Section IV. Major Policy Changes

This section describes major changes impacting appropriations and revenue, which are summarized in **Table 4.1** and **Table 4.2**, respectively.

General Fund

Appropriations Summary

The adjustments to appropriations in the General Fund were primarily attributed to changes in (1) hospital supplemental payments, (2) personnel, and (3) the Teacher's Retirement System.

Table 4.1 Summary of Major Changes to General Fund Appropriations
In Millions of Dollars

Appropriations	FY 20	FY 21
Hospital supplemental payments		
Reduction to align with current law	(329.8)	(329.8)
Maintain supplemental payments at the FY 19 level	286.8	286.8
Subtotal	**(43.0)**	**(43.0)**
Other Major Changes		
General Fund personnel	135.1	429.1
Teacher's Retirement System	(83.5)	(44.3)
Other and technical	312.3	642.0
Subtotal	**363.9**	**1,026.8**
TOTAL	**320.9**	**983.8**

Revenue Summary

A summary of major revenue policies is listed below. For a comprehensive listing of policies, please see the revenue budget sheets in **Part III**.

Table 4.2 Summary of Major Policy Changes to General Fund Revenues
In Millions of Dollars

Revenues	FY 20	FY 21
Hospitals		
Maintain hospital tax at the FY 19 level of $900 million	516.0	516.0
Maintain supplemental hospital payments at the FY 19 level	215.4	214.0
Upper Payment Limit adjustment to supplemental payments	(26.7)	(26.7)
Hospitals - Subtotal	**704.7**	**703.3**
Other Major Policies		
Consumer taxes	103.5	129.7
Business taxes	94.4	27.0
Income tax	103.0	103.0
Enhancements to tax collections	-	80.0
Temporary measures	(85.0)	160.7
Finance Committee adjustments	90.0	90.0
Transfer to Special Transportation Fund	58.2	113.4
Transfer off-of-budget	(20.0)	-
Other policies	10.9	51.3
Other Major Policies - Subtotal	**355.0**	**755.1**
TOTAL	**1,059.7**	**1,458.4**

Major Policy Changes to Hospitals

Hospital Tax

The budget restores the hospital tax to $900 million per year, an increase of $516 million compared to current law, which would have decreased the tax beginning in FY 20 to $384 million.

Hospital Supplemental Payments

The budget provides $453 million in Medicaid hospital supplemental payments in FY 20 and FY 21; an increase of approximately $286.6 million in each year compared to current law, which decreased hospital supplemental funding to $166.5 million beginning in FY 20.

Funding provided in the budget reflects: (1) a $3 million reduction in the small hospital pool to account for the merger of Charlotte Hungerford Hospital with Hartford Healthcare in accordance with the current Medicaid state plan amendment (SPA); and (2) a $40 million reduction compared to FY 19 related to the federal UPL[2] to ensure that all payments are eligible for federal reimbursement.

Federal Grant Revenue

The combination of these changes to hospital supplemental payments results in an increase in federal revenue of approximately $214 to $215 million related to increased supplemental payments and a reduction of $26.7 million related to the UPL.

The following table reflects the impact to revenue and expenditures related to the hospital tax and supplemental Medicaid payment changes.

Table 4.3 Hospital Tax and Supplemental Payment Policy Adjustments
In Millions of Dollars

Hospital Policies	FY 20	FY 21
Revenue		
Maintain the Hospital Tax at the FY 19 level of $900 million	516.0	516.0
Federal grant revenue—Maintain supplemental payments at FY 19 level	215.4	214.0
Reduction to supplemental payments due to the Upper Payment Limit	(26.7)	(26.7)
Expenditures		
Maintain Supplemental Hospital Payments at FY 19 level	286.8	286.8
NET BUDGETARY IMPACT	**417.9**	**416.5**

Major Policy Changes to Personnel

Fringe Benefit Current Service Adjustments

The budget includes $233.8 million in FY 20 and $449.1 million in FY 21 in fringe benefit related current service adjustments. As reflected in **Table 4.4**, a little less than half of the funding, 45% in FY 20 and 47% in FY 21 is provided to fund the state's actuarially determined employer contribution (ADEC) for the State Employees' Retirement System (SERS). Retired state employees' health service costs account for approximately 38% in FY 20 and 36% in FY 21 of

[2]The federal upper payment limit (UPL) is the maximum amount a state Medicaid program may pay a given provider type in the aggregate and can vary each year as it is based on what Medicare would have paid for the same services. Payments in excess of the UPL are not eligible for federal reimbursement.

total fringe benefit related current service adjustments. The balance is comprised predominately of annual adjustments for active state employees' health service costs, employer's social security tax, and collectively bargained tuition and training funds.

Table 4.4 Current Service Update to Fringe Benefits
In Millions of Dollars

Supports	FY 20	FY 21
State Employees' Retirement System (SERS) ADEC[1]	104.2	209.6
Retired state employees' health service costs	88.4	159.7
Active state employees' health service costs	23.0	60.4
Other employee benefit adjustments	18.2	19.3
TOTAL	**233.8**	**449.1**

[1]ADEC = actuarially determined employer contribution

Wage Increase
The budget includes additional funding of $64.5 million in FY 20 and $236.2 million in FY 21 for state employee wages which are attributed to collective bargaining contracts and non-union wage increases. The net increase to appropriations is the result of adjustments to agency appropriations and to the Reserve for Salary Adjustment account.

Labor Concessions
PA 19-117 allocates $163.2 million in FY 20 and $256.2 million in FY 21 in labor concession savings, accounted for as bottom line lapse (i.e., savings) in the General fund. The budget assumes savings will be achieved through: (1) modifications to SERS ($113.2 million in FY 20 and $121.2 million in FY 21), and (2) changes to the active and retired state employee health program ($50 million in FY 20 and $135 million in FY 21).

Major Policy Changes to the Teachers' Retirement System (TRS)

Table 4.5 Teacher's Retirement System Adjustments
In Millions of Dollars

Adjustments	FY 20	FY 21
1. Fully fund TRS based on the 2018 valuation	99.9	145.1
2. Changes to funding methodology and benefit design	(183.4)	(189.4)
TOTAL	**(83.5)**	**(44.3)**

1. Fully Fund TRS Based on 2018 Valuation
The original June 30, 2018 actuarial valuation set an actuarially determined employer contribution (ADEC) for TRS of $1,392,183,000 in FY 20 and $1,437,429,000 FY 21. Payment of the full contribution is required by both statute (CGS Sec. 10-183z) and the bond covenant for the pension obligation bonds, issued pursuant to PA 07-186. Funding of $99,869,000 in FY 20 and $145,115,000 in FY 21 are required to fully fund the TRS ADEC.

2. Reduce Contributions to Reflect Funding Methodology and Benefit Design Changes
The budget, implements policy changes to the TRS funding methodology and benefit design including reducing the rate of return from 8% to 6.9% and re-amortizing the unfunded liability over a new 30-year period. These changes are projected to reduce the ADEC by $183.4 million in FY 20 and $189.4 million in FY 21.

Revenues

Consumer Tax Changes
Increasing the applicable rates on digital goods (from 1.00% to 6.35%) and prepared meals (from 6.35% to 7.35%) and imposing a new 10-cent fee on plastic, single-use bags are the largest changes directly impacting consumers. Together the budget assumes these changes increase General Fund revenues by $103.5 million and $129.7 million in FY 20 and FY 21, respectively.

Business Tax Changes
Extending the corporation tax surcharge of 10% by two years, permanently reducing the value of Research & Development and Urban and Industrial Site Reinvestment tax credits against the corporation tax from 70% to 50.01% of tax liabilities, repealing the $250 biennial business entity tax and increasing the annual business filing fee to the Secretary of the State from $20 to $80, effective July 1, 2020, together are assumed to increase General Fund revenues by a net $94.4 million and $27 million in FY 20 and FY 21, respectively. Additionally, the scheduled phase out of the capital stock basis for the corporation tax is assumed to reduce General Fund revenues by $5.7 million in FY 21. The fully annualized revenue loss is $53 million.

Income Tax Changes
Permanently reducing the value of the income tax credit for pass-through entity taxes paid and temporarily maintaining the 2018-2019 restriction (limiting eligibility to the elderly or those with dependents) on property tax credits are budgeted to increase General Fund revenues by $103 million in each year of the biennium.

Enhancements Tax Collections
Enhancing collections of online sales via the use of Certified Service Providers and increasing unspecified fees are assumed to increase FY 21 General Fund revenues by $80 million. Plans to implement these changes are due to the Finance, Revenue and Bonding Committee by February 5, 2020.

Temporary Measures
Crediting FY 20 revenues to FY 21 and suspending the amortization of the historical GAAP deficit provides temporary FY 21 General Fund revenue of $160.7 million.

Committee Adjustment to Revenue Projections
The revenue schedule adopted by the Finance, Revenue and Bonding Committee in support of the budget increased baseline personal income tax (withholding portion) revenue projections in the consensus revenue estimates of April 30, 2019, by $90 million in each year of the budget.

Change Impacting the Special Transportation Fund (STF)
Temporarily reducing the percentage of sales tax revenues from the sale of motor vehicles attributable to the Special Transportation Fund provides additional revenue to the General Fund of $58.2 million in FY 20 and $113.4 million in FY 21. The percentage to be credited to the STF remains set to increase after the FY 20 and FY 21 Biennial Budget (refer to Table 4.6).

Shifting Revenues Off-Budget

The budget includes FY 20 transfers from the General Fund to the newly formed Philanthropic Match Account and Medical Leave Insurance Trust Fund of $20 million and $5.1 million, respectively. The transfer to the Philanthropic Match Account represents a partial match of the $100 million commitment made by the Dalio Foundation over the next five years for education related initiatives. The $5.1 million transfer to the Medical Leave Insurance Fund is intended to cover start-up costs for the new program.

Transportation

Accelerate Car Sales Tax Diversion to Special Transportation Fund

The budget reduced the shift in sales and use tax revenues related to the sale of new motor vehicles from the General Fund to the Special Transportation Fund by $58.2 million in FY 20 and $113.4 million in FY 21.

Table 4.6 Special Transportation Fund Portion of Motor Vehicle Sales Tax
In Millions of Dollars

Budget Changes	FY 19	FY 20	FY 21	FY 22	FY 23
Total MV Sales Tax	362.5	363.9	365.7	367.5	369.4
Previous Law					
% Transfer	8%	33%	56%	75%	100%
STF Transfer Amount	29.0	120.1	204.8	275.7	369.4
PA 19-117					
% Transfer	8%	17%	25%	75%	100%
STF Transfer Amount	29.0	61.9	91.4	275.7	369.4
TOTAL	-	**(58.2)**	**(113.4)**	-	-