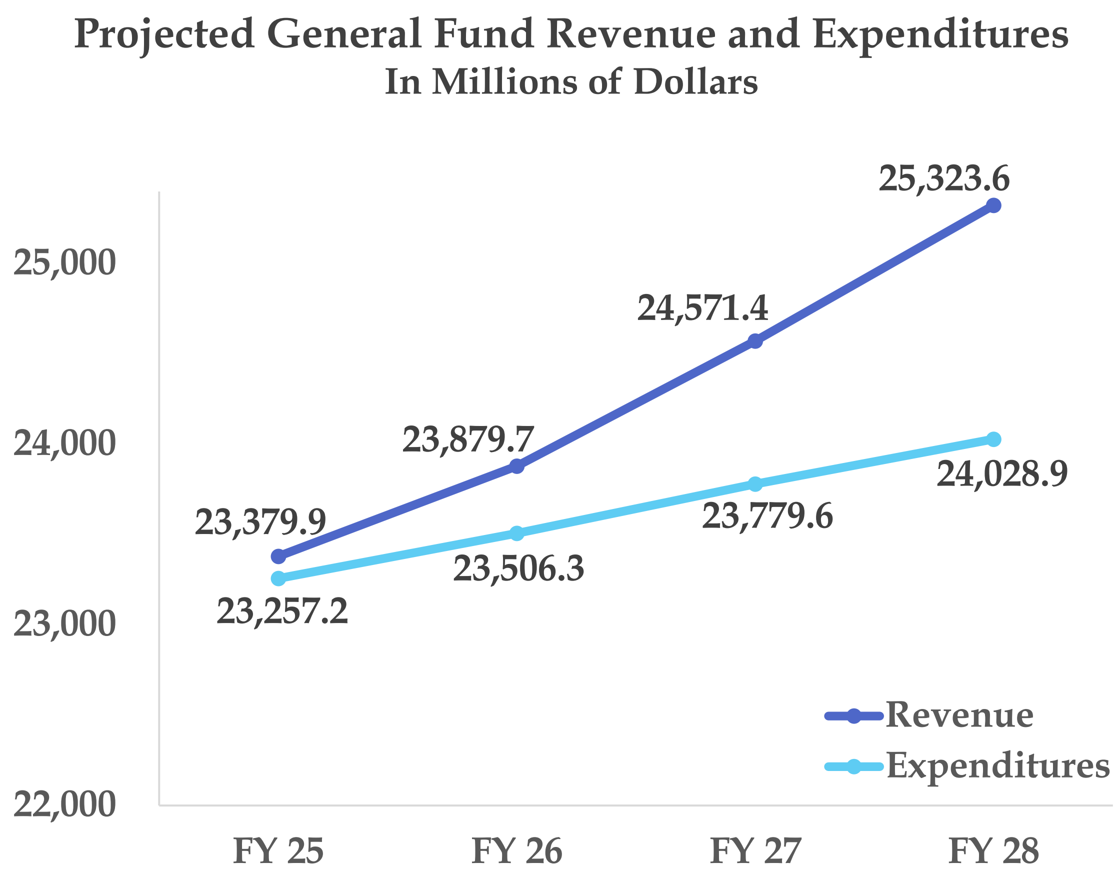
CONNECTICUT GENERAL ASSEMBLY
OFFICE OF FISCAL ANALYSIS

# OFA

# FISCAL ACCOUNTABILITY REPORT

## FY 25 – FY 28




Growth in non-fixed cost accounts is not reflected in expenditures per the required fixed cost methodology.

November 20, 2024

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

# Section I. Executive Summary

**FY 25 Surplus**

OFA projects a General Fund surplus of $122.7 million in FY 25. This surplus is $175.2 million lower than originally budgeted. The decline is primarily due to deficiencies in several areas, most prominently Medicaid ($225 million). Deficiencies are partially offset by higher revenues than budgeted. The November consensus revised upward several revenue streams: the withholding portion of the income tax, estimates and finals (E&F)/pass-through entities (which will transfer to the Budget Reserve Fund), federal grants, and transfers (mainly a transfer of FY 24 General Fund revenue to FY 25).

**Positive Balances in Out Years: FY 26 – FY 28**

OFA projects positive General Fund balances in FY 26 ($373.4 million), FY 27 ($791.8 million), and FY 28 ($1,294.7 million) using the required report methodology (see **Table 1.1**). This is due to an ongoing positive structural balance. In the out years, revenue growth (2.7% annualized) is expected to outpace fixed cost growth (2% annualized). Under the required report methodology, the out years balance projections do not include any growth in non-fixed costs and must disregard other potential budgetary pressures, which may be substantial.

**Budget Reserve Fund (BRF) Reaches Cap & More Retirement System Debt is Paid Down**

The BRF has reached the cap (18% of net General Fund appropriations) and is anticipated to remain at the cap through this report's projection period (FY 25 – FY 28). Statute requires that the General Fund operating surplus and any revenue exceeding the volatility cap are deposited into the BRF, dedicated to reducing long-term debt, or both. The volatility deposit is projected to be above $1.2 billion annually for FY 25 through FY 28, and nearly all these revenues will be dedicated to reducing long-term debt in the State Employees Retirement System (SERS) and Teachers' Retirement System (TRS). 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 reduction will be necessary for the Special Transportation Fund (STF) in FY 28 ($44.6 million) as shown in **Table 1.1** below; there is a cumulative positive STF fund balance as described below.

Additionally, the 11 other appropriated funds (excluding the STF and General Fund) will collectively have an annual operating deficit beginning in FY 26. A primary reason is that the Municipal Revenue Sharing Fund's receipt of a sizeable General Fund transfer to support town grants is only authorized through FY 25. For certain other funds, a cumulative fund balance will cover the operating deficits.

**Special Transportation Fund**

OFA projects diminishing operating surpluses for FY 25 through FY 27 and a deficit in FY 28, using the report's required methodology. The FY 25 surplus is estimated to be $129.5 million; in FY 28, the deficit is projected to be $44.6 million. Following the one-time use of a portion of STF cumulative balance to pay off debt in FY 25, the cumulative fund balance is projected to increase from $570.5 million at the end of FY 25 to a peak of $692.8 million in FY 27, and then decline to $648.2 million at the end of FY 28.

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

| Fund | FY 25 | FY 26 | FY 27 | FY 28 |
|---|---|---|---|---|
| **General Fund (GF)** | | | | |
| November Consensus Revenue | 23,379.9 | 23,879.7 | 24,571.4 | 25,323.6 |
| Expenditures | | | | |
| Previous Year Expenditure | | 23,257.2 | 23,506.3 | 23,779.6 |
| Fixed Cost Growth | | 249.1 | 273.3 | 249.3 |
| Expenditure Reduction[1] | | - | - | - |
| **Subtotal - Expenditures** | **23,257.2** | **23,506.3** | **23,779.6** | **24,028.9** |
| **GF BALANCE** | **122.7** | **373.4** | **791.8** | **1,294.7** |
| **Special Transportation Fund (STF)** | | | | |
| November Consensus Revenue | 2,356.3 | 2,361.9 | 2,393.0 | 2,423.5 |
| Expenditures | | | | |
| Previous Year Expenditure | | 2,226.8 | 2,266.9 | 2,365.8 |
| Fixed Cost Growth | | 40.1 | 98.9 | 102.4 |
| Expenditure Reduction[1] | | - | - | (44.6) |
| **Subtotal - Expenditures** | **2,226.8** | **2,266.9** | **2,365.8** | **2,423.5** |
| **STF BALANCE** | **129.5** | **95.0** | **27.2** | **-** |

| Fund | FY 25 | FY 26 | FY 27 | FY 28 |
|---|---|---|---|---|
| **Other Appropriated Funds** | | | | |
| Revenue and Transfers | 938.3 | 796.1 | 810.1 | 823.0 |
| Expenditures | 889.2 | 889.2 | 889.2 | 889.2 |
| **OTHER APPROP. FUNDS BALANCE[2]** | **49.2** | **(93.1)** | **(79.1)** | **(66.1)** |
| **All Appropriated Funds** | | | | |
| Revenue | 26,674.5 | 27,037.7 | 27,774.5 | 28,570.1 |
| Expenditures | 26,373.1 | 26,662.3 | 27,034.5 | 27,341.5 |
| **ALL APPROP. FUNDS BALANCE** | **301.4** | **375.4** | **740.0** | **1,228.6** |

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

[2]As nonlapsing 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 Year

PA 23-204, the FY 24 and FY 25 Budget, was adopted with a budgeted balance of $297.9 million in FY 25. November 2024 consensus revenue and revised expenditure projections result in a balance decrease of $175.2 million in FY 25. This is primarily due to expenditure projections that exceed net appropriations by $451.3 million.

Current FY 25 projections estimate an operating surplus of $122.7 million. The projected surplus represents less than 1% of General Fund appropriations.

**Table 2.1** shows that the FY 25 decline from the budgeted balance to the projected operating surplus is mainly the result of expenditure projections exceeding net budgeted appropriations by $451.3 million as noted above, due to account deficiencies. This is partially offset by a revenue increase of $250.4 million.

**Table 2.1** FY 25 November Updates to General Fund Estimates
In Millions of Dollars

| Summary | FY 25 |
|---|---|
| **Budgeted Balance** | **297.9** |
| **Revenue** | |
| Budgeted | 23,103.7 |
| **Updates (net) through April Consensus** | **25.8** |
| April Consensus Revenue | 23,129.5 |
| **Nov. 2024 Consensus Adjustment** | |
| Withholding | 130.0 |
| E&F/PET | 240.0 |
| Volatility Adjustment Transfer | (240.0) |
| Healthcare Provider | (65.9) |
| Federal Grants | 72.4 |
| Transfers From / (To) Other Funds | 111.2 |
| Transfers from Tobacco Settlement Fund | 12.0 |
| Miscellaneous Taxes | (20.0) |
| Inheritance & Estate | 15.0 |
| Other (net) | (4.3) |
| **Subtotal** | **250.4** |
| **Expenditures** | |
| Budgeted | 22,805.9 |
| Lapses | 95.4 |
| Deficiencies | (487.2) |
| Technical | (59.5) |
| **Subtotal** | **(451.3)** |
| **SURPLUS/(DEFICIT)** | **122.7** |

**FY 25 REVENUE**
November consensus net revenue estimates increased total General Fund projections by $250.4 million in FY 25. Notable revenue adjustments in the consensus estimates are outlined below and in **Table 2.1.**

***Income Tax***
The primary driver of the improved bottom-line projections is the withholding portion of the personal income tax, which is revised upwards by $130 million in FY 25. Ongoing, relative strength in wage growth, actual tax collections, and anticipated (withheld) bonuses related to the performance of financial markets each supports an improved outlook for withholding.

The outlook for estimated and final (personal income tax) collections has improved this fall as federal monetary policy shifts and the equity market performs well. Projections of the pass-through entity tax also are adjusted upward to reflect ongoing collections trends. These projected increases, totaling $240 million, will transfer to the Budget Reserve Fund because they exceed the volatility cap.[1] The November consensus projects the total volatility adjustment transfer to be $1.4 billion for FY 25.

*Other Notable Revenue Adjustments*
The health provider tax is adjusted downward by $65.9 million in FY 25 to reflect anticipated underpayment in hospital tax and nursing home tax collections this fiscal year, due to financial strain incurred by some taxpayers.

Federal grants revenue is adjusted upwards by $72.4 million in FY 25, primarily due to:
- Higher than anticipated FY 24 finalization awards (approximately $38 million);
- Increased claiming under the Substance Use Disorder (SUD) waiver ($20 million); and
- A net increase in other agency revenue ($15 million), the majority of which is associated with Department of Developmental Services (DDS) waivers.

Adjustments to the Transfers to/from revenue source totaling $111.2 million are:
- A $110 million increase to the FY 24 to FY 25 General Fund revenue transfer under PA 24-151;
- An $800,000 increase as the balance of the Biomedical Research Trust Fund is swept to the General Fund per PA 24-81; and
- Other technical updates totaling $400,000 net.

PA 24-81 suspends the annual $12 million transfer to the Tobacco and Health Trust Fund resulting in a General Fund revenue gain for FY 25 only. The November consensus estimates includes this change.

Miscellaneous taxes are adjusted downward by $20 million to reflect the removal of a revenue target associated with a Department of Revenue Services' data analytics initiative.

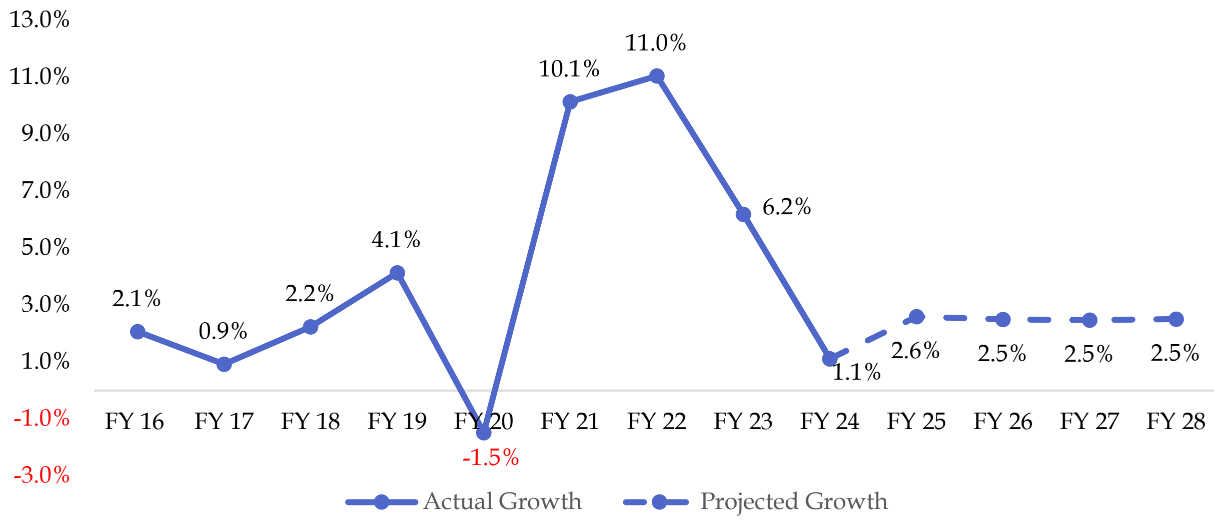
Inheritance & estate taxes are adjusted upward by $15 million to reflect a reversion to a typical revenue collections trend, under the assumption that historically low collections in FY 24 represented a one-time anomaly.

All other net adjustments totaling -$4.3 million reflect updated trends in various revenue streams.

*Sales and Use Tax*
The sales and use tax revenue projection remains unchanged from the April 2024 consensus. Inflation has moderated this year to 2.6% as of October. Additionally, overall retail spending continues to see positive growth at around 2.3% (see **Section VII** for further discussion). The projected growth rate for sales tax in FY 25 is 2.6% in total for sales tax collections across all funds, as noted in **Figure 2.1**, to reflect these economic trends.

[1] The volatility adjustment cap and transfers apply to the total amount of revenues from the estimated and final portion of the personal income tax and the pass-through entity tax.

**Figure 2.1** Sales Tax Growth Rates (All Funds)




Source: OFA calculations

**FY 25 EXPENDITURES**

PA 23-204 authorized FY 25 net General Fund appropriations of $22.8 billion. FY 25 expenditures are projected to exceed net appropriations by $451.3 million. This is due to deficiencies of $487.2 million and negative technical adjustments of $59.5 million, partially offset by $95.4 million in lapses, as displayed in **Table 2.2** and detailed in **Figure 2.2**.[2]

**Table 2.2** FY 25 Expenditure Projections
In Millions of Dollars

| Expenditures | FY 25 |
|---|---|
| Budgeted | 22,805.9 |
| Lapses | 95.4 |
| Deficiencies | (487.2) |
| Technical/Unallocated Lapses | |
| *Unallocated Lapses* | (59.7) |
| *Distribution to Other Funds* | 0.2 |
| **Technical Subtotal** | **(59.5)** |
| **NET LAPSE/(DEFICIENCY)** | **(451.3)** |

**Deficiencies**

***Medicaid***

Medicaid is projected to have a deficiency of $225 million, driven by expenditure trends that have continued since FY 24. These trends include higher than budgeted hospital and pharmacy costs, as well as costs associated with health coverage for undocumented children, which are the primary reason for the lapse in HUSKY B ($10 million) where such funding was originally budgeted. The associated lapse in HUSKY B is described below.

***Caseload/Cost Pressures***

Deficiencies of $77.6 million across accounts within eight agencies are due to either: (1) increased cost of food, utilities, medicine, or other necessary service provisions; or (2) increased demand for services.

[2] The categories displayed in Figure 2.2 do not add up to the net total deficiency of $451.3 million because the Distribution to Other Funds amount is not included.

The largest of these is the Department of Correction, with $37.8 million in deficiencies across two accounts due to both the rising costs of food, medical supplies, and utilities and due to an increase in the incarcerated population.

A total of $18.6 million in deficiencies, driven by similar cost pressures, is occurring in accounts across three human service agencies: Department of Mental Health and Addiction Services ($10.6 million), Department of Social Services ($7 million), and the Office of Early Childhood ($1 million).

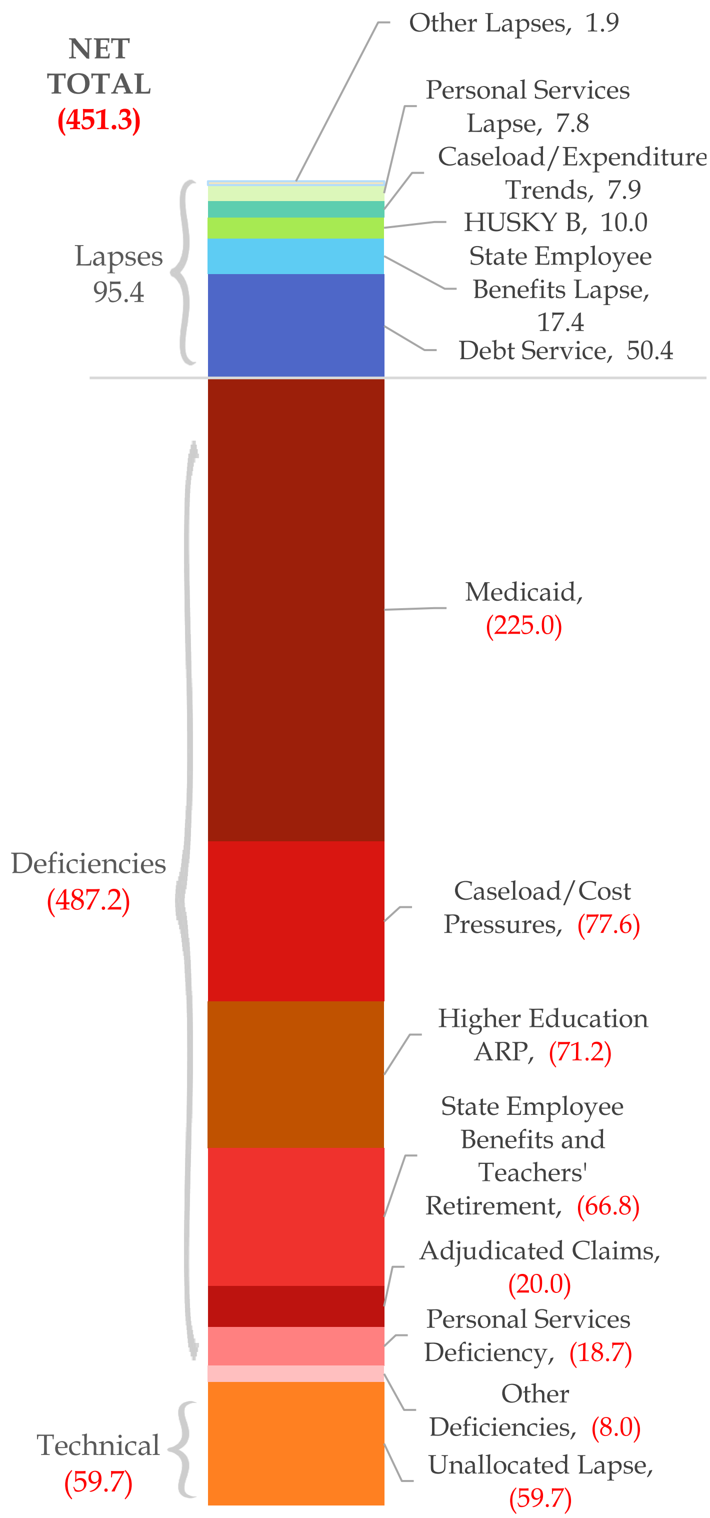
Other significant account-level deficiencies related to caseload and cost pressures include: (1) the Connecticut Technical Education and Career System (CTECS) ($10.3 million) due to increased special education enrollment and cost of providing special education services; (2) the Department of Housing ($5.6 million) due to increased rents associated with the Rental Assistance Program; and (3) the Judicial Department ($4.1 million) due to rising software, other IT, and utilities costs.

Lastly, deficiencies within the Department of Administrative Services ($1 million), and Division of Criminal Justice ($136,000) are also due to various rising costs.

***Higher Education ARP***

A $71.2 million deficiency is projected in the Office of the State Comptroller – Fringe Benefits Higher Education Alternative Retirement (ARP) account. This is due to an accounting change related to the restructuring of higher education fringe benefits pursuant to PA 23-204.

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



***State Employee and Teachers' Retirement Benefits***

There are projected deficiencies totaling $66.8 million across four Office of the State Comptroller (OSC) – Fringe Benefits accounts, and one Teachers' Retirement Board (TRB) account.

Deficiencies within the OSC Fringe Benefits - Retired State Employees' Health Service Cost account ($37.4 million) and TRB Retiree Health Service Cost account ($9.9 million) are due to premium increases effective January 1, 2025. The TRB retiree health plan carrier is beginning a new one-year contract with higher rates largely driven by the federal Inflation Reduction Act. The state employee retiree health plan was rerated to account for changes in several factors including the plan's performance, population, and market, along with the federal Inflation Reduction Act.

The remaining OSC deficiencies are in Other Post Employment Benefits ($13.2 million), Employers Social Security Tax ($6.1 million), and Pensions and Retirements – Other Statutory ($89,760).

***Personal Services***

There are $18.7 million in projected net Personal Services deficiencies. This includes $38.7 million across 11 agencies, which are anticipated to be partially offset by $20 million in Reserve for Salary Adjustment (RSA) transfers. The largest such deficiencies are within the Department of Mental Health and Addiction Services ($10 million), Department of Administrative Services ($7.5 million), Department of Correction ($5 million), Judicial Department ($3.8 million), and CTECS ($3 million).

These deficiencies are generally due to increased rates of hiring and higher overtime costs. Of the total $38.7 million Personal Services deficiencies, $16.4 million is due to an inability of those agencies to fully meet Personal Services holdbacks.

***Adjudicated Claims***

There is a projected deficiency of $20 million within the Office of the State Comptroller - Adjudicated Claims account. No FY 25 appropriation was made for this account. Approximately $4.7 million has been expended through the first quarter of the fiscal year.

**Technical**

***Unallocated Lapse***

Secs. 14 and 15 of PA 23-204, as amended by PA 24-81, establish bottom-line General Fund budgeted lapses in FY 25 totaling $182.7 million and allow the Office of Policy and Management to allocate less than appropriated to agencies (i.e., "holdbacks") to achieve these lapses. To date, OPM has announced $123 million in Personal Services holdbacks to achieve the lapses, leaving $59.7 million unallocated.

OFA projects that these budgeted lapses will be achieved via a combination of above-identified lapses and OPM holdbacks. OFA estimates that the budgeted lapse target will be exceeded by $2 million if holdbacks in agencies currently projected to have a deficiency are released.

**Lapses**

***Debt Service***

Approximately $50.4 million is anticipated to lapse due to lower than budgeted debt service costs. 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.

***State Employee Fringe Benefits***

Lapses totaling $17.4 million are projected across four state employee fringe benefits accounts within OSC. These include: (1) $14.3 million for health service costs; (2) $2.2 million for retirement contributions; (3) $500,000 for unemployment compensation; and (4) $448,278 for group life insurance.

***HUSKY B***

A $10 million lapse is projected in the Department of Social Services' HUSKY B account due to certain enrollment trends. PA 23-204 expanded eligibility for state-funded healthcare to all children regardless of immigration status and originally budgeted funding under the HUSKY B line item for this purpose (with expansion funding provided under Medicaid). Enrollment under state-funded HUSKY B eligibility requirements has been lower than anticipated, resulting in the $10 million lapse. Correspondingly, enrollment has been higher than anticipated under state-funded HUSKY A eligibility, contributing to the above-described deficiency in the DSS Medicaid account.

***Caseload and Expenditure Trends***

Approximately $7.9 million is projected to lapse in accounts across six agencies due to lower than budgeted caseload and expenditures. This primarily consists of: (1) $5 million in the Department of Social Services’ Temporary Family Assistance account; and (2) $1.2 million in the Department of Correction’s Community Support Services account.

***Personal Services***

There are projected Personal Services (PS) lapses totaling $7.8 million across eight agency accounts due to turnover and delays in filling positions. This primarily consists of $5 million in the Office of Legislative Management. Other PS lapses are: (1) $1 million in the Department of Correction’s Board of Pardons and Paroles account;[3] (2) $900,000 across various watchdog agencies; (3) $500,000 within the Secretary of the State; and (4) $400,000 in the Department of Aging and Disability Services.

**BUDGET RESERVE FUND**

The Budget Reserve Fund (BRF) is projected to grow by $126.0 million in FY 25 and $49.2 million in FY 26. In addition, $1,400.2 million in FY 25 and $1,229.0 million in FY 26 are expected to be dedicated to reducing long-term debt. **Table 2.3** below shows the projected allocations as well as the BRF balances. For more information about the BRF in the out years, please see **Section IV**.

[3] Expenditures from this account are primarily related to Personal Services. As a result, the account’s projected lapse is being treated as a Personal Services lapse for this analysis.

**Table 2.3** Projected BRF Balances
In Millions of Dollars

| Projected Budget Reserve Fund Adjustments | FY 25 | FY 26 |
|---|---|---|
| **Balance Starting Point** | **4,105.1** | **4,231.1** |
| Volatility Deposit | 1,403.5 | 1,278.2 |
| Surplus[1] | 122.7 | - |
| **Funds for Allocation Subtotal** | **1,526.2** | **1,278.2** |
| Funds Deposited into Budget Reserve Fund | 126.0 | 49.2 |
| **Budget Reserve Fund Balance** | **4,231.1** | **4,280.3** |
| Balance Relative to General Fund Net Appropriations | 18.0% | 18.0% |
| **Funds Dedicated to Reducing Long-Term Debt** | **1,400.2** | **1,229.0** |

[1] The projected surplus in FY 25 reflects the estimates provided in this section.
There is no surplus or deficit assumed in FY 26 due to the lack of a budget in place.

# Section III. General Fund - FY 26 to FY 28 Projections

## GENERAL FUND BALANCE IN THE OUT YEARS

Positive General Fund balances are projected from FY 25 to FY 28 because revenue growth will outpace fixed cost growth. The report's required methodology does not allow for growth in non-fixed cost expenditures or considering other potential budgetary pressures, such as certain expenditures previously funded through temporary resources. Therefore, the out-year balances should not be considered annual surpluses.

**Figure 3.1** Revenue and Expenditures
In Millions of Dollars

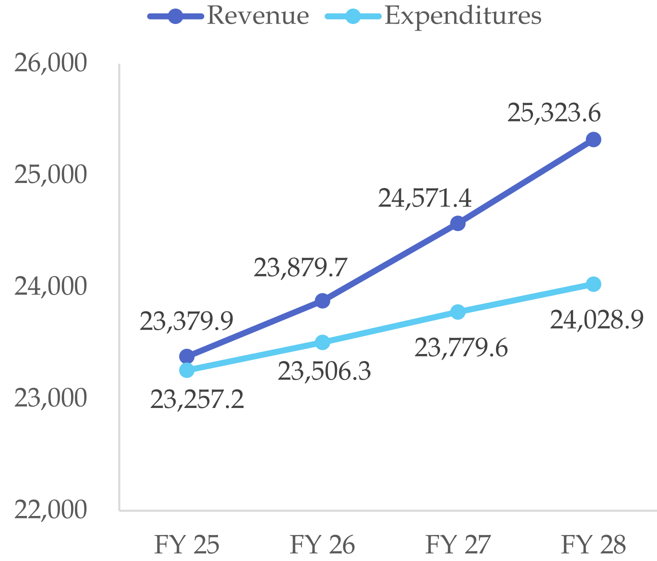



**Figure 3.1** presents the FY 25 through FY 28 General Fund projections of revenue and expenditures. FY 26 through FY 28 expenditure figures are adjusted for only changes to fixed costs, maintaining non-fixed costs at FY 25 levels. This statutory methodology results in projected annual positive balances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

There is a $122.7 million General Fund projected balance in FY 25 which increases each year, reaching nearly $1.3 billion in FY 28. Fixed cost expenditures are growing at an average of $257 million per year while revenue is growing at an average of $648 million per year. The balance is lowest in FY 25 due to agency deficiencies; see **Section II** for details on FY 25. The expanding difference between revenue and fixed cost expenditures is being driven by: (1) additional large deposits into the state's pension systems, which lower the state's annual pension contributions and (2) an increase in projected revenue from the personal income tax and sales tax.

**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** | 23,379.9 | 23,879.7 | 24,571.4 | 25,323.6 |
| **Expenditures** | | | | |
| Previous Year Expenditure | | 23,257.2 | 23,506.3 | 23,779.6 |
| Fixed Cost Growth | | 249.1 | 273.3 | 249.3 |
| Non-Fixed Cost Expenditure Reduction | | - | - | - |
| **Subtotal - Expenditures** | **23,257.2** | **23,506.3** | **23,779.6** | **24,028.9** |
| **BALANCE** | **122.7** | **373.4** | **791.8** | **1,294.7** |

**Table 3.1** presents General Fund projections for FY 25 through FY 28. The projections account for November 2024 consensus revenue estimates and FY 25 changes to expenditure estimates based on current trends. Estimates for FY 26 through FY 28 incorporate 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** | **122.7** |
| **Components of Change** | |
| Structural Balance | |
| Revenue Growth | 740.1 |
| Fixed Cost Growth | (249.1) |
| **Structural Balance Subtotal** | **491.1** |
| Revenue Policy | (200.2) |
| Revenue Technical | (40.1) |
| **All FY 26 Changes Subtotal** | **250.7** |
| **FY 26 PROJECTED BALANCE** | **373.4** |

**Table 3.2** shows the component pieces that result in an increase in the ending General Fund balance in the first out year, from $122.7 million in FY 25 to $373.4 million in FY 26. The difference in the structural balance components – revenue growth compared to fixed cost growth – yields a positive balance of $491.1 million. However, after accounting for the phase-in of previously enacted revenue policies of -$200.2 million and revenue technical adjustments of -$40.1 million, the total balance change from FY 25 to FY 26 is an improvement of $250.7 million.

## REVENUE POLICY AND TECHNICAL ADJUSTMENTS

The net total effect of FY 26 revenue policy and technical adjustments decreases General Fund revenue by a total of $240.3 million within that 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 | (205.0) |
| Adjust transfer to other appropriated funds | 115.2 |
| 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) |
| Suspend FY 25 Tobacco and Health Trust Fund transfer | (12.0) |
| All other policies (net) | (20.4) |
| **Total Policy** | **(200.2)** |
| Hospital tax adjustment per the 2019 settlement | (30.0) |
| All other technical (net) | (10.1) |
| **Total Technical** | **(40.1)** |
| **Total Policy + Technical** | **(240.3)** |

**Revenue Policies**

***Credit FY 24 General Fund revenues to FY 25***

A one-time credit of $205 million in surplus FY 24 revenues was transferred into FY 25 in the biennial budget, which will be unavailable to balance future budgets.

***Adjust transfer to other appropriated funds***

The FY 24 and FY 25 Budget provided temporary, supplemental transfers to the following funds in FY 25. This adjustment reflects the expiration of those transfers which results in a revenue gain of $115.2 million in FY 26 to the General Fund.

- Municipal Revenue Sharing Fund: $104.9 million
- Cannabis Regulatory Fund: $10.3 million

***Temporary corporation business tax surcharge expires***

The FY 24 and FY 25 Budget temporarily extended the 10% corporation business tax surcharge through 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.

***Suspend FY 25 Tobacco and Health Trust Fund transfer***
PA 24-81 suspends temporarily (FY 25 only) the annual $12 million transfer to the Tobacco and Health Trust Fund, resulting in a corresponding revenue gain of $12 million to the General Fund. As the temporary suspension is due to expire in FY 26, General Fund revenue is set to decrease by $12 million relative to the FY 25 reference point.

**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.[4]

**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 $718.1 million compared to an annual average of $257.2 million for fixed cost expenditures. This results in positive structural balances ranging from $423.4 million to $491.1 million per year.

**Table 3.4** General Fund Structural Balance
In Millions of Dollars

| Category | FY 26 | FY 27 | FY 28 | TOTAL | Average Growth | Annualized Growth % |
|---|---|---|---|---|---|---|
| Revenue Growth | 740.1 | 696.7 | 717.4 | 2,154.2 | 718.1 | 2.7% |
| Fixed Cost Growth | 249.1 | 273.3 | 249.3 | 771.7 | 257.2 | 2.0% |
| **BALANCE** | **491.1** | **423.4** | **468.1** | **1,382.6** | **460.9** | |

**REVENUE GROWTH**
Revenue growth in the out years ranges from 2.9% to 3.2% annually based on economic growth. A detailed breakout of growth amounts is included in **Table 3.5**.

**Table 3.5** Revenue Growth by Source – Change from Prior Year
In Millions of Dollars

| Source | FY 26 | FY 27 | FY 28 |
|---|---|---|---|
| Personal Income Tax | 578.3 | 603.5 | 586.1 |
| Sales Tax | 130.5 | 128.7 | 134.5 |
| Business Taxes | 65.2 | 53.7 | 54.9 |
| Other Revenue | 15.6 | (7.0) | 23.1 |
| Refunds | (49.5) | (82.2) | (81.2) |
| **TOTAL GROWTH** | **740.1** | **696.7** | **717.4** |
| **PERCENT GROWTH %** | **3.2%** | **2.9%** | **2.9%** |

4 The hospital settlement agreement is codified under CGS Sec. 12-263q.

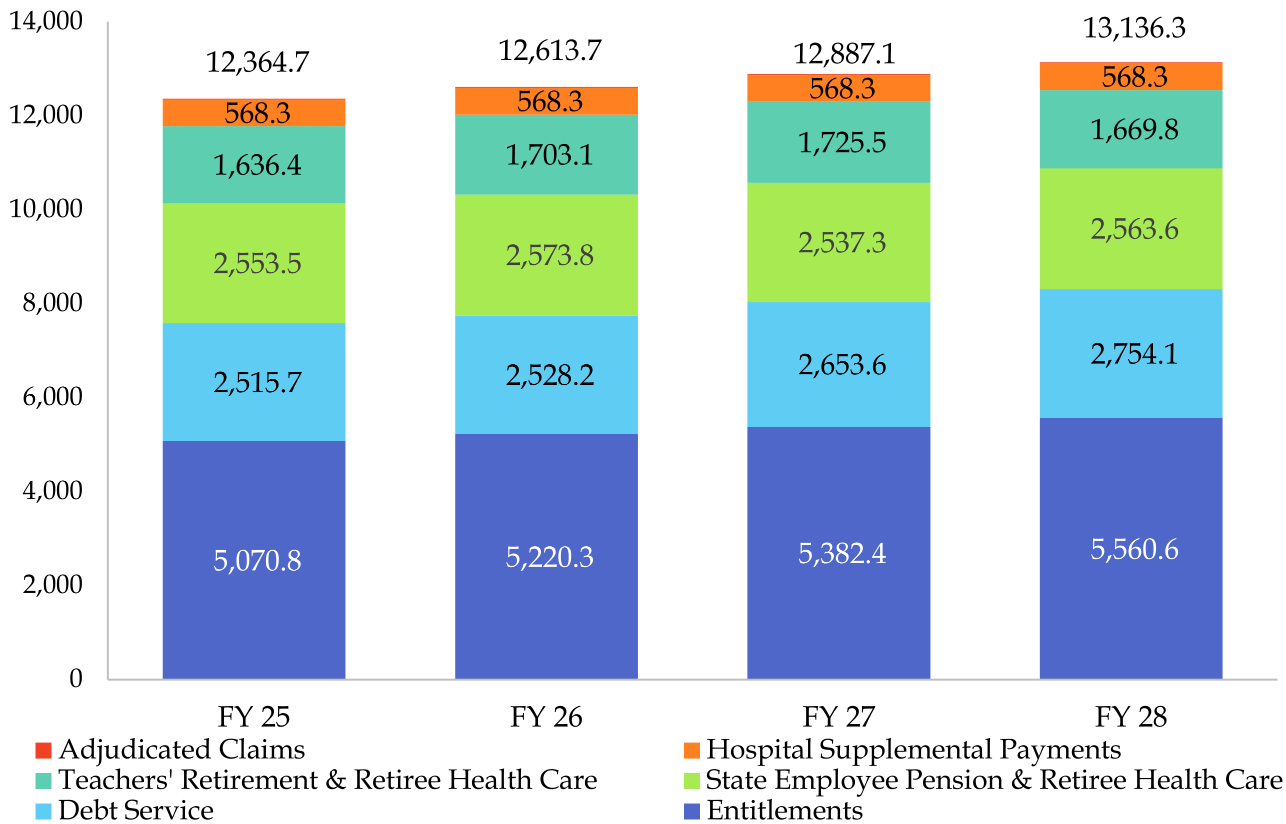
## FIXED COST EXPENDITURES

General Fund fixed costs are statutorily defined[5] 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 expenditure projections by category from FY 25 to FY 28. Total fixed costs are anticipated to grow from $12.36 billion in FY 25 to $13.14 billion in FY 28, an increase of $771.7 million (6.2%). Fixed costs make up 53.2% of General Fund expenditures in FY 25, and this share is projected to rise slightly to 54.7% by FY 28 as non-fixed cost expenditures are flat using the FAR fixed-costs methodology.

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




Average annual growth in fixed cost expenditures for this period is 2%. Of the fixed cost categories, entitlements and debt service have the highest annualized out year growth rates (3.1% for both categories), while hospital supplemental payments and adjudicated claims are not projected to change.

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

The average annual growth in entitlements of 3.1% is primarily driven by Medicaid, which makes up approximately 70% of the category, followed by Community Residential Services representing 16% of all entitlements. This level of growth is anticipated to capture adjustments for caseload and associated utilization.

Overall General Fund debt service costs are anticipated to increase by approximately 3.1% annually from FY 25 to FY 28. That change is driven by 4.4% annual growth in the main debt service line item.[6] Growth in debt service costs is primarily based on bond use, which is discussed in **Section VI.**

State employee pension and teachers' retirement costs continue to grow at a decreased rate in the out years as historic deposits from an accumulated excess in the Budget Reserve Fund lower the state's actuarially determined employer contribution (ADEC). These reductions are partially offset by increased retiree health care costs driven by higher than anticipated premium rates. Premium rate growth is based on plan performance, population, and market changes among other factors.

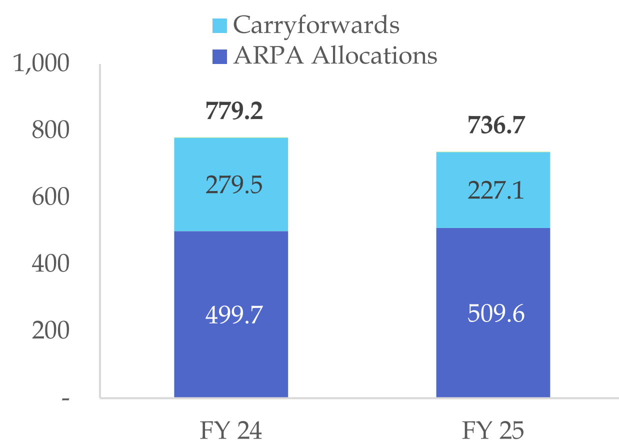
Account-level projections of fixed costs and additional pension information are provided in **Appendices C and G**, respectively.

**OTHER FISCAL PRESSURES**

Multiple fiscal pressures outside of the fixed costs methodology will affect budgets in the out years, as described below.

1. **Expiring ARPA and Carryforward Resources:** The legislature provided $509.6 million in ARPA allocations and $227.1 million in carryforward funding for FY 25, as shown in **Figure 3.3**. The General Fund will likely face pressure to replace many initiatives funded through ARPA and carryforwards, such as support for public higher education institutions, municipal aid, and various social service providers.

**Figure 3.3** FY 24 and FY 25 ARPA Allocations and Carryforwards
In Millions of Dollars




[6] The main debt service line item is estimated to account for over 78% of General Fund debt service expenditures in the out years.

2. **SEBAC Wages**
    a. **SEBAC Wage Reopener:** The FY 25 budget includes a partial cost ($130.6 million) of the adopted agreement and is covered by authorized General Fund carryforward funding from a prior fiscal year. Fully annualized, the agreement requires additional new yearly appropriations of approximately $150.6 million in FY 26 and beyond.
    b. **Future SEBAC Wage Agreement:** There is no existing wage agreement for FY 26 and beyond. Any new agreement is likely to add similar annual costs as the FY 25 agreement. **Table 3.6** below provides an estimate of the total potential costs of a new multi-year SEBAC agreement combined with the existing FY 25 SEBAC wage reopener.

**Table 3.6** SEBAC Wage Agreement Costs (Actual and Potential)
In Millions of Dollars

| | FY 26 | FY 27 | FY 28 |
|---|---|---|---|
| FY 25 | 150.6 | 150.6 | 150.6 |
| Potential FY 26 | 130.6 | 150.6 | 150.6 |
| Potential FY 27 | - | 130.6 | 150.6 |
| Potential FY 28 | - | - | 130.6 |
| **TOTAL** | **281.2** | **431.8** | **582.4** |

Note: This assumes a potential future agreement will have annual costs similar to the FY 25 agreement.

3. **Fiscal Guardrails:** Both the revenue cap and volatility cap effectively limit the amount of revenue that may be used to balance the budget. At the same time, the spending cap is projected to limit growth in capped areas to 5.1% and 5.4% in FY 26 and FY 27, respectively. These mechanisms may be revisited during the 2025 legislative session concurrently with the development of the FY 26 and FY 27 biennial budget.

4. **Growth in Non-Fixed Costs:** Non-fixed cost growth is not allowed by the FAR framework, but there are non-fixed cost increases in current law. For example, Education Cost Sharing (ECS) will increase by approximately $91.7 million in FY 26 as the formula phase-in continues.

5. **Expiring Temporary Transfers:** The FY 24 and FY 25 Budget provided temporary, supplemental transfers in FY 25 of $104.9 million to the Municipal Revenue Sharing Fund and $10.3 million to the Cannabis Regulatory Fund, which will expire in FY 26.

# Section IV. Budget Reserve Fund

Reflecting FY 24 results, in FY 25 the Budget Reserve Fund (BRF) has reached the statutory cap of 18% relative to General Fund net appropriations. It is anticipated that the BRF will remain at 18% through the projection period of this report (ending in 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; and
3) 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 25 | FY 26 | FY 27 | FY 28 |
|---|---|---|---|---|
| **Balance Starting Point** | **4,105.1** | **4,231.1** | **4,280.3** | **4,325.2** |
| Volatility Deposit | 1,403.5 | 1,278.2 | 1,267.1 | 1,278.8 |
| Surplus[1] | 122.7 | - | - | - |
| **Funds for Allocation Subtotal** | **1,526.2** | **1,278.2** | **1,267.1** | **1,278.8** |
| Funds Deposited into Budget Reserve Fund | 126.0 | 49.2 | 44.9 | 45.3 |
| **Budget Reserve Fund Balance** | **4,231.1** | **4,280.3** | **4,325.2** | **4,370.5** |
| Balance Relative to General Fund Net Appropriations | 18.0% | 18.0% | 18.0% | 18.0% |
| **Funds Dedicated to Reducing Long-Term Debt** | **1,400.2** | **1,229.0** | **1,222.2** | **1,233.5** |

[1]Note that the projected surplus in FY 25 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 General Fund 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% to 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. OFA projects diminishing operating surpluses for FY 25 and the next two fiscal years, and then a deficit in FY 28, using the FAR methodology. This would be the first operating deficit for the STF since FY 20. Absent legislative action, it is expected that the magnitude of deficits will grow beyond FY 28 as fixed costs outpace revenues over the long run. The disparity between fixed cost growth and revenues has been a chronic issue that was temporarily masked in recent fiscal years as transportation-related sales tax revenue shifted to the STF and sales tax collections surged with rising inflation. Now that the additional revenue source has been fully absorbed into the STF and inflation has moderated, the imbalance between fixed cost growth and revenues has re-emerged.

**STF Surplus Payoff**

Under PA 24-151, STF FY 24 year-end cumulative reserves above 18% of FY 25 appropriations will be used to pay down STF debt. This one-time payoff is expected to result in debt service savings of approximately $60 million annually over the next ten years.

In the near term, the STF is distinguished by projected modest annual operating surpluses and large cumulative reserves, which totaled $967.9 million at the end of FY 24, the largest reserve in the fund's history. The STF's reserves are set to decrease, however, as PA 24-151 requires the Treasurer to use a portion of the FY 24 reserves to pay off STF-supported debt. Thus, despite a projected operating surplus this year, the end-of-year cumulative balance is projected to decline from $967.9 million in FY 24 to $570.5 million in FY 25. See **Table 5.1** below for full projections.

**Table 5.1** STF Projections
In Millions of Dollars

| Components | FY 25 | FY 26 | FY 27 | FY 28 |
|---|---|---|---|---|
| **Expenditures[1]** | | | | |
| Debt Service | 899.5 | 941.5 | 1,046.1 | 1,147.7 |
| Other | 1,327.3 | 1,325.4 | 1,319.7 | 1,320.4 |
| **TOTAL** | **2,226.8** | **2,266.9** | **2,365.8** | **2,468.1** |
| Revenue | | | | |
| Sales and Use Taxes | 997.0 | 1,020.8 | 1,045.4 | 1,070.3 |
| Fuel Taxes | 847.4 | 838.4 | 847.8 | 856.4 |
| Other[2] | 511.9 | 502.7 | 499.8 | 496.8 |
| **TOTAL** | **2,356.3** | **2,361.9** | **2,393.0** | **2,423.5** |
| Operating Balance | | | | |
| Surplus/ (Deficit) | 129.5 | 95.0 | 27.2 | (44.6) |
| **Year End Cumulative Balance[3]** | **570.5** | **665.5** | **692.8** | **648.2** |
| Debt Service Ratio | 2.6 | 2.5 | 2.3 | 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] Includes motor vehicle registration, licenses, permits, and related fees; highway use tax; interest income; refunds; and other miscellaneous revenue.
[3] The FY 25 amount is the estimated year-end cumulative balance after $526.9 million is used to pay off STF-supported debt as required by Sec. 124 of PA 24-151. Absent that provision, the FY 25 year-end cumulative balance would be an estimated $1,097.4 million.

## EXPENDITURE HIGHLIGHTS

In FY 25, STF expenditures are projected to be $59.6 million less than budgeted as shown in **Table 5.2**. Projected lapses are anticipated to exceed the budgeted bottom-line lapse target of $12 million for the STF. Highlights are described below.

**Table 5.2** FY 25 STF November Estimates
In Millions of Dollars

| Summary | FY 25 |
|---|---|
| **Budgeted Surplus** | **68.1** |
| **Revenue** | |
| Budgeted | 2,354.5 |
| Updates (net) through April Consensus | 56.0 |
| **Changes in November** | **(54.2)** |
| Oil Companies | (44.6) |
| All Other (net) | (9.6) |
| **Net Changes from Budget** | **1.8** |
| **Expenditures** | |
| Budgeted | 2,286.4 |
| Lapses | 62.1 |
| Deficiencies | (2.5) |
| **Net Changes from Budget** | **59.6** |
| **ESTIMATED SURPLUS** | **129.5** |

### Debt Service: $48.3 million lapse

A lapse totaling $48.3 million is projected for STF debt service in FY 25. 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. Additional information on debt service costs for FY 25 and beyond is expected after the pending December 2024 bond issuance and anticipated use of surplus STF cumulative balance to pay off a portion of outstanding debt.

### Personal Services in DOT and DMV: $20.5 million lapse

Total savings of $20.5 million are projected in the Personal Services accounts for the Departments of Transportation (DOT) and Motor Vehicles (DMV) due to the persistence of vacant, funded positions. Currently, there are approximately 302 vacant positions at DOT and 113 at DMV. Although lapses are again expected, it is worth noting that both agencies have demonstrated progress in filling vacancies over the past two years, particularly DOT which is now at its highest staffing levels since 2008.

### ADA Paratransit Bus Services: $2.2 million deficiency

A deficiency of $2.2 million is expected in the Americans with Disabilities Act (ADA) Paratransit Program account due to services associated with new bus routes established in FY 24. The FY 24 and FY 25 Budget provided funding for new fixed-route bus services but did not include funding for the federally required complementary ADA paratransit services. The Governor's Revised FY 25 Budget had proposed funding for these services.

Other changes include a projected $5 million net lapse in fringe benefit costs based on spending trends.

## REVENUE HIGHLIGHTS

In FY 25, STF revenues are projected to be $1.8 million more than budgeted and $54.2 million less than April 2024 consensus, as shown in **Table 5.2**. The most significant change from April is a $44.6 million reduction to Oil Companies revenue due to lower projected oil prices. Additionally, Licenses, Permits, and Fees revenue is adjusted downward by $10 million due to lower than expected collections this year. All other changes net to a positive $0.4 million adjustment.

## GROWTH DISPARITY

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 25 through FY 28, the compound annual growth rate (CAGR) for debt service is projected at 7.4% compared to expected revenue growth of 0.1% (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 nearly flat through FY 28 as vehicles become more fuel efficient and oil prices remain below the post-COVID highs experienced in FY 22. The state is also pursuing longer-term goals that are expected to reduce fuel tax collections, including strategies to increase the adoption of electric vehicles and reduce vehicle miles traveled.

Debt service growth is heavily dependent on assumptions for future bond issuances, which historically have been adjusted in response to available revenues. Reducing future issuances from the current projections shown in **Table 5.4** below would decrease debt service payments and the resultant growth rate, which may lower or eliminate projected operating deficits. However, given outstanding debt from prior bond issuances and obligations for future projects, 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** | **4.2%** | **4.7%** | **11.1%** | **9.7%** | **7.4%** |
| **Revenue (Total)** | **(2.3%)** | **0.2%** | **1.3%** | **1.3%** | **0.1%** |
| Sales and Use Tax | 4.1% | 2.6% | 2.6% | 2.6% | 3.0% |
| All Other Revenue | (5.7%) | (1.2%) | 0.5% | 0.4% | (1.5%) |

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

## TRANSPORTATION BONDING

Statute requires OFA to project special tax obligation (STO) bond authorizations, allocations, and issuances, along with their impact on debt service, for future years. The projections for STO bonds are provided in **Table 5.4**.

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

| FY | Debt Service | Authorization | Allocation | Issuance |
|---|---|---|---|---|
| 25 | 899.5 | 1,642 | 1,600 | 1,000 |
| 26 | 941.5 | 1,200 | 1,200 | 1,300 |
| 27 | 1,046.1 | 1,200 | 1,200 | 1,400 |
| 28 | 1,147.7 | 1,200 | 1,200 | 1,400 |
| 29 | 1,234.8 | 1,200 | 1,200 | 1,400 |

STO bond authorizations for FY 25 totaling $1,642.4 million were adopted in PA 23-25 and revised in PA 24-151.[7] Authorizations and allocations are each projected to level out to $1.2 billion starting in FY 26, though changes to the availability of federal funds would likely impact STO bond use. Issuances are projected to increase to $1.3 billion in FY 26, then $1.4 billion in FY 27 and annually thereafter.

### Debt Service Ratio

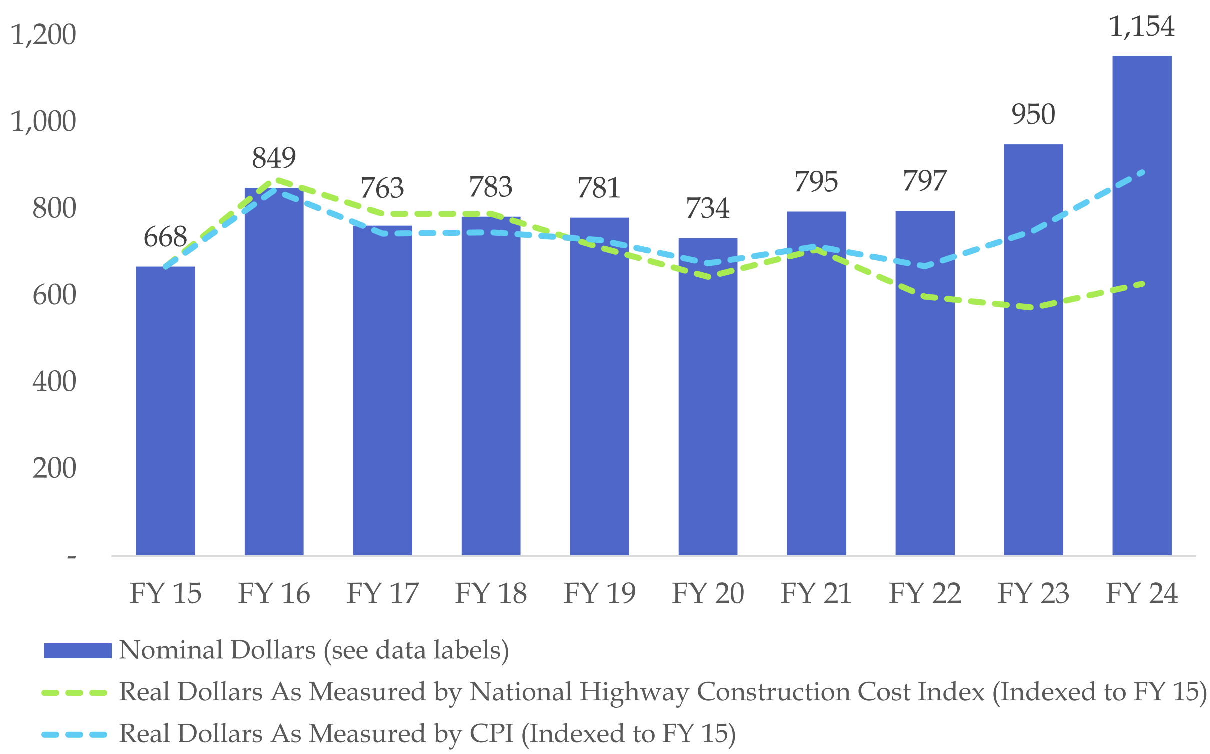
Transportation bonds are issued with a requirement that revenues in the STF must be at least twice the annual debt service needs. Current estimates show the revenue-to-debt service ratio falling from 2.6 for FY 25 to 2.1 for FY 28, as shown in **Table 5.1**. Debt service ratios approaching the 2.0 minimum 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 25 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 for ongoing transportation projects.

### STO Bond Spending

The state's STO spending remained relatively flat between FY 17 and FY 20 at roughly $775 million annually, but year-over-year increases were 19.3% and 21.4% in FY 23 and FY 24, respectively. **Figure 5.1** shows nominal and real spending trends over the last ten years. Annual spending exceeded the $1 billion mark for the first time in FY 24. Spending needs are expected to increase in the out years, resulting in higher issuance and debt service payments, as shown in **Table 5.4** above.

[7] $438 million of STO bonds were authorized in FY 25 for the federal Northeast Corridor Modernization Match Program. This funding, along with $398 million authorized in FY 24 for the same purpose, was part of securing major competitive federal grants. This one-time spike in annual authorizations represents the expected state match for the entire program.

**Figure 5.1** STO Bond Spending
In Millions of Dollars




Source: Nominal Dollars: Core-CT; CPI: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, seasonally adjusted, as retrieved from FRED; National Highway Construction Cost Index (NHCCI), seasonally adjusted, Federal Highway Administration

Nominal increases in transportation project spending do not necessarily mean more work is being done because high levels of construction-related inflation have resulted in increased project costs to perform the same level of work. For example, if state spending were indexed to the NHCCI[8], real spending would have been essentially flat over the last few years (see **Figure 5.1**). The NHCCI is not a perfect measure, since it is an average of cost escalations across all state DOTs (and only includes highway costs), but it does indicate a real erosion in the purchasing power of Connecticut's highway spending. Notably, construction-related inflation has outpaced CPI since FY 22.

The utilization of federal funds largely mirrors the trends seen in STO bond spending and is similarly impacted by escalating costs. The federal Bipartisan Infrastructure Law increased Connecticut's formula grants by an average of 43% over federal fiscal years 2022-26. This increase in federal dollars is a partial driver of the increase in state spending because virtually all federal transportation money requires a state match (typically 20%). Therefore, as the amount of federal funds received by the state increases, it is expected that state spending will likewise increase in order to take full advantage of available federal funds.

[8] The National Highway Construction Cost Index is used by the Federal Highway Administration to measure the average change in the prices paid by state transportation departments for roadway construction materials and services.

## 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.**

**Table 6.1** Estimates of GO Bonds
In Millions of Dollars

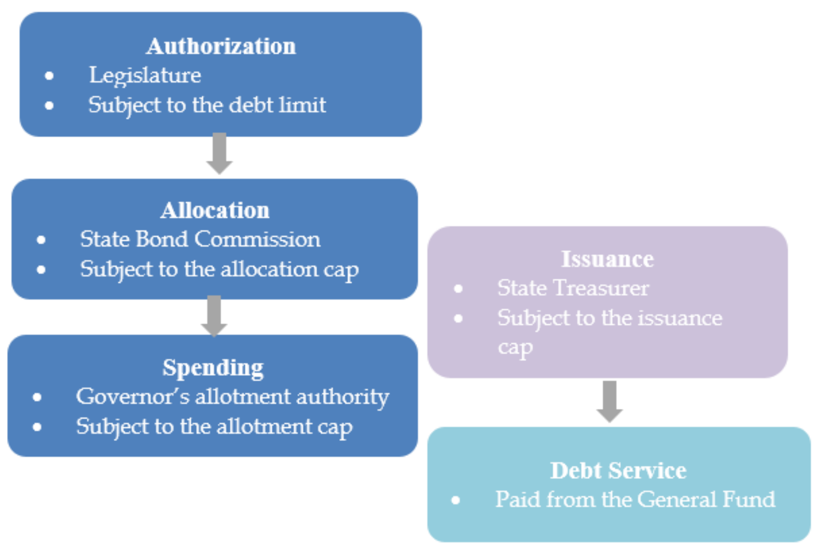
| Description | FY 25 | FY 26 | FY 27 | FY 28 | FY 29 |
|---|---|---|---|---|---|
| Authorizations | 2,758.8 | 2,793.5 | 2,751.3 | 2,813.8 | 2,811.9 |
| Allocations | 2,042.1 | 2,144.2 | 2,251.4 | 2,364.0 | 2,482.2 |
| Issuance | 1,600.0 | 1,800.0 | 1,800.0 | 1,800.0 | 1,750.0 |
| Debt Service | 2,515.7 | 2,528.2 | 2,653.6 | 2,754.1 | 2,787.9 |

The GO projections in **Table 6.1** are based on the following assumptions:

- Authorizations include current net effective authorizations for FY 25 and $2.4 billion of new authorizations annually beginning in FY 26, along with existing authorizations becoming effective in those years.
- Allocations assume a 5% increase annually, beginning with actual FY 24 allocations.
- Issuances are based on a $1.6 billion issuance target for most GO bonds, plus issuances for the UConn 2000 program.
- Debt service is based on outstanding debt and projected new borrowing at market rates.

**THE 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.[9] **Figure 6.1** provides an overview of the process. The various steps in the bond process can be broken into two sub-groups: Bond Use and Financing.

**Figure 6.1** The Bond Process




[9] The statutory debt limit as well as the allocation, issuance, and allotment caps are locked under a bond covenant through FY 33.

**Bond Use**
***Authorizations***

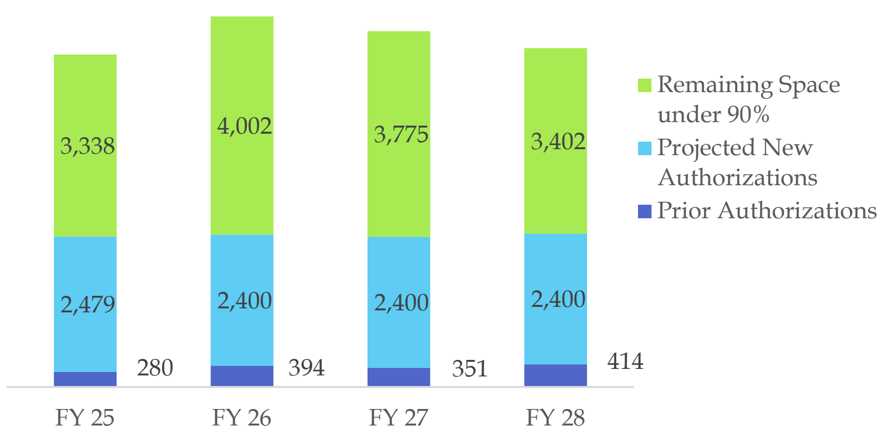
Bond authorizations are restricted by the state's statutory debt limit, which prohibits the legislature from authorizing General Fund-supported debt that exceeds 1.6 times the estimated net General Fund tax receipts in a given fiscal year. Additional capacity for new bond authorizations is typically created through a combination of paying off existing debt and General Fund tax receipts increases. The FY 25 debt limit is $32.5 billion based on the revenue estimates adopted by the Finance, Revenue and Bonding (FRB) Committee in June 2023, as required by statute.[10]

*Exceeding the Statutory Debt Limit and the 90% Threshold*
While remaining within 100% of the statutory 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 statutory debt limit, making it impractical to adopt a bill that would place the state above the 90% threshold. The 90% threshold for FY 25 is $29.3 billion.

*Bonding Capacity*
**Figure 6.2** shows prior authorizations becoming effective in future years, projected new authorizations, and remaining space under the 90% threshold.

As of the start of FY 25, net indebtedness was $25.9 billion, or 79.7% of the debt limit, and the remaining space under the 90% threshold was $3.3 billion (based on FRB adopted revenues).

**Figure 6.2** Projected Bond Authorizations*
In Millions of Dollars




*Debt limit estimates based on FRB adopted revenues for FY 25 and November consensus revenues thereafter

Projected authorizations for FY 26 through FY 28 assume $2.4 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 $3.4 billion under the 90% threshold of the debt limit (as shown in **Figure 6.2)**, which is no higher than 81% of the debt limit, through FY 28.

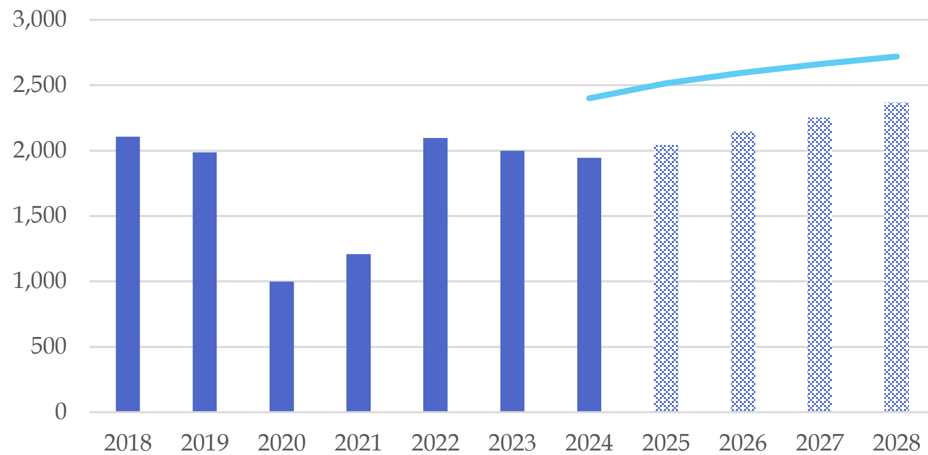
10 The FY 25 debt limit would increase to $33.7 billion if November 2024 consensus revenues estimates were adopted.

### *Allocations*

The State Bond Commission, led by the Governor, allocate bond funds to finance specific projects and purposes from the pool of available authorizations. The allocation cap limits the amount of GO bonds the Bond Commission may allocate in each fiscal year.[11] In FY 24, $1.95 billion was allocated, which represented 81% of the $2.4 billion limit for that year.

For FY 25, the cap is set at $2.52 billion. Through October 2024, $1.3 billion (51.7% of the limit) has been allocated. **Figure 6.3** shows actual allocations for FY 18 through FY 24, along with estimated allocations and annual cap projections for FY 25 through FY 28.

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




Allocations were considerably lower in FY 20 and FY 21 than either the years immediately preceding or following. Since FY 22, allocations have remained at around $2 billion and are projected to continue at similar levels in FY 25 and the next three fiscal years. These projections assume a 5% increase annually over FY 24 levels, reaching $2.36 billion in FY 28. Given historical trends, actual allocations could be lower than projected figures, but are expected to be well below the cap, which is anticipated to exceed $2.7 billion in FY 28.[12]

### *Bond Spending*

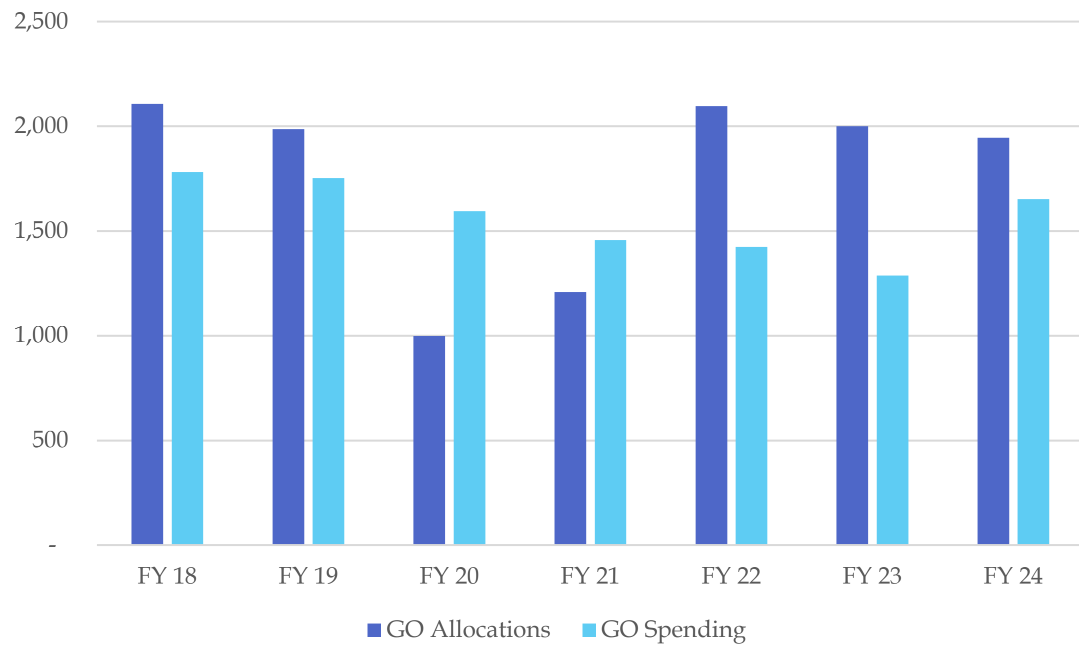
Bond fund expenditures tend to lag allocations for several reasons. The long-term nature of capital projects often leads to predetermined payment schedules, with a portion of payments required at the beginning of a project and the balance paid months or years later upon project completion. Similarly,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

[11] PA 23-1 modified the allocation cap from calendar year to fiscal year beginning in FY 24. Starting in FY 24, the bill sets the cap at $2.4 billion and requires that the cap be adjusted annually for inflation based on the change in the Bureau of Labor Statistics' Consumer Price Index (CPI) for all urban consumers for the preceding calendar year, less food and energy.
[12] The allocation cap projections are based on projected inflation of 3.4%, 2.6% and 2.3% annually for FY 26 – FY 28, respectively.

be delayed as projects start up. **Figure 6.4** below shows spending and allocation levels since FY 18, which illustrates the lag.

Spending continued a slow and steady decline through FY 23, despite a sharp drop in allocations in FY 20 and FY 21. The downward trend in bond spending reversed in FY 24, as spending topped $1.65 billion. Both spending and allocations in FY 24 remain just below FY 18 levels using nominal dollars.

**Figure 6.4** GO Bond Project Spending and Allocations by Fiscal Year
In Millions of Dollars




After the allocation phase, bond spending continues to be controlled by the Governor's allotment authority. PA 23-1 revised the allocation control to prohibit the Governor from approving bond allotments that exceed the issuance cap, as described below.

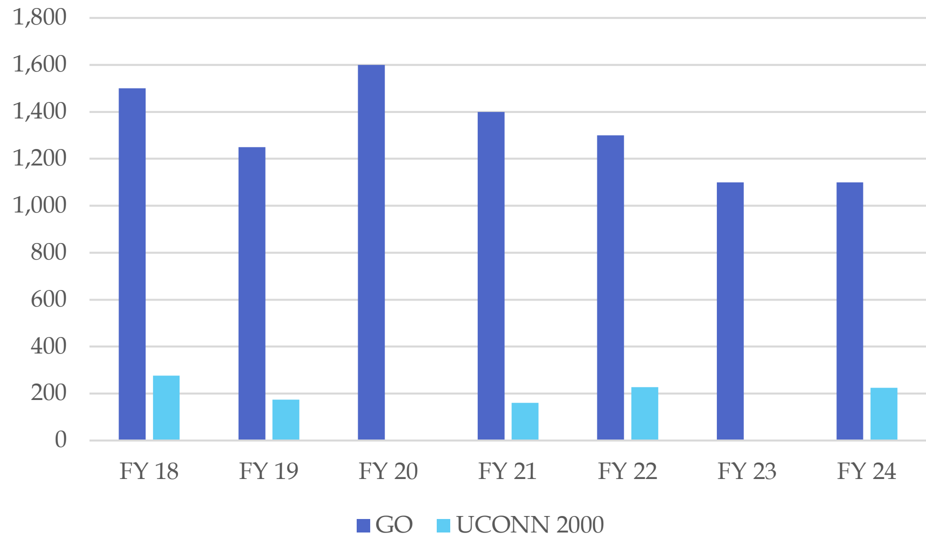
**Bond Financing**
***Issuance***

Bonds are issued by the State Treasurer based on expected need and past spending trends, not immediately when allocated. Historically, issuances have closely tracked spending patterns over the long term.

The issuance cap was first established for FY 19 and then modified for FY 24 to be consistent with the allocation cap.[13]

[13] The cap applies to new GO bond issuances and excludes UConn 2000 program related issuances. For FY 25, the issuance cap is $2.52 billion.

**Figure 6.5** GO Bond Issuances by Fiscal Year
In Millions of Dollars




New GO issuances, exclusive of UConn 2000, have been between $1.1 billion and $1.6 billion since the cap was instituted, as seen in **Figure 6.5**. The uptick in bond spending in FY 24 suggests issuances for FY 25 will increase from the $1.1 billion issued in each of FY 23 and FY 24. Main GO bond issuances are projected to total $1.6 billion for FY 25 and beyond, which would match FY 20 GO bond issuance levels.[14] A further increase in bond spending for FY 25 or beyond could result in an increase in future GO bond issuance. Given recent allocation and spending levels, issuance levels are anticipated to remain well below the annual limit at least through FY 28.

***Debt Service***

Debt repayment requirements are part of the state's contract with bondholders, which are agreed to when bonds are first issued. Debt service is deemed appropriated and excluded from the spending cap.

Debt service payments depend on the amount and type of bonds issued, and are influenced by several other factors (e.g., bond refunding and market rates). In particular, the overall bond market for state-issued bonds has seen fluctuations in interest rates over the last few years. Higher interest rates have been at least partially offset by improvement in the state's creditworthiness (credit ratings) since FY 18.

Debt service projections are based on current outstanding debt and repayment requirements, along with projected issuance of new debt. These projections are discussed as part of fixed cost expenditures in **Section III.**

[14] Excludes issuances for the UConn 2000 program. In years where bonds were issued for the UConn 2000 program, amounts ranged from $160 million to $276 million. Projected issuances for UConn 2000 are $200 million in each of FY 26 through FY 28.

## Section VII. Economic Trends

Connecticut's economy continues to grow at a moderate pace but there are notable challenges in labor, population, and housing.

- The state's **gross state product** continues to grow above pre-pandemic levels, and this trend is projected to continue over the next two years.
- The **labor market** has seen gains in employment and wage growth, but there are concerns about the state's labor force in the future as the large baby boomer cohort moves into retirement and working-age residents continue to leave the state.
- Connecticut's **population** has remained stagnant over the last decade.[15] Stable international migration into the state continues to partially offset consistent negative net domestic migration.
- **Inflation** has moderated and **consumers** continue to spend, especially consumers with higher incomes.
- Connecticut's **housing market** remains tight with affordability a continuing issue, mainly due to low inventory levels and relatively high demand.

### GROSS STATE PRODUCT

Connecticut's real gross state product (GSP), a measure of the total value of all goods and services produced in a year, was $286.6 billion in 2023. The current projection for 2024 is $293.6 billion, which is roughly 12.6% higher than in 2020 during the peak of the pandemic.[16] **Figure 7.1** shows GSP levels and yearly growth rates since 2018 and projections for 2024 and 2025.

The state's economy is driven by the finance, insurance, real estate, rental, and leasing industry, which represents 27% of total GSP. **Table 7.1** provides more insight into industry contributions to Connecticut's GSP.

**Table 7.1** Connecticut Gross State Product By Sector

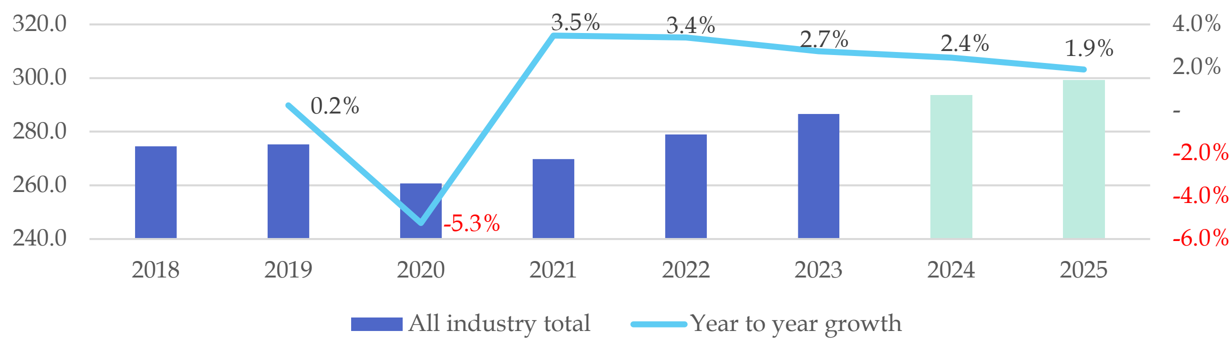
| Industry | 2023 |
|---|---|
| Finance, insurance, real estate, rental, and leasing | 26.9% |
| Professional and business services | 13.8% |
| Manufacturing | 11.7% |
| Educational services, health care, and social assistance | 10.9% |
| Government and government enterprises | 8.9% |
| Information | 7.0% |
| Retail trade | 5.2% |
| Other* | 15.7% |
| **TOTAL** | **100%** |

*Includes wholesale trade; arts, entertainment, recreation, accommodation, and food services; construction; transportation and warehousing; other services; utilities; agriculture, forestry, fishing, and hunting; and mining, quarrying, and oil gas extraction.

Source: U.S. Bureau of Economic Analysis; OFA calculations

[15] There was modest growth during the pandemic related to positive net domestic migration as people moved from high-cost large metro areas to Connecticut, looking for cheaper housing options while having remote work flexibility.
[16] U.S. Bureau of Economic Analysis and Moody's Analytics Forecast. Amounts are expressed in chained 2017 dollars.

**Figure 7.1** Connecticut Real Gross State Product
In Billions of Dollars, Adjusted for Inflation



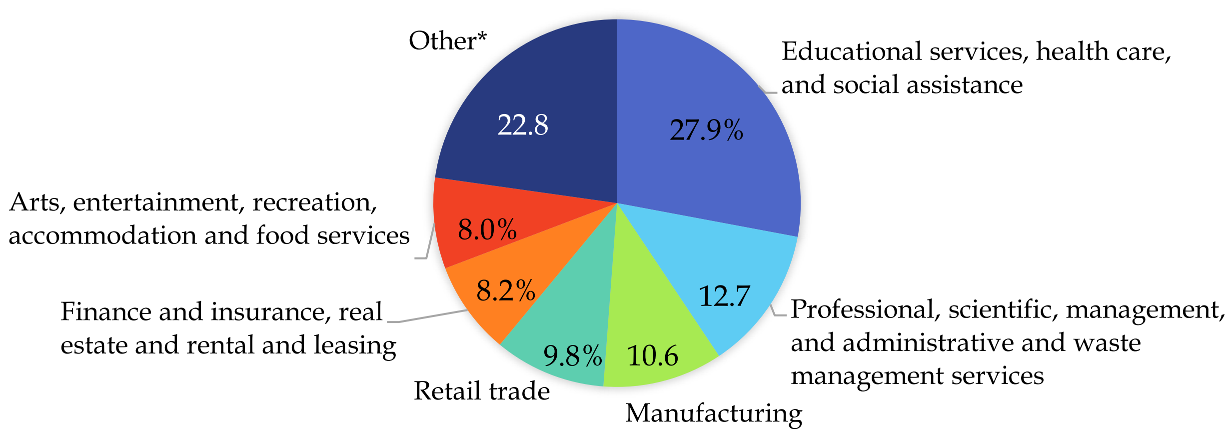

Note: Dollar amounts are shown in chained 2017 dollars.
Source: U.S. Bureau of Economic Analysis, Moody's Analytics Forecast; OFA calculations

## LABOR MARKET

### Employment by Industry

There were approximately 1.9 million people 16 years and older employed in Connecticut in 2023, with roughly 28% of them employed in the educational services, health care, and social assistance industry, which represents only 11% of the state's total economy. **Figure 7.2** also shows that even though the finance, insurance, real estate rental and leasing industry contributes to over 25% of total GSP, it contains only 8% of the employed population.

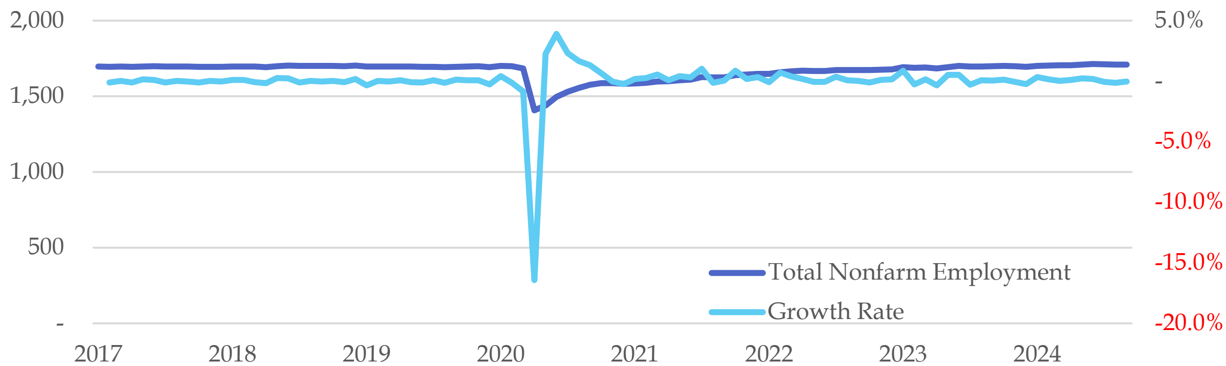
**Figure 7.2** Connecticut Civilian Employed Population (16 Years and Over) By Industry




*Includes construction; transportation and warehousing, and utilities; public administration; information; wholesale trade; agriculture, forestry, fishing, and hunting; and mining.
Source: U.S. Census Bureau 2023 American Community Survey; OFA calculations

Connecticut's employment levels were relatively stable before pandemic-induced reductions. Current data from the CT Department of Labor shows that the state has recovered the jobs lost in the pandemic and is back at pre-pandemic levels. **Figure 7.3** below shows the nonfarm employment trends before, during, and after the pandemic.

**Figure 7.3** Connecticut Total Nonfarm Employment Levels and Month-Over-Month Growth Rates (Employment Levels in Thousands and Seasonally Adjusted)



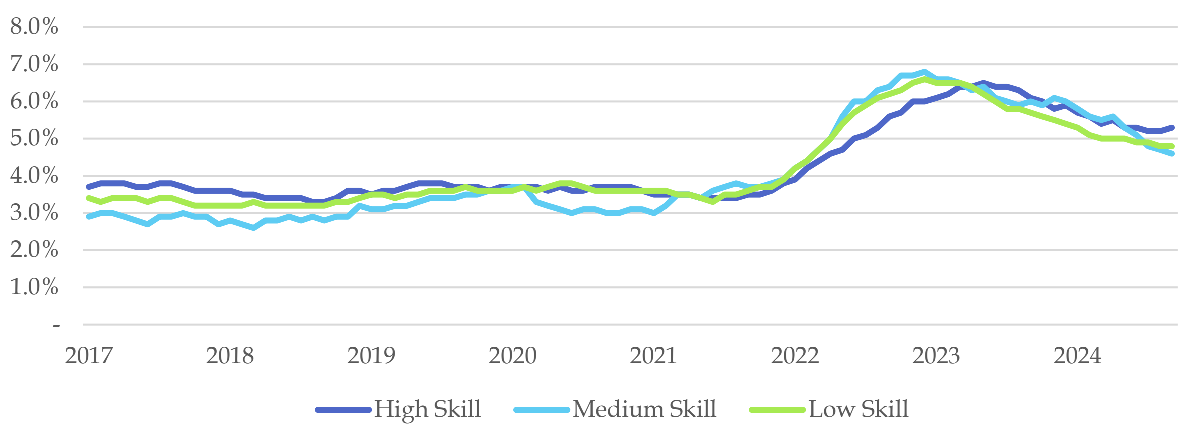

Source: U.S. Bureau of Labor Statistics Business Establishment and Residential Household Surveys, CT Department of Labor (DOL)

**Wage Growth**

Wage growth in Connecticut and nationally has moderated in 2023 and 2024 compared to the accelerated growth experienced in 2022. Average hourly earnings for Connecticut private employees were up 5.6% year-over-year in August 2024 to $38 per hour, with employees in goods-producing industries experiencing 6.4% growth in hourly earnings on average and those in service-providing industries experiencing 5.4% growth.[17]

**Figure 7.4** shows national trends in wage growth for "high skill," "medium skill," and "low skill" workers.[18] All three ranges are exhibiting a moderation in wage growth in the last couple of years. However, the trend remains above the annual growth rates experienced between 2010 and 2020, which ranged between 1% and 4%.

**Figure 7.4** U.S. Median Year-Over-Year Wage Growth by Occupation



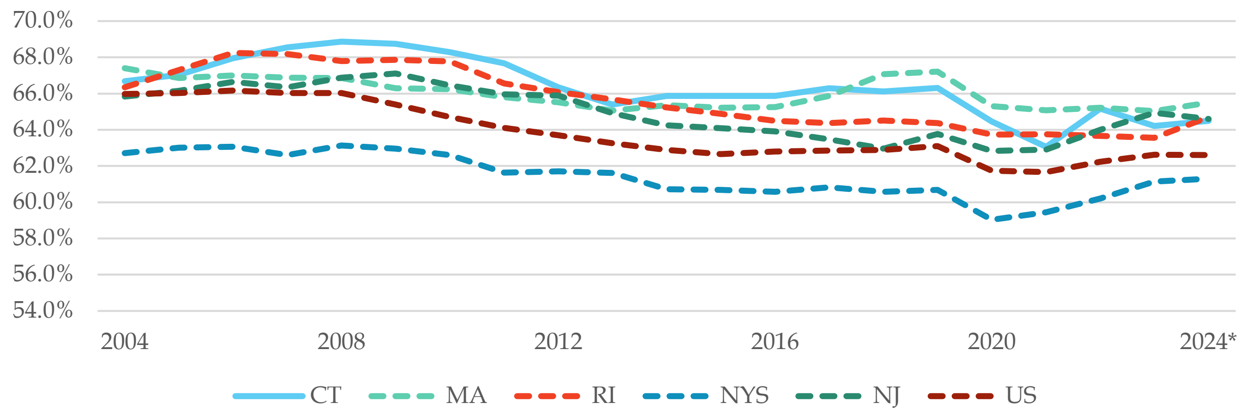

Source: U.S. Bureau of Labor Statistics Current Population Survey, Federal Reserve Bank of Atlanta as retrieved from FRED, Federal Reserve Bank of St. Louis; OFA calculations

[17] CT Department of Labor, Current Employment Statistics

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

**Labor Force Participation**
Connecticut's labor force participation rate, the share of the civilian population either working or looking for work, is in line with its neighboring states and above the U.S. rate, as shown in **Figure 7.5.** 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 2023.[19] However, the 45 to 64 age group has been declining every year as the large baby boomer cohort moves into retirement. This transition creates a long-term risk to the strength of the state's labor force, which is also affected by resuming out-migration patterns. (See "Population" below for further discussion of demographic trends.)

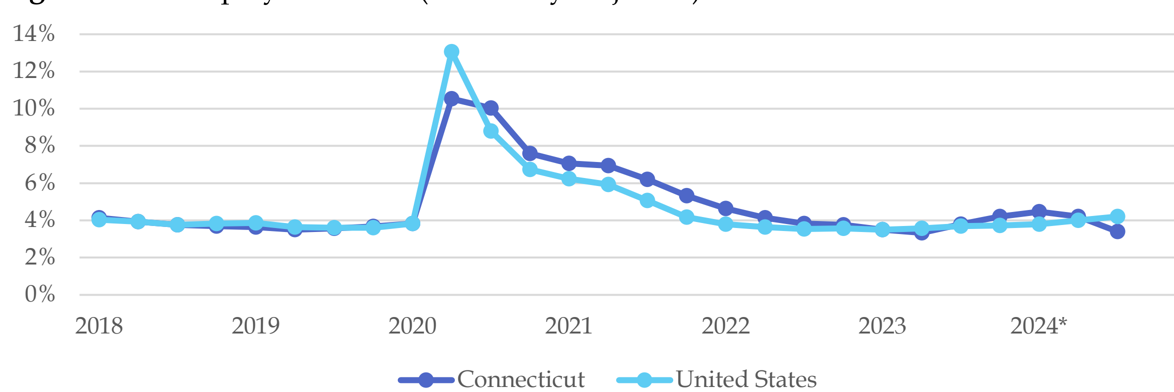
**Figure 7.5** Connecticut Labor Force Participation Rate (Seasonally Adjusted)




*2024 represents annualized data as of 9/1/24.
Source: FRED, Federal Reserve Bank of St. Louis

**Unemployment**
Connecticut's unemployment rate continues to trend downward after the highs in the second and third quarters of 2020 (10.5% and 10%, respectively). At 3.4% currently, the unemployment rate is at pre-pandemic levels, as noted in **Figure 7.6**.

**Figure 7.6** Unemployment Rate (Seasonally Adjusted)



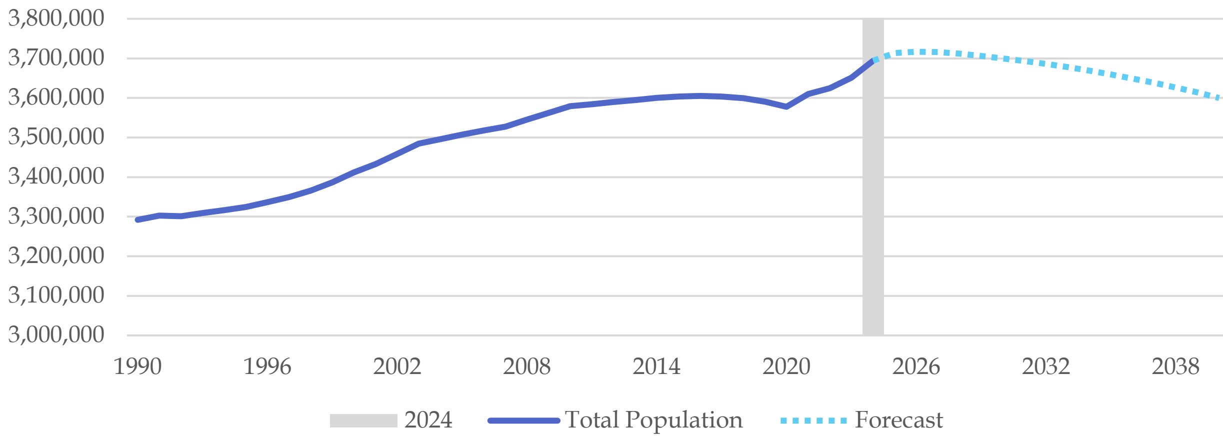

*As of 2024 third quarter
Source: CT DOL Local Area Unemployment Statistics (LAUS); FRED, Federal Reserve Bank of St. Louis; OFA calculations

[19] Moody's Analytics Forecast, U.S. Census Bureau, OFA calculations

## POPULATION

According to the U.S. Census Bureau, Connecticut's total population was estimated at 3.65 million in 2023, a 0.8% increase over the previous year. Population growth rates have remained relatively flat over the last decade, with modest increases in the last three years. Moody's Analytics projects the state's population growth will slow to an average 0.5% yearly increase between 2025 and 2030 and reverse to a decline of 0.5% annually between 2031 and 2035. **Figure 7.7** shows the state's population trends since 1990 and projections for the next 15 years.

**Figure 7.7** Connecticut Total Population Over Time

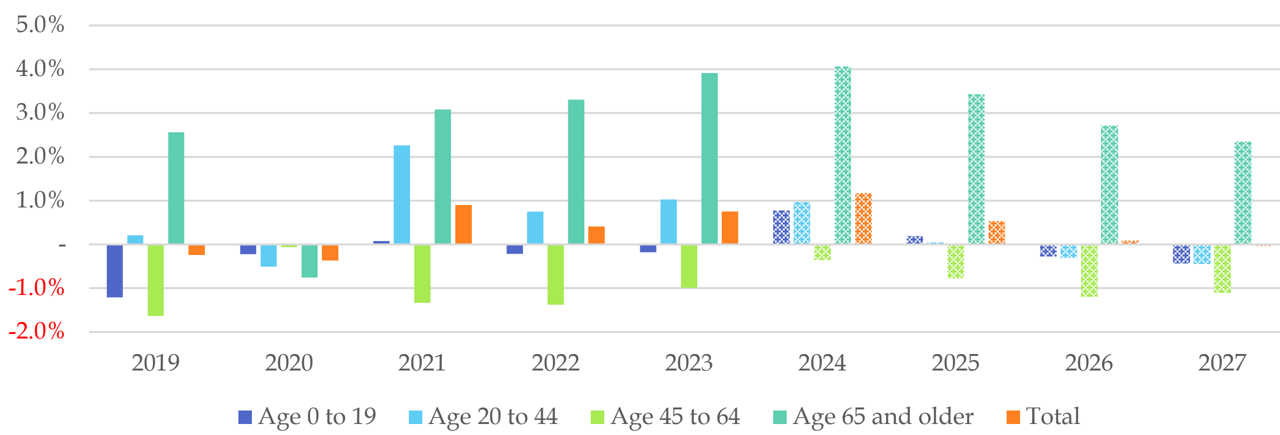



Source: U.S. Census Bureau, Moody's Analytics Forecast

### Population Cohort Growth

As shown in **Figure 7.8**, Connecticut's population over 65 continues to rise faster than all age groups since 2019. Although this group's growth rate is expected to decline over the next few years, it will continue to be the fastest growing segment. The age 45 to 64 group has fallen every year since 2019, and it is expected to continue that trend in the near-term. The age 20 to 44 group is growing but at a relatively moderate pace and is expected to modestly decline over the next few years. Lastly, the younger cohort continues to decline but at a slower rate.

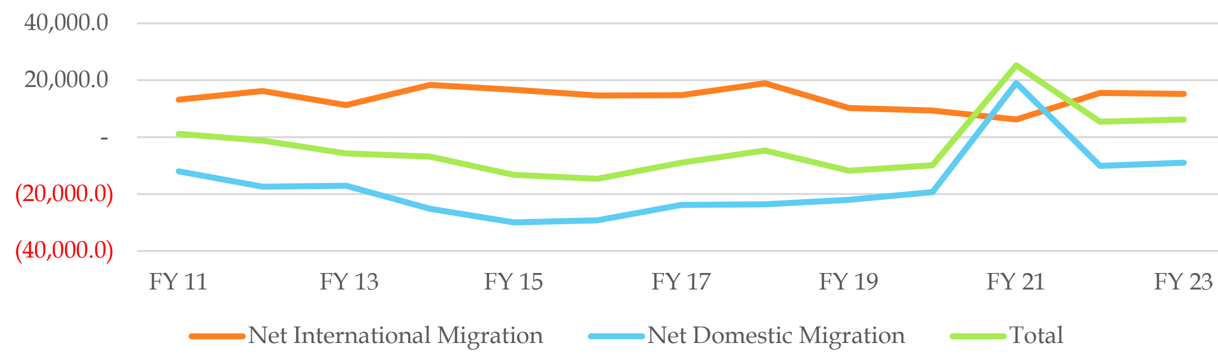
**Figure 7.8** Connecticut Annual Population Growth by Age Cohort




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

**Population Migration**
Stable international migration trends continue to partially offset the consistent negative domestic migration the state experiences. Domestic migration was only positive in FY 21 as people moved from high-cost large metro areas to Connecticut during the pandemic, looking for cheaper housing options while having remote work flexibility. **Figure 7.9** below shows the trends from FY 11 to FY 23.

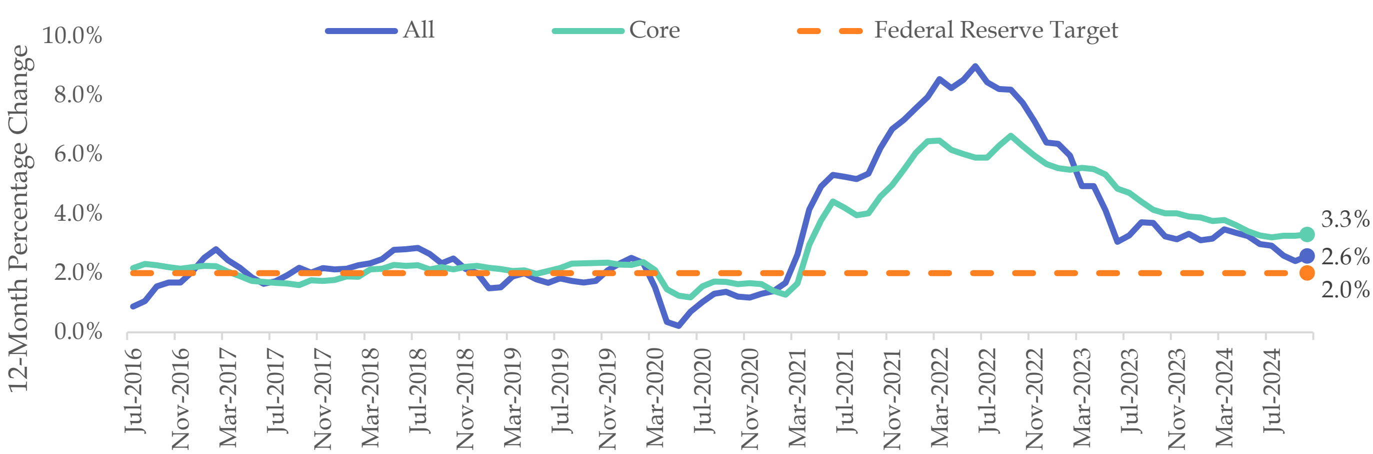
**Figure 7.9** Connecticut Population Migration per Fiscal Year




Source: U.S. Census Bureau; OFA calculations

**INFLATION**
Inflation, as measured by the Consumer Price Index (CPI), has decelerated from its peak in 2022 and is closing in on the Federal Reserve's target of 2%, at 2.6% as of October 2024 as shown in **Figure 7.10**. Core CPI, which excludes the volatile prices of food and energy, grew 3.3% in October over the prior year.[20]

**Figure 7.10** Consumer Price Indices for All Urban Consumers: Percent -




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, retrieved from FRED, Federal Reserve Bank of St. Louis

[20] 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."

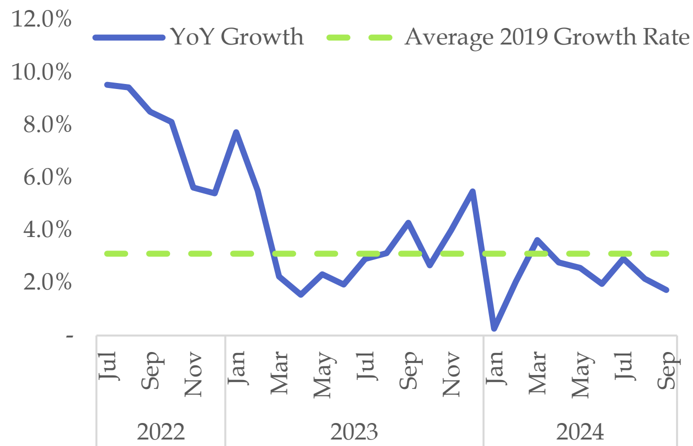
## CONSUMER SPENDING

Since 2023, U.S. retail sales year-over-year growth has settled around 3%, as shown in **Figure 7.11**. This is close to the historic annual growth rate prior to the pandemic.

When factoring out inflation, real per capita consumption is elevated above the pre-pandemic trend (2010 – 2020), illustrated in **Figure 7.12**.[21]

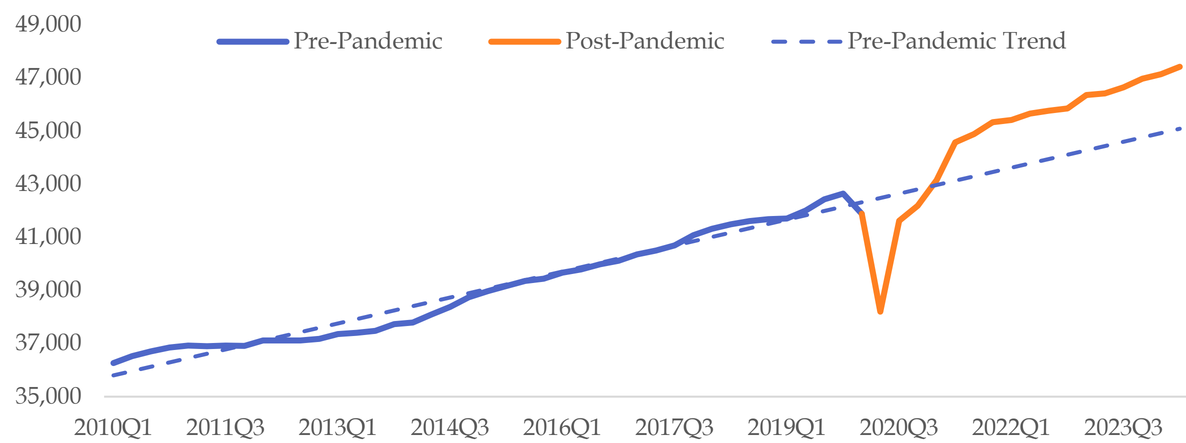
This is likely attributable to the households in the top third of the income distribution who account for over 50% of consumer spending, according to reports from the U.S. Bureau of Labor Statistics and Bureau of Economic Analysis (see **Figure 7.13**). This cohort is financially well off with means to continue spending on consumer goods and services (e.g. higher incomes, higher savings rates, less household debt). In contrast, the lowest third of the income distribution accounts for just under 15% of consumer spending. This cohort, by definition, has the lowest household income levels and may be facing more economic headwinds of minimum savings, higher debt, and sensitivity to interest rates relative to all households.

**Figure 7.11** Total U.S. Retail Sales and Food Services: Growth over Prior Year




Source: U.S. Census Bureau, [retrieved from FRED, Federal Reserve Bank of St. Louis](); OFA calculations

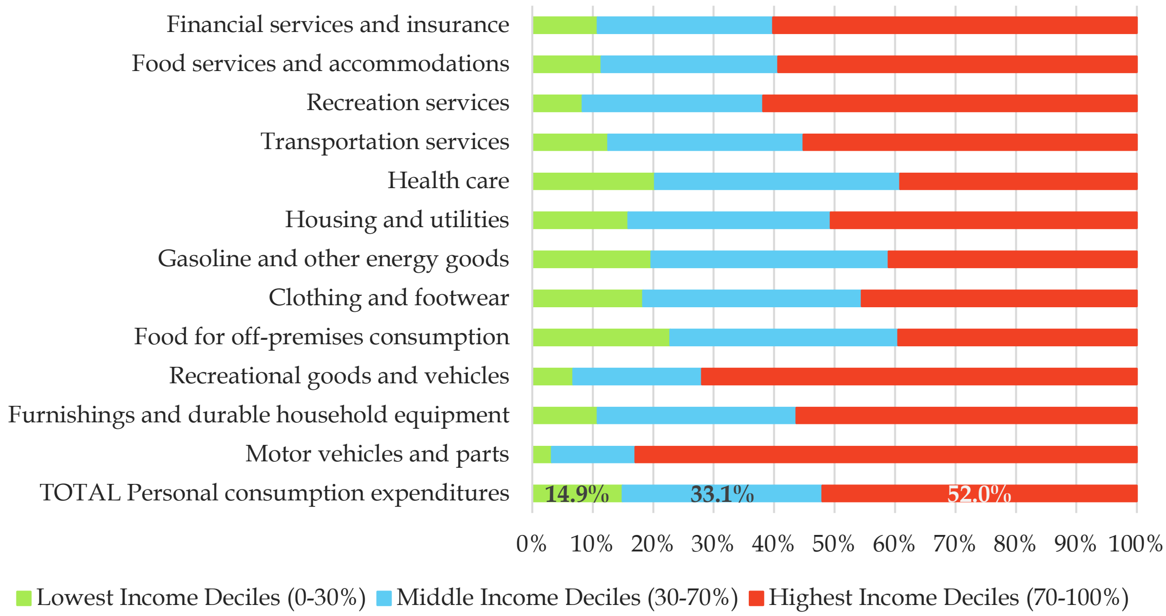
**Figure 7.12** U.S. Real Per Capita Consumption
In Inflation-Adjusted Dollars




Note: Dollar amounts are shown in chained 2017 dollars.
Source: U.S. Bureau of Economic Analysis as retrieved from FRED, Federal Reserve Bank of St. Louis; Federal Reserve Bank of Minneapolis

[21] Horwich, Jeff. "Amid a resilient economy, many Americans aren't ready for a "rainy day"." Federal Reserve Bank of Minneapolis. https://www.minneapolisfed.org/article/2024/amid-a-resilient-economy-many-americans-arent-ready-for-a-rainy-day

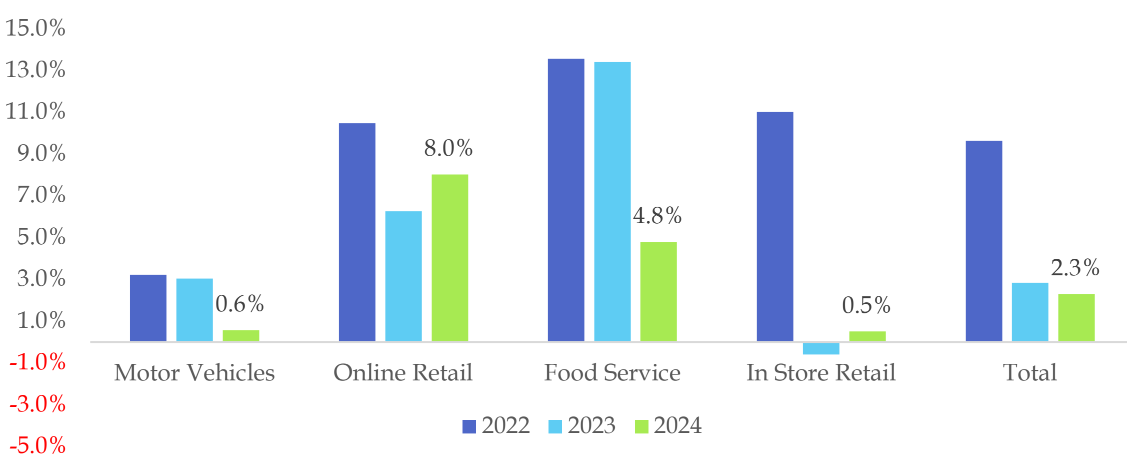
**Figure 7.13** U.S. Distribution of Personal Consumption Expenditure by Income Decile (2022)




Source: [U.S. Bureau of Labor Statistics](), U.S. Bureau of Economic Analysis; OFA calculations

Looking at subsections of retail sales in **Figure 7.14**, motor vehicle sales have stalled at 0.6% in 2024 over the prior year (January to August comparison). Online retail sales continue to show their strength at 8% growth, while in-store sales have slumped to 0.5% growth. Food services remains positive at 4.8% in 2024, outpacing total goods and services growth at 2.3% in 2024.

**Figure 7.14** U.S. Monthly Retail Sales Year-Over-Year Growth Comparison (January – August period)



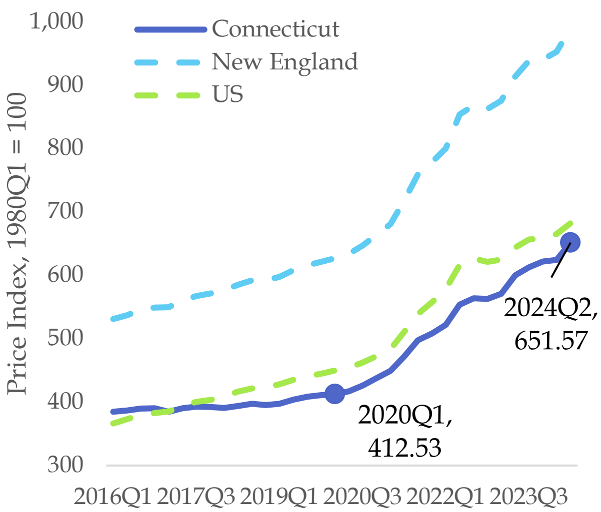

Source: U.S. Census; OFA calculations

## HOUSING

Connecticut's housing costs continue to rise. As shown in **Figure 7.15**, home prices are still rising and are nearly 60% higher than 2020 Q1 (i.e., the start of the pandemic). Connecticut home prices remain elevated due to a continuing lack of available inventory and sustained buyer activity. According to Redfin data, the median price for a house was $430,200 in September 2024, which is 11.2% higher than last year. Connecticut is not unique as rising home prices are impacting the New England region and the U.S. in general.

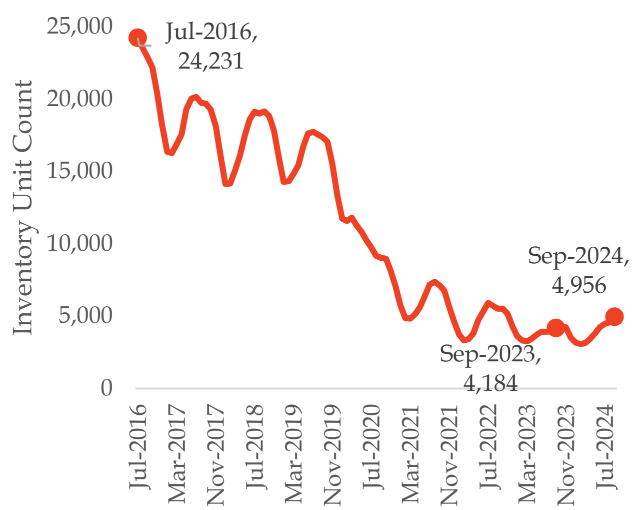
The number of active single family and condo/townhome listings in Connecticut is 18.5% higher in September 2024 than a year earlier. But as shown in **Figure 7.16,** listings remain nearly 80% below 2016 levels. **Figure 7.17** shows that only 13.2% of CT houses were built in or after 2000, which illustrates the low house construction trend in the state.

**Figure 7.15** All-Transactions Single-Family



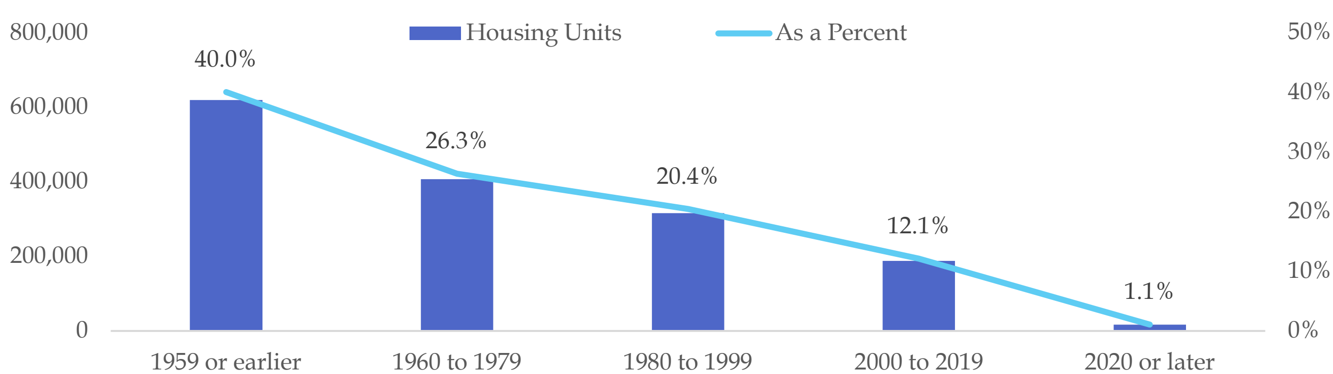

Source: U.S. Federal Housing Finance Agency, retrieved from FRED, Federal Reserve Bank of St. Louis

**Figure 7.16** Housing Inventory: Active Listing Count for Connecticut




Source: Realtor.com, Housing Inventory: Active Listing Count in Connecticut, retrieved from FRED, Federal Reserve Bank of St. Louis

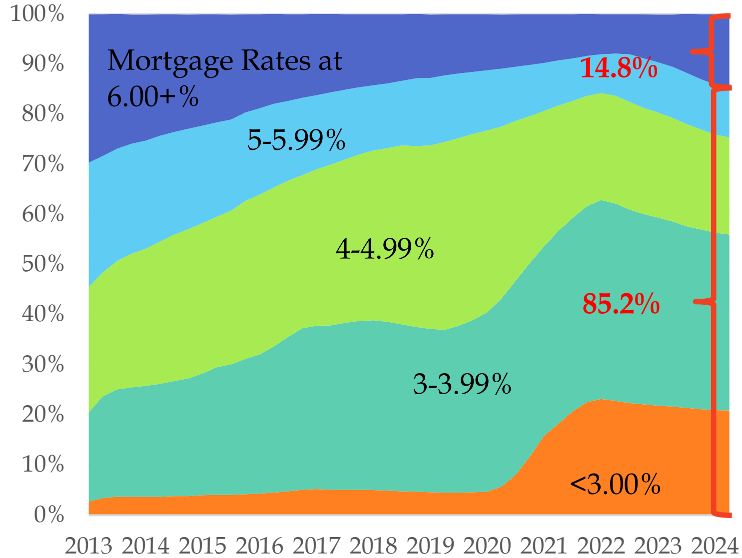
**Figure 7.17** Connecticut Housing Built per Year
Source: U.S. Census Bureau 2023 American Community Survey; OFA calculations



Mortgage rates (30 years fixed rate average for the U.S.) are 6.4% as of October 2024, which is down from a peak of nearly 8% in October 2023.[22] Rate decreases may help lift housing inventory by encouraging homeowners to sell. Additionally, lower capital costs with decreased interest rates may also incentivize developers to build additional homes.

However, according to data from the U.S. Federal Housing Finance Authority, outlined in **Figure 7.18**, over 85% of outstanding Connecticut mortgages have a rate less than 6%, including 20.9% of total mortgages with a rate under 3%.

**Figure 7.18** Interest Rates on Outstanding Residential Mortgages in Connecticut

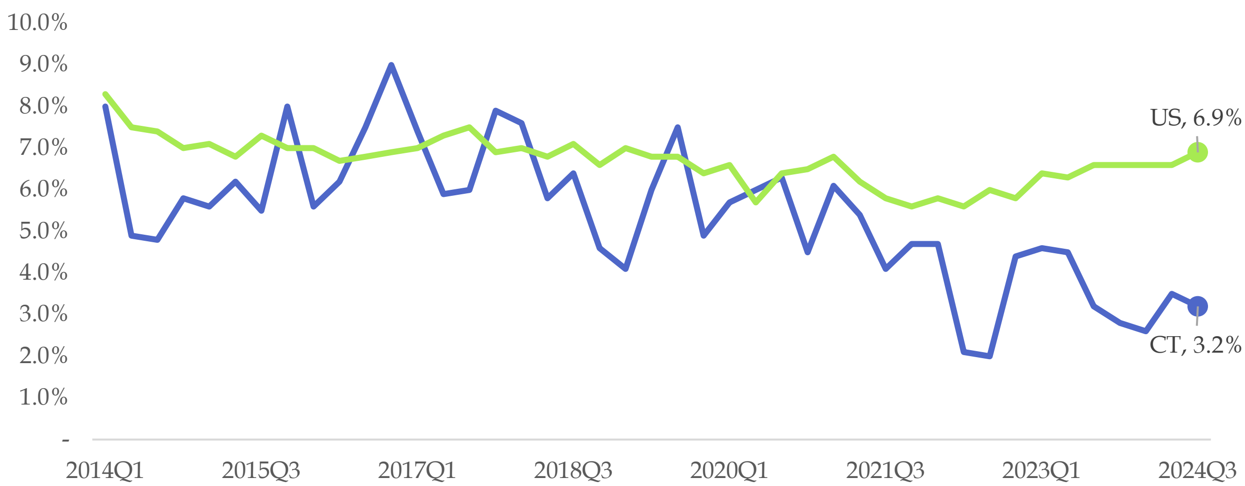



Source: Consumer Financial Protection Bureau, U.S. Federal Housing Finance Authority, National Mortgage Database (NMDB ®); OFA calculations

**Rental Market**

The rental market also has low inventory as shown by a decrease in vacancies. The vacancy rate for housing rentals in Connecticut is 3.2% as of 2024Q3 which is lower than the U.S. average of 6.9%, according to U.S. Census data and as shown in **Figure 7.19**.

**Figure 7.19** Vacancy Rates in the Housing Rental Market



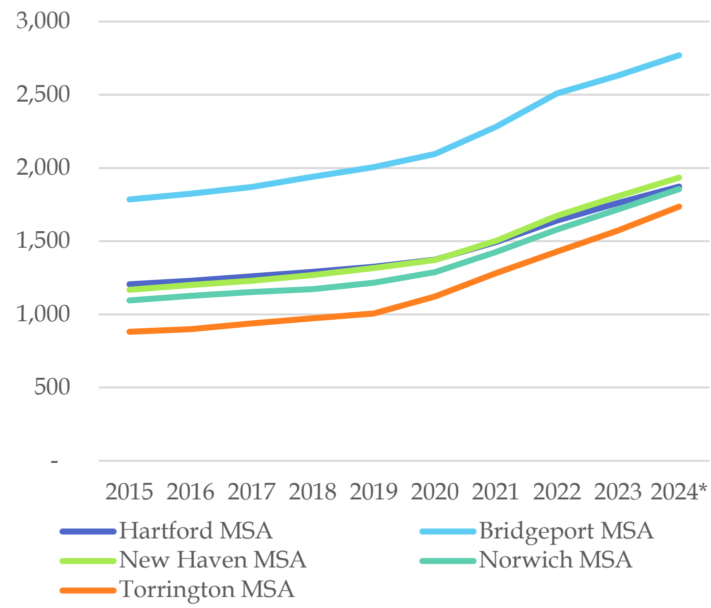

Source: U.S. Census; OFA calculations

[22] Freddie Mac data, as retrieved from FRED, Federal Reserve Bank of St. Louis

Housing rental prices continue to increase, and the Bridgeport Metropolitan Statistical Area (MSA) has substantially higher prices than all other MSAs. **Figure 7.20** presents the Zillow Observed Rent Index (ZORI) annual rental prices in each of the state's MSAs: Hartford, Bridgeport, New Haven, Norwich, and Torrington.[23] For all MSAs, growth in average annual rent price slowed from the post-pandemic peak (2022 and 2023) but remains elevated above pre-pandemic levels.

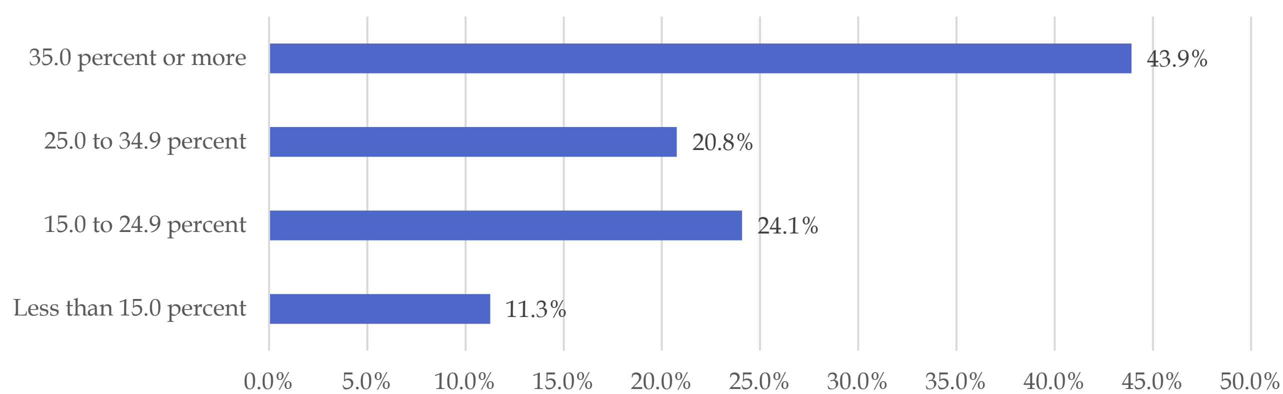
Housing affordability continues to be an issue for Connecticut's residents. **Figure 7.21** shows the percentage of income from all households that goes towards rent expenses. Roughly 44% of households spend 35% or more of their income on rent.

**Figure 7.20** List Rental Price Annual Average per CT MSA (Seasonally Adjusted)




*Annualized as of 9/30/24
Source: Zillow.com; OFA calculations.

**Figure 7.21** Connecticut Gross Rent as a Percentage of Household Income*




Source: U.S. Census Bureau 2023 American Community Survey; OFA calculations
*Excludes 29,120 units where this measure could not be computed

[23] 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 sets various tax expenditures in the form of exemptions, credits, and deductions which total an estimated $10.2 billion in FY 25. This amount is equal to approximately 40% of the total projected FY 25 revenues of the General and Special Transportation funds. The majority of tax expenditures are in sales and use tax and motor fuels tax (approximately 54% and 25%, respectively). The table below reflects OFA's estimated total tax expenditures for FY 25 through FY 28.[24]

**Table 8.1** Summary of Major Identifiable State Tax Expenditure Estimates
In Millions of Dollars

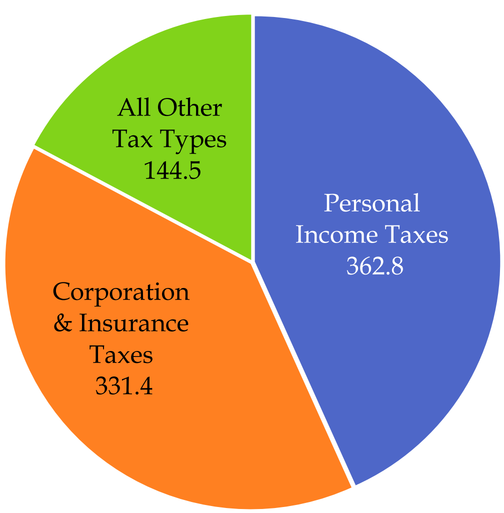
| Category | FY 25 | FY 26 | FY 27 | FY 28 |
|---|---|---|---|---|
| Personal Income Tax | 834.8 | 879.3 | 914.1 | 935.4 |
| Sales and Use Tax | 5,565.7 | 5,704.2 | 5,845.0 | 5,991.3 |
| Corporation and Insurance Taxes | 559.1 | 542.2 | 547.3 | 555.5 |
| Petroleum Companies Gross Earnings Tax | 517.6 | 517.0 | 537.1 | 555.0 |
| Motor Fuels and Motor Carrier Road Taxes | 2,538.1 | 2,495.2 | 2,476.9 | 2,462.0 |
| All Other Taxes | 208.2 | 211.2 | 214.1 | 217.0 |
| **TOTAL** | **10,223.5** | **10,349.1** | **10,534.5** | **10,716.2** |

Note: Includes estimated identifiable revenue reductions of $100,000 or more.

**TAX CREDITS**

Tax credits are estimated to be $838.7 million in FY 25, or 8.2% of all projected FY 25 tax expenditures. The remaining $9.4 billion in FY 25 in total tax expenditures includes all exemptions and deductions. A breakout of credits by tax type is provided in **Figure 8.1**.

**Figure 8.1** FY 25 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).

[24]For more information, please see the Connecticut Tax Expenditure Report, Office of Fiscal Analysis (February 2024). Please note that this Fiscal Accountability Report includes updated estimates on certain expenditures where necessary.

## SALES AND USE TAX EXPENDITURES

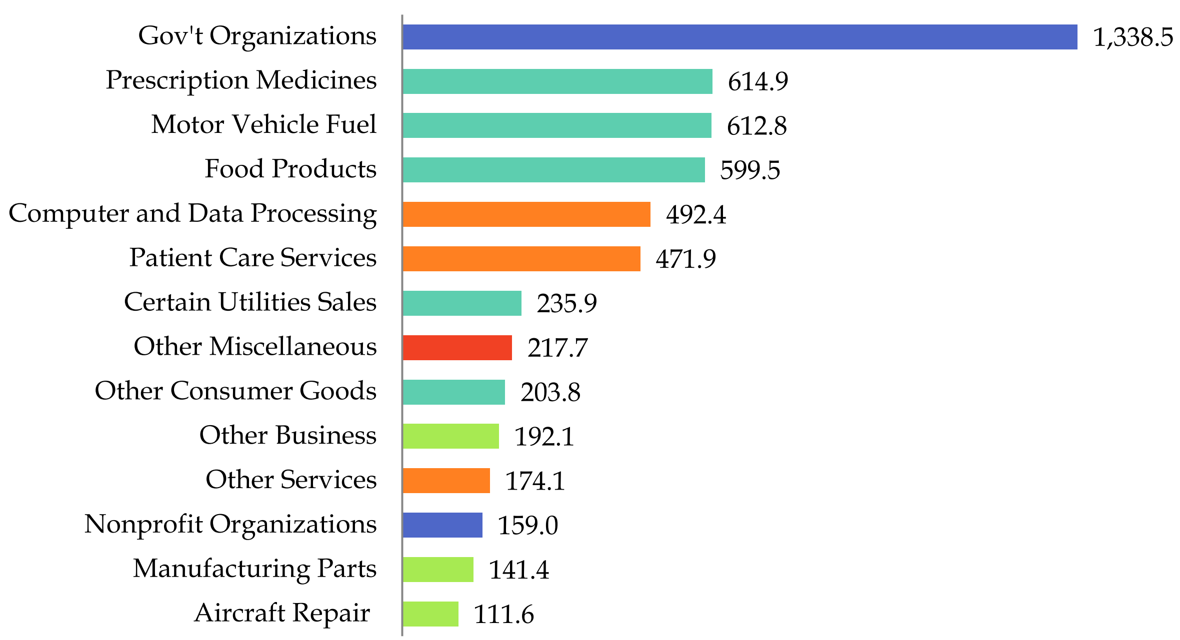
Sales and use tax expenditures represent approximately 54% of all identifiable tax expenditures and are estimated to be $5.6 billion in FY 25.

**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 41% 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 losses for FY 25. Government organizations make up the single largest type of these expenditures at $1.3 billion estimated for FY 25.

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

| Category | FY 25 | % of Total |
|---|---|---|
| Consumer Goods | 2,267.0 | 40.7% |
| Business Exemptions | 445.1 | 8.0% |
| Service Exemptions | 1,138.4 | 20.5% |
| Government and Nonprofit Organizations | 1,497.5 | 26.9% |
| Miscellaneous | 217.7 | 3.9% |
| **TOTAL** | **5,565.7** | **100.0%** |

**Figure 8.2** FY 25 Major Sales and Use Tax Expenditures
In Millions of Dollars



# Appendix A. Consensus Revenues

**Revenue Estimates for FY 25 - FY 28**
In Millions of Dollars

| Fund/Component | FY 25 | FY 26 | FY 27 | FY 28 |
|---|---|---|---|---|
| **General Fund** | | | | |
| **Taxes** | | | | |
| Personal Income Tax - Withholding | 8,889.1 | 9,235.3 | 9,597.3 | 9,972.0 |
| Personal Income Tax - Estimates and Finals | 3,273.5 | 3,273.5 | 3,404.4 | 3,540.6 |
| Sales & Use | 5,103.5 | 5,230.9 | 5,359.6 | 5,494.1 |
| Corporation | 1,560.7 | 1,577.1 | 1,595.0 | 1,628.9 |
| Pass-through Entity Tax | 2,059.3 | 2,135.0 | 2,215.4 | 2,298.7 |
| Public Service | 311.9 | 314.4 | 317.2 | 319.9 |
| Inheritance & Estate | 171.9 | 176.0 | 235.7 | 240.6 |
| Insurance Companies | 301.7 | 306.1 | 310.6 | 315.3 |
| Cigarettes | 244.7 | 232.2 | 220.6 | 209.5 |
| Real Estate Conveyance | 277.6 | 289.5 | 294.0 | 298.5 |
| Alcoholic Beverages | 78.8 | 79.1 | 79.5 | 79.8 |
| Admissions & Dues | 39.5 | 40.0 | 40.5 | 40.9 |
| Health Provider Tax | 891.0 | 911.9 | 913.2 | 914.4 |
| Miscellaneous | 21.4 | 21.9 | 21.3 | 21.8 |
| **Total - Taxes** | **23,224.6** | **23,822.9** | **24,604.3** | **25,375.0** |
| Refund of Taxes | (1,932.9) | (1,989.4) | (2,063.3) | (2,137.5) |
| Earned Income Tax Credit | (196.2) | (199.9) | (205.0) | (210.3) |
| R&D Credit Exchange | (7.8) | (8.0) | (8.3) | (8.5) |
| **Total - Taxes Less Refunds** | **21,087.7** | **21,625.6** | **22,327.7** | **23,018.7** |
| **Other Revenue** | | | | |
| Transfers - Special Revenue | 383.4 | 396.6 | 406.1 | 416.9 |
| Indian Gaming Payments | 308.6 | 314.4 | 329.4 | 339.7 |
| Licenses, Permits, Fees | 330.7 | 365.9 | 339.6 | 375.0 |
| Sales of Commodities | 18.0 | 18.3 | 18.8 | 19.2 |
| Rents, Fines, Escheats | 188.8 | 178.4 | 172.5 | 175.9 |
| Investment Income | 253.3 | 225.4 | 190.1 | 180.8 |
| Miscellaneous | 184.3 | 189.1 | 194.1 | 199.1 |
| Refund of Payments | (87.2) | (78.6) | (80.8) | (83.1) |
| **Total - Other Revenue** | **1,579.9** | **1,609.5** | **1,569.8** | **1,623.5** |
| **Other Sources** | | | | |
| Federal Grants | 1,966.1 | 1,876.0 | 1,895.9 | 1,916.6 |
| Transfer from Tobacco Fund | 109.4 | 95.9 | 94.3 | 92.8 |
| Transfers from/ (To) Other Funds | 40.3 | (49.1) | (49.2) | (49.2) |
| Transfers to BRF - Volatility Adjustment | (1,403.5) | (1,278.2) | (1,267.1) | (1,278.8) |
| Transfer to Housing Trust Fund | - | - | - | - |
| **Total - Other Sources** | **712.3** | **644.6** | **673.9** | **681.4** |
| **TOTAL - GENERAL FUND** | **23,379.9** | **23,879.7** | **24,571.4** | **25,323.6** |

| Fund/Component | FY 25 | FY 26 | FY 27 | FY 28 |
|---|---|---|---|---|
| **Special Transportation Fund (STF)** | | | | |
| **Taxes** | | | | |
| Motor Fuels Tax | 510.7 | 502.1 | 498.4 | 495.4 |
| Oil Companies Tax | 336.7 | 336.3 | 349.4 | 361.0 |
| Sales & Use Tax | 879.2 | 902.0 | 925.4 | 949.3 |
| Sales Tax - DMV | 117.8 | 118.8 | 120.0 | 121.0 |
| Highway Use | 60.8 | 61.7 | 62.6 | 63.4 |
| Refunds of Taxes | (11.3) | (11.0) | (11.4) | (11.9) |
| **Total - Taxes Less Refunds** | **1,893.9** | **1,909.9** | **1,944.4** | **1,978.2** |
| **Other Sources** | | | | |
| Motor Vehicle Receipts | 280.6 | 282.1 | 283.4 | 284.8 |
| Licenses, Permits, Fees | 133.9 | 134.9 | 137.2 | 138.2 |
| Interest Income | 63.6 | 42.0 | 36.5 | 32.1 |
| Federal Grants | 8.1 | 6.9 | 5.6 | 4.4 |
| Transfers From/(To) Other Funds | (13.5) | (5.5) | (5.5) | (5.5) |
| Refunds of Payments | (10.3) | (8.4) | (8.6) | (8.7) |
| **Total Other Revenues** | **462.4** | **452.0** | **448.6** | **445.3** |
| **TOTAL - STF** | **2,356.3** | **2,361.9** | **2,393.0** | **2,423.5** |

# Appendix B. Other Appropriated Funds

| Fund | FY 24 Actual | FY 25 Projected | FY 26 Projected | FY 27 Projected | FY 28 Projected |
|---|---|---|---|---|---|
| **Banking Fund** | | | | | |
| Beginning Balance | 42,609,367 | 55,604,596 | 66,617,546 | 77,630,496 | 88,643,446 |
| Revenue | 41,832,193 | 42,000,000 | 42,000,000 | 42,000,000 | 42,000,000 |
| Expenditures | (28,836,964) | (30,987,050) | (30,987,050) | (30,987,050) | (30,987,050) |
| Transfers | - | - | - | - | - |
| **Ending Balance** | **55,604,596** | **66,617,546** | **77,630,496** | **88,643,446** | **99,656,396** |
| | | | | | |
| **Cannabis Prevention and Recovery Services Fund** | | | | | |
| Beginning Balance | - | 3,083,679 | 5,320,281 | 7,856,883 | 10,693,485 |
| Revenue | 5,334,047 | 5,600,000 | 5,900,000 | 6,200,000 | 6,500,000 |
| Expenditures | (2,250,368) | (3,363,398) | (3,363,398) | (3,363,398) | (3,363,398) |
| Transfers | - | - | - | - | - |
| **Ending Balance** | **3,083,679** | **5,320,281** | **7,856,883** | **10,693,485** | **13,830,087** |
| | | | | | |
| **Cannabis Regulatory Fund[1]** | | | | | |
| Beginning Balance | - | 2,841,818 | 3,736,927 | (5,667,965) | (15,072,856) |
| Revenue | 10,100,000 | 10,300,000 | - | - | - |
| Expenditures | (7,258,183) | (9,404,891) | (9,404,891) | (9,404,891) | (9,404,891) |
| Transfers | - | - | - | - | - |
| **Ending Balance** | **2,841,818** | **3,736,927** | **(5,667,965)** | **(15,072,856)** | **(24,477,747)** |
| | | | | | |
| **Cannabis Social Equity and Innovation Fund** | | | | | |
| Beginning Balance | (26,334) | 18,610,386 | 59,741,925 | 63,914,797 | 70,087,669 |
| Revenue | 20,801,843 | 16,400,000 | 14,100,000 | 16,100,000 | 16,800,000 |
| Expenditures | (2,165,124) | (9,927,128) | (9,927,128) | (9,927,128) | (9,927,128) |
| Transfers | - | 34,658,668 | - | - | - |
| **Ending Balance** | **18,610,386** | **59,741,925** | **63,914,797** | **70,087,669** | **76,960,541** |
| | | | | | |
| **Consumer Counsel and Public Utility Control Fund** | | | | | |
| Beginning Balance | 16,223,669 | 20,231,355 | 17,266,147 | 14,300,939 | 11,335,732 |
| Revenue | 35,483,792 | 35,483,792 | 35,483,792 | 35,483,792 | 35,483,792 |
| Expenditures | (31,476,106) | (38,449,000) | (38,449,000) | (38,449,000) | (38,449,000) |
| Transfers | - | - | - | - | - |
| **Ending Balance** | **20,231,355** | **17,266,147** | **14,300,939** | **11,335,732** | **8,370,524** |
| | | | | | |
| **Criminal Injuries Compensation Fund** | | | | | |
| Beginning Balance | 3,627,450 | 3,835,329 | 2,752,080 | 2,317,992 | 1,883,904 |
| Revenue | 2,150,891 | 1,850,839 | 2,500,000 | 2,500,000 | 2,500,000 |
| Expenditures | (1,943,012) | (2,934,088) | (2,934,088) | (2,934,088) | (2,934,088) |
| Transfers | - | - | - | - | - |
| **Ending Balance** | **3,835,329** | **2,752,080** | **2,317,992** | **1,883,904** | **1,449,816** |
| | | | | | |
| **Insurance Fund** | | | | | |
| Beginning Balance | 58,563,079 | 23,326,801 | 24,216,050 | 24,062,222 | 23,923,777 |
| Revenue | 50,673,691 | 130,808,712 | 129,765,634 | 129,781,017 | 129,794,861 |
| Expenditures | (85,605,177) | (129,919,462) | (129,919,462) | (129,919,462) | (129,919,462) |
| Transfers | (304,793) | - | - | - | - |
| **Ending Balance** | **23,326,801** | **24,216,050** | **24,062,222** | **23,923,777** | **23,799,176** |
| | | | | | |
| **Mashantucket Pequot and Mohegan Fund** | | | | | |
| Beginning Balance | 217,425 | 339,084 | 339,084 | 339,084 | 339,084 |

| Fund | FY 24 Actual | FY 25 Projected | FY 26 Projected | FY 27 Projected | FY 28 Projected |
|---|---|---|---|---|---|
| Revenue | - | - | - | - | - |
| Expenditures | (52,420,137) | (52,541,796) | (52,541,796) | (52,541,796) | (52,541,796) |
| Transfers | 52,541,796 | 52,541,796 | 52,541,796 | 52,541,796 | 52,541,796 |
| **Ending Balance** | **339,084** | **339,084** | **339,084** | **339,084** | **339,084** |
| | | | | | |
| **Municipal Revenue Sharing Fund[1,2]** | | | | | |
| Beginning Balance | 47,111 | (6,956,977) | (11,402,022) | (109,847,067) | (196,992,112) |
| Revenue | 438,233,267 | 459,300,000 | 470,200,000 | 481,500,000 | 493,000,000 |
| Expenditures | (561,037,355) | (568,645,045) | (568,645,045) | (568,645,045) | (568,645,045) |
| Transfers | 115,800,000 | 104,900,000 | - | - | - |
| **Ending Balance** | **(6,956,977)** | **(11,402,022)** | **(109,847,067)** | **(196,992,112)** | **(272,637,157)** |
| | | | | | |
| **Tourism Fund** | | | | | |
| Beginning Balance | 5,275,776 | 5,821,397 | 6,176,944 | 5,632,491 | 5,488,038 |
| Revenue | 15,104,039 | 15,200,000 | 15,600,000 | 16,000,000 | 16,400,000 |
| Expenditures | (17,458,418) | (16,144,453) | (16,144,453) | (16,144,453) | (16,144,453) |
| Transfers | 2,900,000 | 1,300,000 | - | - | - |
| **Ending Balance** | **5,821,397** | **6,176,944** | **5,632,491** | **5,488,038** | **5,743,585** |
| | | | | | |
| **Workers' Compensation Fund** | | | | | |
| Beginning Balance | 16,666,853 | 17,668,240 | 18,822,945 | 19,977,650 | 21,132,355 |
| Revenue | 25,790,943 | 28,000,000 | 28,000,000 | 28,000,000 | 28,000,000 |
| Expenditures | (24,789,556) | (26,845,295) | (26,845,295) | (26,845,295) | (26,845,295) |
| Transfers | - | - | - | - | - |
| **Ending Balance** | **17,668,240** | **18,822,945** | **19,977,650** | **21,132,355** | **22,287,060** |
| | | | | | |
| **TOTALS** | | | | | |
| Beginning Balance | 143,204,396 | 144,405,707 | 193,587,908 | 100,517,524 | 21,462,523 |
| Revenue | 645,504,708 | 744,943,343 | 743,549,426 | 757,564,809 | 770,478,653 |
| Expenditures | (815,240,400) | (889,161,606) | (889,161,606) | (889,161,606) | (889,161,606) |
| Transfers | 170,937,003 | 193,400,464 | 52,541,796 | 52,541,796 | 52,541,796 |
| **TOTAL ENDING BALANCE** | **144,405,707** | **193,587,908** | **100,517,524** | **21,462,523** | **(44,678,634)** |

[1]The Cannabis Regulatory Fund and Municipal Revenue Sharing Fund do not have sufficient revenue projected under current law to fund anticipated out year expenditures.

[2]The sales tax revenue deposited into the Municipal Revenue Sharing Fund clears the negative balance at the beginning of each fiscal year and the grants from this fund are required to be paid out prior to the close of the fiscal year. This leaves the fund in a deficit at the end of each fiscal year if the combined transfer from the General Fund and sales tax revenue diversion do not cover the balance of the grants paid out of this fund.

## 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

This fund receives revenue from statutorily defined license fees and assessments, which are determined based on the projected expenses of the Department of Banking plus a reserve for contingencies. Revenue is anticipated to remain constant at approximately $42 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, making FY 24 the first full year for this market. Revenues are estimated to grow by 5% 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 making FY 24 the first full year for this market. Tax revenues are estimated to grow by 5% beginning in FY 25 and annually thereafter as the market matures. Additionally, conversion fees collected from (a) dispensary facilities seeking to become a hybrid retailer or (b) producers seeking to engage in the adult use cannabis market are deposited into this fund when received. The FY 25 revenue estimate includes conversion fees received to date. There are no conversion fees projected, as of this date, to be collected in the out years.

**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 24, the revenue change ranged from (4.0%) to 24.7% 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. Revenue for FY 24 is low due to an investment income adjustment from FY 23, lower appropriations for vaccines to reflect the availability of stock, and a relatively high fund balance. Revenue and expenditures are expected to increase in FY 25 and stabilize through FY 28 as these FY 24 factors no longer play a role.

**Mashantucket Pequot and Mohegan Fund**
Out year projections assume a General Fund transfer to the Mashantucket Pequot and Mohegan Fund equal to the 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 (GF) every year, and a transfer from the GF in both FY 24 and FY 25. The sales tax transfer assumes growth rates of 2.6% for FY 25 and an average growth of 2.5% for FY 26 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 2.5% annually from FY 25 to FY 28.

**Workers' Compensation Fund**
The State Treasurer assesses private insurance companies and self-insured employers to cover the projected annual expenses of the Workers' Compensation Commission and Department of Aging and Disability Services (Rehabilitative Services). Revenue is based on a statutorily defined assessment formula and is expected to remain constant at $28 million.

# Appendix C. Fixed Cost Account Projections

In Millions of Dollars

| Fixed Cost Account | 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 |
| Debt Service | 1,920.7 | 2,001.4 | 2,105.6 | 2,184.9 |
| Municipal Restructuring | 46.5 | 46.1 | 47.8 | 43.8 |
| Pension Obligation Bonds - TRB | 330.2 | 268.3 | 284.4 | 301.7 |
| UConn 2000 - Debt Service | 214.3 | 208.4 | 211.8 | 219.7 |
| **Debt Service - State Treasurer Total** | **2,515.7** | **2,528.2** | **2,653.6** | **2,754.1** |
| **State Comptroller - Miscellaneous** | | | | |
| Adjudicated Claims | 20.0 | 20.0 | 20.0 | 20.0 |
| **State Comptroller - Miscellaneous Total** | **20.0** | **20.0** | **20.0** | **20.0** |
| **State Comptroller - Fringe Benefits** | | | | |
| Higher Education Alternative Retirement System | 86.6 | 88.3 | 90.1 | 91.9 |
| Judges and Compensation Commissioners Retirement | 30.5 | 31.4 | 32.5 | 33.5 |
| Pensions and Retirements - Other Statutory | 2.3 | 2.3 | 2.4 | 2.5 |
| Retired State Employees Health Service Cost | 775.4 | 811.2 | 827.4 | 844.0 |
| SERS Defined Contribution Match | 24.5 | 25.2 | 26.0 | 26.8 |
| State Employees Retirement Contributions - Normal Cost | 184.3 | 189.9 | 195.8 | 201.8 |
| State Employees Retirement Contributions - UAL | 1,450.0 | 1,425.3 | 1,363.2 | 1,363.2 |
| **State Comptroller - Fringe Benefits Total** | **2,553.5** | **2,573.8** | **2,537.3** | **2,563.6** |
| **Department of Developmental Services** | | | | |
| Community Residential Services | 810.1 | 834.4 | 859.4 | 885.2 |
| **Department of Developmental Services Total** | **810.1** | **834.4** | **859.4** | **885.2** |
| **Department of Mental Health and Addiction Services** | | | | |
| Behavioral Health Recovery Services | 26.4 | 27.5 | 28.6 | 29.7 |
| Medicaid Adult Rehabilitation Option | 4.5 | 4.5 | 4.5 | 4.5 |
| **Department of Mental Health and Addiction Services Total** | **30.9** | **32.0** | **33.1** | **34.2** |
| **Department of Social Services** | | | | |
| Aid to the Blind | 0.6 | 0.6 | 0.6 | 0.6 |
| Aid to the Disabled | 53.5 | 55.4 | 57.4 | 59.4 |
| Connecticut Home Care Program | 45.7 | 45.7 | 45.7 | 45.7 |
| Hospital Supplemental Payments | 568.3 | 568.3 | 568.3 | 568.3 |
| HUSKY B Program | 28.2 | 29.9 | 31.7 | 33.6 |
| Medicaid | 3,513.6 | 3,615.9 | 3,732.1 | 3,862.7 |
| Old Age Assistance | 51.3 | 56.0 | 61.0 | 66.5 |
| State Administered General Assistance | 18.7 | 19.1 | 19.5 | 19.9 |
| Temporary Family Assistance - TANF | 64.6 | 71.1 | 74.7 | 78.4 |
| **Department of Social Services Total** | **4,344.7** | **4,462.0** | **4,591.0** | **4,735.1** |

| Fixed Cost Account | FY 25 | FY 26 | FY 27 | FY 28 |
|---|---|---|---|---|
| **Office of Early Childhood** | | | | |
| Birth to Three | 34.3 | 35.2 | 36.0 | 36.9 |
| Care4Kids TANF/CCDF | 112.8 | 116.2 | 119.7 | 123.3 |
| **Office of Early Childhood Total** | **147.1** | **151.4** | **155.7** | **160.2** |
| **Teachers' Retirement Board** | | | | |
| Municipal Retiree Health Insurance Costs | 9.0 | 9.8 | 9.8 | 9.8 |
| Retirees Health Service Cost | 26.0 | 38.2 | 39.0 | 39.3 |
| Retirement Contributions | 1,601.4 | 1,655.1 | 1,676.7 | 1,620.6 |
| **Teachers' Retirement Board Total** | **1,636.4** | **1,703.1** | **1,725.5** | **1,669.8** |
| **Department of Children and Families** | | | | |
| Board and Care for Children - Adoption | 106.9 | 107.8 | 108.8 | 109.8 |
| Board and Care for Children - Foster | 123.5 | 125.1 | 126.8 | 128.4 |
| Board and Care for Children - Short-term and Residential | 69.6 | 69.6 | 69.6 | 69.6 |
| Individualized Family Supports | 3.9 | 3.9 | 3.9 | 3.9 |
| No Nexus Special Education | 2.4 | 2.4 | 2.4 | 2.4 |
| **Department of Children and Families Total** | **306.3** | **308.9** | **311.5** | **314.1** |
| **TOTAL - GENERAL FUND** | **12,364.7** | **12,613.7** | **12,887.1** | **13,136.3** |
| **Fixed Cost Account** | **FY 25** | **FY 26** | **FY 27** | **FY 28** |
| **SPECIAL TRANSPORTATION FUND** | | | | |
| **Debt Service - State Treasurer** | | | | |
| Debt Service | 899.5 | 941.5 | 1,046.1 | 1,147.7 |
| **Debt Service - State Treasurer Total** | **899.5** | **941.5** | **1,046.1** | **1,147.7** |
| **State Comptroller - Fringe Benefits** | | | | |
| SERS Defined Contribution Match | 1.4 | 1.5 | 1.5 | 1.5 |
| State Employees Retirement Contributions - Normal Cost | 21.4 | 22.0 | 22.7 | 23.4 |
| State Employees Retirement Contributions - UAL | 149.1 | 146.6 | 140.2 | 140.2 |
| **State Comptroller - Fringe Benefits Total** | **171.9** | **170.1** | **164.4** | **165.1** |
| **TOTAL - SPECIAL TRANSPORTATION FUND** | **1,071.5** | **1,111.6** | **1,210.5** | **1,312.8** |

# Appendix D. Municipal Aid

**Overview**
Municipal aid[25] is estimated to total $4.1 billion in FY 25, a $213.1 million (5.6%) increase from FY 24 actual expenditures to FY 25 appropriated expenditures.

The most significant drivers of the increase in FY 25 are the following:

- **Motor Vehicle Tax Grant**: $7.6 million
- **Education Funding**: $224.1 million, mainly due to an increase for Education Cost Sharing (ECS) and certain choice programs

In FY 26, education funding will grow by an additional estimated $91.7 million within ECS, primarily due to reaching full funding for towns that had been previously underfunded. This additional funding is shown in the table below but is not included in the report's General Fund out years projections due to the mandated FAR methodology.

Municipal aid continues to represent a large portion of General Fund expenditures. Appropriated municipal aid from the General Fund is estimated to total 19.2% of FY 25 General Fund appropriations. When including $1.6 billion in state assistance from the Teachers' Retirement System (TRS), this figure increases to $5.7 billion or 27% of the General Fund.

**Municipal Aid Funding** (FY 24 Actual – FY 28 Estimated)

| Grant or Account | FY 24 Actual | FY 25 Appropriated | FY 26 Estimated | FY 27 Estimated | FY 28 Estimated |
|---|---|---|---|---|---|
| **Appropriated Property Tax Relief and General Aid** | | | | | |
| Tiered PILOT | 339,410,167 | 339,410,167 | 339,410,167 | 339,410,167 | 339,410,167 |
| Motor Vehicle Tax Grant | 146,954,721 | 154,562,410 | 154,562,410 | 154,562,410 | 154,562,410 |
| Supplemental Revenue Sharing Grant | 87,172,468 | 74,672,468 | 74,672,468 | 74,672,468 | 74,672,468 |
| Mashantucket Pequot and Mohegan Grant | 52,420,138 | 52,541,796 | 52,541,796 | 52,541,796 | 52,541,796 |
| Disability Exemption | 364,713 | 364,713 | 364,713 | 364,713 | 364,713 |
| Distressed Municipalities | 6,702,377 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Elderly Freeze Program | 5,166 | 6,000 | 6,000 | 6,000 | 6,000 |
| Property Tax Relief for Veterans | 1,694,614 | 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 |
| Municipal Restructuring - Debt Service | 49,853,638 | 46,518,776 | 46,126,129 | 47,778,925 | 43,825,772 |
| **Subtotal** | **691,878,002** | **679,584,437** | **679,191,790** | **680,844,586** | **676,891,433** |

[25] "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 24 Actual | FY 25 Appropriated | FY 26 Estimated | FY 27 Estimated | FY 28 Estimated |
|---|---|---|---|---|---|
| **ECS and Other Education Aid** | | | | | |
| Education Equalization Grants (ECS) | 2,233,420,236 | 2,287,900,235 | 2,379,633,000 | 2,372,703,556 | 2,365,775,774 |
| Magnet Schools[1] | 279,195,021 | 287,484,265 | 287,484,265 | 287,484,265 | 287,484,265 |
| Excess Cost - Student Based | 181,206,213 | 181,119,782 | 181,119,782 | 181,119,782 | 181,119,782 |
| Education Finance Reform[1,2] | - | 150,000,000 | 150,000,000 | 150,000,000 | 150,000,000 |
| Sheff Transportation[1] | 67,675,250 | 75,465,173 | 75,465,173 | 75,465,173 | 75,465,173 |
| Open Choice Program[1] | 30,410,557 | 31,472,503 | 31,472,503 | 31,472,503 | 31,472,503 |
| Priority School Districts | 30,816,420 | 30,818,778 | 30,818,778 | 30,818,778 | 30,818,778 |
| Adult Education | 22,537,660 | 23,386,642 | 23,386,642 | 23,386,642 | 23,386,642 |
| Vocational Agriculture | 19,583,200 | 18,824,200 | 18,824,200 | 18,824,200 | 18,824,200 |
| Non Sheff Transportation[1] | 13,477,380 | 15,675,787 | 15,675,787 | 15,675,787 | 15,675,787 |
| Commissioner's Network | 9,791,729 | 9,869,398 | 9,869,398 | 9,869,398 | 9,869,398 |
| Family Resource Centers | 6,658,298 | 6,352,710 | 6,352,710 | 6,352,710 | 6,352,710 |
| After School Programs | 5,308,884 | 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 |
| Bilingual Education | 3,783,024 | 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 |
| School Accountability | 3,412,207 | 3,412,207 | 3,412,208 | 3,412,209 | 3,412,210 |
| Extended School Hours | 2,918,405 | 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 |
| School Breakfast | 2,158,900 | 2,158,900 | 2,158,900 | 2,158,900 | 2,158,900 |
| Primary Mental Health | 303,829 | 345,288 | 345,288 | 345,288 | 345,288 |
| **Subtotal** | **2,922,601,091** | **3,146,732,584** | **3,238,465,350** | **3,231,535,907** | **3,224,608,126** |
| **Various Other Grants** | | | | | |
| Youth Service Bureau | 2,727,244 | 2,733,240 | 2,733,240 | 2,733,240 | 2,733,240 |
| Youth Service Bureau Enhancement | 1,111,934 | 1,115,161 | 1,115,161 | 1,115,161 | 1,115,161 |
| Housing/Homeless Services - Municipality | 666,209 | 675,409 | 675,409 | 675,409 | 675,409 |

| Grant or Account | FY 24 Actual | FY 25 Appropriated | FY 26 Estimated | FY 27 Estimated | FY 28 Estimated |
|---|---|---|---|---|---|
| Local and District Departments of Health | 7,210,900 | 7,192,101 | 7,192,101 | 7,192,101 | 7,192,101 |
| School Based Health Clinics | 10,265,071 | 11,544,057 | 11,790,721 | 11,790,721 | 11,790,721 |
| Teen Pregnancy Prevention - Municipality | 98,281 | 98,281 | 98,281 | 98,281 | 98,281 |
| Connecticard Payments | 703,638 | 703,638 | 703,638 | 703,638 | 703,638 |
| Town Aid Road | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 | 60,000,000 |
| **Subtotal** | **82,783,277** | **84,061,887** | **84,308,551** | **84,308,551** | **84,308,551** |
| **Major Bonding and Other Funding Sources** | | | | | |
| LoCIP | 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 |
| **Subtotal** | **136,000,000** | **136,000,000** | **136,000,000** | **136,000,000** | **136,000,000** |
| **TOTAL - Less TRS** | **3,833,262,370** | **4,046,379,908** | **4,137,965,691** | **4,132,689,044** | **4,121,808,110** |
| **Teachers' Retirement System (TRS)** | | | | | |
| Retirement Contributions[3] | 1,554,542,000 | 1,601,407,000 | 1,655,121,000 | 1,676,696,000 | 1,620,582,000 |
| Retirees Health Service Cost | 13,557,097 | 16,030,802 | 38,170,000 | 38,958,000 | 39,347,000 |
| Municipal Retiree Health Insurance Cost | 8,208,196 | 9,840,000 | 9,840,000 | 9,840,000 | 9,840,000 |
| **Subtotal** | **1,576,307,293** | **1,627,277,802** | **1,703,131,000** | **1,725,494,000** | **1,669,769,000** |
| **GRAND TOTAL** | **5,409,569,662** | **5,673,656,710** | **5,841,096,691** | **5,858,183,044** | **5,791,577,110** |

[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 major state education grants. PA 24-81 distributes the funding approximately as follows to carry out increases that were already in statute for Education Cost Sharing (ECS) and state Charter Schools, and to implement new methods of funding for a few other programs: (1) $73.7 million for ECS, (2) $51.1 million for Magnet Schools, (3) $7.7 million for state Charter Schools, (4) $7.1 million for Vocational Agriculture, and (5) $10.4 million for other education initiatives. For this report, it is assumed that this funding is maintained in the out years at FY 25 levels within the Education Finance Reform account.

[3]$1,559 million was originally appropriated in FY 25. Section 4(b) of PA 24-81 permits the Governor to transfer necessary appropriated funds, with the approval of the Finance Advisory Committee (FAC), for the purpose of funding the ADEC. $42.4 million was transferred as a result of the August 8, 2024, FAC meeting to fully fund the Teachers' Retirement System's ADEC of $1,601.4 million.

# Appendix E. Detail on FY 25 Agency Deficiencies and Lapses

**GFNERAL FUND DEFICIENCIES**

PA 23-204, the FY 24 and FY 25 Budget, as amended by PA 24-81, included a General Fund bottom-line lapse of $129 million in FY 25. To facilitate this budgeted lapse, many agencies have Personal Services holdbacks. It is anticipated that several of these holdbacks will not be met, as described below.

Two agencies have deficiencies that are entirely due to an inability to achieve the entirety of Personal Services holdbacks:

| Agency | Deficiency $ |
|---|---|
| State Department of Education | 1.7 million |
| Department of Public Health | 1.2 million |

| Agency | Account | Deficiency $ |
|---|---|---|
| **General Fund** | | |
| **Department of Social Services** | **Various** | **216 million** |

A projected net deficiency of $216 million reflects the impact of shortfalls in several accounts totaling $232 million that are partially offset by lapses totaling $16 million. The Medicaid shortfall ($225 million) is driven by expenditure trends that have continued since FY 24. These trends include higher than budgeted hospital and pharmacy costs, as well as costs associated with health coverage for undocumented children, which are the primary reason for the lapse in HUSKY B ($10 million) where such funding was originally budgeted. The shortfalls in State Administered General Assistance ($4 million) and Aid to the Disabled ($3 million) are due to both increased caseloads and higher than budgeted costs per case. The lapse in Temporary Family Assistance ($5 million) is primarily driven by lower than budgeted caseload, while the lapse in the Connecticut Home Care Program ($1 million) is primarily driven by adjustments to the ARPA HCBS reinvestment plan.

| | | |
|---|---|---|
| **Office of the State Comptroller – Fringe Benefits** | **Various** | **110.6 million** |

A projected $110.6 million net deficiency is due to shortfalls in several accounts which are partially offset by lapses. The anticipated deficiencies are: (1) $71.2 million in the Higher Education Alternative Retirement (ARP) account resulting from a change in the accounting of a policy enacted by PA 23-204, the FY 24 and FY 25 Budget; (2) $37.4 million in the Retired State Employee Health Service Cost account resulting from rate increases due to several factors including the plan's performance; (3) $13.2 million in the Other Post Employment Benefits account; (4) $6.1 million in the Employers Social Security Tax account; and (5) $89,760 in the Pensions and Retirements – Other Statutory account.

These deficiencies are partially offset by lapses within several accounts: (1) $14.3 million in the State Employees Health Service Cost account; (2) $2.2 million in the State Employees Retirement Contributions account; (3) $500,000 in the Unemployment Compensation account; and (4) $448,278 in the Insurance – Group Life account.

| Department of Correction | Various | 40.6 million |
|---|---|---|

A projected net deficiency of $40.6 million comprises deficiencies of $20 million in Inmate Medical Services, $17.8 million in Other Expenses, and $5 million in Personal Services, along with a few lapses. The Inmate Medical Services and Other Expenses deficiencies are due to increased costs for utilities, food, and pharmaceutical and medical supplies, as well as a higher inmate population count. The population counts at this time last year was 10,296, while the population count as of 10/15/2024 is 10,808 (an increase of 5%). The Personal Services deficiency is due to expected above average overtime usage and accumulated leave payments. These deficiencies are partially offset by projected lapses of $1.2 million in Community Support Services and $1 million in Board of Pardons and Paroles.

| Department of Mental Health and Addiction Services (DMHAS) | Various | 28.6 million |
|---|---|---|

A projected deficiency of $28.6 million reflects the impact of shortfalls in various line items. The Personal Services shortfall ($10 million) is the result of higher than budgeted staff and overtime costs as the agency works to fill vacancies. The shortfall in Other Expenses ($9 million) is due to higher than budgeted costs for utilities, maintenance and food at DMHAS facilities. The Professional Services shortfall ($8 million) reflects the continued use of contracted doctors and nurses, and the shortfall in Behavioral Health Medications ($1.2 million) reflects higher costs for medications. The Discharge and Diversion shortfall ($400,000) is the result of higher than anticipated discharge costs.

This agency has a Personal Services holdback of $7.6 million that contributes to the agency deficiency.

| Office of the State Comptroller | Adjudicated Claims | 20 million |
|---|---|---|

There is a projected deficiency of $20 million within the Adjudicated Claims account. No FY 25 appropriation was made for this account. Approximately $4.7 million has been expended through the first quarter of the fiscal year.

| Connecticut Technical Education and Career System (CTECS) | Various | 13.3 million |
|---|---|---|

A $13.3 million deficiency is projected across Other Expenses ($10.3 million) and Personal Services ($3 million) due to higher than anticipated special education costs. The percentage of special education students enrolled in CTECS has increased from 10.3% of total enrollment in FY 19 to 17.1% of total enrollment in FY 24. As a result of this increase, CTECS has hired additional special education staff (resulting in increased PS costs), and incurred additional contractual costs (resulting in increased OE costs).[26] Prior to FY 25, CTECS was using federal funding to cover a portion of these increased costs.

[26] CTECS contracts with CREC to provide some of its special education services.

| Teachers' Retirement Board | Various | 9.1 million |
|---|---|---|

A projected $9.1 million net deficiency is due to a $9.96 million shortfall in the Retirees Health Service Cost account resulting from premium increases in the Medicare Advantage Plan beginning January 1, 2025. This is partially offset by a lapse of $840,000 in the Municipal Retiree Health Insurance Costs account resulting from enrollment.

| Department of Administrative Services | Various | 8.5 million |
|---|---|---|

A total deficiency of $8.5 million is projected. This includes a deficiency of $7.5 million in Personal Services and $1 million in Other Expenses. The deficiency in Personal Services is attributed to an increase in filled positions within the agency. The deficiency in Other Expenses is primarily the result of increased energy prices.

This agency has a Personal Services holdback of $500,000 that contributes to the agency deficiency.

| Judicial Department | Various | 7.9 million |
|---|---|---|

There is a projected deficiency of $7.9 million across the Other Expenses ($4.1 million) and Personal Services ($3.8 million) accounts. The Other Expenses deficiency is due to increased costs for software, other IT expenses, utilities, and postage. The Personal Services deficiency is primarily due to an increased number of judicial appointments. In 2024, there were 22 new, unbudgeted appointees.

This agency has a Personal Services holdback of $1,755,903 that contributes to the agency deficiency.

| Department of Housing | Housing/Homeless Services | 5.6 million |
|---|---|---|

There is a projected deficiency of $5.6 million in the Housing/Homeless Services account due to increased rents associated with the Rental Assistance Program (RAP). Expenditures in this account have increased significantly in recent years. In FY 24, expenditures in this account totaled approximately $98 million, while the FY 24 appropriation was $92,602,789. The appropriation for FY 25 is $87,882,789.

| Department of Emergency Services and Public Protection (DESPP) | Personal Services | 2 million |
|---|---|---|

There is a projected deficiency in the Personal Services account of $2 million, which is primarily due to an increased number of employees. Since the FY 24 and FY 25 Budget was passed in 2023, DESPP's full-time employee population has increased from 1,337 to 1,453 (an increase of 8.7%).

This agency has a Personal Services holdback of $1,058,000 that contributes to the agency deficiency.

| Department of Revenue Services | Various | 1.3 million |
|---|---|---|

A net deficiency of $1.3 million is projected primarily due to a Personal Services deficiency of $1.5 million that is the result of expected hirings. The October 2024 headcount was 539; an additional 20 positions are in the process of being refilled for a projected total of 559 full-time equivalents for FY 25.

The deficiency is partially offset by a $200,000 lapse in Other Expenses due to expenditure trends.

This agency has a Personal Services holdback of $5 million that contributes to the agency deficiency.

| Division of Public Defender Services | Various | 1.3 million |
|---|---|---|

There is a net deficiency of $1.3 million, which is primarily due to a $1.9 million deficiency in the Personal Services account. The deficiency is due to attorney parity salary increases which occurred in FY 24. Partially offsetting the deficiency is an estimated lapse of $600,000 in the Assigned Counsel account.

| Division of Criminal Justice | Various | 1,236,000 |
|---|---|---|

There is a projected deficiency of $1,236,000 across the Personal Services ($1.1 million) and Witness Protection ($136,000) accounts. The Personal Services deficiency is due largely to higher than average filled position counts and numerous changes to salary plans. The agency is authorized to have 501 positions and approximately 474 are currently filled. In October 2023, DCJ had 467 filled positions.

The Witness Protection account deficiency is due to increased costs for travel and lodging.

This agency has a Personal Services holdback of $4.2 million that contributes to the agency deficiency.

| Office of Early Childhood | Birth to Three | 1 million |
|---|---|---|

A projected $1 million deficiency in the Birth to Three account is due to higher than anticipated caseload projections. For reference, the FY 25 projected direct service hours is 523,369 compared to 512,165 in FY 24.

## GENERAL FUND LAPSES

| Agency | Account | Lapse $ |
|---|---|---|
| **General Fund** | | |
| **Office of the Treasurer – Debt Service** | **Various** | **50.4 million** |

A lapse totaling $50.4 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.

| | | |
|---|---|---|
| **Office of Legislative Management** | **Personal Services** | **5 million** |

A lapse of $5 million is projected in the Personal Services account due to retirements, turnover, attrition, and vacancies.

| | | |
|---|---|---|
| **Department of Aging and Disability Services** | **Various** | **940,000** |

There is a projected lapse of $940,000 across five accounts. This includes Personal Services ($400,000), Educational Aid for Children - Blind or Visually Impaired ($150,000), Employment Opportunities – Blind and Disabled ($150,000), Other Expenses ($140,000), and Special Training for the Deaf Blind ($100,000). ADS's spending pattern in FY 25 to date has been comparable to FY 24 (in which the agency experienced lapses), and which is anticipated to result in similar lapses this fiscal year.

| | | |
|---|---|---|
| **Secretary of the State** | **Personal Services** | **500,000** |

There is a lapse of $500,000 in the Personal Services account due to lower than anticipated expenditures. The Secretary of the State's office currently has 11 full-time vacancies.

| | | |
|---|---|---|
| **State Elections Enforcement Commission** | **Personal Services** | **400,000** |

There is a lapse of $400,000 in the Personal Services account due to lower than anticipated expenditures. The Elections Enforcement Commission currently has eight full-time vacancies.

| | | |
|---|---|---|
| **Freedom of Information Commission** | **Personal Services** | **300,000** |

There is a lapse of $300,000 in the Personal Services account due to lower than anticipated expenditures. The Freedom of Information Commission currently has five full-time vacancies.

| | | |
|---|---|---|
| **Department of Developmental Services** | **Supplemental Payment for Medical Services** | **250,000** |

A projected $250,000 lapse in the Supplemental Payment for Medical Services account is due to additional census reductions.

| | | |
|---|---|---|
| **Department of Economic and Community Development** | **Various** | **134,000** |

There is projected lapse of $134,000 across four accounts. These include Office of Workforce Strategy ($75,000), Office of Military Affairs ($50,000), and Manufacturing Growth Initiative ($9,000). These lapses reflect trending based on historical and year-to-date expenditures which are lower than budgeted.

| | | |
|---|---|---|
| **Auditors of Public Accounts** | **Personal Services** | **100,000** |

A lapse of $100,000 is projected in the Personal Services account due to turnover and attrition.

| | | |
|---|---|---|
| **Office of Governmental Accountability** | **Personal Services** | **100,000** |

There is a lapse of $100,000 in the Personal Services account due to lower than anticipated expenditures. This is due in part to the creation of the new Office of the Correctional Ombudsman within the Office of Government Accountability and the delay in creating and filling those positions.

**SPECIAL TRANSPORTATION FUND DEFICIENCIES**

| Agency | Account | Deficiency $ |
|---|---|---|
| **Special Transportation Fund** | | |
| **Department of Transportation** | **ADA Para-transit Program** | **2.2 million** |

There is a projected deficiency of $2.2 million in the ADA Paratransit Program account due to services associated with new bus routes established in FY 24. The FY 24 and FY 25 Budget provided funding for new fixed-route bus services but did not provide funding for the federally-required complementary ADA paratransit services. The Governor's Revised FY 25 Budget had proposed funding for these ADA services.

## SPECIAL TRANSPORTATION FUND LAPSES

| Agency | Account | Lapse $ |
|---|---|---|
| **Special Transportation Fund** | | |
| **Office of the Treasurer – Debt Service** | **Debt Service** | **48.3 million** |

A lapse totaling $48.3 million is projected for Special Transportation Fund debt service. 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.

| | | |
|---|---|---|
| **Department of Transportation** | **Personal Services** | **12.5 million** |

There is a projected lapse of $12.5 million in Personal Services due to delays in filling vacant positions. There are approximately 302 vacancies at the agency.

| | | |
|---|---|---|
| **Department of Motor Vehicles** | **Personal Services** | **8 million** |

There is a projected lapse of $8 million in Personal Services due to delays in filling vacant positions. There are approximately 113 vacancies at the agency across all funds.

| | | |
|---|---|---|
| **Office of the State Comptroller** | **Various Fringe Benefits** | **4.97 million** |

A projected $4.97 million net lapse is due to a $5.01 million lapse in the State Employees Health Service Cost account, as well as several other lapses in the Unemployment Compensation, Insurance – Group Life, and SERS Defined Contribution Match accounts. These are partially offset by a $328,805 deficiency in the Other Post Employment Benefits account.

# Appendix F. 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 projected 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 would have to be reduced 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 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 **Section III** for a discussion of fixed costs during the out years.

## SEBAC

The costs associated with the SEBAC wage reopener agreement that are being funded through Reserve for Salary Account (RSA) transfers are assumed to be covered by authorized General Fund carryforward funding from prior fiscal years and therefore are not fully reflected in the FY 25 General Fund estimate totals. To the extent FY 25 appropriations are used to fund the agreement, the cost to the General Fund and other appropriated funds receiving transfers from RSA may change. In addition, due to the fixed cost methodology required in this report, the out year estimates, FY 26 through FY 28, do not include costs associated with the wage reopener agreement or any potential costs attributed to a new SEBAC agreement.

## 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 placements are anticipated to continue at their current FY 25 level in the out years.

***Board and Care for Children – Adoption***

Expenditures are projected to grow by 0.9% in parallel with adoption caseload growth.

***Board and Care for Children – Foster***

Expenditures are projected to grow by 1.3% in parallel with foster care caseload growth.

***Board and Care for Children – Short-term and Residential***

Expenditures are projected to remain flat as residential caseloads are anticipated to continue at their current level in the out years.

***Individualized Family Supports***

This wraparound-services, flex-spending account is projected to remain at its current expenditure level in the out years.

### Department of Mental Health and Addiction Services

***Behavioral Health Recovery Services***

Formerly named General Assistance Managed Care, projections assume level funding in the out years based on recent trends.

***Medicaid Adult Rehabilitation Option***

Expenditures are flat funded based on trends in recent years.

### Department of Social Services

***Medicaid***

Adjustments reflect average annual growth of 3.5% to accommodate cost and caseload requirements.

***HUSKY B***

Reflects adjustments for cost and caseload growth and the associated state share of costs.

***Temporary Family Assistance***

Reflects adjustments for cost and caseload requirements.

***Old Age Assistance***

Reflects adjustments for cost and caseload requirements.

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

***Aid to the Disabled***
Reflects adjustments for cost and caseload requirements.

***Connecticut Home Care Program***
Reflects level funding based on recent trends.

***State Administered General Assistance***
Reflects adjustments for cost and caseload requirements.

***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.

## 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 2.5% 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 actuarially accrued liability payment (UAAL), and the normal cost based on assumptions in the June 30, 2023, SERS valuation. Projections assume: (1) level dollar amortization methodology, (2) a 6.9% discount rate, and (3) amortization of UAAL over the remaining 23 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, internal OFA revenue projections, and using modeling software of the SERS plan. The actuarially determined employer contribution (ADEC) payments reflect the savings from an additional deposit in 2024 and the projected deposit in 2025 resulting from a General Fund operating surplus and excess revenue generated through the volatility cap.

The Treasurer deposited $608.2 million to the pension systems with a 55% (SERS) - 45% (TRS) split in 2024, and projects an additional transfer to SERS and TRS with the same 55%-45% distribution between the two systems to pay down their respective UAALs by the end of the calendar year.

***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 adjusted projections of the actuarially determined employer contribution (ADEC) based on the revised amortization methodology beginning July 1, 2024, pursuant to PA 24-81 Section 80. The system moved from a fixed date amortization method to a fifteen-year layered approach, resulting in lower ADEC payment projections. PA 24-81 Section 81 requires a revised valuation establishing the updated ADEC to be completed to reflect this change.

***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 actuarially accrued liability payment (UAAL), and the normal cost based on assumptions in the June 30, 2024, TRS valuation. Projections assume: (1) a transition to a level-dollar amortization methodology in FY 26, (2) a 6.9% assumed rate of investment return, and (3) the amortization of the UAAL over the remaining 24 years for the statutory base. The actuarially determined employer contribution (ADEC) payments reflect the savings from an additional deposit in 2024 and the projected deposit in 2025 from a General Fund operating surplus and revenue generated 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 projected new issuances using 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.

# Appendix G. Additional Pension Detail

## STATE EMPLOYEES RETIREMENT SYSTEM

The State Employees Retirement System (SERS) provides pension benefits to 57,327 retired members and their beneficiaries and covers another 47,269 active members. The system is funded on an actuarial basis and receives an annual valuation. The latest valuation, dated June 30, 2023, established an actuarially determined employer contribution (ADEC) of $2.01 billion for FY 25, of which $1.63 billion is funded by the General Fund. The system uses a level-dollar-amortization approach, meaning the unfunded actuarially accrued liability (UAAL) payment is assumed to remain constant during the amortization period. During this time, the normal cost continues to rise to keep pace with the costs associated with plan benefits.

### Treasurer Deposits Excess Reserves into SERS

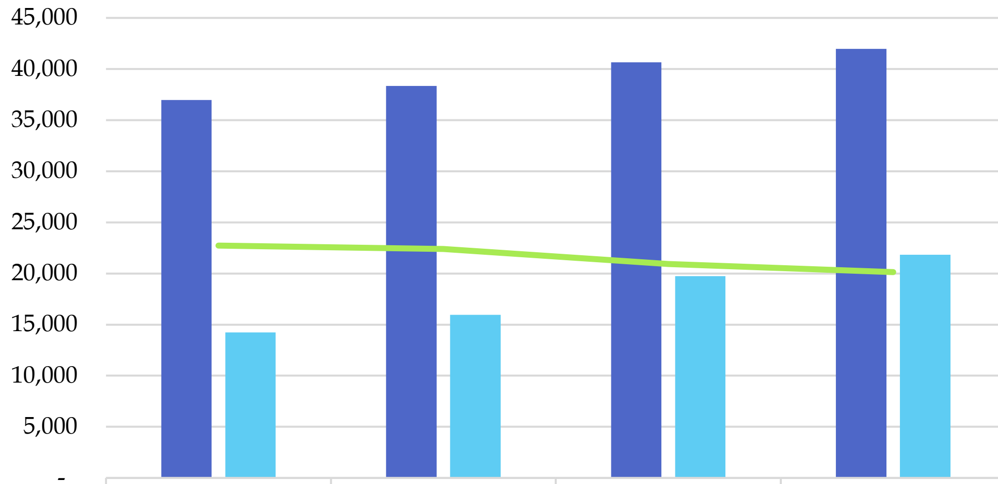
The Budget Reserve Fund (BRF) ended FY 24 in excess of the statutory cap[27] resulting in the transfer of approximately $513.9 million into SERS by the end of the calendar year. The State Treasurer transferred additional deposits to SERS each fiscal year beginning in 2020 and is projected to make an additional contribution in FY 25.

The ADEC varies from year to year and is made up of two components: the normal cost and UAAL payments. The volatility transfer only impacts the UAAL and reduces the payment two years after the surplus year. For each valuation there are many factors, both investment and non-investment related, that impact the UAAL. Some examples include asset experience, cost of living adjustments, and mortality. Therefore, the ADEC does not decrease in an amount equal to the amount transferred because the funds are discounted and used to offset increases to the UAAL.

**Figure 1** below shows improvements in the system's financial health. Since June 30, 2020, to the latest valuation on June 30, 2023, the UAAL has decreased by $2.59 billion, and the funded ratio has increased by 13.5 percentage points. The plan continues to move towards being fully funded, meaning the value of plan assets is equal to the system's obligations. Figures for 2024 will be available once the 2024 valuation is released.

[27]The State Treasurer must transfer 50% of funds between the BRF's 15%-18% cap, and all funds above the 18% cap, towards reducing long-term debts. The BRF is discussed in **Section IV**.

**Figure 1.** Trends in State Employees Retirement System (SERS) Funding
In Millions of Dollars




| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| Actuarial Liability | 36,971 | 38,344 | 40,657 | 41,981 |
| Actuarial Assets | 14,243 | 15,947 | 19,726 | 21,847 |
| UAAL | 22,728 | 22,398 | 20,931 | 20,134 |
| Funded Ratio | 38.5% | 41.6% | 48.5% | 52.0% |

Source: Cavanaugh Macdonald Consulting, LLC

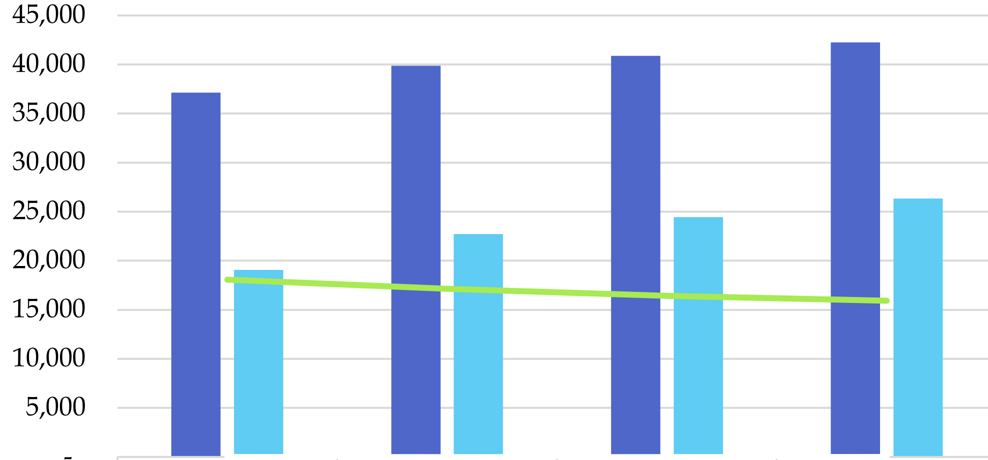
**TEACHERS' RETIREMENT SYSTEM**

The Teachers' Retirement System (TRS) provides pension and health benefits to 40,034 retired public-school teachers and their beneficiaries and covers another 53,373 active members. State TRS funding appropriated within the Teachers' Retirement Board (TRB), as well as debt service costs associated with the Pension Obligation Bonds (POBs) funded through the Office of the State Treasurer, represent the fiscal support to local education agencies for expenses related to their retired public-school teachers. The ADEC combined with the Debt Service reflects the total TRS pension cost to the General Fund. POBs are set in a repayment schedule, growing by approximately 6% each year beginning in FY 26 until they are fully paid off in 2032.

**Treasurer Deposits Excess Reserves into TRS**

As noted above, the BRF ended FY 24 in excess of the statutory cap and is projected to exceed the cap in FY 25 as well. The State Treasurer transferred additional deposits to the TRS each fiscal year beginning in 2021. **Figure 2** below shows further insights into the system's financial health. From June 30, 2020, to the latest valuation on June 30, 2024, the UAAL has decreased by $2.15 billion, and the funded ratio has increased by 11 percentage points.

**Figure 2.** Trends in Teachers' Retirement System (TRS) Funding
In Millions of Dollars




| | 2020 | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| Actuarial Liability | 37,128 | 39,860 | 40,877 | 42,260 |
| Actuarial Assets | 19,055 | 22,729 | 24,455 | 26,334 |
| UAAL | 18,073 | 17,131 | 16,422 | 15,926 |
| Funded Ratio | 51.3% | 57.0% | 59.8% | 62.3% |

Source: Cavanaugh Macdonald Consulting, LLC

**Valuation Results**

The TRS 2024 valuation, which captures the impact of the volatility transfers by the end of the calendar year, highlighted two improvements to the system's financial health since the 2023 valuation: (1) a total net decrease in UAAL of $495.7 million; and (2) a 2.5 percentage point increase in the funded ratio.

The valuation also establishes the state's FY 26 ADEC of $1,655.1 million. The ADEC is a combination of the TRS' UAAL payment and the normal cost, which is the portion of the cost of projected benefits allocated to the current plan year. Further details from the latest valuation are shown to the right.

**2024 Valuation Highlights**

- Total net decrease in the UAAL of $495.7 million and an increase of 2.5 percentage points in the funded ratio (from 59.8% to 62.3%).
- These changes are a net result of multiple factors which include:
  - The additional contribution in 2024 from BRF excess funds reduced the system's UAAL by $411.1 million.
  - Higher than anticipated cost-of-living adjustments for many retirees resulted in an increase in the UAAL of $267.4 million.
  - Lower than anticipated salary increases for active members decreased the UAAL by $4.7 million.
  - Market value investment returns of 11.5% compared to the 6.9% assumed rate. However, smoothed assets returned 8.1%, resulting in an actuarial gain of $281.2 million.