



HOW ILLINOIS' FY2027 PROPOSED BUDGET ADDRESSES LONG-TERM FISCAL SUSTAINABILITY



CIVIC FEDERATION

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EXECUTIVE SUMMARY

Governor Pritzker's FY2027 State of Illinois (Illinois or the 'State') budget proposal balances the books amidst a \$2.2 billion budget gap, offering a "maintenance" budget that yields a modest general funds surplus of \$24 million. This report examines how Governor Pritzker's FY2027 State of Illinois budget proposal advances the State's long-term goals for financial stability. This question is particularly important given Illinois' tepid economic growth and persistent structural challenges, including an underlying mismatch between revenues and expenditures, limited fiscal resiliency, growing pension obligations, and a fiscal framework that does not fully support sustained and inclusive economic growth.

As part of an assessment of whether the proposal advances long-term goals, this report evaluates the budget across four key indicators:

1) Long-term structural sustainability:

The FY2027 proposed budget achieves balance through restrained spending growth, targeted adjustments to existing taxes, and limited new revenues. While this approach addresses near-term fiscal pressures, it largely maintains the status quo and allows underlying structural imbalances to persist. Specifically, the State's core tax base—personal income, corporate income, and sales taxes—has been growing more slowly than spending on core (non-Medicaid) services. Recent revenue strength has been driven primarily by policy changes, including the 2017 income tax rate increase and the introduction or expansion of smaller revenue sources, rather than sustained growth in the tax base. As a result, if current trends continue, revenues will not keep pace with expenditures, leading to future budget gaps. At the same time, options for raising additional revenue through similar measures are becoming more limited, and the State has neither significantly restrained spending growth nor pursued broader structural reforms to align revenues with long-term spending demands.

2) Fiscal resiliency:

The State's Budget Stabilization Fund ("rainy day fund") remains underfunded and has seen little growth since FY2023. At 4.5% of general funds expenditures, reserves remain well below the recommended 8% threshold (one month of operating expenditures) and far below the national average. While the proposed budget includes a modest deposit, it does not materially strengthen the State's ability to withstand future economic downturns or fiscal shocks.

3) Long-term pension liabilities:

The proposed budget includes several incremental pension policy changes intended to improve funded ratios and reduce contribution volatility. These include adjustments to funding targets, contribution timing, and risk management mechanisms. While each proposal has merit, their

combined impact is modest and does not significantly alter the trajectory of the State's large unfunded pension liabilities.

4) Economic growth:

The budget includes targeted initiatives aimed at supporting economic development, such as the BUILD program, regulatory streamlining, and enhancements to existing incentives. However, it does not address broader structural fiscal issues that influence long-term growth, including tax structure, spending pressures, and policy uncertainty. Given the State's relatively weak performance in job growth, output, and population growth, the State's revenue base will remain constrained without stronger underlying economic growth, further exacerbating structural fiscal challenges.

The FY2027 budget proposal successfully closes the immediate budget gap but does not address the State's underlying structural challenges. The core issue is that the State's revenue base is not growing fast enough to support its spending commitments, with recent revenue strength driven largely by policy changes rather than sustained economic growth. Addressing this imbalance will require a combination of policy actions, including restraining spending growth, increasing or restructuring taxes where feasible, and expanding the tax base through economic growth and modernization. Absent such changes, the State's fiscal position is likely to weaken gradually over time, leaving Illinois less prepared to manage future risks and less well-positioned to achieve long-term financial stability.

INTRODUCTION

Budget discussions and deliberations are heating up in Illinois, where state legislators must pass a budget by May 31st for the coming fiscal year. Governor Pritzker's FY2027 budget proposal offers a blueprint to balance the state's budget despite the \$2.2 billion budget gap estimated last fall.¹ In recent reports, the Civic Federation has highlighted Illinois's uncertain economic outlook,² the ways in which the Governor's proposal closes the budget gap,³ and how the proposal manages risks and lost funding support from the federal government.⁴

As detailed in previous Civic Federation work on the Governor's budget proposal,⁵ the FY2027 budget as proposed is a "maintenance" budget, meaning it does enough to technically balance the budget for the coming year, while generating a modest general funds surplus of \$24 million, but does little to address the State's longer-term financial challenges. General funds resources are budgeted to grow by 1.5% over estimated FY2026 levels, relying on modest increases from the State's "core" tax revenues (individual income tax, corporate income tax, and sales tax); limited new taxes (social media platform tax); reallocations of selected revenue streams; and changes to transfers in and out of the general funds. General funds expenditures are budgeted to grow by 1.8% over FY2026 levels, with increased spending on education (including K-12, early childhood, and post-secondary) and on pensions offset somewhat by reductions in general funds spending on healthcare (Medicaid program).⁶

To assess how this budget addresses longer-term priorities, we look at how the budget advances the following key fiscal and economic indicators:

- 1) Achieving structural balance and sustainability;
- 2) Improving fiscal resilience, as measured by the rainy day fund (reserves);
- 3) Managing long-term pension liabilities; and
- 4) Promoting economic growth.

After examining these key areas, we find that the current budget proposal at best holds steady, not unduly reversing some of the State's recent improvements, but not advancing fiscal stability either.

¹ J. B. Pritzker, *Proposed Illinois State Budget Fiscal Year 2027* (2026), <https://budget.illinois.gov/content/dam/soi/en/web/budget/documents/budget-book/fy2027-budget/Fiscal-Year-2027-Operating-Budget.pdf>.

² Paula R. Worthington, "Weakening Labor Market Complicates Economic Outlook for Illinois," *Civic Federation*, March 12, 2026, <https://civicfed.org/weakening-labor-market-complicates-economic-outlook-illinois>.

³ Lily Padula, "A Maintenance Budget: How Illinois' FY2027 Budget Proposal Balances The Books," *Civic Federation*, March 31, 2026, <https://www.civicfed.org/a-maintenance-budget-how-illinois-fy2027-budget-balances-the-books>.

⁴ Lily Padula, "How Illinois' Proposed FY2027 Budget Manages Federal Funding Risks," *Civic Federation*, April 9, 2026, <https://www.civicfed.org/how-illinois-fy2027-budget-manages-federal-funding-risks>.

⁵ Padula, "A Maintenance Budget: How Illinois' FY2027 Budget Proposal Balances The Books."

⁶ Overall healthcare spending, including general funds and special funds, is budgeted to increase.

ACHIEVING FISCAL SUSTAINABILITY

Long-run fiscal sustainability requires long-run structural budget balance between revenues and expenditures.⁷ The good news is that over the past decade, the State's growth in expenditures has essentially been met with commensurate revenue growth. The bad news is that this recent revenue growth is not sustainable. In fact, core tax revenues—individual income, corporate income, and sales taxes—grew more slowly than core spending (non-Medicaid spending) over the past decade. If this trend persists in the future, budget gaps will widen over time, forcing the State to make policy adjustments that bring spending and revenue growth into alignment. In other words, while the Governor's FY2027 budget proposal does "close the gap" for the year ahead—through a mixture of modest spending restraint, tweaking existing taxes, and levying new ones⁸—it does not address long-term structural fiscal imbalances.

Much of the recent growth in tax revenues was due to the State's income tax rate increases in FY2018, rather than natural revenue growth based on economic activity. Furthermore, other factors that drove recent revenue growth may face future limitations or will not be repeated at all. For instance, receiving significant COVID-era federal funding was a one-time occurrence. And creating new taxes (e.g., recreational use of cannabis), tweaking existing taxes (e.g., net operating loss deductions for corporations), or raising existing taxes (e.g., motor fuel tax) will become ever more difficult as the State has already exhausted many of these options.

To balance future budgets in a sustainable way, the State will have to bring growth rates of core revenues and spending into balance.

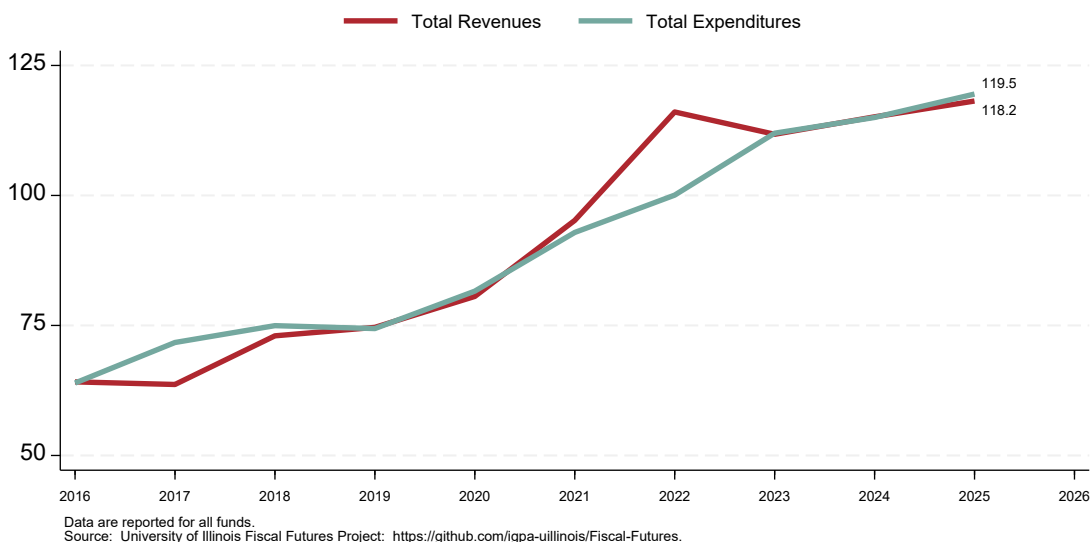
NEAR-TERM SPENDING AND REVENUES: BALANCED

Since FY2016, the State has run relatively modest annual surpluses or deficits. One obvious exception was in FY2022, when the State received a large influx of COVID-19-related funds from the federal government. The graph below conveys this point directly: the gap between spending and revenues is now (through FY2025) essentially nil, as spending and revenues have grown roughly at the same annualized rates: 7.2% and 7.0%, respectively.

⁷ We use an "all funds" approach, based on the methods and data provided by the Fiscal Futures project Institute of Government and Public Affairs, "Fiscal Futures," IGPA, accessed April 12, 2026, <https://igpa.uillinois.edu/>. These data allow consistency over time in the tracking of revenues and expenditures based on the underlying revenue streams and government services provided, regardless of which funds are involved (general funds, special funds, etc.). In contrast, focus on the general funds budget, which reflects interfund transfers, distributions, and re-allocations that vary over time, makes it difficult to follow a given revenue or spending stream moving in or out of the general funds.

⁸ Padula, "A Maintenance Budget: How Illinois' FY2027 Budget Proposal Balances the Books."

State of Illinois All Funds, FY2016-FY2025
(billions of \$)



Such a modest difference in growth rates seems to be of little concern. However, three key points suggest tempering this view:

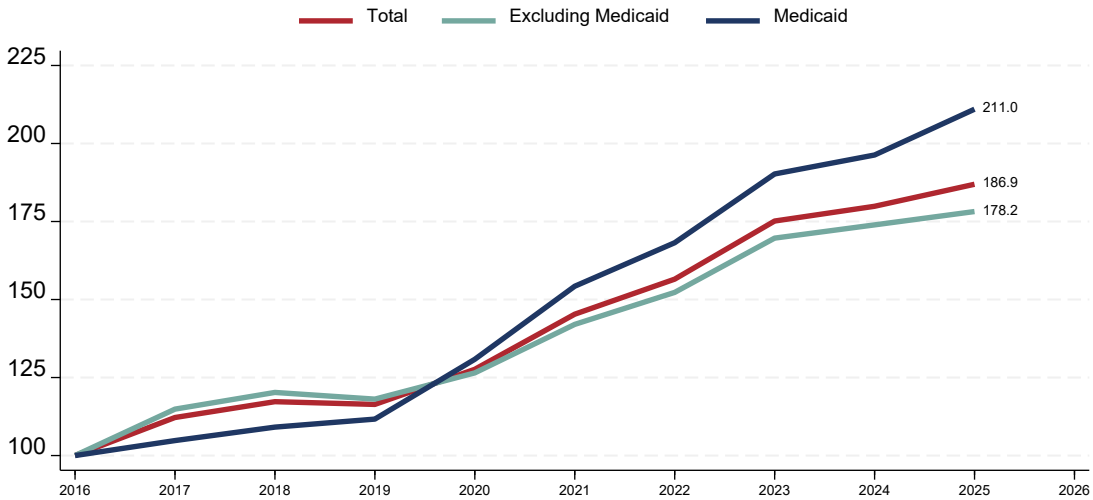
- First, even modest difference in growth rates can add up to significant dollar budget gaps over time.
- Second, these paths do not allow meaningful reductions in the State’s existing long-term liabilities such as pensions and debt (see [below](#)).
- Third, absent significant State policy changes (i.e., tax rate increases or targeted growth in the tax base), recent revenue growth is unlikely to be so high in the future, thus widening future budget gaps.

EXPENDITURE GROWTH DRIVERS: MEDICAID

Spending growth between 2016 and 2025 was largely driven by growth in Medicaid spending. Total all-funds expenditures reached \$119.5 billion in FY2025, dominated by Medicaid at \$35.9 billion. This growth was driven in part by pandemic-era policies that allowed for continuous Medicaid health plan coverage during the public health emergency, as well as enhanced federal matching funds that enabled higher program spending. Medicaid spending rose far more quickly than other types of spending between FY2016 and FY2025: by 2025, Medicaid spending was over twice its 2016 levels (211% of 2016 levels), having grown at an annualized rate of 8.7%.⁹ In contrast, non-Medicaid spending—what we call “core spending”—grew far more slowly at an annualized rate of 6.6%.

⁹ Because the Medicaid program is so distinctive and grew at unprecedented rates during the COVID pandemic, we leave its closer examination for future work.

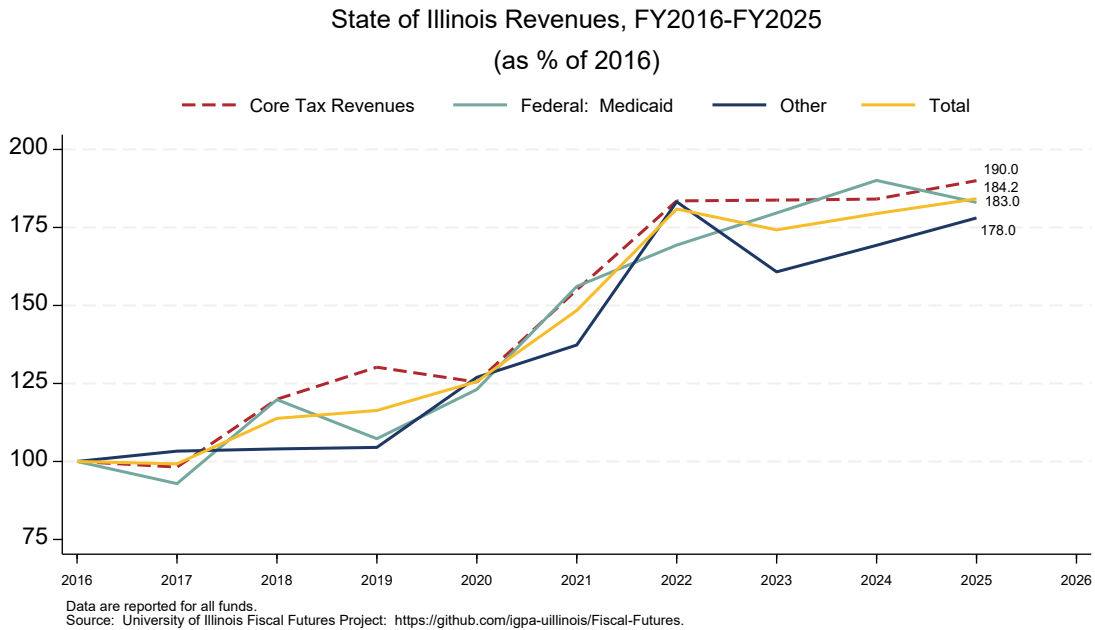
State of Illinois Program Expenditures, FY2016-FY2025
(as % of 2016)



Data are reported for all funds and include state pension fund contributions attributed to expenditure categories.
Source: University of Illinois Fiscal Futures Project: <https://github.com/gpa-illinois/Fiscal-Futures>.

REVENUE GROWTH DRIVERS: TAXES AND FEDERAL SUPPORT

On the revenue side, the State saw rapid growth over the past ten years in the “big three” taxes—individual income tax, corporate income tax, and sales tax—as well as in federal grants. In FY2025, the State’s all funds revenues were \$118.2 billion, comprised of “core” taxes (again, including individual income, corporate income, and sales taxes); federal Medicaid support; and other revenues. Total revenues grew at an annualized rate of 7.0% since FY2016, led by core taxes (at 7.4%), with federal Medicaid support and other revenues growing more slowly at 6.9% and 6.6%, respectively. As the graph below shows, by FY2025, total revenues were 83% higher than their 2016 levels, with even greater growth in core tax revenues (at 90% of FY2016 levels).



CORE EXPENDITURES AND REVENUES: UNBALANCED

The COVID-19 pandemic and its aftermath led to swollen state Medicaid revenues and expenditures across the country, not just in Illinois. By separating out those dollars from spending and revenues, we can better assess the balance between core revenues and spending.

On the spending side, non-Medicaid expenditures grew at a 6.6% annualized rate. These expenditures include spending on K-12 education, human services, transportation, and other services.

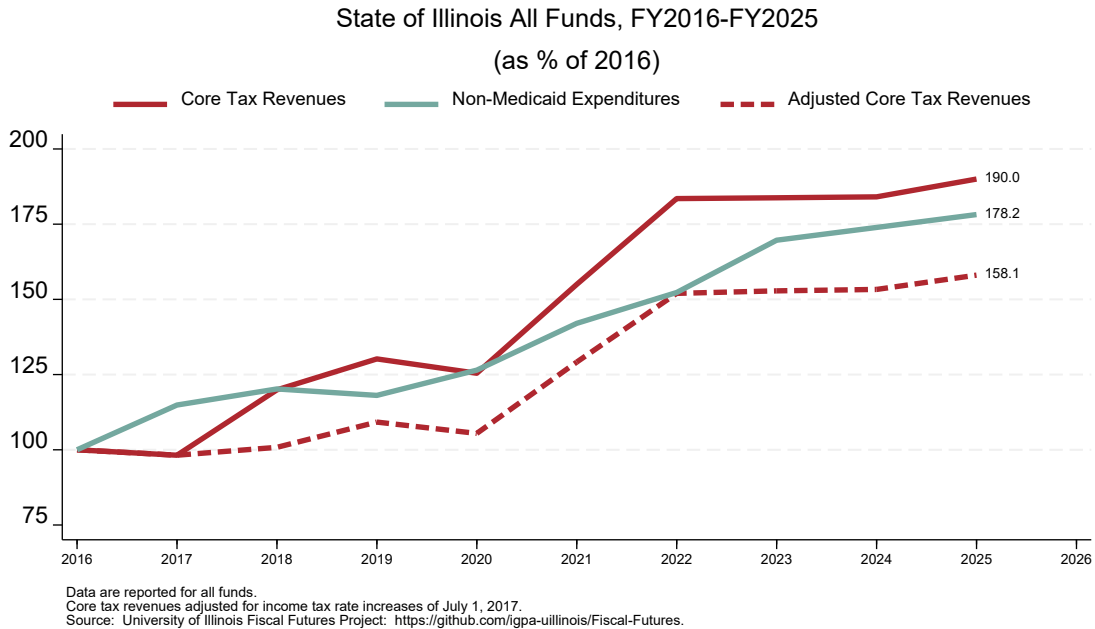
On the revenue side, core tax revenues saw robust growth at a 7.4% annualized rate. These “big three” sources—individual income tax, corporate income tax, and sales tax—are the backbone of the State’s general funds resources and are used to provide a wide range of services. However, the reason for this robust growth was that collections from FY2018 onward reflect the income tax rate increases put in place on July 1, 2017.

Estimating what these core tax revenues “would have been” in the absence of those income tax rate increases yields an estimated annualized rate of only 5.2%.¹⁰ In other words, *absent this policy change*, core tax revenues would have grown much less robustly than they, in fact, did.

The graph below makes this point clear: *actual* core tax revenues grew faster than non-Medicaid spending, but *policy-adjusted* core tax revenues grew more slowly than non-Medicaid

¹⁰ Adjusting sales tax revenues for the “Leveling the Playing Field” Act yields a somewhat lower estimated annualized growth rate of 5.1% for these core tax revenues.

spending. A key reason for reaching balanced budgets (excluding Medicaid) was the income tax rate hike—meaning that the core tax base itself is growing more slowly than non-Medicaid spending.

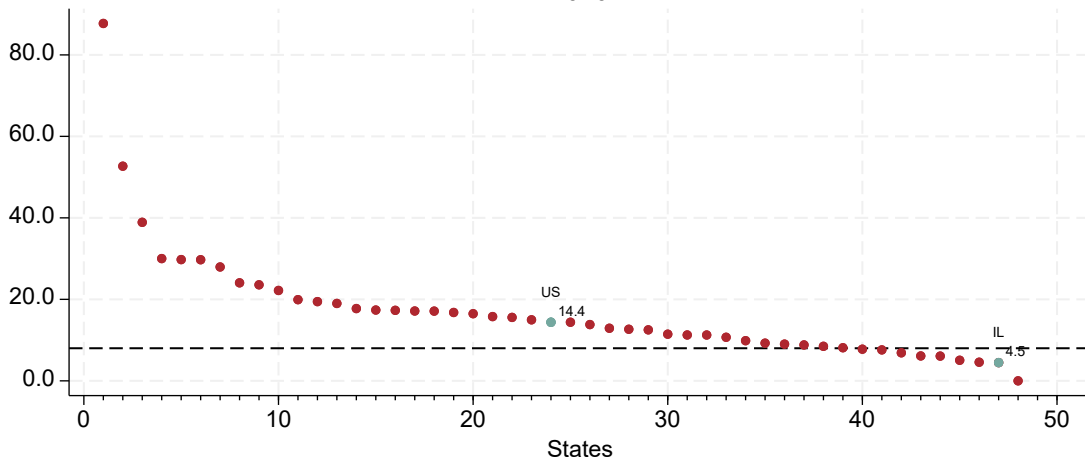


These recent trends signal that in the future, core tax revenues are likely to fail to keep pace with spending increases unless the State makes policy decisions that result in structural balance. Primary policy options include: increasing or restructuring tax rates, growing the tax base (expanding the set of entities, transactions, items, or services subject to taxation), or reducing spending.

IMPROVING FISCAL RESILIENCY

Planning ahead and “saving for a rainy day” is also another key long-term goal. A reserve fund is important for a government to have in the event of a financial emergency, such as a sudden revenue downturn or liquidity crisis. The State’s budget stabilization fund, which serves as its general operating reserves or “rainy day fund,” currently holds just under \$2.5 billion, or 4.5% of general expenditures, putting it near the bottom of the 50 states. Best practices are to hold at least 8% of general funds spending in reserve (about a month of expenditures).

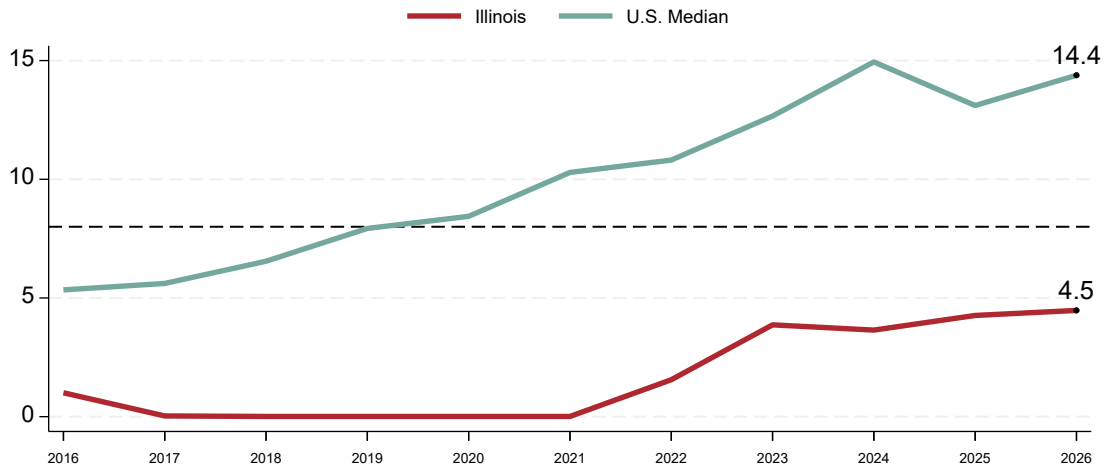
Rainy Day Funds (As Percent of General Expenditures) 2026



2024 data are actuals; 2025 data are preliminary actuals; and 2026 data are based on enacted budgets.
 Dashed line represents 8% target.
 2026 data not available for Georgia, Pennsylvania, and Wisconsin.
 Source: National Association of State Budget Officers, State Rainy Day Balances; April 14, 2026.
<https://www.nasbo.org/reports-data/historical-data>.

While the reserve fund grew significantly in the earlier years of the Pritzker administration, the State has made little progress in raising its reserves since 2023, as shown in the graph below. The proposed FY2027 budget includes adding \$176 million to the rainy day fund, moving the ratio in the right direction but still falling short of an 8% target. It is also well below the national median of 14.4% of general operating expenditures.

Rainy Day Funds (As Percent of General Expenditures)



2024 data are actuals; 2025 data are preliminary actuals; and 2026 data are based on enacted budgets.
 Dashed line represents 8% target.
 2026 data not available for Georgia, Pennsylvania, and Wisconsin.
 Source: National Association of State Budget Officers, State Rainy Day Balances; April 14, 2026.
<https://www.nasbo.org/reports-data/historical-data>.

MANAGING LONG-TERM LIABILITIES/PENSIONS

The Governor's recommended FY2027 budget, like those for FY2025 and FY2026, contains several proposals intended to address the State's unfunded pensions, which totaled \$144.6 billion at the end of FY2025.¹¹ Taken as a whole, the proposals are modest and not overly ambitious, and the approach to any Tier 2 pensions "fixes" is relatively conservative. The principal recommendations are to:

- Increase the funded ratio goal to 100% from its current 90%, and extend the time frame for reaching the target to 2048 from its current 2045.
- Allocate half of "freed up" debt service dollars, FY2030 to FY2040, to pension contributions after paying off the 2017 bill backlog bonds and 2003 pension obligation bonds.
- Use fixed-length "amortization strips" from FY2035 onwards, to limit volatility in state contributions if the plans experience negative shocks near the end of the ramp.
- Review and revise, if needed, the Tier 2 Social Security Wage Base, to ensure compliance with federal safe harbor rules.
- Extend an early buyout program.

None of these proposals offers a big payoff, but each one has merit. Consider the recommendation to use fixed-length "amortization strips" from FY2035 onwards, for example. These strips would serve to limit volatility in state contributions if the plans experienced sharply negative shocks near the end of the ramp. This is a fairly technical issue, and resolving it would limit potential volatility in needed state contributions as the end of the "Edgar Ramp" approaches in 2045. This approach mitigates the risk coming from late-in-the-game changes in unfunded liabilities due to significant market losses or other "surprises" relative to plan assumptions.

Under the status quo, if pension fund assets "suddenly" lost a lot of value just a few years before 2045, the State's contributions would have to increase sharply in those last few years to "make up the losses" before the closed amortization period ends in 2045. Under a fixed layered approach, "baseline" unfunded liabilities get repaid over the years remaining to 2045; but **increments** to those unfunded liabilities will be repaid over some "reasonable" number of years (typically 20 or 30 years). Each year brings a new "layer" to this calculation. Additions to unfunded liabilities could come from investment returns that fall short of expectations, or changes in assumptions that mean the realized assets are less than those expected.

¹¹ Commission on Government Forecasting and Accountability, *Special Pension Briefing* (2025), 2, <https://cgfa.ilga.gov/Upload/2025%20Special%20Pension%20Briefing.pdf>.

PROMOTING ECONOMIC GROWTH

The FY2027 budget proposal addresses several growth-focused elements of the State's business climate:

- The Governor's BUILD initiative ("Building Up IL Developments") aims to encourage residential fixed investment by establishing statewide, instead of local, zoning standards for smaller residential units, permitting "accessory dwelling units" (ADUs), and modernizing minimum parking requirements.¹²
- The proposal includes several items intended to stimulate economic growth and investment, including tweaking existing tax incentives (Research and Development Tax Credit); devoting additional resources to the State's site readiness program; and streamlining and coordinating permitting processes.

The proposed budget also highlights the State's "significant momentum" in quantum computing and advanced manufacturing,¹³ and 2026:Q1 announcements of planned investments and expansions by large firms were quite strong.^{14, 15}

That said, official data on jobs and growth have yet to reflect these developments. The State lost manufacturing jobs last year (following long-term trends, but also reflecting impacts of tariffs and other factors), and its overall GDP and population growth remain relatively weak.

Labor Markets

Despite a decent start to 2026, the State's employment situation appears weak to middling. As previously discussed,¹⁶ despite uncertain economic conditions at the national level, first quarter job growth was surprisingly resilient: average monthly employment rose by over 68,000 jobs, above 2025 levels, and the unemployment rate declined slightly to 4.3% in March. Illinois, too, has seen respectable job growth through January of this year, though the State's unemployment rate has continued to creep upwards, reaching 4.9% in January 2026. Compared to local peer states, only Michigan's is higher, at 5.0%. Overall, the rate of job creation statewide is still weak, with employment in January 2026 only 0.5 percentage points above pre-COVID levels.

One particular risk factor is Illinois' reliance on the education and health services sector.¹⁷ Through January 2026, job growth in these sectors has accounted for nearly 94,000 new jobs

¹² Pritzker, *Proposed Illinois State Budget Fiscal Year 2027*, 42.

¹³ Pritzker, *Proposed Illinois State Budget Fiscal Year 2027*, 50.

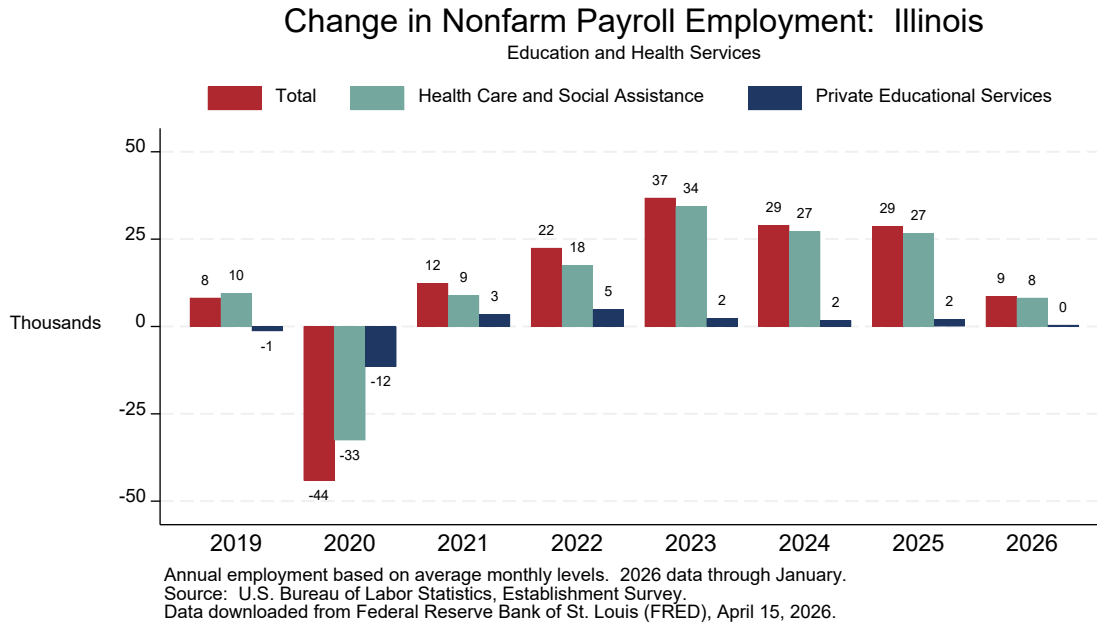
¹⁴ State of Illinois, "Gov. Pritzker Builds on Economic Momentum as Global Companies Choose Illinois to Invest and Grow," April 1, 2026, <https://www.illinois.gov/news/release.html?releaseid=32349>.

¹⁵ Shia Kapos, "No Fooling, Illinois Seeing a Jobs Surge," *POLITICO*, April 3, 2026, <https://www.politico.com/newsletters/illinois-playbook/2026/04/01/no-fooling-illinois-seeing-a-jobs-surge-00853708>.

¹⁶ Worthington, "Weakening Labor Market Complicates Economic Outlook for Illinois."

¹⁷ Worthington, "Weakening Labor Market Complicates Economic Outlook for Illinois."

since 2019, compared with only 41,000 net new jobs overall, with most of that occurring in the health care and social assistance sector—a potential concern as federal government funding for these services declines.¹⁸

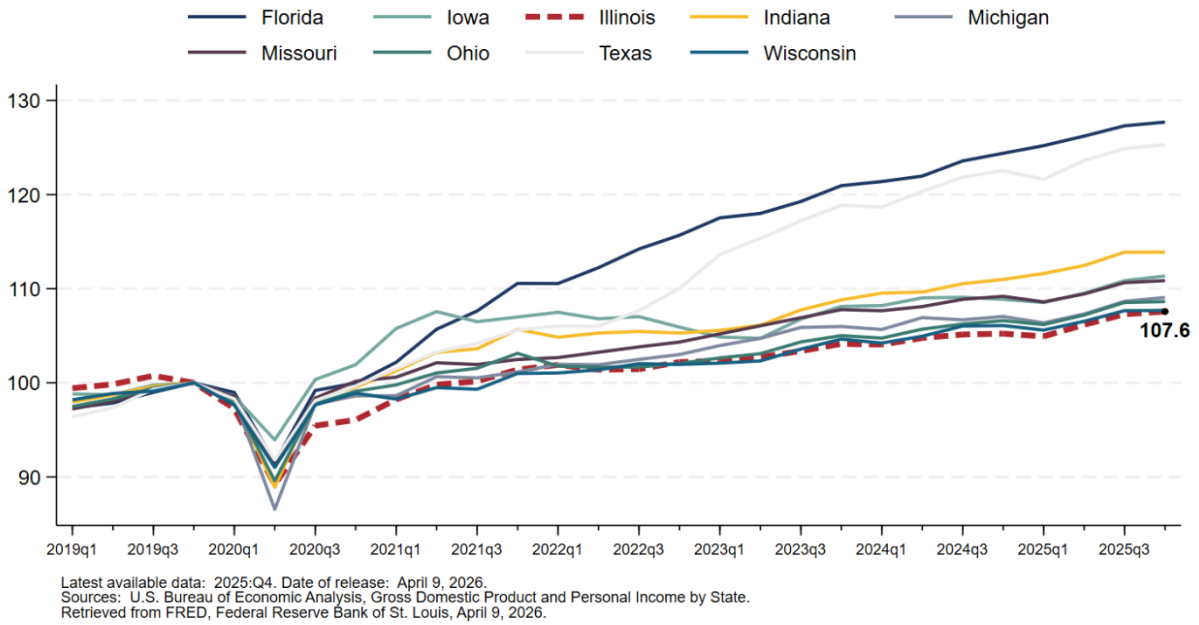


Output

The State’s gross domestic product (GDP) grew 1.1% in the fourth quarter of 2025. This is above the national growth rate, but overall post-COVID growth remains sub-par: by 2025:Q4, Illinois’s real GDP was only 7.6% higher than its 2019:Q4 level, well below its peer states.

¹⁸ Editorial Board, “The Growing State Tax and Jobs Divide,” Opinion, *Wall Street Journal*, April 14, 2026, <https://www.wsj.com/opinion/progressive-states-taxes-jobs-business-8e3d507b>.

Real GDP as Percent of 2019:Q4 Levels: Illinois vs. Peer States



Population

The most recent Census data show a 0.1% gain in Illinois’ population in 2025—a net increase of over 16,000 residents. This is an improvement over the 0.2% annualized decline experienced from 2020 to 2024. However, population growth continues to rely heavily on international immigration: in 2025, absent arrivals of immigrants from abroad, the state would have seen net outward (domestic) migration of nearly 45,000 residents, and accordingly would have registered a net decline in population. Continued aggressive federal enforcement of immigration and related policies remains a risk factor for future population growth.¹⁹

CONCLUSION

On balance, the proposed FY2027 budget “meets the current moment” but does not advance towards longer-term goals. It does not address the State’s underlying fiscal imbalances and overhanging underfunded pensions. While targeted incentives and initiatives may serve to stimulate growth in some sectors, the broader business climate remains one with considerable uncertainty about future policy change and potential tax liabilities, which may be negatively affecting decisions about investment, expansion, and relocation.

¹⁹ US Census Bureau, “Press Kit: Vintage 2025 National and State Population Estimates,” Census.Gov, accessed April 15, 2026, <https://www.census.gov/newsroom/press-kits/2026/national-state-population-estimates.html>.