



## How Illinois' Proposed FY2027 Budget Addresses Long-term Fiscal Sustainability

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Governor Pritzker's FY2027 State of Illinois budget proposal offers a "maintenance" approach that meets the current moment and balances near-term fiscal pressures. However, it does not address underlying structural challenges that could make balancing future budgets increasingly difficult without broader policy reforms.

At the heart of the challenge is that the State's revenue base is not growing fast enough to support its spending. Recent revenue increases have been driven largely by tax rate increases rather than sustained growth in the tax base, while core (non-Medicaid) spending has grown faster than core revenues such as income and sales taxes. If current trends continue, revenue will not keep pace with expenditures, leading to future budget gaps.

**Achieving Structural Balance and Sustainability:** The FY2027 proposal 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 continue. In short, the budget closes the gap for the year ahead but does not materially change the State's long-term fiscal trajectory.

**Improving Fiscal Resiliency:** The State's Budget Stabilization Fund ("rainy day fund") remains underfunded and has seen little growth since FY2023. The fund remains below the recommended 8% threshold and below the national median. The proposed budget includes a modest deposit but does not meaningfully strengthen the State's ability to withstand future fiscal shocks.

**Managing Pension Liabilities:** The proposed budget includes several incremental pension policy changes aimed at improving funded ratios and reducing swings in required pension contributions. While each proposal has merit, their combined impact is small and does not significantly alter the trajectory of the State's large unfunded pension liabilities.

**Promoting Economic Growth:** The proposed budget includes initiatives aimed at supporting economic development, including the BUILD initiative, regulatory streamlining, and enhancements to existing incentives. However, it does not address broader structural issues that influence long-term economic growth, such as rising costs, how the State raises revenue through its tax structure, and policy uncertainty that can make long-term investment decisions harder for businesses and residents. Given the State's relatively weak job growth, economic output, and population growth, the revenue base will remain constrained without stronger underlying economic growth.

## **Bottom Line**

The FY2027 budget proposal successfully closes the immediate budget gap but does not address the State's underlying structural challenges or advance long-term financial stability. Addressing this 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 modernizing what and how the State taxes. Absent such changes, the State's fiscal position is likely to weaken, making it much more difficult to balance the budget in future years.

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