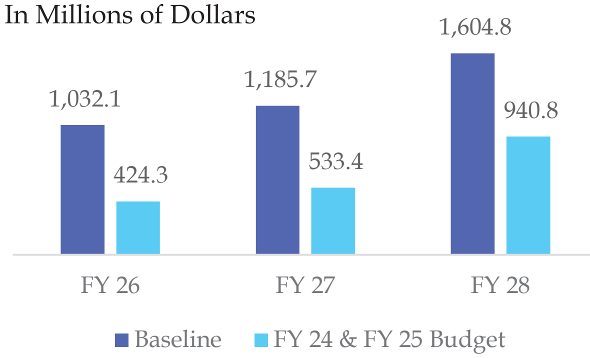
Section VI. Out Year Projections

GENERAL FUND

The General Fund is projected to have surpluses in the three fiscal years following FY 25.

Following upward revisions in consensus revenue projections for FY 26-FY 28 since the FY 23 Revised Budget was enacted, baseline balances for the out years ranged from $1,032.1 million to $1,604.8 million.

Figure 6.1 General Fund Projected Surpluses
In Millions of Dollars



Changes made in the FY 24 and FY 25 Budget decreased out year surpluses by between $607.8 and $664.0 million per year. As a result, General Fund revenue is projected to exceed expenditures by $424.3 million in FY 26, $533.4 million in FY 27 and $940.8 million in FY 28.

Table 6.1 Impact of the FY 24 and FY 25 Budget on General Fund Projected Surpluses
In Millions of Dollars

Category	FY 26	FY 27	FY 28
Baseline Balance[1] (Before Revenue Cap)	**1,032.1**	**1,185.7**	**1,604.8**
Revenue Adjustments Total	**(446.8)**	**(490.9)**	**(502.4)**
Income Tax Policy Changes	(444.5)	(462.4)	(478.3)
Other Revenue Adjustments (Net)	(2.3)	(28.5)	(24.1)
Appropriations Adjustments Total	**(161.0)**	**(161.4)**	**(161.6)**
Continuation of FY 25 Policy Revisions	(86.4)	(86.4)	(86.4)
Maintain Current Treatment of GO Bond Premium	(60.0)	(60.0)	(60.0)
Department of Social Services Coverage Expansions	(14.8)	(15.0)	(15.0)
Other Out Years Appropriations Adjustments (Net)	0.1	(0.0)	(0.2)
FY 24 and FY 25 Budget Adjustments Total	**(607.8)**	**(652.3)**	**(664.0)**
FY 24 and FY 25 Budget Balance (Before Revenue Cap)	**424.3**	**533.4**	**940.8**

[1]Baseline Balance reflects revenue according to May Consensus Revenue and appropriations equal to FY 23 net appropriations plus current services updates contained in the FY 24 and FY 25 Budget, plus OFA estimates of anticipated growth under the FY 23 Revised Budget.

Revenue

Income-related Tax Policies

The FY 24 and FY 25 Budget includes various policy changes that affect income and pass-through entity taxes whose impact begins in FY 24 and continues into the out years. **Table 6.2** provides a list of those policies, which result in a combined revenue loss of $444.5 million in FY 26, $462.4 million in FY 27, and $478.3 million in FY 28.

Table 6.2 Impact of the FY 23 Income Tax Policies on Out Years
In Millions of Dollars

Policy	FY 26	FY 27	FY 28
Reduce Marginal Tax Rates	(384.8)	(402.3)	(417.9)
Eliminate Pension & Annuity and IRA "Benefits Cliff"	(51.8)	(55.9)	(57.4)
Increase Earned Income Tax Credit (EITC)	(44.6)	(44.6)	(44.6)
All Other Changes	36.7	40.4	41.6
TOTAL	**(444.5)**	**(462.4)**	**(478.3)**

For a comprehensive listing and detailed information of all policies, please see the revenue budget sheets in **Part III. Revenue.**

Appropriations

Maintain Current Treatment of General Obligation Bond Premium
The budget delays a change in bond premium use by continuing current practice of using bond premium proceeds to offset debt service costs. This is expected to result in reduced debt service requirements. While the impact is expected primarily in the biennium, it is anticipated that a portion of the premium generated through FY 25 will offset debt service costs in FY 26.

Department of Social Services Coverage Expansions
The budget increases eligibility for various benefit programs and the length of time for which individuals can be covered by various benefit programs. As effective dates vary over the biennium, enrollment increases continue into the out years and program funding is annualized. The impacted programs include Medicaid (Community First Choice, Autism Waiver, State HUSKY Health), Temporary Family Assistance and State Administered General Assistance.

SPECIAL TRANSPORTATION FUND

The budget results in declining Special Transportation Fund (STF) operating surpluses through FY 26, followed by increasing annual deficits in FY 27 and FY 28, as reflected in **Table 6.3** below. While the STF is projected to begin the FY 24 – FY 25 biennium with a historically high cumulative balance of $648.1 million, expenditure growth will outpace revenue in each year of the budget projection, resulting in an anticipated operating deficit of $199.9 million in FY 28 and a cumulative balance of approximately $553 million.

Table 6.3 Special Transportation Fund Projections
In Millions of Dollars

	FY 23	FY 24	FY 25	FY 26	FY 27	FY 28
Starting Balance	397.8	648.1	852.3	920.4	938.4	752.9
Anticipated Expenditures	1,830.4	2,148.4	2,286.4	2,331.5	2,551.4	2,583.6
Revenue	2,080.7	2,352.6	2,354.5	2,349.5	2,365.9	2,383.7
Operating Surplus/ (Deficit)	**250.3**	**204.2**	**68.1**	**18.0**	**(185.5)**	**(199.9)**
Ending Balance	**648.1**	**852.3**	**920.4**	**938.4**	**752.9**	**553.0**
Debt Service Ratio	2.6	2.7	2.5	2.3	2.0	2.0
STO Issuance	830	1,000	1,000	1,100	1,100	1,100

In the out years (FY 26 – FY 28) average annual expenditure growth is anticipated to be 4.2%, notably higher than projected annual revenue growth of 0.4%, resulting in the deficits shown in the table above. On the expenditure side, drivers of the growth include debt service as well as bus and rail costs. On the revenue side, growth is expected to slow as fuel and sales tax receipts stabilize. The high level of revenue growth in recent years was driven partly by the phase-in of new sources of sales tax to the STF, which was completed in FY 23, along with other economic factors such as historically high inflation and rising oil prices. Energy prices and overall core inflation are expected to remain elevated but below their post-pandemic peak through the out years.