Federal Funding Cuts and Freezes:
Consequences for Illinois

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Executive Summary

While Illinois is better positioned to withstand a recession than at any point over the past two decades, federal funding cuts and freezes since the beginning of 2025 pose imminent threats to Illinois' $1.2 trillion economy. Policy changes in the "One Big Beautiful Bill Act" budget reconciliation law, targeted freezes during the federal government shutdown from October to November 2025, and cuts and recissions in the name of "government efficiency" will make healthcare less affordable, take food assistance away from families, eliminate infrastructure projects, undermine the State's ability to research new technologies and prevent infectious disease outbreaks, and cause unemployment to rise.

By 2029, federal funding cuts and freezes will cost Illinois $8 billion annually. This includes:

- At least $2.4 billion in Medicaid funding, with 270,000 residents expected to lose coverage.
- $1.2 billion in higher Affordable Care Act (ACA) premiums from the expiration of enhanced premium tax credits, with 112,000 residents losing their current marketplace coverage.
- $485 million in lost food assistance, with at least 216,000 people losing Supplemental Nutrition Assistance Program (SNAP) coverage, plus $315 million in new State administrative costs.
- $727 million in forgone solar and wind energy projects from phasing out clean energy tax credits.
- $550 million in higher consumer utility bills from restrictions in the supply of wind and solar energy.
- $525 million in lost federal investments over four years ($2.1 billion total) from a freeze in funding for the Red Line Extension and Red and Purple Modernization public transit projects in Chicago.
- $146 million in lost investments over four years from a federal funding freeze for 33 energy projects.
- $112 million in revoked infectious disease control and prevention funding over four years.
- $233 million in newly mandated university expenses to pay for "indirect research costs."
- $314 million in lost federal funding for K through 12 public school districts.
- $753 million in lost labor income from federal government layoffs, "deferred resignations," hiring freezes, and eliminations of collective bargaining rights.
- In response to these federal actions, Governor JB Pritzker issued an Executive Order requiring agencies to reserve 4 percent of General Fund appropriations to ensure fiscal responsibility.

By 2029, the scheduled end of the second Trump administration, these federal actions will shrink Illinois' economy by $10 billion, reduce employment by 86,000 jobs, and cause State tax collections to decline by $540 million annually *in addition to* $730 million in lost corporate income tax revenue.

- <u>Household affordability</u>: Medicaid changes, expired ACA tax credits, SNAP changes, and limited energy supply expansions will lead to higher healthcare, food, and energy costs—shrinking gross domestic product (GDP) by $5.8 billion annually and costing 49,000 jobs.
- <u>Infrastructure projects</u>: Phasing out clean energy tax credits, pausing transit projects, and freezing energy projects will reduce Illinois' GDP by $2.0 billion annually and eliminate 22,000 jobs, mostly in good-paying construction careers.
- <u>Essential State functions</u>: Slashing funding for disease control, forcing universities to cover a larger share of research costs, reducing funds for school districts, and mandating a higher State share to administer food assistance will decrease GDP by $1.4 billion annually and cost 12,000 jobs.
- <u>Federal government employment</u>: Layoffs, hiring freezes, and the removal of collective bargaining rights will shrink GDP by $390 million annually and lower employment by another 3,000 jobs.

Illinois is a donor state, contributing far more toward federal taxes than it receives in federal expenditures and investments. The state ranks 46th nationally in return per tax dollar and receives between $6 billion and $38 billion less annually than neighboring states. Recent federal cuts and spending freezes will put Illinois even further behind and penalize the state for promoting public policies that create high wages, a better-educated workforce, and lower levels of poverty.

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Introduction

Illinois' $1.2 trillion economy is robust and better prepared to handle an economic downturn than at any other point over the past two decades (BEA, 2025; Dunn, Bruno, & Manzo, 2024; Channick, 2024). Back in 2007 and in 2020, Illinois' Budget Stabilization Fund—better known as its "Rainy Day Fund"—was empty, the State was running deficits, and policymakers could do little to combat worsening unemployment. Over the past five years, however, Illinois has eliminated its annual budget deficits and backlog of unpaid bills, earned 10 credit rating upgrades, built a $2.4 billion Rainy Day Fund, enacted WorkShare IL to reduce layoffs during downturns, invested billions more per year towards education, and passed sustainable infrastructure funding that is allowing the State to invest $51 billion in roads, bridges, and other transportation systems over six years while ensuring public transit systems are fully funded (Pletz, 2025; Illinois Comptroller, 2025a; IDES, 2025; IDOT, 2025; Szalinski, 2025a; Dunn, Bruno, & Manzo, 2024).

Although the chance of a national recession has increased due to decreases in job openings, a shrinking labor force, persistent inflation, a global trade war, and other factors, one of the most imminent threats to Illinois' economic growth is funding cuts and freezes from the federal government that have been imposed since the beginning of 2025 (Foster & Kahn, 2025; Sherman, 2025; Roberts & Iyer, 2025).[1] Provisions in the federal budget reconciliation law, dubbed the "One Big Beautiful Bill Act," impose sweeping changes that will reduce health care coverage and affordability, hamper food assistance, and eliminate wind and solar projects—affecting thousands of residents and blue-collar construction workers across Illinois. Cuts and recissions in federal grants have also had consequences for infrastructure projects, universities, public schools, and State agencies. The Trump administration's actions to close federal agencies, layoff federal workers, and institute hiring freezes have caused many Illinois workers to become unemployed as well.

This policy brief, authored jointly by researchers at the Illinois Economic Policy Institute (ILEPI) and the Project for Middle Class Renewal (PMCR) at the University of Illinois at Urbana-Champaign, assesses the consequences of recent federal funding cuts and freezes on the State of Illinois. The analysis is not necessarily comprehensive and only considers items that have been eliminated or halted during the Trump administration through the end of November 2025. Cuts and freezes are treated as though they will be permanent through at least January 2029, which is the scheduled end of President Trump's term. The policy brief begins with a summary of the funding cuts and freezes announced since January 2025 before proceeding to evaluate their economic and fiscal impacts. A concluding section recaps key findings, addresses potential limitations in the analysis, and discusses policy considerations for Illinois.

Summary of Federal Funding Cuts and Freezes Since January 2025

The State of Illinois is confronting a severe and multifaceted fiscal and economic shock stemming from funding cuts, recissions, and freezes by the federal government since the beginning of 2025. The combined cost of these cuts and freezes amounts to **$7.8 billion** annually by 2029 (Figure 1). These actions generally fall into three broad categories: systemic policy changes through the federal budget reconciliation law passed by Congress in July 2025 ($5.7 billion), targeted administrative funding freezes aimed at states with Democratic Governors during the federal government shutdown from October to November 2025 ($670 million), and federal cuts under the guise of "government efficiency" ($1.4 billion).

[1] Since 1950, 10 recessions have occurred during Republican presidencies (10 terms) and just one began under Democratic administrations (eight terms) (Egan, 2020).

FIGURE 1: ANNUAL COST OF FEDERAL CUTS, RECISSIONS, AND FREEZES AFFECTING ILLINOIS, 2029

Federal Action Since January 2025	Category	Annual Cost
Medicaid Eligibility Changes	OBBBA	$2,420,000,000
Expiration of Affordable Care Act Enhanced Premium Credits	OBBBA	$1,236,240,000
Supplemental Nutrition Assistance Program (SNAP) Eligibility Changes	OBBBA	$484,704,000
SNAP State Administrative Costs	OBBBA	$315,000,000
Rollback of Wind Energy Tax Credits	OBBBA	$531,360,000
Rollback of Solar Energy Tax Credits	OBBBA	$196,300,000
Decrease in Energy Supply on Utility Bills	OBBBA	$550,209,000
Red Line Extension and Red and Purple Modernization Freeze	Targeted Freeze	$525,000,000
Freeze for Illinois Energy Projects	Targeted Freeze	$145,750,000
IDPH Infectious Disease Prevention Funding	DOGE Cut	$112,250,000
Higher Education Research Cuts	DOGE Cut	$233,485,000
Funding for K through 12 Public Education	DOGE Cut	$313,890,000
Federal Government Layoffs and "Deferred Resignations"	DOGE Cut	$15,688,000
Federal Government Hiring Freeze	DOGE Cut	$318,000,000
Collective Bargaining Loss for 4-in-5 Federal Government Employees	DOGE Cut	$419,760,000
Total Costs by 2029	**Cumulative**	**$7,817,636,000**

Sources: See citations throughout this section of the report. Note the SNAP start administrative costs assume that Illinois is able to reduce its "payment error rate" from over 11 percent down to the 7 percent historical average, the two "targeted freeze" infrastructure project items assume the freeze is permanent through 2029 and spread out over four years, the federal government hiring freeze assumes 3,000 forgone federal workers who would otherwise have been hired at average salaries of around $106,000 per year, and the collective bargaining loss for 4-in-5 federal government employees assumes that there are 45,000 union members in Illinois who work for the federal government, that 80 percent of them could lose their union membership, and that their incomes could drop by a relative average of 11 percent—which is the union wage premium in Illinois. Annual costs are rounded to the nearest thousand and may not sum perfectly as a result.

Cuts in the "One Big Beautiful Bill Act"

The federal budget reconciliation law was passed by Congress on a party-line vote and signed into law in July 2025 (Congress.gov, 2025). Among many other provisions, the law reduces Medicaid coverage, allows enhanced premium tax credits for Affordable Care Act health insurance plans to expire, decreases Supplemental Nutrition Assistance Program eligibility, and rolls back clean energy tax credits.

Medicaid Coverage: The budget reconciliation law will cause at least **270,000 residents** to lose their Medicaid coverage, with some estimates projecting as many as 330,000 losing coverage (Hou, 2025; CCHCC, 2025). This accounts for about 8 percent of the 3.5 million Illinois residents who are currently enrolled in Medicaid, the majority of whom are children (44 percent), seniors (9 percent), and adults with disabilities (7 percent) (Hou, 2025). The drop in coverage will largely be due to mandated work reporting requirements for adults ages 19 to 64 years old covered through the Medicaid expansion, stricter eligibility redeterminations and added paperwork, frozen state Medicaid provider taxes and limitations on the use of state-directed payments, and cuts in funds for states that use their own funds to serve undocumented immigrants (Hou, 2025; Euhus et al., 2025). Illinois Department of Healthcare and Family Services projections reveal that the state will experience a loss of at least $26 billion in federal funding over the next decade, and Kaiser Family Foundation researchers estimate that just under

10 percent of the federal Medicaid cut will occur in 2029 (Hou, 2025; Euhus et al., 2025).[2] Accordingly, the annual cost will be about **$2.4 billion** by 2029, representing 12 percent of the $20 billion the State receives for Medicaid in federal Medicaid reimbursements annually (Figure 1).

Affordable Care Act Tax Credits: The budget reconciliation law fails to extend enhanced premium tax credits for Affordable Care Act (ACA) marketplace health insurance plans (Khalique et al., 2025). These enhanced premium tax credits made health insurance more affordable by lowering premiums and raising income eligibility, resulting in tens of thousands of new enrollees in Illinois (Carter et al., 2024). Allowing the credits to expire will cause at least **45,000 residents** to lose their health insurance and another **67,000 residents** to lose coverage via subsidized marketplace plans, according to a recent analysis by researchers at the Urban Institute (Carter et al., 2024). Additionally, average monthly premiums are expected to increase by 78 percent, from $260 per month to $464 per month, for marketplace plans (Asplund, 2025a). Consequently, the annual out-of-pocket cost will be **$1.2 billion** by 2029 just for those who remain enrolled in ACA health insurance plans—straining monthly budgets for workers, small businesses, and families in Illinois following a period of high inflation.

Food Stamp Coverage: The budget reconciliation law will result in at least **216,000 people** losing their Supplemental Nutrition Assistance Program (SNAP) coverage, with some estimates projecting as many as 360,000 losing food assistance (Khalique et al., 2025; CCHCC, 2025). The lower-end estimate represents about 11 percent of the 1.9 million Illinois residents who currently receive SNAP benefits (Szalinski, 2025b). The majority of Illinois' SNAP households include children (45 percent) or individuals with disabilities (44 percent) (Szalinski, 2025b). The decrease in food assistance will be primarily caused by expanded work requirements for adults ages 55 to 64 years old, lower thresholds for dependent children from age 18 to 7 years old, and the termination of eligibility for lawful immigrants like refugees and asylum-seekers (Khalique et al., 2025; CCHCC, 2025). The average monthly food stamp value is $187 per person, equivalent to $6 per day (Sutter, 2025). As a result, the annual out-of-pocket cost will be at least **$485 million** annually by 2029, raising food costs for low-income households who have been hit hardest by the rising price of groceries (Figure 1).

Food Stamp Administration: Beginning October 2026, federal reimbursements for SNAP administrative costs will decrease from 50 percent to 25 percent and the federal government will impose "cost-sharing" requirements of between 5 percent and 25 percent, depending on each state's "payment error rate" (Worthington, 2025). Illinois has an underpayment rate of less than 1 percent and an overpayment rate that is over 10 percent, resulting in an error rate that exceeds 11 percent (USDA, 2025). If the State can achieve the average payment error rate of 7 percent, which it accomplished five times between 2011 and 2017, then its increased share of SNAP costs would be $235 million due to its error rate plus $80 million due to the newly mandated administrative cost-sharing (Miller, 2025a; Worthington, 2025). The total cost, conservatively, is projected to reach **$315 million** annually by 2029 (Figure 1).

Solar Energy Projects: The budget reconciliation law phases out the Clean Energy Production Tax Credit and the Investment Tax Credit in 2027, five years earlier than originally planned under the Inflation Reduction Act (IRA). Additionally, residential solar tax credits will expire in 2026 instead of 2034 (CJI, 2025). These provisions will reduce the solar energy buildout by developers and make solar ownership more costly for the typical household, resulting in 1.3 fewer gigawatts of solar capacity by 2035 (Energy Innovation, 2025). At a conservative $1.2 per watt DC, which is the benchmark price to install

[2] The Kaiser Family Foundation projects a $46 billion decrease in federal Medicaid spending in Illinois over 10 years, including a $34 billion low-end decrease, but this analysis uses the most *conservative* estimate from the Illinois Department of Healthcare and Family Services (Euhus et al., 2025)

photovoltaic systems for utility-scale ground-mount systems by the National Renewable Energy Laboratory (NREL) at the U.S. Department of Energy, this translates into an investment loss of $1.6 billion over 10 years (Feldman et al., 2025). The annual drop in solar installation project value is an average of **$156 million** by 2029 (Figure 1).

Wind Energy Projects: The budget reconciliation law phases out the Clean Energy Production Tax Credit and the Investment Tax Credit in 2027 and adds sourcing restrictions that limit access to affordable turbine components from certain countries (CJI, 2025). These provisions will stifle wind development and result in 2.7 fewer gigawatts for wind capacity by 2035 (Energy Innovation, 2025). At a conservative $1,968 per kilowatt, which is NREL's benchmark capital expenditure price for a utility-scale land-based wind system, this amounts to an investment loss of $5.3 billion over a decade (Stehly et al., 2024). Therefore, the average decrease in wind construction projects is projected to be **$531 million** annually (Figure 1).

Utility Bills: The loss of solar and wind energy projects under the budget reconciliation law will limit the energy supply that will come online both in Illinois and across the United States. This will take place at the same time as energy demand is increasing, primarily due to artificial intelligence and data centers—which will go from 5 percent of total electricity consumption last year to as much as 12 percent by 2028 (Shehabi, 2024). Estimates suggest that households could face average energy bill increases of $110 annually by 2030 and by about $186 annually under a "business-as-usual" scenario (CJI, 2025; Peterson, McDermott, & Hemphill, 2025). A $110 average increase over 5.0 million households would mean an aggregate out-of-pocket cost of rising utility bills of **$550 million** annually (Manzo & Bruno, 2025a) (Figure 1).

Targeted Freezes During the Federal Government Shutdown

Amidst the federal government shutdown that began in October 2025, Office of Management and Budget (OMB) Director Russ Vought announced politically targeted federal funding freezes in states with Democratic governors. Frozen funds include $28 billion for transportation and energy projects and $11 billion in U.S. Army Corps of Engineers water projects in Illinois and states like New York, California, Delaware, Maryland, Massachusetts, New Mexico, New Hampshire, New Jersey, and Oregon (Shepardson, 2025). These are large-scale infrastructure projects that employ skilled construction workers, many of whom do not regularly vote for the Democratic politicians who were targeted by the Trump administration (Hertel-Fernandez, Kiefel, & Yan, 2025).

Chicago Red Line Extension and Red and Purple Modernization: The White House announced a freeze of $2.1 billion in federal funding earmarked for major Chicago transit projects, citing concerns over "race-based contracting" (Cherone, 2025). The Chicago Transit Authority (CTA) Red Line Extension (RLE) is a 5.5-mile extension from the existing 95th and Dan Ryan terminal to 130th Street, which will include four new fully accessible stations, a new railyard and maintenance shops, and improved Red Line reliability (CTA, 2025a). The project was expected to break ground in 2026 and be open for service in 2030. The Red and Purple Modernization (RPM) project aims to rehabilitate the Red and Purple Lines from the Belmont station to the Linden station, improve service reliability and reduce travel times, and double passenger capacity (CTA, 2025b). Assuming the $2.1 billion is frozen or "under review" over the next four years, it will result in an average loss of **$525 million** in federal infrastructure investments annually through 2029 (Figure 1).

Illinois Energy Projects: The White House also announced the suspension of $583 million in federal funding for 33 energy projects in Illinois, including grid modernization, grid reliability, carbon capture, and related projects (Dougherty, 2025). Funds were withheld from a range of entities, including the University of Illinois, Northwestern University, ComEd, Exelon Corporation, Caterpillar, and the American Lung Association (Dougherty, 2025). Assuming the $583 million is frozen or canceled entirely over the next four years, the average loss in federal infrastructure investments is **$146 million** annually (Figure 1).

Recissions and Federal Employment Cuts in the Name of "Government Efficiency"

Early in the second Trump administration, federal agencies were tasked with a "government efficiency" mandate. This directive translated into cuts to grant funding for states, proposed administrative caps on indirect research costs at colleges and universities, the elimination of "diversity, equity, and inclusion (DEI)" programs, and a wide-scale reduction in force (RIF) program targeting the federal civilian workforce. Many of these efforts were led by Tesla, SpaceX, and X CEO Elon Musk when he headed the "Department of Government Efficiency" (DOGE).

<u>*Infectious Disease Control*</u>: In March 2025, the Illinois Department of Public Health (IDPH) received notification from the Centers for Disease Control and Prevention (CDC) regarding the termination of federal grants that had already been awarded (IDPH, 2025). The total impact is $449 million in lost funding that would have been aimed at protecting Illinois residents from infectious disease outbreaks. This includes a $125 million recission from 97 local public health departments in funding from the bipartisan CARES Act and $324 million in blocked future support for infectious disease control and prevention work in Illinois (IDPH, 2025). Over the next four years, this translates into **$112 million** annually (Figure 1).

<u>*Higher Education Research*</u>: Several federal agencies—including the National Institutes of Health (NIH), the U.S. Department of Energy (DOE), the National Science Foundation (NSF), and the U.S. Department of Defense (DOD)—moved to limit the reimbursement of colleges' facilities and administration (F&A) costs to a maximum of 15 percent (*Higher Ed Dive*, 2025). These "indirect research costs" cover essential expenses such as lab operations, security, information technology, and research equipment, and average 37 percent nationally (Ford & Huerta, 2025). While the proposed caps have been blocked and struck down by U.S. District Judges, the Trump administration has appealed those rulings (*Higher Ed Dive*, 2025). Research finds that the caps, if they withstand legal muster within the federal court system, would increase university costs by **$233 million** annually in Illinois, including by $67 million at the University of Illinois System from the NIH cap alone (Ford & Huerta, 2025; Ahmed & Pearlman, 2025).

<u>*K through 12 Public Education*</u>: Between 2018 and 2023, Illinois' K through 12 school districts received $2.9 billion in funding from all federal sources on average. The President's fiscal year 2026 budget proposal would result in a loss of at least **$314 million** in federal revenue for public school districts in Illinois (ELC, 2025). The loss of federal funding would reach every district, but most severely affect schools with fewer financial resources—with 86 percent of federal funding going to "Tier 1" and "Tier 2" school districts with the least resources.[3] Underfunded districts that are more heavily reliant on federal dollars have K through 12 student populations that are disproportionately poorer, with 88 percent

[3] Adopted in 2017, Illinois' Evidence Based Funding (EBF) system allocates a minimum of $350 million in state funds to K through 12 schools based in part on the district's community property wealth. The State designates school districts by "tiers" ranging from the least-resourced (1) to the best-resourced (4) (Illinois Comptroller, 2025b). In 2023, there were 617 Tier 1 and 2 school districts out of 840. That same year, 86.4 percent of federal funding went to Tier 1 and Tier 2 school districts, educating 80.2 percent of Illinois' public school population (Census, 2025; ISBE, 2021; ISBE, 2025). The State considers a district adequately funded if its local revenue (i.e., property tax collections) and state revenue amounts to at least 90 percent of a targeted dollar amount.

residing in low-income households, and are from minority demographic groups, representing 92 percent of Black students and 86 percent of Hispanic students in the state. Additionally, the importance of federal revenue has grown. In 2018, federal sources accounted for 10 percent or more of total revenue in only 6 percent of school districts, but that figure climbed to 45 percent by 2023 (Census, 2025; ISBE, 2021; ISBE, 2025). If these cuts or recissions are implemented and never recouped, the annual loss of federal funding would cause eliminations in many afterschool programs, summer programs, arts and technology classes, mental health services, and even teaching positions (ELC, 2025).

Federal Government Layoffs and Hiring Freeze: The "Department of Government Efficiency" sought to reduce the number of workers employed by the federal government. Notably, the Trump administration directed federal agencies to fire probationary employees who had served for fewer than two years, issued an Executive Order mandating a "hiring freeze" with one new hire for every four departures, cut the Department of Education workforce in half, shuttered the Consumer Financial Protection Bureau (CFPB) and U.S. Agency for International Development (USAID), instituted new rules making Senior Executive Service (SES) employees easier to fire for any reason, and offered "deferred resignation" to certain federal employees (McNicholas et al., 2025). The administration also eliminated collective bargaining rights for more than 1 million federal workers, including at the Department of Defense, Department of Homeland Security, Transportation Security Administration (TSA), the Department of Veterans Affairs (VA), the Department of the Treasury, the Environmental Protection Agency (EPA), and National Science Foundation (NSF) (Glass, 2025). This affected four-in-five federal workers with collective bargaining rights, of whom there are approximately 45,000 in Illinois (Glass, 2025; Manzo & Bruno, 2025b).[4] Between January 2025 and August 2025, there were 97,000 fewer federal government employees and postal workers nationally, a drop of 3 percent, showing that the actions had modestly reduced federal government employment. In Illinois, the drop was 3,700 employees, or just over 3 percent, as well (BLS, 2025). Additionally, the hiring freeze will prevent at least 3,000 new federal government jobs from being added in Illinois.[5] Federal workers are, on average, more likely to have bachelor's and advanced degrees and are more likely to be employed in professional services occupations and medical careers, producing average annual salaries of about $106,000 per year (DeSilver, 2025). The net effect of shuttering agencies, imposing layoffs, freezing hiring, and weakening bargaining power for tens of thousands of federal workers is a cumulative labor income loss of **$753 million** annually.

Illinois' Initial Response

In September 2025, Governor JB Pritzker issued an Executive Order requiring most agencies to identify cost efficiencies and reserve 4 percent of General Fund appropriations to "address the negative impacts of recent federal policy changes" (Illinois Governor, 2025). This would equate to about $2 billion in approved spending to combat the "unprecedented shift to the State of the costs of the Supplemental Nutrition Assistance Program (SNAP)," the "massive anticipated reductions in federal Medicaid funding," and the changes in Affordable Care Act coverage (Illinois Governor, 2025). It also would help offset tax changes in the federal budget reconciliation law that were favorable to corporations, which are not accounted for in this analysis. These include allowances for greater interest deductions, research and development expensing, temporary deductions for manufacturing structures, and other items that are estimated to decrease total corporate income tax revenues in Illinois by $730 million in fiscal year 2026 compared to pre-law estimates (Sturm, 2025).

[4] In Illinois, union members statistically boosts a worker's hourly earnings by 11 percent on average (Manzo & Bruno, 2025b).

[5] For example, from January 2020 to January 2024, Illinois added 3,000 federal government jobs (3 percent) (BLS, 2025).

Economic and Fiscal Impacts of Federal Cuts and Freezes

This analysis utilizes IMPLAN to assess the economic impacts of federal funding actions pertaining to Illinois since 2025 (IMPLAN, 2025). IMPLAN is an industry-standard economic modeling software that inputs U.S. Census Bureau data, accounts for interrelationships between households and businesses, and follows dollars as they cycle throughout the economy. All estimates are in current 2025 dollars.

Effects by Function

Household Affordability: Medicaid changes, expired enhanced premium tax credits for Affordable Care Act coverage, SNAP changes, and limited energy supply expansions will lead to increased healthcare, food, and energy costs for hundreds of thousands of Illinois residents. By 2029, these items will shrink Illinois' gross domestic product (GDP) by **$5.8 billion** annually, a multiplier of $1.23 per dollar revoked, and cause employment to be **49,000 jobs** lower than a hypothetical alternative scenario in which federal funding is unchanged (Figure 2). Removing residents from Medicaid coverage has the largest impact by far, contracting economic activity by $4.0 billion and reducing employment by 35,000 jobs, followed by cutting food assistance (an $808 million drop in GDP and loss of 7,000 jobs statewide).

Infrastructure Projects: Phasing out clean energy tax credits, pausing Chicago area transit projects, and freezing funding for energy projects will eliminate construction jobs for blue-collar tradespeople that would have been covered by prevailing wage standards and registered apprenticeship requirements, undermining the goal of "making America skilled again" that has been advanced by the Trump administration (USDOL, 2025). Many of the wind, solar, grid modernization, and carbon capture projects also would have occurred in rural Illinois. By 2029, these cuts and freezes will shrink Illinois' GDP by **$2.0 billion** annually, a multiplier of $1.46 per dollar revoked, and reduce employment by **22,000 jobs**, primarily in the construction trades (Figure 2). Pausing the Red Line Extension and Red and Purple Modernization accounts for 16,000 of the annual jobs lost, followed by the rollback in wind projects (3,000 jobs forgone annually) and the rollback in solar projects (2,000 jobs forgone annually).

Essential State Functions: Promoting public health, supporting innovative research and development at public universities, investing in public education, and administering social insurance programs are core functions of the State. By slashing funding for disease control and prevention, forcing colleges and universities to cover a larger share of indirect research costs, reducing funds for public school districts, and mandating a higher cost-share to administer food assistance, recent and proposed federal actions will strain Illinois' budget and prevent the State from using taxpayer dollars on more productive public policies, programs, and investments. Together, these $975 million federal recissions and changes will cause a **$1.4 billion** drop in GDP, a multiplier of $1.45 per dollar revoked, and nearly **12,000 jobs** lost by 2029 (Figure 2). Cuts to school districts in Trump's budget, carried out by a diminished Department of Education which has de-emphasized public education, are the costliest item—reducing economic activity by $471 million and shrinking total employment by nearly 4,000 jobs. New SNAP regulations will crowd out other State investments and account for $450 million in decreased economic activity with another 4,000 jobs lost (Figure 2).

Federal Government Employment: Closing entire federal agencies, laying off federal workers, implementing a "deferred resignation" program, instituting a hiring freeze, and stripping four-in-five federal workers of their collective bargaining rights diminishes job quality, negatively affects morale, and decreases labor income. These reductions in force mainly have the effect of shrinking consumer demand in Illinois, contributing to a **$390 million** drop in GDP per year, corresponding to the elimination of another **3,000 jobs** annually, which are largely concentrated in the private sector (Figure 2).

FIGURE 2: ECONOMIC AND FISCAL IMPACTS OF FEDERAL CUTS AND FREEZES AFFECTING ILLINOIS, 2029

Impact of 2025 Federal Action	Function	Economic (GDP)	Total Jobs	State Tax Revenue
Medicaid Eligibility	Affordability	-$4,036,100,000	-34,700	-$244,314,000
ACA Enhanced Premium Credits	Affordability	-$639,108,000	-5,200	-$37,466,000
SNAP Eligibility	Affordability	-$808,394,000	-7,000	-$48,934,000
Household Utility Bills	Affordability	-$284,446,000	-2,300	-$16,675,000
Wind Energy Tax Credits	Infrastructure	-$288,138,000	-1,800	-$19,521,000
Solar Energy Tax Credits	Infrastructure	-$698,348,000	-3,000	-$48,643,000
RLE and RPM Projects	Infrastructure	-$858,085,000	-16,400	-$38,684,000
Illinois Energy Projects	Infrastructure	-$197,593,000	-1,000	-$13,653,000
IDPH Infectious Disease Prevention	State Service	-$160,519,000	-1,300	-$5,620,000
Higher Education Research	State Service	-$333,886,000	-2,700	-$11,689,000
K-12 Education Funding	State Service	-$471,310,000	-3,900	-$16,500,000
SNAP Administration Costs	State Service	-$450,454,000	-3,700	-$15,770,000
Layoffs and "Deferred Resignations"	Federal Jobs	-$8,110,000	-100	-$475,000
Hiring Freeze	Federal Jobs	-$164,399,000	-1,300	-$9,637,000
Collective Bargaining Loss	Federal Jobs	-$217,007,000	-1,800	-$12,722,000
Total Costs by 2029	**Cumulative**	**-$9,615,897,000**	**-86,000**	**-$540,306,000**
Function Costs by 2029	*Affordability*	*-$5,768,048,000*	*-49,100*	*-$347,390,000*
Function Costs by 2029	*Infrastructure*	*-$2,042,164,000*	*-22,100*	*-$120,502,000*
Function Costs by 2029	*State Service*	*-$1,416,169,000*	*-11,600*	*-$49,580,000*
Function Costs by 2029	*Federal Jobs*	*-$389,516,000*	*-3,100*	*-$22,834,000*

Source: Authors' estimates using IMPLAN incorporating inputs from Figure 1 (IMPLAN, 2025). Economic impacts are in terms of gross domestic product (GDP) or "net value added." Total jobs are in terms of full-time equivalent (FTE) nonfarm employment. Annual costs are rounded to the nearest thousand and jobs impacts are rounded to the nearest hundred. Estimates may not sum perfectly due to rounding.

Cumulative Effects

The results reveal that the federal cuts and freezes will reduce Illinois' gross domestic product (GDP) by **$9.6 billion** annually, an overall multiplier of $1.23 per dollar revoked, and decrease total employment by **86,000 jobs** by 2029. In addition to newly mandated costs for SNAP food stamp administration, a higher match for university research grants, and other unlisted items such as increased State funding for infrastructure investments, public schools, and utility bill assistance for cost-burdened households, State tax revenue collections will also decline by **$540 million** annually due to this decreased economic activity across Illinois (Figure 2).

Conclusion and Policy Considerations

While conservative estimates are utilized throughout, a limitation of this policy brief is that it is not necessarily comprehensive. For example, the budget reconciliation law made changes to federal student loans—reducing annual limits for graduate loans and parent PLUS loans and limiting options for loan repayment—and created a new tax credit refund for private school tuition vouchers, primarily benefiting wealthier households (Miller, 2025b). These changes, which can hamper college affordability and reduce public school funding, are not accounted for in the analysis. On the other hand, the law also increased the state and local tax (SALT) deduction from $10,000 to $40,000 through 2029 for taxpayers with adjusted gross incomes at or below $500,000 and includes a $50 billion Rural Health Transformation Program to support rural hospitals who are most impacted by Medicaid funding cuts. Neither of these changes, which could offset small portions of the estimated funding losses, are incorporated (Lautz, 2025; Levinson & Neuman, 2025). For example, Illinois has been instructed to apply for $1 billion in rural hospital funding over five years, or $200 million per year, offsetting just 8 percent of the $2.4 billion annual loss (Asplund, 2025b).

Despite this limitation, the data is clear that federal funding cuts and freezes since the beginning of 2025 pose serious risks to Illinois' $1.2 trillion economy. Policy changes in the budget reconciliation law, targeted freezes during the federal government shutdown, and cuts and recissions in federal funding have amounted to nearly $8 billion in lost funding and other out-of-pocket costs annually for Illinois. These actions will reduce economic activity by $10 billion and decrease overall employment by 86,000 jobs by 2029, which is the scheduled end of Trump's second term.

Additionally, reductions in federal revenue for K through 12 education will require either the State to increase its share of funding above the annual evidence-based funding amount of $350 million or school districts to raise local property tax collections even higher. If the State fails to combat federal funding losses, Illinois' commitment to closing opportunity gaps between the most financially secure students and its poorest pupils will falter. The depth of economic reductions and job losses caused by federal actions cannot be mitigated by expenditure reductions at the State and local levels. Policymakers will need to examine new revenue sources to counter the damage done to public schools, Illinois families, and the state's robust economy.

Illinois is a donor state. Excluding expenditures related to the COVID-19 pandemic, Illinois contributed $5 billion more in federal taxes than it got back in federal expenditures and investments between 2015 and 2023, ranking 46th in the nation (Holland & Schumacher, 2025). Meanwhile, Florida received $41 billion more than it contributed, Texas received $37 billion more, Kentucky received $34 billion more, Indiana received $20 billion more, and Iowa received $7 billion more (Holland & Schumacher, 2025). In fact, if Illinois's per-capita federal obligations ($12,502 per person) simply matched bordering Indiana ($12,978 per person), Wisconsin ($13,654 per person), Iowa ($13,802 per person), or Missouri ($15,478 per person), then between $6 billion and $38 billion more would have been spent and invested in Illinois in fiscal year 2024 (USAFacts, 2025). While state lawmakers pursue legal strategies to restore funds and alter the State's budget to account for these actions, federal lawmakers could introduce legislation to permanently alter federal mechanisms to ensure reasonable, adequate funding distributions that do not indirectly penalize states, like Illinois, for promoting public policies that result in higher wages, a better-educated workforce, and lower levels of poverty.

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