

Section VI. Out Year Projections

General Fund

The General Fund is projected to face out year deficits in the next three fiscal years; however, policies enacted in the budget are projected to reduce these deficits between \$360.7 million and \$217.2 million per year during FY 24 to FY 26 (see **Figure 6.1**). These deficit estimates do not assume any on-budget continuation of programs funded through ARPA or FY 21 funds carried forward. See **Table 6.1** for additional details.

Figure 6.1 General Fund Projected Deficits
In Millions of Dollars

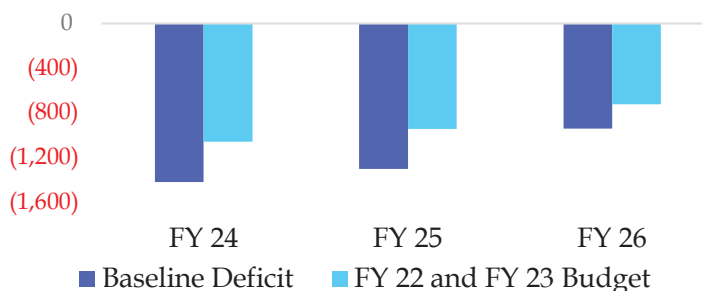


Table 6.1 Projected Budget Policy Impacts to General Fund Balance

In Millions of Dollars

Category	FY 24	FY 25	FY 26
Baseline Deficit Prior to Budget	(1,420.9)	(1,302.5)	(942.2)
Budget Policies			
Continuation of FY 22 and FY 23 Budget Policy	1,753.1	1,753.1	1,753.1
Additional Revenue Policy Impacts in FY 24 to FY 26	(1,443.4)	(1,444.8)	(1,484.0)
Additional Expenditure Policy Impacts in FY 24 to FY 26	51.0	49.9	(51.9)
Budget Policies - Subtotal	360.7	358.2	217.2
Revised Deficit	(1,060.2)	(944.4)	(725.1)

Policy impacts that take place in the out years, such as the discontinuation of federal stimulus funding, increase the projected deficits in FY 24 to FY 26. For further detail, see **Table 6.2** for revenue policy impacts and **Table 6.3** for expenditure policy impacts, as well as descriptions of the major policies in the text that follows.

Table 6.2 Additional Revenue Policy Impacts in FY 24 to FY 26

In Millions of Dollars

Category	FY 24	FY 25	FY 26
Federal Stimulus	(1,194.9)	(1,194.9)	(1,194.9)
Expiration of temporary measures	(218.1)	(218.1)	(218.1)
Scheduled reduction in taxes	(45.3)	(56.2)	(77.4)
Other revenue policies	(7.5)	(12.5)	(34.0)
Minor/Technical	22.4	36.9	40.4
TOTAL	(1,443.4)	(1,444.8)	(1,484.0)

Table 6.3 Additional Expenditure Policy Impacts in FY 24 to FY 26

In Millions of Dollars

Category	FY 24	FY 25	FY 26
Adjust Educational Cost Sharing (ECS) Formula and Schedule	(6.9)	(6.9)	(6.9)
Maintain Current Treatment of General Obligation Bond Premium	(10.0)	-	(45.0)
Reflect Volatility Cap Deposit	68.0	56.8	-
TOTAL	51.0	49.9	(51.9)

Revenue

Federal Stimulus

The budget transfers \$559.9 million in FY 22 and \$1,194.9 million in FY 23 from the federal American Rescue Plan allocation to the General Fund. Because the allocation applies to FY 22 and FY 23 only, there is an associated decrease from FY 23 to FY 24 of \$1,194.9 million.

Expiration of Temporary Revenue Items

The budget includes one-time or nonrecurring revenue policies that apply in FY 22 and FY 23 only. There are corresponding impacts to FY 24 revenue estimates, totaling \$218.1 million (net), associated with the expiration of those policies. Items include:

maintaining the 10% corporation business surcharge through Income Year 2022 which results in a temporary revenue gain of \$80 million in FY 22 and \$50 million in FY 23, and an incremental loss of \$50 million beginning in FY 24,

- (1) suspension of the amortization of historical GAAP deficit through FY 23, resulting in a decrease of \$119.1 million in FY 24, and
- (2) maintaining limits on property tax credits that expire at the end of FY 23 resulting in an impact of \$53.0 million loss beginning in FY 24.

Scheduled Reductions in Taxes

PA 21-2 JSS includes the following tax reductions that impact revenue estimates beginning in FY 24:

- (1) an exemption for income from Individual Retirement Accounts (IRA) to be phased-in over four years beginning in Income Year 2023. This results in a revenue loss beginning in FY 24 of \$32.5 million which will increase to \$71 million annually once the exemption is fully implemented.
- (2) A reduction on the excise tax on beer from \$.24/ gallon back to its 2011 rate of \$.20/ gallon, effective July 1, 2023, which results in a revenue loss is \$2 million beginning in FY 24.
- (3) An extension of specified manufacturing-related sales and use tax exemptions to beer manufacturers that's manufacture beer at a facility that also makes substantial retail sales which results in a revenue loss of \$1.3 million beginning in FY 24.
- (4) Various adjustments to the tax on ambulatory surgical centers that result in a net revenue loss of \$9.5 million beginning in FY 24.

Other Revenue Policies

Other non-tax revenue policies under PA 21-2 JSS impacting the outyears include:

- (1) Raising the aggregated cap on the Insurance Reinvestment Fund, resulting in a revenue loss of \$20 million in FY 26.
- (2) Transferring online lottery revenues from the General Fund to support debt free community college, resulting in a revenue loss of \$7.5 million beginning in FY 24 and ramping up to \$14 million by FY 26.

Minor and Technical Revenue Items

Other revenue items impacting the General Fund include annualization and timing considerations of prior year revenue changes.

Expenditures

Educational Cost Sharing (ECS)

Several adjustments to the Education Cost Sharing (ECS) formula result in increased projected grants for many towns (compared to prior law), raising the anticipated ECS costs by approximately \$6.9 million annually in the out years.

Treatment of General Obligation Bond Premium

The budget implementer delayed a change in bond premium use by continuing current practice of using bond premium proceeds to offset debt service costs for two-to-three years after issuance and delayed a requirement to use those proceeds to fund projects. This is expected to result in reduced debt service requirements in the biennium and increased debt service requirements in near out years. Long term debt service costs are expected to be lower if bond premiums are used to offset a portion of future bond issuance requirements. Current estimates reflect the near term one-time uptick in debt service requirements once future premium proceeds are required to be used for projects.

Volatility Cap Deposit

As a result of the Budget Reserve Fund being projected to exceed its statutory cap in FY 23 and FY 24, the budget assumes that amounts in excess of the cap will be deposited in the State Employees Retirement System as additional contributions. At the time of adoption, these amounts were estimated to be \$969.2 million in FY 23 and \$798.2 million in FY 24, leading to associated savings of \$68 million in FY 24 and \$56.8 million in FY 25 in the General Fund. This is in addition to the budgeted \$67 million in savings from similar contributions in FY 23.

The deposit amounts and their associated impact to the General Fund are likely to change based on actuarial experience and updates to revenue projections.

Special Transportation Fund

The budget improves the STF out year projections as reflected in **Table 6.4**. The STF is projected to end FY 21 with a cumulative balance of \$245.8 million. The cumulative balance is expected to grow significantly through the biennium due to the sales tax transfer growing to 100% in FY 23 and anticipated temporary federal support for transportation projects. However, expenditure growth will begin to outpace revenue in the out years, resulting in an anticipated operating deficit of \$31.8 million in FY 26 and a cumulative balance of approximately \$673.2 million.

Table 6.4 Special Transportation Fund Projections
In Millions of Dollars

Component	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
Starting Balance	168.4	245.8	413.7	633.2	692.8	705.0
Appropriations	1,700.3	1,721.8	1,809.8	2,002.4	2,083.0	2,160.8
Revenue	1,777.7	1,889.7	2,029.3	2,062.0	2,095.2	2,129.0
Operating Surplus/ (Deficit)	77.4	167.9	219.5	59.6	12.2	(31.8)
Ending Balance	245.8	413.7	633.2	692.8	705.0	673.2
Debt Service Ratio	2.6	2.5	2.4	2.3	2.2	2.1
STO Issuance	875	800	925	1,000	1,000	1,100

Major Policies Impacting Special Transportation

Implement a Highway use Tax

PA 21-177, *AAC A Highway Use Fee*, imposes a mileage-based tax, beginning January 1, 2023, on most trucks weighing 26,000 pounds or more (tractor trailers) with rates increasing proportionately based on weight. The law, which generally exempts dairy trucks, is estimated to result in an STF revenue gain of \$45 million in FY 23, and \$90 million once fully annualized in FY 24 and beyond. PA 21-177 was passed subsequent to the revenue scheduled adopted by the Finance, Revenue and Bonding Committee and is not reflected in that committee's schedule or in **Table 6.4** above.

Temporary Federal Support for Transportation Operations

The FY 22 and FY 23 Budget includes \$100 million in each year for STF lapses, which are expected to be offset with temporary federal funding.