THE CIVIC FEDERATION

STATE OF ILLINOIS FY2023 RECOMMENDED BUDGET:

ANALYSIS AND RECOMMENDATIONS

for more information, visit civicfed.org/ FY23ILRecommendedBudget

MARCH 24, 2022

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Acknowledgements

The Civic Federation would like to thank Deputy Governor Andy Manar, Governor's Office of Management and Budget (GOMB) Director Alexis Sturm and their staffs for providing us with a budget briefing and answering our questions about the budget.

EXECUTIVE SUMMARY

Governor JB Pritzker's proposed fiscal year 2023 budget benefits from extraordinary revenue growth as the State has recovered strongly from the pandemic, with surpluses projected for both FY2022 and FY2023. The Governor has prudently prioritized the use of much of the FY2022 and FY2023 surplus to pay down debt, increase reserves, make supplemental pension payments and advance other important priorities. The State is in a much stronger financial position than it has been for many years, as evidenced by two recent general obligation credit rating upgrades, and its backlog of unpaid bills is the smallest it has been in many years.

The State of Illinois entered the pandemic with the worst credit rating of all states, no rainy day fund, chronic budget deficits and a severely underfunded pension system. All of these challenges put the State in a worse condition than other states to be able to address the economic dislocations caused by the pandemic. Illinois was the only state to borrow from the Federal Reserve Bank's Municipal Liquidity Facility to backfill severe losses in tax revenue during the worst of the pandemic shutdowns. However, significant federal support to the U.S. economy and to states and municipalities has helped ensure the impact of the pandemic recession has been short and galvanized the strong revenue recovery in Illinois and other states. Illinois is now in a position where it can make plans to support budgetary stability, including increasing budgetary reserves and avoiding future bill backlogs.

For these reasons, the Civic Federation **supports** the Governor's budget proposal for FY2023. However, we, caution that significant long-term challenges remain that must be addressed through long-term planning. Without the pressure of a budget deficit and billions of dollars in unpaid bills, the State should embrace this opportunity to come up with a long-term vision for how it will maintain budgetary balance and financial stability into the future.

The Federation therefore recommends the State develop a comprehensive, long-range financial plan, as recommended by the Government Finance Officers' Association.[1] Such a plan should be bolstered by a multi-year process to build budgetary reserves as a bulwark against future economic instability, identify and fund key spending priorities and plan for future economic downturns. The ongoing pandemic and significant disruptions in the international economy will generate much uncertainty for all government budgets in the next several years. Therefore, it is critically important that State leaders make plans and investments now that will ensure Illinois is in a strong position to weather the next financial storm.

The Civic Federation offers the following **key findings** on the governor's recommended FY2023 Budget:

- The $45.4 billion General Funds **operating budget** is $1.6 billion, or 3.4% below estimated FY2022 spending of nearly $47.0 billion.
- The FY2022 total expenditure number includes $1.6 billion in proposed ***supplemental*** agency appropriations: $898 million to eliminate the group health insurance bill backlog, $230 million for the College Illinois! Prepaid Tuition Program liability and $487 million for other supplemental appropriations.
- FY2022 spending also includes paying off the remaining portions of a total of $2.0 billion in Municipal Liquidity Facility short term borrowing the State made in December 2020.
- The State is projected to end FY2023 with a $178 million **surplus**.

[1] Government Finance Officers Association, "Best Practices: Long-Term Financial Planning," March 4, 2022. https://www.gfoa.org/materials/long-term-financial-planning

- General Funds **revenues** are budgeted at $45.8 billion for FY2023, a decrease of $460 million, or 1%, from $46.3 billion in FY2022.
    - The ***revenue estimates*** for both FY2023 and FY2022 have been significantly revised upward twice—in November 2021 and again in February 2022 in the Governor's budget. Projected General Funds revenues for FY2023 have been increased by nearly $3.5 billion from the State's expectations in June 2021 and FY2022 revenues by $3.3 billion.
    - The General Assembly's Commission on Government Forecasting and Accountability updated its revenue estimates in March to include data from January and February that came in after the Governor's budget was released. Their FY2023 estimates are higher than the Governor's by $484 million.
- **Agency spending**, excluding group insurance payments, pension contributions, required transfers for debt service and other purposes will increase by $622 million or 2.0% in FY2023. However, if the FY2022 proposed supplemental appropriations are excluded, the increase is $2.2 billion, or 7.6% to $31.5 billion in FY2023 from $29.3 billion enacted for FY2022.
- The budget proposes $1 billion in ***tax and fee relief*** measures, including $475 million in property tax rebates, a freeze in the 1% state-imposed grocery sales taxes and a suspension of the scheduled automatic increase to the gas tax. Local governments would be held harmless for the grocery sales tax suspension (a $360 million total).
- The budget fully satisfies the State's 50 -year pension-funding plan and also uses surplus funds to make $500 million in **supplemental pension contributions** in FY2022 and FY2023.
- The budget increases the **Budget Stabilization Fund** ("Rainy Day Fund") by $600 million in FY2022 and another $279 million in FY2023.
- If the supplemental appropriations for FY2022 are approved, the projected FY2023 year-end **bill backlog** will be reduced to $2.7 billion (down from $16.7 billion in 2017 and $3.6 billion on January 31, 2022)
- The State of Illinois received $8.3 billion in Coronavirus State Fiscal Recovery Funds and Coronavirus Capital Projects Funds within the American Rescue Plan Act. About $2.8 billion from the Coronavirus State Fiscal Recovery Fund was appropriated in FY2022, mostly outside of the General Funds. The FY2022 budget plan also reserves $1.5 billion within the General Funds to replace lost revenues to the State, as allowed under the American Rescue Plan. The fiscal year 2023 proposed budget includes $535 million in ARPA fund appropriations to support violence prevention grants and state COVID-19 response appropriations, all outside of General Funds.
- The State of Illinois was one of 23 states that borrowed from the U.S. Department of Labor to fund the extraordinary number of unemployment claims during the worst of the pandemic. The $4.5 billion in borrowing must be repaid with interest. The Pritzker Administration notes in the budget that they are working with the General Assembly, business and labor communities to finalize a plan to pay off the debt. If the State does not use federal relief funds, it will need to increase the state unemployment tax rate for employers and/or cut benefits for employees.

The Civic Federation has the following <u>**recommendations**</u> on the FY2022 state budget:

- Develop a comprehensive long-term financial plan to stabilize the State's finances.
- Now that the State's backlog of unpaid bills has been significantly reduced, the State should amend the Prompt Payment Act to reduce penalty interest rates that have not served as a deterrent to delaying vendor payments.

- Use a portion of remaining American Rescue Plan Act funds to pay down unemployment trust fund liabilities.
- Develop a long-term recovery plan for Illinois' tourism and hospitality industry.
- Build a Rainy Day Fund of 10% of General Funds Revenues.
- Increase transparency in the Illinois General Assembly by archiving videos of committee and floor debates online.
- Consider Civic Federation ideas for consolidating and streamlining government in Illinois.
- Review and evaluate the effectiveness of all existing business and other tax treatments.

CIVIC FEDERATION POSITION

Governor JB Pritzker's proposed fiscal year 2023 budget benefits from extraordinary revenue growth as the State has recovered strongly from the pandemic, with surpluses projected for both FY2022 and FY2023. The Governor has prudently prioritized the use of much of the FY2022 and FY2023 surplus to pay down debt, increase reserves, make supplemental pension payments and advance other important priorities. The State is in a much stronger financial position than it has been for many years, as evidenced by two recent general obligation credit rating upgrades, and its backlog of unpaid bills is the smallest it has been in many years.

The State of Illinois entered the pandemic with the worst credit rating of all states, no rainy day fund, chronic budget deficits and a severely underfunded pension system. All of these challenges put the State in a worse condition than other states to be able to address the economic dislocations caused by the pandemic. Illinois was the only state to borrow from the Federal Reserve Bank's Municipal Liquidity Facility to backfill severe losses in tax revenue during the worst of the pandemic shutdowns. However, significant federal support to the U.S. economy and to states and municipalities has helped ensure the impact of the pandemic recession has been short and galvanized the strong revenue recovery in Illinois and other states. Illinois is now in a position where it can make plans to support budgetary stability, including increasing budgetary reserves and avoiding future bill backlogs.

For these reasons, the Civic Federation **supports** the Governor's budget proposal for FY2023. However, we, caution that significant long-term challenges remain that must be addressed through long-term planning. Without the pressure of a budget deficit and billions of dollars in unpaid bills, the State should embrace this opportunity to come up with a long-term vision for how it will maintain budgetary balance and financial stability into the future.

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[2] Government Finance Officers Association, "Best Practices: Long-Term Financial Planning," March 4, 2022. https://www.gfoa.org/materials/long-term-financial-planning

ISSUES THE CIVIC FEDERATION SUPPORTS

The Civic Federation supports the following aspects of the Governor's FY2023 State of Illinois budget.

Improved Financial Condition

The State of Illinois has the worst-rated state credit in the United States and has for many years struggled with chronic budget deficits, pension funding among the worst in the nation and an addiction to budget gimmicks such as pension holidays and payment delays to vendors. The State has slowly made progress in righting its financial ship after the unprecedented two-year budget impasse from 2015-2017 that lowered its credit and seriously reduced the provision of critical services. However, when the pandemic hit in 2020, that recovery was still fragile and the State was in a more difficult position than its peers when confronting a significant loss in revenues and extraordinary need for government services during the stay-at-home order and high pandemic unemployment. As noted above, the State of Illinois was forced to borrow a total of $3.2 billion on a short-term basis from the Federal Reserve Bank's Municipal Liquidity Facility at a high rate of interest to keep services running and was the one of only two governments—and the only state—to do so.

However, two years later and with the benefit of a stronger-than-expected national economic recovery, the State is in a much better financial position. It has paid off its short-term borrowing early and benefitted from budget surpluses and a significantly reduced unpaid bill backlog. Governor Pritzker's proposals to use unexpected revenue are for the most part prudent and sustainable, dedicated to reducing liabilities and making investments that will improve budgetary stability. While much remains to be done, it is important to recognize the progress the State has made in the last several years and even during pandemic disruptions.

Making Statutorily Required Pension Payment and Supplemental Pension Payments

Governor Pritzker's FY2023 budget proposes making the full statutorily required general funds pension payment of $9.6 billion, a $269.0 million increase over $9.4 billion in FY2022. In all, pension contributions and pension debt service will consume 25.1% of State-source revenues in FY2023, an extraordinarily high percentage compared to other states.[3]

Illinois' retirement systems are among the most poorly funded of any state.[4] At the end of FY2021, actuarial unfunded liabilities totaled $139.9 billion and the combined funded ratio stood at 42.4%.[5] Under the 50-year funding plan, the State's unfunded pension liabilities continued to grow despite pension contributions taking up ever larger portions of the State's budget. The funding plan deferred a large portion of required contributions to future years, which propped up annual budgets at the expense of the pension funds. Extraordinary investment returns in FY2021 mitigated the situation somewhat and brought some of the funds closer to making a contribution that would be sufficient to lower the unfunded liability.[6] However, given significant stock market volatility in 2022, the improved funding situation is not guaranteed to continue.

[3] The Pew Charitable Trusts reported that state employer pension contributions as a percentage of state-source revenues were 7.4% for all states in 2017. The Pew Charitable Trusts, "The State Pension Funding Gap: 2017," June 2019, p. 6.
[4] The Pew Charitable Trusts, "The State Pension Funding Gap: Plans Have Stabilized in Wake of Pandemic," *Brief*, September 2021.
[5] Commission on Government Forecasting and Accountability, Special Pension Briefing, November 2021, p. 2. Available at https://cgfa.ilga.gov/Upload/1121%20SPECIAL%20PENSION%20BRIEFING.pdf.
[6] State of Illinois Office of the Auditor General, State Actuary's Report of the Actuarial Assumptions and Valuations of the State-Funded Retirement Systems, December 22, 2021. Available at http://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/State-Actuary-Reports/2021-State-Actuary-Rpt-Full.pdf.

The State has historically struggled to make its insufficient annual statutory contribution and has proposed a number of gimmicks and changes to reduce the contribution, ranging from pension holidays to extending the timeline of payments to borrowing money to make the pension payments. Given this history, it is a very positive move that the Governor proposes to make the full pension contribution in FY2023.

Additionally, the Governor's FY2023 budget proposal includes supplemental pension payments beyond the statutory minimum for the first time since the implementation of the State's 50-year funding plan. The $500 million total in payments in FY2022 and FY2023 will be paid from higher-than-expected revenues. The supplemental payments are projected to save the State $1.8 billion in contributions through FY2045 by paying down the pensions more in the short term, therefore requiring less in payments over the long term. The Civic Federation **strongly supports** the Governor's proposed supplemental pension payments as a responsible use of higher-than-expected revenues. However, the Federation must also caution that pensions will remain a significant burden on future State budgets for the next two decades absent creative approaches to shore up funding and reduce liabilities.

Reductions to Bill Backlog

By January 31, 2022, the Comptroller's estimates for the unpaid bill backlog totaled $3.6 billion, with the remaining debt primarily comprising bills under 30 days and other state account transfers. If the General Assembly approves proposed supplemental appropriations for FY2022, the projected FY2023 year-end accounts payable debt will be reduced to $2.7 billion. The reduction in outstanding bills has reduced State spending on late payment interest penalties by $260 million per year compared to what the State was paying during the FY2015-FY2017 budget impasse, when the backlog reached a peak of $16.7 billion.[7]

While it is important to remember that the State still has $4.0 billion in backlog bond principal outstanding and will be paying off those bonds through 2029, the State's efforts represent significant progress toward reducing an expensive liability that has negatively impacted Illinois' financial position for many years.

Retiring Outstanding Liabilities

Two years ahead of schedule, the State made on January 26, 2022 the remaining $302 million payment on a total $2.0 billion in General Obligation notes with a three-year maturity borrowed from the federal Municipal Liquidity Facility in December 2020. According to the Office of the Illinois Comptroller, this move will save the State $82 million in interest costs.[8]

The Governor also proposes to retire outstanding liabilities of two programs by using some of the projected FY2022 budget surplus to make supplemental appropriations:

- A $230 million supplemental appropriation would retire the remaining unfunded liabilities in the College Illinois! prepaid tuition program. If approved, the State could save up to $75 million over the life of the program; and
- A supplemental appropriation would pay off $898 million of state employee and retiree health insurance program Section 25 liabilities, which the Governor's office projects will save "millions" in interest costs.[9]

[7] Illinois State FY2023 Budget, p. 47.
[8] Office of the Illinois Comptroller, "Paying Off Loan Early Will Save Taxpayers $82 Million," Press Release, January 5, 2022. Available at https://illinoiscomptroller.gov/news/press-releases/paying-off-loan-early-will-save-taxpayers-82-million/. Prior MLF borrowing of $1.2 billion made in June 2020 was required to be paid off in FY2021.
[9] Illinois State FY2023 Budget, p. 46.

The Civic Federation commends the Governor and other state leaders for moving to further reduce the State's outstanding labilities and thereby improve its financial condition.

Proposed Rainy Day Fund Contributions

Building a financial cushion to deal with economic downturns is a key element in restoring the State to fiscal stability. According to public finance experts, all governments should place a portion of their general operating revenues in a general fund reserve or "rainy day" fund.[10] Rainy day funds are savings accounts that governments can use to address revenue shortfalls or unanticipated expenditures and to help stabilize tax rates.

Illinois has not maintained a functional rainy day fund, although a law was enacted in 2004 to build such a fund. The law established a goal of maintaining 5% of General Funds revenues in an existing account called the Budget Stabilization Fund. The fund has never received significant resources, however, apparently because annual revenue projections have not met the threshold requirement to trigger deposits into the fund. The balance of about $275 million at the end of FY2015 represented less than 1% of General Funds revenues. As part of the stopgap spending plan passed in June 2016, the Fund's entire balance was appropriated to pay for State operations in FY2017.

The State's lack of budgetary reserves put it at a serious disadvantage when the COVID-19 pandemic hit in 2020 and significantly reduced state revenue. Illinois was the only state to borrow from the Federal Reserve Bank's backstop Municipal Liquidity Facility, in large part because it did not have reserves to draw upon in an emergency. While the State has now paid its $3.2 billion in short-term borrowing off early, it still came at a cost to taxpayers that might not have been necessary if the State had emergency reserves.

Governor Pritzker's amended FY2022 and FY2023 proposed budget would contribute a total of $879 million into the Budget Stabilization Fund from budget surpluses in those years and dedicated cannabis revenue. The Civic Federation has long recommended that once the State has paid off its backlog of bills, it should begin to build up a more robust rainy day fund to be better positioned to deal with contingencies or emergencies in the future.[11] The Federation supports the Governor's proposed contributions to the Budget Stabilization Fund as a prudent and sustainable use of higher-than-expected revenues.

Certain Tax and Relief Measures

Governor Pritzker's FY2023 budget proposes four one-year tax and fee relief measures totaling approximately $1.0 billion. The Civic Federation does not oppose the following three of these measures,[12] totaling $873 million, because their impact is limited, they are narrowly targeted and will sunset after one year. As such, they will not seriously impact future budgets:[13]

- A one-year suspension of the 1% state-imposed sales tax on groceries beginning July 1, 2022. The freeze would not impact the local government budgets that usually receive this revenue because the Governor proposes to use State revenues to reimburse them for $360 million in foregone revenue;

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[10] Government Finance Officers Association, *Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund*, September 2015.
[11] See for example the Civic Federation's 2022 Legislative Agenda, available at https://www.civicfed.org/2022priorities.
[12] The fourth measure, the freeze on the annual automatic motor fuel tax increase, is discussed below as a Civic Federation concern.
[13] Illinois State FY2023 Budget, pp. 67-68.

- A one-time rebate in the approximate amount of $300 per homeowner to provide an estimated $475 million in financial relief to taxpayers who claim a property tax credit on their calendar year 2021 taxes. The fiscal year 2022 proposed budget includes a $425 million transfer from the general funds to set aside the majority of the funds needed for these rebates, with the remainder to be set aside in fiscal year 2023;[14] and
- A one-year waiver of license fees for frontline healthcare workers and liquor license fees for bars and restaurants. This will cost approximately $38 million.[15]

Agency Spending Increases

In addition to paying down liabilities in FY2022 and FY2023, the Governor is proposing some significant increases to spending in certain areas of the budget, funded by higher revenues. These include the aforementioned $1.6 billion in supplemental FY2022 spending, which includes $487 million in additional spending for education, human services and other areas. Proposed FY2023 agency appropriations, which exclude pensions, group insurance and debt service, will grow by $622 million or 2.0% over FY2022 agency spending if the proposed supplemental expenditures are included. However, if FY2023 is compared to enacted FY2022 spending, the increase in agency spending is over $2.2 billion or 7.6%. A significant portion of the increases are concentrated in education and human services spending, with $350 million going to fund the P-12 evidence-based funding formula, $122 million to increased Monetary Award Program (MAP) grants to low income college students, funding to comply with consent decrees, and nearly $200 million to programs that keep seniors and people with disabilities in their homes rather than nursing homes or institutions.[16]

The Civic Federation is generally supportive of these programs because they help the State avoid higher costs and/or reduce local government burdens. Additionally, many areas of the State budget are still recovering from underfunding during the FY2015-FY2017 budget impasse. If FY2023 revenues come in as expected, such a large increase in spending could be achieved, at least for FY2023. However, the Federation retains reservations about how affordable the proposed increases will be in out years and recommends that the State have a backup plan for how it would mitigate the increases if revenues do not grow as needed and ensure that the State avoids making recurring expenditures for which there are not recurring revenues.

Civic Federation Concerns

The Civic Federation has the following concerns about the Governor's recommended FY2023 budget.

Freezing the Scheduled Motor Fuel Tax Cost of Living Increase

Public Act 101-0032 increased the base motor fuel tax rate from 19 cents to 38 cents per gallon and required that the tax rate be increased annually by the increase in the Consumer Price Index for all urban consumers. These funds are earmarked for transportation-related capital

[14] Illinois State FY2023 Budget, pp. 67-68.
[15] Illinois FY2023 State Budget, p. 29.
[16] Illinois State FY2023 Budget.

expenses in the State's $45 billion multi-year Rebuild Illinois capital plan.[17] The current rates through June 30, 2022 are:[18]

- Gasoline/gasohol: $0.392 per gallon;
- Diesel fuel: $0.467 per gallon;
- Liquefied petroleum gas (LPG): $0.467 per gallon;
- Liquefied natural gas (LNG): $0.467 per gallon; and
- Compressed natural gas (CNG): $0.392 per gallon.

The FY2023 budget proposes a ***one-year freeze*** on the scheduled cost of living increase in the motor fuel tax that is set to take effect July 1, 2022. This action will save Illinois taxpayers an estimated 2.2 cents per gallon or $135 million in fiscal year 2023.

When the motor fuel tax increase was approved in 2019, it had been 29 years since Illinois last raised this tax. During that time, construction costs doubled while gas tax revenue grew by only 20%.[19] In the 2010s, 30 other states raised their gas tax, including all but two of Illinois' immediate neighbors.[20] Repairing and improving infrastructure is a critical component in any government's economic development plan. Unfortunately, the State's failure to provide a stable and growing resource for its basic transportation needs had a detrimental effect on the State's ability to adequately maintain its infrastructure. Raising the motor fuel tax and indexing to match inflation to fund Illinois transportation was an important step to address the decades of neglect and to keep Illinois economically competitive.

The Civic Federation supported the tax motor fuel increase and indexing in 2019. Today, we **oppose** efforts to freeze the motor fuel tax. The benefit to consumers of such a tax freeze will be minimal and the potential loss of revenue significant. It may set a negative precedent for further tax freezes or even reductions at the expense of one of the State's critical assets.

Ongoing Pension Stress

The State's five pension funds saw extraordinary investment returns in FY2021 as high as 25%, which increased woefully inadequate assets and reduced the actuarial unfunded liability somewhat.[21] Illinois is not alone in this; high investment returns have boosted public pension plans across the country.[22] While any good news on the pension front is a welcome respite from years of dismal performance, it is important to recognize that significant challenges and extraordinary uncertainty remain. Indeed, since the start of the calendar year, the stock market has seen significant volatility related to pandemic surges and Russia's invasion of Ukraine and such high investment returns are unlikely to recur.

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[17] See Illinois Department of Transportation, Rebuild Illinois Capital Plan at https://idot.illinois.gov/transportation-system/rebuild-illinois.html and Civic Federation Illinois Enacted FY2020 Budget Part II: The Rebuild Illinois Capital Plan, August 1, 2019 at:https://www.civicfed.org/iifs/blog/illinois-enacted-fy2020-budget-part-ii-rebuild-illinois-capital-plan.
[18] Illinois Department of Revenue, Motor Fuel Tax Rates and Fees at https://www2.illinois.gov/rev/research/taxrates/Pages/motorfuel.aspx.
[19] Chicago Metropolitan Agency for Planning, "Adequate Transportation Funding: Reforming the Motor Fuel Tax," p. 3, http://www.cmap.illinois.gov/documents/10180/17016/FY15-0061+ADEQUATE+TRANSPORTATION+FUNDING.pdf/60dc6491-b463-436c-b877-ac82e54f0ce3, (last accessed on May 15, 2018).
[20] Carl Davis, "Most States Have Raised Gas Taxes in Recent Years," Institute on Taxation and Economic Policy, April 4, 2019.
[21] Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2021.
[22] Boston College Center for Retirement Research, "2021 Update: Public Plan Funding Improves as Workforce Declines," June 2021. Available at https://crr.bc.edu/briefs/2021-update-public-plan-funding-improves-as-workforce-declines/. And The Pew Charitable Trusts, "The State Pension Funding Gap: Plans Have Stabilized in Wake of Pandemic," September 14, 2021. Available at https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2021/09/the-state-pension-funding-gap-plans-have-stabilized-in-wake-of-pandemic.

Absent changes to benefits, consolidation or other means to reduce the liability, Illinois will be required to dedicate approximately a quarter of state-source revenues or over 20% of expenditures to pensions and pension debt to stay on its 50-year funding plan. This is over $10 billion dollars in revenue that will not be available to fund other state priorities and will be needed year in and year out for over 20 more years. It is not guaranteed that the State will be able to maintain its funding formula through 2045; unfortunately, in the past the State has frequently resorted to gimmicks and budgetary sleight of hand to avoid making full pension payments. Even if the schedule is maintained, the pensions will not be fully funded since the State's goal is only 90%. For all of these reasons, the Civic Federation **retains significant concerns** about the State's pension system and the drag it exerts on the State's financial condition and debt ratings.

Civic Federation Recommendations

The Civic Federation offers the following recommendations to the Governor and the General Assembly as they develop the final FY2023 budget.

Amend the Prompt Payment Act

For decades, many states and the federal government have had laws requiring payment of interest penalties on late bills to private vendors. The laws are designed to encourage timely payment for goods and services and discourage bureaucratic delays.

This system has backfired in Illinois due to the State's practice of deferring bills to manage its budget deficits. The bill backlog peaked at $16.7 billion on November 8, 2017, following two years without a complete budget. At that point, the State cleared out a significant portion of the unpaid bills using the proceeds of a $6 billion sale of General Obligation bonds. The bond sale made financial sense because the State's coupon rate of 3.5% on the bonds was far below the steep interest penalties it pays on many overdue bills.

Under the State Prompt Payment Act, interest accrues at 1% a month, or 12% annually, on proper bills that are not paid within 90 days. Other claims, including those from healthcare providers, accrue interest at 9% a year after 30 days under the timely payment provisions of the Illinois Insurance Code. The situation has turned into a business opportunity for lenders participating in the State's Vendor Payment Program, who can pay vendors upfront in exchange for the right to collect the interest penalties when the bills are finally paid.

During the budget impasse, the State accrued $1.1 billion in late-payment interest penalties, according to the Illinois Comptroller's Office. More than $711 million in penalties were reportedly paid out in calendar year 2018, with $450 million owed as of December 31, 2018.[23]

Prompt payment penalty interest rates paid by different governments vary widely. The federal government's penalty rate is currently 1.625%, compounded monthly.[24] Texas pays one percentage point over the prime lending rate, which is currently 4.25%[25] Other states pay rates similar to Illinois, such as Indiana and Wisconsin.[26]

[23] State of Illinois Comptroller, *Special Report on Illinois' Finances and Future*, January 30, 2019, p. 4.
[24] United States Department of Treasury, Bureau of the Fiscal Service, *Prompt Payment*, https://www.fiscal.treasury.gov/prompt-payment/index.html. The rate is adjusted every six months.
[25] Texas Comptroller of Public Accounts, *Prompt Payment — Overview of Requirements*, https://fmx.cpa.texas.gov/fm/pubs/purchase/prompt_pay/index.php?section=overview&page=rate.
[26] Joe Cahill, "Don't let the state backslide on bill payments," *Crain's Chicago Business*, February 28, 2022.

The Civic Federation urges the State of Illinois to implement a comprehensive long-term financial plan to stabilize its finances and never again allow its bill backlog to grow to such a level that penalty interest payments become a significant financial liability. However, given the State's history, it is not certain that elected officials faced with a more challenging budgetary environment would be forced to act more responsibly by high-penalty interest rates. It is in fact altogether too likely the backlog of bills would grow again and the State would once again have to pay millions in interest payments to its vendors—millions that cannot be spent on other priorities. Further, it is not clear that a significant portion of the penalty interest payments made during the budget impasse made it to the small vendors they were intended to help, given the State's vendor payment program described above.

The Civic Federation therefore recommends that the prompt payment penalty interest rates should be reduced to reflect lower economy-wide rates of return. A bill pending in the Illinois General Assembly, Senate Bill 688, would lower the penalty interest to the greater of 0.25% per month for an annual rate of 3% or an annual rate of twice the increase in inflation.[27] Another potential way to reduce penalty interest could be tying it to lending rates, as with the penalty rate in Texas described above.

Use a Portion of Remaining ARPA Funds to Pay Down Unemployment Trust Fund Liabilities

During the height of the COVID 19 pandemic, the State of Illinois had to borrow $4.5 billion from the U.S. Department of Labor to make payments from the Unemployment Trust Fund. These funds must be repaid with interest, which is currently 1.59%.[28] In addition to paying back the loan to the federal government, the Trust Fund is required to build its reserves back to $1 billion. The issue must be resolved by a federal deadline of April 1st.[29]

Options for retiring the Unemployment Trust Fund liabilities include borrowing, payroll taxes on employers or cuts in employee benefits. Any solution requires negotiations between the Governor, the General Assembly, business organizations and organized labor.

The Governor has also discussed using some of the remaining $3 billion in federal American Rescue Plan Act funds to pay off at some of that debt. The U.S. Department of Treasury's Interim and Final Guidance both specifically allow this use of ARPA funds.[30] Some states, such as Arizona, Maryland, New Mexico, Ohio and Texas, have followed this path.[31] The Illinois Senate and the Executive Committee in the House of Representatives have approved legislation, Senate Bill 2803, that would earmark approximately $2 billion of the ARPA funds to pay down a portion of the unemployment trust fund debt. There is discussion of borrowing to pay off the remaining obligations; Illinois last issued bonds to pay off unemployment trust fund debt in 2012.[32]

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[27] Greg Hinz, "Mendoza wants to drop state's late bill payment fee," *Crain's Chicago Business,* February 23, 2022.
[28] Illinois FY2023 State Budget, p. 58.
[29] Greg Hinz, "Three speed bumps in the race to the end of the session: Springfield Memo," *Crain's Chicago Business*, March 17, 2022 at https://www.chicagobusiness.com/juice/crime-gas-tax-unemployment-insurance-issues-springfield-session-crains-juice.
[30] United States Department of Treasury, Coronavirus State and Local Fiscal Recovery Funds Final Rule, Federal Register, Vol. 87, No. 18, January 27, 2022, Rules and Regulations. Available at https://www.govinfo.gov/content/pkg/FR-2022-01-27/pdf/2022-00292.pdf.
[31] National Conference of State Legislatures, ARPA State Fiscal Recovery Fund Allocations, https://www.ncsl.org/research/fiscal-policy/arpa-state-fiscal-recovery-fund-allocations.aspx.
[32] Shruti Singh, Illinois Debates Bond Sale, Federal Aid to Pay Unemployment Debt, Bloomberg, March 16, 2022 at https://www.bloomberg.com/news/articles/2022-03-16/illinois-debates-bond-sale-federal-aid-to-pay-unemployment-debt.

The Civic Federation **opposes** imposing higher fees or taxes on employers to reduce or cutting benefits to eliminate the Unemployment Trust Fund debt. The COVID-19 pandemic has had an enormously negative impact on Illinois businesses, particularly those in the hospitality industries. Many businesses are struggling financially. The future of the international economy is uncertain given the Russian invasion of Ukraine, oil price fluctuations and renewed concerns over supply chains due to a resurgence of COVID-19 in many regions. Imposing additional costs on businesses at this time would be a burden they can ill-afford. Instead, the State should look to a solution that uses some remaining ARPA funds and/or other resources.

Develop a Plan for Illinois' Tourism and Hospitality Industry

The convention and hospitality industry has been hard hit by the COVID-19 pandemic. The number of visitors to Chicago plummeted from 61 million in 2019 to just 29 million in 2021.[33] Downtown Chicago hotels reported an occupancy of 43% for 2021, well below the 74% average in 2019. Revenue per available room was down by 33% last year compared with 2019.[34]

Chicago's McCormick Place convention center had over 230 event cancellations costing the city about 3.4 million attendees and nearly $3.1 billion in economic impact during the height of the pandemic. Operating revenue dropped from $314 million in FY2019 to just $24 million in FY2021. The Metropolitan Pier and Exposition Authority (MPEA) forecasts that there may not be surpluses until at least 2025. These losses meant hospitality tax revenues were inadequate to finance debt service on McPier's $4.4 billion in outstanding bonds in FY2021, forcing it to borrow $10 million in state sales tax revenue.[35]

The State has authorized $15 million in incentives for fiscal years 2022 through 2026 for MPEA to bring conventions to McCormick Place, while McPier is also offering millions of dollars in incentives.[36] These are laudable efforts. However, given the enormous economic and financial importance of the convention and hospitality industries to the Illinois economy, the State should develop a ***strategic plan*** to help them regain and expand their market share. These industries need additional assistance in order to return to their pre-pandemic levels of activity. Failure to do so will have a large negative impact on the State's economy and revenue base.

Build a Rainy Day Fund of 10% of General Funds Revenues

Governments that maintain adequate reserves are better positioned to deal with funding issues in bad times, such as the initial revenue disruptions of the COVID-19 pandemic. Putting money into reserves is a more fiscally prudent action than spending surplus funds on new or expanded programs. The median rainy day fund balance among states in FY2021 was 9.4% of general funds expenditures, according to a survey by the National Association of State Budget Officers

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[33] Sarah Freishtat, *Chicago Tribune*, March 17, 2022 at https://www.chicagotribune.com/business/ct-biz-choose-chicago-ceo-lynn-osmond-20220316-75au7biv3rci3ahszfbyypqitm-story.html.

[34] Robert Channick, After two years of empty show floors and hotel rooms, McCormick Place gears up for the return of conventions to Chicago, *Chicago Tribune*, March 16, 2022 at https://www.chicagotribune.com/business/ct-biz-mccormick-place-conventions-return-20220316-7j3ullv6gnc73j4n4wzwf3zjb4-story.html.

[35] Robert Channick, After two years of empty show floors and hotel rooms, McCormick Place gears up for the return of conventions to Chicago, *Chicago Tribune*, March 16, 2022 at https://www.chicagotribune.com/business/ct-biz-mccormick-place-conventions-return-20220316-7j3ullv6gnc73j4n4wzwf3zjb4-story.html.

[36] Robert Channick, After two years of empty show floors and hotel rooms, McCormick Place gears up for the return of conventions to Chicago, *Chicago Tribune*, March 16, 2022 at https://www.chicagotribune.com/business/ct-biz-mccormick-place-conventions-return-20220316-7j3ullv6gnc73j4n4wzwf3zjb4-story.html.

(NASBO). NASBO also reported that 14 states recorded declines in their rainy day funds in FY2020 compared to FY2019, due to budget gaps early in the pandemic.[37]

Illinois was one of only a handful of states with a rainy day fund balance of less than 1% of expenditures in FY2020.[38] It was one of only two governments and the only state forced to borrow from the Federal Reserve Bank's Municipal Liquidity Facility to manage pandemic disruptions to revenue and maintain services. While the short-term borrowing has now been paid off early, it was a costly reminder of the consequences of not setting aside reserves to deal with emergencies.

The Civic Federation believes now that the backlog of bills has been paid down, the State should work toward building a rainy day fund equal to 10% of General Funds revenues to cushion the budget from the next economic downturn. This goal was suggested by the General Assembly's Commission on Government Forecasting and Accountability (COGFA) in light of past revenue volatility.[39] COGFA examined two funding strategies—making deposits into the fund only when revenues are growing rapidly or making regular deposits regardless of revenue growth—and determined that each presented challenges. While funding mechanisms that depend on excess revenues can have wide variations in annual funding, regular funding puts annual pressure on the budget.[40] The Federation strongly recommends that any legislation must explicitly indicate when deposits will be made and in what amount and the circumstances under which withdrawals will be allowed.

Increase Transparency in the Illinois General Assembly by Archiving Videos of Committee and Floor Debates Online

According to the National Council of State Legislatures (NCSL), all 50 State legislatures now live stream floor proceedings and most legislatures, including Illinois, also livestream all or selected committee hearings.[41] While Illinois began livestreaming hearings before the pandemic, such feeds have become more important than ever when the State has reduced access to in-person meetings and conducted some committee hearings remotely to reduce exposure to the virus.

NCSL also reports that a growing number of state legislatures are archiving and making available on-demand recordings of floor and committee proceedings. Some archives are reported to go back as far as the 1990s and others to the mid-2000s.[42] Unfortunately, Illinois is not one of these states. In Illinois, per the Legislative Materials Act, proceedings are recorded and archived on DVD. Copies can be obtained for a fee.[43] Transcripts of floor proceedings are also eventually made available on the Illinois General Assembly website, but not usually for several weeks afterward.

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[37] National Association of State Budget Officers, "Data Analysis: State Rainy Day Fund Balances Over Time," February 2022. Available at https://budgetblog.nasbo.org/budgetblogs/blogs/kathryn-white/2022/02/22/data-analysis-state-rainy-day-fund-balances.
[38] National Association of State Budget Officers, "The Fiscal Survey of States," Fall 2021, p. 76. Available at https://www.nasbo.org/reports-data/fiscal-survey-of-states.
[39] Illinois General Assembly, Commission on Government Forecasting and Accountability, Illinois Revenue Volatility Study Public Act 98-0682, Updated February 17, 2015, p. 99.
[40] Illinois General Assembly, Commission on Government Forecasting and Accountability, Illinois Revenue Volatility Study Public Act 98-0682, Updated February 17, 2015, p. 103.
[41] National Council of State Legislatures, Legislative Broadcasts and Webcasts, February 8, 2022. Available at https://www.ncsl.org/research/about-state-legislatures/legislative-webcasts-and-broadcasts.aspx.
[42] National Council of State Legislatures, Legislative Broadcasts and Webcasts, February 8, 2022. Available at https://www.ncsl.org/research/about-state-legislatures/legislative-webcasts-and-broadcasts.aspx.
[43] Illinois General Assembly website, House of Representatives - Live Video/Audio. See https://www.ilga.gov/houseaudvid.asp.

Many large local governments in the Chicago area provide livestreams and then archive recordings of committee and floor proceedings, including the City of Chicago, Cook County, Metropolitan Water Reclamation District and most recently the Chicago Public Schools. [44]

Providing legislative meeting livestreams is a good transparency practice because it is not realistic for all residents interested in State proceedings to have the time and resources to travel to a State capital to watch their elected officials at work. Additionally, during the pandemic it has not been possible to do so. The step of archiving video recordings online is even better from a transparency perspective because Illinois' legislative hearings are usually scheduled during the work day when many residents are not able to view them live and the times of hearings are often changed, which can make it difficult for the general public to keep track.

Requiring the General Assembly to archive videos of its proceedings would entail some investment in online storage and organization. However, since many proceedings are already livestreamed and recorded, there may not be as much of an up-front cost. An analysis by the California Legislative Analyst's Office of a 2016 ballot initiative that required in part the California legislature to video record and make available online within 24 hours all open legislative proceedings estimated the initiative would require a $1-2 million up front investment and ongoing costs of approximately $1 million to implement.[45]

The Civic Federation recommends that the Illinois General Assembly amend the Legislative Materials Act to allow the Clerk of the House and the Secretary of the Senate to post recordings of floor debates and committee hearings on the Illinois General Assembly website. The law should also specify how long after a meeting the recording must be posted and for how many years it must be archived.

Consolidate and Streamline Government in Illinois

The Civic Federation has for many years developed a number of recommendations that would help stabilize the State of Illinois and local governments' financial positions.

Merging the Chicago and State Teachers' Pension Funds

The Civic Federation recommends that the Chicago Teachers' Pension Fund be consolidated with the downstate and suburban Teachers' Retirement System and that the State take on payments for the unfunded liability. The Federation also recommends that the Chicago Public Schools resume paying for the normal cost of Chicago teachers' pensions and that responsibility for the normal cost of pensions for all teachers outside of Chicago be shifted from the State of Illinois to local school districts over three years.

Other Potential Consolidations

In addition to recommending the merger of CTPF with TRS, the Civic Federation supports the following government consolidation initiatives:

- Consolidate local pension funds;
- Merge the offices of the Illinois Comptroller and Treasurer;
- Authorize any township to be dissolved by referendum;

[44] See Civic Federation blog posts on this topic at https://www.civicfed.org/civic-federation/blog/livestreaming-chicago-school-board-meetings-should-be-priority-incoming and https://www.civicfed.org/civic-federation/blog/chicago-public-schools-begins-livestreaming-and-changes-format-board-education.

[45] California Legislative Analyst's Office, Proposition 54, November 8, 2016. Available at https://lao.ca.gov/BallotAnalysis/Proposition?number=54&year=2016.

- Consolidate property tax administration roles in Cook County; and
- Dissolve the Illinois International Port District.

Constitutional Amendment to Limit the Pension Protection Clause

The Illinois General Assembly should vote to place a constitutional amendment on the ballot that would limit the pension protection clause and allow reasonable, moderate changes to current employee and retiree benefits necessary to secure the financial sustainability of the State and local governments and the pension systems themselves.

Review and Evaluate the Effectiveness of All Existing Tax Treatments

Tax expenditures are exemptions, deductions, credits, allowances or abatements that the State of Illinois provides to individuals or organizations to further public policy goals. They represent reductions to the state treasury. In FY2019, according to the latest information available from the State Comptroller, the total impact of the State's business and agricultural tax expenditures was approximately $1.8 billion. Business tax expenditures provided specifically for economic development purposes totaled $518.8 million.[46]

Before proposing changes to business and other tax expenditures, the State should commission a comprehensive review of these incentives. The review would clearly identify the goals and objectives of each program, require the transparent reporting of metrics that help determine whether goals are being met and provide for reduction or elimination of tax incentives that fail to produce promised results such as job creation.

The State of Washington, for example, regularly reviews the performance of tax expenditures to determine if they meet the goals set forth by the legislature when incentives are adopted and makes recommendations for changes when needed. Illinois should follow a similar model.[47]

Develop a Long-Term Financial Plan

Illinois is in better budgetary shape than it has been for a long time. This gives the State an excellent opportunity to develop a long-term sustainable plan to address its ongoing structural problems.

The Governor and General Assembly must recognize the urgency of the State's problems and act now. While current projections show continued strong revenues, many uncertainties remain with regard to the course of the pandemic and the international economy. Spending pressure from the State's pension systems will continue to mount, rising an estimated $6 billion or more in the next 22 years[48] and continuing to crowd out spending for other public services. So it is imperative that key stakeholders work together to carefully consider what the State can afford to spend, reassess its revenue streams and consider how best to address the cost of mounting long-term obligations. The best way to do this would be for the State to develop a long-term financial plan that lays out the challenges the State faces and proposes structural solutions to those challenges.

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[46] Illinois State Comptroller. Tax Expenditure Report. Fiscal Year 2019, pp. 6-7 at https://illinoiscomptroller.gov/financial-data/find-a-report/tax-expenditure-report/fiscal-year-2019/.
[47] State of Washington, Citizen Commission for Performance measurement of Tax Preferences. http://www.citizentaxpref.wa.gov/default.
[48] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2021, p 11.

In order to achieve stability in the State's long-term finances, a comprehensive financial plan should meet the following goals:

- Ensure future annual operating budgets are balanced;
- Prevent a backlog of unpaid bills;
- Provide achievable spending limits;
- Avoid drastic revenue cliffs;
- Broaden the tax base to provide sustainable revenue sources;
- Include additional assistance for local governments;
- Set aside reserves for an adequate rainy day fund; and
- Address Illinois' long-term challenges, such as unfunded pension liabilities and infrastructure needs.

The Government Finance Officers Association (GFOA) recommends that "all governments prepare and maintain a long-term financial plan that projects revenues, expenses, financial position, and external factors for all key funds and government operations at least five years into the future."[49] The GFOA additionally recommends that governments update their plans annually. The State of Illinois does release five-year budget forecasts, but has not yet taken the next step of developing a long-term financial plan.

An essential element of the long-term financial planning process is that it be an open and public process involving all stakeholders, including legislators and local governments. It is also a key method of "[c]ommunicating long-term financial position to residents and other stakeholders, including rating agencies and bond investors."[50]

Developing and implementing a long-term financial plan is not an easy undertaking. It involves many painful choices and investment of time and energy on the part of stakeholders. But Illinois cannot continue to muddle through, hoping that its fiscal challenges will disappear on their own. They will not until they are addressed head-on.

BUDGET BALANCING AND BILL BACKLOG

In November 2021, the State estimated that the FY2023 budget would have a deficit of $406 million.[51] However, revenue forecasts for FY2022 and FY2023 have undergone updates since November due to better than expected revenue performance across the State's three largest revenue sources: personal and corporate income taxes and sales tax. The FY2022 budget now projects a $1.7 billion surplus before proposed supplemental spending and other proposals and the FY2023 budget is projected to have a surplus of $458 million.[52]

[49] Government Finance Officers Association, "Best Practices: Long-Term Financial Planning," March 4, 2022. https://www.gfoa.org/materials/long-term-financial-planning
[50] Government Finance Officers Association, "Best Practices: Long-Term Financial Planning," March 4, 2022. https://www.gfoa.org/materials/long-term-financial-planning
[51] Illinois Governor's Office of Management and Budget, "Illinois Economic and Fiscal Policy Report," November 9, 2021.
[52] Illinois State FY2023 Budget, Governor's Letter of Transmittal and p. 68.

The table below summarizes the impact of the revenue changes in FY2022 and FY2023 that occurred between the November 2021 revisions and the release of the Governor's FY2023 budget.

Revisions to FY2022 and FY2023 General Funds Revenue Forecasts Between November 2021 and February 2022 ($ in Millions)		
	FY2022	**FY2023**
Net Individual Income Tax	$564	$567
Net Corporate Income Tax	$724	$635
Net Sales Tax	$185	$188
Federal Sources	$419	$400
Other Sources and Transfers	$319	$214
Total	**$2,211**	**$2,004**

Source: Illinois State FY2023 Budget, p. 60 and November 2021 Economic and Fiscal Policy Report, p. 18.

However, there were also revenue increases between the enactment of the FY2022 budget in June 2021 and the November projections of $1.1 billion. Therefore, total revenue increases between when the enacted budget and the February projection were $3.3 billion. The Governor is proposing a number of supplemental expenditures and other uses of the projected FY2022 revenue increases:

- Supplemental FY2022 spending:
    - $898 million for elimination of payment delays for the state employee and retiree health insurance program
    - $230 million for the College Illinois! Prepaid Tuition Program to address remaining unfunded liabilities;
    - Approximately $487 for other pressures and priorities; and
- Pension Stabilization Fund contribution of $300 million;
- Measures intended to provide taxpayer relief, including $475 million in property tax rebates; and
- Budget Stabilization Fund contribution of $600 million.

The Governor proposes to use $279 million of the FY2023 proposed budgetary surplus of $458 million to replenish the Budget Stabilization Fund, which would leave a final surplus of $179 million.

STATE OF ILLINOIS FINANCIAL WALK DOWN FY2020-FY2023

The following table shows the operating budget walk down from FY2020 through FY2023. In FY2020, a small deficit of $38 million was reported, due to revenue losses due to the pandemic and the transfer of income tax revenue from FY2020 to FY2021 due to a federal change to the date taxes were due to July 15, 2020, two weeks into the following fiscal year. The FY2021 year ended with a surplus of nearly $3.0 billion due to the aforementioned transfer of income tax revenue, as well as $2.0 billion in Municipal Liquidity Facility (MLF) borrowing the State made in December 2020 and better than expected revenue performance during the year. The following fiscal years show a budget surplus, totaling $213 million for FY2022 and $179 million for FY2023. As discussed above, FY2022 revenues have performed significantly stronger than originally projected, allowing the State to pay off its MLF borrowing early and additionally supported by $1.5 billion in American Rescue Plan Act revenue replacement funds.

State of Illinois General Funds Financial Walk Down FY2020-FY2023 ($ in Millions)	FY2020 Final	FY2021 Preliminary	FY2022 Estimated	FY2023 Proposed
Operating Resources				
State Source Revenues	$ 35,172	$ 40,332	$ 41,507	$ 41,788
Federal Revenues	$ 3,551	$ 4,744	$ 4,786	$ 4,045
ARPA Reimbursements	$ -	$ -	$ 1,500	$ -
Municipal Liquidity Facility	$ 1,198	$ 1,998	$ -	$ -
TOTAL RESOURCES	**$ 39,921**	**$ 47,074**	**$ 47,793**	**$ 45,833**
Expenditures				
Operating Budget Expenditures	$ 27,222	$ 28,681	$ 30,888	$ 31,510
Pension Contributions	$ 8,113	$ 8,624	$ 9,363	$ 9,632
State Group Insurance	$ 2,028	$ 2,022	$ 1,851	$ 1,841
TOTAL OPERATING BUDGET EXPENDITURES	**$ 37,363**	**$ 39,327**	**$ 42,102**	**$ 42,983**
Expenditures: Transfers Out of General Funds				
Statutory Transfers Out	$ 440	$ 517	$ 400	$ 387
Debt Service	$ 1,870	$ 1,529	$ 1,589	$ 1,580
Interfund Borrowing Repayment	$ 280	$ 140	$ 929	$ -
Treasurer's Investment Borrowing Repayment	$ 7	$ 405	$ -	$ -
Pension Stabilization Fund	$ -	$ -	$ 300	$ 200
Property Tax Rebate Checks	$ -	$ -	$ 425	$ 50
Grocery Tax Replacement	$ -	$ -	$ 185	$ 175
Short Term Borrowing Repayment	$ -	$ 2,209	$ 1,052	$ -
TOTAL TRANSFERS OUT	**$ 2,597**	**$ 4,800**	**$ 4,880**	**$ 2,392**
TOTAL EXPENDITURES	**$ 39,960**	**$ 44,127**	**$ 46,982**	**$ 45,375**
General Funds Surplus/Deficit	**$ (39)**	**$ 2,947**	**$ 811**	**$ 458**
Budget Stabilization Fund Contribution	**$ -**	$ -	$ 600	$ 279
Adjusted General Funds Surplus/Deficit	**$ (39)**	**$ 2,947**	**$ 211**	**$ 179**

Totals may not sum due to rounding.

Source: Illinois State FY2023 Budget, p. 60, 70.

BILL BACKLOG

Historically, Illinois has often dealt with budgetary shortfalls by delaying payments to vendors, school districts, local governments and universities, resulting in billions of dollars in unpaid bills at the end of the fiscal year. This backlog often results in the State beginning each fiscal year in a hole, whereby revenues from the current year are used to pay off the previous year’s bills and limited revenues are available for current spending.

The State has six months after the end of a given fiscal year to pay bills based on that year’s appropriations.[53] Certain other bills, known as Section 25 liabilities and consisting mainly group health insurance and Medicaid bills, may be paid from appropriations in future years.[54]

[53] 30 ILCS 105/25 (m)
[54] 30 ILCS 105/25

The backlog of unpaid bills peaked at $16.7 billion on November 8, 2017, according to the Illinois Comptroller's Office.[55] To address the situation, the State issued a $6 billion General Obligation bond to pay vouchers incurred before July 1, 2017.[56] The State received $6.5 billion proceeds from the bond sale, which it issued to cut the unpaid bill backlog, primarily for outstanding group health insurance and Medicaid bills, by $7.5 billion. The State borrowing saved taxpayers an estimated $4 billion to $6 billion in interest costs through 2029 by paying off billions of dollars in bills that were accruing interest penalties between 9% and 12% a year.[57]

The State used some of the $3.2 billion in funds borrowed from the Municipal Liquidity Facility in FY2020 and FY2021 to manage the bill backlog and pay down the Medicaid bill backlog, which generated enhanced federal reimbursements used to pay additional obligations. As of January 2022, the State has paid back these funds in their entirety nearly two years ahead of schedule, which will save taxpayers an estimated $82 million in interest costs.[58]
The State also utilized another measure to manage the unpaid bills that allows the State to invest in its own backlogged debt using money from other State funds with sufficient liquidity.[59] The law gives the Illinois Treasurer the authority to invest up to $2 billion with the Comptroller, who uses the funds to pay off pending unpaid bills and avoid high-interest penalties. The remaining $405 million of this program was paid off during fiscal year 2021.

By January 31, 2022, the Comptroller's estimates for accounts payable/borrowing totaled $3.6 billion, with the remaining debt primarily comprising bills under 30 days and other state account transfers. The Governor recommends additional progress towards these debts by allocating $898 million from FY2022 appropriations to the state employee and retiree health insurance program Section 25 liabilities, which the Governor's office projects will save millions in interest costs.[60]

According to the Governor's budget, if the supplemental appropriations for FY2022 are approved, projected FY2023 year-end accounts payable debt would be reduced to $2.7 billion. The reduction in outstanding bills has also reduced State spending on late payment interest penalties by $260 million per year compared to what the State was paying during the FY2015-FY2017 budget impasse, when the backlog reached a peak of $16.7 billion. [61]

The Civic Federation has long recommended that the State of Illinois, once it made sufficient progress in paying down its unpaid bill backlog, should begin to rebuild its negligible budget stabilization fund, also known as the rainy day fund.[62] The Governor's recommended budget includes a $600 million deposit in FY2022 into the Budget Stabilization Fund, and another $279 million in FY2023.[63]

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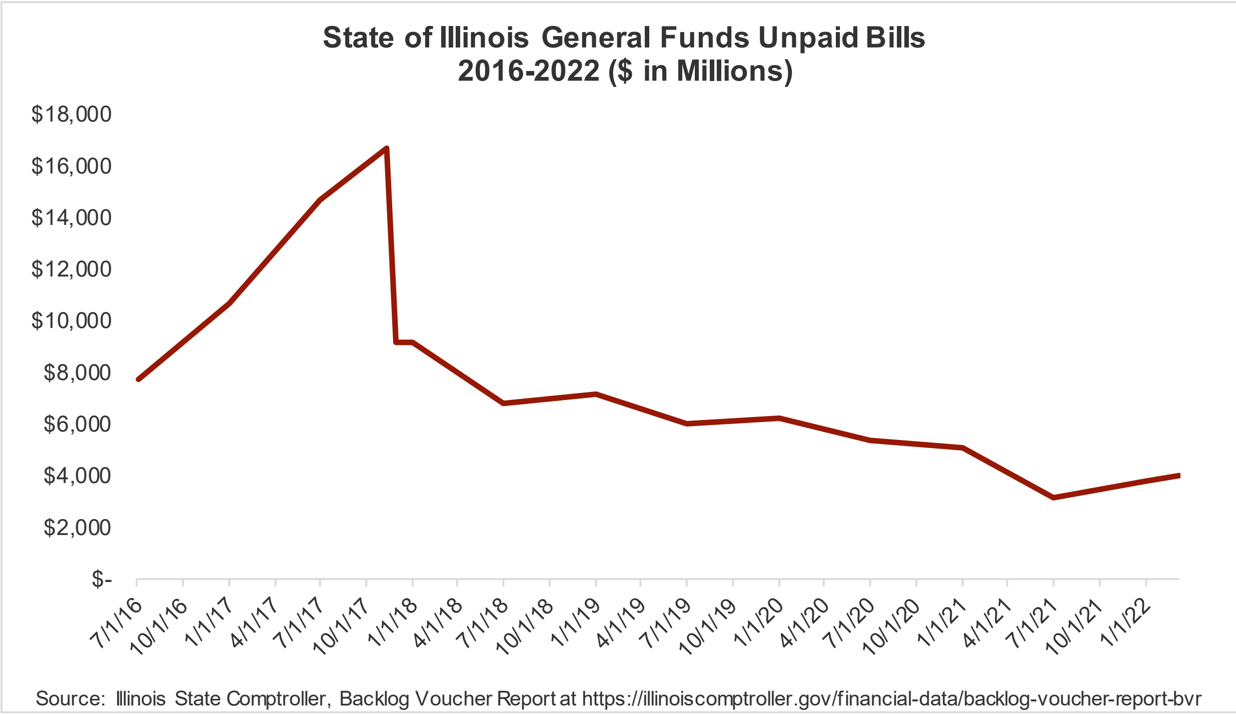
[55] State of Illinois Comptroller, Backlog Voucher Report at https://illinoiscomptroller.gov/financial-data/backlog-voucher-report-bvr/. On a budgetary basis, the backlog consists of obligations incurred by the end of one fiscal year that are not covered by that year's revenues
[56] The bond sale was authorized by Public Act 100-0023, enacted on July 6, 2017.
[57] Illinois Comptroller Backlog Voucher Report at https://illinoiscomptroller.gov/financial-data/backlog-voucher-report-bvr/.
[58] Illinois State Comptroller, "PAYING OFF LOAN EARLY WILL SAVE TAXPAYERS $82 MILLION," January 5, 2022.
[59] Illinois Public Act 100-1107, enacted on August 27, 2018.
[60] Illinois State FY2023 Budget, p. 46.
[61] Illinois State FY2023 Budget, p. 47.
[62] See for example current and past Civic Federation Legislative Agendas and State of Illinois Roadmaps. https://www.civicfed.org/iifs/FY2020IllinoisRoadmap
[63] Illinois State FY2023 Budget, p. 60.

The following chart shows the State's bill backlog at the beginning of each fiscal year from 2016 through 2022 and the current bill backlog.



AMERICAN RESCUE PLAN ACT

The $1.9 trillion American Rescue Plan Act (ARPA) was signed into law on March 11, 2021 and provides for $350 billion in funding for eligible state, local, territorial and Tribal governments. The Coronavirus State and Local Fiscal Recovery Funds (SLFRF), a section of ARPA, provide significant revenue support to state and local governments, and in contrast to prior pandemic relief such as the CARES Act, the funding is not restricted to combating COVID-19. Additional funding totaling $5.05 billion for K-12 schools and $1.3 billion for higher education was also provided to the State of Illinois via ARPA.[64]

Governments are allowed to use SLFRF for the purpose of supporting public health expenditures, addressing negative economic impacts caused by the public health emergency, replacing lost public sector revenue, providing premium pay for essential workers and investing in water, sewer and broadband infrastructure. All eligible governments that were awarded SLFRF funds must follow U.S. Department of the Treasury rules as laid out in an Interim Final Rule from May 2021 and a Final Rule released January 6, 2022, which will take effect April 1, 2022.[65] The Final Rule provides further detail on eligible uses of funds, the ineligible use of funds and the administration of the program.

As detailed in the Final Rule, SLFRF may cover eligible costs incurred March 3, 2021 through December 31, 2024. Funds that are obligated by December 31, 2024 can be spent through

[64] Illinois State FY2023 Budget, p. 57. See also United States Department of Education, "Illinois Fact Sheet," August 2021. Available at https://www2.ed.gov/documents/press-releases/arp-esser-il-plan.pdf.
[65] To read more about Treasury's guidance, visit https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds.

December 31, 2026. Funds that are not used by December 31, 2026 must be returned to the Department of the Treasury. The ARPA legislation itself prohibited deposits of SLFRF funds into any pension fund or, for states and territories, to offset tax cuts. Treasury's interim and final rules added prohibitions on funds being spent to service debt, to satisfy a judgement or settlement or contribute to a "rainy day" fund. Treasury's reasoning was that these uses "do not provide services or aid to citizens."[66] A number of governments, including the State of Illinois, had asked Treasury to allow use of ARPA funds to pay off debt incurred due to the pandemic,[67] but the Final Rule issued by the Department did not change this condition.

The fund allocations include: $195.3 billion for states and the District of Columbia, $65.1 billion for counties, $45.6 billion for cities, $20 billion for Tribal governments, $4.5 billion for territories and $19.5 billion for smaller units of local government. The State of Illinois received about $8.4 billion from SLFRF and the Coronavirus Capital Projects Fund. The FY2022 budget allocated approximately $2.8 billion from ARPA for key areas like infrastructure, violence prevention, education, healthcare, affordable housing and economic recovery. The FY2022 budget also reserves $1.5 billion of these funds to replace lost revenues to the State and to fund essential government services.[68]

The FY2023 proposed budget provides for reappropriation of unexpended ARPA funds and includes $235 million in federal funds to support violence prevention grants through the Reimagine Public Safety Act and requests an additional $300 million for the Illinois Emergency Management Agency, Department of Corrections and the Department of Human Services. The proposed budget also provides for continued use of $1 billion in ARPA funds to support capital projects such as investments in water, sewer and broadband infrastructure.[69]

REVENUES

The State of Illinois generates annual operating resources by collecting taxes and fees levied by the State, as well as grants and reimbursements provided by the federal government.

The Governor's all funds proposed FY2023 budget projects total revenues of $95 billion. Of that amount, $45.8 billion are available for General Funds spending.[70]

The General Funds support the regular operating and administrative expenses of most State agencies and are the funds over which the State has the most control. The operating budget also includes Other State Funds, which are accounts for activities funded by specific revenue sources that may only be used for specific purposes, and Federal Funds (other than those designated for General Funds), which support a variety of State programs with federal revenues. The remaining revenues that are not included in the General Funds are restricted for specific purposes, shared through revolving funds between government agencies, held in trusts or generally not available for discretionary spending by the General Assembly.

This analysis focuses primarily on the revenue projections and proposals in the Governor's proposed FY2023 operating (General Funds) budget.

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[66] United States Department of the Treasury, Coronavirus State and Local Fiscal Recovery Funds, Federal Register Vol. 87, No. 18, January 27, 2022. Rules and Regulations. Available at https://www.govinfo.gov/content/pkg/FR-2022-01-27/pdf/2022-00292.pdf.
[67] Yvette Shields, "Illinois fires first salvo in lobbying effort to revise ARP guidance," *Bond Buyer,* May 13, 2021. Available at https://www.bondbuyer.com/news/illinois-fires-first-salvo-in-lobbying-effort-to-revise-arp-guidance.
[68] Illinois State FY2023 Budget, p. 57
[69] Illinois State FY2023 Budget, p.57-58; Budget in Brief, p. 31.
[70] Illinois State FY2023 Budget, pp. 121-122.

FY2022 Revenue Projection Changes

Since the FY2022 State Budget was enacted, revenue collections have exceeded expectations, prompting the Governor's Office of Management and Budget (GOMB), to make significant upward revisions in both November 2021 as well as February 2022 in the Governor's FY2023 Budget. The most recent numbers show a 9.3% increase from original projections in the FY2022 budget enacted in May 2021. The table below illustrates these changes.

FY2022 Revenue Projection Increases (in $ millions)									
		FY2022 Enacted		November 2021 Revision		February 2022 Revision		$ Change	% Change
State Sources									
Individual Income Tax (Net)	$	20,792	$	20,948	$	21,512	$	720	3.5%
Corporate Income Tax (Net)	$	3,293	$	3,974	$	4,698	$	1,405	42.7%
Sales Tax (Net)	$	9,255	$	9,851	$	10,036	$	781	8.4%
Other Revenues	$	4,824	$	4,942	$	5,261	$	437	9.1%
Total State Resources	**$**	**38,164**	**$**	**39,715**	**$**	**41,507**	**$**	**3,343**	**8.8%**
Federal Sources	$	4,203	$	4,367	$	4,786	$	583	13.9%
Total Revenues	**$**	**42,367**	**$**	**44,082**	**$**	**46,293**	**$**	**3,926**	**9.3%**

Sources: Illinois State FY2022 Enacted Budget General Funds Walkdown, June 21, 2021;; "Illinois Economic and Fiscal Policy Report," Governor's Office of Management and Budget, November 9, 2021; Illinois State FY2023 Budget, p. 60.

The single largest increase from enacted FY2022 projections is the net corporate income tax revenue, which is expected to increase by 42.7%. GOMB attributes this strong performance to increased economic activity from the federal stimulus and a change in consumption patterns to goods from services, which has increased profits for certain corporate taxpayers. Additionally, corporate tax treatment changes proposed by the Governor and included by the General Assembly in the enacted FY2022 budget have expanded the amount of corporate income that is taxable. According to GOMB, nearly all states saw corporate and individual income taxes come in higher than their original estimates.[71]

More recent estimates provided by the Illinois Commission on Government Forecasting and Accountability (COGFA) in March 2022 support GOMB's positive projections, but with even larger gains due to COGFA incorporating stronger-than-expected performance of the State's main revenue sources in January 2022, whereas GOMB's projection only included data through December 2021. COGFA's estimate for total revenue in FY2022 is nearly $47.0 billion.[72]

General Funds Revenues

The following table shows the change in General Funds revenues between FY2022 year-end estimates and the proposed FY2023 budget. The FY2022 numbers incorporate the upward revisions discussed above. Overall, total revenues will decrease $461 million, or 1%, from $46.3 billion in FY2022. Revenues from total state taxes and fees are projected to increase by $467 million, or 1.2%. The two-year total resources trend is a decrease of nearly $2 billion, or 4.1%. Approximately $1.5 billion in American Rescue Plan Act (ARPA) resources will be used by the

[71] Illinois State FY2023 Budget, p. 146-151.
[72] Illinois Commission on Government Forecasting and Accountability, "FY2023 Economic Forecast and Revenue Estimate and FY2022 Revenue Update," March 8, 2022, p. 32.

State in FY2022 for revenue replacement, but are not projected to be used in FY2023, which accounts for most of the decrease in resources in FY2023. Federal revenues are expected to decrease by 15.5%, or $741 million.

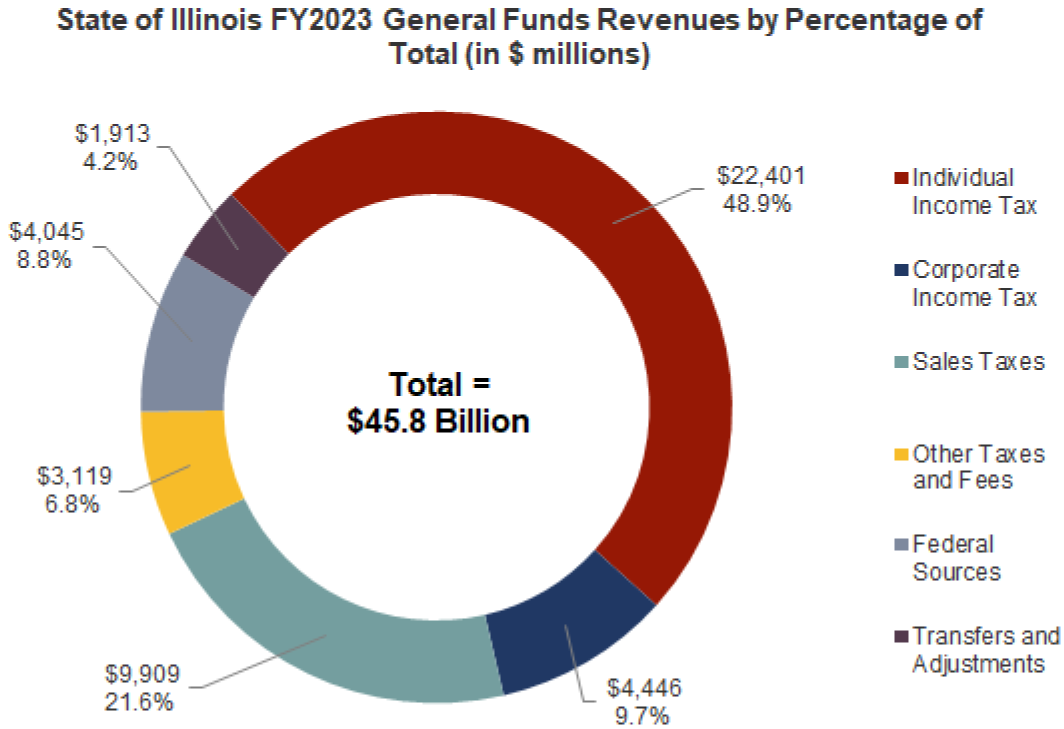
State of Illinois General Funds Revenues: Estimated FY2022 and Governor's Recommended FY2023 (in $ millions)

State Taxes and Fees	FY2022 Est.	FY2023 Proj.	$ Change FY2022-FY2023	% Change FY2022-FY2023
Income Taxes (net)				
Individual (net)	$ 21,512	$ 22,401	$ 889	4.1%
Corporate (net)	$ 4,698	$ 4,446	$ (252)	-5.4%
Sales Taxes	$ 10,036	$ 9,909	$ (127)	-1.3%
Public Utility Taxes	$ 743	$ 720	$ (23)	-3.1%
Cigarette Tax	$ 271	$ 265	$ (6)	-2.2%
Liquor Gallonage Taxes	$ 182	$ 184	$ 2	1.1%
Estate Tax	$ 415	$ 379	$ (36)	-8.7%
Insurance Taxes & Fees	$ 438	$ 447	$ 9	2.1%
Corporate Franchise Tax & Fees	$ 271	$ 267	$ (4)	-1.5%
Interest on State Funds & Investments	$ 20	$ 20	$ -	0.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 578	$ 593	$ 15	2.6%
Total State Taxes and Fees	**$ 39,408**	**$ 39,875**	**$ 467**	**1.2%**
Transfers and Adjustments				
Lottery	$ 826	$ 754	$ (72)	-8.7%
Gaming	$ 158	$ 157	$ (1)	-0.6%
Adult-Use Cannabis	$ 109	$ 142	$ 33	30.3%
Other Transfers	$ 1,007	$ 860	$ (147)	-14.6%
Total Transfers and Adjustments	**$ 2,100**	**$ 1,913**	$ (187)	-8.9%
Total State Revenues	**$ 41,508**	**$ 41,788**	$ 280	0.7%
Federal Sources	$ 4,786	$ 4,045	$ (741)	-15.5%
Total Revenue	**$ 46,294**	**$ 45,833**	**$ (461)**	**-1.0%**
Municipal Liquidity Facility	$ -	$ -	$ -	0.0%
ARPA Reimbursement for Government Services	$ 1,500	$ -	$ (1,500)	-100.0%
Total Resources with ARPA Receipts	**$ 47,794**	**$ 45,833**	**$ (1,961)**	**-4.1%**

Source: Illinois State FY2023 Budget, p. 122.

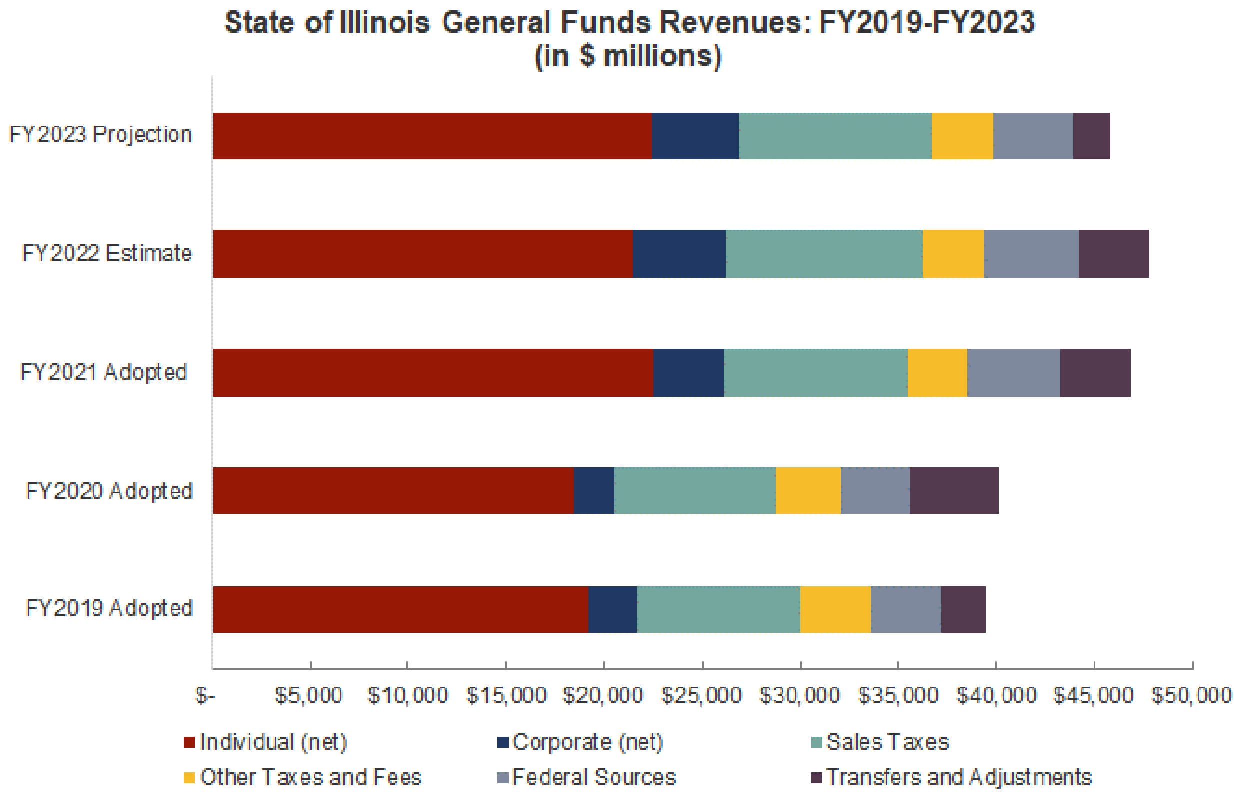
The following table illustrates the State's heavy reliance on two elastic, or economically sensitive, revenues: income and sales taxes, which account for a combined 70.5% of all General Funds revenues.

Individual and corporate income taxes will provide 58.6% of all General Funds revenues in FY2023, or $26.8 billion. The single largest revenue source for the proposed FY2023 General Funds budget is individual income taxes, which are expected to total $22.4 million, or 48.9% of all revenues. Sales taxes are projected to be the second-largest revenue source at $9.9 billion, or 21.6%, of all General Funds revenues.



Source: FY2023 Illinois State Budget, p. 122.

The next chart presents a five-year trend of Illinois General Funds revenues by major source. The chart illustrates a marked increase in General Funds revenues beginning in FY2021. However, FY2020 included a one-time tax filing extension that shifted a portion of FY2020 revenues into FY2021. Consequently, the revenues for FY2020 are artificially low, and the revenues for FY2021 are artificially high. Fiscal years 2022 and 2023 reflect the aforementioned stronger-than-expected economic trends.



Source: FY2023 Illinois State Budget, p. 122.

Income Taxes

Individual and corporate income taxes constitute the State's largest and third-largest individual revenue sources, accounting for more than half of all General Funds revenue. On July 6, 2017, after a number of years in which income tax rates fluctuated, the General Assembly permanently established the corporate income tax rate at 7.0% and raised the individual rate to 4.95%.[73] FY2023 will be the sixth fiscal year at those rates.

The following table shows gross income taxes collected by the State of Illinois from FY2019 through the FY2023 proposed budget projections, including the amounts diverted to pay for tax refunds and to local governments. Over the five-year period, total net income tax proceeds are expected to increase by 24.1%, increasing from $21.6 billion in FY2019 to $26.8 billion. During the same period, net individual income tax proceeds are expected to increase by nearly $3.2 billion, or 16.5%, and net corporate income tax collections are projected to increase by nearly $2.1 billion, or 86.1%. The share allocated to the Local Government Distributive Fund (LGDF), traditionally 10% of revenues derived from pre-2011 tax rates (equivalent to 6.06% of individual income taxes and 6.85% of corporate income taxes at current rates) was reduced by 10% to

[73] Public Act 100-0022, enacted over the Governor's veto on July 6, 2017.

increase state revenues in the FY2018. The holdback was reduced to 5% in fiscal years 2019-2021. Local governments received full LGDF funding in FY2022 and FY2023.

State of Illinois Total Income Tax Revenues FY2019-FY2023 General Funds (in $ millions)													
Income Tax Increment		**FY2019**		**FY2020**		**FY2021**		**FY2022 Est.**		**FY2023 Proj.**		**Five-year $ Change**	**Five-year % Change**
Individual Income Tax													
Tax Rate		4.95%		4.95%		4.95%		4.95%		4.95%			
Individual Income Tax	$	21,884	$	21,052	$	25,582	$	23,908	$	25,094	$	3,210	14.7%
Pass-Through Entities*	$	719	$	605	$	768	$	1,326	$	1,183	$	464	64.5%
Gross Individual Income Tax	**$**	**22,603**	**$**	**21,657**	**$**	**26,350**	**$**	**25,234**	**$**	**26,277**	**$**	**3,674**	**16.3%**
Refund Fund Transfer	$	(2,193)	$	(2,058)	$	(2,372)	$	(2,334)	$	(2,431)	$	(238)	10.9%
Deposits into LGDF	$	(1,175)	$	(1,128)	$	(1,453)	$	(1,388)	$	(1,445)	$	(270)	23.0%
Net Individual Income Tax	**$**	**19,236**	**$**	**18,471**	**$**	**22,525**	**$**	**21,512**	**$**	**22,401**	**$**	**3,165**	**16.5%**
Corporate Income Tax													
Tax Rate		7.00%		7.00%		7.00%		7.00%		7.00%			
Gross Corporate Income Tax	**$**	**3,025**	**$**	**2,596**	**$**	**4,451**	**$**	**5,933**	**$**	**5,582**	**$**	**2,557**	**84.5%**
Refund Fund Transfer	$	(470)	$	(370)	$	(625)	$	(890)	$	(809)	$	(339)	72.1%
Deposits into LGDF	$	(167)	$	(145)	$	(262)	$	(345)	$	(327)	$	(160)	95.8%
Net Corporate Income Tax	**$**	**2,389**	**$**	**2,081**	**$**	**3,565**	**$**	**4,698**	**$**	**4,446**	**$**	**2,057**	**86.1%**
Total Income Taxes (net)	**$**	**21,625**	**$**	**20,552**	**$**	**26,090**	**$**	**26,210**	**$**	**26,847**	**$**	**5,222**	**24.1%**

* The State began reporting income from pass-through business entities, such as partnerships and S-corporations, separately from other individual income starting in FY2017.

Source: Illinois State FY2023 Budget, pp. 149-151.

Individual Income Tax

Projections for net individual income tax revenues in FY2023 total $22.4 billion, which is $889 million, or 4%, above the FY2022 year-end estimates. FY2022 net individual income tax receipts are expected to decline by $1 billion from FY2021. However, receipts were artificially high following the one-time FY2020 filing extension, which shifted an estimated $1 billion in payments to FY2021. The FY2022 estimate also reflects the end of enhanced unemployment benefits in the first quarter of FY2022. The most recent IHS Markit projections indicate improvement in both the State's labor market and economic conditions through FY2023, showing a 16.5% increase from FY2022.[74] These increases, however, are partially offset by the decreases in corporate income tax and sales tax receipts, to be discussed below.

Corporate Income Tax

The net corporate income tax revenue shows a 5.4% decline from FY2022 estimates, from $4.7 billion to $4.45 billion. Corporate income tax revenue has remained strong throughout the pandemic due to infusions of federal stimulus dollars and increased economic activity as well as consumer spending shifts from services to goods. As of March 2022, general funds receipts from net corporate income taxes have increased by $819 million, or 1.7%, from the first half of FY2021. Similar to individual income taxes, the one-time 2020 filing extension shifted $240 million in net corporate income tax payments to FY2021. When controlling for this shift, year-to-date growth is estimated at nearly $1.1 billion. Net general funds receipts are projected to decline by $252 million in FY2023 due to a projected decline in corporate profits as the effects of federal stimulus fade, the impact of the changes to the corporate income tax enacted with the FY2022 budget diminish over time and because some FY2021 revenue was shifted to FY2022.[75]

[74] Illinois State FY2023 Budget, p. 150.
[75] Illinois State FY2023 Budget, p. 151.

Sales Taxes

Sales taxes were strong during the pandemic, as federal stimulus dollars and expanded unemployment benefits supported consumers' disposable personal income. The State attributes this strong performance to increased economic activity from the federal stimulus and changes in consumption patterns to goods from services. The federal stimulus funds helped maintain residents' ability to purchase goods subject to the sales tax and the change in their consumption habits to purchase relatively more goods than services benefitted Illinois because the State taxes goods, but not most services.[76]

However, net General Funds receipts for sales taxes in FY2023 are projected to decrease by $127 million, or 1.3%, from FY2022 levels. This decrease is attributed to the end of federal pandemic stimulus packages, as well as a predicted shift of consumer spending back from taxable goods to mostly untaxed services over the forecast period as the pandemic recedes.[77] Additionally, the amount of state taxes on motor fuel transferred to the Road Fund will increase in FY2023 and reduce sales tax General Fund deposits by an estimated $109 million.[78] Even when accounting for this change, however, the FY2023 General Funds forecast for sales tax revenue is $540 million higher than the last pre-pandemic year of FY2019.

The Governor's proposed budget includes a recommended one-year moratorium on the 1% state-imposed sales tax on groceries beginning July 1, 2022. The freeze would not impact state revenues since receipts are passed on to local governments. The Governor accordingly proposes to reimburse local governments for $360 million in foregone revenue.

Other State-Source Revenues

Total General Funds revenues from State sources other than income and sales taxes are expected to decrease from nearly $5.3 billion in FY2022 to just over $5.0 billion in FY2023.

Transfers and adjustments, such as lottery, gaming and cannabis revenues are predicted to decrease from $3.2 billion in FY2022 to $3.1 billion in FY2023. Adult-use cannabis revenues are expected to somewhat offset declines in other transfer lines, generating an additional $33 million from estimated FY2022 numbers. Forecasts are based on year-to-date statewide sales and on the market performance of legal adult-use cannabis in other states, which indicate potential volatility within the first few years of legalization. However, the Governor is proposing a shift in allocation patterns of receipts collected in the Cannabis Regulation Fund, increasing the share allocated to the Budget Stabilization Fund from 10% to 25% and decreasing the share allocated to the General Revenue Fund from 35% to 20%.

Federal Revenues

Federal revenues are forecast to decrease by $731 million between FY2022 and FY2023, declining from $4.8 billion to just over $4 billion. Federal revenues in General Funds are primarily reimbursements for Medicaid expenditures and fluctuate from year to year depending on the level of Medicaid spending. The decline for FY2023 is primarily attributed to the expected end of enhanced federal pandemic Medicaid match payments after the first quarter of the fiscal year.

[76] Illinois State FY2023 Budget, p. 152.
[77] Illinois State FY2023 Budget, p. 152.
[78] Illinois State FY2023 Budget, p. 152.

APPROPRIATIONS AND EXPENDITURES

The recommended FY2023 budget proposes total appropriations of $112.5 billion, including $44.0 billion in General Funds spending authority.[79] The budget proposal also includes $44.5 billion in appropriations from Other State Funds and $24.0 billion in Federal Funds appropriations.

General Funds support the regular operating and administrative expenses of most agencies and are the funds over which the State has the most control.[80] Other State Funds are accounts for activities funded by specific revenue sources that may only be used for specific purposes. Federal Funds (other than those designated for General Funds) use federal revenues to support a variety of State programs.

Proposed General Funds expenditures total $45.4 billion.[81] General Funds expenditures include both spending from appropriations and transfers from General Funds to other State accounts to make interest and principal payments on borrowings and for other legislatively required purposes.

TOTAL APPROPRIATIONS BY FUND TYPE

Recommended total appropriations of $112.5 billion in FY2023 represent an increase of $1.6 billion, or 1.4%, from enacted appropriations of $111.0 billion in FY2022. Proposed FY2023 General Funds appropriations increase by $2.7 billion, or 6.5%, from $41.4 billion the year before. Total appropriations grow by $36.1 billion, or 47.3%, from $76.4 billion in FY2019, while General Funds appropriations increase by $6.8 billion, or 18.2%, over the five-year period. The following table shows enacted appropriations by type of fund from FY2019 through FY2022 and proposed appropriations for FY2023.

State of Illinois Appropriations by Fund Type: FY2019-FY2023 (in $ millions)

	FY2019 Enacted	FY2020 Enacted*	FY2021 Enacted*	FY2022 Enacted*	FY2023 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
General Funds	$ 37,268	$ 39,113	$ 40,695	$ 41,360	$ 44,038	$ 2,678	6.5%	$ 6,770	18.2%
Other State Funds	$ 30,530	$ 33,064	$ 38,728	$ 42,009	$ 44,456	$ 2,447	5.8%	$ 13,926	45.6%
Federal Funds	$ 8,591	$ 12,436	$ 26,229	$ 27,585	$ 24,018	$ (3,566)	-12.9%	$ 15,428	179.6%
Total**	**$ 76,389**	**$ 84,613**	**$ 105,651**	**$ 110,953**	**$ 112,512**	**$ 1,559**	**1.4%**	**$ 36,124**	**47.3%**

*Enacted appropriations for FY2020, FY2021 and FY2022 include original and supplemental appropriations.

**Totals may not sum due to rounding.

Source: Illinois State FY2023 Budget, p. 91; Illinois State FY2022 Budget, p. 86; Illinois State FY2021 Budget, p. 83.

Total enacted appropriations do not accurately reflect State spending because spending from Other State Funds and Federal Funds is often significantly below appropriated amounts. In FY2021, for example, actual spending from Other State Funds was $31.5 billion, 18.7% below the $38.7 billion appropriated amount.[82] Actual spending from Federal Funds in FY2021 was $8.5 billion, 67.7% below the $26.2 billion adjusted appropriation. Appropriations from Other

[79] Illinois State FY2023 Budget, p. 91.
[80] The definition of General Funds was changed in FY2018 to include three additional funds: the Fund for the Advancement of Education, Commitment to Human Services Fund and Budget Stabilization Fund.
[81] Illinois State FY2023 Budget, p. 70.
[82] Illinois State FY2023 Budget, p. 91.

State Funds and Federal Funds do not affect the projected operating surplus, which is based on General Funds revenues and expenditures.

General Funds spending from appropriations typically reflects a much lower level of unspent appropriations. Appropriations for Federal Funds increases over the five-year period by $15.4 billion, or 179.6%, from $8.6 billion in FY2019 to $24.0 billion in FY2023. The increase is due to the American Rescue Plan Act (ARPA) becoming law in March 2021. The State of Illinois received about $8.4 billion in funds. The funds were allocated through the Coronavirus State and Local Fiscal Recovery Fund (SLFRF), the Elementary and Secondary Emergency Relief Fund (ESSER) and the Higher Education Emergency Relief Fund (HEERF).

General Funds Appropriated Spending

To understand State spending pressures, it is helpful to distinguish appropriated agency spending from pension contributions and group insurance payments. The legislature generally has more discretion over agency appropriations than the other two spending categories.[83] Pension contributions are based on State law, determined by Illinois' five retirement systems and covered by continuing appropriations. Group insurance consists mainly of health insurance for employees and retirees, which is covered by State law and union contracts.

The following table shows appropriated spending for these categories from FY2019 through FY2022 and proposed appropriated spending for FY2023. The FY2022 group insurance number of $1.8 billion does not include proposed supplemental appropriations of $898 million for the Group Health bill backlog. The FY2022 and FY2023 pension contributions in the table below do not include proposed pension stabilization fund contributions totaling $500 million.

State of Illinois General Funds Appropriated Expenditures by Category: FY2019-FY2023 (in $ millions)

	FY2019	FY2020	FY2021 Prelim.*	FY2022 Est.*	FY2023 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Agency Appropriations Spent*	$26,857	$ 27,222	$ 28,681	$ 30,888	$ 31,510	$ 622	2.0%	$ 4,653	17.3%
Pension Contributions**	$ 7,478	$ 8,113	$ 8,624	$ 9,363	$ 9,632	$ 269	2.9%	$ 2,154	28.8%
Group Insurance	$ 2,026	$ 2,028	$ 2,022	$ 1,851	$ 1,841	$ (10)	-0.5%	$ (185)	-9.1%
Total	**$36,361**	**$ 37,363**	**$ 39,327**	**$ 42,102**	**$ 42,983**	**$ 881**	**2.1%**	**$ 6,622**	**18.2%**

*Enacted expenditures in FY2021 and FY2022 include supplementary appropriations.

**The FY2022 and FY2023 pension contributions do not include proposed pension stabilization fund contributions totalling $500 million.

Source: Illinois State FY2023 Budget, pp. 60 and 70; Illinois State FY2022 Budget, pp. 55 and 66; Illinois State FY2021 Budget, pp. 51 and 62; Illinois State FY2020 Budget, pp. 45 and 57.

Proposed agency spending from appropriations is expected to increase by $622 million, or 2.0%, to $31.5 billion in FY2023 from $30.9 billion in FY2022 and by $4.7 billion, or 17.3%, from $26.9 billion in FY2019.

The FY2023 budget proposes to increase General Funds pension contributions by $269 million, or 2.9%, to $9.6 billion from $9.4 billion in FY2022. The proposed FY2022 contribution is equal to the certified full amount required under existing state law.[84]

[83] Medicaid is considered as discretionary in this analysis, even though most spending changes in the Medicaid program require changes in State law, administrative rules and/or approval from the federal government.
[84] Illinois State FY2023 Budget, p. 69.

Proposed FY2023 General Funds group health insurance payments are reduced by $10 million to $1.84 billion. The reduction is due to changes in group health coverage that has been negotiated with unions and negotiations with vendors.

The FY2022 Agency Appropriations number above includes estimated total supplemental appropriations of $1.6 billion recommended by the Governor to cover $898 million to eliminate the group insurance program bill backlog, $230 million for the College Illinois! Prepaid Tuition Program to address unfunded liabilities and $487 million for other supplemental appropriations. The $487 million in supplemental appropriations for the General Funds are intended to fund agencies like the Department on Aging, Department of Natural Resources, Public Higher Education Institutions and the Department of Commerce and Economic Opportunity.[85]

General Funds Agency Spending and Appropriations by Area

The next table shows General Funds spending by area of government, based on the categories in the budget book.[86] Actual spending by area is shown for FY2019 through FY2021, estimated expenditures for FY2022 and proposed appropriations for FY2023. The list of agencies in each category can be found in the Appendix of this report.

State of Illinois General Funds Agency Expenditures and Appropriations by Area: FY2019-FY2023 (in millions)

	FY2019 Exps.	FY2020 Exps.	FY2021 Exps.	FY2022 Est. Exps.	FY2023 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
P-12 Education*	$ 8,392	$ 8,894	$ 8,897	$ 9,240	$ 9,738	$ 498	5.4%	$ 1,346	16.0%
Higher Education**	$ 1,789	$ 1,943	$ 1,973	$ 1,993	$ 2,202	$ 209	10.5%	$ 413	23.1%
Human Services	$ 6,196	$ 6,628	$ 7,177	$ 7,563	$ 8,460	$ 897	11.9%	$ 2,264	36.5%
Healthcare	$ 7,944	$ 7,846	$ 8,179	$ 7,613	$ 8,080	$ 467	6.1%	$ 136	1.7%
Public Safety	$ 1,880	$ 1,904	$ 1,915	$ 1,937	$ 2,134	$ 197	10.2%	$ 254	13.5%
All Other Agency Spending***	$ 1,759	$ 1,753	$ 1,906	$ 1,799	$ 1,953	$ 154	8.6%	$ 194	11.0%

*P-12 Education does not include contributions to the Teachers' Retirement System or the Teachers' Retirement Insurance Program.

**Higher Education does not include contributions to the State Universities Retirement System or the College Insurance Program. Higher Education includes funding from the Personal Property Tax Replacement Fund of $97.1 million in FY2017, $103.5 million in FY2018 and $105.6 million in FY2019 and FY2020.

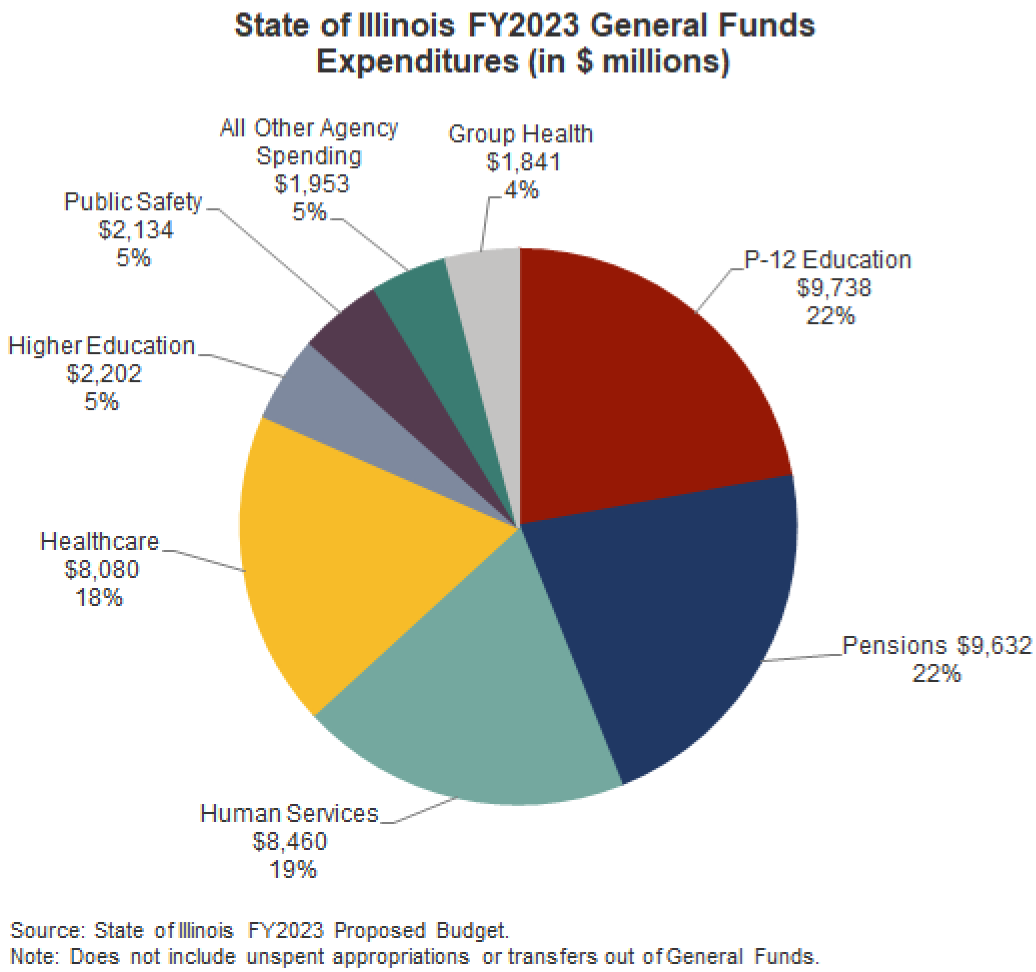
***All Other Agency Spending includes the State contribution to the Chicago Teachers' Pension Fund and the areas of Economic Development, Environment and Culture and Government Services (excluding group insurance).

Source: Illinois State FY2023 Budget, p. 60 Illinois State FY2022 Budget, p. 55, Illinois State FY2021 Budget, p. 51, Illinois State FY2020 Budget, p.45.

The pie chart below shows the State of Illinois FY2023 General Funds Expenditures but does not include unspent appropriations or transfers of General Funds. The proposed FY2023 budget will fund P-12 education with $9.7 billion, or 22%, of General Funds. About $1.84 billion, or 4% of General Funds will go towards Group Health Insurance payments. Additional expenditures include $9.6 billion, or 22%, for pension contributions; $2.2 billion, or 5%, for higher education; $2.1 billion, or 5%, for public safety; and $1.9 billion, or 5%, for all other agency spending. All

[85] Illinois State FY2023 Budget, p.119.
[86] Illinois State FY2023 Budget, p. 60.

other agency spending includes State contributions to the Chicago Teachers' Pension Fund and the areas of Economic Development, Environment and Culture and Government Services.[87]



P-12 Education

Funding for preschool to secondary education increased by $498 million, or 5.4%, from $9.2 billion in FY2022 to $9.7 billion in FY2023. The Governor's proposed budget funds the $350 million annual target increase that was part of the State's 2017 evidence-based school funding law. The $350 million increase was also included in the enacted budgets for FY2022, FY2020 and FY2019, but not the pandemic-impacted budget for FY2021. Since FY2020, there has been a $1.093 billion increase in annual funding to help achieve the Evidence-Based Funding (EBF) Formula statutory target.[88] The five-year increase of $1.3 billion, or 16.0%, in P-12 funding comes entirely from increases in FY2020, FY2022 and the projected FY2023.[89]

[87] Illinois State FY2023 Budget, p. 60.
[88] Illinois State FY2023 Budget, p. 32.
[89] P-12 education funding does not include State contributions to the Teachers' Retirement System, the pension fund for teachers outside of Chicago, or to the Teachers' Retirement Insurance Program, which provides health insurance for retired teachers outside of Chicago.

The school funding reform law required the State for the first time to pay for the pension benefits earned each year by Chicago Public Schools (CPS) teachers.[90] However, those CPS normal pension costs, estimated at $309.0 million in FY2023, are not included in the education category in the budget and are shown in All Other Agency Spending in the table.[91] The Proposed FY2023 budget is also providing an additional $54.4 million for the Early Childhood Block Grant, which will reach an estimated 7,100 additional children. Additional funding of $96.0 million will go to mandated categorical spending such as transportation.[92]

Higher Education

Proposed funding for higher education increases by $209 million, or 10.5%, to nearly $2.2 billion in FY2023 from $1.9 billion in FY2022.[93] Higher education includes nine public universities; the Illinois Community College Board, which distributes funds to 48 community colleges; and the Monetary Award Program (MAP), which provides college tuition grants for low income students.[94] The FY2023 budget increases General Funds support for universities and community colleges by $68 million, or 5%, compared to FY2022 levels. The budget will provide an additional $122 million for MAP to fund at least 24,000 additional students and increase the maximum amount of the grant award from $6,468 to $8,508, which is 50% of the average cost of tuition and fees at Illinois public universities. The Governor's proposed FY2022 supplemental funding of $230 million would eliminate the estimated actuarial liability in the College Illinois! prepaid tuition program.[95]

Human Services

Proposed funding for human services increases by $897 million, or 11.9%, to $8.5 billion in FY2023 from $7.6 billion in FY2022. Over the five-year period, proposed funding for human services increases by $2.3 billion, or 36.5%, to $8.5 billion in FY2023 from $6.2 billion in FY2019. The Human Services category includes not only the Department of Human Services, but the Department on Aging, Children and Family Services, Juvenile Justice, Employment Security, Human Rights, Public Health, Veterans' Affairs and several others.

The FY2023 General Funds budget proposal for the Department of Human Services (DHS) is $5.3 billion, an increase of $538.0 million, or 11.4%, from estimated FY2022 spending of $4.8 billion.[96] The additional funding includes $96.4 million in funding for the Home Services Program, which provides home and community care for the physically disabled, to address caseload growth and negotiated rate increases.[97] The proposed budget also includes $240 million between federal and state funds to implement the Reimagine Public Safety Act, which will establish the Office of Firearm Violence Prevention within the department.[98]

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[90] The State has responsibility for both the normal cost and unfunded liability of the Teachers' Retirement System, which covers teachers outside of Chicago.

[91] Illinois State FY2023 Budget, p. 60. The budget book includes CPS normal pension costs (which include retiree health insurance) in the category of Government Services.

[92] Illinois State FY2023 Budget, p. 32.

[93] Illinois State FY2023 Budget, p. 60.

[94] Higher education also includes the Illinois Board of Higher Education, Math and Science Academy and State Universities Civil Service System. Higher education budget numbers presented here do not include State contributions to the State Universities Retirement System and College Insurance Program or group health insurance payments for university employees and retirees.

[95] Illinois State FY2023 Budget, p. 34 and 51. The College Illinois! program is currently backed by a moral obligation commitment of the State. The trust fund which supports the College Illinois! program had an unfunded liability of $238.3 million as of June 30, 2021. The Governor's budget proposes annual deposits to address the program's future insolvency and reduce the cost of meeting the state's commitments by up to $75 million over the life of the program.

[96] Illinois State FY2023 Budget, p. 302.

[97] Illinois State FY2023 Budget, p. 302.

[98] Illinois State FY2023 Budget, p. 302.

The FY2023 proposed budget is also investing $180 million in a Health Workforce Initiative through the Department of Healthcare and Family Services (HFS) to preserve and grow the healthcare workforce through Medicaid providers and providers in underserved areas in the State.[99] The proposed FY2023 General Funds budget for the Department on Aging is $1.34 billion, an increase of $187 million from estimated spending of $1.16 billion in FY2022.[100] Additional funding includes $100.7 million in additional funding to the Community Care Program, which is designed to keep seniors out of nursing homes.[101]

The Department of Children and Family Services will receive an additional $182.6 million in General Funds appropriations in FY2023, or 16.0%, over FY2022 in order to accommodate additional hiring and growing caseloads.[102]

Healthcare

Proposed FY2023 General Funds appropriations for healthcare of nearly $8.1 billion are projected to increase by $467 million, or 6.1%, from estimated spending of $7.6 billion in FY2022 and increase by $136 million, or 1.7%, from $7.9 billion during FY2019. The State's healthcare category refers to the Department of Healthcare and Family Services (HFS), the Illinois agency mainly responsible for Medicaid, the joint federal-state program that pays for healthcare for low-income people.

Comparisons between General Funds spending and appropriations are particularly difficult for HFS because the agency frequently does not spend a sizable portion of its appropriations.[103] Additionally, trends in Medicaid spending are difficult to track because of heavy reliance on other State accounts, shifts in funding such as the increase in the Medicaid reimbursement rate during the pandemic and recent changes in the program, including the expansion of Medicaid coverage under the Affordable Care Act (ACA) and the enrollment of recipients in managed care organizations (MCOs).

The projected increase in General Funds appropriations in FY2023 for the Department of Healthcare and Family Services (HFS) is due mostly to proposed rate enhancements for nursing homes and mental and behavioral health providers, as well as a $180 million investment to recruit and retain healthcare workers.[104]

Public Safety

The Public Safety area of government includes the Department of Corrections, State Police, Criminal Justice Information Authority and many others, as shown in the Appendix. Proposed General Funds funding for Public Safety increases by $197 million, or 10.2%, to $2.1 billion in FY2023 from FY2022 levels and increases by $254 million, 13.5%, from $1.9 billion in FY2019. Operational costs of the Illinois Department of Corrections (IDOC) were not fully covered during the budget impasse, and so additional funding was included in subsequent years to make up for prior years' shortfalls.

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[99] Illinois State FY2023 Budget, p. 30.
[100] Illinois State FY2023 Budget, p. 238.
[101] Illinois State FY2023 Budget, p.37.
[102] Illinois State FY2023 Budget, p.36 and 255.
[103] HFS' unspent General Funds appropriations relate partly to Medicare premiums, which the State pays for recipients who are eligible for both programs. Instead of waiting for State payments, federal authorities in recent years have deducted the amount owed from Medicaid reimbursements. Because HFS does not know in advance whether the federal government will reduce revenues or require payment, the Medicare premium amount continues to be appropriated in the agency's budget (and included in the lump sum unspent amount for the overall budget).
[104] Illinois State FY2023 Budget, p.335.

In FY2023 the proposed budget increases appropriations to violence prevention programs like the Reimagine Public Safety Act, the Restore, Reinvest and Renew Grants Program and the SAFE-T Act.[105] The Criminal Justice Information Authority (CIJA) will invest $125 million for the Restore, Reinvest, and Renew Grants Program that will allow for additional grants to be awarded and flexibility in administering them. An additional $20 million will be invested in the Gang Crime Witness Protection Program to provide temporary housing support and relocation expenses associated with transitional housing needs.[106]

The Department of Corrections will use $16.3 million in funding for the operational and contractual expenses associated with the Joliet Inpatient Treatment Center and $15 million for continued technology upgrades. The Department of Juvenile Justice will be funded with an additional $1.9 million for community providers to offer youths more services in the Community Services Division and $2 million for the Department to provide necessary equipment for the Illinois Youth Center in Lincoln, Illinois. The Illinois State Police will also receive $18.6 million in General Funds to support three cadet classes to hire and train 300 additional sworn troopers and $4.5 million for motor vehicle, body cameras and cloud storage.[107]

GENERAL FUNDS EXPENDITURES

Expenditures from General Funds are expected to decline by $1.6 billion, or 3.4%, to $45.4 billion in FY2023 from $47.0 billion in FY2022 due to a large decrease in transfers out to pay

[105] Illinois State FY2023 Budget, p. 38-39.
[106] Illinois State FY2023 Budget, p. 39.
[107] Illinois State FY2023 Budget, p. 39-40.

back Municipal Liquidity Facility borrowing and interfund borrowing. Over the five-year period, expenditures increase by $5.9 billion, or 14.8%, from nearly $39.5 billion in FY2019.

State of Illinois General Funds Expenditures: FY2019-FY2023 (in $ millions)*									
	FY2019	**FY2020**	**FY2021 Prelim.**	**FY2022 Est.**	**FY2023 Proposed**	**Two-Year $ Change**	**Two-Year % Change**	**Five-Year $ Change**	**Five-Year % Change**
Agency Appropriations**	$ 27,731	$28,970	$29,995	$31,761	$ 32,566	$ 805	2.5%	$ 4,835	17.4%
(Unspent Appropriations)***	$ (874)	$ (1,748)	$ (1,314)	$ (873)	$ (1,056)	$ (183)	21.0%	$ (182)	20.8%
Net Agency Appropriations Spent	$ 26,857	$27,222	$28,681	$30,888	$ 31,510	$ 622	2.0%	$ 4,653	17.3%
Pension Contributions	$ 7,478	$ 8,113	$ 8,624	$ 9,363	$ 9,632	$ 269	2.9%	$ 2,154	28.8%
State Group Insurance	$ 2,026	$ 2,028	$ 2,022	$ 1,851	$ 1,841	$ (10)	-0.5%	$ (185)	-9.1%
Net Appropriations Spent	**$ 36,361**	**$37,363**	**$39,327**	**$42,102**	**$ 42,983**	**$ 881**	**2.1%**	**$ 6,622**	**18.2%**
Statutory Transfers Out									
Legislatively Required Transfers	$ 433	$ 440	$ 517	$ 400	$ 387	$ (13)	-3.3%	$ (46)	-10.6%
Proposed Pension Stabilization Fund Contribution	$ -	$ -	$ -	$ 300	$ 200	$ (100)	-33.3%	$ 200	--
Proposed Property Tax Rebate Checks	$ -	$ -	$ -	$ 425	$ 50	$ (375)	-88.2%	$ 50	--
Grocery Tax Replacement to Local Governments	$ -	$ -	$ -	$ 185	$ 175	$ (10)	-5.4%	$ 175	--
Debt Service on Pension Bonds	$ 1,242	$ 646	$ 681	$ 716	$ 750	$ 34	4.7%	$ (492)	-39.6%
Debt Service on Capital Bonds	$ 670	$ 436	$ 53	$ 83	$ 46	$ (37)	-44.6%	$ (624)	-93.1%
Repayment of Interfund Borrowing****	$ 23	$ 287	$ 545	$ 929	$ -	$ (929)	na	$ (23)	-100.0%
Debt Service on Backlog Borrowing	$ 782	$ 757	$ 732	$ 707	$ 682	$ (25)	-3.5%	$ (100)	-12.8%
Debt Service on Pension Accleration Bonds	$ 7	$ 31	$ 63	$ 82	$ 101	$ 19	23.2%	$ 94	1342.9%
Municipal Liquidity Facility Repayments	$ -	$ -	$ 2,209	$ 1,052	$ -	$ (1,052)	na	$ -	na
Total Transfers Out	**$ 3,157**	**$ 2,597**	**$ 4,800**	**$ 4,879**	**$ 2,391**	**$ (2,488)**	**-51.0%**	**$ (766)**	**-24.3%**
Total Expenditures	**$ 39,518**	**$39,960**	**$44,127**	**$46,981**	**$ 45,374**	**$ (1,607)**	**-3.4%**	**$ 5,856**	**14.8%**

*Totals may not sum due to rounding.

**Agency Appropriations in FY2022 include proposed supplemental appropriations of $1,615 million.

***Unspent appropriations include Comptroller prior year adjustments of $34 million in FY2019; and $23 million in FY2020.

****Repayment of interfund borrowing includes $13 million for Treasurer's investments in FY2019, $7 million in FY2020 and $405 million in FY2021.

Sources: Illinois State FY2023 Budget, pp. 60,70,516; Illinois State FY2022 Budget, pp. 55, 66, 500; Illinois State FY2021 Budget, pp. 51 and 62.

Transfers out of General Funds consist of legislatively required transfers and debt service transfers. Legislatively required transfers move funds from General Funds to Other State Funds for various programs and purposes. Debt service transfers out are to make debt service payments. Total transfers out will decline by $2.5 billion, or 51.0%, to $2.4 billion in FY2023 from $4.9 billion in FY2022 and by $766 million, or 24.3% from $3.2 billion in FY2019.

In FY2023 legislatively required transfers will decline by $13 million, or 3.3%, to $387 million from $400 million in FY2022. The decrease is due to the Governor's proposed $425 million property tax rebate in FY2022, which is mostly funded in FY2022 rather than FY2023.[108] Debt service transfers will decline because of MLF borrowings being paid off in FY2022.

PENSIONS

Illinois' retirement systems are among the most poorly funded of any state.[109] At the end of FY2021, actuarial unfunded liabilities totaled $139.9 billion and the combined funded ratio stood at 42.4%. The unfunded liability and funded ratio based on the market value of assets were nearly $130.0 billion and 46.5%.[110] The significant difference between the two numbers is due to

[108] Illinois State FY2023 Budget, General Transfers Out Addendum, p.120, Available at https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2023-Budget-Book/Fiscal-Year-2023-Operating-Budget.pdf.

[109] The Pew Charitable Trusts, "The State Pension Funding Gap: Plans Have Stabilized in Wake of Pandemic," *Brief*, September 2021.

[110] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2021, p. 2.

asset smoothing. The market value funded ratio fully incorporates historic investment returns of $14.3 billion during FY2021, while the actuarial investment returns are incorporated over a period of five years. If the funded ratio were 100%, pension assets would be sufficient to cover projected pension benefits when they are owed—based on a wide array of economic and demographic assumptions.

The State's 50-year funding plan, which began in FY1996, requires the five retirement systems to reach 90% funding by FY2045. The five systems are the Teachers' Retirement System, which covers public school teachers outside Chicago; State Employees' Retirement System, for most State employees who are not eligible for another State plan; State Universities Retirement System, for faculty and staff of universities and community colleges; and the Judges' and General Assembly Retirement Systems. To achieve the 90% funding goal, annual State contributions for all funds are currently projected to rise to $16.6 billion in the next 23 years[111] from $10.6 billion in FY2022.[112]

Before the extraordinary pension investment returns reported in FY2021, the State's unfunded pension liabilities were expected to continue growing until FY2029 despite increasing contributions.[113] The State's funding plan and subsequent statutory changes deferred a large portion of required contributions to future years, which funded annual budgets at the expense of the pension funds. However, given the strong growth in assets in 2021, the pension system in the aggregate has reached a position of starting to pay down its unfunded liability. That is, the State is not experiencing negative amortization.

Additionally, due to the liquidity crisis following the 2008 recession, Illinois covered its pension contributions in FY2010 and FY2011 by selling bonds, which were paid off in FY2019. Total pension-related expenditures, including $674.6 million of debt service on pension bonds issued in 2003,[114] were estimated at $9.9 billion in FY2020.[115]

General Funds pension contributions account for approximately 89% of total State contributions.[116] The next chart shows the portion of State-source General Funds revenue devoted to pension costs compared to other purposes.[117] The share of revenue grew from 8.3% in FY2008 to an estimated 25.1% in the proposed FY2023 budget. The peak was 30.7% in FY2017 following the income tax rate reductions in 2015; the share declined in the next two years due to the income tax rate increases in FY2018. Pension contributions for FY2010 and

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[111] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2021, p. 11.

[112] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2021, p. 11.

[113] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2019*, June 2020, p. 117.

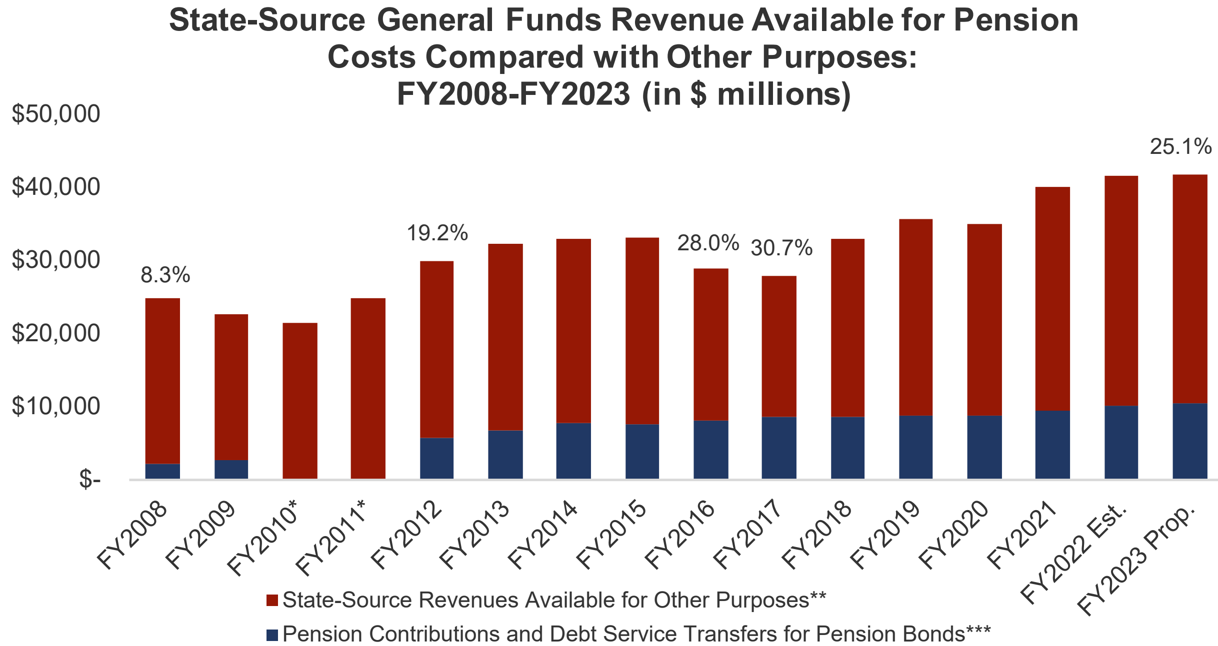
[114] Illinois issued $10 billion of Pension Obligation Bonds in June 2003. From the proceeds, $7.3 billion was used to increase pension fund assets and about $2.2 billion went for required pension contributions in FY2003 and FY2004, replacing General Funds contributions.

[115] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2019*, June 2020, p. 48.

[116] State of Illinois, General Obligation Bonds, Series of December 2021, *Official Statement*, December 9, 2021, p. A-15. https://www2.illinois.gov/sites/capitalmarkets/RecentBondSales/State%20of%20Illinois%20GO%20Bonds%20Series%20of%20December%202021%20A%20and%20B%20Official%20Statement.pdf

[117] General Funds revenues in Illinois include State-source revenues as well as federal revenues, which are mainly reimbursements for Medicaid spending.

FY2011 are not shown in the chart because they were paid from bond proceeds instead of General Funds.



* Pension contributions in FY2010 and FY2011 were made through issuance of bonds and are not included in this chart.
** State-source revenues exclude interfund and other borrowing.
*** Pension bonds debt service includes pension acceleration bonds.
Source:Illinois State FY2023 Budget, p. 70 and prior Illinois State Budget Books.

To address budgetary pressures, the State in 2011 created a second, significantly less generous tier of benefits for new employees.[118] Among other benefit changes, new employees receive automatic annual increases upon retirement of 3% or one-half of the rise in the Consumer Price Index, whichever is less, on a simple-interest basis. The increase for workers hired before 2011 is 3% per year on a compounded basis. State contributions are expected to decline sharply over time as new employees represent a larger share of the workforce.[119] However, the low Tier 2 benefits, which were not matched by lower employee contributions, may not be sustainable due to legal and equity issues.[120]

Efforts to reduce pension benefits for existing employees and retirees have been blocked by the Illinois Supreme Court. Legislation enacted in 2013 for four of the five State funds included an actuarially sound employer pension contribution schedule and a limitation on the automatic annual benefit increase for both current employees and retirees, among other provisions.[121] The high court ruled in 2015 and 2016 that the State law and subsequent benefit changes enacted for two City of Chicago pension funds[122] violated the pension protection clause in the Illinois

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[118] Public Act 96-0889, enacted on April 14, 2010.
[119] State of Illinois, General Obligation Bonds, Series of December 2021, *Official Statement*, December 9, 2021, p. B-31.
[120] Tara Garcia Mathewson, "Illinois Issues: The Next Pension Time Bomb," *NPR Illinois 91.9 UIS*, March 30, 2016. Many Tier 2 members are paying more than the full cost of their benefits, effectively subsidizing the State by helping to pay down its unfunded liability. Most State employees are not currently covered by Social Security, but Tier 2 benefit caps might eventually be considered too low to meet minimum standards for exemption from Social Security coverage.
[121] Public Act 98-0599, enacted on December 5, 2013.
[122] Public Act 98-0641, enacted on June 9, 2014.

Constitution.[123] That clause states that pension benefits are part of a contractual relationship and cannot be diminished or impaired.[124]

State pension contributions stabilized in FY2018 due to statutory changes included in that year's budget legislation.[125] The main change involved smoothing of State pension contributions, which is intended to moderate the budgetary impact of new actuarial assumptions adopted by the retirement systems. Smoothing spreads the contribution increase over a number of years, reducing State costs in the near-term but increasing costs over time due to forgone investment income. Before the smoothing provisions were enacted, the State's total FY2018 contributions were expected to increase by nearly $1 billion from $7.8 billion in FY2017 to $8.8 billion because of revised actuarial assumptions by the Teachers' Retirement System (TRS) and State Employees' Retirement System (SERS). Smoothing reduced total FY2018 contributions by $909 million to $7.9 billion.[126]

Public Act 100-0587, which was effective June 4, 2018, created two voluntary pension buyout plans for members of the three largest retirement systems, TRS, SERS and the State Universities Retirement System (SURS). The two voluntary plans are intended to reduce State costs by allowing members to give up future benefits in exchange for immediate payments.[127] One offers certain employees who are about to retire upfront cash payments in exchange for lower automatic annual increases in their benefits. The other offers an opportunity for inactive members of the pension plans to take a lump sum payment of 60% of the current value of their benefits.

To pay for the buyouts, the legislation authorized the issuance of up to $1 billion in bonds and the sunset date of the program is June 30, 2024. As of December 2021, the State has issued $884.6 million in pension buyout bonds[128] and may issue the remaining $115.4 million of the authorized bond amount in FY2023.[129] Of the three funds, SERS was the system with the largest expected savings and has had the highest take-up rate. As of October 2021, SERS has processed payments totaling $211 million for the accelerated pension benefits, with 26.2% of eligible retirees opting into the automatic annual increase reduction program and 1% into the buyout program. TRS has expended bond proceeds of $512.4 million as of October 2021, with a 20.5% participation rate in the automatic annual increase reduction program and 11.0% in the buyout program. SURS has expended bond proceeds of approximately $26.6 million as of February 2021 and participation rates were approximately 1% and less than 1% for the programs.[130]

123 The Illinois Supreme Court opinions are available at http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf and http://www.illinoiscourts.gov/Opinions/SupremeCourt/2016/119618.pdf (last accessed on May 15, 2019).
124 Ill. Const. art. XIII, sec. 5.
125 Public Act 100-0023, enacted on July 6, 2017.
126 State of Illinois, Office of the Auditor General, *State Actuary's Report*, December 2017, pp. 11-12, https://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/State-Actuary-Reports/2017-State-Actuary-Rpt-Full.pdf (last accessed on May 15, 2019).
127 For more information, see the Institute for Illinois' for Fiscal Sustainability at the Civic Federation blogs: "Examining Pension Savings in Illinois' FY2019 Budget," July 5, 2018, https://www.civicfed.org/iifs/blog/examining-pension-savings-illinois-fy2019-budget; "Illinois FY2019 Budget Still Faces Major Hurdles," October 5, 2018, https://www.civicfed.org/iifs/blog/illinois-fy2019-budget-still-faces-major-hurdles; State of Illinois Pension Contributions to Rise in FY2020, but by how Much," November 9, 2018, https://www.civicfed.org/iifs/blog/state-illinois-pension-contributions-rise-fy2020-how-much; "Illinois Budget Deficit Projected to Exceed $1 Billion in FY2019," November 20, 2018, https://www.civicfed.org/iifs/blog/illinois-budget-deficit-projected-exceed-1-billion-FY2019; "Illinois' Pension Buyout Savings Far Less than Expected," July 18, 2019, https://www.civicfed.org/iifs/blog/illinois-pension-buyout-savings-far-less-expected.
128 State of Illinois, General Obligation Bonds, Series of December 2021, *Official Statement*, December 9, 2021, p. A-51.
129 Illinois State FY2023 Budget, p. 519.
130 State of Illinois, General Obligation Bonds, Series of December 2021, *Official Statement*, December 9, 2021, p. B-36.

The Governor's Office in the FY2023 recommended budget cited an estimated value of liability reductions due to the buyout program of $1.4 billion and a reduced contribution to SERS in FY2023 of approximately $35 million.[131] In order to continue the program in FY2023, an additional $312 million in pension acceleration bond proceeds are needed, according to the Governor's budget proposal.[132] Legislation was introduced in the Illinois General Assembly in December 2021 that would extend the deadline of the program to June 30, 2026 and authorize an additional $1 billion in bonds to fund the program.[133] The Governor's Office of Management and Budget indicated the Governor would support an extension of the buyout programs.[134]

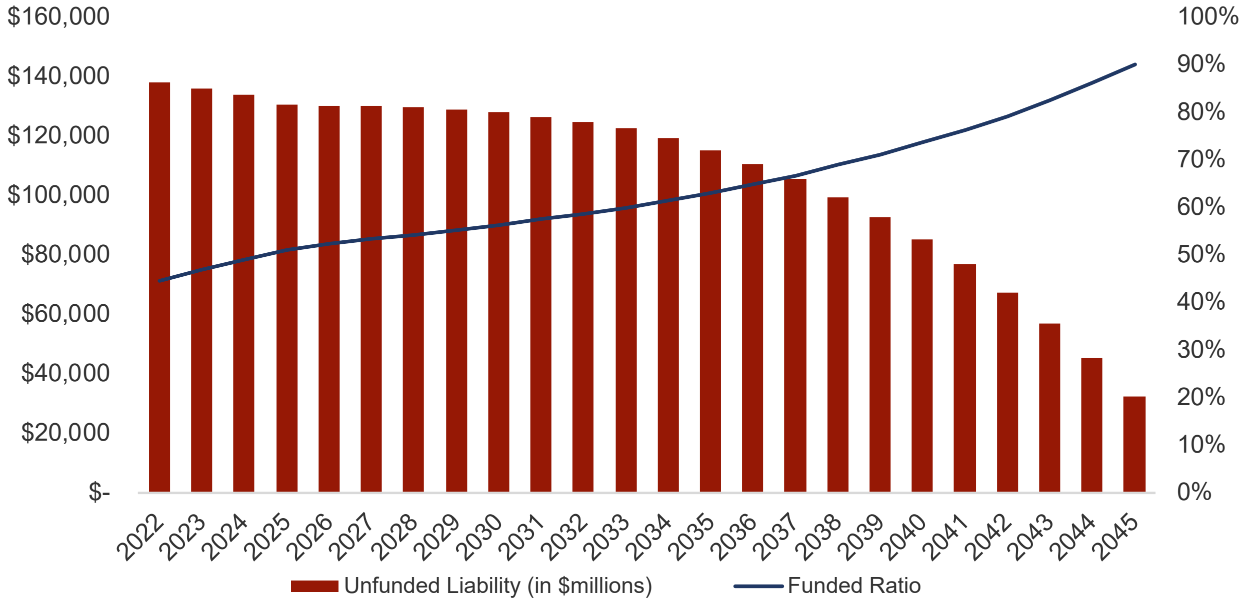
The Governor's FY2023 budget proposal includes, for the first time since the implementation of the State's 50-year funding plan, supplemental pension payments beyond the statutory minimum. The $500 million total in payments in FY2022 and FY2023 will be paid from higher than expected revenues.[135] The supplemental payments are projected to save the State $1.8 billion in contributions through FY2045 by paying down the pensions more in the short term.[136]

The following chart shows the most recent estimates of total unfunded liabilities and combined funded ratios for the State's five retirement systems from FY2022 through FY2045. The

[131] Illinois State FY2023 Budget, p. 50.
[132] Illinois State FY2023 Budget, p. 519
[133] House Bill 4292. See also Shruti Singh, "Illinois Weighs $1 Billion of Debt to Extend Pension Buyouts," Bloomberg, February 16, 2022. Available at https://www.bloomberg.com/news/articles/2022-02-16/illinois-weighs-1-billion-of-debt-to-extend-pension-buyout-plan
[134] Illinois State FY2023 Budget, p. 51.
[135] Illinois State FY2023 Budget, p. 53
[136] Illinois State FY2023 Budget, p. 50.

projections are based on preliminary data from FY2021 and do not include the potential impact of the Governor's proposed supplemental contributions.

State of Illinois Retirement Systems Projected Financial Condition: FY2022 to FY2045



* For data, see Appendix.
Source: Illinois General Assembly, Commission on Government Forecasting and Accountibility, *Special Pension Briefing*, November 2021, p. 11.

DEBT BURDEN AND RATINGS

The State of Illinois currently pays debt service on five major types of bonds: General Obligation (GO) bonds for capital projects, GO bonds for pension obligations, GO notes for short-term debt, GO bonds to pay backlogged bills and Build Illinois Revenue Bonds. The Illinois Constitution, the Short-Term Borrowing Act and the 2020 Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act authorize the issuance of short-term debt.[137]

All GO bonds are guaranteed by a pledge of the full faith and credit of the State, which is a legally binding pledge to pay both principal and interest on these loans as required by the bond agreements prior to any other use of State funds. The State is authorized under the General Obligation Bond Act to issue bonds to fund a variety of capital investments including roads, schools, mass transit, environmental projects and other facilities.[138]

In 2003, the State amended the GO Bond Act to include the authorization to issue ***Pension Obligation bonds*** (POBs) to increase the assets in its pension funds and make required annual

[137] See Illinois State Constitution Article IX, Section 9(d) State Debt and Borrowing for Failure of Revenues (also 30 ILCS 340/1.1; Short Term Borrowing Act (30 ILCS 340/1 from Ch. 120, par. 406); and Illinois FY2022 State Budget, pp. 505-506
[138] General Obligation Bond Act, 30 ILCS 330/1.

contributions to the State's five retirement systems. The State issued additional POBs in FY2010 and FY2011; these were retired in 2015 and 2019, respectively. There is no ongoing statutory authority to issue additional POBs at this time. The outstanding principal for POBs as of December 31, 2021 was nearly $8.4 billion.[139]

In 2018, the General Assembly authorized the issuance of up to $1 billion in ***pension acceleration bonds***. These bonds are intended to finance the cost of two programs:[140]

- The first program provides an accelerated pension benefit payment equal to 60% of the actuarial present value of future pension benefits in lieu of all future benefits to inactive, vested members of the Teachers' Retirement System (TRS), State Universities Retirement System (SURS) and State Employees' Retirement System (SERS) who have terminated employment but have not yet received a retirement annuity.
- The second program provides an accelerated pension benefit payment at the time of retirement to any Tier 1 member of TRS, SURS or SERS who elects to receive pension annuities with a reduced 1.5 percent non-compounded Annual Automatic Increase (AAI) in lieu of the standard 3 percent compounded Tier 1 AAI. This payment is equal to 70% of the difference in the actuarial present value of the AAIs.

The State issued $525 million in pension acceleration bonds in FY2020, $212 million in FY2021 and $148 million in FY2022. It may issue an additional $115.4 in bonds in FY2023. The principal outstanding on these bonds as of December 31, 2021 was $851.6 million.[141] Funding this project going forward will require an additional $312 million in additional bond proceeds in order to meet projected retiree participation in the program.[142]

The General Assembly approved legislation in 2017 authorizing the issuance of $6 billion in bonds to pay down the State's ***unpaid bill backlog***.[143] These are called ***Section 7.6 bonds***. In November 2017, the State issued the bonds at an interest rate of 3.5%. The bonds will mature in November 2029. The principal outstanding on these bonds as of December 31, 2021, was $4.5 billion. Public Act 101-0300 amended Section 7.6 to authorize the issuance of an additional $1.2 billion in backlog bonds. The state has not yet made public its intentions as to when these bonds will be issued. [144]

Illinois also uses several types of revenue bonds to fund capital projects. Unlike GO bonds, revenue bonds are not guaranteed by the full faith and credit of the State, but rather pledge a portion of specific State revenues. The largest ongoing revenue bond issuances are the ***Build Illinois Bonds***, which were first issued in 1985. Build Illinois Bonds are backed by a pledge of the State's portion of sales tax receipts[145] and by various revenue sources that fund the Capital Projects Fund. In FY2022, there will be $2.2 billion in principal outstanding for Build Illinois Bonds.[146]

In 2019, the General Assembly approved and the Governor signed into law a new $45.0 billion multi-year capital plan called ***Rebuild Illinois***. This was the first state capital plan since the Illinois Jobs Now! Capital plan that was approved in 2010.[147] The FY2023 capital budget

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[139] Illinois FY2023 State Budget, p. 532.
[140] Illinois FY2023 State Budget, p. 519.
[141] Illinois FY2023 State Budget, p. 532.
[142] Illinois FY2023 State Budget, p. 519.
[143] 30 ILCS 330/7.6 *General Obligation Bond Act. Income Tax Proceed Bond.*
[144] Illinois FY2023 State Budget, p. 518.
[145] Build Illinois Bond Act, 30 ILCS 425.
[146] Illinois FY2023 State Budget, p. 533.
[147] Public Acts 96-0004, 96-0035, 96-0039, 96-0819.

proposes appropriations of approximately $42.4 billion; this includes new spending and reappropriation authority.[148] Information about the FY2023 capital budget will be provided in a subsequent Civic Federation report.

In May 2020, the ***Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act*** was approved by the General Assembly. It authorized the borrowing of up to $5 billion from the Federal Reserve Bank's Municipal Liquidity Facility to address revenue shortfalls and increased spending pressures resulting from the continued COVID-19 pandemic. On December 17, 2020, the State issued $2 billion in General Obligation notes with a three-year maturity. The notes were fully retired on January 26, 2022, two years ahead of schedule. This saved the State $82 million in interest costs. [149]

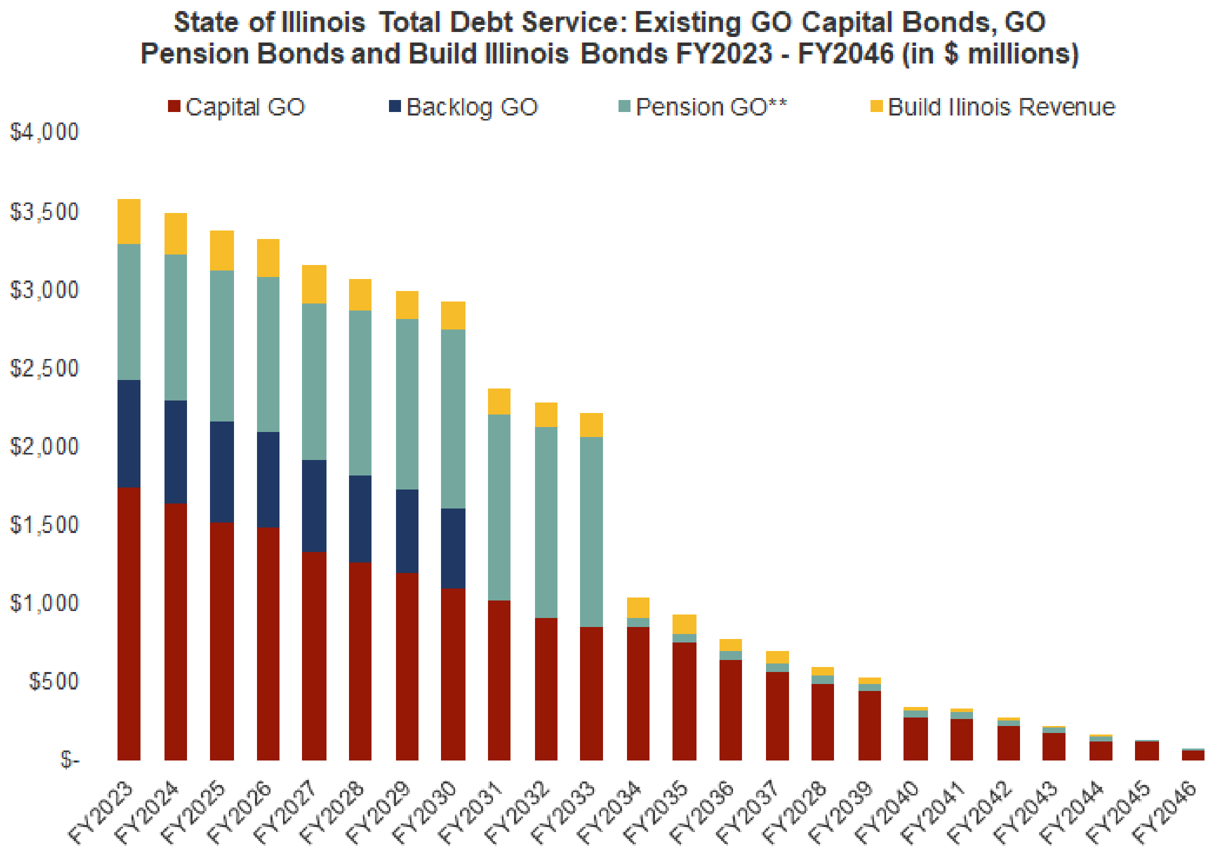
Two state-related agencies, the Illinois Sports Facilities Authority and the Metropolitan Pier and Exposition Authority also issue debt which is not backed by the full faith and credit of the State. The Railsplitter Tobacco Settlement Authority has issued limited obligation debt backed by funds received under a Master Settlement Agreement between several states and tobacco companies. The Illinois Finance Authority administers an agricultural loan guarantee program. Finally, several entities issue moral obligation debt, including College Illinois!, the State's prepaid tuition program. College Illinois! had an unfunded liability of $238.3 million as of June 30, 2021.[150] A proposed $230 million supplemental appropriation in FY2022 would retire the remaining unfunded liabilities in the program. Paying off the shortfall in FY2022 is projected to save up to $75 million over the life of the program.[151]

DEBT SERVICE

In FY2023, the State of Illinois is scheduled to pay debt service totaling $3.6 billion. The largest portion of the FY2023 debt service payment is due on capital purpose GO bonds totaling $1.8 billion, followed by Pension Obligation and Pension Acceleration bonds at $868.4 million, backlog bonds at $686.5 million, and Build Illinois Revenue Bonds at $272.0 million. Total debt service on existing GO and revenue bonds will be $38.6 billion from FY2022 through FY2046.

[148] Illinois FY2023 State Capital Budget, p. 22.
[149] Illinois FY2023 State Budget, pp. 520-521.
[150] Illinois FY2023 State Budget, p. 526.
[151] Illinois FY2023 State Budget, p. 500.

The following chart shows total debt service for existing Pension Obligation bonds, GO capital bonds, other capital bonds and GO notes from FY2022 through FY2046.



** Includes Pension Acceleration and Pension Obligation Bonds
Source: Illinois FY2023 State Budget, pp. 531-533.

In general, the State is required under the General Obligation Bonds Act and the Build Illinois Bonds Act to issue bonds with level principal payments for the life of each bond series.[152] Moreover, refunding bonds are generally prohibited from extending the principal maturities of the bonds they refund.[153] Because interest accrues on only the outstanding portion of each bond series, these rules result in a downward sloping debt service schedule for both types of capital bonds and the backlog bonds.

The State made exceptions to the level principal rule for the Pension Obligation bonds. Under the 2003 pension bond authorization, the State issued $10 billion in POBs that are repaid through FY2033, of which $7.2 billion was used to increase the assets of the State's retirement systems. The remainder was used to make the part of the State's statutorily required contributions that would have otherwise been made from General Funds resources in FY2003 and the entire FY2004 contribution. The pension bond authorization was increased in FY2010 by $3.5 billion and again in FY2011 by $3.7 billion to make the annual contributions that otherwise would have come from the State's General Funds. The FY2010 POBs were repaid through FY2015 and the FY2011 POBs completely matured on March 1, 2019.

[152] General Obligation Bond Act, 30 ILCS 330/9; Build Illinois Bond Act, 30 ILCS 425/6.
[153] General Obligation Bond Act, 30 ILCS 330/16.

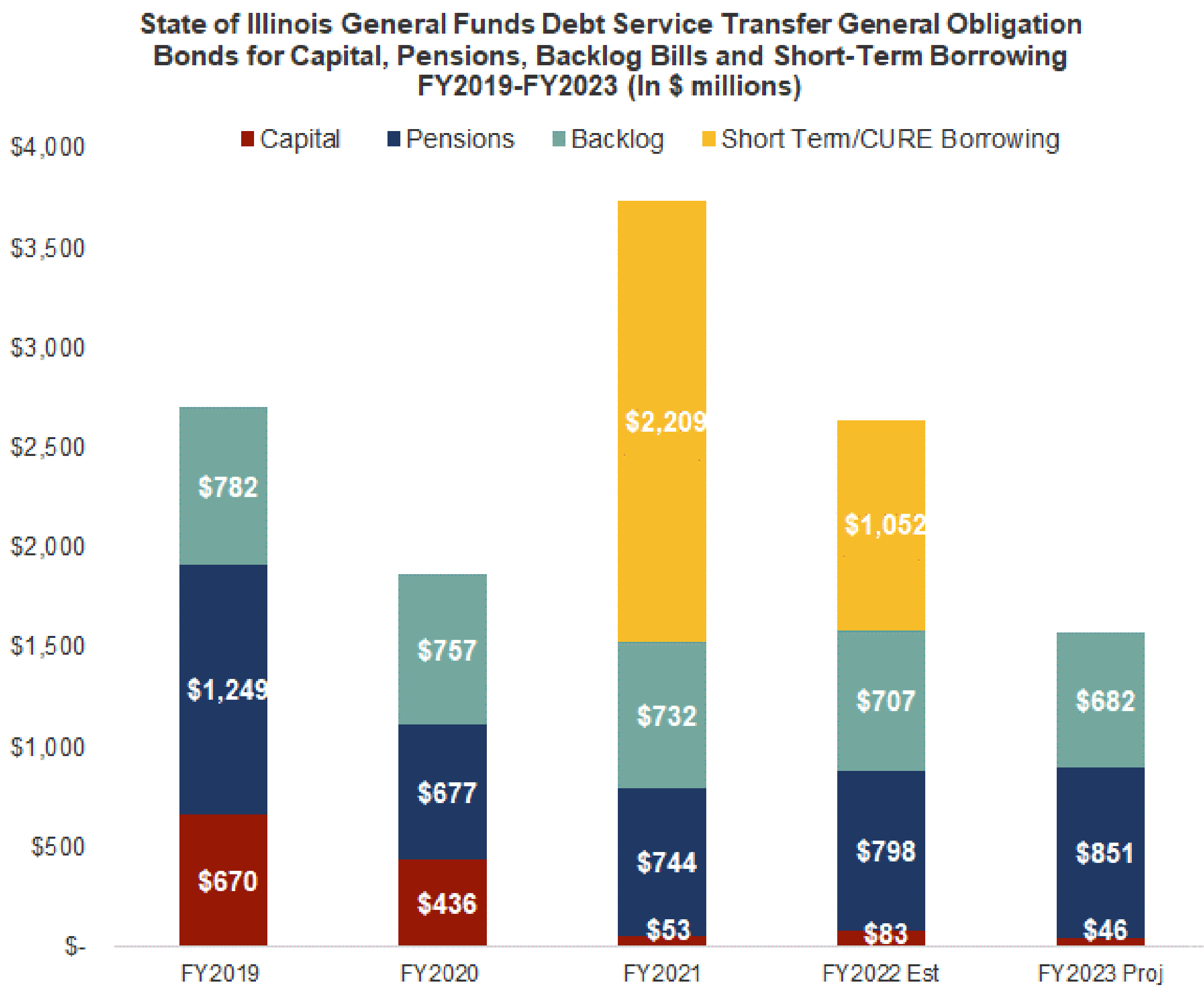
Debt Service Transfers

Although the total debt service represents the entire annual payment due to bond holders during the fiscal year, only a portion of that repayment is made through a transfer from the General Funds to the General Obligation Bond Retirement and Interest Fund (GOBRI). Build Illinois Bonds are paid through sales taxes diverted outside the General Funds and through the Capital Projects Fund.

The General Funds debt service transfer for FY2023 will total nearly $1.6 billion, or 3.4% of projected state-source General Funds resources of $45.8 billion and a decrease of $1.1 billion from FY2022.[154] In addition to General Funds, GO capital bonds are funded through transfers from the Road, Capital Projects, School Infrastructure and State Construction Funds.[155] Transfers from the General Funds increased from $2.7 billion in FY2019 to $3.7 billion in FY2021, primarily driven by short-term borrowing purposes, before they will fall by 57.8% by FY2023 due to the retirement of short-term debt.

[154] Illinois FY2023 State Budget, p. 516.
[155] Illinois FY2023 State Budget, p. 516.

The following chart shows the General Funds cost of debt service paid on the State's General Obligation Bonds, both capital and pension related, for FY2019 through FY2023.



Source: Illinois FY2023 State Budget, p. 516.

The debt service transfer associated with capital GO bonds in FY2023 will decrease by $37 million, totaling $46 million compared to $83 million the previous fiscal year. Over the last five years, the General Funds debt service cost for capital bonds will decrease by $624 million from a total of $670 million in FY2019.

Pension Obligation bonds issued in 2010 and 2011 to pay a portion of the State's annual contribution have been retired. Debt service remains on the $10 billion in POBs issued in 2003 to fund a portion of the State's annual pension contributions and to finance a portion of the funds' unfunded liabilities. In FY2023, debt service transfers totaling $851 million will be utilized to pay for these bonds and the Pension Acceleration Bonds. As noted above, these bonds will fund a program that offers accelerated pension benefit payments equal to 60% of the actuarial present value of future pension benefits to retirees in lieu of all future benefits. [156]

[156] Illinois FY2023 State Budget, p. 516 and 519.

Approximately $6.0 billion in backlog bonds were issued in FY2018 to pay down a portion of the State's unpaid bills. These transfers will be $682 million in FY2023, down slightly from $707 million in FY2022. Since FY2019, transfers for these bonds have decreased from $782 million to $682 million, or by $100 million.

Transfers to General Funds for Short Term Borrowing

The State is authorized to borrow funds in an amount that does not exceed 15% of the State's appropriations for that fiscal year to meet deficits caused by emergencies or failures of revenue. The debt must be repaid within one year of the date when it is incurred.[157]

On June 5, 2020, the State used that authorization to issue $1.2 billion in General Obligation certificates to deal with shortfalls in revenues caused by the COVID-19 pandemic. The certificates were sold to the federal Municipal Liquidity Facility. The State fully retired this obligation on June 5, 2021.[158]

In May 2020, the Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act was approved by the General Assembly. It authorized the borrowing of up to $5 billion from the Federal Reserve Bank's Municipal Liquidity Facility to address revenue shortfalls and increased spending pressures resulting from the continued COVID-19 pandemic. On December 17, 2020, the State issued $2 billion in General Obligation notes with a three-year maturity. The notes were fully retired on January 26, 2022.[159]

Build Illinois Bond Program

Part of the funding to pay for Build Illinois Bonds debt service is diverted from the State's portion of sales tax receipts prior to being deposited into the General Funds. The State is required to transfer the larger of 3.8% of its share of the sales taxes collected each year or the one-eighth of the annual certified annual debt service requirement owed on all outstanding Build Illinois Bonds.[160] Although these bonds are not paid for through a General Funds transfer, the cost of the Build Illinois Bonds reduces the amount of sales tax revenues that would otherwise be available to fund the annual operating budget.

Outstanding Debt

The following chart shows the total principal, interest and debt service for State of Illinois debt outstanding as the State enters into FY2023. The amounts shown were outstanding as of December 31, 2021. New debt will be issued in FY2023.

Total outstanding principal on capital purpose GO bonds will decrease by $168.1 million from $14.2 billion at the beginning of calendar 2022 to $14.4 billion going into FY2023. The combined total debt service owed on all outstanding capital GO bonds will increase slightly, by $48.5 million. The interest owed on these bonds will decrease by $119.6 million to $6.4 billion in FY2022.

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[157] Illinois State Constitution Article IX, Section 9(d) State Debt and Borrowing for Failure of Revenues (also 30 ILCS 340/1.1).
[158] Illinois FY2023 State Budget, p. 520.
[159] Illinois FY2023 State Budget, p. 521.
[160] Illinois FY2023 State Budget, p. 521 and 30 ILCS 425, Sec. 13; 35 ILCS 120, Sec. 3.

The total principal owed on all outstanding pension (including pension acceleration) bonds at the beginning of FY2023 will total nearly $9.2 billion, a decrease of $61.4 million from the total of $9.3 billion in the previous year. The outstanding interest owed on pension debt will decline by $860.5 million to $3.3 billion, from nearly $4.2 billion at the beginning of the previous year. Total debt service, including both principal and interest, on the State's pension bonds will total $12.5 billion in at the beginning of FY2023, compared to $13.4 billion in the previous year, a 6.9% or $921.9 million decrease.

The backlog GO bonds will decline by $500 million in principal and $236.5 million in interest between FY2022 and FY2023.

The GO Note debt service represents payments due for the $2 billion three-year short-term note borrowed on December 17, 2020, from the federal Municipal Liquidity Facility to fund costs associated with the COVID-19 pandemic. This debt was retired by January 2022.[161]

In FY2023, the principal on the outstanding Build Illinois Bonds will total $2.2 billion compared to $2.1 billion in FY2022, a $137.6 million increase. The interest owed on the loans through FY2046 will total $685.5 million as of FY2023, which was a decrease of $26.4 million from

[161] Illinois FY2023 State Budget, p. 60

FY2022. Total outstanding debt service on Build Illinois Bonds will increase by $111.2 million to $2.9 billion.

State of Illinois Total Outstanding Debt Service: General Obligation and Build Illinois Bonds FY2022 vs. FY2023 (in $ millions)				
	FY2022	FY2023	$ Change	% Change
Principal				
GO Capital	$ 14,186.9	$ 14,355.0	$ 168.1	1.2%
GO Pension	$ 9,263.0	$ 9,201.6	$ (61.4)	-0.7%
GO Backlog	$ 5,000.0	$ 4,500.0	$ (500.0)	-10.0%
GO Note	$ 2,000.0	$ -	$ (2,000.0)	-100.0%
Build Illinois	$ 2,108.9	$ 2,246.5	$ 137.6	6.5%
Other Revenue	$ 5.4	$ -	$ (5.4)	-100.0%
Total Principal	**$ 32,564.2**	**$ 30,303.1**	**$ (2,261.1)**	**-6.9%**
Interest				
GO Capital	$ 6,507.2	$ 6,387.6	$ (119.6)	-1.8%
GO Pension	$ 4,155.3	$ 3,805.9	$ (349.4)	-8.4%
GO Backlog	$ 1,243.7	$ 1,007.2	$ (236.5)	-19.0%
GO Note	$ 204.8	$ -	$ (204.8)	-100.0%
Build Illinois	$ 711.9	$ 685.5	$ (26.4)	-3.7%
Other Revenue	$ 0.2	$ -	$ (0.2)	-100.0%
Total Interest	**$ 12,823.1**	**$ 11,886.2**	**$ (936.9)**	**-7.3%**
Debt Service				
GO Capital	$ 20,694.1	$ 20,742.6	$ 48.5	0.2%
GO Pension	$ 13,418.3	$ 13,007.5	$ (410.8)	-3.1%
GO Backlog	$ 6,243.7	$ 5,507.2	$ (736.5)	-11.8%
GO Note	$ 2,204.8	$ -	$ (2,204.8)	-100.0%
Build Illinois	$ 2,820.8	$ 2,932.0	$ 111.2	3.9%
Other Revenue	$ 5.6	$ -	$ (5.6)	-100.0%
Total Debt Service	**$ 45,387.3**	**$ 42,189.3**	**$ (3,198.0)**	**-7.0%**

Amounts shown were as of December 31 of each year.
Sources: Illinois FY2022 State Budget, pp. 516-518; FY2023 Illinois State Budget, pp. 531-533.

The next table compares the outstanding principal, interest and total debt service on all Build Illinois Bonds, GO capital bonds, GO backlog bonds and POBs from FY2018 to FY2022.[162]

Between the end of 2018 and the end of 2022, the State of Illinois is expected to reduce the principal on outstanding bonds by 10.7% or $3.6 billion. This is a decrease from $33.9 billion to nearly $30.3 billion.

Total interest owed on the State's outstanding debt will decline by roughly $4.1 billion over this five-year period. Interest owed through FY2046 on pension bonds will be nearly $1.9 billion less in FY2022 than it was in FY2018. Outstanding interest on capital purpose GO bonds will decrease by $940.9 million over the five-year period; the State owes $6.4 billion in interest on

[162] The amounts shown in the chart are as of December 31, 2021.

capital GO bonds for debt repaid through FY2046 compared to $7.3 billion in FY2018. The interest owed on all outstanding Build Illinois Bond debt through FY2046 declined by $192.8 million over five years, from $878.3 million in FY2018 to $685.5 million in FY2022.

Total pension obligation debt service will decline by approximately $3.7 billion, declining from $16.2 billion to $12.5 billion between FY2018 and FY2022. This includes a drop of $1.8 billion in pension debt principal expenses and $1.9 billion in pension debt interest expenses. Total debt service will decline by 15.6%, or $7.7 billion, falling from $49.4 billion to $41.7 billion.

State of Illinois Total Outstanding Debt Service: General Obligation and Build Illinois Bonds Five-Years Comparison 2018-2022 (in $ millions)

	2018	2019	2020	2021	2022	$ Change	% Change
Principal							
GO Capital	$ 14,460.7	$ 14,050.4	$ 13,825.1	$ 14,186.9	$ 14,355.0	$ (105.7)	-0.7%
GO Pension	$ 10,975.0	$ 9,925.0	$ 9,150.0	$ 9,263.0	$ 9,201.6	$ (1,773.4)	-16.2%
GO Backlog	$ 6,000.0	$ 6,000.0	$ 5,500.0	$ 5,000.0	$ 4,500.0	$ (1,500.0)	-25.0%
GO Note	$ -		$ -	$ 2,000.0	$ -	$ -	---
Build Illinois	$ 2,489.1	$ 2,522.1	$ 2,307.5	$ 2,108.9	$ 2,246.5	$ (242.6)	-9.7%
Other Revenue	$ 23.1	$ 17.4	$ 11.5	$ 5.4	$ -	$ (23.1)	-100.0%
Total Principal	**$ 33,947.9**	**$ 32,514.9**	**$ 30,794.1**	**$ 32,564.2**	**$ 30,303.1**	**$ (3,644.8)**	**-10.7%**
Interest							
GO Capital	$ 7,328.5	$ 6,750.2	$ 6,428.7	$ 6,507.2	$ 6,387.6	$ (940.9)	-12.8%
GO Pension	$ 5,261.9	$ 4,693.3	$ 4,406.1	$ 4,155.3	$ 3,805.9	$ (1,456.0)	-27.7%
GO Backlog	$ 1,935.5	$ 1,791.8	$ 1,505.3	$ 1,243.7	$ 1,007.2	$ (928.3)	-48.0%
GO Note	$ -	$ -	$ -	$ 204.8	$ -	$ -	---
Build Illinois	$ 878.3	$ 915.5	$ 811.4	$ 711.9	$ 685.5	$ (192.8)	-22.0%
Other Revenue	$ 25.8	$ 17.1	$ 8.5	$ 0.20	$ -	$ (25.8)	-100.0%
Total Interest	**$ 15,430.0**	**$ 14,167.9**	**$ 13,160.0**	**$ 12,823.1**	**$ 11,886.2**	**$ (3,543.8)**	**-23.0%**
Debt Service							
GO Capital	$ 21,789.20	$ 20,800.60	$ 20,253.80	$ 20,694.10	$ 20,742.60	$ (1,046.6)	-4.8%
GO Pension	$ 16,236.90	$ 14,618.30	$ 13,556.10	$ 13,418.30	$ 13,007.50	$ (3,229.4)	-19.9%
GO Backlog	$ 7,935.50	$ 7,791.80	$ 7,005.30	$ 6,243.70	$ 5,507.20	$ (2,428.3)	-30.6%
GO Note	$ -	$ -	$ -	$ 2,204.80	$ -	$ -	---
Build Illinois	$ 3,367.40	$ 3,437.60	$ 3,118.90	$ 2,820.80	$ 2,932.00	$ (435.4)	-12.9%
Other Revenue	$ 48.90	$ 34.50	$ 20.00	$ 5.60	$ -	$ (48.9)	-100.0%
Total Debt Service	**$ 49,377.90**	**$ 46,682.80**	**$ 43,954.10**	**$ 45,387.30**	**$ 42,189.30**	**$ (7,188.6)**	**-14.6%**

Figures as of December 31 of each calendar year.

Sources: Illinois FY2019 State Budget, pp. 520-521; Illinois FY2020 State Budget, pp. 506-508; Illinois FY2021 State Budget, pp. 525-527; and Illinois FY2022 State Budget, pp. 516-518; FY2023 Illinois State Budget, pp. 531-533.

New General Obligation Debt Issuances in FY2022 and FY2023

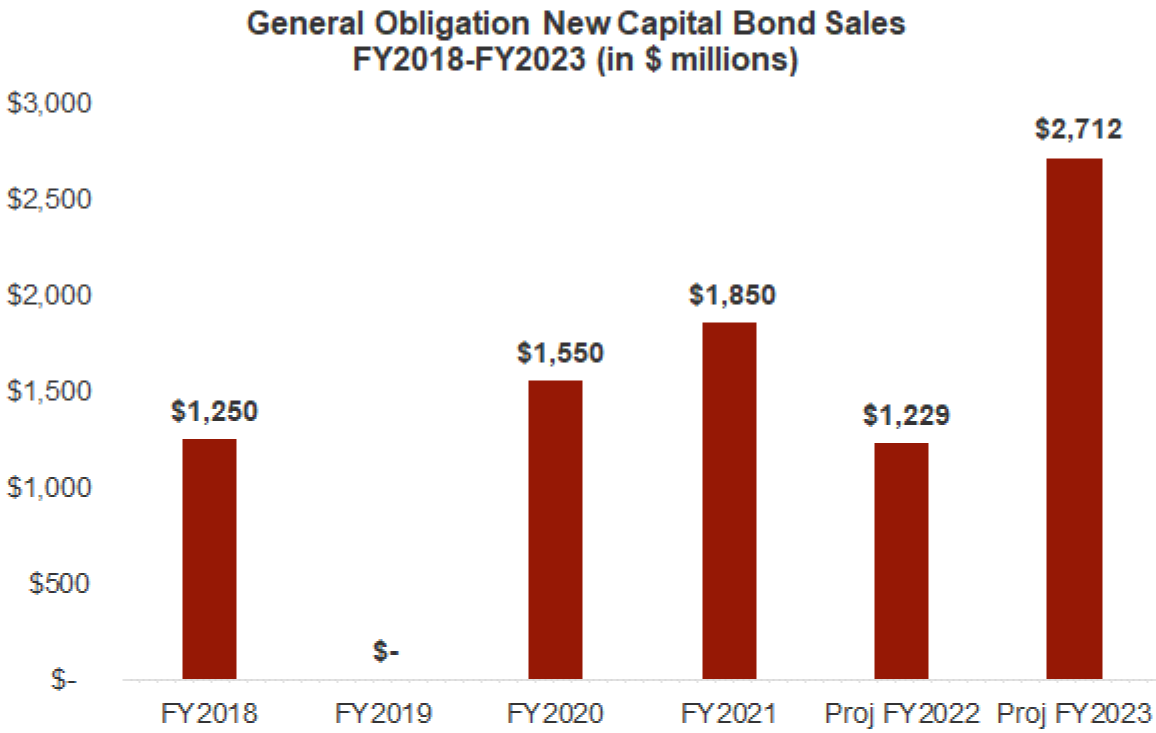
In FY2022, the State of Illinois made three bond issuances:

- $130 million in Build Illinois sales tax revenue bonds to be used to pay for capital projects;[163]
- $362.7 million in taxable and tax-exempt Build Illinois sales tax revenue bonds to be used to pay for capital projects;[164] and

[163] State of Illinois Official Statement, $130,000,000 State of Illinois Build Illinois Bonds Junior Obligation Series A of September 2021, August 24, 2021, p. 1.
[164] State of Illinois Official Statement, $130,000,000 State of Illinois Build Illinois Bonds Junior Obligation Series of September 2021, September 15, 2021, p. 1.

- $400 million in general obligation bonds to be used to fund accelerated pension benefit payments.[165]

In FY2023, the State plans to issue approximately $2.7 billion in new GO bonds to fund capital projects. This is an increase from the $1.2 billion planned for issuance in the current fiscal year. The bond issues in FY2020 through FY2022 reflect passage of the state's Rebuild Illinois capital plan in June 2019.



*Sales shown do not include sales of refunding bonds.
Source: Illinois FY2023 State Budget, p. 516.

[165] State of Illinois Official Statement, $400,000,000 State of Illinois General Obligation Bonds Series 2021 A and 2021 B of December 2021, December 1, 2021, p. 1.

Bond Ratings

Bond ratings are one of the factors that weigh heavily in determining the interest rates the State must pay to issue debt. The following chart shows the current ratings for Illinois' General Obligation Bonds and Build Illinois Bonds.

State of Illinois: Current Ratings as of December 31, 2021				
	GO Bonds		Build Illinois Bonds	
Company	Rating	Outlook	Rating	Outlook
Moody's Investor's Services	Baa2	Stable	Baa2	Stable
S & P Global Ratings	BBB	Positive	BBB+	Positive
Fitch Ratings	BBB-	Positive	BBB+	Positive
Kroll Bond Rating Agency	Not Rated	N/A	AA+	Stable

Source: Illinois FY2023 State Budget, p. 527.

Recent Rating Agency Actions

The State of Illinois received some good fiscal news in 2021: two rating agencies upgraded the State's credit ratings and a third revised its outlook to positive. The credit upgrades were the first in in two decades, reversing years of negative news.[166]

Moody's Investors Services assigned a Baa2 rating with a stable outlook on November 17, 2021, to the Illinois $400 million general obligation bond issuance that occurred in December. Moody's noted that the rating was supported by the state's continued financial improvement. Key points the agency made were that:

- Illinois had completed its repayment of funds borrowed from the federal Municipal Liquidity Facility;
- Reductions in the amount of unpaid bills;
- Repayment of internally borrowed funds; and
- Increases in revenues above original forecasts.

Moody's warned, however, that the state still faced long-term financial stress due to is large unfunded pension liabilities.[167]

On June 29, 2021, the State of Illinois received a credit upgrade from Moody's Investors Services. Moody's increased the State's general obligation (GO) bond rating to Baa2 from Baa3 with a stable outlook. In addition, ratings on Build Illinois sales tax revenue bonds were also upgraded to Baa2 from Baa3. In the June ratings action and an update published on July 7, 2021, Moody's cited the marked improvements in Illinois' financial condition that had led them to issue an upgrade, including:

- The State's ability to pay back funds borrowed from the Federal Reserve Bank's Municipal Liquidity Facility;
- A reduction in the amount of unpaid bills;
- Repaying internally borrowed funds;

[166] Civic Federation. State of Illinois Received First Credit Upgrades in Two Decades, August 13, 2021 at https://www.civicfed.org/civic-federation/blog/state-illinois-received-first-credit-upgrades-two-decades.
[167] Moody's Investors Services, Moody's assigns Baa2 rating to Illinois' Series of December 2021 GO bonds; outlook stable, November 17, 2021.

- Paying statutorily defined pension funding increases
- Using modest amounts of federal American Recovery Act funds in the FY2022 budget; and
- Better-than-expected revenue growth.

All was not good news, however. Moody's warned that the State faces serious long-term financial challenges, fueled in large part by its growing unfunded pension liabilities.[168]

Moody's summer credit updates followed two actions taken in March 2021. On March 25, 2021, Moody's Investors Service revised its outlook for State of Illinois general obligation debt to stable from negative. At the same time, it reaffirmed its Baa3 rating on those bonds. The revised outlook was also applied to other outstanding State debt. The change in outlook reflects the State's positive fiscal performance during the COVID-19 pandemic and that federal stimulus funding support will help mitigate short- and near-term financial and economic pressures. The stimulus funds can assist local governments and stimulate economic growth. Moody's warned, however, that while credit risks have lessened, the State continues to face major long-term fiscal challenges. These include the massive unfunded liabilities of Illinois' retirement systems.[169]

Moody's released an issuer comment on March 3, 2021 noting that Illinois' adjusted net pension liability for its five retirement systems is set to reach approximately $317 billion. Moody's uses a proprietary measurement of pension liabilities, which is why the number is so much higher than the actuarial figures used by the State. This figure totals approximately 37% of the State's economic output in 2020, up from a range of 28% to 30% in recent years. Illinois pension liabilities, as measured by Moody's, are the highest of all 50 states and the State's liabilities for bonded debt and OPEB rank among the top in the nation. Illinois allocates about 30% of its budget to pension and debt costs and is an outlier among the states for the enormous fiscal challenges it faces to pay for the mounting pension liabilities and its limited ability to modify the benefits driving those costs.[170]

Standard and Poor's Global Ratings revised its outlook on State of Illinois general obligation outstanding debt from stable to positive on November 18, 2021. The agency cited the State's improved financial condition as the reason for the outlook change. The agency affirmed its BBB long-term rating of that debt as well as its BBB- rating on the state's appropriation backed debt.

S&P Global also assigned a BBB rating with a positive outlook to the State's $400 million general obligation bond issue of December 2021.[171]

In August 2021, S&P Global assigned a BBB+ rating with a stable outlook to $340 million tax exempt and taxable Build Illinois sales tax revenue bonds and $160 million in Build Illinois tax exempt sales tax revenue refunding bonds. The rating reflected the State's strong economic

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[168] Moody's Investors Services, Moody's upgrades Illinois general obligation rating to Baa2 from Baa3; outlook stable, June 29, 2021 and Moody's Investors Service. Credit Opinion. Update to credit analysis following upgrade to Baa2, July 7, 2021.
[169] Moody's Investors Services, Rating Action: Moody's revises Illinois' outlook to stable and affirms Baa3 GO rating, March 25, 2021.
[170] Moody's Investors Services, Issuer Comment, "Illinois (State of) Adjusted Net Pension Liability to Surpass $300 billion as source of credit stress worsens," March 3, 2021.
[171] S & P Global Ratings. State of Illinois Rating Outlook Revised to Positive from Stable on Improved Budgetary Performance, November 18, 2021.

base, strong sales tax collections, improved liquidity position as well as strong debt service coverage.[172]

S& P Global upgraded Illinois general obligation debt to BBB from BBB- with a stable outlook in July 2021. This was the first state bond upgrade from S&P since July 1997.[173] S&P cited the State's improved financial situation for its decision, including the state's improved liquidity position; the reduction in the bill backlog; the fact that the state made its statutorily required pension payments; the flat FY2022 state budget which included $700 million in cuts as well as selected spending freezes; and the end to political gridlock in Illinois that facilitated smooth passage of the budget. S&P did note that the State continues to face long term fiscal pressures from its enormous outstanding pension liabilities.[174]

On March 9, 2021, Standard & Poor's revised its outlook on Illinois GO and Build Illinois bonds from negative to stable. This was related to the State's upcoming $1.3 billion GO bond issue. The rating agency stated that the change was due to a decline in the fiscal and economic uncertainty from the COVID-19 pandemic. It noted that the Pritzker administration has taken steps to ensure adequate liquidity, including accessing the Municipal Liquidity Facility; revenue collections have been stronger than anticipated; and the State has attempted to control spending with budget cuts and freezing spending.[175]

In November 2021, ***Fitch Ratings*** assigned a BBB- rating with a positive outlook to the State of Illinois' $400 million bond issue of December 2021. The rating reflected the State's improved fiscal outlook[176]. This followed an August 2021 ratings action that assigned a BBB- rating with a positive outlook for the State's $500 million Build Illinois bond issuances. The rating was based on Fitch's conclusion that the State's pledged sales tax revenues would increase with inflation and that adequate debt service coverage was provided.[177]

Fitch affirmed the ratings for State of Illinois general obligation bonds at BBB- and senior and junior obligation sales tax revenue bonds at BBB+ on June 23, 2021, while increasing the rating outlook from negative to positive. The outlook change reflected the State's improved economic and fiscal condition. Fitch's analysis was similar to that presented by the other rating agencies, citing the state's strong revenue growth, the State's ability to retire debt borrowed from the federal Municipal Liquidity Facility, making the statutorily required pension payment and measured use of federal stimulus aid in the budget.[178]

Fitch Ratings assigned a BBB- rating with a negative outlook for Illinois' $1.3 billion GO issuance debt on March 9, 2021. Fitch based its rating on an assessment of the risks the State faces due to its lack of reserves and its extensive use of budget balancing maneuvers such as deficit financing. State revenues have exceeded expectations but still are below pre-COVID-19 pandemic levels. However, at that time, the rating agency noted that approval of the federal

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[172] S & P Global Ratings. Illinois' Build Illinois Junior-Lien Series of September 2021 Bonds Assigned 'BBB+' Rating, August 13, 2021.
[173] Rachel Hinton, Democrats say state's second credit bump shows 'we are on the right track' — but GOP warns against taking 'victory lap,' *Chicago Sun-Times*. July 8, 2021 at https://chicago.suntimes.com/2021/7/8/22568910/illinois-s-p-standard-poor-upgrade-credit-bond-rating-wall-street-moodys-fitch.
[174] S & P Global Ratings. State of Illinois Debt Rating Raised to "BBB" From "BB-" on Improving Fiscal Position, July 8, 2021.
[175] S&P Global Ratings, "State of Illinois Debt Rating Outlook Revised to Stable from Negative on Better-Than-Expected Performance," March 9, 2021 at https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/2608041.
[176] Fitch Ratings. Fitch Rates $400MM Illinois GO Bonds 'BBB-"; Outlook Positive, November 18, 2021.
[177] Fitch Ratings. Fitch Rates $500MM Build Illinois Bonds 'BBB+'; Outlook Positive, August 13, 2021.
[178] Fitch Ratings. Fitch Revises State of Illinois' Rating Outlook to Positive; Affirms IDR at 'BBB-'
June 23, 2021 at https://www.fitchratings.com/research/us-public-finance/fitch-revises-state-of-illinois-rating-outlook-to-positive-affirms-idr-at-bbb-23-06-2021.

American Rescue Plan (HR 1319, or ARP), with the possibility of approximately $7.5 billion for the State treasury, would improve the fiscal situation.[179]

[179] Fitch Ratings, Fitch Affirms Illinois IDR at 'BBB-' and Rates $1.3B GO Bonds 'BBB-''; Outlook Remains Negative," March 9, 2021at https://www.fitchratings.com/research/us-public-finance/fitch-affirms-illinois-idr-at-bbb-rates-1-3b-go-bonds-bbb-outlook-remains-negative-09-03-2021.

APPENDIX: STATE OF ILLINOIS AGENCIES BY OUTCOME

This appendix shows the categorization of State agencies that appears in the FY2023 budget.[180]

P-12 Education
Illinois State Board of Education

Higher Education
Illinois Board of Higher Education
Chicago State University
Eastern Illinois University
Governors State University
Northeastern Illinois University
Western Illinois University
Illinois State University
Northern Illinois University
Southern Illinois University
University of Illinois
Illinois Community College Board
Illinois Student Assistance Commission
Illinois Mathematics and Science Academy
State Universities Civil Service System

Economic Development
Agriculture
Commerce and Economic Opportunity
Labor
Transportation
Illinois Commerce Commission
Human Rights Commission
Illinois Sports Facilities Authority
Southwestern Illinois Development Authority

Public Safety
Corrections
Financial and Professional Regulation
Insurance
Military Affairs
State Police
Environmental Protection Agency
Illinois Criminal Justice Information Authority
Illinois Workers' Compensation Commission
Law Enforcement Training and Standards Board
Prisoner Review Board

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[180] State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, p. 19, November 9, 2021.
https://www2.illinois.gov/sites/budget/Documents/Economic%20and%20Fiscal%20Policy%20Reports/FY2022/Economic%20and%20Fiscal%20Policy%20Report%20FY22%20FINAL.pdf

Property Tax Appeal Board
Illinois Emergency Management Agency
Illinois Labor Relations Board
State Fire Marshal

Human Services
Aging
Children and Family Services
Juvenile Justice
Employment Security
Human Rights
Human Services
Public Health
Veterans' Affairs
Illinois Deaf and Hard of Hearing Commission
Illinois Guardianship and Advocacy Commission
Illinois Council on Developmental Disabilities

Healthcare
Healthcare and Family Services

Environment and Culture
Natural Resources
Illinois Arts Council
Abraham Lincoln Presidential Library and Museum

Government Services (including employee health insurance)
General Assembly and Legislative Agencies
Auditor General
Supreme Court and Illinois Court System
Supreme Court Historic Preservation Commission
Courts Commission
Judicial Inquiry Board
State Appellate Public Defender
State's Attorneys Appellate Prosecutor
Court of Claims
Governor
Lieutenant Governor
Attorney General
Secretary of State
State Comptroller
State Treasurer
State Board of Elections
Central Management Services
Innovation and Technology
Lottery
Revenue
Governor's Office of Management and Budget
Office of the Executive Inspector General
Executive Ethics Commission
Capital Development Board

Civil Service Commission
Commission on Equity and Inclusion
Procurement Policy Board
Illinois Independent Tax Tribunal
Illinois Gaming Board
Illinois Racing Board
Liquor Control Commission
Other Government Services[181]
Chicago Teachers' Pension and Retirement System

Pensions
Teachers' Retirement System
State Universities' Retirement System
General Assembly Retirement System
Judges' Retirement System
State Employees' Retirement System

[181] Includes contributions to the Teachers' Retirement Insurance Program, College Insurance Program, operational expenses of the State Employees' Retirement System, and any additional appropriation authority needed to address the shortfall in contributions to the system in prior years (approximately $15 million in fiscal year 2022).