STATE OF ILLINOIS
EXECUTIVE OFFICE OF THE GOVERNOR
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET
SPRINGFIELD 62706

JB PRITZKER
GOVERNOR

ALEXIS STURM
DIRECTOR

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ILLINOIS ECONOMIC AND FISCAL POLICY REPORT

The Governor's Office of Management and Budget (GOMB), pursuant to 20 ILCS 3005/7.3, annually submits an Economic and Fiscal Policy Report to the General Assembly outlining the long-term economic and fiscal policy objectives of the state, along with the economic and fiscal policy intentions for the upcoming fiscal year and for the subsequent four fiscal years. The report also includes a comparison of the current fiscal year's enacted budget with the current outlook for the fiscal year along with fiscal and policy options GOMB recommends for consideration by the General Assembly and the Governor to remedy any budgetary shortfalls in the current year or the five following fiscal years.

ECONOMIC REVIEW

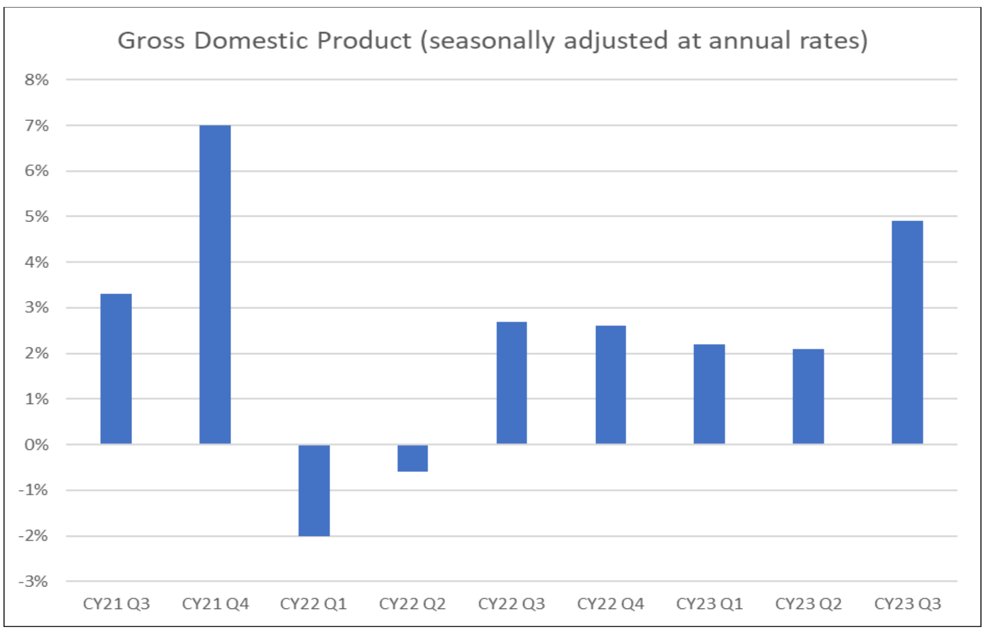
NATIONAL ECONOMIC CONDITIONS

The national economy has remained stronger than most predicted due to a hardy job market and enough moderation in price increases to return some increased spending power back to households. Just this past year, economists had raised the possibility of an impending economic downturn due to prolonged periods of rampant inflation and borrowing costs not seen in 20 years, but a recession has yet to materialize. In its place have been multiple quarters of moderate economic growth.

While an imminent recession is no longer the consensus opinion among economists, several recession related characteristics persist. While consumption is stable, consumers are tapping into personal savings and utilizing credit at increasing rates to maintain spending levels. Those factors, along with the resumption of student loan payments, could result in consumers slowing spending even if the job market remains strong. Government spending, particularly on defense, has helped to fuel growth over the past year, but divisions in Congress make a government shutdown a more likely outcome with an unknown economic impact. Energy and food prices also remain volatile and increased costs for housing and services are not likely to recede even under a lower inflationary environment. In isolation, few of the above factors are potent enough to push the economy into a recession, but when combined, there exists enough uncertainty to continue calls for caution when looking ahead.

Real Gross Domestic Product

The newly released advance third quarter U.S. Real Gross Domestic Product (GDP) data for calendar year 2023 resulted in a higher-than-average annualized rate of 4.9 percent exceeding most expectations.[1] Recent growth is attributed to increases in consumer spending, private inventory investment, exports, state and local government spending, and federal government spending.[2] For context, U.S. GDP regained the 10.1 percent loss experienced in Spring 2020 (peak to trough) in the following year, an incredibly fast rate compared to the six quarters it took to regain the 3.9 percent contraction during the 2008-2009 Great Recession. The economy, as measured by GDP, shrank by 1.6 and 0.6 percent in the first two quarters of 2022, driving a belief among some economists and observers that the nation may already have entered a recession. The National Bureau of Economic Research (NBER) Business Cycle Dating Committee did not identify a recession as taking place during that time, likely due to the contraction not being widespread across the economy. The following four quarters reversed that trend, resulting in an average rate of growth that ranged between 2.1 and 2.7 percent.



Source: U.S. Bureau of Economic Analysis

Labor Market and Income

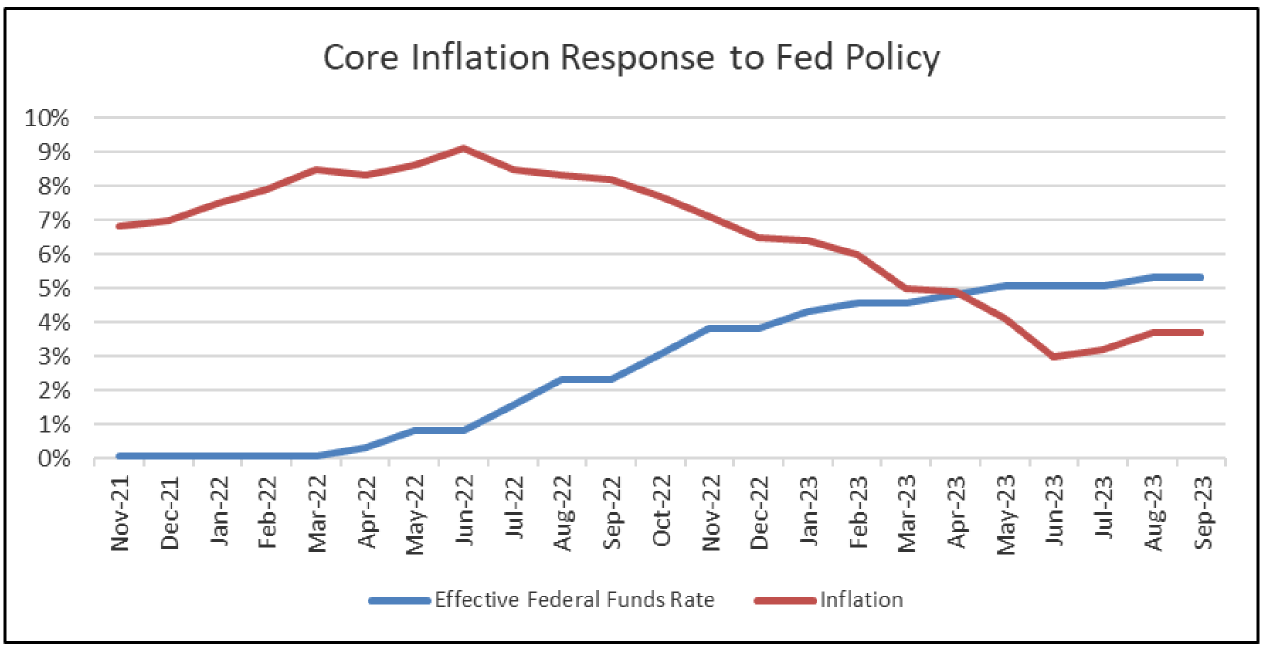
A strong contributing factor for the national economy has been the stalwart labor market and its continued growth amid other complicating economic factors. Recessions are often accompanied by higher rates of unemployment, such as seen in the 2008 Financial Crisis.[3] In this moment, the unemployment rate is still extraordinarily low, national unemployment has not been lower than the April 2023 mark of 3.4 percent since the 1960s and labor force participation continues to increase from its pandemic lows.[4] During the pandemic, the labor force participation rate fell to as low as 60 percent as the number of retirements and discouraged workers increased. A rise in the labor force participation rate likely means that a number of workers have returned to the workforce or new workers have entered it altogether, which helps compensate for the retirement exits.

One explanation for why workers are coming back to the labor force is growth in wages. Between calendar year 2019 and 2022 about two-thirds of private sector payrolls saw an increase in their average weekly wages.[5] Within that period, low-wage workers experienced historically fast real wage growth. According to a report by the Economic Policy Institute, wages for the lowest percentile of hourly wage earners grew by 9 percent during the three-year period. [6]

There are signs that the labor market is on its way to rebalancing. Job gains continue at a positive rate, while the number of job quits continue to decline. New jobless claims indicate that there are very low numbers of job losses.[7] The number of job openings may hint that businesses are hiring fewer people but if the rate of layoffs remains stable, the labor market may achieve a better balance between the supply and demand for worker.

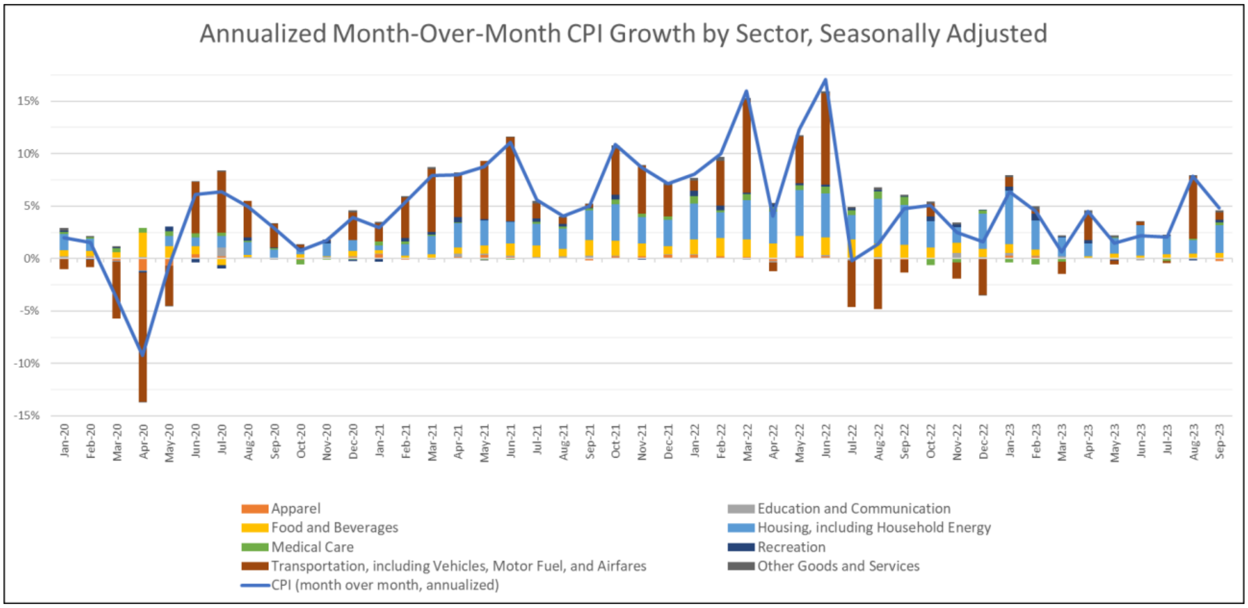
Inflation

As the inflation rate climbed to the highest it has been since the 1980s, the primary policy focus for the Federal Reserve for the U.S. economy the last two years has been bringing the rate back down to its preferred target level of 2 percent. Headline inflation, which started calendar year 2023 at 6 percent, has moved to under 4 percent, as of September 2023.[8] In the most recent update, the Fed paused increases to the benchmark interest rate, keeping its target range at 5.25 to 5.5 percent. The graph below suggests that the Federal Reserve has been able to use the federal funds rate to successfully lower the inflation rate even though it is not quite at its target rate yet.



Source: Trading Economics, NY Fed

The different components of the Consumer Price Index (CPI) have experienced periods of price growth over the last few years, but the current trend is showing signs of cooling inflation. As noted above, CPI increases have moved to under 4 percent as of September 2023.[9] When incorporating inflation into broad sectors, as seen in the figure below, the inflation picture tells a more detailed story.



Source: U.S. Bureau of Labor Statistics

Housing, energy, and services inflation have remained high over multiple quarters and present a risk that overall inflation will remain higher for longer. Housing costs, which account for most household expenses, could be crucial to the overall trajectory of the U.S. economy. If housing costs grow faster than wages, the consumer could be squeezed even tighter.

Personal Consumption and Saving

Since returning to its pre-pandemic level in January 2021, nominal Personal Consumption Expenditures (PCE) on services and goods have accounted for much of the current economic growth. Pandemic-related behavior and federal stimulus caused a shift in spending away from services and towards goods, but the post-pandemic trend has resulted in consumers resuming much of their previous service consumption while maintaining a consumption of goods well above their pre-pandemic trend. This trend, which appears at odds with stagnation in nominal disposable personal income, can be at least partially explained by two factors – savings and credit utilization. During the first two quarters of 2020, household savings nearly tripled from $1.59 trillion annualized in the first quarter to $4.69 trillion in the second quarter due in large part to federal government stimulus checks and other payments.[10] The savings rate increased again following several other large federal stimulus packages. Now, Americans are dipping into their savings to support consumer spending.[11] Another factor which has allowed consumer spending to stay high is usage of consumer loans such as credit cards. Today, the total dollar amount of consumer loans is greater than ever before and since its pandemic-era low, has risen at triple the rate of the pre-2020 trend.[12]

Economic Forecasts

Economic forecasts are evolving regularly. This forecast is presented in the context of an economic outlook that is trending towards lingering positive economic growth with some baseline uncertainty. This report will discuss the 'baseline' economic forecast from September 2023 provided by IHS Markit (IHS), a national economic forecasting firm. IHS Markit gives its September baseline forecast a 55 percent probability and does not include a recession. Instead, the baseline forecast reflects an economy that is showing signs of continued growth. The out-year revenue forecast, which is also built upon the September 2023 baseline outlook, anticipates a slight decline in U.S. GDP growth to 1.5 percent for fiscal year 2024 and 1.3 percent growth in fiscal year 2025. GDP is expected to grow between 1.4 and 1.9 percent in between fiscal years 2026 and 2029.[13]

The projected level of economic activity is attributed to the factors described earlier. While the overall rate of inflation is showing signs of decreasing, core price increases are proving hard to tame. Current levels of consumption are being supported by a convergence of rising wages, greater utilization of savings and higher levels of consumer debt. As wage growth subsides, consumer debt won't be enough to support high levels of consumer activity and economic growth. In the forecast, aggregate demand begins to tail off as consumers begin to adjust spending.

The baseline forecast assumes that increases to the unemployment rate may loosen a tight labor market. The forecast assumes the national unemployment rate will continue at a historical low of 3.7 percent for the remainder of fiscal year 2024 before settling to the full-employment rate of 4.3 percent by the end of fiscal year 2025. The unemployment rate is forecast to reach a peak of 4.7 percent by fiscal year 2026.

Personal consumption expenditures (PCE) on goods and services are expected to remain elevated through the remainder of fiscal year 2024 and into fiscal year 2025 but at diminishing levels. PCE on goods was boosted by fiscal stimulus and by substituting away from services and have remained at those levels even as inflation has eroded purchasing power. PCE on services during the same timeframe have seen a return to pre-pandemic levels. In the forecast, overall PCE growth will be constrained until economic conditions improve.

The IHS forecast has incorporated the impact of the Infrastructure Investment and Jobs Act (IIJA) and the Creating Helpful Incentives to Produce Semiconductors and Science Act (CHIPS). IIJA is expected to increase spending by $300 billion over the next five calendar years, while CHIPS will provide another $280 billion over the same timeframe.

The IHS forecast expects the Federal Reserve to maintain high interest rates until inflation subsides. The median projection of the federal funds rate outlook currently ranges between 5.5 and 5.75 percent and assumes a reversal of policy in late fiscal year 2024 before a slow decline over several years. In most scenarios further rate hikes will be dependent on economic data but the earliest they are expected to revert to 2.5 to 2.75 percent is fiscal year 2026.

Variables	FY24 (b)	FY25 (b)	FY26 (b)	FY27 (b)	FY28 (b)	FY29 (b)
U.S. Real Gross Domestic Product	1.5%	1.3%	1.4%	1.7%	1.7%	1.9%
U.S. Corporate Profits	0.9%	-3.2%	-0.1%	1.4%	1.7%	2.2%
Illinois Unemployment Rate	4.5%	4.2%	4.5%	5.2%	5.4%	5.4%
Illinois Non-Farm Employment	1.37%	-0.28%	-0.81%	-0.46%	-0.13%	-0.04%
Illinois Wage and Salaries	4.24%	4.30%	4.03%	3.84%	3.87%	3.65%
Illinois Personal Income	3.48%	4.47%	4.60%	3.84%	3.59%	3.79%
Illinois Personal Consumption Expenditures	3.50%	3.40%	3.53%	3.81%	3.77%	3.72%

Source: IHS Markit September 2023 Forecast (b/baseline) scenario.

Illinois' Economic Conditions and Forecast

The economic conditions on the state level in Illinois are similar to national conditions. Both economies continue to show strong signs of growth in areas such as employment and consumer spending, although measures like housing starts are down. Illinoisans have not been spared the price increases for essential cost of living items. Prices for rent, energy and food all have increased year-over-year, similar to at the national level. Salaries and average wages have increased, but not kept pace with rising costs.

Real GSP and Productivity

The State's Real Gross State Product (GSP) is up over the last year but is showing signs of slowing. As with the national economy, GSP not adjusted for inflation tells a different story; in nominal terms the state's GSP has increased in every quarter since the beginning of 2021.[14]

Labor market

Illinois' labor market has seen similar trends to the nation; unemployment rose during Spring 2020 and now is very close to full employment. Labor force participation has regained its recessionary losses, and hourly earnings have continued to grow at a steady clip. Job postings on the website Indeed, a measure of total open positions, are up substantially in Illinois and nationally since the beginning of the pandemic. The leisure and hospitality sectors have led much of the recent job growth for the state followed by public and education/healthcare sectors.

Metrics (all seasonally adjusted)	February 2020 (pre-pandemic)	Pandemic-era max/min (mm/yy)	Sep-22	Aug-23	Sep-23
Unemployment Rate, United States	3.5%	14.7% (04/20)	3.5%	3.8%	3.8%
Unemployment Rate, Illinois	3.8%	17.4% (04/20)	5.5%	5.3%	4.9%
Labor Force Participation Rate, United States	63.5%	60.2% (04/20)	61.7%	62.8%	62.8%
Labor Force Participation Rate, Illinois	64.8%	62.3% (01/21)	64.3%	64.9%	64.5%
Average Hourly Earnings, United States	$28.81	$28.81 (02/20)	$32.53	$33.82	$33.90
Average Hourly Earnings, Illinois	$29.75	$29.75 (02/20)	$32.94	$33.35	$33.75
Job Postings on Indeed, United States (2/1/20=100)	98.6	61.0 (05/20)	149.33	127.5	127
Job Postings on Indeed, Illinois (2/1/20=100)	98.6	60.8 (05/20)	139.49	112.84	113.85

Sources: US Bureau of Labor Statistics, Indeed and Federal Reserve Bank of St. Louis.
Note: "Pandemic-era max/min" is meant to represent the month at which the pandemic's effects were most severe and shows the month at which labor force participation, hourly earnings, and job postings were lowest, and at which unemployment was highest. Job postings data is updated daily; the figure used is from the last day of the month except for in the case of the max/min.

Economic Forecasts

State revenue growth has been notably strong for sources tied to economic activity, particularly collections of income taxes, sales taxes and investment income. Growth in income taxes has largely occurred due to wages and salaries that are rising well above historical trends. Conversely, income taxes collected on non-withholding income have dropped due to recent soft patches in the stock market. Corporate profits have been well beyond historical highs, but their outlook remains uncertain. Corporate profits and sales tax activity continue to be bolstered by consumers utilizing savings and credit cards at higher-than-average rates. However, the outlook for state revenues is highly dependent on national trends and would be impacted if a national slump occurs.

The current baseline forecast does not factor in a recession in the short-term. The rate of growth in the real GSP is anticipated to moderate in fiscal year 2025 and remain at that level until conditions for the national economy change. In the September 2023 baseline forecast, the state unemployment rate is expected to average 4.5 percent between fiscal years 2024 and 2026 before increasing to 5.2 percent and above for the out years. Wage and salary growth are forecasted to stabilize as the tight labor market loosens, before declining in the out years. Long-term growth prospects will continue to see jobs added in the professional and business service sector, while receiving some growth in the manufacturing sector.

Illinois is less dependent on generalized manufacturing compared to other regional competitors and is instead focused on specialized industries.

A Review of the Enacted Fiscal Year 2024 Budget

On June 7, 2023, the Governor exercised his authority under Article IV, Section 9 (d) of the Illinois Constitution and reduced several appropriations related to public officer salaries included in the budget passed by the General Assembly, but approved all other appropriation items and budget implementation provisions permitting the State's Fiscal Year 2024 Budget, contained in Public Acts 103-0006 and 103-0008, to become law. Additionally, the Governor signed Public Act 103-0007 which increased the authorization in the General Obligation (GO) Bond Act by $165 million and the authorization in the Build Illinois (BI) Bond Act by $535 million.

The fiscal year 2024 budget plan continues a path of sound investments to help bring about a brighter future for Illinoisans. Budget investments were made to support higher spending for preK-12 and higher education to increase the success of Illinois students and teachers. Further investments in economic development were made to help modernize the state's economy. Increased appropriations in public safety and healthcare were made to better the health outcomes and safety for individuals and communities. The budget also included an additional $600 million to the Illinois State Board of Education, of which $75 million supports an expansion of early childhood education services and $45 million supports a teacher pipeline grant program. The budget increased funding for Monetary Award Program (MAP) need-based assistance and AIM HIGH merit-based higher education scholarships. The fiscal year 2024 budget also added approximately $700 million to address increased costs at the Department of Healthcare and Family Services (HFS) for Medicaid and related program costs as an enhanced federal Medicaid match drops off and to fund half-year rate increases. There were also significant investments in human services agencies.

Updated Fiscal Year 2024 Projections

Following a review of the fiscal year 2024 general funds revenue performance year-to-date, GOMB is revising the budget forecast as outlined in the following table. Through the first four months of fiscal year 2024, corporate income and sales taxes exceeded budget forecasts,[15] reflecting the conservative nature of the initial forecast. As a result, GOMB is reporting a combined $214 million increase in the revenue forecast from those sources. Additionally, a larger than forecasted end of fiscal year 2023 balance in the Income Tax Refund Fund (due to stronger than expected income tax performance <u>last</u> fiscal year) has contributed a one-time bump in the annual transfer from the fund of $255 million above forecast. Transfers in from the Lottery have also been increased by $41 million due to stronger than anticipated play. Additionally, the federal revenue estimate is revised upwards by $405 million due to a one-time retroactive draw for reimbursement on expenditures on certain DHS waiver services[16] over the last two years.

In total, the general funds revenue forecast is revised upward by $1.406 billion, using a review of the performance fiscal year-to-date and the economic projections under the IHS September 2023 baseline forecast for fiscal year 2024. However, GOMB is continuing to monitor these forecasts closely as inflation and national and international factors may impact the economy in uncertain ways. Note that most of this fiscal year 2024 revenue forecast revision is assumed to be one-time in nature.

Under the updated forecast, base revenues and transfers in from other state funds are estimated to total $52.017 billion. The state's three largest revenue sources; individual income tax, corporate income tax and state sales tax, are estimated to total $41.456 billion, an increase of $1,428 million (3.6 percent) from fiscal year 2023. The estimate assumes a $621 million sales tax allocation to the Road Fund and deposits of $2.831 billion into the Local Government Distributive Fund, Downstate Public Transportation Fund and Public Transportation Fund.

Other state source revenues are projected to total $3.727 billion, a $99 million increase from fiscal year 2023 levels. This forecast is revised from the enacted budget due in part to the strength in investment income over the first four months of the year. Transfers into the general funds are projected to total $2.546 billion, a decrease of $702 million (21.6 percent) from fiscal year 2023.

Federal revenues are projected to total $4.288 billion, an increase of $486 million from fiscal year 2023 due to the one-time retroactive draw.

Changes to FY 2024 Projections
($ in Millions)

Revenues		Expenditures	
Income Taxes	$ 54	Proposed Supplemental Appropriations	$ (1,000)
Sales Taxes	161	SERS Continuing Appropriation	(99)
Transfers In	396	Change to Lapsed Appropriation Estimate	130
Federal Sources	405		
All Other Changes	390		
Total Base Revenue Changes	**$ 1,406**	**Total Changes**	**$ (969)**

Revision to Forecast

Surplus from FY24 Enacted	$ 45
Increase to Base Revenue Forecast	1,406
Increase in Projected Expenditures	(969)
Revised Budget Stabilization Fund Set Aside Estimate [1]	(60)
Revised Surplus/(Deficit)	$ 422

[1] *Reflects updated estimate under current law due to increased estimate of fund's investment earnings.*

Note: Totals may not add due to rounding.

The fiscal year 2024 budget's revised estimated base operating expenditures are $48.282 billion. Base statutory transfers out of the general funds are projected to decrease by approximately $853 million to $429 million in fiscal year 2024 from fiscal year 2023 transfers out of $1.282 billion. Debt service for general obligation bonds is projected to total $1.686 billion from the general funds.

GOMB has identified potential supplemental general funds budget pressures for fiscal year 2024 totaling approximately $1 billion that will offset the revenue gains, including increased case load pressures at Department on Aging and DHS, amounts needed to cover delayed FEMA reimbursements to HFS for COVID-related nursing staff support costs for hospitals, outstanding DoIT bills, increased group insurance costs at CMS and potential spending pressures related to asylum seekers at DHS. After accounting for the supplemental budget pressures, the revised fiscal year 2024 surplus is projected to total $422 million.

Five Year Budgetary Forecast

Pursuant to 20 ILCS 3005/7.3, attached to this report is a financial walk down of the budgetary outlook for fiscal year 2025 through fiscal year 2029.

The projections assume growth in revenues under existing law in fiscal year 2025 and the remainder of the forecast period following the September 2023 IHS baseline forecast. Expenditure projections are driven by statutory increases in pension payments based on end of fiscal year 2024 actuarial results, projected debt service amounts, and moderate increases in other spending. Expenditure projections are trend growth numbers that assume no significant reforms or spending controls aside from what is in current statute.

Estimated Resources

GOMB and the Department of Revenue estimate that under current statutes, base general funds revenues for fiscal year 2025 will total $51.537 billion. Revenue estimates going forward are based on projections provided by Department of Revenue economists based on the IHS September baseline forecast.

The diversion rate of 9.15 percent of total individual income tax revenues in fiscal year 2024 to the Income Tax Refund Fund is assumed to continue for the remainder of the forecast. The corporate income tax forecast assumes a refund fund diversion rate of 14 percent in fiscal year 2025 and is maintained over the remainder of the forecast.

Fiscal year 2025 sales tax revenues are estimated to total $10.567 billion. Fiscal year 2025 and future years reflect the continued impact of the gradual shift of state sales tax on motor fuel purchases from the general funds to the Road Fund, with approximately $844 million (4 percent of the total 5 percent state share) estimated to be deposited in fiscal year 2025, the fourth year of the phase-in. The shift is scheduled to reach full implementation in fiscal year 2026, when the entire 5 percent state share of sales tax on motor fuel purchases will be allocated to the Road Fund.

Fiscal year 2025 estimated base general funds receipts from federal sources total $3.944 billion. This estimate is based on appropriations that are expected to generate federal match if payments are released timely. Generally, federal reimbursements for Medicaid spending are returned to the same fund that was used for the original expenditure. It is assumed that HFS will continue to maximize use of general funds for Medicaid spending, which will produce moderate growth over the forecast horizon. However, fiscal year 2025 reimbursements will be lower than fiscal year 2024 estimates with the drop off of a one-time retroactive draw for reimbursement on expenditures on certain DHS waiver services and the continued impact of the drop off in the enhanced Medicaid reimbursement.

Estimated Expenditures

Fiscal year 2024 base general funds spending in the financial walk down is estimated at $50.397 billion. To illustrate potential future-year spending, estimates are based on an assumed increase in evidence-based funding for education by a minimum of $350 million per year, accommodates the annualization of an additional $250 million in state costs for Medicaid enhancements included in the fiscal year 2024 budget, moderate growth rates in the various categories of state spending from fiscal year 2024 appropriations, pension spending consistent with the retirement systems' projections from fiscal year 2023 actuarial reports, and no significant changes to base programs.

Fiscal Year Results

As noted above, GOMB estimates fiscal year 2024 will result in a budget surplus. Based on a trend growth analysis for fiscal year 2025, estimated expenditures (including the set aside in the Budget Stabilization Fund) would exceed revenues by $891 million – which will be addressed in the Governor's Fiscal Year 2025 Introduced Budget. The outlook for next year and future years continues to signal notable progress on state finances from when Governor Pritzker came into office, when the structural deficit was estimated to be approximately $3.2 billion a year[17]. Substantially reducing the structural deficit reflects the commitment of the Governor and the General Assembly to achieving fiscal health for Illinois for the foreseeable future. The Governor remains committed to taking steps to further improve Illinois' fiscal position.

POLICY OBJECTIVES AND INTENTIONS

Governor Pritzker remains committed to maintaining fiscal stability in Illinois' budget and spurring statewide economic growth. A key priority is investing in Illinois' people, educational system, infrastructure, and programs that assist the most vulnerable. These investments will strengthen the economy and ensure that Illinois is a strong competitor in the global marketplace.

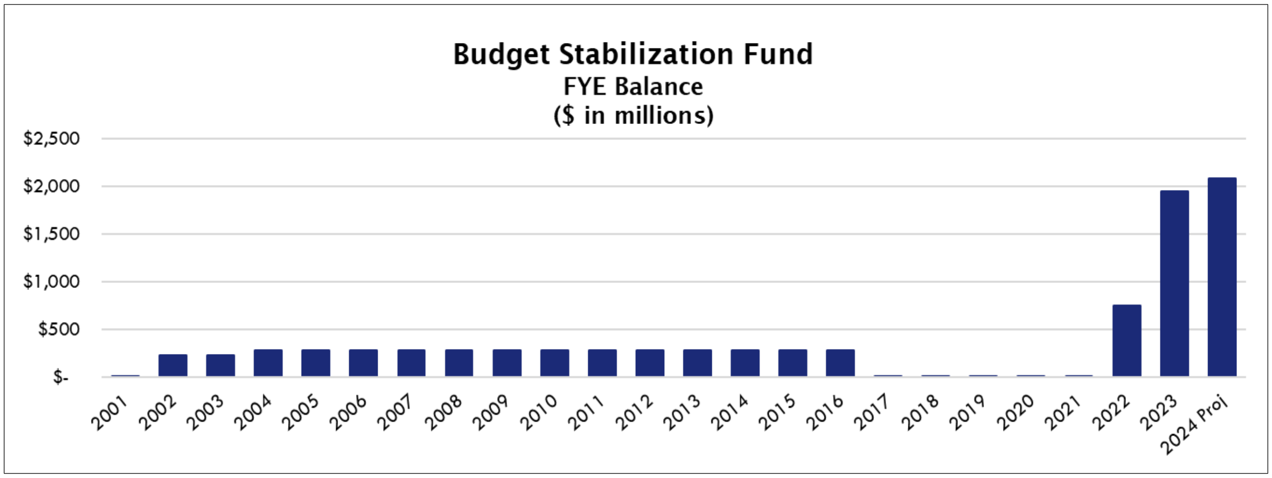
Even with a balanced budget for fiscal year 2024 and an improved financial trajectory, the state must continue to build on the progress made in recent years while carefully preparing to face an uncertain fiscal outlook due to national economic conditions. Illinois is constitutionally required to pass a balanced budget for each fiscal year thus, any challenges must be addressed as they arise.

The fiscal year 2022 and fiscal year 2023 budget allowed for additional steps toward fiscal stability through actions such as early repayment of COVID-19 Pandemic borrowings, directing funds to further pay down the state's existing payables and reserving additional funds for future fiscal emergencies or economic downturns. The fiscal year 2024 budget builds on the progress in the earlier budgets with additional early debt retirement and the use of budgetary surpluses to grow reserves. These actions, along with continued investment in economic development and responsible budget management on the spending side, will improve the budgetary outlook for future years.

Saving for the Future. Illinois created the Budget Stabilization Fund in 2001 with the intent to use it as a rainy-day fund for future fiscal emergencies or economic downturns. After that original funding, very little was contributed to the fund, and it was used as a tool to assist with cash flow until it was nearly drained in fiscal year 2017. During fiscal year 2017, the $275 million Budget Stabilization Fund balance was used to pay bills related to the budget impasse.

The COVID-19 Pandemic demonstrated how important a robust rainy-day fund is to stabilizing state finances. Some states drew on their rainy-day funds in 2020, while Illinois and a few others turned to short-term borrowing for cash flow assistance during the pandemic. However, strong revenue performance nationally in 2021 and 2022 enabled states to replenish and even increase their rainy-day funds from fiscal year 2020 levels. The 50-state total of rainy-day fund balances increased to a record level of $134.5 billion at the start of fiscal year 2023. However, Illinois' fund at that point was estimated to only cover 6 days of operations, lower than the national median of 42.3 days.[18] While Illinois has since moved its balance higher and is at a record of $1.9 billion, Illinois is still among the smallest state rainy-day funds on a relative basis. Statutory provisions have been added in recent years ensuring continued contributions to the Budget Stabilization Fund:

- 10 percent of cannabis tax revenues (estimated $25 million for fiscal year 2024)
- Monthly transfers of $3.75 million from the General Revenue Fund beginning July 1, 2023 ($45 million/year)
- Repayment over 10 years from state's $450 million loan to UI Trust Fund (estimated $45 million/year)
- Interest earnings on fund's balance (estimated $83 million for fiscal year 2024)



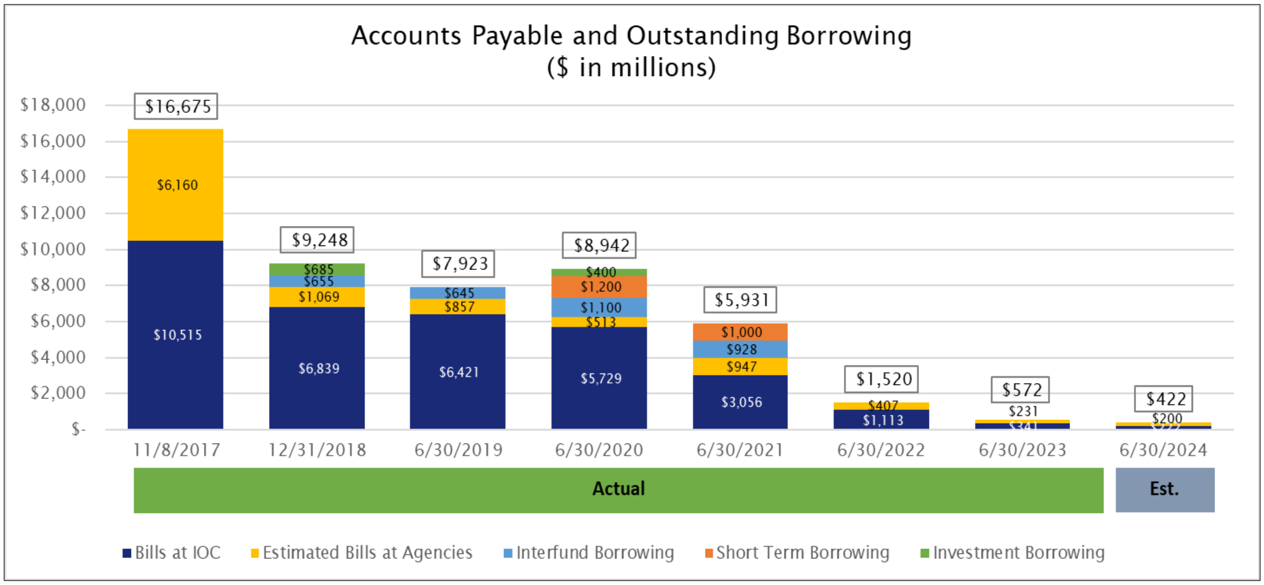
Reducing Debt Obligations and Saving on Interest Costs. Across 2022, 2023, and projected for fiscal year 2024, Illinois has paid **approximately $11 billion** towards outstanding debts and liabilities – reducing the interest burden for the state's taxpayers as efficiently as possible as Illinois emerged from the COVID-19 Pandemic. In 2020, the state undertook several borrowings to address the revenue shortfalls brought on by the COVID-19 Pandemic, including $3.2 billion in borrowing from the Federal Reserve Municipal Liquidity Facility (MLF), millions in interfund borrowing, and $400 million under the State Treasurer's investment borrowing powers. As of the end of fiscal year 2022, the state had paid back these borrowings in their entirety – reducing interest costs and removing the burden of repayment from out years.

For fiscal year 2024, Illinois directed funds towards the remaining Railsplitter Tobacco Settlement Authority bonds. In December 2010, the Railsplitter Tobacco Settlement Authority issued revenue bonds in the amount of $1.5 billion to address a portion of the state's unpaid bill backlog resulting from the Great Recession. The repayment stream is the state's tobacco settlement payments under the Master Settlement Agreement between various states and various cigarette manufacturers. Of the original $1.5 billion issued in 2010 and refinanced in 2017, approximately $450 million, or nearly one third of the original issue, remained outstanding. The Railsplitter Tobacco Settlement Authority undertook in September 2023 a cash defeasance of a portion of the remaining outstanding bonds with proceeds from a recent Attorney General settlement resolving claims regarding certain payments from tobacco companies.[19] The tobacco payment stream is now freed up to be used as ongoing annual state revenues to support the state's Medicaid program.

Like many states, Illinois had a healthy balance of $1.85 billion in its Unemployment Insurance Trust Fund before the pandemic. To keep unemployment benefits flowing to jobless workers once the pandemic hit, the fund was drained, and the trust fund was forced to borrow money from the U.S. Department of Labor which needed to be repaid. After several steps taken by the Governor and the General Assembly to reduce the amounts owed from advances of $4.5 billion, Illinois' Trust Fund was fully repaid in January 2023.

Restoring Illinois' Fiscal House Debt Paydown ($ in millions)	
FY22:	
Early COVID borrowing repayment	$1,985
Unfunded College Illinois! liabilities	$250
Additional Pension Contribution	$300
Debt Transparency Act Accounts Payable Reduction	$2,483
FY23:	
Additional Pension Contribution	$400
Debt Transparency Act Accounts Payable Reduction	$949
FY24:	
Railsplitter bonds defeasance	$449
Estimated Accounts Payable Reduction	$150
FY22/FY23: UI Trust Fund	$4,063
Total Debt Paydown	**$11,029**

Continued Reduction in Unpaid Bills. At the end of fiscal year 2023, the Illinois Office of the Comptroller's estimate for the general funds and Health Insurance Reserve Fund bill payables totaled $571 million.[20] This reflects a reduction of $8.7 billion in liabilities since December 2018. In future budget years, maintaining this lower level by enacting balanced budgets will save Illinois taxpayers millions in interest costs and keep Illinois at a customary accounts payable cycle. Additionally, proposed supplemental appropriations to support the costs of the Technology Management Revolving Fund will further reduce the state's limited remaining interest costs.



Source: IOC Debt Transparency Reports and GOMB estimates

Economic Development Investments. The state's fiscal position is dependent on the strength of the businesses that underpin Illinois' economy – providing jobs and investment throughout the state. With that in mind, the Governor is deploying the state's new Invest in Illinois Fund (its 'closing fund') and other economic development tools to help the Department of Commerce and Economic Opportunity with business development and to provide the state the flexibility to tailor development packages to each unique situation.

Spending Controls. To manage future year budget constraints, the Governor continues to instruct agency directors to prudently manage operations with the limited available resources of state government. During this administration, the Governor has implemented spending controls in a number of areas with new efficiencies. He believes the people of Illinois expect high quality programs and services, as well as the most efficient and effective use of their tax dollars. The Governor believes that support for quality education, access to health care, and sufficient social services are all part of the essential functions of state government. Optimizing operations while identifying all possible efficiencies will help the state achieve balanced budgets in future years.

Estimated Interest Expenses

The State Prompt Payment Act (30 ILCS 540/3-2) specifies the timeframe in which bills for goods and services shall be paid. If the bills are not paid within the specified time frame, an interest penalty is applied for each month, or portion thereof, until final payment is made. Similarly, the Illinois Insurance Code (215 ILCS 5/368a and 5/370a) establishes timely pay for healthcare services under the State Employees Group Health Insurance Program. If healthcare services bills are not paid within the specified time frame, the healthcare service provider is entitled to interest for each month, or a portion thereof, until final payment is made.

In order to calculate the interest due to an eligible vendor or provider, an agency must know two critical dates: the date the proper bill or invoice was received by the agency and the date the payment to the eligible vendor or provider was issued by the Illinois Office of the Comptroller (the Comptroller). Agencies use the dates to calculate the number of days that passed beyond the established payment timeframes and the appropriate interest due to the vendor or provider. Until such time as a bill is paid, the agencies are not able to calculate interest. The Comptroller determines which bills get paid and when, making it difficult for agencies to project an interest amount.

With respect to the State Employees Group Health Insurance Program, the Department of Central Management Services (CMS) estimates the program incurred approximately $319 thousand in interest expenses in fiscal year 2023. Additional resources were provided to CMS in Spring 2022 and as a result, interest expenses in the group insurance program have fallen to much lower levels and should carry very little interest if the supplemental appropriation indicated above is enacted. With respect to the Technology Management Revolving Fund, the Department of Innovation and Technology expects to incur an additional $10 to $15 million in interest costs during fiscal year 2024, creating an end-of-year aggregated amount of outstanding accrued and pending late payment interest totaling $77 million which could be reduced by enacting the supplemental appropriation referenced earlier.

Due to fluctuations in the receipt of invoices and the timing of the Comptroller’s payment decisions, future interest expense estimates cannot be made. Illinois has seen a significant improvement from recent years when agencies submitted to the Comptroller prompt payment interest vouchers and other CMS state employee health insurance interest payments at much higher levels – in fiscal year 2018, vouchers totaled $980 million, fiscal year 2019 - $160 million, fiscal year 2020 - $137 million, fiscal year 2021 - $112 million, fiscal year 2022 - $35 million, and fiscal year 2023 - $23 million.

STATE OF ILLINOIS
GENERAL FUNDS FINANCIAL WALK DOWN

Governor's Office of Management and Budget

($ in millions)	FY 2024 Estimated	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected
RESOURCES						
State Sources: Revenues						
Net Individual Income Taxes	25,711	26,731	27,235	27,758	28,838	29,936
Net Corporate Income Taxes	5,169	4,997	5,346	5,646	5,843	6,055
Net Sales Taxes	10,576	10,567	10,632	10,860	11,090	11,342
Public Utility Taxes	710	711	713	715	716	718
All Other Sources	3,017	2,717	2,544	2,534	2,540	2,540
Total State Sources: Revenues	**45,183**	**45,724**	**46,471**	**47,513**	**49,027**	**50,591**
State Sources: Transfers In						
Lottery	800	816	832	849	866	883
Gaming	175	230	270	270	270	270
Adult-Use Cannabis	116	123	130	137	145	154
Other Transfers	1,455	700	735	772	810	851
Total State Sources	**47,729**	**47,593**	**48,438**	**49,541**	**51,118**	**52,748**
Federal Sources	4,288	3,944	4,023	4,103	4,185	4,269
TOTAL RESOURCES	**52,017**	**51,537**	**52,461**	**53,644**	**55,304**	**57,017**
EXPENDITURES						
1. Education	**12,905**	**13,380**	**13,857**	**14,335**	**14,814**	**15,219**
PreK-12 Education	10,365	10,790	11,215	11,640	12,065	12,415
Higher Education	2,539	2,590	2,642	2,695	2,749	2,804
2. Economic Development	**432**	**440**	**449**	**458**	**467**	**477**
3. Public Safety	**2,515**	**2,580**	**2,665**	**2,752**	**2,842**	**2,936**
4. Human Services	**10,295**	**10,663**	**10,947**	**11,252**	**11,566**	**11,888**
5. Healthcare	**9,292**	**9,664**	**9,906**	**10,153**	**10,407**	**10,667**
6. Environment and Culture	**102**	**105**	**107**	**109**	**111**	**113**
7. Government Services	**3,878**	**4,038**	**4,126**	**4,213**	**4,301**	**4,390**
Group Health Insurance	1,837	1,984	2,033	2,084	2,136	2,190
Chicago Teachers' Pension System	323	354	358	361	363	364
Government Services	1,718	1,701	1,735	1,768	1,802	1,837
8. Unspent Appropriations	**(950)**	**(998)**	**(1,047)**	**(1,100)**	**(1,155)**	**(1,212)**
Total Operating Budget	**38,469**	**39,873**	**41,009**	**42,172**	**43,354**	**44,478**
EXPENDITURES: PENSIONS						
K-12 Education Pensions	6,043	6,204	6,420	6,579	6,815	6,967
State Universities' Pensions	1,918	1,999	2,053	2,099	2,202	2,271
State Employees' Pensions	1,851	1,933	1,953	1,969	2,025	2,057
Total Pension Costs	**9,813**	**10,136**	**10,426**	**10,647**	**11,042**	**11,294**
EXPENDITURES: TRANSFERS OUT OF GENERAL FUNDS						
Statutory Transfers Out	429	432	440	447	454	459
Debt Service	1,686	1,816	1,902	1,917	1,842	1,662
Total Transfers Out	**2,115**	**2,248**	**2,342**	**2,364**	**2,296**	**2,121**
TOTAL EXPENDITURES	**50,397**	**52,258**	**53,777**	**55,184**	**56,692**	**57,893**
General Funds Surplus/(Deficit)	1,620	(721)	(1,317)	(1,540)	(1,389)	(876)
Budget Stabilization Fund Contribution	**(198)**	**(170)**	**(121)**	**(121)**	**(123)**	**(125)**
Supplemental Appropriations Needed[1]	**(1,000)**					
Base General Funds Surplus/(Deficit)	**422**	**(891)**	**(1,438)**	**(1,661)**	**(1,512)**	**(1,001)**

[1] *Recommended supplemental appropriations to address appropriation needs in FY24*

Key to Agencies by Outcome

1. Education

PreK-12 Education

Illinois State Board of Education

Higher Education

Illinois Board of Higher Education

Chicago State University

Eastern Illinois University

Governors State University

Northeastern Illinois University

Western Illinois University

Illinois State University

Northern Illinois University

Southern Illinois University

University of Illinois

Illinois Community College Board

Illinois Student Assistance Commission

Illinois Mathematics and Science Academy

State Universities Civil Service System

2. Economic Development

Department of Agriculture

Department of Commerce and Economic Opportunity

Department of Labor

Department of Transportation

Illinois Commerce Commission

Human Rights Commission

Southwestern Illinois Development Authority

3. Public Safety

Department of Corrections

Department of Financial and Professional Regulation

Department of Insurance

Department of Military Affairs

Department of State Police

Environmental Protection Agency

Illinois Criminal Justice Information Authority

Illinois Workers' Compensation Commission

Law Enforcement Training and Standards Board

Prisoner Review Board

Property Tax Appeal Board

Illinois Emergency Management Agency

Illinois Labor Relations Board

Office of the State Fire Marshal

4. Human Services

Department on Aging

Department of Children and Family Services

Department of Juvenile Justice

Department of Employment Security

Department of Human Rights

Department of Human Services

Department of Public Health

Department of Veterans' Affairs

Illinois Deaf and Hard of Hearing Commission

Illinois Guardianship and Advocacy Commission

Illinois Council on Developmental Disabilities

5. Healthcare

Department of Healthcare and Family Services

6. Environment and Culture

Department of Natural Resources

Illinois Arts Council

Abraham Lincoln Presidential Library and Museum

7. Government Services (including employees health insurance)

General Assembly and Legislative Agencies

Office of the Auditor General

Supreme Court and Illinois Court System

Supreme Court Historic Preservation Commission

Courts Commission

Judicial Inquiry Board

Office of the State Appellate Defender

Office of the State's Attorneys Appellate Prosecutor

Court of Claims

Office of the Governor

Office of the Lieutenant Governor

Office of the Attorney General

Office of the Secretary of State

Office of the State Comptroller

Office of the State Treasurer

State Board of Elections

Department of Central Management Services

Department of Innovation and Technology

Department of Lottery

Department of Revenue

Governor's Office of Management and Budget

Office of Executive Inspector General

Executive Ethics Commission

Capital Development Board

Civil Service Commission

Commission on Equity and Inclusion

Procurement Policy Board

Illinois Independent Tax Tribunal

Illinois Gaming Board

Illinois Racing Board

Other Government Services*

Chicago Teachers' Pension and Retirement System

8. Pensions

Teachers' Retirement System

State Universities' Retirement System

General Assembly Retirement System

Judges' Retirement System

State Employees' Retirement System

* Includes contributions to the Teachers' Retirement Insurance Program, College Insurance Program, operational expenses of the State Employees' Retirement System, and any additional appropriation authority needed to address the shortfall in contributions to the system in prior years (approximately $99 million in fiscal year 2024).

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