

General Fund Surplus Likely Depleted Next Year



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Per statute, the Independent Fiscal Office (IFO) publishes an annual five-year projection of General Fund revenues and expenditures each November. For November 2023, the report projected General Fund operating deficits of -\$624 million (FY 23-24), -\$2.0 billion (FY 24-25) and -\$3.0 billion (FY 25-26).¹ Those estimates were based on tax law effective at that time and the spending policies embedded in the FY 23-24 budget.

Those amounts can now be updated based on the FY 24-25 enacted budget, recent tax law changes and the latest revenue estimates. For the same three fiscal years, the updated deficits are -\$892 million (FY 23-24), -\$3.3 billion (FY 24-25) and -\$4.5 billion (FY 25-26).

	Amount (\$ millions)			Growth Rate	
	23-24	24-25	25-26	24-25	25-26
Gross Revenues	\$45,473	\$45,767	\$46,411	0.6%	1.4%
Less: Refunds	<u>-1,987</u>	<u>-1,758</u>	<u>-1,700</u>		
Net Revenues	43,486	44,009	44,711	1.2%	1.6%
Expenditures	-44,965	-47,599	-49,493	5.9%	4.0%
Plus: Prior Year Lapses	<u>587</u>	<u>250</u>	<u>250</u>		
Current Year Balance	-892	-3,341	-4,532		
Year End Balance					
General Fund	6,632	2,962	-1,570		
Rainy Day Fund	6,987	7,526	7,752		

Notes: Revenues are IFO estimates adjusted for DOR estimates of newly-enacted tax legislation. FY 24-25 expenditures from General Fund Financial Statement. FY 25-26 expenditures use IFO growth rate from Nov. 2023 Five-Year Outlook report.

Relevant notes regarding the updated estimates include:

- The IFO revenue estimate for FY 24-25 (used for table) is \$320 million lower than the official estimate certified by the Governor. If the certified estimate is correct, then the projected deficit would be reduced by that amount. Gross revenues are reduced by \$203 million to reflect newly-enacted policies that impact revenues such as transfers, tax credits and exemptions.
- For FY 25-26, revenue growth is modest (1.4%) due to the ongoing corporate rate cut, the

reduction in interest that accrues on General Fund balances (-\$240 million) and the deduction of newly-enacted tax law changes (-\$304 million).

- For FY 25-26, the expenditure growth rate is from the IFO five-year outlook report. It assumes that basic education funding grows by 2.4%, Department of Human Services by 5.2%, and personnel-related costs (wages, healthcare, SERS and PSERS pensions) by 4.2%. Due to the recent ratification of wage contracts and stability of near-term employer contribution rates, the personnel-related growth rate should be relatively accurate and those expenditures comprise 19% of state General Fund spending.
- The General Fund and Rainy Day Fund balances both accrue interest during the fiscal year. For FY 24-25, 10% of the General Fund ending balance is transferred to the Rainy Day Fund. The projected -\$1.6 billion General Fund ending balance for FY 25-26 cannot occur and must be addressed if it transpires.

Per statute, the IFO will update and extend these projections to FY 29-30 by November 15.

¹ See IFO [Five-Year Outlook report](#).