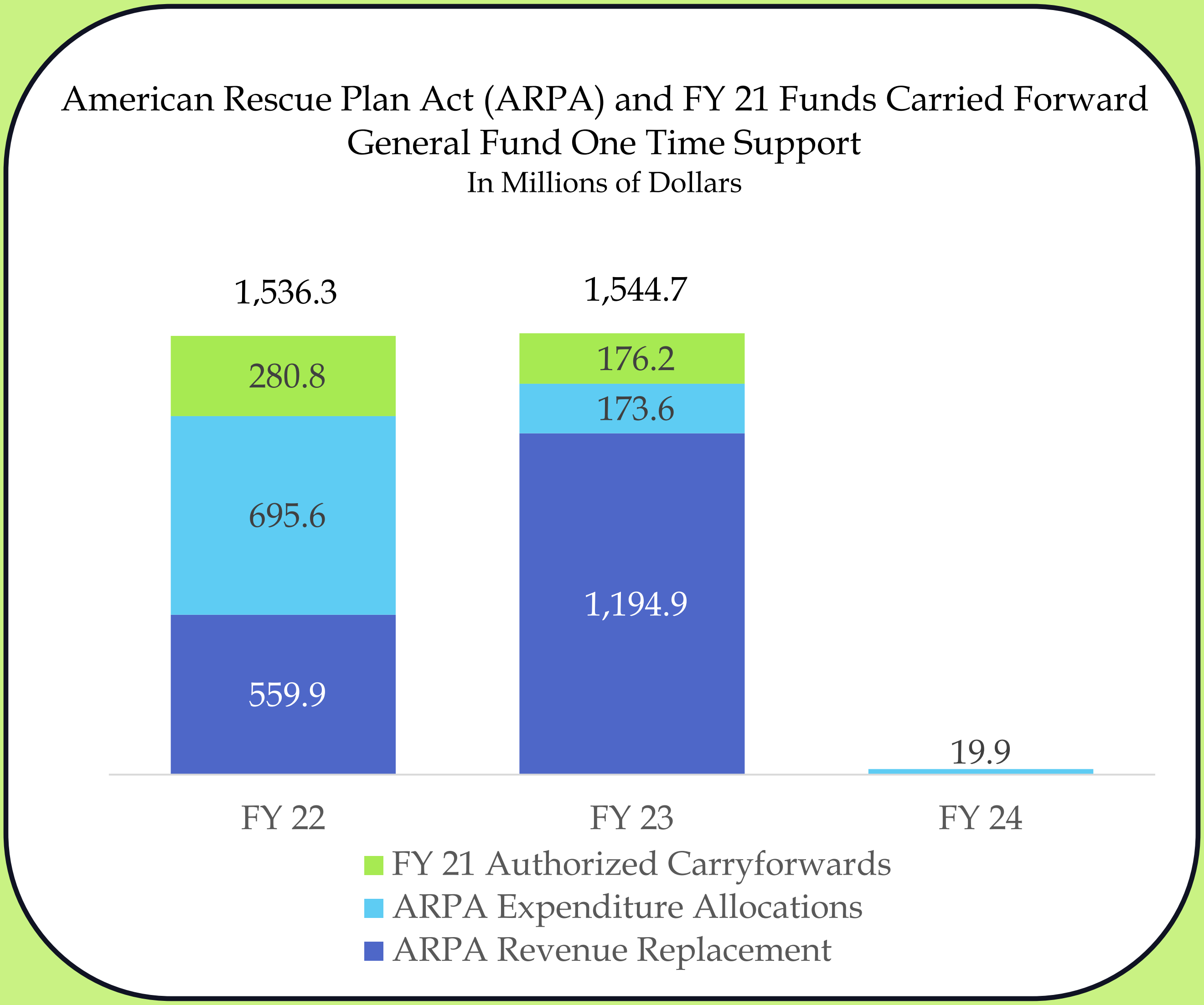
CONNECTICUT GENERAL ASSEMBLY
OFFICE OF FISCAL ANALYSIS

OFA

FISCAL ACCOUNTABILITY REPORT

FY 22 – FY 26



November 19, 2021

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NOTE:
Numbers in tables and charts may not sum due to rounding.

Section I. Executive Summary

American Rescue Plan Act Impacts Current Biennium and Out-Years

In March of 2021, the American Rescue Plan Act (ARPA) provided the State of Connecticut with a total of $2,812.3 million via the State and Local Fiscal Recovery Fund and an additional $141.9 million in Coronavirus Capital Projects funds. SA 21-15, the FY 22 - FY 23 biennial budget, allocated significant portions of those funds for revenue replacement in FY 22 and FY 23, and for a variety of expenditures from FY 22 through FY 24.

Surpluses in Current Biennium: FY 22 & FY 23

OFA is projecting a General Fund surplus of $915.6 million in the current fiscal year and a surplus of $512.4 million in FY 23. These surpluses are primarily driven by the federal response to the COVID-19 pandemic (via ARPA and other actions) and by strong growth in the sales and use tax.

Deficits in Out-Years: FY 24 - FY 26

OFA is projecting General Fund deficits in FY 24 ($931.9 million), FY 25 ($670.3 million) and FY 26 ($326.6 million). The most significant factor contributing to out-year deficits is the expiration of $1,194.9 million in FY 23 revenue replacement funding associated with ARPA. An encouraging note in the out-years is that revenue growth outpaces fixed cost growth creating a positive structural balance.

Budget Reserve Fund Balance

The current BRF balance of $3,112 million is at the statutory maximum level of 15% of appropriations. The BRF is anticipated to significantly exceed the 15% statutory cap in both FY 22 and FY 23 by over $1 billion each year. In accordance with statute, funds in excess of the cap are transferred to reduce the unfunded liabilities in the State Employees Retirement System and Teachers' Retirements System. The extent to which the BRF exceeds its cap in the out-years will depend on the manner in which projected out-year deficits are resolved.

Statutorily Required Report Methodology

OFA is statutorily required to produce the Fiscal Accountability Report every November. The report must explain:

1. The level of spending changes from current year spending allowed by consensus revenue estimates,
2. Any changes to current year spending necessary because of “fixed cost drivers,” and
3. The total change to current year spending that is required to accommodate fixed cost drivers, without exceeding current revenue estimates.

For this report, fixed cost drivers include debt service, pension contributions, retiree health care, entitlement programs, adjudicated claims, and hospital supplemental payments.

Utilizing the methodology required by CGS Section 2-36b, out-year spending projections must align with consensus revenue estimates through non-fixed cost reductions, thereby eliminating any deficits. In FY 24, $931.9 million in non-fixed costs reductions will be necessary to balance the budget. Such a reduction in non-fixed costs in FY 24 would result in positive General Fund balances of $261.6 million in FY 25 and $605.3 million in FY 26. This is due to projected revenue growth exceeding projected fixed cost growth in each of the out-years by an average of $274.8 million annually.

Special Transportation Fund (STF)

OFA is projecting an STF operating surplus in each fiscal year from FY 22 through FY 26. The FY 22 operating surplus is estimated to be $257 million; in FY 26 the surplus is projected to be $110 million. The cumulative fund balance is projected to increase from $241.1 million in FY 22 to $1.2 billion in FY 26.

Table 1.1 Financial Summary by Fund
In Millions of Dollars

Fund	FY 22	FY 23	FY 24	FY 25	FY 26
General Fund					
November Consensus Revenue	21,549.0	22,066.7	20,877.2	21,428.7	22,017.3
Expenditures					
Previous Year Expenditure			21,554.3	20,877.2	21,167.1
Fixed Cost Growth			254.8	289.9	244.9
Expenditure Reduction[1]			(931.9)	-	-
Subtotal	**20,633.4**	**21,554.3**	**20,877.2**	**21,167.1**	**21,412.0**
GENERAL FUND BALANCE	**915.6**	**512.4**	**-**	**261.6**	**605.3**
Special Transportation Fund (STF)					
November Consensus Revenue	1,953.9	2,118.9	2,175.2	2,199.4	2,232.9
Expenditures					
Previous Year Expenditure			1,819.1	2,002.4	2,067.9
Fixed Cost Growth			183.3	65.5	55.0
Expenditure Reduction[1]			-	-	-
Subtotal	**1,696.9**	**1,819.1**	**2,002.4**	**2,067.9**	**2,122.9**
STF BALANCE	**257.0**	**299.8**	**172.8**	**131.5**	**110.0**
Other Appropriated Funds					
Revenue	279.5	289.0	285.6	286.3	286.6
Expenditures	273.2	276.1	276.1	276.1	276.1
OTHER APPROP. FUNDS BALANCE	**6.3**	**13.0**	**9.6**	**10.2**	**10.5**
All Appropriated Funds					
Revenue	23,782.4	24,474.6	23,338.0	23,914.4	24,536.8
Expenditures	22,603.5	23,649.4	23,155.6	23,511.0	23,811.0
ALL APPROP. FUNDS BALANCE	**1,178.9**	**825.2**	**182.4**	**403.4**	**725.8**

[1]Pursuant to CGS Sec. 2-36(b), the reduction in non-fixed costs necessary to balance revenue and expenditures.

Section II. General Fund – Current Biennium

Table 2.1 November Updates to FY 22 General Fund Estimates
In Millions of Dollars

Summary	FY 22
Budgeted Balance	274.9
Revenue	
Budgeted	21,021.3
Consensus Adjustment	
Sales and Use	155.2
Federal Grants	380.8
Other Revenue (net)	(8.4)
Subtotal	**527.7**
Expenditures	
Budgeted	20,746.4
Lapses	141.7
Deficiencies	(28.8)
Subtotal	**113.0**
SURPLUS/(DEFICIT)	**915.6**

Despite initial concerns regarding the impact of the pandemic on state finances, FY 20 and FY 21 ended with surpluses of $38.7 million and $480.9 million respectively. That impact continues to be muted as OFA currently projects surpluses of $915.6 million in FY 22 and $512.4 million in FY 23.

Significant uncertainty remains, however, despite these surplus projections. In March of 2021, the American Rescue Plan Act (ARPA) provided the State of Connecticut with a total of $2,812.3 million via the State and Local Fiscal Recovery Fund and an additional $141.9 million in Coronavirus Capital Projects funds.[1] SA 21-15, the FY 22 and FY 23 budget, allocated significant portions of those funds for revenue replacement, and for a variety of expenditures. Additionally, it is uncertain how several revenue and expenditure trends, which contribute to surpluses in the biennium, will continue into the out-years.

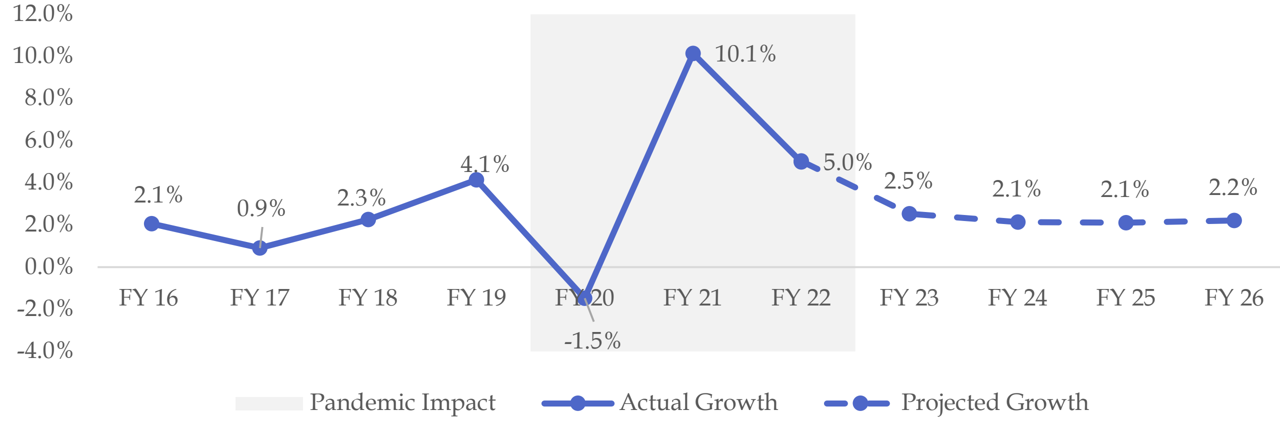
REVENUE

The November Consensus revenue estimates increased total General Fund projections by $527.7 million in FY 22, primarily in sales and use tax and federal funds.

The General Fund portion of the sales and use tax ended FY 21 above April 2021 projections by $155 million. This positive trend is attributable to various factors including federal stimulus, strong consumer spending on taxable goods and a return to spending in industries, such as restaurants, where sales fell at the start of the pandemic. As a result, this trend brought sales growth above the historical average for FY 21 and it is anticipated to remain higher through FY 22 and falling back to historical average by FY 23.

[1] The American Rescue Plan Act of 2021 awarded almost $12 billion in funding to Connecticut individuals, businesses, local governments and state agencies. For the purpose of this report, "ARPA" refers to the funding allocated by SA 21-15, as amended by PA 21-2 JSS.

Figure 2.1 Sales Tax Growth Rates (All Funds)



The FY 22 change in federal grants revenue of $380.8 million reflects both new initiatives as well as standard adjustments due to finalizations and rate adjustments. Adjustments include the 10% enhanced match for home and community-based services available under ARPA for the period of April 1, 2021 through March 31, 2022 ($140 million), Substance Use Disorder (SUD) waiver revenue ($4 million), finalization awards for the March and June 2021 quarters ($110 million), increased revenue from the reinstatement of the Disproportionate Share Hospital (DSH) claim for Dempsey ($45 million), and increases in other agency revenue associated with the Department of Development Services and the Department of Children and Families.

Despite overall positive trends in revenue collections, a high degree of uncertainty remains in our revenue projections as the impact of the pandemic continues to pose a potential risk and further federal actions to mitigate the impacts of the pandemic are unknown at this time.

EXPENDITURES

In SA 21-15, FY 22 appropriations[2] totaled $20.7 billion. Currently, expenditures are projected to be $113 million below budgeted appropriations. This is due to $141.7 million in lapses, offset by $28.8 million in deficiencies. **Figure 2.2** shows a breakout of these lapses and deficiencies by major categories.

Table 2.2 FY 22 Expenditure Projections
In Millions of Dollars

Expenditures	FY 22
Budgeted	20,746.4
Lapses	141.7
Deficiencies	(28.8)
NET LAPSE/(DEFICIENCY)	**113.0**

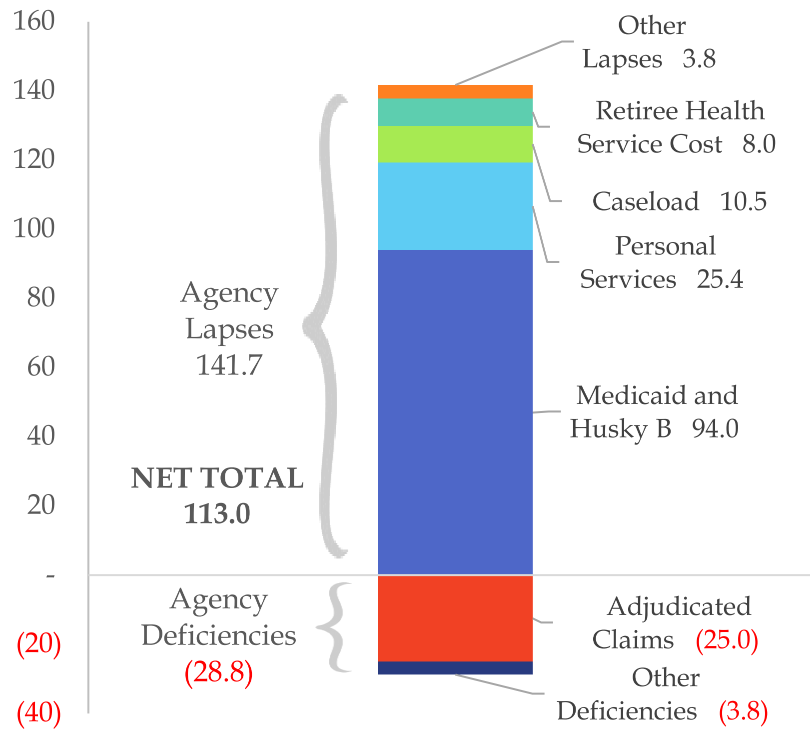
Lapses

Medicaid and Husky B

Approximately $94 million, or 66% of all agency account lapses, is expected to lapse across Medicaid and Husky B. This is due to a combination of: 1) lower state share of program expenditures due to enhanced federal reimbursement through March of 2023 (for Medicaid) and March of 2022 (for Husky B), and; 2) decreased utilization of services in both programs.

[2] On 10/29/21, the Governor announced the release of $14.2 million in FY 22 holdbacks. Due to the timing of this announcement, the release of those holdbacks has not been incorporated into our FY 22 projections.

Figure 2.2 General Fund Lapses and Deficiencies by Account
In Millions of Dollars



Personal Services
Personal Services accounts across six agencies are expected to lapse about $25.4 million. This includes: 1) the Department of Mental Health and Addiction Services ($9.0 million); 2) the Department of Children and Families ($8.0 million); 3) the Office of Legislative Management ($5.0 million); 4) the Judicial Department (4.2 million); 5) the Department of Public Health ($400,000); and 6) the Public Defender Services Commission ($30,000).

Caseload
Several programs across three human service agencies – the Department of Children and Families (DCF); the Department of Social Services (DSS); and the Department of Mental Health and Addiction Services (DMHAS) are lapsing a total of $10.5 million as a result of lower than anticipated utilization of services.

In DSS, this includes a cumulative $6.5 million lapse across its Temporary Family Assistance and State Administered General Assistance accounts.

In DCF, this includes a cumulative $3.5 million lapse across Other Expenses; Board and Care for Children – Foster; Board and Care for Children – Adoption; Board and Care for Children – Short Term and Residential; Individualized Family Supports; and No Nexus Special Education.

In DMHAS, this includes a $500,000 lapse in its Home and Community Based Services account.

Retiree Health Service Costs
An estimated $8 million is expected to lapse in the Retiree Health Service Cost account within the Teachers' Retirement Board (TRB). This is due to lower than budgeted health premiums. The TRB recently voted to change the base plan from a Medicare Advantage Plan and a self-insured pharmacy benefit to a fully insured Medicare Advantage Prescription Drug plan, effective January 1, 2022.

Deficiencies
Office of the State Comptroller – Adjudicated Claims
The largest agency account deficiency, 91.9% of all agency account deficiencies, is $25 million within the Adjudicated Claims account of the Office of the State Comptroller. No appropriation was made for this account in the FY 22 - FY 23 biennial budget.

FY 23 UPDATE

November consensus revenue adjustments positively benefit the second year of the biennium by $256.9 million, as reflected in **Table 2.3**. The FY 23 adjustments are a continuation of the trends identified for FY 22 and discussed above.

FY 23 net expenditures are projected to be $20 million above budgeted appropriations. This is a swing of $133 million from the projected FY 22 net lapse. This is due largely to the anticipated end of enhanced federal reimbursement for Medicaid and a return to pre-pandemic caseload level for that program.

Also contributing to this swing is an estimated $43 million deficiency in the Office of the State Comptroller in FY 23. This is due to $25 million in anticipated expenditures within Adjudicated Claims (for which there is no appropriation in FY 23) and $18 million in costs to reflect a lower-than-anticipated deposit into SERS as a result of the budget reserve fund exceeding its statutory cap.

Table 2.3 FY 23 Update due to November Consensus Revenues
In Millions of Dollars

Update	FY 22	FY 23
Budget Balance	274.9	275.4
November Consensus Adjustments		
Sales and Use Tax	155.2	144.6
Federal Grants	380.8	110.4
Other Revenue (net)	(8.4)	1.9
Revenue Adjustments Subtotal	**527.7**	**256.9**
Expenditure Adjustments	**113.0**	**(20.0)**
BALANCE	**915.6**	**512.4**

ARPA AND CARRYFORWARD EXPENDITURES IN THE BIENNIUM

Easing demand on General Fund expenditures in the biennium are two large influxes of funding: 1) $889 million in federal funding via ARPA; and 2) $458.3 million in FY 21 carryforward funding. These are both one-time funding sources that have significant positive impact on the biennium, and also a potentially negative impact in the out-years, when this funding runs out. Below is a discussion of ARPA and carryforward funding uses in the biennium. See **Section III** for the out-year implications of this funding.

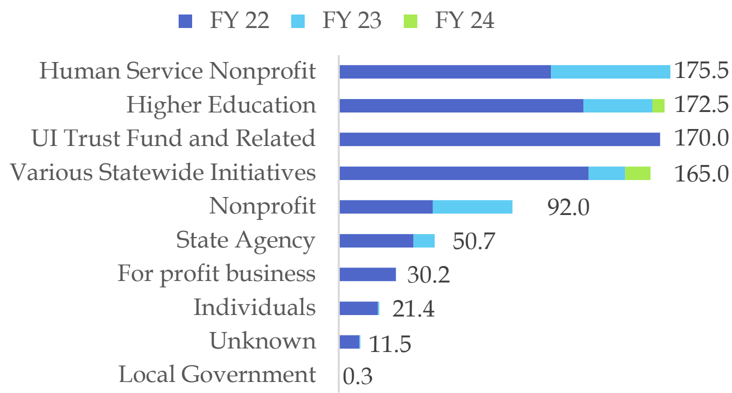
ARPA

Figure 2.3 shows a breakdown of ARPA funding by recipient type. A significant portion of ARPA funding can be grouped into five categories: 1) human service private providers and nonprofits; 2) higher education; 3) the Unemployment Insurance Trust Fund; 4) various statewide initiatives; and 5) other nonprofits.

Funding for Human Service Private Providers and Nonprofits
Funding for a variety of human service private providers and nonprofits comprises $175.5 million in total ARPA allocations over the biennium. Of this amount, $110 million is for private providers of services in DSS and DMHAS.

This also includes $38 million for community action agencies and vendors that work with the Office of Early Childhood, DCF, the Department of Public Health, and DSS.

Figure 2.3 American Rescue Plan Act (ARPA) Allocation by Recipient Type
In Millions of Dollars



Funding for Higher Education
An additional $172.5 million is provided for public institutions of higher education. This includes: 1) $73 million for general support for UConn Health; and 2) $25 million for general support for the University of Connecticut. It also includes $40 million for the Roberta Willis Scholarship and $34.5 million for student retention and general support of the Connecticut State College and University system.

Unemployment Insurance (UI) Trust Fund and Related
A total of $170 million is provided in support of unemployment insurance. This includes $155 million that will be used to reduce the taxes and/or interest payments paid by businesses to replenish payments made from the fund to unemployed workers. Also included in this category is $15 million for the Department of Labor to support the increased workload the agency has incurred as a result of the increased demands of the UCF since the beginning of the pandemic.

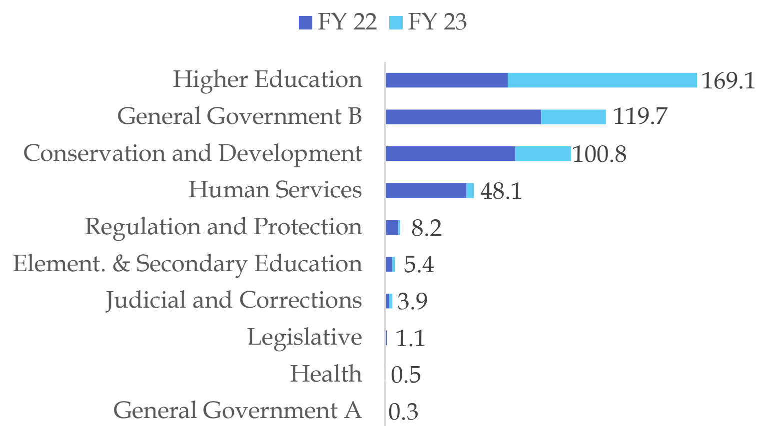
Various Statewide Initiatives
About 42% of this funding ($70 million), is for a workforce initiative targeted towards workers who are unemployed due to the pandemic. It also includes: 1) $30 million for broadband infrastructure development; 2) $14 million for home energy efficiency and remediation of home health hazards; and 3) $10.5 million for certain initiatives of the State Department of Education.

Funding for Other Nonprofits
Approximately $92 million is provided for various other nonprofits (besides human service nonprofits), and for nonprofit initiatives. This includes $25 million to improve broadband connectivity for certain nonprofit organizations. It also includes $20 million for the Connecticut Bar Foundation to provide legal support to tenants facing eviction. The remainder is for a wide variety of arts, culture, tourism, and community development organizations around the state.

CARRYFORWARDS

Figure 2.4 shows the breakdown of General Fund carryforward funding by subcommittee. Approximately $439 million of the total $458.3 million carried forward into the biennium resides in four subcommittees: General Government B; Conservation & Development; Higher Education; and Human Services. Carryforward funding reflects some similar themes as ARPA funding. Significant expenditures include:

Figure 2.4 FY 21 General Fund Carryforwards by Subcommittee
In Millions of Dollars



Additional Higher Education Funding

The state higher education system is the largest recipient of carryforward funding in the biennium, with $169.1 million over the two fiscal years. This includes additional block grant funding of: 1) $93 million for the Connecticut State College and University system; 2) $35.1 million for the UConn Health Center; and 3) $6.1 million for the University of Connecticut.

Human Service Private Providers

The budget carries forward two significant pots of money for certain human service private providers: 1) a $50 million carryforward within the Office of Policy and Management; and 2) a $40 million carryforward for rate increases for nursing homes via the Department of Social Services.

Funding for Arts, Culture, Tourism, and Community Development

Approximately $66.1 million is carried forward in the Department of Economic and Community Development for a variety of nonprofits. About half this funding ($30.7 million) is for the Connecticut Humanities Council. The remaining funding is earmarked for specific, small nonprofits around the state.

BUDGET RESERVE FUND

The Budget Reserve Fund (BRF) is anticipated to exceed its cap of 15% of net General Fund appropriations in both FY 22 and FY 23. In each fiscal year, projected surpluses, combined with projected volatility cap deposits, result in totals exceeding the BRF cap by over $1 billion.

Table 2.4 shows, for FY 22, a combined total of $1,884.8 million in projected volatility deposits ($969.2 million) and projected surplus ($915.6 million) exceeding the FY 22 BRF cap by $1,766.6 million. In FY 23, the total amount exceeding the cap is $1.037.6 million.

Table 2.4 Budget Reserve Fund in the Biennium
In Millions of Dollars

Description	FY 22	FY 23
Budget Reserve Fund Balance at Start of Year	**3,112.0**	**3,230.2**
Projected Volatility Deposit	969.2	780.0
Projected Surplus	915.6	512.4
Volatility Deposit and Surplus Subtotal	**1,884.8**	**1,292.4**
Budget Reserve Fund Capped Balance at End of Year	**3,230.2**	**3,485.0**
Funds in Excess of Budget Reserve Fund Cap	1,766.6	1,037.6

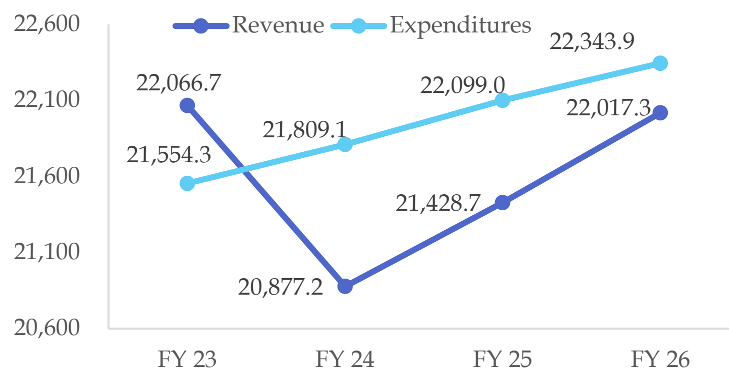
For more information about the BRF in the biennium and the out-years, please see **Section IV**.

Section III. General Fund – FY 24 to FY 26 Projections

GENERAL FUND OUT OF BALANCE IN THE OUT-YEARS

The influx of one-time funding in the biennium presents challenges in the out-years. These challenges, however, are partially mitigated by revenue growth outpacing fixed cost growth. Without adjustment, OFA projects General Fund budget deficits of $931.9 million in FY 24, $670.3 million in FY 25, and $326.6 million in FY 26.

Figure 3.1 Revenue and Unadjusted Expenditures[1]
In Millions of Dollars



[1] Changes in expenditures are limited to fixed-cost accounts, excluding non-fixed cost reductions, as shown in **Table 3.1**.

The most significant factor contributing to out-year deficits is the absence of $1,194.9 million in federal funding. As reflected in **Figure 3.1**, projected revenue declines by $1,194.9 million in FY 24 as a result of ARPA revenue replacement funds expiring.

Mitigating the loss of federal revenue is a positive structural balance between fixed cost growth and revenue growth. As shown in **Figure 3.2** below, the positive structural balance improves the FY 24 deficit by $211.5 million.

Pursuant to CGS Sec. 2-36b, which requires certain estimates to be included in this report, a non-fixed cost expenditure reduction of $931.9 million in FY 24 is needed to align General Fund expenditures with consensus revenue estimates. No additional reductions are needed in FY 25 or FY 26.

Table 3.1 General Fund Fixed Cost Changes and Non-Fixed Cost Reductions
In Millions of Dollars

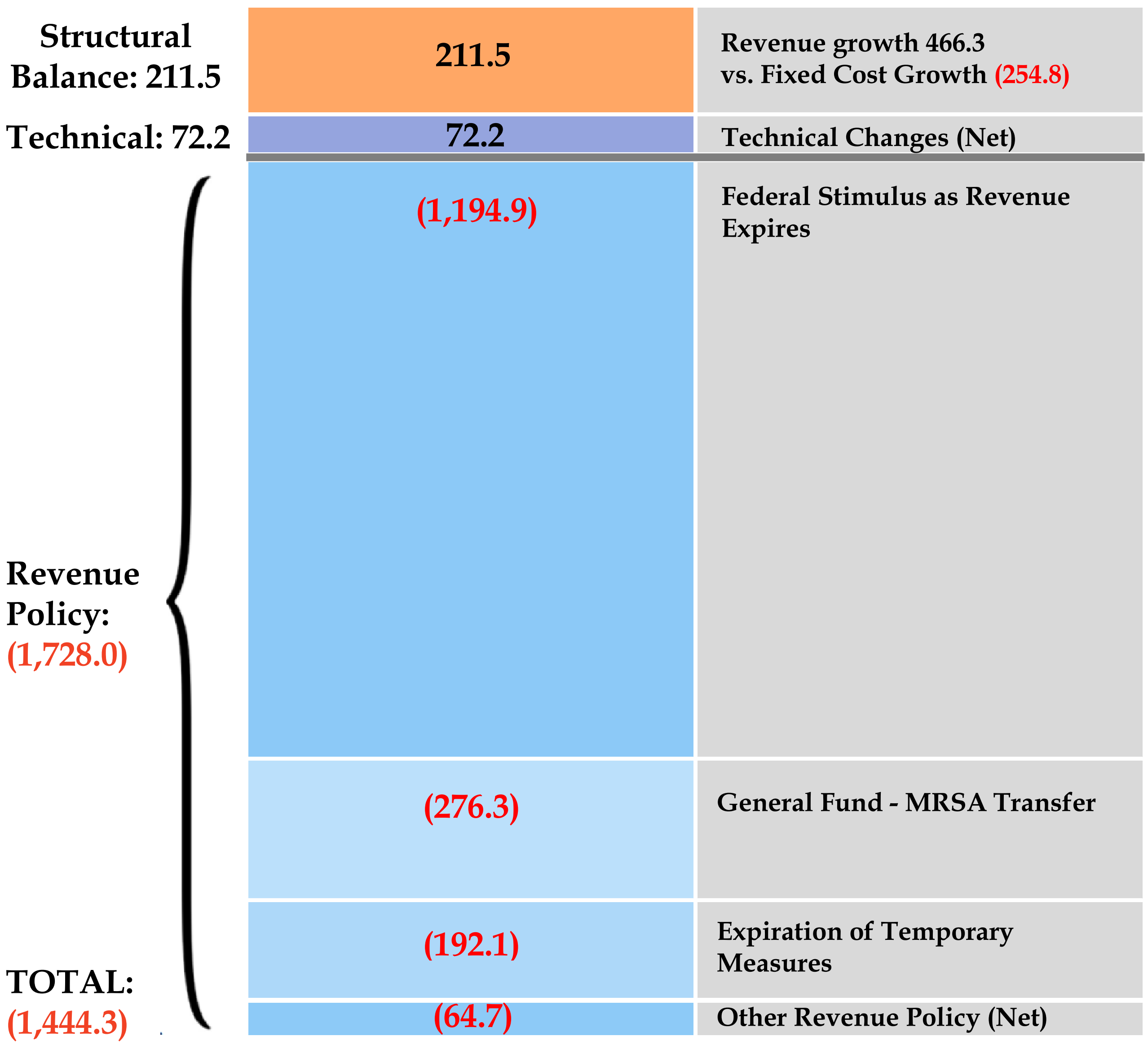
Category	FY 22	FY 23	FY 24	FY 25	FY 26
November Consensus Revenue	21,549.0	22,066.7	20,877.2	21,428.7	22,017.3
Expenditures					
Previous Year Expenditure			21,554.3	20,877.2	21,167.1
Fixed Cost Growth			254.8	289.9	244.9
Non-Fixed Cost Expenditure Reduction			(931.9)	-	-
Subtotal - Expenditures	**20,633.4**	**21,554.3**	20,877.2	21,167.1	21,412.0
BALANCE	**915.6**	**512.4**	**-**	**261.6**	**605.3**
Unadjusted Balance	915.6	512.4	(931.9)	(670.3)	(326.6)

This non-fixed cost expenditure reduction in FY 24 results in positive projected balances in FY 25 and FY 26 because it presumes that non-fixed costs remain flat, while revenue growth outpaces fixed cost expenditure growth in both years. The unadjusted balance assumes no reduction in non-fixed costs, resulting in continued deficiencies in FY 25 and FY 26. Due to the positive structural balance between revenue growth and fixed cost expenditure growth, however, the deficits improve consistently across the out-years.

FY 24 GENERAL FUND IMBALANCE

The projected FY 23 surplus of $512.4 million, combined with $1,444.3 million total net negative changes from FY 23 to FY 24, results in an anticipated FY 24 deficit of $931.9 million.

Figure 3.2 Projected General Fund Changes from FY 23 to FY 24
In Millions of Dollars



As shown in **Figure 3.2**, this is primarily the result of the loss of $1,194.9 million of federal stimulus revenue. Also contributing to the FY 24 deficit is the expiration of a $276.3 million transfer from the Municipal Revenue Sharing Account to the General Fund. Partially offsetting this revenue loss is a structural balance of $211.5 million. This means that revenue is expected to grow faster than fixed cost expenditures from FY 23 to FY 24.

While not contributing to the FY 24 General Fund imbalance, another significant issue in the out-years will be the loss of federal stimulus revenue used for a variety of expenditures that are potentially ongoing in nature. The remainder of Section III explores these issues in more detail.

REVENUE POLICY AND TECHNICAL ADJUSTMENTS

The net FY 24 revenue policy adjustment decreases the balance of the General Fund by a total of $1,728 million in FY 24. **Table 3.2** below highlights the major components of that adjustment, with descriptions of specific items following.

Table 3.2 Major Components of the FY 24 General Fund Revenue Adjustment
In Millions of Dollars

Components	FY 24
1. Federal stimulus as revenue expires	**(1,194.9)**
2. MRSA Transfer	**(276.3)**
3. Expiration of temporary measures	**(192.1)**
Temporary corporation business tax surcharge expires	(20.0)
Temporary restrictions on property tax credits expire	(53.0)
Delay historical GAAP (Generally Accepted Accounting Principles) deficit payment to FY 24	(119.1)
4. Other revenue policies (net)	**(64.7)**
4a. Scheduled reduction in taxes	**(77.8)**
Phase-in tax exemption for Individual Retirement Accounts (IRAs)	(32.5)
Phase-in tax exemption for pensions/annuities	(16.5)
Enact various adjustments to the ambulatory surgical center tax	(9.5)
Increase inheritance tax exemption threshold	(6.0)
Phase-out of capital base method under the corporation business tax	(5.7)
Restore the R&D tax credit to 70% of liability	(4.3)
Adjust alcohol excise tax rate from $.24/gallon to $.20/gallon, effective July 1, 2023	(2.0)
Establish a sales tax exemption on beer supplies for beer manufacturers	(1.3)
4b. All other revenue adjustments (net)	**13.1**
Transfer out iLottery sales to support debt free community college beginning in FY 24	(7.5)
Other Minor Policies	20.6
Revenue Policy Total	**(1,728.0)**
Other Technical Adjustments	72.2
TOTAL (POLICY AND TECHNICAL ADJUSTMENTS)	**(1,655.8)**

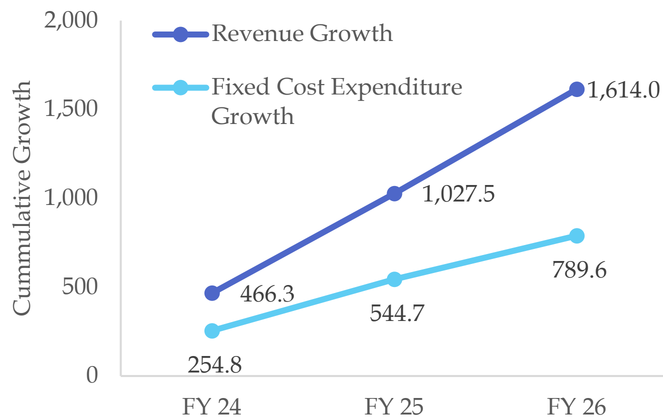
Federal Stimulus
The budget transfers $559.9 million in FY 22 and $1,194.9 million in FY 23 from ARPA to the General Fund. Because the allocation applies to FY 22 and FY 23 only, there is an associated decrease from FY 23 to FY 24 of $1,194.9 million.

MRSA Transfer
SA 21-15 maintained the sales tax revenue transfer to the Municipal Revenue Sharing Account (MRSA) from the General Fund but transferred funding of $276.3 million from MRSA back to the General Fund in FY 23. This transfer supports various General Fund appropriations in the biennium. As the budget bill specified the transfer in FY 22 and FY 23 only, FY 24 projections reflect this transfer expiring in the out-years. It is anticipated that the appropriations will continue to be funded via the General Fund in the out-years.

STRUCTURAL BALANCE

Fixed Cost Growth versus Revenue Growth
The structural balance of the General Fund in the out-years is improved over recent fiscal years. **Figure 3.3** shows revenue growth outpacing fixed cost expenditure growth in each year from FY 24 to FY 26. Total revenue growth over the three out-years is expected to total $1.6 billion, while total fixed cost growth is expected to total $789.6 million.

Figure 3.3 Cumulative Structural Balance
In Millions of Dollars



A significant contributor to this structural balance is a slowdown in fixed cost growth in the out-years. This is due in large part to a reduction in projected annual contributions to the State Employee Retirement System and the Teachers' Retirement System as a result of additional deposits into the system from an accumulated excess in the Budget Reserve Fund.

Table 3.3 shows the estimated annual gap between revenue growth and expenditure growth in each of the out-years – ranging from $211.5 million to $341.6 million. These positive balances are available for non-fixed cost expenditures, including expenditure growth in non-fixed cost areas as well as the variety of ongoing costs and initiatives funded in the biennium by ARPA and carryforward funding.

In the out-years, the estimated average growth rate for revenue is 2.6% while the average fixed cost growth rate is 2.2%. While this difference may seem small, annual revenue growth is projected to be on average $274.8 million more than fixed-cost expenditure growth, on average.

Table 3.3 Structural Balance (FY 24 to FY 26)
In Millions of Dollars

Category	FY 24	FY 25	FY 26	Total	Average Growth	
					$	%
Revenue Growth	466.3	561.2	586.5	1,614.0	538.0	2.6%
Fixed Cost Growth	254.8	289.9	244.9	789.6	263.2	2.2%
BALANCE	**211.5**	**271.3**	**341.6**	**824.4**	**274.8**	

REVENUE GROWTH

Revenue growth in the out-years ranges from 2.3% to 2.7% annually. A detailed breakout of growth amounts by major sources is included in **Table 3.4**.

Table 3.4 Revenue Growth by Source – Change from Prior Year
In Millions of Dollars

Source	FY 24	FY 25	FY 26
Personal Income Tax	249.6	466.1	466.3
Sales Tax	98.1	97.6	105.7
Business Taxes	95.9	110.6	113.5
Other Revenue	85.2	(53.6)	(36.7)
Refunds	(62.5)	(59.5)	(62.3)
TOTAL GROWTH	**466.3**	**561.2**	**586.5**
PERCENT GROWTH %	**2.3%**	**2.7%**	**2.7%**

FIXED COST EXPENDITURES

The General Fund fixed costs are statutorily-defined[3] and organized into the following expenditure categories, listed below in order of overall magnitude:

1. Entitlements (e.g., Medicaid and other programs),
2. Debt Service,
3. State Employees' Retirement and Retiree Health Care,
4. Teachers' Retirement and Retiree Health Care
5. Hospital Supplemental Payments
6. Adjudicated Claims

Projected fixed cost expenditures increase by an average of 2.2% annually in the out-years. This reflects net growth of $254.8 million from FY 23 to FY 24, $289.9 million from FY 24 to FY 25, and $244.9 million from FY 25 to FY 26. **Table 3.5** below shows the fixed cost changes by expenditure category and year.

[3] CGS 2-36(b)(7)

Table 3.5 Out-Years Fixed Cost Changes
In Millions of Dollars – Change from Prior Year

Category	FY 24	FY 25	FY 26
Entitlements	130.8	111.3	113.8
Debt Service	69.2	98.8	49.5
State Employee Pension & Retiree Health	(33.5)	(29.8)	(17.4)
Teachers' Retirement & Retiree Health	88.3	109.6	99.0
Hospitals	-	-	-
Adjudicated Claims	-	-	-
TOTAL	**254.8**	**289.9**	**244.9**

Fixed Costs are anticipated to grow at a slower pace in the out-years than the current biennium largely due to anticipated additional deposits into the state's pension systems from an accumulated excess in the BRF. In FY 22, $1.62 billion in deposits -$903.6 million to TRS and $719.7 million to SERS – will be used to lower the systems' respective unfunded liabilities. As a result of the BRF continuing to exceed its statutory cap, a total of $4.07 billion, or 9.7% of the state's $40.8 billion unfunded liability as of June 30, 2020, is projected to be transferred to the state's pension systems from FY 22 to FY 25.

Table 3.6 shows the projected deposits and the associated savings to the state's actuarially determined employer contribution. For this report, OFA assumes all future deposits will be transferred to SERS to remain consistent with the biennial budget's assumptions. By FY 26, the annual savings to the state's contribution for the two systems is estimated to be a combined $290 million.[4] This figure excludes the transfer of future budgetary surpluses, which would increase the deposit amounts and the savings created below.

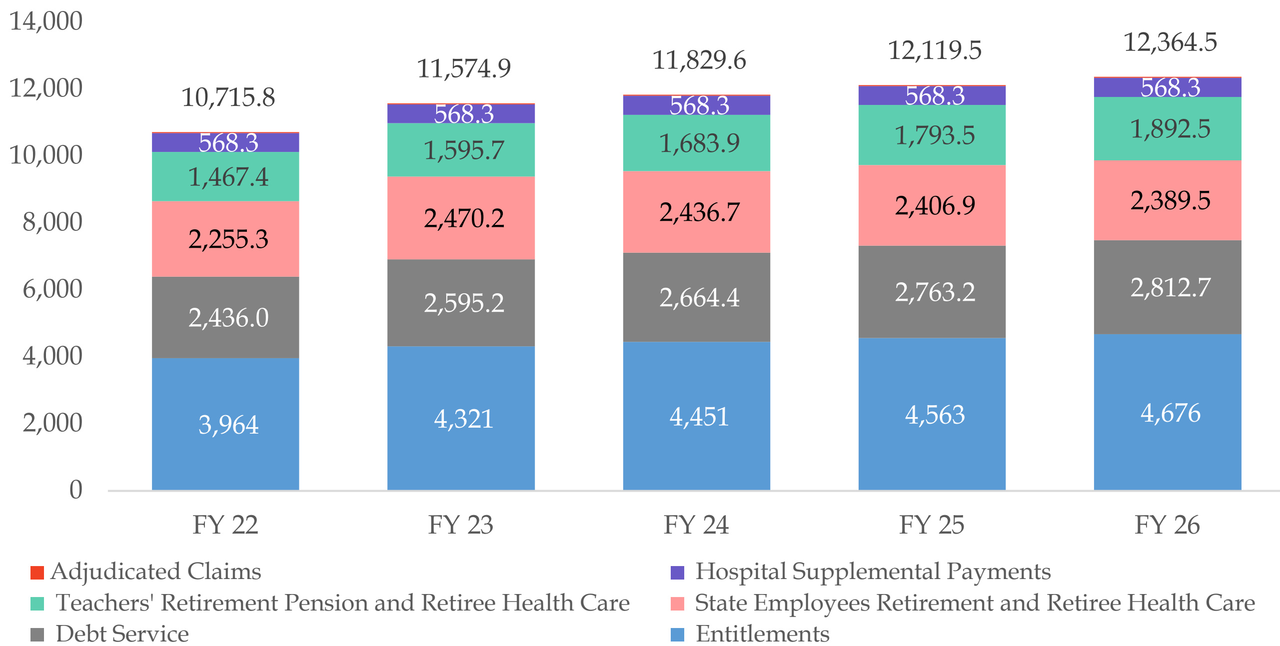
Table 3.6 Additional Deposits into State's Pension Systems
In Millions of Dollars – General Fund Marginal Savings Year to Year[5]

Impact	FY 22	FY 23 Est.	FY 24 Est.	FY 25 Est.	FY 26 Est.
Deposits	1,623.3	969.2	780.0	700.8	-
Marginal Savings - TRS	-	-	(76.8)	-	-
Marginal Savings - SERS	-	(45.0)	(64.8)	(54.7)	(48.6)

[4] This figure includes contributions to SERS from all funding sources.
[5] Does not include a $61.6 million deposit into SERS in FY 21 which has already been reflected in the latest actuarial valuation.

Figure 3.6 shows the fixed cost expenditures by category from FY 22 to FY 26. Growth in expenditures related to Entitlements and Debt Service is anticipated to outpace costs associated the state's pension liabilities and Retiree Health in the out-years.

Figure 3.6 General Fund Fixed Cost Expenditures (FY 22 – FY 26)[6]
In Millions of Dollars



ARPA AND CARRYFORWARD FUNDING IN THE OUT-YEARS

Exacerbating fiscal challenges in the out-years is the phasing out of $889 million in ARPA funding allocated by SA 21-15, as amended by PA 21-2, JSS. **Figure 3.4** shows how this funding diminishes from $695.6 million in FY 22 to $19.9 million in FY 24. To highlight the challenge that this presents, this funding is categorized in three ways – anticipated one-time expenditure, potential ongoing expenditure, and definite ongoing expenditure.

Of the $695.6 million in ARPA funding allocated in FY 22, $46 million is for definite one-time expenditures, while $245.3 million is allocated for funding considered to be potentially ongoing (for a total of $291.3 million). By FY 24, the amount of funding available for definite or ongoing expenditures shrinks to $13.4 million.

[6] Included in the totals for each fiscal year is Adjudicated Claims. The amount for this category is, relative to the others, too small to be visible. Figures as of October 21, 2021.

Figure 3.4 Nature of American Rescue Plan Act (ARPA) Allocations
In Millions of Dollars

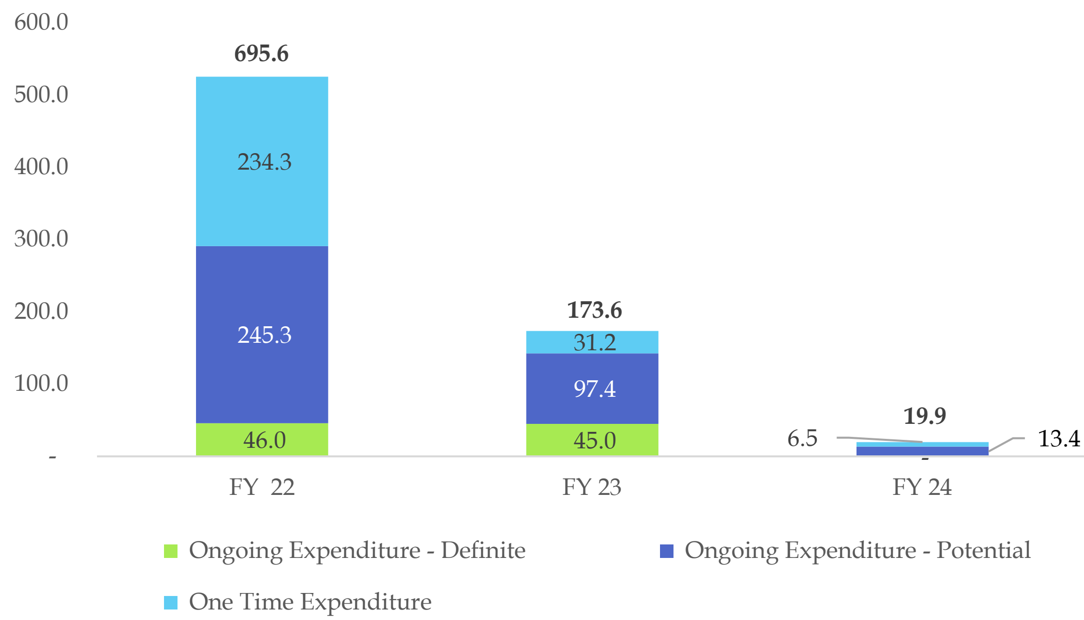
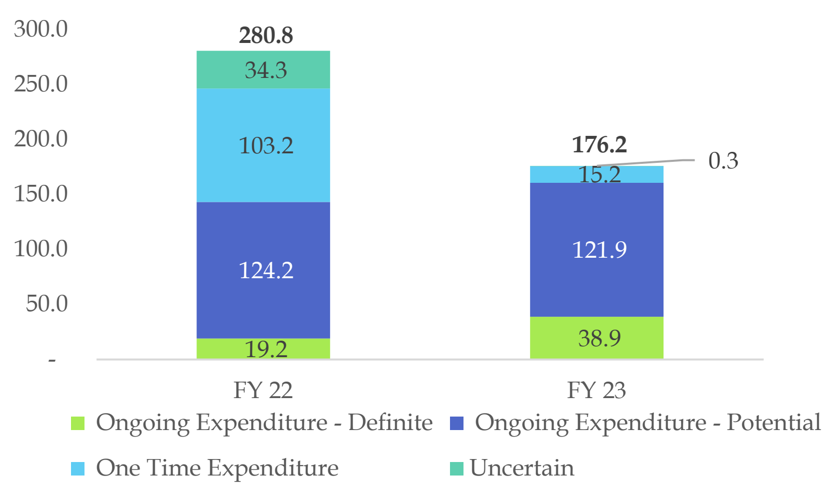


Figure 3.5 similarly shows the distribution of carryforward funding over the course of the biennium. While total carryforward allocations decrease by $104.6 million in FY 23, the total allocated to potential or definite ongoing expenditures remains fairly steady – with $173.4 million allocated in FY 22 and $150 million allocated in FY 23.

Figure 3.5 Nature of Carryforward Authorizations to the General Fund
In Millions of Dollars



Section IV. Budget Reserve Fund & Current Economic Trends

BUDGET RESERVE FUND

The BRF reached the 15% statutory cap at the end of FY 21 resulting in the current balance of $3,112.0 million. The BRF cap and estimated balance grows to $3,230.2 million by the end of FY 22 based on the FY 23 appropriation. **Table 4.1** below shows what the balance of the BRF would be based on the following assumptions:

1) No surplus or deficit is estimated in FY 24 to FY 26 for illustrative purposes based on the assumption a budget will be adopted in those years,
2) Volatility cap transfers from November consensus revenue estimates,
3) FY 22 and FY 23 surplus estimates as described in **Section II**,
4) Appropriations growth in FY 24 to FY 26 equal to the estimated fixed cost increases in those years resulting in an increased BRF cap.

Table 4.1 BRF Balances
In Millions of Dollars

Description	FY 22	FY 23	FY 24	FY 25	FY 26
Budget Reserve Fund Balance at Start of Year	**3,112.0**	**3,230.2**	**3,485.0**	**3,774.9**	**4,019.8**
Projected Volatility Deposit	969.2	780.0	700.8	756.6	799.6
Projected Surplus[1]	915.6	512.4	-	-	-
Volatility Deposit and Surplus Subtotal	**1,884.8**	**1,292.4**	**700.8**	**756.6**	**799.6**
Budget Reserve Fund Capped Balance at End of Year	**3,230.2**	**3,485.0**	**3,774.9**	**4,019.8**	**4,264.7**
Funds in Excess of Budget Reserve Fund Cap	1,766.6	1,037.6	410.9	511.7	554.7

[1]Note that projected surplus in FY 22 and FY 23 reflect the estimates provided in Section II. There is no surplus or deficit assumed from FY 24 to FY 26 due to the lack of a budget in place.

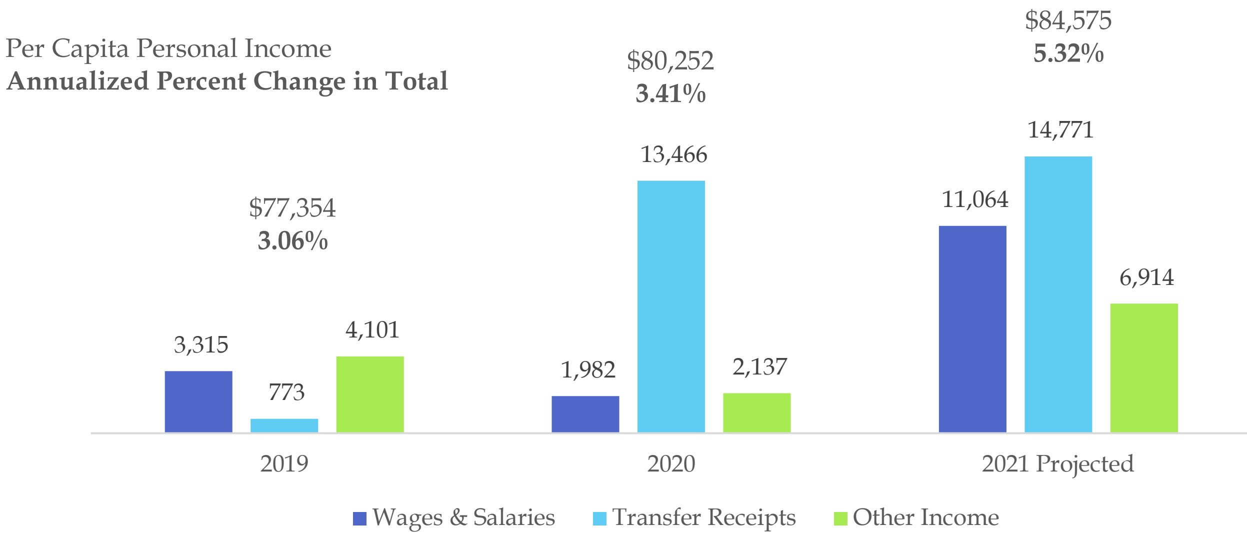
ECONOMIC TRENDS

At only two months long nationally (February - March 2020), the pandemic recession was both short and severe. In April and May 2020, over 326,000 individuals in Connecticut made initial claims for unemployment and state GDP fell at an annualized rate of 32% in the second quarter of 2020. The impact varied significantly by sector, with higher-wage jobs (often more conducive to remote working) and certain retail sectors faring better. This section looks at some current economic trends more than a year into the state's recovery.

Personal Income

Supported by significant federal support for the economy, total personal income for the state of Connecticut—one measure of the size of the economy—continued to grow on an annual basis in 2020 despite the pandemic recession. **Figure 4.1** shows the projected cumulative growth in Connecticut personal income over the years 2019 to 2021 broken out into three categories: salaries and wages, transfer receipts, and other income. While lost wages and salaries and other income in 2020 erased some 2019 gains, total personal income still grew by 3.41% in 2020. This was due to a very large increase in transfer receipts, which includes state and federal unemployment compensation, economic impact payments to individuals, and various other federal supports enacted by Congress in response to the pandemic. The projected increase to personal income in 2021 is anticipated to be largely driven by growth in salaries and wages and other income; however, transfer receipts are still significantly elevated in 2021.

Figure 4.1 Cumulative Growth in Connecticut Personal Income by Component Part, 2019-2021
In Millions of Dollars



Source: Bureau of Economic Analysis, Moody's Analytics (projections), OFA calculations. Figures in current dollars. Annual growth components and total percent change refer to total personal income, not per capita.

Retail Sales

The pandemic created a severe but short-lived downturn in various retail sectors in 2020. Retail sales across the majority of industry sectors have rebounded by fall 2021, even beyond 2019 (pre-pandemic) levels. The overall increase in wages and salaries and transfer receipts described above are contributing factors to the recovery in retail sales. The shift in consumer purchasing to more taxable retail goods, coupled with overall price inflation, results in an unusually high projection for FY 22 state sales and use tax collections.

The following two charts provide a snapshot of retail sales by industry in 2020 and in 2021 as well as their relative size in Connecticut sales and use tax. **Figure 4.2** shows that through September 2020 consumer purchases shifted downward from brick and mortar establishments (e.g. clothing stores, restaurants) due to pandemic concerns and restrictions and upward in online stores and building and garden supply. But as shown in **Figure 4.3**, those industries that suffered a decrease in sales in 2020, like clothing stores and restaurants, had improved in 2021. Furthermore, industries that did not suffer a setback in 2020 (e.g. online stores) continued to grow in 2021 as well.

Figure 4.2 Estimated % Change in Sales 2020 over 2019 (Jan. to Sept.) – Example Industries

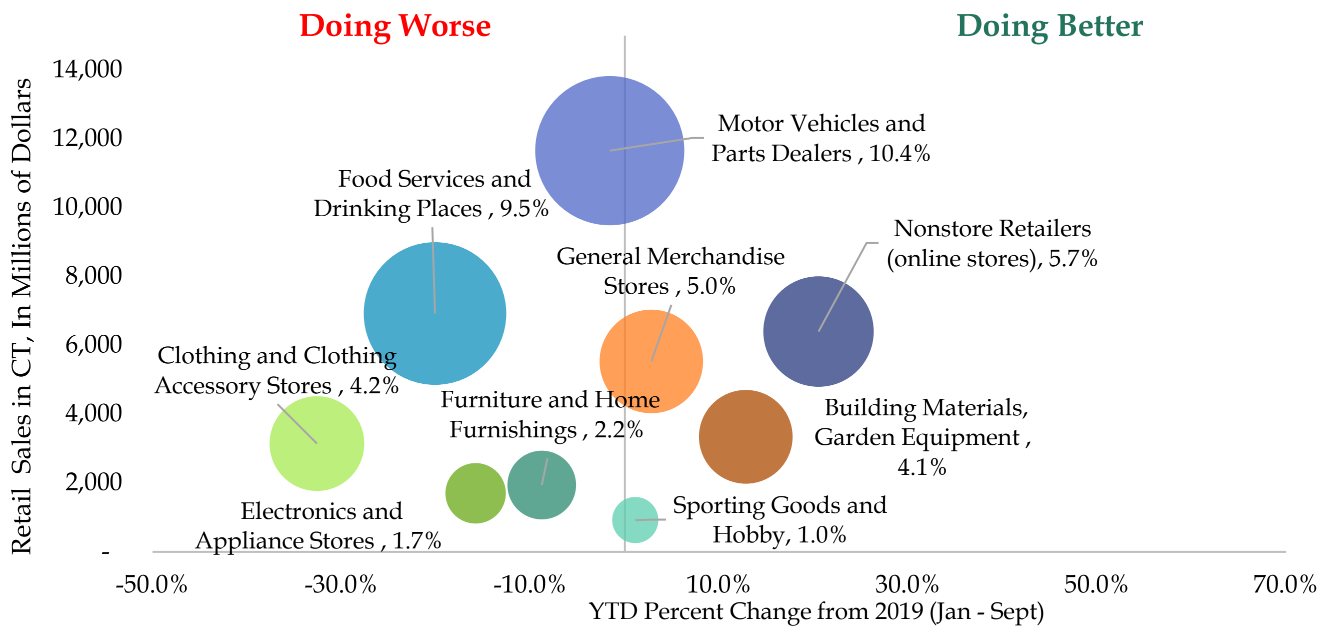
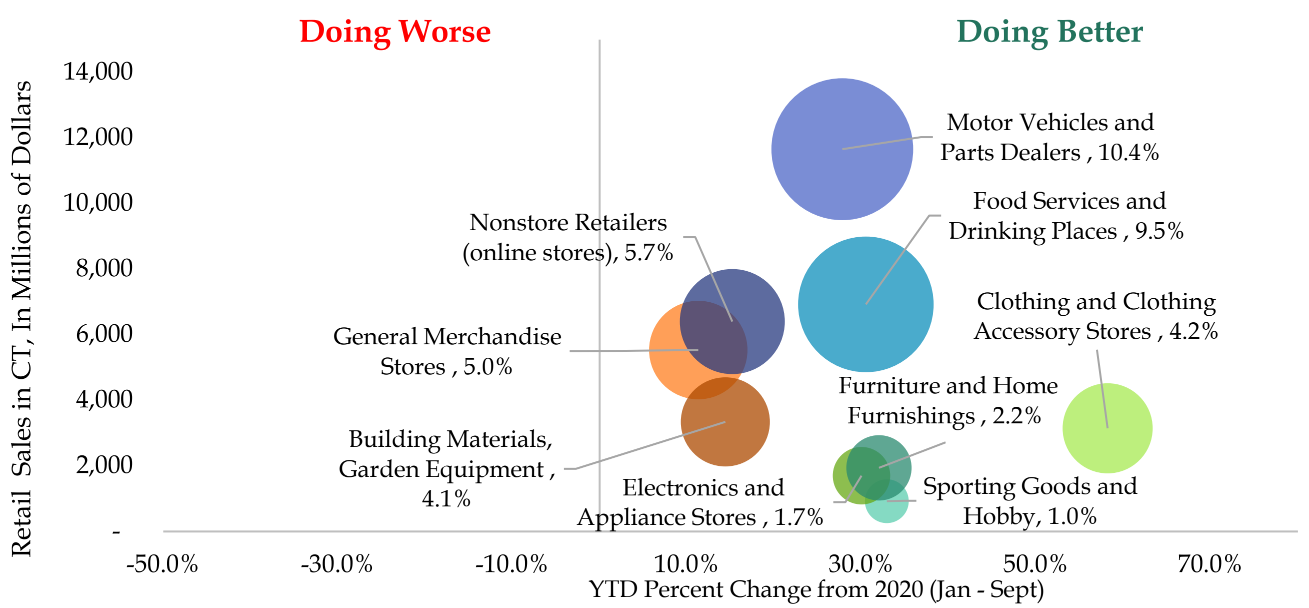


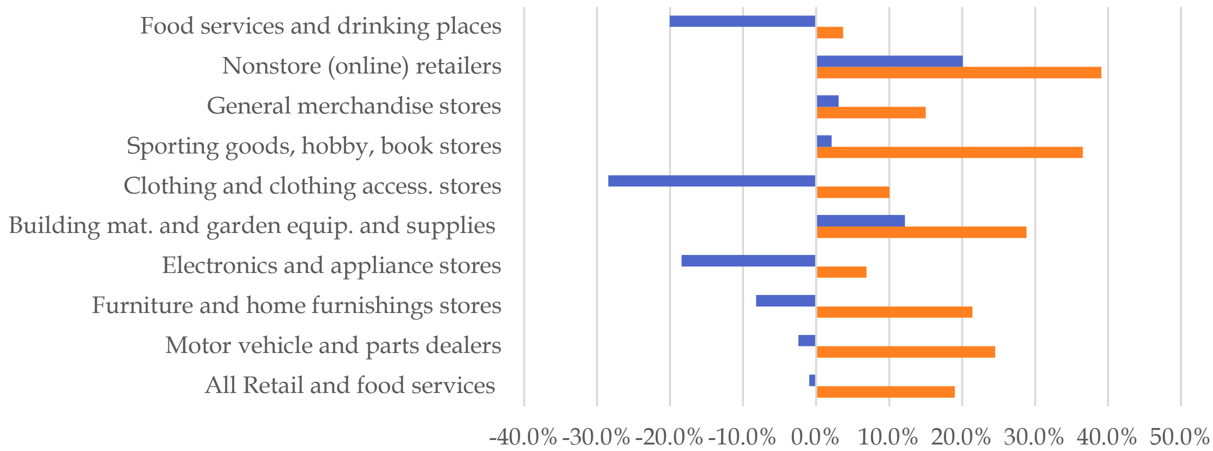
Figure 4.3 Estimated % Change in Sales 2021 over 2020 (Jan. to Sept.)



Bubble size reflects estimated share of Connecticut sales and use tax collections.
Source: U.S. Census, CT Department of Revenue Services, OFA Calculations

As shown in **Figure 4.4**, U.S. retail sales across all subsectors from the January to September period were higher in 2021 than during the same period in 2019 (pre-pandemic), even in sectors that experienced significant downturns during the same period in 2020. Robust retail sales are anticipated to continue through 2022 before decelerating back to historically average annualized growth rates beginning in 2023.

Figure 4.4 U.S. Monthly Retail Sales Comparison to 2019 (January – September period)

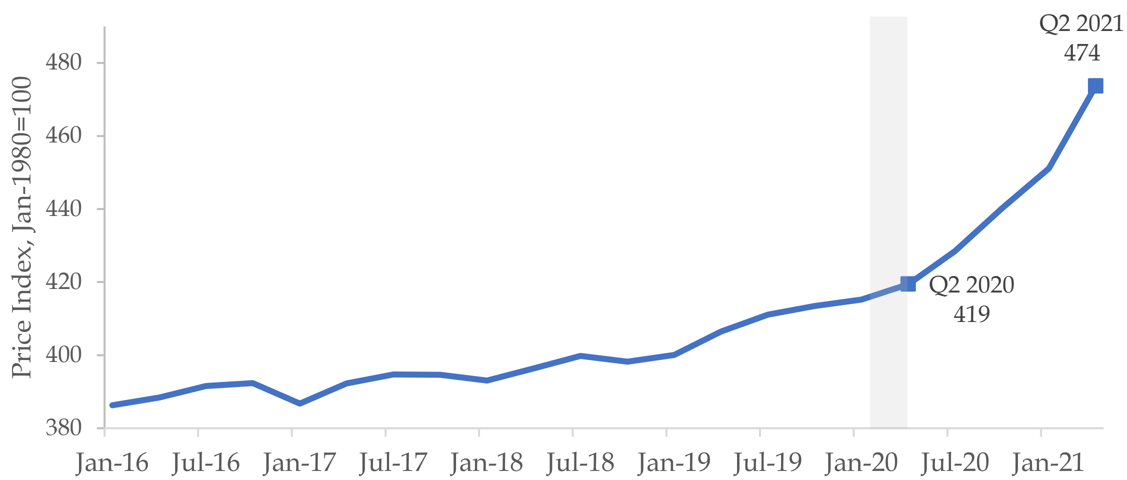


Source: U.S. Census Bureau, OFA Calculations

Housing

The Connecticut housing market has also heated up considerably since the pandemic recession, as increased demand fueled by a pandemic-induced preference for additional space, low interest rates, and millennials reaching their prime home-buying years intersects with a low stock of housing available on the market. **Figure 4.5** shows how single-family home prices climbed rapidly from the second quarter of 2020 through the second quarter of 2021, the most recently available data, growing 13% for the year.

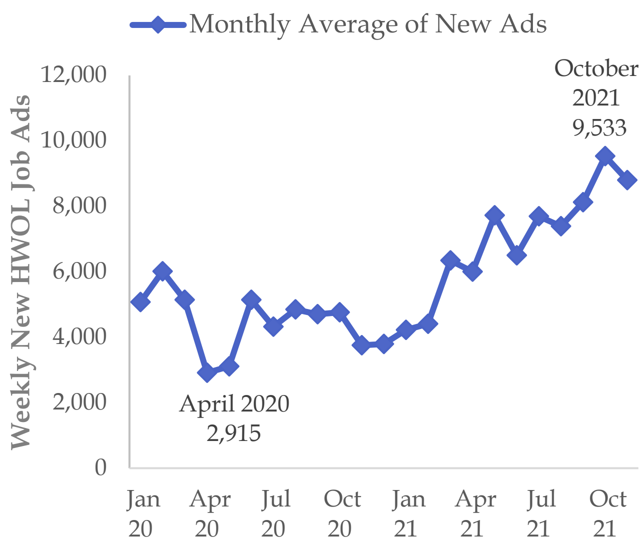
Figure 4.5 FHFA All-Transactions Single-Family House Price Index for Connecticut



Source: U.S. Federal Housing Finance Agency retrieved from FRED, Federal Reserve Bank of St. Louis; Shading reflects recession period.

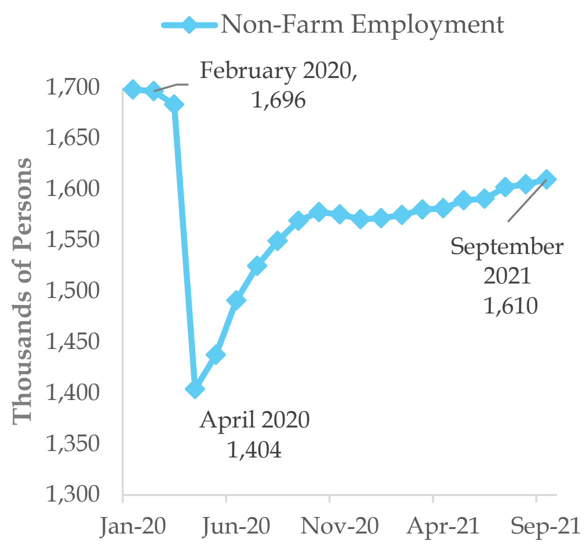
Labor Market
Like elsewhere in the United States, Connecticut is seeing evidence of a mismatch between employers and would-be employees, as job postings increase while employment remains lower than pre-pandemic levels by about 86,000 jobs as of September. According to the CT Department of Labor, the number of weekly new online job postings in early November was up 96% compared to the same week in 2020. While the unemployment rate is expected to continue to fall, the size of the Connecticut labor force (those employed or looking for work) has fallen during the pandemic and the aging of the workforce is likely to be a drag on future job growth.

Figure 4.6 Weekly Statewide New HWOL Job Ads, Monthly Average



Source: [CT Department of Labor analysis](), Conference Board Help Wanted Online (HWOL) Data Series

Figure 4.7 Connecticut Non-Farm Employees, Monthly, Seasonally Adjusted

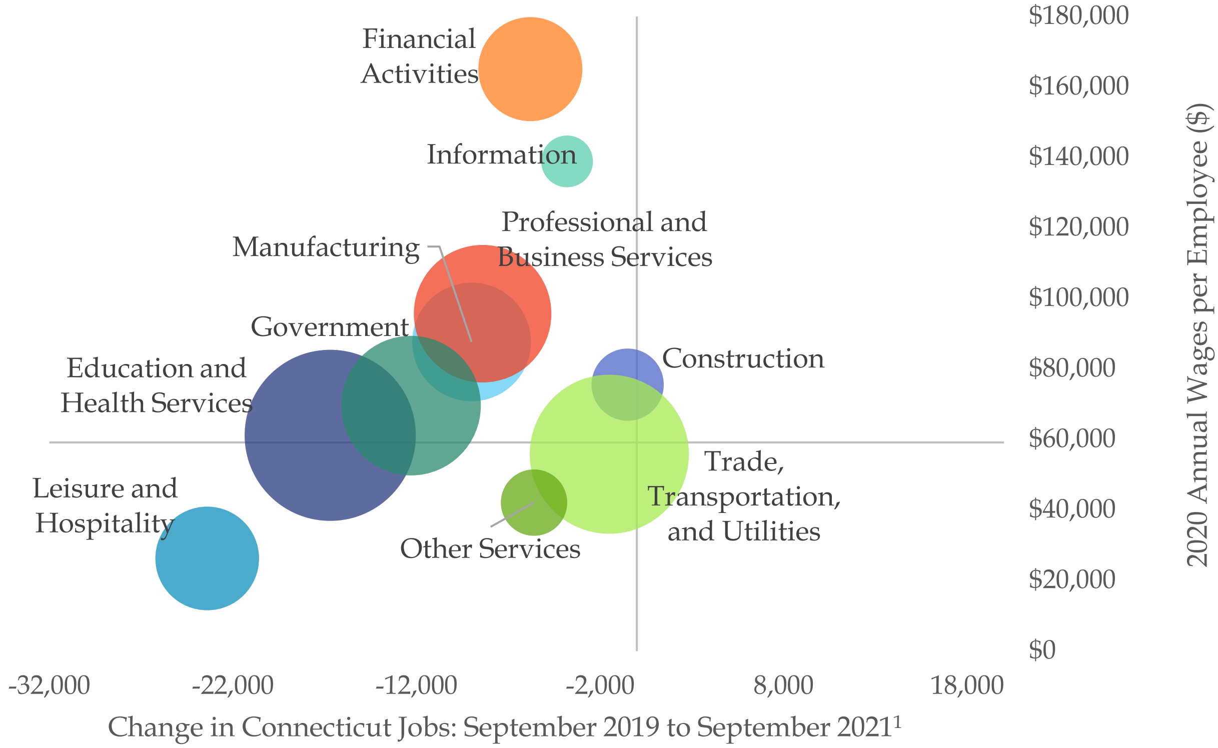


Source: U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Connecticut, retrieved from FRED, Federal Reserve Bank of St. Louis

Figure 4.8 shows the change in employment by sector for September 2021 compared to September 2019 (pre-pandemic), with the industry's annual wages per employee in 2020 on the vertical axis. No sector has recovered to 2019 employment levels, but construction is the closest, being down by just 500 jobs. While the leisure and hospitality sector saw the largest number of jobs gained in the year ending September 2021 (12,900 jobs), the sector remains below 2019 levels by more than 23,000 jobs.

Looking at these indicators in September 2020, industries with lower average wages generally suffered more job losses than higher wage industries, compared to September 2019. That relationship still exists comparing 2021 employment to 2019 levels, but it is less pronounced because the two highest wage sectors—financial activities and information—continued to lose jobs from 2020 to 2021, while all other sectors (except government) made gains.

Figure 4.8 Connecticut Change in Employment from 2019 vs. Average Wages by Industry



Bubble size reflects each industry's annual average employment for 2020, from the BLS Quarterly Census of Employment and Wages (QCEW).

[1]Change in Nonfarm Employment reflects preliminary September 2021 data from the US Bureau of Labor Statistics (BLS) Current Employment Survey (CES) compared to CES data for September 2019. Natural Resources/Mining and Unclassified industries are not included due to size.

[2]Annual Wages per Employee reflects Connecticut 2020 private sector amounts, except for Government, which reflects the average wages for all Government employment regardless of industry. Source: 2020 QCEW annual data.

Section V. Special Transportation Fund

OFA anticipates an STF operating surplus in each fiscal year from FY 22 through FY 26 which, if realized, would increase the fund's balance from $241.1 million at the start of FY 22 to more than $1.2 billion at the end of FY 26. These results are driven by: (1) implementation of a new highway use tax (HUT) on heavy trucks beginning in FY 23; (2) the continued phase-in of the motor vehicle sales tax transfer which will reach 100% in FY 23; and (3) temporary federal support to offset ongoing operating costs at the Department of Transportation (DOT). These drivers are highlighted in **Table 5.1** below.

Table 5.1 Special Transportation Fund (FY 22 – FY 26)
In Millions of Dollars

Components	FY 22	FY 23	FY 24	FY 25	FY 26
Expenditures					
Temporary Federal Support	(100.0)	(100.0)	-	-	-
Debt Service	744.5	837.7	913.2	983.1	1,041.7
All Other	1052.4	1081.4	1,089.2	1,084.8	1,081.2
Expenditures Total	**1,696.9**	**1,819.1**	**2,002.4**	**2,067.9**	**2,122.9**
Revenue					
Highway Use Tax	-	45.0	90.0	94.1	98.3
Motor Vehicle Sales Tax Transfer	274.4	369.8	375.1	384.2	393.2
All Other	1,679.5	1,704.1	1,710.1	1,721.1	1,741.4
Revenue Total	**1,953.9**	**2,118.9**	**2,175.2**	**2,199.4**	**2,232.9**
Operating Balance					
Surplus/ (Deficit)	257.0	299.8	172.8	131.5	110.0
Year End Cumulative Balance	**498.1**	**798.0**	**970.8**	**1,102.3**	**1,212.4**
Debt Service Ratio	2.6	2.5	2.4	2.2	2.1

REVENUE HIGHLIGHTS

STF revenues are projected to be $64.2 million more than budgeted in FY 22. Most of this increase, $39.3 million, is driven by better than expected sales tax collections, including both the general sales and use tax as well as the tax collected on motor vehicle sales. The oil companies tax is anticipated to be $20 million more than budgeted due primarily to changes in the price of oil. Additionally, there was an increase to motor vehicle receipts, driven by higher than anticipated registration fees. These increases are partially offset by lower than expected fuels tax collections and interest income.

Further, beginning in FY 23, PA 21-177, *AAC A Highway Use Fee*, imposes a mileage-based tax on most trucks weighing 26,000 pounds or more (tractor trailers). The law, which generally exempts dairy trucks, was adopted after the FY 22 - FY 23 biennial budget and accounts for approximately $90 million in new annualized revenue once fully phased-in.

EXPENDITURE HIGHLIGHTS

STF expenditures are projected to be $24.9 million less than budgeted in FY 22 as detailed below. These projected lapses will fully satisfy the budgeted bottom-line lapse target of $12 million for the STF.

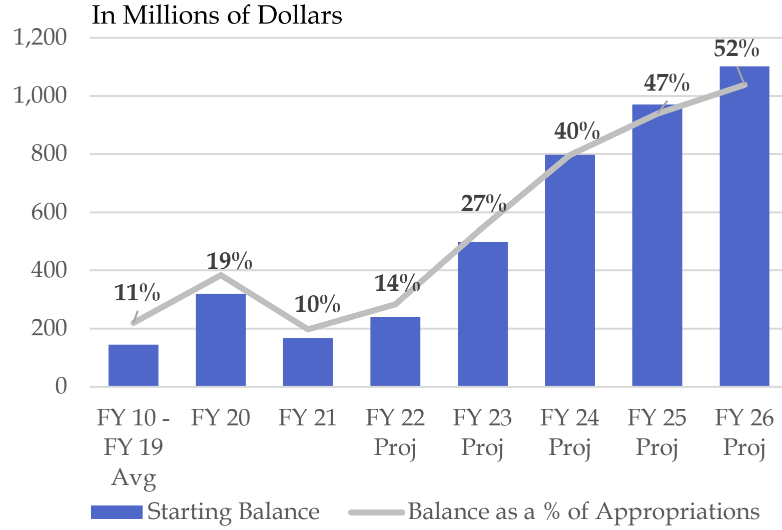
Debt Service: $26 million
OFA anticipates savings of $26 million in FY 22 and $5 million in FY 23 due to a delay of $300 million of STO bond issuance from FY 22 to FY 23. The FY 22 issuance offered in November 2021 was for $500 million of new STO bonds, rather than the $800 million previously projected. Additional long-term savings from the delay would be expected if the overall issuance amount is reduced, rather than delayed.

Personal Services in DOT and DMV: $10.9 million
OFA anticipates savings of $10.9 million in the Personal Services accounts for DOT and DMV due to delays in the hiring process to replace vacant positions. There are currently 385 and 148 vacancies at DOT and DMV, respectively. This estimate may change based on the timing at which vacancies are filled and overtime costs for DOT's winter weather response, which is dependent on the severity and volume of storms.

FUND GROWTH AND OUT-YEARS

The STF cumulative balance is projected to grow by nearly $1 billion over the next five years, reaching the highest level since the fund's inception in 1983. However, unlike with the General Fund and the Budget Reserve Fund, there is no mechanism to redistribute excess balances in the STF. The cumulative balance of the STF cannot be spent absent legislative action or unexpected deficits.

Figure 5.1 STF Balances
In Millions of Dollars



Out-Year Growth Disparities
While the overall STF fiscal picture is positive, the fund is expected to see a disparity between average annual revenue growth of 3.4% and average annual debt service growth of 8.8% from FY 22 through FY 26. This discrepancy is expected to widen after the motor vehicle sales tax transfer reaches 100% in FY 23 and the new highway use tax revenue is fully annualized in FY 24. Growth in debt service has been trending upward for several years and is projected to account for 49% of total STF expenditures in FY 26, up from 35% as recently as FY 16.

Transportation Bonding
Statute requires OFA to project bond authorizations, allocations, and issuances, along with their impact on the debt service, for future years. The projections for STO bonds are provided in the following table.

Table 5.2 Estimates of STO Bond Fund Use
In Millions of Dollars

FY	Debt Service	Authorization	Allocation	Issuance
22	744.5	837	875	500*
23	837.7	930	875	1,225*
24	913.2	950	875	1,000
25	983.1	950	875	1,000
26	1,041.6	950	875	1,100

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

A bond package for the FY 22 - 23 biennium was adopted in June 2021 (PA 21-111), which included $837 million of new STO bonds in FY 22 and $930 million new STO bonds in FY 23. As of October 1, 2021, approximately $2.3 billion in authorized STO bonds remain unallocated.

Debt Service Ratio and STO Bond Issuance
Transportation bonds are issued with a requirement that revenues in the STF must be at least twice annual debt service needs. Current estimates show the revenue-to-debt service ratio falling from 2.6 for FY 22 to 2.1 for FY 26. Debt service ratios approaching the 2.0 minimum in the out-years are often addressed in future budgets, either by increasing revenues or by limiting future debt service.

The State Treasurer determines the amount and timing of all STO bond issuances based on cash flow needs and the financial situation of the STF. Issuance amounts are not adopted within the budget, but debt service appropriations are partially based on current and future issuance amounts. The issuance estimates provided here reflect the numbers assumed for the debt service estimates within the FY 22 - 23 biennial budget, except $300 million of STO bond issuance has been delayed from FY 22 to FY 23.

The projected annual issuances in excess of $1 billion from FY 23 through FY 26 represent a major increase from the approximately $800 million annual STO bond issuance from FY 16 through FY 21. However, the level of issuance after FY 22 seems likely to be adjusted from current projections for several reasons, including as response to the long-term debt service ratio decline shown here, the availability of increased federal funds, and the cash flow needs of the STF.

FEDERAL INFRASTRUCTURE BILL

Earlier this month, Congress passed the *Infrastructure Investment and Jobs Act (IIJA)*. While it is too early to tell how the bill will impact the STF, and bonding in particular, the IIJA is anticipated to provide an additional $1.63 billion, or 43%, in new federal transportation funding for Connecticut over the next five years. Separately, the bill establishes over $100 billion in new competitive grants nationwide, for which Connecticut projects will be potentially eligible.

Section VI. General Obligation Bonding

Bonding is a financing mechanism in which long-term borrowing is used to finance capital projects or other programs not directly funded by appropriations. Statute requires OFA to project bond authorizations, allocations and issuances, along with their impact on the debt service, for future years. The projections for General Obligation (GO) bonds are provided in **Table 6.1**, below, with a discussion of each aspect to follow.[7]

Debt Limit Projection

The debt limit is statutorily required to be calculated using net tax revenue estimates adopted by the Finance Revenue and Bonding committee. The State Treasurer certified the state's indebtedness at approximately 83% of the debt limit to start FY 22.

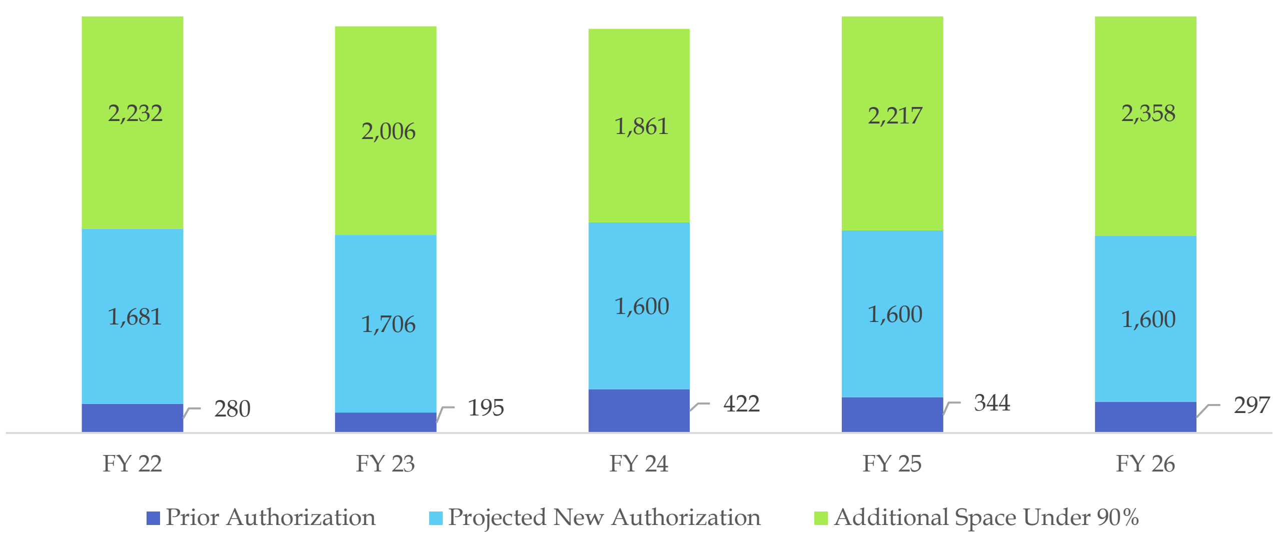
Table 6.1 Estimates of GO Bond Fund Use
In Millions of Dollars

Fiscal Year	Debt Service	Authorizations	CY Allocations	Issuances^
22	2,436	1,961*	1,725	1,816
23	2,595	1,901*	1,685	1,725
24	2,664	2,022	1,656	1,685
25	2,763	1,944	1,614	1,656
26	2,813	1,897	1,609	1,614

*Actual net effective new authorizations for FY 22 and FY 23
^Issuances include UConn 2000 program, which are exempted from annual issuance limit

Table 6.1 shows adopted authorization levels for FY 22 and FY 23. Authorizations after FY 23 reflect $1.6 billion of new authorizations on top of prior authorizations becoming effective each year. New authorizations for the out-years are projected to allow the state to remain at least $1.8 billion under 90% of the debt limit, as shown in **Figure 6.1.**

Figure 6.1 Projected Bond Authorizations and Remaining Authorization Space
In Millions of Dollars



[7] Discussion of Special Tax Obligation (STO) bonds is provided in **Section V**.

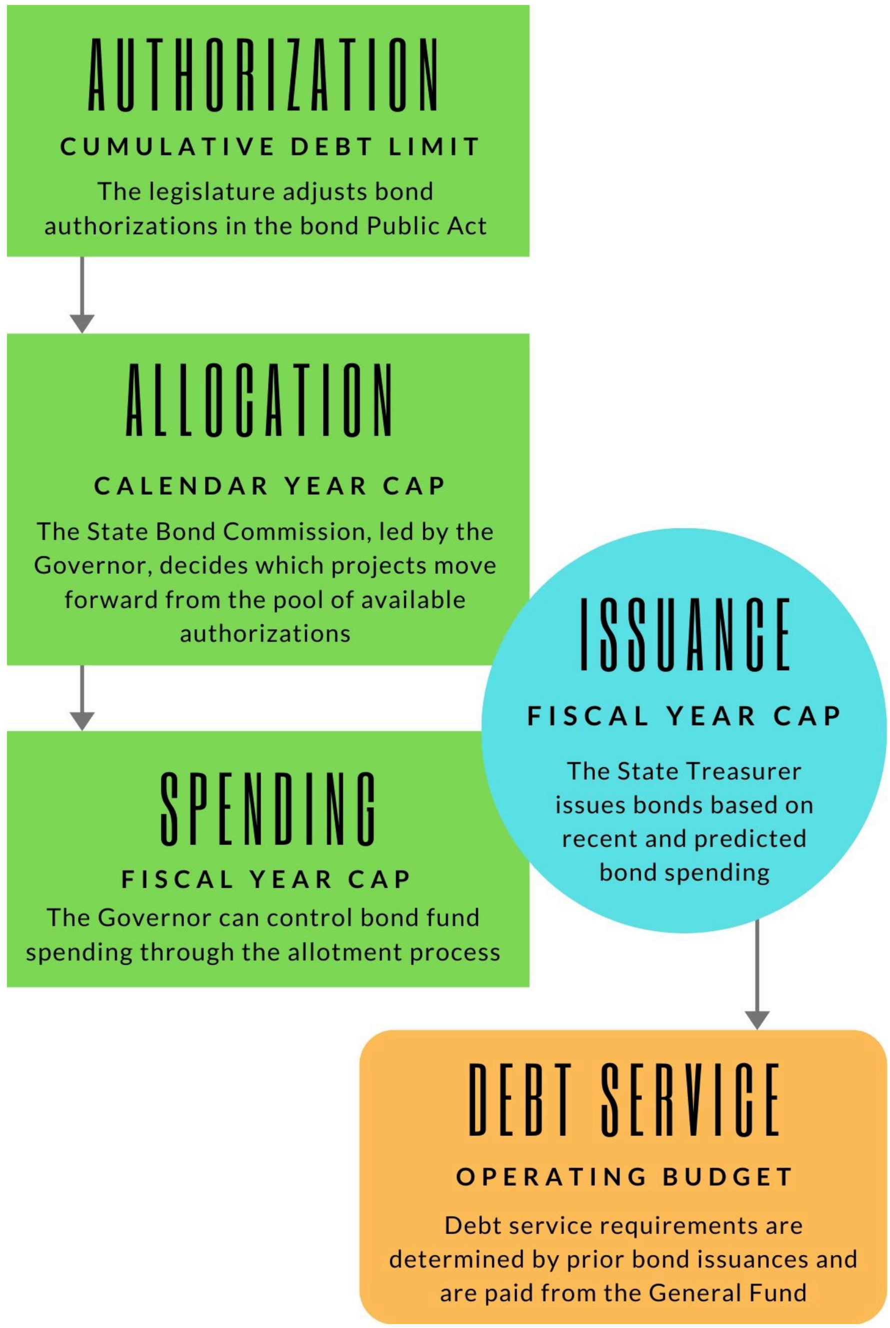
Capacity for additional bonding is heavily dependent on net tax revenue changes (positive or negative), whether that change is from economic growth or revenue policy changes.

Biennial Bond Package

A bond package for the FY 22 – FY 23 biennium was adopted in June 2021 (PA 21-111, as adjusted by PA 21-1 JSS – the budget implementer). Combined with prior authorizations that became effective in the biennium, the total net effective GO bond authorizations were between $1.9 billion and $2.0 billion each year. Across the biennium, the largest GO bond authorizations include $1.1 billion to fund state grants for school building projects, $340.6 million for the UConn 2000 program, and $240 million for Urban Act grants. The bond act also included authorization of $518 million of Clean Water Fund revenue bonds, which complement $200 million of GO bonds for Clean Water grants.

The act also established major new bond-funded programs beginning in FY 23, including the CT Baby Bonds program ($50 million of GO bonds annually for FYs 23-34) and the Community Investment Fund 2030 program ($175 million annually for FYs 23 - 27).[8]

Figure 6.2 General Obligation Bond Process



Bond Process

Using bond funds for programs involves several steps overseen by the legislature, State Bond Commission, the Governor, and the State Treasurer. **Figure 6.2**, to the right, provides an overview of the process, a description of how and if its use is capped, and the controlling party for each step. The various steps in the bond process can be broken into two sub-groups: **Bond Use** and **Financing**.

[8] The Community Investment Fund 2030 has contingent authorizations of $250 million annually for FYs 28-32, which require additional legislative action to become effective.

Bond Use

Authorizations

Bond authorizations are restricted by the state's statutory debt limit. The debt limit is determined by the ratio of General Fund-supported debt to net tax revenues. In the calculation, General Fund-supported debt includes bonds that have been legislatively authorized, but not yet allocated by, the State Bond Commission. Statutory debt limit calculations, including the statutory revenue multiplier and exemptions to what is or is not counted, are locked under the bond lock covenant through FY 23.

Additional capacity for new bond authorizations is typically created through the combination of paying off existing debt (approximately $1.5 billion per year in recent years) and revenue increases over time. The high-water mark for indebtedness is often July 1 of a given fiscal year, when new authorizations become effective, but the state has not yet paid down any debt on the year.

Exceeding the Debt Limit and the 90% Threshold

Should the state exceed 100% of the debt limit using the statutorily determined calculation, the Treasurer's ability to issue new debt would be curtailed and there would likely be negative consequences for the state's credit rating and its costs of borrowing.

The 90% threshold is relevant, as statute requires the Governor to propose reductions and cancellations to previously authorized debt whenever the Treasurer certifies that the state has exceeded 90% of the debt limit. As it would be difficult for a Governor to sign a bill that would leave the state above the 90% threshold, the 90% limit has long been the determining factor for capacity for new legislative bond authorizations.

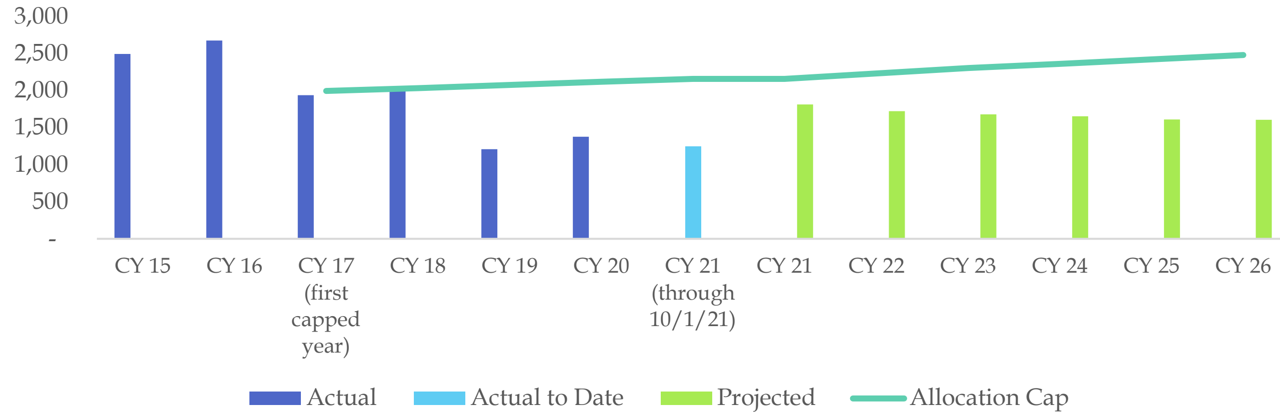
Bonding Capacity

The projected authorizations presented above for FY 24 through FY 26 assume $1.6 billion of new authorizations, added to prior authorizations becoming effective in those years. Under this scenario, the state would remain between 82% and 84% of the debt limit after accounting for new authorizations to start each fiscal year (at least $1.8 billion below the 90% threshold). Under current consensus revenue estimates, there is expected to be enough room to accommodate annual net effective authorizations of over $2.7 billion for FY 24 through FY 26 and remain below the 90% threshold, well over the annual average of $1.9 billion net effective authorizations from FYs 20 - 23.

Because the debt limit is cumulative, changes to authorized debt levels in any year impact future capacity for new authorization. If the state authorized new debt in the biennium, the capacity for new authorizations in FY 24 and beyond would be decreased. Any change in debt limit due to revenue would be subject to the effective dates of new or extended policies, along with growth in existing revenue sources.

Allocations[9]
Projected allocations, between $1.6 billion and $1.8 billion per calendar year, are based on the Governor's planned GO bond issuance ($1.6 billion plus funds available annually for the UConn 2000 program), but actual allocations could be substantially lower than these figures. Through October 1, 2021, CY 21 allocations are $1,245 million, $917 million below the annual cap. Total annual allocations moving forward are anticipated to remain well below the allocation cap, as shown in **Figure 6.3.**

Figure 6.3 GO Bond Allocations and Cap
In Millions of Dollars

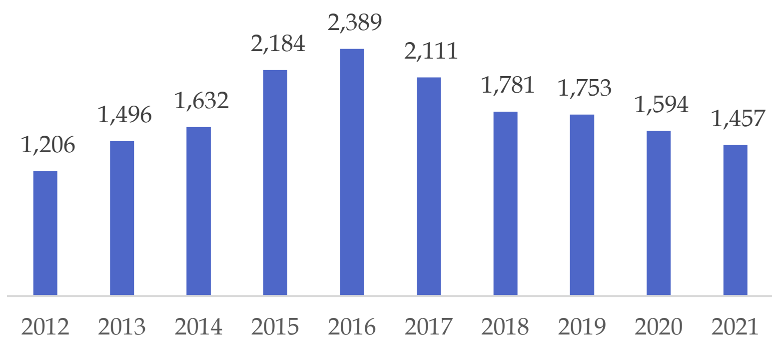


By CY 26, the annual allocation cap is expected to increase to nearly $2.5 billion based on projected inflation.[10]

Bond Spending
Bond fund expenditures tend to lag behind allocations for several reasons. The long-term nature of capital projects often leads to predetermined payment schedules, with a portion of payments required at the beginning of a project and the balance paid months or years later upon project completion. Similarly, not all allocations are made for shovel-ready projects, so spending may be delayed as projects start up.

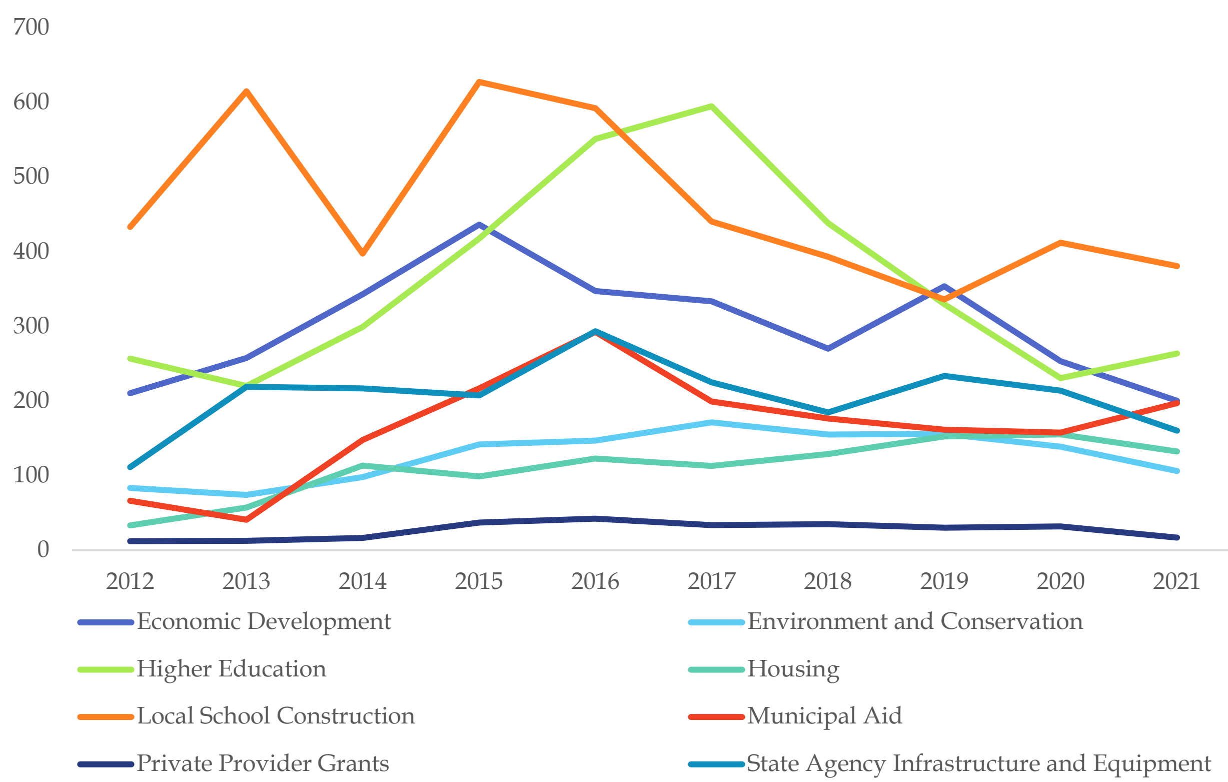
[9]GO bond allocations are made through the State Bond Commission. Allocations are measured by CY due to the statutory limit (CGS 3-20).
[10]Statute requires inflation of the allocation, issuance, and allotment caps by the Bureau of Labor Statistics' Consumer Price Index, less Food and Energy. The CY 22 allocation cap and FY 23 issuance cap are based on inflation during CY 21. This section assumes rates of 3.4, 3.3, 2.5, 2.5, and 2.5% respectively for CY 21 through CY 25, respectively.

Figure 6.4 General Obligation Bond Project Spending by FY
In Millions of Dollars



GO bond spending on projects increased through a peak in FY 16 at $2,389 million, as shown in **Figure 6.4**, to the left.[11] Spending has been on a downward trend since the peak. The FY 17 and FY 18 decreases can be partially attributed to the delayed budget adoption and new bond caps in 2017. FY 19 and FY 20 continued the downward trend, though both values are above allocation levels for CY 19 and CY 20. Higher spending than allocation in these years gives further evidence to the long-term lag from allocation to spending.

Figure 6.5 General Obligation Bond Project Spending by Category by FY
In Millions of Dollars



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[11] This figure does not include one-time non-project spending, such as Economic Recovery Notes (ERNs), bonds issued to pay down the state's GAAP deficit, and Pension Obligation Bonds.

Bond use and spending can be broken down into general categories, including local school construction, higher education, economic development, municipal aid, state agency infrastructure, housing, environment and conversation, and private provider grants.[12] As shown in **Figure 6.5**, the long term decrease in bond spending has largely been spread across categories.

Bond Financing

Issuance

Bonds are issued by the State Treasurer based on expected need and past programmatic spending rates, not immediately when allocated. As recent allocations and overall spending from bond funds have declined in recent years, issuances are expected to remain relatively low and well below the annual cap. Issuances in FY 21 and beyond are expected to be limited by the Governor's debt diet to no more than $1.6 billion annually, in addition to fully issuing annual allocations to the UConn 2000 program. Due to the previously discussed declining bond spending, FY 21 bond issuances were limited to $1.4 billion. If bond spending levels continue a downward trend, or remain below the targeted issuance level, issuances could continue to be under $1.6 billion in FY 22 or later years. By FY 26, the annual issuance cap is expected to increase to over $2.2 billion, plus UConn 2000 issuance, based on projected inflation.[13]

Debt Service

Debt repayment requirements are part of the contract agreed to when bonds are first issued. Besides the amount and type of bonds issued, debt service payments from any particular bond issuance can vary with changes in the bond market and changes to Connecticut's creditworthiness.[14] While several of these factors have been trending positively for the state, it is important to note that the vast majority of debt service payment from FY 22 through FY 26 is based on decisions made and expenditures from prior to the current biennium.

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[12] The categorization used here is exhaustive and exclusive of all GO bond fund spending, though there is considerable opportunity for programs and projects to be classified in multiple categories.

[13] The CPI rates used to inflate the allocation cap, see above, are also used to inflate the issuance cap. The issuance and allotment caps both exempt the UConn 2000 and CSUS 2020 programs.

[14] The debt service estimates shown here, and discussed further in Appendix E, are based on market borrowing rates, including interest rates for 20-year fixed rate tax exempt bonds of 5%.

Section VII. Tax Expenditure Estimates

State law currently permits various tax expenditures in the form of tax credits, exemptions, and deductions which amount to an estimated $7 billion in FY 22. This amount is approximately 30.7% of the total projected FY 22 General Fund and Special Transportation Fund revenue. The majority of tax expenditures occur in the sales and use tax and motor fuels tax (approximately 60.9% and 18.1%, respectively). The table below reflects OFA's estimated total tax credits, exemptions and deductions for FY 22 through FY 26.[15]

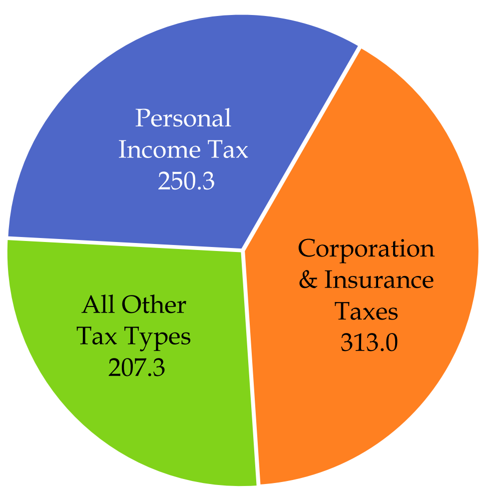
Table 7.1 Summary of Major Identifiable State Tax Expenditure Estimates[1]
In Millions of Dollars

Category	FY 22	FY 23	FY 24	FY 25	FY 26
Personal Income Tax	588.2	595.6	715.9	747.0	788.8
Sales and Use Tax	4,280.2	4,390.4	4,485.5	4,580.0	4,681.1
Corporation and Insurance Taxes	413.0	443.5	438.6	456.9	442.1
Petroleum Companies Gross Earnings Tax	272.2	296.7	292.4	292.4	298.5
Motor Fuels and Motor Carrier Road Taxes	1,273.5	1,274.5	1,275.5	1,275.5	1,275.5
All Other Taxes	201.4	207.9	209.8	211.2	212.8
TOTAL	**7,028.6**	**7,208.7**	**7,417.7**	**7,563.0**	**7,698.8**

TAX CREDITS

Tax credits are estimated to be $770.5 million in FY 22, or 11% of all projected FY 22 tax expenditures. The remaining $6.3 billion in FY 22 in total tax expenditures includes all exemptions and deductions. A breakout of credits by tax type is provided in **Figure 7.1** below.

Figure 7.1 FY 22 Tax Credit Estimates by Revenue Type
In Millions of Dollars



Types of Tax Expenditures

A credit directly reduces a taxpayer's tax liability. An exemption excludes specified transactions from a tax (e.g. food products are exempted from sales tax). A deduction reduces a taxpayer's taxable income by the amount of a specific transaction (e.g. contributions to CHET reduces taxable income).

[15]For more information, please see the Connecticut Tax Expenditure Report, Office of Fiscal Analysis (February 2020). Please note that this report includes updated estimates on certain expenditures where necessary. The next report will be released in February 2022.
https://www.cga.ct.gov/ofa/Documents/year/TER/2020TER-20200203_Tax%20Expenditure%20Report%20FY%2020.pdf

SALES AND USE TAX

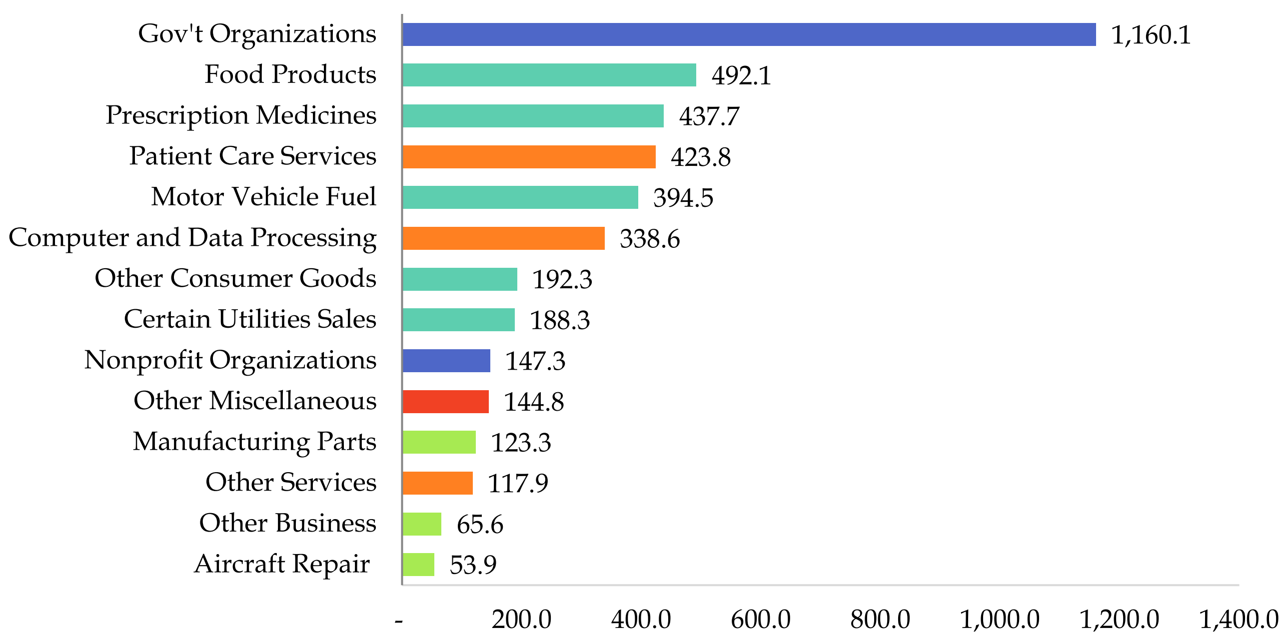
Sales and use tax expenditures represent approximately 60.9% of all identifiable tax expenditures and are estimated to be $4.3 billion in FY 22.

Consumer goods consist of approximately 39.8% of all total sales and use tax exemptions. Government Organizations make up the single largest type of exemption at $1.3 billion estimated for FY 21. **Table 7.2** below details the categories of sales and use tax expenditures available as well as the value of each category.

Table 7.2 Sales and Use Tax Category Comparison
In Millions of Dollars

Category	FY 21	% of Total
Consumer Goods	1,704.9	39.8%
Business Exemptions	242.8	5.7%
Service Exemptions	880.3	20.6%
Government and Nonprofit Organizations	1,307.4	30.5%
Miscellaneous	144.8	3.4%
TOTAL	**4,280.2**	**100.0%**

Figure 7.2 Major Sales and Use Tax Expenditures (FY 22)
In Millions of Dollars



Appendix A. Consensus Revenues

Revenue Estimates for FY 22 - FY 26
In Millions of Dollars

Fund/Component	FY 22	FY 23	FY 24	FY 25	FY 26
General Fund					
Taxes					
Personal Income Tax – Withholding	7,371.9	7,668.2	7,872.0	8,180.4	8,483.9
Personal Income Tax - Estimates and Finals	2,989.1	2,838.9	2,830.2	2,955.6	3,089.0
Sales & Use	4,429.8	4,441.8	4,548.1	4,656.7	4,763.2
Corporation	1,115.6	1,114.0	1,117.9	1,152.4	1,188.1
Pass-through Entity Tax	1,485.8	1,567.9	1,617.7	1,674.3	1,733.0
Public Service	262.4	269.3	276.5	278.7	281.0
Inheritance & Estate	164.4	150.2	149.6	153.3	157.1
Insurance Companies	232.4	235.6	238.8	242.4	246.0
Cigarettes	324.2	308.1	292.6	278.0	264.1
Real Estate Conveyance	267.4	244.8	242.5	246.6	250.4
Alcoholic Beverages	76.6	77.0	75.4	75.7	76.1
Admissions & Dues	27.3	31.0	31.3	31.5	31.8
Health Provider Tax	974.7	991.8	984.1	988.3	962.6
Miscellaneous	62.0	66.5	65.4	67.8	68.4
Total – Taxes	**19,783.6**	**20,005.1**	**20,342.1**	**20,981.7**	**21,594.7**
Refund of Taxes	(1,571.7)	(1,627.7)	(1,739.0)	(1,793.5)	(1,850.6)
Earned Income Tax Credit	(166.8)	(143.8)	(147.0)	(151.6)	(155.3)
R&D Credit Exchange	(6.6)	(6.8)	(7.0)	(7.2)	(7.4)
Total - Taxes Less Refunds	**18,038.5**	**18,226.8**	**18,449.1**	**19,029.4**	**19,581.4**
Other Revenue					
Transfers - Special Revenue	392.4	401.6	410.1	415.9	426.8
Indian Gaming Payments	246.0	251.8	257.3	261.5	269.3
Licenses, Permits, Fees	352.1	327.5	362.3	336.5	371.4
Sales of Commodities	23.4	23.9	24.3	26.3	26.8
Rents, Fines, Escheats	160.0	164.9	166.3	168.4	156.7
Investment Income	3.3	4.8	5.9	9.3	15.5
Miscellaneous	227.4	219.9	224.1	228.5	233.1
Refund of Payments	(62.6)	(63.8)	(65.7)	(67.1)	(68.4)
Total - Other Revenue	**1,342.0**	**1,330.6**	**1,384.6**	**1,379.3**	**1,431.2**
Other Sources					
Federal Grants	2,232.7	1,739.2	1,787.5	1,821.5	1,850.9
Transfer from Tobacco Fund	126.2	122.1	120.4	118.7	117.0
Transfers from/ (To) Other Funds	778.8	1,428.0	(163.6)	(163.6)	(163.6)
Transfers to BRF - Volatility Adjustment	(969.2)	(780.0)	(700.8)	(756.6)	(799.6)
Total - Other Sources	**2,168.5**	**2,509.3**	**1,043.5**	**1,020.0**	**1,004.7**
TOTAL - GENERAL FUND	**21,549.0**	**22,066.7**	**20,877.2**	**21,428.7**	**22,017.3**

Fund/Component	FY 22	FY 23	FY 24	FY 25	FY 26
Special Transportation Fund					
Taxes					
Motor Fuels Tax	473.3	490.2	489.9	487.8	485.3
Oil Companies Tax	270.4	294.7	290.4	290.5	296.6
Sales & Use Tax	689.3	794.4	809.6	829.1	848.2
Sales Tax – DMV	113.9	96.8	90.2	91.1	92.0
Highway Use	-	45.0	90.0	94.1	98.3
Refunds of Taxes	(15.5)	(16.2)	(16.9)	(17.4)	(17.9)
Total - Taxes Less Refunds	**1,531.4**	**1,704.9**	**1,753.2**	**1,775.2**	**1,802.5**
Other Sources					
Motor Vehicle Receipts	279.2	266.5	273.6	274.9	280.1
Licenses, Permits, Fees	140.8	142.1	142.7	143.6	144.5
Interest Income	2.0	3.3	4.5	5.7	7.1
Federal Grants	11.0	10.1	9.2	8.1	6.9
Transfers From/(To) Other Funds	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)
Refunds of Payments	(5.0)	(2.5)	(2.5)	(2.6)	(2.7)
Total Other Revenues	422.5	414.0	422.0	424.2	430.4
TOTAL – STF	**1,953.9**	**2,118.9**	**2,175.2**	**2,199.4**	**2,232.9**

Appendix B. Other Appropriated Funds

Fund	Actual FY 21	Projected FY 22	Projected FY 23	Projected FY 24	Projected FY 25	Projected FY 26
Mashantucket Pequot and Mohegan Fund						
Beginning Balance	50,608	50,608	50,608	50,608	50,608	50,608
Revenue	-	-	-	-	-	-
Expenditures	(51,472,789)	(51,472,789)	(51,472,789)	(51,472,789)	(51,472,789)	(51,472,789)
Transfers	51,472,789	51,472,789	51,472,789	51,472,789	51,472,789	51,472,789
Ending Balance	**50,608**	**50,608**	**50,608**	**50,608**	**50,608**	**50,608**
Banking Fund						
Beginning Balance	6,757,453	13,161,203	22,449,537	31,643,574	40,837,611	50,031,648
Revenue	38,522,769	38,000,000	38,000,000	38,000,000	38,000,000	38,000,000
Expenditures	(26,919,020)	(28,711,666)	(28,805,963)	(28,805,963)	(28,805,963)	(28,805,963)
Transfers	(5,200,000)	-	-	-	-	-
Ending Balance	**13,161,203**	**22,449,537**	**31,643,574**	**40,837,611**	**50,031,648**	**59,225,685**
Insurance Fund						
Beginning Balance	4,859,316	7,579,362	8,422,633	10,121,401	9,696,709	9,802,882
Revenue	112,620,393	120,480,467	123,567,024	121,443,563	121,974,428	121,841,712
Expenditures	(109,989,637)	(119,637,197)	(121,868,255)	(121,868,255)	(121,868,255)	(121,868,255)
Transfers	89,290	-	-	-	-	-
Ending Balance	**7,579,362**	**8,422,633**	**10,121,401**	**9,696,709**	**9,802,882**	**9,776,339**
Consumer Counsel and Public Utility Control Fund						
Beginning Balance	7,554,008	7,622,248	7,822,425	7,845,984	7,869,543	7,893,102
Revenue	26,681,291	31,000,000	31,000,000	31,000,000	31,000,000	31,000,000
Expenditures	(26,613,050)	(30,799,823)	(30,976,441)	(30,976,441)	(30,976,441)	(30,976,441)
Transfers	-	-	-	-	-	-
Ending Balance	**7,622,248**	**7,822,425**	**7,845,984**	**7,869,543**	**7,893,102**	**7,916,661**
Workers' Compensation Fund						
Beginning Balance	15,826,938	15,816,659	11,671,495	13,304,432	13,477,548	13,477,548
Revenue	23,332,712	22,463,700	28,588,033	27,128,212	26,955,096	26,955,096
Expenditures	(23,342,991)	(26,608,864)	(26,955,096)	(26,955,096)	(26,955,096)	(26,955,096)
Transfers	-	-	-	-	-	-
Ending Balance	**15,816,659**	**11,671,495**	**13,304,432**	**13,477,548**	**13,477,548**	**13,477,548**
Criminal Injuries Compensation Fund						
Beginning Balance	4,528,051	3,998,458	4,064,370	4,130,282	4,196,194	4,262,106
Revenue	1,418,074	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Expenditures	(1,947,668)	(2,934,088)	(2,934,088)	(2,934,088)	(2,934,088)	(2,934,088)
Transfers	-	-	-	-	-	-
Ending Balance	**3,998,458**	**4,064,370**	**4,130,282**	**4,196,194**	**4,262,106**	**4,328,018**
Tourism Fund						
Beginning Balance	(2,857,229)	1,934,558	1,983,723	2,332,888	2,882,053	3,731,218
Revenue	8,042,616	10,000,000	13,400,000	13,600,000	13,900,000	14,300,000
Expenditures	(13,050,829)	(13,050,835)	(13,050,835)	(13,050,835)	(13,050,835)	(13,050,835)
Transfers	9,800,000	3,100,000	-	-	-	-
Ending Balance	**1,934,558**	**1,983,723**	**2,332,888**	**2,882,053**	**3,731,218**	**4,980,383**

Fund	Actual FY 21	Projected FY 22	Projected FY 23	Projected FY 24	Projected FY 25	Projected FY 26
TOTALS						
Beginning Balance	36,719,145	50,163,096	56,464,790	69,429,169	79,010,266	89,249,112
Revenue	210,617,855	224,944,167	237,555,057	234,171,775	234,829,524	235,096,808
Expenditures	(253,335,983)	(273,215,262)	(276,063,467)	(276,063,467)	(276,063,467)	(276,063,467)
Transfers	56,162,079	54,572,789	51,472,789	51,472,789	51,472,789	51,472,789
TOTAL ENDING BALANCE	**50,163,096**	**56,464,790**	**69,429,169**	**79,010,266**	**89,249,112**	**99,755,242**

Source: Actuals from CORE-CT

EXPENDITURE ASSUMPTIONS

Expenditures in the other appropriated funds are non-fixed costs, and as such are flat-funded through FY 26.

REVENUE ASSUMPTIONS

Banking Fund
Annual revenue from statutory banking licenses and fees, as well as assessments, is anticipated to remain constant at approximately $38 million.

Consumer Counsel/Department of Public Utility Control Fund
There is no assumed growth from fees and assessments in the out-years, as the fund has experienced variation in year to year revenue.

Criminal Injuries Compensation Fund
Annual revenue from criminal fines, which are set by statute, is anticipated to remain flat at approximately $3 million.

Insurance Fund
The Insurance Department annually assesses insurers, HMOs, and certain third-party administrators to cover the Insurance Fund's costs, with one assessment adjusted by the amount of the fund balance at the close of the fiscal year. As such, annual revenue is assumed to fluctuate based on expenditures and the previous year's fund balance.

Mashantucket Pequot/Mohegan Fund
Out-year projections assume a General Fund transfer to the Pequot Fund equal to the FY 23 appropriation of $51.5 million. Pursuant to PA 14-217, General Fund transfers to the Pequot Fund are equal to the amount appropriated for Pequot Fund grants in a given fiscal year.

Tourism Fund
Revenue from 10% of room occupancy tax collections supports this fund. The COVID-19 pandemic had a direct negative impact on room occupancy taxes for FY 20 and FY 21. Revenues began recovering in FY 22 and are projected to fully recover by FY 23 with a return to annual growth of approximately 2.5% for FY 24 and beyond.

Workers' Compensation Fund

The State Treasurer assesses private insurance companies and employers to cover the Commission's annual costs. Revenue is based on the statutorily-defined assessment formula. In fiscal years following a fund sweep, the amount of the revenue (assessment) reflects the impact of the fund sweep. In fiscal years where the impact of a fund sweep is not reflected in the revenue, the fund balance at the end of the fiscal year should reflect a sum equal to approximately six months' worth of expenditures, which has historically been approximately $10 million to $14 million.

Appendix C. Methodologies, Assumptions, and Sources

METHODOLOGY

CGS Sec. 2-36b requires the Office of Fiscal Analysis (OFA) to estimate any changes to current year expenditures due to fixed cost drivers.

This methodology compares the statutorily required annual consensus revenue estimates with the previous year's expenditures plus the annual growth in fixed costs. For years in which expenditures are greater than revenue, an adjustment is calculated. This calculation represents how much non-fixed spending will have to be decreased to achieve a zero-ending balance at the end of a given fiscal year. See below for a list of key assumptions used to develop cost projections through FY 24.

Flat Funding of Non-Fixed Accounts

The expenditure projections contained in this report may adjust only the accounts categorized as fixed costs to reflect changes over the previous year's expenditures. Most other accounts are flat-funded at FY 23 levels.

FIXED COSTS

For this report, OFA examined all expenditure accounts to identify the array of fixed costs. The table below shows the categories of expenditures that comprise fixed costs, as well as major categories that, while not identified as fixed costs, make up a significant portion of the budget.

Categories of Non-Fixed and Fixed Costs

Non-Fixed Costs	Fixed Costs
Education (Lower & Higher)	Entitlements
Municipal Aid	Debt Service
Wages and Active Employee Fringe Benefits[1]	Pension Payments
Criminal Justice	Retiree Healthcare Costs
Environment & Economic Development	Adjudicated Claims
Public Safety	Hospital Supplemental Payments

[1]Excluding retirement benefits.

See **Appendix D** for account-level details through FY 24 on the fixed cost expenditure categories identified above.

FIXED COST ASSUMPTIONS

The following assumptions were used to develop fixed cost projections.

Department of Children and Families (DCF)
No Nexus Special Education
Expenditures are flat-funded at the account's pre-pandemic FY 19 expenditure level, as residential treatment special education caseloads are anticipated to return to this level in FY 22 and remain stable in the out-years. There are no per diem payments in this account.

Board and Care for Children – Adoption
Expenditures for this account reflect a growth rate of 2.5% each fiscal year, based on an average of three-years' pre-pandemic expenditures. An extra per diem of approximately $213,458 is included in FY 24 to accommodate for an extra per diem in the leap year.

Board and Care for Children – Foster
Expenditures for this account reflect a growth rate of 0.4% each fiscal year, based on an average of three-years' pre-pandemic expenditures. An extra per diem of approximately $278,456 is included in FY 24 to accommodate for an extra per diem in the leap year.

Board and Care for Children – Short-term and Residential
It is anticipated that the caseload for this account will continue to trend downward in FY 22 and in the out-years, based on an average of three-years' pre-pandemic expenditures, reducing the account's expenditures by an average of 3.1% in each fiscal year. An extra per diem of approximately $127,761 is included in FY 24 to accommodate for an extra per diem in the leap year.

Individualized Family Supports
This wraparound services account's expenditures are projected at its pre-pandemic FY 19 level in FY 23 and is anticipated to remain stable in the out-years. There are no per diem payments in this account.

Department of Mental Health and Addiction Services
General Assistance Managed Care
Assumes an average account growth of 3% to accommodate cost and caseload needs.

Medicaid Adult Rehabilitation Option
Expenditures are flat-funded based on trends in recent years.

Department of Social Services
Medicaid
Reflects average growth of 3% per year.

HUSKY B
Reflects average growth of 4% per year.

Community Residential Services
Reflects new and annualized caseload growth for DDS community placements, including individuals aging out of services provided by the DCF and local education agencies, long-term care residents (Money Follows the Person), and Southbury Training School residents. Funding in the OPM Private Providers account in the out-years reflects General Fund support of DDS settlement costs that were funded by carryforward and ARPA funds in the biennium.

Hospital Supplemental Payments
Reflects appropriation levels as dictated by Exhibit 6 of the hospital settlement agreement. SA 19-1 and PA 19-1 of the December Special Session approved and implemented the hospital settlement agreement for *The Connecticut Hospital Association et al. v. Connecticut Department of Social Services et al*.

Other Entitlements
Annual growth for State Administered General Assistance, Temporary Family Assistance, Old Age Assistance, Aid to the Disabled, and Aid to the Blind are all flat-funded based on caseload trends in recent years.

Office of Early Childhood
Birth to Three
Projections reflect a 3% growth rate per fiscal year based on expenditure trends.

Care4Kids TANF/CCDF
This account is currently flat-funded. Projections for this account only reflect the state's share of costs, due to net appropriation of the account. While overall program costs are estimated to increase in the out-years, federal funds are anticipated to be available to support expenditures, based on currently available information.

State Comptroller – Fringe Benefits
State Employee Retirement (SERS)
Reflects actuarial projections of the unfunded accrued liability payment (UAL), and the normal cost, based on assumptions in the June 30, 2020 SERS valuation. Projections assume: (1) level percentage of payroll amortization and a closed five-year phase-in to level dollar in FY 23, (2) a 6.9% discount rate, and (3) amortization of UAL over the remaining 25 years for both statutory and transitional bases.

Projections for the impact of additional deposits into SERS from volatility transfers utilize modeling software and internal OFA revenue projections. The actual impact of these deposits on pension liabilities are subject to revenue volatility, the Treasurer's discretion to determine which pension system receives transfers, and actuarial experience. The actual impact to SERS will be certified by the annual actuarial valuations.

OFA assumes all volatility transfer amounts will be deposited into SERS in the out-years to remain consistent with assumptions in the FY 22 - FY 23 biennial budget.

Higher Education Alternative Retirement System
Reflects growth based on projected changes in Personal Services.

Pensions & Retirements - Other Statutory
Assumes approximately 5% growth per fiscal year based on average, historical changes in the account, including Cost of Living Adjustments.

Judges and Compensation Commissioners' Retirement System
Reflects the unfunded accrued liability payment, and the normal cost, based on actuarial projections and assumptions in the most recent June 30, 2020 valuation. Projections assume: (1) level percentage of payroll amortization; (2) a 6.9% discount rate; and (3) a closed amortization period.

Retired State Employees Health Service Cost
Reflects an average annual account growth of 5% per year. Growth is based on projected changes in medical, dental, and pharmacy trends for non-Medicare covered retirees and dependents, and projections for the Medicare Advantage Plan for Medicare covered retirees and dependents.

State Treasurer
Debt service
Estimates were made using outstanding debt payments plus modeled projections that used current market interest rates.

Debt limit
Reflects consensus net tax revenues, except as noted.

Annual Limits on Bond Usage
The allocation and issuance bond caps reflect statutorily required adjustments, as per the Bureau of Labor Statistics Consumer Price Index (CPI) Less Food and Energy. Adjustments to those bond caps reflect estimated annual growth in the CPI.

Teachers' Retirement Board
Retirement Contributions
Reflects the actuarially determined employer contribution (ADEC) calculated by the pension plan actuaries. The account projections assume: (1) a transition to a level-dollar amortization methodology, (2) a 6.9% assumed rate of investment return, and (3) the amortization of the unfunded accrued liability over the remaining 28 years for the statutory base. The ADEC payments in the out-years are adjusted to reflect the estimated savings from the $903.6 million FY 20 Budget Reserve Fund transfer.

Retiree Health Service Cost
Reflects the state share of one-third of the basic plan premium costs as provided by statute and incorporates projected premium costs and membership trends.

Municipal Retiree Health Insurance Costs
Reflects the state share of one-third of the municipal subsidy, which assumes flat growth in both the statutory subsidy and participation.

TAX EXPENDITURE SOURCES, METHODOLOGIES, AND ASSUMPTIONS

The Department of Revenue Services (DRS) is the primary source for data on tax expenditures. However, if DRS does not have information available, other viable sources are utilized. Such sources include federal agencies (such as the Census Bureau and the Energy Information Administration), other Connecticut state agencies outside of DRS, and state agencies from other U.S. states.

To provide estimates for the current fiscal year and the out-years, collected data was analyzed and grown on an individual basis, holding constant all other tax provisions. Certain tax expenditures have no growth in the out-years or follow a historical trending pattern. In other cases, a variety of sources are utilized when applicable. These include, but are not limited to:

1. Growth rates, calculated with Consensus Revenue estimates,
2. Economic indicator projections provided by Moody's Analytics,
3. CPI growth rates reported by the Bureau of Labor Statistics, and
4. Federal Open Market Committee statements.

Appendix D. Fixed Cost Account Details

In Millions of Dollars

Fixed Cost Account	FY 22	FY 23	FY 24	FY 25	FY 26
GENERAL FUND					
Debt Service - State Treasurer					
Debt Service	1,963.0	2,005.2	2,075.6	2,165.3	2,276.7
UConn 2000 - Debt Service	209.7	223.7	216.3	214.0	214.5
CHEFA Day Care Security	5.5	5.5	5.5	5.5	5.5
Pension Obligation Bonds – TRB	203.1	306.7	315.7	330.5	268.5
Municipal Restructuring	54.7	54.1	51.3	47.9	47.5
Debt Service - State Treasurer Total	**2,436.0**	**2,595.2**	**2,664.4**	**2,763.2**	**2,812.7**
State Comptroller - Miscellaneous					
Adjudicated Claims	25.0	25.0	25.0	25.0	25.0
State Comptroller - Miscellaneous Total	**25.0**	**25.0**	**25.0**	**25.0**	**25.0**
State Comptroller - Fringe Benefits					
Higher Education Alternative Retirement System	12.0	13.0	13.4	13.8	13.8
Pensions and Retirements - Other Statutory	2.1	2.2	2.3	2.3	2.4
Judges and Compensation Commissioners Retirement	33.2	35.1	36.9	36.9	36.9
Retired State Employees Health Service Cost	738.0	875.8	919.6	965.6	1013.8
SERS Defined Contribution Match	9.3	16.9	22.7	23.5	24.3
State Employees Retirement Contributions - Normal Cost	153.0	158.3	155.3	152.3	154.3
State Employees Retirement Contributions - UAL	1,307.6	1,368.8	1,286.5	1,212.5	1,143.9
State Comptroller - Fringe Benefits Total	**2,255.3**	**2,470.2**	**2,436.7**	**2,406.9**	**2,389.5**
Department of Mental Health and Addiction Services					
General Assistance Managed Care	41.3	42.2	43.8	45.1	46.5
Medicaid Adult Rehabilitation Option	4.2	4.2	4.2	4.2	4.2
DMHAS Total	**45.5**	**46.3**	**48.0**	**49.3**	**50.6**
Department of Social Services					
HUSKY B Program	12.7	17.2	17.9	18.6	19.3
Medicaid	2,667.2	3,021.4	3,133.7	3,228.7	3,325.6
Old Age Assistance	38.4	30.7	30.7	30.7	30.7
Aid to the Blind	0.5	0.5	0.5	0.5	0.5
Aid to the Disabled	49.6	37.6	37.6	37.6	37.6
Temporary Family Assistance - TANF	32.4	31.9	31.9	31.9	31.9
Connecticut Home Care Program	34.2	35.6	37.2	37.3	37.3
Community Residential Services	655.1	668.1	680.3	693.2	706.1
State Administered General Assistance	13.6	13.7	13.7	13.7	13.7
Hospital Supplemental Payments	568.3	568.3	568.3	568.3	568.3
Department of Social Services Total	**4,071.9**	**4,424.9**	**4,551.8**	**4,660.6**	**4,771.1**
Office of Early Childhood					
Birth to Three	23.0	24.0	24.7	25.5	26.2
Care4Kids TANF/CCDF	59.5	59.5	59.5	59.5	59.5
Office of Early Childhood Total	**82.5**	**83.5**	**84.2**	**85.0**	**85.8**

Fixed Cost Account	FY 22	FY 23	FY 24	FY 25	FY 26
Teachers' Retirement Board					
Retirement Contributions	1,443.7	1,578.0	1,663.9	1,771.5	1,868.8
Retirees Health Service Cost	18.7	12.6	15.0	17.0	18.7
Municipal Retiree Health Insurance Costs	5.0	5.0	5.0	5.0	5.0
Teachers' Retirement Board Total	**1,467.4**	**1,595.7**	**1,683.9**	**1,793.5**	**1,892.5**
Department of Children and Families					
No Nexus Special Education	2.7	2.7	2.7	2.7	2.7
Board and Care for Children - Adoption	107.1	109.7	112.7	115.3	118.2
Board and Care for Children - Foster	139.0	139.5	140.3	140.6	141.2
Board and Care for Children - Short-term and Residential	78.7	76.2	74.0	71.6	69.4
Individualized Family Supports	4.7	5.9	5.9	5.9	5.9
Department of Children and Families Total	**332.1**	**334.1**	**335.6**	**336.1**	**337.3**
TOTAL - GENERAL FUND	**10,715.8**	**11,574.9**	**11,829.6**	**12,119.5**	**12,364.5**

Fixed Cost Account	FY 22	FY 23	FY 24	FY 25	FY 26
SPECIAL TRANSPORTATION FUND					
Debt Service - State Treasurer					
Debt Service	744.5	837.7	913.2	983.1	1,041.6
Debt Service - State Treasurer Total	**744.5**	**837.7**	**913.2**	**983.1**	**1,041.6**
State Comptroller - Fringe Benefits					
SERS Defined Contribution Match	0.6	1.1	1.1	1.1	1.1
State Employees Retirement Contributions - Normal Cost	19.6	20.3	20.3	20.3	20.3
State Employees Retirement Contributions - UAL	152.8	160.6	150.5	141.4	132.9
State Comptroller - Fringe Benefits Total	**172.9**	**182.0**	**171.8**	**162.7**	**154.3**
Department of Transportation					
Rail Operations	132.3	128.5	188.5	188.5	193.4
Bus Operations	161.3	170.2	228.2	232.8	232.8
Department of Transportation Total	**293.6**	**298.7**	**416.7**	**421.4**	**426.3**
TOTAL - SPECIAL TRANSPORTATION FUND	**1,211.0**	**1,318.4**	**1,501.7**	**1,567.2**	**1,622.2**

Appendix E: Fixed Cost Detail FY 22 – FY 26

The fixed cost drivers discussed in **Section III** make up 57.5% of total General Fund expenditures in FY 26. General Fund fixed costs are projected to grow in the out-years from approximately $11.8 billion in FY 24 to approximately $12.4 billion in FY 26; a total increase of approximately $600 million. The major categories of fixed costs are discussed below in order of overall magnitude.

Entitlements

Entitlements are the largest category of fixed costs, representing 36.1% ($4.3 billion) of projected fixed costs in FY 26. The Medicaid and Community Residential Services accounts, appropriated in the Department of Social Services, collectively represent 84% of those projected entitlement costs.

Medicaid, the largest entitlement program, is projected to cost the General Fund $3.3 billion in FY 26 (or 71% of entitlements). The program is anticipated to grow by approximately $350 million between FY 22 and FY 23, which reflects a return to more typical utilization and the standard federal funds matching rate following the impact of the COVID-19 pandemic. Annual growth of approximately 3% captures anticipated caseload and utilization costs in the out-years. The Medicaid account is net funded reflecting the state's share of expenditures after federal reimbursement.

Community Residential Services is the second largest entitlement program. It serves Department of Developmental Services' consumers. The Community Residential Services account is projected to increase to approximately $706.1 million in FY 26 (or 15% of entitlements). Additional funding to support the settlement of increased wages and benefits for the employees of DDS contracted providers is funded in the OPM Private Providers account ($121.7 million All Funds in FY 24). It is estimated that 68% of the DDS settlement funding will support this program. Caseload increases are due to: (1) prior year annualization of community placement caseload increases; and (2) new caseload growth which is limited to community placement for individuals aging out of the Department of Children and Families and local education agency placements at 21 years of age, long-term care residents (Money Follows the Person) and Southbury Training School residents. The Community Residential Services account is gross funded, reflecting the total program expenditures before factoring in the federal reimbursement of 50% under the Medicaid waiver program which is deposited to the General Fund.

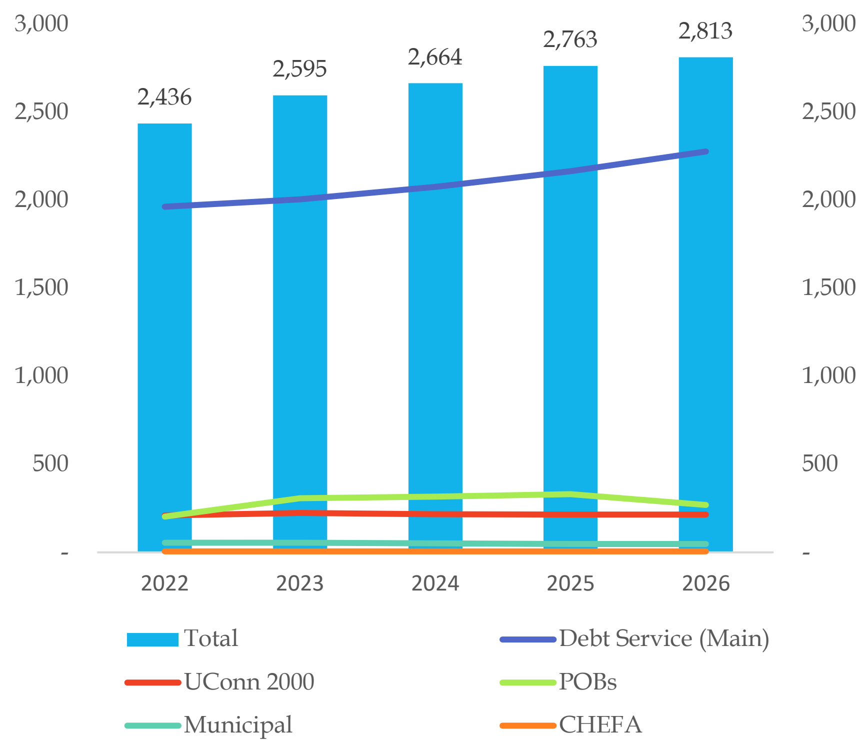
ARPA Home and Community Based Services Plan & Substance Use Disorder Waiver
Current expenditures do not include the anticipated fiscal impact of the following initiatives, which have not yet received final federal approval.

Under ARPA, states will receive 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, an estimated $220 million, will be reinvested in various home and community-based services through March 2024. As funding is reinvested, those state expenditures will be subject to federal matching funds, which is anticipated to leverage more than $266 million in additional federal reimbursement. Ongoing expenditures of approximately $25 million are anticipated in FY 25 and beyond. While the initial proposal has been reviewed, the final plan for reinvestment across various agencies has not been finalized. The most significant impacts are anticipated in DSS and DDS.

On August 9, 2021 DSS applied for a substance use disorder (SUD) demonstration waiver pursuant to section 1115 of the Social Security Act. In conjunction with a Medicaid State Plan Amendment (SPA), the proposal includes Medicaid coverage for a complete array of American Society of Addiction Medicine (ASAM) levels of care, applies to SUD inpatient and residential treatment for both adults and children, and requests that the demonstration be effective immediately upon CMS approval to use Institutions for Mental Disease (IMDs) as a Medicaid covered setting by waiving the federal IMD coverage exclusion for applicable SUD services. The waiver will generate new federal revenue and allow for reinvestment in the SUD service system impacting several agencies, most significantly DSS and DMHAS.

Debt Service

Figure 1. Annual General Fund Debt Service Estimates
In Millions of Dollars



Annual General Fund debt service is expected to grow by approximately $376.7 million, from $2,436.0 million in FY 22 to $2,812.7 million in FY 26. During this time, the largest increases to debt service are primarily the result of issuing new debt (a net increase of $313.7 million from FY 22 to FY 26) and the back-loaded repayment schedule for Pension Obligation Bonds (POBs) (annual payment increases from $203.1 million in FY 22 up to $330.5 million in FY 25 before decreasing back to $268.5 million in FY 26).[16] Annual debt service repayment requirements for the UConn 2000 program are also expected to peak at $223.7 million in FY 23 before decreasing to $214.5 million in FY 26.

Total annualized growth in General Fund debt service line items from FY 22 to FY 26 is 2.4%. It takes several years to realize the full impact of bonding decisions. Over 90% of all FY 22 General Fund debt service payment is based on debt incurred prior to FY 22. The growth from

[16] After FY 26, annual payment of POBs debt service fluctuates between $285 and $381 million before the bonds are fully repaid in FY 32.

new bond issuance described above has been limited by several recent policies and factors regarding bonding, including slowed capital spending beginning in CY 17. Greater detail on bonding-related projections is provided in Section VI.

Teachers' Retirement and Retiree Health Care Costs

The Teachers' Retirement System (TRS) provides pension and healthcare benefits for retired public-school teachers. State TRS funding is appropriated to three accounts within the Teachers' Retirement Board (TRB). Additionally, debt service costs, associated with Pension Obligation Bonds (POBs), are funded through the Office of the State Treasurer's Debt Service account. This combined funding represents fiscal support to local education agencies for expenses related to their retired public-school teachers.

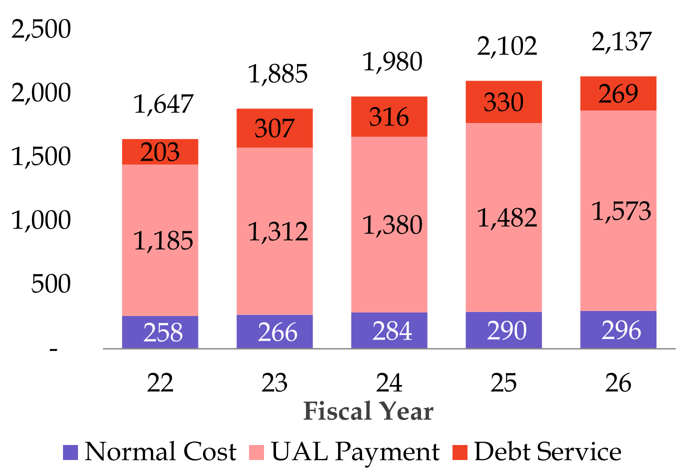
Total TRS Pension Costs – Actuarially Determined Employer Contribution (ADEC) and Debt Service

The ADEC for FY 22 and FY 23 of $1,466.6 million and $1,609.6 million, respectively, was established by the June 30, 2020 actuarial valuation. Growth in the ADEC is a net result of the increase in the TRS unfunded accrued liability (UAL) payments and the normal costs. The normal cost represents the portion of the cost of projected benefits allocated to the current plan year. The ADEC combined with the Debt Service reflects the total TRS pension cost and is reflected in **Figure 2** for FY 21 through FY 26. The projections for FY 24 – 26 have been adjusted to reflect a preliminary estimate of the impact of the FY 20 Budget Reserve Fund transfer of $903.6 million discussed to the right.

Treasurer Opts to Deposit Maximum Amount to TRS

The Budget Reserve Fund (BRF) ended FY 21 in excess of the 15% cap. Based on current law, any amount above this threshold is to be transferred to SERS and/or TRS with a maximum transfer of 5% of the individual retirement fund's unfunded liability. The total amount available for transfer was $1,623 million. The amount the Treasurer designated for TRS, **$903.6 million** is 5% of the systems unfunded liability of $18.1 billion, shown in **Table 1**. The impact to the fund and the TRS UAL will be reflected in the next scheduled TRS actuarial valuation (June 30, 2022) which establishes the FY 24 and FY 25 ADEC. The preliminary estimate of the annual savings resulting from this additional payment is $76.8 million.

Figure 2 Trends in Teachers' Retirement System Pension Related Costs[17]
In Millions of Dollars



[17] See OFA's TRS Fact Sheet for historical information.

Table 1. Actuarial Assets and Liabilities – June 30, 2020
In Millions of Dollars

Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio
(a)	(b)	(b)-(a)	(a)/(b)
19,055.1	37,128.0	18,072.9	51.3%

PA 19-117 included changes to the TRS actuarial factors and assumptions to stabilize the payments toward the Teachers' Retirement Fund. These changes included a transition of the amortization method from level percent of payroll to level dollar amount. This resulted in increasing UAL payments during the 5-year phase-in period to achieve a level, more predictable payment schedule in the long-term. The UAL payments are projected to have an average annual growth rate of 7.3% from FY 22 to FY 26 as shown in **Table 2**. The FY 26 ADEC is the first fully phased in level dollar payment and will remain a stable payment through the remainder of the amortization period.

Table 2. Average Annual Growth in TRS Pension Costs

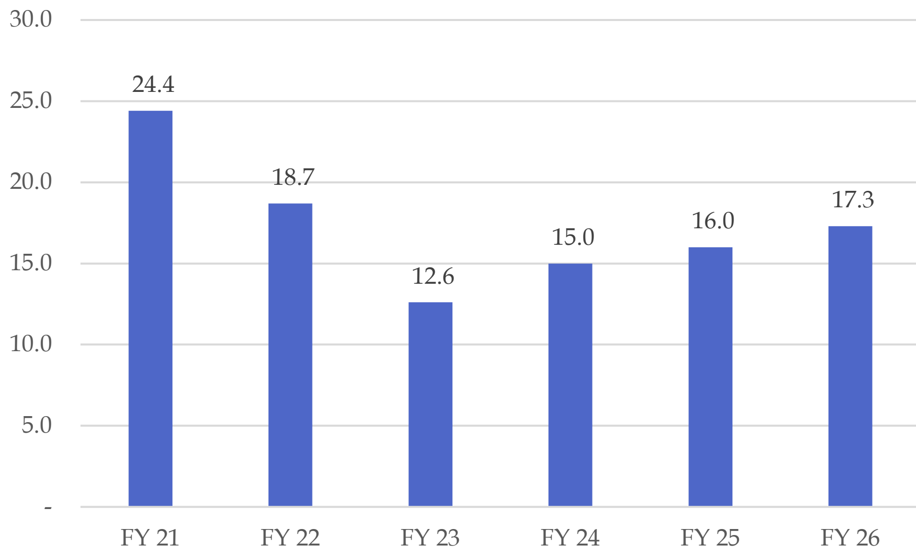
Cost	Average Annual Growth FY 22 to FY 26
Actuarially Determined Employer Contribution (ADEC)	
Unfunded Accrued Liability	7.3%
Normal Cost	3.5%
ADEC - Subtotal	6.7%
Debt Service	7.2%
TOTAL	**6.7%**

TRS Retiree Health Plan Costs Reduced by with Change to Medicare Advantage Plan that includes Part D Prescription Drug Coverage (MAPD).

The state funds one-third of the cost of the TRB retiree base health plan as required by statute. In FY 21, this resulted in a state cost of $24.5 million. The TRB recently voted to change the base plan from a Medicare Advantage Plan and a self-insured pharmacy benefit to a fully insured MAPD which now also includes vision and hearing, effective January 1, 2022.

The total base plan cost (per member per month) will go from $192 in calendar year 2021 to $89 in calendar year 2022, a 54% decrease. The premium guarantees through December 31, 2024 are also below the current cost. This premium reduction impacts the current biennium and the out-years as shown in **Figure 3**. It should be noted that the TRS premium is set on a calendar year basis and therefore each fiscal year has two rates for six months.

Figure 3. Trends in TRB Retiree Base Plan Costs
In Millions of Dollars



State Employee Retirement System and Retiree Health

The State Employees Retirement System (SERS) provides pension benefits to 52,400 retired members and their beneficiaries and covers another 47,600 active members. The system is funded on an actuarial basis and receives an annual valuation. The latest valuation dated June 30, 2020 established an actuarially determined employer contribution (ADEC) of $1.99 billion for FY 22, of which $1.31 billion is appropriated for from the General Fund.

In FY 23, SERS will fully phase-in to a level-dollar amortization payment schedule. Payments made to the system's unfunded accrued liability (UAL), absent additional deposits or other changes to the system's assumptions, are expected to be uniform on an actuarial basis from FY 23 to FY 46. The five-year phase-in required higher contribution levels in the short-term to achieve a level, more predictable payment schedule in the long-term.

Treasurer Opts to Deposit Excess Reserves into SERS

The Budget Reserve Fund (BRF) ended the year $1,623 million in excess of the 15% statutory cap. Pursuant to CGS Section 4-30a (c)(1)(A), the State Treasurer has opted to transfer $719.7 million of that balance to SERS. This deposit is estimated to save the state approximately $62.5 million annually from FY 23 to FY 46. Actual savings will be determined by the next actuarial valuation.

Table 3. Status of SERS, Current Biennium
In Millions of Dollars

Category	FY 22 Valuation	FY 23 Est.
Normal Cost	211.0	218.0
Amortization Payment	1,780.5	1,857.1
Unfunded Accrued Liability	22,726.1	22,066.7
Funded Ratio	38.5%	39.2%

Positive Outlook for SERS in the Out-Years

The state's annual contribution to SERS is anticipated to decrease in the out-years. This decrease is due to savings created by additional deposits into the system from the BRF exceeding its statutory limit and the system reaching level-dollar amortization in FY 23.

Estimated deposits totaling approximately $3.17 billion – 14% of the system's current unfunded accrued liability – are expected to decrease the General Fund's SERS contribution to $1.14 billion in FY 26, from $1.37 billion in FY 23[18]. **Table 4** below illustrates the impact the series of deposits may have on the SERS' pension liabilities moving forward.

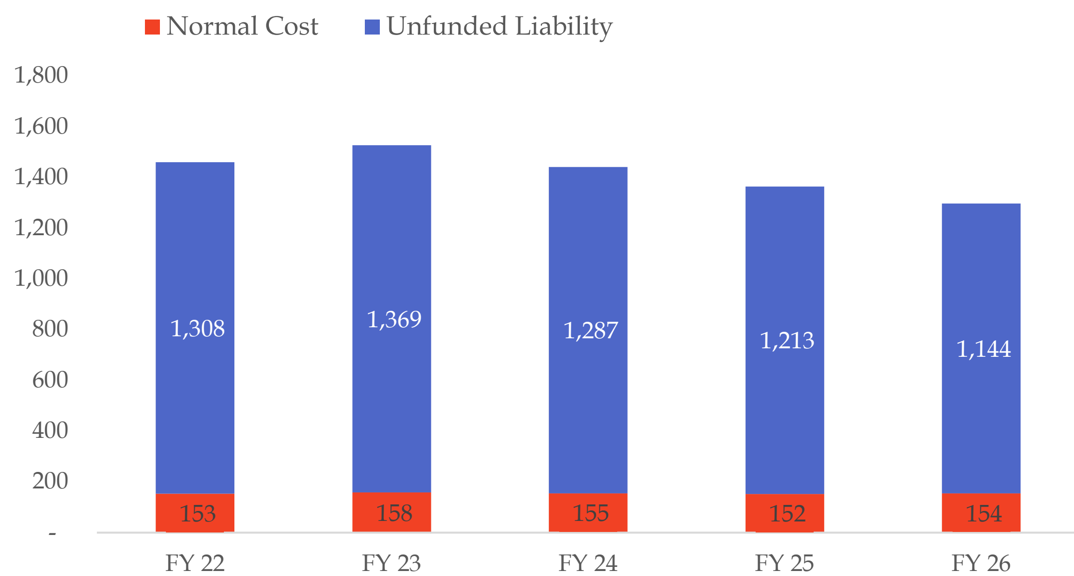
Table 4. Projected SERS' Unfunded Accrued Liability and Funded Ratio
In Millions of Dollars

Category	FY 23	FY 24	FY 25	FY 26
Unfunded Accrued Liability	22,066.7	19,346.2	18,205.9	17,771.1
Funded Ratio	39.2%	43.8%	48.0%	51.9%

The General Fund's share of SERS costs related to both the annual amortization payment towards the system's unfunded liabilities and providing current benefits is projected to decrease from $1.44 billion in FY 24 to $1.29 billion in FY 26. The table below shows the General Fund's share of costs in the out-years.

[18] This report assumes all deposits from volatility adjustments after FY 23 are deposited into SERS. The Treasurer ultimately has discretion to determine which pension system receives any funds on an annual basis.

Figure 4. Projected General Fund Portion of SERS Costs, FY 22 – FY 26[19]
In Millions of Dollars



Retiree Healthcare Costs Expected to Increase to over $1 Billion by FY 26

The projected increases in retiree health care are $138 million in FY 23, $44 million in FY 24, $46 million in FY 25, and $48 million in FY 26 for a total increase of approximately $276 million over the FY 22 level (which includes healthcare savings lapses) of $738 million.

Retiree health costs are anticipated to increase due to the number of beneficiaries in the system, as the state expects an increase in retirements due to a change in the calculation of cost of living adjustments effective July 1, 2022. Out-years growth in retiree health is predominately due to increases in the costs of medical and prescription services for Medicare and non-Medicare eligible dependents. Aggregate program expenditures are projected to increase approximately 5% per year from FY 24 through FY 26.

[19] As of October 21, 2021.

Appendix F. Municipal Aid

Municipal aid[20] is estimated to total $3.5 billion in FY 22, an $278.0 million (8.51%) increase over FY 21 actual expenditures. The most significant drivers of this increase are: 1) an increase in PILOT funding of $146 million, distributed pursuant to the Tiered PILOT formula established in PA 21-3; 2) the implementation of the sales tax diversion to the Municipal Revenue Sharing Account (MRSA); and 3) continued phase-in of full funding of the Education Cost Sharing formula.

A detailed description of the changes to MRSA and PILOT funding are available in the Municipal Aid section of the FY 22 and FY 23 OFA budget book.

Municipal aid continues to represent a large portion of General Fund expenditures. Appropriated municipal aid from the General Fund is estimated to total $3.5 billion in FY 22, or 17.1% of expenditures. When including $1.5 billion in state assistance from the Teachers' Retirement System (TRS), this figure increases to $5 billion, or 24.2% of the General Fund.

Municipal Aid Funding (FY 21 Actual – FY 25 Estimated)

Grant or Account	FY 21 Actual	FY 22 Estimated	FY 23 Estimated	FY 24 Estimated	FY 25 Estimated
State Property PILOT[1]	54,944,031	54,944,031	54,944,031	54,944,031	54,944,031
College and Hospital PILOT[1]	109,889,434	108,998,308	108,998,308	108,998,308	108,998,308
Disability Exemption	364,713	364,713	364,713	364,713	364,713
Distressed Municipalities	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Elderly Freeze Program	40,000	10,000	10,000	10,000	10,000
Property Tax Relief for Veterans	2,708,107	2,708,107	2,708,107	2,708,107	2,708,107
Municipal Revenue Sharing	36,819,135	36,819,135	36,819,135	36,819,135	36,819,135
Municipal Transition	32,331,732	32,331,732	32,331,732	32,331,732	32,331,732
Municipal Stabilization Grant	38,253,335	37,853,335	37,853,335	37,853,335	37,853,335
Municipal Restructuring	7,300,000	7,300,000	7,300,000	7,300,000	7,300,000
Municipal Restructuring - Debt Service	56,314,629	54,677,710	54,098,049	51,251,706	47,910,458
Pequot Grant	51,472,789	51,472,789	51,472,789	51,472,789	51,472,789
Tiered PILOT[1]	-	66,400,000	80,000,000	80,000,000	80,000,000
Subtotal	**391,937,905**	**455,379,860**	**468,400,199**	**465,553,856**	**462,212,608**

[20] "Municipal aid" refers to all grants included in the table in this section, less TRS totals. TRS is included to illustrate other payments made by the state on behalf of municipalities.

Grant or Account	FY 21 Actual	FY 22 Estimated	FY 23 Estimated	FY 24 Estimated	FY 25 Estimated
Vocational Agriculture	15,124,200	18,824,200	18,824,200	18,824,200	18,824,200
Adult Education	20,383,960	21,214,072	21,333,248	21,333,248	21,333,248
Health and Welfare Services Pupils Private Schools	3,438,415	3,438,415	3,438,415	3,438,415	3,438,415
Education Equalization Grants	2,093,563,712	2,139,188,165	2,184,789,214	2,223,279,438	2,261,769,662
Bilingual Education	3,177,112	1,916,130	1,916,130	1,916,130	1,916,130
Priority School Districts	30,818,778	30,818,778	30,818,778	30,818,778	30,818,778
Extended School Hours	2,919,883	2,919,883	2,919,883	2,919,883	2,919,883
School Accountability	3,412,207	3,412,207	3,412,207	3,412,207	3,412,207
Interdistrict Cooperation	1,537,500	1,537,500	1,537,500	1,537,500	1,537,500
School Breakfast Program	2,158,900	2,158,900	2,158,900	2,158,900	2,158,900
Excess Cost - Student Based	140,619,782	140,619,782	140,619,782	140,619,782	140,619,782
Open Choice Program	25,982,027	27,980,849	30,342,327	30,342,327	30,342,327
Magnet Schools	295,033,302	282,438,044	284,584,077	284,584,077	284,584,077
Sheff Transportation	45,781,798	51,843,244	52,813,212	52,813,212	52,813,212
After School Programs	5,750,695	5,750,695	5,750,695	5,750,695	5,750,695
Subtotal	**2,689,702,271**	**2,734,060,864**	**2,785,258,568**	**2,823,748,792**	**2,862,239,016**
Various Other Grants					
Youth Service Bureau	2,626,772	2,640,772	2,640,772	2,640,772	2,640,772
Housing/Homeless Services - Municipality	575,226	607,063	637,088	637,088	637,088
Local and District Departments of Health	4,288,499	6,919,014	7,919,014	7,919,014	7,919,014
School Based Health Clinics	10,550,187	10,678,013	10,680,828	10,680,828	10,680,828
Teen Pregnancy Prevention - Municipality	98,281	98,281	98,281	98,281	98,281
Connecticard Payments	703,638	703,638	703,638	703,638	703,638
Subtotal	**18,842,603**	**21,646,781**	**22,679,621**	**22,679,621**	**22,679,621**
Major Bonding and Other Funding Sources					
MRSA	-	152,400,000	148,600,000	434,500,000	444,900,000
Town Aid Road	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
LoCIP	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000

Grant or Account	FY 21 Actual	FY 22 Estimated	FY 23 Estimated	FY 24 Estimated	FY 25 Estimated
Grants for Municipal Projects/ MME	76,000,000	91,000,000	91,000,000	91,000,000	91,000,000
Subtotal	**166,000,000**	**333,400,000**	**329,600,000**	**615,500,000**	**625,900,000**
TOTAL - Less TRS	**3,266,482,779**	**3,544,487,505**	**3,605,938,388**	**3,927,482,269**	**3,973,031,245**
Teacher's Retirement System (TRS)					
Retirement Contributions	1,249,835,000	1,443,656,000	1,578,038,000	1,663,900,000	1,771,500,000
Retirees Health Service Cost	24,405,387	18,707,000	12,600,000	15,000,000	17,000,000
Municipal Retiree Health Insurance Cost	5,108,813	5,040,000	5,040,000	5,040,000	5,040,000
Subtotal	**1,279,349,200**	**1,467,403,000**	**1,595,678,000**	**1,683,940,000**	**1,793,540,000**
GRAND TOTAL	**4,545,831,979**	**5,011,890,505**	**5,201,616,388**	**5,611,422,269**	**5,766,571,245**

COVID-19 IMPACT TO MUNICIPALITIES - FY 22 UPDATE

Municipalities continue to feel the impact of the COVID-19 pandemic in the form of increased public health, education, and emergency response expenditures. When the pandemic began, the federal CARES Act provided $263.9 million to municipalities mostly (76.2%) for education. Since then, the American Rescue Plan and an additional stimulus package passed in December 2020 have provided an additional $2.8 billion for both education and non-education purposes. This brings total COVID-19 federal response funding to municipalities to $3.1 billion since the pandemic began.

Federal COVID-19 Relief Funding Since December 2020

Grant or Program	Amount
Local Fiscal Recovery Fund (American Rescue Plan)	1,561,873,216
Metropolitan Cities	*679,160,378*
County Payments	*691,465,459*
Non-Entitlement	*191,247,380*
Elementary and Secondary Education Emergency Relief Fund (ESSER II)[1]	397,496,849
Elementary and Secondary Education Emergency Relief Fund (ESSER III)[1]	887,080,352
TOTAL SINCE DECEMBER 2020	**2,846,450,817**
CARES ACT	263,923,662
TOTAL COVID-19 RELATED FUNDING	**3,110,074,379**

[1]ESSER I, the first round of pandemic response funding for education, was provided via the CARES Act. Funding totaled $89.7 million.

Local Fiscal Recovery Fund grants represent the most significant source of pandemic aid to local governments for non-education purposes to date. Municipalities have broad flexibility for use of this funding, including: 1) supporting public health expenditures, 2) addressing negative economic impacts caused by the pandemic, 3) replacing lost revenue, 4) providing premium pay for essential workers, and 5) updating water, sewer, and broadband infrastructure.

Appendix G. Detail on the FY 21 Agency Deficiencies and Lapses

DEFICIENCIES

Agency	Account	Deficiency
General Fund		
Office of the State Comptroller	**Adjudicated Claims**	**$25.0 million**

There is an anticipated shortfall of $25 million in the Adjudicated Claims Account. No appropriation was made for FY 22 in the enacted budget. Through October 1, approximately $14.1 million has been expended in FY 22.

Department of Economic and Community Development	**Various**	**$76,889**

A net General Fund deficiency of $76,889 is anticipated to occur in FY 21. The agency is projected to run a deficiency of $124,059 in the Personal Services account resulting from expenditure trends being higher than the available budget. This deficiency is partially offset by a lapse of $47,170 in the Office of Military Affairs account due to lower expenditure needs based on historical trending.

LAPSES

Agency	Account	Lapse $
General Fund		
Department of Social Services	**Various**	**100.5 million**

The projected lapse of $100.5 million is across several accounts; the most significant of which is Medicaid. The projected $90 million lapse in Medicaid reflects a lower state share of expenditures as a result of enhanced federal reimbursement for January through March 2023 as well as decreased utilization of services. Lapses for Temporary Family Assistance ($5 million) and State Administered General Assistance ($1.5 million) are due to continued decreases in caseload. The lapse for HUSKY B ($4 million) is due to both reduced caseload and utilization, in addition to a lower state share of expenditures as a result of enhanced federal reimbursement through March 2022.

Department of Children and Families	**Various**	**12.1 million**

Lapses totaling $12.1 million are projected across seven accounts. Based on current cost trends, expenditures in these accounts are anticipated to remain at, approximately, last fiscal year's expenditure level, which is cumulatively 1.9% below budgeted appropriations.

The largest lapse is Personal Services, totaling approximately $8.6 million. This reflects anticipated expenditures of approximately $263.1 million, or 3.2% less than budgeted.

The other six lapsing accounts are: Other Expenses ($787,864), No Nexus Special Education ($284,993), Board and Care for Children – Adoption ($369,415), Board and Care for Children – Foster ($949,273), Board and Care for Children – Short-term and Residential ($284,993), and Individualized Family Supports ($351,027).

Teachers' Retirement Board	**Retiree Health Service**	**8.0 million**

The projected lapse in the TRB Retirees Health Service Cost account is due to lower than budgeted health premiums. The TRB recently voted to change the base plan from a Medicare Advantage Plan and a self-insured pharmacy benefit to a fully insured Medicare Advantage Prescription Drug plan, effective January 1, 2022.

Department of Mental Health and Addiction Services	**Various**	**7.7 million**

The Department of Mental Health and Addiction Services is projected to lapse $7.7 million across several accounts. The Personal Services lapse ($9 million) is due to delays in filling vacancies while Home and Community Based Services ($500,000) continues to experience fewer referrals and placements. These lapses are partially offset by deficiencies in Other Expenses and Professional Services. The shortfall in Other Expenses ($800,000) is due to cleaning and facility maintenance costs as well as anticipated increases in food procurement contracts. The Professional Services shortfall ($1 million) reflects costs for contracted medical services, including psychiatrists, while the agency recruits for full-time staff.

Office of Legislative Management	**Personal Services**	**5.0 million**

There is a projected lapse of $5 million in the Personal Services account. Based on current cost trends, expenditures in the Personal Services account are anticipated to remain at last fiscal year's expenditure level.

Judicial Department	**Personal Services**	**2.4 million**

There is a projected lapse of $2.4 million in the Personal Services account. This is due to delays in the hiring process to replace vacant positions. There are currently 809 vacancies at the agency.

Department of Housing	**Housing/Homeless Services**	**1.5 million**

The Housing/Homeless Services account is projected to lapse $1.5 million due to anticipated below-budget expenditure in the state's Rental Assistance Program (RAP). Due to very tight conditions in the state's rental housing market, it is taking additional time (usually three to six months) for a household to find a unit once offered a housing voucher. There are also anticipated lease-up delays due to the outreach and engagement processes required to enroll eligible households in specific initiatives, such as the Connecticut Housing Engagement and Support Services (CHESS) initiative with the Department of Social Services, which finally received federal approval in July.

Public Defenders Service Commission	**Various**	**582,728**

There is a projected lapse of $582,728 across various accounts. This is due to the gradual full reopening of the courthouses and jury trials.

Department of Public Health	**Personal Services**	**400,000**

Based on current cost trends, expenditures are anticipated to be 1.1% lower than the amount that was appropriated for the Personal Services account in the biennial budget, resulting in an anticipated FY 22 account lapse of $400,000, after meeting holdback requirements of $500,000.

Department of Labor	**Veterans' Opportunity Pilot**	**120,047**

The projected lapse is due to the suspension of the program in March 2020 and the indefinite reassignment of the two associated staff to the Unemployment Insurance division.

Agency	Account	Lapse
Special Transportation Fund		
Department of Transportation	**Personal Services**	**$8.9 million**

There is a projected lapse of $8.9 million in the Personal Services account. This is due to delays in the hiring process to replace vacant positions. There are currently 385 vacancies at the agency.

Department of Motor Vehicles	**Personal Services**	**$2.0 million**

There is a projected lapse of $2 million in the Personal Services account. This is due to delays in the hiring process to replace vacant positions. There are currently 148 vacancies at the agency.