fiscal year, the FY 2022 GF Proposal the governor ultimately put on the table calls for spending $27.748 billion on public services, which is roughly the same in nominal dollars as FY 2021. After adjusting for inflation, however, the total amount of spending on services proposed for FY 2022 would be $434 million less in real terms than this year.

As it turns out, this reduction in spending on General Fund services is nothing new, but rather the continuation of a long-term trend. For instance, the $27.748 billion in proposed General Fund service expenditures for FY 2022 is actually $152 million less in nominal, non-inflation-adjusted dollars than the $27.9 billion the state spent on General Fund services over a decade ago in FY 2009, at the end of the Great Recession. Of course, after adjusting for inflation, the disinvestment over this sequence of time grows, as the net amount of service spending in the FY 2022 GF Proposal is some $7.2 billion less in real terms than actual spending on services was in FY 2009.

Looking back over twenty years to the beginning of this century, service expenditures in the FY 2022 GF Proposal are fully $7.97 billion or 22 percent less in real, inflation-adjusted terms than actual expenditures were in FY 2000 under Republican Governor George Ryan.

Which means the often repeated contention that Illinois’s fiscal problems are caused by profligate spending on services is simply not supported by the data. Indeed, quite the contrary is true. As Governor Pritzker noted during his budget address: “Illinois state government already spends less money per person than the majority of states in the nation.” So much so, that according to the National Association of State Budget Officers, Illinois ranks 34th in spending on services per capita, despite having the sixth largest population and fifth largest economy of any state.

Big picture, Illinois’ ongoing disinvestment in General Fund services is harming communities across the state for one simple reason: over 95 percent of all such spending goes to the four, core areas of Education (including Early Childhood, K-12, and Higher Education), Healthcare, Human Services, and Public Safety.

Consider, for example, the impact which the current proposal to flat fund K-12 education in FY 2022 would have. In the first three years after the state enacted its new school funding formula (FY 2018 - FY 2020), Illinois increased its investment in public education by $979 million. From an equity standpoint, almost 90 percent of that investment went to those school districts that educate 70 percent of Illinois’ low-income students, as well as 75 percent of its Black, and 71 percent of its Latinx students. Given that the per pupil funding shortfall faced by Black and Latinx students in Illinois is significantly greater than the statewide average overall, the enhanced investment made over that three-year sequence was effectively addressing decades of funding inequity experienced by low-income children generally, and Black and brown children specifically.

However, if K-12 education funding in FY 2022 is held constant in nominal dollars with FY 2021, much of that progress will be lost. That’s because doing so will leave state funding for K-12 in FY 2022 some $437 million less in real terms than it was two years ago in FY 2020. This in turn will cause the average per pupil funding shortfalls for low-income, Black and Latinx students to grow, after the initial three years of decline.

So, what drove Illinois to embark on its long-term course of disinvesting in core, General Fund services? The data again make the answer clear: (i) flawed tax policy that generates inadequate revenue growth over-time; and (ii) the unaffordable back-loaded schedule for repaying the debt the state owes to its five public pension systems that was created in 1995 under legislation commonly referred to as the “Pension Ramp.”

It all starts with the design of the state’s tax policy, which is so flawed that for decades, revenue growth has generally been insufficient to cover the cost of maintaining the same level of public services from one fiscal year into the next—even during a normal economy. That’s the textbook definition of a “structural deficit.”
Then, the state’s structural deficit was made decidedly worse when elected officials passed the Pension Ramp into law in 1995, which created the unaffordable, backloaded schedule for repaying the debt—which now stands at $143.7 billion—Illinois owes to its five public pension systems.

The irony is, the state racked-up this outsized debt to its pension systems mainly because for generations, politicians in both parties lacked the political will to raise the tax revenue needed to eliminate the structural deficit. Instead, they chose to maintain a portion of the General Fund spending on services that tax revenue growth was not covering, by engaging in the irresponsible practice of using the pension systems like a credit card. Effectively, Illinois ran-up the debt it owed to its pension systems by intentionally underfunding annual pension contributions it was supposed to make, so it could use the revenue that such underfunding freed-up to pay for current services. Of course, the state still had the constitutional obligation to repay the full balance of the unfunded contributions it was amassing overtime, with interest.

The structural deficit caused by the state’s tax policy shortcomings is so significant, that just to have enough current revenue available to keep total spending on services in the FY 2022 GF Proposal level in nominal dollars with FY 2021, Governor Pritzker had to both:

(i) propose increasing General Fund revenue through the elimination of $932 million in existing tax expenditures that benefit businesses, while also proposing to generate an additional $304 million in one-time revenue by prorating the Local Government Distributive Fund at 90 percent of its statutory value, and diverting from capital projects to the General Fund, some cigarette tax proceeds, as well as proceeds from the sales tax on motor fuels; and

(ii) create another $1.8 billion in year-to-year savings through a combination of administrative cuts, reduced expenditures on health insurance costs for state workers, and reduced borrowing costs. If any or all of these proposed initiatives are not enacted, state spending on General Fund services in FY 2022 will have to be cut significantly from FY 2021 levels.

Of course, a portion of the state’s deficit problems will resolve themselves once the revenue shortfalls caused by the pandemic end. That said, the crux of Illinois’ fiscal problems have nothing to do with COVID-19, and everything to do with the long-term, structural deficit driven by the state’s flawed tax policy.

2. Key Findings

2.1 FY 2022 Revenue

2.1.1 Total General Fund Revenue is Projected to Decline on a Year-to-Year Basis.

- Total General Fund revenue in the FY 2022 GF Proposal is estimated to be $41.71 billion, which is $1.77 billion less in nominal dollars than the $43.48 billion projected for FY 2021.\(^\text{13}\)

- This year-to-year decline in revenue is projected to occur, even if the state generates the $1.13 billion in new, combined one-time and recurring revenue from the initiatives detailed in Section 3.2 of this Report. If none of the proposals to generate new revenue for FY 2022 the governor put on the table are enacted, however, the FY 2022 General Fund would be projected to have only $40.58 billion in total revenue, which is $2.9 billion or 6.7 percent less than FY 2021.

- The key reasons for the $1.77 billion year-to-year revenue decline currently projected in the FY 2022 GF Proposal are: (i) the FY 2021 General Fund budget includes as revenue $2.0 billion in loan proceeds the state obtained under the Federal Reserve Bank’s Municipal Liquidity Facility which is not available in FY 2022; (ii) federal transfers to the state’s General Fund in FY 2022 are expected to be $413 million less than in FY 2021;\(^\text{14}\) and (iii) revenue from the state’s individual income tax is projected to be $371 million less in FY 2022 than in FY 2021.\(^\text{15}\)

- So, just to maintain flat year-to-year spending on Current Services, the governor proposes generating the following new, one-time and recurring revenue to support the FY 2022 General Fund budget: (i) $130 million in one-time revenue by funding the Local Government Distributive Fund—which is the vehicle through which the
state shares a portion of its net income tax revenue with municipalities—at only 90 percent of what is statutorily required;¹⁶ (ii) $72 million in one-time revenue in the form of sales tax proceeds on motor fuel, obtained by diverting from the Road Fund to the General Fund;¹⁷ and (iii) $932 million in both recurring and one-time revenue obtained by eliminating or modifying a number of tax breaks—which are more accurately described as “tax expenditures”—the state is currently granting to corporations.¹⁸

- If the revenue generating policy changes outlined above are not enacted, year-to-year spending on Current Services in the FY 2022 GF Proposal will have to be cut by over $1.3 billion.

**2.1.2 Long-Term There Has Been No Real Growth in Total General Fund Revenue for 20 Years**

- Due primarily to flaws in the state’s tax policy, General Fund revenue growth in Illinois has been relatively flat over time, in real, inflation-adjusted terms. In fact, after adjusting for inflation using 2022 dollars, the $41.7 billion of projected General Fund revenue for FY 2022 would be almost identical to the $41.6 billion in General Fund revenue the state actually collected seven years ago in FY 2015, and some $1.2 billion, or 2.79 percent less than it was nine years ago in FY 2013.

- After adjusting for inflation using 2022 dollars, the projected revenue for FY 2022 of $41.7 billion represents a decline of $270 million or 0.64 percent from the roughly $42.0 billion in total General Fund revenue Illinois’ tax system generated two decades ago in FY 2000.¹⁹

- However, if none of the new revenue generating initiatives the governor has proposed for FY 2022 are enacted, projected revenue for FY 2022 will fall to only $40.56 billion, which is $1.40 billion or 3.34 percent less in real, inflation-adjusted terms than actual General Fund revenue was back in FY 2000.²⁰

- That is eye-opening for two reasons. First, in FY 2000, the state’s personal income tax rate was three percent, compared to the 4.95 percent it is now, and the corporate income tax rate was 4.8 percent, as compared to the seven percent it is today.²¹ Second, revenue from the individual (33 percent) and corporate (five percent) income taxes account for almost 40 percent of all General Fund revenue from any source.²²

- Which means the design of Illinois’ existing tax policy is so flawed, that despite increasing the rates of state income taxes which collectively generate around 40 percent of all General Fund revenue, overall state revenue has not even grown with inflation for two decades.

- If Illinois did not increase its income tax rates for both individuals and corporations, then after adjusting for inflation, the total amount of projected General Fund revenue for Illinois would be $9.17 billion less in real terms in FY 2022 than it was over two decades earlier in FY 2000.²³

- The key reason for this outcome is that stagnation and decline typify the performance of most state taxes that feed the General Fund. In fact, when measured in real, 2021, inflation-adjusted dollars, the state has realized little to no revenue growth over the past 22 years from its individual and corporate income taxes, sales taxes; liquor gallonage taxes; insurance taxes; and corporate franchising taxes and associated fees.²⁴

- For instance, corporate income tax revenue has experienced a precipitous real decline from its peak set in FY 2013, when it totaled $3.78 billion.²⁵ Even if the state eliminates or modifies the various business tax expenditures outlined in Section 3.2 of this Report, after adjusting for inflation, corporate income tax revenues are projected to decline from $3.78 billion in FY 2013 to a projected $3.058 billion in FY 2022, a decline of some 19.1 percent.

- The most important revenue source to exhibit little to no growth over the past 22 years is the sales tax. Projected sales tax revenue for FY 2022 is $9.52 billion, or roughly 23 percent of all General Fund revenue. This represents a significant decline in importance over time, given that in 2022 inflation-adjusted dollars, sales tax revenue comprises $1.36 billion or three percent less of total General Fund revenue in FY 2022 than the 26 percent sales taxes accounted for in FY 2000.

- The main reason sales tax revenue has 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.²⁶ The base of a tax is simply what private sector
economic activity is subject to the tax in question. Illinois’ sales tax base is so narrow because it is assessed primarily against the sale of goods rather than services.\textsuperscript{27}

- That is a losing proposition, given 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.\textsuperscript{28} Leaving the vast majority of the largest and fastest growing segment of the economy out of the state’s sales tax base means the revenue therefrom will not grow with the economy over time, and ultimately impedes the overall ability of the state’s fiscal system to generate adequate revenue to fundcore services sustainably from year-to-year.\textsuperscript{29}

- Revenue from several other state tax sources that feed the General Fund are also projected to experience real declines over the FY 2000—FY 2022 sequence, including: public utility taxes; cigarette taxes; and vehicle use taxes.\textsuperscript{30}

- Although federal transfers to Illinois have seen some variation over the past 20 years, since FY 2009 the clear trend has been a notable decline. Indeed, on an inflation-adjusted basis, federal transfers to the Illinois General Fund dropped from a peak of $8.48 billion in FY 2009, to a projected $3.97 billion in FY 2022, a \textit{decline of 53 percent}.\textsuperscript{31}

- The take-away from long-term revenue trends in Illinois is clear: All the data continue to demonstrate that Illinois’ state-level tax policy is seriously flawed; does not work in the modern economy; and hence fails to generate real growth in revenue over time. This is the primary reason Illinois has a “structural deficit” in its General Fund.

- A “structural deficit” occurs whenever a state’s fiscal system does not generate adequate revenue to sustain the same level of service delivery from one fiscal year into the next, adjusting solely for changes in inflation and population, and assuming no changes in law and normal economic growth.

\section*{2.2 FY 2022 Proposed General Fund Spending Appropriations}

\subsection*{2.2.1 Overall}

- The FY 2022 GF Proposal identifies a total of $41.6 billion in net appropriations for spending. Of that amount, $13.8 billion, or 33 percent, are for “Hard Costs,” while $27.7 billion, or 67 percent are for “Current Services.”\textsuperscript{32}

- “\textit{Current Services}” include the spending on public services over which elected officials generally have at least some discretion, while “\textit{Hard Costs}” cover mandatory spending obligations required by law or contract, over which decision makers have no discretion.

- In the FY 2022 GF Proposal, \textit{96 cents out of every $1} of all appropriations for spending on Current Services go to the core areas of Education, Healthcare, Human Services, and Public Safety.\textsuperscript{33}

- Overall, net Current Service appropriations in FY 2022 are scheduled to be \textit{$121 million greater} than in FY 2021, in nominal, non-inflation-adjusted dollars.\textsuperscript{34} After adjusting for changes in inflation and population, however, total proposed appropriations for Current Services in FY 2022 are scheduled to be \textit{$434 million, or one-and-a-half percent less} than in FY 2021 in real terms.\textsuperscript{35}

- Taking a longer view, it is clear the structural deficit in the state’s General Fund has diminished Illinois’ capacity to continue funding the same level of Current Services over time. In fact, after adjusting for inflation, FY 2022 proposed appropriations for Current Services are scheduled to be \textit{22 percent less} than actual spending on those services was two decades ago in FY 2000.\textsuperscript{36}

\subsection*{2.2.2 FY 2022 Education Spending}

- Three subcategories fit under the heading of “Education” in the General Fund budget: Early Childhood; K-12 Education; and Higher Education.

- Appropriations for Early Childhood in FY 2022 are proposed to be $544 million, which is the exact same nominal-dollar appropriation for Early Childhood that was made in FY 2020 and FY 2021.\textsuperscript{37} After adjusting for
inflation, however, Early Childhood funding would experience a real, year-to-year cut of $11 million or 2 percent from FY 2021 levels.38

- Despite that real, year-to-year cut, after adjusting for inflation, Early Childhood funding in the FY 2022 GF Proposal is nearly 80 percent greater than such funding actually was over twenty years ago in FY 2000.39 This makes Early Childhood the only Current Service scheduled to receive a significantly greater level of funding in FY 2022 than in FY 2000, in real, inflation-adjusted terms.

- The $8.35 billion appropriation scheduled for K-12 Education in the FY 2022 GF Proposal General is level with the FY 2021 Enacted General Fund appropriation, in nominal dollars.40 After adjusting for inflation, however, the FY 2022 GF Proposal’s appropriation for K-12 Education is $168 million or 2 percent less than in FY 2021, and $437 million less than in FY 2020.41

- The FY 2022 GF Proposal’s appropriation for Higher Education is $1.992 billion, which represents a nominal dollar increase of about $50 million, after two consecutive fiscal years of level nominal-dollar appropriations.42 After adjusting for inflation, however, the proposed appropriation for Higher Education in FY 2022 constitutes a year-to-year real increase of only $10 million, or one-half of one percent, when compared to FY 2021.43

- Taking a longer view, General Fund appropriations for Higher Education in FY 2022 are scheduled to be nearly 50 percent less in real, inflation-adjusted dollars than in FY 2000.44 This is by far the greatest real cut imposed on any Current Service over the last 20 years.

2.2.3 FY 2021 Human Services Spending

- In the FY 2022 GF Proposal, the gross appropriation for all Human Services is scheduled to be $7.25 billion, which would represent a 4.77 percent increase from the FY 2021 enacted appropriation of $6.92 billion in nominal dollars, and a 2.58 percent increase in real, inflation-adjusted dollars.45

- Despite the real, year-to-year increase in proposed Human Services funding scheduled for FY 2022, the appropriation for Human Services in the FY 2022 GF Proposal will nonetheless be almost 12 percent less than two decades ago in FY 2000, after adjusting for inflation.46

- To provide context, Illinois would have to increase the FY 2022 appropriation for Human Services by about one billion dollars to provide the same level of funding that pertained in real terms back in FY 2000.

2.2.4 FY 2021 Healthcare Spending

- Healthcare funding in Illinois’ General Fund consists primarily of appropriations for Medicaid and public health. Medicaid funding is complex and is covered through both the General Fund, and increasingly over time through a number of other “special funds,” like the Healthcare Provider Relief Fund (“HPRF”). Illinois has increased its utilization of special funds to cover Medicaid expenditures for the express purpose of isolating dedicated revenue sources which generate enhanced federal matching dollars.

- In the FY 2022 GF Proposal, the gross appropriation for Healthcare is $7.5 billion, which is $647 million, or 7.9 percent less in nominal dollars than in FY 2021.47 Of that gross Healthcare appropriation, $7.38 billion is targeted to DHFS, primarily to cover $6.86 billion of the state’s Medicaid expenditures on poor, disabled, and low-income populations.48 The remaining $148 million goes to the Department of Public Health.49

- The FY 2022 GF Proposal also includes a statutory transfer in the amount of $372 million from the General Fund to the HPRF, which is a special fund created to generate federal matching dollars.50

2.2.5 FY 2022 Pension Appropriations

- The current schedule created for repaying the debt the state owes to its five public pension systems—known as the “Pension Ramp”—was passed in 1995, when Governor James Edgar signed P.A. 88-0593 into law. The FY 2022 GF Proposal includes a $9.8 billion appropriation for pensions, which is the required General Fund contribution for FY 2022 as identified by the 1995 Pension Ramp.

- For the first 15 years of the Pension Ramp, the payments it required were dramatically below the actuarially required contribution (“ARC”). This resulted in the funded ratio of the systems decreasing, rather than increasing over that sequence. 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. This was done to avoid dealing with the structural deficit by raising taxes or significantly cutting spending on Current Services.

- Thereafter, the Pension Ramp established a debt repayment schedule that was so unrealistically backloaded as to be unaffordable. Indeed, the FY 2022 GF Proposal’s appropriation for pensions is \$672 million, or 7.4 percent more than the FY 2021 appropriation of \$9.117 billion.\(^{51}\)

- This demonstrates how unaffordable the backloaded schedule for repaying debt under the Pension Ramp is, given that it is increasing annually by amounts in excess of total year-to-year revenue growth, which is projected to be a decline of \$1.77 billion.\(^{52}\)

- As a result of the COVID-19 pandemic, asset losses are expected to materialize for all of the state retirement systems. This means the actuarially accrued unfunded liability (“AAUL”)—commonly known as the pension debt—will also increase. That in turn will result in even greater annual state payments in the out years than what is currently required under the Pension Ramp.

- Obviously, the state’s existing tax policy will not be able to accommodate those increased payments, whatever they may ultimately turn out to be, given that the repayments currently scheduled under the Pension Ramp are already growing by amounts which exceed total year-to-year growth in General Fund revenue.

2.3 FY 2022 Accumulated Deficit

- By the end of FY 2021, CTBA projects the accumulated deficit in the state’s General Fund will be \$8.4 billion.\(^{53}\) The accumulated deficit typically represents the dollar value of unpaid bills that will remain outstanding at the end of a fiscal year. In the case of Illinois’ General Fund, the accumulated deficit that has amassed over time is the direct result of the long-term structural deficit that has impacted the General Fund for decades.\(^{54}\) Because Hard Costs have to be paid by law, the entire accumulated deficit is in that portion of the General Fund Budget which covers appropriations for Current Services.

- Since total net appropriations for Current Services in FY 2021 were \$27.6 billion, the \$8.4 billion accumulated deficit projected for FY 2021 effectively means roughly 30 percent of all FY 2021 General Fund spending on Current Services was in fact deficit spending, with no current FY 2021 revenue available to fund it.\(^{55}\) An operating deficit of that magnitude also means the state of Illinois does not have the revenue to sustain its current level of spending on public services into the future.

- That is a significant problem, given that over 95 percent of all state General Fund appropriations for Current Services cover expenditures on the four core areas of Education (Early Childhood, K-12 Education and Higher Education), Healthcare, Human Services and Public Safety.\(^{56}\)

- The total amount of unpaid bills the state will have in its General Fund at the end of FY 2022 is projected to be \$8.3 billion, which may be slightly less than the \$8.4 billion at the end of FY 2021, but is still an unsustainable deficit spending level of around 30 percent.

3. FY 2022 Revenue

3.1 Updating FY 2021 Revenue Estimates

The Governor’s Office of Management and Budget (“GOMB”) initially projected that the General Fund would have \$42.13 billion in revenue for FY 2021.\(^{57}\) Then COVID-19 hit. As the pandemic—and the governmental responses thereto—caused the economy to decline, the Commission on Government Forecasting and Accountability (“COGFA”) lowered the revenue estimate for FY 2021 by \$4.46 billion, to \$37.67 billion for the year.\(^{58}\) However, due to unanticipated revenue performance and the state’s ability to take advantage of some federal loan programs designed to ease the fiscal strain created by COVID-19, the new revenue estimate for FY 2021 contained in the FY 2022 GF Proposal was revised upwards to \$43.48 billion, some \$5.81 billion more than COGFA’s estimate, all as shown in Figure 1.\(^{59}\)
As indicated in Figure 1, the initial revenue estimates for FY 2021 included new revenue that would have been generated if the “Illinois Income Tax Act,” Public Act 101-0008 (“P.A. 101-0008”) had become effective. That legislation would have replaced Illinois’ flat rate income tax with a graduated rate tax structure. Referred to as the “Fair Tax” by proponents because it tied tax burden to ability to pay, it was projected to raise $3.4 billion in new, recurring revenue annually, during a normal economy. Since it would have been operative for only half of the fiscal year, and due to the economic decline created by the pandemic, the Fair Tax was projected to generate $1.3 billion in new General Fund revenue in FY 2021. However, the Fair Tax never did become effective, because voters failed to ratify the ballot initiative that would have amended Illinois’ state constitution to permit imposition of a graduated rate income tax structure.

Illinois was able to offset the decline in projected revenue from both COVID-19 and the failure of the Fair Tax, by utilizing the Federal Reserve Bank’s Municipal Liquidity Facility (“MLF”), which was established under Section 4003 of the federal Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The MLF program authorized emergency lending to states “to meet failures of revenue resulting from the COVID-19 outbreak.” Under guidelines established for the MLF program, Illinois was permitted to borrow up to $9.7 billion from the Federal Reserve Bank.

Ultimately, the state obtained two separate loans through the MLF program, borrowing $1.2 billion to cover FY 2020 expenses, and another $1.998 billion to cover FY 2021 expenses. It is important to note that these loan proceeds count as “revenue” in the fiscal years they are obtained, even though they have to be repaid in subsequent fiscal years.

Figure 2 shows how the final General Fund revenue estimate for FY 2021 compares to the initial estimate GOMB made for the year. While the final revenue estimate is $1.35 billion greater than the initial projections made prior to the outbreak of the COVID-19 pandemic, that increase is due entirely to the receipt of loan proceeds under the MLF program, which not only have to be repaid, but also are not available to fund services in FY 2022 and beyond.

### Figure 1
**FY 2021 General Fund Revenue Forecasts ($ Millions)**

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Feb 2020 GOMB Forecast</th>
<th>May 2020 COGFA Estimate</th>
<th>Feb 2021 GOMB Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Individual Income Tax</td>
<td>$20,126</td>
<td>$18,511</td>
<td>$20,523</td>
</tr>
<tr>
<td>Net Corporate Income Tax</td>
<td>$2,488</td>
<td>$2,122</td>
<td>$2,619</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$9,038</td>
<td>$7,507</td>
<td>$8,873</td>
</tr>
<tr>
<td>Other Sources</td>
<td>$3,351</td>
<td>$3,093</td>
<td>$3,286</td>
</tr>
<tr>
<td>Transfers In</td>
<td>$2,042</td>
<td>$1,545</td>
<td>$1,797</td>
</tr>
<tr>
<td>Interfund Borrowing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Sources</td>
<td>$3,651</td>
<td>$3,634</td>
<td>$4,384</td>
</tr>
<tr>
<td>Net Income Tax Receipts from PA 101-0008</td>
<td>$1,435</td>
<td>$1,260</td>
<td>$1,998</td>
</tr>
<tr>
<td>Proceeds from Federal Reserve Borrowing</td>
<td></td>
<td></td>
<td>$1,998</td>
</tr>
<tr>
<td>Total General Funds Revenues</td>
<td>$42,131</td>
<td>$37,672</td>
<td>$43,480</td>
</tr>
</tbody>
</table>

![Figure 2](image-url)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Feb 2020 GOMB Forecast</th>
<th>Feb 2021 GOMB Estimate</th>
<th>$ Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Individual Income Tax</td>
<td>$20,126</td>
<td>$20,523</td>
<td>$397</td>
</tr>
<tr>
<td>Net Corporate Income Tax</td>
<td>$2,488</td>
<td>$2,619</td>
<td>$131</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$9,038</td>
<td>$8,873</td>
<td>($165)</td>
</tr>
<tr>
<td>Other Sources</td>
<td>$3,351</td>
<td>$3,286</td>
<td>($65)</td>
</tr>
<tr>
<td>Transfers In</td>
<td>$2,042</td>
<td>$1,797</td>
<td>($245)</td>
</tr>
<tr>
<td>Federal Sources</td>
<td>$3,651</td>
<td>$4,384</td>
<td>$733</td>
</tr>
<tr>
<td>Net Income Tax Receipts from PA 101-0008</td>
<td>$1,435</td>
<td></td>
<td>($1,435)</td>
</tr>
<tr>
<td>Proceeds from Federal Reserve Borrowing</td>
<td></td>
<td>$1,998</td>
<td>$1,998</td>
</tr>
<tr>
<td>Total General Funds Revenues</td>
<td>$42,131</td>
<td>$43,480</td>
<td>$1,349</td>
</tr>
</tbody>
</table>


3.2 Proposed New Revenue for FY 2022

Due to a combination of the state’s ongoing structural deficit, and some lingering impacts of COVID-19, the initial revenue picture for FY 2022 was bleak to say the least. So much so, that if the policy changes that will generate some new revenue outlined below in this section are not enacted, year-to-year spending on Current Services in the FY 2022 GF Proposal will have to be cut by over $1.3 billion. However, the FY 2022 GF Proposal the governor put on the table did manage to hold overall net spending on services in FY 2022 pretty much constant in nominal dollars with FY 2021. To be able to accomplish that feat, the governor, among other things, proposed to increase FY 2022 General Fund revenues primarily in three ways.

First, the governor proposes to generate $130 million in new, one-time revenue for the FY 2022 General Fund budget by funding the Local Government Distributive Fund ("LGDF") at only 90 percent of what is statutorily required.\(^67\) The LGDF is the vehicle through which the state shares a portion of its net income tax revenue with municipalities, based on their respective populations.\(^68\) Second, the governor also proposes to generate new, one-time revenue for the FY 2022 General Fund budget by diverting from the Road Fund to the General Fund, $72 million of sales tax proceeds on motor fuel.\(^69\)

Third, the governor proposes to generate new recurring and one-time revenue for the General Fund by eliminating or modifying $932 million in tax breaks—which are more accurately described as “tax expenditures”—the state is currently granting to corporations.

Tax breaks offered to businesses are more appropriately viewed as “tax expenditures” — because in effect government is spending public taxpayer money indirectly through the tax code, generally for one of two reasons, either: (i) to help fund a private business’s producing a public good or service; or (ii) to avoid inefficient “tax pyramiding,” which happens when the same transaction is taxed multiple times as it flows though the economy, resulting in taxes being layered on top of taxes.

Tax expenditures to produce a public good are effectively similar to direct expenditures. In the case of a direct expenditure, government collects tax revenue from taxpayers and then spends that revenue to pay for delivery of a public service. In the case of a business tax expenditure, government allows a private sector taxpayer to retain tax revenue which that business otherwise would have had to pay, in exchange for that taxpayer utilizing the retained revenue to fund delivery of a public good. Economic development, in the form of job creation is typically the public good that private businesses are expected to provide in exchange for receiving public subsidies in the form of tax expenditures.
Whether or not a particular business tax expenditure is actually creating the anticipated economic benefit is a legitimate inquiry for the state of Illinois to make. After all, if a particular tax expenditure did not exist, the state would be collecting the associated revenue, which then would be available to fund Current Services. Since 95 percent of all Current Service expenditures go to the core areas of Education, Healthcare, Human Services and Public Safety, it is appropriate for the state to eliminate tax expenditures that are not creating the anticipated public good, so that the underlying taxpayer money could be spent more effectively on funding these core Current Services.

The total revenue projection for FY 2022 contained in the FY 2022 GF Proposal relies on generating $932 million in new, recurring revenue by eliminating the following business tax expenditures:

i. **Cap Corporate Net Operating Loss Deductions Allowed under Section 207 of the Illinois Income Tax Act for Next Three Years at $100,000 Per Year ($314 million)**

If enacted, this proposal would limit the amount of net operating loss deductions that a business could claim under the Illinois Income Tax Act (“IITA”) in any single year to $100,000, for each of the next three years.\(^7\) Estimates are that this proposal would not impact 80 percent of Illinois corporate income taxpayers, and that it will increase revenue by $314 million for each of the three fiscal years that begin with FY 2022.\(^7\) Given that the research shows there is no statistically meaningful correlation between tax policy changes and job or economic growth, elimination of this tax expenditure cannot be expected to create any economic harm for the state. Indeed, the Congressional Budget Office found that an increase in demand for what a business sells is the sole factor that had a statistically meaningful correlation with incentivizing a business to hire more workers.\(^7\)

ii. **Roll Back the 100 percent Foreign-Source Dividend Deduction permitted under the Federal Tax Cuts and Jobs Act to Align with Standard Treatment of U.S.-Source and Domestic Dividends in Internal Revenue Code Section 243 ($107 million)**

Sections 245A, 250 and 951A, of the federal Tax Cuts & Jobs Act (“TCJA”) created a new 100 percent dividend deduction for the “foreign-source” portion of foreign dividends, as well as a new 50 percent deduction for global intangible low-taxed income (“GILTI”).\(^7\) If instead of allowing such significant deductions for these items, the deductions allowed for foreign-source dividends and GILTI were aligned with the deduction permitted for domestic dividends of 50 percent, Illinois would realize an estimated $107 million more in corporate income tax revenues for the General Fund, while still permitting corporate taxpayers to take advantage of the standard deductions authorized under Internal Revenue Code (“IRC”) Section 243 for domestic dividends.\(^7\) Given the lack of a statistically meaningful correlation between tax policy changes and job or economic growth cited in subparagraph (i) above, it is unlikely elimination of this tax expenditure would result in any economic harm to the state.

iii. **Roll Back Federal TCJA 100 Percent Accelerated Depreciation Deduction to Align with Standard Treatment of Depreciation in IRC Section 168 ($214 million)**

This proposal would amend Section 203 of the IITA to require business taxpayers to add-back into their state-level taxable income, the difference between the 100 percent depreciation deduction allowed under subsection (k) of IRC Section 168 (which was created under the TCJA), and the standard depreciation deduction amount(s) allowed under the original provisions of IRC Section 168.\(^7\) It is estimated this will generate $214 million more in corporate income tax revenue annually, beginning in FY 2022.\(^7\) For the reasons cited in subparagraph (i) above it is also unlikely elimination of this tax expenditure will cause economic harm.

iv. **Reverse Several Recent Illinois Tax Changes ($209 million)**

This proposal would eliminate the following business tax expenditures that passed into law in 2019, as part of PA 101-0009: the add-on income tax credit for qualifying construction job payroll expenditures; the repeal of the corporate franchise tax; and the right to include production-related tangible personal property in the Manufacturing Machinery and Equipment Exemption from Illinois sales taxes.\(^7\) Collectively, it is estimated that elimination of the preceding three tax expenditures will generate $102 million annually in additional corporate income tax revenues, beginning in FY 2022.\(^7\)

For the reasons cited in subparagraph (i) above, elimination of these tax expenditures cannot be expected to generate economic harm. That said, the franchise tax was highly unpopular with the business community and it may be politically difficult to eliminate its repeal. Moreover, it could be claimed that the production-related tangible personal property
exemption is needed to avoid tax pyramiding, as the final product that results from the manufacturing process in question will be taxed when sold to the final consumer thereof.

Additionally, the governor proposes to continue rolling back various sales tax exemptions for special motor fuels that began in 2017 and 2019. This rollback is projected to generate $107 million in various General Fund tax revenues that will be realized commencing in FY 2022.\footnote{79}

\textbf{v. Cap Retailer’s Discount ($73 million)}

Illinois retailers are allowed to keep 1.75 percent of the sales tax they collect and remit to the state as an administrative fee.\footnote{80} This was initially intended to reimburse retailers for their out-of-pocket costs of collecting sales taxes for the state. Illinois is one of only 26 states of the 45 to impose a sales tax nationally that has such a program.\footnote{81} Most states with this tax expenditure limit or cap it in some way. The governor proposes to limit the total amount that a retailer could retain under this tax expenditure to $1,000 per month.\footnote{82} Setting the cap that high effectively means the vast majority of Illinois retailers—nearly 99 percent—would not be affected.\footnote{83} It is estimated that eliminating this tax expenditure would generate $73 million annually in increased sales tax revenue, beginning in FY 2022.\footnote{84} Capping this tax expenditure as proposed makes sound fiscal sense, as the benefit currently provided significantly exceeds the costs it was intended to address.

\textbf{vi. Limit Tax Credit For Private Scholarships ($14 million)}

In 2017, Illinois added an income tax credit program granting a 75 percent income tax credit to individuals and businesses that contribute to scholarship funds for private schools.\footnote{85} The governor proposes to reduce this credit to 40 percent, to better match the allowable credit at the federal level. It is estimated this will generate an annual increase in income tax revenue of $14 million, beginning in FY 2022.\footnote{86} Reduction of this tax expenditure is sound policy for four reasons. First, it is questionable whether public taxpayer money should be used to subsidize private schools for many reasons, not the least of which is private schools can discriminate when admitting students, while public schools cannot. Second, public education in Illinois is underfunded by close to $7 billion, so diverting public taxpayer money away from the state’s underfunded public education system makes no sense.\footnote{87} Third, this tax expenditure is subsidizing decisions parents make to send their children to private schools that would have been made in any event, even without the public subsidy, which means the public subsidy is not generating any public good or service. Fourth, the research shows that public schools do a better job of educating low-income and minority students than do private schools,\footnote{88} so subsidizing the choice to send such children to private schools may in fact be counter-productive from an educational standpoint.

\subsection{3.3 FY 2022 Proposed General Fund Revenue Summary}

As shown in Figure 4, total General Fund revenue in the FY 2022 GF Proposal is estimated to be $41.71 billion, which is $1.77 billion or four percent less in nominal dollars than the $43.48 billion projected for FY 2021.\footnote{89} This year-to-year decline in revenue is projected to occur, even if the state generates the $1.13 billion in new, combined one-time and recurring revenue from the initiatives detailed in Section 3.2 of this Report. Without that new revenue, the FY 2022 General Fund would be projected to have only $40.58 billion in total revenue, which is $2.9 billion or 6.7 percent less than FY 2021.

The key reasons for the $1.77 billion year-to-year revenue decline currently projected in the FY 2022 GF Proposal are the following three items:

(i) the FY 2021 General Fund budget includes as revenue the $2.0 billion in loan proceeds the state obtained under the Federal Reserve Bank’s Municipal Liquidity Facility, which is not available in FY 2022;

(ii) federal transfers to the state’s General Fund in FY 2022 are expected to be $413 million less than in FY 2021;\footnote{90} and

(iii) revenue from the state’s individual income tax is projected to be $371 million less in FY 2022 than in FY 2021.\footnote{91}
### Figure 3
**Estimated General Fund Revenue: FY 2021 Versus FY 2022 Proposed ($ Millions)**

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>FY 2021 Enacted</th>
<th>FY 2022 Proposed</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Sources: Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Taxes</td>
<td>$20,523</td>
<td>$20,152</td>
<td>($371)</td>
<td>-1.81%</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>$2,619</td>
<td>$3,058</td>
<td>$439</td>
<td>16.76%</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$8,873</td>
<td>$9,518</td>
<td>$645</td>
<td>7.27%</td>
</tr>
<tr>
<td>Public Utility Taxes</td>
<td>$801</td>
<td>$777</td>
<td>($24)</td>
<td>-3.00%</td>
</tr>
<tr>
<td>Cigarette Taxes</td>
<td>$288</td>
<td>$281</td>
<td>($7)</td>
<td>-2.43%</td>
</tr>
<tr>
<td>Liquor Gallonage Taxes</td>
<td>$176</td>
<td>$178</td>
<td>$2</td>
<td>1.14%</td>
</tr>
<tr>
<td>Inheritance Tax</td>
<td>$341</td>
<td>$310</td>
<td>($31)</td>
<td>-9.09%</td>
</tr>
<tr>
<td>Insurance Taxes and Fees</td>
<td>$487</td>
<td>$438</td>
<td>($49)</td>
<td>-10.06%</td>
</tr>
<tr>
<td>Corporate Franchise Taxes and Fees</td>
<td>$250</td>
<td>$205</td>
<td>($45)</td>
<td>-18.00%</td>
</tr>
<tr>
<td>Interest on State Funds and Investments</td>
<td>$100</td>
<td>$100</td>
<td>$ -</td>
<td>0.00%</td>
</tr>
<tr>
<td>Cook County Intergovernmental Transfer</td>
<td>$244</td>
<td>$244</td>
<td>$ -</td>
<td>0.00%</td>
</tr>
<tr>
<td>Other State Sources</td>
<td>$599</td>
<td>$628</td>
<td>$29</td>
<td>4.84%</td>
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<tr>
<td><strong>Total State Sources: Revenues</strong></td>
<td>$35,301</td>
<td>$35,889</td>
<td>$588</td>
<td>1.67%</td>
</tr>
<tr>
<td><strong>State Sources: Transfers In</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Lottery</td>
<td>$741</td>
<td>$739</td>
<td>($2)</td>
<td>-0.27%</td>
</tr>
<tr>
<td>Riverboat Gaming Taxes</td>
<td>$10</td>
<td>$84</td>
<td>$74</td>
<td>740.00%</td>
</tr>
<tr>
<td>Adult-Use Cannabis</td>
<td>$46</td>
<td>$69</td>
<td>$23</td>
<td>50.00%</td>
</tr>
<tr>
<td>Municipal Liquidity Facility</td>
<td>$1,998</td>
<td>$ -</td>
<td>($1,998)</td>
<td>-100.00%</td>
</tr>
<tr>
<td>Other Transfers</td>
<td>$1,000</td>
<td>$960</td>
<td>($40)</td>
<td>-4.00%</td>
</tr>
<tr>
<td><strong>Total State Sources</strong></td>
<td>$4,384</td>
<td>$3,971</td>
<td>($413)</td>
<td>-9.42%</td>
</tr>
<tr>
<td><strong>Total General Funds Revenues</strong></td>
<td>$43,480</td>
<td>$41,712</td>
<td>($1,768)</td>
<td>-4.07%</td>
</tr>
</tbody>
</table>


**3.4 General Fund Revenue Growth Over Time**

Due primarily to flaws in the state’s tax policy, General Fund revenue growth in Illinois has been relatively flat over time, in real, inflation-adjusted terms. To ensure any historical analysis of revenue growth in Illinois accurately depicts the functionality of the state’s tax policy, CTBA does not include proceeds from loan borrowings in the calculation. After adjusting for inflation using 2022 dollars, the $41.7 billion of General Fund revenue projected for FY 2022 would be almost identical to the $41.6 billion in General Fund revenue the state actually collected seven years ago in FY 2015, and some $1.2 billion or 2.79 percent less than it was nine years ago in FY 2013.52

In fact, as Figure 4 clearly shows, after adjusting for inflation using current dollars, the projected revenue for FY 2022 of $41.7 billion represents a decline from the $41.9 billion in total General Fund revenue Illinois’ tax system generated two decades ago in FY 2000.53
The sharp decline in General Fund revenue from FY 2015 to FY 2017, highlighted in Figure 4 was due in large part to a reduction in the State’s individual and corporate income tax rates. 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. Then by law in January of 2016, the individual income tax rate automatically decreased from five percent (5%) to 3.75 percent. Not surprisingly, net individual income tax revenues the state realized declined in real, inflation-adjusted dollars by $2.68 billion from FY 2015 to FY 2016 following this rate cut. Just two years later in FY 2018, the individual income tax rate was increased again, this time from 3.75 percent to 4.95 percent under Public Act 100-0022.

However, if none of the new revenue generating initiatives the governor has proposed for FY 2022 are enacted, projected revenue for FY 2022 will fall to only $40.58 billion, which is $1.40 billion or 3.34 percent less in real, inflation-adjusted terms than actual General Fund revenue was back in FY 2000.

**Bottom line:** despite the various income tax rate increases the state enacted after FY 2000, overall General Fund tax revenue in Illinois still has not grown in real terms for over 20 years. In fact, as shown in Figure 5, if Illinois’ individual and corporate income tax rates were still three percent and 4.8 percent respectively as they were in FY 2000, General Fund Revenue in FY 2022 would be $9.17 billion less in real terms than it was two full decades earlier in FY 2000. This highlights just how poorly functioning Illinois’ overall tax policy is, as currently designed. As CTBA’s research has demonstrated for years, 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—even during good economic times.
Digging deeper into the various revenue sources that feed the General Fund, some interesting details emerge. For instance, as shown in Figure 6, the individual income tax revenue estimated for FY 2022 represents a decrease of roughly $919 million over its previous peak in FY 2021, after adjusting for inflation. This decline in individual income tax performance is being driven primarily by a return to traditional Federal income tax filing deadlines. In FY 2021, to accommodate for the economic disruption due to the COVID-19 pandemic, deadlines were extended for Federal income taxes, leading to more robust income tax revenue collections at the state level.

**Figure 5**

Total General Fund Revenue, FY 2000 – FY 2022 ($ millions), Inflation-adjusted Using 2022 Dollars—With Income Tax Rates Held Constant to FY 2000 Levels

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and Governor’s Office of Budget & Management.¹⁰¹

**Figure 6**

Net Individual Income Tax Revenue, FY 2000 – FY 2022 ($ millions), Inflation-adjusted Using 2022 Dollars

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and Governor’s Office of Budget & Management.¹⁰⁴
Meanwhile, stagnation and decline typify the performance of the other state taxes that feed the General Fund. Indeed, as shown in Figure 7, when measured in 2022, inflation-adjusted dollars, the state has realized no net revenue growth over the past 22 years from its sales taxes; liquor gallonage taxes; insurance taxes; and corporate franchising taxes and associated fees combined.105

The most important of these revenue sources to exhibit little to no growth over the past twenty years is the sales tax.

Consider that projected net sales tax revenues in FY 2022 are $9.52 billion, or roughly 23 percent of all General Fund revenue. This represents a significant decline in importance over time, given that in 2022 inflation-adjusted dollars, sales tax revenue comprises $1.36 billion or three percent less of total General Fund revenue in FY 2022 than the 26 percent sales taxes accounted for in FY 2000. The real decline in sales tax revenue experienced in Illinois since FY 2000 is shown in Figure 7.

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.107 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 2019, the sale of goods went from accounting for 25.4 percent of Illinois’ GDP to just 17.1 percent, while the sale of services increased from 64.7 to 73.8 percent of state GDP.108 Leaving most of 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.109

Revenue from several other state tax sources that feed the General Fund have also experienced real declines over the FY 2000—FY 2022 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.110

Of these declining revenue sources, corporate income tax revenues are projected to have one of the most precipitous real declines from its peak—even if the state eliminates or modifies the various business tax expenditures outlined in Section 3.2 of this Report—as shown in Figure 8. Corporate income tax revenues are projected to decline by some 19.1 percent from $3.78 billion in FY 2013 to a projected $3.058 billion in FY 2022.
Meanwhile, although federal transfers to Illinois have seen some variation over the past 20 years, since FY 2009 the clear trend has been a notable decline. Indeed, on an inflation-adjusted basis, federal transfers to the Illinois General Fund have dropped from a peak of $8.48 billion in FY 2009, to a projected $3.97 billion in FY 2022, as shown in Figure 9.¹¹²

The significant year-to-year increase in federal transfers Illinois realized over the FY 2017–FY 2018 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 FY 2018.¹¹４
Figures 10 and 11 show how the share of total General Fund revenue by source has changed between FY 2000 and FY 2022, highlighting a growing over-reliance on regressively designed individual income taxes and failing to capture more of the modern economy through sales tax revenues.

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and Governor’s Office of Budget & Management.

Figures 10 and 11 show how the share of total General Fund revenue by source has changed between FY 2000 and FY 2022, highlighting a growing over-reliance on regressively designed individual income taxes and failing to capture more of the modern economy through sales tax revenues.

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and Governor’s Office of Budget & Management.
4. FY 2022 Proposed 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 either by existing laws, such as debt service payments owed to bondholders, or contractual obligations, like paying health insurance benefits for state workers. In the FY 2022 Proposed General Fund Budget, $13.8 billion, or 33 percent, of the $41.6 billion in total, net spending appropriations are for Hard Costs.117

“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, the remaining FY 2022 GF Proposal contains a gross appropriation of $28.9 billion for spending on Current Services.

However, FY 2022 net appropriations for Current Services will be less than gross appropriations. The reason for this is the General Fund budget proposed for FY 2022—as is typical for most General Fund budgets historically—identifies a dollar amount of gross appropriations that, despite being authorized, will not actually be spent. This line item is generally dubbed “Unspent Appropriations.” The amount allocated to Unspent Appropriations in the FY 2022 GF Proposal is $1.1 billion. 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.

Figure 12 shows FY 2022 Hard Cost and Current Service appropriations by major category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Item</th>
<th>FY 2022 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Hard Costs</td>
<td></td>
<td>$13,840</td>
</tr>
<tr>
<td></td>
<td>Debt Service (Pension &amp; Capital Bonds)</td>
<td>$1,836</td>
</tr>
<tr>
<td></td>
<td>Other Statutory Transfers Out</td>
<td>$363</td>
</tr>
<tr>
<td></td>
<td>Pension Contributions</td>
<td>$9,790</td>
</tr>
<tr>
<td></td>
<td>Group Health Insurance</td>
<td>$1,851</td>
</tr>
<tr>
<td>Gross General Fund Service Appropriations</td>
<td></td>
<td>$28,871</td>
</tr>
<tr>
<td></td>
<td>Healthcare (including Medicaid)</td>
<td>$7,524</td>
</tr>
<tr>
<td></td>
<td>Human Services</td>
<td>$7,254</td>
</tr>
<tr>
<td></td>
<td>Early Childhood Education</td>
<td>$544</td>
</tr>
<tr>
<td></td>
<td>K-12 Education</td>
<td>$8,352</td>
</tr>
<tr>
<td></td>
<td>Higher Education</td>
<td>$1,992</td>
</tr>
<tr>
<td></td>
<td>Public Safety</td>
<td>$1,923</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>$1,281</td>
</tr>
<tr>
<td></td>
<td>Unspent Appropriations</td>
<td>$(1,123)</td>
</tr>
<tr>
<td>Net General Fund Service Appropriations</td>
<td></td>
<td>$27,748</td>
</tr>
<tr>
<td>Net Total General Fund Appropriations</td>
<td></td>
<td>$41,588</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of Governor’s Office of Management and Budget “Operating Budget Details (xls); Fiscal Year 2022 Proposed Budget (pdf)
Figure 13 provides a breakdown of how every $1 of gross appropriations in the FY 2022 GF Proposal is intended to be spent, including both Hard Costs and Current Services spending.

**Figure 13**

**THE SHARE OF EACH DOLLAR OF GROSS APPROPRIATIONS FOR HARD COSTS AND CURRENT SERVICES IN THE FY 2022 PROPOSED GENERAL FUND BUDGET**

As shown in Figure 13, for every $1 in taxes that is transferred into the FY 2022 GF Proposal, approximately $0.32 go to Hard Costs, which are 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 $0.68 are targeted to be spent on Current Services for the year. Out of that $0.68: $0.20 is for K-12 Education; $0.18 is for Healthcare; $0.17 goes to Human Services; $0.05 goes to Public Safety; $0.05 is for Higher Education; $0.01 is 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 FY 2022 Proposed General Fund 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. The Hard Costs payable in FY 2022 are for “Group Health Insurance,” “Debt Service,” “Pension Contributions,” and “Other Statutory Transfers Out.” Collectively, a total of $13.8 billion has been identified to cover Hard Costs in the FY 2022 GF Proposal, which represents a $1.9 billion (12.3 percent) nominal dollar decrease from the FY 2021 Enacted General Fund Budget.118

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 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 14 details how the Hard Cost appropriations proposed for FY 2022 differ from Hard Cost expenditures for FY 2021.
The first item listed under Hard Costs in Figure 14 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 FY 2022, the proposed appropriation for Group Health is $1.85 billion, a $70 million (3.6 percent) nominal-dollar decrease from the FY 2021 Enacted General Fund Budget.

The next item listed in Figure 14 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 FY 2022 GF Proposal, $1.836 billion is appropriated to spend on debt service, a $36 million nominal decrease from the FY 2021 Enacted General Fund Budget.

The third Hard Cost line in Figure 14 is for “Pension Contributions.” The FY 2022 GF Proposal appropriation for Pension Contributions covers $9.8 billion of the $10.45 billion in total FY 2022 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 $425.8 million in appropriations, of which $4.8 million goes to SURS for the Community College Insurance Program, $143 million goes to TRS for the Teachers’ Retirement Insurance Program, and $277 million goes to the Public School Teachers’ Pension and Retirement Fund of Chicago. Total projected pension contributions are $672 million or 7.4 percent greater in FY 2022 than they were in FY 2021. This increase 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 6 of this Report, FY 2022: Pension Funding.

The fourth Hard Cost listed in Figure 14 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. In the FY 2022 GF Proposal, appropriations for Other Statutory Transfers Out are scheduled to be $2.5 billion or 87 percent less than in FY 2021 in nominal dollars. This is primarily due to various increases in repayment of some short-term borrowings that were made in FY 2021.

4.3 FY 2022 Proposed General Fund 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 General Fund budget proposed for FY 2022 is represented by the respective 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 administrating 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—about 93 percent—is targeted for Medicaid.

The category of “Other” includes appropriations for every other service provided by, and all other functions of, state government. This includes 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 Opportunity (“DCEO”), and the Illinois 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.

CTBA analyzes spending by agency and program category to determine the best fit for an agency’s overall role. Following this analysis, CTBA determines that certain agencies that had been classified by the state one way were better suited to be included under a different category. For instance, based on its core functions, CTBA shifted the Human Rights Commission from the state’s Economic Development category to “Human Services”. The reason for this is simple: all general funds appropriated to the Human Rights Commission are earmarked for Human Services programming. Similarly, while the state categorized the Department of Public Health under “Human Services,” CTBA instead categorizes it under “Healthcare,” given that over 90 percent of the FY 2022 funding for that department is earmarked for healthcare programming.

As shown in Figure 15, the appropriations in the FY 2022 GF Proposal for Current Services continue to prioritize the same core services of Education (38 percent), Healthcare (26 percent), Human Services (25 percent), and Public Safety (7 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 the gross FY 2022 proposed appropriations for Current Services.

![Figure 15: FY 2022 Proposed General Fund Budget Gross Appropriations for Current Services](image)

Source: CTBA analysis of Governor’s Office of Management and Budget “Operating Budget Details (xls)”

Although Figure 15 shows the breakdown of the proposed gross appropriations for Current Services in FY 2022, spending reductions authorized by the “Unspent Appropriations” budget line will reduce total, net appropriations to just $27.7 billion. However, there currently is no detail available to allocate to specific service categories the cuts authorized pursuant to the Unspent Appropriation line.
4.4 The Current Accumulated Deficit

An “accumulated deficit” is typically the sum of: the unpaid bills for Current Services the state has remaining at the end of a given fiscal year; plus, the amount of any one-time revenues relied on to support delivery of Current Services in said fiscal year, that have to be replaced in the next fiscal year just to maintain flat service spending. As things stand now, by the end of FY 2021, CTBA projects the accumulated deficit will stand at $8.4 billion, and that it will decrease slightly to $8.3 billion by the end of FY 2022. The walk down showing how this accumulated deficit will decrease by approximately $100 million between FY 2021 and FY 2022 is set forth in Figure 16.131

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Remaining Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FY 2022 General Funds Revenue</td>
<td>$41,708</td>
<td>$41,708</td>
</tr>
<tr>
<td>Accumulated Deficit Carry Forward from FY 2021</td>
<td>($8,390)</td>
<td>$33,318</td>
</tr>
<tr>
<td>FY 2022 Hard Costs</td>
<td>$13,840</td>
<td>$19,478</td>
</tr>
<tr>
<td>FY 2022 Proposed General Fund Net Service Appropriations</td>
<td>$27,748</td>
<td>($8,269)</td>
</tr>
<tr>
<td>Projected Accumulated FY 2022 Proposed General Fund Deficit</td>
<td>($8,269)</td>
<td></td>
</tr>
<tr>
<td>Accumulated Deficit as a Percent of General Fund Net Service Appropriations</td>
<td>(29.8%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: CTBA analysis of Governor’s Office of Management and Budget “Operating Budget Details (xls)”

The accumulated deficit of $8.3 billion projected to exist at the end of FY 2022 includes repayment of the Federal Reserve’s Municipal Liquidity Facility loan borrowed in FY 2020 and FY 2021.132

4.5 Illinois’ Long-Term Structural Deficit

The accumulated deficit projected for the General Fund at the end of FY 2022 is primarily the result of the state’s long-term “structural deficit.” A “structural deficit” exists whenever a tax system, over an extended period of time, fails to generate enough revenue growth on a year-to-year basis to cover the cost of both:

(i) maintaining delivery of the same level of public services from year-to-year, after adjusting solely for changes in inflation and population, and assuming no changes in law; and

(ii) repaying existing debt service.

For nearly two decades CTBA has shown how the data consistently demonstrate that the tax system which feeds the state’s General Fund has historically grown revenue at a slower pace than the inflation-adjusted rate of increase in the cost of maintaining Current Service levels, plus the growth in paying the state’s existing debt load—which in Illinois’ case is owed primarily to the state’s five pension systems, as detailed in Section 6 of this Report. Figure 17 is a graphic depiction of the structural deficit in the Illinois General Fund.
There are two crucial factors to note about Figure 17. First, the calculation depicted in Figure 17 projects how the structural deficit in Illinois’ General Fund will grow in the future—assuming the state was starting with a balanced budget in FY 2021. Since the state is projected to have a material accumulated deficit of almost $8.45 billion at the end of FY 2021, it is obviously not actually starting with a balanced budget. However, a structural deficit model is intended to measure the rate of growth in a deficit over time, not the actual dollar value of the deficit in any given year. The dollar amount of a deficit in a given year is the accumulated deficit for that year.

Second, the calculation in Figure 17 has not been adjusted to account for the impact of COVID-19 on state revenue, debt service, or expenditures. The reason for this is the data aren’t sufficient to factor that impact into the modeling as of yet. But given the significant accumulated deficit that is projected to exist in the state’s General Fund currently, as well as the material loss of revenue the state is likely to incur due to the pandemic, the actual fiscal health of the Illinois General Fund is likely worse than what Figure 17 suggests.

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. Moreover, the pension debt Illinois owes to its five pension systems has to be re-amortized along the lines suggested in Section 6 of this Report. As things stand now, the simple truth is 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 further detail in Section 5 of this Report, Illinois has already cut real, per-capita General Fund spending on nearly every Current Service area since FY 2000, and overall is spending 20.53 percent less in real terms on all public services in FY 2021 than it did in FY 2000.

Material changes Illinois could make to address its structural deficit and flawed tax policy include:

1. Generating structural revenue growth by (a) increasing the state’s personal and corporate income tax rates, and (b) expanding the state’s sales tax base to include services as well as goods to better reflect the modern economy;
2. Creating some tax fairness among individuals with different levels of annual income and hence differing abilities to pay by implementing refundable income tax credits designed to offset all or a portion of the aforesaid tax increases that would be paid by low- and middle-income earners (for more information on how, see CTBA’s report “Increasing the Income Tax”; and
3. Replacing the state’s backloaded pension debt repayment plan under the “Pension Ramp,” with a level-dollar payment plan that reaches a 72 percent funded ratio by FY 2045, as outlined in Section 6 of this Report.

Figure 18 shows how the structural deficit changes based on whether the state enacts one or both of the pension re-amortization plans recommended by CTBA, and any structural revenue growth in FY 2022 totaling at least $3.6 billion. It also assumes full funding of the Evidence-Based Funding Model over ten years.  

![Figure 18](image-url)

**Figure 18**

**Annual General Fund Structural Deficit with Full EBM Funding, FY 2021-FY 2045:**

**Effect of CTBA Pension Re-amortization and Fair Tax Revenue ($ millions)**

5. General Fund Spending Trends

5.1 Year-to Year Comparison of Appropriations for Current Services, FY 2021 Enacted & FY 2022 Proposed

Under the FY 2022 GF Proposal, total net appropriations for Current Services are scheduled to be $27.7 billion, which is $121 million or about half of one percent greater than FY 2021 appropriations in nominal dollars. The limited increase in total net appropriations for Current Services is not surprising given the limited revenue available in FY 2022, nor is it surprising that, given the structural deficit, it marks only the third time in the last two decades that total General Fund appropriations for Current Services are scheduled to increase in nominal dollars on a year-to-year basis. Figure 19 shows the nominal dollar year-to-year change in appropriations between the FY 2021 Enacted General Fund Budget, and the FY 2022 GF Proposal.
Overall, the FY 2022 GF Proposal maintains service spending relatively flat with FY 2021 in nominal dollars. However, as highlighted in Figure 20, the level of spending on healthcare proposed for FY 2022 appears to be $647 million less than it was last year. And while it is true that General Fund spending on Healthcare is slated to decline from FY 2021 levels, overall spending on Healthcare will increase on a year-to-year basis. The state was able to accomplish this primarily by taking advantage of additional Federal aid designed to offset costs of the COVID-19 pandemic, to cover qualifying Medicaid spending, which in turn generates additional matching funds.

By doing so, the FY 2022 GF Proposal effectively shifts $647 million of FY 2022 spending on Medicaid that flowed through the General Fund in FY 2021, into special funds in FY 2022. Hence, that $647 million in revenue that would otherwise be used for Healthcare spending was then used to cover other Current Services in the FY 2022 GF Proposal.

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 changes in either inflation or population, both of which make it more expensive to provide the same level of services from one fiscal year into the next.

---

**Figure 19**

**FUND BUDGET SERVICES APPROPRIATIONS**

**FY 2021 ENACTED COMPARED TO FY 2022 PROPOSED ($ MILLIONS)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2021 Enacted (Nominal)</th>
<th>FY 2022 Proposed</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>8,171</td>
<td>$7,524</td>
<td>($647)</td>
<td>-7.92%</td>
</tr>
<tr>
<td>Human Services</td>
<td>6,923</td>
<td>$7,254</td>
<td>$331</td>
<td>4.77%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>8,352</td>
<td>$8,352</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>1,943</td>
<td>$1,992</td>
<td>$50</td>
<td>2.55%</td>
</tr>
<tr>
<td>Early Childhood</td>
<td>544</td>
<td>$544</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>1,909</td>
<td>$1,923</td>
<td>$13.9</td>
<td>0.73%</td>
</tr>
<tr>
<td>Other</td>
<td>1,307</td>
<td>$1,281</td>
<td>($26)</td>
<td>-1.98%</td>
</tr>
<tr>
<td>Total (Gross)</td>
<td>29,150</td>
<td>$28,871</td>
<td>($279)</td>
<td>-0.96%</td>
</tr>
<tr>
<td>Total (Net)</td>
<td>$27,627</td>
<td>$27,748</td>
<td>$121</td>
<td>0.44%</td>
</tr>
</tbody>
</table>

**Sources:** CTBA analysis of Governor’s Office of Management and Budget “**Operating Budget Details (xls)**”;

---

**Figure 20**

**NOMINAL DOLLAR COMPARISON OF FY 2021 ENACTED AND FY 2022 PROPOSED GENERAL FUND BUDGET APPROPRIATIONS FOR HEALTHCARE ($ MILLIONS)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2021 Enacted</th>
<th>FY 2022 Proposed</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Department of Healthcare and Family Services (DHFS)</td>
<td>$8,014</td>
<td>$7,376</td>
<td>($638)</td>
<td>-8.0%</td>
</tr>
<tr>
<td>DHFS Deposit to transfer to Healthcare Provider Relief Fund (HPRF)</td>
<td>$1,018</td>
<td>$372</td>
<td>($646)</td>
<td>-63.4%</td>
</tr>
<tr>
<td>Department of Public Health</td>
<td>$157</td>
<td>$148</td>
<td>($9)</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Total Healthcare – General Funds</td>
<td>$8,171</td>
<td>$7,524</td>
<td>($647)</td>
<td>-7.9%</td>
</tr>
</tbody>
</table>

**Source:** CTBA analysis of Governor’s Office of Management and Budget “**Operating Budget Details (xls)**”
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 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 21 shows how proposed General Fund appropriations for Current Services in FY 2022 compared to the FY 2021 Enacted General Fund Budget in both nominal and real, inflation- and population-adjusted dollars. Continuing the state’s long-term spending trend, most Current Service categories are scheduled to experience a real, inflation-adjusted year-to-year cut in gross appropriations in FY 2022, with the only exception being Human Services.

**Figure 21**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2021 Enacted (Nominal)</th>
<th>FY 2021 Enacted (inf. adj.)</th>
<th>FY 2022 Proposed</th>
<th>$ Change (inf. adj.)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>8,171</td>
<td>8,396</td>
<td>$7,524</td>
<td>($871)</td>
<td>-10.38%</td>
</tr>
<tr>
<td>Human Services</td>
<td>6,923</td>
<td>7,063</td>
<td>$7,254</td>
<td>$191</td>
<td>2.71%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>8,352</td>
<td>8,520</td>
<td>$8,352</td>
<td>($168)</td>
<td>-1.97%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>1,943</td>
<td>1,982</td>
<td>$1,992</td>
<td>$10</td>
<td>0.53%</td>
</tr>
<tr>
<td>Early Childhood</td>
<td>544</td>
<td>555</td>
<td>$544</td>
<td>($11)</td>
<td>-1.97%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>1,909</td>
<td>1,947</td>
<td>$1,923</td>
<td>($24)</td>
<td>-1.26%</td>
</tr>
<tr>
<td>Other</td>
<td>1,307</td>
<td>1,334</td>
<td>$1,281</td>
<td>($52)</td>
<td>-3.91%</td>
</tr>
<tr>
<td><strong>Total (Gross)</strong></td>
<td><strong>29,150</strong></td>
<td><strong>29,736</strong></td>
<td><strong>28,871</strong></td>
<td><strong>($865)</strong></td>
<td><strong>-2.91%</strong></td>
</tr>
<tr>
<td><strong>Total (Net)</strong></td>
<td><strong>$27,627</strong></td>
<td><strong>$28,182</strong></td>
<td><strong>$27,748</strong></td>
<td><strong>($434)</strong></td>
<td><strong>-0.154%</strong></td>
</tr>
</tbody>
</table>

Sources: CTBA analysis of Governor’s Office of Management and Budget “Operating Budget Details [xls]”; Healthcare appropriations inflation-adjusted using Midwest Medical Care CPI; all other appropriations adjusted using ECI from the BLS as of Dec. 2020 and population growth from the Census Bureau as of January 2020.

In fact, after adjusting for changes in inflation and population, total net spending on Current Services as proposed for FY 2022 is $434 million less than in FY 2021 in real, inflation-adjusted terms.

Moreover, the year-to-year real cuts scheduled for the Current Services shown in Figure 21 in most cases understate the amount of the cut. The reason for this is Figure 21 compares the maximum authorized appropriations for Current Services in FY 2022 to enacted spending in FY 2021. Many of these maximum authorized spending amounts will not be realized, however, because there remains $1.1 billion in “Unspent Appropriations” under the FY 2022 GF Proposal,
which, when applied over the course of the fiscal year, will reduce actual spending amounts for certain items below the gross appropriation authority identified therefor in the various service categories.

5.2 In Real Terms, Appropriations for Most Core Services in FY 2022 Under the Proposed General Fund Budget Remain Less Than Two Decades Ago in FY 2000

As has been highlighted previously, due to its structural deficit, Illinois has been disinvesting in Current Services for an extended period of time. For instance, as shown in Figure 22, the $27.7 billion in net, total spending on Current Services proposed for FY 2022 will be less in nominal, non-inflation-adjusted dollars than such expenditures were 13 years ago in FY 2009—at the end of the Great Recession.139

In real, inflation adjusted terms, Illinois’ disinvestment in public services dates all the way back to FY 2000. In fact, net appropriations for Current Services are scheduled to be 22.3 percent less under the FY 2022 GF Proposal than they were two decades ago in FY 2000, as shown in Figure 23.

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2000 Enacted (Nominal)</th>
<th>FY 2000 Enacted (inf. adj.)</th>
<th>FY 2022 Proposed</th>
<th>$ Change (inf. adj.)</th>
<th>% Change (inf. adj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>$5,022</td>
<td>$10,038</td>
<td>$7,524</td>
<td>($2,514)</td>
<td>-25%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$4,599</td>
<td>$8,187</td>
<td>$7,254</td>
<td>($933)</td>
<td>-11.4%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>$4,674</td>
<td>$8,321</td>
<td>$8,352</td>
<td>$32</td>
<td>0.4%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$2,152</td>
<td>$3,831</td>
<td>$1,992</td>
<td>($1,839)</td>
<td>-48%</td>
</tr>
<tr>
<td>Early Childhood Education</td>
<td>$170</td>
<td>$303</td>
<td>$544</td>
<td>$241</td>
<td>79.7%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$1,350</td>
<td>$2,403</td>
<td>$1,923</td>
<td>($481)</td>
<td>-20.0%</td>
</tr>
<tr>
<td><strong>Total Net General Fund Service Appropriations</strong></td>
<td><strong>$20,064</strong></td>
<td><strong>$35,718</strong></td>
<td><strong>$27,748</strong></td>
<td><strong>($7,970)</strong></td>
<td><strong>-22.3%</strong></td>
</tr>
</tbody>
</table>

Sources: FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and CTBA analysis of Governor’s Office of Management and Budget “Operating Budget Details [xls]”; Healthcare appropriations inflation-adjusted using Midwest Medical Care CPI; all other appropriations adjusted using ECI-C from the BLS as of Dec. 2019 and population growth from the Census Bureau as of January 2020.
On a positive note, under the FY 2022 GF Proposal, real appropriations for Early Childhood Education are scheduled to be greater than they were in FY 2000 by nearly 80 percent.

Unfortunately, every other major service category is scheduled to experience a real cut when compared to FY 2000 levels. For instance, despite the 2.5 percent year-to-year, real increase in proposed Human Services funding in FY 2022, Human Services appropriations are nonetheless scheduled to be at just under 12 percent less in FY 2022 than they were in FY 2000, after adjusting for inflation. Meanwhile, proposed General Fund appropriations for Higher Education in FY 2022 will be nearly 50 percent less in real terms than in FY 2000, a differential that could become even worse after the $1.1 billion in proposed Unspent Appropriations for FY 2022 are applied.

It is worth noting that although proposed General Fund Healthcare appropriations for FY 2022 are projected to be 25 percent lower than FY 2000 levels, some Healthcare appropriations formerly covered by the General Fund are now funded through other sources.

6. FY 2022: Pension Funding

The FY 2022 GF Proposal includes a $9.789 billion appropriation for pensions, which is the required General Fund contribution for FY 2022 as identified by the 1995 Pension Ramp. This appropriation is $672 million more than the FY 2021 appropriation of $9.117 billion, as shown in Figure 24.

The FY 2022 pension appropriation includes $9.3 billion collectively for the five major state pension funds: the Teachers’ Retirement System (“TRS”); the State Employee Retirement System (“SERS”); the State University Retirement System (“SURS”); the Judges’ Retirement System (“JRS”); and the General Assembly Retirement System (“GARS”). The remaining $426 million in pension appropriations proposed for FY 2022 are scheduled to go to the Teachers’ Retirement Insurance Program, the College Insurance Program, and the state’s contribution to the Chicago Teachers’ Pension Fund.

<table>
<thead>
<tr>
<th>Type</th>
<th>Item</th>
<th>FY 2021 Enacted</th>
<th>FY 2022 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Pension Funds</td>
<td>Teachers’ Retirement System</td>
<td>$5,141</td>
<td>$5,694</td>
</tr>
<tr>
<td></td>
<td>State Employees’ Retirement System</td>
<td>$1,605</td>
<td>$1,606</td>
</tr>
<tr>
<td></td>
<td>State University Retirement System</td>
<td>$1,781</td>
<td>$1,883</td>
</tr>
<tr>
<td></td>
<td>Judges’ Retirement System</td>
<td>$149</td>
<td>$152</td>
</tr>
<tr>
<td></td>
<td>General Assembly Retirement System</td>
<td>$27</td>
<td>$28</td>
</tr>
<tr>
<td></td>
<td><strong>State Pension Funds Subtotal</strong></td>
<td><strong>$8,702</strong></td>
<td><strong>$9,363</strong></td>
</tr>
<tr>
<td>Other Costs</td>
<td>State contribution to Chicago Teachers’ Pension Fund</td>
<td>$267</td>
<td>$277</td>
</tr>
<tr>
<td></td>
<td>Teachers’ Retirement Insurance Program</td>
<td>$143</td>
<td>$143</td>
</tr>
<tr>
<td></td>
<td>College Insurance Program</td>
<td>$5</td>
<td>$5</td>
</tr>
<tr>
<td></td>
<td><strong>Other Cost Subtotal</strong></td>
<td><strong>$415</strong></td>
<td><strong>$426</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total Pension Costs</strong></td>
<td><strong>$9,117</strong></td>
<td><strong>$9,789</strong></td>
</tr>
</tbody>
</table>

Source: CTBA analysis of Governor’s Office of Management and Budget “Operating Budget Details [xlsx]”

At the time the Pension Ramp passed into law, the aggregate funded ratio for all five state systems was just 52.4 percent. A “funded ratio” is determined by dividing a pension system’s assets by its liabilities. According to the United States Government Accountability Office, a public pension system is healthy when it has a funded ratio of at
least 80 percent. Back in 1995, supporters of the Pension Ramp claimed it would bring the pension systems up to a healthy funded ratio of 90 percent by 2045.

For the first 15 years of the Pension Ramp, however, the payments it required were dramatically below the actuarially required contribution (“ARC”) which was needed to fund the benefits being earned by state workers. This resulted in the funded ratio decreasing, rather than increasing over that sequence. 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.

Why did decision makers in both parties engage in the irresponsible fiscal practice of intentionally underfunding the pensions so they could divert revenue which should have covered pension contributions to instead pay for Current Services? The structural deficit which is described in detail in section 4.5 of this Report. Effectively, leaders in both parties lacked the political will to raise taxes to eliminate the structural deficit and support Current Service expenditures with current revenue. So, they chose instead to borrow against what was owed to the pension systems to maintain funding for the portion of the Current Services that natural revenue was not covering because of the structural deficit. Then they left the obligation to repay the debt they were accruing to the pension systems to future generations.

Indeed, the Pension Ramp got its name precisely because it provided for the repayment of the pension debt by substantially “ramping-up” the annual repayments over the FY 2011-2045 sequence. It thereafter established a pension debt repayment schedule that was so unrealistically backloaded as to be unaffordable. Indeed, the FY 2022 GF Proposal appropriation for pensions is $672 million more than the FY 2021 appropriation of $9.117 billion.

**Figure 25** shows that under the current Pension Ramp, the annual, all funds contribution to the five state pension systems is projected to reach $17.32 billion by FY 2040, and $19.69 billion by FY 2045.

![Figure 25: Projected All Funds Contributions to State Pension Systems ($ Billions)](image_url)

*Source: Illinois State Retirement Systems Actuarial Valuation Reports*

Fortunately, asset losses expected to materialize as a result of the COVID-19 pandemic for all of the state retirement systems did not materialize to any meaningful extent in FY 2021. This means the actuarially accrued unfunded liability (“AAUL”)—commonly known as the pension debt—only marginally increased. This in turn resulted in only marginally greater annual state payments in the out years, as depicted in **Figure 25**. Obviously, the state’s current tax policy will
not be able to accommodate those increased payments, given that the repayments currently scheduled under the Pension Ramp are growing by amounts which exceed total year-to-year growth in General Fund revenue.

One sound alternative to the Pension Ramp is implementing a “level-dollar” re-amortization of the pension debt that eliminates back-loading. Under a level dollar repayment plan, the state would make greater annual payments in early years than what’s required under the current Pension Ramp, but those new annual payments would remain level in nominal dollars over time. Over the long-term, this means in real, inflation-adjusted terms, the cost to the state—and taxpayers—of repaying the pension debt under a level dollar re-amortization ends up being substantially less than under the Pension Ramp.

For instance, CTBA identified a level-dollar re-amortization scenario that would cost $49.97 billion less in taxpayer dollars than the Pension Ramp through FY 2045, while still increasing the funded ratio of the five state pension systems from their then current level of around 39 percent,147 to 72 percent in 2045.148 This re-amortization plan is shown in Figure 26.

**Figure 26**

CTBA Pension Re-amortization and Current Law All Funds Contributions to State Pension Systems ($ Billions)

Source: CTBA Analysis using Illinois State Retirement Systems Actuarial Valuation Reports
7. Endnotes


and Budget, Fiscal Year 2022 Proposed Budget book, https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2022-

117 CTBA analysis of (i) Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
CTBA analysis of Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) Governor’s Office of Management and Budget, Fiscal Year 2022
Operating-Budget.pdf.

118 CTBA analysis of (i) Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
CTBA analysis of Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) Governor’s Office of Management and Budget, Fiscal Year 2022
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119 CTBA analysis of (i) Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
CTBA analysis of Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) Governor’s Office of Management and Budget, Fiscal Year 2022
Operating-Budget.pdf.

120 Total Pension Contribution determined using (i): “Teachers’ Retirement System of the State of Illinois Actuarial Valuation and Review

121 CTBA analysis of (i) Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
CTBA analysis of Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) Governor’s Office of Management and Budget, Fiscal Year 2022
Operating-Budget.pdf.

122 CTBA analysis of (i) Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
CTBA analysis of Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) Governor’s Office of Management and Budget, Fiscal Year 2022
Operating-Budget.pdf.


124 CTBA analysis of (i) Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
CTBA analysis of Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) Governor’s Office of Management and Budget, Fiscal Year 2022
Operating-Budget.pdf.

125 Human Services category also includes the following agencies: Department of Human Rights, Department of Veterans’ Affairs, Human

126 Other agencies included in the Public Safety category are: Department of Military Affairs, Illinois Criminal Justice Information

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

128 CTBA analysis of Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx.

129 CTBA analysis of (i) Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) Governor’s Office of Management and Budget, Fiscal Year 2022
Operating-Budget.pdf.

130 CTBA analysis of (i) Governor’s Office of Management and Budget, Fiscal Year 2022 Proposed Budget, “Operating Budget Details (xls),”
https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) Governor’s Office of Management and Budget, Fiscal Year 2022


133 CTBA has used an estimated $3.6 billion in revenue, to replicate the revenue from the Fair Tax scheduled to be realized in FY2022. The level dollar re-amortization plan in the structural deficit model follows the principles laid out in CTBA’s October 2019 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 re-amortization. Debt service on those bonds at a 6.5 percent interest rate over 25 years is included in the model. If Illinois passes both proposals, it completely eliminates the structural deficit in 24 years.


138 All Figure references to inflation-adjustments include adjustments for changes in inflation and population.


