



# Office of Fiscal Analysis

FY 26 BUDGET PROJECTIONS

January 29, 2026

## BUDGET ON TRACK TO YIELD \$1.9 BILLION FOR PENSIONS DEBT

The Office of Fiscal Analysis projects operating surpluses within the General and Special Transportation funds of \$26.4 million<sup>i</sup> and \$56.9 million<sup>ii</sup>, respectively. Relative to the [Fiscal Accountability Report \(FAR\)](#), the projected operating surplus in the General Fund has decreased by \$68.7 million and the projected operating surplus in the Special Transportation Fund (STF) has decreased by \$5.5 million.

### Pensions and Budget Reserve Fund Adjustments - Projected

The Volatility Adjustment Transfer is projected to be approximately \$1.81 billion.<sup>iii</sup> Unallocated appropriations to address reductions in federal funding are projected to be approx. \$332.1 million.<sup>iv</sup> Combined, these funds equal approximately \$2.14 billion in total and will be distributed to: 1) maintain the Budget Reserve Fund at the 18.0% cap relative to FY 27 net General Fund appropriations (approx. \$239 million); and 2) reduce pension funds debt (approx. \$1.90 billion).

### General Fund Revenue

Excluding the \$167.9 million one-time transfer of revenue from the Budget Reserve Fund per SA 25-1 of the November Special Session (NSS), projected net General Fund revenue is \$48.3 million less than budgeted in FY 26. The remaining change to revenue projections relative to budget is made up of the following:

- 1) a positive \$216.2 million adjustment in November to the *withholding* portion of the personal income tax to reflect relatively strong collections since April;
- 2) a positive \$176.1 million total adjustment (\$109.1 million in November + \$67 million in January) to *sales tax* as collections thus far have exceeded expectations and in anticipation of a federal [fiscal stimulus this Spring](#) providing a windfall via larger or unexpected refunds of federal income tax;
- 3) a negative \$277.8 million total adjustment (-\$257.8 million in November and -\$20 million in January) in *corporation business tax* reflecting the impact of several factors including new federal and state policies enacted last year and underlying trends;
- 4) an upwards adjustment of \$100 million to the projection for state *refunds of tax* (negative revenue impact) to reflect a surge in refunds of the pass-through entity tax, as taxpayers appear to be electing to file under the estimated and finals portion of the personal income tax rather than the pass-through entity tax; and
- 5) a negative \$62.8 million adjustment (net) among several other discrete adjustments or revenue categories (November and January), including *federal funds* and *miscellaneous revenue*.

### Overview

In Millions of Dollars

General Fund	Budget	January Estimate	Difference from Budget
Revenues	24,345.4	24,465.0	119.6
Expenditures	24,036.6	24,438.6	402.1
<b>Surplus/(Deficit)</b>	<b>308.9</b>	<b>26.4</b>	<b>(282.5)</b>
<b>Special Transportation Fund</b>			
Revenues	2,309.1	2,325.3	16.3
Expenditures	2,279.2	2,268.4	(10.8)
<b>Surplus/(Deficit)</b>	<b>29.8</b>	<b>56.9</b>	<b>27.1</b>

Apart from the adjustments impacting the General Fund listed above, projected tax revenues in the estimates and finals portion of the personal income tax and the pass-through entity tax were adjusted upwards in November by \$1,080 million in total. An offsetting adjustment to the Volatility Adjustment Transfer was made to attribute these projected revenues to the Budget Reserve Fund and to reduce pensions debt since they are above the Volatility Cap threshold.

### **General Fund Expenditures**

Apart from the \$167.9 million in additional spending per SA 25-1 of the November Special Session, projected state agency deficiencies of \$237.4 million largely determine the change to projected expenditures (projected net lapses are only \$3.2 million total) relative to budget. Key deficiencies are:

- 1) \$90 million in the Medicaid line item;
- 2) \$31.6 million in State Comptroller's Fringe Benefits agency;
- 3) \$30 million in the Adjudicated Claims line item;
- 4) \$20.9 million in the Department of Correction;
- 5) \$18 million in Workers' Compensation;
- 6) \$14.5 million in the Housing and Homeless Services line item within the Department of Housing;
- 7) \$13.6 million in the Judicial Department;
- 8) \$9.1 million in the Department of Emergency Services and Public Protection; and
- 9) \$6.7 million in the Connecticut Technical Education and Career System's Other Expenses line item.

Please see the link at the bottom of this report for more details on projected deficiencies.

### **Special Transportation Fund**

Net revenue projections are up \$16.2 million relative to budget and are driven by stronger than anticipated sales tax collections (+\$19.9 million) and a technical adjustment to interest income (+\$17.5 million). Partly offsetting these items is a \$15.5 million negative adjustment to motor vehicle receipts, which is mostly vehicle registration fees. This negative adjustment is not indicative of fewer overall registered vehicles; rather, it reflects the fact that FY 26 appears to be a low year in the overall three-year vehicle registration cycle, which continues to smooth out following the transition from two-year to three-year registration periods. Other changes net to negative \$5.7 million based on collection trends.

Expenditures are projected to be \$10.8 million less than budget, which includes account-level lapses of \$33.3 million, partly offset by deficiencies of \$10.5 million and the bottom-line STF savings target of \$12 million. Personal Services lapses are projected at both the Department of Transportation (\$3 million) and DMV (\$1.25 million) based on lower than anticipated staffing levels through the first half of the year. However, the DOT lapse is offset by an expected \$3 million deficiency in its Other Expenses account, which may increase depending on the severity of the winter storm season. A debt service lapse of \$28.7 million is expected based on changes to issuance timing and updated market information from recent bond sales and a net deficiency of \$7.1 million in fringe is expected based on trends.

**General Fund Summary**

In Millions of Dollars

Summary	FY 26
<b>Budgeted Balance</b>	<b>308.9</b>
<b>Revenue Changes</b>	
+ Withholding	216.2
+ Sales and Use	176.1
+ Corporations	(277.8)
+ Federal Grants	(26.1)
+ SA 25-1, NSS	167.9
+ Net Revenue	(136.7)
<b>Revenue Subtotal</b>	<b>119.6</b>
<b>Expenditure Changes</b>	
+ Agency Deficiencies	(237.4)
+ SA 25-1, NSS	(167.9)
+ Net Lapses	3.2
<b>Expenditure Subtotal</b>	<b>(402.1)</b>
<b>= Surplus/(Deficit)</b>	<b>26.4</b>
<b>Budget Reserve Fund Balance Summary</b>	
Current Balance @ 18.0%	4,326.5
+ Volatility Adjustment	1,810.4
+ Pension Debt Reduction	(1,571.8)
<b>= Budget Reserve Fund Balance</b>	<b>4,565.1</b>

**Special Transportation Fund Summary**

In Millions of Dollars

Summary	FY 26
<b>Budgeted Surplus</b>	<b>29.8</b>
<b>Revenue Changes</b>	
+ Sales and Use Tax	19.9
+ Oil Companies	(1.4)
+ Net Revenue	(2.2)
<b>Revenue Subtotal</b>	<b>16.3</b>
<b>Expenditures</b>	
+ Agency Deficiencies	(7.1)
+ Net Lapses	18.0
<b>Expenditure Subtotal</b>	<b>10.8</b>
<b>= Surplus/(Deficit)</b>	<b>56.9</b>
<b>STF Balance Summary</b>	
Current Balance @ 18.0%	412.4
+ Surplus/(Deficit)	56.9
+ Reduce Long-term Debt	(36.4)
<b>= Fund Balance</b>	<b>432.9</b>

For further information, please see the links below:

[Revenue Details Table](#)

[Expenditure Details Table](#)

[Budget Status Page](#)

<sup>i</sup> Pursuant to [Public Act 25-93](#), *An Act Increasing Resources for Students, Schools and Special Education*, the entirety of the projected operating surplus in the General Fund will be transferred to the Early Childhood Education Endowment Fund.

<sup>ii</sup> Pursuant to [Public Act 25-168](#), *An Act Concerning the State Budget...*, the cumulative fund balance of the Special Transportation Fund (STF) is capped at 18.0% of net STF appropriations. Any year-end surplus above the cap is deemed appropriated to pay off STF-related debt. An estimated \$36.4 million of the projected \$56.9 million operating surplus (FY 26) in the STF is expected to be used to pay off STF-related debt, with the remaining \$20.5 million to be used to increase the cumulative fund balance to \$432.9 million in FY 27, assuming the net STF appropriations total enacted in PA 25-168, which would maintain the 18.0% cap.

<sup>iii</sup> The Volatility Adjustment Transfer represents the difference between projected or year-end actual revenue in the designated volatile category (estimates and finals portion of the personal income tax + pass-through entity tax) and the Volatility Cap which limits the amount of these revenues available to the General Fund budget. At year-end, the Volatility Adjustment Transfer is used to maintain the Budget Reserve Fund at the 18.0% cap with any excess used to reduce long-term (pensions) debt.

<sup>iv</sup> [Special Act 25-1 of the November Special Session](#), *An Act Concerning Temporary Adjustments to the Budget Reserve Fund and Appropriating Funds to Address Reductions in Federal Funding*, appropriated \$500 million from the Budget Reserve Fund to the Office of Policy and Management to respond to and mitigate certain funding reductions. Pursuant to SA 25-1, NSS, any portion of the \$500 million appropriation remaining unallocated as of February 4, 2026, is to be used for unfunded pension liabilities in FY 27. As of this report, \$167.9 million has been allocated.