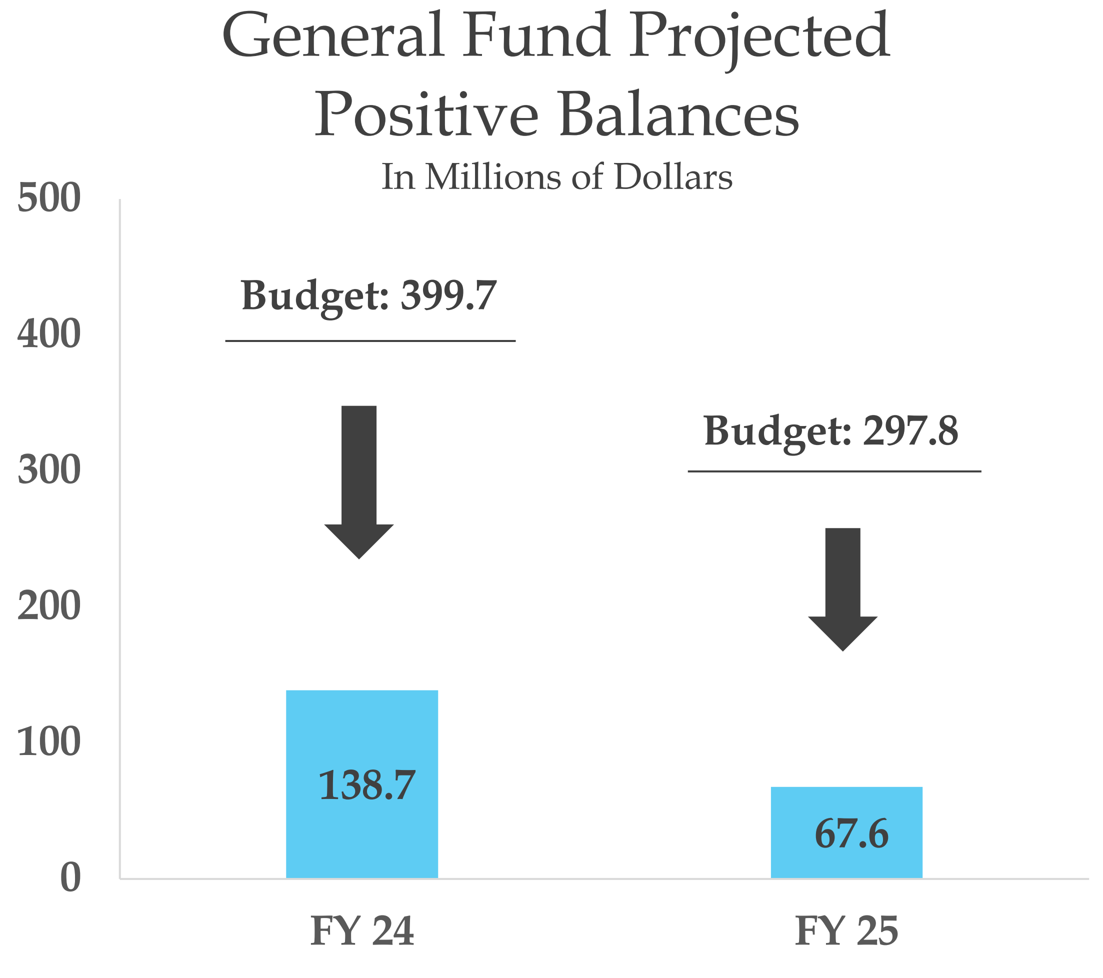
CONNECTICUT GENERAL ASSEMBLY
OFFICE OF FISCAL ANALYSIS

OFA

FISCAL ACCOUNTABILITY REPORT

FY 24 – FY 28



November 20, 2023

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

Section I. Executive Summary

Surpluses in Current Biennium: FY 24 and FY 25

OFA projects General Fund surpluses of $138.7 million in the current fiscal year and $67.6 million in FY 25. These estimated surpluses are lower than originally budgeted, by $261 million and $230.2 million respectively. The decline is primarily due to higher than budgeted expenditure levels in several areas, including Medicaid, Adjudicated Claims, and caseload pressures across multiple agencies. Key revenue streams (the pass-through entity tax, the Estimated & Finals portion of the income tax, and the sales and use tax) were revised downward in the November consensus revenue estimates. While this is concerning, the impact is partially offset by the application of the volatility cap.

Positive Balances in Out Years: FY 26 – FY 28

OFA projects positive General Fund balances in FY 26 ($206.4 million), FY 27 ($310.5 million), and FY 28 ($717.7 million) using the required report methodology. This is due to a positive structural balance between revenue growth and fixed cost growth. Revenue and fixed costs are expected to grow at the same average annualized rate (2.5%) in the out years. Under the required methodology, the out years balance projections do not include any growth in non-fixed costs and must disregard other potential budgetary pressures.

Budget Reserve Fund (BRF) Grows and More Retirement System Debt is Paid Down

The current BRF balance of approximately $3.3 billion is expected to increase annually through FY 28. It is anticipated that the new, higher statutory BRF cap (18%) will first be reached in FY 27. Statute requires that the General Fund operating surplus and any revenue exceeding the volatility cap are deposited into the BRF or dedicated to reducing long-term debt, or both. OFA projects that the State Employees Retirement System (SERS) and Teachers' Retirement System (TRS) will continue to receive such funds, although at a lower level than in recent years. The transfers to the retirement systems result in reductions to required out year expenditures in those accounts (which are also affected by other factors).

Statutorily Required Report Methodology

OFA is statutorily required to produce the Fiscal Accountability Report (FAR) every November using a specific methodology (CGS Sec. 2-36b). The report must include an update on the expected balances for the current biennium and projections for the next three fiscal years, using consensus revenue estimates. For the projections, only spending on "fixed cost drivers" may increase in the out years; all other spending must remain at the biennium's level (FY 25 for this report). Fixed cost drivers include entitlements (e.g., Medicaid), debt service, pension contributions, retiree health care, hospital supplemental payments, and adjudicated claims.

If any negative annual operating balance is projected for a fund included in the consensus revenue forecast, then the report must provide the total reduction to the fund's non-fixed costs that would be necessary to eliminate the anticipated operating deficit. This report projects that such expenditure reductions are necessary for the Special Transportation Fund (STF) in FY 27 ($29.5 million) and FY 28 ($51 million) as shown in **Table 1.1** below; there is a cumulative positive STF fund balance as described below. Additionally, the eleven other appropriated funds (excluding the STF and General Fund) will collectively have an annual operating deficit beginning in FY 25. The operating deficit will be limited to certain funds and in some instances will be covered by a cumulative fund balance.

Special Transportation Fund

OFA projects an STF operating surplus in each fiscal year from FY 24 through FY 26, followed by operating deficits in FY 27 and FY 28, using the report's required methodology. The cumulative fund balance is projected to increase from $681.7 million at the beginning of FY 24 to approximately $1 billion in FY 26, and then to decline slightly to $916.3 million by the end of FY 28.

Table 1.1 Financial Summary by Fund: Projected Annual Operating Balances
In Millions of Dollars

Fund	FY 24	FY 25	FY 26	FY 27	FY 28
General Fund (GF)					
November Consensus Revenue	22,529.7	23,089.1	23,482.5	24,032.4	24,670.7
Expenditures					
Previous Year Expenditure			23,021.5	23,276.1	23,721.9
Fixed Cost Growth			254.6	445.9	231.1
Expenditure Reduction[1]			-	-	-
Subtotal - Expenditures	**22,391.0**	**23,021.5**	**23,276.1**	**23,721.9**	**23,953.0**
GF BALANCE	**138.7**	**67.6**	**206.4**	**310.5**	**717.7**
Special Transportation Fund (STF)					
November Consensus Revenue	2,341.1	2,365.8	2,376.9	2,397.0	2,423.7
Expenditures					
Previous Year Expenditure			2,280.2	2,340.1	2,397.0
Fixed Cost Growth			59.9	86.4	77.7
Expenditure Reduction[1]			-	(29.5)	(51.0)
Subtotal - Expenditures	**2,118.9**	**2,280.2**	**2,340.1**	**2,397.0**	**2,423.7**
STF BALANCE	**222.2**	**85.6**	**36.8**	**-**	**-**
Other Appropriated Funds					
Revenue and Transfers	878.5	873.5	806.0	822.2	835.1
Expenditures	854.3	899.6	899.6	899.6	899.6
OTHER APPROP. FUNDS BALANCE[2]	**24.2**	**(26.1)**	**(93.7)**	**(77.4)**	**(64.5)**
All Appropriated Funds					
Revenue and Transfers	25,749.3	26,328.4	26,665.4	27,251.6	27,929.5
Expenditures	25,364.2	26,201.3	26,515.8	27,018.6	27,276.4
ALL APPROP. FUNDS BALANCE	**385.1**	**127.1**	**149.5**	**233.0**	**653.1**

[1]Pursuant to CGS Sec. 2-36b(b), the reduction in non-fixed costs necessary to balance revenue and expenditures.
[2]As non-lapsing funds, certain other appropriated funds will support expenditures with positive fund balances (which are not shown in this table), while others, such as the Cannabis Regulatory Fund and Municipal Revenue Sharing Fund, do not have sufficient revenue identified to fund anticipated out year expenditures. See **Appendix B** for details.

Section II. General Fund – Current Biennium

PA 23-204, the FY 24 and FY 25 Budget, was adopted with budgeted balances of $399.7 million in FY 24 and $297.8 million in FY 25. November 2023 consensus revenue and revised expenditure projections result in balance decreases of $261 million in FY 24 and $230.2 million in FY 25. This is primarily due to expenditure projections that exceed net appropriations by $285.4 million in FY 24 and $215.6 million in FY 25.

Current FY 24 projections estimate an operating surplus of $138.7 million. The projected surplus represents less than 1% of General Fund appropriations.

Table 2.1 shows that the FY 24 decline from the budgeted balance to the projected operating surplus is mainly the result of expenditure projections exceeding net budgeted appropriations by $285.4 million as noted above. This is partially offset by a revenue increase of $24.4 million.

Table 2.1 November Updates to FY 24 General Fund Estimates
In Millions of Dollars

Summary	FY 24
Budgeted Balance	**399.7**
Revenue	
Budgeted	22,529.7
Consensus Adjustment	
E&F / PET	(199.6)
Sales and Use	(125.0)
Healthcare Provider	(55.4)
Refunds of Taxes	(100.0)
Investment Income	60.0
Federal Grants	138.5
Volatility Adjustment Transfer	204.7
All Other Revenue (net)	101.2
Subtotal	**24.4**
Expenditures	
Budgeted	22,105.6
Lapses	52.1
Deficiencies	(216.1)
Technical	(121.4)
Subtotal	**(285.4)**
SURPLUS/(DEFICIT)	**138.7**

FY 24 REVENUE

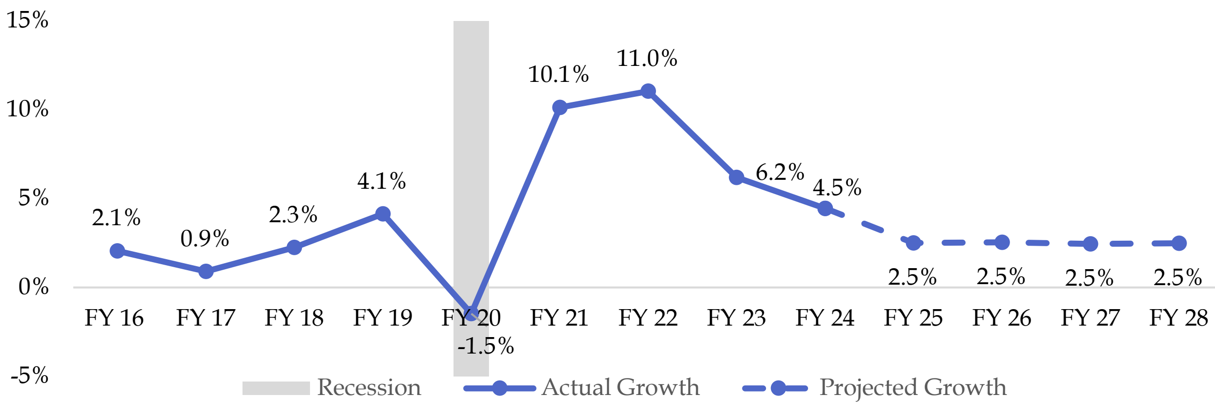
November consensus net revenue estimates increased total General Fund projections by $24.4 million in FY 24. Various tax types were downgraded from budget by nearly $450 million but $475 million in positive adjustments in other non-tax revenue sources offset those tax-related weaknesses.

The trend of negative growth in the estimated and finals (E&F) portion of the personal income tax and the pass-through entity tax (PET) in FY 23 (-30.3% and -10.8%, respectively) has continued into FY 24. While FY 24 budget projections assumed negative growth (-10% growth for both taxes), September quarterly estimated payment data indicate the contraction is larger than budgeted. The November consensus revenue estimates revised growth expectations for E&F and PET to -13.5% and -14%, respectively. This translates to reductions of approximately $150 million in E&F and $50 million in PET. While this trend is concerning, there is no net budgetary impact due to the application of the volatility cap that governs both taxes. The technical result is a positive impact of $204.7 million to the General Fund as the volatility adjustment transfer to the Budget Reserve Fund is adjusted downward to account for the decreased projections in E&F and PET.

In addition, projections of FY 24 tax refunds increased by $100 million (i.e., negative budgetary impact) to reflect the impact of refunds related to final extension payments made in October 2023 attributable to the 2022 tax year. As this reflects activity for a concluded tax year, the impact is one-time in nature.

The sales and use tax revenue projection was adjusted downward by $125 million from budget to account for lower than anticipated collections in FY 23, thus lowering the collections base for FY 24. Inflation has moderated this year but remains elevated at 3.2% as of October. Additionally, consumer spending overall has returned to pre-pandemic levels, down from the historically high levels of the prior two years (see **Section VII** for further discussion). The projected growth rate for sales tax in FY 24 is 4.5% in total for sales tax collections across all funds, as noted in **Figure 2.1**, to reflect these economic trends.

Figure 2.1 Sales Tax Growth Rates (All Funds)



Source: OFA calculations

November consensus adjusted the health provider tax downward by $55.4 million in FY 24 to reflect anticipated underpayment in hospital tax and nursing home tax collections this fiscal year that is due to financial strain incurred by some taxpayers.

Offsetting these negative adjustments is a $60 million increase in investment income in FY 24, which is partially continued with an upward adjustment of $26.1 million in FY 25. This reflects the expectation that the Federal Reserve will hold interest rates higher for longer, as well as a more robust Budget Reserve Fund.

Federal grants revenue is adjusted upwards by $138.5 million in FY 24, primarily due to the receipt of Medicaid-related revenue associated with prior period adjustments.

Other net adjustments, totaling $101.2 million, include:

- A technical adjustment downward of $5.1 million to withholding (income tax) to reflect the Individual Retirement Account (IRA) benefit cliff elimination impacting withholding rather than E&F.
- A one-time increase of $32.3 million to the public service companies tax due to a late payment that should have been received in FY 23.

- A $28.5 million increase in insurance companies tax to reflect current trends.
- A $10 million reduction in cigarettes tax to reflect current trends.
- A technical upward adjustment of $4.5 million in admissions & dues tax to reflect taxpayers' historical misreporting of dues tax paid as admissions tax, which had inflated the estimated revenue loss associated with the repeal of admissions tax.
- A $20 million reduction in FY 24 only to the miscellaneous tax to reflect a delay in the implementation of the Department of Revenue Services' Business Analytics Initiative.
- A technical upward adjustment of $81.5 million in miscellaneous revenue to reflect accurate recording of the new policy to fund the Alternative Retirement Program within Higher Education.
- An increase of $10 million in refund of payments to reflect a trend of higher refunds of unclaimed property.

FY 24 EXPENDITURES

PA 23-204 authorized FY 24 net General Fund appropriations[1] of $22.1 billion. FY 24 expenditures are projected to exceed net appropriations by $285.4 million. This is due to deficiencies of $216.1 million and negative technical adjustments of $121.4 million, partially offset by $52.1 million in lapses, as displayed in **Table 2.2** and detailed in **Figure 2.2**.

Table 2.2 FY 24 Expenditure Projections
In Millions of Dollars

Expenditures	FY 24
Budgeted	22,105.6
Lapses	52.1
Deficiencies	(216.1)
Technical	
Unallocated Lapses	(46.4)
Other	(75.0)
Technical Subtotal	**(121.4)**
NET LAPSE/(DEFICIENCY)	**(285.4)**

Deficiencies
Medicaid
A deficiency of $120 million is projected in the Medicaid account within the Department of Social Services (DSS), driven by multiple factors. These include: (1) a reconciliation of costs related to Medicare Part D clawback billing (pursuant to *Carr v. Becerra*); (2) a shift in costs for undocumented individuals originally budgeted under HUSKY B; and (3) higher costs for a new fiscal intermediary.

The shift in cost for undocumented individuals that is contributing to the Medicaid deficiency is correspondingly contributing to a lapse in the HUSKY B account within DSS, as detailed below.

Adjudicated Claims
A deficiency of $40 million is projected in the Adjudicated Claims account within the Office of the State Comptroller. This includes costs related to two settlements for claims made against the

[1] This total represents total General Fund appropriations less bottom-line lapses. Sec. 14 of PA 23-204 established bottom line General Fund lapses (often reflected as agency "holdbacks") of (1) $80 million in Personal Services lapses; (2) $48.7 million in unallocated lapses; and (3) $5 million in Judicial branch lapses. This total does not include funding carried forward from FY 23 for expenditures in FY 24.

State totaling $25.2 million. Through October 1, approximately $9.4 million has been expended. No FY 24 appropriation was made for this account.

Caseload/Cost Pressures

Projected deficiencies totaling $36.5 million across accounts within four agencies are due to higher-than-expected caseload and cost pressures. These cost pressures relate to utilities, health care, transportation, food, and other expenditures.

The deficiencies include: (1) $20 million within the Department of Corrections' Inmate Medical Services and Other Expenses accounts; (2) $8.8 million within the Department of Social Services' Temporary Family Assistance, Connecticut Home Care Program, State Administered General Assistance, and Aid to the Disabled accounts; (3) $6 million within the Department of Mental Health and Addiction Services' Other Expenses account; and (4) $1.7 million within the Department of Developmental Services' Other Expenses account.

Technical

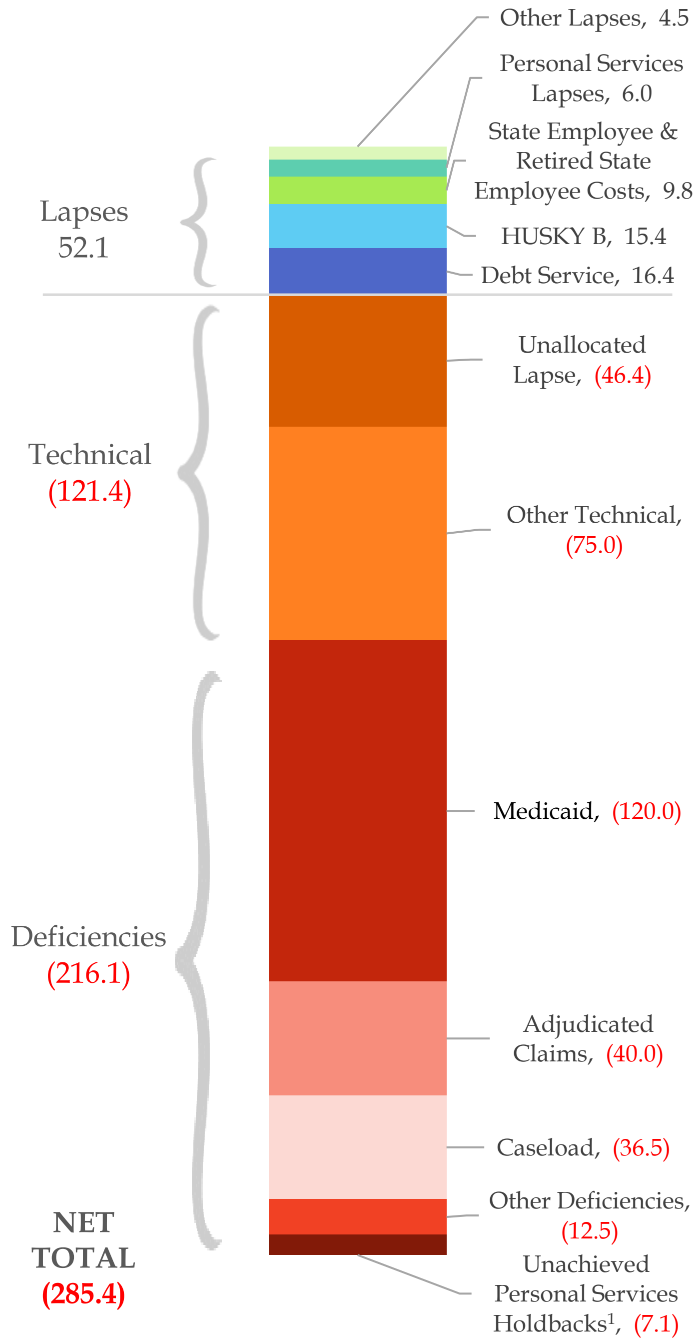
Unallocated Lapse

Sec. 14 of PA 23-204 establishes a bottom-line General Fund lapse of $48.7 million and allows the Office of Policy and Management (OPM) to make reductions in appropriations (i.e., "holdbacks") to achieve this lapse. To date, OPM has announced $2.3 million in holdbacks to achieve the lapse, leaving $46.4 million unallocated.

Other Technical

A $75 million deficiency is projected in the Office of the State Comptroller – Fringe Benefits Higher Education Alternative Retirement System account. This is due to an accounting change

Figure 2.2 FY 24 General Fund Lapses and Deficiencies by Account
In Millions of Dollars



[1] In July 2023, the Office of Policy and Management implemented $80 million in General Fund holdbacks across numerous executive branch agencies intended to achieve the FY 24 Personal Services bottom line lapse pursuant to Sec. 15 of PA 23-204. It is anticipated that several agencies will be unable to achieve their holdbacks, resulting in an "Unachieved Personal Services Holdbacks" deficiency of $7.1 million against the reduced levels of available appropriations.

related to the restructuring of higher education fringe benefits pursuant to Sec. 89 of PA 23-204. The November 2023 consensus revenue forecast includes a corresponding increase to General Fund revenue projections that offsets this deficiency.

Lapses
Debt Service
A lapse totaling $16.4 million is projected across all General Fund debt service accounts. The lapse is driven by several factors. These include: (1) changes to issuance amounts and timing; (2) revised repayment schedules for several outstanding debts; and (3) updated market information from recent bond sales.

HUSKY B
A $15.4 million lapse is projected in the Department of Social Services' HUSKY B account due to certain enrollment trends. PA 23-204 expanded eligibility for HUSKY A and HUSKY B to all children regardless of immigration status and provided funding to the DSS Medicaid and HUSKY B accounts for this purpose. Enrollment has been lower than anticipated in HUSKY B, resulting in the $15.4 million lapse. Correspondingly, enrollment has been higher than anticipated in HUSKY A, resulting in the above-described deficiency in the DSS Medicaid account.

State Employee & Retired State Employee Costs
A lapse totaling $9.8 million is projected across three Office of the State Comptroller – Fringe Benefits accounts as follows: (1) $5.8 million in the Retired State Employees Health Services Cost account; (2) $3 million in the SERS Defined Contribution Match account; and (3) $1 million in the Unemployment Compensation account.

Personal Services
Lapses of $6 million in Personal Services accounts are projected across seven agencies due to delays in filling vacancies and employee turnover. These lapses are: (1) a $3 million lapse in the Office of Legislative Management; (2) a $1.9 million lapse in the Department of Developmental Services; and (3) lapses totaling $1.1 million across the Department of Agriculture, Department of Economic and Community Development, Office of Health Strategy, Department of Aging and Disability Services, and the Office of Governmental Accountability.

FY 25 UPDATE

There is a projected operating surplus of $67.6 million in FY 25, which is a decrease of $230.2 million from the FY 25 budgeted balance of $297.8 million. This decrease is due to: (1) expenditure projections exceeding net budgeted appropriations by $215.6 million; and (2) downward revenue adjustments of $14.6 million. **Table 2.3** provides more detail.

The above-described FY 24 expenditure trends generally continue into FY 25 and contribute to expenditure projections outpacing net FY 25 appropriations by $215.6 million.

November consensus revenue reflects a net decrease of $14.6 million from the FY 25 budget, as reflected in **Table 2.3**. The FY 25 adjustments include the continuation of the downward trends identified for FY 24 in the estimates & finals, pass-through entity, and sales and use taxes as discussed above. Positive adjustments in investment income, insurance companies' tax, miscellaneous revenue and the volatility adjustment transfer partially offset those negative adjustments.

Table 2.3 FY 24 and FY 25 Updates to Balance
In Millions of Dollars

Updates	FY 24	FY 25
Budget Balance	399.7	297.8
November Consensus Revenue Adjustments		
Estimates & Finals/Pass-through Entity	(199.6)	(198.8)
Sales and Use	(125.0)	(126.2)
Healthcare Provider	(55.4)	(0.5)
Refunds of Taxes	(100.0)	-
Investment Income	60.0	26.1
Federal Grants	138.5	(6.9)
Volatility Adjustment Transfer	204.7	207.8
All Other Revenue (net)	101.2	83.9
Revenue Adjustments Subtotal	**24.4**	**(14.6)**
Expenditure Adjustments[1]	**(285.4)**	**(215.6)**
BALANCE	**138.7**	**67.6**

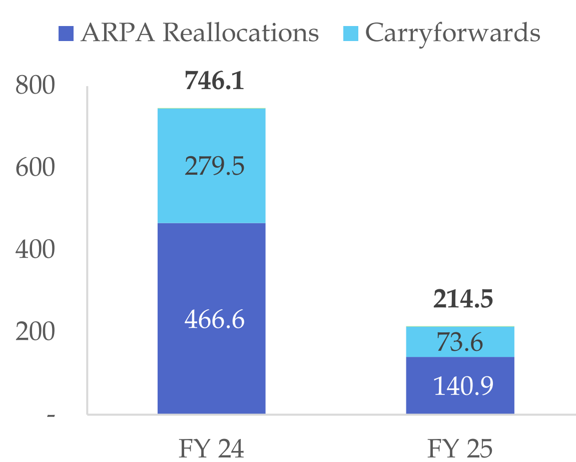
[1]Negative expenditure adjustments are expenditure increases, which have a negative impact on budget balance.

CARRYFORWARD AND ARPA ALLOCATIONS

The FY 24 and FY 25 Budget includes new carryforward and American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds allocations of $746.1 million in FY 24 and $214.5 million in FY 25, for a total of $960.6 million in additional one-time funding over the biennium. **Figure 2.3** shows the breakdown of this allocation by fiscal year.

The most significant use of carryforward and ARPA allocations over the biennium is education: operating support for the constituent units of higher education, and various programs and initiatives within the State Department of Education.

Figure 2.3 FY 24 and FY 25 ARPA and Carryforward Allocations
In Millions of Dollars



For more detail about FY 24 and FY 25 ARPA and carryforward funding, please see the OFA FY 24 and FY 25 budget book.

Total American Rescue Plan Act (ARPA) Allocation

Table 2.4 Complete ARPA Allocations
In Millions of Dollars

Fiscal Year	ARPA Allocations
2022	652.1
2023	1,471.4
2024	544.3
2025	144.5
TOTAL	**2,812.3**

Table 2.4 shows the distribution of the state's total ARPA State and Local Fiscal Recovery Fund award of $2,812.3 million from FY 22 through FY 25. Allocations peaked at $1,471.4 million in FY 23 and have ramped down since then, to $544.3 million in FY 24 and $144.5 million in FY 25. No ARPA funding is allocated beyond FY 25; funds must be spent by December 31, 2026 per federal requirements.

BUDGET RESERVE FUND

The Budget Reserve Fund (BRF) is projected to grow by $361.1 million in FY 24 and $259.7 million in FY 25. In addition, $256.1 million in FY 24 and $259.7 million in FY 25 are expected to be dedicated to reducing long-term debt. **Table 2.5** below shows the projected allocations as well as the BRF balances. For more information about the BRF in the biennium and the out years, please see **Section IV**.

Table 2.5 Projected BRF Balances
In Millions of Dollars

Projected Budget Reserve Fund Adjustments	FY 24	FY 25
Balance Starting Point	**3,315.8**	**3,677.0**
Volatility Deposit	478.5	451.8
Surplus[1]	138.7	67.6
Funds for Allocation Subtotal	**617.2**	**519.4**
Funds Deposited into Budget Reserve Fund	361.1	259.7
Budget Reserve Fund Balance	**3,677.0**	**3,936.7**
Balance Relative to General Fund Net Appropriations	16.1%	16.9%
Funds Dedicated to Reducing Long-Term Debt	**256.1**	**259.7**

[1] The projected surplus reflects the estimates provided in this section.

Section III. General Fund – FY 26 to FY 28 Projections

GENERAL FUND IN BALANCE IN THE OUT YEARS

Positive General Fund balances are projected because revenue growth will outpace fixed cost growth. The report's required methodology does not allow for growth in non-fixed cost expenditures or the consideration of other potential budgetary pressures, such as potential ongoing expenditures previously funded through temporary resources such as American Rescue Plan Act (ARPA) or carryforward funds. Therefore, the out-year balances should not be considered annual surpluses.

Figure 3.1 Revenue and Expenditures
In Millions of Dollars

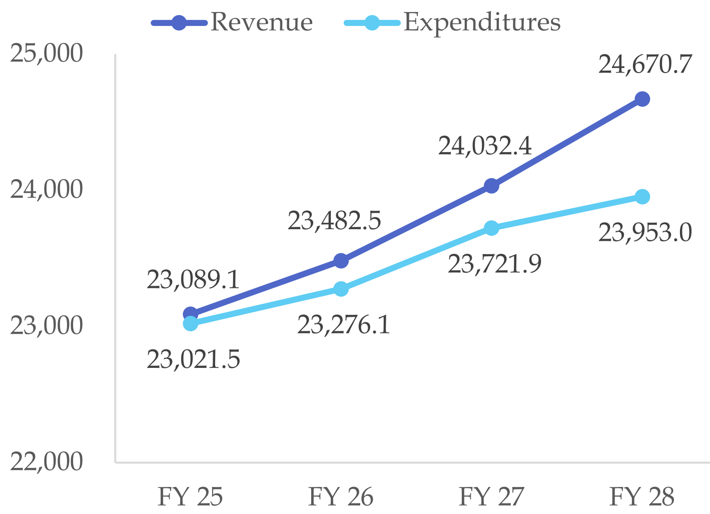


Figure 3.1 presents the FY 25 and out year General Fund projections of revenue and expenditures. FY 26 through FY 28 expenditure figures are adjusted for only changes to fixed costs, maintaining non-fixed costs at FY 25 levels. This statutory methodology results in projected annual positive balances in FY 26 through FY 28.

General Fund revenue will increase by $393.4 million from FY 25 to FY 26 and fixed costs by $254.6 million for the same period. The difference between revenue growth and growth in fixed costs will widen in FY 27 and FY 28, creating larger positive projected balances, for two reasons. First, revenue growth will not be partially offset by future revenue policy changes, since policies mainly will either be nearly or fully phased in. Second, the growth in fixed costs from FY 27 to FY 28 will not be as severe as the change between FY 26 and FY 27, because FY 28 debt service costs are projected to be only slightly greater than FY 27 levels.

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

Fund	FY 25	FY 26	FY 27	FY 28
November Consensus Revenue	23,089.1	23,482.5	24,032.4	24,670.7
Expenditures				
Previous Year Expenditure		23,021.5	23,276.1	23,721.9
Fixed Cost Growth		254.6	445.9	231.1
Non-Fixed Cost Expenditure Reduction		-	-	-
Subtotal - Expenditures	**23,021.5**	**23,276.1**	**23,721.9**	**23,953.0**
BALANCE	**67.6**	**206.4**	**310.5**	**717.7**

Table 3.1 presents General Fund projections for FY 25 through FY 28. The FY 25 estimates account for November 2023 consensus revenue estimates and changes to expenditure estimates based on current FY 24 expenditure trends. Estimates for FY 26 through FY 28 incorporate the November 2023 consensus revenue estimates agreed to between OFA and OPM as well as the fixed cost methodology required by CGS Sec. 2-36b. The annual growth in revenue from FY 26 through FY 28 is sufficient so that no adjustments to non-fixed cost expenditures are necessary to accommodate the annual growth in fixed costs.

FY 26 GENERAL FUND BALANCE

Table 3.2 Projected General Fund Changes from FY 25 to FY 26
In Millions of Dollars

Component	Amount
FY 25 Projected Balance	**67.6**
Components of Change	
Structural Balance	
Revenue Growth	625.2
Fixed Cost Growth	(254.6)
Structural Balance Subtotal	**370.6**
Revenue Policy	(185.2)
Revenue Technical	(46.6)
All FY 26 Changes Subtotal	**138.8**
FY 26 PROJECTED BALANCE	**206.4**

Table 3.2 shows the component pieces that result in an increase in the ending General Fund balance in the first out year, from $67.6 million in FY 25 to $206.4 million in FY 26. The difference in the structural balance components – revenue growth compared to fixed cost growth – yields a positive balance of $370.6 million. However, after accounting for the phase-in of previously enacted revenue policies of -$185.2 million and revenue technical adjustments of -$46.6 million, the total balance change from FY 25 to FY 26 is an improvement of $138.8 million.

REVENUE POLICY AND TECHNICAL ADJUSTMENTS

The net FY 26 revenue policy and technical adjustments decrease the balance of the General Fund by a total of $231.8 million in the fiscal year. **Table 3.3** below highlights the major components of that adjustment, with descriptions of specific items following.

Table 3.3 Major Components of the FY 26 General Fund Revenue Adjustment
In Millions of Dollars

Components	FY 26
Credit FY 24 General Fund revenues to FY 25	(95.0)
Temporary Corporation Business Tax Surcharge Expires	(30.0)
Phase-in and Eliminate "Benefits Cliff" for IRA Exemption	(27.7)
Phase-down Bottle Bill Escheat Revenue	(20.3)
All Other Policy (net)	(12.2)
Total Policy	**(185.2)**
Hospital Tax Adjustment Per the 2019 Settlement	(30.0)
All Other Technical (net)	(16.6)
Total Technical	**(46.6)**
Total Policy + Technical	**(231.8)**

Revenue Policies
Credit FY 24 General Fund revenues to FY 25
A one-time credit of $95 million in surplus FY 24 revenues was transferred into FY 25 in the biennial budget, which will be unavailable to balance future budgets.

Temporary corporation business tax surcharge expires
The FY 24 and FY 25 Budget temporarily extended the 10% corporation business tax surcharge to the 2025 income year, resulting in a $30 million reduction in revenues in FY 26 when the surcharge expires.

Phase-in IRA exemption and eliminate associated "benefits cliff"
Policies to phase-in an exemption and eliminate an associated "benefits cliff" for Individual Retirement Account (IRA) income reduce revenues by $27.7 million in FY 26.

Phase-down bottle bill escheat revenue
Current law phases down the amount of bottle bill escheat revenue retained by the General Fund beginning in FY 24 and continuing through FY 28, depending on average statewide redemption rates. This results in an estimated revenue loss of $20.3 million in FY 26.

Revenue Technical
Hospital tax adjustment per the 2019 settlement
The 2019 hospital tax settlement agreement lowers the total hospital tax due from the industry by $30 million, to $820 million total, beginning in FY 26.[2]

STRUCTURAL BALANCE

Table 3.4 presents the General Fund structural balance projections for the out years, comparing revenue growth to fixed cost growth. The revenue growth shown is prior to considering any previously enacted policy changes that are scheduled to be phased in and technical adjustments (shown in Table 3.3 above). The average annual growth in revenue during this period is $592.8

[2] The hospital settlement agreement is codified under CGS Sec. 12-263q.

million compared to an annual average of $310.5 million for fixed cost expenditures. This results in positive structural balances ranging from $110.9 million to $370.6 million per year.

Table 3.4 General Fund Out Years Structural Balance
In Millions of Dollars

Category	FY 26	FY 27	FY 28	Total	Average Growth	Annualized Growth %
Revenue Growth	625.2	556.8	596.3	1,778.3	592.8	2.5%
Fixed Cost Growth	254.6	445.9	231.1	931.6	310.5	2.5%
BALANCE	**370.6**	**110.9**	**365.2**	**846.7**	**282.2**	

REVENUE GROWTH

Revenue growth in the out years ranges from 2.4% to 2.7% annually based on economic growth. A detailed breakout of growth amounts is included in **Table 3.5**.

Table 3.5 Revenue Growth by Source and Total Change from Prior Year
In Millions of Dollars

Source	FY 26	FY 27	FY 28
Personal Income Tax	470.3	465.7	472.6
Sales Tax	131.1	132.4	138.4
Business Taxes	64.8	54.1	55.3
Other Revenue	15.0	(22.1)	6.0
Refunds	(56.0)	(73.3)	(76.0)
TOTAL GROWTH	**625.2**	**556.8**	**596.3**
PERCENT GROWTH %	**2.7%**	**2.4%**	**2.5%**

FIXED COST EXPENDITURES

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

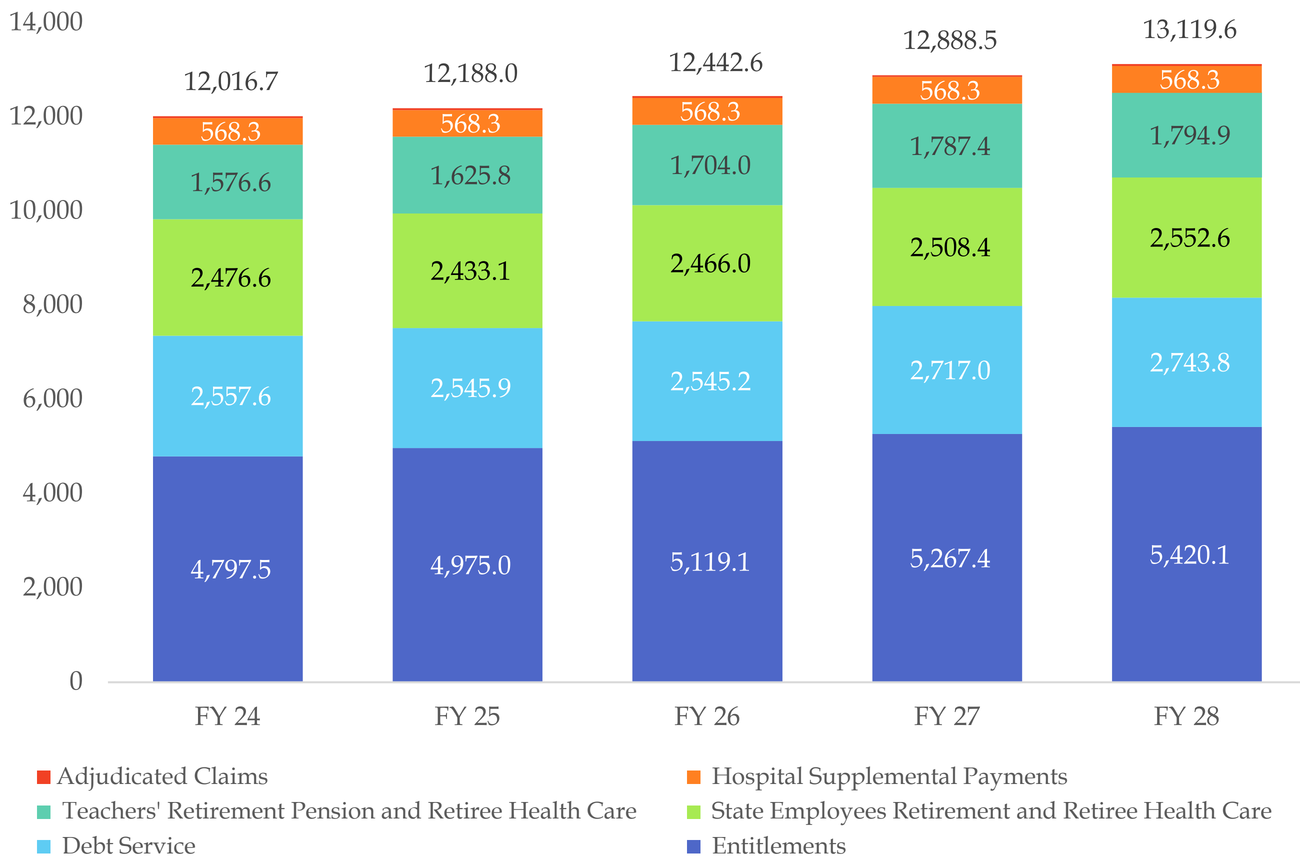
1. Entitlements (e.g., Medicaid and other programs)
2. Debt Service
3. State Employees' Retirement and Retiree Health Care
4. Teachers' Retirement and Retiree Health Care
5. Hospital Supplemental Payments
6. Adjudicated Claims

Figure 3.2 below shows the fixed cost expenditures by category from FY 24 to FY 28. Average annual growth in fixed cost expenditures for this period is 2.3%. Total fixed costs are anticipated to grow from $12.02 billion in FY 24 to $13.12 billion in FY 28. Fixed cost expenditures are 53.7%

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

of General Fund expenditures in FY 24 and this share is projected to remain relatively constant throughout the out years (e.g., 54.8% in FY 28).

Figure 3.2 General Fund Fixed Cost Expenditure Projections
In Millions of Dollars



Of the fixed cost categories, Teachers' Retirement Pension and Retiree Health Care has the highest annualized out year growth at 3.6%. This increase is attributed to the pension system's phase-in to a level dollar amortization method from a level of percentage funding method. Entitlements, including Medicaid, represent the second highest growth rate at 2.9%. See **Appendix D** for details on the major fixed cost categories.

The projected annualized fixed cost growth of 2.5% between FY 25 and FY 28 reflects net growth of $254.6 million from FY 25 to FY 26, $445.9 million from FY 26 to FY 27, and $231.1 million from FY 27 to FY 28. **Table 3.6** shows the annual fixed cost changes in the out years by expenditure category and year.

Table 3.6 General Fund Out Years Fixed Costs – Change from Prior Year
In Millions of Dollars

Category	FY 26	FY 27	FY 28
Entitlements	144.1	148.3	152.7
Debt Service	(0.7)	171.8	26.7
State Employee Pension & Retiree Health Care	33.0	42.4	44.2
Teachers' Retirement & Retiree Health Care	78.2	83.4	7.5
Hospitals	-	-	-
Adjudicated Claims	-	-	-
TOTAL	**254.6**	**445.9**	**231.1**

Additional Deposits to Pension Systems

Historic deposits from an accumulated excess in the BRF to the assets of both the State Employees Retirement System (SERS) and the Teachers' Retirement System (TRS) continue to result in reductions to the state's actuarially determined employer contribution (ADEC). In 2023, $1.87 billion in deposits ($1.05 billion to SERS and $823.9 million to TRS) are being used to lower the systems' respective unfunded accrued liabilities (UAL).

Additional deposits[4] to the pension systems of $256.1 million are projected after the close of FY 24. The deposits and resulting estimated marginal reductions to the state's ADEC for SERS and TRS are shown in **Tables 3.7** and **3.8.** It must be noted that many variables have a significant impact on a system's ADEC determination, including the amount available for additional deposits, the investment return, and cost-of-living adjustment assumptions. Similarly, distribution of additional deposits between SERS and TRS can affect those funds' unfunded liability and ADEC appropriations.

The marginal ADEC reductions from the 2023 deposits are $160.2 million in FY 25. These reductions continue through the 25-year amortization period. A projected deposit of $256.1 million in FY 24 further reduces the ADEC by an additional $21.8 million in FY 26, totaling a projected ADEC reduction of $182.1 million across all funds in FY 26. Any future BRF transfers (e.g., in 2025 and 2026) would result in further ADEC reductions. Appendix D provides further details on the impact of the additional deposits for each system.

Table 3.7 Additional Deposits to Pensions
In Millions of Dollars

Deposit Year	SERS	TRS	Total
2023	1,046.5	823.9	1,870.5
Est. 2024	128.0	128.0	256.1
TOTAL	**1,174.6**	**952.0**	**2,126.5**

Source: Cavanaugh Macdonald Consulting, OFA estimates

Table 3.8 Est. Marginal ADEC Reductions
In Millions of Dollars

Fiscal Year	SERS	TRS	Total
FY 25	86.9	73.4	160.2
FY 26	10.6	11.2	21.8
TOTAL	**97.5**	**84.6**	**182.1**

[4] PA 23-1 modified the Budget Reserve Fund cap, which is discussed in Section IV.

Section IV. Budget Reserve Fund

The Budget Reserve Fund (BRF) is projected to grow each year from FY 24 to FY 28, reaching the statutory cap of 18% (relative to General Fund net appropriations) in FY 27 and FY 28.

Table 4.1 below shows what the balance of the BRF would be in the out years based on the following assumptions:

1. No surplus or deficit is estimated in FY 26 to FY 28 for illustrative purposes under the assumption a balanced budget will be adopted in those years;
2. Volatility cap transfers from November consensus revenue estimates;
3. FY 25 surplus estimate as described in Section II; and
4. Appropriations growth in FY 26 to FY 28 equal to the estimated fixed cost increases in those years, resulting in an increased BRF cap.

Table 4.1 Projected BRF Balances
In Millions of Dollars

Projected Budget Reserve Fund Adjustments	FY 24	FY 25	FY 26	FY 27	FY 28
Balance Starting Point	**3,315.8**	**3,677.0**	**3,936.7**	**4,165.9**	**4,311.5**
Volatility Deposit	478.5	451.8	458.4	470.2	495.2
Surplus[1]	138.7	67.6	-	-	-
Funds for Allocation Subtotal	**617.2**	**519.4**	**458.4**	**470.2**	**495.2**
Funds Deposited into Budget Reserve Fund	361.1	259.7	229.2	145.7	42.0
Budget Reserve Fund Balance	**3,677.0**	**3,936.7**	**4,165.9**	**4,311.5**	**4,353.5**
Balance Relative to General Fund Net Appropriations	16.1%	16.9%	17.6%	18.0%	18.0%
Funds Dedicated to Reducing Long-Term Debt	**256.1**	**259.7**	**229.2**	**324.5**	**453.2**

[1]Note that projected surplus in FY 24 reflects the estimates provided in Section II. There is no surplus or deficit assumed from FY 26 to FY 28 due to the lack of a budget in place.

BUDGET RESERVE FUND CAP CALCULATION

After the close of the fiscal year, the General Fund operating surplus and revenue exceeding the volatility cap are deposited into the Budget Reserve Fund or dedicated to Reducing Long-Term Debt (with the State Treasurer determining the division of funds between the state employees' and teachers' retirement systems). The distribution is prescribed by the BRF cap, based on the BRF balance relative to GF net appropriations, as described below.

1. **Below 15%:** The BRF retains all funds until the fund balance has reached 15% of General Fund appropriations.
2. **Between 15% and 18%:** If the BRF is between 15% and 18% of General Fund appropriations, then an equal (50/50) distribution of funds exceeding the 15% threshold is made to the BRF and to reduce long-term debts.
3. **Above 18%:** Any funds exceeding the 18% threshold are used to reduce long-term debts.

Section V. Special Transportation Fund

The outlook for the Special Transportation Fund (STF) is mixed. Entering the biennium, the STF had a cumulative balance of $681.7 million, which is the highest level for the fund in its history. The balance is expected to grow to approximately $1 billion by the end of FY 26, but then to decline slightly in both FY 27 and FY 28 due to expected deficits in those years, resulting in a balance of $916.3 million at the end of FY 28 (see **Table 5.1** below). While this is a sizable overall balance, there is a longer-term trend of fixed cost growth exceeding revenue growth. This disparity is discussed further below.

Table 5.1 STF Projections
In Millions of Dollars

Components	FY 24	FY 25	FY 26	FY 27	FY 28
Expenditures[1]					
Debt Service	867.8	937.3	997.3	1,083.0	1,159.9
Other	1,251.1	1,342.9	1,342.8	1,343.5	1,344.4
TOTAL	**2,118.9**	**2,280.2**	**2,340.1**	**2,426.5**	**2,504.3**
Revenue					
Sales and Use Tax[2]	860.2	883.2	906.1	929.6	953.6
Fuel Taxes[3]	882.6	887.5	872.7	873.7	877.9
Other	598.3	595.1	598.1	593.7	592.2
TOTAL	**2,341.1**	**2,365.8**	**2,376.9**	**2,397.0**	**2,423.7**
Operating Balance					
Surplus/ (Deficit)	222.2	85.6	36.8	(29.5)	(80.5)
Year End Cumulative Balance	**904.0**	**989.6**	**1,026.4**	**996.8**	**916.3**
Debt Service Ratio	2.7	2.5	2.4	2.2	2.1

[1] Expenditures follow the fixed cost methodology which only allows for growth on necessary "fixed cost drivers" such as debt service and pension contributions. Historically, however, expenses have grown in other areas for a variety of reasons including rising costs for materials and supplies, new services on the state's public transportation network, and changing operational requirements.
[2] Excludes sales tax on non-dealer transactions (casual sales), which are collected by the Department of Motor Vehicles and included in the "Other" category above.
[3] Includes Motor Fuels taxes (gasoline and diesel) and the petroleum products gross earnings tax, which is primarily derived from gasoline.

EXPENDITURE HIGHLIGHTS

In FY 24, STF expenditures are projected to be $29.5 million less than budgeted as shown in **Table 5.2**. These projected lapses will fully satisfy the budgeted bottom-line lapse target of $12 million for the STF.

Table 5.2 FY 24 STF November Estimates
In Millions of Dollars

FY 24 Summary	FY 24 Budget	Nov. Update	Change
Expenditures	2,148.4	2,118.9	(29.5)
Revenues	2,352.6	2,341.1	(11.5)
SURPLUS	**204.2**	**222.2**	**18.0**

Debt Service
Savings of $19.7 million is anticipated in FY 24 (inclusive of the $12 million budgeted lapse) due to positive results in the FY 23 transportation bond issuance and a reduction of the FY 24 transportation issuance (from the planned $1 billion to $875 million), along with market changes and the refinancing of over $300 million of previously issued transportation bonds.

Personal Services in DOT and DMV
Total savings of $20 million is projected in the Personal Services accounts for the Departments of Transportation (DOT) and Motor Vehicles (DMV) due to delays in the hiring process. Currently, there are approximately 436 vacant positions at DOT and 200 at DMV. While this reflects a decrease in vacancies (i.e., more people are on-board) for both agencies compared to the same time last year, DOT and DMV have consistently under-spent the budgeted appropriations for Personal Services in recent years and are expected to do so again. These estimates will fluctuate depending on the pace of hiring and on DOT's winter weather response, which is dependent on the severity and volume of storms.

REVENUE HIGHLIGHTS

In FY 24, STF revenues are projected to be $11.5 million less than budgeted. This includes a downward adjustment of $25 million for the Highway Use Tax (HUT) to reflect lower than expected collections. As HUT is still in its relative infancy, its long-term outlook and growth rates are less certain at this point compared to more established tax streams. The downward adjustment for HUT is partly offset by higher than expected collections for motor vehicle registration and related fees as well as for interest income.

In FY 25, STF revenues are projected to be $11.3 million more than budgeted. Many of the FY 24 revenue trends discussed above are expected to continue. However, oil prices are no longer anticipated to drop as rapidly as previously thought, resulting in an upward adjustment to the petroleum products gross earnings tax of $23.6 million in FY 25.

Growth Disparities
Despite near term surpluses and a strong cumulative reserve, over the long run debt service costs within the STF are expected to grow at a higher rate than revenues. From FY 24 through FY 28, the compound annual growth rate (CAGR) for debt service is projected at 7.5% compared to expected revenue growth of 0.9% (see **Table 5.3** below).

Revenue growth is almost entirely driven by sales tax, which has become an increasingly important revenue source since it was first introduced to the STF in FY 16. Conversely, fuel tax growth is projected to be negative through FY 28 as vehicles become more fuel efficient and oil prices fall from recent highs. Furthermore, the state is pursuing longer term goals that are expected to reduce fuel tax collections, including various strategies to increase the adoption of electric vehicles and to reduce vehicle miles traveled.

Debt service growth is heavily dependent on assumptions for future bond issuances, which have historically been adjusted in response to available revenues. Reducing future issuances from the current projections shown below would decrease debt service needs and the resultant growth rate, and may lower or eliminate projected operating deficits. However, given current outstanding debt from prior bond issuances, it is unlikely that debt service growth can be limited to match revenue growth.

Table 5.3 Select STF Projected Growth Rates

Growth Rates*	FY 25	FY 26	FY 27	FY 28	FY 25-FY 28 CAGR
Debt Service	**8.0%**	**6.4%**	**8.6%**	**7.1%**	**7.5%**
Revenue (Total)	**1.1%**	**0.5%**	**0.8%**	**1.1%**	**0.9%**
Sales and Use Tax	2.7%	2.6%	2.6%	2.6%	2.6%
All Other Revenue	0.1%	(0.8%)	(0.2%)	0.2%	(0.2%)

*Annual growth from prior year is shown, except for the annualized FY 25 - FY 28 rate.

Transportation Bonding

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

Table 5.4 Estimates of STO Bond Fund Use
In Millions of Dollars

FY	Debt Service	Authorization	Allocation	Issuance
24	867.8	1,558	1,600	875
25	937.3	1,531	1,500	1,000
26	997.3	1,100	1,100	1,100
27	1,083.0	1,100	1,100	1,100
28	1,159.9	1,100	1,100	1,100

A bond package for the current biennium was adopted in June 2023 (PA 23-205), which authorized $1,558 million of new STO bonds in FY 24 and $1,531 million in FY 25. Within these amounts are $836 million over the biennium for the federal Northeast Corridor Modernization Match Program. This one-time spike in authorizations represents the expected state match for the entire program. Actual spending and related debt service will be spread out over decades, given the long-term nature of the projects and the maturities of the bonds used to finance the program.

Debt Service Ratio

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 2.7 for FY 24 to 2.1 for FY 28. 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 level of issuance after FY 24 can be adjusted from current projections for several reasons, including as a response to long-term debt service ratio decline, the availability of increased federal funds, and the cash flow needs of the STF.

Section VI. General Obligation Bonding

Bonding is a financing mechanism in which long-term borrowing is used to pay for capital projects and/or other programs not funded by appropriations. Statute requires OFA to project bond authorizations, allocations and issuances, along with their impact on debt service, for future years. Projections for General Obligation (GO) bonds are provided in **Table 6.1.** This section discusses bond use and financing. It also describes PA 23-1, which made several adjustments to bonding limits and caps, as well as locked in the revised limitations through FY 33 (with an opt-out ability in FY 28) through the use of a new bond covenant.

Table 6.1 Estimates of GO Bond Use
In Millions of Dollars

Year	Debt Service	Authorizations	Allocations	Issuances
FY 24	2,558	2,587*	2,000	1,840
FY 25	2,546	2,450*	2,100	1,800
FY 26	2,545	2,497	2,205	1,600
FY 27	2,717	2,444	2,315	1,652
FY 28	2,744	2,435	2,431	1,600

*Current net effective authorizations for FY 24 and FY 25

BOND USE PROJECTIONS

The GO projections are based on the following assumptions:

- Authorizations include current net effective authorizations for FY 24 and FY 25 (primarily in PA 23-205) and $2.2 billion of new authorizations annually beginning in FY 26, along with existing authorizations becoming effective in those years.
- Allocations assume $2 billion in FY 24 ($541 million allocated to date), and an approximately 5% increase annually thereafter.
- Issuances are based on a $1.6 billion issuance target for GO bonds, plus issuances for the UConn 2000 program.
- Debt service is based on outstanding debt and new borrowing at market rates.

BOND PROCESS

Using bond funds for capital projects and/or programs involves several steps overseen by the legislature, State Bond Commission, Governor, and State Treasurer. **Figure 6.1**, below, provides an overview of the process, a description of how and if bond 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**.

Bond Use

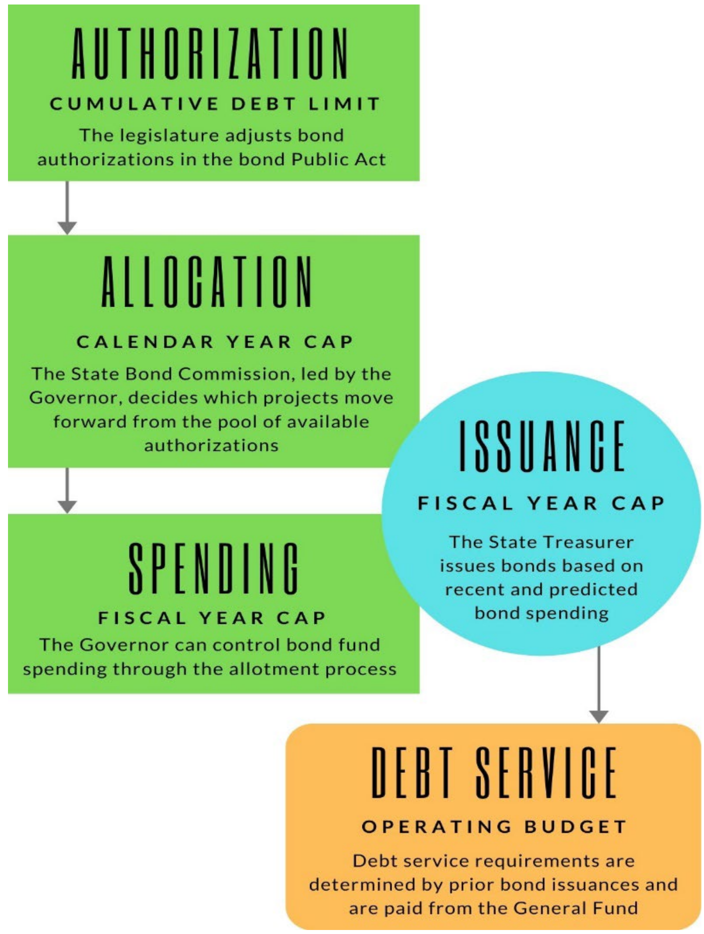
Authorizations

Bond authorizations are restricted by the state's statutory debt limit, which is determined by the ratio of General Fund (GF)-supported debt to net GF tax revenues. Additional capacity for new bond authorizations is typically created through a combination of paying off existing debt and revenue increases over time.

Statutory debt limit calculations are locked under a bond covenant through FY 33. PA 23-1 added several exemptions to what debt is counted towards the debt limit and specified the process of establishing further exemptions while the covenant is active.

Exceeding the Debt Limit and the 90% Threshold
While remaining within 100% of the debt limit is necessary for the state to issue bonds, the 90% threshold of the limit has long been the determining factor for new legislative bond authorizations. 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, making it impractical to adopt a bill that would place the state above the 90% threshold.

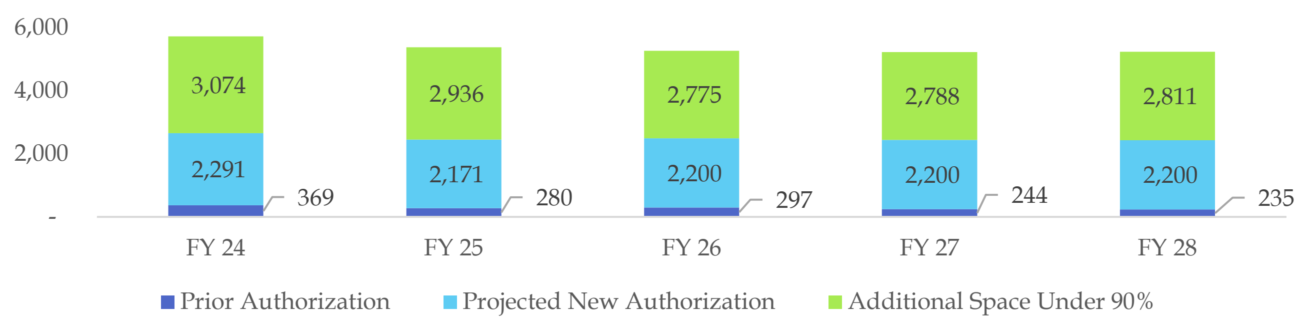
Figure 6.1 General Obligation Bond Process



Bonding Capacity
The projected authorizations for FY 26 through FY 28 assume $2.2 billion of new authorizations added to prior authorizations under current law becoming effective in those years. Based on November consensus revenues, the state is projected to remain at least $2.7 billion under the 90% threshold of the debt limit (below 82% of the limit in all years), as shown in **Figure 6.2**.

Because the debt limit is cumulative, changes to authorized debt levels in any year impact future capacity for new authorizations. If the state authorizes additional debt in the biennium, the capacity for new authorizations in FY 26 and beyond would decrease. 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.

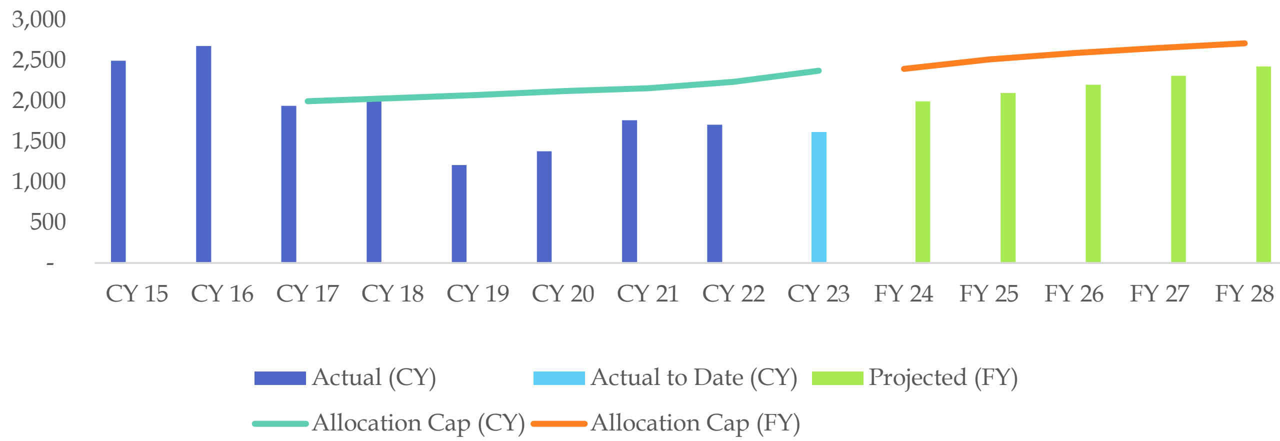
Figure 6.2 Projected Bond Authorizations and Remaining Authorization Space Under 90% Threshold
In Millions of Dollars



Allocations

Allocations are limited to $2.4 billion in FY 24. PA 23-1 modified the allocation cap from calendar year to fiscal year beginning in FY 24. As shown in **Figure 6.3**, historical allocation amounts are presented on a calendar basis, given the calendar year cap in place from CY 17 to CY 23. Statutorily required projections of future allocations are shown on a fiscal year basis to align with the cap going forward.[5]

Figure 6.3 GO Bond Allocations and Cap by Year
In Millions of Dollars



Allocations peaked in CY 16 at just under $2.7 billion, before dropping below the newly implemented cap of $2 billion in CY 17. More recently, allocations increased from the low of $1.2 billion in CY 19 to over $1.7 billion in each of CY 21 and CY 22. However, when viewed on a fiscal year basis, recent yearly GO allocations were $2.1 billion in FY 22 and $2 billion in FY 23.

Projected allocations starting in FY 24 are based on recent average annual allocations, assuming a roughly 5% increase annually thereafter. Given historical trends, actual allocations could be substantially lower than these figures, but are expected to be well below the cap, which is anticipated to exceed $2.7 billion in FY 28.[6]

Bond Spending

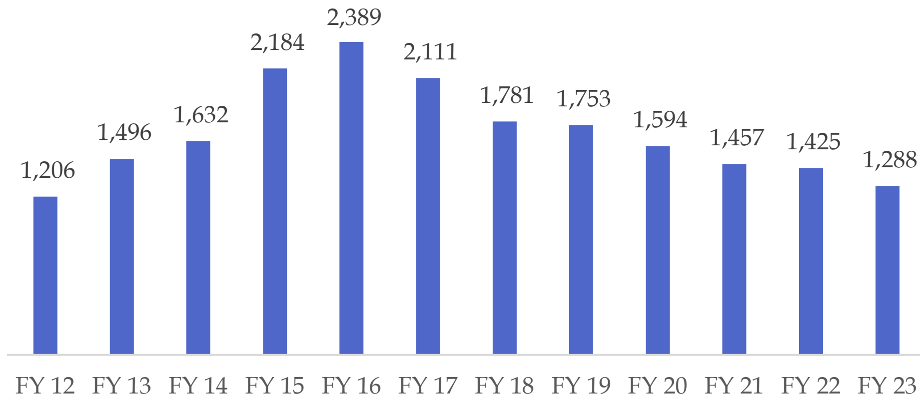
Bond fund expenditures tend to lag allocations for several reasons. The long-term nature of capital projects often leads to predetermined payment schedules, with a portion of payments required at the beginning of a project and the balance paid months or years later upon project completion. Similarly,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

[5] CGS Sec. 3-20

[6] Statute requires inflation adjustment for the allocation and issuance caps by the Bureau of Labor Statistics' Consumer Price Index, less Food and Energy after FY 24. The FY 25 – FY 28 allocation and issuance caps are based on projected inflation from 2.1 to 3.2% annually.

GO bond spending on projects increased from $1.2 billion in FY 12 to $2.4 billion in FY 16, as shown in **Figure 6.4**.[7] Spending has been on a downward trend since the FY 16 peak. Given the trends in allocations discussed above, it is anticipated that GO bond spending will begin to increase going forward.

Figure 6.4 GO Bond Project Spending by FY
In Millions of Dollars



After the allocation phase, bond spending continues to be controlled by the Governor's allotment authority. PA 23-1 eliminated the former allotment cap and replaced it with a similar requirement that the Governor must keep bond spending at or below the level necessary for bond issuances to remain within the issuance cap, as described below.

Bond Financing

Issuance

Bonds are issued by the State Treasurer based on expected need and past programmatic spending rates, not immediately when allocated. As bond fund spending has declined in recent years, issuances have remained relatively low and well below the annual cap. PA 23-1 aligned the issuance cap with the adjusted allocation cap (i.e., a limit of $2.4 billion of new GO bond issuances in FY 24, adjusted for inflation beginning in FY 25).

Since the former issuance cap was instituted in FY 19 (starting at $1.9 billion), annual GO bond issuances have averaged $1.3 billion annually, exclusive of issuances for the UConn 2000 program.[8] GO bond issuances were limited to $1.1 billion in FY 23. If bond spending levels continue the downward trend or remain at current levels, GO issuances could continue to be less than the projected $1.6 billion in FY 24 or later years. Lower than projected issuances would lead to lower debt service payments.

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 may vary with changes in the bond market and changes to Connecticut's creditworthiness. More detail on the debt service payment projections is provided in **Appendix D**.

[7] 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.

[8] GO bond issuance projections in Table 6.1 are inclusive of typical GO bonds and those issued separately for the UConn 2000 program. UConn 2000 bonds are exempt from the issuance cap.

Section VII. Economic Trends

The Connecticut economy has greatly improved since the pandemic, though at a moderating pace in 2023. The labor market remains strong overall, but not in all industries. Wage growth continues to be strong but is starting to trend slightly downward. Population changes may negatively impact the labor market in the long run. Inflation has diminished year over year but remains elevated above the Federal Reserve's preferred level of 2%. Retail sales have come back to pre-pandemic growth levels overall. The housing market remains tight, with housing prices at an all-time high due to low inventory and in spite of rising mortgage rates.

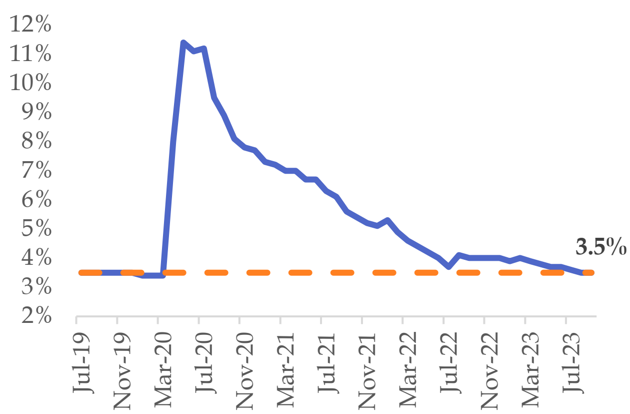
LABOR MARKET

Unemployment and Labor Force Participation

The total unemployment rate for Connecticut has decreased to 3.5% in September 2023 and is at the same general level as the second half of 2019, as noted in **Figure 7.1**. Connecticut's labor force participation rate (the share of the civilian population either working or looking for work) is comparatively in line with its neighboring states and above the U.S. rate, as shown in **Figure 7.2**. This is due to Connecticut's relatively strong concentration of working age residents. Nearly 60% of the population is aged 20 to 64 as of 2022.[9]

However, the 45 to 64 age group has been declining every year as the large baby boomer cohort moves into retirement and the smaller "Gen X" cohort takes their place. This transition creates a long-term risk to the strength of the state's labor force. (See "Population" below for further discussion of demographic trends.)

Figure 7.1 Connecticut Unemployment Rate (Seasonally Adjusted)



Source: CT Department of Labor (DOL)

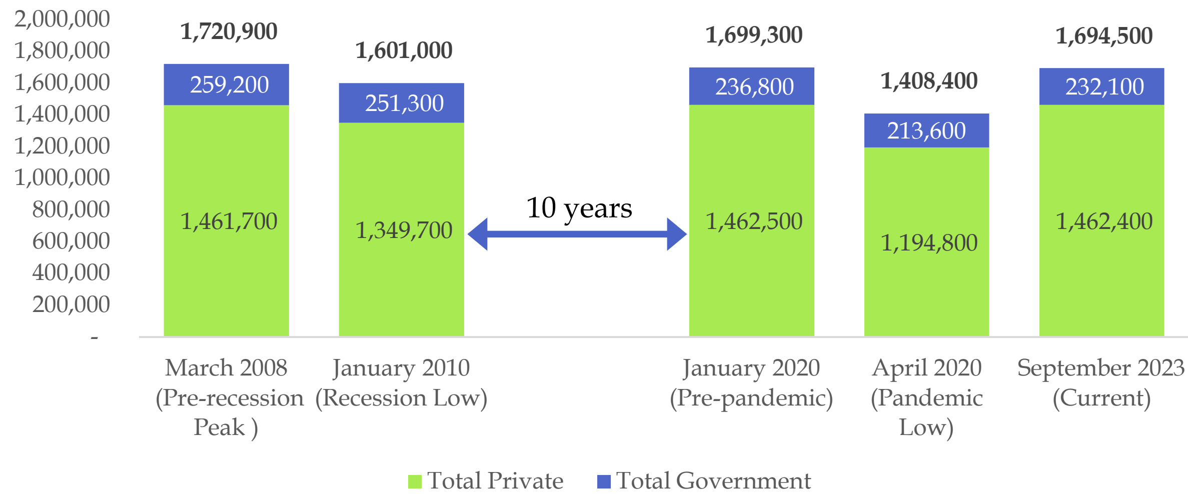
Figure 7.2 Connecticut Labor Force Participation Rate (Seasonally Adjusted)

Source: US Bureau of Labor Statistics as retrieved from FRED, Federal Reserve Bank of St. Louis

[9] Source: Moody's Analytics Forecast, U.S. Census Bureau; OFA calculations

Employment by Industry
Connecticut's total non-farm employment levels have improved from pandemic-induced reductions. Private sector employment has recovered in total from the pandemic low point. However, total levels remain below the peak experienced prior to the Great Recession. Government employment levels in particular remain below 2008 levels.[10] **Figure 7.3** provides a graphical historical comparison of employment levels since the last peak before the Great Recession.

Figure 7.3 Connecticut Employment Levels Historical Comparison (Seasonally Adjusted)

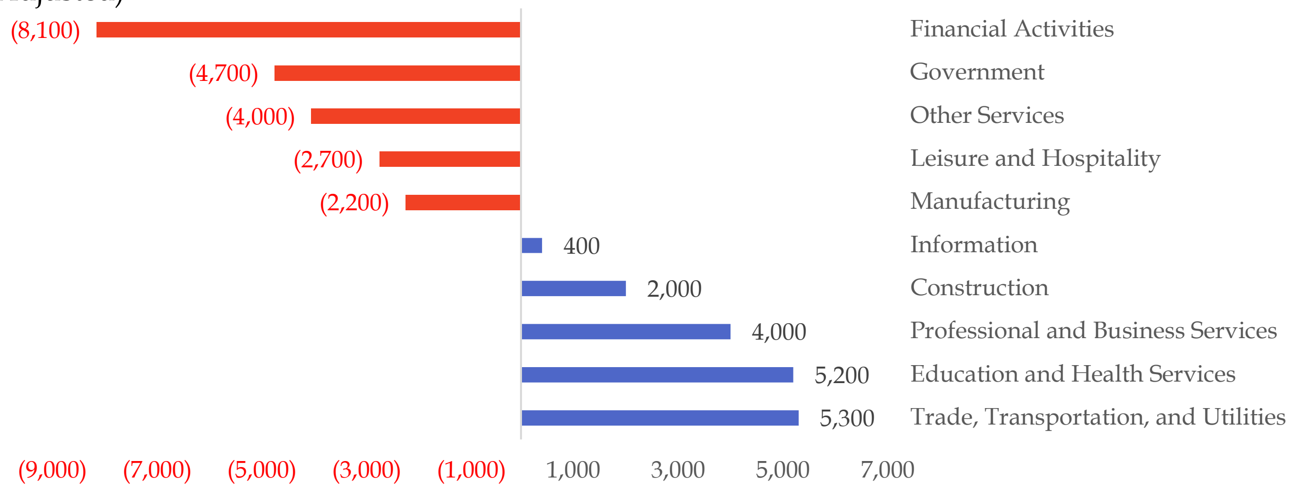


Source: CT DOL Current Employment Survey

When comparing employment levels from January 2020 to September 2023 (the latest available from the CT Department of Labor's Current Employment Survey), there is a total net loss of 4,800 jobs. **Figure 7.4** below shows which industries are still lagging post-pandemic and which have fully recovered jobs to pre-pandemic levels.

[10] Per DOL, Connecticut's Government supersector encompasses all civilian federal, state, local, and tribal government employment, including public education and Native American casino jobs located on federally recognized tribal reservations.

Figure 7.4 Employment Changes by Industry, January 2020 to September 2023 (Seasonally Adjusted)



Source: CT DOL Current Employment Survey; OFA calculations

Wage Growth

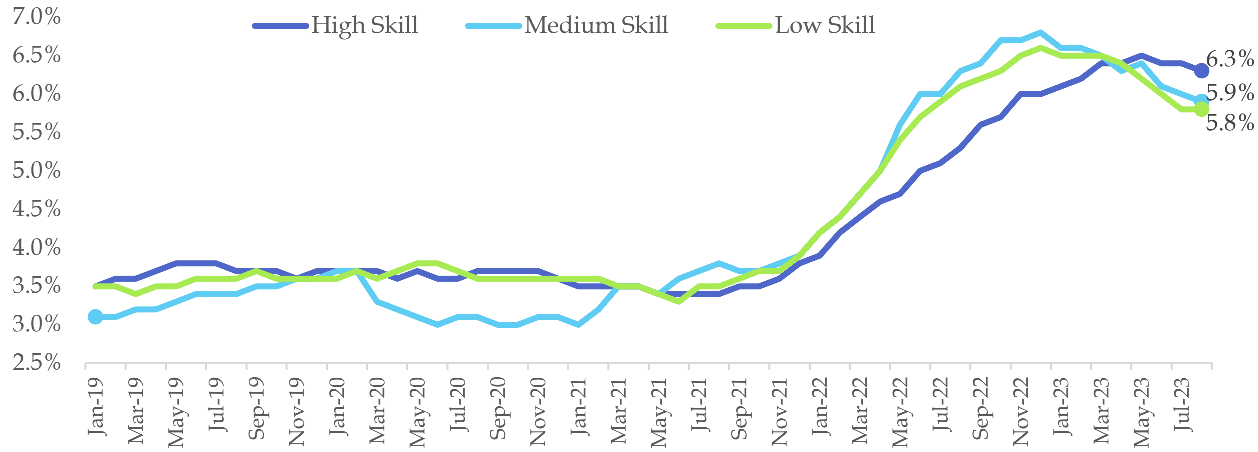
Wage growth in Connecticut and nationally is moderating this year compared to 2022. Average hourly earnings for Connecticut private employees were up 2.8% year-over-year in September 2023 to $36 per hour, with employees in service-providing industries experiencing 3.3% growth in hourly earnings on average.[11] This is a slowdown in wage growth from last September, when average hourly earnings for Connecticut private employees grew 4% year-over-year and 4.7% year-over-year for service providing workers.

Figure 7.5 shows national trends in wage growth for "high skill," "medium skill," and "low skill" workers.[12] All three ranges are exhibiting a moderation in wage growth in recent months. The trend remains above historical growth rates experienced between 2010 and 2020, which ranged between 1% and 4%.

[11] CT Department of Labor, Current Employment Statistics

[12] High skill examples include managers, professionals, and technicians. Medium skill include office administration production, transportation, installation, construction, and sales. Low skill include food preparation and serving, cleaning, individual care services, and protective services.

Figure 7.5 U.S. Median Year-over-Year Wage Growth by Occupation



Source: Current Population Survey: Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations, as retrieved from FRED, Federal Reserve Bank of St. Louis

POPULATION

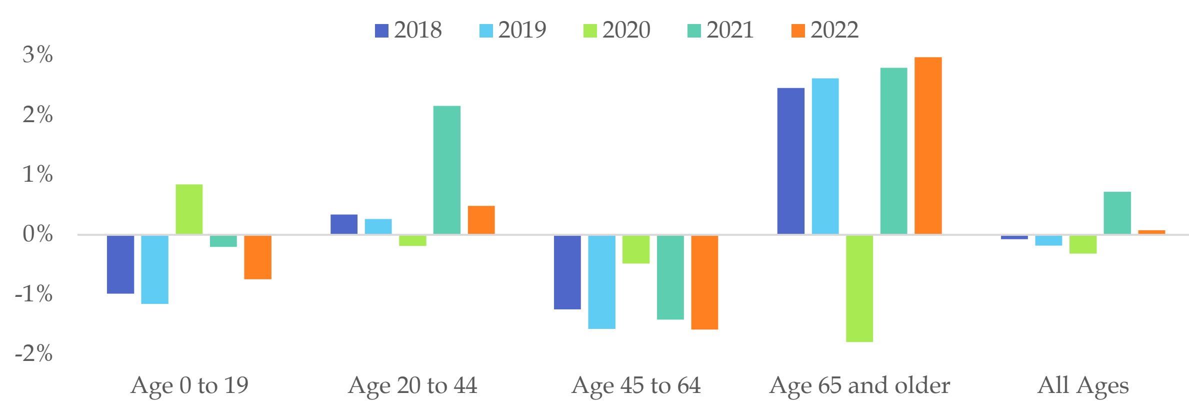
Connecticut benefited from increased in-migration from urban centers like New York City during the pandemic. However, according to Moody's Analytics, net migration losses have resumed, though at a slower pace than prior to the pandemic.[13]

As for age specific trends:

- Connecticut's population over 65 is rising faster than all age groups since 2018,
- the age 45 to 64 group has fallen every year since 2018, and
- the age 20 to 44 group is growing but at a relatively moderate pace.

The state's median age of 41 is nearly three years older than the national median age.[14] **Figure 7.6** shows the breakout of annual growth by these age cohorts since 2018.

Figure 7.6 Connecticut's Annual Population Growth by Age Cohort



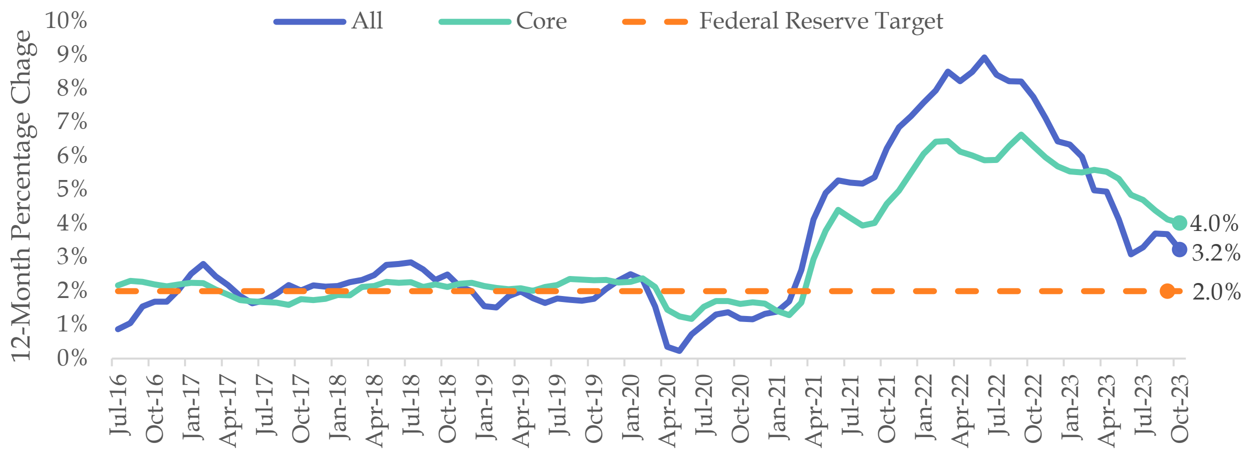
Source: Moody's Analytics Forecast, U.S. Census Bureau; OFA calculations

[13] Moody's Analytics, based on sample data of address changes from Equifax
[14] U.S. Census Bureau; Moody's Analytics

INFLATION

Inflation, as measured by the Consumer Price Index (CPI), has decelerated from its peak in 2022 to 3.2% in October over the prior year, but remains elevated above the Federal Reserve's target of 2%, as shown in **Figure 7.7**. Core CPI, which excludes the volatile prices of food and fuel, grew 4.0% in October over the prior year.[15]

Figure 7.7 Consumer Price Indices for All Urban Consumers: Percent Change Year-Over-Year



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, and Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average, both seasonally adjusted, as retrieved from FRED, Federal Reserve Bank of St. Louis

To counteract steep inflation, the Federal Reserve began raising the federal funds target interest rate in March 2022 to tamp down demand. Though inflation has decelerated from its peak, the Federal Reserve reiterated at the November 1st meeting that inflation remains too high. Current consensus among economists is that the Federal Reserve will not raise rates further this year in order to allow further assessment of the impact of the previous rate hikes, although further increases remain a possibility.

Since the bank's interest rate increases have an indirect and delayed impact on most prices in the economy, the Federal Reserve has a difficult task in calibrating the optimal amount of monetary tightening. Historically, a ramp up of interest rates by the Federal Reserve has resulted in a downturn of the economy. It is too soon to tell if that will be the case this time, but thus far no downturn has been experienced.

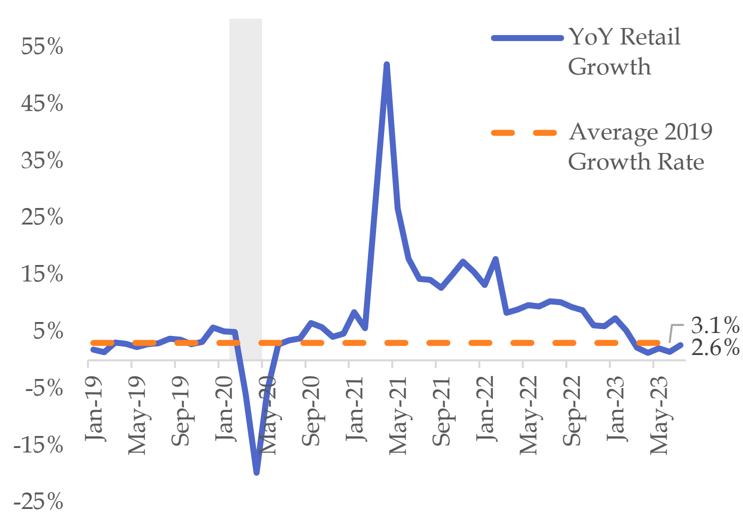
[15] The Consumer Price Index (CPI) is one measure of the average change in the prices paid by urban consumers for a consistent basket of consumer goods and services. The "Core" series is for the basket of goods and services excluding food and energy, which have greater price volatility. The 12-month percentage change in the CPI is one frequently used "inflation rate."

RETAIL SALES

In 2023, total U.S. retail sales growth has moderated from the robust levels of the past two years. It is now closer to the historic annual growth rate, approximately 3%, as experienced prior to the pandemic and highlighted in **Figure 7.8.**

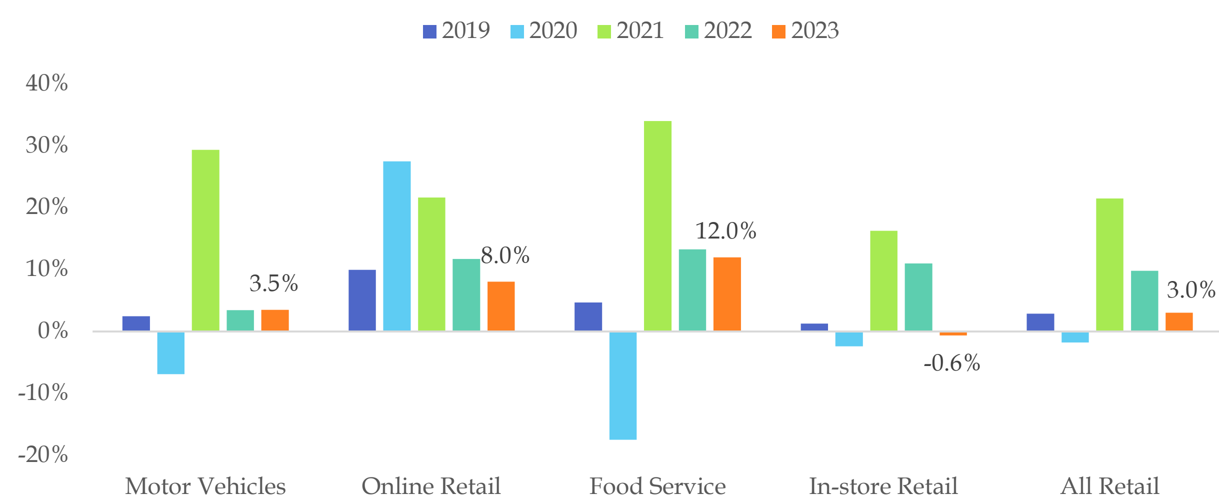
Looking at subsections of retail sales in **Figure 7.9**, motor vehicles sales have steadied to a growth rate of 3.5% in 2023 over the prior year (January to August comparison). Online retail sales continue to show strength at 8% growth, to the detriment of in-store sales, which have slumped to -0.6% growth in 2023. Food services continues to show strong growth at 12% in 2023, indicating a continuing shift of consumer purchases from goods to services and experiences.

Figure 7.8 Total U.S. Retail Sales: Growth over Prior Year



Source: U.S. Census Bureau, Moody's forecast; OFA calculations

Figure 7.9 U.S. Monthly Retail Sales Year-Over-Year Growth Comparison (January – August period)

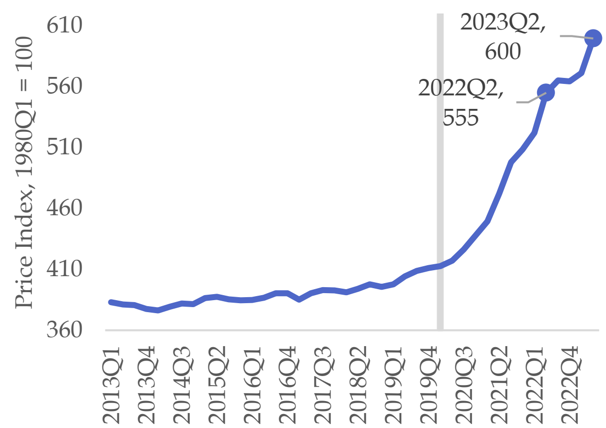


Source: U.S. Census; OFA calculations

HOUSING

Connecticut housing costs continue to rise. While some regions of the country are beginning to see home prices decline, the latest Connecticut data (2023 Q2) show home prices still rising as depicted in **Figure 7.10**. Mortgage rates are nearly 8% on average, which is the highest level since 2000.[16] However, Connecticut home prices remain elevated due to a continuing lack of available inventory. The number of active listings in Connecticut continues to trend downward, with 24% fewer active listings in September 2023 than a year earlier.[17]

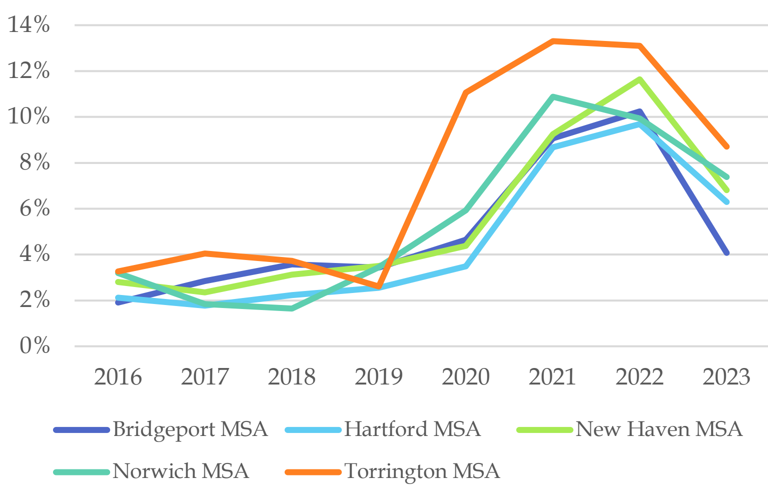
Figure 7.10 All-Transactions Single-Family House Price Index for Connecticut



Source: U.S. Federal Housing Finance Agency as retrieved from FRED, Federal Reserve Bank of St. Louis

The rental market sees positive but moderating growth in pricing (i.e., rents). **Figure 7.11** presents the Zillow Observed Rent Index (ZORI) annual growth for list rental prices in each of the state's metropolitan statistical areas (MSAs): Bridgeport, Hartford, New Haven, Norwich, and Torrington.[18] For all MSAs, average annual rent growth has decelerated from the post-pandemic peak but remains elevated above pre-pandemic rates. **Table 7.1** provides the ZORI list price for rent in each MSA for September 2023.

Figure 7.11 List Rental Price Average Annual Growth per Connecticut MSA



Sources: Zillow.com; OFA calculations

Table 7.1 List Rental Price by MSA (Seasonally Adjusted)
In Dollars

Area	Sept. 2023
Bridgeport MSA	2,761
Hartford MSA	1,798
New Haven MSA	1,937
Norwich MSA	1,773
Torrington MSA	2,012

[16] Freddie Mac data, as retrieved from FRED, Federal Reserve Bank of St. Louis
[17] Realtor.com, Housing Inventory: Active Listing Count in Connecticut
[18] The Zillow Observed Rent Index (ZORI) is a repeat-rent index that measures changes in list price for rents over time using proprietary data from rental listings on its website and data from the U.S. Census Bureau. This index focuses on new leases, not renewed leases.

Section VIII. Tax Expenditure Estimates

State law permits various tax expenditures in the form of exemptions, credits, and deductions which total an estimated $9.1 billion in FY 24. This amount is equal to approximately 37% of total projected FY 24 revenues of the General and Special Transportation funds. The majority of tax expenditures are in sales and use tax and motor fuels tax (approximately 56% and 24%, respectively). The table below reflects OFA's estimated total tax expenditures for FY 24 through FY 28.[19]

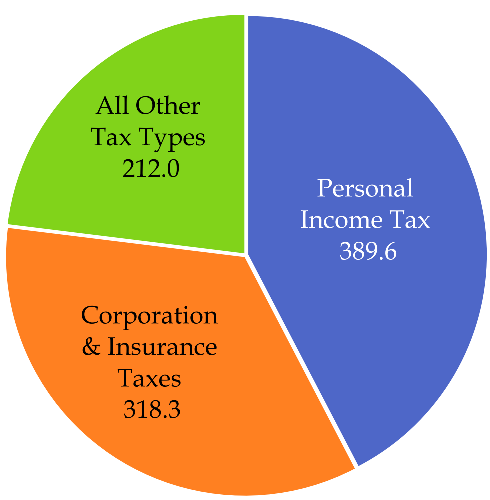
Table 8.1 Summary of Major Identifiable State Tax Expenditure Estimates[1]
In Millions of Dollars

Category	FY 24	FY 25	FY 26	FY 27	FY 28
Personal Income Tax	808.3	858.8	903.7	938.9	960.6
Sales and Use Tax	5,080.0	5,208.5	5,336.0	5,466.2	5,601.6
Corporation and Insurance Taxes	447.6	495.3	498.6	497.2	498.3
Petroleum Companies Gross Earnings Tax	382.6	376.4	371.2	374.4	380.5
Motor Fuels and Motor Carrier Road Taxes	2,174.3	2,222.9	2,181.8	2,171.7	2,163.0
All Other Taxes	185.1	185.3	187.2	191.1	194.9
TOTAL	**9,077.9**	**9,347.2**	**9,478.5**	**9,639.4**	**9,798.9**

TAX CREDITS

Tax credits are estimated to be $919.8 million in FY 24, or 10.1% of all projected FY 24 tax expenditures. The remaining $8.1 billion in FY 24 in total tax expenditures includes all exemptions and deductions. A breakout of credits by tax type is provided in **Figure 8.1** below.

Figure 8.1 FY 24 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 a CHET education account reduce taxable income).

[19]For more information, please see the Connecticut Tax Expenditure Report, Office of Fiscal Analysis (February 2022). Please note that this Fiscal Accountability Report includes updated estimates on certain expenditures where necessary. The next tax expenditures report will be released in February 2024.

SALES AND USE TAX EXPENDITURES

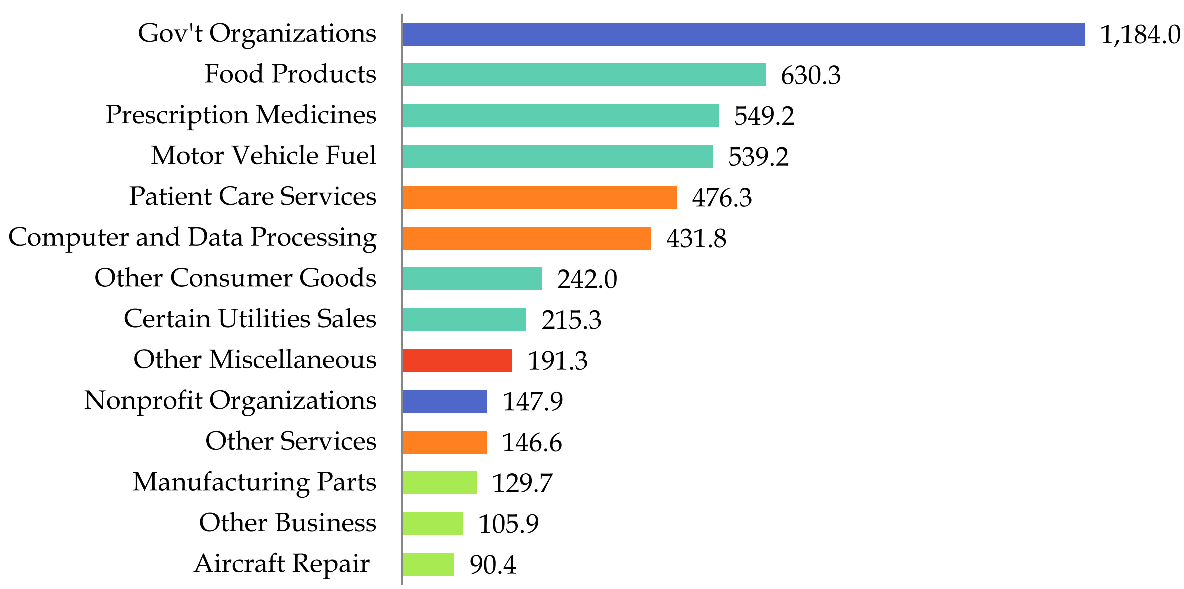
Sales and use tax expenditures represent approximately 56% of all identifiable tax expenditures and are estimated to be $5.1 billion in FY 24.

Table 8.2 below details the categories of sales and use tax expenditures available and the value of each category. Consumer goods consist of approximately 42.8% of all total sales and use tax expenditures, more than any other category. **Figure 8.2** provides a list of significant individual sales tax expenditures with their estimated revenue loss for FY 24. Government organizations make up the single largest type of these expenditures at $1.2 billion estimated for FY 24.

Table 8.2 Sales and Use Tax Expenditures by Category
In Millions of Dollars

Category	FY 24	% of Total
Consumer Goods	2,176.0	42.8%
Business Exemptions	326.0	6.4%
Service Exemptions	1,054.7	20.8%
Government and Nonprofit Organizations	1,331.9	26.2%
Miscellaneous	191.3	3.8%
TOTAL	**5,080.0**	**100.0%**

Figure 8.2 FY 24 Major Sales and Use Tax Expenditures
In Millions of Dollars



Appendix A. Consensus Revenues

Revenue Estimates for FY 24 - FY 28
In Millions of Dollars

Fund/Component	FY 24	FY 25	FY 26	FY 27	FY 28
General Fund					
Taxes					
Personal Income Tax - Withholding	8,375.8	8,517.1	8,793.6	9,073.0	9,381.4
Personal Income Tax - Estimates and Finals	2,497.5	2,562.1	2,665.2	2,771.8	2,882.7
Sales & Use	5,174.5	5,302.0	5,433.1	5,565.5	5,703.9
Corporation	1,514.5	1,529.5	1,544.6	1,561.6	1,594.5
Pass-through Entity Tax	1,760.9	1,819.4	1,889.0	1,963.2	2,040.0
Public Service	323.9	296.8	299.2	301.9	304.6
Inheritance & Estate	178.1	182.2	186.3	246.1	251.0
Insurance Companies	291.3	295.6	299.9	304.3	308.9
Cigarettes	266.4	252.0	239.4	227.4	216.1
Real Estate Conveyance	287.7	292.6	297.0	301.5	306.0
Alcoholic Beverages	78.4	78.8	79.1	79.5	79.8
Admissions & Dues	35.5	35.5	36.0	36.5	36.9
Health Provider Tax	901.0	956.9	928.0	929.5	931.0
Miscellaneous	25.4	69.2	70.8	70.4	70.2
Total - Taxes	21,710.9	22,189.7	22,761.2	23,432.2	24,107.0
Refund of Taxes	(1,979.5)	(1,971.9)	(2,028.4)	(2,098.3)	(2,172.0)
Earned Income Tax Credit	(191.6)	(196.2)	(199.9)	(205.0)	(210.3)
R&D Credit Exchange	(7.5)	(7.8)	(8.0)	(8.3)	(8.5)
Total - Taxes Less Refunds	19,532.3	20,013.8	20,524.9	21,120.6	21,716.2
Other Revenue					
Transfers - Special Revenue	406.5	411.9	421.6	431.6	443.3
Indian Gaming Payments	283.7	286.0	290.4	294.7	299.1
Licenses, Permits, Fees	356.5	330.7	365.9	339.6	375.0
Sales of Commodities	16.9	17.8	18.3	18.8	19.2
Rents, Fines, Escheats	172.9	175.2	164.8	158.9	162.3
Investment Income	258.9	227.8	220.4	185.1	175.8
Miscellaneous	234.7	239.5	244.5	249.6	254.9
Refund of Payments	(95.7)	(77.2)	(78.6)	(80.8)	(83.1)
Total - Other Revenue	1,634.4	1,611.7	1,647.3	1,597.5	1,646.5
Other Sources					
Federal Grants	2,006.3	1,879.6	1,806.8	1,824.3	1,844.6
Transfer from Tobacco Fund	108.4	106.7	105.0	103.3	101.7
Transfers from/ (To) Other Funds	(273.2)	(70.9)	(143.1)	(143.1)	(143.1)
Transfers to BRF - Volatility Adjustment	(478.5)	(451.8)	(458.4)	(470.2)	(495.2)
Transfer to Housing Trust Fund	-	-	-	-	-
Total - Other Sources	**1,363.0**	**1,463.6**	**1,310.3**	**1,314.3**	**1,308.0**
TOTAL - GENERAL FUND	**22,529.7**	**23,089.1**	**23,482.5**	**24,032.4**	**24,670.7**

Fund/Component	FY 24	FY 25	FY 26	FY 27	FY 28
Taxes					
Motor Fuels Tax	495.6	506.7	497.3	495.0	493.0
Oil Companies Tax	387.0	380.8	375.4	378.7	384.9
Sales & Use Tax	860.2	883.2	906.1	929.6	953.6
Sales Tax - DMV	107.5	106.5	107.4	108.5	109.5
Highway Use	65.0	66.3	67.6	69.0	70.4
Refunds of Taxes	(16.9)	(16.6)	(16.4)	(17.1)	(17.8)
Total - Taxes Less Refunds	**1,898.4**	**1,926.9**	**1,937.4**	**1,963.7**	**1,993.6**
Other Sources					
Motor Vehicle Receipts	260.1	261.7	263.0	264.3	265.6
Licenses, Permits, Fees	128.7	131.1	132.0	134.1	135.0
Interest Income	67.5	58.2	49.9	41.8	37.8
Federal Grants	9.2	8.1	6.9	5.6	4.4
Transfers From/(To) Other Funds	(13.5)	(13.5)	(5.5)	(5.5)	(5.5)
Refunds of Payments	(9.3)	(6.7)	(6.8)	(7.0)	(7.2)
Total Other Revenues	**442.7**	**438.9**	**439.5**	**433.3**	**430.1**
TOTAL - STF	**2,341.1**	**2,365.8**	**2,376.9**	**2,397.0**	**2,423.7**

Appendix B. Other Appropriated Funds

Fund	FY 23 Actual	FY 24 Projected	FY 25 Projected	FY 26 Projected	FY 27 Projected	FY 28 Projected
Banking Fund						
Beginning Balance	26,232,113	42,609,367	54,849,408	62,016,802	69,184,196	76,351,590
Revenue	42,608,578	43,000,000	43,000,000	43,000,000	43,000,000	43,000,000
Expenditures	(26,231,324)	(30,759,959)	(35,832,606)	(35,832,606)	(35,832,606)	(35,832,606)
Transfers	-	-	-	-	-	-
Ending Balance	**42,609,367**	**54,849,408**	**62,016,802**	**69,184,196**	**76,351,590**	**83,518,984**
Cannabis Prevention and Recovery Services Fund						
Beginning Balance	-	-	1,842,000	2,884,000	4,126,000	5,568,000
Revenue	-	4,200,000	4,400,000	4,600,000	4,800,000	5,000,000
Expenditures	-	(2,358,000)	(3,358,000)	(3,358,000)	(3,358,000)	(3,358,000)
Transfers	-	-	-	-	-	-
Ending Balance	**-**	**1,842,000**	**2,884,000**	**4,126,000**	**5,568,000**	**7,210,000**
Cannabis Regulatory Fund[1]						
Beginning Balance	-	-	28,474	81,054	(10,166,366)	(20,413,786)
Revenue	-	10,100,000	10,300,000	-	-	-
Expenditures	-	(10,071,526)	(10,247,420)	(10,247,420)	(10,247,420)	(10,247,420)
Transfers	-	-	-	-	-	-
Ending Balance	**-**	**28,474**	**81,054**	**(10,166,366)**	**(20,413,786)**	**(30,661,206)**
Cannabis Social Equity and Innovation Fund[1]						
Beginning Balance	-	-	4,500,000	4,800,000	5,600,000	7,900,000
Revenue	-	10,000,000	10,500,000	11,000,000	12,500,000	13,100,000
Expenditures	-	(5,500,000)	(10,200,000)	(10,200,000)	(10,200,000)	(10,200,000)
Transfers	-	-	-	-	-	-
Ending Balance	**-**	**4,500,000**	**4,800,000**	**5,600,000**	**7,900,000**	**10,800,000**
Consumer Counsel and Public Utility Control Fund						
Beginning Balance	11,506,474	16,223,669	16,223,669	16,223,669	16,223,669	16,223,669
Revenue	32,420,971	36,917,566	37,943,087	37,943,087	37,943,087	37,943,087
Expenditures	(27,703,776)	(36,917,566)	(37,943,087)	(37,943,087)	(37,943,087)	(37,943,087)
Transfers	-	-	-	-	-	-
Ending Balance	**16,223,669**	**16,223,669**	**16,223,669**	**16,223,669**	**16,223,669**	**16,223,669**
Criminal Injuries Compensation Fund						
Beginning Balance	3,615,949	3,627,450	2,844,201	2,410,113	1,976,025	1,541,937
Revenue	2,052,408	2,150,839	2,500,000	2,500,000	2,500,000	2,500,000
Expenditures	(2,040,907)	(2,934,088)	(2,934,088)	(2,934,088)	(2,934,088)	(2,934,088)
Transfers	-	-	-	-	-	-
Ending Balance	**3,627,450**	**2,844,201**	**2,410,113**	**1,976,025**	**1,541,937**	**1,107,849**
Insurance Fund						
Beginning Balance	24,122,168	58,563,079	59,553,120	23,572,356	19,920,870	18,920,870
Revenue	126,591,126	99,572,426	97,036,574	129,365,851	132,017,337	132,017,337
Expenditures	(92,150,214)	(98,582,386)	(133,017,337)	(133,017,337)	(133,017,337)	(133,017,337)
Transfers	-	-	-	-	-	-
Ending Balance	**58,563,079**	**59,553,120**	**23,572,356**	**19,920,870**	**18,920,870**	**17,920,870**
Mashantucket Pequot and Mohegan Fund						
Beginning Balance	105,030	217,425	217,425	217,425	217,425	217,425
Revenue	-	-	-	-	-	-
Expenditures	(51,387,605)	(52,541,796)	(52,541,796)	(52,541,796)	(52,541,796)	(52,541,796)
Transfers	51,500,000	52,541,796	52,541,796	52,541,796	52,541,796	52,541,796
Ending Balance	**217,425**	**217,425**	**217,425**	**217,425**	**217,425**	**217,425**
Municipal Revenue Sharing Fund[1]						

Fund	FY 23 Actual	FY 24 Projected	FY 25 Projected	FY 26 Projected	FY 27 Projected	FY 28 Projected
Beginning Balance	47,111	47,111	5,702,064	7,457,017	(80,488,030)	(156,933,077)
Revenue	-	458,500,000	465,500,000	480,700,000	492,200,000	503,900,000
Expenditures	-	(568,645,047)	(568,645,047)	(568,645,047)	(568,645,047)	(568,645,047)
Transfers	-	115,800,000	104,900,000	-	-	-
Ending Balance	**47,111**	**5,702,064**	**7,457,017**	**(80,488,030)**	**(156,933,077)**	**(221,678,124)**
Tourism Fund						
Beginning Balance	5,134,059	5,276,776	4,982,323	4,737,870	3,893,417	3,448,964
Revenue	13,525,141	14,300,000	14,600,000	15,300,000	15,700,000	16,100,000
Expenditures	(13,382,425)	(17,494,453)	(16,144,453)	(16,144,453)	(16,144,453)	(16,144,453)
Transfers	-	2,900,000	1,300,000	-	-	-
Ending Balance	**5,276,776**	**4,982,323**	**4,737,870**	**3,893,417**	**3,448,964**	**3,404,511**
Workers' Compensation Fund						
Beginning Balance	13,199,929	16,666,854	16,672,979	16,886,961	17,100,943	17,314,925
Revenue	27,796,687	28,500,000	29,000,000	29,000,000	29,000,000	29,000,000
Expenditures	(24,329,762)	(28,493,875)	(28,786,018)	(28,786,018)	(28,786,018)	(28,786,018)
Transfers	-	-	-	-	-	-
Ending Balance	**16,666,854**	**16,672,979**	**16,886,961**	**17,100,943**	**17,314,925**	**17,528,907**
TOTALS						
Beginning Balance	83,962,834	143,231,731	167,415,662	141,287,267	47,588,148	(29,859,484)
Revenue	244,994,911	707,240,831	714,779,661	753,408,938	769,660,424	782,560,424
Expenditures	(237,226,014)	(854,298,696)	(899,649,852)	(899,649,852)	(899,649,852)	(899,649,852)
Transfers	51,500,000	171,241,796	158,741,796	52,541,796	52,541,796	52,541,796
TOTAL ENDING BALANCE	**143,231,731**	**167,415,662**	**141,287,267**	**47,588,148**	**(29,859,484)**	**(94,407,116)**

[1]Certain funds, such as the Cannabis Regulatory Fund and Municipal Revenue Sharing Fund, do not have sufficient revenue projected under current law to fund anticipated out year expenditures.

EXPENDITURE ASSUMPTIONS

Expenditures in the other appropriated funds are non-fixed costs, and as such are flat-funded through FY 28.

REVENUE ASSUMPTIONS

Banking Fund

Annual revenue from statutory banking licenses and fees, as well as assessments, is anticipated to remain constant at approximately $43 million.

Cannabis Prevention and Recovery Services Fund

This fund is supported by 25% of revenue collected from the cannabis excise tax. Retail sales began in January 2023 which makes FY 24 the first full year for this market. The estimate for excise tax collections for FY 24 is $16.6 million. Revenues are estimated to grow by 5% beginning in FY 25 and annually thereafter as the market matures.

Cannabis Regulatory Fund

The FY 24 and FY 25 Budget provides transfers from the General Fund (GF) in FY 24 and FY 25 only, to support this fund.

Cannabis Social Equity and Innovation Fund
This fund is supported by 60% of revenue collected from the cannabis excise tax in FY 24 through FY 26 and 65% in FY 27 through FY 28. Retail sales began in January 2023 which makes FY 24 the first full year for this market. The estimate for excise tax collections for FY 24 is $16.6 million. Revenues are estimated to grow by 5% beginning in FY 25 and annually thereafter as the market matures.

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. From FY 18 to FY 23, the revenue change ranged from -4.9% to 24.5% over the previous year. The fund's revenue will increase or decrease in response to regulatory costs.

Criminal Injuries Compensation Fund
Annual revenue from criminal fines, which are set by statute, has historically been approximately $2 million to $3 million. The fund's revenue is anticipated to remain flat.

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 appropriations and the previous year's fund balance. Interest income (earned on funds held in the fund) for FY 24 is assumed to accrue similarly to FY 23 and taper off as both interest rates and the fund balance carried decline out to FY 28.

Mashantucket Pequot and Mohegan Fund
Out year projections assume a General Fund transfer to the Mashantucket Pequot and Mohegan Fund equal to the FY 24 and FY 25 annual appropriation of $52,541,796. Pursuant to PA 14-217, General Fund transfers to this fund are equal to the amount appropriated for the fund's grants in a given fiscal year.

Municipal Revenue Sharing Fund
This fund receives a transfer of 0.5 percentage points of the 6.35% sales tax revenue from the General Fund every year, and a transfer from the GF in both FY 24 and FY 25. The sales tax transfer assumes growth rates of 4.8% for FY 24 and an average growth of 2.5% for FY 25 to FY 28. A General Fund transfer amount is not statutorily authorized beyond FY 25.

Tourism Fund
Revenue from 10% of room occupancy tax collections supports this fund. Revenues are projected to grow at an average rate of 3.6% annually from FY 24 to FY 28.

Workers' Compensation Fund
The State Treasurer assesses private insurance companies and employers to cover the Workers' Compensation Commission's annual costs. Revenue is based on the statutorily defined assessment formula.

Appendix C. Fixed Cost Account Projections

In Millions of Dollars

Fixed Cost Account	FY 24	FY 25	FY 26	FY 27	FY 28
GENERAL FUND					
Debt Service - State Treasurer					
CHEFA Day Care Security	4.0	4.0	4.0	4.0	4.0
Debt Service	1,977.6	1,949.3	2,005.0	2,165.4	2,186.1
Municipal Restructuring	49.9	46.5	46.1	47.8	43.8
Pension Obligation Bonds - TRB	315.7	330.2	265.3	284.6	301.7
UConn 2000 - Debt Service	210.5	215.9	224.8	215.2	208.1
Debt Service - State Treasurer Total	**2,557.6**	**2,545.9**	**2,545.2**	**2,717.0**	**2,743.8**
State Comptroller - Miscellaneous					
Adjudicated Claims	40.0	40.0	40.0	40.0	40.0
State Comptroller - Miscellaneous Total	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**
State Comptroller - Fringe Benefits					
Higher Education Alternative Retirement System	89.6	94.4	99.4	104.7	110.3
Judges and Compensation Commissioners Retirement	35.3	37.4	39.0	40.6	42.3
Pensions and Retirements - Other Statutory	2.1	2.2	2.3	2.3	2.4
Retired State Employees Health Service Cost	693.6	736.9	766.3	796.5	827.9
SERS Defined Contribution Match	15.3	21.5	21.5	21.6	21.6
State Employees Retirement Contributions - Normal Cost	177.2	174.1	179.2	184.4	189.7
State Employees Retirement Contributions - UAL	1,463.5	1,366.5	1,358.3	1,358.3	1,358.3
State Comptroller - Fringe Benefits Total	**2,476.6**	**2,433.1**	**2,466.0**	**2,508.4**	**2,552.6**
Department of Developmental Services (DDS)					
Community Residential Services	803.7	817.9	820.2	828.4	836.7
DDS Total	**803.7**	**817.9**	**820.2**	**828.4**	**836.7**
Department of Mental Health and Addiction Services (DMHAS)					
General Assistance Managed Care	26.3	26.4	26.4	26.4	26.4
Medicaid Adult Rehabilitation Option	4.5	4.5	4.5	4.5	4.5
DMHAS Total	**30.9**	**30.9**	**30.9**	**30.9**	**30.9**
Department of Social Services					
Aid To The Blind	0.6	0.6	0.6	0.6	0.6
Aid To The Disabled	52.6	54.8	56.1	57.3	58.4
Community Residential Services	-	-	-	-	-
Connecticut Home Care Program	47.4	47.8	43.2	45.0	46.8
Hospital Supplemental Payments	568.3	568.3	568.3	568.3	568.3
HUSKY B Program	15.7	22.8	24.2	25.7	27.2
Medicaid	3,311.3	3,408.6	3,535.9	3,659.8	3,787.9

Fixed Cost Account	FY 24	FY 25	FY 26	FY 27	FY 28
Old Age Assistance	47.0	51.3	54.4	57.7	61.2
State Administered General Assistance	15.9	17.3	17.9	18.0	18.2
Temporary Family Assistance - TANF	58.8	70.4	77.7	80.3	82.7
Department of Social Services Total	**4,117.5**	**4,242.1**	**4,378.3**	**4,512.7**	**4,651.3**
Office of Early Childhood					
Birth to Three	33.8	33.3	34.3	35.3	36.2
Care4Kids TANF/CCDF	73.7	112.8	117.3	122.0	126.9
Office of Early Childhood Total	**107.5**	**146.1**	**151.6**	**157.4**	**163.1**
Teachers' Retirement Board					
Municipal Retiree Health Insurance Costs	9.0	9.8	9.8	9.8	9.8
Retirees Health Service Cost	13.0	14.5	15.4	16.4	17.5
Retirement Contributions	1,554.5	1,601.4	1,678.8	1,761.1	1,767.5
Teachers' Retirement Board Total	**1,576.6**	**1,625.8**	**1,704.0**	**1,787.4**	**1,794.9**
Department of Children and Families					
Board and Care for Children - Adoption	106.9	106.9	106.9	106.9	106.9
Board and Care for Children - Foster	123.5	123.5	123.5	123.5	123.5
Board and Care for Children - Short-term and Residential	69.6	69.6	69.6	69.6	69.6
Individualized Family Supports	3.9	3.9	3.9	3.9	3.9
No Nexus Special Education	2.3	2.4	2.4	2.4	2.4
Department of Children and Families Total	**306.2**	**306.3**	**306.3**	**306.3**	**306.3**
TOTAL - GENERAL FUND	**12,016.7**	**12,188.0**	**12,442.6**	**12,888.5**	**13,119.6**

Fixed Cost Account	FY 24	FY 25	FY 26	FY 27	FY 28
SPECIAL TRANSPORTATION FUND					
Debt Service - State Treasurer					
Debt Service	867.8	937.3	997.3	1,083.0	1,159.9
Debt Service - State Treasurer Total	**867.8**	**937.3**	**997.3**	**1,083.0**	**1,159.9**
State Comptroller - Fringe Benefits					
SERS Defined Contribution Match	0.8	1.1	1.3	1.5	1.6
State Employees Retirement Contributions - Normal Cost	20.5	21.1	21.7	22.3	23.0
State Employees Retirement Contributions - UAL	155.7	152.3	151.4	151.4	151.4
State Comptroller - Fringe Benefits Total	**177.0**	**174.5**	**174.4**	**175.2**	**176.0**
TOTAL - SPECIAL TRANSPORTATION FUND	**1,044.8**	**1,111.8**	**1,171.7**	**1,258.1**	**1,335.8**

Appendix D. Fixed Cost Detail

The fixed costs discussed in Section III make up 54.8% of total General Fund (GF) expenditures in FY 28 under the report's mandated methodology. GF fixed costs are projected to grow in the out years from approximately $12.02 billion in FY 24 to approximately $13.12 billion in FY 28, for a total increase of approximately $1.1 billion. The major categories of fixed costs are discussed below in order of overall magnitude.

ENTITLEMENTS

Entitlements are the largest category of fixed costs, representing 41.3% ($5.42 billion) of projected fixed costs in FY 28. The Medicaid and Community Residential Services accounts, appropriated in the Department of Social Services and Department of Developmental Services respectively, collectively represent 85.3% of those projected entitlement costs.

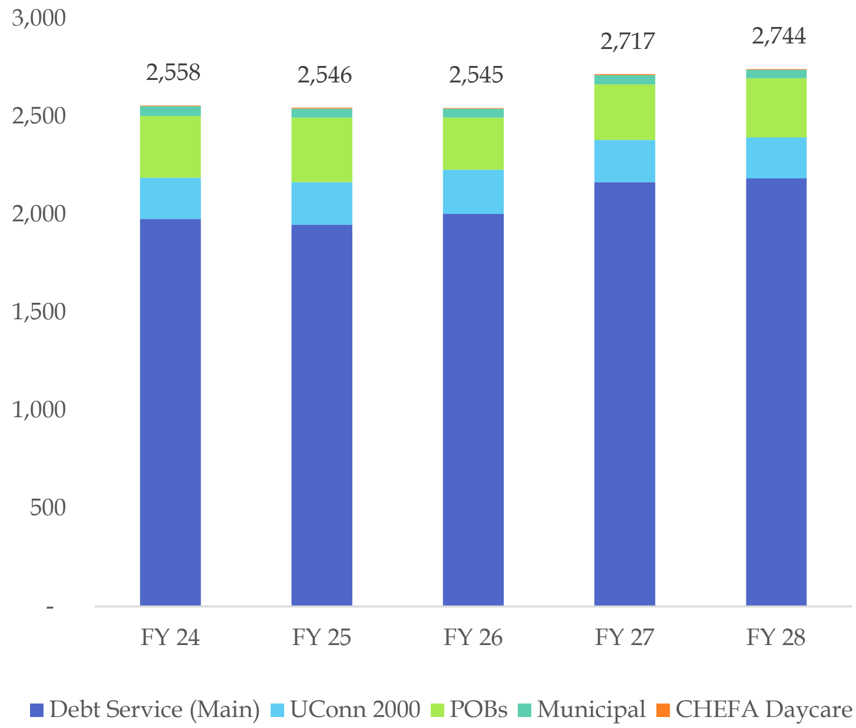
Medicaid, the largest entitlement program, is projected to cost the General Fund $3,787.9 million in FY 28 (or 69.9% of entitlements), growing by $379.4 million or 3.6% between FY 25 and FY 28. Adjustments include the annualization of recent program changes and a reduction in American Rescue Plan Act (ARPA) Home and Community Based Services (HCBS) related expenditures. Annual growth 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 anticipated to grow by approximately $18.8 million between FY 25 and FY 28, which primarily reflects the net impact of the sunsetting of ARPA HCBS funding by the end of FY 25, as well as adjustments for caseload changes. 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).

DEBT SERVICE

Annual General Fund debt service is expected to grow by approximately $186.1 million, from $2,557.6 million in FY 24 to $2,743.8 million in FY 28, as reflected in **Figure 1**. During this time, the largest increase to debt service is the result of issuing new debt (a net increase of $208.5 million from FY 24 to FY 28). The debt service schedule for Pension Obligation Bonds (POBs) fluctuates between a low of $265.3 million and a high of $330.2 million in this time period.[20] Annual debt service repayment requirements for the UConn 2000 program are also projected to peak near $224.8 million in FY 26, before declining thereafter.[21]

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



Total annualized growth in GF debt service line items from FY 24 to FY 28 is 1.8%. Annualized growth in the main debt service line is 2.5%, while other debt service lines are flat or decrease in this time period.

It takes several years to realize the full impact of bonding decisions. Over 95% of all FY 24 GF debt service payment is based on debt incurred prior to FY 24. The growth from new bond issuance described above has been limited by several recent policies and factors regarding bonding, including slowed capital spending beginning in FY 17. Greater detail on bonding-related projections is provided in Section VI.

STATE EMPLOYEES RETIREMENT SYSTEM

The State Employees Retirement System (SERS) provides pension benefits to 56,778 retired members and their beneficiaries and covers another 46,661 active members. The system is funded on an actuarial basis and receives an annual valuation. The latest valuation, dated June 30, 2022, established an actuarially determined employer contribution (ADEC) of $2.04 billion

[20] After FY 28, annual payment of POBs debt service range between $320 million and $381 million before the bonds are fully repaid in FY 32.
[21] The UConn 2000 program has new authorizations under current law through FY 27.

for FY 24, of which $1.6 billion is appropriated from the General Fund. **Table 1** below shows insights on the system's financial health. Since June 30, 2021, the funded ratio has increased by 6.9 percentage points, from 41.6% to 48.5%. Updated figures for 2023 will be available once the 2023 valuation is released.

Table 1. SERS Actuarial Assets and Liabilities – June 30, 2022
In Millions of Dollars

Year (June 30)	Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (b)–(a)	Funded Ratio (a)/(b)
2021	15,946.9	38,344.4	22,397.6	41.6%
2022	19,726.0	40,657.0	20,931.0	48.5%
Change	**3,779.1**	**2,312.6**	**(1,466.6)**	**6.9% pts.**

Treasurer Deposits Excess Reserves into SERS

The Budget Reserve Fund (BRF) ended FY 23 in excess of the 15% statutory cap. Pursuant to CGS Sec. 4-30a(c)(1)(A), any amount above the cap is to be transferred[22] to SERS and the Teachers' Retirement System (TRS). The State Treasurer transferred $1.05 billion of that balance to SERS in 2023, and the remainder to TRS as described below. The SERS deposit is estimated to reduce the state's ADEC payment by approximately $86.9 million annually beginning in FY 25, and $2,171.6 million over a 25-year period. Actual savings will be determined by the next actuarial valuation.

Based on the projected 2024 BRF transfers to pensions of $256.1 million, it is assumed the funds will be equally allocated to both pension systems. An additional deposit of approximately $128 million in 2024 (see **Table 2**) is expected to further reduce the SERS ADEC by $10.6 million beginning in FY 26 in all funds. **Table 3** below illustrates how the series of deposits is anticipated to result in an ADEC reduction moving forward. It should be noted that the total ADEC is a net result of many factors including but not limited to cost-of-living adjustments, asset experience, retirement, and mortality rates.

Table 2. Additional Deposits to SERS
In Millions of Dollars

Deposit Year	Amount
2023	1,046.5
Est. 2024	128.0
TOTAL	**1,174.6**

Table 3. Est. Marginal ADEC Reductions
In Millions of Dollars – All Funds

Fiscal Year	Annual	25 Years
FY 25	86.9	2,171.6
FY 26	10.6	265.7
TOTAL	**97.5**	**2,437.3**

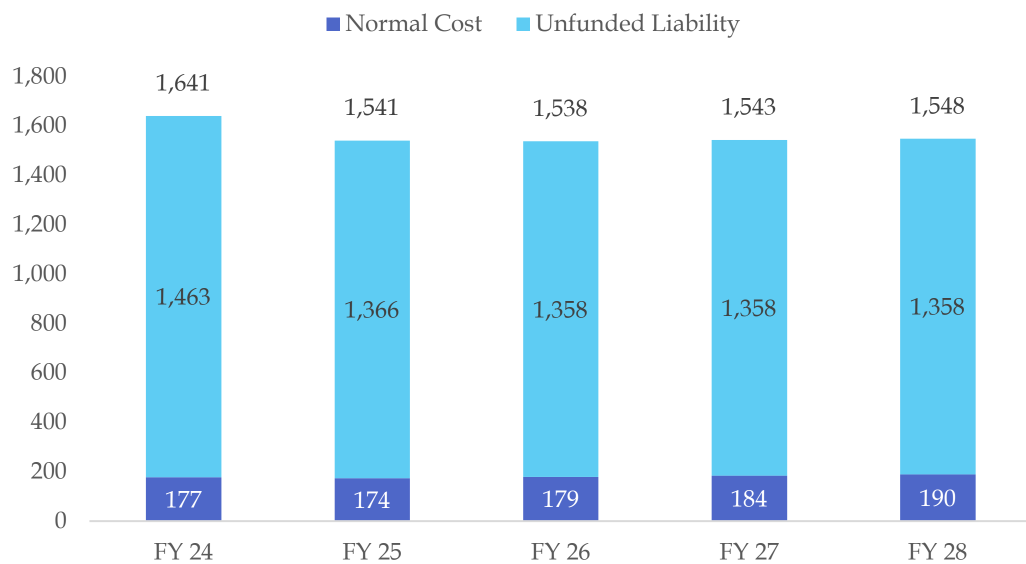
Source: Cavanaugh Macdonald Consulting, OFA estimates

[22] The Treasurer may also transfer excess funds towards bonded debt service payments in some cases.

Positive Outlook for SERS in the Out Years

Figure 2 reflects the General Fund's share of projected ADEC costs in the out years. The cumulative effect of the additional $1.05 billion deposit in 2023 and projected additional $128 million deposit in 2024 is anticipated to reduce the SERS ADEC from $1.64 billion in FY 24 to $1.54 billion in FY 26. The additional deposits reduce the unfunded liability piece of the ADEC, while the normal cost continues to grow in the out years.

Figure 2. Projected General Fund Portion of SERS Costs
In Millions of Dollars



TEACHERS' RETIREMENT BOARD

The Teachers' Retirement System (TRS) provides pension and health benefits to 39,843 retired public-school teachers and their beneficiaries and covers another 53,436 active members. 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.

The TRS 2023 valuation, which captures the impact of the $272.8 million deposited in 2023 and the anticipated $551 million to be deposited by the end of this calendar year, highlighted two improvements to the system's financial health: (1) a total decrease in UAL of $709 million and (2) a 2.8 percentage point increase in the funded ratio. **Table 4** below shows these changes from the 2022 to 2023 valuations.

Table 4. TRS Funding Progress
In Millions of Dollars

Year (June 30)	Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (b)-(a)	Funded Ratio (a)/(b)
2022	22,729.2	39,860.3	17,131.1	57.0%
2023	24,455.0	40,877.0	16,422.0	59.8%
Change	**1,725.8**	**1,016.7**	**(709.1)**	**2.8% pts.**

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

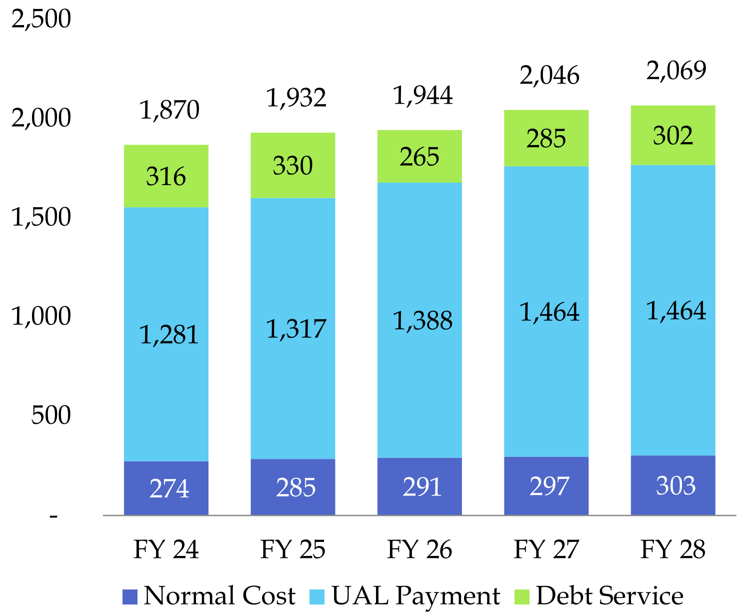
The 2023 TRS actuarial valuation established the state's FY 25 ADEC of $1,601.4 million. This reflects a decrease of $30.4 million from the projected FY 25 ADEC without the additional 2023 contribution. The ADEC is a combination of the TRS unfunded accrued liability (UAL) payment and the normal costs. The UAL is the difference between accrued liabilities and the value of assets, while the normal cost represents the portion of the cost of projected benefits allocated to the current plan year. Key findings from the valuation are presented to the right.

The ADEC combined with the Debt Service reflect the total TRS pension cost to the General Fund and is shown in **Figure 3** for FY 24 through FY 28. POBs debt service costs were also discussed within the debt service portion of the appendix.

2023 Valuation Highlights

- Total net decrease in the UAL of $709 million and increase in the funded ratio from 57% to 59.8%.
- These changes are the net result of multiple factors which include:
    - Additional deposit of $823.9 million in 2023 decreased the UAL by $801.2 million.
    - Lower than anticipated cost-of-living adjustments for many retirees resulted in a decrease in the UAL of $88.6 million.
    - Increase of 2.4% in active membership and increase in total annual payroll of 4.4%.
    - Market value investment returns of 8.6% compared to the 6.9% assumed rate. However, smoothed assets returned 6.07%, resulting in a $185.9 million increase in the UAL.

Figure 3. Trends in Teachers' Retirement System Pension-Related Costs
In Millions of Dollars



Treasurer Deposits Excess Reserves into TRS

As noted above, the BRF ended FY 23 in excess of the statutory cap. The Treasurer designated $823.9 million for deposit into the TRS in 2023, as shown in **Table 5**. **Table 6** displays the associated marginal reductions to the ADEC totaling approximately $1,834.3 million over the 25-year amortization.

Table 5. Additional Deposits to TRS
In Millions of Dollars

Deposit Year	Amount
2023	823.9
Est. 2024	128.0
TOTAL	**951.9**

Source: Cavanaugh Macdonald Consulting, OFA estimates

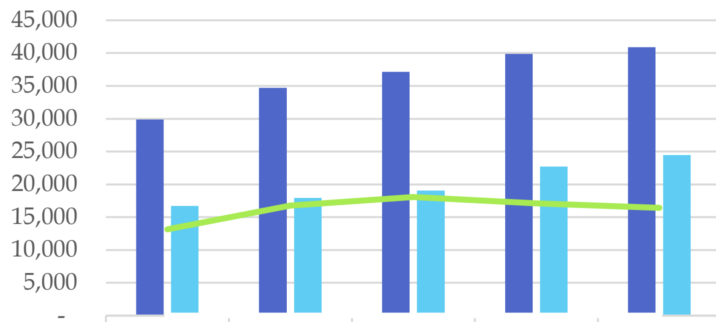
Table 6. Est. Marginal ADEC Reductions
In Millions of Dollars

Fiscal Year	Annual	25 Year
FY 25	73.4	1,834.3
FY 26	11.2	280.3
TOTAL	**84.6**	**2,114.5**

Based on the projected 2024 BRF transfers to pensions of $256.1 million, it is assumed the funds will be equally allocated to both pension systems. The anticipated $128 million deposit to the TRS is estimated to result in a marginal ADEC reduction of $11.2 million beginning in FY 26, totaling approximately $280.3 million over the 25-year amortization period. These projections do not take external factors, such as asset experience, into consideration. The anticipated FY 26 reduction resulting from the FY 24 deposit is in addition to the FY 25 reduction resulting from the FY 23 deposit.

The TRS has moved to annual valuations, which recognizes additional funding and other actuarial gains and losses on an annual basis. The positive results from the 2023 valuation, including the $709 million net decrease in the UAL and the increase in the funded ratio from 57% to 59.8%, are detailed in **Figure 4**.

Figure 4. TRS Valuation Results – Assets and Liabilities
In Millions of Dollars



	2016	2018	2020	2022	2023
Actuarial Liability	29,860	34,712	37,128	39,860	40,877
Actuarial Assets	16,712	17,952	19,055	22,729	24,455
UAL	13,148	16,760	18,073	17,131	16,422
Funded Ratio	56.0%	51.7%	51.3%	57.0%	59.8%

Source: Connecticut TRS Actuarial Valuation, June 30, 2023

The TRS UAL payments are projected to have an average annual growth rate of 3.6% from FY 25 to FY 28 as reflected in **Table 7**. The FY 26 ADEC is the first fully phased in level dollar UAL payment[23] and will remain a stable payment through the remainder of the amortization period, apart from additional deposits lowering the annual payment. Without the additional deposits in FY 23 and projected FY 24, the UAL payment would have grown by 3.8% during this period, reflecting the transition from the level percent of payroll funding to the level dollar amortization method. Normal Costs are projected to grow 2.1% while POB Debt Service will decrease by 3% in the out years.

Table 7. Average Annual Growth in TRS Pension Costs

Cost	Average Annual Growth FY 25 to FY 28
Actuarially Determined Employer Contribution (ADEC)	
Normal Cost	2.1%
Unfunded Accrued Liability (UAL)	3.6%
ADEC Subtotal	**3.3%**
POB Debt Service	(3.0%)
TOTAL	**2.3%**

[23] PA 19-117 included changes to the TRS actuarial factors and assumptions to stabilize the state's contribution to the system. These changes included a transition of the amortization method from level percent of payroll to level dollar amount. This resulted in increasing amortization payments during the 5-year phase-in period to achieve a level, more predictable payment schedule in the long-term.

Municipal Subsidy Cost Anticipated to Remain Stable

Certain retired teachers and spouses (those under age 65 and not currently eligible for Medicare) may maintain coverage from their last employing school district. While the cost of health insurance varies from district to district, the TRB sends a monthly subsidy to the school district to offset the cost of the coverage. This subsidy had remained fixed since 2022. The monthly subsidy payment is $220 for individual coverage and up to $440 for retiree/spouse coverage for those not yet eligible for Medicare and the TRB health plan. For a small number of older retirees who are ineligible for Medicare, the subsidy is $440 for individual coverage and $880 for retiree/spouse coverage. The state funds one-third of the cost of this subsidy, estimated at approximately $10 million annually in the out years with projected flat participation and a fixed subsidy. The remaining two-thirds is paid from the TRB Health Fund, which is supported by active teachers who contribute 1.25% of salary to the Fund.

Appendix E. Municipal Aid

Municipal aid[24] is estimated to total $3.8 billion in FY 24 and $4.0 billion in FY 25, a $173.5 million (4.7%) increase from FY 23 actual expenditures to FY 24 estimated expenditures.

The most significant drivers of the increase in FY 24 are the following:

- **Tiered PILOT**: $22.5 million
- **Motor Vehicle Tax Grant**: $22.3 million
- **Education Funding**: $115.3 million (with an additional $212.3 million in FY 25)
- **LoCIP**: $15 million

Municipal aid continues to represent a large portion of General Fund expenditures. Appropriated municipal aid from the General Fund is estimated to total 17.1% of FY 24 General Fund appropriations. When including $1.6 billion in state assistance from the Teachers' Retirement System (TRS), this figure increases to $5.4 billion or 24.2% of the General Fund.

Municipal Aid Funding (FY 23 Actual – FY 28 Estimated)

Grant or Account	FY 23 Actual	FY 24 Appropriated	FY 25 Appropriated	FY 26 Estimated	FY 27 Estimated	FY 28 Estimated
Appropriated Property Tax Relief and General Aid						
Tiered PILOT	316,881,894	339,410,167	339,410,167	339,410,167	339,410,167	339,410,167
Motor Vehicle Tax Grant	132,216,112	154,562,410	154,562,410	154,562,410	154,562,410	154,562,410
Municipal Revenue Sharing	36,819,135	-	-	-	-	-
Municipal Stabilization Grant	37,853,335	-	-	-	-	-
Supplemental Revenue Sharing Grant	-	74,672,470	74,672,470	74,672,470	74,672,470	74,672,470
Mashantucket Pequot and Mohegan Grant	51,481,789	52,541,796	52,541,796	52,541,796	52,541,796	52,541,796
Disability Exemption	364,713	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	1,500,000
Elderly Freeze Program	4,000	6,000	6,000	6,000	6,000	6,000
Property Tax Relief for Veterans	1,901,433	2,708,107	2,708,107	2,708,107	2,708,107	2,708,107
Municipal Restructuring	7,300,000	7,300,000	7,300,000	7,300,000	7,300,000	7,300,000
Municipal Restructuring - Debt Service	54,098,049	49,853,638	46,518,776	46,126,129	47,778,925	43,825,772
Subtotal	**640,420,460**	**682,919,301**	**679,584,439**	**679,191,792**	**680,844,588**	**676,891,435**
ECS and Other Education Aid						
Education Equalization Grants (ECS)	2,178,565,995	2,233,420,315	2,287,900,235	2,376,263,188	2,369,687,166	2,363,112,722
Magnet Schools[1]	277,398,994	284,942,141	287,484,265	287,484,265	287,484,265	287,484,265

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

Grant or Account	FY 23 Actual	FY 24 Appropriated	FY 25 Appropriated	FY 26 Estimated	FY 27 Estimated	FY 28 Estimated
Excess Cost - Student Based	156,148,491	181,119,782	181,119,782	181,119,782	181,119,782	181,119,782
Education Finance Reform[1]	-	-	150,000,000	150,000,000	150,000,000	150,000,000
Sheff Transportation[1]	53,424,053	70,825,009	75,465,173	75,465,173	75,465,173	75,465,173
Open Choice Program[1]	30,383,406	31,189,780	31,472,503	31,472,503	31,472,503	31,472,503
Priority School Districts	30,818,778	30,818,778	30,818,778	30,818,778	30,818,778	30,818,778
Adult Education	21,620,796	23,263,310	23,386,642	23,386,642	23,386,642	23,386,642
Vocational Agriculture	18,824,200	18,824,200	18,824,200	18,824,200	18,824,200	18,824,200
Non Sheff Transportation[1]	8,079,897	14,944,797	15,675,787	15,675,787	15,675,787	15,675,787
Commissioner's Network	9,943,504	9,869,398	9,869,398	9,869,398	9,869,398	9,869,398
Family Resource Centers	5,802,625	6,802,710	6,352,710	6,352,710	6,352,710	6,352,710
After School Programs	5,478,959	5,750,695	5,750,695	5,750,695	5,750,695	5,750,695
Health Foods Initiative	4,151,463	4,151,463	4,151,463	4,151,463	4,151,463	4,151,463
Bilingual Education	3,788,467	3,832,260	3,832,260	3,832,260	3,832,260	3,832,260
Health and Welfare Services Pupils Private Schools	3,438,415	3,438,415	3,438,415	3,438,415	3,438,415	3,438,415
School Accountability	3,412,207	3,412,207	3,412,207	3,412,207	3,412,207	3,412,207
Extended School Hours	2,919,883	2,919,883	2,919,883	2,919,883	2,919,883	2,919,883
Child Nutrition State Match	2,354,000	2,354,000	2,354,000	2,354,000	2,354,000	2,354,000
School Breakfast	2,158,900	2,158,900	2,158,900	2,158,900	2,158,900	2,158,900
Primary Mental Health	323,458	345,288	345,288	345,288	345,288	345,288
Subtotal	**2,819,036,490**	**2,934,383,331**	**3,146,732,584**	**3,235,095,537**	**3,228,519,515**	**3,221,945,071**
Various Other Grants						
Youth Service Bureau	2,677,876	2,733,240	2,733,240	2,733,240	2,733,240	2,733,240
Youth Service Bureau Enhancement	1,115,089	1,115,161	1,115,161	1,115,161	1,115,161	1,115,161
Housing/Homeless Services - Municipality	621,245	692,651	692,651	692,651	692,651	692,651
Local and District Departments of Health	7,186,576	7,192,101	7,192,101	7,192,101	7,192,101	7,192,101
School Based Health Clinics	11,053,558	11,544,057	11,544,057	11,544,057	11,544,057	11,544,057
Teen Pregnancy Prevention - Municipality	98,281	98,281	98,281	98,281	98,281	98,281
Connecticard Payments	703,755	703,638	703,638	703,638	703,638	703,638
Town Aid Road	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Subtotal	**83,456,380**	**84,079,129**	**84,079,129**	**84,079,129**	**84,079,129**	**84,079,129**
Major Bonding and Other Funding Sources						
LoCIP	30,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000
Grants for Municipal Projects/ MME	91,000,000	91,000,000	91,000,000	91,000,000	91,000,000	91,000,000
Subtotal	**121,000,000**	**136,000,000**	**136,000,000**	**136,000,000**	**136,000,000**	**136,000,000**
TOTAL - Less TRS	**3,663,913,330**	**3,837,381,761**	**4,046,396,152**	**4,134,366,458**	**4,129,443,232**	**4,118,915,635**

Grant or Account	FY 23 Actual	FY 24 Appropriated	FY 25 Appropriated	FY 26 Estimated	FY 27 Estimated	FY 28 Estimated
Teachers' Retirement System (TRS)						
Retirement Contributions	1,578,038,000	1,554,542,000	1,601,407,000	1,678,796,000	1,761,096,000	1,767,496,000
Retirees Health Service Cost	12,116,191	13,041,691	14,506,831	15,352,202	16,426,856	17,532,794
Municipal Retiree Health Insurance Cost	9,357,523	9,840,000	9,840,000	9,840,000	9,840,000	9,840,000
Subtotal	**1,599,511,714**	**1,577,423,691**	**1,625,753,831**	**1,703,988,202**	**1,787,362,856**	**1,794,868,794**
GRAND TOTAL	**5,263,425,044**	**5,414,805,452**	**5,672,149,983**	**5,838,354,660**	**5,916,806,088**	**5,913,784,429**

[1]Significant funding from these accounts is provided to Regional Educational Service Centers.

[2]PA 23-204, the FY 24 and FY 25 Budget, established the Education Finance Reform account to provide supplemental funding totaling $150 million in FY 25 to five major state education grants as follows: (1) $68.5 million for Education Cost Sharing, (2) $53.4 million for Magnet Schools, (3) $11.4 million for Open Choice, (4) $9.4 million for state Charter Schools, and (5) $7.2 million for Vocational Agriculture. For the purposes of this report, it is assumed that this funding is maintained in the out years at FY 25 levels.

Appendix F. Detail on the FY 24 Agency Deficiencies and Lapses

DEFICIENCIES

Agency	Account	Deficiency $
General Fund		
Department of Social Services	**Various**	**113.4 million**

A projected deficiency of $113.4 million reflects the net impact of shortfalls in several accounts that are partially offset by a $15.4 million lapse in HUSKY B. The Medicaid shortfall ($120 million) is driven by a reconciliation of costs related to Medicare Part D clawback billing (pursuant to *Carr v. Becerra*), a shift in costs for undocumented individuals originally budgeted under HUSKY B, and higher costs for a new fiscal intermediary. The shortfalls in Aid to the Disabled ($4.3 million) and State Administered General Assistance ($2.6 million) are due to both increased caseloads and higher than budgeted costs per case. The shortfall in the Connecticut Home Care Program ($1.1 million) is primarily driven by increased caseload, while the shortfall in Temporary Family Assistance ($800,000) is primarily driven by higher costs per case.

Office of the State Comptroller	**Various**	**73.1 million**

A projected $73.1 million deficiency is due to shortfalls in several accounts which are partially offset by lapses. The anticipated deficiencies are: (1) $75 million in the Higher Education Alternative Retirement (ARP) account resulting from a change in the accounting of a policy[25] enacted by PA 23-204, the FY 24 and FY 25 Budget; (2) $5 million in the Other Post Employment Benefits account resulting from a decrease in ARP and SERS recovery rates; and (3) $3 million in the State Employee Health Service Cost account resulting from approximately 3,000 new hires and higher claims than anticipated. These deficiencies are partially offset by lapses within several accounts: (1) $5.8 million in the Retired State Employee Health Service Costs account due to the aging population transitioning into Medicare; (2) $3 million in the SERS Defined Contribution Match account; and (3) $1 million in the Unemployment Compensation account.

Office of the State Comptroller	**Adjudicated Claims**	**40.0 million**

A projected $40 million deficiency in the Adjudicated Claims account includes two settlements for claims made against the state totaling $25.2 million. Through October 1, approximately $9.4 million has been expended. No FY 24 appropriation was made for this account.

Department of Correction	**Various**	**20.0 million**

A projected deficiency of $20 million is composed of $15 million in Other Expenses and $5 million in Inmate Medical Services. The deficiencies are due to increased costs for utilities, food, and pharmaceutical and medical supplies, as well as a higher inmate population count. The average population count in FY 23 was 10,033 while the population count as of 10/26/2023 is 10,401 (an increase of 3.6%).

[25] There is a corresponding revenue change associated with the policy.

Department of Mental Health and Addiction Services	Various	9.0 million

A projected deficiency of $9 million reflects the net impact of shortfalls in Other Expenses and Professional Services that are partially offset by a $1 million lapse in Home and Community Based Services. The Other Expenses shortfall ($6 million) is due to higher than budgeted costs for utilities, maintenance and food costs at DMHAS facilities. The Professional Services shortfall ($4 million) reflects the continued use of contracted doctors and nurses due to staff vacancies. The lapse in Home and Community Based Services ($1 million) is based on historical expenditure trends.

Various Agencies	Personal Services	7.1 million

There is a projected deficiency in Personal Services totaling $7.1 million across seven agencies due to the inability of some agencies to meet their portion of the $80 million Personal Services holdback. The table below provides the projected deficiency for each such agency.

Agency	Deficiency $
Attorney General	2.65 million
Division of Criminal Justice	2.5 million
Department of Administrative Services	500,000
Secretary of the State	450,000
Office of the Chief Medical Examiner	400,000
Agricultural Experiment Station	375,000
Department of Veterans' Affairs	255,863

Department of Administrative Services	State Insurance and Risk Management Operations	500,000

There is a projected deficiency of $500,000 in the State Insurance and Risk Mgmt. Operations account. The projected deficiency is primarily due to claims involving significant injuries which typically result in high dollar settlements.

Agency	Account	Deficiency $
Special Transportation Fund		
Department of Administrative Services	**State Insurance and Risk Management Operations**	**1.5 million**

There is a projected deficiency of $1.5 million in the State Insurance and Risk Mgmt. Operations Account. The projected deficiency is primarily due to claims involving significant injuries which typically result in high dollar settlements.

LAPSES

Agency	Account	Lapse $
General Fund		
Office of the Treasurer – Debt Service	**Various**	**16.4 million**

There is a projected lapse of $16.4 million across all General Fund debt service accounts. The lapse reflects changes to issuance amounts and timing, revised repayment schedules for several outstanding debt (including those under the municipal restructuring and UConn 2000 programs), and updated market information from recent bond sales. The projected lapse represents less than 1% of FY 24 appropriations for GF debt service.

Office of Legislative Management	**Personal Services**	**3.0 million**

A lapse of $3 million is projected in the Personal Services account due to retirements, turnover, attrition, and vacancies.

Public Defender Services Commission	**Various**	**1.4 million**

A projected lapse of approximately $1.4 million in the Assigned Counsel and Expert Witnesses accounts is attributable to the decreased number of costly jury trials.

Teachers' Retirement Board	**Municipal Retiree Health Insurance Costs**	**800,000**

A projected $800,000 lapse in the Municipal Retiree Health Insurance Costs account is due to lower enrollment than anticipated.

Department of Labor	**Various**	**745,047**

There is a projected lapse of $745,047 in the Veterans' Opportunity Pilot ($245,047), and Healthcare Apprenticeship Initiative ($500,000) accounts. The Veterans' Opportunity Pilot program was suspended in March 2020 due to the pandemic and is not expected to be reestablished within the fiscal year. The Healthcare Apprenticeship Initiative has never been established and it is anticipated that the agency will not have enough staff to do so in FY 24.

Department of Economic and Community Development	**Various**	**510,000**

There is a projected lapse of $510,000 across four accounts. These include Personal Services ($300,000), Municipal Redevelopment Authority ($150,000), Office of Military Affairs ($40,000), and Office of Workforce Strategy ($20,000). These lapses reflect lower than anticipated expenditures within the first quarter of the fiscal year as well as a delay in hiring of new positions.

Department of Aging and Disability Services	**Personal Services**	**429,342**

There is a projected lapse of $429,342 in Personal Services. This is due to delays in filling newly created and vacant positions, and a projection that many positions will continue to remain open.

Office of Higher Education	**Other Expenses**	**300,000**

There is a projected lapse of $300,000 in the Other Expenses account. This is due to a transfer of various information technology responsibilities and corresponding contracts from the Office of Higher Education (OHE) to the Department of Administrative Services.

Department of Developmental Services	**Various**	**200,000**

There is a projected net agency lapse of $200,000. The Personal Services account is expected to lapse $1.9 million in FY 24 due to higher-than-expected attrition as a result of a larger number of retirements in the second half of FY 22. This lapse partially is offset by a deficiency of $1.7 million in Other Expenses, which is due to increased costs associated with the replacement of wheelchair vans and buses, rising utility costs, and rising inflation.

Office of Government Accountability	**Personal Services**	**150,000**

There is a projected lapse of $150,000 in Personal Services due to the delayed hiring and creation of the Office of the Correctional Ombudsman.

Office of Health Strategy	**Personal Services**	**129,217**

There is a projected lapse of $129,217 in Personal Services. This is due to delays in filling newly created positions.

Department of Agriculture	**Personal Services**	**100,000**

A lapse of $100,000 in Personal Services is projected (net of the $100,000 holdback in the same account) due to vacancies and anticipated timing of refills and reallocations.

Agency	Account	Lapse $
Special Transportation Fund		
Department of Transportation	**Personal Services**	**15.0 million**

There is a projected lapse of $15 million in the Personal Services account. This is due to delays in the hiring process for both replacing vacant positions and filling recently authorized positions related to the federal infrastructure law. There are approximately 436 vacant positions at the agency.

Department of Motor Vehicles	Personal Services	5.0 million

There is a projected lapse of $5 million in the Personal Services account. This is due to delays in the hiring process to replace vacant positions. There are approximately 200 vacancies at the agency.

Office of the State Comptroller	Various	3.3 million

A projected $3.3 million net lapse is due to a $2.9 million lapse in the State Employee Health Service Cost account attributable to a retirement surge and a $400,000 lapse in the SERS Defined Contribution Match account.

Appendix G. Methodologies, Assumptions, and Sources

METHODOLOGY

CGS Sec. 2-36b requires the Office of Fiscal Analysis (OFA) to estimate, for the out years, 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 28.

Flat Funding of Non-Fixed Cost 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 25 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 compose 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]	State Employees' Retirement and Retiree Health Care
Criminal Justice	Teachers' Retirement and Retiree Health Care
Environment & Economic Development	Adjudicated Claims
Public Safety	Hospital Supplemental Payments

[1]Excluding retirement benefits.

See **Appendix D** for account-level details through FY 28 on the fixed cost expenditure categories identified above.

FY 25 SEBAC WAGE REOPENER

FY 25 is the last year of the current agreement between the State of Connecticut and the State Employees Bargaining Agency Coalition (SEBAC). The agreement does not contain a General Wage Increase (GWI) or an Annual Increment (AI) for FY 25. Per the agreement, the state and the union may negotiate, no sooner than January 1, 2024, the FY 25 GWI and AI. The previous SEBAC agreement included a GWI and an AI for each of FY 22, FY 23, and FY 24, which had estimated annual costs between $143 million and $163 million. This report's expenditure estimates do not include adjustments for a GWI or AI beyond FY 25 budgeted levels.

FIXED COST ASSUMPTIONS

For the fixed cost items, OFA utilized the compound annual growth rate (CAGR) method to determine growth. The following assumptions were used to develop fixed cost projections.

Department of Children and Families (DCF)
No Nexus Special Education
Expenditures are projected to remain flat as residential treatment special education caseloads are anticipated to remain at approximately current levels in the out years.

Board and Care for Children – Adoption
Expenditures are projected to remain flat as adoption caseloads are anticipated to remain at approximately current levels in the out years.

Board and Care for Children – Foster
Expenditures are projected to remain flat as foster care caseloads are anticipated to remain at approximately current levels in the out years.

Board and Care for Children – Short-term and Residential
Expenditures are projected to remain flat as short-term and residential caseloads are anticipated to remain at approximately current levels in the out years.

Individualized Family Supports
This wraparound services account is projected to remain at approximately its current spending level in the out years.

Department of Mental Health and Addiction Services
General Assistance Managed Care
Assumes level funding in the out years based on recent program changes.

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

Department of Social Services
Medicaid
Adjustments annualize recent program changes, recognize the phase-out of ARPA HCBS related expenditures, and reflect average annual growth of 3.5% to accommodate cost and caseload requirements.

HUSKY B
Reflects adjustments for recent program changes, caseload growth and the associated state share of costs.

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*. While the agreement dictates payments through FY 26, estimates assume continued funding in the out years.

Temporary Family Assistance
Reflects adjustments to support increased benefits and caseload based on program changes included in the FY 24 and FY 25 Budget.

Old Age Assistance
Reflects standards increases and adjustments for caseload requirements.

Aid to the Disabled
Reflects standards increases and adjustments for caseload requirements.

State Administered General Assistance
Reflects increased funding associated with the annualization of recent changes included in the FY 24 and FY 25 Budget.

Aid to the Blind
Reflects level funding based on caseload trends in recent years.

Department of Developmental Services
Community Residential Services
Reflects new and annualized caseload growth for DDS community placements, which include individuals aging out of services provided by DCF and local education agencies, long-term care residents (Money Follows the Person), and Southbury Training School residents.

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

Care4Kids TANF/CCDF
Projections reflect cost and caseload adjustments. This account only reflects the state's share of costs due to the net appropriation of the account.

State Comptroller – Fringe Benefits
State Employee Retirement System (SERS)
Reflects actuarial projections of the unfunded accrued liability payment (UAL), and the normal cost based on assumptions in the June 30, 2022 SERS valuation. Projections assume: (1) level dollar amortization methodology, (2) a 6.9% discount rate, and (3) amortization of UAL over the remaining 24 years for the statutory base.

Projections for the impact of additional deposits into SERS are based on information supplied by the state's actuary, Cavanaugh Macdonald, using modeling software of the SERS plan, and internal OFA revenue projections. The actuarially determined employer contribution (ADEC) payments for FY 25 though FY 28 reflect the savings from an additional deposit in 2023 and the projected deposit in 2024 resulting from a General Fund operating surplus and revenue in excess of the volatility cap.

OFA assumes the future transfers to SERS and TRS will be equally distributed between the two systems to pay down their respective UALs.

Higher Education Alternative Retirement System (ARP)
Reflects increased expenditure levels resulting from a policy that transferred payment responsibility from higher education constituent units to the General Fund.

Pensions & Retirements - Other Statutory
Assumes approximately 2.5% growth in the out years based on historical levels of cost-of-living adjustments.

Judges and Compensation Commissioners' Retirement System
Reflects actuarial projections of the unfunded accrued liability payment (UAL), and the normal cost based on assumptions in the June 30, 2022 valuation. Projections assume: (1) level percentage of payroll amortization, (2) a 6.9% discount rate, (3) a closed amortization period, and (4) salary growth of 4% per annum, as noted in the valuation.

Retired State Employees Health Service Cost
Reflects growth 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.

Teachers' Retirement Board
Retirement Contributions
Reflects actuarial projections of the unfunded accrued liability payment (UAL), and the normal cost based on assumptions in the June 30, 2023 TRS valuation. Projections assume: (1) a transition to a level-dollar amortization methodology by FY 26, (2) a 6.9% assumed rate of investment return, and (3) the amortization of the unfunded accrued liability over the remaining 25 years for the statutory base. The actuarially determined employer contribution (ADEC) payments reflect the savings from an additional deposit in 2023 and the projected deposit in 2024 from a General Fund operating surplus and revenue in excess of the volatility cap.

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 municipal subsidy and participation.

State Treasurer
Debt Service
Reflects 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. Projected adjustments to those bond caps reflect estimated annual growth in the CPI.

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.