# Section VI. Out Year Projections

## General Fund

General Fund expenditures are projected to exceed revenue in the out years leading to projected deficits of $802.1 million in FY 24, $531.4 million in FY 25 and $275.3 million in FY 26.

Prior to the enactment of the revised budget, the state faced "baseline" deficits of $561.5 million to $72.4 million, based on May 2nd consensus revenue estimates and expenditure projections under the FY 22 and FY 23 Biennial Budget. Changes made in the FY 23 Revised Budget worsen these anticipated out year deficits by between $159.4 million and $239.9 million per fiscal year. Note that these deficit estimates do not assume on-budget continuation of programs funded through ARPA or carryforwards. See **Table 6.1** for additional details.

**Figure 6.1** General Fund Projected Deficits
In Millions of Dollars

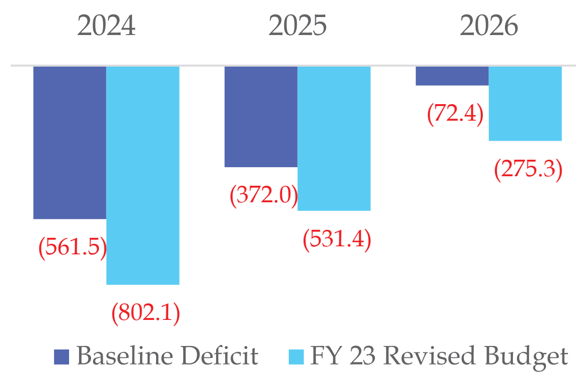


**Table 6.1** Impact of the FY 23 Revised Budget on General Fund Projected Deficits[1]
In Millions of Dollars

| Category | FY 24 | FY 25 | FY 26 |
|---|---|---|---|
| **Baseline Deficit** | (561.5) | (372.0) | (72.4) |
| **Revenue Adjustments Total** | **(189.2)** | **(217.4)** | **(202.8)** |
| Income Tax Policies | (104.5) | (91.3) | (76.2) |
| JobsCT Program | - | (40.0) | (40.0) |
| Other Revenue Adjustments (net) | (84.7) | (86.1) | (86.6) |
| **Appropriations Adjustments Total** | **(50.7)** | **58.0** | **(0.2)** |
| Support for ARPA and Community-Based Services Reinvestment Plan | 44.2 | 70.9 | 0.8 |
| Reflect Additional Quarter of Enhanced Federal Match due to the Public Health Emergency | (70.0) | - | - |
| Other Appropriations Adjustments (net) | (24.9) | (12.9) | (1.0) |
| **FY 23 Revised Budget Adjustments Total** | **(239.9)** | **(159.4)** | **(203.0)** |
| **FY 23 Revised Budget Deficit** | **(802.1)** | **(531.4)** | **(275.3)** |

[1] The revenue estimates in **Table 6.1** and referenced on this page reflect the outyear impact of policies in the FY 23 Revised revenue schedule that was adopted by the Finance, Revenue, and Bonding Committee.

## Revenue

***Income-related Tax Policies***

The FY 23 Revised budget includes various policy changes that impact income and pass-through entity taxes whose impact begins in FY 23 and continue into the outyears.[7] The table below provides a list of those policies which result in a revenue loss of $104.5 million in FY 24, $91.3 million in FY 25, and $76.2 million in FY 26. For a comprehensive listing and detailed information of all policies, please see the revenue budget sheets in **Part III.**

**Table 6.2** Impact of the FY 23 Income-related Tax Policies on Outyears
In Millions of Dollars

| Policy | FY 23 | FY 24 | FY 25 | FY 26 |
|---|---|---|---|---|
| Adjust property tax credit amount | (60.0) | (60.0) | (60.0) | (60.0) |
| Accelerate schedule for tax exemptions for certain income from pensions and annuities | (42.9) | (29.3) | (15.6) | - |
| Expand student loan tax credit | (9.4) | (9.9) | (10.4) | (10.9) |
| Extend the manufacturing apprenticeship tax credit to pass-through entities | (5.0) | (5.0) | (5.0) | (5.0) |
| Establish a credit against the personal income tax for parents who experience the birth of a stillborn child | (0.3) | (0.3) | (0.3) | (0.3) |
| **Total** | **(117.6)** | **(104.5)** | **(91.3)** | **(76.2)** |

***JobsCT Program***

PA 22-118 establishes the JobsCT tax rebate program under which companies in specified industries may earn rebates against the insurance premiums, corporation business, and PE taxes for reaching certain job creation targets. The act caps the aggregate rebate amount at $40 million per year and the revenue loss will impact FY 25 and all years thereafter based on the timing of applicability of the rebates.

## Appropriations

***Support for ARPA Home and Community-Based Services Reinvestment Plan***

Under ARPA, states received a 10% enhanced federal match on eligible home and community-based services (HCBS) expenditures from April 1, 2021 through March 31, 2022. The value of the enhanced match must be reinvested in new, qualifying home and community-based services through March 2024. The budget assumes reinvestments totaling approximately $144.3 million in FY 23, decreasing to approximately $100 million in FY 24 and $29.1 million in FY 25. While most reinvestments are time-limited, ongoing state costs are anticipated in FY 25 and beyond.

***Reflect Additional Quarter of Enhanced Federal Match due to the Public Health Emergency***

Under the public health emergency (PHE), the state receives an additional 6.2% federal match on most Medicaid expenditures (the main exception being the expansion population, which is

[7] PA 22-146 repeals increase the Earned Income Tax Credit (EITC) to 41.5% of the federal EITC beginning with the 2023 income year that was included in the FY 23 Revised Budget. This eliminates the associated annual revenue loss of $49 million in FY 24 and beyond and is therefore not reflected in **Table 6.2**.

reimbursed at 90% for those deemed newly eligible). This reduces the state share of such expenditures by $70 million during the period of July 1 through September 30, 2022.

## Special Transportation Fund

The FY 23 Revised Budget results in projected STF annual operating surpluses through FY 26 as reflected in **Table 6.3**. The fund is projected to end FY 22 with a cumulative balance of $433.1 million, a historically high level. The balance is expected to grow substantially in FY 23 due to the sales tax transfer growing to 100%. This growth, however, is mitigated by a five month suspension of the state's gas tax in FY 23, which results in foregone revenue of $150 million.

Beginning in the out years, expenditure growth will begin to outpace revenue, resulting in steadily declining surpluses. On the expenditure side, this is driven by the end of temporary federal support for transportation projects, which is anticipated to provide a $100 million expenditure offset in FY 23 that will not be available in the out years. On the revenue side, growth will turn negative beginning in FY 25 due to declining motor fuels and oil companies receipts, partially offset by moderate growth in sales taxes and the full implementation of the highway use tax.

**Table 6.3** Special Transportation Fund Projections
In Millions of Dollars

| | FY 22 | FY 23 | FY 24 | FY 25 | FY 26 |
|---|---|---|---|---|---|
| Starting Balance | 241.1 | 433.1 | 700.2 | 961.6 | 1,139.8 |
| Appropriations | 1,805.9 | 1,826.2 | 2,014.9 | 2,091.3 | 2,157.1 |
| Revenue | 1,997.9 | 2,093.2 | 2,276.3 | 2,269.5 | 2,269.1 |
| **Operating Surplus/ (Deficit)** | **192.0** | **267.0** | **261.4** | **178.2** | **112.0** |
| **Ending Balance** | **433.1** | **700.2** | **961.6** | **1,139.8** | **1,251.8** |
| Debt Service Ratio | 2.7 | 2.5 | 2.5 | 2.3 | 2.2 |
| STO Issuance | 500 | 1,225* | 1,000 | 1,000 | 1,000 |

*Assumes delay of $300 million of planned STO issuance from FY 22 to FY 23.

### Major Policies Affecting Transportation

***Gas Tax Suspension Through November 30th***

SA 22-2 suspended Connecticut's 25 cents per gallon gasoline tax from April 1, 2022, through June 30, 2022, and the FY 23 Revised Budget extends the suspension for five months, through November 30, 2022. This five-month extension is estimated to result in an STF revenue loss of $150 million in FY 23. However, the budget provides ARPA funding of an equal amount ($150 million) to replace this foregone revenue.