ILLINOIS ECONOMIC LANDSCAPE AND FISCAL STRUCTURE

THE CIVIC FEDERATION

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EXECUTIVE SUMMARY

Illinois' fiscal policies significantly influence economic growth and employment in the state. How do those choices affect Illinois' status as a top-tier place to "live, work, and do business," and what specific fiscal factors appear most related to desired economic growth and investment state-wide? This report complements the Civic Federation's upcoming State Budget Roadmap report by providing a substantive overview of Illinois' economic landscape and fiscal structure, highlighting the state's strengths and weaknesses, and exploring how fiscal policy choices impact future growth and prosperity.

Overall, this report paints a picture of a state with fundamental strengths (infrastructure, education, health care), "middle of the road" business and regulatory structures (minimum wage, regulations), and troubling fiscal conditions (high taxes, structural deficits, unfunded pension liabilities). To better understand Illinois' current economic status, the analysis explores a number of economic, tax environment, and fiscal indicators as well as Illinois' approach to economic development incentives. Key findings include:

1. **Economic Performance:** Illinois underperforms in several economic metrics, including employment growth, output (as measured by gross domestic product, or GDP), and population growth.[1]

2. **Tax Burden and Business Climate:** Illinois has a high tax burden for both personal and business taxes.
    - Illinois is first among peer states in taxes paid per capita and taxes paid as a percentage of personal income.
    - Illinois' corporate income tax is the third highest in the nation, contributing to limited employment growth.
    - Illinois' tax system is also regressive, meaning lower-income residents pay a higher share of their income in state and local taxes than wealthier individuals.

3. **Economic Development Incentives:** Despite offering a significant number of tax incentives that somewhat offset Illinois' regressive tax system, there is little evidence that they effectively drive economic growth.

4. **Fiscal Stability and Challenges:** Despite some recent fiscal improvements, Illinois' fiscal stability remains a concern:
    - Though the State recorded a surplus for the first time in 15 years in 2022, the end of pandemic-era funding and slowing economic activity and corresponding tax revenue threatens to reverse some of the recent progress made on the structural budget.

[1] We compare Illinois to U.S. averages, as well as to a set of selected peer states: Indiana, Michigan, Ohio, and Wisconsin (BEA's "Great Lakes" states); Iowa and Missouri (two additional neighboring states); and Florida and Texas (as examples of strong-growth states).

- Illinois' "rainy day" fund, or reserves, is far below the national median, offering little protection against budget shocks.
- Pension obligations consume a significant portion of the State's budget, which limits the ability to fund other services.

In short, Illinois' economic growth lags behind peer states and the nation, despite having strong economic fundamentals. As of November 2024, the state had the highest unemployment rate among its peers and weak employment growth, with job numbers barely above pre-pandemic levels. Illinois also struggles with slow GDP and population growth, relying on international immigration to offset continued domestic migration losses. A key factor in these trends is Illinois' high tax burden, which is among the highest in the country due to elevated property, sales, and income taxes, along with a narrow sales tax base. Additionally, the state's economic development incentives and tax expenditures have increased significantly, yet there is little evidence that they effectively promote job creation or business growth, highlighting the need for better evaluation and strategic economic planning.

Finally, a number of weaknesses could inhibit the State's economic growth, including high tax levels that impede competitiveness; an unclear understanding the impact of tax incentives; the fractured and duplicitous governmental structure in Illinois; local governments under fiscal duress; a shrinking higher education sector; and energy infrastructure needs.

With this report, the Civic Federation aims to build a shared understanding of Illinois' current fiscal situation and foster productive future discussions about the state's budgetary challenges, growth trajectory, and policy options.

INTRODUCTION

This analysis draws on multiple data sources and related evidence to document and analyze a variety of economic and fiscal measures of Illinois and selected peer states. The premise is that indicators of strong economic performance are observable reflections of the state's ability to become a premier destination, attracting residents and employers and growing the "Illinois pie"—and that the state's fiscal choices are, at a minimum, correlated with those economic measures, if not causal. Where possible, Illinois is compared to U.S. averages, as well as to a set of selected peer states: Indiana, Michigan, Ohio, and Wisconsin (BEA's "Great Lakes" states); Iowa and Missouri (two additional neighboring states); and Florida and Texas (as examples of strong-growth states).

The report is organized as follows: First, we compare Illinois to its peers in terms of employment, output, and population growth. We next consider numerous measures of tax burdens, business environment, and fiscal stability, again comparing Illinois to the nation as a whole and its peer states. With these pieces in place, we then discuss and assess the state's approach to economic development via tax incentives and other programs. We close by discussing the risks and opportunities facing the state in the years ahead.

HOW DOES ILLINOIS COMPARE WITH PEERS IN TERMS OF GROWTH?

This section compares Illinois to its peers on a variety of measures, including the unemployment rate, employment growth, real GDP growth, and population growth. Overall, we find evidence of weak growth as measured by elevated unemployment rates, sluggish employment growth, and real GDP.[2] The state continues to lose residents overall, with the four largest destination states on net average being two adjacent states, Indiana and Wisconsin, and two "high growth" states, Florida and Texas.

LABOR MARKETS

Table 1 and Graphs 1 and 2 below depict a weak labor market in Illinois relative to its peers and national averages. Illinois' 5.3% unemployment rate in November 2024 was the highest of its peers and exceeded the corresponding national rate of 4.2% (Table 1 and Graph 1). Similarly, employment growth in the state has also been weak, with employment basically plateauing at its pre-pandemic level; November 2024 employment was only 0.2% higher than pre-pandemic levels (Table 1 and Graph 2). That said, Illinois' labor force participation rate dipped less during the pandemic than it did elsewhere and remains among the highest of its peers, which signals a

[2] Clayton Klenke, Eric Noggle, and Ben Varner, "Economic and Revenue Factors Impacting Illinois," https://go.boarddocs.com/il/isbe/Board.nsf/files/DBWPA5637B17/$file/4.A%20COGFA%20Revenue%20Estimates.pdf.

broader population base from which to draw tax revenue, but in fact may mask the magnitude of overall tax burden.

Table 1: Labor Market Indicators, 2020-2024

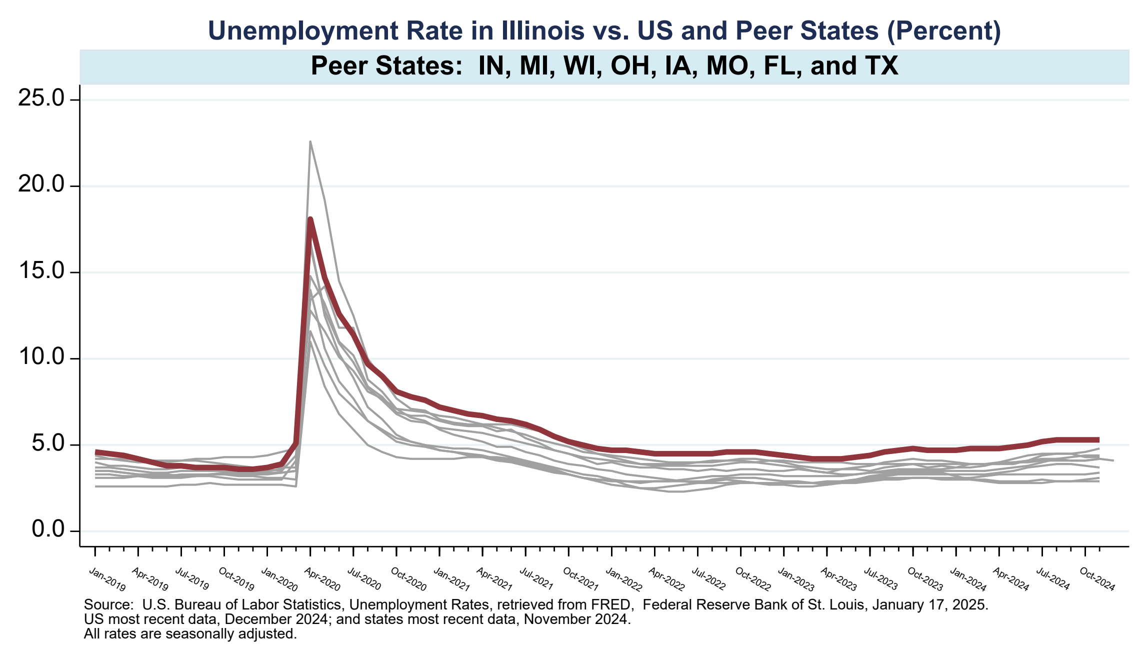
State	Unemployment Rate (%), February 2020	Unemployment Rate (%), November 2024	Nonfarm Payroll Employment in November 2024, as % of February 2020	Annualized Growth Rate of Employment (%), February 2020-November 2024	Counterfactual Illinois employment in November 2024 (in thousands)	Additional Illinois Jobs in November 2024 (in thousands)	Labor Force Participation Rate %), February 2020	Labor Force Participation Rate (%) November 2024
FL	3.0	3.4	110.2	2.1%	6,760.7	610.9	59.3	58.2
IA	2.7	3.1	100.7	0.1%	6,180.8	31.0	69.2	66.3
IL	3.9	5.3	100.2	0.0%	6,149.8	0.0	64.2	65.2
IN	3.4	4.4	104.4	0.9%	6,405.6	255.8	64.2	63.4
MI	3.7	4.8	101.3	0.3%	6,214.1	64.3	61.3	62.2
MO	3.4	3.7	105.2	1.1%	6,455.6	305.8	63.9	63.9
OH	4.6	4.3	101.3	0.3%	6,219.8	70.0	63.5	62.6
TX	3.6	4.2	110.2	2.1%	6,763.7	613.9	63.9	64.7
US	3.5	4.2	104.6	0.9%	6,418.0	268.2	63.3	62.5
WI	3.1	2.9	101.7	0.4%	6,241.3	91.5	66.1	65.8

Source: Civic Federation calculations based on data from the U.S. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.toc.htm.

Unemployment Rate

While all states experienced a pandemic-era spike in unemployment in 2020, Illinois' recovery lags behind that of peer states and the nation as a whole (Graph 1, Illinois, shown in red). In November 2024, the state's unemployment rate of 5.3% was the highest of its peers.

Graph 1

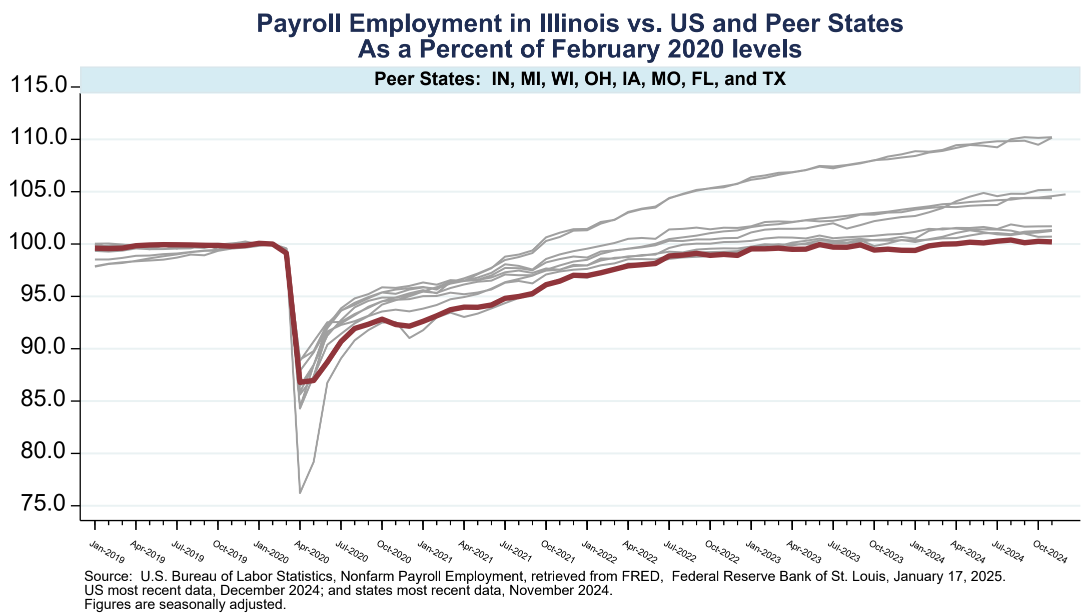


Employment

Similarly, the state's post-pandemic growth in employment, as measured by nonfarm payroll employment in the monthly [business] establishment survey conducted by the U.S. Bureau of Labor Statistics, has lagged behind growth elsewhere (Graph 2, Illinois shown in red).[3] By November 2024, US employment was 4.6% above pre-COVID levels, while Illinois employment has basically plateaued at just above pre-COVID levels, with November 2024 employment just 0.2% above February 2020's level.

Table 1 offers another way of assessing the impact of sluggish growth on the number of jobs in Illinois: the annualized growth rate (AGR) of employment between February 2020 and November 2024 was essentially zero, the lowest among peer states. How many more jobs would the state have had by now if Illinois employment had grown at a faster clip? If Illinois' employment growth had equaled the national average growth rate (0.9%) over this time period, an additional 268,000 jobs would have been created in the state. Even growing at Wisconsin's moderate annualized growth rate of 0.4% would have generated an additional 91,500 jobs in Illinois, which is not trivial given the state's employment base of about 6.2 million jobs.

Graph 2



Real GDP

Regular reports from the state's Commission on Government Forecasting and Accountability (COGFA) have documented Illinois' sluggish economic growth over extended periods of time.[4]

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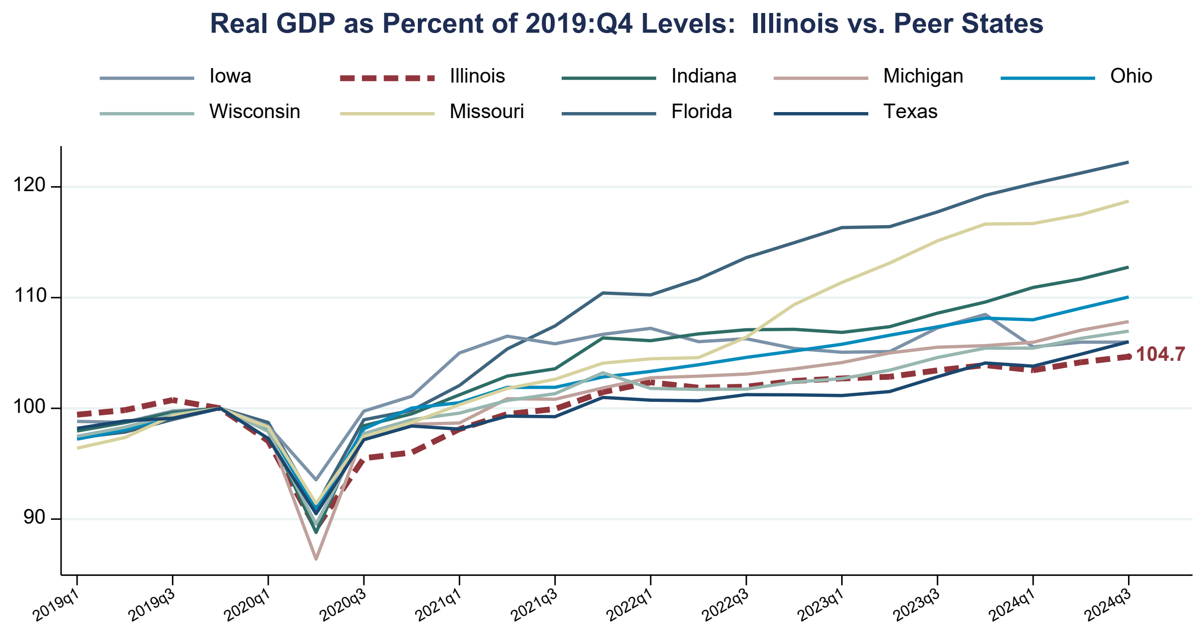
[3] The establishment survey of businesses essentially counts employees of establishments and does not include self-employment.

[4] Klenke, Noggle, and Varner, "Economic and Revenue Factors Impacting Illinois," 6.

Here, we focus on the state-level real gross domestic product (GDP), which is an inflation-adjusted measure of the value of all goods and services produced by a state—essentially the state-level counterpart of real GDP at the national level. We find that the state's post-pandemic recovery has been weak: 2024: Q3 real GDP was only 4.7% higher than pre-pandemic levels in Illinois, the lowest of its peers (Graph 3).

Graph 3



Sources: U.S. Bureau of Economic Analysis, Gross Domestic Product and Personal Income by State, retrieved from FRED, Federal Reserve Bank of St. Louis, January 17, 2025.
Latest available data: 2024:Q3. Date of release: December 20, 2024.

POPULATION

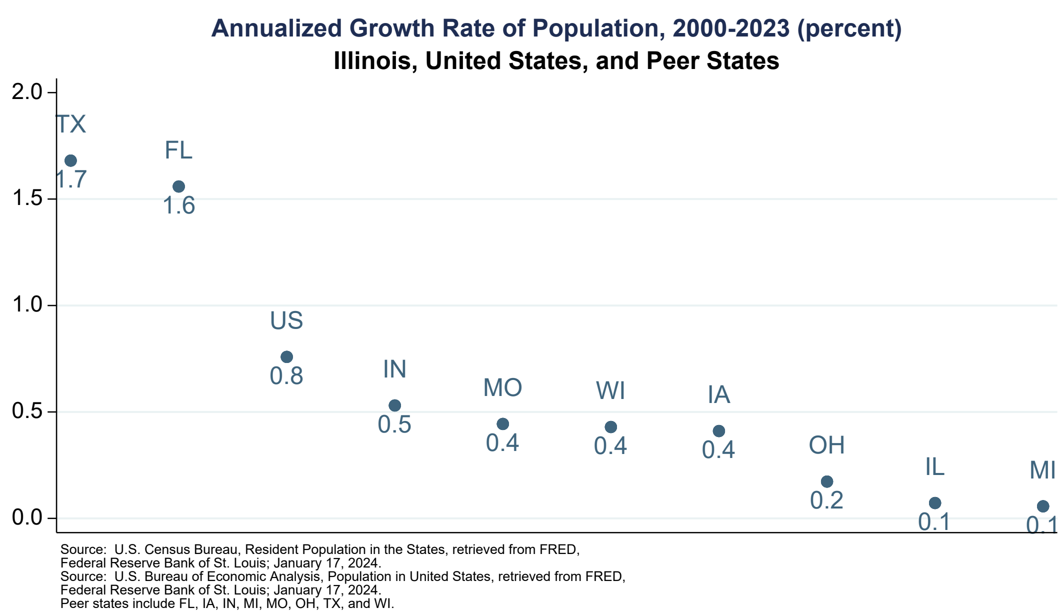
Illinois has had an essentially stagnant population for many years; its 2023 population was only 1.7% higher than in 2000, implying an annualized growth rate (AGR) of less than 0.1%. In contrast, comparison states grew faster, with Florida and Texas AGRs above 1.5% and several Midwest peers growing at about 0.4% annually over this time period (Table 2 and Graph 4).

Table 2: Population Growth, 2000-2023

Year	State	2023 Population as % of 2000 Population	Annualized Growth Rate, 2000-2023 (%)	2023 Population (in thousands)
2023	FL	142.7	1.56	22,905
2023	IA	109.9	0.41	3,218
2023	IL	101.7	0.07	12,642
2023	IN	112.9	0.53	6,880
2023	MI	101.3	0.06	10,083
2023	MO	110.7	0.44	6,208
2023	OH	104.1	0.17	11,824
2023	TX	146.7	1.68	30,728
2023	US	119.0	0.76	334,433
2023	WI	110.4	0.43	5,930

Sources: U.S. Census Bureau, Resident Population in the States, retrieved from FRED, Federal Reserve Bank of St. Louis; December 25, 2024.
U.S. Bureau of Economic Analysis, Population in United States, retrieved from FRED, Federal Reserve Bank of St. Louis; December 25, 2024.

Graph 4



More recent data through 2024 confirm these basic patterns but add new details as well, distinguishing between births and deaths ("natural change") and migration factors in driving population change. For the country as a whole, recent growth in population has largely come from international migration, accounting for nearly 2.8 million of the 3.3 million person increase in the U.S. population.[5] For any given state in the country, population growth results from these same factors, along with domestic state-to-state migration. Table 3 reports the figures.

Table 3: Sources of Population Growth, 2020-2024

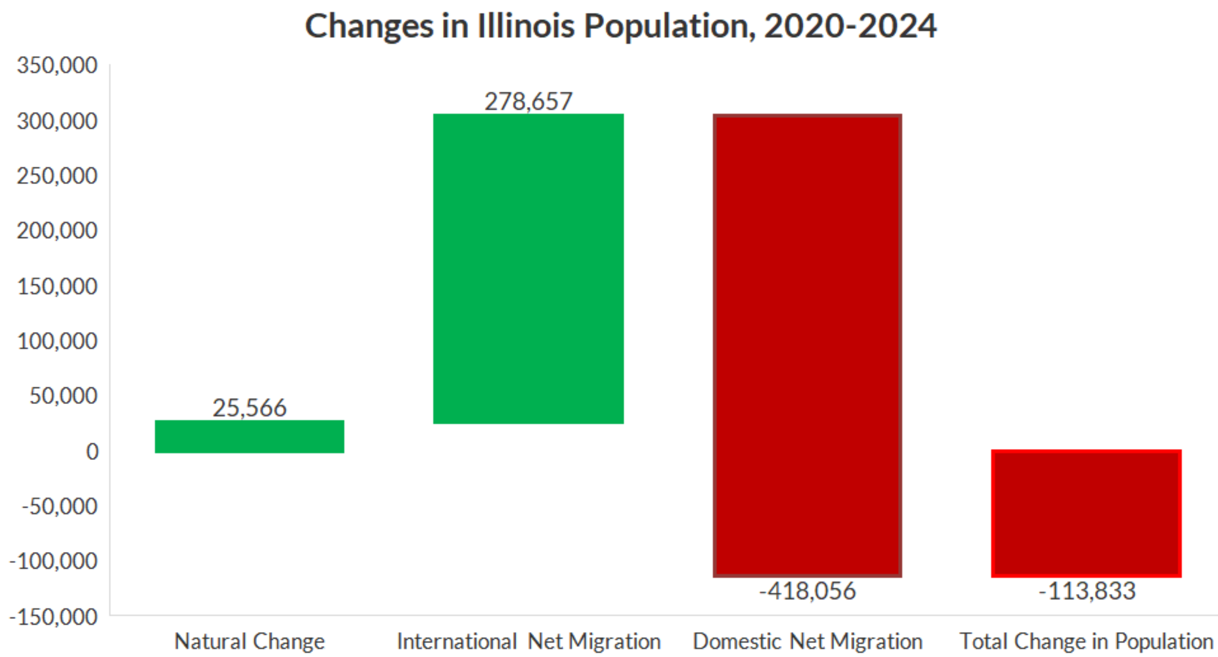
	United States	**Illinois**
July 1, 2023-July 1, 2024		
Total Population Change	3,304,757	67,899
NaturalChange	518,638	11,012
Total Net Migration	2,786,119	56,720
International Net Migration	2,786,119	112,955
Domestic Net Migration	(X)	-56,235
April 1, 2020-July 1, 2024		
Total Population Change	8,595,252	-111,656
NaturalChange	1,425,410	25,566
Total Net Migration	7,169,842	-139,399
International Net Migration	7,169,842	278,657
Domestic Net Migration	(X)	-418,056

Source: Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2024 (NST-EST2024-COMP). Source: U.S. Census Bureau, Population Division. Release Date: December 2024

One point worth emphasizing is the importance of international net migration to Illinois' population growth in 2024. The 2020-2024 period shows a loss of 111,656 residents, mostly driven by outward domestic net migration, but in the single year 2024, Illinois *gained* 67,899 residents, driven by a spike in international arrivals.[6] Another point to emphasize is that Illinois' domestic net migration rate, or the difference between in-migration and out-migration to and from other states, is strongly negative, with a net outflow of over 56,000 in 2024 and over 418,000 over the 2020-2024 period. Graphs 5 and 6 depict the components of population growth in Illinois, highlighting how international net migration has partially offset negative domestic net migration since 2020, and fully offset domestic net migration in 2024.

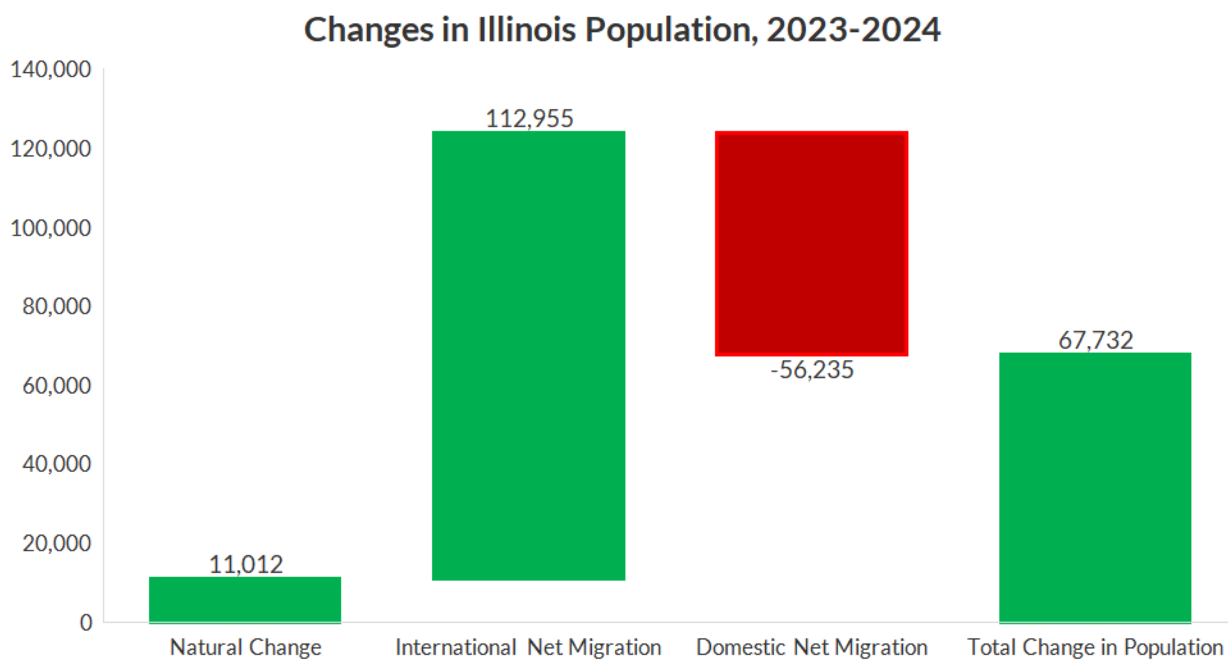
[5] Jon Kamp, Paul Overburg, and Max Rust, "Immigrants Dominate U.S. Population Growth," *WSJ*, December 19, 2024, sec. US, https://www.wsj.com/us-news/census-data-immigration-state-population-changes-9f8f4508.
[6] Bryce Hill, "Illinois Population Grows in 2024 despite 56K Residents Leaving for Other States," *Illinois Policy*, December 19, 2024, sec. Jobs + Growth, https://www.illinoispolicy.org/illinois-population-grows-in-2024-despite-56k-residents-leaving-for-other-states/.

Graph 5



Source: Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2024 (NST-EST2024-COMP) Source: U.S. Census Bureau, Population Division Release Date: December 2024

Graph 6



Source: Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2024 (NST-EST2024-COMP) Source: U.S. Census Bureau, Population Division Release Date: December 2024.

Table 4 reports state-by-state flows to and from Illinois, showing the top 10 states for in-migration, out-migration, and net migration. The top 10 “sending” states include Florida, California, and Texas, and the top 10 “receiving” states include Indiana, Florida, and Wisconsin. The top states accounting for net population outflows from Illinois in 2023 are Indiana, Wisconsin, Texas, and Florida.

Table 4: In, Out, and Net Migration Between Illinois and Other States, 2023

Top 10 Sending States to Illinois ("in-migration")		Top 10 Receiving States from Illinois ("out-migration")		Top 10 Net Receiving States from Illinois ("net migration")	
Florida	19,100	Indiana	29,426	Indiana	-17,871
California	16,460	Florida	27,109	Wisconsin	-12,808
Texas	15,227	Wisconsin	26,943	Texas	-8,954
Missouri	14,982	Texas	24,181	Florida	-8,009
Wisconsin	14,135	California	21,982	Tennessee	-5,583
Indiana	11,555	Missouri	15,326	California	-5,522
Michigan	10,345	Iowa	11,780	Arizona	-4,613
New York	8,394	Michigan	11,766	Georgia	-4,238
Iowa	8,326	Tennessee	9,588	South Carolina	-3,962
Colorado	5,827	Georgia	9,133	Iowa	-3,454

Source: U.S. Census Bureau, 2023 American Community Survey 1-year estimates and 2023 Puerto Rico Community Survey 1-year estimates; https://www.census.gov/programs-surveys/acs.

HOW DOES ILLINOIS COMPARE WITH PEERS IN TERMS OF FISCAL AND OTHER POLICIES?

In this section, we compare Illinois to national averages and selected comparison states, applying multiple, not-mutually-exclusive lenses, beginning with a narrow tax-focused comparison and ultimately widening the lens to broader comparisons of business environment and competitiveness. Guiding the inquiry are “big picture” questions about the state’s fiscal structure. Does the system:

- Raise revenues adequate to fund desired services over time?
- Minimize economic distortions stemming from taxes and subsidies?
- Distribute tax burdens and spending benefits in a transparent and acceptable way, both at a point in time and across generations?
- Avoid undue complexity?
- Entail significant accountability for elected officials?

The intention here is to identify and describe potential levers available to the state that, when appropriately pressed, contribute to the conditions needed to support economic growth and prosperity state-wide. While the evidence is clear on some points and mixed on others, we believe that overall, it paints a relatively consistent picture of Illinois: a state with fundamental strengths (infrastructure, education, health care), “middle of the road” business, and regulatory structures (minimum wage, regulations), and troubling fiscal conditions (high taxes, structural deficits, unfunded pension liabilities).

TAXES AND OTHER REVENUES

The business press abounds with articles identifying Illinois as a high tax or "tax unfriendly" state; for instance, a recent MoneyGeek piece assigns Illinois a grade of "F" and a ranking of 50th out of the 50 states in terms of state and local tax burdens paid by the average taxpayer.[7] Truth or fiction? In this section, we review evidence on tax and other revenue burdens in Illinois, with some additional discussion of how tax policy affects growth, providing Illinois policymakers with insight into the likely direction of response to potential policy changes.

State and Local Government Tax Burden

This section analyzes general own-source revenues of states and local governments combined based on Census data on government finances in the United States. Own-source revenues include taxes and fee revenues collected from users of government services and hence reflect revenues which states and localities can affect via their own actions. Intergovernmental revenues (grants) are excluded. The analysis combines state and local revenues since states differ widely in how they allocate both revenue and spending responsibilities, making state-alone comparisons of limited value.[8] We use data provided and documented by the Tax Policy Center.[9] Because the most recent data for 2021 reflects pandemic-era disruptions and shocks, the period from 2018-2021 is examined here.

Before turning to our findings, it is worth briefly discussing the two principal ways analysts compare tax burdens across governmental jurisdictions. One approach is to "scale" dollar amounts to reflect differences in population across states using per capita values; these dollar values are usually inflation-adjusted or expressed in "real" terms of some base year. Here, the base year is 2021. An alternative approach is to focus on taxes as a share of personal income in the given jurisdiction, thus measuring any given tax burden relative to the resources available to pay it. In this analysis, we discuss both types of measures, with selected per capita measures depicted below and corresponding income share measures included in the Appendix.

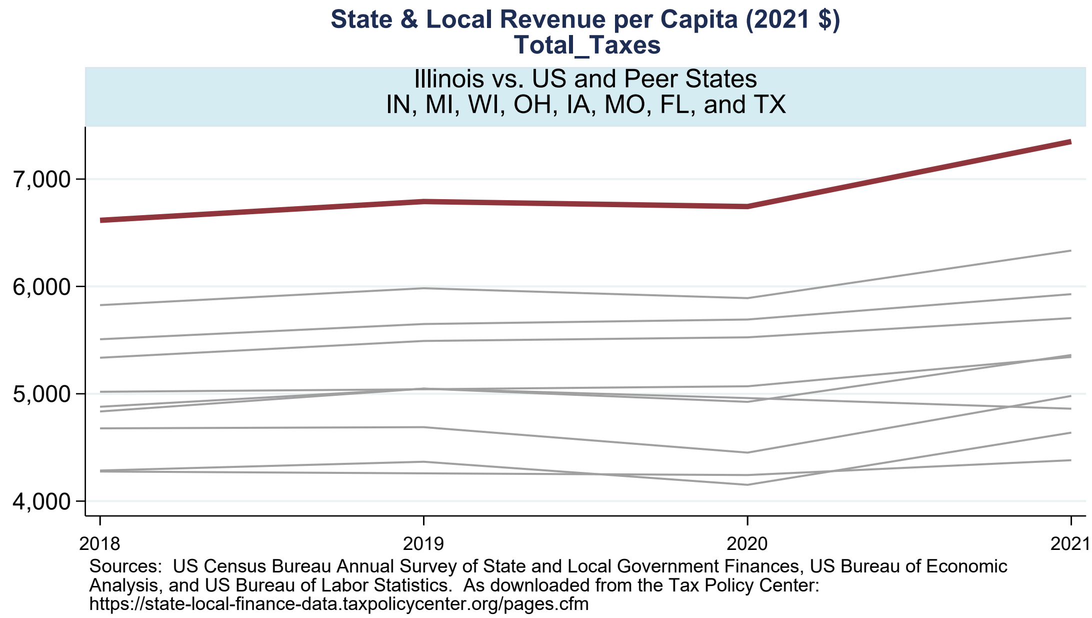
Our findings include the following:

- Illinois' reputation as a high-tax state is somewhat deserved. Of the nine states considered here, Illinois is ranked 1st in terms of taxes per capita ($7,350) (Graph 7, Illinois shown in red) and taxes as a share of personal income (10.9%) (see Appendix). Furthermore, Illinois is ranked first or second in terms of per capita property taxes, sales

[7] Doug Milnes, "How Tax-Friendly Is Your State?," *MoneyGeek.Com*, October 31, 2024, https://www.moneygeek.com/financial-planning/taxes/tax-friendly-states/.
[8] Taxpayers' Federation of Illinois, "An Illinois Chartbook – How Does Illinois Compare?," August 2023, https://illinoistax.org/?p=3798.
[9] "State and Local Government Finance Data | Tax Policy Center," State and Local Government Finance Data | Tax Policy Center, accessed November 16, 2024, https://state-local-finance-data.taxpolicycenter.org.

taxes, and income taxes. The state's ranking improves somewhat when tax burdens are measured as a share of personal income.

Graph 7



It is worth highlighting that Illinois' high property and sales tax burdens, in particular, reflect policy choices regarding the rates of taxation, the base against which taxes are levied, and the overall reliance on those taxes by Illinois and its local governments.

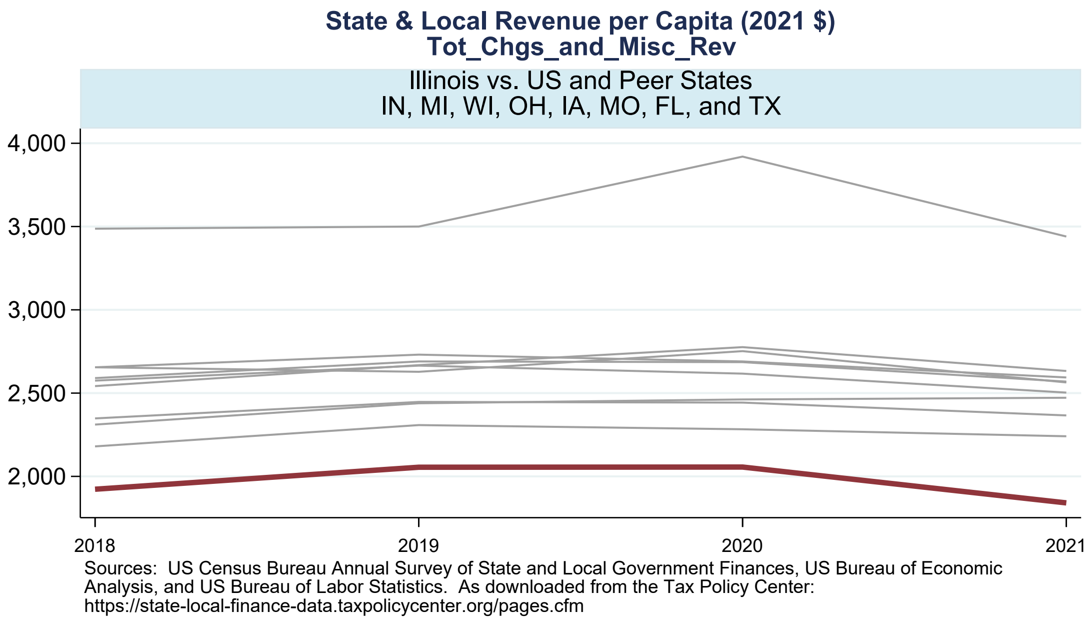
- In an annual assessment of property tax rates and burdens conducted by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence, Chicago ranks twelfth of 50 large cities in terms of effective property tax rates and implied property taxes on a median-valued home.[10] For commercial property, Chicago has the *highest* effective commercial property tax rate of those cities, reflecting Cook County's property classification system in which commercial properties are assessed at higher rates than residential properties.[11]
- The state's general sales tax rate of 6.25% is above the national average, and the average combined state and local tax rate is 8.86%, seventh highest in the country.[12] However, the tax *base* itself is narrow: for instance, the Tax Foundation judges Illinois to

[10] Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, "50-State Property Tax Comparison Study," July 2024, 21, https://www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2023/.
[11] Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, 26.
[12] Jared Walczak, "State and Local Sales Tax Rates, 2024," *Tax Foundation* (blog), February 6, 2024, https://taxfoundation.org/data/all/state/2024-sales-taxes/.

have the seventh lowest "breadth" as measured by the ratio of taxable sales to personal income, similar to earlier analyses based on different methods and data.[13]

Somewhat offsetting these tax figures are measures of current charges and miscellaneous general own-source revenues. Such revenues mainly include fees and charges paid by users of government services, for example, tuition payments to public colleges and universities, fees paid to public hospitals, water and sewer utility charges, highway tolls, and so on. Measured on both a per capita and share of personal income basis, Illinois' total charges and miscellaneous revenue burden is the lowest of the nine states considered here, at $1,841 (Graph 8, with Illinois shown in red) and 2.7%, respectively (see Appendix).[14]

Graph 8



Overall, for general own source revenue, mainly taxes and charges, Illinois ranks second on a per capita basis ($9,191) and fourth on the share of personal income basis (13.7%) (Graph 9, Illinois shown in red; see also the Appendix).

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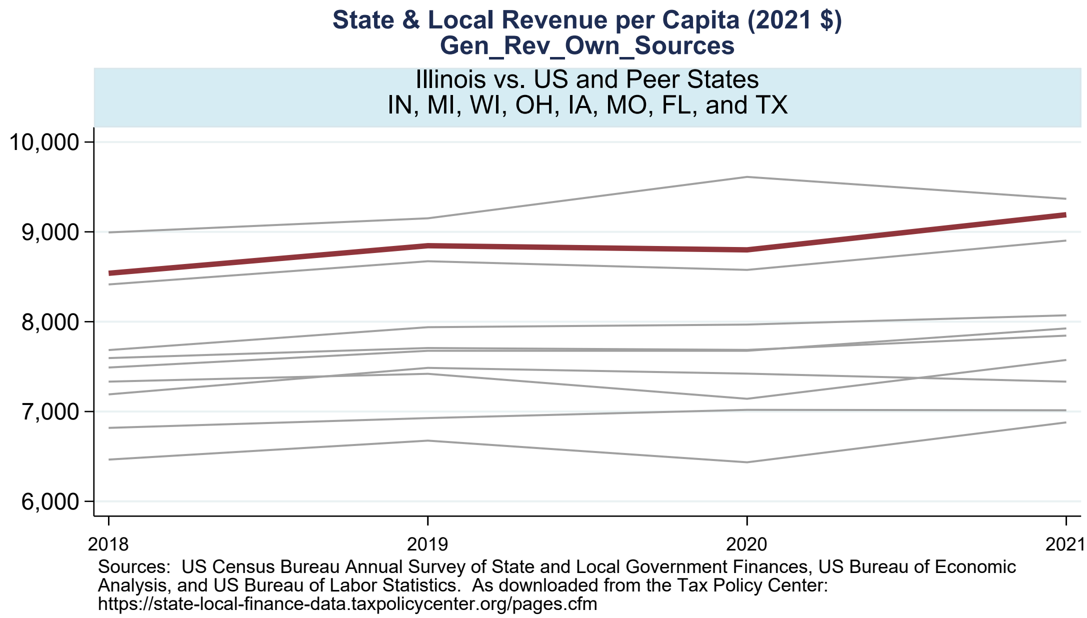
[13] Nikhita Airi and Frank Sammartino, "How Broad Are State Sales Tax Bases?" (Tax Policy Center, Urban Institute & Brookings Institution, April 2021), https://www.taxpolicycenter.org/sites/default/files/publication/161902/how_broad_are_state_sales_taxes.pdf; Jared Walczak, "State Sales Tax Breadth and Reliance, FY 2021," May 4, 2022, https://taxfoundation.org/data/all/state/state-sales-tax-base-reliance/.

[14] See this recent "Chartbook" for a more detailed analysis Taxpayers' Federation of Illinois, "An Illinois Chartbook – How Does Illinois Compare?".

Graph 9



Business Tax Climate

The Tax Foundation's 2025 State Tax Competitiveness Index (STCI) is a focused measure of tax policy choices directly under state control, interpreted as an "indicator of which states' tax systems are the most hospitable to economic growth."[15] Illinois' recent ranking of 37th of the 50 states—the lowest of the nine states considered in this report--reflects even lower rankings on sales, property, and corporate income taxation, offset somewhat by Illinois' non-graduated individual income tax structure. Among other negative factors, the 2025 report highlights the state's temporary cap on the amount of corporate net operating losses that can be carried forward and claimed in a given year.

The Tax Foundation's report also discusses empirical evidence linking improvements in index rankings to increased economic growth and investment, citing recent evidence on the sensitivity of economic growth to measures of tax structure:[16]

- Corporate business entities show short-run corporate tax elasticities between -0.4 and -0.5, meaning that a one percentage point increase in the corporate income tax rate generates an employment decrease between 0.4 and 0.5%.
- Pass-through business entities, which are taxed at individual income tax rates, show short-run elasticities between -0.2 and -0.4, meaning that a one percentage point

[15] Andrey Yushkov, Jared Walczak, and Katherine Loughead, "2025 State Tax Competitiveness Index" (Tax Foundation, October 31, 2024), 17–18, https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/.
[16] Yushkov, Walczak, and Loughead, 10.

increase in the individual income tax rate generates an employment decrease between 0.2 and 0.4%.

It is worth noting that Illinois' corporate income tax rate of 9.5%, comprised of a 7% income tax and a 2.5% personal property tax replacement tax, is the third highest in the country; only Minnesota and New Jersey have higher rates.[17] Taken at face value, the elasticities above can be used to estimate the potential employment impacts of cutting the corporate income tax rate: for example, decreasing Illinois' rate from 9.5% to Wisconsin's rate of 7.9%, a decrease of 1.6 percentage points, implies an employment impact between 0.6 and 0.8 percent.[18]

Total Effective Business Tax Rate

A different tax measure, the Total Effective Business Tax Rate (TEBTR), is published annually by a collaboration of private sector, research, and advocacy organizations. This measure is intended to capture all taxes paid by businesses, including property taxes; sales and excise taxes paid on intermediate inputs, including capital assets; corporate income taxes; gross receipts taxes; "pass-through" individual income taxes paid by owners of noncorporate businesses; severance taxes; and so on. The TEBTR is calculated as total taxes paid by businesses as a percentage of private-sector GDP at the state level. Illinois' TEBTR of 5.5% in FY2022 exceeded the national average rate of 5.0% and was the highest of the nine states considered here.[19] Evidence on how the TEBTR affects economic activity is limited, and because the measure reflects all taxes paid by businesses, not just corporate income taxes, it can be hard to tease out how specific tax policy changes would affect this measure and, in turn, economic activity. That acknowledged, the general picture of Illinois as an "above average" taxing state remains intact based on this measure.

Broader Fiscal Measures

A state's tax and revenue system is only a means to the end of providing high-quality, desired levels of services to residents and businesses. Further, assessing the distributional aspects of taxation and spending—who pays the taxes, and who receives the services? —can complement the above analysis. While a detailed assessment of spending and distributional issues is beyond the scope of this report, we can distill findings from recent research to aid our understanding of where Illinois "sits" in the broader fiscal landscape. Based on this review, we argue for the importance of looking at the fiscal system holistically, not just piecewise, so that the entirety of the overall fiscal "package" now on offer to Illinois residents and businesses may be assessed.

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[17] Mandal, Abir. "2025 State Corporate Income Tax Rates and Brackets." Tax Foundation (blog), January 21, 2025. It should be noted that New Jersey has a graduated corporate income tax structure, with a top marginal rate of 11.5%. Minnesota's corporate income tax rate is 9.8%.

[18] Calculated as (1.6)*(0.4) = 0.64 and (1.6)*(0.5) = .8.

[19] EY, State Tax Research Institute, and Council on State Taxation, "Total State and Local Business Taxes, FY22," December 2023, .

State and Local Spending

Combined state and local per capita expenditures in Illinois are nearly identical to the national average. As noted by the Urban Institute, spending figures can vary for many reasons, including demographics, income, policy choices, and preferences of residents.[20] Where does that spending go? It is well-documented that the state's top two expenditure categories are Medicaid and education, with local government revenue sharing and human services provision close behind.[21] A more detailed analysis of spending by category—and the *value* of that spending—would be helpful to better understand the state's current spending priorities but must be deferred to the future.

Tax Regressivity

Evidence from the Institute on Taxation and Economic Policy (ITEP), who conducted a recent analysis of the distribution of state and local taxes paid by Illinois families, suggests that the state's combined state and local tax system is regressive, with total taxes paid as a share of family income falling as family income rises (shown in Figure 1 below).[22] ITEP's ranking tags Illinois as the eighth most regressive state in the country, mainly because of its heavy reliance on sales and property taxation and its use of a nongraduated income tax rate structure. In Illinois, the share of income directed towards sales and excise taxes falls with income; the corresponding share for property taxes is basically flat over the income distribution—and the state's flat income tax does not introduce any offsetting progressivity. Hence, on balance, Illinois' combined state and local tax system is regressive.

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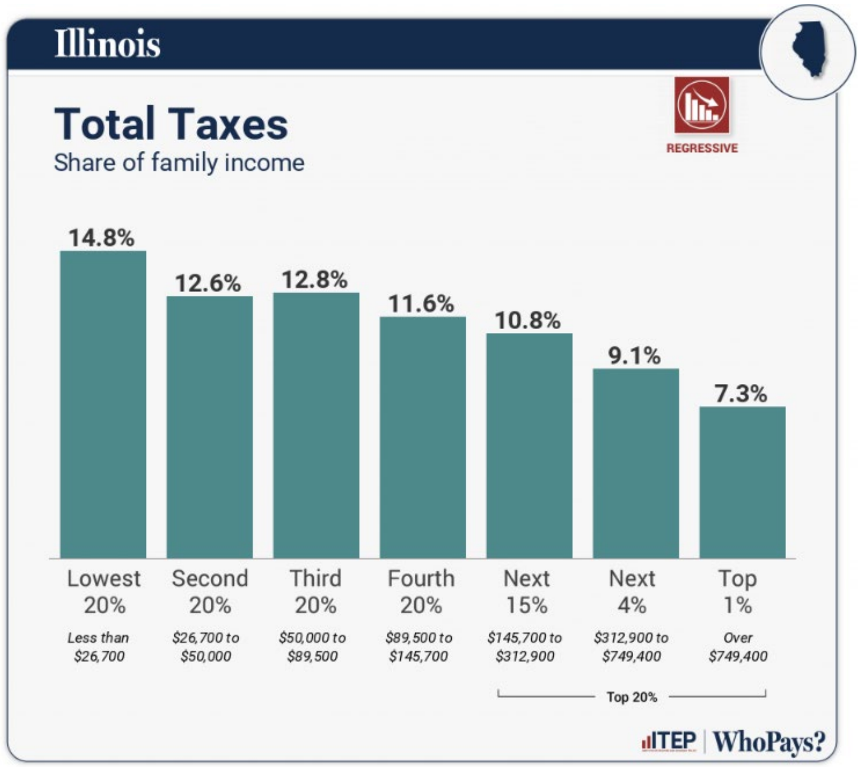
[20] Urban Institute, "State Fiscal Briefs: Illinois."

[21] Alea Wilbur-Mujtaba et al., "Finding the Balance: State Fiscal Sustainability and Local Government Fiscal Challenges," Policy Spotlight, Fiscal Futures (Institute of Government and Public Affairs, May 15, 2024), 4, 7, https://igpa.uillinois.edu/reports/finding-the-balance-state-fiscal-sustainability-and-local-government-fiscal-challenges.

[22] Institute on Taxation and Economic Policy,

Figure 1



Source: Chart from Institute on Taxation and Economic Policy, "Who Pays? 7th Edition," January 2024, https://itep.org/whopays-7th-edition/.

State and Federal Considerations

Developing these ideas further, a recent working paper considers broader measures of taxes and transfers (e.g., income assistance programs) to explore the extent to which the nation's overall federal, state, and local governmental system is progressive.[23] Including both taxes *and* transfers is important for conducting an analysis of the distribution of tax burdens since governments often target lower-income households with their tax and transfer programs. Furthermore, one key extension of the study's baseline analysis considers the *value* of the public spending undertaken by states and local governments.

In this analysis, baseline "taxes" include income, sales, property, and excise taxes, as well as payroll (FICA) taxes. Baseline "transfers" include Social Security benefits, Supplemental Nutrition Assistance Program (SNAP) income, worker's compensation benefits, Medicaid and Temporary Assistance for Needy Families (TANF), housing assistance, Medicare at the federal level, and state-level support coming from unemployment benefits.

An average tax rate that rises with income is one measure of the system's progressivity. By mapping these taxes and transfers from the "sending" federal, state, and local governments to the "receiving" households by income group, we find that the combined federal, state, and local

[23] Giovanni L. Violante et al., "Fiscal Progressivity of the U.S. Federal and State Governments," Working Paper Federal Reserve Bank of Minneapolis, January 16, 2025.

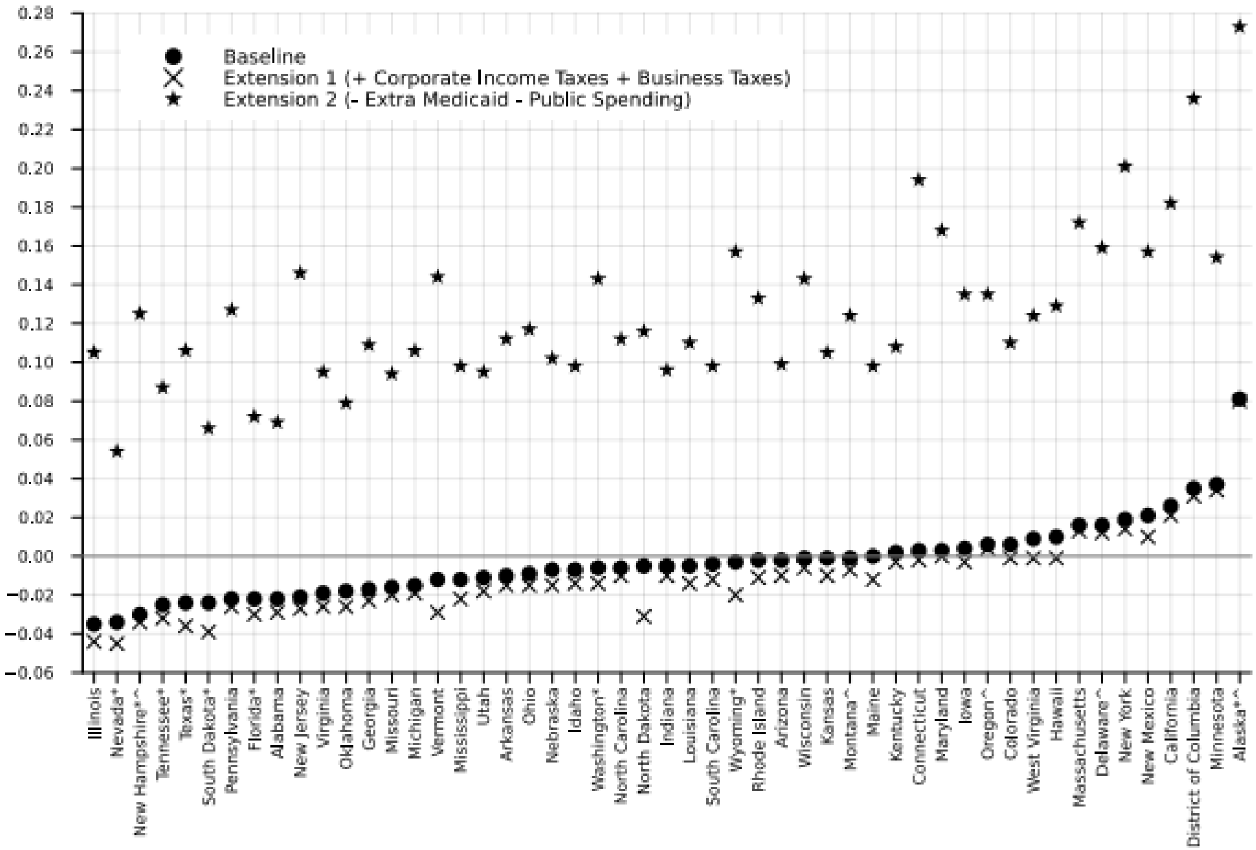
system is progressive. The average total net of transfers tax rate for the system as a whole rises with household income. The system's overall progressivity is driven by the progressive federal income tax; on average, state systems are about neutral (neither progressive nor regressive).

State and local systems differ widely in terms of average tax rates and progressivity, driven largely by state choices about the tax base—income, sales, and/or property and corresponding tax rates. Illinois has the sixth highest average net of transfers tax rate in the country, driven largely by its above-average taxation of sales and property. Illinois is ranked as the most *regressive* state in the country, again driven by high rates of sales and property taxation and a proportional, not progressive, income tax structure. Broadly speaking, then, this finding aligns with ITEP's analysis discussed earlier.

Extensions to these baseline results add corporate income taxes and other business taxes to the tax measures and, perhaps of even greater interest, add government spending on public education and other services to the transfer measures.[24] Including these additional flows makes a big difference: state-specific progressivity estimates rise overall (as more of the additional transfers now included are received by lower-income households), and Illinois no longer sits at the bottom of the rankings. Instead, Illinois now looks similar to Indiana and Texas, below Wisconsin, and above Florida in terms of progressivity (Figure 2).

[24] The researchers also value Medicaid and Medicare services more fully in the extended analysis Violante et al., 8.

Figure 2



Source: Chart from Giovanni L. Violante et al., “Fiscal Progressivity of the U.S. Federal and State Governments,” Working Paper, Federal Reserve Bank of Minneapolis, January 16, 2025, at https://doi.org/10.21034/sr.663.
Notes: Baseline includes state and local income, excise, sales and property taxes, and transfers. Extension 1 includes corporate income and business taxes. Extension 2 includes Medicaid valued at full cost (instead of private values) and state spending on public goods and services. For more details, see https://doi.org/10.21034/sr.663

Fiscal Stability

A healthy fiscal system should raise revenues adequate to fund desired services over time; minimize economic distortions stemming from taxes and subsidies; distribute tax burdens and spending benefits in a transparent and acceptable way, both at a point in time and across generations; avoid undue complexity; and entail significant accountability for elected officials. With these principles at hand and the previous findings in mind, this section draws on a variety of publicly available data on state fiscal conditions, comparing Illinois to its peers on selected financial measures. Overall, we confirm the state's recent fiscal improvements but also highlight the following remaining concerns: potential structural deficits in the post-COVID era; limited build-up of financial reserves; and pressures from unfunded pension liabilities, with rating agencies focused on these issues as they monitor the state's credit quality.

Fiscal Balance

Comparing state revenues and expenditures over long periods of time, taking into account not only general (operating) funds but all the many funds used by states to receive revenues and spend resources in support of government programs and services, provides insight into whether a government is spending within its means. That is, whether structural deficits exist. Using Pew's data derived from state financial reports over an extended time frame, we graph the ratio of revenues to expenditures for Illinois and other states between 2004 and 2022 and find that:

- Prior to 2022, Illinois' fiscal balance was always below 100%, meaning its revenues fell short of its expenditures.
- Increases in fiscal balance over the years 2010-2014 and 2017-2019 coincided with increases in individual and corporate income tax rates.
- Following a COVID-driven decline between 2019 and 2020, Illinois' fiscal balance improved in 2021 and 2022 (Graph 10, Illinois shown in red): "… in fiscal 2022 Illinois recorded an annual surplus for the first time in 15 years, with revenue covering 116.4% of expenses. Along with a decrease in spending, the state's fiscal position was strengthened by tax revenue collections that exceeded its long-term trend by 16.2% and by ongoing federal aid provided to states as part of COVID-19 stimulus packages in the two prior years."[25] The end of COVID-era support and the slowing of economic activity and corresponding core tax revenues threaten to reverse some of this progress.[26]

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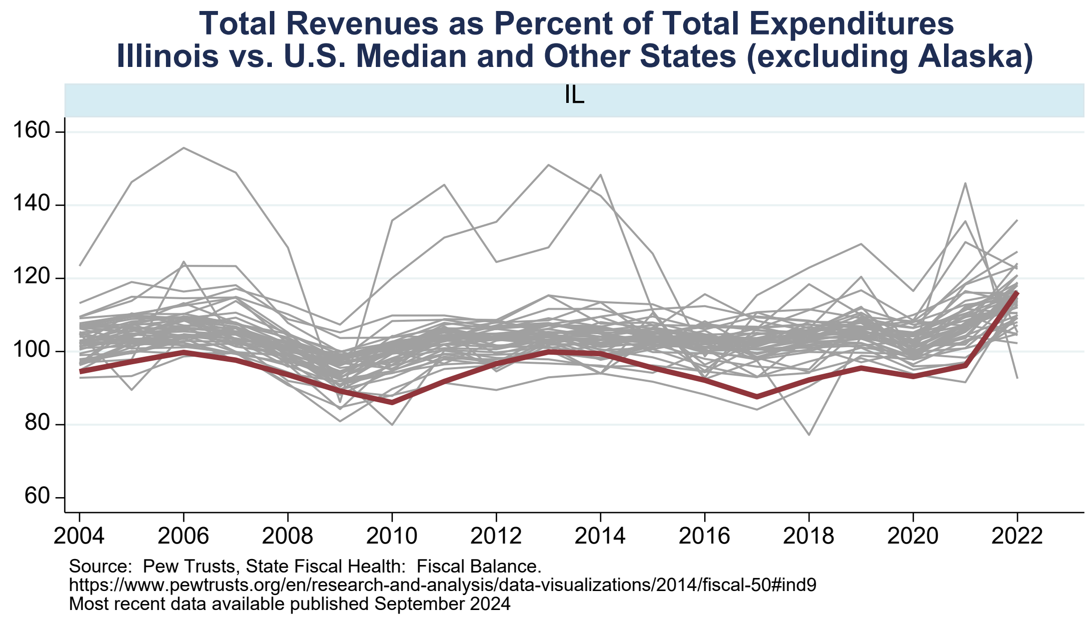
[25] Pew Trusts, "Fiscal 50: Fiscal Balance: Number of States With Annual Deficits Hit Record Low in Fiscal Year 2022," September 3, 2024, https://pew.org/497Y6Vg.

[26] Klenke, Noggle, and Varner, "Economic and Revenue Factors Impacting Illinois"; Governor's Office of Management and Budget, "Illinois Economic and Fiscal Policy Report," November 1, 2024, https://budget.illinois.gov/content/dam/soi/en/web/budget/documents/economic-and-fiscal-policy-reports/Economic_and_Fiscal_Policy_Report_FY25_FINAL_11.1.24.pdf.

Graph 10

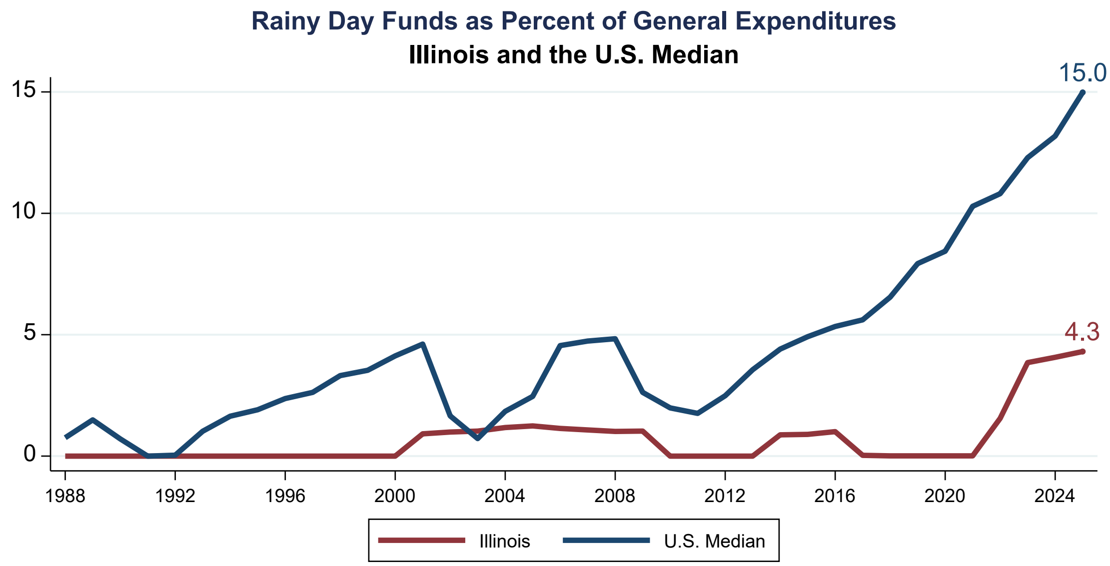


Rainy Day Funds

Across the country, states have spent the last few years increasing reserve funds to protect against budget shocks, and Illinois, too, has added to its "rainy day" fund in the post-pandemic era. However, Graph 11 shows that Illinois' rainy day fund is still less than 5% of its annual general expenditures, far below best practices figures of between two and three months' worth (16% to 25%). Rating agencies consider rainy day funds and other reserve funds and factors when assessing credit quality.[27]

[27] Justin Theal and Page Forrest, "States Prioritize Reserves as Fiscal Flexibility Declines" (Pew Trusts, September 19, 2024), https://pew.org/3XvsaFT.

Graph 11



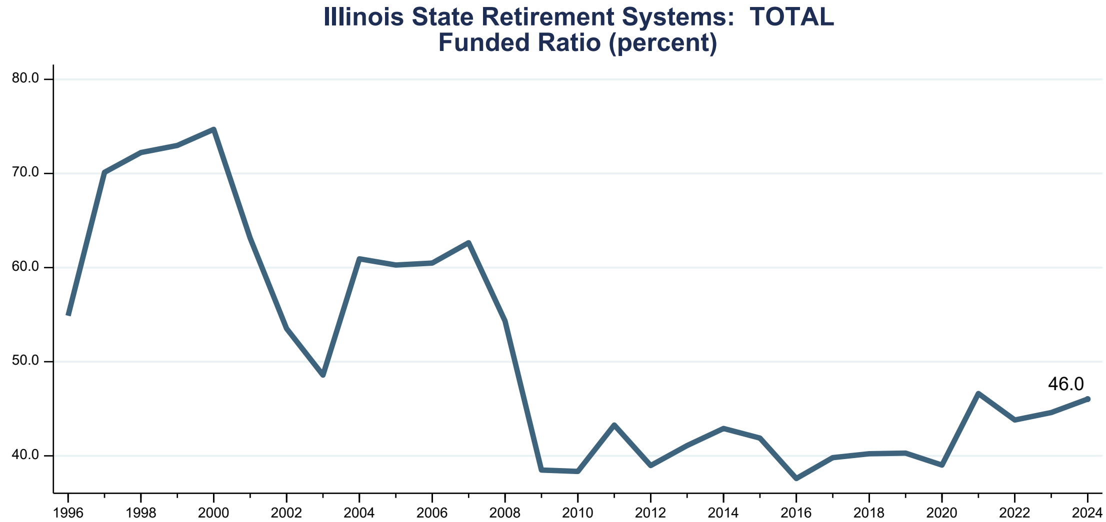
Source: National Association of State Budget Officers, State Rainy Day Balances; December 2024.
2023 data are actuals; 2024 data are estimates; and 2025 data are based on governors' recommended budgets.
https://www.nasbo.org/reports-data/historical-data

Unfunded Pension Liabilities

Illinois' pension challenges are well-documented. A recent analysis reports that the five state pension plans had $143.7 billion in unfunded liabilities as of June 30, 2024, and despite contributing in excess of $11 billion annually towards these funds in FY 2024, the state's contributions fall billions of dollars short of the actuarially determined contribution (ADC) needed to cover normal cost plus amortization of unfunded liabilities.[28] The need to make continued large contributions to the state's fund puts pressure on the state's ability to provide other services. For the state's five pension funds as a whole, the funded ratio was 46.0%, a modest increase over the previous year (Graph 12). The Teachers' Retirement System (TRS), the State Employees' Retirement System (SERS), and the State Universities Retirement System (SURS) account for most of the assets, liabilities, and unfunded liabilities in these five funds (see Graph 13.)

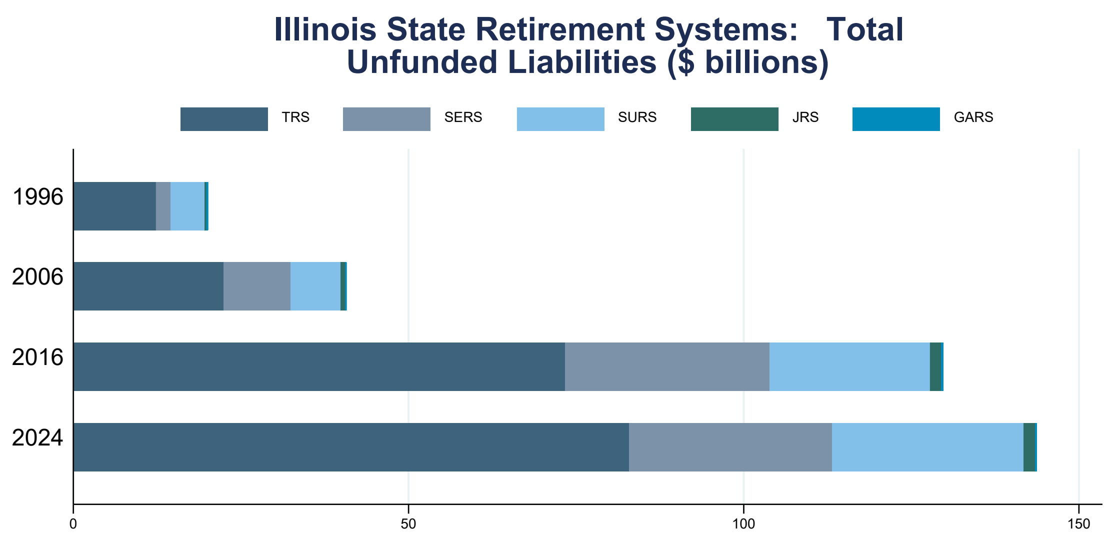
[28] Commission on Government Forecasting and Accountability, "Special Pension Briefing," November 2024, https://cgfa.ilga.gov/Upload/2024%20Special%20Pension%20Briefing.pdf.

Graph 12



Source: Commission on Government Forecasting and Accountability: *Illinois State Retirement Systems Financial Condition as of June 30, 2022; Special Pension Briefing, November 2023; and Special Pension Briefing, November 2024.* All values at end of fiscal year. State systems include Teachers' Retirement System (TRS); State Employees' Retirement System (SERS); State Universities Retirement System (SURS); Judges' Retirement System (JRS); and General Assembly Retirement System (GARS).

Graph 13



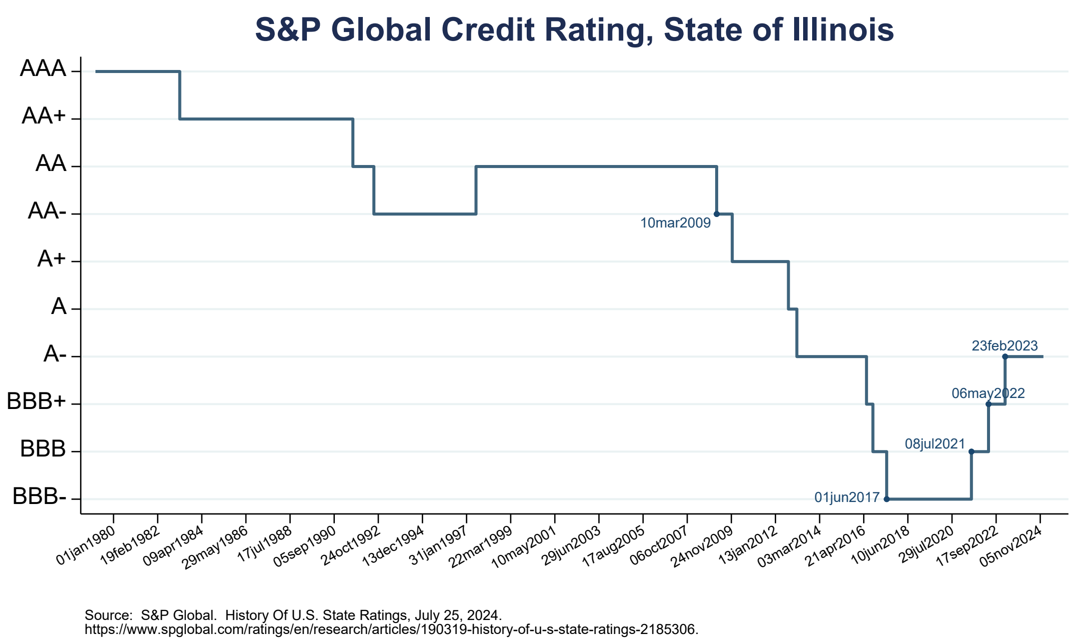
Source: Commission on Government Forecasting and Accountability: *Illinois State Retirement Systems Financial Condition as of June 30, 2022; Special Pension Briefing, November 2023; and Special Pension Briefing, November 2024.* All values at end of fiscal year. State systems include Teachers' Retirement System (TRS); State Employees' Retirement System (SERS); State Universities Retirement System (SURS); Judges' Retirement System (JRS); and General Assembly Retirement System (GARS).

Credit Ratings

While credit ratings of state-issued debt are not under the state's direct control, such ratings *do* reflect the interaction of policy choices, economic activity, and fiscal performance. Rating agencies consider many factors when assessing credit quality, including factors discussed above, such as economic growth (employment, GDP); tax and expenditure patterns (levels and distribution of tax burdens); and financial measures of both stocks (reserves, debt, unfunded pension liabilities) and flows (fiscal balance). Illinois has experienced several credit upgrades in recent years, and several rating agency reports highlight the state's solid revenue performance, pay-down of bill backlog and build-up of financial reserves, and improved pension funding. [29] [30] [31] The Civic Federation's recent analysis also highlighted factors behind recent rating upgrades, including improved reserves, additional contributions to the state's pension funds, and the elimination of the state's bill backlog.[32]

Graph 14 below shows the state's historical general obligation bond ratings from S&P Global, which last upgraded the rating to A- in February 2023, an improvement for Illinois but one that still leaves the state with the lowest S&P rating of all the states (Graph 15).[33]

Graph 14



[29] Rob Kozlowski, "Higher Pension Contributions Help Hike Illinois' Credit Rating," *Pensions & Investments*, April 22, 2022, sec. PENSION FUNDS, https://www.pionline.com/pension-funds/higher-pension-contributions-help-hike-illinois-credit-rating.

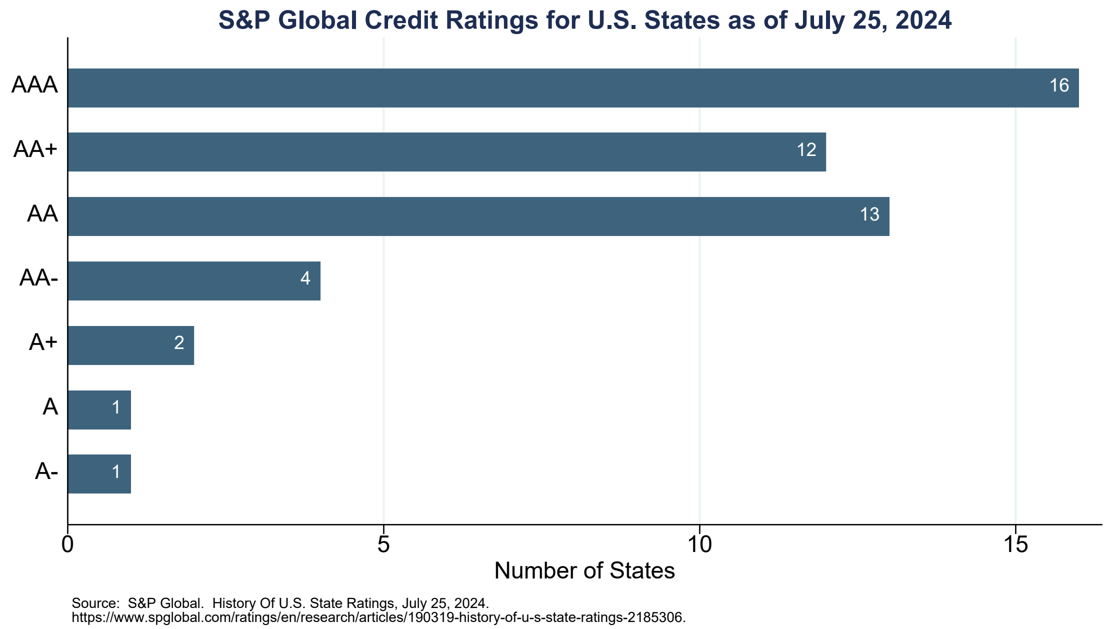
[30] Jerry Nowicki, "State Gets 9th Recent Credit Upgrade as Administration Faces Scrutiny for Pandemic Unemployment Handling," *Capitolnewsillinois.Com*, November 7, 2023, https://capitolnewsillinois.com/NEWS/state-gets-9th-recent-credit-upgrade-as-administration-faces-scrutiny-for-pandemic-unemployment-handling.

[31] Leigh Giangreco, "Moody's Looks Positively at Illinois," *Crain's Chicago Business*, April 23, 2024, sec. Politics, https://www.chicagobusiness.com/politics/moodys-raises-outlook-illinois-debt.

[32] Civic Federation, "State of Illinois FY2024 Debt Burden and Credit Ratings," April 21, 2023, https://www.civicfed.org/civic-federation/blog/state-illinois-fy2024-debt-burden-and-credit-ratings.

[33] Note that S&P's rating of BBB- is the lowest investment-grade rating on its scale, implying that until recent upgrades began in 2021, the state had the lowest possible rating above junk status.

Graph 15



OVERALL BUSINESS ENVIRONMENT

Factors beyond taxes and spending choices affect residential and business location choices, growth in employment, and other measures of economic vitality. In fact, the state's economic development 5-year plan specifically elevates several such factors in its assessment of the state's underlying competitive advantages. This section will briefly discuss some of those factors and explore how Illinois compares with its peers, laying the groundwork for the next section's discussion of the state's approach to economic development policy.

Multiple groups publish indexes purporting to measure not just tax competitiveness but other aspects of the economic environment that may affect growth and business activity. While no one index, ranking, or score fully covers the landscape, and unpublished methods often limit the interpretation and replicability of the work, the measures described here provide more insight into the state's strengths and weaknesses and serve to reinforce our earlier findings on growth and fiscal conditions.

For example, CNBC's "Top States for Business" index ranks Illinois 15th of the 50 states, with real strength in infrastructure, education, and technology & innovation. Indiana is ranked somewhat higher overall at 11, while Wisconsin is ranked lower at 21.[34] In this CNBC ranking:

[34] CNBC, "America's Top States for Business 2024: The Full Rankings," *CNBC*, July 11, 2024, sec. Top States For Business, https://www.cnbc.com/2024/07/11/americas-top-states-for-business-full-rankings.html.

- Illinois fares poorly in the Economy category, reflecting the weak GDP and employment growth documented above, as well as low credit ratings compared with other states.
- Rankings in business friendliness, a somewhat subjective category, reflect differences in regulations related to land use, artificial intelligence, labor markets, and other business activities.[35]
- Illinois ranks highly in education and infrastructure, the latter category reflecting quality, capacity, and prices of transportation, drinking water, wastewater, and power sector services, as well as business site availability and conditions.

Another annual report, *Rich States, Poor States,* issued by the American Legislative Exchange Council (ALEC), ranked Illinois 48th of 50 states in its 2024 Economic Outlook, based on an equally weighted, 15-factor index of "state economic competitiveness." [36] The index includes measures of taxes, several of which were examined above (e.g., property tax burden per $1,000 of personal income), as well as debt, the size of the state workforce, business climate measures, and state tax or expenditure limitations. These factors represent non-tax policy levers available to state officials. The 15-factor index includes the state minimum wage ($15/hour as of January 1, 2025), average worker's compensation costs, right-to-work status, and existing tax and/or expenditure limits at the state level.

Yet another report on the "Best States" ranks Illinois at 38 out of 50, based on weighted average scores in eight different categories.[37] Illinois' strength in the Health Care and Education categories, reflecting measures of health care access and quality, public health, and educational attainment, was not enough to offset very low ratings in the Economy and Fiscal Stability categories, reflecting the slow growth, high tax burdens, and long-term liabilities also previously documented. Indiana and Wisconsin, two of Illinois' neighboring states, were ranked higher than Illinois, each state with its own relative strengths: Indiana ranked highly in the Education category and "middle of the pack" in the Economy and Fiscal Stability categories, and Wisconsin was near the top on Education, with significant strength on the Fiscal Stability measures. Again, it is useful to consider what policymakers can most directly control, and the Economy and Fiscal Stability categories offer some specific factors to assess.

[35] A recent policy brief describes how states can improve regulation and streamline procedures and compliance to encourage economic activity and growth. Mark Robyn, "Improved Business Regulation Systems Can Benefit State Economies," *Pew* (blog), May 22, 2023.
[36] Arthur B. Laffer, Stephen Moore, and Jonathan Williams, "Rich States, Poor States" (American Legislative Exchange Council, 2024), https://www.richstatespoorstates.org/app/uploads/2024/04/2024-17th-RSPS-State-Pages_WEB.pdf.
[37] U.S. News & World Report, "Best States 2024: Ranking Performance Throughout All 50 States," 2024; U.S. News & World Report, "Best States 2024: How They Were Ranked," *US News & World Report* (blog), May 7, 2024, https://www.usnews.com/news/best-states/articles/methodology.

HOW DOES ILLINOIS APPROACH ECONOMIC DEVELOPMENT POLICY?

In addition to the general tax and other policies described above, project-, location- and/or sector-specific incentives and programs can also affect economic growth. This section reviews the state's current approach to these specific programs in economic development, beginning with a brief discussion of business-related tax expenditures. We also consider the state's Department of Commerce and Economic Opportunity's most recent 5-year plan to assess its role in encouraging economic growth state-wide.

ECONOMIC DEVELOPMENT TAX EXPENDITURES

States routinely provide tax incentives to encourage desired economic activity. When incentives serve to decrease a taxpayer's tax liability, they are characterized as "tax expenditures," meaning that the state forgoes tax revenues it would otherwise collect when the incentives are provided. The State of Illinois Comptroller reports that economic development tax expenditures rose from $669.2 million in FY 2022 to $910.8 million in FY 2023—an astonishing 74% higher than in FY2020. These tax expenditures are taxpayer-claimed credits or exemptions to income that decrease taxes payable to Illinois: corporate income tax credits under the EDGE, film production, R&D and other tax credit programs; sales tax exemptions for manufacturing equipment; and other exemptions and credits against a variety of other taxes.[38] In general, policymakers use credits and exemptions to incentivize and/or discourage certain activities—in this case, business location, expansion, investments, and similar measures of business activity.[39]

Assessing the impact of these tax expenditures on economic growth in Illinois is difficult, as the state's reporting and analysis are limited. A 2017 Pew study described Illinois as "trailing" other states in its efforts to evaluate the effectiveness of incentives on growth.[40] Five years later,

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[38] Illinois State Comptroller, "Tax Expenditure Report FY 2021," 2023; Illinois State Comptroller, "Tax Expenditure Report FY 2022," March 2024; State of Illinois, "Tax Expenditure Report FY 2023," December 2024,.

[39] More generally, corporate income tax expenditures, which include economic development tax expenditures as well as other items, were $732.3 million in FY 2023, down sharply from 2022's $938.1 million. One big factor in the decrease: the impact of the net operating loss deduction provisions. In FY 2022, the NOLS deduction cost $553.1 million in forgone revenues, but in FY 2023, the tax expenditure was only $62.0 million. In general, federal and state corporate income tax structures have long allowed firms to "carry over" losses from previous years to smooth out volatile income fluctuations, ensuring that taxes reflect average profitability over time. Until 2020 in Illinois, firms could carry losses forward for 12 years, but for the 2021-2023 tax years, these NOL were capped at $100,000 per year, forcing firms to "wait" before claiming losses in excess of that limit. In the FY 2025 enacted budget, the cap was raised to $500,000 per year and extended through 2027, thus increasing tax revenues now in return for depressing them later.

[40] Pew Charitable Trusts, "How States Are Improving Tax Incentives for Jobs and Growth" (Pew Trusts, 2017), 52, http://pew.org/2pENuuq.

Illinois still fell short.[41] A recent study of state tax expenditures emphasizes the use of best practices including the delineation of goals and creation and monitoring of key performance indicators to evaluate how effectively the expenditures satisfy original policy intentions.[42] Pew argues that "states should establish reliable cost estimates for new proposals, set annual spending limits on incentives, and regularly evaluate the economic outcomes of these programs,"[43] and subsequent work has described how to do so, highlighting best practices in states such as Florida and Indiana[44] and providing a "toolkit" for policymakers.[45]

Department of Commerce and Economic Opportunity Programs

More broadly, the state's Department of Commerce and Economic Opportunity (DCEO) administers multiple grant, credit, and exemption programs and provides other resources to enhance the state's attractiveness to private sector job growth and investments across the state.[46] The effectiveness of these specific incentives is not well-documented or understood, just as little is known about the impact of economic development tax expenditures. State policymakers may want to prioritize this type of work, perhaps building on Timothy Bartik's customizable model to analyze the benefits and costs of a given incentive program.[47][48] Because of limited evidence regarding the efficacy of any specific economic development tax expenditures or incentive programs in Illinois, we now turn to a qualitative discussion of DCEO's overall approach.

DCEO's Approach

The Department of Commerce and Economic Opportunity's 5-year plan outlines strategies that build on the state's "foundational advantages" and aim to position the state for future economic

[41] John Hamman, "How States Evaluate Tax Incentives and Use Evaluations to Inform Policy," https://www.lbo.mn.gov/TERC/meetings/2022/20220811/PewTERCPresentation2022-08-11.pdf.
[42] Matt Fabian and Lisa Washburn, "Evaluating $1 Trillion in State Tax Expenditures" (The Volcker Alliance, June 2024), 15, https://www.volckeralliance.org/sites/default/files/2024-06/Benefit%20or%20Burden%20-%20The%20Volcker%20Alliance_0.pdf.
[43] Pew Trusts, "Frequently Asked Questions," accessed December 31, 2024, http://pew.org/2FkeV2o.
[44] Pew Charitable Trusts, "How States Are Improving Tax Incentives for Jobs and Growth."
[45] Pew Trusts, "Economic Development Incentives Evaluation Toolkit," May 24, 2024, https://pew.org/3Kdu6wA.
[46] Illinois Department of Commerce and Economic Opportunity, "Open for Business: Illinois' 2024 Economic Growth Plan," August 2024, https://dceo.illinois.gov/content/dam/soi/en/web/dceo/documents/ilinois-2024-economic-growth-plan.pdf.
[47] Timothy Bartik, "Bartik Benefit-Cost Model of Business Incentives: A User's Guide" (Upjohn Institute, May 16, 2023), https://research.upjohn.org/reports/287; Timothy J Bartik, "Benefits and Costs of an Incentive Project or Program for State Residents: A Model for Flexible Use in Any State," https://research.upjohn.org/cgi/viewcontent.cgi?article=1094&context=presentations; Timothy Bartik, "An Introduction to the Bartik Benefit-Cost Model of Business Incentives," May 16, 2023, https://research.upjohn.org/reports/288.
[48] Bartik's model allows analysis of specific incentive programs and can be customized in terms of the size of the project, the timing of any incentives and employment effects, and the income groups affected by the project.

growth.[49] We find much promise in the approach, even as we have concerns about pre-existing risks and potential new ones.

DCEO identifies six key advantages of Illinois that underpin its approach to economic development, each of which is shaped by both exogenous forces as well as state policy choices: strategic location; fresh water; fertile farmland; clean energy; talented workforce; and top-ranked colleges and universities and workforce training programs. The 5-year plan lays out strategies for enhancing site readiness and capacity; investing in a skilled workforce; providing coordinated access to state and local government economic development resources and programs; and offering strategically chosen incentives for the most high-potential growth industries.

- *Site readiness:* Illinois' geography, access to transportation, water, and power sector infrastructure, and business site availability and conditions represent foundational strengths, as highlighted, for example, in CNBC's "Top States" ranking discussed above. Strategies to build on these strengths make sense and have potential to enhance the state's attractiveness for new business location and expansion.
- *Skilled workforce:* In general, Illinois does well on human capital measures related to high school and college attainment, and DCEO describes strategies to offer customized job training, working with private sector employers to anticipate and meet specialized hiring needs.
- *Coordination:* DCEO explicitly partners with others to ensure a unified approach to business development, coordinating with the Governor's Office and Intersect Illinois as well as regional economic development partners.
- *Competitive incentives:* DCEO also identifies strategic incentive approaches focused on high-growth industries, including advanced manufacturing, life sciences, quantum computing, and clean energy.

Discussion

Despite the advantages and strategies developed by DCEO to encourage more robust economic growth in Illinois, a host of risks and weaknesses may threaten the state's ability to exploit its considerable assets.

- *Tax competitiveness:* As amply shown, Illinois residents face high state and local government taxes compared with residents of other states. Economic development tax expenditures along with other targeted incentives can ameliorate this to some extent, but the general level of taxes remains a negative factor.
- *Impact of incentives:* Despite incentivizing economic development via tax expenditures and more specific programs, the state has little idea of the effectiveness of these incentives.

[49] Illinois Department of Commerce and Economic Opportunity, "Open for Business: Illinois' 2024 Economic Growth Plan."

- *Governmental structure:* The state's fractured governmental structure, with hundreds and even thousands of distinct government units, impairs Illinois' ability to respond to both risk and opportunity on a region-wide or even state-wide basis [50] [51]. This complicates plans for transportation and logistics projects as well as freshwater management policies which typically "touch" many jurisdictions at once, not just one jurisdiction at a time.
- *Local government fiscal stress:* The City of Chicago, Chicago Public Schools, and the Chicago region's transit agencies are under significant budgetary pressure in the post-COVID era, potentially placing pressure on the state itself to intervene.[52] A healthy and vibrant Chicago metro region with functional public services is essential if the state is to improve its overall economic prospects. Over three-quarters of the state's nonfarm payroll jobs are located in the Chicago-Naperville-Elgin MSA and labor force participation rates and per capita incomes are higher in Chicago than in the state as a whole.[53]
- *Skilled workforce:* On one hand, a well-above-US-average share of Illinois adults have college degrees, labor force participation rates are high, and the state's colleges and universities include some world-class institutions with demonstrated impacts on technology and innovation. On the other hand, outward migration of highly educated residents, particularly in STEM fields, and a potentially shrinking higher education sector are warning signs that these assets may degrade over time.[54]

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[50] Rick Pearson, "Illinois' Thousands of Local Governments Add to Culture of Corruption," *Chicago Tribune*, March 27, 2024, https://www.chicagotribune.com/2024/10/27/illinois-government-glut/.
[51] Civic Federation, "An Inventory of Local Governments in Illinois," February 25, 2021, https://www.civicfed.org/sites/default/files/inventory_of_local_governments_report__0.pdf.
[52] S&P Global Ratings, "Chicago Board of Education Fiscal Stability Could Be Strained in the Face of Management Uncertainty, Union Negotiations," December 3, 2024, https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3294327; Civic Federation, "Reforming Mass Transit Governance in the Chicago Region," April 25, 2024, https://civicfed.org/sites/default/files/2024-04/Reforming%20Mass%20Transit%20Governance%20in%20the%20Chicago%20Region.pdf; Shruti Date Singh, "Even with a New Budget, Chicago Faces More Fiscal Pain Ahead," *Crain's Chicago Business*, December 18, 2024, sec. Politics, https://www.chicagobusiness.com/politics/chicago-2025-budget-wont-reduce-future-fiscal-pain; Civic Federation, "Financial Landscape Analysis of the Chicago Public School District: FY2025," January 13, 2025, https://www.civicfed.org/FinancialLandscapeCPSFY2025.
[53] Bureau of Labor Statistics, "State and Metro Area Employment, Hours, and & Earnings," Bureau of Labor Statistics, accessed January 1, 2025, https://www.bls.gov/sae/; U.S. Census Bureau, "U.S. Census Bureau QuickFacts: Illinois; Chicago City, Illinois," 2024, https://www.census.gov/quickfacts/fact/table/IL,chicagocityillinois/LND110210.
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- *Energy sector:* While Illinois does boast significant advantages and future commitments in the production of clean energy, the state's transmission and distribution infrastructure may not be sufficient to take full advantage of these assets. [55] [56]

CLOSING THOUGHTS: RISKS AND OPPORTUNITIES

This assessment of Illinois' economic conditions and policy choices suggests several key findings:

- Despite having some material advantages in economic fundamentals relative to other states, Illinois' overall economic growth has lagged that of other states/the nation as a whole.
- At least some of these weaknesses seem likely to be related to tax and other fiscal policy measures, many of which are under the state's control. The state's current tax structure is characterized by regressive and high tax burdens, and broader assessments of taxes, transfers, and spending lead to similar conclusions. Spending priorities on education, health, and infrastructure are not assessed critically, leaving the state unprepared to assess potential spending adjustments in future fiscal years.
- The state devotes considerable resources to programs and incentives aimed at specific sectors, projects, and/or locations, yet there is little evidence on the effectiveness of these policies in driving economic growth.

Finally, adding to the potential constraints identified in the previous section, new "macro"-level risks may emerge as a new presidential administration takes control in Washington, D.C. At least three specific policy areas, maybe more, may affect the state's future economic prospects:

- *Tariffs*: Threatened dramatic increases in tariffs on goods imported from China and other countries may raise prices significantly, affecting both Illinois consumers as well as producers paying higher input prices. In the first Trump Administration, increased tariffs elicited retaliatory tariffs on US exports of agricultural goods, generating downstream negative impacts on the farm sector.
- *Immigration:* Threatened, widespread deportation of undocumented residents has the potential to upend labor markets nationwide, especially in states like Illinois that rely heavily on foreign-born workers. As discussed above, Illinois' recent gains in population were driven by international net migration, and Illinois' labor markets may be quite vulnerable to immigration policy shocks.

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    - Foreign born workers accounted for 18.6% of the U.S. labor force in 2023, and labor force participation rates were higher among foreign born workers (66.6%) than native born workers (61.8%). In the East North Central Census region, which includes Illinois, Indiana, Michigan, Ohio, and Wisconsin, foreign born workers accounted for 11.0% of the labor force and had higher labor force participation rates than native born workers [57].
    - The Brookings Institution's Visa Outlook Explorer tool, which combines data on projected labor demand by state and occupation with current data on immigrants in those jobs, identifies Illinois as one of 10 states with the highest projected demand for immigrant visas. The tool projects Illinois will need 262,616 immigrant visas to meet projected job growth by 2030, a significant figure given the modest job growth projected overall in the state [58].
- *Tax reform:* With the upcoming expiration of many TCJA provisions at the end of 2025, Congress will likely act to extend some provisions, change others, and potentially add new features to the federal individual and corporate income tax codes. These changes will affect overall economic activity, budget deficits, and interest rates. Furthermore, to the extent that Illinois relies on the federal tax code as part of its own state tax code, policymakers will need to consider how federal policy changes will affect state taxable incomes and revenues.

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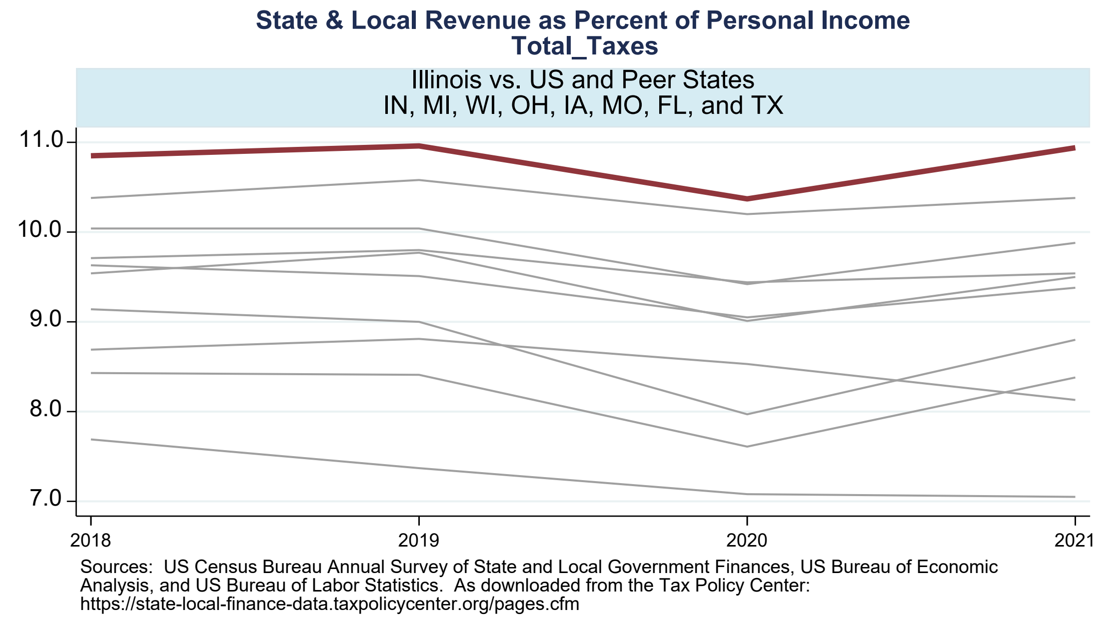
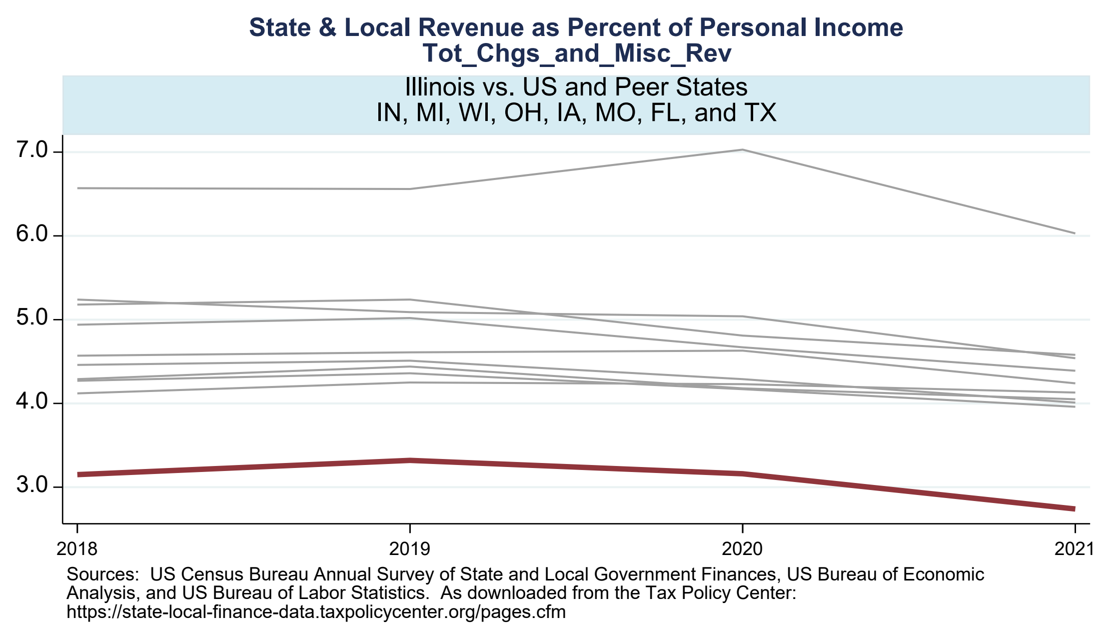
APPENDIX

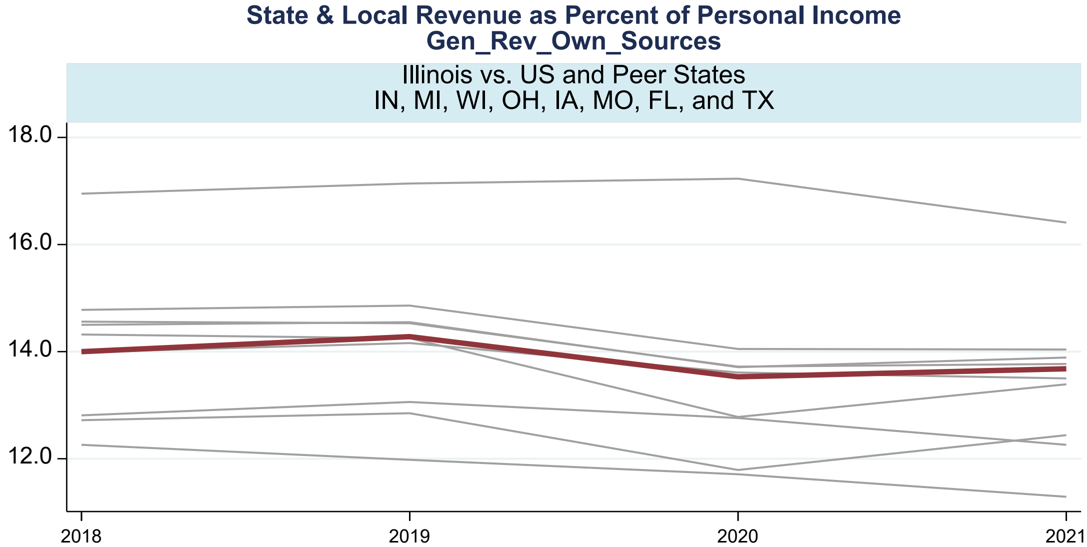
TAX REVENUES AS PERCENT OF PERSONAL INCOME



CHARGES AND MISCELLANEOUS REVENUES AS PERCENT OF PERSONAL INCOME



General Own Source Revenue as Percent of Personal Income



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