The Civic Federation

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STATE OF ILLINOIS FY2022 RECOMMENDED OPERATING AND CAPITAL BUDGETS:

Analysis and Recommendations

May 13, 2021

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EXECUTIVE SUMMARY

The Civic Federation considers the Governor's FY2022 budget recommendation to be a reasonable one-year short term response to pandemic-stressed financial and economic situation. It has many positive elements, such as holding most areas of agency spending flat at a time of uncertain revenues and it makes the full statutorily required pension payment. In addition, it appropriately shifts some capital funds to the operating budget for one year.

Unfortunately, however, the budget does not begin to address the State's long-term structural problems, such as its massive unfunded pension liabilities. The Civic Federation does not find eliminating business tax treatments during a recession to be sound fiscal policy. Raising taxes in a recession on businesses or individuals is counterproductive to achieving an economic recovery. Reducing state assistance to cash strapped local governments makes it harder for them to meet their obligations in a time of fiscal distress and may well force property tax increases.

Now that the State of Illinois will be receiving $8.1 billion in revenue support from the federal American Rescue Plan Act, it has more options available to close its budget deficit. Therefore, the Civic Federation **could support** the Governor's FY2022 proposed budget if it were revised to remove the business tax changes. The revenues needed to fill that gap could instead come from federal stimulus funds as a one-time revenue source to match the historic and short-term drop in revenue due to the pandemic. Stimulus funds primarily should be used to stabilize the State's financial position. They should **not** be used to add expensive new recurring programs that do not have a recurring revenue source.

While the Civic Federation had supported the Governor and other state leaders' intention to use a portion of the federal American Rescue Plan Act (ARPA) funds to pay off the remaining MLF borrowing and reduce unpaid bills,[1] recent interim Treasury Department guidance appears to prohibit that use.[2] The Office of the Illinois Comptroller on May 12 sent a letter to the Treasury Department seeking clarification on the debt provisions of the interim guidance.[3] Therefore, the Civic Federation urges the State of Illinois to approach spending ARPA funds with an eye toward the future and how the budget will be impacted when the funding expires in 2024. Shoring up the State's financial position to the extent possible under federal rules in addition to using the funds to provide aid to struggling residents and businesses will ensure that the State will be able to provide much needed services after ARPA.

[1] Governor JB Pritzker, Illinois Senate President Don Harmon and Illinois House Speaker Emanuel "Chris" Welch, "Here's what's on our agenda as the General Assembly gets back to work," *Crain's Chicago Business*, April 13, 2021. https://www.chicagobusiness.com/opinion/heres-whats-our-agenda-general-assembly-gets-back-work.

[2] United States Department of the Treasury, 31 CFR Part 35 RIN 1505-AC77, Coronavirus State and Local Fiscal Recovery Funds "Interim Final Rule," p. 42. https://home.treasury.gov/system/files/136/FRF-Interim-Final-Rule.pdf

[3] Bloomberg Tax, "Illinois Comptroller Asks Yellen to Allow Aid for Pandemic Loans," May 12, 2021. https://news.bloombergtax.com/daily-tax-report-state/illinois-comptroller-asks-yellen-to-allow-aid-for-pandemic-loans

The Civic Federation offers the following key findings on the governor's recommended FY2022 Budget:

- The pandemic has significantly impacted the State's revenue collection and expenditures, but the economy has performed better than expected in late 2020 and early 2021, which reduced the projected budget deficit for FY2022 from $5.5 billion to $2.6 billion.
- The Governor's proposed budget was released before the passage of the American Rescue Plan and therefore does not incorporate the billions of dollars in revenue replacement support the State of Illinois is expected to receive.
- General Funds revenues of $41.7 billion and expenditures of $41.6 billion generate an operating surplus of $120 million, but this result depends on the approval and implementation of $932 million in business tax treatment changes.
- Proposed General Funds expenditures decrease by $1.8 billion, or 4.2%, to $41.6 billion in FY2022 from $43.4 billion in FY2021. This is due to a large decrease in transfers out from the amounts required in FY2021 to pay back the June 2020 and part of the December 2021 MLF borrowing.
- Net agency expenditures are nearly flat, increasing by $67 million, or 0.2% from FY2021.
- Proposed General Funds revenues decline by nearly $1.8 billion, also because of no MLF borrowing included in the FY2022 budget. However, FY2021 revenues were also artificially high because of approximately $1.3 billion in FY2020 income tax revenue that was shifted into FY2021 because of an extension in the income tax deadline from April 2020 to July 2020.
- Statutorily required pension contributions grow by $739 million or 8.6% in FY2022 over FY2021 levels and are fully funded in the proposed budget.
- Group health payments in the General Funds are projected to decline due to benefit changes negotiated with unions and changes to rates and contract terms negotiated with insurers.
- General Funds revenues are increased by about $182 million due to the proposed 10% reduction in income tax and sales tax transfers to local governments and transit districts.
- If the $120 million budgetary surplus is realized, the unpaid bill backlog will total nearly $5.6 billion at the end of FY2022.

The Civic Federation has the following **recommendations** on the FY2022 state budget:

- Use federal stimulus funds to balance the budget in lieu of business tax changes.
- Review and evaluate the effectiveness of all existing business and other tax treatments.
- Consider Civic Federation ideas for consolidating and streamlining government in Illinois.
- Develop a Long-Term Financial Plan.

CIVIC FEDERATION POSITION

The State of Illinois, along with all other state and local governments in the United States, has for the past year endured a once-in-a-century and pandemic and related economic dislocations. When the FY2021 budget was passed by the General Assembly last May during a chaotic and truncated in-person session, the unemployment rate was increasing at an unprecedented pace and State revenues were cratering. Leaders faced huge unknowns as the virus spread and stay-at-home orders were rightly put into place to protect the public, but which also significantly curtailed the State's economy. The State's FY2021 budget relied on billions in loans from the Federal Reserve Bank and backlog borrowing to support spending at a time of high unemployment and burgeoning social spending needs. State leaders hoped at the time the budget was enacted that the federal government would provide revenue support and obviate the need for the borrowing.[4] The Civic Federation was an early supporter of such revenue support, communicating with the Illinois Congressional delegation and with the general public and government officials through commentary in the media.[5]

During the second half of 2020, the State's economy began to improve more than anticipated and economic projections became less pessimistic with the result that projected $5 billion deficits in FY2021 and FY2022 were significantly reduced, but not eliminated. The Governor's Office of Management and Budget (GOMB) and the General Assembly's Commission on Government Forecasting and Accountability (COGFA) both attribute the higher than expected individual and corporate income tax and sales tax to federal unemployment and other support that buoyed spending and income tax collections and the fact that consumers have changed their spending patterns during the pandemic, spending more on goods—which the State's sales tax covers—and less on services, which Illinois mostly does not tax.[6] Additionally, the State has been able to capture sales tax from online transactions since the United States Supreme Court's *Wayfair v. South Dakota* decision.

However, the State of Illinois was still only one of two governments had to borrow from the Federal Reserve Bank's Municipal Liquidity Facility (MLF), which was intended to assist state and large local governments to deal with temporary cash flow problems generated by the negative impact of the COVID-19 pandemic on government revenues.[7] The State borrowed $1.2 billion from the MLF in June 2020 on failure of revenues basis and another $2.0 billion in December 2020 based on authority provided in the budget legislation for FY2021. The $1.2 billion borrowed in June 2020 is due in June 2021 and the balance is due over three years.

Governor Pritzker released his proposed FY2022 budget in February before the passage of the American Rescue Plan Act (ARPA) in March. Therefore, the budget was balanced without any additional federal relief funds. The Civic Federation considers the Governor's FY2022 budget recommendation to be a reasonable one-year short term response to pandemic-stressed financial and economic situation. It has many positive elements, such as holding most areas of agency spending flat at a time of uncertain revenues and it makes the full statutorily required pension payment. In addition, it appropriately shifts some capital funds to the operating budget for one year.

Unfortunately, however, the budget does not begin to address the State's long-term structural problems, such as its massive unfunded pension liabilities. Raising taxes in a recession on businesses or individuals is counterproductive to achieving an economic recovery. Reducing state assistance to cash strapped local governments makes it harder for them to meet their obligations in a time of fiscal distress and may well force property tax increases.

Now that the State of Illinois will be receiving $8.1 billion in revenue support from the federal American Rescue Plan Act, it has more options available to close its budget deficit. Therefore, the Civic Federation **could support** the Governor's FY2022 proposed budget if it were revised to

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[4] State of Illinois, "Gov. Pritzker Statement on Passage of State Budget," Press Release, May 23, 2020.
[5] See for example Laurence Msall, "No state or local government can weather this crisis on its own," *Crain's Chicago Business*, May 8, 2020. Also available at https://www.civicfed.org/press-room/column-no-state-or-local-government-can-weather-crisis-its-own. Also see Laurence Msall, "Opinion: Illinois still needs federal help," *Crain's Chicago Business*, December 22, 2020. Also available at https://www.civicfed.org/press-room/opinion-illinois-still-needs-federal-help.
[6] Illinois State FY2022 Budget, pp. 144-145. Commission on Government Forecasting and Accountability, "FY 2022 Economic Forecast and Revenue Estimate and FY 2021 Revenue Update," p. 33.
[7] The other government is the Metropolitan Transportation Authority of New York.

remove the business tax changes. The revenues needed to fill that gap could instead come from federal stimulus funds as a one-time revenue source to match the historic and short-term drop in revenue due to the pandemic. Stimulus funds primarily should be used to stabilize the State's financial position. They should **not** be used to add expensive new recurring programs that do not have a recurring revenue source.

While the Civic Federation had supported the Governor and other state leaders' intention to use a portion of the federal American Rescue Plan Act (ARPA) funds to pay off the remaining MLF borrowing and reduce unpaid bills,[8] recent interim Treasury Department guidance appears to prohibit that use.[9] The Office of the Illinois Comptroller on May 12 sent a letter to the Treasury Department seeking clarification on the debt provisions of the interim guidance.[10] Therefore, the Civic Federation urges the State of Illinois to approach spending ARPA funds with an eye toward the future and how the budget will be impacted when the funding expires in 2024. Shoring up the State's financial position to the extent possible under federal rules in addition to using the funds to provide aid to struggling residents and businesses will ensure that the State will be able to provide much needed services after ARPA.

The billions in support federal government has provided to the State of Illinois and its local governments gives the State an opportunity to develop longer-term plans to structurally improve its financial outlook post-pandemic. While all states and local governments have been impacted severely over the past year, not all of those governments entered the pandemic in such a precarious long-term fiscal position as Illinois faces. The ARPA funding will, if used prudently, help return the State of Illinois to its status quo pre-pandemic. It is imperative that the State use this opportunity to develop a multi-year plan that will close the State's structural deficit, control its legacy pension liabilities, reduce other liabilities such as backlog borrowing and have an eye toward helping the State's struggling local governments. As the Civic Federation has long noted, it took many decades for the State of Illinois to get into its worst in the nation financial situation and will take many years to dig out—but it cannot start that process without a multi-year plan that involves both targeted revenue enhancements and controlling spending.

Issues the Civic Federation Supports

The Civic Federation supports the following aspects of the Governor's FY2022 State of Illinois budget.

Holding Most Agency Expenditures Flat

The Governor's FY2022 budget as originally introduced kept most State spending in the General Funds outside of pensions, employee and retiree health insurance and debt service— that is, net agency expenditures—flat. Given the ongoing pandemic and uncertainty surrounding revenue projections, the Civic Federation supports limiting spending increases. As described above, the State's largest revenue sources have been higher than expected in fiscal year 2021 as federal government support and changes to consumer behavior have boosted the economy more than

[8] Governor JB Pritzker, Illinois Senate President Don Harmon and Illinois House Speaker Emanuel "Chris" Welch, "Here's what's on our agenda as the General Assembly gets back to work," *Crain's Chicago Business*, April 13, 2021. https://www.chicagobusiness.com/opinion/heres-whats-our-agenda-general-assembly-gets-back-work.
[9] United States Department of the Treasury, 31 CFR Part 35 RIN 1505-AC77, Coronavirus State and Local Fiscal Recovery Funds "Interim Final Rule," p. 42. https://home.treasury.gov/system/files/136/FRF-Interim-Final-Rule.pdf
[10] Bloomberg Tax, "Illinois Comptroller Asks Yellen to Allow Aid for Pandemic Loans," May 12, 2021. https://news.bloombergtax.com/daily-tax-report-state/illinois-comptroller-asks-yellen-to-allow-aid-for-pandemic-loans

expected when the General Assembly passed the FY2021 budget in May 2021. However, the State still faces a significant budget shortfall in FY2022, even after higher than expected revenues are taken into account.

Maintaining flat agency spending meant making difficult choices, such as keeping the State's funding to the Evidence-Based Funding (EBF) formula for K-12 schools flat for the second year running instead of including the $350 million annual increase laid out in the EBF legislation. Operational spending decreases over the prior year due to ongoing hiring and certain spending freezes, as does Medicaid spending, though this is due to the end of enhanced federal match halfway through FY2022. The areas of General Funds spending that increase in FY2022 include for the Department of Children and Family Services and for the Department of Employment Security, due to federal requirements and the underperformance of the State's unemployment insurance program under the load of the unprecedented level of unemployment insurance claims during the pandemic.

Governor Pritzker announced on May 6 that he would amend his budget proposal to include the $350 million increase to EBF. The Governor said, "our state revenues are outpacing the estimates and the expectations that experts gave us earlier this year." The announcement was made after the General Assembly's Commission on Government Forecasting and Accountability (COGFA) released a preliminary analysis of tax receipts in April 2021 that showed a strong increase over FY2020 April receipts.[11] COGFA attributed most of the rise to the fact that April 2020 revenues were delayed by several months due to the extension of the income tax deadline to July 15, 2020 and the extremely low level of economic activity in April 2020 due to stay at home guidelines. However, they also said that preliminary figures still show "strong improvement" though due to another delay of the individual income tax filing deadline, this time to May 17, COGFA also cautioned that it would not be until late May, after the individual income tax deadline that, "a more definitive view of personal income tax receipt performance can be made."[12] COGFA released a new FY2022 General Funds revenue forecast on May 12 that updated its numbers to increase General Funds revenue projections by $792 million over its March 2021 projection.[13]

The Civic Federation supports the Governor's efforts to hold most areas of government spending outside of pensions and debt service flat as a prudent response to the myriad uncertainties the State's economy faces in FY2022. The Federation encourages the General Assembly not to use the revenue support contained in the federal government's American Rescue Plan Act as an excuse to create additional recurring programs. The State of Illinois still faces significant economic headwinds and containing expenditures should continue to be a focus as the economic recovery hopefully continues through the coming fiscal year.

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[11] Illinois General Assembly, Commission on Government Forecasting and Accountability, "Monthly Briefing for the Month Ended: April 2021," May 5, 2021. Available at https://cgfa.ilga.gov/Upload/0421.pdf.

[12] Illinois General Assembly, Commission on Government Forecasting and Accountability, "Monthly Briefing for the Month Ended: April 2021," May 5, 2021. Available at https://cgfa.ilga.gov/Upload/0421.pdf.

[13] Illinois General Assembly, Commission on Government Forecasting and Accountability, "Revised FY 2022 Economic Forecast and Revenue Estimate and Updated FY 2021 Revenue Update," p. 12. https://cgfa.ilga.gov/Upload/MAY2021UpdatedFY2021-22RevenueEstimate.pdf.

Making Statutorily Required Pension Payments

Illinois' retirement systems are among the most poorly funded of any state.[14] At the end of FY2020, unfunded liabilities totaled $141.0 billion and the combined funded ratio stood at 40.4%.[15] Under the existing 50-year funding plan, unfunded pension liabilities are expected to continue growing until FY2029.[16] The State's funding plan deferred a large portion of required contributions to future years, which propped up annual budgets at the expense of the pension funds. However, even with that deferral of pension contributions, the State has struggled to make its annual insufficient statutory contribution and has proposed a number of gimmicks and changes to reduce the contribution, ranging from the pension buyout programs created to help balance the FY2019 budget and which haven't resulted in much savings, to extending the timeline of payments, to borrowing money to make the pension payments.

Given this history, it is a positive that the Governor proposes to make the full pension contribution of nearly $9.4 billion in FY2022 even though it is increasing by $739 million, or 8.6%, over the FY2021 contribution. In all, pension contributions and pension debt service will consume 26.9% of General Funds revenues in FY2022. The State of Illinois has much work remaining to do to deal with its ongoing pension funding crisis, but it is a positive development for the State not to make the situation worse by shorting the pensions even as it faces revenue shortfalls due to the pandemic.

Using Certain Capital Revenues for Operations

The administration proposes to shift certain Capital Projects Fund revenues into the General Funds to help balance the FY2022 budget. This includes postponing the transfer of a share of sales taxes on motor fuels and gasohol from General Funds to the Road Fund for capital projects until FY2023. This will generate $72 million into the General Fund. In addition, the State will postpone for one year a transfer to the General Funds of some cigarette tax receipts currently set for deposit in the Capital Projects Fund; this will provide $100 million in funds for the operating budget.

The Civic Federation supports the proposed use of certain capital funds to balance the operating budget. Illinois is in an unprecedented fiscal situation due to the pandemic and the top priority must be to provide essential services to citizens.

In addition, the State should consider whether it will need similar leeway to divert these and other capital designated revenues to support the operating budget in future years. The State will continue to face serious challenges in meeting its financial obligations and will need to draw on all available resources to meet these challenges. Until the financial situation is stabilized, the priority must be to fund critical public services rather than to bolster the State's massive $49 billion capital plan which is ill-defined and is not based on a comprehensive statewide capital improvement plan (CIP) that establishes priorities to balance capital needs with available resources, pairs capital projects with

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[14] Moody's Investors Service, "State of Illinois: Adjusted net pension liability to surpass $300 billion as source of credit stress worsens," *Issuer Comment*, March 3, 2021.

[15] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2020, p. 2. These figures are based on asset smoothing. The unfunded liability and funded ratio based on the market value of assets were $144.4 billion and 39.0%.

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

funding sources, helps ensure orderly repair and maintenance of capital assets and provides an estimate of the size and timing of future debt issuance.[17]

Reducing State Revenue Support to Local Governments and Mass Transit Agencies

The FY2022 State budget proposes to reduce the amount of income tax proceeds provided to the Local Government Distributive Fund by 10% to help fund operations. This will generate $130 million in increased income tax receipts to the State's General Fund. In addition, state sales tax revenue sharing with mass transit agencies through the Downstate Public Transportation Fund and the Public Transportation Fund will be reduced by 10%. This will increase general fund revenues by $52 million.

Illinois local governments are expected to receive $5.9 billion in funds from the American Rescue Plan Act.[18] These funds will be administered separately from state funds provided under the Plan.[19] Mass transit agencies and school districts will receive substantial funding through ARPA as well. The Chicago Public Schools alone will receive an estimated $1.8 billion in federal funds from the Plan.[20] Large local governments also received approximately $1.4 billion from the CARES Act in 2020 to pay for COVID-19 related expenses.[21] In short, Illinois local governments will be provided additional funding in 2021 that will mitigate revenue losses and increased costs due to the pandemic and accompanying economic recession. **Given this situation, the Civic Federation could support a one-year reduction in State-provided local government revenue sharing funds to help mitigate the State budget gap.** However, this reduction should only be for a one-year period and funding for local governments and mass transit agencies should be restored in FY2023. Additionally, the State should consider not making the local government reductions if it has sufficient ARPA funding available.

In the long-term, the State of Illinois needs to think strategically about assisting local governments with their financial challenges. It has frequently reduced assistance to local governments to balance its own operating budget. But this is not a sustainable or prudent strategy. Pushing costs onto local governments can lead to cuts in important public services or increases in property and sales taxes, further reducing the attractiveness of Illinois as a place to live or do business.

Ongoing Reductions to the Bill Backlog

As of May 9, 2021 the bill backlog was approximately $4.3 billion, a remarkable reduction from the high point of $16.7 billion during the fall of 2017. In October 2017, the State issued $6.0 billion in bonds to reduce the backlog of bills and curb interest penalties and succeeded in reducing the backlog by $8.7 billion from a high of $16.7 billion due to premiums on the bonds and federal

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[17] Civic Federation. FY2021 Capital Budget Enacted by the General Assembly, September 17, 2020 at https://www.civicfed.org/iifs/blog/fy2021-capital-budget-enacted-general-assembly.

[18] For information on anticipated distributions to individual local governments, see U.S. Department of Treasury Coronavirus State and Local Fiscal Recovery Funds Allocation Information at https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds. Allocations for metropolitan cities, counties and non-entitlement units are provided.

[19] Information provided by Governor's Office of Management and Budget, April 27, 2021.

[20] Nader Issa. "CPS to receive $1.8 billion from new COVID-19 relief bill," Mar 10, 2021 at https://chicago.suntimes.com/education/2021/3/10/22323922/cps-public-schools-covid-19-relief-bill-american-rescue-plan.

[21] Civic Federation. "CARES Act Distribution and its Discontents," August 12,2020 at https://www.civicfed.org/iifs/blog/cares-act-distribution-and-its-discontents#:~:text=Local%20governments%20in%20Illinois%20are,the%20federal%20Coronavirus%20Relief%20Fund.&text=As%20discussed%20in%20this%20blog,part%20of%20the%20CARES%20Act.

reimbursements of backlogged Medicaid expenditures.[22] However, it is important to recognize that the $4.3 billion in bills outstanding does not include over $2.7 billion in outstanding MLF borrowing that also helped reduce the pandemic bills and the remaining $5 billion in outstanding backlog bill bonds.

Civic Federation Concerns

The Civic Federation has the following concerns about the Governor's recommended FY2020 budget.

Tax Treatment Changes

Governor Pritzker's proposed FY2022 Illinois State Budget includes approximately $932 million in corporate tax changes. These changes increase FY2022 state revenues by reducing or eliminating current exemptions or credits provided to businesses or by decoupling state tax treatment eligibility from federal government requirements.

The tax changes are summarized below.

Business Tax Change Proposed in Illinois State FY2022 Budget

Tax Treatment Change	Type of Tax	Amount ($Millions)
Reverse Repeal of Corporate Franchise Tax	**Corporate Franchise**	**$ 30.00**
Roll Back Federal 100% Accelerated Depreciation Deduction	Income	$ 214.00
Roll Back the Federal 100% Foreign-Source Dividend Deduction	Income	$ 107.00
Limit Corporate Net Operating Loss deductions to $100,000 per year for 3 years	Income	$ 314.00
Eliminating Add On Tax Credits for Construction Job Payroll Expenditures	Income	$ 16.00
Reduce Tax Credits for Private School Scholarships	Income	$ 14.00
Subtotal Income Tax Treatments		**$ 665.00**
Eliminating Manufacturing & Machinery Exemption for Tangible Personal Property	Sales	$ 56.00
Accelerating Termination of Biodiesel Sales Tax Exemptions	Sales	$ 107.00
Capping the Retailer's Discount	Sales	$ 73.00
Subtotal Sales Tax Treatments		**$ 236.00**
Total		**$ 932.00**

The total is the result of rounding up.

Source: Illinois FY2022 State Budget Budget in Brief, p. 16

The Civic Federation has concerns about these changes for the following reasons:

First, raising taxes in a recession is a procyclical fiscal policy that can make the impact of the recession worse. This is because it raises costs for business taxpayers at a time they are experiencing revenue and income reductions resulting from the negative impacts of the COVID-19 pandemic.[23] In a recession it is better for governments to pursue countercyclical policies such as

[22] State of Illinois, General Obligation Bonds, Series of September, Official Statement, August 22, 2018, p. 31, https://www2.illinois.gov/sites/capitalmarkets/RecentBondSales/State%20of%20Illinois,%20General%20Obligation%20Refunding%20Bonds,%20Series%20of%20September%202018AB%20-%20Official%20Statement.pdf

[23] Alberto Alesina, Filipe R. Campante and Guido Tabellini, Why is Fiscal Policy Procyclical? Journal of the European Economic Association, September 2008, pp. 1-2. For more information on procyclical and countercyclical fiscal policies and state limitations in pursuing these policies, see Civic Federation. What Limitations do States Face in Addressing a Coronavirus Pandemic Recession? April 3, 2020 at https://www.civicfed.org/iifs/blog/what-limitations-do-states-face-addressing-coronavirus-pandemic-recession.

stimulus programs that increase spending and stabilize or cut taxes in order to increase demand, prevent reductions in public services and stabilize employment.[24]

Second, the Governor is reversing business tax incentives he supported only two years ago. Three of the changes were approved in 2019 in amendments to the State Finance Act in Public Act 101-0009 as part of an agreement to approve the budget that year. They included:

- Eliminating the add-on income tax credits for construction job payroll expenditures;
- Reversing the repeal of the corporate franchise tax; and
- Removing production-related tangible personal property from the Manufacturing Machinery and Equipment Exemption in the sales tax.[25]

Third, some of the proposed income tax changes do not increase State revenues; rather they move the revenues forward by pushing out the losses and deductions to future years.

Finally, decoupling State from federal tax treatments encourages arbitrage among the states and can lessen Illinois' economic development competitiveness.

It is important for governments to work toward ensuring a stable business climate so that businesses can succeed, invest in future expansion and create economic opportunity. Reversing course on tax policy every few years is counterproductive toward achieving those goals.

Stability of Local Governments

Local governments are creations of state government. Illinois needs to recognize that it has a responsibility to local governments throughout the State that face long-term financial distress due in large part to mounting pension liabilities imposed by State government action. For instance, Chicago, the largest city and economic hub in the State, faces unfunded pension liabilities of over $31 billion. In April 2021, the General Assembly and the Governor approved an increase in Chicago firefighter pension benefits that will cost the city an additional $18 to $30 million annually without providing funds to pay for this increase.[26] Other municipalities and pension funds throughout the State are also financially stressed, and therefore a source of great concern.

Civic Federation Recommendations

The Civic Federation offers the following recommendations to the Governor and the General Assembly as they develop the final FY2022 budget.

Use Federal Stimulus Funds to Balance the Budget in Lieu of Business Tax Changes and Consider Also Reversing Local Government Revenue Sharing Cuts

The State of Illinois will receive $8.1 billion in ARPA State and Local Fiscal Recovery Funds. The State should use these funds to fill the budget gap instead of changing business tax treatments and

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[24] Emanuele Baldacci, Sanjeev Gupta and Carlos Mulas-Granados, How Effective is Fiscal Policy Response in Financial Crises?, International Monetary Fund, 2012, p. 3 at https://www.imf.org/external/np/seminars/eng/2012/fincrises/pdf/ch14.pdf

[25] Illinois State FY2022 Budget, p. 50.

[26] Rachel Hinton. Pritzker signs firefighter pension fix that Lightfoot blasts as 'fiscally irresponsible' product 'of cutting back room deals', Chicago Sun-Times, April 5, 2021 at https://chicago.suntimes.com/2021/4/5/22368726/pritzker-lightfoot-firefighter-pension-fix-martwick-birth-date-restriction-property-tax.

should also consider reversing local government cuts. The stimulus funds are designed for revenue replacement and the Treasury Department emphasizes that, "[w]ith these additional resources, recipients can continue to provide valuable public services and ensure that fiscal austerity measures do not hamper the broader economic recovery."[27]It is preferable to use these funds it for this purpose rather than using them for new recurring programs that do not have recurring revenue sources.

The federal funds are not a bailout—the Civic Federation has called for federal funds to help stabilize state finances and maintain critical public services throughout the COVID-19 pandemic and economic recession, arguing that, "[w]ithout federal action, any economic recovery will be blunted at best, and our most vulnerable populations and lower and middle income folks will bear the brunt of the stagnation."

As noted above, the cuts to the local government distributive fund and public transit revenue sharing are acceptable as a one-year solution to a difficult budget situation and to the extent that additional federal ARPA revenues will also be flowing to those governments. However, if the cuts may end up causing local government fiscal distress or spurring property tax increases, they should be reversed and State ARPA funds used to close the budget deficit instead.

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.[28]

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.[29]

Ideas for Consolidating and Streamlining Government in Illinois

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

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[27] U.S. Department of Treasury, "FACT SHEET: The Coronavirus State and Local Fiscal Recovery Funds Will Deliver $350 Billion for State, Local, Territorial, and Tribal Governments to Respond to the COVID-19 Emergency and Bring Back Jobs," p. 5. https://home.treasury.gov/system/files/136/SLFRP-Fact-Sheet-FINAL1-508A.pdf.

[28] 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/.

[29] State of Washington, Citizen Commission for Performance measurement of Tax Preferences. http://www.citizentaxpref.wa.gov/default.

Merging the Chicago and State Teachers' Pension Funds

The Civic Federation recommends that the Chicago Teachers' Pension Fund be consolidated with the Teachers' Retirement System and that the State assume responsibility for the unfunded liability of CTPF. 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;
- Consolidate property tax administration roles in Cook County; and
- Dissolve the Illinois International Port District.

Restructuring Illinois' Public University System

The Civic Federation recommends that the Governor create a bipartisan commission to address the need to allocate resources more rationally among the State public universities. The commission should propose a new funding formula and consider the elimination of duplicative programs and the potential need to close or consolidate campuses. The Federation also recommends that the nine universities be governed by a single Board of Trustees to facilitate the establishment of statewide goals and rational allocation of State resources.

Constitutional Amendment to Limit the Pension Protection Clause

The Illinois General Assembly should vote to place a constitutional amendment on the ballot no later than the 2022 general election 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.

Prisons

The Civic Federation recommends that the Governor and General Assembly continue to implement reforms designed to lower Illinois' prison population, not only to achieve widely acknowledged social benefits, but also with the goal of safely and legally generating meaningful cost reductions.

Interest Penalties on Overdue Bills

The Civic Federation recommends that the State reduce the late payment penalty in the Prompt Payment Act to a rate that reflects lower economy-wide rates of return, such as the five-year Treasury rate plus one percentage point. The General Assembly and Governor should also consider a reduction in the timely payment rate in the Insurance Code.

Rainy Day Fund

After the backlog of bills is paid off and the State has recovered financially from the pandemic, the State of Illinois should work toward building a rainy day fund equal to 10% of General Funds revenues to cushion the budget from the next economic downturn. Legislation must explicitly indicate when deposits will be made and in what amount and the circumstances under which withdrawals will be allowed.

Supplemental Pension Payments

In order to mitigate the underfunding of the State's pension systems due to inadequate statutory payments, the Civic Federation recommends that once the State's finances stabilize post-pandemic, it should identify revenues to make annual supplemental payments sufficient to reach 100% funding by FY2045.

Develop a Long-Term Financial Plan

The federal government has provided the State of Illinois with funding assurance that will enable it to mitigate revenue losses and continue to provide critical services for up to two years. The respite afforded by the stimulus funding gives the State an excellent opportunity to develop a long-term sustainable plan to address its long-term, structural problems.

The Governor and General Assembly must recognize the urgency of the State's problems and act now. After federal stimulus funding ends, the State will be in much the same financial situation it was in before the pandemic. It cannot be assumed that an economic recovery and corresponding increases in revenues will be sufficient to balance future budgets. Spending pressure from the State's pension systems will continue to mount, rising $19.2 billion in the next 25 years[30] 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.

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

- Ensure future annual operating budgets are balanced;
- Eliminate the 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.

According to the GFOA, recommended elements of a long-term financial plan include:

- An assessment of problems and opportunities, including an analysis of the financial environment.
- A description of financial policies, service level preferences and financial goals.
- A long-term projection of revenue, expenditure and debt trends.
- Identification of potential challenges to fiscal stability.
- Strategies for achieving and maintaining financial balance.

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

- Plan monitoring mechanisms, such as a scorecard of key indicators of financial health.[31]

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.

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

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[31] Government Finance Officers Association, "Best Practices: Long-Term Financial Planning," February 28, 2008. https://www.gfoa.org/materials/long-term-financial-planning

BUDGET BALANCING AND BILL BACKLOG

In November 2020, the State estimated that without additional borrowing from the Municipal Liquidity Facility or other federal assistance, the FY2021 budget would have a deficit of approximately $3.9 billion. However, the budget forecast was updated due to a number of important changes in the fiscal and economic environment including:[32]

- The approval of the December 2020 federal stimulus bill;
- $2 billion in borrowing from the Municipal Liquidity Facility;
- Updated spending estimates that increased spending by $322 million;
- Revenue performance that was stronger than expected, with:
    - an increase of $1.9 billion in sales and income tax receipts;
    - an additional $475 in federal sources; and
    - $84 million from transfers in.

The table below summarizes the impact of these changes.

Changes to FY2021 State of Illinois Budget Projections ($ Millions)					
Revenues			**Expenditures**		
Income Taxes	$	1,276	Prepayment of MLF Repayment	$	690
Sales Taxes	$	663	Debt Issuance Cost Adjustments	$	47
Transfers In	$	84	Budget Reserves/Increased to Lapsed Approp. Est.	$	(461)
Federal Sources	$	475	All Other Changes	$	46
All Other Changes	$	(177)			
Total Revenue Base Changes	**$**	**2,321**	**Total Expenditure Changes**	**$**	**322**

Source: Illinois FY2022 Illinois State Budget, p. 44.

These changes led to a revision of the FY2021 forecast. The original projected deficit of $3.9 billion was revised to a $78 million surplus with the addition of $2.3 billion in increased base revenues and the borrowing of nearly $2 billion from the federal Municipal Liquidity Facility.

Revision to FY2021 Forecast ($ Millions)		
Deficit from 5 Year Report	$	(3,918)
Increase to Base Revenue Forecast	$	2,321
Municipal Liquidity Facility	$	1,998
Supplemental Approp Needed	$	(1)
Impact of Expenditure Changes	$	(322)
Revised Surplus	**$**	**78**

Source: Illinois FY2022 Illinois State Budget, p. 44.

FY2022 Budget Deficit and Gap Closing Actions

The originally projected FY2022 State budget deficit was nearly $5.5 billion. Approximately $690 million of that total was the required payment to the federal Municipal Liquidity Facility for funds

[32] Illinois FY2022 State Budget, pp. 44-45.

borrowed in December 2020. However, the State was able to reduce the deficit to $2.6 billion due to two favorable revenue factors and two proposed administrative actions:[33]

- The revenue forecast for FY2022 was adjusted upward due to stronger than expected performance at the end of FY2021. After accounting for anticipated debt service payment requirements, the FY2022 revenue forecast was increased by nearly $1.5 billion.
- Federal revenue projections were increased by $421 million to reflect continued eligibility of reimbursable Medicaid spending for the 6.2 percentage point enhanced federal match through December 2021.
- The budget includes a proposal to save $276 million by eliminating the 48 month repayment deadline for interfund borrowing, thus allowing the Comptroller to repay those funds only as necessary. Many of the funds have substantial cash balances.
- The administration made an early repayment of the $690 million owed to the Municipal Liquidity Facility, thereby reducing the projected deficit by that amount.

The remaining $2.6 billion budget gap is proposed to be eliminated through the following actions:

- Freezing FY2022 operational spending to FY2021 levels for much of the budget, saving nearly $1.3 billion.
- Implementing a number of corporate tax changes. These are projected to yield approximately $932 million.
- Shifting $565 million in revenues to the General Funds. This includes a one-year transfer of $100 million in cigarette tax receipts from the Capital Fund, a freeze on certain grant programs, a one-year delay of shifting sales taxes on motor fuels to the Road Fund, a 10% reduction in income tax receipts to the Local Government Distributive Fund and a 10% reduction to sales tax receipts shared with mass transit agencies in the Downstate Public Transportation Fund and the Public Transportation Fund.[34]

The State will not borrow funds from the Federal Reserve Bank's Municipal Liquidity Facility for use in FY2022.

[33] Illinois FY2022 State Budget, pp. 45-46.
[34] Illinois FY2022 State Budget, pp. 63-64.

The new fiscal year budget anticipates a small operating surplus of $120 million. The following table summarizes the reasons for the deficit and the gap closing measures the State proposes to close it.

CLOSING THE FY2022 STATE OF ILLINOIS BUDGET DEFICIT ($ Millions)		
Original Deficit Estimate		
Originally Projected FY2022 Deficit	$	(4,802)
FY2022 Required Repayment to Municipal Liquidity Fund	$	(690)
Total Deficit	**$**	**(5,492)**
Adjustments Made to Close FY2022 Deficit in Budget		
Prepayment of FY2022 MLF Repayment in FY2021	$	690
Eliminate 48 Month Delay for Interfund Borrowing Repayment	$	276
Updated Revenue Forecasts/Debt Service Estimates	$	1,459
Updated Federal Revenue Forecast	$	421
Subtotal Adjustments	**$**	**2,846**
Adjusted FY2022 Deficit (Total Deficit - Adjustments)	**$**	**(2,646)**
Gap Closing Measures		
Spending Adjustments to Achieve Budgetary Freeze	$	1,269
Redirection of Existing Revenue Streams	$	565
Business Tax Treatments	$	932
Total Gap Closing Measures	**$**	**2,766**
FY2022 SURPLUS	**$**	**120**

Source: Illinois FY2022 State Budget, p. 46.

State of Illinois Financial Walk Downs FY2018-FY2022

The following table shows operating budget walkdowns from FY2018 through FY2022. In FY2018 the $1.4 billion deficit was addressed with $1.2 billion in additional federal revenues and backlog borrowing proceeds. In FY2019 and FY2020 small deficits of $15 million and $38 million were respectively reported. FY2022 projects a small surplus of $120 million.

State of Illinois General Funds Financial Walk Down FY2018-FY2022 (in $ millions)	FY2018 Final	FY2019 Final	FY2020 Final	FY2021 Estimated	FY2022 Proposed
Operating Resources					
State Source Revenues	$ 32,911	$ 35,595	$ 34,509	$ 37,098	$ 37,737
Federal Revenues	$ 4,032	$ 3,600	$ 3,551	$ 4,384	$ 3,971
Interfund Borrowing	$ 802	$ 250	$ 462	$ -	$ -
Treasurer's Investment Borrowing	$ -	$ 750	$ 400	$ -	$ -
Municipal Liquidity Facility	$ -	$ -	$ 1,198	$ 1,998	$ -
TOTAL RESOURCES	**$ 37,745**	**$ 40,195**	**$ 40,120**	**$ 43,480**	**$ 41,708**
Expenditures					
Operating Budget Expenditures	$ 26,537	$ 26,890	$ 27,245	$ 28,108	$ 28,174
Pension Contributions	$ 7,014	$ 7,479	$ 8,113	$ 8,624	$ 9,363
State Group Insurance	$ 1,858	$ 2,026	$ 2,028	$ 1,922	$ 1,851
TOTAL OPERATING BUDGET EXPENDITURES	**$ 35,409**	**$ 36,395**	**$ 37,386**	**$ 38,654**	**$ 39,388**
Expenditures: Transfers Out of General Funds					
Statutory Transfers Out	$ 582	$ 433	$ 440	$ 424	$ 364
Debt Service	$ 2,899	$ 2,701	$ 1,870	$ 1,872	$ 1,836
Interfund Borrowing Requirement	$ 128	$ 10	$ 280	$ 150	$ -
Treasurer's Investment Borrowing Repayment	$ -	$ 763	$ 7	$ 402	$ -
Short Term Borrowing Repayment	$ -	$ -	$ -	$ 1,899	$ -
TOTAL TRANSFERS OUT	**$ 3,609**	**$ 3,907**	**$ 2,597**	**$ 4,747**	**$ 2,200**
TOTAL EXPENDITURES	**$ 39,018**	**$ 40,302**	**$ 39,983**	**$ 43,401**	**$ 41,588**
Comptroller Budgetary Basis Adjustment	$ (167)	$ 91	$ (177)	$ -	$ -
General Funds Surplus/Deficit	**$ (1,440)**	**$ (15)**	**$ (38)**	**$ 78**	$ 120
Backlog Borrowing Proceeds	$ 2,500				
Federal Revenue Due to Medicaid Backlog Payments	$ 1,206				
Supplemental Appropriations Needed	**$ -**	**$ -**	**$ -**	$ (1)	$ -
Adjusted General Funds Surplus/Deficit	$ 2,266	$ (15)	$ (38)	$ 77	$ 120

Totals are rounded up.

Sources: Illinois FY2022 State Budget, p. 55, Illinois FY2021 State Budget, p. 51 and Illinois FY2020 State Budget, p. 45.

Bill Backlog

Illinois has often dealt with its 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. Because of the backlog, the State often begins each fiscal year in a hole, using revenues from the current year to pay off its previous year's bills and limiting revenues 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.[35] Certain other bills, known as Section 25 liabilities and consisting mainly of group health insurance and Medicaid bills, may be paid from appropriations in future years.[36]

The backlog of unpaid bills peaked at $16.7 billion on November 8, 2017, according to the Illinois Comptroller's Office.[37] To address the situation, the State issued a $6 billion General Obligation bond to pay vouchers incurred before July 1, 2017.[38] The State received $6.5 billion proceeds from

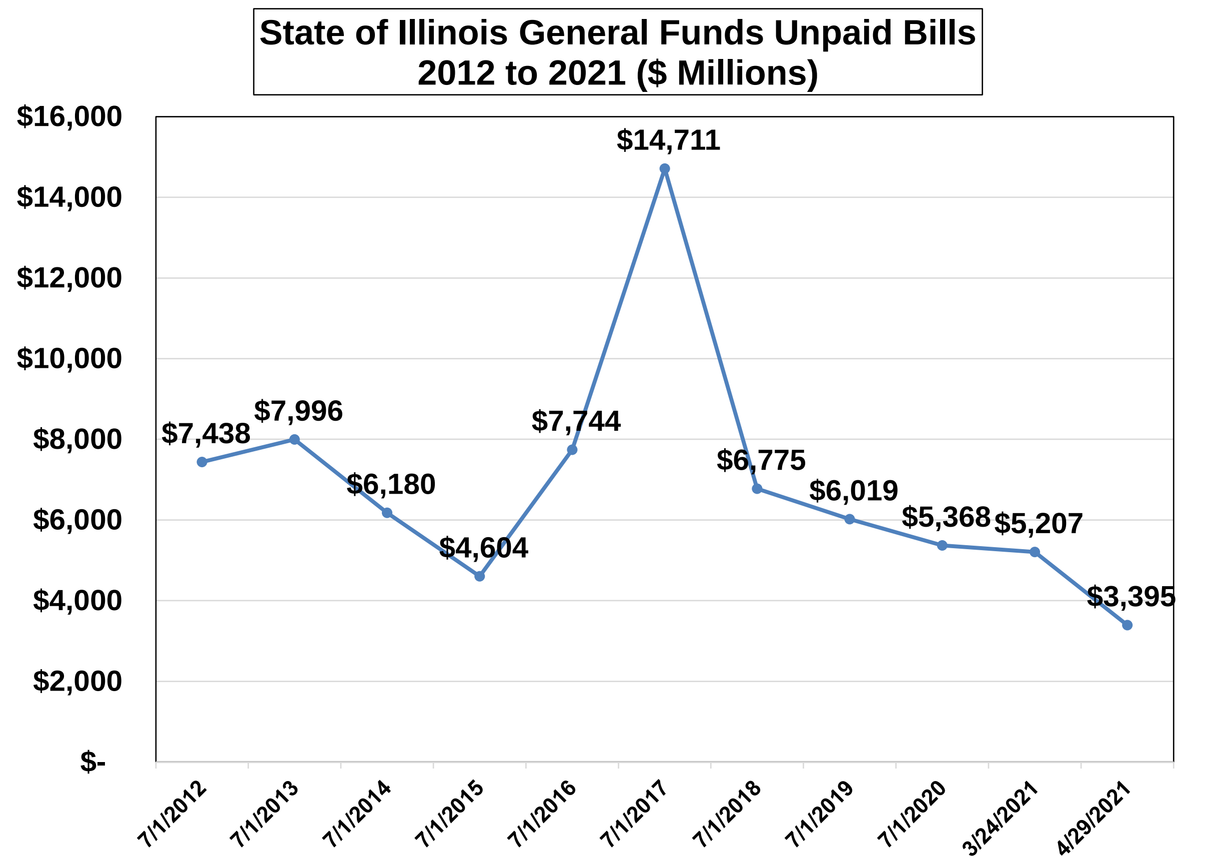
[35] 30 ILCS 105/25 (m).
[36] 30 ILCS 105/25.
[37] State of Illinois Comptroller, Backlog Voucher Report at https://illinoiscomptroller.gov/financial-data/backlog-voucher-report-bvr/. On a budgetary basis, the backlog consists of obligations incurred by the end of one fiscal year that are not covered by that year's revenues.
[38] The bond sale was authorized by Public Act 100-0023, enacted on July 6, 2017.

the bond sale, which it used to cut the unpaid bill backlog, primarily for outstanding group health insurance and Medicaid bills, by $7.5 billion. This saved State 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 at between 9% and 12% a year.[39]

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 backlogs, which generated enhanced federal reimbursements used to pay additional obligations.[40]

Another measure to manage the unpaid bills allows the State to invest in its own backlogged debt using money from other State funds with sufficient liquidity.[41] 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 bills and avoid high interest penalties. The State currently has $400 million outstanding under this measure, which will be paid back by the end of FY2021.[42]

The following chart shows the State's bill backlog at the beginning of each fiscal year from 2012 through 2020 and the current bill backlog. As of April 29, 2021 the bill backlog was approximately $3.4 billion.



Sources: Illinois State Comptroller. Backlog Voucher Report at https://illinoiscomptroller.gov/financial-data/backlog-voucher-report-bvr/; Illinois Office of the Comptroller, http://ledger.illinoiscomptroller.gov/fiscal-condition; State of Illinois, *Debt Transparency Act Reports*, December 31, 2017 to June 30, 2019.

[39] Illinois State Comptroller, Backlog Voucher Report at https://illinoiscomptroller.gov/financial-data/backlog-voucher-report-bvr/.
[40] Illinois FY2022 State Budget, p. 43.
[41] Public Act 100-1107, enacted on August 27, 2018.
[42] Illinois FY2022 State Budget, p. 43.

REVENUES[43]

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 FY2022 budget projects total revenues of $84.0 billion, of which $41.7 billion are available for General Funds spending.[44]

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 originally proposed FY2022 operating (General Funds) budget.

Proposed FY2022 Business Tax Treatment and Changes

The FY2022 budget includes approximately $931 million in corporate tax changes in all funds, as shown in the following table. Descriptions of these changes are provided in the text in the following sections. Several of these changes were approved in 2019 in amendments to the State Finance Act in Public Act 101-0009 and are now proposed for elimination on the grounds that they are not affordable in the current economic climate:

- The add-on income tax credits for construction job payroll expenditures;
- The repeal of the corporate franchise tax; and
- Removing production-related tangible personal property from the Manufacturing Machinery and Equipment Exemption in the sales tax.[45]

Business Tax Change Proposed in Illinois State FY2022 Budget		
Tax Change	**Type of Tax**	**Amount ($Millions)**
Reverse Repeal of Corporate Franchise Tax	Corporate Franchise	$ 30.00
Roll Back Federal 100% Accelerated Depreciation Deduction	Income	$ 214.00
Roll Back the Federal 100% Foreign-Source Dividend Deduction	Income	$ 107.00
Limit Corporate Net Operating Loss deductions to $100,000 per year for 3 years	Income	$ 314.00
Eliminating Add On Tax Credits for Construction Job Payroll Expenditures	Income	$ 16.00
Reduce Tax Credits for Private School Scholarships	Income	$ 14.00
Eliminating Manufacturing & Machinery Exemption for Tangible Personal Property	Sales	$ 56.00
Accelerating Termination of Biodiesel Sales Tax Exemptions	Sales	$ 107.00
Capping the Retailer's Discount	Sales	$ 73.00
Total		**$ 932.00**

The total is the result of rounding up.

Source: Illinois FY2022 State Budget Budget in Brief, p. 16

[43] Note: this section based on the Governor's originally proposed budget and does not include subsequent revisions to revenues.
[44] Illinois State FY2022 Budget, pp. 116-117.
[45] Illinois State FY2022 Budget, p. 50.

General Funds Revenues

The following table shows the change in General Funds revenues between FY2021 year-end estimates and the proposed FY2022 budget. Overall, revenues will decrease by nearly $1.8 billion, or 4.1% in FY2022. This is a drop from $43.5 billion to $41.7 billion. It is important to note that comparisons between FY2021 and FY2022 are difficult because of the change in the income tax due date that moved revenue from FY2020 to FY2021 and is responsible in part for the decline in revenue in FY2022 compared to FY2021

The primary reason for the year over year decrease is that the State will not borrow funds from the Federal Reserve Bank's Municipal Liquidity Facility for use in FY2022. In the previous year, the State used nearly $2.0 billion in short term borrowing to balance the budget. There is projected to be a slight increase of 1.7%, or $586.0 million, in all state taxes and fees. Federal revenues were projected to decrease by 9.4%, or $413.0 million, falling from $4.4 billion to $3.9 billion, though these projections were made before the passage of the American Rescue Plan.

State of Illinois General Funds Revenues: Estimated FY2021 and Governor's Recommended FY2022 (in $ millions)

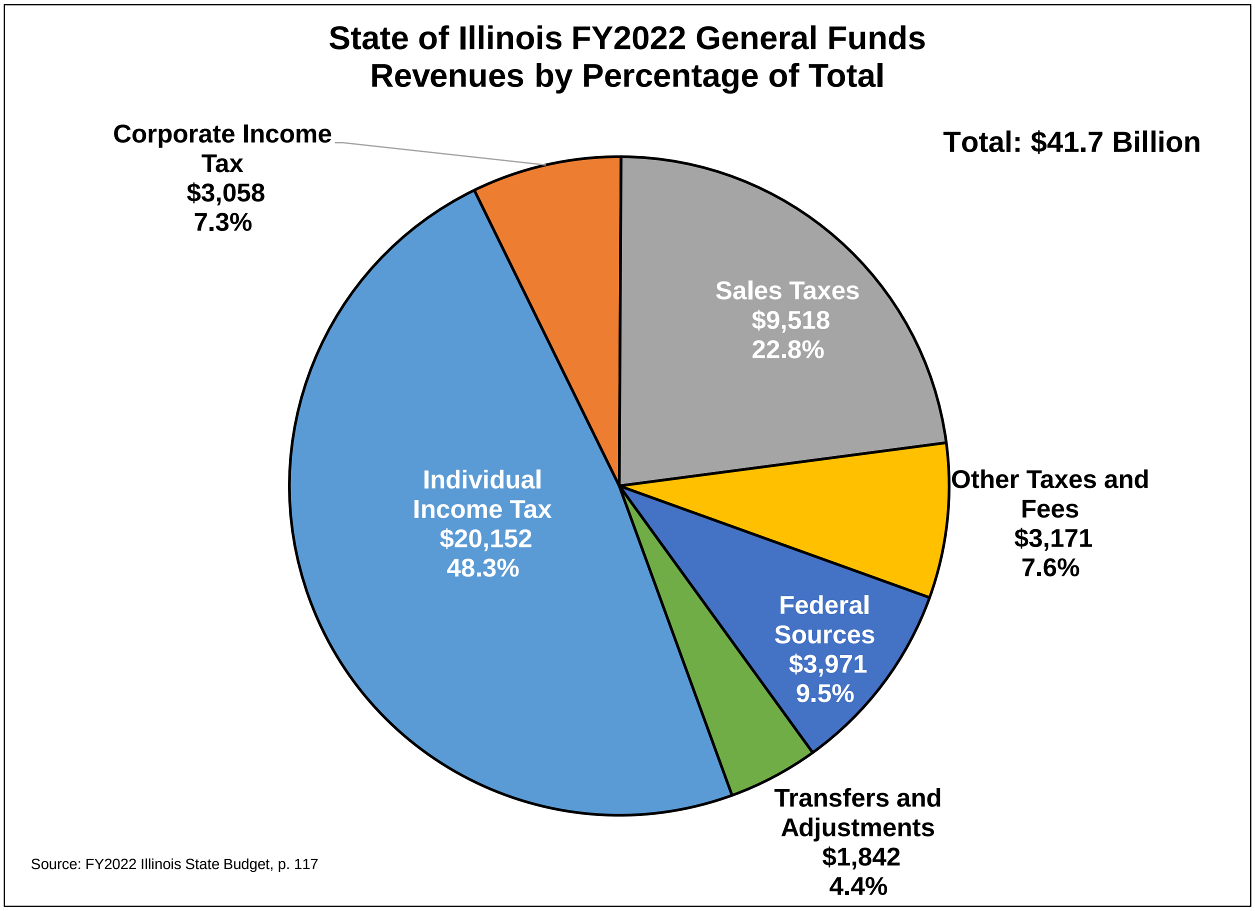
	FY2021 Est.	FY2022 Proj.	$ Change	% Change
State Taxes and Fees				
Income Taxes (net)				
Individual (net)	$ 20,523	$ 20,151	$ (372)	-1.8%
Corporate (net)	$ 2,620	$ 3,058	$ 438	16.7%
Sales Taxes	$ 8,873	$ 9,518	$ 645	7.3%
Public Utility Taxes	$ 801	$ 777	$ (24)	-3.0%
Cigarette Tax	$ 288	$ 281	$ (7)	-2.4%
Liquor Gallonage Taxes	$ 176	$ 178	$ 2	1.1%
Estate Tax	$ 341	$ 310	$ (31)	-9.1%
Insurance Taxes & Fees	$ 487	$ 438	$ (49)	-10.1%
Corporate Franchise Tax & Fees	$ 250	$ 205	$ (45)	-18.0%
Interest on State Funds & Investments	$ 100	$ 100	$ -	0.0%
Cook County Intergovernmental Transfer	$ 244	$ 244	$ -	0.0%
Other Sources	$ 608	$ 638	$ 30	4.9%
Total State Taxes and Fees	**$ 35,311**	**$ 35,897**	**$ 586**	**1.7%**
Transfers and Adjustments				
Lottery	$ 741	$ 739	$ (2)	-0.3%
Gaming	$ -	$ 74	$ 74	---
Adult-Use Cannabis	$ 46	$ 69	$ 23	50.0%
Other Transfers	$ 1,000	$ 960	$ (40)	-4.0%
Municipal Liquidity Facility	$ 1,998	$ -	$ (1,998)	-100.0%
Total Transfers and Adjustments	**$ 3,785**	**$ 1,842**	$ (1,943)	-51.3%
Total State Revenues	**$ 39,096**	**$ 37,739**	**$ (1,357)**	**-3.5%**
Federal Sources	**$ 4,384**	**$ 3,971**	$ (413)	-9.4%
Total Revenue	**$ 43,480**	**$ 41,710**	**$ (1,770)**	**-4.1%**

Numbers may differ slightly from FY2022 Budget Book due to rounding.

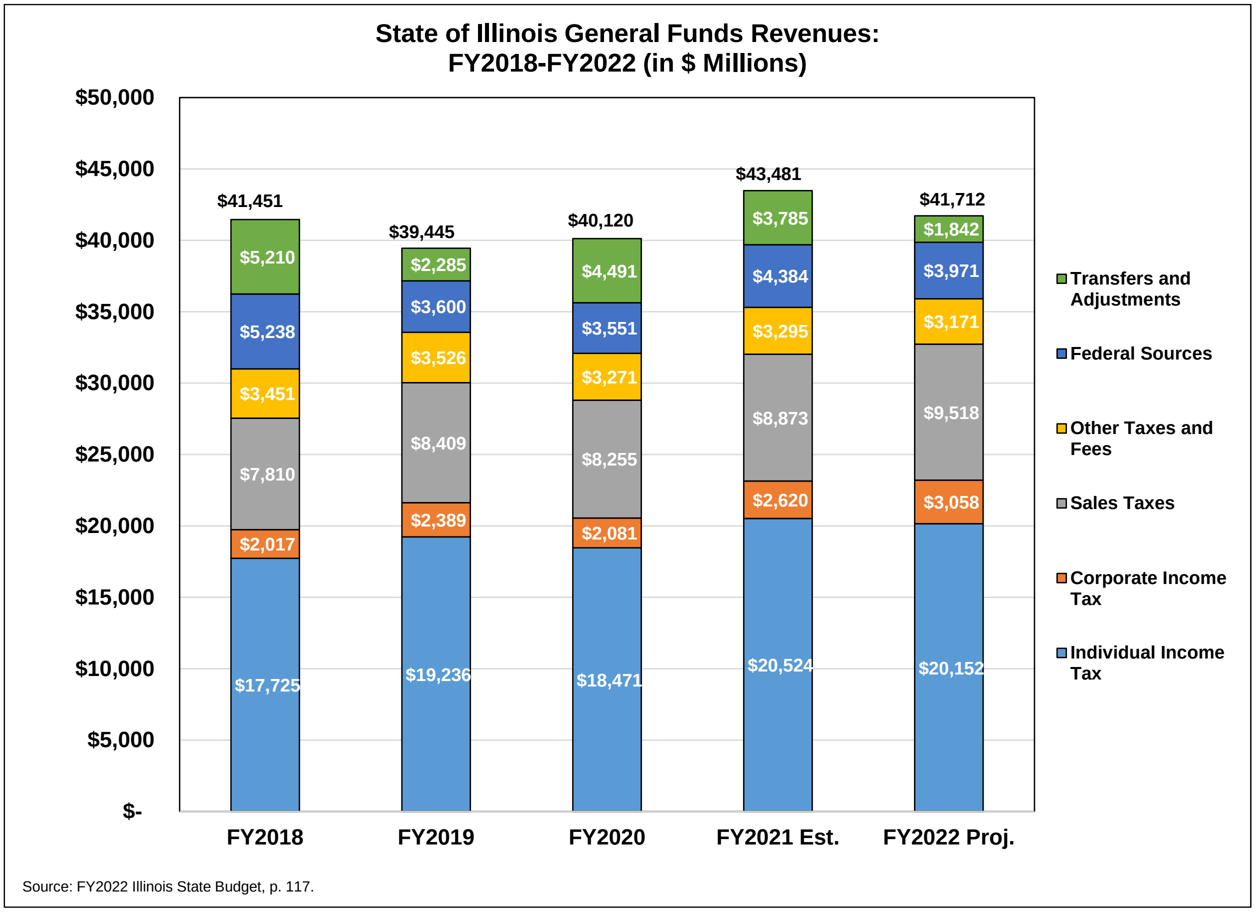
Source: Illinois State FY2022 Budget, p. 117.

As shown in the following chart, the State is heavily reliant on two elastic, or economically sensitive revenues: income and sales taxes, which together will provide 78.5% of all General Funds revenues.

Individual and corporate income taxes will provide 55.6% of all State General Funds revenues in FY2022, or $23.2 billion. The largest single revenue source for the proposed FY2022 General Funds budget is individual income taxes, which are expected to total $20.2 billion, or 48.3% of all revenues. Sales taxes will be the second largest revenue source at $9.5 billion, or 22.8% of all General Funds revenues.



The next chart presents a five year trend of Illinois General Funds revenues by major source. Between FY2018 and FY2022, all General Funds revenues will remain relatively flat, rising only about 0.6% or $261.0 million.



Income Taxes

The individual and corporate income taxes are the State's largest and third largest individual revenue sources, respectively. Together they provide well over half of all General Funds revenues. 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%.[46] FY2022 will be the fifth fiscal year at those rates.

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

In November 2020, Illinois voters defeated a constitutional amendment that would have changed the State's current flat rate income tax structure to a graduated structure with individual rates ranging from 4.75% to 7.99% and the corporate rate rising from a flat 7.0% to a flat 7.99%.[47]

Proposed Individual Income Tax Treatment Changes

Governor Pritzker has proposed two changes to individual income tax treatments in the FY2022 budget that will increase General Funds income tax revenues.

The income tax credit for individuals or businesses that contribute to private school scholarship funds will be reduced from a 75% to a 40% credit. This is projected to generate $14 million in general fund receipts.[48]

Proposed New Corporate Income Tax Changes

The FY2022 budget includes revenues from three new proposed corporate income tax changes. These changes are estimated to generate $437 million in additional General Funds revenues.

Rolling Back the Federal 100% Foreign-Source Dividend Deduction

The 2017 federal Tax Cuts and Jobs Act created a new 100% dividend deduction for the foreign source portion of foreign dividends, as well as a 50% deduction for global intangible low-taxed income. These changes give a more favorable tax treatment to foreign source dividends than domestic source dividends. This proposal aligns the tax treatment of both foreign source dividends and global intangible low-taxed income with the treatment of domestic source dividends. This is expected to generate $107 million in the General Funds. It will still allow corporations to take advantage of standard deductions permitted under Internal Revenue Code Section 243 for domestic dividends. [49] This proposal will primarily impact multinational corporations with a substantial international presence. The change will also generate an additional $7 million in revenues for local governments.[50]

Roll Back Federal 100% Accelerated Depreciation Deduction

The administration proposes to amend the Illinois Income Tax Act to reverse a provision of the 2017 federal Tax Cuts and Jobs Act that allows a 100% depreciation deduction in the year of purchase for qualifying acquisitions such as machinery, computers or equipment. This will require taxpayers to add back into Illinois income tax calculations the difference between the 100% depreciation deduction allowed under subsection (kl) of Internal Revenue Code section 168 and the standard deduction allowed under other provisions of section 168. This change could generate $38 million in general fund revenues and a total of $214 million in all funds in FY2022.[51] This could generate an additional $14 million in local government revenues as well.[52]

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[47] For more information on the proposed Illinois graduate income tax see civicfed.org. The Graduated Income Tax Proposal: An Issue Brief, October 23, 2020 at https://www.civicfed.org/graduatedincometax. .
[48] Illinois State FY2022 Budget, p. 148.
[49] Illinois State FY2022 Budget, p. 150.
[50] Governor's Office of Management and Budget. FY2022 Proposed Tax Changes Budget One Pager.
[51] Illinois State FY2022 Budget, pp. 148-149.
[52] Governor's Office of Management and Budget. FY2022 Proposed Tax Changes Budget One Pager.

Limit Corporate Net Operating Loss Deductions to $100,000 per year for 3 years

Under current state law, corporations can carry forward losses that occur when tax deductions are greater than taxable income in a given year. These losses can be used to count toward profits accruing in future years. This proposal would cap the amount of net operating losses that a corporation could claim in in one year to $100,000 for the next three years. This tax change is projected to generate $314 million in General Funds revenues in FY2022[53] and could generate an additional $21 million in local government revenues.[54]

Eliminating Add On Tax Credits for Construction Job Payroll Expenditures

Eliminating add on tax credits for construction job payroll expenditures is estimated to yield an additional $16 million in General Funds revenue in FY2022.[55]

The following table shows income taxes collected by the State of Illinois from FY2018 through the proposed FY2022 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 17.6%, rising from $19.7 billion in FY2018 to $23.2 billion. In this same period, net individual income tax proceeds are expected to rise by $2.4 billion and net corporate income tax collections are projected to increase by 51.6% or $1.0 billion. The latter figure reflects the impact of the proposed corporate income tax changes.

State of Illinois Total Income Tax Revenues FY2018-FY2022
General Funds (in $ millions)

Income Tax Increment	FY2018	FY2019	FY2020	FY2021 Est.	FY2022 Rec.	Five-year $ Change	Five-year % Change
Individual Income Tax							
Tax Rate	4.95%	4.95%	4.95%	4.95%***	4.95%		
Individual Income Tax	$ 20,266	$ 21,884	$ 21,052	$ 23,337	$ 22,829	$ 2,563	12.6%
Pass-Through Entities*	$ 519	$ 719	$ 605	$ 672	$ 657	$ 138	26.6%
Gross Individual Income Tax	**$ 20,785**	**$ 22,603**	**$ 21,657**	**$ 24,009**	**$ 23,486**	**$ 2,701**	**13.0%**
Refund Fund Transfer	$ (2,037)	$ (2,193)	$ (2,058)	$ (2,161)	$ (2,172)	$ (135)	6.6%
Deposits into LGDF**	$ (1,023)	$ (1,175)	$ (1,128)	$ (1,324)	$ (1,162)	$ (139)	13.6%
Net Individual Income Tax	**$ 17,726**	**$ 19,236**	**$ 18,471**	**$ 20,524**	**$ 20,152**	**$ 2,426**	**13.7%**
Corporate Income Tax							
Tax Rate	7.00%	7.00%	7.00%	7.00%	7.00%		
Tax Amnesty Program	$ -	$ -	$ 68	$ -	$ -	$ -	---
Gross Corporate Income Tax	**$ 2,607**	**$ 3,025**	**$ 2,596**	**$ 3,270**	**$ 3,834**	$ 1,227	47.1%
Refund Fund Transfer	$ (457)	$ (470)	$ (370)	$ (458)	$ (575)	$ (118)	25.8%
Deposits into LGDF**	$ (133)	$ (167)	$ (145)	$ (193)	$ (201)	$ (68)	51.1%
Net Corporate Income Tax	**$ 2,017**	**$ 2,389**	**$ 2,081**	**$ 2,620**	**$ 3,058**	$ 1,041	51.6%
Total Income Taxes (net)	**$ 19,743**	**$ 21,625**	**$ 20,552**	**$ 23,144**	**$ 23,210**	**$ 3,467**	**17.6%**

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

** In FY2018 the State began removing income tax distributions to the Local Government Distributive Fund from both revenues and expenditures in General Funds reporting.

Source: Illinois State FY2022 Budget, pp. 147-149.

Sales Taxes

General Funds sales tax revenue is expected to grow by $645 million from FY2021 estimates, rising from $8.8 billion to $9.5 billion. This is expected to continue a trend experienced in FY2021, assisted in part by the impact of the second round of federal stimulus spending approved in

53 Illinois State FY2022 Budget, p. 150.
54 Governor's Office of Management and Budget. FY2022 Proposed Tax Changes Budget One Pager.
55 Illinois State FY2022 Budget, p. 150.

December 2020 and an anticipated shift in consumer behavior from saving cash to resuming increased consumption patterns.[56]

Sales tax revenue grew in FY2021 despite the overall negative economic impacts of the COVID-19 pandemic because of four factors: 1) federal stimulus funds increased disposable personal income, mitigating the impact of increased unemployment; 2) jobs losses during the pandemic were mostly in lower paying jobs, which lessened the impact on consumption; 3) consumers significantly shifted their spending from services to goods, which are the base of the Illinois sales tax; and 4) pent up consumer demand for services and goods when stay-at-home orders were relaxed in summer of 2020.[57]

Proposed Sales Tax Treatment Changes

The FY2022 state budget sales tax forecast figures include several proposed sales tax changes.

First, the State will postpone transferring a share of sales taxes on motor fuels and gasohol from General Funds to the Road Fund for capital projects until FY2023. Postponing the transfer for one year will generate an additional $72 million into the general fund in FY2022.

Next, State sales tax revenue sharing with mass transit agencies through the Downstate Public Transportation Fund and the Public Transportation Fund will be reduced by 10%. This will increase general fund revenues by $52 million. In addition, the budget proposes a $100 million increase to the revenue sharing covered by be Road Fund. These two changes will generate a total of $152 million for the General Funds.

Proposed New Corporate Sales Tax Changes

The FY2022 budget includes revenues from three new proposed corporate sales tax changes. These changes are estimated to generate a total of $218 million in additional general fund revenues.

<u>Capping the Retailer’s Discount</u>

The Governor proposes once again, as in FY2020, capping the retailer’s discount. Illinois retailers currently retain 1.75% of the sales tax due to the State to help defray the cost of collection. The Governor proposes to cap the discount for each retailer at $1,000 per month. The proposal would provide the State an estimated $73 million in additional revenue as well as $55 million for local governments. The State reports that this change would only impact large retailers, representing about 1% of all retailers.

<u>Eliminating Manufacturing & Machinery Exemption for Tangible Personal Property</u>

Eliminating production-related tangible personal property from the corporate manufacturing machinery and equipment exemption is projected to yield approximately $56 million in FY2022 for the state General Funds. It is also expected to yield an additional $44 million for local governments.[58]

<u>Accelerating Termination of Biodiesel Sales Tax Exemptions</u>

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[56] Illinois State FY2022 Budget, p. 151.
[57] Illinois State FY2022 Budget, p. 151.
[58] Governor’s Office of Management and Budget. FY2022 Proposed Tax Changes Budget One Pager.

Finally, the termination of remaining State sales tax exemptions on biodiesel purchases will be accelerated to July 1, 2021 rather than in future years. This action will generate $107 million for the State of Illinois and $85 million for local governments.[59]

Other State-Source Revenues

Total General Funds revenues from State sources other than income and sales taxes will fall by $2.1 billion, dropping from $7.1 billion in FY2021 to $5.0 billion in FY2022. Most of the decrease is because the State will not borrow again from the Federal Reserve Bank's Municipal Liquidity Facility (MLF) in FY2022. In FY2021, Illinois borrowed $2.0 billion from the MLF, along with $1.2 billion in late FY2020.

Other revenues including public utility taxes, cigarette taxes, corporate franchise taxes and fees, liquor taxes and insurance taxes will decrease by 7.0%, falling from $7.1 billion to $5.0 billion.

Transfer and adjustments, such as lottery, gaming and cannabis revenues, will decline by 51.3% or $1.9 billion, in FY2022 from the previous year because, as noted above, the State will not borrow from the MLF in FY2022.

There is one major proposed business tax change in the FY2022 budget in other state-source General Funds revenues. Public Act 101-0009 began the phase out of the ***Corporate Franchise Tax*** in calendar year 2020. This process was intended to conclude on January 1, 2024. The budget includes a proposal to reverse the repeal of this tax, returning it to its structure prior to the passage of Public Act 101-0009 at a rate of 0.15% of paid-in capital when beginning business in the state, an additional 0.15 percent of any increase in paid-in capital during the year and an annual tax of 0.10 percent of paid-in capital.[60] According to the Governor Office of Management and Budget, repealing the corporate franchise tax will generate $30 million in revenues in FY2022.[61]

Federal Revenues

Federal revenues are forecast to decrease by $413 million from FY2021 to FY2022, declining from $4.4 billion to nearly $4.0 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. Much of the decrease is due to the expiration of federal Coronavirus Relief Fund Reimbursements which will decline from $395 million to $25 million.[62]

The $1.9 trillion American Rescue Plan, signed into law on March 12, 2021, is projected to provide up to $13.2 billion in state and local funding for Illinois. Of that amount, an estimated $7.5 billion will be earmarked for the state and $5.5 billion for Illinois local governments. This may lead to revisions of budget priorities in the coming months. The State is expected to use some of these funds to pay off the $2 billion in loans it has accrued from the Federal Reserve Bank's Municipal Liquidity Facility and to reduce the backlog of unpaid bills. [63]

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[59] Governor's Office of Management and Budget. FY2022 Proposed Tax Changes Budget One Pager.
[60] State of Illinois FY2022 Budget, p. 156.
[61] Information provided by Governor's Office of Management and Budget, April 22, 2021 and State of Illinois FY2022 State Budget in Brief, p. 16.
[62] State of Illinois FY2022 Budget, p. 160.
[63] Greg Hinz. "Who gets what from $1.9 trillion COVID relief bill," Crain's Chicago Business, March 7, 2021 at https://www.chicagobusiness.com/greg-hinz-politics/who-gets-what-19-trillion-covid-relief-bill and Illinois Business Journal. "Here's what Illinois gets in COVID-19 relief bill, the American Rescue Plan,: March 8, 2021 at https://www.ibjonline.com/2021/03/08/heres-what-illinois-gets-in-covid-19-relief-bill-the-american-rescue-plan/.

APPROPRIATIONS AND EXPENDITURES[64]

The recommended FY2022 budget proposes total appropriations of $95.5 billion, including $40.5 billion in General Funds spending authority.[65] The budget proposal also includes $39.3 billion in appropriations from Other State Funds and $15.7 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.[66] 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 $41.6 billion.[67] 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 $95.5 billion in FY2022 represent an increase of $2.1 billion, or 2.2%, from enacted appropriations of $93.4 billion in FY2021. Proposed FY2022 General Funds appropriations increase by $337 million, or 0.8%, from $40.2 billion the year before. Total appropriations grow by $22.5 billion, or 30.8%, from $73.0 billion in FY2018, while General Funds appropriations increase by $4.3 billion, or 12.0%, over the five-year period.
The following table shows appropriations by type of fund from FY2018 through FY2021 and proposed appropriations for FY2022.

State of Illinois Appropriations by Fund Type: FY2018-FY2022 (in $ millions)

	FY2018 Enacted	FY2019 Enacted	FY2020 Enacted*	FY2021 Enacted*	FY2022 Rec.	FY2021-FY2022 $ Change	Two-Year % Change	FY2018-FY2022 $ Change	Five-Year % Change
General Funds	$ 36,179	$ 37,268	$ 39,113	$ 40,175	$ 40,512	$ 337	0.8%	$ 4,333	12.0%
Other State Funds	$ 28,337	$ 30,530	$ 33,064	$ 38,321	$ 39,259	$ 938	2.4%	$ 10,922	38.5%
Federal Funds	$ 8,514	$ 8,591	$ 12,436	$ 14,932	$ 15,740	$ 809	5.4%	$ 7,226	84.9%
Total**	**$ 73,029**	**$ 76,389**	**$ 84,613**	**$ 93,428**	**$ 95,512**	**$ 2,084**	**2.2%**	**$ 22,483**	**30.8%**

***** Enacted appropriations for FY2020 and FY2021 include original and supplemental appropriations.
**Totals may not sum due to rounding.
Source: Illinois State FY2022 Budget, p. 86; Illinois State FY2021 Budget, p. 83; Illinois State FY2020 Budget, p. 77.

Total appropriations do not accurately reflect State spending because spending from Other State Funds and Federal Funds is often significantly below appropriated amounts. In FY2020, for example, actual spending from Other State Funds was $28.0 billion, 15.2% below the $33.1 billion appropriated amount.[68] Actual spending from Federal Funds in FY2020 was $5.1 billion, 58.6% below the $12.4 billion adjusted appropriation.

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[64] Note: this section based on the Governor's originally proposed budget and does not include subsequent revisions.
[65] Illinois State FY2022 Budget, p. 86.
[66] Before FY2018, General Funds consisted of four funds: the General Revenue Fund, Education Assistance Fund, Common School Fund and General Revenue-Common School Fund. 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.
[67] Illinois State FY2022 Budget, p. 66.
[68] Illinois State FY2022 Budget, p. 86.

Appropriations from Other State Funds and Federal Funds do not affect the projected operating deficit, which is based on General Funds revenues and expenditures. General Funds spending from appropriations typically reflects a much lower level of unspent appropriations.

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.[69] 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 FY2018 through FY2021 and proposed appropriated spending for FY2022. The FY2022 number includes reductions to group health insurance costs negotiated with employees.

State of Illinois General Funds Appropriated Expenditures by Category: FY2018-FY2022 (in $ millions)

	FY2018	FY2019	FY2020 Prelim.*	FY2021 Est.*	FY2022 Rec.	FY2021-FY2022 $ Change	Two-Year % Change	FY2018-FY2022 $ Change	Five-Year % Change
Agency Appropriations Spent*	$ 26,509	$ 26,857	$ 27,222	$ 28,108	$ 28,175	$ 67	0.2%	$ 1,666	6.3%
Pension Contributions	$ 7,014	$ 7,478	$ 8,113	$ 8,624	$ 9,363	$ 739	8.6%	$ 2,349	33.5%
Group Insurance	$ 1,858	$ 2,026	$ 2,028	$ 1,922	$ 1,851	$ (71)	-3.7%	$ (7)	-0.4%
Total	**$ 35,381**	**$ 36,361**	**$ 37,363**	**$ 38,654**	**$ 39,389**	**$ 735**	**1.9%**	**$ 4,008**	**11.3%**

*Enacted appropriations in FY2020 and FY2021 include supplementary appropriations.

Source: 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 $67 million, or 0.2%, to $28.2 billion in FY2022 from $28.1 billion in FY2021 and by $1.7 billion, or 6.3%, from $26.5 billion in FY2018.

The FY2022 budget proposes to increase General Funds pension contributions by $739 million, or 8.6%, to $9.4 billion from $8.6 billion in FY2021. The proposed FY2022 contribution is equal to the certified full amount required under existing state law.[70]

Proposed FY2022 General Funds group health insurance payments are reduced by $71 million to $1.8 billion. As noted above, the reduction is due to changes to group health coverage negotiated with unions effective in FY2021. These changes include employees and retirees with fewer than 20 years of service contributing more to their premiums and co-pays and the availability of high-deductible plans that have a lower cost to both employees and the State.[71]

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.[72] Actual spending by area is shown for FY2018 through FY2020, estimated

[69] 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.
[70] Illinois State FY2022 Budget, p. 65.
[71] Communication with Governor's Office of Management and Budget, April 22, 2021.
[72] Illinois State FY2022 Budget, p. 55.

expenditures for FY2021 and proposed appropriations for FY2022. 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: FY2018-FY2022 (in millions)									
	FY2018 Exps.	FY2019 Exps.	FY2020 Exps.	FY2021 Est. Exps.	FY2022 Rec. Approps.	FY2021-FY2022 $ Change	Two-Year % Change	FY2018-FY2022 $ Change	Five-Year % Change
P-12 Education*	$ 7,995	$ 8,392	$ 8,894	$ 8,896	$ 8,896	$ -	0.0%	$ 901	11.3%
Higher Education**	$ 1,733	$ 1,789	$ 1,943	$ 1,943	$ 1,992	$ 49	2.5%	$ 259	14.9%
Human Services	$ 6,219	$ 6,196	$ 6,628	$ 7,077	$ 7,399	$ 322	4.5%	$ 1,180	19.0%
Healthcare	$ 7,613	$ 7,944	$ 7,846	$ 8,014	$ 7,376	$ (638)	-8.0%	$ (237)	-3.1%
Public Safety	$ 2,218	$ 1,880	$ 1,904	$ 1,910	$ 1,924	$ 14	0.7%	$ (294)	-13.3%
All Other Agency Spending***	$ 1,528	$ 1,759	$ 1,753	$ 1,789	$ 1,708	$ (81)	-4.5%	$ 180	11.8%

*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 FY2022 Budget, p. 55, Illinois State FY2021 Budget, p. 51, Illinois State FY2020 Budget, p.45 .

P-12 Education

Funding for preschool to secondary education is flat at $8.9 billion. The Governor proposes not to fund the $350 million annual target increase to education that was part of the State's 2017 evidence-based school funding law. If the Governor's proposed school funding level is implemented, FY2022 would mark the second year in a row without a funding formula increase. The five-year increase of $901 million, or 11.3%, in P-12 funding comes entirely from increases in FY2019 and FY2020.[73]

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.[74] However, those CPS normal pension costs, estimated at $277.0 million in FY2022, are not included in the education category in the budget and are shown in All Other Agency Spending in the table.[75] The school funding legislation also created a private school scholarship tax credit program, but the Governor has proposed to reduce the credit from 75% to 40% in the FY2022 budget in order to generate additional revenue for the General Funds.[76]

Higher Education

Proposed funding for higher education increases by $49 million, or 2.5%, to nearly $2.0 billion in FY2022 from $1.9 billion in FY2021.[77] 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.[78]

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[73] 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.
[74] The State has responsibility for both the normal cost and unfunded liability of the Teachers' Retirement System, which covers teachers outside of Chicago.
[75] Illinois State FY2022 Budget, p. 55. The budget book includes CPS normal pension costs (which include retiree health insurance) in the category of Government Services.
[76] Illinois State FY2022 Budget, p. 148.
[77] Illinois State FY2022 Budget, p. 55.
[78] 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.

The FY2022 budget holds General Funds support for universities and community colleges flat to FY2021 levels, but will provide an additional $28 million for MAP to fund at least the same number of students given tuition increases. The budget also includes $20 million for the first payment to shore up College Illinois!, the State's prepaid tuition program.[79]

Human Services

Proposed funding for human services increases by $322 million, or 4.5%, to $7.4 billion in FY2022 from $7.1 billion in FY2021 and by $1.2 billion, or 19.0%, from $6.2 billion in FY2018. The Human Services category includes not only the Department of Human Services, but the Departments of Aging, Children and Family Services, Juvenile Justice, Employment Security, Human Rights, Public Health, Veterans' Affairs and several others.

The FY2022 General Funds budget proposal for the Department of Human Services (DHS) is $4.7 billion, an increase of $143.7 million, or 3.2%, from estimated FY2021 spending of $4.6 billion.[80] The additional funding includes $66.8 million funding for the Home Services Program, which provides home and community care for the physically disabled, to address caseload growth and negotiated rate increases.[81] The proposed budget also increases funding to the Child Care Assistance Program, which helps low income families pay for child care so parents can work or go to school, by $400 million in additional anticipated federal funding.[82]

The proposed FY2022 General Funds budget for the Department on Aging is $1.15 billion, an increase of $56.4 million from estimated spending of $1.09 million in FY2021.[83] Additional funding includes $29.4 million to cover the costs of a proposed rate increase effective January 1, 2022 for the Community Care Program, which is designed to keep seniors out of nursing homes.[84]

The Department of Children and Family Services will receive an additional $111.3 million in General Funds appropriations in FY2022, or 10.8% over FY2021 in order to accommodate additional hiring and growing caseloads.[85]

Healthcare

Proposed FY2022 General Funds appropriations for healthcare of nearly $7.4 billion are projected to decline by $638 million, or 8.0%, from estimated spending of $8.0 billion in FY2021 and decrease by $237 million, or 3.1%, from $7.6 billion during FY2018. 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.

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[79] Illinois State FY2022 Budget, p. 36. 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 $340 billion as of June 30, 2020. 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 $100 million over the life of the program.
[80] Illinois State FY2022 Budget, p. 293.
[81] Illinois State FY2022 Budget, p. 293.
[82] Illinois State FY2022 Budget, p. 293
[83] Illinois State FY2022 Budget, p. 234.
[84] Illinois State FY2020 Budget, p. 40.
[85] Illinois State FY2022 Budget, p. 31.

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.[86] 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 reduction in General Funds appropriations in FY2022 for HFS is due to lower than expected liabilities in FY2020 and FY2021 and the expected continuation of the 6.2 percentage point federal Medicaid match through December 31, 2021.[87] This is because more federal funds are flowing in to cover Medicaid expenditures, which reduces the need for General Funds to cover Medicaid costs.

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 $14 million, or 0.7%, to $1.9 billion in FY2022 from FY2021 levels and decreases by $294 million, 13.3%, from $2.2 billion in FY2018. 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.

In FY2022, the proposed budget is mostly flat but does include $10 million in increased recommended appropriations to maintain the current level of sworn Illinois state troopers and forensic scientists.[88]

General Funds Expenditures

Expenditures from General Funds are expected to decline by $1.8 billion, or 4.2%, to $41.6 billion in FY2022 from $43.4 billion in FY2021 due to a large decrease in transfers out to pay back Municipal Liquidity Fund borrowing and interfund borrowing that offset a large increase in pension

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[86] 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).

[87] Illinois State FY2022 Budget, p. 323.

[88] Illinois State FY2022 Budget, p. 39.

contributions. Over the five-year period, expenditures increase by $2.6 billion, or 6.7%, from nearly $39.0 billion in FY2018.

State of Illinois General Funds Expenditures: FY2018-FY2022 (in $ millions)*									
	FY2018	FY2019	FY2020 Prelim.	FY2021 Est.	FY2022 Rec.	FY2021-FY2022 $ Change	Two-Year % Change	FY2018-FY2022 $ Change	Five-Year % Change
Agency Appropriations	$ 27,307	$27,731	$28,970	$29,631	$ 29,298	$ (333)	-1.1%	$ 1,991	7.3%
(Unspent Appropriations)**	$ (798)	$ (874)	$ (1,748)	$ (1,523)	$ (1,123)	$ 400	-26.3%	$ (325)	40.7%
Net Agency Appropriations Spent	$ 26,509	$26,857	$27,222	$28,108	$ 28,175	$ 67	0.2%	$ 1,666	6.3%
Pension Contributions	$ 7,014	$ 7,478	$ 8,113	$ 8,624	$ 9,363	$ 739	8.6%	$ 2,349	33.5%
State Group Insurance	$ 1,858	$ 2,026	$ 2,028	$ 1,922	$ 1,851	$ (71)	-3.7%	$ (7)	-0.4%
Net Appropriations Spent	**$ 35,381**	**$36,361**	**$37,363**	**$38,654**	**$ 39,389**	**$ 735**	**1.9%**	**$ 4,008**	**11.3%**
Statutory Transfers Out									
Legislatively Required Transfers	$ 582	$ 433	$ 440	$ 424	$ 363	$ (61)	-14.4%	$ (219)	-37.6%
Debt Service on Pension Bonds	$ 1,576	$ 1,242	$ 646	$ 682	$ 717	$ 35	5.1%	$ (859)	-54.5%
Debt Service on Capital Bonds	$ 797	$ 670	$ 436	$ 393	$ 329	$ (64)	-16.3%	$ (468)	-58.7%
Repayment of Interfund Borrowing***	$ 128	$ 23	$ 287	$ 552	$ -	$ (552)	na	$ (128)	-100.0%
Debt Service on Backlog Borrowing	$ 527	$ 782	$ 757	$ 732	$ 707	$ (25)	-3.4%	$ 180	34.2%
Debt Service on Pension Accleration Bonds	$ -	$ 7	$ 31	$ 65	$ 84	$ 19	29.2%	$ 84	na
Municipal Liquidity Facility Repayments	$ -	$ -	$ -	$ 1,899	$ -	$ (1,899)	na	$ -	na
Total Transfers Out	**$ 3,610**	**$ 3,157**	**$ 2,597**	**$ 4,747**	**$ 2,200**	**$ (2,547)**	**-53.7%**	**$ (1,410)**	**-39.1%**
Total Expenditures	**$ 38,991**	**$39,518**	**$39,960**	**$43,401**	**$ 41,589**	**$ (1,812)**	**-4.2%**	**$ 2,598**	**6.7%**

*Totals may not sum due to rounding.

**Unspent appropriations include Comptroller prior year adjustments of $28 million in FY2018; $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 $402 million in FY2021.

Sources: 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 53.7%, to $2.2 billion in FY2022 from $4.7 billion in FY2021 and by $1.4 billion, or 39.1% from $3.6 billion in FY2018.

In FY2022 legislatively required transfers will decline by $70 million, or 16.1%, to $364 million from $434 million in FY2021. About half of the decrease is due to debt service on the Illinois Civic Center bonds having been paid off in FY2021.[89]

Debt service transfers will decline significantly due mostly to the decision not to pay back MLF funding in FY2022, moving some of that payback to FY2021, and the proposed elimination of a 48-month deadline to pay back interfund borrowing.[90]

PENSIONS

Illinois' retirement systems are among the most poorly funded of any state.[91] At the end of FY2020, unfunded liabilities totaled $141.0 billion and the combined funded ratio stood at 40.4%.[92] If the

[89] Illinois State FY2022 Budget, Budget, General Funds Transfers Out Addendum. Available at https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2022-Budget-Book/General%20Funds%20Transfers%20Out%20Addendum.pdf.

[90] Illinois State FY2022 Budget, p. 64.

[91] Moody's Investors Service, "State of Illinois: Adjusted net pension liability to surpass $300 billion as source of credit stress worsens," *Issuer Comment*, March 3, 2021.

[92] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Special Pension Briefing*, November 2020, p. 2. These figures are based on asset smoothing. The unfunded liability and funded ratio based on the market value of assets were $144.4 billion and 39.0%.

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 are currently projected to rise to $19.2 billion in the next 25 years[93] from $8.2 billion in FY2020.[94]

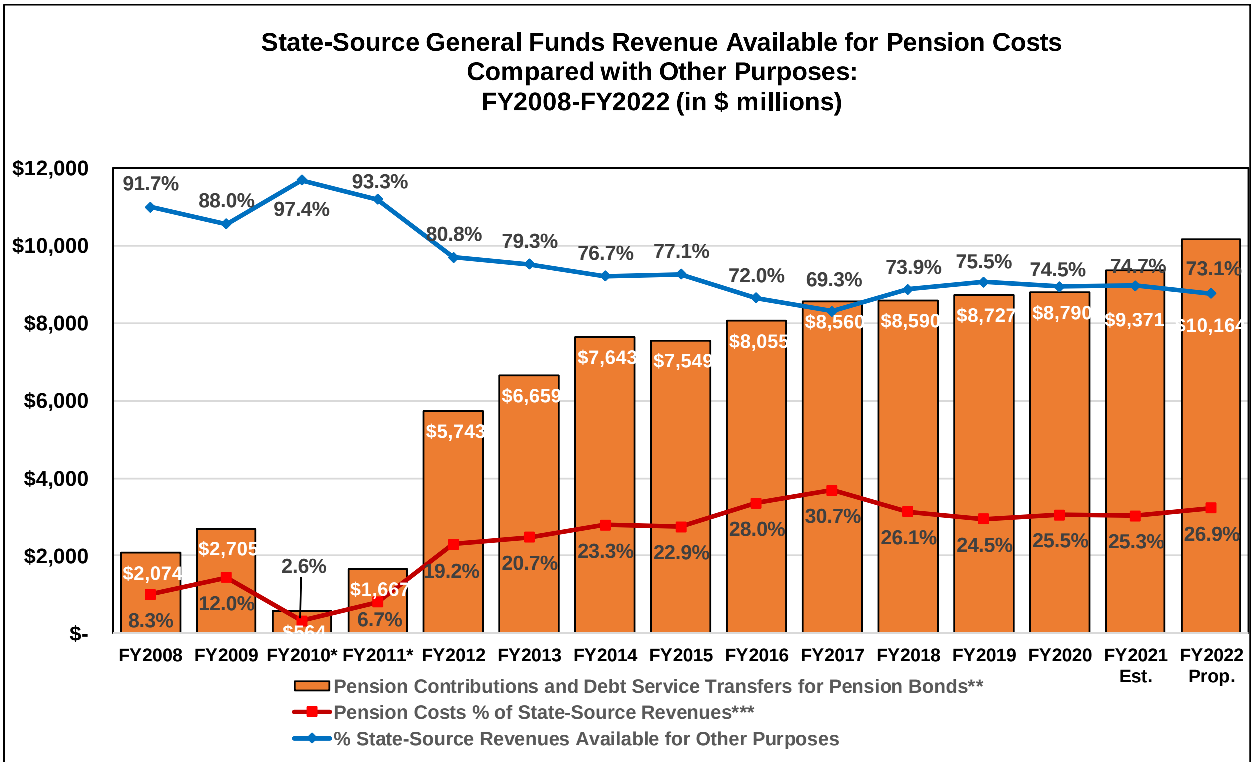
Even with those contribution increases, unfunded pension liabilities are expected to continue growing until FY2029.[95] The State's funding plan and subsequent statutory changes deferred a large portion of required contributions to future years, which propped up annual budgets at the expense of the pension funds.

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,[96] were estimated at $9.9 billion in FY2020.[97]

General Funds pension contributions account for approximately 89% of total State contributions.[98] The next chart shows the portion of State-source General Funds revenue devoted to pension costs compared with other purposes.[99] The share of revenue grew from 8.3% in FY2008 to an estimated 25.3% in FY2021. 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.

[93] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2019*, June 2020, p. 117.
[94] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2019*, June 2020, p. iii.
[95] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2019*, June 2020, p. 117.
[96] 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.
[97] Illinois General Assembly, Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems Financial Condition as of June 30, 2019*, June 2020, p. 48.
[98] State of Illinois, General Obligation Bonds, Series of March 2021, *Official Statement*, March 17, 2021, p.G-2. https://www2.illinois.gov/sites/capitalmarkets/RecentBondSales/State%20of%20Illinois%20General%20Obligation%20Bonds%20Series%20of%20March%202021%20ABC%20Official%20Statement.pdf
[99] General Funds revenues in Illinois include State-source revenues as well as federal revenues, which are mainly reimbursements for Medicaid spending.

Pension contributions for FY2010 and 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.
** Pension bonds debt service includes pension acceleration bonds.
*** State-source revenues exclude interfund and other borrowing.
Source:Illinois State FY2022 Budget, p. 66; Illinois State FY2021 Budget, p. 61; Illinois State FY2020 Budget, p. 57; Illinois State FY2019 Budget, p. 62; Illinois State FY2018 Budget, p. 78; Illinois State FY2017 Budget, p. 75; Illinois State FY2015 Budget, pp. 2-22; State of Illinois, General Obligation Bonds, Series of May 2014, *Official Statement*, April 25, 2014, p. 15; Illinois State FY2011 Budget, p. 2-10; Illinois State FY2010 Budget.

To address the budget pressures, the State in 2011 created a second, significantly less generous tier of benefits for new employees.[100] 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% on a compounded basis. State contributions are expected to decline sharply over time as new employees represent a larger share of the workforce.[101] However, the low Tier 2 benefits, which were not matched by lower employee contributions, may not be sustainable due to legal and equity issues.[102]

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.[103] The high court ruled in 2015 and 2016 that the State law and subsequent benefit changes enacted for two City of

[100] Public Act 96-0889, enacted on April 14, 2010.
[101] State of Illinois, General Obligation Bonds, Series of March 2021, *Official Statement*, March 17, 2021, p. E-29.
[102] 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.
[103] Public Act 98-0599, enacted on December 5, 2013.

Chicago pension funds[104] violated the pension protection clause in the Illinois Constitution.[105] That clause states that pension benefits are part of a contractual relationship and cannot be diminished or impaired.[106]

State pension contributions stabilized in FY2018 due to statutory changes included in that year's budget legislation.[107] 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.[108]

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.[109] 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. Including bonds issued in March 2021, the State has issued nearly $824.0 million in pension buyout bonds.[110] Of the three funds, SERS was the system with the largest expected savings and has had the highest take-up rate. As of February 2021, SERS has processed payments totaling $178 million for the accelerated pension benefits, with 25% of eligible retirees opting into the automatic annual increase reduction program and 1% into the buyout program. TRS has expended bond proceeds of $398.8 million as of February 2021, with a 17.2% participation rate in the automatic annual increase reduction program and 10.4% in the buyout program. SURS has expended bond proceeds of approximately $20.7 million as of February 2021 and participation rates were less than 1% for both programs.[111] The State in its most recent bond documents noted that while it expects the

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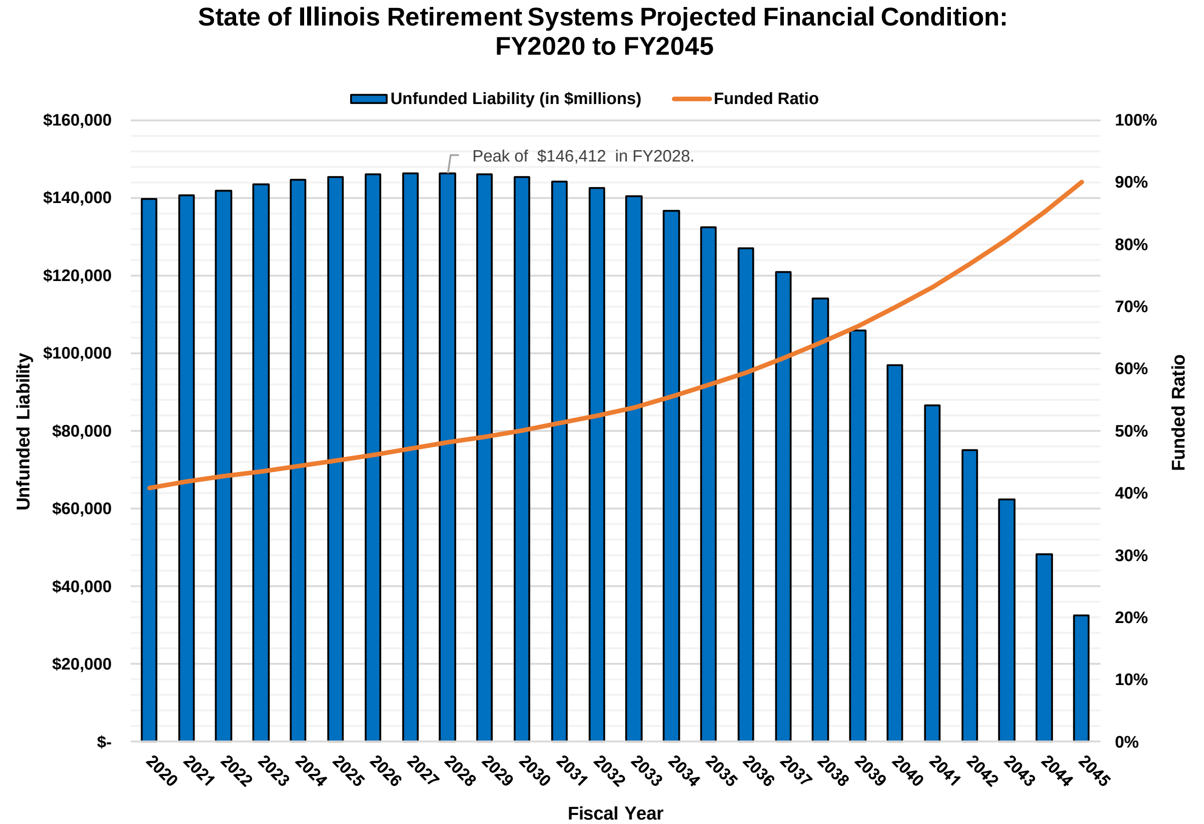
[104] Public Act 98-0641, enacted on June 9, 2014.
[105] The Illinois Supreme Court opinions are available at http://www.illinoiscourts.gov/OPINIONS/SupremeCourt/2015/118585.pdf and http://www.illinoiscourts.gov/Opinions/SupremeCourt/2016/119618.pdf (last accessed on May 15, 2019).
[106] Ill. Const. art. XIII, sec. 5.
[107] Public Act 100-0023, enacted on July 6, 2017.
[108] 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).
[109] 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.
[110] State of Illinois, General Obligation Bonds, Series of March 2021, *Official Statement*, March 17, 2021, p. E-33.
[111] State of Illinois, General Obligation Bonds, Series of March 2021, *Official Statement*, March 17, 2021, p. E-33.

buyout programs to cause a reduction in the unfunded liabilities of the pension funds, it cannot quantify the amount or timing of the savings.[112]

The following chart shows the most recent estimates of total unfunded liabilities and combined funded ratios for the State's five retirement systems from FY2020 through FY2045. The projections are based on data from FY2019.



* For data, see Appendix D.
Source: Illinois General Assembly, Commission on Government Forecasting and Accountibility, *Illinois State Retirement Systems Financial Condition as of June 30, 2019*, June 2020, p. 117.

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.[113] The Illinois Constitution,

[112] State of Illinois, General Obligation Bonds, Series of March 2021, *Official Statement*, March 17, 2021, p. E-33.
[113] The State also has $5.6 million outstanding civic center bonds, which are limited obligations subject to annual appropriation. 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, which had an unfunded liability of $340.3 million as of June 30, 2020. Illinois FY2022 State Budget, p. 511.

the Short-Term Borrowing Act and the 2020 Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act authorize the issuance of short-term debt.[114]

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.[115]

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 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, 2020 was $8.6 billion.[116]

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:

- 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 and plans to issue a total of $325 million in FY2021 and $150 million in FY2022. The principal outstanding on these bonds as of December 31, 2020 was $638 million.[117]

The General Assembly approved legislation in 2017 authorizing the issuance of $6 billion in bonds to pay down the State's unpaid bill backlog.[118] 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, 2020 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. [119]

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

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[114] 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

[115] General Obligation Bond Act, 30 ILCS 330/1.

[116] Illinois FY2022 State Budget, p. 502.

[117] Illinois FY2022 State Budget, p. 504.

[118] 30 ILCS 330/7.6 *General Obligation Bond Act. Income Tax Proceed Bond.*

[119] Illinois FY2022 State Budget, p. 503.

specific State revenues. By far the largest ongoing revenue bond issuances are the Build Illinois Bonds, which began in 1985. Build Illinois Bonds are backed by a pledge of the State's portion of sales tax receipts[120] and by various revenue sources that fund the Capital Projects Fund. In FY2022 there will be $2.1 billion in principal outstanding for Build Illinois Bonds.[121]

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.[122] The FY2022 capital budget proposes appropriations of approximately $45.5 billion; this includes new spending and reappropriation authority.[123] Information about the FY2022 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.[124]

Debt Service

In FY2022 the State of Illinois is scheduled to pay debt service totaling $3.4 billion. The largest portion of the FY2020 debt service payment is due on capital purpose GO bonds totaling nearly $1.7 billion, followed by Pension Obligation bonds at $814.3 million, backlog bonds at $711.5 million, and Build Illinois Revenue Bonds at $262.3 million. Total debt service on existing GO and revenue bonds will be $45.3 billion from FY2021 through FY2046. By December 2023, the State is obligated to retire $2.0 billion in three-year GO short-term notes borrowed from the Municipal Liquidity Facility in December 2020. Of that amount, the $1.2 billion in MLF notes the State borrowed in June 2020 must be paid off by June 2021. As of March 11, 2021, $845.0 million of the June 2020 borrowing remained outstanding.[125]

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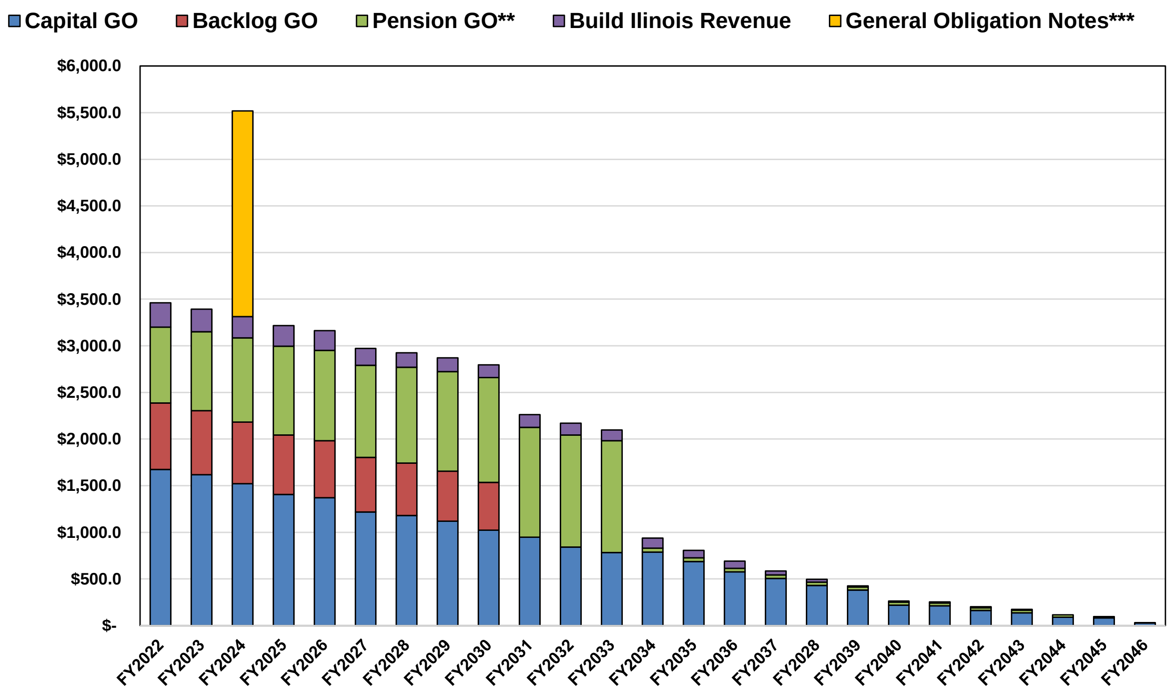
[120] Build Illinois Bond Act, 30 ILCS 425.
[121] Illinois FY2022 State Budget, p. 518.
[122] Public Acts 96-0004, 96-0035, 96-0039, 96-0819.
[123] Illinois FY2022 State Capital Budget, p. 22.
[124] Illinois FY2022 State Budget, pp. 505-506.
[125] Board of Governors of the Federal Reserve System, MLF Transaction-specific Disclosures, March 11, 2021, available at https://www.federalreserve.gov/publications/files/mlf-transaction-specific-disclosures-03-11-21.xlsx.

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

State of Illinois Total Debt Service: Existing GO Capital Bonds, GO Pension Bonds, Build Illinois Bonds and GO Notes FY2021-FY2046 (in $ millions)



** Includes Pension Acceleration and Pension Obligation Bonds
***General Obligations are funds borrowed from the federal Municipal Liquidity Facility.
Source: Illinois FY2022 State Budget, pp. 516-518.

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.[126] Moreover, refunding bonds are generally prohibited from extending the principal maturities of the bonds they refund.[127] 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.

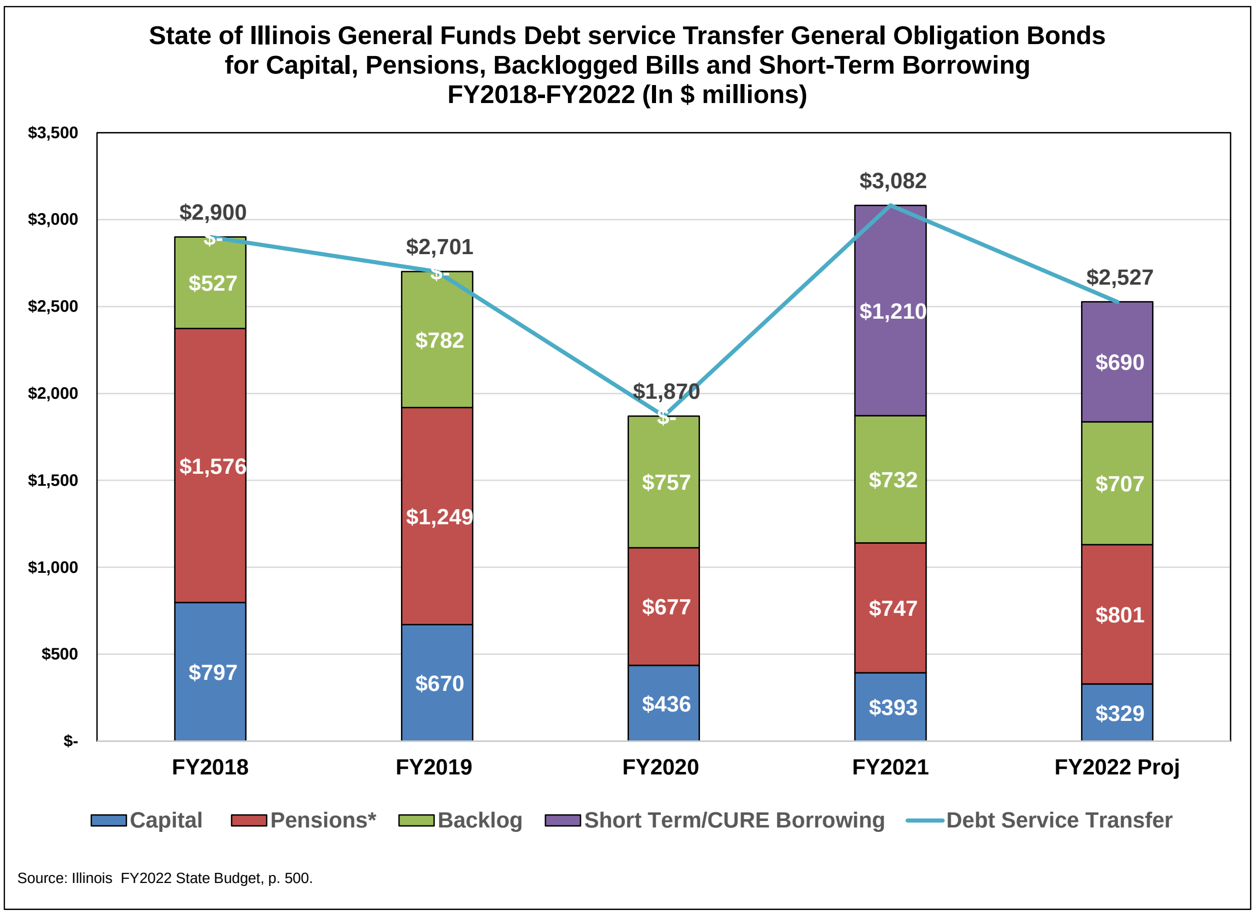
[126] General Obligation Bond Act, 30 ILCS 330/9; Build Illinois Bond Act, 30 ILCS 425/6.
[127] General Obligation Bond Act, 30 ILCS 330/16.

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 FY2022 totals $2.5 billion, or 6.1% of projected state-source General Funds resources of $41.7 billion and a decrease of $555 million from FY2021.[128] In addition to General Funds, GO capital bonds are funded through transfers from the Road, Capital Projects, School Infrastructure and State Construction Fund.[129] Transfers increased from $2.9 billion in FY2018 to nearly $3.1 billion in FY2021, primarily driven by short-term borrowing purposes, before they will fall by 18.0% in FY2022 as short term borrowing is retired.

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 FY2018 through FY2022.



The debt service transfer associated with capital GO bonds in FY2022 decreases by $64 million, totaling $329 million compared to $393 million the previous fiscal year. Over the last five years the General Funds debt service cost for capital bonds has decreased by $468 million from a total of $797 million in FY2018.

[128] Illinois FY2022 State Budget, p. 500.
[129] Illinois FY2022 State Budget, p. 500.

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 FY2022, debt service transfers totaling $801 million will be utilized to pay for these bonds. [130]

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 $707 million in FY2022, down slightly from $732 million in FY2021. Since FY2018 transfers for these bonds have increased from $527 million to $707 million, or by $180 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.[131] 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. In FY2021, $1.2 billion will be transferred into the General Funds to pay debt service costs for that certificate.[132]

In May 2020 the Coronavirus Urgent Remediation Emergency Borrowing (CURE) Act was approved by the General Assembly. It allowed authorized the borrowing of up to $5 billion from the 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. Approximately $690 million must be deposited into the GOBRI to prefund the repayment of these notes in FY2022 (by December 2021). Future payments of $713 million and $736 million must be made in FY2023 and FY2024. [133]

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.[134] 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.

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[130] Illinois FY2022 State Budget, p. 502.

[131] Illinois State Constitution Article IX, Section 9(d) State Debt and Borrowing for Failure of Revenues (also 30 ILCS 340/1.1).

[132] Illinois FY2022 State Budget, p. 505.

[133] Illinois FY2022 State Budget, pp. 505-506.

[134] Illinois FY2022 State Budget, p. 506 and 30 ILCS 425, Sec. 13; 35 ILCS 120, Sec. 3.

Outstanding Debt

The following chart shows the total principal, interest and debt service at the beginning of FY2022 compared to FY2021 for all GO bonds, Build Illinois Bonds, Other Revenue and GO Note bonds currently outstanding.

State of Illinois Total Outstanding Debt Service: General Obligation and Build Illinois				
	FY2021	FY2022	$ Change	% Change
Principal				
GO Capital	$ 14,186.9	$ 13,201.8	$ (985.1)	-6.9%
GO Pension	$ 9,263.0	$ 8,967.0	$ (296.0)	-3.2%
GO Backlog	$ 5,000.0	$ 4,500.0	$ (500.0)	-10.0%
GO Note	$ 2,000.0	$ 2,000.0	$ -	0.0%
Build Illinois	$ 2,108.9	$ 1,941.2	$ (167.7)	-8.0%
Other Revenue	$ 5.4	$ -	$ (5.4)	-100.0%
Total Principal	**$ 32,564.2**	**$ 30,610.0**	**$ (1,954.2)**	**-6.0%**
Interest			$ -	
GO Capital	$ 6,507.2	$ 5,791.0	$ (716.2)	-11.0%
GO Pension	$ 4,155.3	$ 3,698.6	$ (456.7)	-11.0%
GO Backlog	$ 1,243.7	$ 1,007.2	$ (236.5)	-19.0%
GO Note	$ 204.8	$ 204.8	$ -	0.0%
Build Illinois	$ 711.9	$ 621.0	$ (90.9)	-12.8%
Other Revenue	$ 0.20	$ -	$ (0.2)	-100.0%
Total Interest	**$ 12,823.1**	**$ 11,322.6**	$ (1,500.5)	-11.7%
Debt Service				
GO Capital	$ 20,694.1	$ 18,992.8	$ (1,701.3)	-8.2%
GO Pension	$ 13,418.3	$ 12,665.6	$ (752.7)	-5.6%
GO Backlog	$ 6,243.7	$ 5,507.2	$ (736.5)	-11.8%
GO Note	$ 2,204.8	$ 2,204.8	$ -	0.0%
Build Illinois	$ 2,820.8	$ 2,562.2	$ (258.6)	-9.2%
Other Revenue	$ 5.6	$ -	$ (5.6)	-100.0%
Total	**$ 45,387.3**	**$ 41,932.6**	**$ (3,454.7)**	**-7.6%**

Figures from beginning of fiscal year.

Sources: Illinois FY2022 State Budget, pp. 525-527.

Total outstanding principal on capital purpose GO bonds will decrease by $985.1 million from $14.2 billion at the beginning of FY2021 to $13.2 billion at the beginning of FY2022. The combined total debt service owed on all outstanding capital GO bonds totals nearly $19.0 billion at the beginning of FY2022 compared to $20.7 billion in FY2021. The interest owed on these bonds will decrease by $716.2 million to $5.8 billion in FY2022.

The total principal owed on all outstanding pension bonds in FY2022 totals nearly $9.0 billion, a decrease of $296.0 million from the total of $9.3 billion in FY2021. The outstanding interest owed on pension debt will decline by $456.7 million to $3.7 billion during FY2022 from $4.2 billion at the beginning of the previous fiscal year. Total debt service, including both principal and interest, on the State’s pension bonds totals $12.7 billion in FY2022 compared to $13.4 billion in FY2021.

The backlog GO bonds will decline by $500 million in principal and $236.5 million in interest between FY2021 and FY2022.

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.[135]

In FY2020 the outstanding Build Illinois Bonds principal totals $1.9 billion compared to $2.1 billion in FY2021. The interest owed on the loans through FY2046 totals $621 million as of FY2022, which is a decrease of $90.9 million from FY2021. Total outstanding debt service on Build Illinois Bonds decreased by $258.6 million to nearly $2.6 billion.

The next chart 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.

State of Illinois Total Outstanding Debt Service: General Obligation and Build Illinois Bonds Five-Years Comparison FY2018-FY2022 (in $ millions)

	FY2018	FY2019	FY2020	FY2021	FY2022	$ Change	% Change
Principal							
GO Capital	$ 14,460.7	$ 14,050.4	$ 13,825.1	$ 14,186.9	$ 13,201.8	$ (1,258.9)	-8.7%
GO Pension	$ 10,975.0	$ 9,925.0	$ 9,150.0	$ 9,263.0	$ 8,967.0	$ (2,008.0)	-18.3%
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	$ 2,000.0	$ 2,000.0	---
Build Illinois	$ 2,489.1	$ 2,522.1	$ 2,307.5	$ 2,108.9	$ 1,941.2	$ (547.9)	-22.0%
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**	**$ 30,610.0**	$ (3,337.9)	-9.8%
Interest							
GO Capital	$ 7,328.5	$ 6,750.2	$ 6,428.7	$ 6,507.2	$ 5,791.0	$ (1,537.5)	-21.0%
GO Pension	$ 5,261.9	$ 4,693.3	$ 4,406.1	$ 4,155.3	$ 3,698.6	$ (1,563.3)	-29.7%
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	$ 204.8	$ 204.8	---
Build Illinois	$ 878.3	$ 915.5	$ 811.4	$ 711.9	$ 621.0	$ (257.3)	-29.3%
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**	**$ 11,322.6**	$ (4,107.4)	-26.6%
Debt Service							
GO Capital	$ 21,789.20	$ 20,800.60	$ 20,253.80	$ 20,694.10	$ 18,992.80	$ (2,796.4)	-12.8%
GO Pension	$ 16,236.90	$ 14,618.30	$ 13,556.10	$ 13,418.30	$ 12,665.60	$ (3,571.3)	-22.0%
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	$ 2,204.80	$ 2,204.8	---
Build Illinois	$ 3,367.40	$ 3,437.60	$ 3,118.90	$ 2,820.80	$ 2,562.20	$ (805.2)	-23.9%
Other Revenue	$ 48.90	$ 34.50	$ 20.00	$ 5.60	$ -	$ (48.9)	-100.0%
Total	**$ 49,377.9**	**$ 46,682.8**	**$ 43,954.1**	**$ 45,387.3**	**$ 41,932.6**	**$ (7,445.3)**	**-15.1%**

Figures from beginning of fiscal year.

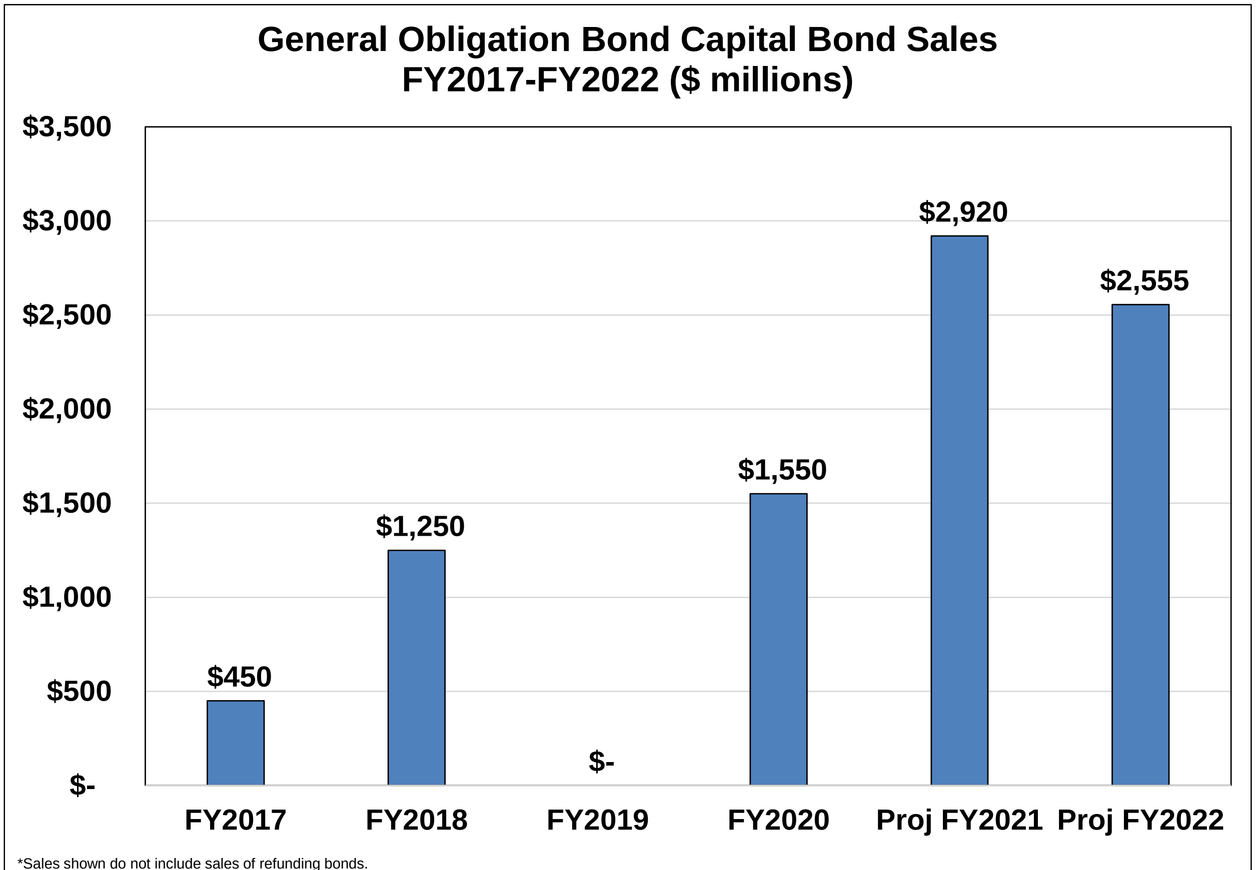
Sources: Illinois FY2019 State Budget, pp. 520-521; Illinois FY2020 State Budget, pp. 506-508; Illinois FY2021 State Budget, pp. 525-527; and Illinois FY2022 State Budget, pp. 525-527.

[135] Illinois FY2022 State Budget, p. 506.

Over the last five fiscal years, the State of Illinois is expected to reduce the principal on outstanding bonds by 9.8% or $3.3 billion. This is a decrease from $33.9 billion to $30.6 billion. Total interest owed on the State's outstanding debt will decline by $4.1 billion over the last five years. Interest owed through FY2046 on pension bonds will be nearly $1.6 billion less in FY2022 than it was in FY2018. Outstanding interest on capital purpose GO bonds will decrease by $1.5 billion over the five-year period; the State owes $5.8 billion in interest on 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 $257.3 million over five years, from $878.3 million in FY2018 to $621.0 million in FY2022. Pension obligation debt service will decline by approximately $$3.6 billion, declining from $16.2 billion to $12.7 billion between FY2018 and FY2022. This includes a drop of $2.0 billion in pension debt principal expenses and $$1.5 billion in pension debt interest expenses.

New General Obligation Debt Issues in FY2021 and FY2022

In FY2022 the State intends to issue approximately $2.6 billion in new GO bonds to fund capital projects. This is a decrease from the $2.9 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 FY2022 State Budget, p. 501.

In March 2021 the State issued a Preliminary Official Statement for the issuance of nearly $1.3 billion in tax exempt GO bonds in three separate series:

- $850 million in Series 2021A bonds to be used to make accelerated pension benefit payments and to finance capital projects;

- $150 million in Series 2021B bonds to be used to finance information technology projects; and
- $260 million in 2021C Refunding bonds to be used to refund all or portions of outstanding GO bonds.[136]

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 State of Illinois' GO ratings have been lowered by all three rating agencies multiple times over the last several years, which has led to an overall increase in debt service costs above better rated governments. Illinois currently has the lowest GO rating of any state by all three ratings agencies.[137]

The following chart shows the current ratings for Illinois' General Obligation Bonds and Build Illinois Bonds.

State of Illinois: Current Ratings as of March 30, 2021				
	GO Bonds		Build Illinois Bonds	
Company	Rating	Outlook	Rating	Outlook
Moody's Investor's Services	Baa3	Negative	Baa3	Stable
S & P Global Ratings	BBB-	Stable	BBB	Stable
Fitch Ratings	BBB-	Negative	BBB+	Negative
Kroll Bond Rating Agency	Not Rated	N/A	AA+	Stable

Sources: Moody's Investors Service. Rating Action: Moody's revised Illinois' Outlook to stable and affirms Baa3 GO rating, Mach 25, 2021; Illinois FY2022 State Budget, p. 512 and S & P Global Ratings. "State of Illinois Debt Rating Outlook Revised to Stable from Negative on Better-Than-Expected Performance," March 9, 2021.

Recent Rating Agency Actions

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 help the State repay its deficit refinancing loans, 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.[138]

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. 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 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

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[136] State of Illinois Preliminary Official Statement, $1,259,910,000 State of Illinois General Obligation Bonds Series of March 2021, March 2021, p. 4.
[137] Brian Chappatta, "A Junk Bond Rating for Illinois is on the Ballot." Bloomberg, October 28, 2020 at https://www.msn.com/en-us/money/markets/a-junk-bond-rating-for-illinois-is-on-the-ballot/ar-BB1atpF7.
[138] Moody's Investors Services, Rating Action: Moody's revises Illinois' outlook to stable and affirms Baa3 GO rating, March 25, 2021.

faces to pay for the mounting pension liabilities and its limited ability to modify the benefits driving those costs. [139]

On March 8, 2021 Moody's assigned a Baa3 rating with a negative outlook to the $1.3 billion forthcoming bond issue. Moody's noted that Illinois still faces the negative economic and fiscal impact of the COVID-19 pandemic. It also expressed concern about the State's use of short-term borrowing to balance its budget, which has increased liabilities and near-term fixed costs. The ratings could be upgraded if the State took actions to implement additional recurring resources, reduce the unfunded liabilities of the retirement systems or lowered the amount of unpaid bills without increasing the State's debt burden or reducing liquidity.[140]

Standard & Poor's revised its outlook on Illinois GO and Build Illinois bonds on March 9, 2021 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.[141]

Fitch Ratings assigned a BBB- rating with a negative outlook for Illinois's forthcoming $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, the rating agency noted that approval of the federal American Rescue Plan (HR 1319, or ARP), with the possibility of approximately $7.5 billion for the State treasury would improve the fiscal situation.[142]

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[139] 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.

[140] Moody's Investors Services, Rating Action: Moody's Assigns Baa3 Rating to State of Illinois' $1.26 Billion GO Bonds, Series of March 2021; outlook negative, March 8, 2021 at https://www.moodys.com/research/Moodys-assigns-Baa3-to-State-of-Illinois-126-billion-GO--PR_906998291.

[141] 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.

[142] 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 FY2022 budget.[143]

P-12 Education[144]
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 Math and Science Academy
University Civil Service System

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

Public Safety
Corrections
Financial and Professional Regulation
Insurance
Military Affairs
State Police
Environmental Protection
Criminal Justice Information Authority

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[143] State of Illinois, Governor's Office of Management and Budget, *Illinois Economic and Fiscal Policy Report*, p. 15, November 13, 2020, https://www2.illinois.gov/sites/budget/Documents/Economic%20and%20Fiscal%20Policy%20Reports/FY%202018/General-Funds-Financial-Walk-FY19.pdf (last accessed on May 9, 2019).
[144] The designation for preschool to secondary education, shown as K-12 in the budget, is changed to P-12 in this report.

Educational Labor Relations Board
Workers' Compensation Commission
Law Enforcement Training Standards Board
Prisoner Review Board
Property Tax Appeal Board
Emergency Management Agency
Labor Relations Board
State Police Merit Board
State Fire Marshal

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

Healthcare
Department of 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
Supreme Court Historic Preservation 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

Lottery
Revenue
Innovation and Technology
Management and Budget
Office of the Executive Inspector General
Executive Ethics Commission
Capital Development Board
Civil Service Commission
Drycleaner Environmental Response Trust Fund Council
Procurement Policy Board
Independent Tax Tribunal
Gaming Board
Liquor Control Commission
Racing Board
Other Retiree Health Insurance Payments
Chicago Teachers' Pension and Retirement System

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