



# CIVIC FEDERATION FY2026 STATE OF ILLINOIS BUDGET ROADMAP

The State of Illinois must move beyond short-term budget fixes and adopt a strategic, long-term approach to fiscal management to promote economic growth, attract investment, and ensure financial sustainability. The Civic Federation calls for a holistic re-evaluation of the State's tax structure and the implementation of a more strategic approach to budgeting.

## FEDERAL FUNDING CONTEXT

The onset of the new Administration in Washington on January 20, 2025, brought a rush of statements and actions that threaten the size and, in some cases, the very existence of a federal funding system that supports critical programs of states, local governments, and nonprofit agencies, impacting millions of Illinoisans who rely on a vast array of programs. While the effects of actual and threatened defunding of key programs, including Medicaid, public education at all levels, environmental protection programs, and medical research, are still unknown, the sudden loss of billions of dollars in grant funding from the federal government would decimate vital programs and put additional pressures on an already stressed State of Illinois' budget, not to mention local government throughout Illinois.

## FINANCIAL LANDSCAPE

Illinois faces significant financial challenges, characterized by a high tax burden, regressive tax structure, and a lack of long-term sustainability in its fiscal policies. The State's current tax structure creates disincentives that hinder efforts to attract new residents, businesses, and economic opportunities. Stagnant revenues, which have not kept pace with rising spending demands, have led to projections of large budget deficits in the coming years. These challenges are compounded by legacy financial problems, such as pension obligations and budget deficits, which require strategic solutions to ensure fiscal stability and growth.

## ISSUES

- The State's outdated tax structure fails to align with the modern economy, placing an excessive burden on certain taxpayers while discouraging business investment.
- The stagnant revenue base has not kept pace with rising spending demands, exacerbating budgetary pressures.
- The lack of a clear connection between performance-based budgeting metrics and actual budget decisions weakens the state's ability to systematically prioritize spending.
- Persistent pension liabilities continue to strain finances.
- Insufficient reserves leave the state vulnerable to economic downturns.
- A lack of transparency in policymaking undermines public trust and accountability in the budgeting process.

## RECOMMENDATIONS

**Modernize Illinois' Tax Structure:** As part of a broader examination of Illinois' tax structure to generate sustainable revenue growth, Illinois should consider expanding the sales tax base to include services, conduct a systematic review of tax exemptions, evaluate and develop a sustainable revenue structure, and review and consolidate Special Funds.

**Strengthen the Budgeting Process through Strategic Financial Planning:** The State should improve the transparency of the strategic budget planning process and conduct long-term planning and evaluation. As part of this, the State should:

- Enhance the performance-based budgeting process to ensure spending decisions are data-driven and aligned with measurable outcomes;
- Address pension liabilities and avoid unnecessary Tier 2 benefit enhancements by enacting changes targeted at compliance with Social Security Safe Harbor guidelines
- Increase the level of reserves to constitute a more robust rainy day fund;
- Support local governments by collaborating with local government entities on funding matters; and
- Improve transparency in state decision-making to ensure a more cooperative and open policy-making process.

To view the full budget roadmap,

visit [civicfed.org/IllinoisFY2026BudgetRoadmap](https://civicfed.org/IllinoisFY2026BudgetRoadmap)

or scan the QR code below.

