ANALYSIS OF ILLINOIS’ FY 2023 PROPOSED GENERAL FUND BUDGET

March 29, 2022
About the Center for Tax and Budget Accountability
Founded in 2000, the Center for Tax and Budget Accountability is a non-profit, bi-partisan research and advocacy think tank committed to ensuring that tax, spending and economic policies are fair and just, and promote opportunities for everyone, regardless of economic or social status.

CTBA uses a data-focused, bipartisan approach to work in partnership with legislators, community groups and other organizations to help change both public policy and perceptions. You can help strengthen our efforts by making a tax-deductible donation at www.ctbaonline.org/donate.

Analysis of Illinois’ FY 2023 Proposed General Fund Budget Research Team
Ralph Martire, Executive Director
(312) 332-1049; rmartire@ctbaonline.org

Allison Flanagan, Associate Director, Budget & Policy
(312) 332-1348; aflanagan@ctbaonline.org

© 2022 Center for Tax and Budget Accountability
430 S. Michigan Avenue, AUD 874
Chicago, IL 60605
www.ctbaonline.org
# Table of Contents

1. **INTRODUCTION** ................................................................................................................... 1  
2. **KEY FINDINGS** ..................................................................................................................... 2  
   2.1 FY 2023 REVENUE .................................................................................................................. 2  
      2.1.1 Total General Fund Revenue is Projected to Decline on a Year-to-Year Basis, But Actual General Fund Revenue is Projected to Increase .......................................................... 2  
      2.1.2 Long-Term There Has Been Little Real Growth in Total General Fund Revenue for 20 Years ................................................................................................................................. 3  
   2.2 FY 2023 PROPOSED GENERAL FUND SPENDING APPROPRIATIONS ......................... 4  
      2.2.1 OVERALL ............................................................................................................................. 4  
      2.2.2 FY 2023 EDUCATION SPENDING ..................................................................................... 4  
      2.2.3 FY 2023 HUMAN SERVICES SPENDING ......................................................................... 5  
      2.2.4 FY 2023 HEALTHCARE SPENDING ................................................................................. 5  
      2.2.5 FY 2023 PENSION APPROPRIATIONS ............................................................................. 5  
   2.3 FY 2022 ACCUMULATED DEFICIT ......................................................................................... 6  
3. **FY 2023 REVENUE** ............................................................................................................. 6  
   3.1 FY 2022 UPDATED REVENUE ESTIMATES ......................................................................... 6  
   3.2 FY 2023 PROPOSED GENERAL FUND REVENUE SUMMARY ........................................... 9  
   3.3 GENERAL FUND REVENUE GROWTH OVER TIME .......................................................... 10  
4. **FY 2023 PROPOSED GENERAL FUND SPENDING APPROPRIATIONS** ......................... 16  
   4.1 Differentiating Between Hard Costs and Current Service Expenditures ................................. 16  
   4.2 FY 2023 Proposed General Fund Spending on Hard Costs ................................................ 18  
   4.3 FY 2023 Proposed General Fund Discretionary Spending on Current Services ................. 19  
   4.4 The Current Accumulated Deficit ......................................................................................... 20  
5. **GENERAL FUND SPENDING TRENDS** ............................................................................. 22  
   5.1 Year-to-Year Comparison of Appropriations for Current Services, FY 2022 Enacted & FY 2023 Proposed .................................................................................................................. 22  
   5.2 In Real Terms, Gross Appropriations for Most Core Services in the FY 2023 GF Budget Proposal Remain Less Than Two Decades Ago in FY 2000 ........................................................................... 23  
6. **FY 2023 PENSION FUNDING** ........................................................................................... 24  
7. **ENDNOTES** ......................................................................................................................... 27
Table of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>FY 2022 General Fund Revenue Update</td>
<td>6</td>
</tr>
<tr>
<td>Figure 2</td>
<td>FY 2022 Surplus General Fund Revenue Update</td>
<td>7</td>
</tr>
<tr>
<td>Figure 3</td>
<td>General Fund Revenue: FY 2022 Estimated versus FY 2023 Proposed</td>
<td>10</td>
</tr>
<tr>
<td>Figure 4</td>
<td>Comparison of Total and Actual General Fund Revenue: FY 2022 &amp; FY 2032 Proposed</td>
<td>10</td>
</tr>
<tr>
<td>Figure 5</td>
<td>Total General Fund Revenue, FY 2000 – FY 2023</td>
<td>11</td>
</tr>
<tr>
<td>Figure 6</td>
<td>Actual General Fund Revenue, FY 2000 – FY 2023</td>
<td>11</td>
</tr>
<tr>
<td>Figure 7</td>
<td>Total General Fund Revenue, FY 2000 – FY 2023</td>
<td>12</td>
</tr>
<tr>
<td>Figure 8</td>
<td>Total General Fund Revenue with FY 2023 Income Tax Rates Held Constant to FY 2000 Levels</td>
<td>13</td>
</tr>
<tr>
<td>Figure 9</td>
<td>Net Individual Income Tax Revenue, FY 2000 – FY 2023</td>
<td>13</td>
</tr>
<tr>
<td>Figure 10</td>
<td>Net Sales Tax Revenues, FY 2000 – FY 2023</td>
<td>14</td>
</tr>
<tr>
<td>Figure 11</td>
<td>Net Corporate Income Tax Revenues, FY 2000 – FY 2023</td>
<td>15</td>
</tr>
<tr>
<td>Figure 12</td>
<td>General Funds Federal Source Revenues, FY 2000 – FY 2023</td>
<td>15</td>
</tr>
<tr>
<td>Figure 13</td>
<td>Share of FY 2000 &amp; FY 2023 General Fund Revenue by Source</td>
<td>16</td>
</tr>
<tr>
<td>Figure 14</td>
<td>FY 2023 Proposed General Fund Appropriations</td>
<td>17</td>
</tr>
<tr>
<td>Figure 15</td>
<td>The Share of Each Dollar of Gross Appropriations for Hard Costs and Current Services in the FY 2023 Proposed General Fund Budget</td>
<td>17</td>
</tr>
<tr>
<td>Figure 16</td>
<td>Hard Costs, FY 2022 Enacted and FY 2023 Proposed General Fund Budgets</td>
<td>18</td>
</tr>
<tr>
<td>Figure 17</td>
<td>FY 2023 Proposed General Fund Budget Gross Appropriations for Current Services</td>
<td>19</td>
</tr>
<tr>
<td>Figure 18</td>
<td>Estimated Accumulated Deficit at the end of FY 2023</td>
<td>20</td>
</tr>
<tr>
<td>Figure 19</td>
<td>Fund Budget Services Appropriations FY 2022 Enacted Compared to FY 2023 Proposed</td>
<td>22</td>
</tr>
<tr>
<td>Figure 20</td>
<td>Nominal Dollar Comparison of FY 2022 Enacted and FY 2023 Proposed General Fund Budget Appropriations for Healthcare</td>
<td>22</td>
</tr>
<tr>
<td>Figure 21</td>
<td>General Fund Budget Services Appropriations FY 2022 Enacted Compared to FY 2023 Proposed</td>
<td>23</td>
</tr>
<tr>
<td>Figure 22</td>
<td>Illinois General Fund Appropriations for Core Services: FY 2023 Proposed Compared to Enacted FY 2000</td>
<td>24</td>
</tr>
<tr>
<td>Figure 23</td>
<td>FY 2023 Proposed General Fund Pension Appropriations</td>
<td>25</td>
</tr>
<tr>
<td>Figure 24</td>
<td>Projected All Funds Contributions to State Pension Systems</td>
<td>26</td>
</tr>
<tr>
<td>Figure 25</td>
<td>CTBA Pension Re-amortization and Current Law All Funds Contributions to State Pension Systems</td>
<td>26</td>
</tr>
</tbody>
</table>
# Table of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARC</td>
<td>Actuarially Required Contribution</td>
</tr>
<tr>
<td>AAUL</td>
<td>Actuarially Accrued Unfunded Liability</td>
</tr>
<tr>
<td>ARPA</td>
<td>American Rescue Plan Act</td>
</tr>
<tr>
<td>BLS</td>
<td>Bureau of Labor Statistics</td>
</tr>
<tr>
<td>COGFA</td>
<td>Commission on Government Forecasting and Accountability</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>CARES Act</td>
<td>Coronavirus Aid, Relief and Economic Security Act</td>
</tr>
<tr>
<td>CIJA</td>
<td>Criminal Justice Information Authority</td>
</tr>
<tr>
<td>CMS</td>
<td>Department of Central Management Services</td>
</tr>
<tr>
<td>DCFS</td>
<td>Department of Children and Family Services</td>
</tr>
<tr>
<td>DCEO</td>
<td>Department of Commerce and Economic Opportunity</td>
</tr>
<tr>
<td>DOC</td>
<td>Department of Corrections</td>
</tr>
<tr>
<td>DHFS</td>
<td>Department of Healthcare and Family Services</td>
</tr>
<tr>
<td>DHS</td>
<td>Department of Human Services</td>
</tr>
<tr>
<td>DJJ</td>
<td>Department of Juvenile Justice</td>
</tr>
<tr>
<td>DPH</td>
<td>Department of Public Health</td>
</tr>
<tr>
<td>DOA</td>
<td>Department on Aging</td>
</tr>
<tr>
<td>ECI</td>
<td>Employment Cost Index</td>
</tr>
<tr>
<td>EBF</td>
<td>Evidence-Based Funding for Student Success Act</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GARS/JRS</td>
<td>General Assembly Retirement System/Judges’ Retirement System</td>
</tr>
<tr>
<td>GOMB</td>
<td>Governor’s Office of Management and Budget</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>HPRF</td>
<td>Healthcare Provider Relief Fund</td>
</tr>
<tr>
<td>IBHE</td>
<td>Illinois Board of Higher Education</td>
</tr>
<tr>
<td>ICCB</td>
<td>Illinois Community College Board</td>
</tr>
<tr>
<td>IDES</td>
<td>Illinois Department of Employment Security</td>
</tr>
<tr>
<td>IDOR</td>
<td>Illinois Department of Revenue</td>
</tr>
<tr>
<td>IDOT</td>
<td>Illinois Department of Transportation</td>
</tr>
<tr>
<td>IEMA</td>
<td>Illinois Emergency Management Agency</td>
</tr>
<tr>
<td>SOS</td>
<td>Illinois Secretary of State</td>
</tr>
<tr>
<td>ISBE</td>
<td>Illinois State Board of Education</td>
</tr>
<tr>
<td>SERS</td>
<td>State Employee Retirement System</td>
</tr>
<tr>
<td>SURS</td>
<td>State University Retirement System</td>
</tr>
<tr>
<td>TRS</td>
<td>Teachers’ Retirement System</td>
</tr>
</tbody>
</table>
1. Introduction

In February, Governor Pritzker put a General Fund budget proposal on the table for FY 2023 (the “FY 2023 GF Budget Proposal”) that was notably different from the vast majority of such proposals made by various governors over the last twenty-some odd years. For instance, it was significantly more upbeat than the typical General Fund budget proposal we are used to getting in this state.

Indeed, due to Illinois’ long-term, structural fiscal challenges, General Fund budgets over the last couple of decades have for the most part been far more focused on limiting the cuts to core services, rather than optimistic about investing in our future. Which is truly unfortunate, given that 95 percent of all General Fund expenditures on services in Illinois go to the four core areas of education, healthcare, human services, and public safety.\(^1\)

Rather than focus on cuts, the FY 2023 GF Budget Proposal calls for making a year-to-year increase in spending on every one of those four core service areas.\(^2\) This counters a trend of imposing real, inflation-adjusted spending cuts on core services that goes all the way back to FY 2000.\(^3\)

Moreover, the FY 2023 GF Budget Proposal includes a commitment to being fiscally responsible that is far more substantive than rhetorical. This also stands in stark contrast to most General Fund budgets proposed over the last two decades, which on the whole paid lip-service to being responsible—without actually implementing initiatives that strengthened Illinois’ fiscal system in any meaningful way.

As it turns out, the primary reason for both the governor’s optimism, and focus on being fiscally responsible, came down to one simple factor—unanticipated revenue growth. Initially, General Fund revenue for FY 2022, which is the state’s current fiscal year, was pegged at $44.39 billion.\(^4\) Now estimates are it will hit $47.79 billion, creating an “on-budget” surplus of $3.4 billion.\(^5\)

And while that is certainly good news—and a rational reason for the governor’s optimism, it does not tell the whole story about the state’s fiscal condition. That is because an “on-budget” surplus simply means current-year revenue will exceed current-year spending. It does not factor in any accumulated deficit—read that as unpaid bills—that are scheduled to carry forward from a prior fiscal year into the next succeeding fiscal year. As it turns out, the accumulated deficit in the General Fund that remained at the end of FY 2021, and hence represents unpaid bills that carried forward into FY 2022, was $6.4 billion, or $3 billion more than the anticipated revenue growth for the year.\(^6\)

Having an unexpected on-budget surplus occur in an election year creates some fiscal danger, because the overriding political temptation is to ignore the accumulated deficit altogether, and simply fritter the entire surplus away on new spending. You know, the type of government largess that appeals to voters and generates ribbon-cutting ceremonies. But for the most part, Governor Pritzker did not give in to that temptation.

Yes, he did propose using $1.6 billion of the $3.4 billion FY 2022 on-budget surplus for supplemental—meaning additional—spending in FY 2022. However, fully $1.128 billion—or over 70 percent—of that amount is not for “new” spending at all, but rather earmarked to pay bills Illinois already owes for things like health insurance claims ($898 million) and college assistance programs ($230 million).\(^7\) Using unanticipated revenue growth to pay outstanding obligations the state has already incurred is very responsible fiscal policy—and not the kind of thing that typically excites voters during an election year. The remaining $437 million in supplemental appropriations proposed for FY 2022 cover needed investments in everything from the Department of Children and Family Services to education and the state police.\(^8\)

Continuing the theme of fiscal responsibility, the FY 2023 GF Budget Proposal dedicates $300 million of the unanticipated revenue surplus, together with $200 million in projected FY 2023 revenue, to pre-pay a total of $500 million worth of “unfunded liabilities”—read that as debt service—Illinois owes to its public pensions systems.\(^9\) The Governor’s Office of Management and Budget (“GOMB”) estimates this prepayment will save taxpayers around $1.8 billion in interest costs.\(^10\)

Notably, this is the first time any governor, Democrat or Republican, has been willing to devote surplus revenue to prepaying Illinois’ significant pension debt. That’s not only fiscally responsible, but it’s also something credit rating agencies will look upon favorably.

To top things off, the FY 2023 GF Budget Proposal calls for depositing $800 million in Illinois’ Budget Stabilization Fund, which is commonly referred to as the state’s “Rainy Day Fund.” The first $600 million of that deposit would come from the FY 2022 on-budget surplus.\(^11\)
Rainy Day Funds are supposed to help tide a state fiscal system over during unexpected financial challenges that arise from time-to-time. Unfortunately, in FY 2017, following his second straight year of failing to pass a General Fund budget, former Governor Rauner completely depleted Illinois’ Rainy Day Fund. It has not been replenished since, making Illinois the only state in the nation with a zero balance in its Rainy Day Fund. Obviously, replenishing the state’s Rainy Day Fund is the responsible fiscal thing to do, even though it has very little political appeal.

Finally, to offset some of the economic challenges the pandemic and current jump in inflation have created for families, Governor Pritzker did include temporary, as in one-year, tax relief in the FY 2023 GF Proposal. This tax relief includes: pausing the automatic gas tax increase that’s tied to inflation; eliminating the local sales tax on groceries; and providing property tax relief to homeowners. And while none of those measures would cost the state’s General Fund a nickel, both the property tax relief and suspension of the sales tax on groceries would impose a loss of revenue on local governments across Illinois.

To deal with that issue, the FY 2023 GF Proposal allocates $425 million of the FY 2022 on-budget surplus to reimburse local governments for the anticipated cost of the property tax relief, and another $185 million to reimburse local governments for the anticipated revenue loss stemming from the suspension of the sales tax on groceries.

Sure, the governor knows these tax relief proposals will in all likelihood resonate positively with voters. So, to that extent it is possible political considerations may have had something to do with these proposals. That said, at least the proposed tax relief is temporary, which from a policy perspective makes sense given it addresses temporary economic exigences, and only utilizes a relatively small portion—18 percent—of the unanticipated $3.4 billion on-budget surplus for FY 2022. An overly political focus would have expended significantly more of that surplus on initiatives designed to curry favor with voters—rather than targeting the vast majority of that surplus to pay existing obligations, pre-pay debt owed to the pension systems, and bone-up the state’s Rainy Day Fund.

In fact, the biggest policy shortcoming with the proposed tax relief is that it isn’t targeted solely to low- and middle-income folks who really need it. The state would get significantly more bang for its tax-relief buck if it instead expanded its Earned Income Tax Credit, or created a means tested child tax credit, thereby ensuring the full dollar value of the tax relief went to families with the greatest needs. (For more information about HB 4920/SB 3774, which would implement both of those initiatives, see CTBA’s report).

Of course, unexpected state revenue growth is not the only boon to Illinois’ General Fund that has recently manifested. On March 11, 2021, President Joe Biden secured passage of the American Rescue Plan Act (“ARPA”). ARPA is a significant national relief package that made $1.9 trillion of federal funding available nationwide to help state and local governments cope with fiscal challenges created by the pandemic. Under ARPA, state and local governments in Illinois will receive a combined $25 billion in federal funding. Of that amount, $8.1 billion is targeted to cover expenditures made by Illinois’ state government, many of which ordinarily flow through the General Fund. (For more information please see CTBA’s report on the American Rescue Plan.)

That is the good news. The bad news is the aforesaid $8.1 billion in federal relief Illinois state government is receiving constitutes one-time revenue that will not be available to support General Fund expenditures after FY 2025. This has two clear consequences. First, it creates a fairly substantial fiscal cliff in FY 2026, when no more federal relief funding will be available. Second, it artificially inflates the amount of General Fund revenue the state actually has in FYs 2021, 2022, 2023, 2024, and 2025, and hence distorts long-term revenue comparisons.

To eliminate that distortion and provide for an accurate longitudinal comparison of General Fund revenue trends, this report will use the term “Actual GF Revenue” to refer to all state own-source revenues that feed the General Fund in a given fiscal year, plus all “Historic Recurring Federal Transfers” for such fiscal year. The term “Historic Recurring Federal Transfers” will mean all ongoing federal transfers the state typically receives in its General Fund in a given fiscal year, exclusive of all one-time relief funding received to address the pandemic. Meanwhile, the term “Total General Fund Revenue” will mean the sum of all federal pandemic relief funding utilized in a given fiscal year, plus the Actual GF Revenue for that fiscal year.

2. Key Findings

2.1 FY 2023 Revenue

2.1.1 Total General Fund Revenue is Projected to Decline on a Year-to-Year Basis, but Actual General Fund Revenue is Projected to Increase

- Total General Fund revenue in the FY 2023 GF Budget Proposal is estimated at $45.88 billion, which is $1.96 billion less in nominal dollars than the $47.79 billion now being projected for FY 2022.
• The key reasons for this projected $1.96 billion year-to-year revenue decline are: (i) the FY 2022 General Fund budget includes as revenue, $1.5 billion in ARPA reimbursements from the federal government which are not being taken in FY 2023; (ii) other federal transfers to the state’s General Fund in FY 2023 are expected to be $741 million less than in FY 2022 due to historic recurring federal sources increasing by only $524 million and one-time federal source transfers decreasing by $1.3 billion over FY 2022; and (iii) revenue from the state’s corporate income tax is projected to be $252 million less in FY 2023 than in FY 2022.  
• Moreover, the Total General Fund Revenue amounts for both FY 2022 and FY 2023 are somewhat misleading, given the significant amount of federal relief funding included therein. For instance, the $47.79 billion in projected Total General Fund Revenue for FY 2022 includes $1.5 billion in one-time federal reimbursements, plus $1.8 billion in additional operating appropriations covered by ARPA. Eliminating that one-time federal relief funding brings Actual GF Revenue for FY 2022 down to just $44.5 billion. 
• Similarly, the $45.9 billion in projected Total General Fund Revenue for FY 2023 includes $535 million in one-time federal relief funding under ARPA. Eliminating that one-time federal relief funding brings Actual GF Revenue for FY 2023 down to $45.3 billion. Which means after adjusting for the impact of federal relief funding, Actual GF Revenue in FY 2023 will in reality be $805 million more than in FY 2022.

2.1.2 Long-Term There Has Been Little 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 $45.8 billion in Total General Fund Revenue projected for FY 2023 is less than the $46.6 billion in General Fund revenue the state realized seven years ago in FY 2008. 
• After adjusting for inflation using 2022 dollars, the projected Actual GF Revenue for FY 2023 of $45.3 billion represents an increase of $1.6 billion over the roughly $43.7 billion in General Fund revenue Illinois’ tax system generated two decades ago in FY 2000, which represents an average real increase in annual revenue of just $69.6 million, or 0.16 percent.  
• That is surprising 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. 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.  
• Which means the design of Illinois’ existing tax policy is so flawed, that despite increasing the rates of state income taxes which collectively generate nearly 40 percent of all General Fund revenue, overall state revenue has barely exceeded inflation for two decades.

• Even more eye-opening—if Illinois did not increase its income tax rates for both individuals and corporations, then after adjusting for inflation, the amount of Actual GF Revenue projected for FY 2023 would be $11.2 billion less in real terms in FY 2023 than it was over two decades earlier in FY 2000.  
• 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, 2022, inflation-adjusted dollars, the state has realized little to no revenue growth over the past 23 years from its individual and corporate income taxes; sales taxes; liquor gallonage taxes; insurance taxes; and corporate franchising taxes and associated fees.  
• For instance, corporate income tax revenue had been experiencing a precipitous real decline from its peak set in FY 2013, when it totaled $3.9 billion. However, the elimination of some corporate tax expenditures for FY 2022 coupled with the better-than-expected rebound from the COVID-19 pandemic last year, means that the corporate income tax revenue trend of decreasing over time has finally reversed. While current projections are that corporate income tax revenue will be $252 million year less in FY 2023 than it was a year earlier in FY 2022, corporate income tax revenue for FY 2022 is now projected to be fully $1.3 billion greater than it was in FY 2021—which represents an unprecedented year-over-year increase in corporate tax revenue. 
• The most important revenue source to exhibit little to no growth over the past 23 years is the sales tax. Projected sales tax revenue for FY 2023 is $9.9 billion, which would represent roughly 21 percent of all General Fund revenue. This constitutes a significant decline in relative importance over time, given that in 2022 inflation-adjusted dollars, sales tax revenue is projected to comprise $1.43 billion or five percent less of total General Fund revenue in FY 2023 than the 26 percent it accounted for in FY 2000.
• The main reason sales tax revenue has declined in real and relative terms over time is that Illinois has one of the narrowest sales tax bases of the 45 states that impose a general sales tax.\textsuperscript{28} 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{29}

• That is a losing proposition, given that between 2000 and 2020, the sale of goods went from accounting for 21 percent of Illinois’ GDP to just 18 percent, while the sale of services increased from 68 to 73 percent of state GDP.\textsuperscript{30} 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. That in turn impedes the overall ability of the state’s fiscal system to generate adequate revenue to fund core services sustainably from year-to-year.\textsuperscript{31}

• Although Historic 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, Historic Federal Transfers to the Illinois General Fund dropped from a peak of $8.77 billion in FY 2009, to a projected $3.4 billion in FY 2023, a decline of nearly 60 percent.\textsuperscript{32}

• The take-away from long-term revenue trends in Illinois is clear: All the data continues 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 that is adequate to keep pace with the real growth in the cost of providing core public services 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 pay existing indebtedness plus cover the cost of sustaining the same level of public services 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.

2.2 FY 2023 Proposed General Fund Spending Appropriations

2.2.1 Overall

• The FY 2023 GF Budget Proposal identifies a total of $45.4 billion in net appropriations for spending. Of that amount, $14.3 billion, or 31 percent, are for “Hard Costs,” while $32.1 billion, or 69 percent are for “Current Services.”\textsuperscript{33}

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

• In the FY 2023 GF Budget Proposal, 95 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{34}

• Overall, net Current Service appropriations in FY 2023 are scheduled to be $2.2 billion greater than in FY 2022, in nominal, non-inflation-adjusted dollars.\textsuperscript{35} After adjusting for changes in inflation and population, however, total proposed appropriations for Current Services in FY 2023 are scheduled to be $1.4 billion, or 4.6 percent, greater than in FY 2022 in real terms.\textsuperscript{36}

• 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, the proposed appropriations for Current Services in FY 2023 are scheduled to be 18.4 percent less than actual spending on those services was two decades ago in FY 2000.\textsuperscript{37}

2.2.2 FY 2023 Education Spending

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

• The FY 2023 GF Budget Proposal would appropriate $598 million for spending on Early Childhood, which is $54 million more in nominal dollars than FY 2022.\textsuperscript{38} After adjusting for inflation, Early Childhood funding would experience a real, year-to-year increase of $34 million, or 10 percent, from FY 2022 levels.\textsuperscript{39}

• Considered over the long-term, after adjusting for inflation, appropriations for Early Childhood in the FY 2023 GF Budget Proposal are nearly 86 percent greater than actual spending thereon was over twenty years ago in FY 2000.\textsuperscript{40}
The FY 2023 GF Budget Proposal would appropriate $9.14 billion to K-12 education funding, which is $444 million more in nominal dollars than FY 2022. After adjusting for inflation, K-12 funding would experience a real, year-to-year increase of $187 million, or 2.09 percent, from FY 2022 levels.

Like Early Childhood, K-12 Education appropriations in the FY 2023 GF Budget Proposal are also projected to be greater than actual spending was in FY 2000 in real, inflation-adjusted terms by $290 million, or just over 3 percent. This makes Early Childhood and K-12 Education the only Current Services slated to receive greater levels of funding in real, inflation-adjusted terms under the FY 2023 GF Budget Proposal than actual spending thereon was in FY 2000.

The FY 2023 GF Budget Proposal appropriation for Higher Education is $2.2 billion, which represents a nominal dollar increase of about $208 million over FY 2022. After adjusting for inflation, the appropriation for Higher Education in the FY 2023 GF Budget Proposal constitutes a year-to-year real increase of $149 million, or 7 percent, when compared to FY 2022.

Taking a longer view, General Fund appropriations for Higher Education in the FY 2023 GF Budget Proposal are scheduled to be 46 percent less in real, inflation-adjusted dollars than actual spending thereon was in FY 2000. This is by far the greatest real cut imposed on any Current Service over the last 23 years.

2.2.3 FY 2023 Human Services Spending

In the FY 2023 GF Budget Proposal, the gross appropriation for all Human Services is scheduled to be $8.25 billion, which would represent an 11.8 percent increase from the FY 2022 enacted appropriation of $7.4 billion in nominal dollars, and an 8.6 percent increase in real, inflation-adjusted dollars.

Despite the real, year-to-year increase in proposed Human Services funding contained in the FY 2023 GF Budget Proposal, total appropriations for Human Services in FY 2023 GF Budget Proposal would still be almost 5 percent less than actual spending thereon was two decades ago in FY 2000, after adjusting for inflation.

To provide context, Illinois would have to increase the FY 2023 appropriations for Human Services by about $500 million to provide the same level of funding that pertained in real terms back in FY 2000.

2.2.4 FY 2023 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 2023 GF Budget Proposal, the gross appropriation for Healthcare is $8.3 billion, which is $495 million, or 6.4 percent greater in nominal dollars than in FY 2022. Of that gross Healthcare appropriation, $8.1 billion is targeted to DHFS, primarily to cover $6.86 billion of the state’s Medicaid expenditures on poor, disabled, and low-income populations. The remaining $209 million goes to the Department of Public Health.

The FY 2023 GF Budget Proposal also includes a statutory transfer in the amount of $1 billion from the General Fund to the HPRF, which is a special fund created to generate federal matching dollars.

2.2.5 FY 2023 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 2023 GF Budget Proposal includes a $10.1 billion appropriation for pensions, which is the required General Fund contribution for FY 2023 as identified by the 1995 Pension Ramp.

However, the FY 2023 GF Budget Proposal would increase the total General Fund contribution made into the Pension Stabilization Fund by $500 million more than what the Pension Ramp requires. That added contribution would be made over two years, with an additional $300 million being contributed in FY 2022, and another $200 million being contributed in FY 2023.

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 General Fund revenue that 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 2023 appropriation for pensions that is required under the Pension Ramp (not accounting for the aforesaid additional contributions contained in the FY 2023 GF Budget Proposal) is **$298 million, or 3 percent more** than the FY 2022 appropriation of $9.8 billion.  
  
- 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.  
  
- The state’s existing tax policy will not be able to accommodate these increased Pension Ramp payments.

### 2.3 FY 2022 Accumulated Deficit

- By the end of FY 2022, CTBA projects the accumulated deficit in the state’s General Fund will be **$5.4 billion**. 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. 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 2022 were $28.8 billion, the **$5.4 billion accumulated deficit projected for FY 2022 effectively means roughly 19 percent of all FY 2022 General Fund spending on Current Services was in fact deficit spending**, with no current FY 2022 revenue available to fund it. 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.

- The total amount of unpaid bills the state will have in its General Fund at the end of FY 2023 is projected to be **$4.97 billion**, which may be slightly less than the $5.4 billion at the end of FY 2022, but is still an unsustainable deficit spending level of around 16 percent.

### 3. FY 2023 Revenue

#### 3.1 FY 2022 Updated Revenue Estimates

The GOMB initially projected that the General Fund would have $44.367 billion in revenue for FY 2022. However, due to unanticipated revenue growth and the state’s ability to take advantage of some federal reimbursements under the American Rescue Plan Act ("ARPA") designed to ease the fiscal strain created by COVID-19, the revenue estimate for FY 2022 contained in the FY 2023 GF Budget Proposal has been increased to $47.793 billion, which is just over $3.4 billion greater than initially estimated, as shown in **Figure 1**.

#### FIGURE 1

**FY 2022 GENERAL FUND REVENUE UPDATE ($ Millions)**

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>June 2021 GOMB Forecast</th>
<th>Feb 2022 GOMB Estimate</th>
<th>$ Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Individual Income Tax</td>
<td>$20,792</td>
<td>$21,512</td>
<td>$720</td>
</tr>
<tr>
<td>Net Corporate Income Tax</td>
<td>$3,293</td>
<td>$4,698</td>
<td>$1,405</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$9,368</td>
<td>$10,036</td>
<td>$671</td>
</tr>
<tr>
<td>Other Sources</td>
<td>$3,128</td>
<td>$3,161</td>
<td>$33</td>
</tr>
<tr>
<td>Transfers In</td>
<td>$1,697</td>
<td>$2,100</td>
<td>$403</td>
</tr>
<tr>
<td>Federal Sources</td>
<td>$4,203</td>
<td>$4,786</td>
<td>$583</td>
</tr>
<tr>
<td>Proceeds from ARPA Reimbursement</td>
<td>$2,000</td>
<td>$1,500</td>
<td>($500)</td>
</tr>
<tr>
<td><strong>Total General Funds Revenues</strong></td>
<td><strong>$44,367</strong></td>
<td><strong>$47,793</strong></td>
<td><strong>$3,426</strong></td>
</tr>
</tbody>
</table>

Since the aforesaid $3.4 billion in revenue growth for FY 2022 was entirely unanticipated, it effectively created an “on-budget” surplus in the same amount. As highlighted previously, an “on-budget” surplus simply means current-year revenue will exceed current-year spending. It does not factor in any accumulated deficit—i.e. unpaid bills—that carry forward into the current fiscal year from the prior fiscal year. The accumulated deficit in the General Fund that remained at the end of FY 2021, and hence represents the unpaid bills that carried forward into FY 2022, was $6.4 billion, or $3 billion more than the anticipated on-budget surplus for FY 2023.64

Figure 2 shows how the FY 2023 GF Budget Proposal suggests utilizing the $3.4 billion on-budget surplus for FY 2022.65

Figure 2
FY 2022 SURPLUS GENERAL FUND REVENUE UPDATE ($ MILLIONS)


As shown in Figure 2, the FY 2023 GF Proposal essentially allocates the unexpected $3.4 billion on-budget surplus for FY 2022 to a combination of:

(i) supplemental FY 2022 appropriations totaling $1.6 billion;

(ii) enhancing the state’s fiscal condition by dedicating $600 million of the unanticipated surplus, together with another $200 million in projected FY 2023 General Fund revenue, to making an aggregate deposit into the state’s Budget Stabilization—aka “Rainy Day”—Fund of $800 million, as well as dedicating $300 million of the unanticipated revenue surplus, together with $200 million in projected FY 2023 revenue, to pre-pay a total of $500 million worth of “unfunded liabilities”—read that as debt service—owed to the state’s five public employee pension systems; and

(iii) reimbursing local governments for the loss of revenue they will experience if the property tax relief and temporary, one-year suspension of the sales tax on groceries that the governor proposes for FY 2023 become law.

The $1.6 billion in supplemental appropriations targeted for FY 2022 does in fact represent additional spending for that year which was not contained in the FY 2022 General Fund Budget as initially enacted. However, fully $1.128 billion—or over 70 percent—of those supplemental appropriations are not for “new” spending at all, but rather earmarked to cover either bills the state already owes for its back-log of unpaid health insurance claims ($898 million), or funding it had previously committed to make to the College Illinois! Tuition Assistance Program ($230 million).66 Using unanticipated revenue growth to pay outstanding obligations the state has already incurred is very responsible fiscal policy. The remaining $487 million in supplemental appropriations proposed for FY 2022 cover needed investments in everything from the Department of Children and Family Services to education and the state police.67

Continuing the theme of fiscal responsibility, the FY 2023 GF Budget Proposal calls for prepaying $500 million of the debt the state owes to its public pensions systems, by combining $300 million of the unanticipated FY 2022 General Fund revenue growth with another $200 million of projected FY 2023 General Fund revenue.68 GOMB estimates this prepayment will save taxpayers around $1.8 billion in interest costs.69 Notably, this is the first time any governor, Democrat or Republican, has been willing to devote unanticipated revenue growth to prepaying Illinois’ significant pension debt. That’s not only fiscally responsible, but it’s also something credit rating agencies will look upon favorably.
The FY 2023 GF Budget Proposal also calls for depositing $800 million in Illinois’ “Budget Stabilization Fund,” which is commonly referred to as the “Rainy Day Fund.” The first $600 million of that deposit would come from the FY 2022 on-budget surplus, with the remaining $200 million balance coming from projected FY 2023 General Fund revenue.\(^70\)

Rainy Day Funds are supposed to help tide a state fiscal system over during unexpected financial challenges that arise from time-to-time. Unfortunately, in FY 2017, following his second straight year of failing to pass a General Fund budget, former Governor Rauner completely depleted Illinois’ Rainy Day Fund, and it has not been replenished since. That makes Illinois the only state in the nation with a zero balance in its Rainy Day Fund.\(^71\) Obviously, replenishing the state’s Rainy Day Fund is the responsible fiscal thing to do.

Finally, to offset some of the economic challenges the pandemic and current jump in inflation have created for families, Governor Pritzker included temporary, as in one-year, tax relief in the FY 2023 GF Proposal. This tax relief is comprised of three separate initiatives: pausing the automatic gas tax increase that’s tied to inflation for one year; eliminating the local sales tax on groceries for one year; and providing property tax relief to homeowners for one year.\(^72\) None of those measures would cost the state’s General Fund to lose any revenue. However, both the property tax relief and suspension of the sales tax on groceries would impose a loss of revenue on local governments across Illinois.

To deal with that issue, the FY 2023 GF Proposal allocates $425 million of the FY 2022 on-budget surplus to reimburse local governments for the anticipated cost of the property tax relief, and another $185 million to reimburse local governments for the anticipated revenue loss stemming from the suspension of the sales tax on groceries.\(^73\)

The unanticipated revenue growth in FY 2022 is a welcome development, given that the initial revenue projections made for FY 2022 were bleak, due to the combined impact of the state’s ongoing structural deficit (which is detailed in Section 4.5 of this Report) and lingering economic malaise caused by COVID-19. But that unanticipated revenue growth was not the only reason the fiscal health of the state’s General Fund improved. Two other factors each had material and positive impacts on the Illinois General Fund.

First, shortly after the initial FY 2022 General Fund revenue projections were issued in March of 2021, the federal government provided a substantial, $1.9 trillion worth of pandemic fiscal relief for state and local governments when it passed ARPA into law. Under ARPA, Illinois state government received a total of $8.1 billion in federal funding that the state and its various agencies can use to support spending on services covered by the General Fund through FY 2025.\(^74\) To date, Illinois has targeted roughly $3.3 billion in federal ARPA proceeds to cover General Fund related services provided in FY 2021, FY 2022, and FY 2023.\(^75\) This leaves another $4.8 billion to support General Fund services in FY 2024 and FY 2025.\(^76\) After that point in time there will no longer be any ARPA pandemic relief funding to support General Fund services in Illinois.

Second, an additional $655 million in own-source state revenue materialized in FY 2022, predicated on legislation the General Assembly passed which eliminated a number of business related tax breaks, which are more accurately described as “tax expenditures.”\(^77\) “Tax expenditure” is the more accurate terminology, because this type of tax relief effectively works as a vehicle for Illinois state government to spend public money indirectly through the tax code, to help fund a public good or service that is being provided by a private business.

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-related tax expenditure, government allows a corporate taxpayer to retain revenue which that corporation otherwise would have paid in taxes, in exchange for said corporation 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 sector corporations are expected to provide in exchange for receiving public subsidies in the form of tax expenditures.

Whether or not a particular corporate tax expenditure is actually creating the desired economic benefit is a legitimate inquiry the state of Illinois should regularly 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 core Current Services.

Effective for FY 2022, the General Assembly passed legislation that eliminated the following corporate tax expenditures, which is projected to create $655 in new, recurring revenue.\(^78\)
i. Capping Corporate Net Operating Loss Deductions under Section 207 of the Illinois Income Tax Act for Next Three Years at $100,000 Per Year ($314 million)

This change in law sets a limit of $100,000 for the amount of net operating loss deductions that a business can claim under the Illinois Income Tax Act (“IITA”) in any single year, for each of the next three years. Estimates are that this would not impact 80 percent of Illinois corporate income taxpayers, and that it will increase revenue by $314 million for each of the aforesaid three fiscal years. 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.

ii. Rolling 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 under Internal Revenue Code Section 243 ($107 million)

Sections 245A, 250 and 951A, of the federal Tax Cuts & Jobs Act (“TCJA”) that passed in 2017 under President Trump created a new 100 percent deduction for the “foreign-source” portion of dividends, as well as a new 50 percent deduction for global intangible low-taxed income (“GILTI”). Instead of allowing such significant deductions for these items, Illinois will now align deductions for foreign-source dividends and GILTI with the 50 percent deduction permitted for domestic dividends. This change in law will result in Illinois realizing an estimated $107 million more in corporate income tax revenues for the General Fund, while still permitting the state’s corporate taxpayers to take advantage of the standard deductions authorized under Internal Revenue Code (“IRC”) Section 243 for domestic dividends. Given the lack of any statistically meaningful correlations between tax policy changes and job or economic growth cited in subparagraph (i) above, it is unlikely elimination of this tax expenditure will result in any economic harm to the state.

iii. Rolling Back the 100 Percent Accelerated Depreciation Deduction created under the TCJA to Align with Standard Treatment of Depreciation in IRC Section 168 ($214 million)

This change in law amends Section 203 of the Illinois Income Tax Act (“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. It is estimated this will generate $214 million more in corporate income tax revenue annually. For the reasons cited in subparagraph (i) above, it is also unlikely elimination of this tax expenditure will cause economic harm.

iv. Reverse Recent Illinois Tax Change ($20 million)

This change in law eliminates the repeal of the corporate franchise tax that passed into law in 2019, as part of Public Act 101-0009. It is estimated this change in law will increase revenue by $20 million annually.

3.2 FY 2023 Proposed General Fund Revenue Summary

As shown in Figure 5, the FY 2023 GF Budget Proposal projects that Total General Fund Revenue for the year will be $45.83 billion, which is $1.96 billion or four percent less in nominal dollars than the $47.79 billion now projected for FY 2022.

The key reasons for the $1.96 billion year-to-year decline in Total General Fund Revenue currently projected in the FY 2023 GF Budget proposal are the following three items:

(i) the FY 2022 General Fund budget includes as revenue $1.5 billion in one-time federal reimbursements under ARPA, which are not being taken in FY 2023;
(ii) federal transfers to the state’s General Fund in FY 2023 are projected to be $741 million less than in FY 2022 due to historic recurring federal sources increasing by only $524 million and one-time federal source transfers decreasing by $1.3 billion over FY 2022;  
(iii) revenue from the state’s corporate income tax is projected to be $252 million less in FY 2023 than in FY 2022.
However, the Total General Fund Revenue amounts for both FY 2022 and FY 2023 are somewhat misleading, given the significant amount of federal relief funding included therein. For instance, the $47.79 billion in projected Total General Fund Revenue for FY 2022 includes one-time federal reimbursements of $1.5 billion received under ARPA, plus $1.8 billion in ARPA operating appropriations.\(^9\) Hence using current projections, Actual GF Revenue for FY 2022 will be just $44.5 billion.

Similarly, the $45.9 billion in projected Total General Fund Revenue for FY 2023 includes $535 million in ARPA operating appropriations. Hence using current projections, Actual GF Revenue for FY 2023 will be $45.3 billion. That in turn means Actual GF Revenue in FY 2023 will be \$805 million more than in FY 2022, even though Total General Fund Revenue for the year is less than it was in FY 2022. Figure 4 shows a comparison between the FY 2022 and FY 2023 Total General Fund Revenue projections, as well as Actual GF Revenue projections.

### Figure 4

**Comparison of Total and Actual General Fund Revenue: FY 2022 & FY 2023 Proposed ($ Millions)**

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>FY 2022 GF</th>
<th>FY 2023 GF</th>
<th>$ Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Sources: Revenue</td>
<td>$39,407</td>
<td>$39,875</td>
<td>$468</td>
</tr>
<tr>
<td>State Sources: Transfers In</td>
<td>$2,100</td>
<td>$1,913</td>
<td>($187)</td>
</tr>
<tr>
<td>Total State Sources</td>
<td>$41,507</td>
<td>$41,788</td>
<td>$281</td>
</tr>
<tr>
<td>Total Federal Sources</td>
<td>$6,286</td>
<td>$4,045</td>
<td>($2,241)</td>
</tr>
<tr>
<td>Total General Fund Revenue</td>
<td>$47,793</td>
<td>$45,883</td>
<td>($1,960)</td>
</tr>
<tr>
<td>less one-time federal sources</td>
<td>$3,300</td>
<td>$535</td>
<td>($2,765)</td>
</tr>
<tr>
<td>Actual GF Revenue</td>
<td>$44,493</td>
<td>$45,248</td>
<td>$805</td>
</tr>
</tbody>
</table>


### 3.3 General Fund Revenue Growth Over Time

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, nor any of the one-time federal transfers Illinois is receiving under federal relief packages such as ARPA. As the data demonstrates, 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. Indeed, after...
adjusting for inflation using 2022 dollars, the $45.3 billion of Actual GF Revenue projected for FY 2023 is only $300 million more than the $45 billion in General Fund revenue the state collected ten years ago in FY 2013.92

For context, cumulative inflation over that 10 year period was 21.9 percent.93 However, Actual GF revenue only grew by 0.7 percent, or 21.2 percent less.94 The failure of General Fund revenue to grow with inflation over time is one of the primary factors driving the state’s long-term structural deficit, which is delineated at length in Section 4.5 of this Report.

As Figure 5 shows, after adjusting for inflation and putting all values in current, 2022 dollars, the projected $45.8 in Total General Fund Revenue for FY 2023 represents a real increase of $2 billion, or roughly an average of $86 million per year, from the $43.7 billion generated two decades ago in FY 2000.95 But that quite modest average growth actually overstates, significantly, the actual revenue performance of the state’s tax system.

**Figure 5**

**TOTAL GENERAL FUND REVENUE, FY 2000 – FY 2023 ($ MILLIONS)**

INFLATION-ADJUSTED USING 2022 DOLLARS

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB

There are a number of reasons for this. First, Total General Fund Revenue in FY 2023 includes the one-time federal transfers received under ARPA, which obviously should not be included in a longitudinal revenue comparison. When Actual GF Revenue for FY 2023 is compared to Actual GF Revenue for FY 2000, FY 2023 exceeds FY 2000 by just $1.6 billion, which cuts average real annual revenue growth down to just $69.5 million per year over that sequence, as shown in Figure 6. But this still overstates how Illinois’ revenue system has performed over time.

**Figure 6**

**ACTUAL GENERAL FUND REVENUE, FY 2000 – FY 2023 ($ MILLIONS)**

INFLATION-ADJUSTED USING 2022 DOLLARS

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB
That is because Illinois has increased both its individual and corporate income tax rates since FY 2000, from three percent to 4.95 percent, and from 4.8 percent to seven percent respectively. Changes in the state’s income tax rates dramatically impact revenue performance.

For instance, the sharp decline in General Fund revenue shown from FY 2015 to FY 2017, highlighted in both Figure 5 and Figure 6, was due in large part to a reduction in the state’s individual and corporate income tax rates. In FY 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.

To gain an accurate longitudinal evaluation of the performance of the state’s tax system, the comparison in Figure 7 adjusts the amount of General Fund revenue projected for FY 2023, to be based on income tax rates as they existed in FY 2000. 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 2023 would be $8.1 billion less in real terms than it was more than two full decades earlier in FY 2000.

This highlights just how poorly functioning Illinois’ overall tax policy is, as currently designed. The increase in the income tax rates obviously enhanced revenue generation, but not by much in real terms. Moreover, because of flaws in the design of the state’s major taxes, that bump will be temporary, and overtime revenue growth will again fall below inflation, as shown in more detail in the structural deficit model delineated in Section 4.5 of this Report. 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.

And adjusting for the rate changes as shown in Figure 7 still overstates the revenue generation performance of Illinois’ tax policy over time. Figure 8 shows that projected revenue for FY 2023 would be over $11 billion less in real, inflation-adjusted terms than it was in FY 2000, if tax policy today were identical to what it was then, without the federal ARPA enhancements.
Digging deeper into the performance of various revenue sources that feed the General Fund, some interesting details emerge. For instance, as shown in Figure 9, the individual income tax revenue estimated for FY 2023 represents a decrease of roughly $214 million over its previous peak set 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. By FY 2023, the impact of this change in income tax filing deadlines has stabilized, which in large part helps explain why individual income tax receipts are projected to be $889 million greater in FY 2023 than they were in FY 2022.

Meanwhile, stagnation and decline typify the performance of the other state taxes that feed the General Fund. Indeed, when measured in 2022 inflation-adjusted dollars, the state has realized no net revenue growth over the past 23 years from its sales taxes; liquor gallonage taxes; insurance taxes; corporate franchising taxes and associated fees combined. The most important of these revenue sources to exhibit little to no growth over the past 20 years is the sales tax. Consider that projected net sales tax revenue for FY 2023 is $9.91 billion, or roughly 21 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 $1.43 billion or five percent less of total General Fund revenue in FY 2023 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 10.
The primary reason sales tax revenue has declined in real terms over time is that Illinois has one of the most narrow 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 most narrow 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 2000 and 2020, the sale of goods went from accounting for 21 percent of Illinois’ GDP to just 18 percent, while the sale of services increased from 68 to 73 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 2023 sequence, including: public utility taxes; cigarette taxes; and vehicle use taxes. Moreover, Historic Recurring Federal Transfers to the state General Fund have also decreased during this 23-year period. 110

For a while, corporate income tax revenue was on track to have one of the most precipitous real declines from its peak, as shown in Figure 11. In fact, in the initial projection of corporate income tax revenue for FY 2022, estimates were that it would decline from its peak level of $3.91 billion in FY 2013, to $3.29 billion in FY 2022. 111 However, the impact of eliminating $655 million worth corporate tax expenditures (as detailed in Section 3.1 of this Report) coupled with the better than expected economic rebound from the COVID-19 pandemic in FY 2022, led to much better than anticipated corporate income tax revenue generation, as shown in Figure 11. 112
Meanwhile, although Historic Recurring 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, as shown in Figure 12, on an inflation-adjusted basis, Historic Recurring Federal Transfers (i.e. excluding one-time federal pandemic relief under ARPA) to the Illinois General Fund have dropped from a peak of $8.77 billion in FY 2009, to a projected $3.51 billion in FY 2023, a decline of $5.26 billion or 59.9 percent.\textsuperscript{114}

**Figure 12**

**General Funds Federal Source Revenues, FY 2000 – FY 2023 ($ Millions), Inflation-adjusted Using 2022 Dollars**

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB\textsuperscript{115}
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 2018.116

Figures 13 shows how the share of total General Fund revenue by source has changed between FY 2000 and FY 2023, highlighting a growing over-reliance on the state’s flat-rate individual income taxes and the failure to respond to the modern economy with a sales tax that does not include most consumer services in its base.

**Figure 13**

**SHARE OF FY 2000 & FY 2023 GENERAL FUND REVENUE BY SOURCE ($ MILLIONS)**

**INFLATION-ADJUSTED USING 2022 DOLLARS**

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB

### 4. FY 2023 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 2023 GF Budget Proposal, $14.3 billion, or 31 percent, of the $45.4 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, 95 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 2023 GF Budget Proposal contains a gross appropriation of $32.1 billion for spending on Current Services.

However, FY 2023 net appropriations for Current Services will be less than gross appropriations. The reason for this is the General Fund budget proposed for FY 2023—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 2023 GF Budget 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.

The Hard Cost and Current Service appropriations contained in the FY 2023 GF Budget Proposal are shown in **Figure 14** by major category.
### Figure 14

**FY 2023 Proposed General Fund Appropriations (Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Item</th>
<th>FY 2023 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Hard Costs</td>
<td></td>
<td>$14,336</td>
</tr>
<tr>
<td></td>
<td>Debt Service (Pension &amp; Capital Bonds)</td>
<td>$1,580</td>
</tr>
<tr>
<td></td>
<td>Other Statutory Transfers Out</td>
<td>$612</td>
</tr>
<tr>
<td></td>
<td>Pension Contributions</td>
<td>$10,303</td>
</tr>
<tr>
<td></td>
<td>Group Health Insurance</td>
<td>$1,841</td>
</tr>
<tr>
<td>2. Gross General Fund Service</td>
<td></td>
<td>$32,092</td>
</tr>
<tr>
<td>Appropriations</td>
<td>Healthcare (including Medicaid)</td>
<td>$8,290</td>
</tr>
<tr>
<td></td>
<td>Human Services</td>
<td>$8,254</td>
</tr>
<tr>
<td></td>
<td>Early Childhood Education</td>
<td>$598</td>
</tr>
<tr>
<td></td>
<td>K-12 Education</td>
<td>$9,140</td>
</tr>
<tr>
<td></td>
<td>Higher Education</td>
<td>$2,202</td>
</tr>
<tr>
<td></td>
<td>Public Safety</td>
<td>$2,132</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>$1,477</td>
</tr>
<tr>
<td></td>
<td>Unspent Appropriations (–$1,056)</td>
<td></td>
</tr>
<tr>
<td>3. Net General Fund Service</td>
<td></td>
<td>$31,036</td>
</tr>
<tr>
<td>Appropriations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Total Net General Fund</td>
<td></td>
<td>$45,372</td>
</tr>
<tr>
<td>Appropriations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Figure 15 provides a breakdown of how every $1 of gross appropriations in the FY 2023 GF Budget Proposal is intended to be spent, including both Hard Costs and Current Services spending.

### Figure 15

**The Share of Each Dollar of Gross Appropriations for Hard Costs and Current Services in the FY 2023 Proposed General Fund Budget**

As shown in Figure 15, for every $1 in taxes that would be spent under the FY 2023 GF Budget Proposal, approximately $0.31 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 $0.69 is targeted to be spent on Current Services for the year. Out of that $0.69: $0.20 is for K-12 Education; $0.18 is for Healthcare; $0.18 goes to Human Services; $0.05 is for Higher Education; $0.04 goes to Public Safety; $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.

© 2022 Center for Tax and Budget Accountability
4.2 FY 2023 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 2023 are for “Group Health Insurance,” “Debt Service,” “Pension Contributions,” and “Other Statutory Transfers Out.” Collectively, a total of $14.3 billion has been identified to cover Hard Costs in the FY 2023 GF Budget Proposal, which represents a $2.2 billion (13.3 percent) nominal dollar decrease from the FY 2022 Enacted General Fund Budget (the “FY 2022 Enacted GF Budget”).

Since Hard Costs must be paid, they constitute an automatic charge against the revenue available to fund Current 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 16 details how the Hard Cost appropriations proposed for FY 2023 differ from Hard Cost expenditures for FY 2022.

<table>
<thead>
<tr>
<th>HARD COSTS, FY 2022 ENACTED AND FY 2023 PROPOSED GENERAL FUND BUDGETS ($ MILLIONS)</th>
<th>FY 2022 Enacted</th>
<th>FY 2023 Proposed</th>
<th>$ and % Change FY 2022 Enacted &amp; FY 2023 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Health Insurance</td>
<td>$1,851</td>
<td>$1,841</td>
<td>($10) or -0.55%</td>
</tr>
<tr>
<td>Debt Service (Pension &amp; Capital Bonds)</td>
<td>$1,588</td>
<td>$1,590</td>
<td>($8) or -0.5%</td>
</tr>
<tr>
<td>Pension Contributions</td>
<td>$10,105</td>
<td>$10,303</td>
<td>$198 or 1.96%</td>
</tr>
<tr>
<td>Other Statutory Transfers Out</td>
<td>$2,991</td>
<td>$612</td>
<td>($2,379) or -79%</td>
</tr>
<tr>
<td>Total</td>
<td>$16,535</td>
<td>$14,336</td>
<td>($2,200) or -13.3%</td>
</tr>
</tbody>
</table>


The first item listed under Hard Costs in Figure 16 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 2023, the proposed appropriation for Group Health is $1.84 billion, a $10 million (0.55 percent) nominal-dollar decrease from the FY 2022 Enacted GF Budget.

The next item listed in Figure 16 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 2023 GF Budget Proposal, $1.58 billion is appropriated to spend on debt service, an $8 million nominal decrease from the FY 2022 Enacted GF Budget.

The third Hard Cost line in Figure 16 is for “Pension Contributions.” The FY 2023 GF Budget Proposal appropriation for Pension Contributions covers $10.1 billion of the $10.3 billion in total FY 2023 contributions 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 $470 million in appropriations, of which $55 million goes to SERS for the Community College Insurance Program, $106 million goes to TRS for the Teachers’ Retirement Insurance Program, and $309 million goes to the Public School Teachers’ Pension and Retirement Fund of Chicago.

Total projected pension contributions are $198 million or 2 percent greater in FY 2023 than they were in FY 2022. This increase is somewhat less than the amount initially scheduled under the back-loaded schedule for repaying debt the state owes to its five pension systems that was created under the 1995 “Pension Ramp.” The reasons for this are twofold. First, investment returns realized by the five public pension systems in the last year were significantly greater than anticipated. Second, as detailed previously, the FY 2023 GF Budget Proposal calls for using $300 million of the unanticipated on-budget surplus projected for FY 2022 to be part of an overall prepayment of unfunded liabilities to the pension systems which will total $500 million. A more detailed analysis of pension funding at the state level in Illinois is set forth in Section 6 of this Report.

The fourth Hard Cost listed in Figure 16 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 2023 GF Budget Proposal, appropriations for Other Statutory Transfers Out are
Another percent) the state has historically devoted its General Fund to providing. Combined, these core service areas account for the same core services of Education (37 percent), Healthcare (26 percent), Human Services (26 percent), and Public Safety (7 percent) the state has historically devoted its General Fund to providing. Combined, these core service areas account for about 95 cents out of every dollar of the gross appropriations proposed for Current Services in FY 2023.

**FIGURE 17**

<table>
<thead>
<tr>
<th>FY 2023 PROPOSED GENERAL FUND BUDGET GROSS APPROPRIATIONS FOR CURRENT SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Safety, 7%</td>
</tr>
<tr>
<td>Other, 5%</td>
</tr>
<tr>
<td>Healthcare, 26%</td>
</tr>
<tr>
<td>Higher Education, 26%</td>
</tr>
<tr>
<td>K-12 Education, 28%</td>
</tr>
<tr>
<td>Human Services, 26%</td>
</tr>
</tbody>
</table>

Although **Figure 17** shows the breakdown of the proposed *gross* appropriations for Current Services in FY 2023, spending reductions authorized by the “Unspent Appropriations” budget line will reduce total, net appropriations to $31.036 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 2022, CTBA projects the accumulated deficit will stand at $5.4 billion, and that it will decrease slightly to $4.97 billion by the end of FY 2023. The walk down showing how this accumulated deficit will decrease by approximately $461 million between FY 2022 and FY 2023 is set forth in **Figure 18**.

**Figure 18**  
**Estimated Accumulated Deficit at the End of FY 2023 ($ Millions)**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Remaining Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FY 2023 General Funds Revenue</td>
<td>$45,833</td>
<td>$45,833</td>
</tr>
<tr>
<td>Accumulated Deficit Carry Forward from FY 2022</td>
<td>($5,427)</td>
<td>$40,406</td>
</tr>
<tr>
<td>FY 2023 Hard Costs</td>
<td>$14,336</td>
<td>$26,071</td>
</tr>
<tr>
<td>FY 2023 Proposed General Fund Net Service Appropriations</td>
<td>$31,036</td>
<td>($4,966)</td>
</tr>
<tr>
<td>Projected Accumulated FY 2023 Proposed General Fund Deficit</td>
<td>($4,966)</td>
<td></td>
</tr>
<tr>
<td>Accumulated Deficit as a Percent of General Fund Net Service Appropriations</td>
<td>(16%)</td>
<td></td>
</tr>
</tbody>
</table>


The reduction in the state’s accumulated deficit over the last two fiscal years is primarily the result of the Pritzker Administration making sound fiscal policy choices. For instance, the administration’s decision to repay the $3.2 billion Federal Reserve Municipal Liquidity Facility loan borrowed in FY 2020 two years ahead of schedule, saved taxpayers $82 million in interest costs. Similarly, if legislators approve the governor’s recommendation to use $898 million of the state’s unanticipated revenue growth now projected for FY 2022 to pay some of the backlog of health insurance bills for state workers (as detailed in Section 3.1 of this Report)—as well as some of the other debt reducing proposals the governor put on the table, the accumulated deficit originally projected for FY 2022 will decline from $6.3 billion to $5.4 billion. However, even if all these fiscally responsible actions are taken, the state’s General Fund is still projected to have a significant deficit of nearly $5 billion at the end of FY 2023.

Given that annual growth in the state’s structural deficit usually increases the accumulated deficit in the General Fund on a year-to-year basis, it is of course good news that the accumulated deficit for FY 2023 is now estimated to be about $1 billion less than initial projections. The bad news is that one-time federal funding received under the various COVID-19 relief packages is not only the real reason for the aforesaid reduction in the accumulated General Fund deficit, but also is supporting around $3 billion in current General Fund spending.

Which means that once the last of this one-time federal funding is utilized to support the FY 2025 General Fund budget, Illinois will be facing a significant fiscal cliff beginning in FY 2026 that could approach $3 billion. This will impair Illinois’ ability to maintain previous level of expenditures on Current Services, unless the state raises enough new, ongoing revenue to both replace the approximately $3 billion in annual spending on services that these one-time federal transfers have been covering—and reduce the growth in the structural deficit.

While many of the proposals for FY 2022 and FY 2023 help reduce the accumulated deficit, they do not alleviate the factors that drive 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 19 is a graphic depiction of the structural deficit in the Illinois General Fund using FY 2022 as the base year.

There are two crucial factors to note about Figure 19. First, the calculation depicted in Figure 19 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 2022. 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 major, one-year decline in revenue shown for FY 2025 in Figure 19 highlights how the loss of federal pandemic relief funding under legislation like ARPA creates a fiscal cliff for Illinois’ General Fund.136

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 been cutting real General Fund spending on nearly every Current Service area since FY 2000.137 Moreover, even if the increases in spending called for in the FY 2023 GF Budget Proposal are enacted, Illinois is still projected to spend 18.4 percent less in real terms on all public services in FY 2023 than it did in FY 2000.

Material reforms Illinois could make that would actually 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 its report on HB 4920/SB 3774; and
3. Replacing the state’s backloaded pension debt repayment plan under the “Pension Ramp,” with a level-dollar payment plan, as outlined in Section 6 of this Report.
5. General Fund Spending Trends

5.1 Year-to Year Comparison of Appropriations for Current Services, FY 2022 Enacted & FY 2023 Proposed

Under the FY 2023 GF Budget Proposal, total net appropriations for Current Services are scheduled to be $31 billion, which is $2.2 billion or 7.7 percent greater than FY 2022 appropriations in nominal dollars. Given the structural deficit, it is not surprising that this 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 20 shows the nominal dollar year-to-year change in appropriations between the FY 2022 Enacted GF Budget, and the FY 2023 GF Budget Proposal.

Overall, the FY 2023 GF Budget Proposal calls for a meaningful increase in both gross and net spending on all core services—a welcome change from previous years. As highlighted in Figure 21, the level of spending on healthcare proposed for FY 2023 appears to be $495 million more than it was last year. The increase invests funding into programs to bolster the healthcare workforce and waive licensing fees from healthcare workers in FY 2023. The state has also been able to use Federal relief 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, in FY 2023, the state has been able to maintain the same level General Fund spending of $6.86 billion on Medicaid as FY 2022, using the matching funds to cover the increased costs through other special state funds. The federal matching funds are set to expire in September of 2022.

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.

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 22 shows how proposed General Fund appropriations for Current Services in FY 2023 compared to the FY 2022 Enacted GF Budget in both nominal and real, inflation- and population-adjusted dollars. Breaking from the state’s long-term spending trend, all Current Service categories are scheduled to experience a real, inflation-adjusted year-to-year increase in gross appropriations in FY 2023.143

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2022 Enacted (Nominal)</th>
<th>FY 2022 Enacted (inf. adj.)</th>
<th>FY 2023 Proposed</th>
<th>$ Change (inf. adj.)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>$7,795</td>
<td>$8,069</td>
<td>$8,290</td>
<td>$221</td>
<td>2.74%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$7,384</td>
<td>$7,602</td>
<td>$8,254</td>
<td>$652</td>
<td>8.57%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>$8,696</td>
<td>$8,953</td>
<td>$9,140</td>
<td>$187</td>
<td>2.09%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$1,993</td>
<td>$2,052</td>
<td>$2,202</td>
<td>$149</td>
<td>7.28%</td>
</tr>
<tr>
<td>Early Childhood</td>
<td>$544</td>
<td>$560</td>
<td>$598</td>
<td>$38</td>
<td>6.85%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$1,935</td>
<td>$1,992</td>
<td>$2,132</td>
<td>$140</td>
<td>7.01%</td>
</tr>
<tr>
<td>Other</td>
<td>$1,355</td>
<td>$1,395</td>
<td>$1,477</td>
<td>$82</td>
<td>5.87%</td>
</tr>
<tr>
<td>Total (Gross)</td>
<td>$29,702</td>
<td>$30,623</td>
<td>$32,092</td>
<td>$1,469</td>
<td>4.80%</td>
</tr>
<tr>
<td>Total (Net)</td>
<td>$28,829</td>
<td>$29,680</td>
<td>$31,036</td>
<td>$1,356</td>
<td>4.57%</td>
</tr>
</tbody>
</table>

Sources: CTBA analysis of OMB; 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 2023 would be $1.4 billion more than in FY 2022.

However, the year-to-year real increase for the Current Services shown in Figure 22 will, in most cases, overstate the amount of the actual increase. The reason for this is Figure 22 compares the maximum authorized appropriations for Current Services in FY 2023 to enacted spending in FY 2022. Many of these maximum authorized spending amounts will not be realized, however, because there remains $1.1 billion in “Unspent Appropriations” under the FY 2023 GF Budget 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, and hence reduce the corresponding increases noted in Figure 22.

5.2 In Real Terms, Gross Appropriations for Most Core Services in the FY 2023 GF Budget Proposal Remain Less Than Two Decades Ago in FY 2000

Despite the year-over-year increased spending on all Current Services called for in the FY 2023 GF Budget Proposal, due to its structural deficit, Illinois has disinvested in Current Services for such an extended period of time that the overall, gross appropriations for service spending in FY 2023 would still be 18.4 percent less under the FY 2023 GF Budget Proposal than they were two decades ago in FY 2000, in real, inflation-adjusted terms, as shown in Figure 23.
That said, one positive note is that under the FY 2023 GF Budget Proposal, real appropriations for Early Childhood Education are scheduled to be greater than they were in FY 2000 by nearly 86 percent and K-12 Education appropriations are scheduled to be 3 percent greater.

Unfortunately, every other major service category is scheduled to experience a real cut when compared to FY 2000 levels. For instance, despite the 8.6 percent year-to-year, real increase in proposed Human Services funding proposed for FY 2023, Human Services appropriations are nonetheless still scheduled to be about 5 percent less in real terms in FY 2023 than they were in FY 2000. Meanwhile, proposed General Fund appropriations for Higher Education in FY 2023 are 46 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 2023 are applied.

It is worth noting that although proposed General Fund Healthcare appropriations for FY 2023 are projected to be 23 percent lower than FY 2000 levels, some Healthcare appropriations formerly covered by the General Fund are now funded through other sources.

### 6. FY 2023 Pension Funding

The FY 2023 GF Budget Proposal includes a $10.103 billion appropriation for pensions, which is the required General Fund contribution for FY 2023 as identified by the 1995 Pension Ramp.\(^{145}\) This required General Fund appropriation is $298 million more than the FY 2022 appropriation of $9.805 billion, as shown in Figure 24.\(^{146}\) After considering the additional Pension Stabilization Fund payment proposed in FY 2022 and FY 2023, the total pension appropriation is $198 million more over FY 2022. The FY 2023 GF Budget Proposal does not specify how the aforesaid $500 million prepayment will be applied among the state’s five pension funds.

The FY 2023 pension appropriation includes $9.63 billion collectively for the five major state pension funds, the TRS, SERS, SURS, JRS, and GARS. The remaining $470 million in pension appropriations proposed for FY 2023 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.\(^{147}\)
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 less than 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—meaning the debt owed to the pension systems grew significantly. 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 revenue that should have funded the pensions to pay for services, and racking up debt to the pensions which had to be repaid later, with interest that was compounding annually. This situation is like using a credit card to pay for food, rent, and utilities and not making your monthly payments—irresponsible from a fiscal perspective because the significant compounding interest will result in a much higher payment in the long run.

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 from 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 growth in Current Services costs which natural revenue growth 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, creating a deferred debt repayment schedule that was so unrealistically backloaded as to be unaffordable.

Figure 25 shows that under the current Pension Ramp the annual, all funds contribution to the five state pension systems is projected to reach $14.6 billion by FY 2040, and $16.3 billion by FY 2045.\(^{150}\)
Fortunately, the state retirement systems did not experience significant asset loss in FY 2021 as originally projected. In fact, the five state pension systems greatly exceeded actuarial assumptions, as all funds saw at least 22 percent growth or better. This resulted in the actuarially accrued unfunded liability (“AAUL”)—commonly known as the pension debt—decreasing. As a result, required pension contributions in the out years declined by $42.1 billion.\textsuperscript{151} Despite this better than projected market performance, the state’s current tax policy will not be able to accommodate even those reduced 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 $55.2 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,\textsuperscript{152} to 80 percent in 2045.\textsuperscript{153} This re-amortization plan is shown in Figure 26.

\textbf{FIGURE 25}

\textbf{PROJECTED ALL FUNDS CONTRIBUTIONS TO STATE PENSION SYSTEMS ($ BILLIONS)}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{pension_contributions.png}
\caption{Source: Illinois State Retirement Systems Actuarial Valuation Reports}
\end{figure}

\textbf{FIGURE 26}

\textbf{CTBA PENSION RE-AMORTIZATION AND CURRENT LAW ALL FUNDS CONTRIBUTIONS TO STATE PENSION SYSTEMS ($ BILLIONS)}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{re_amortization.png}
\caption{Source: CTBA Analysis using Illinois State Retirement Systems Actuarial Valuation Reports}
\end{figure}
7. Endnotes


3 CTBA analysis of (i) FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and (ii) “Illinois State [Operating] Budget: Fiscal Year 2023,” Governor’s Office of Management and Budget, February, 2, 2022; https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2023-Budget-Book/Fiscal-Year-2023-Operating-Budget.pdf; Inflation-adjusted using ECI-C from the BLS and population growth from the Census Bureau


21 CTBA analysis of (i) FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and (ii) CTBA analysis of (i) Governor’s Office of Management and Budget, FY 2022 Enacted Budget, “Operating Budget Details.xls,” https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) “Illinois State [Operating] Budget: Fiscal Year 2023,” Governor’s Office of Management and Budget, February, 2, 2022; https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2023-Budget-Book/Fiscal-Year-2023-Operating-Budget.pdf; Inflation-adjusted using ECI-C from the BLS and population growth from the Census Bureau

Analysis of Illinois’ FY 2023 Proposed General Fund Budget


24 CTBA analysis of (i) FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and (ii) CTBA analysis of (i) Governor’s Office of Management and Budget, FY 2022 Enacted Budget, “Operating Budget Details [xls],” https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) “Illinois State [Operating] Budget: Fiscal Year 2023,” Governor’s Office of Management and Budget, February, 2, 2022; https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2023-Budget-Book/Fiscal-Year-2023-Operating-Budget.pdf; Inflation-adjusted using ECI-C from the BLS and population growth from the Census Bureau

25 CTBA analysis of (i) FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and (ii) CTBA analysis of (i) Governor’s Office of Management and Budget, FY 2022 Enacted Budget, “Operating Budget Details [xls],” https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) “Illinois State [Operating] Budget: Fiscal Year 2023,” Governor’s Office of Management and Budget, February, 2, 2022; https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2023-Budget-Book/Fiscal-Year-2023-Operating-Budget.pdf; Inflation-adjusted using ECI-C from the BLS and population growth from the Census Bureau


30 CTBA Analysis of Data Table “SAGDP$N Real GDP by state,” Bureau of Economic Analysis, https://apps.bea.gov/iTable/iTable.cfm?reqid=76&step=1 ; U.S. Bureau of Economic Analysis, Real Gross Domestic Product by Industry: Private services industries for Illinois [ILPRISERVPRORGSP], Real Gross Domestic Product by Industry: Private goods-producing industries for Illinois [ILPRIGOOPDPRORGSP], Real Total Gross Domestic Product for Illinois [ILRGSP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/ILPRISERVPRORGSP.


Analysis of Illinois’ FY 2023 Proposed General Fund Budget

50 CTBA analysis of (i) Governor’s Office of Management and Budget, FY 2022 Enacted Budget, “Operating Budget Details (xls),” https://www2.illinois.gov/sites/budget/Pages/default.aspx; and (ii) CTBA analysis of “Illinois State [Operating] Budget: Fiscal Year 2023,”


77 Funds must be obligated by December 31, 2024, and expended by December 31, 2026


© 2022 Center for Tax and Budget Accountability

93 CTBA analysis of (i) FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and (ii) “Illinois State [Operating] Budget: Fiscal Year 2023,” Governor’s Office of Management and Budget, February, 2, 2022; https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2023-Budget-Book/Fiscal-Year-2023-Operating-Budget.pdf; Inflation-adjusted using ECI-C from the BLS and population growth from the Census Bureau
94 CTBA analysis of (i) FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and (ii) “Illinois State [Operating] Budget: Fiscal Year 2023,” Governor’s Office of Management and Budget, February, 2, 2022; https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2023-Budget-Book/Fiscal-Year-2023-Operating-Budget.pdf; Inflation-adjusted using ECI-C from the BLS and population growth from the Census Bureau
Analysis of Illinois’ FY 2023 Proposed General Fund Budget


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


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

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


136 Funds must be obligated by December 31, 2024, and expended by December 31, 2026.


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


