ANALYSIS OF ILLINOIS’ FY 2024
ENACTED GENERAL FUND BUDGET
Analysis of Illinois’ FY 2024 Enacted General Fund Budget

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<td>Actuarially Accrued Unfunded Liability</td>
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<td>American Rescue Plan Act</td>
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1. Introduction

On June 7, 2023, Governor Pritzker signed the General Fund Budget for FY 2024 into law (the "FY 2024 Enacted GF Budget"). This budget was markedly different than any previous one proposed by Pritzker and passed by the General Assembly—or any other Illinois governor and General Assembly dating back to Jim Edgar in the mid-1990s, for one, simple reason: Illinois’ General Fund is in the wealthiest fiscal condition it has been for decades.

In fact, when it comes to the health of the state’s General Fund, things have changed dramatically since Governor Pritzker was first sworn into office. Back then in 2019, Governor Pritzker inherited an $8 billion backlog of unpaid bills from Governor Rauner’s Administration. That was significant, as it 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 at any time over the prior two decades plus.

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. Given how essential these core services are to everyone across Illinois, it is crucial to identify the true causes of these ongoing deficits, so they can be effectively eliminated. Unfortunately, many erroneously believe overspending on services is primarily to blame. The data, however, is completely at odds with this belief, and instead show that by the end of the current fiscal year—FY 2024—Illinois will be spending 10 percent less on Education, Healthcare, Human Services, and Public Safety in real, inflation-adjusted dollars, than it did at the end of FY 2000.

So how is it possible that Illinois is still running such a huge General Fund deficit, given its long-term, real disinvestment in core services? Well, the data make the answer clear: Illinois’ persistent General Fund deficits have two primary drivers, one revenue-based, the other cost-based.

First and foremost are the revenue generation problems caused by the state’s tax policy shortcomings. Illinois’ flawed state tax policy is simply not designed to work in the modern economy. Hence it has historically failed to generate adequate annual revenue growth to cover the cost of providing the same level of services from one fiscal year into the next, adjusting solely for changes in inflation and population. This is known as a “structural deficit.” It means that even when no public service programs are added or increased, and even during periods of normal economic growth, the accumulated deficit grows annually.

Every community in Illinois needs the state to have the fiscal capacity to fund those services, or unfortunate choices are made, such as: children do not get an adequate education from their local public school, low-income high school graduates 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 minimum-wage earning, 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. 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. It was also 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.

It also led to the cost factor that is helping to drive the structural deficit today—the plan for repaying that pension debt enacted way back in 1995, and colloquially known as the “Pension Ramp.”

Back then, lawmakers were concerned that after decades of not making adequate contributions into the systems, the state’s pensions had a funded ratio of only 54.2 percent, or just over half of the assets needed to cover the benefits owed to workers. So, the General Assembly passed, and Governor Edgar signed into law, the Pension Ramp. The Pension Ramp established a 50-year schedule for repaying the significant unfunded liability the state had been accruing for years—as part of its strategy to avert spending cuts due to the structural deficit. Supporters claimed the Pension Ramp would bring the systems up to a healthy funded ratio of 90 percent by 2045.

But rather than represent a departure from the historical, irresponsible practice of underfunding the annual, actuarially determined contributions that should have gone into the pensions, the 1995 Pension Ramp made things worse. It established a payment schedule that was so inadequate on the front-end it actually, by design, increased the aggregate unfunded liability Illinois owed to its pension systems for the first 15 years of its implementation. (For more information about the Pension Ramp, please read CTBA’s report: “Understanding—and Resolving Illinois’ Pension Funding Challenges”). Of course the only way the Pension Ramp could then get the systems 90 percent funded by 2045 was to back-load payments in out years, by making them jump annually in unaffordably high increments. It is this back-loaded schedule for repaying the debt owed to the pension systems that has been straining fiscal resources and adding to the structural deficit for years.

With that as the historical context, it comes as truly good news that the General Fund budget passed as part of P.A. 103-0006 for FY 2024 is projected to have an accumulated deficit of just under $1 billion at 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. 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 federal government, totaling some $8.4 billion, that shored up the General Fund during the pandemic. The state also realized around $4.3 billion in unexpected revenue growth last fiscal year.

But the good news is 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, frivolously. 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.

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 increase 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 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 nearly $100 million for the Monetary Award Program (“MAP”), which provides financial aid to low-income college kids.
However, this is still Illinois, so 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 consider reforming the state’s fiscal system not during a crisis—but while the General Fund is on an upward trajectory, with an eye toward building the capacity needed to sustain investments in core services over the long haul.

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

- The term “Total General Fund revenue” includes all revenue realized in a given fiscal year, including one-time, non-recurring revenue. This distinguishes it from the term “Adjusted General Fund revenue,” which only includes recurring revenue that will be available in subsequent fiscal years.

- Total General Fund revenue in the FY 2024 Enacted GF Budget is estimated at $50.6 billion, which is $133 million less in nominal dollars than the $50.7 billion in Total General Fund revenue now being estimated for FY 2023.\(^\text{18}\) In FY 2024, the estimated amount of Adjusted General Fund revenue is projected to be equal to the $50.6 billion in estimated Total General Fund Revenue for the year.\(^\text{19}\)

- The key reasons for the $100 million year-to-year projected decline in total 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 than they were in FY 2023—due primarily to decreased transfers from the Income Tax Refund Fund; and (iii) revenue from the state’s corporate income tax is projected to be $600 million less in FY 2024 than in FY 2023.\(^\text{20}\) The aforesaid year-to-year revenue declines will be mostly offset by an anticipated year-to-year increase in individual income tax revenue of $2.3 billion for FY 2024.

- The minor year-to-year decline in Total General Fund revenue projected for FY 2024 is somewhat misleading, given the $763 million of one-time federal relief funding included in the FY 2023 General Fund. Eliminating that one-time federal relief funding brings the Adjusted General Fund revenue for FY 2023 down to $49.98 billion. That in turn means the Adjusted General Fund revenue for FY 2024 will actually be $620 million more in FY 2024 than it was one year earlier in FY 2023.\(^\text{21}\)

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 $50.6 billion in projected General Fund revenue for FY 2024 represents an increase of $8.2 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 $343 million, or less than one percent per year.\(^\text{22}\)

- That is surprising, and disappointing, 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.\(^\text{23}\) 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.\(^\text{24}\)
• Which means the design of Illinois’ existing tax policy is so flawed, that despite increasing the rates of state income taxes which collectively generate nearly 40 percent of all General Fund revenue, overall state revenue has barely exceeded inflation for two decades.

• Even more eye-opening—if Illinois did not increase its income tax rates for both individuals and corporations, then after adjusting for inflation, the amount of 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 2000.25

• 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 realized real, inflation adjusted revenue growth over the past four years in its individual and corporate income taxes.26 All other revenue sources that feed the General Fund have been flat or declining on an inflation-adjusted basis for over two decades.27

• For instance, ever since its peak revenue generation of $3.96 billion that occurred in FY 2013, corporate income tax revenue had been experiencing a precipitous real decline through FY 2020.28 However, the elimination of some corporate tax expenditures effective in FY 2022, coupled with the better-than-expected economic rebound from the COVID-19 pandemic last year, finally reversed that long-term decline in real corporate income tax revenue. Current projections are that corporate income tax revenue will be $5.1 billion in FY 2024, or $607 million year less than in FY 2023, but still remain close to record high levels.29

• 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 2000.30

• 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.31 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.32

• That is a losing proposition, given that between 2000 and 2022, 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.33 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.34

• 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 $3.8 billion in FY 2024, a decline of 56 percent.35

• 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 “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 Enacted General Fund Spending Appropriations

2.2.1. Overall

- The FY 2024 Enacted GF Budget identifies a total of $50.4 billion in net appropriations for spending. Of that amount, $14.1 billion, or 28 percent, are for “Hard Costs,” while $36.3 billion, or 72 percent are for “Current Services.”

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

- In the FY 2024 Enacted GF Budget, 94 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.

- Overall, net Current Service appropriations in FY 2024 are scheduled to be $1.3 billion greater than in FY 2023, in nominal, non-inflation-adjusted dollars. After adjusting for changes in inflation and population, however, total appropriations for Current Services in FY 2024 are scheduled to be $299 million, or 0.83 percent, greater than in FY 2023 in real terms.

- 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 9.8 percent less than actual spending on those services was two decades ago in FY 2000.

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 Enacted GF Budget appropriates $673 million for spending on Early Childhood, which is $75 million more in nominal dollars than FY 2023. After adjusting for inflation, Early Childhood funding is scheduled to experience a real, year-to-year increase of $57 million, or 9.2 percent, from FY 2023 levels.

- Considered over the long-term, after adjusting for inflation, appropriations for Early Childhood in the FY 2024 Enacted GF Budget are nearly 97.7 percent greater than actual spending was over twenty years ago in FY 2000. This is by far and away the greatest real increase in spending in any major General Fund service category over that sequence.

- The FY 2024 Enacted GF Budget appropriates $9.69 billion to K-12 education funding, which is $526 million more in nominal dollars than FY 2023. After adjusting for inflation, K-12 funding is scheduled to experience a real, year-to-year increase of $244 million, or 2.59 percent, from FY 2023 levels.

- Like Early Childhood, K-12 Education appropriations in the FY 2024 Enacted GF Budget are also projected to be greater than actual spending was in FY 2000 in real, inflation-adjusted terms, but by only $329 million, or just over 3.5 percent. That comes out to an average, real, increase in spending of just 0.146 percent annually since FY 2000.
• The FY 2024 Enacted GF Budget appropriation for Higher Education is $2.5 billion, which represents a nominal dollar increase of about $286 million over FY 2023. After adjusting for inflation, the appropriation for Higher Education in the FY 2024 Enacted GF Budget constitutes a year-to-year real increase of $217 million, or 9.4 percent, when compared to FY 2023.

• Taking a longer view, General Fund appropriations for Higher Education in the FY 2024 Enacted GF Budget are scheduled to be 41 percent less in real, inflation-adjusted dollars than actual spending was in FY 2000. 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 Enacted GF Budget, the gross appropriation for all Human Services is scheduled to be $9.9 billion, which represents a 5.7 percent decrease from the FY 2023 enacted appropriation of $10.55 billion in nominal dollars, and an 8.5 percent decrease in real, inflation-adjusted dollars.

• The reason for the nearly $1 billion decrease in Human Services is due solely to the fiscal responsibility of the Pritzker Administration paying down $1.82 billion in UI Trust Fund Advances and UI Trust Fund benefit payments through the Department of Employment Security. Excluding the deposits to the UI Trust Fund, spending on Human Services Current Services would increase by $1.2 billion, or 14 percent, and total net spending on Current Services for FY 2024 would be $2 billion, or 6.4 percent, more in real terms than in FY 2023.

• The FY 2024 Enacted GF Budget appropriation for Human Services would mark the first time in over two decades that Human Services appropriations would be greater in real terms than in FY 2000 (excluding the UI Trust Fund payments).

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 increasing 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 Enacted GF Budget, the gross appropriation for Healthcare is $9.6 billion, which is $753 million, or 8.5 percent, greater in nominal dollars than in FY 2023. Of that gross Healthcare appropriation, $9.3 billion is targeted to DHFS, primarily to cover $7.2 billion of the state’s Medicaid expenditures on poor, disabled, and low-income populations. The remaining $279 million of the $9.6 billion goes to the Department of Public Health.

• The FY 2024 Enacted GF Budget also includes a statutory transfer in the amount of $1.8 billion from the General Fund to the HPRF, which is a special fund created to generate federal Medicaid matching dollars.

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 Enacted GF Budget includes a $10.209 billion appropriation for pensions, which is the required General Fund contribution for FY 2024 as identified by the 1995 Pension Ramp.

• In addition to the required contribution under the Pension Ramp, the FY 2024 Enacted GF Budget includes a supplemental General Fund appropriation of $200 million into the Pension Stabilization Fund that will be made in FY 2023. That supplemental appropriation will augment another $500 million
supplemental appropriation into the Pension Stabilization Fund that was previously approved in FY 2023, but made in FY 2022.\(^{59}\) Considered together, the total supplemental pension contributions made in addition to the required payments under the existing Pension Ramp for FY 2022 and FY 2023 come to $700 million.\(^{60}\)

- 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 Enacted GF Budget) is $301 million less than the FY 2023 appropriation of $10.51 billion (with supplemental payments).\(^{61}\)

- 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 $767 million.\(^{62}\) 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.\(^{63}\) 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 2024 were $36.3 billion, the $767 million accumulated deficit projected for FY 2024 effectively means roughly two percent of all FY 2024 General Fund spending on Current Services was in fact deficit spending.\(^{64}\)

- The good news is this is the lowest accumulated deficit levels for the state’s General Fund in at least 17 years.\(^{65}\)

- The bad news is, because Illinois’ General Fund has both an accumulated deficit—meaning its projected revenue for the year in question is less than the projected costs it has to cover in that year, as well as an ongoing structural deficit—meaning projected revenue growth will not be sufficient to cover projected service cost growth and existing debt payment obligations into the future—the state does not have the fiscal capacity to sustain its current level of spending on public services.

- 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.\(^{66}\)

### 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 have $51.4 billion in revenue for FY 2023.\(^{67}\) That was
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”). It also represented the second time GOMB increased its revenue estimates for FY 2023. However, as shown in Figure 1, in May 2023, GOMB and the Commission on Government Forecasting and Accountability (“COGFA”) once again revised FY 2023 revenue estimates, this time lowering the total amount projected to be collected in FY 2023, due to a newly anticipated decline in both the net Individual Income Tax revenue for the fiscal year, as well as anticipated federal transfers into the General Fund from historically recurring federal sources. Despite these downward revisions, overall, the Total General Fund Revenue estimated for FY 2023 still remained fully $4.315 billion more than the originally promulgated revenue estimates for the fiscal year, primarily due to unanticipated growth in corporate 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”).

Since the aforesaid $4.315 billion in revenue growth for FY 2023 was mostly unanticipated, it effectively created an “on-budget” surplus for FY 2023. 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 $1.4 billion.

More information regarding the accumulated deficit is in Section 4.4 of this Report.

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 in FY 2023—and will continue to be healthier thereafter. One other factor has made a positive difference.

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.” “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, the public good that is funded through corporate tax expenditures is some form of economic development or job growth.
In the case of a direct expenditure, government collects 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 or capped the following corporate tax expenditures, which GOMB estimates will generate $655 million in new, recurring revenue annually:

(i) Corporate Net Operating Loss Deductions under Section 207 of the Illinois Income Tax Act for the next three years were capped at $100,000 per year, generating an anticipated $314 million per year through FY 2024;

(ii) The 100 Percent Foreign-Source Dividend Deduction permitted under the Federal Tax Cuts and Jobs Act to Align was rolled back to levels that comport with Standard Treatment of U.S.-Source and Domestic Dividends under Internal Revenue Code Section 243, generating an estimated $107 million per year;

(iii) The 100 Percent Accelerated Depreciation Deduction created under the TCJA was rolled back to align with Standard Treatment of Depreciation in IRC Section 168, generating an estimated $214 million per year; and

(iv) The recent repeal of the corporate franchise tax was reversed, reinstating said tax, generating an anticipated $20 million per year.

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

As indicated above, GOMB is not the only agency that makes revenue projections for the General Fund. COGFA also makes such projections. According to COGFA’s most recent FY 2023 revenue estimate, it is projected that the General Fund will close FY 2023 with $51.2 billion in General Fund revenue, or $432 million more than GOMB’s most recent projection of $50.7 million. 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 Enacted GF Budget, this report uses the GOMB estimates, to make it easy for reconciling the governor’s proposal with the data published by his office.
3.2. Use of the FY 2023 On-Budget Surplus

The FY 2024 Enacted GF Budget includes a number of initiatives that pay-down the state’s debt, which build on some similar measures included in a number of FY 2023 supplemental appropriations enacted following passage of the FY 2023 Enacted GF Budget (the “FY 2023 Supplemental Appropriations”). Most of the FY 2023 Supplemental Appropriations were funded with the excess FY 2023 revenue that comprised the FY 2023 On-Budget Surplus.

For example, in January of 2023, the governor signed P.A. 102-1121 into law, which was intended to eliminate the remaining shortfall in the state’s Unemployment Insurance Trust Fund (the “UITF”). That legislation authorized the transfer of $1.8 billion from the General Fund to the UITF. That transfer was targeted to in part repay the remaining $1.36 billion balance of a loan the state incurred from the federal government 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 transferred to the UITF under P.A. 102-1121 came in the form of an interest-free loan, which the UITF will repay to the General Fund over the next ten years. By law, each repayment to the General Fund which the UITF makes of that $450 million loan 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 by paying off the remaining debt early.

Other FY 2023 Supplemental Appropriations included:

i. $524 million to cover increased funding for various General Fund services;
ii. $400 million in transfers from the General Fund to the Large Business Attraction Fund;
iii. $850 million in transfers from the General Fund to the Rainy Day Fund;
iv. $100 million for Early Childhood Capital Investments; and
v. $200 million in the form of an advance payment into the Pension Stabilization Fund, which amount is in excess of the statutorily required contribution for FY 2023 under the Pension Ramp and brings the total of FY 2023 payments that exceed the required contribution under the Pension Ramp up to $400 million for the year.

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. The Governor’s decision to shore up the state’s Rainy Day Fund is fiscally prudent. 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. Historically Illinois has failed to build sufficient resources in its Rainy Day Fund to serve this purpose.

But after accounting for the FY 2023 Supplemental Appropriations, and additional appropriations to the Rainy Day Fund made in the FY 2024 Enacted GF Budget, the state’s Rainy Day Fund will stand at over $2 billion. 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. The Pritzker Administration’s decision to part from past practices and devote resources into building the state’s Rainy Day Fund was a responsible fiscal action to take.
Figure 2 shows how the additional $400 million contribution into the Pension Stabilization Fund made in FY 2023 will be allocated across the state’s five retirement systems.87

![Figure 2: FY 2023 Supplemental Pension Stabilization Fund Appropriations](source)

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. Most important, it saves taxpayers money.

Current estimates are that General Fund pension liability costs through FY 2045—the end year of the Pension Ramp—will be reduced by $2.4 billion in interest savings, through the combined impact of (i) the payment of $200 million more into the Pension Stabilization Fund in FY 2024, than what is required under the pension Ramp for that year; plus (ii) the $500 million of contributions in excess of Pension Ramp requisites already appropriated for FY 2022 and FY 2023.88

### 3.3. FY 2024 Enacted General Fund Revenue Summary

As shown in Figure 3, it is estimated that Total General Fund Revenue for the FY 2024 Enacted GF Budget will be $50.6 billion, which is **$133 million, or 0.3 percent less**, in nominal dollars than the $50.7 billion in Total General Fund revenue now estimated for FY 2023.89

The key reasons for this year-to-year decline in Total General Fund revenue currently projected for FY 2024 are the following three items:

(i) 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;90

(ii) Revenue from the state’s corporate income tax is projected to be **$600 million less** in FY 2024 than in FY 2023; however, the state’s individual income tax revenue is expected to be **$2.3 billion more** in FY 2024 compared to FY 2023; and91

(iii) 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.
Analysis of Illinois’ FY 2024 Enacted General Fund Budget

**Figure 3**

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

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>FY 2023 Estimated</th>
<th>FY 2024 Enacted</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Sources: Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Taxes</td>
<td>$23,438</td>
<td>$25,711</td>
<td>$2,273</td>
<td>9.7%</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>$5,723</td>
<td>$5,116</td>
<td>($607)</td>
<td>-10.6%</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>$2,711</td>
<td>$2,616</td>
<td>($95)</td>
<td>-3.5%</td>
</tr>
<tr>
<td><strong>Total State Sources: Revenues</strong></td>
<td><strong>$42,993</strong></td>
<td><strong>$44,578</strong></td>
<td><strong>$1,585</strong></td>
<td><strong>3.7%</strong></td>
</tr>
<tr>
<td>State Sources: Transfers In</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>$2,121</td>
<td>($1,177)</td>
<td>-49.2%</td>
</tr>
<tr>
<td><strong>Total State Sources: Transfers In</strong></td>
<td><strong>$3,268</strong></td>
<td><strong>$2,150</strong></td>
<td><strong>($1,118)</strong></td>
<td><strong>-34.2%</strong></td>
</tr>
<tr>
<td><strong>Total State Sources: Revenue &amp; Transfers In</strong></td>
<td><strong>$46,712</strong></td>
<td><strong>$46,728</strong></td>
<td><strong>$467</strong></td>
<td><strong>1.0%</strong></td>
</tr>
<tr>
<td>ARPA Reimbursements</td>
<td>$763</td>
<td>$0</td>
<td>($763)</td>
<td>-100%</td>
</tr>
<tr>
<td>Federal Sources</td>
<td>$3,720</td>
<td>$3,883</td>
<td>$163</td>
<td>4.4%</td>
</tr>
<tr>
<td><strong>Total General Funds Revenues</strong></td>
<td><strong>$50,744</strong></td>
<td><strong>$50,611</strong></td>
<td><strong>($132)</strong></td>
<td><strong>-0.3%</strong></td>
</tr>
</tbody>
</table>

Source: COGFA June 2023 Monthly Briefing and FY 2024 Enacted Walkdown

However, as noted previously, Total General Fund revenue for FY 2023 is overstated slightly, because 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”).

**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.

**Figure 4**

**Comparison of Adjusted General Fund Revenue: FY 2023 & FY 2024 Enacted ($ 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>$42,993</td>
<td>$44,578</td>
<td>$1,585</td>
</tr>
<tr>
<td>State Sources: Transfers In</td>
<td>$3,268</td>
<td>$2,121</td>
<td>($1,147)</td>
</tr>
<tr>
<td><strong>Total State Sources</strong></td>
<td><strong>$46,261</strong></td>
<td><strong>$46,728</strong></td>
<td><strong>$467</strong></td>
</tr>
<tr>
<td>Total Recurring Sources</td>
<td>$4,483</td>
<td>$3,883</td>
<td>($600)</td>
</tr>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td><strong>$50,744</strong></td>
<td><strong>$50,611</strong></td>
<td><strong>($133)</strong></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><strong>$49,981</strong></td>
<td><strong>$50,611</strong></td>
<td><strong>$630</strong></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
3.4. 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 proceeds from loan borrowings, given that 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, in current 2023 dollars, the $44 billion of Adjusted General Fund 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.$93

For context, cumulative inflation over that 20-year period was 52 percent.$94 The failure of General Fund revenue to grow with inflation over time is one of the primary factors driving the state’s long-term structural deficit, which is delineated at length in Section 4.5 of this Report.

Following the start of the COVID-19 pandemic at the end of FY 2020, and continuing through FY 2024, cumulative inflation increased by 17 percent, while revenue increased by $6.4 billion, or 14.4 percent. This means, during that four-year period, revenue is finally getting closer to keeping up with inflation.

As Figure 5 shows, after adjusting for inflation and putting all values in current, 2023 dollars, the projected $50.6 billion in Total General Fund Revenue for FY 2024 represents a real increase of $8.2 billion, or roughly an average of $343 million, or 0.78 percent, annually from the $42.4 billion generated two decades ago in FY 2000.$95

![Figure 5: Total General Fund Revenue, FY 2000 – FY 2024 ($ millions, Inflation-adjusted Using 2023 Dollars)](image-url)
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 Total General Fund revenue shown from FY 2015 to FY 2017, which is 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 $6.5 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 Total 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 that they were in FY 2000, General Fund revenue in FY 2024 would be $3.9 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 real bump will not be sustainable. In other words, overtime revenue growth will again fall below inflationary growth, which puts Illinois in the untenable political position of
having to increase income tax rates periodically, to make up for the inability of the tax to grow with the modern economy over time. The consequences of the state’s flawed tax policy result in the creation of the structural deficit mentioned previously, and which is analyzed in more detail 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.

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 $25.7 billion represents a real increase of $2.1 billion over FY 2023 levels, and an $11.7 billion increase over FY 2000 levels. That said, net revenue from the individual income tax projected for FY 2024 is roughly $900 million less than the previous peak the state realized for net revenue from the individual income tax that was set in FY 2022, after adjusting for inflation.

![Figure 7: Net Individual Income Tax Revenue, FY 2000 – FY 2024 ($ Millions), Inflation-Adjusted Using 2023 Dollars](source)

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.

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 FY 2024 Total General Fund Revenue 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 economic transformation. Consider that, between 2000 and 2022, 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, Historic Recurring Federal Transfers to the state General Fund also decreased materially during this 24-year period.
As shown in Figure 9, corporate income tax revenue declined from its prior 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. In FY 2021, however, corporate income tax revenue recovered all the way back to FY 2013 peak levels. Revenue from the corporate income tax then made a substantial jump in FY 2022, hitting a new peak of $5.791 billion, and has remained relatively stable thereafter.

The reasons for the recent, significant and historic surge in corporate income tax revenue are two-fold: (i) the impact of eliminating the previously highlighted $655 million worth of corporate tax expenditures (as delineated in Section 3.1 of this Report); and (ii) a better than expected economic rebound from the COVID-19 pandemic, which led to record corporate profits (in part due to price gouging—for more information about the economic factors that drove up corporate profits over the last few years, see CTBA’s “Issue Brief: CPPRT and K-12 Education Funding in Illinois.”

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 $3.9 billion in FY 2024, a decline of $4.9 billion, or 56 percent.
The significant year-to-year increase in Historic Recurring 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 2018.116

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.
4. FY 2024 Enacted 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 Enacted GF Budget, $14.2 billion, or 28 percent, of the $50.4 billion in total, net spending appropriations are for Hard Costs.117

“Current Services” cover spending on public services over which elected officials generally have at least some discretion. In the FY 2024 Enacted GF Budget, 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 Enacted GF Budget contains a gross appropriation of $37 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 enacted 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 Enacted GF Budget is $820 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 Enacted GF Budget are shown in 

Figure 12 by major category.

<table>
<thead>
<tr>
<th>Category</th>
<th>Item</th>
<th>FY 2024 Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Hard Costs</td>
<td>Debt Service (Pension &amp; Capital Bonds)</td>
<td>$1,686</td>
</tr>
<tr>
<td></td>
<td>Other Statutory Transfers Out</td>
<td>$429</td>
</tr>
<tr>
<td></td>
<td>Pension Contributions</td>
<td>$10,209</td>
</tr>
<tr>
<td></td>
<td>Group Health Insurance</td>
<td>$1,837</td>
</tr>
<tr>
<td>2. Gross General Fund Service Appropriations</td>
<td>Healthcare (including Medicaid)</td>
<td>$9,647</td>
</tr>
<tr>
<td></td>
<td>Human Services</td>
<td>$9,944</td>
</tr>
<tr>
<td></td>
<td>Early Childhood Education</td>
<td>$673</td>
</tr>
<tr>
<td></td>
<td>K-12 Education</td>
<td>$9,692</td>
</tr>
<tr>
<td></td>
<td>Higher Education</td>
<td>$2,539</td>
</tr>
<tr>
<td></td>
<td>Public Safety</td>
<td>$2,487</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>$2,102</td>
</tr>
<tr>
<td></td>
<td>Unspent Appropriations</td>
<td>($820)</td>
</tr>
<tr>
<td>3. Net General Fund Service Appropriations</td>
<td>$36,264</td>
<td></td>
</tr>
<tr>
<td>4. Total Net General Fund Appropriations</td>
<td>$50,425</td>
<td></td>
</tr>
</tbody>
</table>

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Figure 13 provides a breakdown of how every $1 of gross appropriations in the FY 2024 Enacted GF Budget 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 Enacted GF Budget, 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 Enacted 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 $14.2 billion has been identified to cover Hard Costs in the FY 2024 Enacted GF Budget, which represents a $372 million (2.6 percent) nominal dollar decrease from the FY 2023 Enacted GF Budget.118

Since Hard Costs must be paid, they constitute an automatic charge against the revenue available to fund Current Services in a fiscal year—which for the most part 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 for FY 2024 differ from Hard Cost expenditures for FY 2023.

**Figure 14**

**HARD COSTS, FY 2023 & FY 2024 ENACTED GENERAL FUND BUDGETS ($ MILLIONS)**

<table>
<thead>
<tr>
<th>Total Hard Costs</th>
<th>FY 2023 Enacted</th>
<th>FY 2024 Enacted</th>
<th>$ and % Change FY 2023 &amp; FY 2024 Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Health Insurance</td>
<td>$1,831</td>
<td>$1,837</td>
<td>$6 or 0.32%</td>
</tr>
<tr>
<td>Debt Service (Pension &amp; Capital Bonds)</td>
<td>$1,194</td>
<td>$1,686</td>
<td>$492 or 10.56%</td>
</tr>
<tr>
<td>Pension Contributions</td>
<td>$10,510*</td>
<td>$10,209</td>
<td>($301) or -2.87%</td>
</tr>
<tr>
<td>Other Statutory Transfers Out</td>
<td>$998</td>
<td>$429</td>
<td>($569) or -57%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,534</strong></td>
<td><strong>$14,161</strong></td>
<td><strong>($372) or -2.6%</strong></td>
</tr>
</tbody>
</table>

*Source: CTBA analysis of FY 2024 Proposed Budget & FY 2024 Enacted Walkdown; *includes $400M in additional contributions*

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 2024, the appropriation for Group Health is $1.84 billion, a $6 million (0.3 percent) nominal-dollar increase from the FY 2023 Enacted GF Budget.\(^{119}\)

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 Enacted GF Budget, $1.7 billion is appropriated to spend on debt service, a $492 million (41 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 Enacted GF Budget appropriation for Pension Contributions covers $10.21 billion of the $10.42 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 (“SURS”), State Employees Retirement System (“SERS”), the General Assembly Retirement System (“GARS”), and the Judicial Retirement System (“JRS”).\(^{120}\) Also included in the “Pension Contributions” line is an additional $396 million in appropriations, of which $7.7 million goes to SURS 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.\(^{121}\)

Total pension contributions are **$301 million or 2.87 percent less** in FY 2024 than they were in FY 2023.\(^{122}\) This is also somewhat less than the amount initially scheduled to be contributed in FY 2024 under the back-loaded schedule for repaying debt the state owes to its five pension systems created under the 1995 Pension Ramp.\(^{123}\) As detailed previously, the FY 2024 Enacted GF Budget contributed an additional $200 million of the FY 2023 unanticipated on-budget surplus projected towards reducing the unfunded liabilities of the pension systems, bring the total additional contributions to $700 million.\(^{124}\) 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 Enacted GF Budget, appropriations for Other Statutory Transfers Out are scheduled to be **$569 million or 57 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.\(^{125}\)
4.3. FY 2024 Enacted 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 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 77 percent—is targeted for Medicaid, with another 20 percent for deposit into the Healthcare Provider Relief Fund, which is a special state fund also utilized to support Medicaid expenditures and hence generate federal matching dollars.

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 Enacted GF Budget for Current Services continue to prioritize the same core services of Education (34.8 percent), Healthcare (26 percent), Human Services (26.8 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 for Current Services in most fiscal years.
Figure 15

FY 2024 Enacted General Fund Budget Gross Appropriations for Current Services

Source: CTBA analysis of FY 2024 Enacted Walkdown

Although Figure 15 shows the breakdown of the enacted gross appropriations for Current Services in FY 2024, spending reductions authorized by the “Unspent Appropriations” budget line will reduce total, net appropriations to $36.3 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 and Growing Structural 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, at the end of FY 2023, CTBA projects the accumulated deficit will stand at $865 million, and that it will decrease slightly to $767 million by the end of FY 2024. The walk down showing how this accumulated deficit will decrease by approximately $100 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>$50,611</td>
<td>$50,611</td>
</tr>
<tr>
<td>Accumulated Deficit Carry Forward from FY 2023</td>
<td>($865)</td>
<td>$49,746</td>
</tr>
<tr>
<td>FY 2024 Hard Costs</td>
<td>$14,161</td>
<td>$35,585</td>
</tr>
<tr>
<td>FY 2024 Enacted General Fund Net Service Appropriations</td>
<td>$36,264</td>
<td>($679)</td>
</tr>
<tr>
<td>Subtract Budget Stabilization Transfer</td>
<td>$138</td>
<td>($817)</td>
</tr>
<tr>
<td>Add Estimated Accounts Payable Reduction</td>
<td>$50</td>
<td>($767)</td>
</tr>
<tr>
<td>Projected Accumulated FY 2024 Enacted General Fund Deficit</td>
<td>($767)</td>
<td></td>
</tr>
<tr>
<td>Accumulated Deficit as a Percent of General Fund Net Service Appropriations</td>
<td>(2.1%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY 2024 Proposed Budget & FY 2024 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.\(^{133}\) 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.\(^ {134}\)

Illinois measures its General Fund budget balance, or accumulated deficit or surplus, in two ways. The first is the “Budgetary Basis” and the other is the Generally Accepted Accounting Practice, or “GAAP.” 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 under $1 billion, the lowest Budgetary Basis deficit since FY 2008. In fact, the last time Illinois had a surplus basis was in FY 2001.\(^ {135}\)

The last time Illinois had a positive balance in its General Fund at the end of a fiscal year on a GAAP basis was in FY 1985.\(^ {136}\)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Budgetary Basis</th>
<th>GAAP</th>
<th>CTBA Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2000</td>
<td>($16,000)</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2001</td>
<td>($14,000)</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2002</td>
<td>($12,000)</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2003</td>
<td>($10,000)</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2004</td>
<td>($8,000)</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2005</td>
<td>($6,000)</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2006</td>
<td>($4,000)</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2007</td>
<td>($2,000)</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2008</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2009</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2010</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2011</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2012</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2013</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2014</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2015</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2016</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2017</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2018</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2019</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2020</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2021</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>FY 2022*</td>
<td>($865)</td>
<td>($767)</td>
<td>CTBA estimate</td>
</tr>
</tbody>
</table>

Source: Analysis of Illinois Office of the Comptroller Comprehensive Annual Financial Reports, FY 1987 – FY 2021; *CTBA estimate, no GAAP estimate

While many of the policies for FY 2022 and FY 2023 helped reduce the accumulated deficit in the General Fund as it stands this fiscal year, they do not eliminate the factors that drive the growth in the state’s historical, long-term “structural deficit” in future years.

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.
So even though the accumulated deficit is lessening at the moment, it can be expected to begin growing again in a few years.

Figure 18 is a graphic depiction of the structural deficit in the Illinois General Fund using FY 2024 as the base year. So even though the accumulated deficit is lessening at the moment, it can be expected to begin growing again in a few years due to the ongoing structural deficit.

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.

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 Enacted GF Budget are enacted, Illinois is still projected to be spending 9.8 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:

(i) 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;

(ii) 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

(iii) 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 & FY 2024 Enacted Budgets

Under the FY 2024 Enacted GF Budget, total net appropriations for Current Services are scheduled to be $36.2 billion, which is $1.3 billion or 3.8 percent greater than FY 2023 appropriations in nominal dollars. 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. Figure 19 shows the nominal dollar year-to-year change in appropriations between the FY 2023 Enacted GF Budget, and the FY 2024 Enacted GF Budget.

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2023 Enacted (Nominal)</th>
<th>FY 2024 Enacted</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>$8,894</td>
<td>$9,647</td>
<td>$753</td>
<td>8.47%</td>
</tr>
<tr>
<td>Human Services</td>
<td>$10,545</td>
<td>$9,944</td>
<td>($601)</td>
<td>-5.70%</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>$9,166</td>
<td>$9,692</td>
<td>$526</td>
<td>5.74%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$2,253</td>
<td>$2,539</td>
<td>$286</td>
<td>12.71%</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>$2,327</td>
<td>$2,487</td>
<td>$160</td>
<td>6.86%</td>
</tr>
<tr>
<td>Other</td>
<td>$1,1938</td>
<td>$2,102</td>
<td>$164</td>
<td>8.48%</td>
</tr>
<tr>
<td><strong>Total (Gross)</strong></td>
<td><strong>$35,721</strong></td>
<td><strong>$37,084</strong></td>
<td><strong>$1,364</strong></td>
<td>3.82%</td>
</tr>
<tr>
<td><strong>Total (Net)</strong></td>
<td><strong>$34,926</strong></td>
<td><strong>$36,264</strong></td>
<td><strong>$1,339</strong></td>
<td>3.83%</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY 2024 Proposed Budget & FY 2024 Enacted Walkdown

Overall, the FY 2024 Enacted GF Budget calls for a meaningful increase in both gross and net spending on all core services—a welcome change from previous years. As highlighted in Figure 20, the level of spending on healthcare enacted for FY 2024 is scheduled to be $753 million more than it was last year. This increase would bolster the healthcare workforce in FY 2024.
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, which generally 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 pressures 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 cut by $2.

**Figure 21** shows how 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 except Human Services would experience a real, inflation-adjusted year-to-year increase in gross appropriations in FY 2024. After adjusting for changes in inflation and population, total net spending on Current Services for FY 2024 would be $299 million, or just under one percent more, in real terms than in FY 2023.
The reason for the nearly $1 billion decrease in Human Services is due solely to the fiscal responsibility of the Pritzker Administration paying down $1.82 billion in UI Trust Fund Advances and UI Trust Fund benefit payments. This payment was made as an appropriation through the Department of Employment Security, which is categorized as a Human Services agency. Excluding the deposits to the UI Trust Fund, spending on Human Services would increase by $1.2 billion, or 14 percent, and total net spending on Current Services for FY 2024 would be $2 billion, or 6.4 percent, more in real terms than in FY 2023.

However, be cautioned that the year-to-year real increase for the Current Service categories 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 $820 million in “Unspent Appropriations” under the FY 2024 Enacted GF Budget, 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, Total Gross Appropriations for Core Services in the FY 2024 Enacted GF Budget Remain Less Than Two Decades Ago in FY 2000

Despite the year-over-year increased spending on Current Services called for in the FY 2024 Enacted GF Budget, 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 is still set to be 9.8 percent less than actual appropriations for said services were over two decades ago in FY 2000, in real, inflation-adjusted terms, as shown in Figure 22.
One positive note is that under the FY 2024 Enacted GF Budget, 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 are scheduled to be 3.5 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 7.9 percent.

Meanwhile, General Fund appropriations for Higher Education in FY 2024 would be 41 percent less in real terms than in FY 2000, a differential that could become even worse after the $820 million in Unspent Appropriations for FY 2024 are applied.

It is worth noting that although General Fund Healthcare appropriations for FY 2024 are scheduled to be 15 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.144

6. Detailed FY 2024 Enacted General Fund Current Services Spending by Major Category

6.1. Pre-K & K-12 Appropriations

Early Childhood Education appropriations in FY 2024 are scheduled to increase by $75 million in nominal dollars over FY 2023 levels.145 After adjusting for inflation, Early Childhood is scheduled to experience a real increase of year-to-year funding of $57 million or 9.2 percent from FY 2023 levels, as shown in Figure 23.
Meanwhile, the FY 2024 Enacted GF Budget includes an appropriation for K-12 Education that is $526 million more in nominal dollars than FY 2023.\textsuperscript{146} This means the state is at least satisfying the minimum target for increasing year-to-year K-12 funding established under its relatively new school funding formula, the “Evidence Based Funding Formula for Student Success Act” or “EBF,” which is described in more detail below. (For a more complete summary of this new school funding formula, see CTBA’s report, Moving Forward).\textsuperscript{147} After adjusting for inflation, K-12 is scheduled for a real year-to-year increase of $244 million or 2.59 percent.

The EBF replaced the state’s prior, inequitable, inadequate school funding formula with a best practice approach to education funding, that ties the amount of funding a school district receives to the cost of implementing those educational practices which the evidence shows actually enhance student achievement.\textsuperscript{148} The EBF automatically adjusts the amount of funding a school district needs to implement said best practices, based on its enrollment, and the demographic characteristics of the students attending the district in question, including whether or not a student is low-income, is learning English, or has special needs.\textsuperscript{149} Ultimately the EBF identifies a unique funding level for each school district which is both adequate in amount and equitable in distribution.

Illinois now has a funding formula in place with the potential to build every school’s capacity to meet the educational needs of all children it serves. Unfortunately, the $9.6 billion General Fund appropriation for K-12 education in FY 2024 is still $3.38 billion short of what is needed to fund the EBF fully.\textsuperscript{150}

Because lawmakers knew overall state funding for K-12 education was inadequate when they passed the EBF in 2017, they included in the statute two separate targets for increasing General Fund appropriations for K-12 until the EBF became fully funded. First, the EBF provides that the year-to-year appropriation for formula funding should be increased by at least $300 million in nominal dollars.\textsuperscript{151} That minimum annual increase could be increased by up to an additional $50 million, if the property tax relief fund established under the EBF is not fully utilized for property tax abatements in a fiscal year.\textsuperscript{152}

Second, in addition to establishing a target for year-to-year increases in K-12 funding, the EBF also provides that it should be fully funded within ten years of its initial implementation, which would be the beginning of FY 2028.\textsuperscript{153} On the state’s current school funding trajectory, it is highly unlikely Illinois will satisfy this latter requisite. After all, even if the state were to make year-to-year increases in K-12 funding by the minimum targeted amount of $300 million each fiscal year, it would still take 20 years after implementation to fund the EBF fully, after accounting for inflation.\textsuperscript{154}

To satisfy the EBF’s statutory goal of being fully funded within ten years of implementation, the General Fund appropriation for K-12 formula funding would have to increase annually by $1.1 billion in nominal dollars every fiscal year beginning in FY 2025, or well over triple the $300 million annual growth target established under the EBF.\textsuperscript{155}

Though Illinois still has a long way to go to overcome historic underfunding and reach the goal of fully covering the evidence-based cost of providing an adequate education to all students in the state, Early Childhood and K-
12 Education are two of the three major Current Service categories under the FY 2024 Enacted GF Budget that have appropriations that are scheduled to be greater in real, inflation-adjusted terms than in FY 2000.\textsuperscript{156}

As shown in Figure 24, appropriations for Early Childhood Education in FY 2024 are scheduled to be 97.7 percent greater than FY 2000 appropriations in real terms.

And while K-12 funding in FY 2024 is scheduled to be only 3.5 percent greater in real terms than it was in FY 2000, the 2024 fiscal year marks just the fifth time in twenty-four years that the K-12 appropriation will be greater than it was more two decades ago in FY 2000, after adjusting for inflation.\textsuperscript{157}

6.2. Higher Education Appropriations

Unlike prior governors, the Pritzker Administration has made it a priority to enhance General Fund support for Higher Education. FY 2024 continues this effort, in a number of ways. First, the FY 2024 Enacted GF Budget appropriation for Higher Education is scheduled to be $286 million more in nominal dollars than in FY 2023, as shown in Figure 25.

A portion of the scheduled increase in General Fund appropriations for Higher Education in FY 2024 is earmarked for increasing appropriations for public universities and community colleges by $133 million over FY 2023 levels.\textsuperscript{158} Another portion of the scheduled increase in General Fund appropriations for Higher Education in FY 2024 is targeted for increasing funding for the Illinois Student Assistance Commission—which includes funding for student MAP grants—by 137 million over FY 2023 levels.\textsuperscript{159}

### Figure 24

**Enacted General Fund Appropriations for Early Childhood and K-12 Education in FY 2024 Compared to FY 2000, Inflation-Adjusted**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2000</th>
<th>Inflation % Change</th>
<th>Inflation $ Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Childhood</td>
<td></td>
<td>97.7%</td>
<td>$333</td>
</tr>
<tr>
<td>K-12</td>
<td></td>
<td>3.5%</td>
<td>$329</td>
</tr>
</tbody>
</table>

Sources: FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and CTBA analysis of Illinois Public Act. 103-0006; Inflation-adjusted using ECI-C from the BLS and population growth from the Census Bureau.

### Figure 25

**FY 2024 General Fund Budget Higher Education Appropriation Compared to FY 2023 Enacted, in Nominal Dollars ($ Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2023 (Nominal)</th>
<th>FY 2024 Enacted (Nominal)</th>
<th>$ Change (Nominal)</th>
<th>% Change (Nominal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Education</td>
<td>$2,253</td>
<td>$2,539</td>
<td>$286</td>
<td>12.71%</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of Illinois Public Act 103-0006
After adjusting for inflation, the scheduled appropriation for Higher Education in the FY 2024 Enacted GF Budget constitutes a year-to-year increase of $217 million or 9.35 percent compared to FY 2023, as shown in Figure 26.

**Figure 26**

**FY 2024 Enacted General Fund Budget Higher Education Appropriation Compared to FY 2023 Enacted, in Inflation-Adjusted Dollars ($ Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2023 Enacted (Nominal)</th>
<th>FY 2023 Enacted (inf. adj.)</th>
<th>FY 2024 Enacted (nominal)</th>
<th>% Change (inf. adj.)</th>
<th>% Change (inf. adj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Education</td>
<td>$2,253</td>
<td>$2,322</td>
<td>$2,539</td>
<td>$217</td>
<td>9.35%</td>
</tr>
</tbody>
</table>

**Source:** CTBA analysis of Illinois Public Act 103-0006

As shown in Figure 27, despite the Pritzker Administration’s enhancement of Higher Education funding in FY 2024 and prior fiscal years, in inflation-adjusted, real terms, the FY 2024 appropriation for Higher Education is scheduled to be significantly—as in fully 41 percent—less than it was over two decades earlier in FY 2000. For context, that means Illinois would have to increase the FY 2024 appropriation for Higher Education by almost $1.8 billion just to stay even with FY 2000 appropriation levels in real, inflation-adjusted terms.

**Figure 27**

**FY 2024 Higher Education Appropriation Compared to FY 2000 Enacted General Fund Budget ($ Millions)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2000 Enacted (Nominal)</th>
<th>FY 2000 Enacted (inf. adj.)</th>
<th>FY 2024 Enacted (inf. adj.)</th>
<th>$ Change (inf. adj.)</th>
<th>% Change (inf. adj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Education</td>
<td>$2,152</td>
<td>$4,311</td>
<td>$2,539</td>
<td>($1,771)</td>
<td>-41.1%</td>
</tr>
</tbody>
</table>

**Source:** CTBA analysis of P.A.103-0006; FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; Inflation-adjusted using ECI from the BLS and population from the Census Bureau

The underfunding of Higher Education by the state over the last two decades has had numerous negative repercussions. One of the greatest consequences of this underfunding is that it has made attending public institutions of higher learning in Illinois significantly less affordable. That is because declining state support for colleges and universities has contributed to their increased reliance on revenue from student tuition and fees.

Consider that, in FY 2003, University Income Funds (“UIF”)—which are comprised primarily of student tuition and fees—made up just 25.4 percent of total public university revenue, while funding received from General Fund appropriations accounted for 74.6 percent of total public university revenue. By FY 2020, the relative importance of UIF and state funding as revenue sources for public universities had essentially flipped, with UIF making up 64 percent of total public university revenue and state appropriations from the General Fund accounting for just 36 percent of total public university revenue.

Though nationally, public university revenue is also trending toward greater reliance on tuition and fees, the national shift is not nearly as drastic as the shift in Illinois. Indeed, as shown in Figure 28, the increase of nearly 39 percentage points in reliance on tuition and fees as a revenue source in Illinois is over 3 times greater than the increase of 12.4 percentage points realized at the national level. For more information, please read CTBA’s report, “Why Illinois Should Enhance its Investment in Higher Education.”
Underfunding Higher Education makes it harder for many Illinois students to attend college at a time when a college degree is more important than ever for success in the labor market. For instance, prior to the economic downturn created by COVID-19, since 1980, the only workers in America who had incomes which grew faster than the rate of inflation—meaning they have seen real growth in wages and hence purchasing power—are those with a college degree. Indeed, the economic importance of attaining a post-high school credential has grown significantly over time. Consider that in 1980, a full-time American worker with a bachelor’s degree or higher had median weekly earnings that were 43.7 percent greater than a worker whose highest level of educational attainment was a high school diploma. By 2021, that wage gap had doubled to 87.9 percent.

6.3. Human Services Appropriations

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

In the FY 2024 Enacted GF Budget, the gross, scheduled appropriation for all Human Services is $9.9 billion, which would represent a 5.7 percent decrease in nominal dollars from the enacted FY 2023 appropriation of $10.55 billion. However, consider that, included in the FY 2023 Enacted GF Budget for Human Services is $1.82 billion that was not used to provide any Human Services, but rather to cover UI Trust Fund debt payments and increase the balance of the trust fund. Therefore, when considering only that portion of the FY 2023 General Fund appropriation for Human Services that was intended to be used on funding on Current Services, in FY 2024 Human Services will actually realize a $1.2 billion, or nearly 14 percent, year-to-year increase over FY 2023 levels, as illustrated in Figure 29.
After adjusting for the unique UI Trust Fund appropriation made in FY 2023, $957 million, or two-thirds of the $1.2 billion year-to-year increase in appropriations scheduled for Human Services in FY 2024 is slated for DHS.

The real good news is that, following over two decades of declining, real, inflation-adjusted General Fund support for Human Services, FY 2024 marks the first year that investments in Human Services is scheduled to be greater than it was in FY 2000 in real terms. In fact, as shown in Figure 30, real General Fund appropriations for Human Services in FY 2024 are scheduled to be 7.9 percent more than they were in FY 2000.

### 6.4. Healthcare Appropriations

#### 6.4.1. General Fund and Other Fund Appropriations for Healthcare

Spending on Healthcare services is made primarily through two agencies: DHFS and the Department of Public Health ("DPH"). In FY 2024, funding for Healthcare in Illinois’ General Fund consists mainly of appropriations for DHFS to cover around $7.2 billion of total state Medicaid spending on disabled and low-income populations, as well as another $255 million in appropriations for the DPH.\textsuperscript{168} Taken together, total General Fund enacted appropriations for Healthcare in FY 2024 are scheduled to be just under $8.4 billion, which is $428 million, or 5.3 percent more than the FY 2022 Healthcare appropriation, as shown in Figure 31.
This year-to-year increase may at first blush seem slight. The reality is quite different. FY 2024 direct General Fund spending on Healthcare is scheduled to be $753 million more than in FY 2023.169 However, after including Medicaid spending from special funds, total Healthcare appropriations in FY 2023 are scheduled to be far greater.

General Fund appropriations account for just about 25 percent of overall healthcare expenditures for the state and are far from the largest funding source for healthcare. That is because on top of General Fund expenditures, there are twenty Special Funds—which are not considered General Funds due to legislative restrictions placed on their use—that allocate funding for medical expenditures as part of the DHFS budget alone, such as Medical Assistance—otherwise referred to as Medicaid.170

The Illinois Comptroller estimates that for every dollar spent on Medicaid programming, the state is reimbursed roughly fifty cents under the federal government’s Medicaid matching program.171 So, of the total healthcare spending by DHFS, a substantial proportion will be reimbursed to the state and used to replenish the special funds established for Medicaid.

For example, The Healthcare Provider Relief Fund (“HPRF”) is the largest fund for healthcare spending: approximately 45 percent of projected healthcare spending by DHFS comes from the HPRF.172 Much of the HPRF funds come from the Federal Medical Assistance Percentages (“FMAP”)—a federal reimbursement to states for Medicaid spending.173

There are other, smaller special healthcare funds as well. For example, the Drug Rebate Fund is funded by a combination of federal matching funds, state reimbursements of Medicaid eligible expenses, and MCO negotiated rebates with drug manufacturers for drugs prescribed to Medicaid recipients.174

One reason healthcare, and thereby primarily Medicaid spending is moving from the General Fund to other special funds like the HPRF, is the Pritzker Administration’s desire to create new sources of Medicaid funding that correlate to how Medicaid services are provided to enrollees in the program. In 2014, the provision of those services began to change, as Illinois Medicaid enrollees were being transitioned from a traditional “fee for service” model into managed care arrangements with a focus on preventative care.175

Under the fee-for-service model, health care providers perform a service for a Medicaid enrollee, submit a claim to the state, and get reimbursed. In the managed care setting, Medicaid benefits are delivered to enrollees through contracts between the state and managed care organizations (“MCOs”). Under the managed care model, the state pays a flat fee per enrollee to the MCOs, and the MCOs then cover all healthcare costs enrollees incur, whether or not those costs are above or below the fees MCOs receive from the state.176

This shift to managed care was intended to keep program participants healthier and to stabilize costs for the state.177 Though there have been some instances in which MCOs have lowered costs and/or delivered higher quality care, the current body of research indicates that overall it remains inconclusive as to whether switching to a managed care system effectively generates any of the hoped for outcomes of reduced health expenditures, delivering higher quality care, or stabilizing state budgets.178
For more information about Medicaid spending and MCOs, read CTBA’s report, “Analysis of Pharmacy Benefit Managers’ Impact on Medicaid Drug Pricing.”

6.4.2. Medicaid

In FY 2024, Illinois General Fund spending on Medicaid is scheduled to be $7.2 billion, which would account for 92 percent of total General Fund Healthcare expenditures across all agencies covered by the General Fund for the year. However, those General Fund expenditures on Medicaid account for just 23 percent of the $31.5 billion in total Medicaid expenditures currently estimated for FY 2024, after accounting for all such expenditures which will be made through special state funds like the HPRF.

The Medicaid program administered by DHFS is the largest insurer in Illinois, with 3.5 million—or 27.5 percent—of the state’s 12.7 million residents projected to be enrolled in Medicaid programs by FY 2023. Traditionally, Medicaid eligibility was limited to “categories” of covered groups, which generally included children, some of their parents, pregnant women, adults with disabilities, and some older adults who met Medicaid income standards. Beginning in January 2014, Illinois expanded Medicaid eligibility under the Affordable Care Act (“ACA”) to cover non-pregnant, non-elderly individuals with incomes up to 138 percent of the federal poverty level.

At the time the expansion was approved, Illinois officials estimated that 342,000 additional Illinois residents would qualify. By the end of FY 2014, 398,076 new ACA Eligible Adults had actually enrolled in medical assistance through Medicaid expansion. By FY 2022, that number had risen to over 868,000 ACA Eligible Adults. Changes in Illinois’ Medicaid enrollment since FY 2011 is shown in Figure 32.

**Figure 32**

**MEDICAL ASSISTANCE AVERAGE YEARLY ENROLLMENT**

- Children
- Other Adults
- Adults with Disabilities
- Seniors
- Medicaid Expansion

*Source: Illinois Department of Healthcare and Family Services, Number of Persons Enrolled in the Entire State*

Over the FY 2014 through FY 2016 sequence, the full cost for covering newly enrolled individuals in the state’s Medicaid program under the ACA’s expanded eligibility provisions was paid for by Federal programs and
However, starting on January 1, 2017, states that expanded Medicaid under the ACA became responsible for paying 5 percent of the costs of covering newly eligible individuals. That percentage grew to 6 percent in 2018, and 7 percent in 2019. Beginning in FY 2020 and continuing thereafter, states that expanded Medicaid coverage under the ACA are required to cover 10 percent of all expansion costs.\(^{189}\)

Overall, including both General Fund and non-General Fund outlays, Illinois’ expenditures on Medicaid have increased significantly during the past two decades, even after accounting for inflation. So much so that in inflation-adjusted 2020 dollars, Medicaid expenditures grew from $16.6 billion in FY 2014 to $26.5 billion in FY 2021—a real increase of 60 percent.\(^{190}\)

However, because of a simultaneous increase in federal funding, the portion of Medicaid expenditures actually paid for by state, own-source tax revenue decreased in inflation-adjusted dollars by $350 million since the expansion of Medicaid under the ACA from $4.5 billion in FY 2014 to a projected $4.1 billion in FY 2021, as shown in Figure 33.\(^{191}\)

**Figure 33**

**MEDICAID SPENDING IN ILLINOIS BY FUNDING SOURCE (FEDERAL, STATE AND LOCAL), INFLATION-ADJUSTED**

Sources: CTBA analysis of National Association of State Budget Officers, State Expenditure Reports: FY 2007-2020
7. FY 2024 Pension Funding

The FY 2024 Enacted GF Budget includes a $10.209 billion appropriation for pensions, which is the required General Fund contribution for FY 2024 as identified by the 1995 Pension Ramp. This required General Fund appropriation is $99 million more than the FY 2023 appropriation of $10.11 billion, as shown in Figure 34. But tracking contributions under the Pension Ramp does not provide a full accounting of all General Fund contributions being made into the state’s five pension systems. That is because, as indicated previously, when the FY 2023 Enacted GF Budget passed, legislators agreed with Governor Pritzker to allocate $700 million of the FY 2023 On-Budget Surplus to make payments into the Pension Stabilization Fund in FY 2022 and FY 2023 that exceeded the required Pension Ramp payments for those years. For more information about the state’s unfunded pension liabilities and potential ways to address the issue, please see CTBA’s report, Understanding and Resolving Illinois’ Pension Funding Challenges.

The pension appropriation in the FY 2024 Enacted GF Budget includes $9.8 billion collectively for the five major state pension funds, the TRS, SERS, SURS, JRS, and GARS, as shown in Figure 34. The remaining $396 million in pension appropriations 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.

<table>
<thead>
<tr>
<th>Type</th>
<th>Item</th>
<th>FY 2023 Enacted</th>
<th>FY 2024 Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Pension Funds</strong></td>
<td>Teachers’ Retirement System</td>
<td>$5,894</td>
<td>$6,044</td>
</tr>
<tr>
<td></td>
<td>State Employees’ Retirement System</td>
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<td>$1,677</td>
</tr>
<tr>
<td></td>
<td>State University Retirement System</td>
<td>$1,904</td>
<td>$1,918</td>
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<tr>
<td></td>
<td>Judges’ Retirement System</td>
<td>$143</td>
<td>$148</td>
</tr>
<tr>
<td></td>
<td>General Assembly Retirement System</td>
<td>$27</td>
<td>$26</td>
</tr>
<tr>
<td><strong>State Pension Funds Subtotal</strong></td>
<td></td>
<td>$9,665</td>
<td>$9,813</td>
</tr>
<tr>
<td><strong>Other Costs</strong></td>
<td>State contribution to Chicago Teachers’ Pension Fund</td>
<td>$309</td>
<td>$323</td>
</tr>
<tr>
<td></td>
<td>Teachers’ Retirement Insurance Program</td>
<td>$106</td>
<td>$65</td>
</tr>
<tr>
<td></td>
<td>College Insurance Program</td>
<td>$30</td>
<td>$8</td>
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<tr>
<td></td>
<td>Other Cost Subtotal</td>
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<td>$396</td>
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<tr>
<td><strong>Subtotal Pension Costs</strong></td>
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<td>$10,110</td>
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<td><strong>Additional Pension Stabilization Fund Payment</strong></td>
<td>$400</td>
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<tr>
<td><strong>Total Pension Costs</strong></td>
<td></td>
<td>$10,510</td>
<td>$10,209</td>
</tr>
</tbody>
</table>

Source: CTBA analysis of FY 2024 Proposed Budget, FY 2024 Enacted Walkdown, and P.A. 103-0006

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 the current monetary value of a pension system’s total assets by its total liabilities to pay benefits to all members, whether or not retired. According to the United States Government Accountability Office (“GAO”), many experts believe a public pension system should have a “funded ratio” of at least 80 percent to be considered financially healthy.

The Pension Protection Act of 2006 also uses an 80 percent threshold for rating large private plans as being not at risk of defaulting on their liabilities. Similarly, Standard & Poor’s gives a rating of above average to pension systems that have funded ratios of 80-90 percent, while Fitch Ratings “considers a funded ratio of 70% or above to be adequate and less than 70% to be weak.”
The American Academy of Actuaries ("AAOA"), however, cautions that, because of various outside economic factors, like volatile interest rates and stock market fluctuations, “no single level of funding distinguishes a healthy plan from an unhealthy plan.” Instead, funded ratio just gives a snapshot of where a plan stands fiscally at a given moment in time. According to the AAOA, “while funded ratio may be a useful measure,” pension plans should have a strategy to reach “100% funded within a reasonable amount of time.”

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 both 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 for a myriad of reasons, not the least of which is the significant compounding interest results 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 then 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 4.4 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 to borrow against what was owed to the pension systems, to maintain funding for a portion of the increase 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 35** 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.
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. In 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.

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 is 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.
systems from their then current level of around 44 percent,\textsuperscript{206} to 80 percent in 2045.\textsuperscript{207} This re-amortization plan is shown in \textbf{Figure 36}.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure36.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

6. CTBA analysis of (i) FY 2000 unadjusted appropriations from Governor’s final budget summary for FY 2000; and (ii) Illinois P.A. 103-0006, June 7, 2023, https://www.ilga.gov/legislation/publicacts/103/PDF/103-0006.pdf; Inflation-adjusted using ECI-C from the BLS and population growth from the Census Bureau
19. CTBA analysis of (i) Governor’s Office of Management and Budget, FY 2023 Enacted Budget, “Operating Budget Details (xls),” https://budget.illinois.gov/budget-books.html; and (ii) CTBA analysis of “Illinois State Budget: Fiscal Year 2024,” Governor’s Office of


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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.

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.

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


Public Act (P.A.) 100-0465, Evidence-Based Funding for Student Success Act (IL. 2017).
152 Public Act (P.A.) 100-0465, Evidence-Based Funding for Student Success Act (IL. 2017).


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All budget figures have been rounded to the nearest tenth in this figure. Totals may not add due to rounding.


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