

Setting the Stage for the FY2027 Illinois State Budget



Illinois enters the FY2027 budget process after several years of improved fiscal stability but facing a markedly more constrained outlook than in recent cycles. While the State has reduced its bill backlog, partially rebuilt reserves, and mitigated chronic structural deficits, slowing revenue growth, rising baseline costs, the phase-out of one-time federal pandemic aid, and new federal policy developments are pressing on long-standing baseline fiscal pressures. Those factors are tightening the State's fiscal outlook and reducing flexibility for policymakers as they approach the FY2027 budget.

According to the Governor's Office of Management and Budget (GOMB), Illinois currently faces a modest but material General Funds deficit in the current fiscal year, driven primarily by weaker-than-expected income tax revenues. Federal tax policy changes enacted under H.R. 1 have had an outsized impact on State revenues, reducing expected income tax receipts. Legislative action during the 2025 Veto Session partially mitigated these losses through targeted decoupling, but significant revenue exposure remains heading into FY2027.

At the same time, federal policy changes are increasing Illinois' fiscal risk on the spending side. The State is expected to assume a larger share of Supplemental Nutrition Assistance Program (SNAP) administrative costs beginning in FY2027, with potential exposure to benefit costs in later years. New limits on provider taxes threaten future Medicaid revenues, and a federal funding freeze announced in January 2026 introduces additional uncertainty for childcare and human services programs. Together, these developments heighten Illinois' vulnerability to factors largely outside its direct control.

Although Illinois' recent fiscal progress has improved liquidity and reduced near-term risk, structural constraints persist. Roughly two-thirds of projected General Funds spending in FY2027 is devoted to fixed or largely nondiscretionary costs, including pensions, healthcare, and education. The FY2026 enacted budget relied in part on targeted revenue increases and one-time measures, tools that preserve balance in the near term but do not address underlying structural gaps.

GOMB's multi-year projections indicate that, absent policy adjustments, Illinois' fiscal position is expected to weaken gradually over time as expenditure growth outpaces revenue growth. The projected gap is estimated at \$2.2 billion in FY2027 and grows significantly in later years. As the Governor prepares to release the FY2027 budget proposal, how the State manages slowing revenues, acknowledges known cost drivers, treats reserves, and responds to federal uncertainty will be central indicators of the budget's sustainability and risk posture.