STATE OF ILLINOIS
EXECUTIVE OFFICE OF THE GOVERNOR

GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET

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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 appears to be settling into a "Goldilocks and the Three Bears economy," in which inflation remains a little too hot, the stock market is still a little too cold, and the job market remains statistically about right. After several years of the Federal Reserve raising interest rates, its lever to try to control inflation in the national economy, calendar year 2024 was expected to be when the Federal Funds rate could begin to be lowered. Persistently increasing housing prices and a strong job market pushed out the first rate cut to the fall – during the Fed's September meeting.[1] According to minutes from that meeting, "a substantial majority" of central bankers backed the half point rate cut. The short-term outcome of the move has been positive for the economy, including a September jobs report that beat economists' predictions.[2]

Whether these signs will finally allay fears of a recession and provide comfort that the Federal Reserve hit a 'soft landing' (a slowdown in economic growth that avoids a recession) is unknown. While the economy has continued to add jobs throughout 2024, consumers' views on the economy have stumbled, falling significantly in September from summer levels.[3] The disconnect between consumer confidence about the current and future conditions of the economy and what the data suggests is happening can be explained by worries about jobs and lingering frustrations over past price increases.

Economic uncertainty is not surprising, and mixed signals are not helping. The rate of job openings, absent the September rebound, has declined to pre-pandemic levels, wage growth has slowed, and there has been a slight upward trend in the unemployment rate, all of which would normally suggest rougher economic times ahead. That said, the Dow Jones Industrial Average is up nearly 30 percent year-over-year and continues to reach record highs.

The difference between normal economic conditions signaling recession and today's conditions is that negative labor market trends and tight financial conditions were necessary to bring inflation down to a reasonable level. However, prices that rose over the past two calendar years are also unlikely to revert to lower levels. While consumers may eventually adjust to these new price norms, they are not yet far enough removed from a long period of lower prices to mollify consumer anxiety.

The future is always over the horizon and tomorrow's economy may be ready for a new chapter. There are currently no weak links in the national income formula, but there is still a measure of uncertainty. Consumption, investment, government spending, and net exports are trending towards strength, and with loosening monetary policy controls it stands to reason these economic conditions could improve over time. However, large shifts in monetary and fiscal policy over the next twelve months could push the economy towards a different trajectory, as could the uncertainty around wars being fought around the world, such as in Ukraine and the Middle East. Escalations in these conflicts could lead to significant downward pressure for the national and global economy. Sectors like energy are already stressed, and one significant disruption in supply could mean a return of inflation, as could the implementation of steeper and broader tariffs. Only time will tell how the national economy will respond to these potential external events, and forecasters are cautious about the future.

Real Gross Domestic Product

Second quarter U.S. Real Gross Domestic Product (GDP) for calendar year 2024 increased at a higher-than-forecast annualized rate of 3.0 percent.[4] Recent growth is attributable to strong consumer spending, private inventory investment, and government spending and comes on the back of a revised quarter one estimate of 1.6 percent (an upward revision of 0.2 percentage points from previously published estimates).[5] The components of GDP growth during these periods indicate a strong base for the country's economy, supporting the idea that economic standards like inflation, employment, and real wages may improve. Baseline estimates for quarter three GDP prepared by Deloitte remain relatively positive.[6] Their forecasts noted that continued manufacturing investment and consumer spending should support continued GDP growth.

Labor Market and Income

By most measures, the U.S. labor market is entering a period of stable growth after several periods of what economists believed was very strong, but unsustainable growth. Monthly job growth averaged 225,000 in calendar year 2023, far below the 399,000 new jobs per month averaged in 2022.[7] Over the same time, the unemployment rate remained at an all-time low and layoffs were limited. While periods of wage growth are good for workers and the overall economy, several periods of abnormally high wage growth may result in too much strain on the economy if firms were to suddenly pass along those high prices to consumers. While wage inflation was the story in calendar year 2023, the growth in wages could be the reason why the economy may avoid a recession. The most recent report from the Congressional Budget Office (CBO) anticipates a slight increase in the unemployment rate and layoffs in calendar year

2024.[8] The outcome of these changes may weigh on the economy but is not expected to have a significant impact on growth.

Inflation

Higher prices have very real negative impacts on consumers and can distort public policy decision making. Therefore, the main post-pandemic economic story has been the Federal Reserve's efforts to bring inflation back down to its preferred 2 percent target. While inflation seems to have subsided towards more manageable levels, prices that have risen over the last few years are not expected to decline. Because inflationary growth in prices has declined significantly closer to its target, at its most recent meeting the Fed lowered the benchmark policy rate to a range of 4.75 to 5.0 percent, down from the 5.25 to 5.5 percent range it had maintained since July of calendar year 2023. The overall growth of prices is expected to slow slightly in calendar year 2024 before reaching and stabilizing at the preferred rate of 2 percent by calendar 2026.

Personal Consumption, Wages, and Credit

The underpinnings of a stable labor market and moderating inflation mean that consumer spending can continue to be the backbone of the U.S. economy, both in terms of real spending and future optimism. Since January 2021, nominal Personal Consumption Expenditures (PCE) on services and goods have accounted for much of the current economic growth. While this trend was initially supported by federal fiscal stimulus, personal savings, higher wages, and household debt have adjusted to support these increased consumption patterns. Household nominal disposable incomes increased in calendar year 2023 at an annualized rate of 6.9 percent.[9] Over the same period, household debt (mortgage debt and credit card borrowing) increased substantially. According to the Federal Reserve Bank of New York, calendar year 2024 started with U.S. household debt reaching a record high of $17.3 trillion.[10] While high amounts of debt are not ideal, they do highly correlate to high levels of consumption and optimism about future job prospects and wages.

Economic Forecasts

Economic forecasts evolve regularly. This forecast is presented in the context of an economic outlook that is moving away from above-trend growth towards below-trend growth with some baseline uncertainty due to national politics, international geopolitical tensions, and lingering energy and housing inflation. This report will discuss the 'baseline' economic forecast from September 2024 provided by S&P Global, a national economic forecasting firm. S&P Global gives its September baseline forecast a 55 percent probability and includes an assumed slowdown in labor market growth and GDP growth but does not project a recession in the short-term. Typically, an economic forecast that assumes a slow-down in GDP growth and a softening of labor market conditions (increased unemployment rates and declining job openings) would lead to more recessionary signals, but this forecast expects this period to be a means of moderating wage and price inflation. S&P estimates that U.S. GDP growth will average 2.6 percent for calendar year 2024 and 1.8 percent for calendar year 2025. The out-year revenue forecast, which is also built upon the September 2024 baseline outlook, anticipates national GDP growth within a range of 1.6 to 1.8 percent on average throughout the forecast period.[11]

The projected level of economic activity is attributable to the factors described earlier. While the overall rate of inflation is showing signs of decreasing, core price increases are still slightly above the Fed's preferred target of 2 percent. Current levels of consumption are supported by rising real disposable income and higher levels of consumer debt. If wage growth subsides too much and consumer debt becomes unmanageable, aggregate demand may tail off.

The baseline forecast assumes that modest increases to the unemployment rate may continue as the labor market loosens. The forecast assumes the national unemployment rate will hover around the full-employment rate of 4.3 percent for the remainder of fiscal year 2025 and into the out-years.

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

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

S&P expects the Federal Reserve to continue reducing the Federal Funds rate over time. The median projection of the Federal Funds rate, which currently ranges between 4.75 percent and 5.0 percent, is expected to decline by two 0.25-point cuts before the end of calendar year 2024. Additional rate cuts of varying sizes will likely take place over the remainder of fiscal year 2025. In most scenarios, further rate declines will be dependent on economic data, but the earliest the Federal Funds rate is expected to revert to the 2.5 - 2.75 percent range is fiscal year 2026.

Variables	FY25 (b)	FY26 (b)	FY27 (b)	FY28 (b)	FY29 (b)	FY30 (b)
U.S. Real Gross Domestic Product	1.8%	1.8%	1.6%	1.7%	1.8%	1.7%
U.S. Corporate Profits	4.4%	1.6%	1.5%	2.2%	2.9%	3.0%
Illinois Unemployment Rate	5.30%	5.46%	5.53%	5.43%	5.22%	5.02%
Illinois Non-Farm Employment	0.6%	-0.1%	-0.3%	-0.3%	-0.2%	-0.1%
Illinois Wage and Salaries	4.2%	4.2%	3.6%	3.5%	3.5%	3.4%
Illinois Personal Income	3.9%	5.1%	4.6%	4.0%	3.9%	3.7%
Illinois Personal Consumption Expenditures	1.6%	2.0%	2.4%	2.4%	2.6%	2.7%

Source: S&P Global September 2024 Forecast (b/baseline) scenario.

Illinois' Economic Conditions and Forecast

The economic conditions in Illinois are similar to national conditions. Both economies continue to show signs of resilience, but the state economy is showing signs of slowing in areas such as employment and consumer spending. Prices for rent, energy, and food all have increased year-over-year, at both the state and 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 year-over-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.[12]

Labor market

Illinois' labor market lags slightly behind the national average. Unemployment, which hovered around the full employment level of 4.3 percent in June of calendar year 2023, has now increased to 5.3 percent 15 months later.[13] This level is 1.2 percentage points higher than the national unemployment rate for the same month (September).[14] The Illinois labor force participation (LFP) rate has made up for its recessionary losses and is currently higher than the national average. This equates to overall positive signs for the State's economy, as it seems more working age adults are choosing to work outside the home instead of not working. Hourly earnings have continued at a steady clip, while wages and salaries have slowed like the nation but remain higher than most regional peer states. Job postings on the website Indeed, a measure of total open positions, are down substantially both in Illinois and nationally since last fiscal year. Payroll jobs have had steady growth with September 2024 jobs up 35,400 or 0.6 percent over the prior year. The government sector has led much of the recent job growth for the State, followed by the private education and healthcare sector. Professional and business services, along with financial activities and information, have all experienced decreases over the same period.[15] According to a report filed by the U.S. Chamber of Commerce on national job shortage trends, decreases in positions within the professional and business services sector are broad-based and may be linked to labor shortages,[16] while job openings in the financial sector may be paused until financial conditions improve.

Metrics (all seasonally adjusted)	February 2020 (pre-pandemic)	Pandemic-era max/min (mm/yy)	Sep-23	Aug-24	Sep-24
Unemployment Rate, United States	3.5%	14.7% (04/20)	3.8%	4.2%	4.1%
Unemployment Rate, Illinois	3.8%	17.4% (04/20)	4.7%	5.3%	5.3%
Labor Force Participation Rate, United States	63.5%	60.2% (04/20)	62.8%	62.7%	62.7%
Labor Force Participation Rate, Illinois	64.8%	62.3% (01/21)	64.5%	65.0%	65.0%
Average Hourly Earnings, United States	$28.81	$28.81 (02/20)	$34.01	$35.23	$35.36
Average Hourly Earnings, Illinois	$29.75	$29.75 (02/20)	$33.57	$33.82	$34.22
Job Postings on Indeed, United States (2/1/20=100)	98.6	61.0 (05/20)	127.33	112.17	112.03
Job Postings on Indeed, Illinois (2/1/20=100)	98.6	60.8 (05/20)	114.57	102.85	102.93

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.

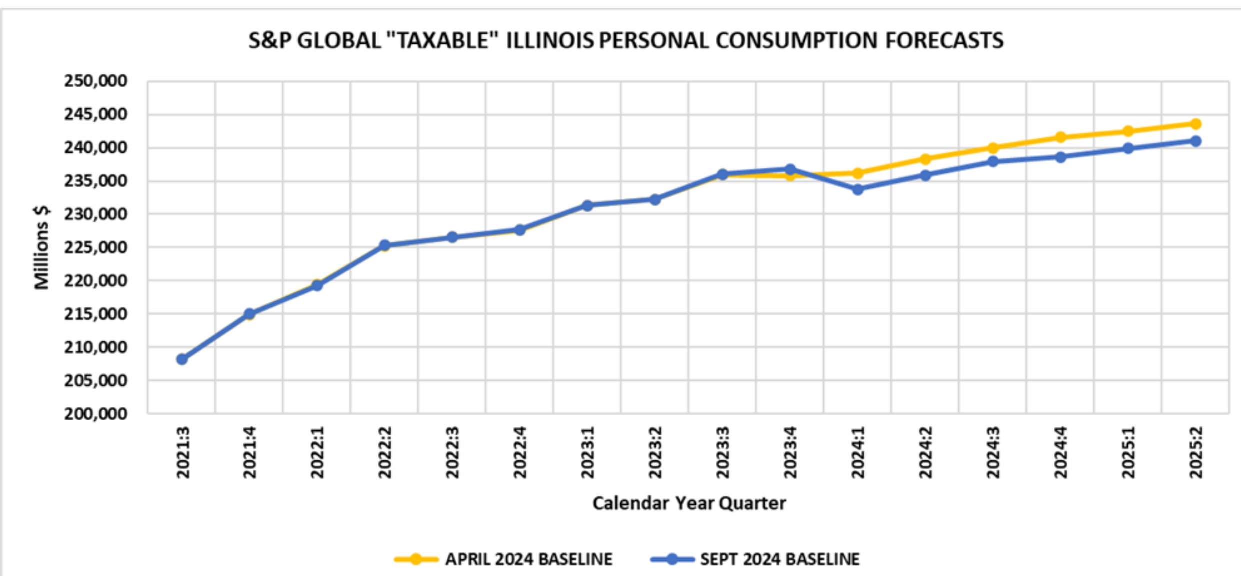
Economic Forecasts

State revenue growth has been slowing down for sources tied to consumer activity, particularly collections of corporate income and sales taxes. Conversely, individual income tax collections have been relatively strong due to wage and salary stability, increased working hours, and low amounts of layoffs. From that source, collections from withholding income have been improving year-over-year, while collections from non-withholding income have begun to rebound after a few years' worth of declines. Nationally, declines in non-withholding income have largely been linked to soft patches in the stock market.

Corporate profits, the basis of corporate income tax collections, are largely tied to consumer spending and prices. During periods of high prices and high consumer spending, which have taken place over the previous few fiscal years, corporate profits grew beyond historic highs. As profit levels have moderated, so too have corporate income tax collections. As indicated in the table above, corporate profits are declining nationwide.

There are also signs that consumer spending on durable goods, the basis of Illinois' sales tax collections, has slowed during fiscal year 2025. At the national level, retail sales have continued to grow at roughly 2 percent above prior year numbers, slower than in previous years, but still reflecting growth, while Illinois gross sales tax collections have recently declined a bit year-over-year. There could be many reasons for this, including state law changes regarding taxation of lease streams and potential shifts between purchases of goods and services within Illinois. The consumer spending rate on both goods and non-taxed service consumption has been at historic highs for the last several fiscal years and may be reverting to historical levels. There is also the real chance that households, facing higher cost of living and relatively high household debt levels, have decided to scale back unsustainable spending patterns that emerged over the last few years. Additionally, the strength of the housing market can impact household spending on durable goods.

The below graph illustrates how the S&P estimate for Illinois taxable expenditures differs from the data used in April.



As mentioned above, household debt, particularly credit card debt, has risen to historic highs. If consumer debt is maximized, consumers may be adjusting spending on non-essential items as a means of reducing debt or to replenish lost savings. Since sales tax activity over previous fiscal years was mostly bolstered by consumers utilizing savings and credit cards at higher-than-average rates, a reversal in that trend was always likely, as that type of financing is not sustainable over long periods of time.

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 2024 baseline forecast, the state unemployment rate is expected to average 5.0 to 5.5 percent during fiscal years 2025 and 2026 before settling around 5.6

percent for the out years. Wages and salaries growth are forecasted to stabilize as the tight labor market loosens, before declining in the out years. Long-term growth prospects anticipate jobs added in the professional and business service sector, and some growth in the manufacturing sector.

A Review of the Enacted Fiscal Year 2025 Budget

On June 5 and 7, 2024, the Governor signed into law the appropriations bill, budget implementation legislation, and related revenue omnibus contained in Public Acts 103-0588, 103-0589, and 103-0592. The fiscal year 2025 enacted budget focuses on making investments primarily in early childhood education, K-12 education, higher education, human services, economic development, and poverty reduction. Additionally, the Governor signed Public Act 103-0591, which increased the debt authorization in the General Obligation Bond Act by $2.349 billion and the debt authorization in the Build Illinois Bond Act by $1.339 billion to support the new capital appropriations contained in the enacted fiscal year 2025 budget.

Updated Fiscal Year 2025 Projections

Following a review of the fiscal year 2025 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 2025, individual income taxes and income derived from investments have exceeded budget forecasts, reflecting the conservative nature of the initial forecast. As a result, GOMB is reporting a combined $569 million in increases to the revenue forecast from those sources. Offsetting those gains are decreases in the budget forecast for corporate income, transfers in, and sales tax collections. As mentioned above, the nation is experiencing a decline in corporate profits and accordingly Illinois is seeing a decline in sales tax activity. Economic forecasts of spending for the remainder of the year are weaker than previously forecast as well. Due to these signals, GOMB is reducing the revenue forecast by $354 million for those sources.

In total, the General Funds revenue forecast is revised upward by $199 million or 0.4 percent, using a review of actual performance fiscal year-to-date and the economic projections under the S&P Global September baseline forecast for fiscal year 2025. However, GOMB continues to monitor these forecasts closely as inflation and national and international factors may impact the economy in uncertain ways.

Under the updated forecast, base revenues and transfers in from other State funds are estimated to total $53.479 billion. The State's three largest revenue sources, individual income tax, corporate income tax, and state sales tax, are estimated to total $42.987 billion, an increase of $1.691 billion (4.1%) from fiscal year 2024. The estimate assumes a $692 million sales tax allocation to the Road Fund and deposits of $2.725 billion into the Local Government Distributive Fund, the Downstate Public Transportation Fund, and the Public Transportation Fund. For fiscal year 2025, $200 million from state's share of sales tax collections that is normally deposited into the Downstate Public Transportation Fund and the Public Transportation Fund will instead be funded by the Road Fund and Underground Storage Tank Fund. These deposits are not included in the above totals. In future fiscal years, these deposits are scheduled to revert back to the state's share of sales tax collections.

Other state source revenues are projected to total $3.971 billion, a $3 million increase from fiscal year 2024 levels. Transfers into the General Funds are projected to total $2.497 billion, a decrease of $301 million (10.8%) from fiscal year 2024. This decrease is largely due to $294 million less being transferred from the Income Tax Refund Fund.

Federal revenues are projected to total $4.024 billion, a decrease of $502 million from fiscal year 2024. Fiscal year 2024 amounts benefited from a one-time retroactive draw.

Changes to FY 2025 Projections ($ in Millions)			
Revenues		**Expenditures**	
Income Taxes	$ 485	Updated Lapsed Appropriation	
Sales Taxes	(211)	Estimate and Reappropriations	$ 66
Transfers In	(64)	FY25 GO Bond Debt Service	50
All Other Changes	(11)	SERS Continuing Appropriation	$ (263)
Total Base Revenue	**$ 199**	**Total Expenditure Changes**	**$ (147)**

Revision to Forecast:	
Estimated Surplus from FY25 Enacted	$ 211
Increase to Base Revenue Forecast	199
Increase in Projected Expenditures	(147)
Revised Budget Stabilization Fund Set Aside Estimate	(246)
Revised Surplus/(Deficit)	$ 16

** Budget Stabilization Fund Set Aside during Fiscal Year 2025 has increased due to the shift of the deposit of the June 2024 repayment from the UI Trust Fund from June to July 2024.*
Note: Totals may not add due to rounding.

The fiscal year 2025 budget's revised estimated base operating expenditures are $51.103 billion. This amount includes a $263 million continuing appropriation that was invoked by the State Employees' Retirement System (SERS) at the start of the fiscal year. This continuing appropriation may be invoked if the previous fiscal year's General Revenue Fund appropriated amount is less than what the certified percent contribution relative to actual General Revenue Fund personal services payments would require. Base statutory transfers out of the General Funds are projected to decrease by approximately $332 million to $445 million in fiscal year 2025 from fiscal year 2024 transfers out of $777 million. Debt service for general obligation bonds is projected to total $1.670 billion from the General Funds. This estimate is down $50 million from the original fiscal year 2025 estimated amount following the successful completion of refunding for savings of existing general obligation debt. The result is an estimated surplus for fiscal year 2025 of $262 million, of which $246 million will be reserved in the Budget Stabilization Fund.

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 2026 through fiscal year 2030.

The projections assume growth in revenues under existing law in fiscal year 2026 and the remainder of the forecast period utilizing the September 2024 S&P Global 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 GOMB's preliminary estimates of fiscal year 2026 spending pressures. Future year 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 2026 will total $53.406 billion. This reflects a fiscal year 2026 General Funds revenue estimate that is slightly below fiscal year 2025 revised estimates. Revenue estimates are based on projections provided by Illinois Department of Revenue economists based on the S&P Global September 2024 baseline forecast.

The diversion rate of 9.15 percent of total individual income tax revenues in fiscal year 2026 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 2026 and is maintained over the remainder of the forecast. Fiscal year 2026 individual income taxes deposited to the General Funds are forecast to total $27.776 billion and corporate income tax is forecast to total $5.525 billion, reflecting modest economic growth.

Fiscal year 2026 General Funds sales tax revenues are estimated to total $10.369 billion. Fiscal year 2026 and future years reflect the full impact of the shift of state sales tax on motor fuel purchases from the General Funds to the Road Fund, with approximately $873 million (total 5 percent state share) estimated to be deposited in fiscal year 2026.

Fiscal year 2026 estimated base General Funds receipts from federal sources total $4.104 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 the Department of Healthcare and Family Services will continue to maximize use of the General Funds for Medicaid spending, which will produce moderate growth over the forecast horizon.

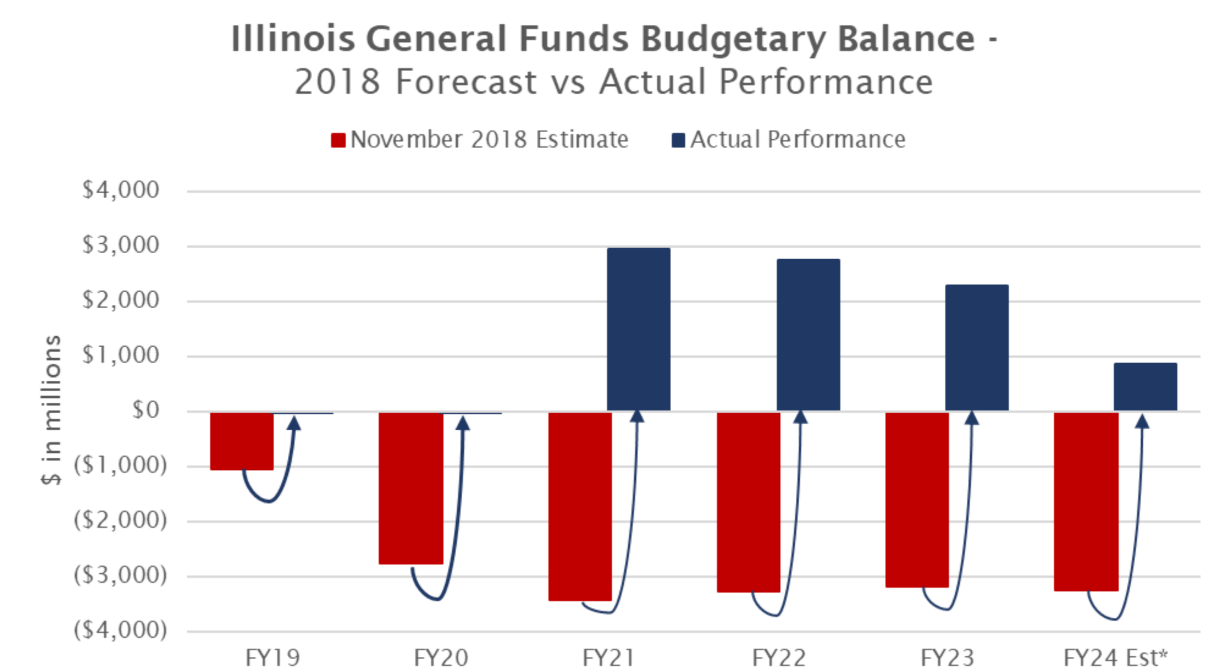
Estimated Expenditures

Fiscal year 2026 total General Funds spending in the financial walk down is estimated at $56.393 billion. Fiscal year 2026 estimates are based on an assumed increase in evidence-based funding for education by a minimum of $350 million per year, projections regarding the impact of medical inflation and drop off of one-time FEMA reimbursement revenues for HFS on state Medicaid and health insurance costs, moderate growth rates in the various categories of state spending from fiscal year 2025 appropriations, and pension spending consistent with the retirement systems' projections from the end of fiscal year 2024 actuarial reports. To illustrate potential future-year spending, moderate growth rates in various spending categories are carried forward and do not assume significant reforms or spending controls aside from what is in current law.

Fiscal Year Results

As noted above, GOMB estimates fiscal year 2025 will result in a budget surplus. Based on the current assessment of revenues and maintenance budget pressures for fiscal year 2026, estimated expenditures (including the set aside in the Budget Stabilization Fund) would exceed revenues by $3.173 billion – which will be addressed in the Governor's Fiscal Year 2026 Introduced Budget.

While a daunting challenge to balance spending pressures in the face of a flat revenue outlook, the Governor remains committed to taking steps to further improve Illinois' fiscal position and address any potential budgetary shortfalls that may arise – as has been done every year since he took office in 2019. The ability to fund new programs will be severely limited. As illustrated in the chart below, the Governor and General Assembly have demonstrated a commitment to addressing fiscal year shortfalls that may be illustrated in this preliminary five-year projection. The chart compares the out-year fiscal year shortfalls illustrated in the November 2018 Economic and Fiscal Policy Report and the actual budgetary balance achieved in the later fiscal years. The administration took the challenge facing Illinois in 2019 seriously, and these shortfalls were addressed through prudent fiscal management policies that paid down debts early, balanced revenues with targeted expenditure increases, and reacted timely to changes in economic conditions.



Note: Projections from November 2018 Economic and Fiscal Policy Report - https://budget.illinois.gov/content/dam/soi/en/web/budget/documents/economic-and-fiscal-policy-reports/fy-2018/general-funds-financial-walk-fy19.pdf
Actuals from IOC Traditional Budgetary Financial Reports, FY24 GOMB Estimates - October 2024

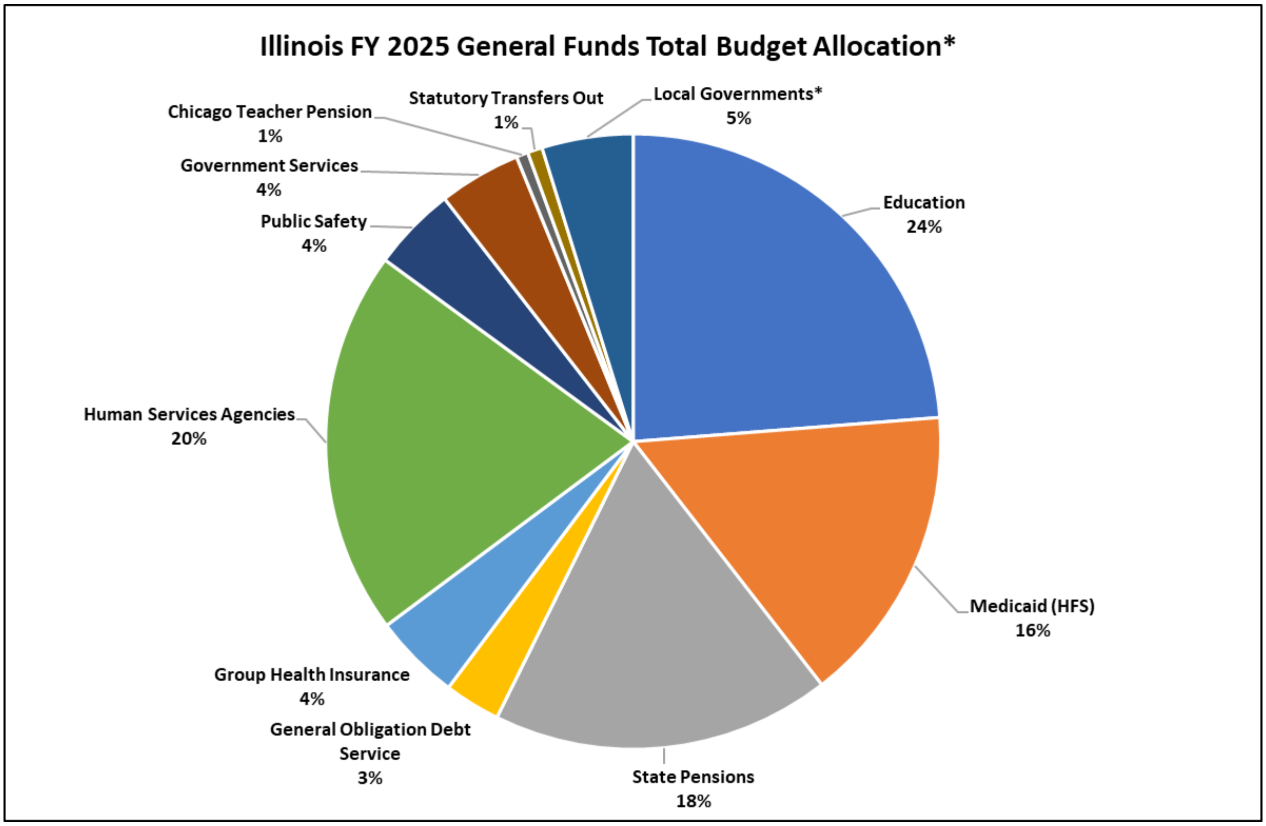
Policy Objectives and Intentions

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.

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 built on the progress in the earlier budgets with additional early debt retirement and budgetary surplus 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.

Even with a balanced budget for fiscal year 2025 and an improved financial performance, 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.**

It should be noted that, as the below chart illustrates, Illinois' General Funds budget supports a wide range of priority areas and that spending reductions cannot be implemented broadly across-the-board. Areas such as debt service on state general obligation bonds, pension payments, Medicaid, and areas that are covered by consent decrees reflect approximately 40 percent of the State's General Funds spending. Education spending – primarily base school support (e.g. Evidence Based Funding and transportation reimbursements), state university operations, and need-based assistance – encompass another 24 percent of the budget.

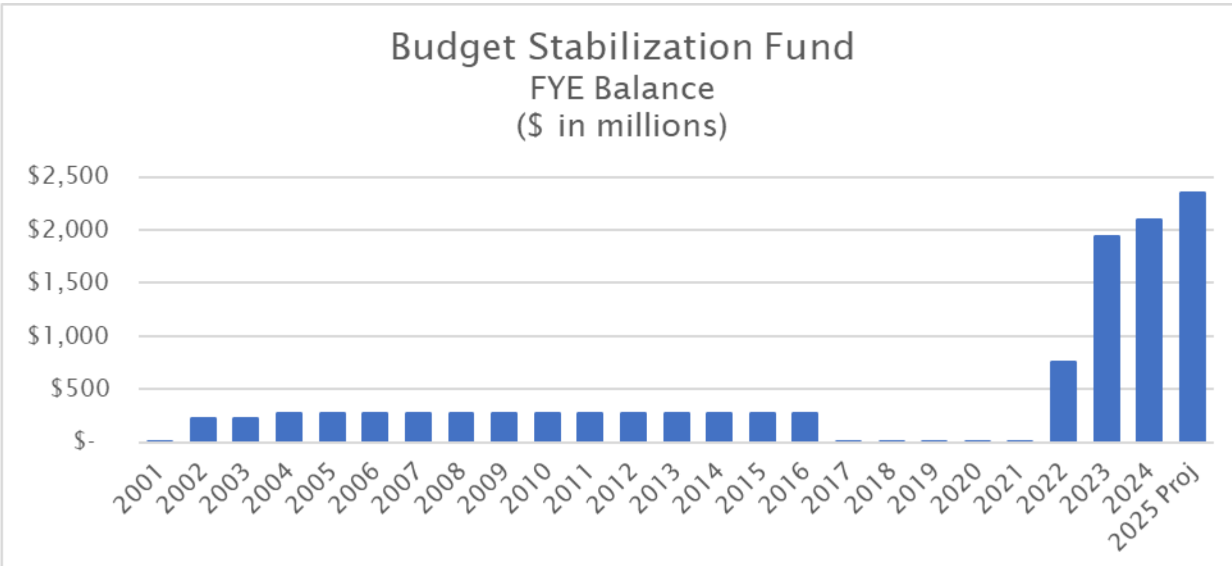


**Includes income and sales tax revenue sharing with local governments. Beginning in Fiscal Year 2018, revenue-sharing income tax collections were deposited directly into the Local Government Distributive Fund, and revenue-sharing sales tax collections were deposited directly into the Public Transportation Fund and the Downstate Public Transit fund for distribution to units of local government. Prior to Fiscal Year 2018, those monies were deposited into the General Funds and transferred from GRF to these local funds. The $2.7 billion shared with local governments is included in the General Funds budget chart to illustrate the nature of the funding.*

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 unprecedented circumstances caused 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.[17] While Illinois has since moved its balance higher and is at a record of $2.2 billion, Illinois still has among the smallest state rainy day fund balances on a relative basis. Statutory provisions have been added in recent years ensuring continued contributions to the Budget Stabilization Fund:

- 10% of cannabis tax revenues (approximately $25 million in fiscal year 2024)
- Monthly transfers of $3.75 million from GRF beginning July 1, 2023 ($45 million/year)
- Repayment over 10 years from State's $450 million loan to UI Trust Fund (est. $45 million/year)
- Interest earnings on Fund's balance ($91 million received in fiscal year 2024)



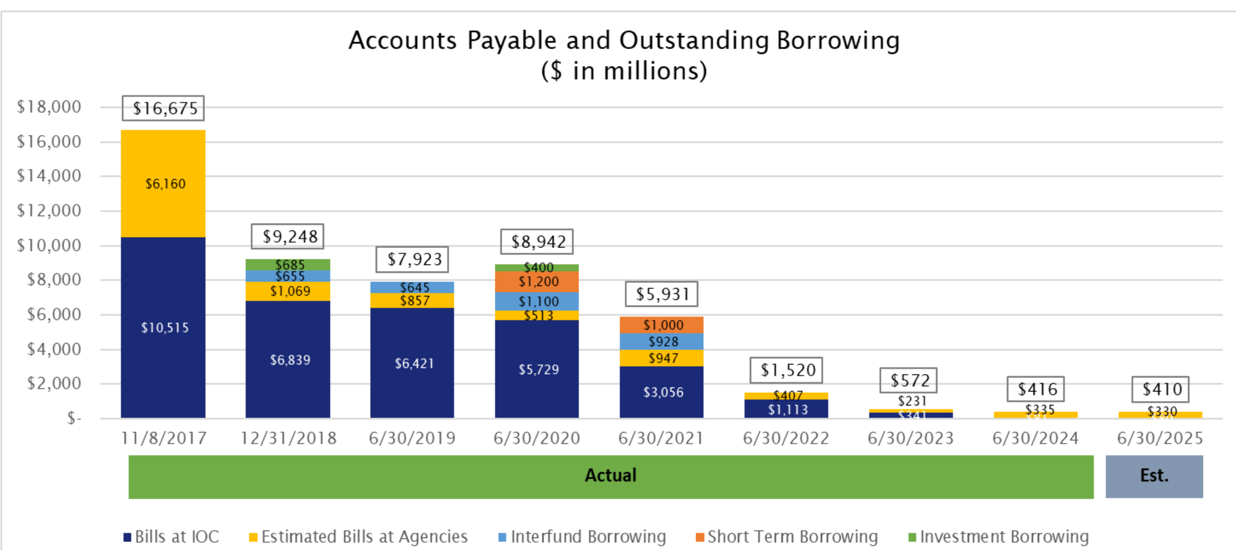
Reducing Debt Obligations and Saving on Interest Costs. Across fiscal years 2022, 2023, and 2024, Illinois has paid **over $11 billion** towards outstanding debts and liabilities – reducing the interest burden for the State's taxpayers as efficiently as possible as Illinois emerged from the COVID-19 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 – significantly 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 Tobacco Settlement Revenue 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 was 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 1/3 of the original issue – remained outstanding going into fiscal year 2024. In September 2023, the Railsplitter Tobacco Settlement Authority undertook a cash defeasance of the remaining outstanding bonds with proceeds from a recent Attorney General settlement resolving claims regarding certain payments from tobacco companies.[18] 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 ($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 by January 2023.

Restoring Illinois' Fiscal House Debt Paydowns ($ 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	$156
FY22/FY23: UI Trust Fund	$4,063
Total Debt Paydown	**$11,035**

Continued Reduction in Unpaid Bills. At the end of fiscal year 2024, the Illinois Office of the Comptroller's estimate for the General Funds and Health Insurance Reserve Fund bill payables totaled $416 million.[19] This reflects a reduction of $8.8 billion in liabilities since December 2018. In future budget years, maintaining these lower payables level by enacting balanced budgets will save Illinois taxpayers millions in interest costs and keep Illinois at a customary accounts payable cycle.



Economic Development Investments. The State's fiscal position is dependent on the strength of the businesses that underpin the Illinois economy by providing jobs and investment throughout the State. With that in mind, the Governor is deploying the State's 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 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.

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 Central Management Services 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, fiscal year 2023 - $23 million, and fiscal year 2024 - $13 million.

STATE OF ILLINOIS GENERAL FUNDS FINANCIAL WALK DOWN Governor's Office of Management and Budget						
($ in millions)	**FY 2025 Estimated**	**FY 2026 Projected**	**FY 2027 Projected**	**FY 2028 Projected**	**FY 2029 Projected**	**FY 2030 Projected**
RESOURCES						
State Sources: Revenues						
Net Individual Income Taxes	26,992	27,776	28,280	29,192	30,210	31,293
Net Corporate Income Taxes	5,299	5,525	5,440	5,191	5,319	5,458
Net Sales Taxes	10,696	10,369	10,528	10,748	10,972	11,222
Public Utility Taxes	691	684	677	670	664	657
All Other Sources	3,280	2,832	2,682	2,580	2,580	2,576
Total State Sources: Revenues	**46,959**	**47,186**	**47,608**	**48,381**	**49,744**	**51,207**
State Sources: Transfers In						
Lottery	902	906	924	943	961	981
Gaming	177	182	230	270	270	270
Adult-Use Cannabis	123	123	130	131	133	134
Sports Wagering	200	204	208	212	216	221
Other Transfers	1,095	700	721	743	765	788
Total State Sources	**49,455**	**49,301**	**49,821**	**50,680**	**52,090**	**53,600**
Federal Sources	4,024	4,104	4,187	4,270	4,356	4,443
TOTAL RESOURCES	**53,479**	**53,406**	**54,008**	**54,951**	**56,446**	**58,043**
EXPENDITURES						
1. Education	**13,513**	**14,035**	**14,569**	**15,003**	**15,439**	**15,877**
PreK-12 Education	10,897	11,341	11,794	12,144	12,495	12,845
Higher Education	2,616	2,694	2,775	2,858	2,944	3,032
2. Economic Development	**382**	**388**	**390**	**391**	**392**	**393**
3. Public Safety	**2,522**	**2,613**	**2,710**	**2,805**	**2,903**	**3,005**
4. Human Services	**11,519**	**12,093**	**12,572**	**13,070**	**13,588**	**14,126**
5. Healthcare	**8,961**	**10,061**	**10,413**	**10,778**	**11,155**	**11,545**
6. Environment and Culture	**132**	**136**	**138**	**141**	**144**	**147**
7. Government Services	**4,888**	**5,243**	**5,357**	**5,472**	**5,589**	**5,708**
Group Health Insurance	2,327	2,877	2,949	3,023	3,098	3,176
Chicago Teachers' Pension System	354	363	366	369	370	370
Government Services	2,207	2,003	2,041	2,081	2,121	2,162
8. Unspent Appropriations	**(950)**	**(990)**	**(1,022)**	**(1,056)**	**(1,078)**	**(1,113)**
Total Operating Budget	**40,968**	**43,579**	**45,127**	**46,603**	**48,132**	**49,689**
EXPENDITURES: PENSIONS						
K-12 Education Pensions	6,204	6,496	6,651	6,883	7,042	7,186
State Universities' Pensions	1,998	2,106	2,151	2,260	2,332	2,400
State Employees' Pensions	1,933	1,971	1,976	2,021	2,044	2,065
Total Pension Costs	**10,135**	**10,572**	**10,778**	**11,165**	**11,418**	**11,651**
EXPENDITURES: TRANSFERS OUT OF GENERAL FUNDS						
Statutory Transfers Out	445	454	461	470	477	484
GO Bond Debt Service	1,670	1,788	1,762	1,667	1,581	1,237
Total Transfers Out	**2,114**	**2,243**	**2,223**	**2,137**	**2,058**	**1,720**
TOTAL EXPENDITURES	**53,217**	**56,393**	**58,128**	**59,905**	**61,608**	**63,060**
General Funds Surplus/(Deficit)	262	(2,987)	(4,121)	(4,955)	(5,163)	(5,017)
Budget Stabilization Fund Contribution	**(246)**	**(186)**	**(173)**	**(155)**	**(143)**	**(135)**
Base General Funds Surplus/(Deficit)	**16**	**(3,173)**	**(4,294)**	**(5,110)**	**(5,306)**	**(5,152)**

Key to Agencies by Outcome

1. Education

PreK-12 Education

- Department of Early Childhood
- 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 $263 million in fiscal year 2025).

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