FY 2027 Budget Proposal: Federal Pressures Exacerbate Illinois' Structural Deficit

February 26, 2026

1. Overview. On February 18, 2026, Governor JB Pritzker delivered his 8th State of the State budget address to the 104th General Assembly. He also released his $56.1 billion General Fund budget proposal for FY 2027 (the "**Proposed FY 2027 Budget**"), which includes a very slight year-to-year increase in spending on services of less than 0.5% in nominal, non-inflation adjusted dollars. But that ignores the impact of inflation, which drives up the cost of funding services in the public sector, just like it increases costs in the private sector. After adjusting for inflation, proposed FY 2027 spending on public services will be about 1% less than FY 2026.

To limit that real cut to one percentage point, Pritzker had to include $649 million in new revenue-generating initiatives in the Proposed FY 2027 Budget, including:

- **Net Operating Loss Deduction**: Phasing in changes to the Net Operating Loss ("NOL") deduction corporations can carry forward to offset future profits. This is projected to generate $269 million in FY 2027.
- **State Casinos**: Realigning the tax treatment for 15 of the 16 casinos in Illinois by eliminating the current tax rate cap of 20%, and reinstating a graduated tax structure ranging from 15% to 50%, based on a casino's adjusted gross receipts. This is projected to generate $120 million in FY 2027.
- **Social Media Platform Fee**: Creating a first-ever per-user plus lump-sum fee for social media companies that collect and sell consumer data, such as X, Facebook, Instagram, and Tik Tok. The proposed fee scales up for platforms with more users. Revenue generated by this fee will be deposited into the General Fund to support K-12 education, and the fee is projected to generate $200 million in FY 2027.
- **Local Government Distribution Fund**: Under the Local Government Distributive Fund ("**LGDF**"), the state shares its income tax revenue with local governments across Illinois. The Proposed FY 2027 Budget reduces the proportion of net income tax revenue proceeds the state would share with municipalities under the LGDF from 6.47% to 6.23%, saving the state an estimated $60 million in LGDF transfers out for FY 2027.

Of the $56.1 billion in total proposed FY 2027 spending, roughly $16.3 billion, or 29%, cover "hard costs" the state must pay because they're either required by law (such as debt service owed to bondholders) or contractual obligations. That leaves $39.8 billion to fund services for the year, with 95% of those service expenditures targeted to the four core areas of Education (Pre-K, K-12, and Higher-Ed), Healthcare (primarily Medicaid coverage for low-income families), Social Services, and Public Safety.

Pritzker began his address touting a number of fiscal policy accomplishments achieved during his tenure. Usually, when elected officials boast about their performance, there's a fair bit of spin that has to be unwound before the reality of that performance is laid bare. Not so in this case. The data show Pritzker has truly been a responsible fiscal steward.

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Under Pritzker's watch, the state has garnered 10 consecutive credit upgrades—the first in 25 years—which are a far cry from the eight downgrades Illinois suffered under his predecessor, Governor Rauner, who also left Pritzker an $8 billion backlog of unpaid bills and next to nothing in Illinois' rainy day fund. Over his tenure, Pritzker completely eliminated the bill-backlog, and built up the rainy day fund to $2.4 billion (with an additional $176 million proposed for FY 2027), whilst also paying off some $12 billion in debt.

The aggregate funded ratio of the state's five public pension systems has also improved under the Pritzker Administration, increasing from 40.3% when he took office to 47.9% today—the highest funded ratio in 17 years—though still well below the generally accepted "healthy" range of being 70% to 100% funded. Pritzker has also contributed $700 million more into the pension systems than statutorily required, and implemented a pension buyout program (extended through FY 2028 in the Proposed FY 2027 Budget), actions which are projected to save taxpayers $5.3 billion by FY 2045.

Pritzker's speech emphasized the state's competitiveness when it comes to business and the economy, highlighting the state's 36.2% growth in GDP from $881 billion when Pritzker took office in 2019 to $1.2 trillion in 2026. The Governor called attention to Illinois' status as the second-best state in the nation, behind only Texas, for attracting business expansions and relocations, a threshold achieved each of the past three years.

Finally, Pritzker highlighted strides made in K-12 education, including Illinois ranking second nationally in 8th grade reading scores and fifth in 8th grade math scores. Illinois also recorded its highest number of high school graduates in 15 years.

2. Structural Fiscal Problems Continue to Impact the General Fund, with Trump's Policies Making Things Worse. For the third year in a row, the Governor's budget address acknowledged significant constraints in the state's General Fund. Until Pritzker's tenure, the General Fund had run annual operating deficits dating back to at least 1985. These chronic deficits are of concern for one simple reason: the General Fund is the state's primary operating budget, with 95% of expenditures supporting Education, Healthcare, Human Services, and Public Safety. The ongoing failure to fund these core services adequately and sustainably over time degrades the quality of life in every community across Illinois.

The Governor laid much of the blame for FY 2027's fiscal challenges squarely at the feet of President Trump, citing "headwinds from Washington" and the gutting of federal funding for programs that support working families creating massive costs for the state to backfill.

The fiscal chaos emanating from the Trump Administration are rooted in Trump's seminal legislation, the One Big Beautiful Bill Act ("**OBBBA**"), and his administration's episodic and legally questionable freezing or cancellation of federally appropriated funds targeted for various state-administered programs. The Governor's Office of Management and Budget estimates the OBBBA and Trump's quixotic fiscal actions will cost Illinois some $8.4 billion over the next five years—a figure that actually understates the full potential scope of long-term problems. For instance, beginning in FY 2028, the annual cost of fully offsetting Trump's Medicaid cuts alone hits $4.43 billion—an amount which the state's General Fund simply cannot absorb.

The majority of the costs the OBBBA imposes on Illinois in FY 2027 stem from:

- $339 million in decreased state individual and corporate income tax revenue, resulting from certain aspects of the federal tax cuts that automatically reduce tax revenue in Illinois

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because Illinois' income tax code is in large part predicated on determination of Adjusted Gross Income ("AGI") under federal law;
- $60 million in initial federal spending cuts to SNAP, with far more extensive cuts to SNAP and Medicaid being phased in over the next two fiscal years; and
- $100 million in additional administrative and technology costs required to implement changes made to both the SNAP and Medicaid programs.

Fortunately, the state has already enacted legislation decoupling Illinois' income tax code from certain provisions of the OBBBA, saving Illinois approximately $243 million annually in individual and corporate income tax revenue that otherwise would have been lost.

While it's entirely appropriate to blame Trump for the fiscal difficulties his ill-conceived policies create for all 50 states, in Illinois, Trump's shenanigans have simply exacerbated a long-standing "**structural deficit**" that has historically plagued the General Fund.

A "structural deficit" exists whenever a tax system consistently fails to generate sufficient revenue growth to both: (i) maintain current public service levels from year-to-year, after adjusting solely for changes in inflation and population, and assuming no changes in law; and (ii) meet existing debt service obligations as they become due. Illinois has faced a structural deficit in its General Fund for generations.

And overspending on services is not the driver of the structural deficit. After adjusting for inflation, General Fund spending on core services in FY 2027 is projected to be *13.0% lower* than it was in FY 2000 under Republican Governor George Ryan.

Recently, some positive, but temporary fiscal developments masked the structural deficit. For instance, during the pandemic and shortly thereafter, Illinois received $6.4 billion in federal pandemic relief funds under the CARES Act and ARPA. That funding has since ceased. Then, after the height of the pandemic, Illinois experienced significant growth in economic activity as consumers resumed spending in the entertainment, food, and other retail industries that were stunted during COVID's heyday. That release of pent-up consumer spending, coupled with higher-than-normal rates of inflation and corporate price gouging, generated record business profits, and in turn generated record state-level corporate income tax revenue.

Those unique factors—alongside various revenue enhancements enacted between FY 2022 and FY 2026 that collectively generated $636 million in one-time revenue and another $1.97 billion in recurring General Fund revenue—concealed the structural deficit. And except for the newly generated recurring revenue, they're also all things of the past. This is why the Proposed FY 2027 Budget increases discretionary spending by less than half a percent over FY 2026 levels in nominal dollars, but results in an inflation-adjusted year-to-year cut of 1%.

3. Revenue Projections for FY 2027. The Proposed FY 2027 Budget is in large part based on the following revenue projections:

- Individual Income Taxes are projected to total $29.6 billion, a **$946 million nominal increase** over FY 2026 estimates;
- Corporate Income Taxes are projected to be $4.31 billion, a **$9 million nominal decrease** below FY 2026 estimates;

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- Sales Taxes are projected to be $11.1 billion, a **$296 million nominal increase** over FY 2026 estimates;
- Lottery revenue is projected to be $832 million, a **$17 million nominal increase** over FY 2026 estimates;
- Other Gaming revenue is projected to be $370 million, a **$120 million nominal increase** over FY 2026 estimates;
- Adult-Use Cannabis revenue is projected to be $120 million, a **$3 million nominal increase** over FY 2026 estimates;
- Sports Wagering revenue is projected to be $344 million, a **$22 million nominal increase** over FY 2026 estimates; and
- Social Media Fee revenue, which is the newly proposed revenue source for FY 2027, is projected to be **$200 million**.

4. Key Spending Highlights in the Proposed FY 2027 Budget. On the spending side of the ledger, some of the more material items include:

- The recently established Illinois Department of Early Childhood ("**IDEC**") is fully assuming responsibility for early childhood programs previously administered by other agencies, and hence being appropriated $2.09 billion (up from just $9 million in FY 2026)—but that significantly greater year-to-year appropriation includes $748 million shifted from the Illinois State Board of Education ("**ISBE**"), $1.2 billion from the Department of Human Services ("**DHS**"), $19 million from the Department of Child and Family Services ("**DCFS**"), and $125 million in additional funding, which represents a **$116 million nominal increase or 5%** over the aggregate $2.1 billion appropriated for all Early Childhood services collectively in FY 2026;
- The Early Childhood Block Grant is flat-funded at its FY 2025 and FY 2026 levels of $748 million, which translates to a real, inflation-adjusted year-to-year cut of $42.8 million since FY 2025 and $17.8 million since FY 2026;
- After accounting for the aforesaid $748 million shift in Early Childhood funding from ISBE to IDEC in FY 2027, K-12 education receives a $10.7 billion appropriation, which is a $297 million nominal year-to-year increase (2.7%)—but only a 0.3% inflation-adjusted increase from the $10.4 billion appropriated in FY 2026;
- Formula funding under the EBF is increased on a year-to-year basis by a total of $305 million, raising total investment from $8.895 billion in FY 2026 to $9.2 billion in FY 2027—but still leaving K-12 education an estimated $3 billion short of what the evidence indicates every child needs to receive a quality education—and marking the second straight year the statewide adequacy gap has worsened under the EBF;
- The Teacher Vacancy Grant Pilot Program is continued for the fourth consecutive year, receiving a $15 million appropriation, which is just half of the nominal dollar funding level the program received in FY 2026, and amounts to a real year-to-year cut of 51%;
- Mandated Categorical Programs ("**MCAT**") for K-12 education, which include funding earmarked by statute for specific programs and expenses like Special Education Transportation, received an annual nominal increase of $51 million, for a total of $1.2 billion—leaving $500 million (30%) of projected MCAT expenses that districts are legally required to pay for FY 2027 unfunded;

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- Higher Education is appropriated $2.62 billion, a $5 million nominal decrease from FY 2026 and a $67.6 million (2.5%) real decrease—continuing decades of disinvestment that has been so material that, after adjusting for inflation, the proposed appropriation for Higher-Ed in FY 2027 is $2.29 billion or 46.6% less than Higher-Ed appropriations were back in FY 2000 under Republican Governor George Ryan;
- The Monetary Award Program ("**MAP**"), which provides grants to low-income students to cover a portion of the cost of attending institutions of higher learning, is flat-funded in nominal dollars, remaining at $721.6 million and amounting to an inflation-adjusted year-to-year cut of 2.3%;
- The total Healthcare appropriation for FY 2027 is projected to be $9.1 billion, which represents a $555 million year-to-year nominal decrease and an $884 million (8.9%) decrease in real terms;
- The Human Services appropriation for FY 2027 is projected to be $10.9 billion, which represents a $737 million year-to-year nominal decrease and a $1.1 billion (9.22%) decrease in real terms; and
- Public Safety is targeted for $2.91 billion in appropriations, which represents a $202 million year-to-year increase in nominal dollars or a $137 million (4.9%) increase in real terms over FY 2026.

5. Cutting Higher-Ed Makes No Economic Sense. It is hard to justify the continued, long-term disinvestment in funding for Higher Education generally, and MAP grants specifically, that have been a clear consequence of the structural deficit in the General Fund.

First, consider the implications of the long-term disinvestment in Higher-Ed. As indicated previously, after inflation, proposed General Fund spending for Higher-Ed in FY 2027 is 46.6% less than actual spending was in FY 2000. This disinvestment is especially troubling given labor market trends: in 1979, a full-time worker with a bachelor's degree earned 38% more than a high school graduate; by 2020, that wage gap more than doubled to 85%. Underfunding Higher-Ed undermines Illinois' competitiveness in the modern economy.

Similarly, the real cut to MAP grants slated for FY 2027 makes no sense given:

- The higher-than-average public university tuition costs in Illinois—where the average cost of tuition at a four-year public university is $14,993 per year, compared to the national average of $9,596—making Illinois the sixth-most expensive state for in-state tuition; and
- In FY 2026, the average MAP award covered just 38% of the average in-state tuition and fee cost of attending a four-year public university in Illinois, which, after inflation, is still well below FY 2000 levels, when the average MAP award covered 66% of these tuition and fee costs.

Making Higher-Ed less affordable for low-income students is both counterproductive and inequitable, given the importance of attaining a post-secondary degree in the modern economy.

Tuition in Illinois has risen over time in part because of the state's decision to reduce its General Fund support of Higher Education, forcing public colleges and universities to shift costs to students. In the Proposed FY 2027 Budget, public universities are slated for a year-to-year nominal dollar increase of $13 million, while community colleges are slated for a year-to-year increase of $3 million, both of which after inflation amount to a cut of 1%.

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Bottom line: as they currently stand, appropriations for Higher Ed under the Proposed FY 2027 Budget create pressure on public universities and community colleges to raise tuition and fees, cut programming, or implement some combination of both.

6. Funding Issues Created Under the 1995 Pension Ramp Continue. The Proposed FY 2027 Budget fully funds the statutorily required $10.73 billion pension (a $184.25 million nominal increase over FY 2026). As Governor Pritzker correctly noted, this raises the aggregate funded ratio for the five state pension systems from 40.3% when he took office back in 2019 to 47.9% now—the highest aggregate funded ratio in the last 17 years.

Unfortunately, 47.9% funded remains far below the generally accepted standard of a healthy pension system, which ranges from 70% to 100%. Moreover, the proposed FY 2027 pension contribution still falls $6.27 billion short of the amount actuaries have determined is needed to reach the 90% funding target by 2045.

The Proposed FY 2027 Budget reintroduces the Governor's previously unsuccessful initiative, attempted each of the past two years, to change the funded ratio target and timeline to 100% funded by 2048, rather than 90% funded by 2045. While aiming for fully funded pension systems is sound policy, Pritzker's proposed amortization schedule remains backloaded, with escalating annual payments that will lead to the same fiscal strain imposed by the current Pension Ramp.

Instead of unnecessarily wasting taxpayer dollars on debt service, CTBA continues to advocate for the adoption of a new amortization schedule that could save Illinois taxpayers $43.1 billion while still getting the pensions 90% funded by FY 2045. To get the systems 100% funded by FY 2048—like Pritzker's proposal—CTBA's approach to re-amortization would cost $20.4 billion less than the total cost of meeting the current Pension Ramp's target of 90% funded by 2045. For more information on CTBA's re-amortization proposal, see *Understanding—and Resolving—Illinois' Pension Funding Challenges: Vol. II*.

7. Moving Forward With Needed Tax Reforms. It is clear that the longstanding structural deficit—compounded by new fiscal pressures from the Trump Administration—pose significant fiscal challenges for Illinois. To address those challenges, lawmakers should consider the following two key revenue enhancements, both long overdue, to redress the structural deficit and insulate the General Fund from Trump's fiscal chicanery:

- Expand the state's sales tax base to include consumer services; and
- Increase the flat income tax rate applicable to both individuals and corporations, and create a refundable tax credit targeted to low- and middle-income Illinoisans.

Illinois' current sales tax primarily applies to the sale of goods, not services, ignoring today's service-driven economy where spending on consumer services has grown two-and-a-half times faster than spending on goods over the past 60 years. The state taxes only 29 out of 176 consumer services—far fewer than most neighboring states and the national average—even though 73% of Illinois' real GDP is derived from service-providing industries, as compared to only 17% derived from goods-providing industries. Expanding the sales tax base would generate $2 billion in new, recurring revenue for the state, and modernize the tax system to generate revenue that grows with the economy, thereby helping redress the structural deficit. Moreover, expanding the sales tax base to include consumer services would also be less regressive than the current sales tax structure, because high-income households spend five times more on untaxed services than low-income households.

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The design of the Illinois income tax also contributes to the structural deficit and exacerbates inequality in our tax system. The main reason for this is the1970 Illinois Constitution, which prohibits use of a graduated-rate income tax; all Illinois residents pay the same flat income tax rate (currently set at 4.95%) regardless of how much they make or their ability to pay.

This is indefensible from both a fiscal and a fairness standpoint for one simple reason: since ratification of that state constitution, wealth inequality has exploded. Between 1979 and 2020, real, average annual incomes for the top 1% of earners in Illinois jumped from $804,320 to $1,783,971—a 122% increase. Meanwhile, real, average annual incomes for the other 99% of Illinoisans grew from just $71,294 to $76,103—a meager 6.7% increase.

Illinois' flat-rate income tax system fails to respond to that growth in income inequality, and hence fails to respond to the modern economy, contributing to the structural deficit. Increasing the tax rate by one-and-a-half percentage points to 6.45% would generate $4.42 billion in new revenue, after funding a tax credit of $1.7 billion, to offset that tax increase in full for the 4.5 million Illinoisans (73% of all state income tax filers) with $75,000 or less in taxable income. Better yet, utilization of such a refundable tax credit would shift tax burden from low- and middle-income earners to more affluent earners, better aligning tax burden with ability to pay and creating some tax fairness.

When Illinois increases its individual income tax rate, it should contemporaneously increase its corporate income tax rate to further address the structural deficit. Since the Illinois state constitution provides that the corporate income tax rate cannot be more than 8/5^{ths} greater than the individual income tax rate, the new corporate rate—and the amount of revenue generated thereby—will depend on the new individual income tax rate.

Throughout his term in office, Governor Pritzker has been a responsible steward of the state's finances. Yet despite his many fiscal accomplishments, the structural deficit that has historically plagued Illinois' General Fund continues to constrain state resources in FY 2027, at a time when federal policy is worsening state-level fiscal challenges. If decision makers want to resolve the state's fiscal problems sustainably, they must implement a comprehensive pension re-amortization plan and reform Illinois tax policy to work in the modern economy.

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