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ANALYSIS OF ILLINOIS' FY 2025 ENACTED GENERAL FUND BUDGET

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Analysis of Illinois' FY 2025 Enacted General Fund Budget

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Table of Contents

1. Introduction 1

2. Key Findings 3
2.1. FY 2025 Revenue 3
2.2. FY 2025 Enacted General Fund Spending Appropriations 5
2.3. FY 2025 Accumulated or Deficit 7

3. FY 2025 Revenue 8
3.1. FY 2025 Enacted General Fund Revenue Summary 8
3.2. General Fund Revenue Growth Over Time 9

4. FY 2025 Enacted General Fund Spending Appropriations 15
4.1. Differentiating Between Hard Costs and Current Service Expenditures 15
4.2. FY 2025 Enacted General Fund Spending on Hard Costs 16
4.3. FY 2025 Enacted General Fund Discretionary Spending on Current Services 17
4.4. The Current Accumulated Deficit 19

5. General Fund Spending Trends 22
5.1. Year-to-Year Comparison of Appropriations for Current Services, FY 2024 & FY 2025 Enacted Budgets 22
5.2. In Real Terms, Total Gross Appropriations for Core Services in the FY 2025 Enacted GF Budget Remain Less Than Two Decades Ago in FY 2000 24

6. Detailed FY 2025 Enacted General Fund Current Services Spending by Major Category 25
6.1. Pre-K & K-12 Appropriations 25
6.2. Higher Education Appropriations 27
6.3. Human Services Appropriations 29
6.4. Healthcare Appropriations 30

7. FY 2025 Pension Funding 33

Endnotes 38

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Table of Figures

Figure 1 General Fund Revenue: FY 2024 Estimated versus FY 2025 Enacted ($ Millions) 9
Figure 2 Total General Fund Revenue, FY 2000 – FY 2025 ($ Millions, Inflation-adjusted Using 2024 Dollars) 10
Figure 3 Total General Fund Revenue, FY 2000 – FY 2025 ($ Millions), Inflation-adjusted Using 2024 Dollars—With Income Tax Rates Held Constant to FY 2000 Levels 11
Figure 4 Net Individual Income Tax Revenue, FY 2000 – FY 2025 ($ Millions), Inflation-adjusted Using 2024 Dollars 12
Figure 5 Net Sales Tax Revenues, FY 2000 – FY 2025 ($ Millions), Inflation-adjusted Using 2024 Dollars 12
Figure 6 Net Corporate Income Tax Revenue, FY 2000 – FY 2025 ($ Millions), Inflation-adjusted Using 2024 Dollars 13
Figure 7 General Fund Federal Source Revenues, FY 2000 – FY 2025 ($ Millions), Inflation-adjusted Using 2024 Dollars 14
Figure 9 FY 2025 Enacted General Fund Appropriations ($ Millions) 15
igure 10 The Share of Each Dollar of Gross Appropriations for Hard Costs and Current Services in the FY 2025 Enacted General Fund Budget 16
Figure 11 Hard Costs, FY 2024 & FY 2025 Enacted General Fund Budgets ($ Millions) 17
Figure 12 FY 2025 Enacted General Fund Budget Gross Appropriations for Current Services 19
Figure 13 projected Accumulated Surplus or Deficit at the end of FY 2026 ($ Millions) 19
Figure 14 Illinois General Fund Budget Deficit ($ Million), nominal 20
Figure 15 Projected Structural Deficit in Illinois' General Fund 21
Figure 16 Current Services Appropriations FY 2025 Enacted Compared to FY 2024 Enacted ($ Millions) 22
Figure 17 Nominal Dollar Comparison of FY 2024 Enacted and FY 2025 Enacted General Fund Budget Appropriations for Healthcare ($ Millions) 23
Figure 18 General Fund Budget Services Appropriations FY 2024 Enacted Compared to FY 2025 Enacted, Adjusted for Inflation ($ Millions) 24
Figure 19 Illinois General Fund Appropriations for Core Services: FY 2025 Enacted Compared to Enacted FY 2000 ($ Millions) 25
Figure 20 Early Childhood and K-12 Education General Fund Appropriations FY 2025 Enacted Compared to FY 2024 Enacted, Nominal and Inflation-adjusted Dollars ($ Millions) 26
Figure 21 Enacted General Fund Appropriations For Early Childhood and K-12 Education in FY 2025 Compared to FY 2000, inflation-adjusted 27
Figure 22 FY 2025 General Fund Budget Higher Education Appropriation Compared to FY 2024 Enacted, in Nominal Dollars ($ Millions) 27
Figure 23 FY 2025 Enacted General Fund Budget Higher Education Appropriation Compared to FY 2024 Enacted, in Inflation-adjusted Dollars ($ Millions) 28
Figure 24 FY 2025 Higher Education Appropriation Compared to FY 2000 Enacted General Fund Budget ($ Millions) 28
Figure 25 Public University Revenue by Source, FY 2003 and FY 2020 29
Figure 26 FY 2025 Enacted Human Services Appropriations by Agency Compared to FY 2024 in Nominal Dollars ($ Millions) 30
Figure 27 FY 2025 Enacted Human Services Appropriations Compared to FY 2000, in Nominal and Inflation-adjusted Dollars ($ Millions) 30
Figure 28 Comparison of FY 2024 and FY 2025 Enacted General Fund Budget Appropriations for Healthcare (Nominal $ Millions) 31
Figure 29 Medical Assistance Average Yearly Enrollment 32
Figure 30 Medicaid Spending in Illinois by Funding Source (Federal, State and Local), inflation-adjusted 33
Figure 31 FY 2025 Enacted General Fund Pension Appropriations ($ Millions) 34
Figure 32 Projected All Funds Contributions to State Pension Systems ($ Millions) 36

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Figure 33 CTBA Pension Re-amortization and Current Law All Funds Contributions to State Pension Systems ($ Millions) 37

Table of Acronyms

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

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1. Introduction

On June 6, 2024, Governor Pritzker signed into law the General Fund budget for FY 2025 (the "**FY 2025 Enacted GF Budget**"). The FY 2025 GF Enacted Budget makes two things clear about the state's finances. First, the General Fund continues to be in better fiscal condition than it historically has been over the last three decades. That's the good news. Second, the state's structural fiscal problems, which were partially redressed by revenue enhancements passed over the last three fiscal years, as well as somewhat masked by one-time federal financial assistance provided during the pandemic and the strong economic growth that followed, are re-emerging. And that's the bad news.

Overall, the state's fiscal condition has improved significantly since Governor Pritzker first took office in 2019. Back then, Pritzker inherited an $8 billion backlog of unpaid bills from Governor Rauner's Administration.[1] A budget hole of that size meant roughly 30 percent of all General Fund expenditures during Rauner's final year as governor constituted deficit spending. Unfortunately, that deficit under Rauner was also nothing new. For more than two decades prior to Pritzker's inauguration, Illinois had failed to produce anything close to a balanced budget in its General Fund.[2]

Governor Pritzker started changing that narrative by being a responsible fiscal steward of the state's finances. Yes, over the past few years Illinois received significant pandemic-related financial support from the federal government, totaling some $6.4 billion, that helped shore up the General Fund during the pandemic.[3] The state also realized around $4.3 billion in unexpected revenue growth in FY 2024.[4] This was primarily due to a combination of factors including the robust economic recovery that followed the pandemic, and corporations taking advantage of a 40-year high in inflation to price gouge, and thereby generate record profits.[5]

Fortunately, the Pritzker Administration did not cave into political pressure to use either the one-time federal pandemic aid, or the unexpected, one-time bump in revenue frivolously. Instead, for the most part Pritzker's Administration leveraged this fiscal largesse to help pay down the state's bill backlog, pre-pay $700 million in pension debt, pay back the $4.5 billion deficit in the state's Unemployment Insurance Trust Fund and invest $2 billion in Illinois' Rainy-Day Fund, so that it now sits at a historically high level of $2.2 billion after being reduced to zero dollars—under Governor Rauner.[6]

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 enacted for FY 2025 is a $75 million year-to-year bump for the Early Childhood Education Block Grant, an additional $14 million to create a new Department of Early Childhood, 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 $10 million for the Monetary Award Program ("**MAP**"), which provides financial aid to low-income college students.[7]

However, because this is Illinois, not all the fiscal news is good. Many of the structural fiscal flaws that created years of deficits remain in place. Because of that, when Pritzker signed the FY 2025 Enacted GF Budget, he cautioned that he would not increase spending in some key service areas as much as is needed or he would like, because the anticipated General Fund revenue growth for FY 2025 is not as robust as it has been the last couple of years—even though, as detailed below, Illinois passed some $655 million in revenue enhancements in FY 2022, and realized record revenue growth in the economic period following the pandemic.[8] There are a number of reasons for this. For one, there is no more bailout revenue available from the federal government under relief programs like the American Rescue Plans Act ("**ARPA**") and the Coronavirus Aid, Relief, and Economic Security Act ("**CARES**.") That alone takes $6.4 billion in federal aid that subsidized the General Fund over the last few years off the table.

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Moreover, the boom in the economy that followed the end of the pandemic has slowed. So even though the economy is still expanding, it is not generating the growth in income and corporate profitability that transpired over the last two years.[9]

Without that federal support and record revenue growth caused by unique economic factors, the state's historical, long-term "structural deficit" will again create fiscal capacity issues for the General Fund. A "**structural deficit**" exists whenever a tax system fails to generate enough revenue growth over an extended period of time 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. This structural deficit will constrain the General Fund's ongoing capacity to cover the cost of core services into the future.

Recognizing the fiscal constraints created by the structural deficit, the Pritzker Administration has worked with the General Assembly to pass some initiatives into law which generated new, recurring revenue for the General Fund and diminished the impact of the structural deficit.

For instance, the FY 2025 Enacted GF Budget includes:

(i) increasing the rate of the sports wagering tax from 15 percent to a graduated rate that varies from a low of 20 percent to a high of 40 percent, which is projected to generate $200 million in annual revenue;
(ii) keeping the annual cap on the amount of the Corporate Net Operating Loss Deduction ("**NOL Cap**") a business can claim on its state income taxes—but increasing the NOL Cap from the $100,000 level that pertained under prior law to $500,000—which is projected to generate $526 million in annual revenue; and
(iii) placing a cap of $1,000 per month on the amount of the retailers' discount ("**RD Cap**") a business can claim from collecting sales taxes for Illinois, which is projected to generate $101 million in annual revenue.[10]

Previously in FY 2022, the state raised around $655 million in new revenue by eliminating a number of inefficient tax expenditures and reinstating the corporate franchise fee.[11] As detailed above, the state is projected to raise $827 million in FY 2025, and in FY 2020 the state legalized and imposed a tax on the sale of cannabis, which is currently generating $123 million for the General Fund.[12]

Generating new revenue to address the structural deficit in the General Fund makes sense, because the data makes one conclusion crystal clear: flaws in the state's tax policy are the primary driver of Illinois' long-term fiscal shortcomings. These tax policy flaws are so significant that, even during a normal economy, revenue for the General Fund has historically failed to grow at the rate needed to continue providing the same level of public services from one fiscal year into the next, adjusting solely for inflation.[13] In other words, the structural deficit in Illinois' General Fund is the predictable result of the state's flawed tax policy.

Unfortunately, despite the aforesaid new revenue, the structural deficit is re-emerging. That is a genuine cause for concern for one simple reason: about 95 percent of all General Fund spending on services goes to the four core areas of Education, Healthcare, Human Services, and Public Safety.[14] Having a structural deficit means current spending levels on those services are not sustainable over time. If there is inadequate fiscal capacity to maintain investments on core services, those services will be cut—and that is precisely what the data show has occurred in Illinois.

In fact, because revenue growth has not historically kept pace with service cost growth, real spending has been cut on the four core services for decades. So much so that by the end of the FY 2025 Enacted GF Budget year, aggregate spending on Education, Healthcare, Human Services, and Public Safety is projected to be 9.3 percent less in real, inflation-adjusted dollars, than it was in FY 2000.[15]

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

Moreover, to minimize the size and scope of the aforesaid service cuts caused by the structural deficit in the General Fund, state decision makers historically engaged in two irresponsible fiscal practices that still impact the Illinois General Fund today. 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.[16] That not only drives up the local property tax burden, but also creates major inequities in school funding, by effectively tying the quality of the public education a child receives to the local property wealth of the community in which that child lives.

Second, the state engaged in a decades-long practice of underfunding its five public employee pension systems. This helped minimize the impact of the structural deficit, as decision makers diverted revenue that should have been used to fund pension benefits, to instead cover the cost of current services. Effectively this was tantamount to borrowing from the pension systems and then using the borrowed dollars to fund current service delivery. Ultimately, this irresponsible fiscal practice allowed the state to avert some spending cuts in the short term, but at the cost of creating a huge unfunded liability—read that as "debt"—owed to its pension systems over the long-term. The resultant 1995 Pension Ramp, which was supposed to remediate the problem, instead implemented an unaffordably back-loaded schedule for repaying the debt owed to the pension systems, and that back-loaded debt service plan has been straining fiscal resources and adding to the structural deficit for years.[17]

The bottom line is clear: having a structural deficit leads to undesirable outcomes.

Over the last few years, the Pritzker Administration has made progress in getting the state's fiscal house in order. By wisely using the federal largess received during the pandemic and the state's unanticipated surge in revenue following the pandemic's end, Governor Pritzker has been able to shore up the General Fund to the healthiest financial condition it has seen for literally decades. However, the unique circumstances which the Pritzker Administration leveraged to improve Illinois' fiscal health are now in the rearview mirror. Because of that, the structural deficit is making a comeback, and will, over time, whittle away at the state's fiscal health making it more difficult to maintain investment in core services into the future. Illinois decision makers have the rare opportunity to take advantage of the state's relatively sound fiscal condition and thoughtfully consider reforming the state's fiscal system, with an eye toward building the capacity needed to sustain investments in core services over the long haul, rather than just dig out of the crisis du jour.

2. Key Findings

2.1. FY 2025 Revenue

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

- 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 defined term "**Adjusted General Fund Revenue**" which only includes recurring revenue that will be available in subsequent fiscal years.

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- It is estimated that Total General Fund Revenue for the FY 2025 Enacted GF Budget will be $53.3 billion, which is $2.7 billion, or 5.3 percent more, in nominal dollars than the $50.6 billion in Total General Fund Revenue now estimated for FY 2024.[18]
- Some of the key reasons for the $2.7 million year-to-year projected increase in revenue are: (i) Net Individual Income Tax revenue is projected to be **$796 million greater** than FY 2024 levels; (ii) Net Corporate Income Tax revenue is projected to be **$262 million greater** than FY 2024 levels; and (iii) Net Sales Tax revenue is projected to be **$492 million greater** than FY 2024 levels. The only year-to-year projected decrease is revenue from the Public Utilities assessment which is projected to be $20 million less than FY 2024 levels.

2.1.2. Until the Recent Record Revenue Growth Caused by Unique, Post-Pandemic Economic Conditions, Long-Term General Fund Revenue Growth Had Been Relatively Flat Long-Term

- Prior to the unprecedented spike in revenue that occurred during the post-pandemic economy, flaws in the state's tax policy caused General Fund revenue growth in Illinois to be relatively flat over time, in real, inflation-adjusted terms. In fact, even after that spike, the projected General Fund revenue for FY 2025 of $53.3 billion represents a real, inflation-adjusted (using 2024 dollars) **increase of $8.2 billion** over the roughly $44.8 billion (again using 2024 dollars) in General Fund revenue Illinois' tax system generated two decades ago in FY 2000, an average real increase in annual revenue of just $328 million, which is less than one percent per year.[19]
- 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.[20] Second, revenue from the individual (50 percent) and corporate (10 percent) income taxes account for almost 60 percent of all General Fund revenue from any source.[21]
- 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 60 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 2025 would be $4.5 billion less in real terms than it was over two decades earlier in FY 2000.[22]
- In fact, stagnation and decline typify the performance of most state taxes that feed the General Fund. **When measured in real, 2024, inflation-adjusted dollars, the state has only realized inflation-adjusted revenue growth over the past four years in its individual and corporate income taxes**.[23] All other revenue sources that feed the General Fund have been flat or declining on an inflation-adjusted basis for over two decades.[24]
- For instance, from its peak revenue generation of $4.21 billion that occurred in FY 2013, corporate income tax revenue had been experiencing a precipitous real decline through FY 2020.[25] However, the elimination of some corporate tax expenditures effective in FY 2022, and again in FY 2025, the increase in the rate of the sports-book profit tax in FY 2025, coupled with a better-than-expected economic rebound from the COVID-19 pandemic, finally reversed that long-term decline in real corporate income tax revenue. Current projections are that corporate income tax revenue will be $5.4 billion in FY 2025, or $84 million greater than in FY 2024.
- The most important revenue source to exhibit little to no growth over the past 25 years is the sales tax. Projected sales tax revenue for FY 2025 is $10.9 billion, which represents roughly 21 percent of all projected General Fund revenue for the year. This constitutes a significant decline in relative importance

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over time. Using 2024 inflation-adjusted dollars, sales tax revenue is projected to comprise $776 million or five percent less of total General Fund revenue in FY 2025, than the 26 percent it accounted for in FY 2000.[26]

- 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.[27] 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.[28]
- 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.[29] 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.[30]
- Although historic Federal Transfers to Illinois has seen some variation over the past 20 years, since FY 2009 the clear trend has been a notable decline. Indeed, when not including the one-time pandemic relief funding Illinois received from the federal government, on an inflation-adjusted basis, Federal Transfers to the Illinois General Fund dropped from a peak of $9.3 billion in FY 2009, to a projected $4.0 billion in FY 2025, a decline of 57 percent.[31]
- The take-away from long-term revenue trends in Illinois is clear: All the data continue to demonstrate that Illinois' state-level tax policy is seriously flawed; does not work in the modern economy; 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. The recent revenue enhancements Illinois has enacted have helped to blunt the impact of the structural deficit but have not been sufficient to eliminate it.
- 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 2025 Enacted General Fund Spending Appropriations

2.2.1. Overall

- The FY 2025 Enacted GF Budget identifies a total of $53.1 billion in net appropriations for spending. Of that amount, $15.1 billion, or 28 percent, are for "Hard Costs," while $38.0 billion, or 72 percent are for "Current Services."[32]
- "**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 2025 Enacted GF Budget, **95 cents out of every $1** of all appropriations for spending on Current Services go to the core areas of Education, Healthcare, Human Services, and Public Safety.[33]
- Overall, net Current Service appropriations in FY 2025 are scheduled to be **$1.7 billion greater** than in FY 2024, in nominal, non-inflation-adjusted dollars.[34] After adjusting for changes in inflation and population, however, total appropriations for Current Services in FY 2025 are scheduled to be **$834 million, or 2.24 percent, greater** than in FY 2024 in real terms.[35]

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- 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, total appropriations for Current Services in FY 2025 are scheduled to be 9.3 percent less than actual spending on those services was two decades ago in FY 2000.[36]

2.2.2. FY 2025 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 2025 Enacted GF Budget appropriates $752 million for spending on Early Childhood, which is $79 million more in nominal dollars than FY 2024.[37] After adjusting for inflation, Early Childhood funding is scheduled to experience a real, year-to-year increase of $58 million, or 8.4 percent, from FY 2024 levels.[38]
- Considered over the long-term, after adjusting for inflation, appropriations for Early Childhood in the FY 2025 Enacted GF Budget are nearly 112.0 percent greater than actual spending was over twenty years ago in FY 2000.[39] This is by far and away the greatest real increase in spending in any major General Fund service category over that sequence.[40]
- The FY 2025 Enacted GF Budget appropriates $10.1 billion to K-12 education funding, which is $453 million more in nominal dollars than FY 2024.[41] After adjusting for inflation, K-12 funding is scheduled to receive a real, year-to-year increase of $150 million, or 1.51 percent, from FY 2024 levels.[42]
- Like Early Childhood, K-12 Education appropriations in the FY 2025 Enacted GF Budget are also projected to be greater than actual spending was in FY 2000 in real, inflation-adjusted terms, but by only $387 million, or just over 4.0 percent.[43] On average, that equates to a bump of just 0.16 percent, per year.
- The FY 2025 Enacted GF Budget appropriation for Higher Education is $2.62 billion, which represents a nominal dollar increase of about $77 million over FY 2024.[44] After adjusting for inflation, the appropriation for Higher Education in the FY 2025 Enacted GF Budget constitutes a year-to-year real decrease of -$3 million, or -0.10 percent, when compared to FY 2024.[45]
- Taking a longer view, General Fund appropriations for Higher Education in the FY 2025 Enacted GF Budget are scheduled to be 42 percent less in real, inflation-adjusted dollars than actual spending was in FY 2000.[46] **This is by far the greatest real cut imposed on any Current Service over the last 24 years.**

2.2.3. FY 2025 Human Services Spending

- In the FY 2025 Enacted GF Budget, the gross appropriation for all Human Services is scheduled to be $11.1 billion, which represents a 12 percent increase from the FY 2024 enacted appropriation of $9.9 billion in nominal dollars, and an 8.6 percent increase in real, inflation-adjusted dollars.[47]
- The FY 2025 Enacted GF Budget appropriation for Human Services marks just the second time in over two decades that Human Services appropriations would be greater in real terms than in FY 2000.[48]

2.2.4. FY 2025 Healthcare Spending

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

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- In the FY 2025 Enacted GF Budget, the gross appropriation for Healthcare is $9.4 billion, which is -$273 million, or -2.8 percent less in nominal dollars than in FY 2024.[49] Of that gross Healthcare appropriation, $8.96 billion is targeted to Department of Healthcare and Family Services, primarily to cover funding for the state's Medicaid expenditures on poor, disabled, and low-income populations.[50] The remaining $398 million of the $9.4 billion goes to the Department of Public Health.[51]
- The FY 2025 Enacted GF Budget also includes a statutory transfer in the amount of $2.2 billion from the General Fund to the HPRF, which is a special fund created to generate federal Medicaid matching dollars.[52]

2.2.5. FY 2025 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 2025 Enacted GF Budget includes a $10.612 billion appropriation for pensions, which is less than the required General Fund contribution for FY 2025 as identified by the 1995 Pension Ramp.
- For the first 15 years of the Pension Ramp, the payments it required were dramatically below the actuarially required contribution ("**ARC**"). This resulted in the funded ratio of the systems decreasing, rather than increasing over that sequence. Hence by law, the Pension Ramp simply continued the prior practice of intentionally underfunding public pensions and diverting 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 back-loaded as to be unaffordable. Indeed, the FY 2025 General Fund appropriation for pensions that is required under the Pension Ramp is $304 million more than the FY 2024 appropriation of $10.308 billion.[53] The state's total Pension Ramp payment from all funds in FY 2025 is scheduled to be $11.709 billion, up by $274 million from FY 2024 levels.[54]
- The state's existing tax policy will not be able to accommodate the annual increases in debt payments required under the Pension Ramp payments over time.

2.3. FY 2025 Accumulated or Deficit

- By the end of FY 2025, CTBA projects the state of Illinois will have an accumulated deficit in the state's General Fund of **-$143 million.**[55] 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.[56] Because Hard Costs have to be paid by law, the entire accumulated deficit is in that portion of the GF Budget which covers appropriations for Current Services.
- Since total net appropriations for Current Services in FY 2025 were $38.0 billion**,** the -$143 million accumulated deficit projected for FY 2025 effectively means roughly -0.4 percent of all FY 2025 General Fund spending on Current Services was in fact deficit spending.[57]
- The good news is this is among the lowest accumulated deficit levels for the state's General Fund in at least 27 years.[58]

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- 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.[59]

3. FY 2025 Revenue

3.1. FY 2025 Enacted General Fund Revenue Summary

General Fund revenue estimates come from two primary sources, the Governor's Office of Management and Budget ("**GOMB**") and the Commission on Government Forecasting and Accountability ("**COGFA**"). While this Report does use data from both COGFA and GOMB, for all year-over-year comparisons of the FY 2024 Enacted GF Budget to the FY 2025 GF Budget Proposal, this Report will strictly use GOMB estimates, to make it easy for reconciling the governor's proposal with the data published by his office.

As shown in **Figure 1**, it is estimated that Total General Fund Revenue for the FY 2025 Enacted GF Budget will be $53.3 billion, which is $2.7 billion, or 5.3 percent more, in nominal dollars than the $50.6 billion in Total General Fund Revenue now estimated for FY 2024.[60]

Some of the key reasons for **the $2.7 billion year-to-year increase in General Fund revenue** in the FY 2025 GF Budget proposal are the following items:

(i) Revenue from the state's Net Individual Income Taxes in FY 2025 is projected to be **$796 million more** than in FY 2024.
(ii) Revenue from the state's Corporate Income Tax is projected to be **$262 million more** in FY 2025 than in FY 2024.
(iii) Revenue from the state's Net Sales Tax is projected to be **$492 million more** in FY 2025 than in FY 2024.
(iv) Revenue from Other State Sources in FY 2025 is projected to be **$587 million more** than in FY 2024.
(v) The remaining revenue increases are split between Lottery **($143 million more** than in FY 2024), Gaming Taxes **($2 million more** than in FY 2024), Sports Wagering **($200 million more** than in FY 2024), Adult-use Cannabis **($7 million more** than in FY 2024), Other Transfers **($59 million more** than in FY 2024), and Federal Sources (**$141 million more** than in FY 2024).

Those year-to-year revenue increases are offset by a projected year-to-year decline of $20 million in revenue from the Public Utilities tax.

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FIGURE 1
GENERAL FUND REVENUE: FY 2024 ESTIMATED VERSUS FY 2025 ENACTED ($ MILLIONS)

Revenue Sources	FY 2024 Enacted	FY 2025 Enacted	$ Difference	% Difference
State Sources: Revenues				
Individual Income Taxes	$25,711	$26,507	$796	3.1%
Corporate Income Taxes	$5,116	$5,378	$262	5.1%
Sales Taxes	$10,415	$10,907	$492	4.7%
Public Utilities	$721	$701	($20)	-2.8%
Other State Sources	$2,616	$3,203	$587	22.4%
Total State Sources: Revenues	**$44,578**	**$46,696**	**$1,585**	**4.8%**
State Sources: Transfers In				
Lottery	$759	$902	$143	18.8%
Gaming Taxes	$175	$177	$2	1.1%
Sports Wagering	$-	$200	$200	100%
Adult-Use Cannabis	$116	$123	$7	6.0%
Other Transfers	$1,100	$1,159	$59	5.4%
Total State Sources: Transfers In	**$2,150**	**$2,561**	**$411**	**19.1%**
Total State Sources: Revenue & Transfers In	**$46,728**	**$49,257**	**$2,979**	**6.4%**
Federal Sources	$3,883	$4,024	$141	3.6%
Total General Funds Revenues	**$50,611**	**$53,281**	**$2,670**	**5.3%**

Source: COGFA June 2024 Monthly Briefing and FY 2025 Enacted Walkdown

3.2. 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 only began to experience significant growth since FY 2021. As delineated in Section 3.1 of this Report, various revenue enhancements, implemented through a combination of tax increases and elimination or scaling back of tax expenditures, are the primary reasons for the recent spike in revenue growth. Prior to FY 2020, revenue for the General Fund had remained relatively flat over time, in real, inflation-adjusted terms. Indeed, in current 2024 dollars, the $47 billion Adjusted General Fund Revenue for **FY 2020 was only $2.0 billion greater than it was in FY 2000**, **which means in real, inflation-adjusted terms, state General Fund revenue grew by just four percent over 20 years, an average increase of only 0.002 percent annually**.[61]

For context, cumulative inflation over that 20-year period was 53 percent.[62] 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 2025, cumulative inflation increased by 22 percent, while revenue increased by $6.2 billion, or 14.4 percent. So during that four-year period, revenue growth did not keep pace with inflation, despite the aforesaid revenue increases. One reason for this is the significant inflationary growth that occurred between calendar years 2021 and 2022, when the annual rate of inflation hit a 40-year high. [63]

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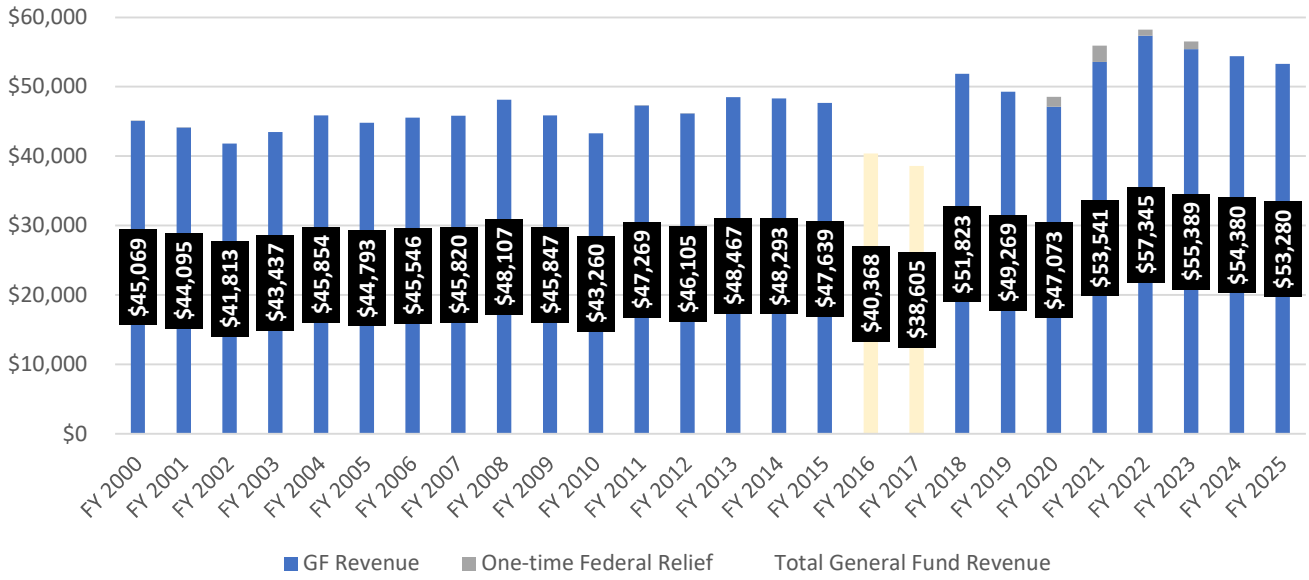
As **Figure 2** shows, after adjusting for inflation and putting all values in current, 2024 dollars, the projected $53.3 billion in Total General Fund Revenue for FY 2025 represents a real increase of $8.2 billion, or roughly an average of $328 million, or 0.78 percent, annually from the $45.1 billion generated two decades ago in FY 2000.[64]

FIGURE 2
TOTAL GENERAL FUND REVENUE, FY 2000 – FY 2025 ($ MILLIONS, INFLATION-ADJUSTED USING 2024 DOLLARS)



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

But that quite modest average growth actually overstates, significantly, the actual revenue performance of the state's tax system. That is because Illinois has increased both its individual and corporate income tax rates since FY 2000, from three percent to 4.95 percent, and from 4.8 percent to seven percent respectively.[65] 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. Moreover, as detailed in Section 3.1, the state also increased recurring revenue by some $655 million in the aggregate by passing a number of revenue enhancements in fiscal year 2022.[66]

For instance, the sharp decline in Total General Fund revenue from FY 2015 to FY 2017 highlighted in **Figure 2** was due in large part to a reduction in the state's individual and corporate income tax rates.[67] In FY 2011, Illinois' individual income tax rate was increased temporarily from three percent to five percent.[68] Then by law in January of 2016, the individual income tax rate automatically decreased from five percent (5%) to 3.75 percent.[69] Not surprisingly, after that rate cut, net individual income tax revenues declined in real, inflation-adjusted dollars by $6.5 billion from FY 2015 to FY 2016.[70] 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.[71]

To gain an accurate longitudinal evaluation of the performance of the state's tax system based on its inherent design rather than changes in rates and/or tax expenditures permitted over time, the comparison in **Figure 3** adjusts the amount of Total General Fund Revenue projected for FY 2025 based on income tax rates as they existed in FY 2000. If Illinois' individual and corporate income tax rates were still the three percent and 4.8 percent respectively that they were in FY 2000, General Fund revenue in FY 2025 would be $4.4 billion less in real terms than it was more than two full decades earlier in FY 2000.

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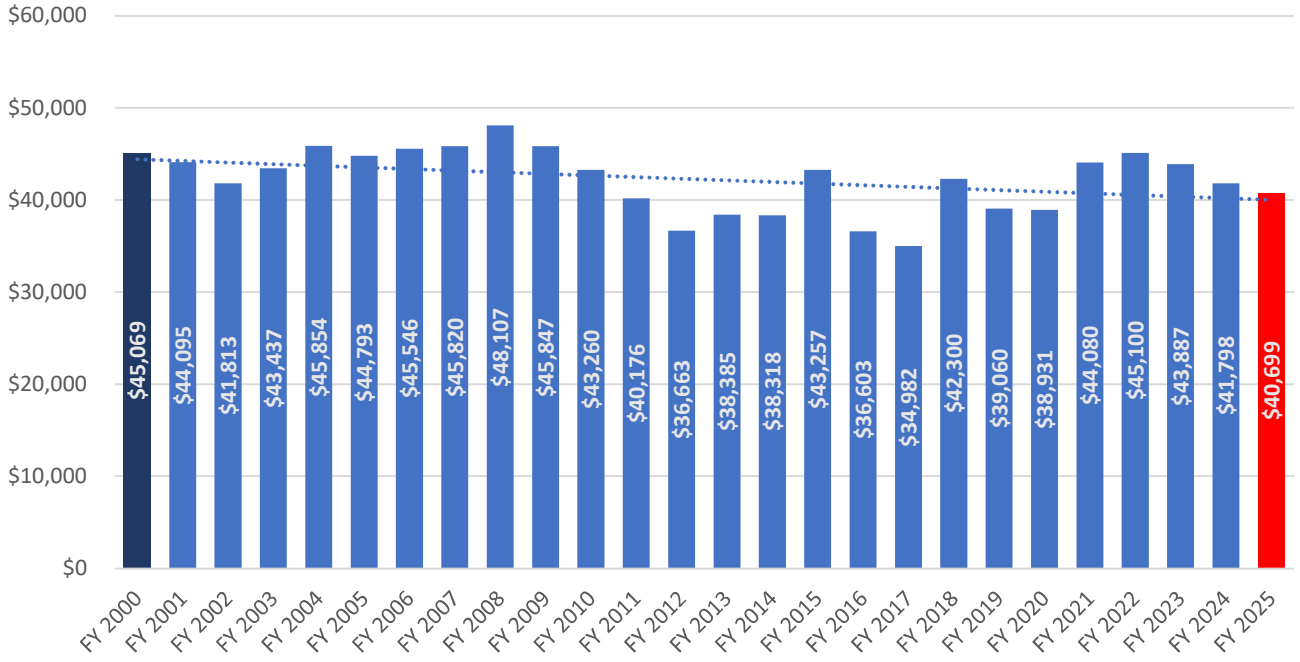
FIGURE 3
TOTAL GENERAL FUND REVENUE, FY 2000 – FY 2025 ($ MILLIONS), INFLATION-ADJUSTED USING 2024 DOLLARS—WITH INCOME TAX RATES HELD CONSTANT TO FY 2000 LEVELS



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

This highlights just how poorly functioning Illinois' overall tax policy is as currently designed. The increase in income tax rates, coupled with the various other revenue enhancements detailed in Section 3.1 of this Report, obviously led to a bump in tax revenue, 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, over time 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 failure of income tax revenue to consistently grow with the modern economy. The consequences of the state's flawed tax policy result in the creation of the structural deficit mentioned previously, and which is delineated 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 4** the individual income tax revenue estimated for FY 2025 of $26.5 billion represents a real **increase of $174 million over FY 2024 levels**, and an **$11.6 billion increase over FY 2000 levels**.[72] That said, after adjusting for inflation, net revenue from the individual income tax projected for FY 2025 is roughly $1.8 billion less than the previous peak the state realized for net revenue from the individual income tax that was set in FY 2022.[73]

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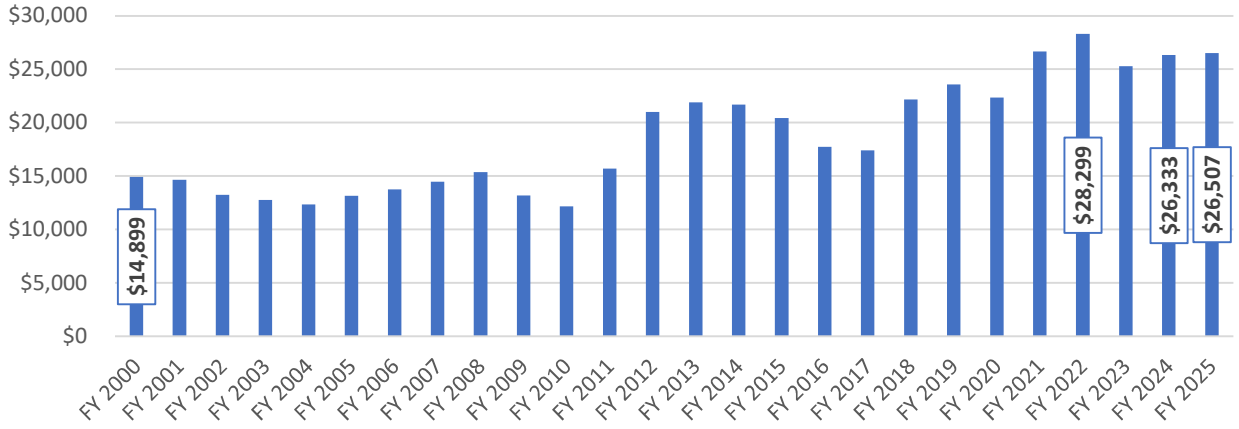
FIGURE 4
NET INDIVIDUAL INCOME TAX REVENUE, FY 2000 – FY 2025 ($ MILLIONS),
INFLATION-ADJUSTED USING 2024 DOLLARS

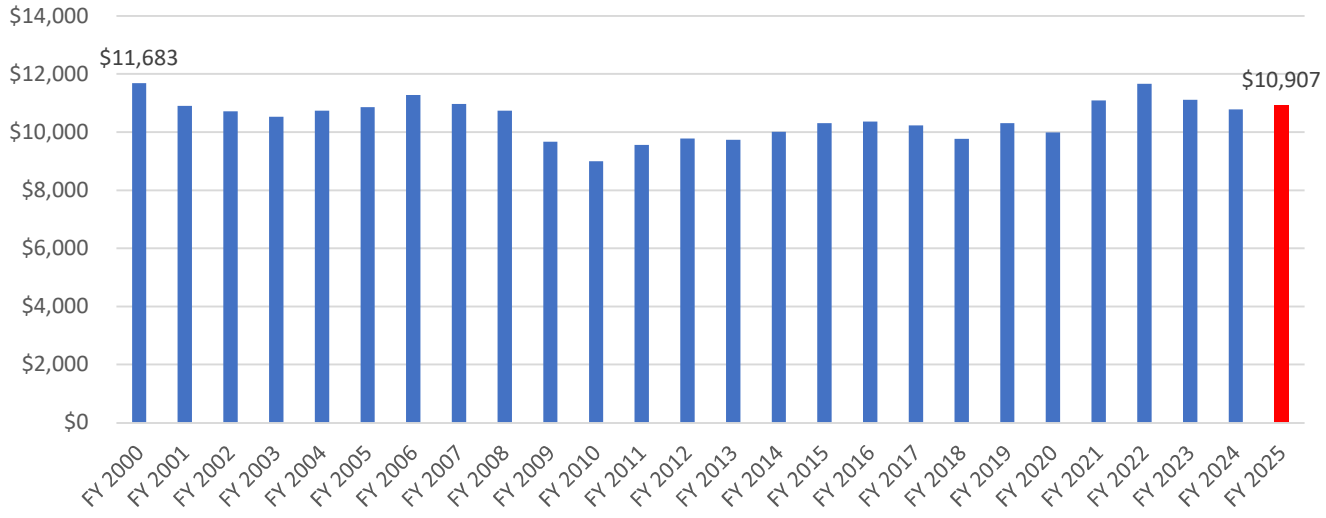


Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB[74]

Meanwhile, stagnation and decline typify the performance of the other state taxes that feed the General Fund. Indeed, when measured in 2024 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.**[75]

The most important of these revenue sources to exhibit little to no growth over the past 25 years is the sales tax. Consider that projected net sales tax revenue for FY 2025 is $10.9 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 2024 inflation-adjusted dollars, sales tax revenue is projected to comprise $776 million, or five percent less of FY 2025 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 5**.

FIGURE 5
NET SALES TAX REVENUES, FY 2000 – FY 2025 ($ MILLIONS),
INFLATION-ADJUSTED USING 2024 DOLLARS



Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB[76]

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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.[77] 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.

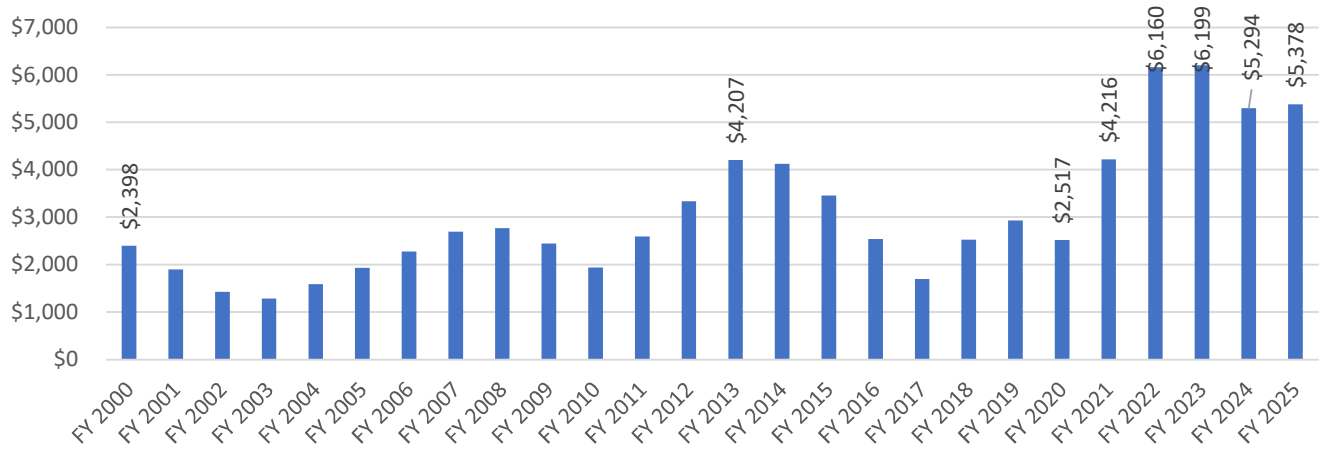
That's problematic because the economy has transitioned from being primarily products-based to being primarily service-based. Illinois' sales tax has failed to respond to this fundamental economic transformation. Consider that, between 2000 and 2022, the sale of goods went from accounting for 21 percent of Illinois' GDP to just 17 percent, while the sale of services increased from 69 to 74 percent of state GDP.[78] 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.[79]

Revenue from several other state tax sources that feed the General Fund have also experienced real declines over the FY 2000—FY 2025 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.[80]

As shown in **Figure 6**, corporate income tax revenue declined from its prior peak level of $4.21 billion in FY 2013, to $2.52 billion in FY 2020—a decline of $1.7 billion in inflation-adjusted dollars.[81] By FY 2021, corporate income tax revenue jumped back up to $4.22 billion, which is almost the exact same amount of revenue, after adjusting for inflation, that was collected at its peak in FY 2013. FY 2022 and FY 2023 saw corporate income tax revenue increase over the prior year by $1.9 billion and $2.0 billion, respectively, 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: Volume II."

FIGURE 6
NET CORPORATE INCOME TAX REVENUE, FY 2000 – FY 2025 ($ MILLIONS), INFLATION-ADJUSTED USING 2024 DOLLARS



Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB[82]

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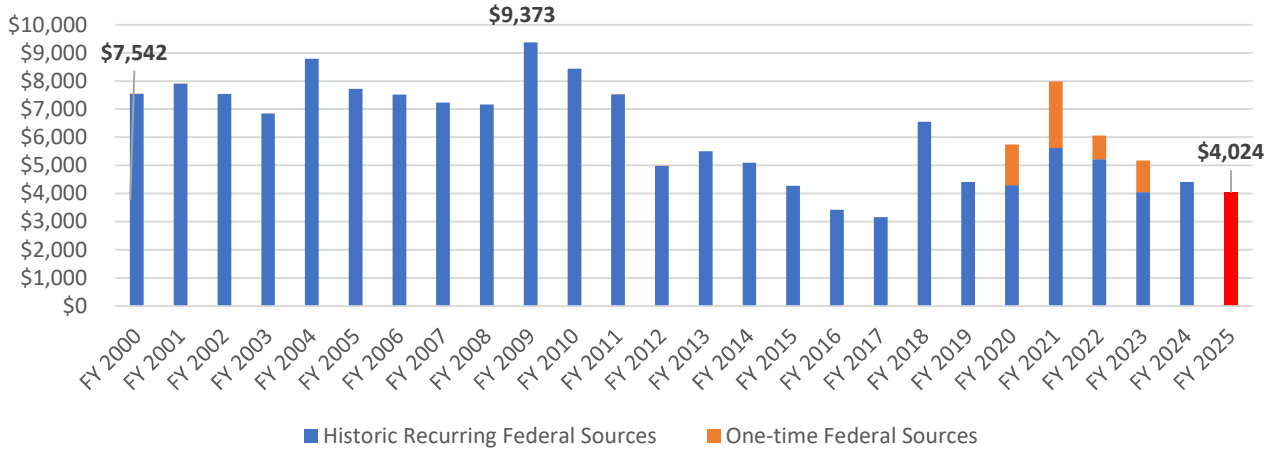
Meanwhile, although Historic Recurring Federal Transfers (i.e., excluding one-time federal relief received under programs like ARPA) to Illinois have seen some variation over the past 20 years, since FY 2009 the clear trend has been a notable decline. Indeed, as shown in **Figure 7**, on an inflation-adjusted basis, Historic Recurring Federal Transfers to the Illinois General Fund have dropped from a peak of $9.3 billion in FY 2009, to a projected $4.0 billion in FY 2025, a decline of $5.4 billion, or 57 percent.[83]

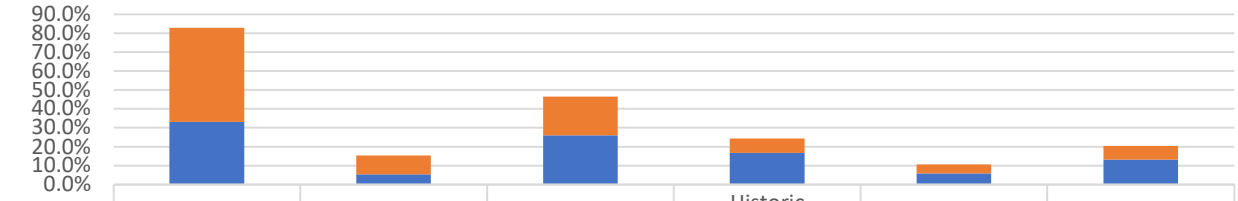
FIGURE 7
GENERAL FUND FEDERAL SOURCE REVENUES, FY 2000 – FY 2025 ($ MILLIONS), INFLATION-ADJUSTED USING 2024 DOLLARS



Source: CTBA Analysis using historical revenue data from Commission on Government Forecasting & Accountability and GOMB[84]

The significant year-to-year increase in Historic Recurring Federal Transfers Illinois realized over the FY 2017-FY 2018 sequence shown in **Figure 7** 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.[85] **Figure 8** shows how the share of Total General Fund Revenue by source has changed between FY 2000 and FY 2025. **Figure 8** illustrates the general Fund's growing over-reliance on the state's flat-rate individual income taxes as a revenue source, and the diminution of the importance of sales tax revenue—driven by the fact that Illinois' sales tax does not include most consumer services in its base.

FIGURE 8
SHARE OF FY 2000 & FY 2025 GENERAL FUND REVENUE BY SOURCE ($ MILLIONS), INFLATION-ADJUSTED USING 2024 DOLLAR



	Net Individual Income	Net Corporate	Net Sales	Historic Recurring Federal Sources	Transfers In	Other Sources
FY 2025	49.8%	10.1%	20.5%	7.6%	4.8%	7.3%
FY 2000	33.1%	5.3%	25.9%	16.7%	5.8%	13.1%

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

4. FY 2025 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 2025 Enacted GF Budget, $15.1 billion, or 28 percent, of the $53.3 billion in total, net spending appropriations are for Hard Costs.[86]

"**Current Services**" covers spending on public services over which elected officials generally have at least some discretion. In the FY 2025 Enacted GF Budget, 95 cents out of every $1 of 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 2025 Enacted GF Budget contains a *gross* appropriation of $38.9 billion for spending on Current Services.

However, the FY 2025 net appropriations for Current Services will be less than gross appropriations. The reason for this is the General Fund budget enacted for FY 2025—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 2025 Enacted GF Budget is $895 million.[87]

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 2025 Enacted GF Budget are shown in **Figure 8** by major category.

FIGURE 8
FY 2025 ENACTED GENERAL FUND APPROPRIATIONS ($ MILLIONS)

Category	Item	FY 2025 Enacted
1. Total Hard Costs		**$15,104**
	Debt Service (Pension & Capital Bonds)	$1,720
	Other Statutory Transfers Out	$445
	Pension Contributions	$10,612
	Group Health Insurance	$2,327
2. Gross General Fund Service Appropriations		**$38,870**
	Healthcare (including Medicaid)	$9,360
	Human Services	$11,526
	Early Childhood Education	$752
	K-12 Education	$10,145
	Higher Education	$2,616
	Public Safety	$2,523
	Other	$2,349
	Unspent Appropriations	($895)
3. Net General Fund Service Appropriations		**$37,975**
4. Total Net General Fund Appropriations		**$53,079**

Source: CTBA analysis of FY 2025 Enacted Walkdown

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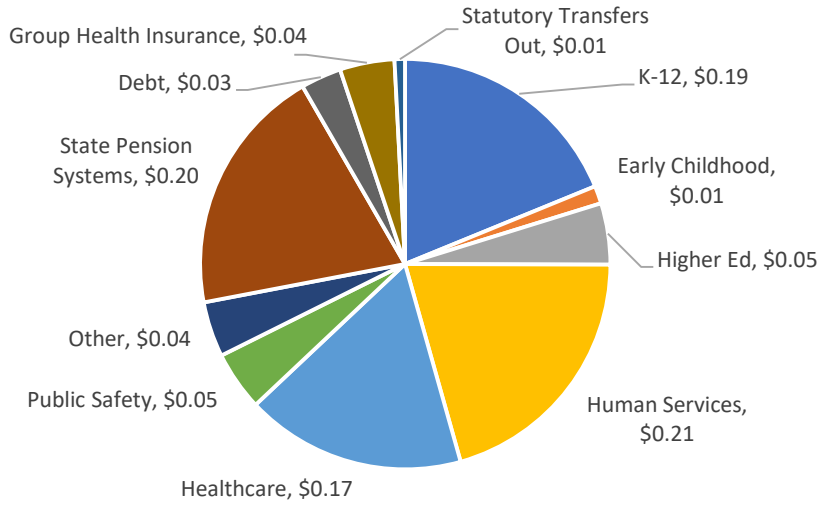
Figure 9 provides a breakdown of how every $1 of gross appropriations in the FY 2025 Enacted GF Budget is intended to be spent, including both Hard Costs and Current Services spending.

FIGURE 9
THE SHARE OF EACH DOLLAR OF GROSS APPROPRIATIONS FOR HARD COSTS AND CURRENT SERVICES IN THE FY 2025 ENACTED GENERAL FUND BUDGET



Source: CTBA analysis of FY 2025 Enacted Walkdown

As shown in **Figure 9,** for every $1 in taxes that would be spent under the FY 2025 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; $0.17 is for Healthcare; $0.21 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 2025 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 2025 are for "Group Health Insurance," "Debt Service," "Pension Contributions," and "Other Statutory Transfers Out." Collectively, a total of $15.1 billion has been identified to cover Hard Costs in the FY 2025 Enacted GF Budget, which represents a $844 million (6 percent) nominal dollar increase from the FY 2024 Enacted GF Budget.[88]

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 10** details how the Hard Cost appropriations for FY 2025 differ from Hard Cost expenditures for FY 2024.

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FIGURE 10
HARD COSTS, FY 2024 & FY 2025 ENACTED GENERAL FUND BUDGETS ($ MILLIONS)

Total Hard Costs	FY 2024 Enacted	FY 2025 Enacted	$ and % Change FY 2024 & FY 2025 Enacted
Group Health Insurance	$1,837	$2,327	$490 or 26.7%
Debt Service (Pension & Capital Bonds)	$1,686	$1,720	$34 or 2%
Pension Contributions	$10,308	$10,612	$304 or 2.96%
Other Statutory Transfers Out	$429	$445	$16 or 3.73%
Total	**$14,260**	**$15,104**	**$844 or 5.92%**

*Source: CTBA analysis of FY 2025 Proposed Budget & FY 2025 Enacted Walkdown; *includes $400M in additional contributions*

The first item listed under Hard Costs in **Figure 10** 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 2025, the appropriation for Group Health is $2.3 billion, a $490 million (26.7 percent) nominal-dollar increase from the FY 2024 Enacted GF Budget.[89]

The next item listed in **Figure 10** 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 2025 Enacted GF Budget, $1.7 billion is appropriated to spend on debt service, a $34 million (2 percent) nominal increase from the FY 2024 Enacted GF Budget.

The third Hard Cost line in **Figure 10** is for "Pension Contributions." The FY 2025 Enacted GF Budget appropriation for Pension Contributions of $10.6 billion does not cover the $15.1 billion in total FY 2025 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**").[90] In FY 2025, the state paid an additional $1.1 billion in pension contributions made through other state funds, in the following amounts: $215 million, and $881.88 million.[91] Also included in the "Pension Contributions" line is an additional $477 million in appropriations, of which $9.2 million goes to SURS for the Community College Insurance Program, $114 million goes to TRS for the Teachers' Retirement Insurance Program, and $354 million goes to the Public School Teachers' Pension and Retirement Fund of Chicago.[92]

Total pension contributions **are $304 million or 3.0 percent more** in FY 2025 than they were in FY 2024.[93] This is also somewhat less than the amount initially scheduled to be contributed in FY 2025 under the back-loaded schedule for repaying debt the state owes to its five pension systems created under the 1995 Pension Ramp.[94]

The fourth Hard Cost listed in **Figure 10** is "Other Statutory Transfers Out." As the name implies, Other Statutory Transfers Out covers expenditures, other than for pension debt and debt service, that must be paid from the General Fund annually pursuant to existing state legislation. In the FY 2025 Enacted GF Budget, appropriations for Other Statutory Transfers Out are scheduled to be $445 million or 3.7 percent more than in FY 2024, in nominal, non-inflation adjusted dollars.

4.3. FY 2025 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 2025 is represented by the respective appropriations made for

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Current Services. The vast majority of those appropriations—95 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.[95] 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.[96]

The "Healthcare" category consists of appropriations for the Department of Health and Family Services ("**DHFS**") and the Department of Public Health.[97] Note that the vast majority of General Fund appropriations for DHFS—about 75 percent—is targeted for Medicaid, with another 25 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.[98]

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 Fund dollars appropriated to the Human Rights Commission are earmarked for Human Services programming.[99] 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 2025 funding for that department is earmarked for healthcare programming.[100]

As shown in **Figure 11**, the appropriations in the FY 2025 Enacted GF Budget for Current Services continue to prioritize the same core services of Education (35 percent), Healthcare (24 percent), Human Services (29 percent), and Public Safety (6 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.

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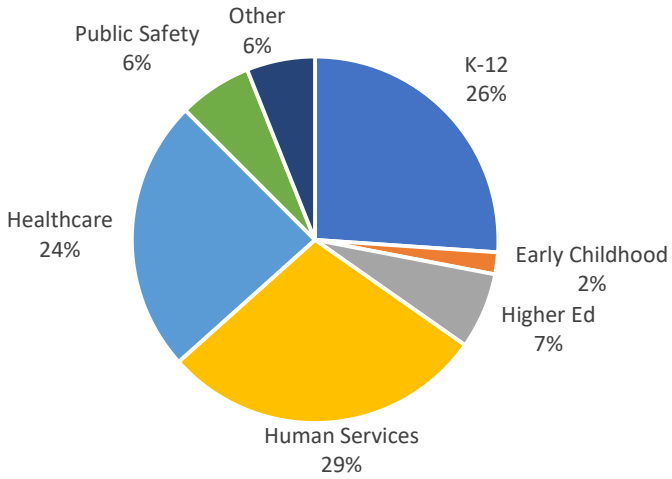
FIGURE 11
FY 2025 ENACTED GENERAL FUND BUDGET GROSS APPROPRIATIONS FOR CURRENT SERVICES



Source: CTBA analysis of FY 2025 Enacted Walkdown

Although **Figure 11** shows the breakdown of the enacted *gross* appropriations for Current Services in FY 2025, 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, so **Figure 11** shows gross appropriated amounts instead.

4.4. The Current Accumulated Deficit

An "**accumulated deficit**" is typically the sum of: the unpaid bills for Current Services the state has remaining at the end of a given fiscal year; plus the amount of any one-time revenues relied on to support delivery of Current Services in said fiscal year, that have to be replaced in the next fiscal year just to maintain flat service spending. As things stand now, at the end of FY 2025, CTBA projects the accumulated deficit will stand at ($142 million), and that it is projected to increase to ($3,383 billion) by the end of FY 2026. The walk down showing how this accumulated deficit will increase by approximately $3.2 billion between FY 2025 and FY 2026 is set forth in **Figure 12**.[101]

FIGURE 12
PROJECTED ACCUMULATED SURPLUS OR DEFICIT AT THE END OF FY 2026 ($ MILLIONS)

Item	Amount	Remaining Resources
Total FY 2025 General Fund Revenue	$53,406	$53,406
Accumulated Deficit Carry Forward from FY 2024	($142)	$53,264
FY 2025 Hard Costs	$16,230*	$37,034
FY 2025 Enacted General Fund Net Service Appropriations	$40,231*	($3,197)
Subtract Budget Stabilization Transfer	$186	($3,383)
Projected Accumulated FY 2025 Enacted General Fund Deficit	**($3,383)**	
Accumulated Deficit as a Percent of General Fund Net Service Appropriations	**(8.4%)**	

*Source: CTBA analysis of FY 2025 Economic and Fiscal Policy Report, *includes projected numbers*

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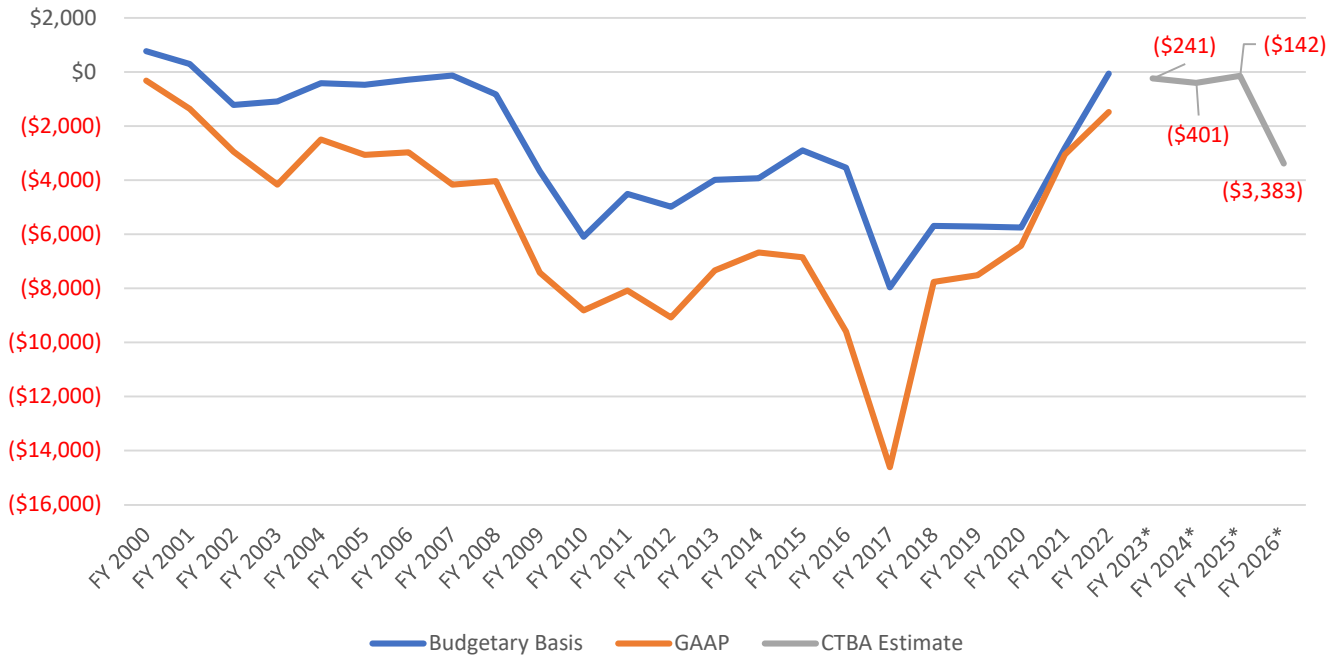
The reduction in the state's accumulated deficit over the prior two fiscal years is primarily the result of the $655 million in new revenue the state generated in FY 2022 implementing those initiatives identified in Section 3.1 of the Report, coupled with the Pritzker Administration making sound fiscal policy choices.[102] For instance, the administration's decision to repay the $3.2 billion Federal Reserve Municipal Liquidity Facility loan borrowed in FY 2020 three years ahead of schedule, saved taxpayers $82 million in interest costs.[103] 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.[104] Saving interest costs and paying off old debts with one-time revenue are sound approaches to fiscal management.

Figure 13 shows how Illinois measures whether its General Fund budget is balanced, or has an accumulated deficit or surplus, by applying two separate methodologies: a "**Budgetary Basis**" analysis; and an analysis utilizing Generally Accepted Accounting Practices, 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 2025 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.[105]

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.[106]

FIGURE 13
ILLINOIS GENERAL FUND BUDGET DEFICIT ($ MILLION), NOMINAL



*Source: Analysis of Illinois Office of the Comptroller Comprehensive Annual Financial Reports, FY 1987 – FY 2022; *CTBA estimate, no GAAP estimate*

While many of the policies for FY 2022 and FY 2024 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:

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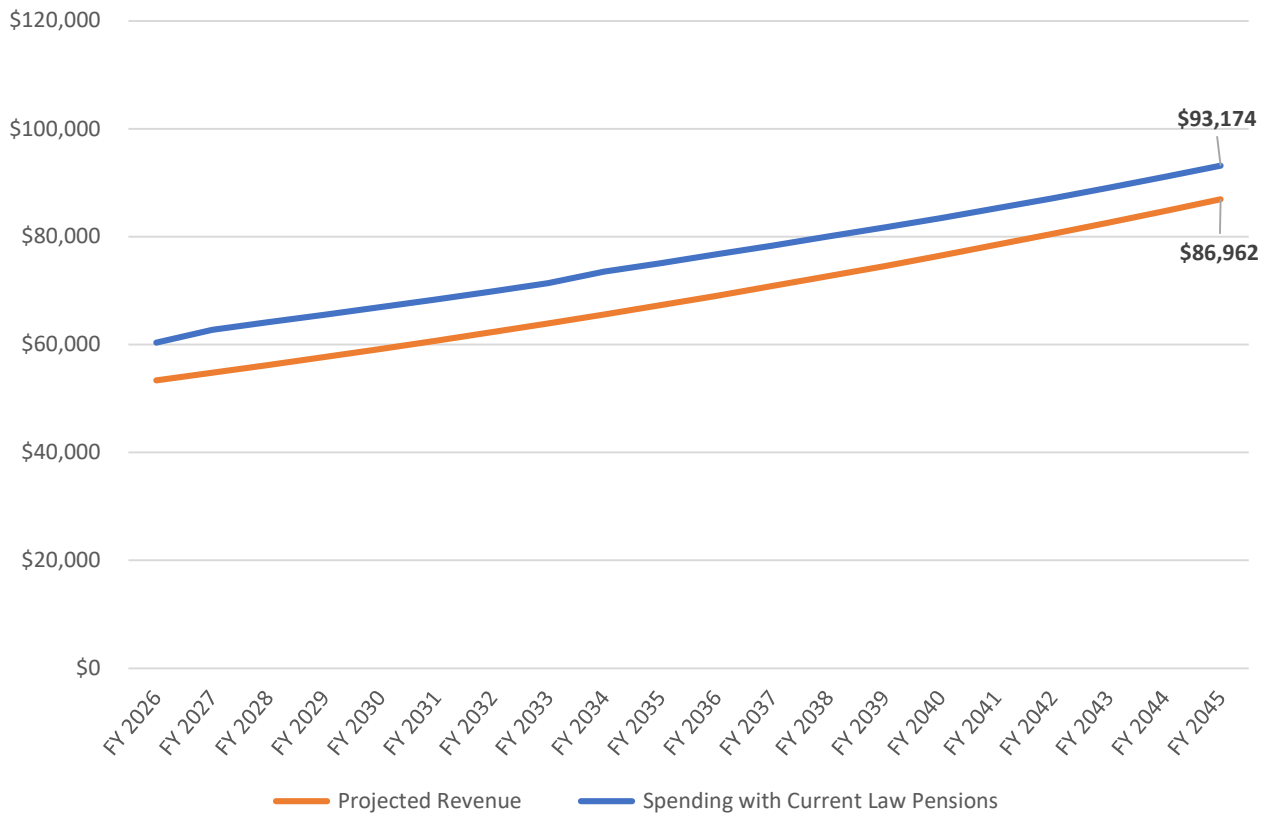
(i) maintaining delivery of the same level of public services from year-to-year, after adjusting solely for changes in inflation and population, and assuming no changes in law; and
(ii) repaying existing debt service.

For nearly two decades CTBA has shown how the data consistently demonstrate that the tax system which feeds the state's General Fund has historically grown revenue at a slower pace than the inflation-adjusted rate of increase in the cost of maintaining Current Service levels—plus the growth in paying the state's existing debt load—which in Illinois' case is owed primarily to the state's five pension systems, as detailed in Section 6 of this Report.

Figure 14 is a graphic depiction of the structural deficit in the Illinois General Fund using the projected deficit FY 2026 as the base year. So even though the accumulated deficit decreased over the last three fiscal years, because of the structural deficit, the accumulated can be expected to begin growing again in a few years.

FIGURE 14
PROJECTED STRUCTURAL DEFICIT IN ILLINOIS' GENERAL FUND



Source: CTBA analysis using historical revenue data from COGFA and FY 2025 estimate from GOMB Illinois Economic and Fiscal Policy Report

There is a crucial factor to note about **Figure 14**. First, the calculation depicted in **Figure 14** 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 2025. 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

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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 delineated in Section 5 of this Report, Illinois has been cutting real General Fund spending on Current Services since FY 2000.[107] Moreover, even if the increases in spending called for in the FY 2025 Enacted GF Budget are enacted, it is still projected that Illinois will be spending 9.3 percent less in real terms on all public services in FY 2025 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 back-loaded 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 2024 & FY 2025 Enacted Budgets

Under the FY 2025 Enacted GF Budget, total net appropriations for Current Services are scheduled to be $37.9 billion, which is $1.7 billion or 4.8 percent greater than FY 2024 appropriations in nominal dollars.[108] Given the structural deficit, it is not surprising that **this marks only the fifth 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**.[109] **Figure 15** shows the nominal dollar year-to-year change in appropriations between the FY 2024 Enacted GF Budget, and the FY 2025 Enacted GF Budget.

FIGURE 15
CURRENT SERVICES APPROPRIATIONS
FY 2025 ENACTED COMPARED TO FY 2024 ENACTED ($ MILLIONS)

Category	FY 2024 Enacted (Nominal)	FY 2025 Enacted	$ Change	% Change
Healthcare	$9,633	$9,360	($273)	-2.84%
Human Services	$9,931	$11,526	$1,194	12.03%
K-12 Education	$9,692	$10,145	$453	4.67%
Higher Education	$2,539	$2,616	$77	3.02%
Early Childhood	$673	$752	$79	11.74%
Public Safety	$2,487	$2,523	$36	1.45%
Other	$2,098	$2,349	$250	11.94%
Total (Gross)	**$37,054**	**$38,870**	**$1,816**	**4.90%**
Total (Net)	**$36,234**	**$37,975**	**$1,741**	**4.81%**

Source: CTBA analysis of FY 2025 Proposed Budget & FY 2025 Enacted Walkdown

Overall, the FY 2025 Enacted GF Budget calls for a meaningful increase in both gross and net spending on **most** core services—a welcome ongoing change.[110]

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As highlighted in **Figure 16,** in the aggregate, healthcare spending enacted for FY 2025 is scheduled to be **$139 million more** than it was in the enacted FY 2024 budget. However, the supplemental funding appropriations received in FY 2024 increased the deposit into the Healthcare Provider Relief Fund to $2,557 billion, a $430 million increase over the enacted budget. The Department of Healthcare and Family Services appropriations will be **$331 million or (3.6%) less** than last year.

FIGURE 16
NOMINAL DOLLAR COMPARISON OF FY 2024 ENACTED AND FY 2025 ENACTED GENERAL FUND BUDGET APPROPRIATIONS FOR HEALTHCARE ($ MILLIONS)

	FY 2024 Enacted	FY 2025 Enacted	$ Change	% Change
Total Department of Healthcare and Family Services (DHFS)	$9,292	$8,961	($331)	-3.56%
DHFS Deposit to transfer to Healthcare Provider Relief Fund (HPRF)	$1,827	$2,239	$412	23.0%
Department of Public Health	$340	$398	$58	17.03%
Total Healthcare – General Funds	**$9,633**	**$9,360**	**$139**	**-2.84%**

Source: CTBA analysis of FY 2025 Proposed Budget & FY 2025 Enacted Walkdown

Of course, a nominal-dollar comparison does not provide an accurate barometer of whether spending on services is actually growing, staying flat, or declining. That is because nominal dollar comparisons do not adjust for changes in either inflation or population, 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—dollars. If instead Public Safety received an appropriation of $101 in year two, then despite the $1 increase in nominal appropriations, in real, inflation-adjusted dollars, spending was cut by $2.

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Figure 17 shows how General Fund appropriations for Current Services in FY 2025 compare to the FY 2024 Enacted GF Budget in both nominal and real, inflation- and population-adjusted dollars. Most **Current Service categories with exceptions in Healthcare, Public Safety, and Higher Education are scheduled to experience a real, inflation-adjusted year-to-year increase in gross appropriations in FY 2025**.[111] After adjusting for changes in inflation and population, total net spending on Current Services for FY 2025 is **$834 million, or two percent more, in real dollars than in FY 2024.**

FIGURE 17
GENERAL FUND BUDGET SERVICES APPROPRIATIONS
FY 2024 ENACTED COMPARED TO FY 2025 ENACTED, ADJUSTED FOR INFLATION[112] ($ MILLIONS)

Category	FY 2024 Enacted (Nominal)	FY 2024 Enacted (inf. adj.)	FY 2025 Enacted	$ Change (inf. adj.)	% Change
Healthcare	$9,633	$9,893	$9,360	($534)	-5.39%
Human Services	$9,931	$10,241	$11,526	$884	-8.64%
K-12 Education	$9,692	$9,995	$10,145	$150	1.51%
Higher Education	$2,239	$2,618	$2,615	($3)	-0.10%
Early Childhood	$673	$694	$752	$58	8.35%
Public Safety	$2,487	$2,564	$2,523	($41)	-1.62%
Other	**$2,098**	**$2,164**	**$2,349**	$185	8.55%
Total (Gross)	**37,054**	**$38,170**	**$38,870**	**$700**	**1.83%**
Total (Net)	**$36,234**	**$37,141**	**$37,975**	**$834**	**2.24%**
	49,459	50,946	36,264		

Sources: CTBA analysis of P.A. 103-0006; Healthcare appropriations inflation-adjusted using Midwest Medical Care CPI; all other appropriations adjusted using ECI from the BLS as of January 2024 and population growth from the Census Bureau as of January 2020

However, be cautioned that the year-to-year real increase for the Current Service categories shown in **Figure 17** will, in most cases, **overstate** the amount of the actual increase. The reason for this is **Figure 17** compares the *maximum authorized* appropriations for Current Services in FY 2025 to enacted spending in FY 2024. Many of these maximum authorized spending amounts will not be realized, however, because there remains $895 million in "Unspent Appropriations" under the FY 2025 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 17**.

5.2. In Real Terms, Total Gross Appropriations for Core Services in the FY 2025 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 2025 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 2025 is still set to be 9.3 percent less than actual appropriations for said services were over two decades ago in FY 2000, in real, inflation-adjusted dollars, as shown in **Figure 18**.

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FIGURE 18
ILLINOIS GENERAL FUND APPROPRIATIONS FOR CORE SERVICES:
FY 2025 ENACTED COMPARED TO ENACTED FY 2000 ($ MILLIONS)

Category	FY 2000 Enacted (Nominal)	FY 2000 Enacted (inf. adj.)	FY 2025 Enacted	$ Change (inf. adj.)	% Change (inf. adj.)
Healthcare	$5,022	$11,733	$9,360	($2,373)	-20.2%
Human Services	$4,599	$9,602	$11,126	$1,524	16.0%
K-12 Education	$4,674	$9,758	$10,145	$387	4.0%
Higher Education	$2,152	$4,493	$2,615	($1,877)	-42%
Early Childhood Education	$170	$355	$752	$397	112%
Public Safety	$1,350	$2,818	$2,523	($295)	-10.5%
Total Net General Fund Service Appropriations	**$20,064**	**$41,889**	**$36,264**	**($3,914)**	**-9.3%**

Sources: FY 2000 unadjusted appropriations from Governor's final budget summary for FY 2000; and CTBA analysis of P.A. 103-0006; Healthcare appropriations inflation-adjusted using Medical Care CPI; all other appropriations adjusted using ECI-C from the BLS as 2024 and population growth from the Census Bureau as of January 2024

One positive note is that under the FY 2025 Enacted GF Budget, real appropriations for Early Childhood Education are scheduled to be **greater than they were in FY 2000 by 112 percent, K-12 Education appropriations are scheduled to be 4.0 percent greater,** and for just the second time in over two decades, **Human Services appropriations would be greater than they were in FY 2000, by 16 percent.**

Meanwhile, General Fund appropriations for Higher Education in FY 2025 are scheduled to be 42 percent less in real dollars than in FY 2000, a differential that could become even worse after the $895 million in Unspent Appropriations for FY 2025 are applied.

It is worth noting that although General Fund Healthcare appropriations for FY 2025 are scheduled to be 20 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 covering Medicaid obligations.[113]

6. Detailed FY 2025 Enacted General Fund Current Services Spending by Major Category

6.1. Pre-K & K-12 Appropriations

Early Childhood Education appropriations in FY 2025 are scheduled to increase by $75 million in nominal dollars over FY 2024 levels.[114] After adjusting for inflation, Early Childhood is scheduled to experience a real increase of year-to-year funding of **$58 million or 8.35 percent** from FY 2024 levels, as shown in **Figure 19**.

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FIGURE 19
EARLY CHILDHOOD AND K-12 EDUCATION GENERAL FUND APPROPRIATIONS
FY 2025 ENACTED COMPARED TO FY 2024 ENACTED, NOMINAL AND INFLATION-ADJUSTED DOLLARS ($ MILLIONS)

Category	FY 2024 Enacted (Nominal)	FY 2024 Enacted (inf. adj.)	FY 2025 Enacted	$ Change (Nominal)	% Change (Nominal)	$ Change (inf. adj.)	% Change (inf. adj.)
Early Childhood Education	$673	$694	$752	$79	11.74%	$58	8.35%
K-12 Education	$9,692	$9,995	$10,145	$453	4.67%	$150	1.51%
Total	**$10,365**	**$10,689**	**$10,897**	**$532**	**5.13%**	**$208**	**2.0%**

Source: CTBA analysis of Illinois P.A. 103-0006 and FY 2025 Proposed Budget

Meanwhile, the FY 2025 Enacted GF Budget includes an appropriation for K-12 Education that is $453 million more in nominal dollars than FY 2024.[115] 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, Educating Illinois: Volume II After adjusting for inflation, K-12 is scheduled for a real year-to-year increase of **$150 million or 1.51 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.[116] 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.[117] Ultimately, the EBF identifies a unique funding level for each school district—called its "**Adequacy Target**"—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 the children it serves.

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.[118] That minimum annual increase could be bumped 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.[119]

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.[120] 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 18 years after implementation to fund the EBF fully, after accounting for inflation.[121]**

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 $1.29 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.[122]

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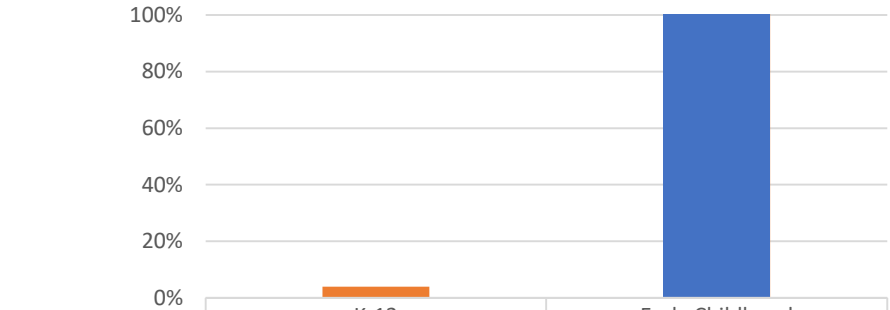
Though Illinois still has a long way to go to overcome historic underfunding and reach the goal of fully covering the evidence-based cost of providing an adequate education to all students in the state, **Early Childhood and K-12 Education are two of the three major Current Service categories under the FY 2025 Enacted GF Budget that have appropriations that are scheduled to be greater in real, inflation-adjusted dollars than in FY 2000.**[123]

FIGURE 20
ENACTED GENERAL FUND APPROPRIATIONS FOR EARLY CHILDHOOD AND K-12 EDUCATION IN FY 2025 COMPARED TO FY 2000, INFLATION-ADJUSTED



	K-12	Early Childhood
Inflation % Change	4.0%	111.9%
Inflation $ Change	$387	$397

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

As shown in **Figure 20**, appropriations for Early Childhood Education in FY 2025 are scheduled to be **112 percent greater** than FY 2000 appropriations in real dollars.

And while K-12 funding in FY 2025 is scheduled to be only **4.0 percent greater in real dollars than in FY 2000, the 2025 fiscal year marks just the sixth time in twenty-four years that the K-12 appropriation will be greater than it was more than two decades ago in FY 2000, after adjusting for inflation.**[124]

6.2. Higher Education Appropriations

The FY 2025 Enacted GF Budget appropriation for Higher Education is scheduled to be **$77 million** more in nominal dollars than in FY 2024, as shown in **Figure 21.**

Some of the scheduled increases in the General Fund appropriations for Higher Education in FY 2025 are earmarked for increasing appropriations for public universities and community colleges by $35.5 million over FY 2024 levels.[125] Another portion of the scheduled increase in General Fund appropriations for Higher Education in FY 2025 is targeted for increasing funding for the Illinois Student Assistance Commission—which includes funding for student MAP grants—by $10 million over FY 2024 levels.[126]

FIGURE 21
FY 2025 GENERAL FUND BUDGET HIGHER EDUCATION APPROPRIATION COMPARED TO FY 2024 ENACTED, IN NOMINAL DOLLARS ($ MILLIONS)

Category	FY 2024 (Nominal)	FY 2025 Enacted	$ Change (Nominal)	% Change (Nominal)
Higher Education	$2,539	$2,616	$77	3.02%

Source: CTBA analysis of Illinois Public Act 103-0006

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After adjusting for inflation, the scheduled appropriation for Higher Education in the FY 2025 Enacted GF Budget constitutes **a year-to-year decrease of $3 million or -0.10 percent compared to FY 2024,** as shown in **Figure 22.**

FIGURE 22
FY 2025 ENACTED GENERAL FUND BUDGET HIGHER EDUCATION APPROPRIATION COMPARED TO FY 2024 ENACTED, IN INFLATION-ADJUSTED DOLLARS ($ MILLIONS)

Category	FY 2024 Enacted (Nominal)	FY 2024 Enacted (inf. adj.)	FY 2025 Enacted (nominal)	% Change (inf. adj.)	% Change (inf. adj.)
Higher Education	$2,539	$2,618	$2,616	($3)	-0.10%

Source: CTBA analysis of Illinois Public Act 103-0006

As shown in **Figure 23,** despite the Pritzker Administration's enhancement of Higher Education funding in FY 2025 and prior fiscal years, in inflation-adjusted, real dollars, the FY 2025 appropriation for Higher Education is scheduled to be significantly—as in fully 42 percent—less than it was over two decades earlier in FY 2000.[127] **For context, that means Illinois would have to increase the FY 2025 appropriation for Higher Education by almost $1.9 billion just to stay even with FY 2000 appropriation levels in real, inflation-adjusted terms.**

FIGURE 23
FY 2025 HIGHER EDUCATION APPROPRIATION COMPARED TO FY 2000 ENACTED GENERAL FUND BUDGET ($ MILLIONS)

Category	FY 2000 Enacted (Nominal)	FY 2000 Enacted (inf. adj.)	FY 2025 Enacted	$ Change (inf. adj.)	% Change (inf. adj.)
Higher Education	$2,152	$4,493	$2,615	($1,877)	-42%

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 numerus 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 General Fund appropriations accounted for 74.6 percent of total public university revenue.[128] **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.**[129]

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 has been in Illinois.[130] Indeed, as shown in **Figure 24, 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."

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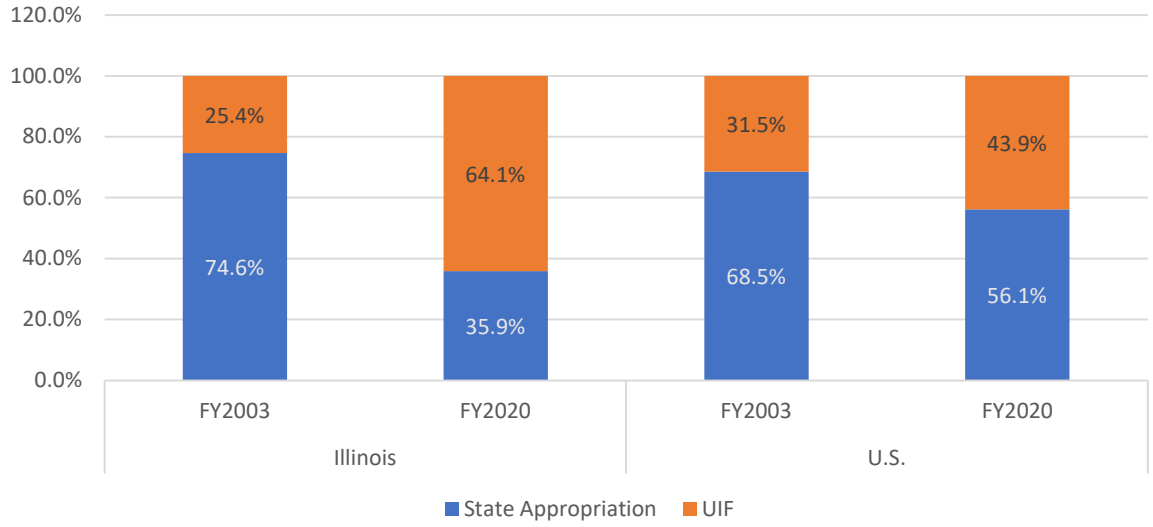
FIGURE 24
PUBLIC UNIVERSITY REVENUE BY SOURCE, FY 2003 AND FY 2020



Sources: IBHE Annual Report on Public University Revenues and Expenditures: FY 2020; SHEEOA State Higher Education Finance: FY 2020

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.[131] 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 2023, that wage gap had more than doubled to 89.8 percent.[132]

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 2025 Enacted GF Budget, the gross, scheduled appropriation for all Human Services is $11.1 billion, which would represent a **12.03 percent increase in nominal dollars** from the enacted FY 2024 appropriation of $9.9 billion as shown in **Figure 25**.[133]

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FIGURE 25
FY 2025 ENACTED HUMAN SERVICES APPROPRIATIONS BY AGENCY COMPARED TO FY 2024 IN NOMINAL DOLLARS ($ MILLIONS)[134]

Agency	FY 2024 Enacted	FY 2025 Enacted	$ Change	% Change
Department on Aging	$1,426	$1,660	$234	16%
Department of Children and Family Services	$1,402	$1,478	$76	5%
Department of Juvenile Justice	$125	$138	$13	11%
Department of Employment Security	$135	$22	($113)	-84%
Department of Human Rights	$18	$19	$1	4%
Department of Human Services	$6,630	$7,619	$989	15%
Department of Veterans' Affairs	$177	$169	($8)	4%
Human Rights Commission*	$5	$5	$0	0%
Illinois Deaf and Hard of Hearing Commission	$1	$1	$0	0%
Illinois Guardianship and Advocacy Commission	$13	$14	$1	7%
Illinois Council on Developmental Disabilities	$0	$0	$0	0%
Total Human Services	**$9,931**	**$11,126**	**$1,193**	12%

Source: CTBA analysis of Illinois Public Act 103-0006

The good news is that, following over two decades of declining, real, inflation-adjusted General Fund support for Human Services, FY 2025 marks the second year that investments in Human Services are scheduled to be greater than in FY 2000 in real dollars. In fact, as shown in **Figure 26**, real General Fund appropriations for Human Services in FY 2025 are scheduled to be **15.9 percent more** than they were in FY 2000.

FIGURE 26
FY 2025 ENACTED HUMAN SERVICES APPROPRIATIONS COMPARED TO FY 2000, IN NOMINAL AND INFLATION-ADJUSTED DOLLARS ($ MILLIONS)

Category	FY 2000 Enacted	FY 2000 Enacted (inf. adj.)	FY 2025 Enacted	$ Change (inf. adj.)	% Change (inf. adj.)
Human Services	$4,599	$9,602	$11,126	$1,526	15.9%

Sources: FY 2000 unadjusted appropriations from Governor's final budget summary for FY 2000; and CTBA analysis of P.A. 103-0006. Appropriations adjusted using ECI-C from the Bureau of Labor Statistics, and population growth from the Census Bureau

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 2025, funding for Healthcare in Illinois' General Fund consists of $8,961 for DHFS appropriations that mainly cover state Medicaid spending on disabled and low-income populations, as well as another $398 million in appropriations for the DPH.[135] Taken together, total General Fund enacted appropriations for Healthcare in FY 2025 are scheduled to be $9,360 billion, which is -$273 million, or -2.8 percent less than the FY 2024 Healthcare appropriation, as shown in **Figure 27**.

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FIGURE 27
COMPARISON OF FY 2024 AND FY 2025 ENACTED GENERAL FUND BUDGET
APPROPRIATIONS FOR HEALTHCARE (NOMINAL $ MILLIONS)

	FY 2024 Enacted	FY 2025 Enacted	$ Change	% Change
Department of Healthcare and Family Services	$9,292	$8,961	($331)	-3.6%
Department of Public Health	$340	$398	$58	17.0%
Total Healthcare – General Funds	**$9,633**	**$9,360**	**($273)**	**-2.8%**

Source: CTBA analysis of Illinois Public Act 103-0006

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 in addition to 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 healthcare related expenditures as part of the DHFS budget, which primarily go to funding Medicaid programs.[136]

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.[137] 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: accounts for approximately 25 percent of DHFS' projected healthcare spending. [138] Much of the HPRF funds come from the Federal Medical Assistance Percentages ("**FMAP**")—a federal reimbursement to states for Medicaid spending. [139]

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 rebates that the state's managed care organizations negotiate with drug manufacturers for drugs prescribed to Medicaid recipients.[140]

One reason 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.[141]

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.[142]

This shift to managed care was intended to keep program participants healthier and to stabilize costs for the state.[143] 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.[144]

For more information about Medicaid spending and MCOs, read CTBA's report, "Analysis of Pharmacy Benefit Managers' Impact on Medicaid Drug Pricing."

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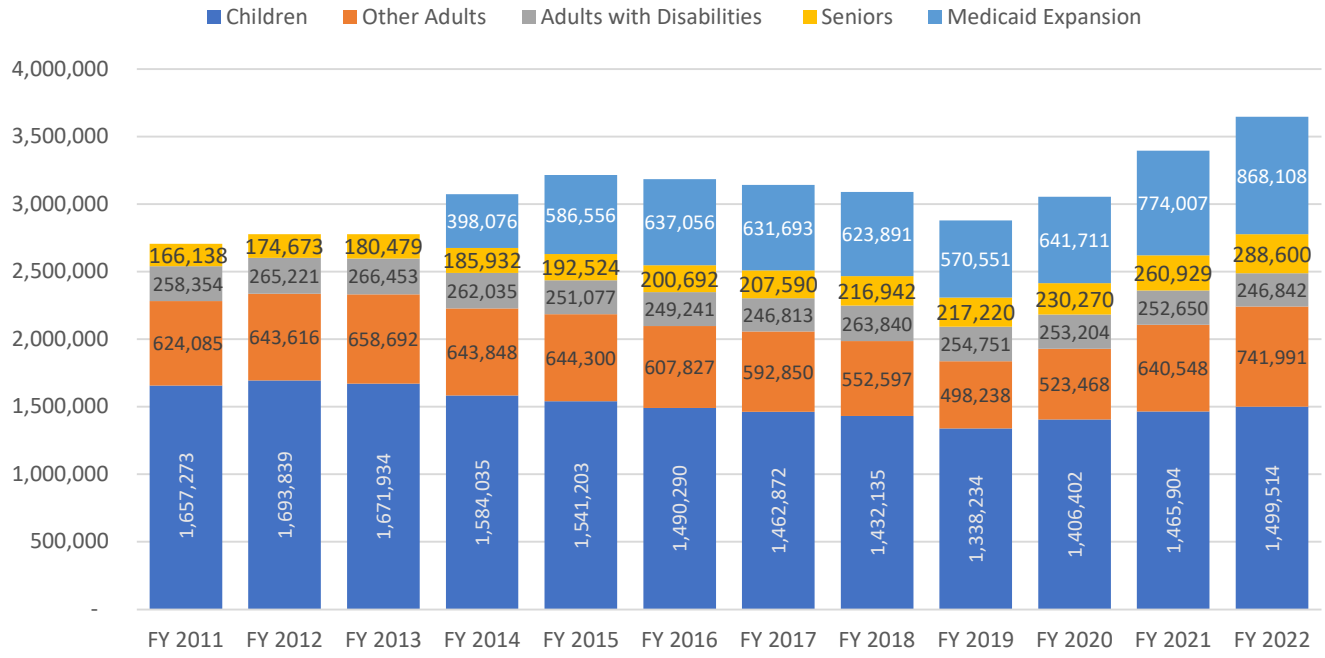
6.4.2. Medicaid

In FY 2025, Illinois General Fund spending on Medicaid is scheduled to be $8.9 billion, which would account for 95 percent of total General Fund Healthcare expenditures across all agencies covered by the General Fund for the year.[145] However, those General Fund expenditures on Medicaid account for just 23 percent of the $39.1 billion in total Medicaid expenditures currently estimated for FY 2025, after accounting for all such expenditures which will be made through special state funds like the HPRF.[146]

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 in FY 2023.[147] 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.[148] 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.[149]

At the time the expansion was approved, Illinois officials estimated that 342,000 additional Illinois residents would qualify.[150] By the end of FY 2014, 398,076 new ACA Eligible Adults had actually enrolled in medical assistance through Medicaid expansion.[151] By FY 2022, that number had risen to over 868,000 ACA Eligible Adults.[152] Changes in Illinois' Medicaid enrollment since FY 2011 are shown in **Figure 28.**

FIGURE 28
MEDICAL ASSISTANCE AVERAGE YEARLY ENROLLMENT[153]



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 of covering newly enrolled individuals in the state's Medicaid program under the ACA's expanded eligibility provisions was paid by Federal programs and grants.[154] 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.[155]

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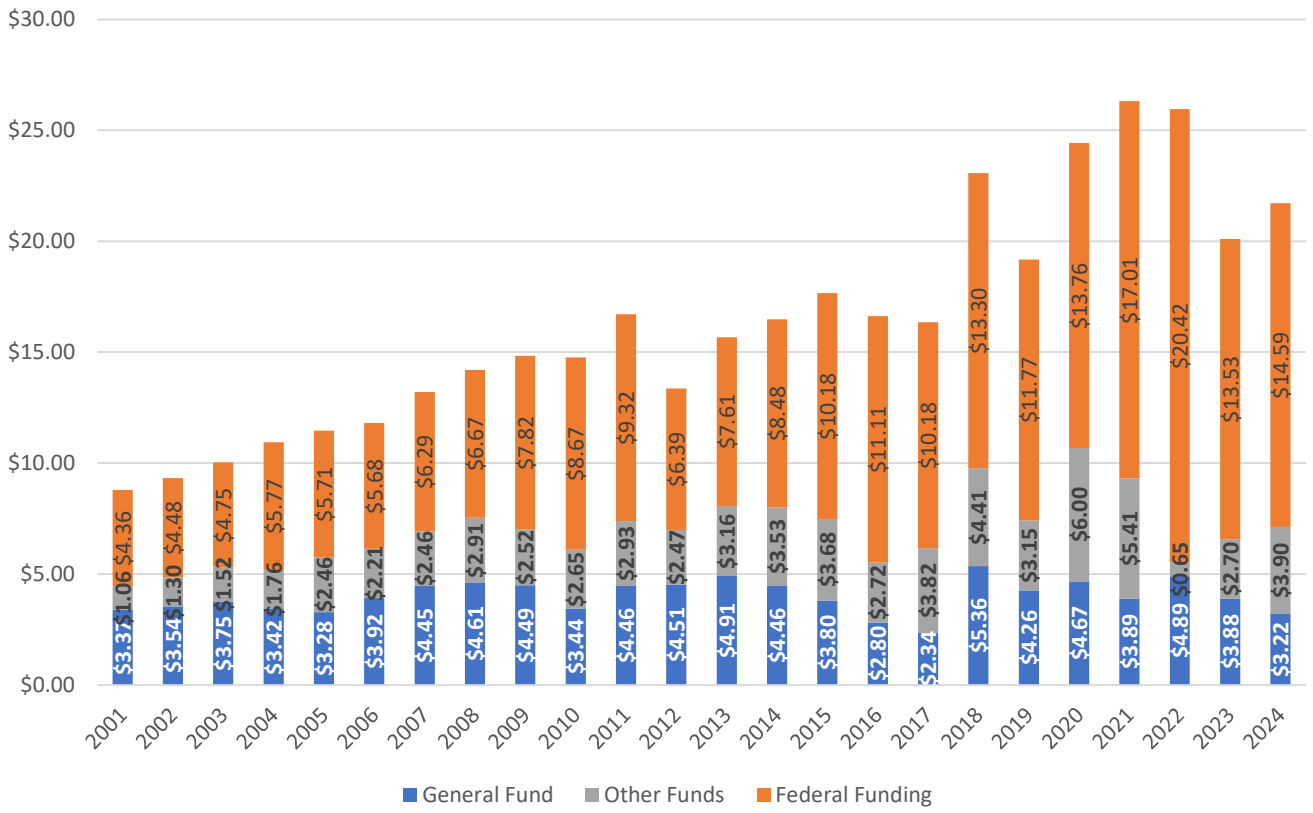
Overall, including both General Fund and non-General Fund outlays, Illinois' expenditures on Medicaid have increased significantly during the past two decades, even after accounting for inflation. So much so that in inflation-adjusted 2024 dollars, Medicaid expenditures grew from $16.5 billion in FY 2014 to $21.8 billion in FY 2024—a real increase of 32 percent.[156]

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 $1.24 billion since the expansion of Medicaid under the ACA from $4.5 billion in FY 2014 to $3.2 billion in FY 2024, as shown in **Figure 29**.[157]

FIGURE 29
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 1991-2024

7. FY 2025 Pension Funding

The FY 2025 Enacted GF Budget includes a $10.6 billion appropriation for pensions, which is the required General Fund contribution for FY 2025 as identified by the 1995 Pension Ramp.[158] This required General Fund appropriation is $304 million more than the FY 2024 appropriation of $10.3 billion, as shown in **Figure 30**.[159]

The pension appropriation in the FY 2025 Enacted GF Budget includes $10.1 billion collectively for the five major state pension funds, the TRS, SERS, SURS, JRS, and GARS, as shown in **Figure 30**. The remaining $477 million in pension appropriations for FY 2025 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.[160]

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FIGURE 30
FY 2025 ENACTED GENERAL FUND PENSION APPROPRIATIONS ($ MILLIONS)

Type	Item	FY 2024 Enacted	FY 2025 Proposed	$ Nominal Change	% Change
State Pension Funds					
	Teachers' Retirement System	$6,044	$6,204	$160	2.6%
	State Employees' Retirement System	$1,775	$1,758	($17)	-0.96%
	State University Retirement System	$1,918	$1,998	$80	4.2%
	Judges' Retirement System	$148	$149	$1	0.68%
	General Assembly Retirement System	$26	$26	$0	0%
	State Pension Funds Subtotal	**$9,911**	**$10,135**	**$224**	**2.3%**
Other Costs					
	State Contribution to Chicago Teachers' Pension Fund	$323	$354	$31	9.6%
	Teachers' Retirement Insurance Program	$65	$114	$49	75%
	College Insurance Program	$7.7	$9.2	$1.5	19.5%
	Other Cost Subtotal	$396	$477	$81	20.1%
Total Pension Costs		**$10,307**	**$10,612**	**$304**	**3%**

Source: CTBA analysis of FY 2025 Proposed Budget, FY 2025 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.[161] 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.[162]

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.[163] 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.[164]

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The American Academy of Actuaries ("**AAOA**"), however, cautions that, because of various economic factors, like volatile interest rates and stock market fluctuations, "no single level of funding distinguishes a healthy plan from an unhealthy plan."[165] 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."[166]

Whether 80 percent or 100 percent is used as the guideline, as things stand today the state's pension systems are decidedly not healthy. As of November 2023 (the most recent data available), the state's five pension systems collectively had $257 billion in liabilities, but only $115 billion in assets to cover those liabilities.[167] This results in a funded ratio across all five state systems of just 44.9 percent, or more than 35 percentage points below the lower, 80 percent standard for health set by the GAO. It also means Illinois state government faces a significant, as in $142 billion, aggregate "unfunded liability"—read that as "debt"—owed to its pension systems.

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 less than the actuarially required contribution ("**ARC**") which was needed to fund the benefits being earned by state workers. This resulted in the funded ratio decreasing, rather than increasing over that sequence—meaning the debt owed to the pension systems grew significantly. Hence by law, the Pension Ramp simply continued the prior practice of intentionally underfunding public pensions and diverting what should have gone to cover the ARC to instead pay for Current Service delivery.

Effectively, this meant the state was borrowing revenue that should have funded the pensions to pay for services and racking up debt to the pensions which had to be repaid later, with interest that was compounding annually. This is irresponsible from a fiscal perspective because the significant compounding interest 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 not paying your monthly credit card balance in full. You get to eat and sleep indoors for a while, but at some point, your credit card bill becomes so large you may not be able to afford doing either.

Why did decision makers in both parties engage in the irresponsible fiscal practice of intentionally underfunding the pensions so they could divert revenue which should have covered pension contributions to instead pay for Current Services? The political difficulty in dealing responsibly with the structural deficit which is described in detail in Section 4.5 of this Report. Effectively, leaders from both parties lacked the political will to raise taxes to the level needed to eliminate the structural deficit and support Current Service expenditures with current revenue. Instead, they chose instead to borrow against what was owed to the pension systems to maintain funding for the portion of the growth in Current Services costs which natural revenue growth was not covering because of the structural deficit. Then they left to future generations, the obligation to repay the debt they were accruing to the pension systems by back-loading 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 back-loaded as to be unaffordable.

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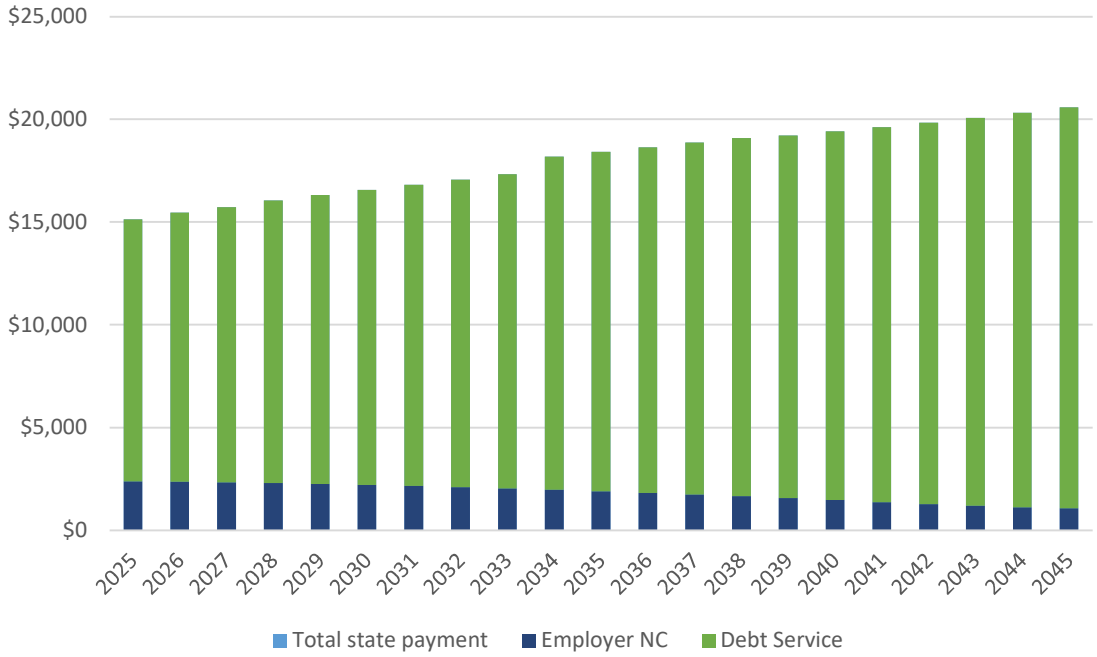
Figure 31 shows that under the current Pension Ramp the annual, all funds contribution to the five state pension systems is projected to reach $17 billion by FY 2040, and slightly over $18 billion by FY 2045.[168]

FIGURE 31
PROJECTED ALL FUNDS CONTRIBUTIONS TO STATE PENSION SYSTEMS ($ MILLIONS)



Source: Illinois State Retirement Systems Actuarial Valuation Reports

In FY 2021, investment returns across the state's five public pension systems 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.[169]

The FY 2021 returns were so substantial that the pension systems in Illinois continued to reap the benefits in FY 2022. Even though the market dropped in FY 2022 and some FY 2021 gains were lost, in FY 2022 the aggregate unfunded liability was $139.7 billion, still $4.5 billion below what it was in FY 2020. While all five systems experienced market value losses on their respective investment portfolios, the actuarial (smoothed) investment returns were positive: which is how the systems continued to benefit from the outsized FY 2021 investment returns. Asset smoothing is a technique that averages the annual fluctuation in investment performance over a period of five years to reduce the impact of volatile investment performance from year-to-year. The asset smoothing law was implemented with the adoption of P.A. 96-0043, which took effect in Illinois July 2009.[170]

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 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 back-loaded Pension Ramp.

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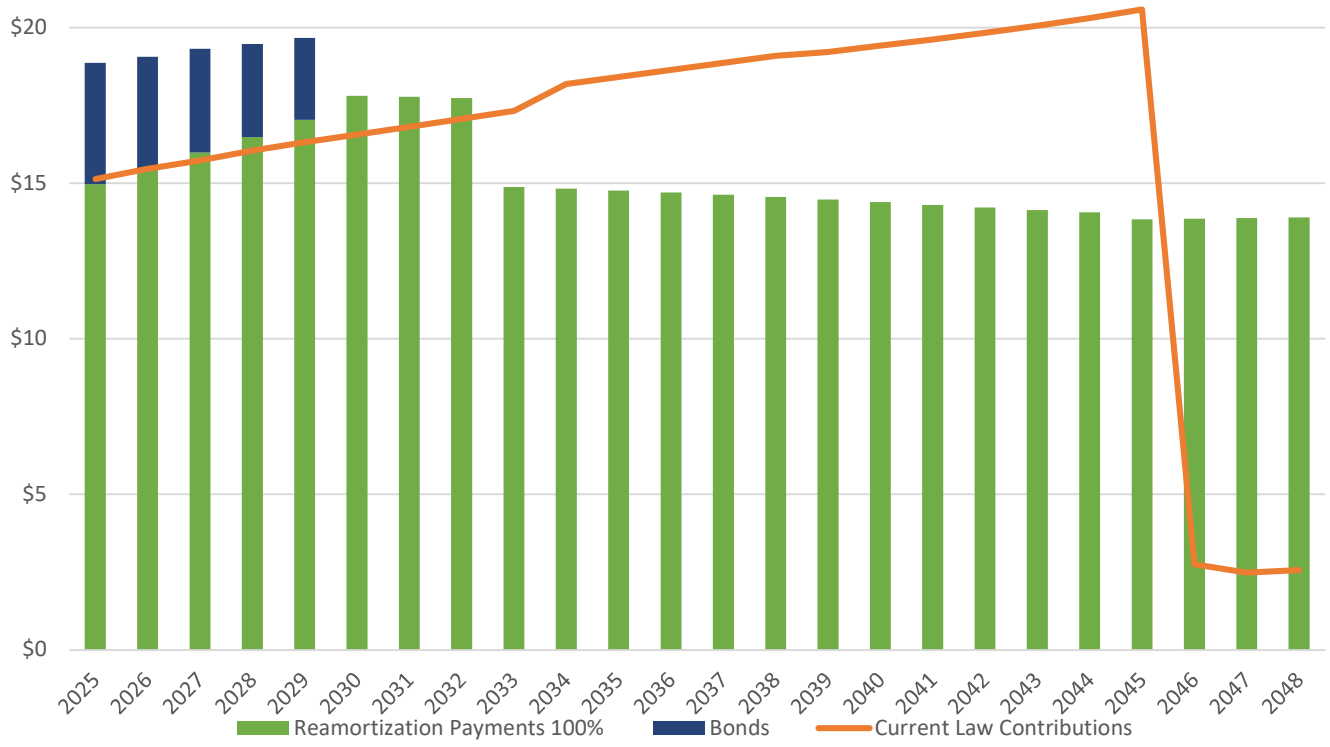
For instance, CTBA identified a level-dollar re-amortization scenario that would cost $23.8 billion less in taxpayer dollars than the Pension Ramp through FY 2045, while still increasing the funded ratio of the five state pension systems from their then current level of around 44.9 percent,[171] to 100 percent by 2048.[172] This re-amortization plan is shown in **Figure 32.**

FIGURE 32
CTBA PENSION RE-AMORTIZATION AND CURRENT LAW ALL FUNDS CONTRIBUTIONS TO STATE PENSION SYSTEMS ($ MILLIONS)



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

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