ANALYSIS OF ILLINOIS’ FY 2024 PROPOSED GENERAL FUND BUDGET

May 2, 2023
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Analysis of Illinois’ FY 2024 Proposed General Fund Budget

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Table of Contents

1. Introduction ...............................................................................................................................................1

2. Key Findings ..............................................................................................................................................2
   2.1. FY 2024 Revenue .................................................................................................................................2
   2.2. FY 2024 Proposed General Fund Spending Appropriations .................................................................4
   2.3. FY 2023 Accumulated Deficit .............................................................................................................6

3. FY 2024 Revenue .....................................................................................................................................7
   3.1. FY 2023 Updated Revenue Estimates ..................................................................................................7
   3.2. FY 2024 Proposed General Fund Revenue Summary ........................................................................10
   3.3. General Fund Revenue Growth Over Time .........................................................................................12

4. FY 2024 Proposed General Fund Spending Appropriations .................................................................17
   4.1. Differentiating Between Hard Costs and Current Service Expenditures ..........................................17
   4.2. FY 2024 Proposed General Fund Spending on Hard Costs ..............................................................19
   4.3. FY 2024 Proposed General Fund Discretionary Spending on Current Services ..............................21
   4.4. The Current Accumulated Deficit .......................................................................................................22

5. General Fund Spending Trends ............................................................................................................25
   5.1. Year-to-Year Comparison of Appropriations for Current Services, FY 2023 Enacted & FY 2024 Proposed ........25
   5.2. In Real Terms, Gross Appropriations for Most Core Services in the FY 2024 GF Budget Proposal Remain Less Than Two Decades Ago in FY 2000 .................................................................27

6. FY 2024 Pension Funding .........................................................................................................................27
Table of Figures

Figure 1 FY 2023 General Fund Revenue Update ($ Millions) ..................................................................................7
Figure 2 FY 2023 Supplemental General Fund Appropriations Update .................................................................9
Figure 3 General Fund Revenue: FY 2023 Estimated versus FY 2024 Proposed ($ Millions) ...............................11
Figure 4 Comparison of Adjusted General Fund Revenue: FY 2023 & FY 2024 Proposed ($ Millions) ...............11
Figure 5 Total General Fund Revenue, FY 2000 – FY 2024 ($ millions) .............................................................12
Figure 6 Total General Fund Revenue, FY 2000 – FY 2024 ($ Millions)
   —With Income Tax Rates Held Constant to FY 2000 Levels .........................................................................13
Figure 7 Net Individual Income Tax Revenue, FY 2000 – FY 2024 ($ millions) ......................................................14
Figure 8 Net Sales Tax Revenues, FY 2000 – FY 2024 ($ millions) ...............................................................15
Figure 9 Net Corporate Income Tax Revenues, FY 2000 – FY 2024 ($ Millions) .......................................................16
Figure 10 General Funds Federal Source Revenues, FY 2000 – FY 2024 ($ Millions) .............................................16
Figure 11 Share of FY 2000 & FY 2024 General Fund Revenue by Source ($ millions) ........................................17
Figure 12 FY 2024 Proposed General Fund Appropriations ($ Millions) ..........................................................18
Figure 13 The Share of Each Dollar of Gross Appropriations for Hard Costs and Current Services in the FY 2024 Proposed General Fund Budget ...........................................................................19
Figure 14 Hard Costs, FY 2023 Enacted and FY 2024 Proposed General Fund Budgets ($ Millions) ...............20
Figure 15 FY 2024 Proposed General Fund Budget Gross Appropriations for Current Services ..........................22
Figure 16 Estimated Accumulated Deficit at the end of FY 2024 ($ Millions) .......................................................22
Figure 17 Illinois General Fund Budget Deficit ($ million), nominal ..............................................................23
Figure 18 Projected Structural Deficit in Illinois’ General Fund ........................................................................24
Figure 19 Fund Budget Services Appropriations FY 2024 Enacted Compared to FY 2024 Proposed ($ Millions) .25
Figure 20 Nominal Dollar Comparison of FY 2023 Enacted and FY 2024 Proposed General Fund Budget Appropriations for Healthcare ($ Millions) ...........................................................................25
Figure 21 General Fund Budget Services Appropriations FY 2023 Enacted Compared to FY 2024 Proposed ......26
Figure 22 Illinois General Fund Appropriations for Core Services: FY 2024 Proposed Compared to Enacted FY 2000 ($ Millions) ........................................................................................................27
Figure 23 FY 2024 Proposed General Fund Pension Appropriations ($ Millions) ......................................................28
Figure 24 Projected All Funds Contributions to State Pension Systems ($ Millions) ...........................................29
Figure 25 CTBA Pension Re-amortization and Current Law All Funds Contributions to State Pension Systems ($ millions) ......................................................................................................................30
# Table of Acronyms

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

On February 15, 2023, Governor Pritzker delivered the first budget address of his second term to the 103rd General Assembly. This budget address was markedly different than any previous one delivered by Pritzker—or any other Illinois governor dating back to Jim Edgar in the mid-1990s. The reason: Illinois’ General Fund is in the healthiest fiscal condition it has been for decades.

Things have definitely changed since Governor Pritzker was first sworn into office in 2019. Back then, he inherited an $8 billion backlog of unpaid bills from Governor Rauner’s Administration.\(^1\) A budget hole of that size meant roughly 30 percent of all General Fund expenditures during Rauner’s final year as governor constituted deficit spending. Unfortunately, that was also nothing new, as Illinois had failed to produce anything close to a balanced budget in its General Fund for well over two decades prior.\(^2\)

The state’s consistent deficit problems are a cause for concern, because about 95 percent of all General Fund spending on services goes to the four core areas of Education, Healthcare, Human Services, and Public Safety.\(^3\) When the numbers get crunched, one thing becomes clear, Illinois’ General Fund deficits have been primarily driven by various structural flaws in the state’s tax policy. These flaws are so significant that, even during a normal economy, revenue for the General Fund has historically failed to grow at the rate needed to continue providing the same level of public services from one fiscal year into the next, adjusting solely for inflation.\(^4\) In other words, the state has a “structural deficit” in its General Fund, which is the predictable result of its flawed tax policy.

This ongoing “structural deficit” in turn has led to a number of undesirable fiscal outcomes. For instance, because revenue growth was not keeping pace with service cost growth, real spending has been cut on the four core services for decades. So much so that by the end of the current fiscal year—FY 2023—Illinois will be spending 16 percent less on education, healthcare, human services, and public safety in real, inflation-adjusted dollars, than at the end of FY 2000.\(^5\)

Every community in Illinois needs the state to have the fiscal capacity to fund those services, or bad things happen, like: children do not get an adequate education from their local public school; low-income high school grads do not get the financial support they need to afford college and earn a degree that makes them viable in the modern economy; and vulnerable people like homebound seniors, individuals with developmental disabilities, victims of domestic violence, and poor, single working parents do not receive the support needed to make it through the day, enter the workforce, or have any hope for a decent quality of life.

Moreover, to minimize the size and scope of the aforesaid service cuts caused by the structural deficit in the General Fund, decision makers engaged in two questionable fiscal practices. First, they chose to underfund K-12 public education at the state-level. This pushed the primary obligation for funding public schools down to local property taxes. This practice was used to such a significant extent that by FY 2017, Illinois ranked 50th among all states in the portion of K-12 expenses paid for with state revenue, and first in the portion paid out of local property taxes.\(^6\) This not only drove up local property taxes, but also created major inequities in school funding, by effectively tying the quality of the public education a child received, to the local property wealth of the community in which that child lived.

Second, the state engaged in a decades long practice of underfunding its five public employee pension systems. This was done to minimize the impact of the structural deficit, by diverting revenue that should have been used to fund pension benefits, to instead cover the cost of current services. Effectively this was tantamount to borrowing from the pension systems, and using the borrowed dollars to fund current services. Ultimately, this irresponsible fiscal practice allowed the state to avert some spending cuts in the short term, but at the cost of creating a huge unfunded liability—read that as “debt”—owed to its pension systems over the long term. The resultant 1995 Pension Ramp, which was supposed to address the problem but instead created an unaffordably
back-loaded schedule for repaying the debt owed to the pension systems, has been straining fiscal resources and adding to the structural deficit for years.\(^7\)

With that as the historical context, it comes as truly good news that the General Fund budget Pritzker proposed for FY 2024 (the “FY 2024 GF Budget Proposal”) is projected to have an accumulated deficit of just $1.15 billion at its year-end. If that happens, it would be the smallest General Fund deficit, in nominal, non-inflation-adjusted dollars, in 25 years—or since before George Ryan was governor in 2000.\(^8\) Make no mistake, this somewhat remarkable turn of events is due in large part to the Pritzker Administration’s responsible stewardship of the state’s finances.

Yes, over the past few years Illinois received significant pandemic-related financial support from the feds, totaling some $8.4 billion, that shored up the General Fund during the pandemic.\(^9\) The state also realized around $4.9 billion in unexpected revenue growth last fiscal year.\(^10\)

Still, the Pritzker Administration did not cave into political pressure to use either the one-time federal aid, or the unexpected, one-time bump in revenue, to fund a Christmas tree full of goodies. Instead, Pritzker’s Administration leveraged this fiscal largesse to help pay down the state’s bill backlog, pre-pay $700 million in pension debt, deposit over $4 billion into the state’s Unemployment Insurance Trust Fund, and invest close to $2 billion in Illinois’ Rainy Day Fund, so that it now sits at a historically high level—after being reduced to zero by Governor Rauner.\(^11\)

None of those actions were particularly thrilling—but all of them are fiscally responsible. Better yet, they helped the state move from fiscal crisis to fiscal health. They even allowed the Governor to propose increasing year-to-year investments in each of the four, core service areas that have suffered real cuts for far too long. Among the increased spending proposed for FY 2024 is a $75 million year-to-year bump for Early Childhood Education, a $350 million year-to-year boost for the state’s school funding formula—the Evidence-Based Formula for Student Success (“EBF”), and a year-to-year hike of $100 million for the Monetary Award Program (“MAP”), which provides financial aid to low-income college kids.\(^12\)

However, because this is Illinois, not all the fiscal news is good. Many of the structural fiscal flaws that created years of deficits remain in place. Which means Illinois decision-makers have the rare opportunity to thoughtfully consider reforming the state’s fiscal system, with an eye toward building the capacity needed to sustain investments in core services over the long haul, rather than just dig out of the crisis du jour.

### 2. Key Findings

#### 2.1. FY 2024 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 2024 GF Budget Proposal is estimated at $49.9 billion, which is \$1.4 billion less\(^13\) in nominal dollars than the $51.9 billion in total revenue now being projected for FY 2023.

- The key reasons for the \$1.4 billion year-to-year projected decline in revenue are: (i) total revenue in the FY 2023 General Fund includes $763 million in ARPA reimbursements from the federal government which are not available in FY 2024; (ii) transfers from other state funds into the General Fund in FY 2024 are expected to be \$1.2 billion less\(^14\) than they were in FY 2023, due to decreased transfers from the Income Tax Refund Fund (if the full reduction is from this income tax fund we should just say that instead of starting with the undefined concept of transfers from other funds); and (iii) revenue from the state’s corporate income tax is projected to be \$175 million less\(^15\) in FY 2024 than in FY 2023.
anticipated increase in Individual Income Tax revenue for FY 2024 will offset the reduction in ARPA reimbursement.

- Moreover, the total General Fund revenue amounts for FY 2023 are somewhat misleading, given the amount of federal relief funding included therein. For instance, the $51.4 billion in projected total General Fund Revenue for FY 2023 includes $763 million in one-time federal reimbursements. Eliminating that one-time federal relief funding brings the adjusted General Fund revenue for FY 2023 down to $50.6 billion.

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. After adjusting for inflation using 2023 dollars, the projected General Fund revenue for FY 2024 of $49.9 billion represents an increase of $7.6 billion over the roughly $42.4 billion in General Fund revenue Illinois’ tax system generated two decades ago in FY 2000, an average real increase in annual revenue of just $316 million, which is less than one percent per year.\(^{15}\)

- 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.\(^{16}\) 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.\(^{17}\)

- 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 not exceeded inflation growth 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 General Fund revenue projected for FY 2024 would be $4.3 billion less in real terms than it was over two decades earlier in FY 2000.\(^{18}\)

- In fact, stagnation and decline typify the performance of most state taxes that feed the General Fund. When measured in real, 2023, inflation-adjusted dollars, the state has only just realized revenue growth over the past three years in its individual and corporate income taxes.\(^{19}\)

- For instance, corporate income tax revenue had been experiencing a precipitous real decline from its peak set in FY 2013, when it totaled $3.6 billion.\(^{20}\) 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 finally reversed. Current projections are that corporate income tax revenue will be $175 million year less in FY 2024 than it was a year earlier in FY 2023, but still remain at record high levels.\(^{21}\)

- The most important revenue source to exhibit little to no growth over the past 24 years is the sales tax. Projected sales tax revenue for FY 2024 is $10.4 billion, which represents roughly 21 percent of all projected General Fund revenue for the year. This constitutes a significant decline in relative importance over time, given that in 2023 inflation-adjusted dollars, sales tax revenue is projected to comprise $568 million or five percent less of total General Fund revenue in FY 2024 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.\(^{22}\) 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{23}

- That is a losing proposition, given that between 2000 and 2021, the sale of goods went from accounting for 21 percent of Illinois’ GDP to just 17 percent, while the sale of services increased from 69 to 74 percent of state GDP.\textsuperscript{24} 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{25}

- Although Federal Transfers to Illinois have seen some variation over the past 20 years, since FY 2009 the clear trend has been a notable decline. Indeed, on an inflation-adjusted basis, Federal Transfers to the Illinois General Fund dropped from a peak of $8.8 billion in FY 2009, to a projected $4 billion in FY 2024, a decline of 54 percent.\textsuperscript{26}

- The take-away from long-term revenue trends in Illinois is clear: All the data continue to demonstrate that Illinois’ state-level tax policy is seriously flawed; does not work in the modern economy; and hence fails to generate real growth in revenue over time 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 “\textit{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 2024 Proposed General Fund Spending Appropriations

2.2.1. Overall

- The FY 2024 GF Budget Proposal identifies a total of $49.6 billion in net appropriations for spending. Of that amount, $14.1 billion, or 28 percent, are for “Hard Costs,” while $36 billion, or 72 percent are for “Current Services.”\textsuperscript{27}

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

- In the FY 2024 GF Budget Proposal, \textit{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{28}

- Overall, net Current Service appropriations in FY 2024 are scheduled to be \textit{$2.8 billion greater} than in FY 2023, in nominal, non-inflation-adjusted dollars.\textsuperscript{29} After adjusting for changes in inflation and population, however, total proposed appropriations for Current Services in FY 2024 are scheduled to be \textit{$1.8 billion, or 5.5 percent, greater} than in FY 2023 in real terms.\textsuperscript{30}

- 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 2024 are scheduled to be \textit{11.6 percent less} than actual spending on those services was two decades ago in FY 2000.\textsuperscript{31}

2.2.2. FY 2024 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 2024 GF Budget Proposal would appropriate $673 million for spending on Early Childhood, which is $75 million more in nominal dollars than FY 2023.\(^3\) After adjusting for inflation, Early Childhood funding would experience a real, year-to-year increase of $57 million, or 9.2 percent, from FY 2023 levels.\(^3\)

Considered over the long-term, after adjusting for inflation, appropriations for Early Childhood in the FY 2024 GF Budget Proposal are nearly 97.7 percent greater than actual spending was over twenty years ago in FY 2000.\(^4\)

The FY 2024 GF Budget Proposal would appropriate $9.66 billion to K-12 education funding, which is $496 million more in nominal dollars than FY 2023.\(^5\) After adjusting for inflation, K-12 funding would experience a real, year-to-year increase of $215 million, or 2.3 percent, from FY 2023 levels.\(^6\)

Like Early Childhood, K-12 Education appropriations in the FY 2024 GF Budget proposal are also projected to be greater than actual spending was in FY 2000 in real, inflation-adjusted terms, but by only $293 million, or just over 3 percent.\(^7\)

The FY 2024 GF Budget Proposal appropriation for Higher Education is $2.47 billion, which represents a nominal dollar increase of about $219 million over FY 2023.\(^8\) After adjusting for inflation, the appropriation for Higher Education in the FY 2024 GF Budget Proposal constitutes a year-to-year real increase of $150 million, or 6.5 percent, when compared to FY 2023.\(^9\)

Taking a longer view, General Fund appropriations for Higher Education in the FY 2024 GF Budget Proposal are scheduled to be 43 percent less in real, inflation-adjusted dollars than actual spending was in FY 2000.\(^10\) This is by far the greatest real cut imposed on any Current Service over the last 24 years.

### 2.2.3. FY 2024 Human Services Spending

In the FY 2024 GF Budget Proposal, the gross appropriation for all Human Services is scheduled to be $9.63 billion, which would represent a 10.7 percent increase from the FY 2023 enacted appropriation of $8.69 billion in nominal dollars, and a 7.4 percent increase in real, inflation-adjusted dollars.\(^11\)

If it passes, the FY 2024 GF Budget Proposal appropriation for Human Services would mark the first time in the last two decades that Human Services appropriations would be greater in real terms than in FY 2000.\(^12\)

### 2.2.4. FY 2024 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 2024 GF Budget Proposal, the gross appropriation for Healthcare is $9.3 billion, which is $689 million, or 7.96 percent greater in nominal dollars than in FY 2023.\(^13\) Of that gross Healthcare appropriation, $9.1 billion is targeted to DHFS, primarily to cover $6.86 billion of the state’s Medicaid expenditures on poor, disabled, and low-income populations.\(^14\) The remaining $278 million goes to the Department of Public Health.\(^15\)

The FY 2024 GF Budget Proposal also includes a statutory transfer in the amount of $1.96 billion from the General Fund to the HPRF, which is a special fund created to generate federal Medicaid matching dollars.\(^16\)
2.2.5. FY 2024 Pension Spending

- 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 2024 GF Budget Proposal includes a $10.231 billion appropriation for pensions, which is the required General Fund contribution for FY 2024 as identified by the 1995 Pension Ramp.

- However, if approved, the FY 2024 GF Budget proposed a supplemental General Fund contribution be made into the Pension Stabilization Fund for FY 2023 of $200 million on top of the $500 million already approved at the time of the FY 2023 Enacted General Fund Budget. The supplemental contribution for FY 2023 would bring the total supplemental pension contributions made in addition to the required payments for FY 2022 and FY 2023 to $700 million in total.

- 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 2024 appropriation for pensions that is required under the Pension Ramp (not accounting for the aforesaid additional contributions contained in the FY 2024 GF Budget Proposal) is $121 million more than the FY 2023 appropriation of $10.1 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 the annual increases in debt payments required under the Pension Ramp payments overtime.

2.3. FY 2024 Accumulated Deficit

- By the end of FY 2024, CTBA projects the accumulated deficit in the state’s General Fund will be $1.2 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 2023 were $34.5 billion, the $1.5 billion accumulated deficit projected for FY 2023 effectively means roughly 4 percent of all FY 2023 General Fund spending on Current Services was in fact deficit spending. An operating deficit 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 2024 is projected to be $1.2 billion, which may be slightly less than the $1.5 billion at the end of FY 2023, but is still a
deficit spending level of around 3 percent. The good news is these are the lowest accumulated deficit levels for the state’s General Fund in at least 24 years.\textsuperscript{55}

3. FY 2024 Revenue

3.1. FY 2023 Updated Revenue Estimates

When Governor Pritzker delivered his FY 2024 budget address, the Governor’s Office of Management and Budget (“GOMB”) estimated that the General Fund would end up with $51.4 billion in revenue for FY 2023.\textsuperscript{56} This is over $4.9 billion more in revenue than GOMB initially estimated at the time the FY 2023 General Fund Budget was enacted (the “FY 2023 Enacted GF Budget”), and represented the second time GOMB increased its revenue estimates for FY 2023, as shown in Figure 1. This significant bump in FY 2023 General Fund revenue was primarily due to unanticipated growth in income and sales tax receipts, and utilization of the last of the federal reimbursements for revenue replacement that were made available under the American Rescue Plan Act (“ARPA”).\textsuperscript{57}

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\begin{tabular}{|l|c|c|c|c|c|}
\hline
Revenue Source & FY 2023 Estimated & FY 2023 Estimated & FY 2023 Estimated & $ Change & % Change \\
\hline
Net Individual Income Tax & $22,577 & 23,215 & $23,881 & $1,304 & 5.8\% \\
\hline
Net Corporate Income Tax & $4,608 & $5,262 & $5,723 & $1,115 & 24.2\% \\
\hline
Sales Taxes & $10,080 & $10,261 & $10,390 & $310 & 3.1\% \\
\hline
Other Sources & $3,151 & $3,223 & $3,321 & $170 & 5.4\% \\
\hline
Transfers In & $2,013 & $3,294 & $3,268 & $1,255 & 62.3\% \\
\hline
Interfund Borrowing & $ - & $ - & $ - & $ - & 0\% \\
\hline
Federal Sources & $4,000 & $4,863* & $4,776* & $766 & 19.4\% \\
\hline
Total General Funds & $46,429 & $49,356 & $51,359 & $4,930 & 10.6\% \\
\hline
\end{tabular}
\caption{FY 2023 General Fund Revenue Update ($ Millions)}
\end{table}

Since the aforesaid $4.9 billion in revenue growth for FY 2023 was entirely unanticipated, it effectively created an “on-budget” surplus in the same amount. 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 2022, and hence represents the unpaid bills that carried forward into FY 2023, was $1.5 billion, or $3.4 billion less than the anticipated on-budget surplus for FY 2023.\textsuperscript{58} More information regarding the accumulated deficit is available in Section 4.4 of this Report.

GOMB is not the only agency that makes revenue projections for the General Fund. The Commission on Government Forecasting and Accountability (“COGFA”) also makes such projections. According to COGFA’s most recent FY 2023 revenue estimate, which was made in March and includes data covering three more months of activity than the most recent GOMB estimate, Illinois will close FY 2023 with $51.9 billion in General Fund revenue, or $545 million more than GOMB’s most recent projection.\textsuperscript{59} While this report does use data from both COGFA and GOMB, for all year-over-year comparisons of the FY 2023 Enacted GF Budget to the FY 2024 GF Budget Proposal, this report will strictly use GOMB estimates, to make it easy for reconciling the governor’s proposal with the data published by his office.
The FY 2024 GF Budget Proposal includes a number of initiatives that pay-down debt, which build on some supplemental pieces of legislation that covered FY 2023 items but were enacted following passage of the FY 2023 Enacted GF Budget. For example in January of 2023, the governor signed into law P.A. 102-1121 to eliminate the remaining shortfall in the state’s Unemployment Insurance Trust Fund (the “UITF”). Under that law, $1.8 billion of General Fund revenue was to be contributed to UITF. That contribution was to be used to in part repay the remaining $1.3 billion federal loan balance borrowed under Title XII of the Social Security Act, that was utilized to shore up the UITF during the pandemic. The remaining $450 million of the $1.8 billion in General Fund revenue contributed to the UITF under P.A. 102-1121 came in the form of an interest-free loan, which the UITF will repay over the next ten years. Those repayments made by the UITF will be deposited directly into the state’s Budget Stabilization Fund, or “Rainy Day” Fund. This fiscally-wise move not only prepares the state for future economic downturns, but is estimated to save taxpayers $20 million in interest payments.

Other supplemental appropriations impacting FY 2023 but passed after enactment of the FY 2023 Enacted GF Budget included: $524 million in additional General Fund appropriations for various services; $400 million in transfers from the General Fund to the Large Business Attraction Fund; and $850 million in transfers from the General Fund to the Rainy Day Fund. All told, the Rainy Day Fund is scheduled to receive transfers from the General Fund in FY 2023 totaling $1.2 billion, which will bring the Rainy Day Fund balance up to nearly $2 billion.

Continuing to build up the Rainy Day Fund is fiscally advantageous. That’s because Rainy Day Funds are supposed to help tide a state fiscal system over during unexpected financial challenges that arise from time-to-time. That is a far cry from the condition of the Rainy Day Fund in FY 2017, when former Governor Rauner completely depleted it, in large part due to his failure to pass a General Fund budget at all that year—the second consecutive year he failed to do so. Under Governor Rauner, Illinois became the only state in the nation with a zero balance in its Rainy Day Fund. Hence the Pritzker Administration’s decision to replenish the state’s Rainy Day Fund was the responsible fiscal thing to do.

Other supplemental appropriations for FY 2023 that would be made as part of the FY 2024 GF Budget Proposal include: an additional $100 million for Early Childhood Capital Investments; an additional $200 million advance payment into the Pension Stabilization Fund, which is in excess of the statutorily required contribution for the year; and an additional $490 million to cover current FY 2023 liabilities and programming.
Figure 2 shows how the FY 2024 GF Budget Proposal suggests utilizing the $490 million on-budget surplus for FY 2023 for supplemental FY 2023 appropriations, as well as the additional $200 million contribution into the Pension Stabilization Fund.71

\[ \text{Figure 2} \]

**FY 2023 SUPPLEMENTAL GENERAL FUND APPROPRIATIONS UPDATE**

Source: FY 2024 GF Budget Proposal

If made, the additional $200 million contribution into the pension systems included in the FY 2024 GF Budget Proposal, when aggregated with the $500 million of additional contributions already included for FY 2022 and FY 2023, would reduce General Fund pension liability costs through FY 2045 by an estimated $2.4 billion in interest.72

Notably, this is the first administration of any governor, Democrat or Republican, that 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 unexpected revenue growth in FY 2023 is a welcome development, given that the initial revenue projection made for FY 2023 was that General Fund revenue would be nearly **$4.6 billion less** than the state received in FY 2022, due to the combined impact of the state’s ongoing structural deficit (which is detailed in Section 4.5 of this Report), high inflation costs, and an anticipated economic slowdown. But unexpected revenue growth was not the only reason the fiscal health of the state’s General Fund improved. One other factor has had a positive impact on the Illinois General Fund.

In FY 2022, the General Assembly passed legislation which eliminated a number of business related tax breaks, which are more accurately described as "tax expenditures."73 “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, typically job growth.
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 nearly 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 beginning in FY 2022, the General Assembly passed legislation that eliminated the following corporate tax expenditures, which GOMB estimates will generate $655 in new, recurring revenue annually:

1. 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
2. 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
3. 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
4. Reversing the recent repeal of the corporate franchise tax: $20 million.

For more detailed information regarding the corporate tax expenditures, read CTBA’s report, *Recommended Changes to Illinois Tax Expenditures, FY 2022*.

### 3.2. FY 2024 Proposed General Fund Revenue Summary

As shown in Figure 3, the FY 2024 GF Budget Proposal projects that total General Fund revenue for the year will be $49.9 billion, which is $1.4 billion, or 2.8 percent less, in nominal dollars than the $51.4 billion now projected for FY 2023.

The key reasons for the $1.4 billion year-to-year decline in General Fund revenue currently projected in the FY 2024 GF Budget proposal are the following three items:

1. General Fund transfers in from other state funds in FY 2024 are projected to be $1.2 billion less than in FY 2023 due to a decrease in transfers from the Income Tax Refund Fund to the General Fund;
2. Revenue from the state’s corporate income tax is projected to be $175 million less in FY 2024 than in FY 2023;
3. The FY 2023 General Fund budget includes as revenue $763 billion in one-time federal reimbursements under ARPA, which are not available in FY 2024. The decline of ARPA reimbursements would decrease overall General Fund revenue by an amount greater than $1.4 billion if not for anticipated growth in Individual Income Tax revenue.
Figure 3

General Fund Revenue: FY 2023 Estimated versus FY 2024 Proposed ($ Millions)

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>FY 2023 Estimated</th>
<th>FY 2024 Proposed</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Sources: Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Taxes</td>
<td>$23,881</td>
<td>$24,659</td>
<td>$778</td>
<td>3.3%</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>$5,723</td>
<td>$5,548</td>
<td>($175)</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Sales Taxes</td>
<td>$10,390</td>
<td>$10,415</td>
<td>$25</td>
<td>0.2%</td>
</tr>
<tr>
<td>Public Utilities</td>
<td>$731</td>
<td>$721</td>
<td>($10)</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Other State Sources</td>
<td>$2,590</td>
<td>$2,537</td>
<td>($53)</td>
<td>-2.0%</td>
</tr>
<tr>
<td><strong>Total State Sources: Revenues</strong></td>
<td>$43,315</td>
<td>$43,880</td>
<td>$565</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>State Sources: Transfers In</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lottery</td>
<td>$718</td>
<td>$759</td>
<td>$41</td>
<td>5.7%</td>
</tr>
<tr>
<td>Gaming Taxes</td>
<td>$157</td>
<td>$175</td>
<td>$18</td>
<td>11.5%</td>
</tr>
<tr>
<td>Other Transfers</td>
<td>$2,393</td>
<td>$1,116</td>
<td>($1,277)</td>
<td>-53.4%</td>
</tr>
<tr>
<td><strong>Total State Sources: Transfers In</strong></td>
<td>$3,268</td>
<td>$2,050</td>
<td>($1,218)</td>
<td>-37.3%</td>
</tr>
<tr>
<td><strong>Total State Sources: Revenue &amp; Transfers In</strong></td>
<td>$46,583</td>
<td>$45,930</td>
<td>($653)</td>
<td>-1.4%</td>
</tr>
<tr>
<td>ARPA Reimbursements</td>
<td>$763</td>
<td>$0</td>
<td>($763)</td>
<td>-100.0%</td>
</tr>
<tr>
<td>Federal Sources</td>
<td>$4,013</td>
<td>$4,014</td>
<td>$1</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total General Funds Revenues</strong></td>
<td>$51,359</td>
<td>$49,944</td>
<td>($1,415)</td>
<td>-2.8%</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY 2024 Proposed Budget, GOMB Economic and Fiscal Report, & FY 2023 Enacted Walkdown;* $763 in ARPA reimbursement

However, the total General Fund revenue amount for FY 2023 is somewhat overstated, given it includes one-time, nonrecurring federal pandemic relief in the amount of $763 million received under ARPA. This one-time federal relief is to be distinguished from recurring federal transfers the state historically receives on an annual basis to help cover the cost of various General Fund expenditures (“Historic Recurring Federal Transfers”). Hence using current projections, FY 2023 General Fund revenue without counting that one-time federal relief would be $50.6 billion.

Figure 4 shows a comparison between the FY 2023 and FY 2024 total General Fund revenue projections, as well as “Adjusted General Fund Revenue” projections, which is the total General Fund revenue less one-time federal sources.

Figure 4

Comparison of Adjusted General Fund Revenue: FY 2023 & FY 2024 Proposed ($ Millions)

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>FY 2023 Gen Fund</th>
<th>FY 2024 Gen Fund</th>
<th>$ Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Sources: Revenue</td>
<td>$43,315</td>
<td>$43,880</td>
<td>$565</td>
</tr>
<tr>
<td>State Sources: Transfers In</td>
<td>$3,268</td>
<td>$2,050</td>
<td>($1,218)</td>
</tr>
<tr>
<td><strong>Total State Sources</strong></td>
<td>$46,583</td>
<td>$45,930</td>
<td>($653)</td>
</tr>
<tr>
<td>Total Federal Sources</td>
<td>$4,776</td>
<td>$4,014</td>
<td>($762)</td>
</tr>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td>$51,359</td>
<td>$49,944</td>
<td>($1,415)</td>
</tr>
<tr>
<td>less one-time federal sources</td>
<td>$763</td>
<td>$0</td>
<td>($763)</td>
</tr>
<tr>
<td><strong>Adjusted General Fund Revenue</strong></td>
<td>$50,596</td>
<td>$49,944</td>
<td>($652)</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY 2024 Proposed Budget, GOMB Economic and Fiscal Report, & FY 2023 Enacted Walkdown;* $763 in ARPA reimbursement
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 isolates and separately accounts for one time, nonrecurring revenues, as well as separates proceeds from loan borrowings, given that federal loan proceeds must be paid back with interest. As the data demonstrate, due primarily to flaws in the state’s tax policy, General Fund revenue in Illinois has only begun to experience significant growth since FY 2021. Prior to FY 2020, revenue for the General Fund had remained relatively flat over time, in real, inflation-adjusted terms. Indeed, after adjusting for inflation using 2023 dollars, the $44 billion of Adjusted General Fund (“Adjusted GF”) revenue for FY 2020 was only $1.9 billion greater than it was in FY 2000, or a total increase of just four percent over 20 years, an average increase of only 0.002 percent annually.79

For context, cumulative inflation over that 20-year period was 53.5 percent.80 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.

Following the start of the COVID-19 pandemic at the end of FY 2020, and continuing through FY 2024, cumulative inflation increased by 11 percent, while revenue increased by $5.69 billion, or 12.9 percent. This means, during that four year period, revenue finally outpaced inflation.

As Figure 5 shows, after adjusting for inflation and putting all values in current, 2023 dollars, the projected $49.9 billion in total General Fund revenue for FY 2024 represents a real increase of $7.6 billion, or roughly an average of $316 million, or 0.007 percent, annually from the $42.4 billion generated two decades ago in FY 2000.81

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**Figure 5**

**Total General Fund Revenue, FY 2000 – FY 2024 ($ millions, Inflation-adjusted Using 2023 Dollars)**

Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB
But that quite modest average growth actually overstates, significantly, the actual revenue performance of the state’s tax system. 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, because collectively, they are by far and away the greatest revenue source that feeds the General Fund.

For instance, the sharp decline in General Fund revenue shown from FY 2015 to FY 2017, highlighted in Figure 5, 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 $2.53 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 6 adjusts the amount of General Fund revenue projected for FY 2024, 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 2024 would be $4.3 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.

**Figure 6**


Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB
Digging deeper into the performance of various revenue sources that feed the General Fund, some interesting details emerge. For instance, as shown in

**Figure 7**, the individual income tax revenue estimated for FY 2024 of $24.7 billion represents a decrease of roughly $1.9 billion over its previous peak set in FY 2022, after adjusting for inflation.\(^8\) However, the FY 2024 net individual income tax revenue is expected in increase by $778 million over FY 2023, and nearly $11 billion over FY 2000, in inflation-adjusted dollars.

![Figure 7](net_individual_income_tax_revenue_fy2000_fy2024 Millions, inflation-adjusted using 2023 dollars)

*Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB*\(^8\)

Meanwhile, stagnation and decline typify the performance of the other state taxes that feed the General Fund. Indeed, when measured in 2023 inflation-adjusted dollars, the state has realized no net revenue growth over the past 24 years from its sales taxes; liquor gallonage taxes; insurance taxes; corporate franchising taxes and associated fees combined.\(^9\)

The most important of these revenue sources to exhibit little to no growth over the past 24 years is the sales tax. Consider that projected net sales tax revenue for FY 2024 is $10.4 billion, or roughly 21 percent of all General Fund revenue. This represents a significant decline in importance as a revenue source over time, given that in 2023 inflation-adjusted dollars, sales tax revenue is projected to comprise $568 million, or five percent less of total General Fund revenue in FY 2024 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 8**.
The primary reason sales tax revenue has declined in real terms over time is that Illinois has one of the narrowest sales tax bases of the 45 states that impose a general sales tax. 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 transactions the tax covers. Illinois has one of the narrowest sales tax bases of any state because Illinois’ sales tax applies mainly to the sale of goods rather than services. That’s problematic because the economy has transitioned from being primarily products-based to being primarily service-based. Illinois’ sales tax has failed to respond to this fundamental transformation. Consider that, between 2000 and 2021, the sale of goods went from accounting for 21 percent of Illinois’ GDP to just 17 percent, while the sale of services increased from 69 to 74 percent of state GDP. Leaving most of the largest and fastest growing segment of the economy out of the state’s sales tax base means revenue from the sales tax will not grow with the economy over time. That in turn contributes to the structural deficit, and impedes Illinois’ ability to fund core services from year-to-year, because even when not expanded, service costs do grow annually with inflation.

Revenue from several other state tax sources that feed the General Fund have also experienced real declines over the FY 2000—FY 2024 sequence, including: public utility taxes; cigarette taxes; and vehicle use taxes. Moreover, recurring Federal Transfers to the state General Fund have also decreased during this 24-year period.

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 9. In fact, corporate income tax revenue declined from its peak level of $3.96 billion in FY 2013, to $2.4 billion in FY 2020—a decline of $1.6 billion in inflation-adjusted dollars. By FY 2021, corporate income tax revenue jumped to $3.96 billion, the exact same amount of revenue, after adjusting for inflation, that was collected at its peak in FY 2013. But by FY 2022, corporate income tax revenue increased over the prior year by $1.6 billion, and has remained relatively stable thereafter, as shown in Figure 9.
than expected economic rebound from the COVID-19 pandemic, which led to record corporate profits (in part due to price gouging).\(^9\)

**FIGURE 9**
**NET CORPORATE INCOME TAX REVENUES, FY 2000 – FY 2024 ($ MILLIONS), INFLATION-ADJUSTED USING 2023 DOLLARS**

![Figure 9: Net Corporate Income Tax Revenues](source)

Meanwhile, although Historic Recurring Federal Transfers (i.e., excluding one-time federal relief received under programs like ARPA) 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 10**, on an inflation-adjusted basis, Historic Recurring Federal Transfers to the Illinois General Fund have dropped from a peak of $8.8 billion in FY 2009, to a projected $4 billion in FY 2024, a decline of $4.8 billion, or 54 percent.\(^10\)

**FIGURE 10**
**GENERAL FUNDS FEDERAL SOURCE REVENUES, FY 2000 – FY 2024 ($ MILLIONS), INFLATION-ADJUSTED USING 2023 DOLLARS**

![Figure 10: General Funds Federal Source Revenues](source)
The significant year-to-year increase in federal transfers Illinois realized over the FY 2017–FY 2018 sequence shown in Figure 10 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 2018.102

Figure 11 shows how the share of total General Fund revenue by source has changed between FY 2000 and FY 2024, 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 11**

**SHARE OF FY 2000 & FY 2024 GENERAL FUND REVENUE BY SOURCE ($ MILLIONS), INFLATION-ADJUSTED USING 2023 DOLLAR**

<table>
<thead>
<tr>
<th>Source</th>
<th>FY 2000</th>
<th>FY 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Individual Income</td>
<td>33.1%</td>
<td>49.4%</td>
</tr>
<tr>
<td>Net Corporate</td>
<td>5.3%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Net Sales</td>
<td>25.9%</td>
<td>20.9%</td>
</tr>
<tr>
<td>Historic Recurring Federal Sources</td>
<td>16.7%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Transfers In</td>
<td>5.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Other Sources</td>
<td>13.1%</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

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

4. FY 2024 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 2024 GF Budget proposal, $14.1 billion, or 28 percent, of the $49.6 billion in total, net spending appropriations are for Hard Costs.103

“Current Services” cover spending on public services over which elected officials generally have at least some discretion. Currently, 94 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 2024 GF Budget Proposal contains a gross appropriation of $36.2 billion for spending on Current Services.
However, FY 2024 net appropriations for Current Services will be less than gross appropriations. The reason for this is the General Fund budget proposed for FY 2024—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 2024 GF Budget Proposal is $700 million. 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 2024 GF Budget Proposal are shown in Figure 12 by major category.

**Figure 12**

<table>
<thead>
<tr>
<th>FY 2024 Proposed General Fund Appropriations ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td><strong>1. Total Hard Costs</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>2. Gross General Fund Service Appropriations</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
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<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>3. Net General Fund Service Appropriations</strong></td>
</tr>
<tr>
<td><strong>4. Total Net General Fund Appropriations</strong></td>
</tr>
</tbody>
</table>

*Source: CTBA analysis of FY 2024 Proposed Budget, GOMB Economic and Fiscal Report, & FY 2023 Enacted Walkdown*

**Figure 13** provides a breakdown of how every $1 of gross appropriations in the FY 2024 GF Budget Proposal is intended to be spent, including both Hard Costs and Current Services spending.
As shown in Figure 13, for every $1 in taxes that would be spent under the FY 2024 GF Budget Proposal, approximately $0.28 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 $0.72 is targeted to be spent on Current Services for the year. Out of that $0.72: $0.19 is for K-12 Education; $0.19 is for Healthcare; $0.19 goes to Human Services; $0.05 is for Higher Education; $0.05 goes to Public Safety; $0.01 is for Early Childhood Education; and $0.04 is targeted for all other government services, including environmental protection, economic development, and Illinois’ Constitutional offices.

4.2. FY 2024 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 2024 are for “Group Health Insurance,” “Debt Service,” “Pension Contributions,” and “Other Statutory Transfers Out.” Collectively, a total of $14.1 billion has been identified to cover Hard Costs in the FY 2024 GF Budget proposal, which represents a $564 million (3.8 percent) nominal dollar decrease from the FY 2023 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 14 details how the Hard Cost appropriations proposed for FY 2024 differ from Hard Cost expenditures for FY 2023.
The first item listed under Hard Costs in Figure 14 is “Group Health Insurance” or “Group Health,” which covers the cost of the state’s health insurance program provided to current employees and retirees. In FY 2023, the proposed appropriation for Group Health is $1.84 billion, a $6 million (0.2 percent) nominal-dollar increase from the FY 2023 Enacted GF Budget.105

The next item listed in Figure 14 is “Debt Service.” Debt service payments are payments made on general obligation bonds. Proceeds from the sale of general obligation bonds have primarily been used to finance capital projects and meet the state’s required pension contribution. In the FY 2024 GF Budget Proposal, $1.6 billion is appropriated to spend on debt service, a $71 million (4.7 percent) nominal increase from the FY 2023 Enacted GF Budget.

The third Hard Cost line in Figure 14 is for “Pension Contributions.” The FY 2024 GF Budget proposal appropriation for Pension Contributions covers $10.23 billion of the $10.47 billion in total FY 2024 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 (“SERS”), State Employees Retirement System (“SERS”), the General Assembly Retirement System (“GARS”), and the Judicial Retirement System (“JRS”).106 Also included in the “Pension Contributions” line is an additional $398 million in appropriations, of which $9.8 million goes to SERS for the Community College Insurance Program, $65 million goes to TRS for the Teachers’ Retirement Insurance Program, and $322.7 million goes to the Public School Teachers’ Pension and Retirement Fund of Chicago.107

Total projected pension contributions are $79 million or 0.77 percent less in FY 2024 than they were in FY 2023.108 This 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.”109 As detailed previously, the FY 2024 GF Budget Proposal calls for using an additional $200 million of the unanticipated on-budget surplus projected for FY 2023 to be part of an overall prepayment of unfunded liabilities to the pension systems which will total $700 million.110 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 14 is “Other Statutory Transfers Out.” As the name implies, Other Statutory Transfers Out covers expenditures other than for pension debt and debt service that, pursuant to existing state legislation, must be paid from the General Fund annually. In the FY 2024 GF Budget Proposal, appropriations for Other Statutory Transfers Out are scheduled to be $562 million or 56.3 percent less than in FY 2023 in nominal dollars. This is primarily due to the early repayment of some short-term borrowings that was made in FY 2023.111
4.3. FY 2024 Proposed General Fund Discretionary Spending on Current Services

Since Hard Costs are mandatory expenditures required by law, they do not provide much insight into current legislative or gubernatorial policy priorities. Discretionary spending, on the other hand, does. Discretionary spending in the General Fund budget proposed for FY 2024 is represented by the respective appropriations made for Current Services. The vast majority of those appropriations—94 percent—go to the four core areas of Education, Healthcare, Human Services, and Public Safety.

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

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

The “Healthcare” category consists of appropriations for the Department of Health and Family Services (“DHFS”) and the Department of Public Health. Note that the vast majority of General Fund appropriations for DHFS—about 76 percent—is targeted for Medicaid, with another 22 percent for deposit into the Healthcare Provider Relief Fund.

The category of “Other” includes appropriations for every other service provided by, and all other functions of, state government. This includes appropriations for: legislative agencies such as the General Assembly and Commission on Government Forecasting and Accountability (“COGFA”); state Constitutional Offices; smaller state agencies such as the Department of Central Management Services (“CMS”), Department of Commerce and Economic Opportunity (“DCEO”), and the Illinois Department of Revenue (“IDOR”); all environmental protection expenditures; and various boards, commissions, and authorities, such as the Capital Development Board and East St. Louis Financial Advisory Authority.

CTBA analyzes spending by agency and program category to determine the best fit for an agency’s overall role. Following this analysis, CTBA determines that certain agencies that had been classified by the state one way were better suited to be included under a different category. For instance, based on its core functions, CTBA shifted the Human Rights Commission from the state’s Economic Development category to “Human Services.” The reason for this is simple: all general funds appropriated to the Human Rights Commission are earmarked for Human Services programming. Similarly, while the state categorized the Department of Public Health under “Human Services,” CTBA instead categorizes it under “Healthcare,” given that over 60 percent of the FY 2023 funding for that department is earmarked for healthcare programming.

As shown in Figure 15, the appropriations in the FY 2024 GF Budget Proposal for Current Services continue to prioritize the same core services of Education (35.3 percent), Healthcare (25.8 percent), Human Services (26.6 percent), and Public Safety (6.7 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 2024.
Although Figure 15 shows the breakdown of the proposed gross appropriations for Current Services in FY 2024, spending reductions authorized by the “Unspent Appropriations” budget line will reduce total, net appropriations to $35.5 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 2023, CTBA projects the accumulated deficit will stand at $1.5 billion, and that it will decrease slightly to $1.2 billion by the end of FY 2024. The walk down showing how this accumulated deficit will decrease by approximately $300 million between FY 2023 and FY 2024 is set forth in Figure 16.

**Figure 16**

**Estimated Accumulated Deficit at the End of FY 2024 ($ Millions)**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Remaining Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FY 2024 General Fund Revenue</td>
<td>$49,944</td>
<td>$49,944</td>
</tr>
<tr>
<td>Accumulated Deficit Carry Forward from FY 2023</td>
<td>($1,455)</td>
<td>$48,489</td>
</tr>
<tr>
<td>FY 2024 Hard Costs</td>
<td>$14,100</td>
<td>$34,389</td>
</tr>
<tr>
<td>FY 2024 Proposed General Fund Net Service Appropriations</td>
<td>$35,541</td>
<td>($1,152)</td>
</tr>
<tr>
<td>Projected Accumulated FY 2024 Proposed General Fund Deficit</td>
<td>($1,152)</td>
<td></td>
</tr>
<tr>
<td>Accumulated Deficit as a Percent of General Fund Net Service Appropriations</td>
<td>(3.2%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY 2024 Proposed Budget, GOMB Economic and Fiscal Report, & FY 2023 Enacted Walkdown

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, legislators approved the governor’s recommendation to use $898 million of the state’s unanticipated revenue growth for FY 2022 to pay some of the backlog of health insurance bills for state workers.

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 2024 is now estimated to be just over $1 billion, the lowest it has been since FY 2000. In fact, the last time Illinois had a surplus based on GAAP was in FY 1985. Using the Budget Basis Balance, the last time Illinois had a positive balance was in FY 2001, shown in Figure 17.

While many of the policies for FY 2022 and FY 2023 helped reduce the accumulated deficit, they do not alleviate the factors that drive the state’s historical, 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 18 is a graphic depiction of the structural deficit in the Illinois General Fund using FY 2024 as the base year.
There is a crucial factor to note about Figure 18. First, the calculation depicted in Figure 18 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 2024. In other words, a structural deficit model measures 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.

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 Current Services since FY 2000. Moreover, even if the increases in spending called for in the FY 2024 GF Budget Proposal are enacted, Illinois is still projected to be spending 11.6 percent less in real terms on all public services in FY 2024 than it did in FY 2000.

Material reforms that would actually address Illinois’ structural deficit and flawed tax policy include:

1. Generating enhanced 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 most consumer services 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 2023 Enacted & FY 2024 Proposed

Under the FY 2024 GF Budget Proposal, total net appropriations for Current Services are scheduled to be $35.5 billion, which is $2.8 billion or 8.6 percent greater than FY 2023 appropriations in nominal dollars.\(^{123}\) Given the structural deficit, it is not surprising that this marks only the fourth time in the last two decades that total General Fund appropriations for Current Services would be scheduled to increase in nominal dollars on a year-to-year basis.\(^{124}\) Figure 19 shows the nominal dollar year-to-year change in appropriations between the FY 2023 Enacted GF Budget, and the FY 2024 GF Budget Proposal.

**Figure 19**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2023 Enacted (Nominal)</th>
<th>FY 2024 Proposed</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>$8,659</td>
<td>$9,348</td>
<td>$689</td>
<td>7.96%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$8,694</td>
<td>$9,627</td>
<td>$932</td>
<td>10.72%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>$9,159</td>
<td>$9,656</td>
<td>$496</td>
<td>5.42%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$2,251</td>
<td>$2,470</td>
<td>$219</td>
<td>9.74%</td>
</tr>
<tr>
<td>Early Childhood</td>
<td>$598</td>
<td>$673</td>
<td>$75</td>
<td>12.54%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$2,226</td>
<td>$2,443</td>
<td>$217</td>
<td>9.75%</td>
</tr>
<tr>
<td>Other</td>
<td>$1,874</td>
<td>$2,024</td>
<td>$150</td>
<td>8.00%</td>
</tr>
<tr>
<td><strong>Total (Gross)</strong></td>
<td><strong>$33,462</strong></td>
<td><strong>$36,241</strong></td>
<td><strong>$2,779</strong></td>
<td><strong>8.31%</strong></td>
</tr>
<tr>
<td><strong>Total (Net)</strong></td>
<td><strong>$32,717</strong></td>
<td><strong>$35,541</strong></td>
<td><strong>$2,824</strong></td>
<td><strong>8.63%</strong></td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY 2024 Proposed Budget, GOMB Economic and Fiscal Report, & FY 2023 Enacted Walkdown

Overall, the FY 2024 GF Budget Proposal calls for a meaningful increase in both gross and net spending on all core services—a welcome change from previous years.\(^{125}\) As highlighted in Figure 20, the level of spending on healthcare proposed for FY 2024 appears to be $689 million more than it was last year. This proposed increase would bolster the healthcare workforce in FY 2024.\(^{126}\)

**Figure 20**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2023 Enacted</th>
<th>FY 2024 Proposed</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Department of Healthcare and Family Services (DHFS)</td>
<td>$8,361</td>
<td>$9,070</td>
<td>$709</td>
<td>8.5%</td>
</tr>
<tr>
<td>DHFS Deposit to transfer to Healthcare Provider Relief Fund (HPRF)</td>
<td>$1,279</td>
<td>$1,955</td>
<td>$676</td>
<td>52.8%</td>
</tr>
<tr>
<td>Department of Public Health</td>
<td>$298</td>
<td>$278</td>
<td>($20)</td>
<td>-6.7%</td>
</tr>
<tr>
<td><strong>Total Healthcare – General Funds</strong></td>
<td><strong>$8,659</strong></td>
<td><strong>$9,348</strong></td>
<td><strong>$689</strong></td>
<td><strong>8.0%</strong></td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY 2024 Proposed Budget, GOMB Economic and Fiscal Report, & FY 2023 Enacted Walkdown

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 21** shows how proposed General Fund appropriations for Current Services in FY 2024 compare to the FY 2023 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 would experience a real, inflation-adjusted year-to-year increase in gross appropriations in FY 2024 if the FY 2024 GF Budget Proposal passes.127

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2023 Enacted (Nominal)</th>
<th>FY 2023 Enacted (Inf. adj.)</th>
<th>FY 2024 Proposed (Inf. adj.)</th>
<th>$ Change (Inf. adj.)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>$8,659</td>
<td>$8,972</td>
<td>$9,348</td>
<td>$376</td>
<td>4.19%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$8,694</td>
<td>$8,961</td>
<td>$9,627</td>
<td>$665</td>
<td>7.42%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>$9,159</td>
<td>$9,441</td>
<td>$9,656</td>
<td>$215</td>
<td>2.28%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$2,251</td>
<td>$2,320</td>
<td>$2,470</td>
<td>$150</td>
<td>6.47%</td>
</tr>
<tr>
<td>Early Childhood</td>
<td>$598</td>
<td>$617</td>
<td>$673</td>
<td>$57</td>
<td>9.18%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$2,226</td>
<td>$2,295</td>
<td>$2,443</td>
<td>$149</td>
<td>6.48%</td>
</tr>
<tr>
<td>Other</td>
<td>$1,874</td>
<td>$1,932</td>
<td>$2,024</td>
<td>$92</td>
<td>4.78%</td>
</tr>
<tr>
<td>Total (Gross)</td>
<td>$33,462</td>
<td>$34,537</td>
<td>$36,241</td>
<td>$1,704</td>
<td>4.93%</td>
</tr>
<tr>
<td>Total (Net)</td>
<td>$32,717</td>
<td>$33,703</td>
<td>$35,541</td>
<td>$1,838</td>
<td>5.45%</td>
</tr>
</tbody>
</table>

Sources: CTBA analysis of GOMB; Healthcare appropriations inflation-adjusted using Midwest Medical Care CPI; all other appropriations adjusted using ECI from the BLS as of January 2023 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 2024 would be $1.8 billion—or 5.3 percent—more in real terms than in FY 2023.

However, the year-to-year real increase for the Current Services shown in **Figure 21** will, in most cases, **overstate** the amount of the actual increase. The reason for this is **Figure 21** compares the maximum authorized appropriations for Current Services in FY 2024 to enacted spending in FY 2023. Many of these maximum
authorized spending amounts will not be realized, however, because there remains $700 million in “Unspent Appropriations” under the FY 2024 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 21.

5.2. In Real Terms, Gross Appropriations for Most Core Services in the FY 2024 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 2024 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 2024 would still be 11.6 percent less if the FY 2024 GF Budget Proposal was enacted, than actual appropriations for said services were over two decades ago in FY 2000, in real, inflation-adjusted terms, as shown in Figure 22.

Table: Illinois General Fund Appropriations for Core Services: FY 2024 Proposed Compared to Enacted FY 2000 ($ Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2000 Enacted (Nominal)</th>
<th>FY 2000 Enacted (inf. adj.)</th>
<th>FY 2024 Proposed</th>
<th>$ Change (inf. adj.)</th>
<th>% Change (inf. adj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>$5,022</td>
<td>$11,365</td>
<td>$9,348</td>
<td>($2,017)</td>
<td>-17.7%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$4,599</td>
<td>$9,212</td>
<td>$9,627</td>
<td>$415</td>
<td>4.5%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>$4,674</td>
<td>$9,362</td>
<td>$9,656</td>
<td>$293</td>
<td>3.1%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$2,152</td>
<td>$4,311</td>
<td>$2,470</td>
<td>($1,840)</td>
<td>-42.7%</td>
</tr>
<tr>
<td>Early Childhood Education</td>
<td>$170</td>
<td>$341</td>
<td>$673</td>
<td>$333</td>
<td>97.7%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$1,350</td>
<td>$2,704</td>
<td>$2,443</td>
<td>($261)</td>
<td>-9.6%</td>
</tr>
<tr>
<td><strong>Total Net General Fund Service Appropriations</strong></td>
<td><strong>$20,064</strong></td>
<td><strong>$40,190</strong></td>
<td><strong>$35,541</strong></td>
<td><strong>($4,649)</strong></td>
<td><strong>-11.6%</strong></td>
</tr>
</tbody>
</table>

Sources: FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and CTBA analysis of GOMB; Healthcare appropriations inflation-adjusted using Medical Care CPI; all other appropriations adjusted using ECI-C from the BLS as 2023 and population growth from the Census Bureau as of January 2023

That said, one positive note is that under the FY 2024 GF Budget Proposal, real appropriations for Early Childhood Education are scheduled to be greater than they were in FY 2000 by nearly 98 percent, K-12 Education appropriations would be 3 percent greater, and for the first time in over two decades, Human Services appropriations would be greater than they were in FY 2000, by a total of 4.5 percent.

Meanwhile, proposed General Fund appropriations for Higher Education in FY 2024 would be 43 percent less in real terms than in FY 2000, a differential that could become even worse after the $700 million in proposed Unspent Appropriations for FY 2024 are applied.

It is worth noting that although proposed General Fund Healthcare appropriations for FY 2024 are projected to be 18 percent lower than FY 2000 levels, some Healthcare appropriations formerly covered by the General Fund are now funded through other sources, as the state has created a number of special funds dedicated to funding Medicaid obligations.129

6. FY 2024 Pension Funding

The FY 2024 GF Budget Proposal includes a $10.231 billion appropriation for pensions, which is the required General Fund contribution for FY 2024 as identified by the 1995 Pension Ramp.130 This required General Fund
appropriation is $121 million more than the FY 2023 appropriation of $10.1 billion, as shown in Figure 23. At the time of the FY 2023 Enacted GF Budget, Illinois legislators approved using some of the on-budget surpluses realized in FY 2022 and FY 2023, to make additional payments into the Pension Stabilization Fund, above and beyond the required Pension Ramp payments. Thereafter, the unanticipated additional revenue growth realized in FY 2023 created the budgetary flexibility to allow the governor to include in the FY 2024 GF Budget Proposal, an additional $200 million deposit into the Pension Stabilization Fund, that would also be in excess of the scheduled pension contribution required under the Pension Ramp. If the FY 2024 GF Budget Proposal is enacted, total contributions into the Pension Stabilization Fund that would be in excess of the required contributions called for in the Pension Ramp, would come to $400 million in FY 2023, and an additional $700 million spread across both FY 2022 and FY 2023.

The pension appropriation in the FY 2024 GF Budget Proposal includes $9.83 billion collectively for the five major state pension funds, the TRS, SERS, SURS, JRS, and GARS. The remaining $398 million in pension appropriations proposed for FY 2024 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.

| Figure 23 |
| FY 2024 PROPOSED GENERAL FUND PENSION APPROPRIATIONS ($ MILLIONS) |
| Type | Item | FY 2023 Enacted | FY 2024 Proposed |
| State Pension Funds | Teachers’ Retirement System | $5,894 | $6,044 |
| | State Employees’ Retirement System | $1,697 | $1,697 |
| | State University Retirement System | $1,904 | $1,918 |
| | Judges’ Retirement System | $143 | $148 |
| | General Assembly Retirement System | $27 | $26 |
| | State Pension Funds Subtotal | $9,665 | $9,833 |
| Other Costs | State contribution to Chicago Teachers’ Pension Fund | $309 | $323 |
| | Teachers’ Retirement Insurance Program | $106 | $65 |
| | College Insurance Program | $30 | $10 |
| | Other Cost Subtotal | $445 | $398 |
| Subtotal Pension Costs | $10,110 | $10,231 |
| | Additional Pension Stabilization Fund Payment | $200 | $0 |
| Total Pension Costs | $10,310 | $10,231 |

Source: CTBA analysis of FY 2024 Proposed Budget, GOMB Economic and Fiscal Report, & FY 2023 Enacted Walkdown

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 is irresponsible from a fiscal perspective because the significant compounding interest will result in a much higher payment in the long run. In essence, the state’s decision to underfund pensions to divert revenue to cover service costs is tantamount to using a credit card to pay for food, rent, and utilities and not paying your monthly credit card balance in full. You get to eat and sleep indoors for a while, but at some point your credit card bill becomes so large you may not be able to afford doing either.

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 political difficulty in dealing responsibly with 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 instead 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, by backloading payments under the Pension Ramp.

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 24** shows that under the current Pension Ramp the annual, all funds contribution to the five state pension systems is projected to reach $17.5 billion by FY 2040, and $20 billion by FY 2045.\(^{136}\)

![Figure 24: Projected All Funds Contributions to State Pension Systems ($ Millions)](image)

*Source: Illinois State Retirement Systems Actuarial Valuation Reports*
In FY 2021, investment returns across the state’s five public pension systems actually exceeded initial projections by a substantial margin, resulting in a reduction in the aggregate unfunded liability from $144.2 billion in FY 2020 to $129.9 billion in FY 2021, a $14.3 billion decline.\textsuperscript{137}

The FY 2021 returns were so substantial that the pension systems in Illinois continued to reap the benefits in FY 2022. Even though the market dropped in FY 2022 and some FY 2021 gains were lost, in FY 2022 the aggregate unfunded liability was $139.7 billion, still $4.5 billion below what it was in FY 2020. While all five systems experienced market value losses on their respective investment portfolios, the actuarial (smoothed) investment returns were positive: which is how the systems continued to benefit from the outsized FY 2021 investment returns. Asset smoothing is a technique that averages the annual fluctuation in investment performance over a period of five years to reduce the impact of volatile investment performance from year-to-year. The asset smoothing law was implemented with the adoption of P.A. 96-0043, which took effect in Illinois July 2009.\textsuperscript{138}

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 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 $62.8 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{139} to 80 percent in 2045.\textsuperscript{140} This re-amortization plan is shown in Figure 25.

\textbf{FIGURE 25
CTBA PENSION RE-AMORTIZATION AND CURRENT LAW ALL FUNDS CONTRIBUTIONS TO STATE PENSION SYSTEMS ($ MILLIONS)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure25.png}
\caption{CTBA Pension Re-Amortization and Current Law All Funds Contributions to State Pension Systems ($ Millions)}
\end{figure}

\textit{Source: CTBA Analysis using Illinois State Retirement Systems Actuarial Valuation Reports}
Endnotes

Analysis of Illinois’ FY 2024 Proposed General Fund Budget


Analysis of Illinois’ FY 2024 Proposed General Fund Budget

70 Analysis of Supplemental approps spreadsheet.
72 FY 2024 Budget book
Analysis of Illinois' FY 2024 Proposed General Fund Budget

76 Budget Book page 169
Analysis of Illinois’ FY 2024 Proposed General Fund Budget


93 CTBA Analysis of Data Table “SAGDP9N Real GDP by state”, Bureau of Economic Analysis, (Accessed February 2022). https://apps.bea.gov/itable/iTable.cfm?ReqID=70&step=1


Analysis of Illinois’ FY 2024 Proposed General Fund Budget


112 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.

113 Other agencies included in the Public Safety category are: Department of Military Affairs, Illinois Criminal Justice Information Authority, Illinois Emergency Management Agency, Illinois State Police Merit Board, and the Prisoner Review Board.

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


125 CTBA analysis of (i) “FY 2022 Enacted Budget General Funds Walkdown,” Governor’s Office of Management and Budget, June 2021, https://www2.illinois.gov/sites/budget/Pages/BudgetBooks.aspx; and (ii) “Illinois State Budget: Fiscal Year 2024,” Governor’s Office of


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


