FISCAL ACCOUNTABILITY REPORT

FISCAL YEARS 2025 – 2028

A REPORT TO
THE APPROPRIATIONS COMMITTEE AND
THE FINANCE, REVENUE AND BONDING COMMITTEE
PURSUANT TO SECTION 2-36b OF THE CONNECTICUT GENERAL STATUTES

OFFICE OF POLICY AND MANAGEMENT
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OFFICE OF POLICY AND MANAGEMENT
FISCAL ACCOUNTABILITY REPORT
NOVEMBER 2024

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OVERVIEW

Section 2-36b of the Connecticut General Statutes requires the Office of Policy and Management and the Office of Fiscal Analysis to annually analyze issues affecting spending and revenue for the current biennium and the three succeeding fiscal years, and to report those analyses to the Appropriations Committee and to the Finance, Revenue and Bonding Committee. By statute, there are seven components of the report:

1. A comparison of the consensus revenue estimate to annual growth in “fixed costs;”
2. Projected tax credits;
3. Estimated deficiencies for the current fiscal year;
4. Projected balance in the Budget Reserve Fund;
5. Projected bond authorizations, allocations and issuances;
6. An analysis of revenue and expenditure trends and of the major cost drivers affecting state spending; and
7. An analysis of possible uses of surplus funds.

The information in this report outlines the challenges identified by the Office of Policy and Management that will confront decision-makers when developing future budgets. A summary of findings is below, and more detail can be found in the pages that follow.

<u>FY 2025</u>

The General Fund is projected to finish the year with a $190.3 million operating surplus, $107.5 million less than the originally budgeted figure. The reduction in surplus is attributable to expenditure projections which are $383.7 million above the level in the adopted budget which are being partially offset by $276.2 million in additional revenue above the level in the adopted budget.

In addition to the forecast surplus, we also forecast a volatility cap deposit to the Budget Reserve Fund (BRF) of $1.4 billion resulting in a combined transfer to the BRF of $1.59 billion. We project that, after transfers out of the fund and into the State Employees and Teachers’ Retirement Systems pursuant to the close-out of FY 2024 and transfers into the fund of $1.59 billion in FY 2025, the fund balance will be $5.70 billion or 25 percent of net General Fund appropriations for the current year. Given that this balance will likely exceed the statutory 18 percent cap for the Budget Reserve fund next fiscal year, additional transfers to the State Employees Retirement Fund and/or the Teachers’ Retirement Fund are expected during the close-out period for FY 2025.

The Special Transportation Fund is expected to finish the year with a $149.0 million operating surplus. The fund balance on June 30, 2025, is projected to be $560.6 million.

<u>FY 2026 Through FY 2028</u>

General Fund revenues are projected to increase annually by $499.8 million for FY 2026 over FY 2025, $691.7 million for FY 2027, and $752.2 million for FY 2028.

As depicted in the table below, “fixed” costs in the General Fund are anticipated to rise by $503.1 million (4.1 percent) in FY 2026. The largest contributors to this projected increase are increased costs for medical services including $167.3 million in Medicaid and $188.6 million in healthcare for retired teachers and state employees. Beginning in FY 2027, debt service costs begin to add to healthcare expenditures as key drivers of the forecast 4.1 percent increase in fixed costs. Finally, we forecast moderating fixed cost growth, at 2.3 percent, for FY 2028. As noted in the last two reports, growth in pension costs is not anticipated to be a significant driver of future General Fund spending. This is mainly attributable to changes in funding methodologies adopted since 2017 as well as additional contributions made possible as a result of recent budget surpluses and volatility cap deposits.

Revenue growth in the General Fund is anticipated to be essentially equal to fixed cost growth for FY 2026 as a result of the use of one-time funds in FY 2025 that are not assumed to recur in FY 2026. Revenue growth will be higher than fixed cost growth in FY 2027 and FY 2028 by increasing amounts. It is important to note that expenditure growth in areas of the budget that are not considered "fixed" will continue to drive the need to prioritize resources in the short-term – particularly as we enter the next biennium.

In the Special Transportation Fund, "fixed" cost growth from FY 2026 through FY 2028 is driven by growth in debt service costs, while changes in state employee pension costs are not anticipated to grow. Unlike the General Fund, Special Transportation Fund revenue growth will not keep up with increasing debt service costs. Without additional revenue or reductions in transportation investments, the expected increase in costs will outpace the growth in revenues in the long term, impacting fund solvency.

GENERAL FUND

(in millions)

	FY 2026 vs. FY 2025	FY 2027 vs. FY 2026	FY 2028 vs. FY 2027
Revenue Growth	$ 499.8	$ 691.7	$ 752.2
Fixed Cost Growth			
Debt Service	$ 14.1	$ 122.2	$ 100.5
State Employee Pensions	(19.2)	18.8	19.8
Teacher Pensions	53.7	50.0	(30.7)
State and Teacher OPEB	188.6	159.2	31.0
Medicaid	167.3	154.3	156.8
Other Entitlements	98.6	25.2	27.5
Total Fixed Cost Growth	$ 503.1	$ 529.5	$ 304.9
Revenue Growth less Fixed Cost Growth	$ (3.3)	$ 162.2	$ 447.3

SPECIAL TRANSPORTATION FUND

(in millions)

	FY 2026 vs. FY 2025	FY 2027 vs. FY 2026	FY 2028 vs. FY 2027
Revenue Growth	$ 5.6	$ 31.1	$ 30.5
Fixed Cost Growth			
Debt Service	$ 53.3	$ 107.8	$ 100.9
State Employee Pensions	(2.7)	1.0	1.1
Total Fixed Cost Growth	$ 50.6	$ 108.7	$ 101.9
Difference	$ (45.0)	$ (77.6)	$ (71.4)

CURRENT FISCAL YEAR OUTLOOK

FY 2025 - GENERAL FUND

The adopted FY 2025 budget anticipated a $297.8 million balance at year end. The Office of Policy and Management is projecting an operating surplus of $190.3 million, 0.8 percent of the General Fund. Revenues are $276.2 million above the budget plan, while estimated expenditures are $383.7 million above the budgeted level.

FY 2025 - GENERAL FUND
(in millions)

	Budget Plan	OPM Estimate 11/20/2024	Variance from Budget
Revenues	$ 23,103.7	$ 23,379.9	$ 276.2
Expenditures	22,805.9	23,189.6	383.7
Operating Results - Surplus/(Deficit)	$ 297.8	$ 190.3	$ (107.5)

Revenue

Projected revenues are $276.2 million above the level envisioned in the enacted budget for FY 2025 and are reflective of the November 12, 2024, consensus revenue forecast. The largest change is in the Estimates and Finals component of the Personal Income Tax, up $570.5 million, as FY 2024 ended better than expected; the trend in estimated payments continues to exceed their target this fiscal year, combined with continued strong performance in the equity markets. Similarly, revenue from the Pass-through Entity Tax has been revised upward by $182.0 million. Collections of the Withholding Tax component of the Personal Income Tax have been revised upward by $358.7 million as the tax continues to grow faster than assumed in the budget. Federal Grants have been revised upward by $79.6 million due to final reconciliation of federal funds received to those earned for medical services during the second half of FY 2024, increased revenue due to the Substance Use Disorder waiver and re-estimates of other Medicaid claimable activities. Offsetting these gains, Sales Tax estimates have been revised downward by $324.7 million due to slower growth in taxable sales, continuing a trend that began in FY 2024. Health Provider collections have also been revised downward by $66.4 million due to lower than anticipated collections from the hospital sector and the expectation that this trend will continue. All other changes net to a positive $229.0 million.

Given the projected changes in the Estimates and Finals component of the Personal Income Tax and the Pass-through Entity Tax noted above, the transfer to the Budget Reserve Fund pursuant to the volatility cap will increase by $752.5 million to a total of $1,403.5 million.

Expenditures and Discussion of Projected Deficiencies

The Office of Policy and Management forecasts that FY 2025 net expenditures will, in aggregate, be $383.7 million above the levels anticipated in the adopted budget, a decrease of $10.6 million from last month's estimate. A description of projected shortfalls and lapses follows.

Deficiencies: Shortfalls totaling $443.2 million are forecast in the following agencies.

- Department of Revenue Services. A shortfall of $885,000 in Personal Services is anticipated which may necessitate a release of a portion of funding withheld in order to achieve the "Reflect Historic Staffing" lapse.
- Department of Administrative Services. A shortfall of $4.5 million is forecast, with $4.5 million in the Personal Services account and $1.0 million in the Other Expenses account due to increases in electricity and other premises costs which are partially offset by a $1.0 million lapse in the Rents and Moving account as funds carried forward for purchase of an emergency vehicle for a driving training course will not be needed.
- Military Department. A shortfall of $200,000 in Personal Services is anticipated which may necessitate a release of a portion of funding withheld in order to achieve the "Reflect Historic Staffing" lapse.
- Department of Housing. A $4.0 million shortfall is projected in the Housing / Homeless Services account as a result of rent increases.
- Office of Health Strategy. A shortfall of $226,000 in Personal Services is anticipated which may necessitate a release of a portion of funding withheld in order to achieve the "Reflect Historic Staffing" lapse.
- Department of Mental Health and Addiction Services. A total shortfall of $29.95 million is projected with $11.0 million in Personal Services which is likely to require deficiency appropriations in addition to release of the remaining $7.6 million withheld in order to achieve the "Reflect Historic Staffing" lapse, $8.5 million in the Other Expenses account as a result of higher than anticipated food, utilities and maintenance costs, $8.0 million in the Professional Services account due to the cost of contracted doctors and nurses, $2.1 million in the Behavioral Health Medications account due to price increases for medications, and $350,000 in the Discharge and Diversion Services account due to unanticipated costs associated with discharges from Connecticut Valley Hospital and Whiting Forensic Institute.
- Department of Social Services. A net shortfall of $228.6 million is anticipated. A $240.0 million deficit is forecast in the Medicaid account due to higher than budgeted costs. The Governor's proposed budget had recognized additional costs in Medicaid of $106.8 million in FY 2025. Since that time, costs have continued to increase, exceeding budgeted amounts. The HUSKY B account is projected to lapse $10 million due mainly to the enacted budget funding the costs for coverage of undocumented children entirely under HUSKY B when the vast majority of the costs are being charged to Medicaid. Shortfalls of $2.8 million and $4.0 million, respectively, are forecast in the Aid to the Disabled and State Administered General Assistance accounts due to higher caseload and costs per case than had been budgeted. These shortfalls are partially offset by lapses of $2.0 million in Personal Services; $500,000 in Community Services; $4.3 million in Temporary Family Assistance and $190,000 in Old Age Assistance, primarily due to lower caseloads than had been budgeted; and $1.2 million in the state-funded home care program due to revised requirements under the ARPA HCBS reinvestment plan.
- Technical Education and Career System. A total shortfall of $15.9 million is forecast including $3.0 million in Personal Services as well as $12.9 million in the Other Expenses account as a result of increased costs for utilities as well as unbudgeted increases in special education services, a portion of which was previously funded via expiring federal grants.
- Office of Early Childhood. A net shortfall of $300,000 is anticipated with a $1.4 million shortfall in the Birth to Three account as a result of increased caseload projections which is partially offset by forecasted lapses of $450,000 in the Personal Services account and $650,000 in the Early Care and Education account based on current trends.
- Teachers' Retirement Board. A net shortfall of $8.9 million is anticipated, based on a $9.9 million shortfall in the Retiree Health account due to significant increases in contractual Medicare Advantage rates beginning January 1, 2025, in part driven by changes mandated under the federal

Inflation Reduction Act. Partially offsetting this shortfall is a $1.0 million lapse in the Municipal Retiree Health Insurance Costs account as a result of caseload.

- Department of Correction. A net shortfall of $27.7 million is forecast, with $4.0 million in Personal Services, $16.0 million in the Other Expenses account due to inflation-driven increases in operating expenses, and $12.0 million in the Inmate Medical account due to increased staffing and pharmaceutical costs. Partially offsetting this shortfall are forecast lapses of $1.3 million in the Board of Pardons and Paroles account and $3.0 million in the Community Services account.
- Judicial Department. A $8.8 million shortfall is projected with $3.9 million in the Personal Services account and $4.9 million in the Other Expenses account, primarily caused by higher-than-expected utilities and information technology costs.
- Public Defender Services Commission. A net shortfall of $1.14 million is anticipated based on a $1.84 million shortfall in Personal Services which is partially offset by a $700,000 lapse in the Assigned Counsel-Criminal account.
- State Comptroller – Miscellaneous. We estimate $9.0 million in expenditures for Adjudicated Claims. No appropriation was made in the enacted budget for payment of these claims.
- State Comptroller – Fringe Benefits. A net shortfall of $102.4 million is anticipated, with $75.0 million forecast in the Higher Education Alternative Retirement System account primarily due to a change in the accounting treatment for these expenditures, which were originally budgeted as revenue reimbursements but instead will be reflected as expenditures. In addition, a $37.4 million shortfall is forecast in the Retired State Employees Health Service Cost account, a $16.4 million shortfall is forecast in the Other Post Employment Benefits account, a $7.5 million shortfall is projected in the Employers Social Security Tax account, and a shortfall of $38,400 is forecast in the Pensions and Retirements – Other Statutory account. Partially offsetting those amounts are forecast lapses of $22.0 million in the State Employees Health Service account, $8.0 million in the SERS Defined Contribution Match account, $2.18 million in the State Employees Retirement Contributions account, $1.0 million in the Unemployment Compensation account, and $750,000 in the Insurance – Group Life account.

Lapses: P.A. 23-204 included bottom-line savings targets totaling $182.7 million. We project that aggregate lapses will total $238.4 million including $114.9 million remaining in funds withheld from agencies as part of the rollout of the FY 2025 budget, $48.7 million in budgeted unallocated lapse, of which $8.14 million has been assigned to the constituent units of higher education with the remainder anticipated to be achieved as agencies work to reduce spending to ensure this savings target is satisfied; and $74.8 million in additional lapses in agencies as identified below.

- Office of Legislative Management. A $5.0 million lapse is projected in the Personal Services account.
- Auditors of Public Accounts. A $150,000 lapse is projected in the Personal Services account.
- Commission on Women, Children, Seniors, Equity, and Opportunity. A $150,000 lapse is projected in the Personal Services account.
- Secretary of the State. A $500,000 lapse is projected in the Personal Services account.
- Elections Enforcement Commission. A $400,000 lapse is forecast due to lower than budgeted Personal Services costs.
- Freedom of Information Commission. A $300,000 lapse is forecast due to lower than budgeted Personal Services costs.
- State Treasurer. A $300,000 lapse is forecast due to lower than budgeted Personal Services costs.
- Office of Governmental Accountability. A $200,000 lapse is projected in the Personal Services account.
- Office of Policy and Management. A $2.5 million lapse is forecast with $2.0 million in the Personal Services account and $500,000 in the Other Expenses account.

- Division of Criminal Justice. A net lapse of $227,000 is forecast based on an anticipated $1.4 million lapse in Other Expenses which is partially offset by forecast shortfalls of $1.03 million in the Personal Services account and $136,000 in the Witness Protection account.
- Department of Emergency Services and Public Protection. A $500,000 lapse is forecast in the Personal Services account.
- Department of Consumer Protection. A $750,000 lapse is forecast in the Personal Services account.
- Department of Agriculture. A total lapse of $350,000 is forecast, with $100,000 in the Personal Services account, $150,000 in the Senior Food Vouchers account, and $100,000 in the WIC Coupon Program for Fresh Produce account.
- Department of Economic and Community Development. A $500,000 lapse is forecast in the Various Grants account.
- Department of Public Health. A net lapse of $1.7 million is forecast with $2.5 million in the Gun Violence Prevention account based on contract timing which is partially offset by an $800,000 shortfall in the Personal Services account.
- Department of Developmental Services. A lapse of $2.17 million is anticipated with $2.0 million in the Personal Services account and $170,000 in the Supplemental Services for Medical Services account based on census.
- Department of Aging and Disability Services. A net lapse of $350,000 is projected based on current spending patterns, with $150,000 in the Other Expenses account as a result of a budgeted lease being paid by a different agency, $100,000 in the Educational Aid for Children - Blind or Visually Impaired account, $150,000 in the Employment Opportunities – Blind & Disabled account, and $100,000 in the Special Training for the Deaf Blind account. Partially offsetting these lapses in a projected $150,000 shortfall in the Personal Services account.
- Department of Education. A net lapse of $1.42 million is forecast, with $1.0 million in the Other Expenses account and $2.0 million in the Aspiring Educators Diversity Scholarship account based on application volume. Partially offsetting these lapses are forecast shortfalls of $700,000 in the Personal Services account and $876,000 in the Adult Education account based on preliminary enrollment figures.
- Office of Higher Education. A $100,000 lapse is forecast in the Personal Services account.
- Department of Children and Families. A net lapse of $5.5 million is anticipated, with $1.0 million in the Personal Services account, $1.8 million across the Board and Care for Children – Adoption, Foster, and Short-term and Residential accounts, and $4.2 million in the Juvenile Review Boards account based on timing of contracts. Partially offsetting these lapses is a projected $1.5 million shortfall in the Other Expenses account.
- Debt Service – State Treasurer. A total lapse of $50.59 million is anticipated, with $37.0 million in the Debt Service appropriation and $12.2 million in the UConn 2000 - Debt Service account as a result of reduced interest payments compared to budgeted estimates and $1.39 million in the Municipal Restructuring account as a result of the Fall 2023 refunding sale.
- Workers' Compensation Claims – Department of Administrative Services. A net lapse of $470,000 is anticipated, with shortfalls in the DESPP and DOC line items more than offset by forecast lapses in the remaining accounts.

FY 2025 - Special Transportation Fund

The adopted budget anticipated a $68.1 million balance from operations. OPM estimates that the Special Transportation Fund will end the year with an operating surplus of $149.0 million, and that the Transportation Fund balance on June 30, 2025, after transfers to reduce indebtedness pursuant to section 124 of P.A. 24-151, will be $560.6 million, or 24.5 percent of current year appropriations.

Projected revenues are $1.8 million above the level anticipated in the enacted budget for FY 2025, reflective of the November 12, 2024 consensus revenue forecast. Highway Use Tax is anticipated to be $33.3 million below budget and more in line with FY 2024 performance. Oil Companies Tax has been revised downward by $20.5 million due to lower than anticipated oil prices. Offsetting these declines is Motor Vehicle Receipts, up $25.2 million, continuing a trend from FY 2024 in overperformance. In addition, Interest Income is $12.6 million above budget, reflective of higher interest earnings in the fund. All other changes net to a positive $17.8 million.

Projected expenditures are anticipated to be $79.1 million below the level in the adopted budget as described below.

Deficiencies:

- Workers' Compensation Claims – Department of Administrative Services. A $2.0 million shortfall is anticipated based on current expenditure trends.

Lapses: We project the following lapses, totaling $94.5 million, will more than satisfy the budgeted bottom-line savings target.

- Department of Administrative Services. A $400,000 lapse is projected in the Personal Services account.
- Department of Motor Vehicles. A total lapse of $10.0 million is forecast, with $8.0 million in the Personal Services account and $2.0 million in the DMV Modernization account.
- Department of Energy and Environmental Protection. A $10.0 million lapse is forecast in the Other Expenses account as a result of a budgeted commercial electric vehicle voucher program which is not anticipated to begin this year.
- Department of Transportation. A $12.5 million lapse is projected in the Personal Services account.
- Debt Service – State Treasurer. A $60.0 million lapse is anticipated as a result of debt cost savings with the Fall 2024 sale and from savings achieved by the payoff of outstanding debt from the cumulative balance.

FY 2025 - SPECIAL TRANSPORTATION FUND

(in millions)

	Budget Plan	OPM Estimate 11/20/2024	Variance from Budget
Revenues	$ 2,354.5	$ 2,356.3	$ 1.8
Expenditures	2,286.4	2,207.3	(79.1)
Operating Results - Surplus/(Deficit)	$ 68.1	$ 149.0	$ 80.9

FY 2025 - Budget Reserve Fund

The state's reserves at the close of FY 2024 were $5.04 billion. We project that, after transfers out of the fund and into the State Employees and Teachers' Retirement Systems totaling $933 million pursuant to the close-out of FY 2024 and transfers into the fund pursuant to the statutory volatility cap and the estimated FY 2025 operating surplus, the fund balance at the end of FY 2025 will be approximately $5.70 billion, or 25.0 percent of net General Fund appropriations for FY 2025. Since this projected balance is likely to exceed the statutory 18 percent cap for the Budget Reserve Fund next fiscal year, additional transfers to the State Employees Retirement Fund and/or the Teachers' Retirement Fund are expected during the close-out period for FY 2025.

Budget Reserve Fund

	(in millions)
Estimated BRF Ending Balance - FY 2024 (OPM 11/20/24 Est.)	$ 5,038.1
Deposit to SERS/TRS pursuant to FY 2024 Closeout (OPM 11/20/24 Est.)	(933.0)
Estimated FY 2024 Ending Balance After Transfers to Pensions	$ 4,105.1
Projected Operating Surplus - FY 2025 (OPM 11/20/24 Est.)	190.3
Volatility Cap Deposit - FY 2025 (OPM 11/20/24 Est.)	1,403.5
Estimated BRF Ending Balance - FY 2025	$ 5,698.9
Ending BRF as % of Current Year GF Appropriations	25.0%

The long-term outlook for the Budget Reserve Fund is discussed on page 49.

OUTLOOK FOR FISCAL YEAR 2026 THROUGH FISCAL YEAR 2028

BACKGROUND AND METHODOLOGY

Section 2-36b of the Connecticut General Statutes requires the Office of Policy and Management and the Office of Fiscal Analysis to annually analyze the state's expenditure and revenue situation for the current biennium and the three succeeding fiscal years, and to report those analyses to the Appropriations Committee and to the Finance, Revenue and Bonding Committee. By statute, there are seven components of the report:

1. The level of spending changes from current year spending allowed by consensus revenue estimates in each fund, any changes to current year spending necessary because of "fixed cost drivers," and the total change to current year spending required to accommodate fixed cost drivers without exceeding current revenue estimates. The law specifies that "fixed cost drivers" may include debt service, pension contributions, retiree health care, entitlement programs, and federal mandate costs;
2. Projected tax credits to be used in the current biennium and the next ensuing three fiscal years, and the assumptions on which such projections are based;
3. A summary of any estimated deficiencies in the current fiscal year, the reasons for such deficiencies, and the assumptions upon which such estimates are based;
4. Projected balance in the Budget Reserve Fund at the end of each uncompleted fiscal year of the current biennium and the next ensuing three fiscal years;
5. Projected bond authorizations, allocations and issuances in each of the next ensuing five fiscal years and their impact on the debt service of the major funds of the state;
6. An analysis of revenue and expenditure trends and of the major cost drivers affecting state spending, including identification of any areas of concern and efforts undertaken to address such areas, including, but not limited to, efforts to obtain federal funds; and
7. An analysis of possible uses of surplus funds, including, but not limited to, the Budget Reserve Fund, debt retirement and funding of pension liabilities.

Each of the topic areas identified in statute is addressed in the pages that follow.

FY 2026 TO FY 2028 - GENERAL FUND OUTLOOK

Pursuant to Section 2-36b of the Connecticut General Statutes, this report compares year-over-year revenue growth to growth in fixed costs. Revenues are derived from the November 12, 2024 consensus forecast, and are explained later in this document. OPM's approach for estimating "fixed costs" is explained in more detail below. Zero denotes no change in estimated cost during the period shown.

OPM's estimates of "fixed cost drivers" in the General Fund are as follows:

PROJECTED GROWTH IN EXPENDITURES
FIXED COST DRIVERS
(FY 2026 - 2028 Amounts Represent Year Over Year Change)

	FY 2025 Estimated Expenditures	FY 2026 Increase over FY 2025	FY 2027 Increase over FY 2026	FY 2028 Increase over FY 2027
DDS - Community Residential Services	$ 817,878,388	$ 45,528,516	$ 9,308,196	$ 13,954,522
DMHAS - Behavioral Health Recovery Services	26,407,864	256,000	282,000	321,484
DMHAS - Medicaid Adult Rehabilitation Option	4,419,683	-	-	-
DSS - HUSKY B Program	28,230,000	8,090,000	2,080,000	1,890,000
DSS - Medicaid	3,528,575,734	167,264,266	154,260,000	156,770,000
DSS - Old Age Assistance	51,156,541	2,593,459	2,390,000	2,420,000
DSS - Aid To The Blind	619,721	(2,921)	30,100	35,600
DSS - Aid To The Disabled	53,343,338	1,926,662	2,160,000	2,490,000
DSS - Temporary Family Assistance - TANF	65,341,000	7,459,000	6,400,000	4,090,000
DSS - Connecticut Home Care Program	45,520,000	820,000	1,280,000	1,430,000
DSS - State Administered General Assistance	18,710,000	1,460,000	1,220,000	900,000
DSS - Hospital Supplemental Payments	568,300,000	-	-	-
OEC - Birth to Three	34,693,626	(1,400,000)	-	-
OEC - Care4Kids TANF/CCDF	112,827,096	38,400,000	-	-
TRB - Retirement Contributions	1,601,407,000	53,714,000	49,979,000	(30,700,000)
TRB - Retirees Health Service Cost	25,930,802	13,412,198	5,013,000	1,197,612
TRB - Municipal Retiree Health Insurance Costs	8,840,000	-	-	-
DCF - No Nexus Special Education	2,396,390	56,250	-	-
DCF - Board and Care for Children - Adoption	106,084,511	800,000	-	-
DCF - Board and Care for Children - Foster	123,021,818	500,000	-	-
DCF - Board and Care for Children - Short-term and Residential	69,128,396	1,092,298	-	-
DCF - Individualized Family Supports	3,871,304	-	-	-
OTT - Debt Service	1,920,429,015	81,785,681	99,737,300	77,849,016
OTT - UConn 2000 - Debt Service	214,342,388	(5,308,526)	4,665,000	9,722,375
OTT - CHEFA Day Care Security	4,000,000	-	-	-
OTT - Pension Obligation Bonds - TRB	330,190,921	(61,939,150)	16,112,687	16,895,385
OTT - Municipal Restructuring	46,518,777	(392,648)	1,652,796	(3,953,203)
OSC - Adjudicated Claims	9,000,000	(9,000,000)	-	-
OSC - Higher Education Alternative Retirement System	90,396,159	5,423,741	5,749,200	2,539,228
OSC - Pensions and Retirements - Other Statutory	2,227,346	135,615	70,889	73,016
OSC - Judges and Compensation Commissioners Retirement	30,459,918	828,038	1,030,307	1,064,566
OSC - Retired State Employees Health Service Cost	775,399,520	175,160,980	154,217,700	29,829,011
OSC - SERS Defined Contribution Match	16,500,480	2,125,164	9,187,167	6,953,203
OSC - State Employees Retirement Contributions - Normal Cost	184,272,537	11,105,699	5,808,400	6,035,599
OSC - State Employees Retirement Contributions - UAL	1,449,958,640	(38,801,596)	(3,091,078)	3,097,745
TOTAL - GENERAL FUND	$ 12,370,398,913	$ 503,092,726	$ 529,542,664	$ 304,905,159

Assumptions Used to Develop Growth Estimates for Fixed Costs

The FY 2026 through FY 2028 columns in the table above represent the anticipated increase in spending versus the estimated amounts for the immediately preceding fiscal year. Note that amounts estimated for FY 2025 exclude any appropriations carried forward from prior fiscal years. Explanations of assumptions used to develop the forecast follow.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- *Community Residential Services* - Reflects anticipated cost and caseload changes based on current trends. FY 2028 cost reflects the impact of leap year.

DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

- *Behavioral Health Recovery Services* - Reflects anticipated cost and caseload changes based on current trends.

DEPARTMENT OF SOCIAL SERVICES

- *HUSKY B Program, Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, Temporary Family Assistance, Connecticut Home Care Program, and State Administered General Assistance* - Reflect anticipated cost and caseload changes based on current trends and statutory requirements, as well as annualization of adjustments.

OFFICE OF EARLY CHILDHOOD

- *Care4Kids* - Continues implementation of Family Child Care provider contract in FY 2026 as well as reflects the annualization of costs and caseload.

TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* – FY 2026 reflects the results of the 6/30/24 valuation. FY 2027 and 2028 reflect the estimated actuarially determined employer contributions estimated by the pension actuary.
- *Retirees Health Service Cost* - Reflects medical inflation.

DEPARTMENT OF CHILDREN AND FAMILIES

- *Board and Care for Children - Adoption, Foster Care, and Short-Term and Residential* - Reflects anticipated cost and caseload changes based on current trends.

DEBT SERVICE - STATE TREASURER

- *Debt Service* - Reflects the issuance of $1.6 billion in General Obligation bonds each year.
- *UConn 2000 - Debt Service* - Reflects the Treasurer's current schedule for the issuance of UConn 2000 General Obligation bonds.
- *Pension Obligation Bonds - TRB* - Reflects the debt service schedule for the pension obligation bonds issued for the Teachers' Retirement Fund.
- *Municipal Restructuring* - Reflects debt service payments for the City of Hartford municipal restructuring program.

STATE COMPTROLLER - FRINGE BENEFITS

- *Higher Education Alternate Retirement System* - Reflects anticipated wage inflation.
- *Pension and Retirements - Other Statutory* - Reflects statutory increases in pensions.
- *Judges and Compensation Commissioners Retirement* - Reflects the estimated actuarially determined employer contributions.
- *Retired Employee Health Service Costs* - Reflects medical inflation.
- *SERS Defined Contribution Match* - Reflects estimates of salary increases and anticipated volume of new employees in Tier IV.
- *State Employees Retirement Contributions - Normal Cost and State Employees Retirement Contributions - Unfunded Actuarial Liabilities* - Reflect the estimated normal cost and unfunded actuarial liability portions of the actuarially determined employer contributions (ADEC).

General Fund Revenue

The November 12, 2024, consensus revenue forecast shows General Fund revenues at $23.38 billion in FY 2025. The table below portrays detailed revenue estimates for each year covered by the consensus forecast.

PROJECTED REVENUES

Consensus Revenue Forecast - November 12, 2024

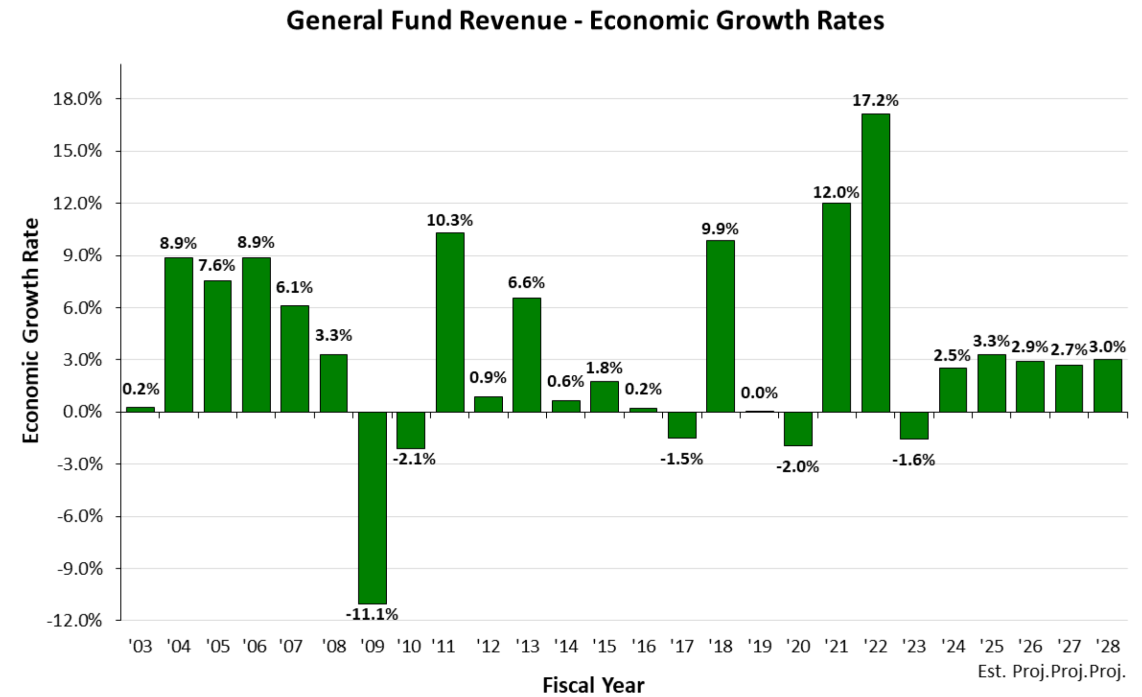
(In millions)

General Fund

Taxes	FY 2025	FY 2026	FY 2027	FY 2028
Personal Income - Withholding	$ 8,889.1	$ 9,235.3	$ 9,597.3	$ 9,972.0
Personal Income - Estimates & Finals	3,273.5	3,273.5	3,404.4	3,540.6
Sales & Use Tax	5,103.5	5,230.9	5,359.6	5,494.1
Corporation Tax	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 Tax	311.9	314.4	317.2	319.9
Inheritance & Estate Tax	171.9	176.0	235.7	240.6
Insurance Companies Tax	301.7	306.1	310.6	315.3
Cigarettes Tax	244.7	232.2	220.6	209.5
Real Estate Conveyance Tax	277.6	289.5	294.0	298.5
Alcoholic Beverages Tax	78.8	79.1	79.5	79.8
Admissions & Dues Tax	39.5	40.0	40.5	40.9
Health Provider Tax	891.0	911.9	913.2	914.4
Miscellaneous Tax	21.4	21.9	21.3	21.8
Total Taxes	$ 23,224.6	$ 23,822.9	$ 24,604.3	$ 25,375.0
Less Refunds of Tax	(1,932.9)	(1,989.4)	(2,063.3)	(2,137.5)
Less Earned Income Tax Credit	(196.2)	(199.9)	(205.0)	(210.3)
Less 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
Less Refunds 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 Settlement	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 Revenues	**$ 23,379.9**	**$ 23,879.7**	**$ 24,571.4**	**$ 25,323.6**

Economic Growth Rates for General Fund Tax Revenues

The November 12, 2024, consensus revenue forecast assumes that General Fund revenues will experience economic growth rates ranging from 3.3 percent in FY 2025 to 3.0 percent in FY 2028. Economic growth rates are defined as baseline revenue growth prior to any state policy changes. Absent a recession, these growth rates remain conservative and well below growth experienced in prior economic expansions. The -1.6 percent growth in FY 2023 was driven by the exceptional results of FY 2022 revenues that may have been fueled by the aid to consumers from the federal government as well as state and local governments as a result of the COVID-19 pandemic along with robust performance of the financial markets.



The table at right shows estimated growth rates in each tax type implied by the November 12, 2024, consensus revenue forecast. The growth rates represent changes over prior year collections. Growth in the major tax types in each year of the forecast reflect projections in tax collections at more normal, pre-pandemic levels as the state reaches a soft landing coming out of the pandemic-era full of financial aid from the federal government.

ECONOMIC GROWTH RATES OF PROJECTED TAX REVENUES

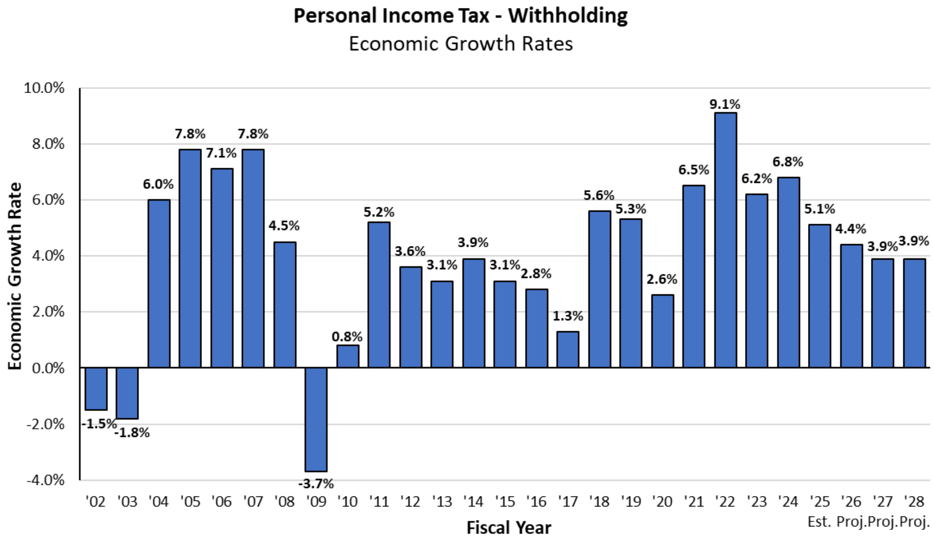
As estimated by OPM based upon the November 12, 2024 consensus revenue forecast

(Percentage Change Over Prior Year)

	General Fund				
Taxes	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Personal Income Tax - Withholding	6.8	5.1	4.4	3.9	3.9
Personal Income Tax - Estimates & Finals	8.6	5.1	0.0	4.0	4.0
Sales & Use Tax	1.1	2.5	2.5	2.4	2.5
Corporation Tax	3.1	3.4	4.1	2.9	2.9
Pass-Through Entity	-4.1	4.8	3.7	3.8	3.8
Public Service Tax	-0.9	-0.1	0.8	0.9	0.9
Inheritance & Estate Tax	-39.0	32.7	2.4	2.7	2.1
Insurance Companies Tax	10.0	0.5	1.5	1.5	1.5
Cigarettes Tax	-13.4	-2.8	-5.1	-5.0	-5.0
Real Estate Conveyance Tax	-0.9	-2.4	4.3	1.6	1.5
Alcoholic Beverages Tax	0.7	-0.1	0.4	0.5	0.4
Admissions & Dues Tax	3.3	1.5	1.3	1.3	1.0
Health Provider	-1.6	0.8	5.3	0.2	0.2

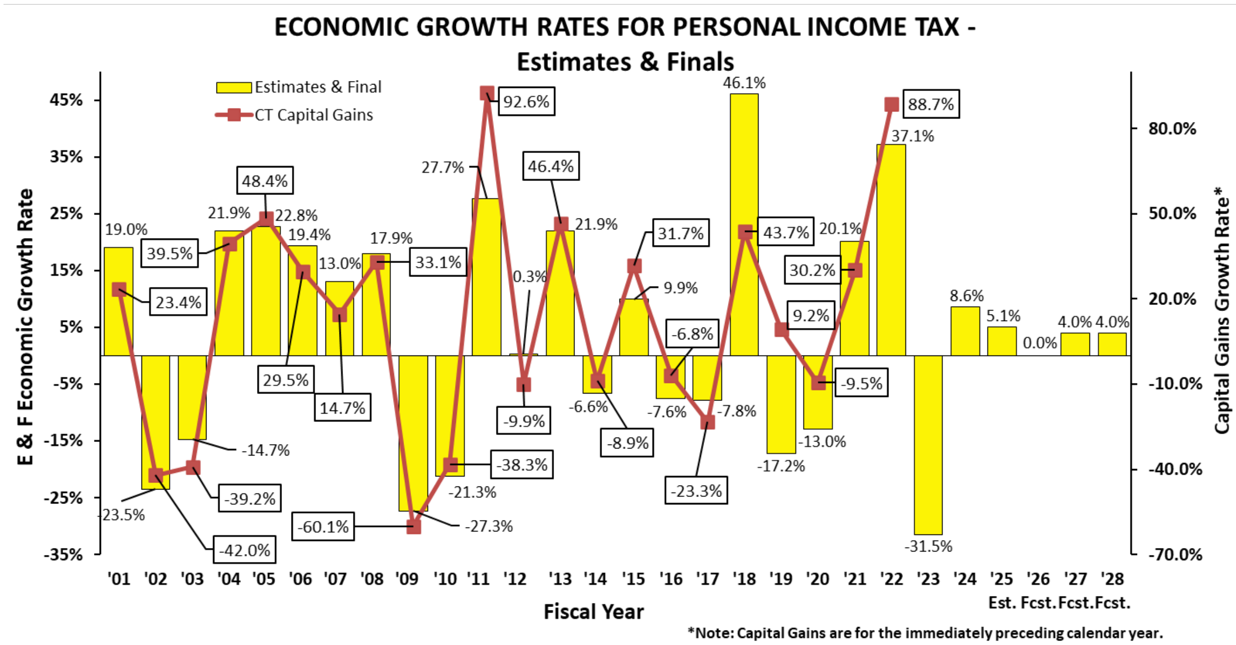
Personal Income Tax – Withholding

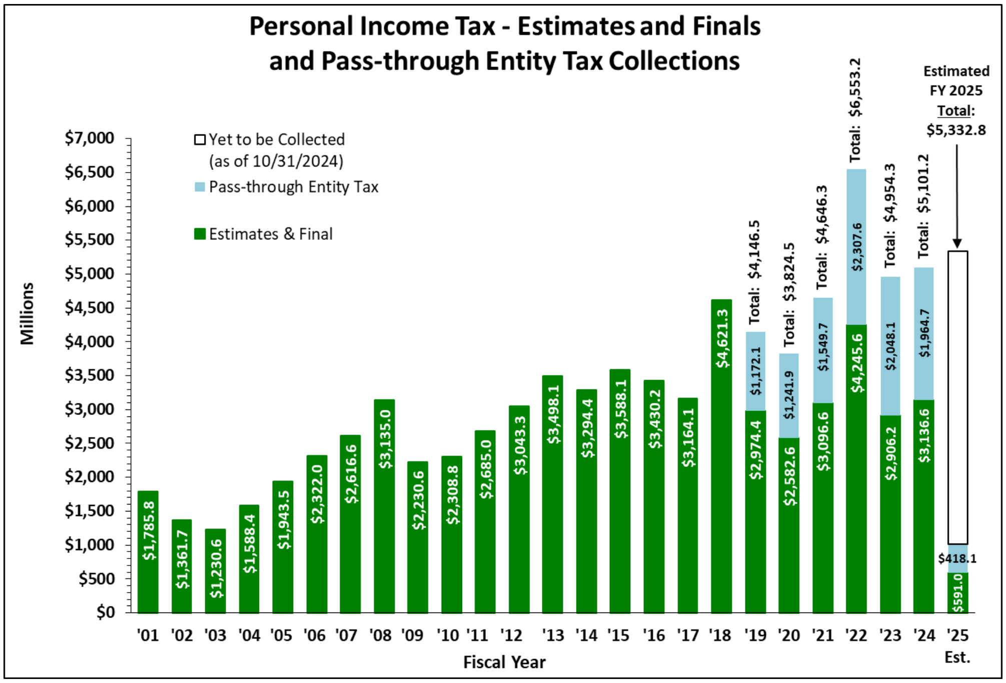
Personal Income Tax collections from paycheck withholding tend to be relatively stable in non-recessionary periods, reflecting changes in revenue as wages rise. Modest wage growth is projected during the upcoming biennium, and revenues are, in turn, expected to increase.



Personal Income Tax – Estimates and Finals Collections

The volatile estimates and finals component of the Personal Income Tax typically represents approximately twenty-six percent of total income tax collections. Receipts from this revenue source are highly correlated with capital gains and, as a result, collections experience wide fluctuations year-to-year in response to market conditions and changes in federal tax policy. The graph below depicts this correlation.

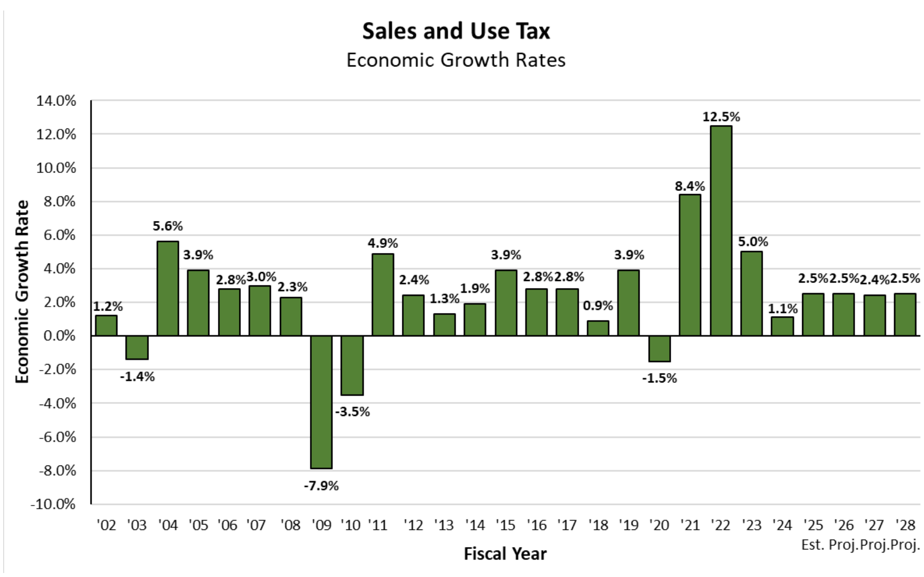




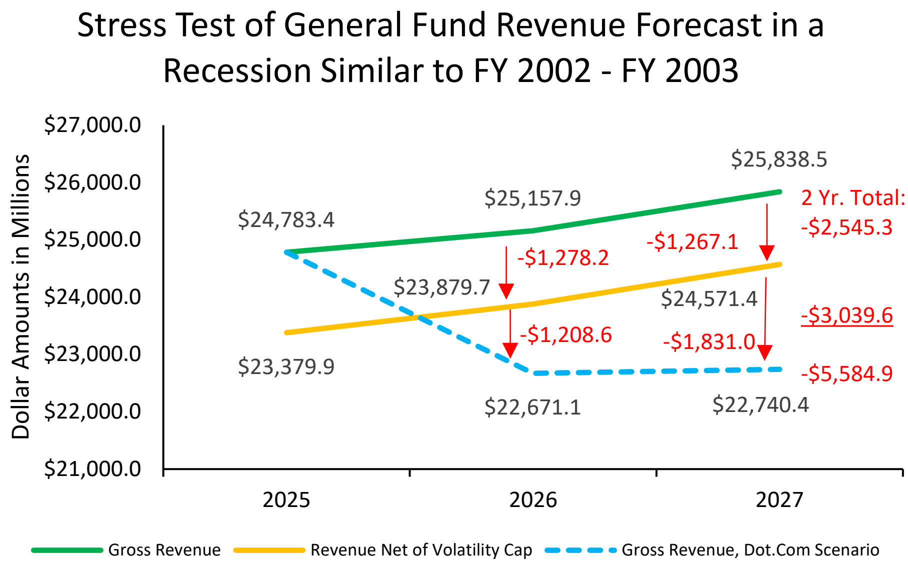
The current FY 2025 forecast calls for $3,723.5 million in estimates and finals collections. Through October 31, 2024, the state has collected $591.0 million, or 15.9 percent of the total forecasted amount. More than 40 percent of total collections are received in April when final tax returns are filed, concentrating volatility into the last quarter of the fiscal year. In FY 2009 alone, as the recession gripped the country, Connecticut's estimates and finals collections fell by $904.4 million. Excluding the impact of an enacted tax increase on millionaires at that time, estimates and finals collections fell an additional $475.4 million in FY 2010, for a total two-year decline of about $1.4 billion, or 44.5 percent from the 2008 peak. Fiscal year 2018 was an outlier due to extraordinary collections resulting from repatriation of offshore hedge fund income and investor behavior in anticipation of the Tax Cuts and Jobs Act of 2017. A strong economic recovery from the COVID-19 pandemic resulted in an exceptional performance in FY 2022. Beginning in FY 2019, the state began receiving revenue from its new Pass-through Entity Tax which was carved out of the income tax; for multi-year comparative purposes it has been included in the graphic above. Through October 31, 2024, the state has collected $418.1 million, or 20.3 percent of the total forecast for Pass-through Entity Tax collections. Combined, the state has received $1,009.1 million through October 31, 2024, or 18.9 percent of the total forecasted amount for estimates and finals and Pass-through Entity Tax collections in FY 2025.

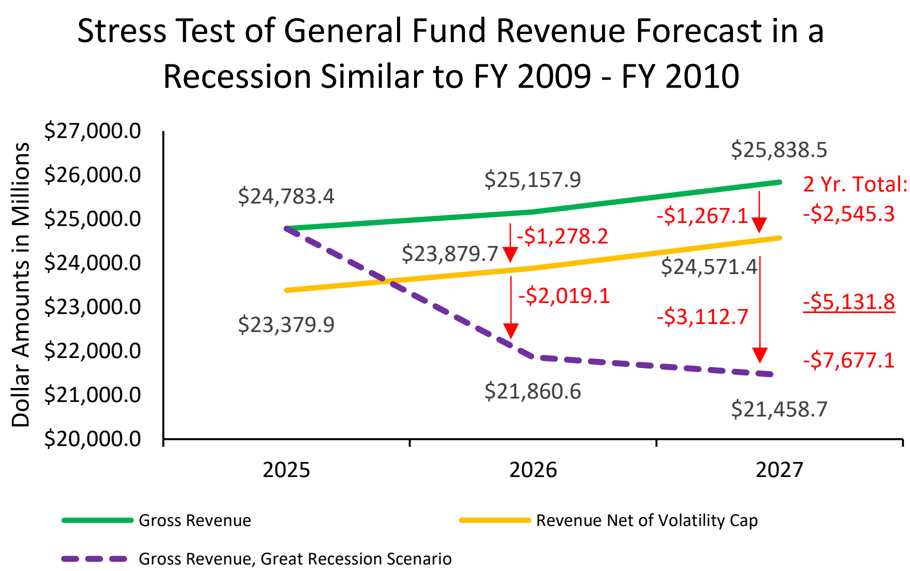
<u>Sales and Use Tax</u>

Revenue from the Sales and Use Tax is the second largest revenue source for the General Fund. The forecast for this tax projects growth in the mid 2 percent range over the next several fiscal years, as shown in the graph at right. Each 1.0 percent change in the Sales and Use Tax growth rate results in an all-funds revenue change of about $65 million.



Examining the Impact of Prior Recessions on Connecticut's Projected General Fund Revenues





The above graph demonstrates the risk to the consensus revenue forecast in the event of an economic downturn. Current revenue projections for the FY 2026 – FY 2027 biennium are compared to the underlying economic growth rate of the General Fund during each of the last two major recessions: the Dot.com Recession in FY 2002 and FY 2003 and the Great Recession in FY 2009 and FY 2010. Relative to the November consensus revenue estimates, the analysis finds that significantly less revenue would be available in the ensuing biennium in the event of a recession:

- In the event of a recession with the magnitude of the Dot.com Recession, $3.0 billion less revenue would be available over the biennium. In addition, $2.5 billion in revenue subject to the volatility cap would be foregone, for a total revenue loss of over $5.5 billion.
- In the event of a recession with the magnitude of the Great Recession, $5.1 billion less would be available. In addition, $2.5 billion in revenue subject to the volatility cap would be foregone, for a total revenue loss of over $7.6 billion.

FY 2026 to FY 2028 – Special Transportation Fund Outlook

OPM's estimates of "fixed cost drivers" in the Special Transportation Fund are as follows:

PROJECTED GROWTH IN EXPENDITURES
FIXED COST DRIVERS
(FY 2026 – 2028 Amounts Represent Year Over Year Change)

	FY 2025 Estimated Expenditures	FY 2026 Increase over FY 2025	FY 2027 Increase over FY 2026	FY 2028 Increase over FY 2027
OTT - Debt Service	$ 887,855,745	$ 53,315,281	$ 107,782,683	$ 100,856,657
OSC - SERS Defined Contribution Match	1,238,880	(11,382)	605,324	69,653
OSC - State Employees Retirement Contributions - Normal Cost	21,358,207	1,287,212	673,225	699,559
OSC - State Employees Retirement Contributions - UAL	149,126,804	(3,990,706)	(317,914)	315,397
TOTAL - SPECIAL TRANSPORTATION FUND	$ 1,059,579,636	$ 50,600,405	$ 108,743,318	$ 101,941,266

<u>Assumptions Used to Develop Growth Estimates for Fixed Costs</u>

The FY 2026 through FY 2028 columns in the table above represent the anticipated increase in spending versus the estimated amounts for the immediately preceding fiscal year. Note that amounts estimated for FY 2025 exclude any appropriations carried forward from prior fiscal years. Explanations of assumptions used to develop the forecast follow.

DEBT SERVICE - STATE TREASURER

- *Debt Service* - Reflects the issuance of Special Tax Obligation Bonds in the amounts of $1.0 billion in FY 2025, $1.3 billion in FY 2026, and $1.4 billion in FYs 2027 and 2028.

STATE COMPTROLLER - FRINGE BENEFITS

- *State Employees Retirement Contributions - Normal Cost and State Employees Retirement Contributions - Unfunded Actuarial Liabilities* - Reflect the estimated normal cost and unfunded actuarial liability portions of the actuarially determined employer contributions (ADEC). Note that an updated valuation, as of June 30, 2024, is anticipated to be available in December 2024.

Special Transportation Fund Revenue

The November 12, 2024, consensus revenue forecast projects Special Transportation Fund revenues at $2.36 billion in FY 2025. The table below shows the detailed revenue estimates.

PROJECTED REVENUES

Consensus Revenue Forecast - November 12, 2024

(In millions)

Special Transportation Fund

Taxes	FY 2025	FY 2026	FY 2027	FY 2028
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
Total Taxes	$ 1,905.2	$ 1,920.9	$ 1,955.8	$ 1,990.1
Less 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)
Less Refunds of Payments	(10.3)	(8.4)	(8.6)	(8.7)
Total - Other Sources	$ 462.4	$ 452.0	$ 448.6	$ 445.3
Total - STF Revenues	**$ 2,356.3**	**$ 2,361.9**	**$ 2,393.0**	**$ 2,423.5**

Economic Growth Rates for Special Transportation Fund Tax Revenues

The outlook over the next few years is mixed for the key taxes that support the Special Transportation Fund, with several sources showing declines while revenues related to the Sales and Use Tax show growth in the mid 2 percent range. The table below portrays estimated growth rates for the fund's major tax sources.

ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES

As Estimated by OPM Based Upon the November 12, 2024

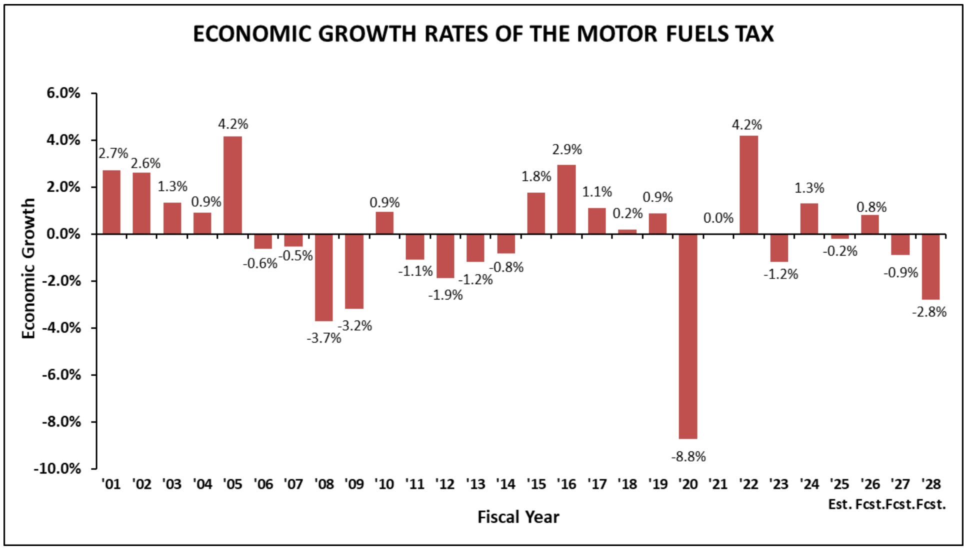
Consensus Revenue Forecast

(Percent Change)

Special Transportation Fund

Taxes	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Motor Fuels Tax	1.3	-0.2	0.8	-0.9	-2.8
Oil Companies Tax	-0.3	-6.1	-0.1	3.9	3.3
Sales and Use Tax	1.1	2.5	2.5	2.4	2.5
Sales Tax - DMV	-1.5	2.1	0.8	1.0	0.8
Highway Use	0.0	0.9	1.5	1.5	1.3

Motor Fuels Tax



The Motor Fuels Tax remains an important, albeit increasingly smaller, component of the Special Transportation Fund. This revenue source includes a 25 cents per gallon tax on gasoline fuel and a 52.4 cents per gallon tax on diesel fuel, as of July 1, 2024. (Note that the state suspended the gasoline tax from April 1, 2022 through November 30, 2022 and then phased the tax back in from December 1, 2022 through April 30, 2023.) Nominal adjusted[1] revenue growth of the Motor Fuels Tax from FY 2015 to FY 2024 was negative 2.3 percent, equivalent to a decline of about 0.26 percent per fiscal year over the past ten years. Growth in this revenue source is highly influenced by economic conditions, the price of motor fuels, and the fuel economy of the existing fleet. Prior to the COVID-19 pandemic, the Motor Fuels Tax showed positive growth as lower fuel prices increased consumer demand, but this growth trend dissipated after restrictions were put in place to reduce the spread of the COVID-19 virus. Consumption in FY 2024 picked up but remains below pre-pandemic peaks. Fuel consumption in FY 2025 remains relatively flat compared to last year and lower fuel prices will be a drag on future diesel fuel tax rates through FY 2028. The November 2024 consensus revenue forecast assumes that consumer behavior has been permanently changed and collections will not recover to pre-pandemic expectations over the next several fiscal years.

Even without the pandemic, it has always been the assumption that the growth in motor fuels consumption will naturally turn negative as consumer behavior changes, either due to price increases or by increased use of alternatively powered vehicles. Since FY 2015, new revenue sources have been added to the Special Transportation Fund in order to address this expected lack of growth and to reduce the Special Transportation Fund's reliance on a single slow-growing revenue source. In FY 2023, after adjusting for the estimated revenue lost due to the gasoline tax holiday, Motor Fuels Tax revenue would have been approximately 21.7 percent of the total revenue deposited in the Special Transportation Fund, down from 45.0 percent in FY 2010. The Sales and Use Tax has overtaken the Motor Fuels Tax to become the largest single revenue component in the Special Transportation Fund; in FY 2024 it represented 35.0 percent of total collections and will remain the largest single revenue source for the foreseeable future.

[1] FY 2022 and FY 2023 revenue collections were adjusted to account for the gasoline tax holiday (April 1, 2022, to April 30, 2023).

LONG-TERM OUTLOOK FOR THE SPECIAL TRANSPORTATION FUND

In recent years the Special Transportation Fund has shown substantial financial strength. Strong Sales and Use Tax collections, a recovery in fuel-related taxes, and receipt of significant federal assistance have helped to stabilize the fund and grown cumulative fund balances to nearly a billion dollars. However, those strong fiscal results are not expected to continue in the next biennial budget and the out-years as expenditure growth continues to outpace the growth in revenues, leading to projected operating shortfalls in FY 2026 and beyond. Rising costs and interest rates will put pressure on the solvency of the fund. Without the introduction of alternative financing, additional revenue, or reductions in transportation investments, the expected increase in costs will not be sustainable.

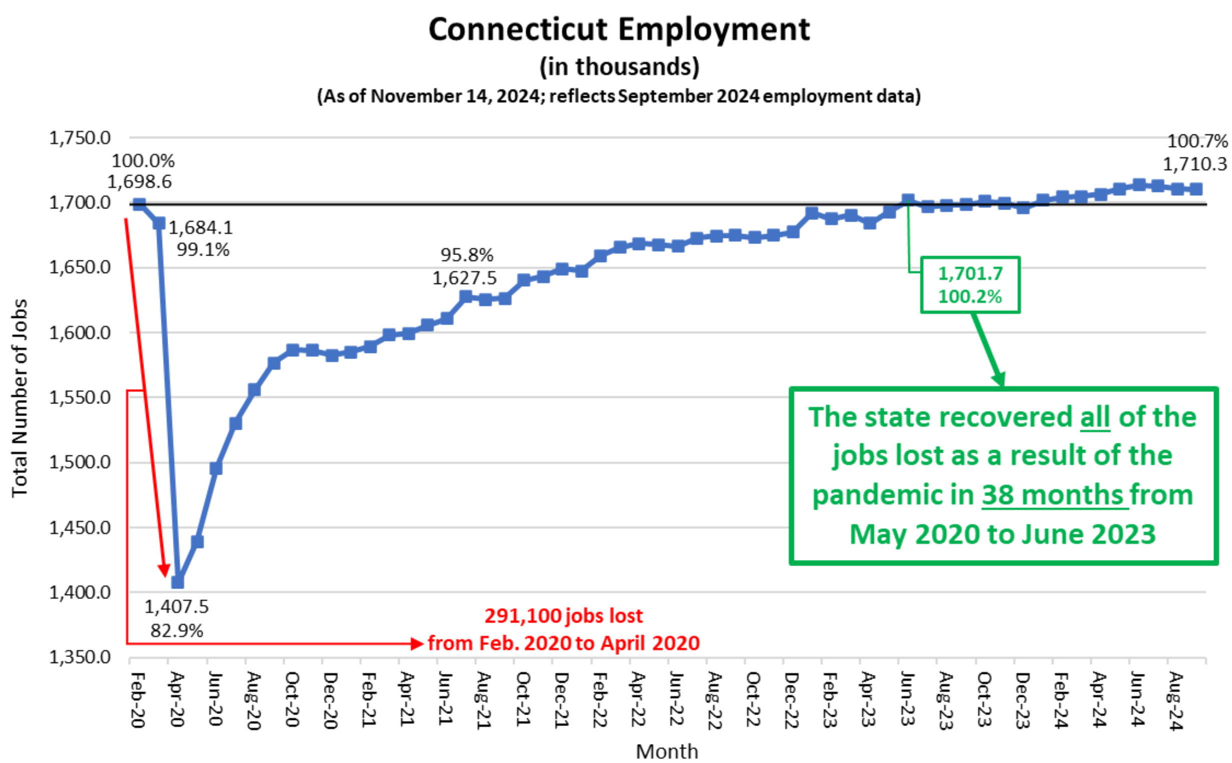
SPECIAL TRANSPORTATION FUND - STATEMENT OF FINANCIAL CONDITION

(In Millions)

Actual & Projected Revenues	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
1. Motor Fuels Tax	$ 504.5	$ 510.7	$ 502.1	$ 498.4	$ 495.4
2. Sales & Use Tax	844.4	879.2	902.0	925.4	949.3
3. Sales Tax - DMV	115.3	117.8	118.8	120.0	121.0
4. Oil Companies Tax	358.6	336.7	336.3	349.4	361.0
5. Highway Use Fee	60.3	60.8	61.7	62.6	63.4
6. Motor Vehicle Receipts	278.8	280.6	282.1	283.4	284.8
7. Licenses, Permits, Fees	142.2	133.9	134.9	137.2	138.2
8. Federal Grants	9.3	8.1	6.9	5.6	4.4
9. Interest Income	87.2	63.6	42.0	36.5	32.1
10. Transfers from / (to) Other Funds	32.2	(13.5)	(5.5)	(5.5)	(5.5)
11. Total Revenues	$2,432.8	$2,377.9	$ 2,381.3	$ 2,413.0	$ 2,444.1
12. Refunds	(22.2)	(21.6)	(19.4)	(20.0)	(20.6)
13. Total Net Revenues	$2,410.6	$2,356.3	$ 2,361.9	$ 2,393.0	$ 2,423.5
14. Revenue Cap Adjustment	-	-	(29.5)	(29.9)	(30.3)
15. Budget Revenues	$2,410.6	$2,356.3	$ 2,332.4	$ 2,363.1	$ 2,393.2
Projected Debt Service and Expenditures					
16. Projected Debt Service on the Bonds	$ 863.0	$ 887.9	$ 941.2	$ 1,049.0	$ 1,149.8
17. DOT Budgeted Expenses	861.0	942.1	1,032.9	1,079.4	1,127.2
18. DMV Budgeted Expenses	75.0	68.9	74.0	77.2	80.5
19. Other Budget Expenses	300.9	290.4	315.4	334.6	339.3
20. Program Costs Paid from Current Operations	18.0	18.0	18.5	19.0	19.4
21. Estimated Unallocated Lapses	0.0	0.0	(12.0)	(12.0)	(12.0)
22. Total Expenditures	$2,117.8	$2,207.3	$ 2,370.0	$ 2,547.2	$ 2,704.2
23. **Excess (Deficiency)**	$ 292.8	$ 149.0	$ (37.6)	$ (184.1)	$ (311.0)
24. **Revised Cumulative Excess (Deficiency)**	$ 972.0	$ 594.1	$ 586.0	$ 431.8	$ 151.1
25. Use of Excess to Pay Down Outstanding Debt	(526.9)	0.0	0.0	0.0	0.0
26. **Remaining Cumulative Excess (Deficiency)**	$ 445.1	$ 594.1	$ 586.0	$ 431.8	$ 151.1
27. **Debt Service Coverage Ratio**	2.79	2.65	2.51	2.28	2.11

CONNECTICUT'S ECONOMY

Prior to the onset of the COVID-19 pandemic-induced recession, Connecticut's economy had not fully recovered from the Great Recession of 2008. After contracting sharply in the 2008 recession, the Connecticut economy experienced slow job growth before reaching full recovery in May 2018 of all private-sector jobs lost during the 2008 recession. Although the number of Connecticut jobs was growing and had recovered 81.4 percent of all jobs as of February 2020, the coronavirus pandemic and the ensuing nonessential business closures caused a shift in the employment trajectory. At the outset of the pandemic, March and April of 2020, Connecticut lost 291,100 jobs or 17.1 percent of its workforce as seen in the graph below. The state recovered all of the jobs lost as a result of the pandemic in approximately 38 months from May 2020 to June 2023. As of September 2024, employment levels continue to rise where total jobs are 0.7 percent greater than levels attained right before the pandemic.



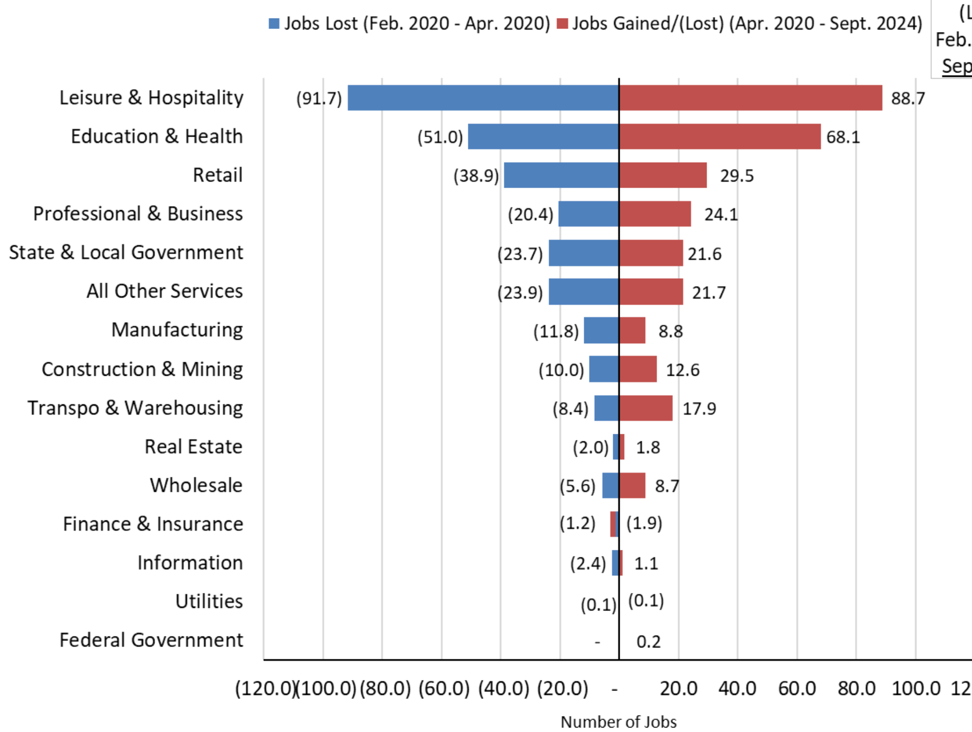
The graphic below shows job losses by sector from the February 2020 peak through the end of April 2020, followed by the subsequent gains by sector from May 2020 through September 2024. The industry most affected by the pandemic-related job losses is leisure and hospitability, shedding a total of 91,700 jobs in March and April 2020. As of September 2024, 88,700 jobs have been added back in that sector. The following sectors have recovered and surpassed all the jobs lost during the pandemic: education & health, professional & business, construction & mining, transportation & warehousing, and wholesale trade.

Connecticut Employment by Sectors

Current Employment Estimate Comparison

As of November 13, 2024; Reflects September 2024 Employment Data

(in thousands)



Sector	Jobs Gained/ (Lost) - Feb. 2020 to Sept. 2024	Total Jobs Feb. 2020	Current Job Levels as a % of Feb. 2020 Peak
Leisure & Hospitality	(3.0)	158.9	98.1%
Education & Health	17.1	352.3	104.9%
Retail	(9.4)	173.4	94.6%
Professional & Business	3.7	216.4	101.7%
State & Local Government	(2.1)	218.6	99.0%
All Other Services	(2.2)	65.9	96.7%
Manufacturing	(3.0)	160.8	98.1%
Construction & Mining	2.6	59.8	104.3%
Transpo & Warehousing	9.4	55.8	116.9%
Real Estate	(0.2)	20.1	99.0%
Wholesale	3.1	59.0	105.3%
Finance & Insurance	(3.1)	102.6	97.0%
Information	(1.3)	31.3	95.8%
Utilities	(0.1)	5.1	97.4%
Federal Government	0.2	18.6	101.1%

Source: S&P Global

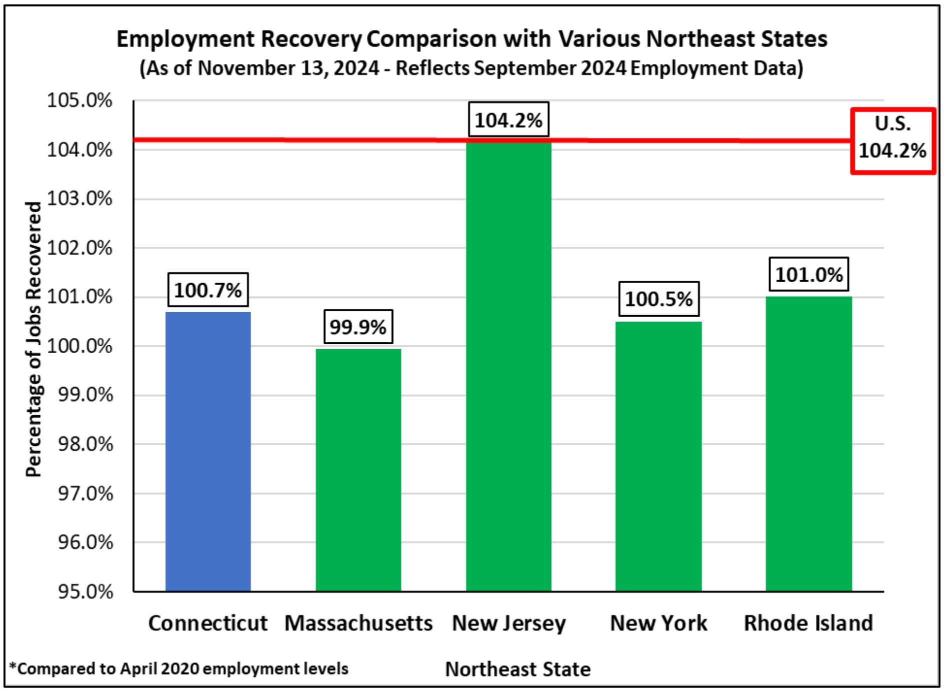
Employment recovery from the pandemic-induced-recession varies by region from an 80.0 percent recovery rate in the Enfield labor market area to a 99.5 percent recovery rate in the Hartford area. The New Haven, Danbury, Bridgeport-Stamford-Norwalk, Danielson/Northeast, Torrington/Northwest, and Waterbury areas have recovered all the jobs lost from the pandemic. Connecticut's unemployment rate in September 2024 was at 3.2 percent compared to 4.1 percent nationally.

Job Recovery by CT Labor Market Area From Pre-Pandemic (Feb. 2020) to Sept. 2024

Labor Market Area	Percentage of Jobs Lost Recovered	Current Employment Levels as a Percentage of Feb. 2020
Hartford	99.5%	99.9%
New Haven	125.3%	103.9%
Danbury	114.6%	102.8%
Bridgeport-Stamford-Norwalk	107.1%	101.3%
Danielson/Northeast	108.3%	101.1%
Norwich-New London-Westerly	93.3%	98.2%
Torrington/Northwest	127.7%	104.0%
Waterbury	100.0%	100.0%
Enfield	80.0%	96.8%
Connecticut	**104.0%**	**100.7%**

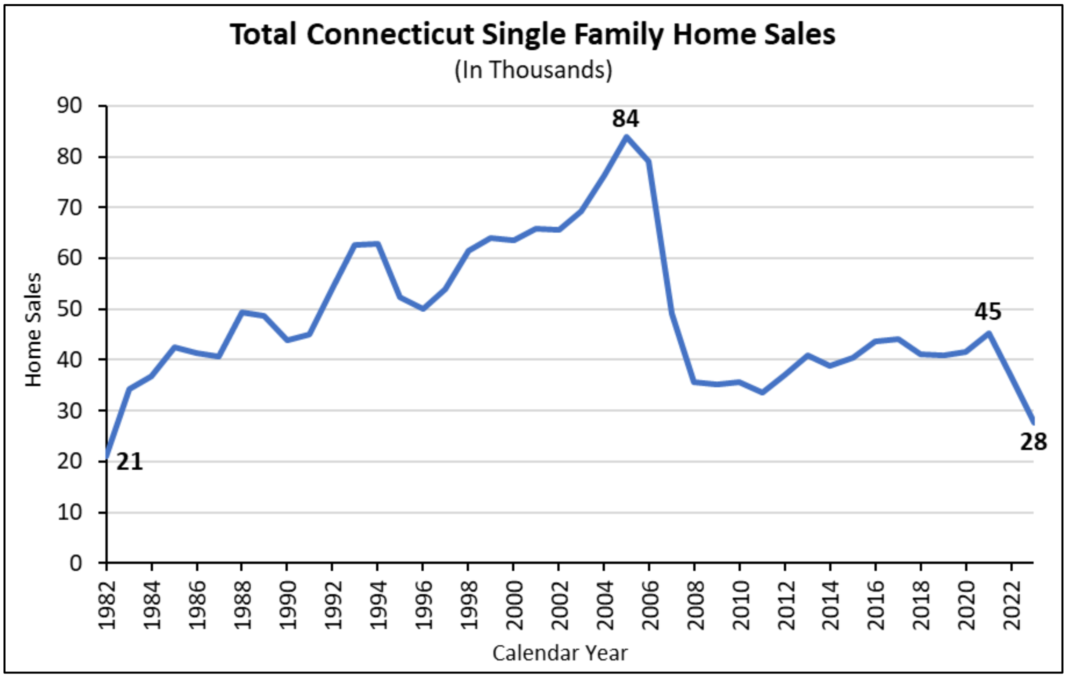
Source: CT Dept. of Labor

The graph below provides a comparison of Connecticut to the nation and our neighboring states on post-pandemic jobs recovered. All of Connecticut's neighboring states, except Massachusetts, have recovered all of the jobs lost from the pandemic. The state's recovery is mostly in line with our neighboring states, with the exception of New Jersey, but lags the nation as a whole, reaching 100.7 percent of the pre-pandemic job levels.



Housing

Total home sales in Connecticut remain below their peak prior to the Great Recession. Home purchasing activity ticked up during the early part of the COVID 19 pandemic, with approximately 45,000 homes sold in calendar year 2021, the highest level of activity since calendar year 2007. Since that period, home sales have decreased to approximately 28,000 as of calendar year 2023, their lowest level since 1982, when our nation was experiencing a recession and extraordinarily high interest rates. Constrained supply and higher interest rates have had a cooling effect on total home sales. As a result, existing homeowners may be "locked in" to their existing mortgage rates. According to data from Freddie Mac, more than six out of ten mortgages have rates below 4 percent.

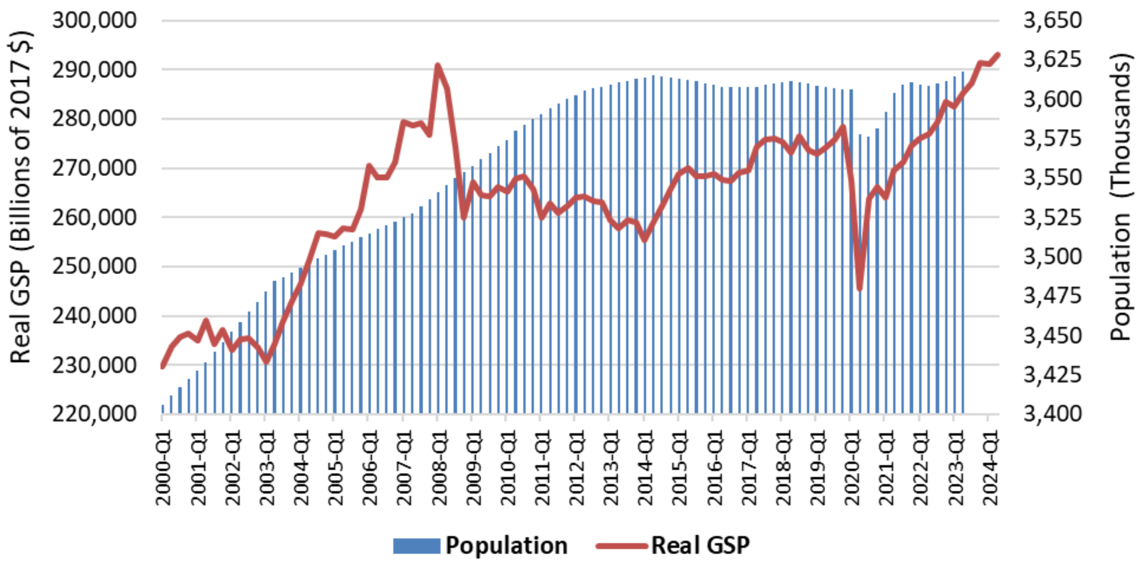


Amid constrained supply, home prices in Connecticut and the nation continue to increase. The median sale price on existing homes in Connecticut reached $439,254 in 2023, up from $401,404 in 2022. From 2020 to 2023, the median sale price in Connecticut increased by 43 percent. In addition, mortgage rates increased over the same period, from an average of 3.11 percent in 2020 to 6.81 percent in 2023 based on data from the Federal Reserve.

Gross State Product and Population

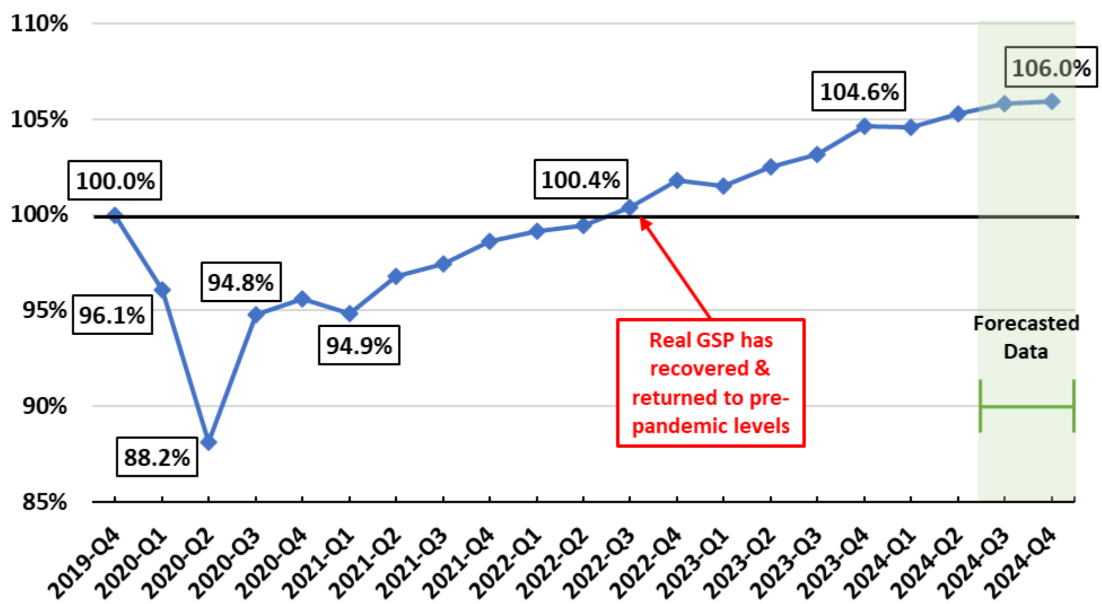
Connecticut's real gross state product (GSP), a measure of all goods and services produced in Connecticut, fell 9.1 percent during the 2008 Great Recession. As seen below, Connecticut's real GSP began to reach levels just prior to the 2008 Great Recession in calendar years 2017 to 2019 but decreased by 11.8 percent between the fourth quarter of calendar year 2019 and the second quarter of calendar year 2020 due to the onset of the pandemic-induced recession. In the third quarter of calendar year 2022, Connecticut returned to real GSP levels attained in the fourth quarter of calendar year 2019 and has remained above pre-pandemic levels since then. Connecticut's total population fell by 0.2 percent between calendar years 2014 and 2019. Connecticut's population has since increased by approximately 0.3 percent from calendar year 2019 to calendar year 2023.

Connecticut's Real Gross State Product (GSP) and Total Population



Connecticut Real Gross State Product Level Compared to Q4 of CY 2019

(As of November 14, 2024)



Source: S&P Global & HIS Markit as of 11/14/2024

The first table below compares Connecticut's growth since the 2008 recession to states in the region and to the national average through calendar year 2020. In essentially all indicators, Connecticut was the slowest or one of the slowest in growth before the onset of the 2020 recession. The second table below compares the growth since the COVID-19 pandemic. Although Connecticut's growth has lagged neighboring states leading up to the pandemic, Connecticut's growth since the pandemic has been virtually in line with neighboring states, indicating a strong recovery compared to the last economic downturn.

Growth in Various Economic Indicators (2010 to 2020)

	Employment	Population	Home Sales	Home Prices	Real GSP
Connecticut	-2.9%	0.1%	16.9%	11.5%	-2.3%
Maine	0.7%	2.9%	35.8%	42.9%	12.4%
Massachusetts	5.6%	6.5%	18.3%	48.4%	21.1%
New Hampshire	2.9%	4.7%	37.9%	45.7%	14.0%
New Jersey	0.2%	5.2%	44.7%	20.5%	7.7%
New York	3.1%	3.3%	13.9%	31.6%	15.7%
Rhode Island	0.0%	3.9%	33.5%	42.3%	3.9%
Vermont	-3.7%	2.7%	30.3%	27.1%	4.4%
United States	8.7%	7.1%	34.7%	57.2%	20.4%

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, IHS Markit, S&P Global

Growth in Various Economic Indicators (2020 to 2023)

	Employment	Population	Home Sales	Home Prices	Real GSP
Connecticut	7.9%	0.9%	-33.3%	43.0%	9.9%
Maine	8.7%	2.2%	-34.8%	53.9%	11.5%
Massachusetts	9.2%	0.1%	-33.0%	35.5%	10.0%
New Hampshire	9.3%	1.6%	-23.9%	47.8%	12.4%
New Jersey	12.3%	0.2%	-28.0%	42.4%	11.2%
New York	10.2%	-2.6%	-25.7%	37.1%	8.1%
Rhode Island	9.4%	0.0%	-34.1%	44.9%	8.7%
Vermont	7.9%	0.6%	-34.0%	48.7%	9.3%
United States	9.9%	1.1%	-27.2%	37.6%	11.9%

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, IHS Markit, S&P Global

State Migration Trends

The U.S. Census Bureau publishes, typically annually, state-to-state migration data based on the American Community Survey, however data issues identified by the Census Bureau in the 2022 report suggest that last year's survey results are not reliable. This year's updated census report reflects positive net migration into Connecticut from other states, with a net in-migration from the 50 states and the District of Columbia totaling an estimated +3,606 during 2023. While this is well below the dramatic increase reported in last year's uncorrected report, the state is continuing to experience the positive migration trend that began at the start of this decade. The most significant states contributing to this net in-migration were New York (+13,016), Massachusetts (+2,991), Rhode Island (+2,975), New Jersey (+2,896), and California (+1,859). The most significant destinations for net out-migration were Florida (-8,308) and North Carolina (-3,064). We also note that while the survey does not measure emigration out of the United States, 27,608 individuals were estimated to have migrated to Connecticut from abroad.

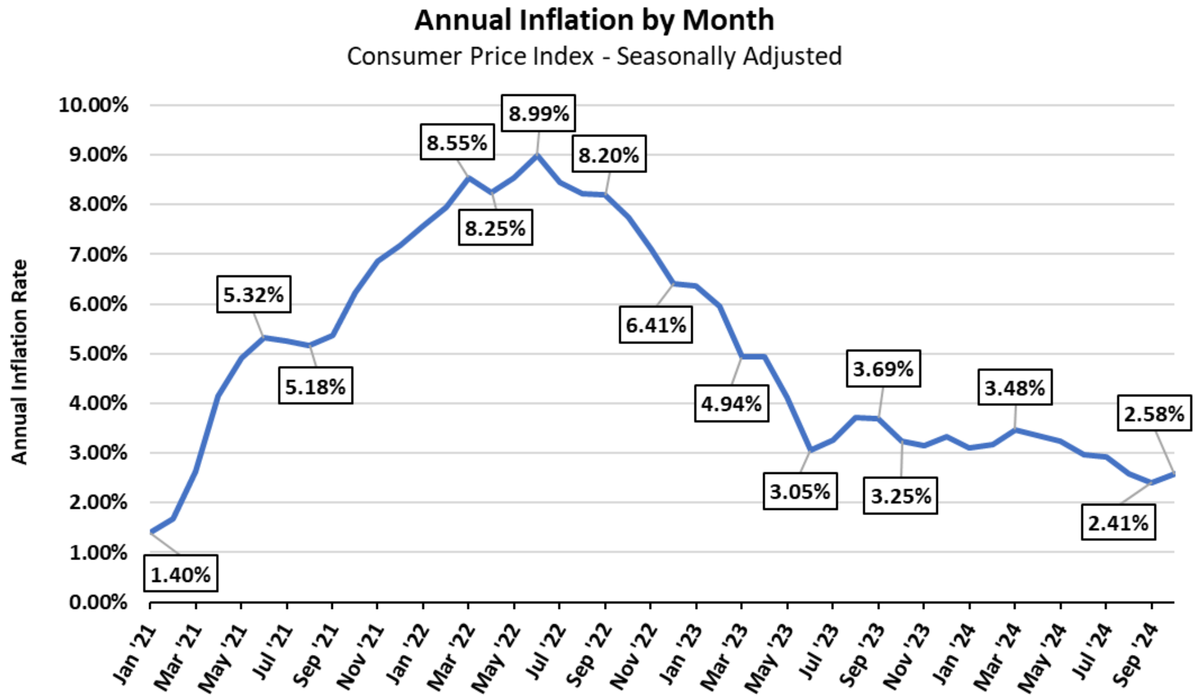
State-to-State Migration From/To Connecticut - CY 2023

	OUT	IN	NET
New York	-15,165	+28,181	+13,016
Florida	-15,743	+7,435	-8,308
North Carolina	-4,284	+1,220	-3,064
Massachusetts	-10,437	+13,428	+2,991
Rhode Island	-1,324	+4,299	+2,975
New Jersey	-2,483	+5,379	+2,896
California	-3,113	+4,972	+1,859
Colorado	-1,875	+591	-1,284
Pennsylvania	-3,619	+4,858	+1,239
Virginia	-3,179	+1,947	-1,232
Vermont	-1,655	+557	-1,098
All Other States	-28,507	+22,123	-6,384
TOTAL - All States	(91,384)	94,990	+3,606

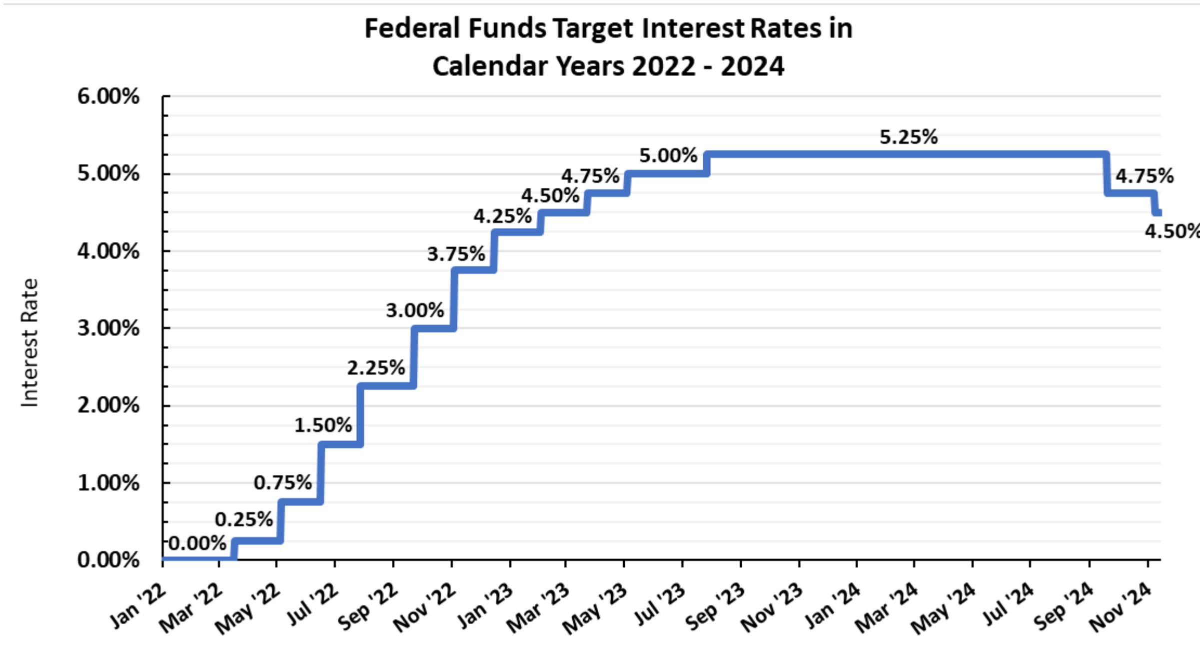
Source: U.S. Census Bureau, American Community Survey

Inflation and Federal Interest Rates

For almost three years now, rapidly rising prices and the Federal Reserve's policy response to that phenomenon has dominated the headlines. Inflation at the consumer level began its upward slope as the nation began to emerge from the pandemic-induced recession, reaching 8.99 percent in June 2022. Obviously concerned, in March of 2022 the Federal Reserve embarked on a series of eleven interest rate increases totaling 525 basis points. Federal interest rates remained at 5.25 percent for approximately 14 months until the Federal Reserve cut the rate by 50 basis points in September 2024 and another 25 basis points in November 2024. The federal funds rate currently stands at a range of 4.5 percent to 4.75 percent. It is expected that the Federal Reserve will continue to cut these short-term interest rates over the next several years considering inflation has cooled off to the target level in the mid-two percent range. Short-term interest rates remain elevated but have decreased slightly in the last couple months, and inflation has since declined from 8.99 percent in June 2022 to 2.58 percent in October 2024. It appears that the Federal Reserve's actions have been curbing high inflation levels, however, fears that the high interest rates might potentially induce an economic contraction still linger.



Source: Bureau of Labor Statistics as of 11/13/2024



Source: Federal Reserve Bank of New York as of 11/13/2024

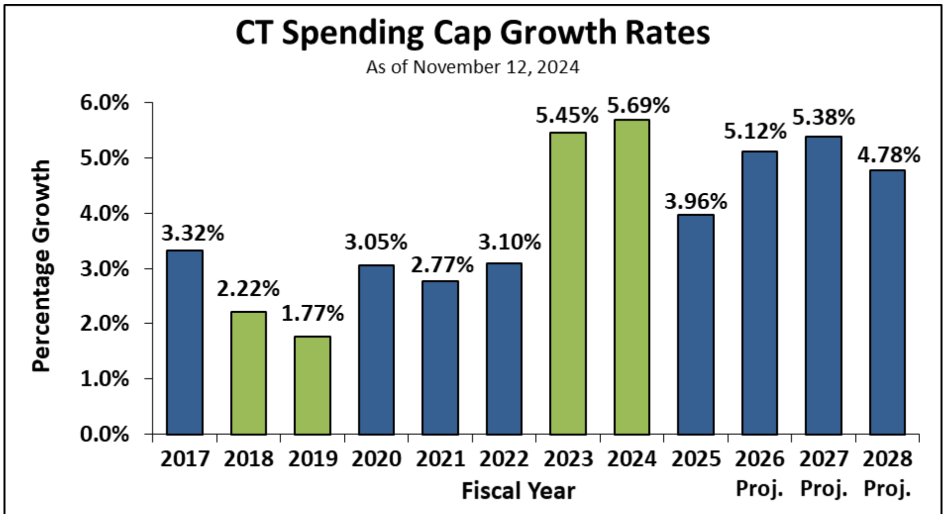
SPECIAL TOPICS

FISCAL GUARDRAILS

The 2017 and 2018 legislative sessions saw enactment of several caps and limitations that impact budgeting. These measures include adoption of definitions that gave effect to the constitutional spending cap, a limitation on how much revenue can be appropriated, and a measure that directs above-average collections from volatile revenue sources to the Budget Reserve Fund. A brief description of the caps and limitations follows.

Spending Cap

The state's constitutional and statutory "spending" or "expenditure" cap is, in reality, a limit on the amount of appropriations the General Assembly can authorize in a given year. The cap limits growth in "general budget expenditures" to the greater of the average five-year increase in personal income or the increase in inflation.[2]



Note: Allowable spending growth based on growth in personal income indicated by blue bars and growth in CPI-U indicated by green bars. FY 2021 spending cap growth rate was 2.77% when the biennial budget was adopted. Due to the COVID-19 pandemic impacting the 2020 legislative session, a new growth rate was not adopted for the FY 2021 budget. FY 2026 - FY 2028 spending cap growth rates shown above reflect the 11/12/24 consensus growth rates which will be updated on 1/15/25, as part of the next consensus forecast.

Given the state's low growth in personal income emerging from the 2008 recession, the core consumer price index was the limiting factor in FY 2018 and FY 2019. Personal income was the limiting factor in FY 2020 through FY 2022. The growth in spending for FY 2023 and FY 2024 was limited by the growth in inflation before returning to growth limited by personal income in FY 2025. As of November 2024, the growth in spending is projected to again be limited by the growth in personal income for FY 2026 through FY 2028. This growth will be calculated again during the January 2025 consensus forecast for the FY 2026 – FY 2027 biennial budget. Although no midterm appropriation adjustments were adopted for FY 2025, a deficiency bill was adopted for FY 2024, leaving $0.5 million of room under the cap in FY 2024 and approximately $163 million of room under the cap in FY 2025. The growth rate in FY 2025 was revised to 3.96 percent and allowed capped expenditures to grow by approximately $739.6 million over FY 2024 levels.

[2] "Increase in personal income" is defined as the compound annual growth rate of personal income in the state over the preceding five calendar years. "Increase in inflation" is defined as the increase in the consumer price index for all urban consumers, all items less food and energy, during the preceding calendar year. "General budget expenditures" are defined as expenditures from all appropriated funds, excluding the following: debt service; deposits to the Budget Reserve Fund; expenditures of federal funds; federally mandated or court-ordered expenditures (in their first year); expenditures for federal programs for which the state receives federal matching funds (in their first year); payment of the unfunded liability for the state employee and judicial retirement systems through FY 2022; and payment of the unfunded liability for teachers through FY 2026.

Revenue Cap

Public Act 17-2 of the June Special Session, as amended by section 16 of Public Act 23-1, introduced a revenue cap that limits the amount of General Fund and Special Transportation Fund appropriations to a percentage of revenue for those funds. The appropriations limit began at 99.5 percent of estimated revenue in FY 2020 and phases down to 98.75 percent for FY 2023 and thereafter. Any resulting unappropriated General Fund operating margin will help increase the rainy day fund and will also provide a buffer against drastic expenditure reductions and tax increases if there is a sudden mid-year downturn in the economy.

Fiscal Year	**Appropriations as % of Revenues**
2020	99.50%
2021	99.25%
2022	99.00%
2023 & thereafter	98.75%

Revenue Volatility Cap

The revenue volatility cap directs any collections from the estimated and finals component of the Personal Income Tax plus the Pass-through Entity Tax that in total exceed a designated threshold (adjusted for personal income growth) to the Budget Reserve Fund. The transfer threshold is indexed to the five-year compound annual growth rate in personal income and is estimated as shown in the table at right. See page 49 for a discussion of the Budget Reserve Fund.

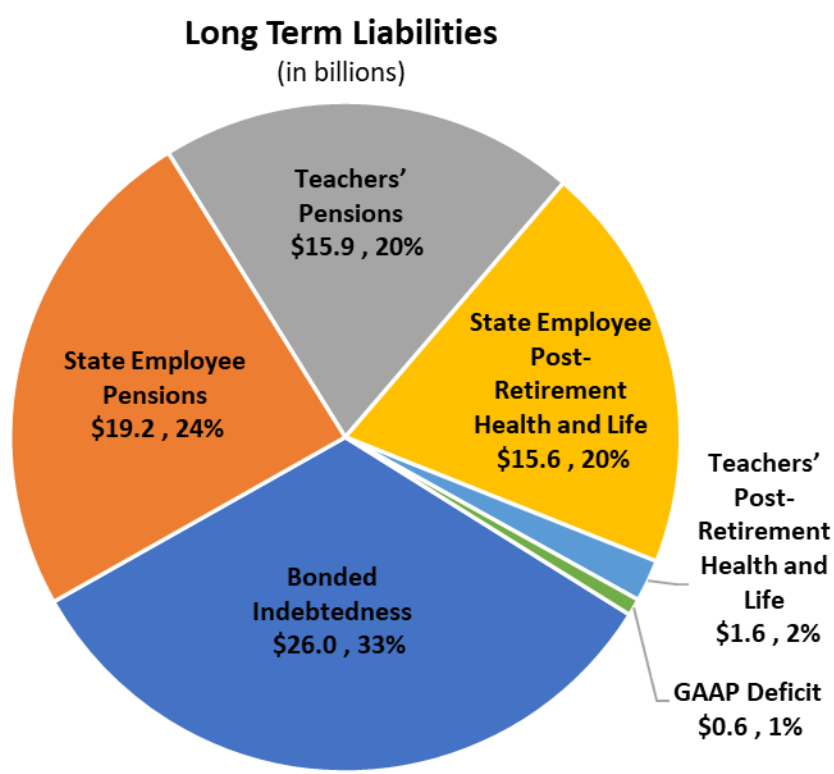
Fiscal Year	**Revenue Volatility Threshold (in millions)**
2018	$3,150.0
2019	$3,196.8
2020	$3,294.2
2021	$3,404.9
2022	$3,505.7
2023	$3,632.5
2024	$3,779.9
2025	$3,929.3
2026 (proj.)	$4,130.3
2027 (proj.)	$4,352.7
2028 (proj.)	$4,560.5

LONG-TERM LIABILITIES

The long-term liabilities facing the state include obligations to fully fund the State Employees Retirement System and the Teachers' Retirement System, pay for other post-employment benefits (OPEB), retire outstanding debt service costs, and close the cumulative GAAP deficit. The state's current long-term obligations total $78.9 billion, down $2.7 billion from the level reported last year and down $16.5 billion from the level reported in the November 2021 Fiscal Accountability Report. It should be noted that an updated valuation for the State Employees Retirement System is anticipated prior to the end of 2024. The table below depicts the components of these long-term liabilities, and a discussion of each follows.

LONG-TERM OBLIGATIONS
(in billions)

Bonded Indebtedness – As of 6/30/24	$ 26.0
State Employee Pensions – Unfunded as of 6/30/24	19.2
Teachers' Pensions – Unfunded as of 6/30/24	15.9
State Employee Post-Retirement Health and Life – Net Liability as of 6/30/23	15.6
Teachers' Post-Retirement Health and Life – Net Liability as of 6/30/22	1.6
Cumulative GAAP Deficit – As of 6/30/23	0.6
Total	**$ 78.9**

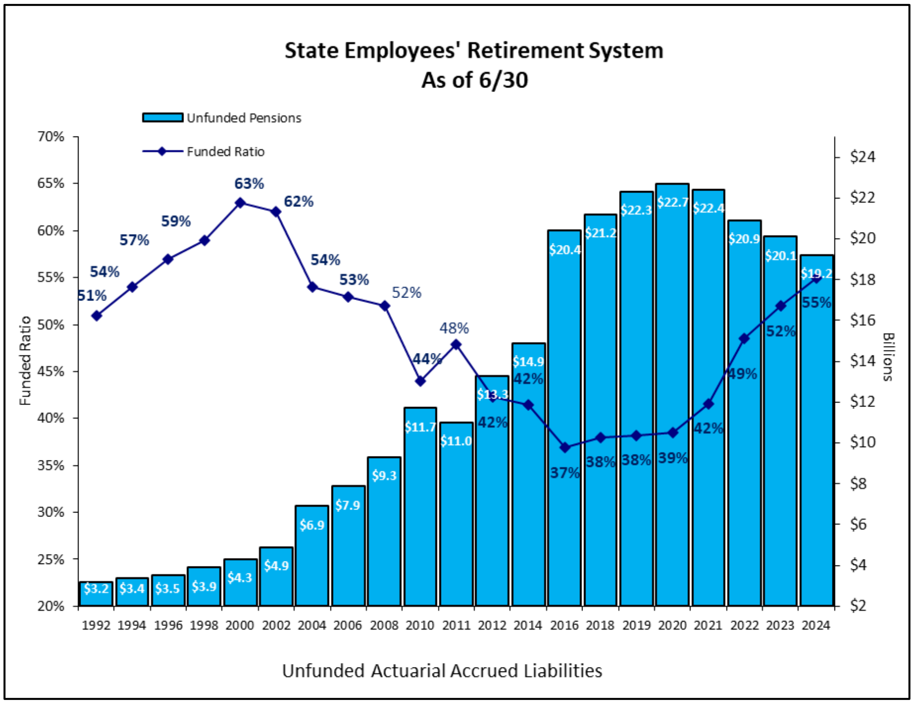


PENSIONS

The state is the sponsor of two large pension systems, one for state employees and one for teachers, as well as a retirement plan for judges, family support magistrates and compensation commissioners.

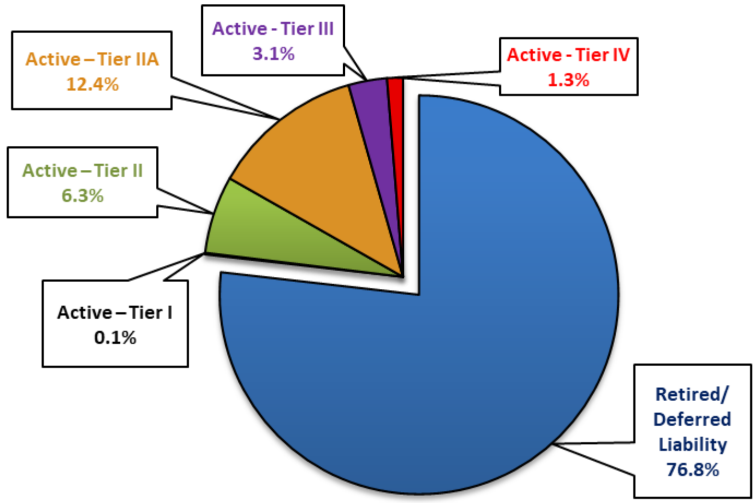
State Employees Retirement System (SERS)

The state's unfunded SERS obligation as of June 30, 2024 totaled $19.2 billion, a decrease of over $948 million from the prior year. The funded ratio increased from 52.0 percent to 55.2 percent. The rate of return on the market value of the plan's assets was 11.45 percent for 2024, above the assumed rate of 6.9 percent. The market value of assets was $23.9 billion and includes the transfer of $513.9 million from the General Fund for FY 2024. The deposit transfer was due to the Budget Reserve Fund (BRF) exceeding the statutory limit of 15 percent. The June 30, 2024 valuation states, "Without these transfers, the unfunded actuarial accrued liability would be correspondingly larger, the funded ratio would be 54.1% and the ADEC for FYE26 would be approximately $42.8 million larger."



As of June 30, 2024, the total SERS liability was $42.87 billion, with $19.2 billion as the unfunded portion of that liability. Most of the liability – 77 percent – is related to already-retired employees. The pie chart and table that follow show the proportions of liability attributable to active employees and retirees. The overwhelming majority of the state's contributions in FY 2026 – 88 percent – is to address the unfunded actuarial accrued liability.

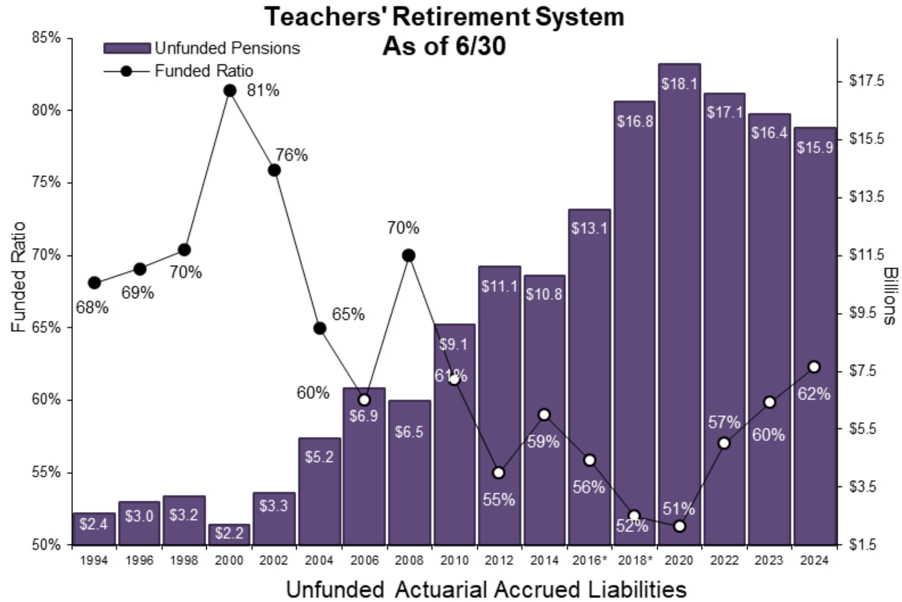
SERS Liability



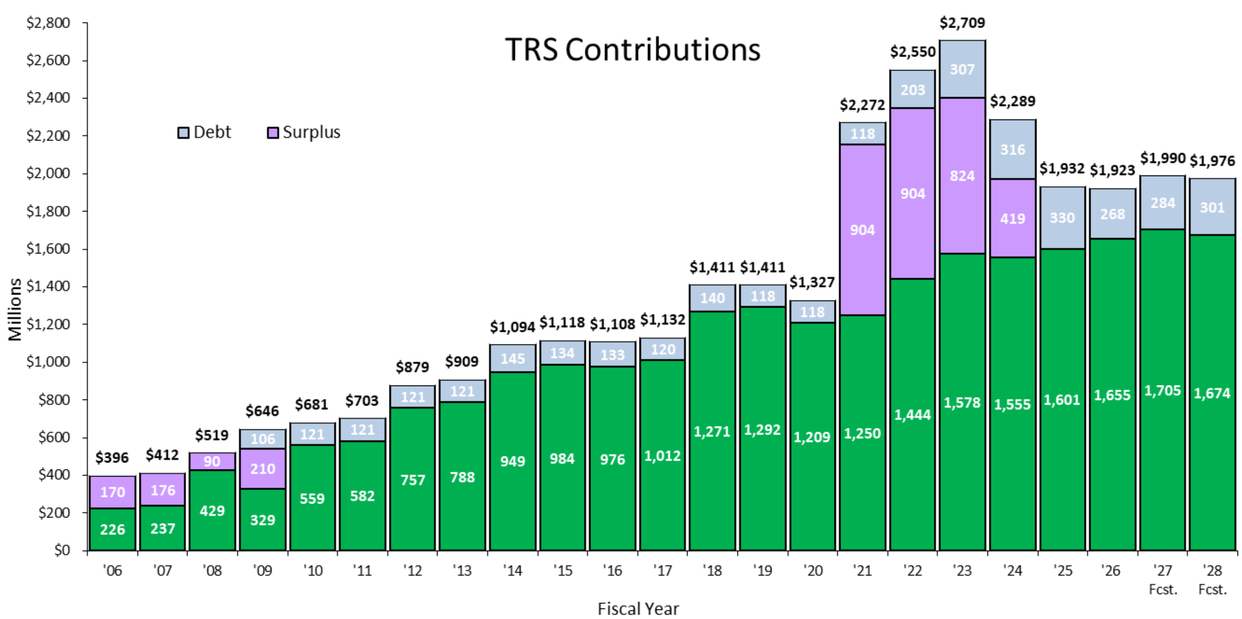
SERS Liability Based on 6/30/24 Valuation ($ in Thousands)		
Retired/Deferred Liability	32,925,563	76.8%
Active – Tier I Hazardous	0	0.0%
Active – Tier IB	52,852	0.1%
Active – Tier IC	1,522	0.0%
Active – Tier II Hazardous	104,240	0.2%
Active - Tier II Hybrid Plan	132,556	0.3%
Active – Tier II Others	2,460,204	5.7%
Active – Tier IIA Hazardous	2,053,787	4.8%
Active - Tier IIA Hybrid Plan	248,850	0.6%
Active – Tier IIA Others	2,999,540	7.0%
Active - Tier III Hazardous	599,698	1.4%
Active - Tier III Hybrid	61,220	0.1%
Active - Tier III Others	674,950	1.6%
Active - Tier IV Hazardous	202,241	0.5%
Active - Tier IV Hybrid	33,497	0.1%
Active - Tier IV Others	319,076	0.7%
Total Accrued Liability	42,869,799	
Actuarial Value of Assets	23,683,583	
Unfunded Accrued Liability	19,186,216	
Normal Cost	246,515	
Amortization of Unfunded Accrued Liability	1,733,888	
FY 2026 Actuarially Determined Employer Contribution	1,980,404	

Teachers' Retirement System (TRS)

The state's unfunded liability in the TRS, as of June 30, 2024, totaled $15.9 billion, a $496 million decrease from the level reported for June 30, 2023. As a result, the funded ratio increased from 59.8 percent to 62.3 percent. The market value of assets increased $2.6 billion from the prior valuation. This increase includes approximately $411 million due to the BRF and surplus deposits following FY 2024 as well as investment returns of 11.49 percent in FY 2024, considerably higher than the assumed rate of 6.9 percent. Partially offsetting these funding gains was an increase in overall liability primarily due to higher than typical retiree COLAs based on the change in the consumer price index.



The following graph depicts the increase in contributions to the TRS. In FYs 2006 through 2009, contributions were supplemented with surplus funds. In FYs 2021 through 2024, surplus funds were in addition to the required contributions. The bars in the graph for FY 2010 and beyond include debt service on the $2.3 billion pension obligation bonds issued on April 30, 2008, for the benefit of the Teachers' Retirement System. Contributions grew in FYs 2018 and 2019 to reflect the impact of lowering the assumed rate of investment return to 8 percent from 8.5 percent. In FY 2020 the assumed rate was further reduced to 6.9 percent. The graph below also reflects the impact of the BRF deposits from FYs 2021 through 2024.



PENSION STRESS TEST AND OUTLOOK

Section 4-68ee of the Connecticut General Statutes mandates that the Office of Policy and Management annually report a stress test analyses for the State Employees Retirement System (SERS) and the Teachers Retirement System (TRS).

The final version of this year's report will be issued in late November 2024. The analysis utilizes the valuations for SERS and TRS as of 6/30/2023 rolled forward one year to reflect the FY 2024 investment returns and supplemental contributions. The report concentrates on five specific scenarios: 1.) investment return sensitivity 2.) asset shock sensitivity 3.) contribution sensitivity 4.) inflation sensitivity (COLAs), and 5.) salary sensitivity. The results combined SERS and TRS to provide a complete, statewide assessment. The preliminary key findings from that analysis include:

- Baseline contributions requirements are projected to remain relatively stable at the current levels of $3.6 billion for the next 20 years until the unfunded liability is paid off in FY 2046.
- Without the recent additional deposits of $933.1 million from FY 2024, the annual contribution plateau would have occurred around $3.7 billion and cost the state an additional $2.1 billion over the projection period.
- Funding levels will continue to improve over time even when investments underperform if contributions are adjusted according to the funding policy.
- Maintaining baseline contribution patterns in an asset shock scenario, which includes a significant asset loss in FY 2025, instead of contributing the Actuarially Determined Employer Contribution (ADEC) would lead to slower funding recovery for both SERS and TRS and persistently low operating cash flow ratio for SERS.
- In the near term, the asset shock scenario causes contribution requirements to grow faster than projected revenues over the next 5 years, potentially leading to budget crowd out. Increases at TRS drive this growth, increasing 8 percent per year on average from FYs 2025-2029 under these scenarios.

The final version of the stress test report will be available at the end of November.

The financial outlook for the pension plans has been greatly enhanced by two factors. First, changes to both pension systems implemented several years ago have resulted in a much steadier stream of projected contribution requirements. Second, the recent additional deposits to both plans have reduced the anticipated required contributions.

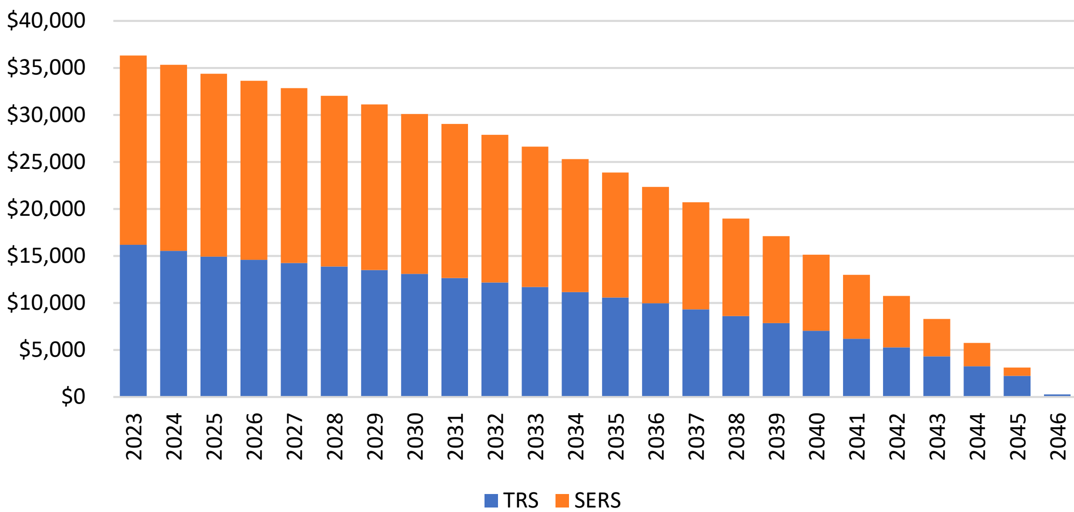
After the accounts for the General Fund have been closed at the end of each fiscal year, the statutes require any unappropriated General Fund surplus be deposited into the Budget Reserve Fund (BRF) until the fund reaches an amount equal to 15 percent of net General Fund appropriations. If the BRF balance exceeds the maximum threshold of 15 percent, the amount over the threshold is transferred to the State Employees Retirement Fund and/or the Teachers' Retirement Fund, but not exceeding 5 percent of the retirement fund's unfunded liablitiy. This allows the state to reduce its long-term obligations. With the start of FY 2025, the BRF threshhold has increased to 18 percent. This is expected to reduce deposits to the pension systems going forward.

For an unprecedented fifth year in a row, the BRF has exceeded the 15 percent statutory limit and additonal deposits will be made to both SERS and TRS. The cumulative amount of deposits is $8.6 billion. The table below details the additional deposits to the two pension funds.

Surplus Year	Additonal Deposits to SERS	Additional Deposits to TRS	Total Additional Pension Deposits
FY 2020	$61.6	-	$61.6
FY 2021	$714.7	$903.6	$1,618.3
FY 2022	$3,203.7	$903.6	$4,107.3
FY 2023	$1,046.5	$828.1	$1,874.6
FY 2024	$513.9	$419.1	$933.1
Total	**$5,540.5**	**$3,054.5**	**$8,595.0**

The supplemental deposits into the plans have decreased the amount of time necessary to pay down the unfunded liability by two years. Both plans are now projected to be fully funded in 2046 versus 2049 from the report issued three years ago.

Projected Total Unfunded Accrued Liability
(in millions)



Other Pension Systems

The state sponsors other pension plans besides the State Employee Retirement System (SERS) and Teachers' Retirement System (TRS). The Judges, Family Support Magistrates, and Compensation Commissioners Retirement System (JRS) is a defined benefit pension plan in which, as of June 30, 2023, there were a total of 203 active members and 318 retirees and dependents.

Active Members	
Group	**Number**
Judges	178
Compensation Commissioners	16
Family Support Magistrates	9
Total	203

Retired Lives	
Type of Benefit	**Number**
Retirement & Disability	239
Survivor	79
Total	318

The JRS previously adopted some of the changes that were made to SERS and TRS, most notably a reduction to a more realistic assumed investment rate of return of 6.9 percent. However, the JRS had not adopted the layered amortization method used by SERS and TRS until very recently with the passage of Public Act 24-81. Before passage, the Judges plan was near the end of the 40-year amortization of its unfunded liabilities with only eight years remaining. This "single-layer" amortization approach causes volatility in pension contributions toward the end of the amortization period because the unfunded liability – and subsequent experience losses – would be amortized over a shorter and shorter timeframe. As an alternative, in a layered amortization approach, each year's actuarial experience is assigned to a new amortization period which spreads out the effects of actuarial gains and losses. It reduces the volatility of the amortization payment portion of the state's required contribution, resulting in a much steadier stream of projected contribution requirements.

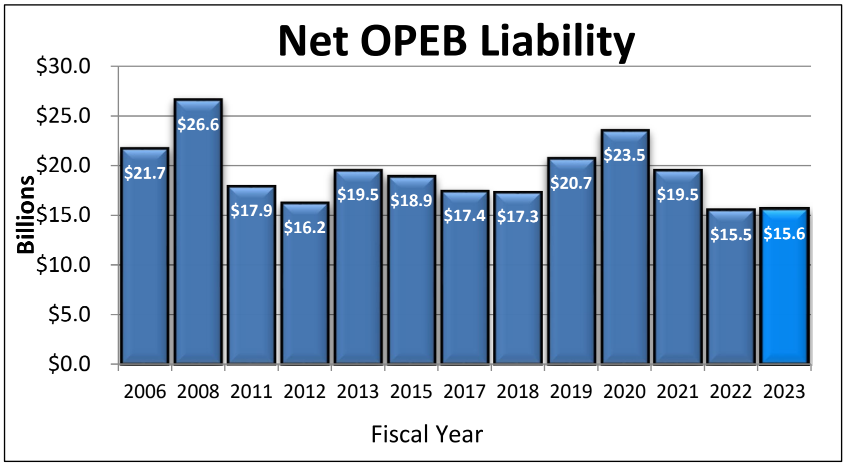
SERS and TRS both utilize a 25-year amortization of plan gains and losses for each annual valuation. The JRS adopted a 15-year amortization because its unfunded actuarial accrued liabilities are only $244 million versus $20.1 billion for SERS and $16.4 billion for TRS. It is important to note that the switch to the 15-year layered amortization did not extend the payments for another 15 years; it only increased the amortization period for the unfunded liability in the plan as of 6/30/23 by seven years since there were eight years remaining under the previous 40-year amortization period. For FY 2025, the change to 15-year layered amortization reduced the required contributions by $14.3 million.

	FY 2024	FY 2025 Without Layered Amortization	FY 2025 With Layered Amortization
Normal Cost	$7,908,954	$8,833,810	$8,833,810
Accrued Liability	$27,342,829	**$35,933,431**	**$21,626,108**
ADEC	$35,251,783	$44,767,241	$30,459,918
ADEC Change from FY 2024		27%	**-13%**

The state also sponsors a defined contribution 401(a) pension plan for teachers and professional staff members at the higher education constituent units called the Alternate Retirement Plan or ARP. These individuals have the option of choosing ARP instead of SERS or TRS. Both the employee and the state contribute 6.5 percent of compensation to the plan (for those hired on and after July 1, 2017). Features of ARP not found in SERS or TRS include its portability and immediate vesting. It is a low-risk pension plan to the state because the employee, and not the state, is responsible for the investment risk and management of the account.

Since FY 2024, the General Fund has supported 100 percent of the retirement/legacy costs of the higher education constituent units. This means that the "legacy costs", as well as the current normal cost of retiree pension and healthcare benefits are budgeted in the Comptroller's Fringe Benefits accounts in the General Fund for all higher education employees regardless of which university fund pays their salaries. The higher education units are financially responsible for 100 percent of the other fringe benefit-related costs of their current employees, i.e., health costs, social security taxes, group life insurance, etc.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)



Other post-employment benefits (OPEB) include non-pension related benefits for retirees such as health care, dental coverage, and life insurance. Until FY 2010, there was no pre-funding of future OPEB liabilities, and benefits were budgeted on a "pay as you go" (PAYGO) basis, meaning that the state appropriated funds sufficient to pay for anticipated OPEB costs during the budget period. As with pension accounting, the PAYGO approach does not capture the current value of benefits promised during future periods, i.e., unfunded liabilities. The Governmental Accounting Standards Board (GASB) requires states to report on the unfunded liabilities for OPEB. The most recent OPEB valuation (GASB Statement 75 measured as of June 30, 2023) shows the net OPEB liability (NOL) at $15.6 billion, a $0.1 billion increase from the prior valuation of $15.5 billion. The NOL had been expected to increase to $15.8 billion due to normal plan operations. The difference between the actual and expected NOL is mainly due to an investment experience gain, an actuarial experience gain, and an update to the discount rate, all of which decreased the NOL. The decrease in the NOL would have been significantly higher if not for the offsetting estimated impact of changes in 2025 due to the Inflation Reduction Act of 2022 (IRA) on Medicare Advantage Prescription Drug plans. The IRA impact is predicted to increase the NOL by almost $5.9 billion.

In FY 2008, the state began the process of setting aside funds in trust to address the OPEB unfunded liability. While not a full actuarial funding approach, setting aside funds now could begin a long-term transition to actuarial pre-funding of OPEB costs. The 2009 and 2011 SEBAC agreements introduced employee contributions, and now all state employees contribute 3 percent to the OPEB trust fund, with the state matching those employee contributions. The table on the right depicts OPEB contributions by both employees and the state. As of July 31, 2024, the OPEB trust fund had a market value of $2,956.0 million and was the fourth largest investment fund managed by the Treasurer's Office after the State Employees Retirement Fund, Teachers' Retirement Fund, and the Municipal Employees Retirement Fund. The contributions significantly decreased in FY 2024 as over 15,000 employees hired prior to FY 2014 completed their 10-year period of contributions.

Other Post-Employment Benefit Trust Fund

Summary of Contributions

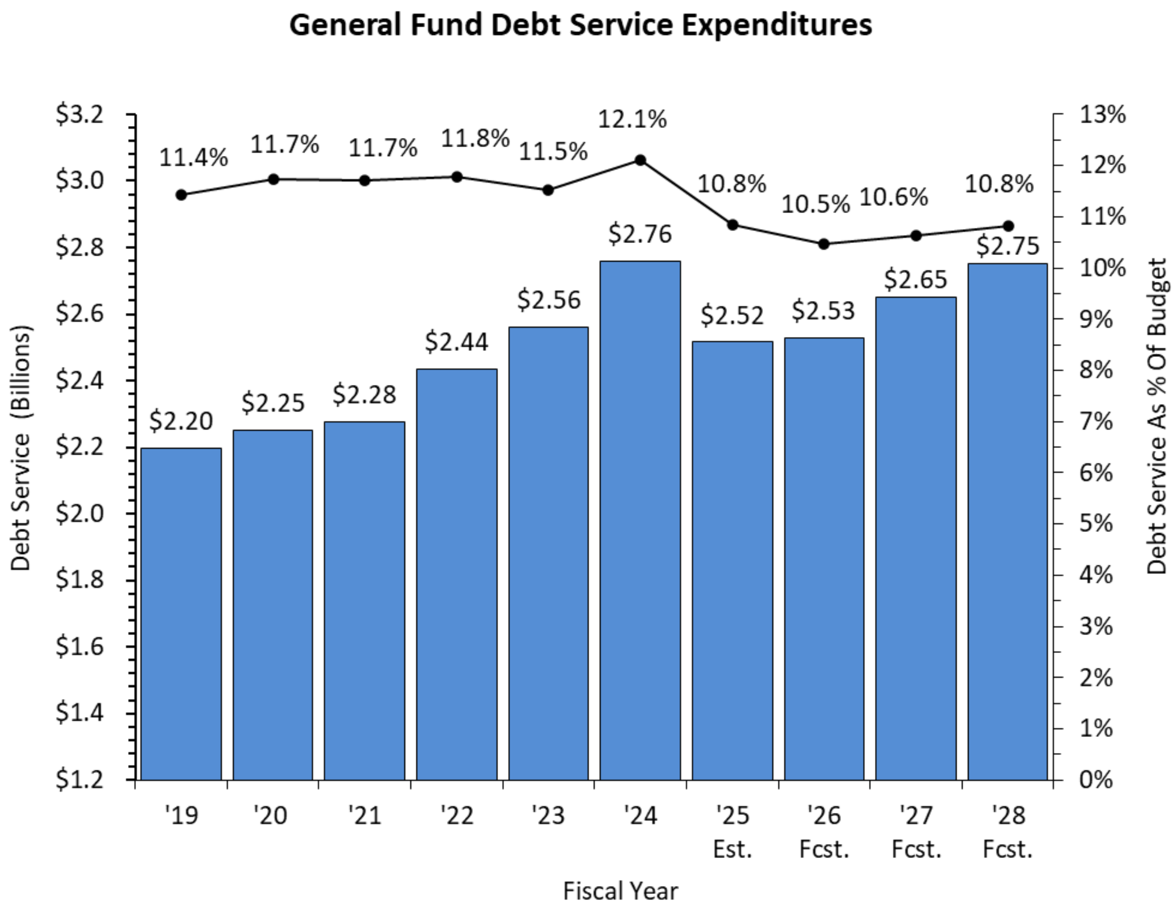
(in millions)

Fiscal Year	Employee Contributions	State Contributions	Total Contributions
2008	-	$10.0	$10.0
2009	-	-	$0.0
2010	$1.4	-	$1.4
2011	$21.6	$14.5	$36.1
2012	$25.0	-	$25.0
2013	$27.5	-	$27.5
2014	$45.5	-	$45.5
2015	$93.3	-	$93.3
2016	$125.2	-	$125.2
2017	$120.8	-	$120.8
2018	$116.8	$122.2	$239.0
2019	$116.5	$125.8	$242.3
2020	$120.6	$126.5	$247.1
2021	$109.1	$113.2	$222.3
2022	$104.5	$112.6	$217.1
2023	$108.6	$119.0	$227.6
2024	$67.2	$77.2	$144.4
2025 est.	$63.6	$76.7	$140.3
Total	**$1,267.2**	**$897.7**	**$2,164.9**

Excludes investment earnings.

Debt Service

The graph below shows debt service as a proportion of General Fund expenditures. As a percentage of General Fund appropriations, debt service is projected to remain level at approximately 11 percent from FY 2025 to FY 2028. FY 2024 includes an additional debt service payment of $211.7 million for the full repayment of the GAAP Conversion Bonds.

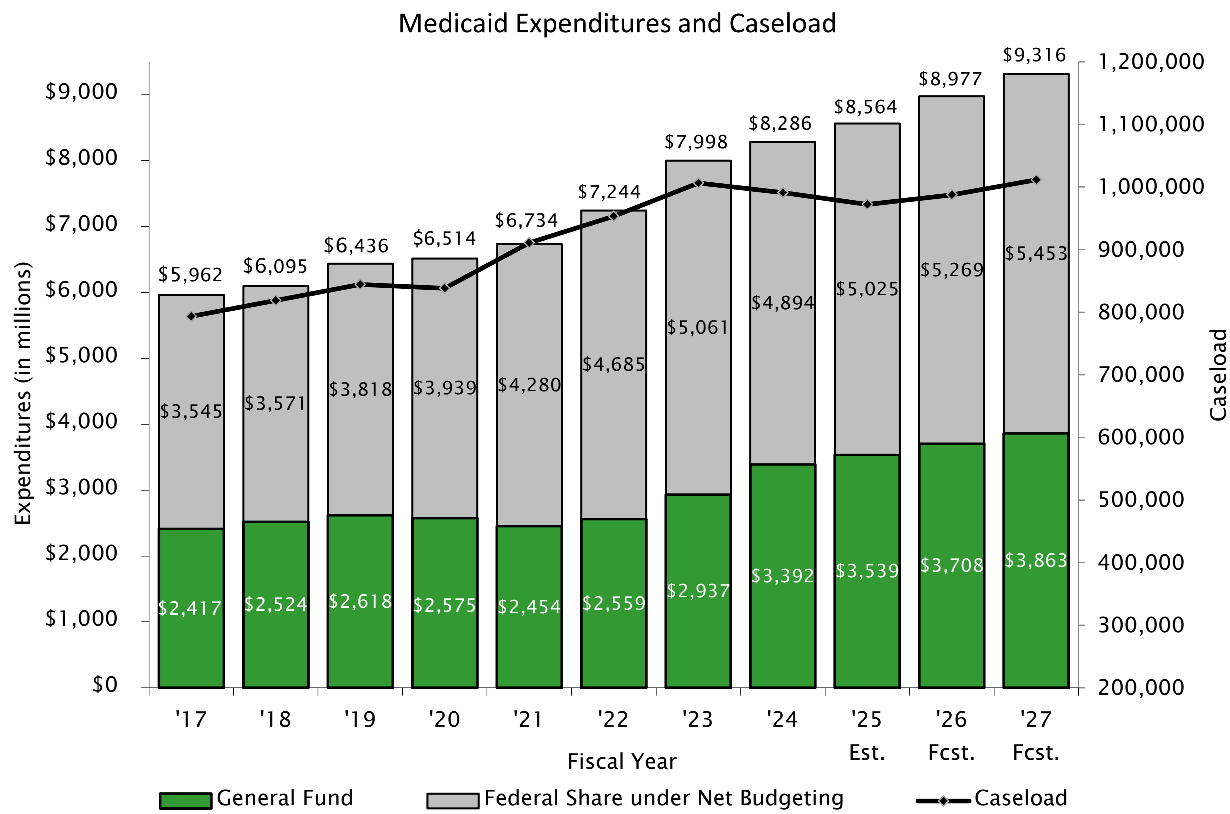


Medicaid

Historically, Medicaid expenditure growth over the past decade has been affected by caseload growth and limited rate increases, which have been mitigated in part through cost efficiencies and care coordination efforts. To receive the enhanced federal reimbursement available under the public health emergency, the state could not terminate coverage for most Medicaid enrollees before April 1, 2023. Since the suspension of Medicaid eligibility discontinuances on March 18, 2020, Medicaid enrollment – excluding the limited benefit coverage groups – increased 22 percent, from approximately 830,000 to over 1,010,000 as of April 2023, an increase of roughly 180,000 cases. Although enrollment grew significantly during the public health emergency, expenditures in the aggregate did not increase proportionally due to lower utilization of medical services in many areas. Since that time, however, enrollment remains higher than pre-pandemic levels and utilization continues to trend upward.

The Medicaid expansion for low-income adults, which was first approved by the federal government in June 2010, has driven significant increases in caseload and program costs. Expenditures for this program, now known as HUSKY D, increased from $228.7 million in FY 2010 to $769.0 million in FY 2013. The state further expanded Medicaid coverage for low-income adults by increasing income eligibility to 138 percent of the federal poverty level beginning January 1, 2014, resulting in significant additional growth. As a result of this expansion, the HUSKY D caseload has grown from 46,156 in June 2010 to over 313,000 in June 2024. HUSKY D expenditures have increased from $916.6 million in FY 2014 to $2,538.7 million in FY 2024, the majority of which was supported with enhanced federal reimbursement, which was phased down from 100 percent in calendar years 2014 through 2016 to 90 percent in calendar year 2020 and future years.

The graph below shows total Medicaid costs in the Department of Social Services as well as state and federal shares of the total.

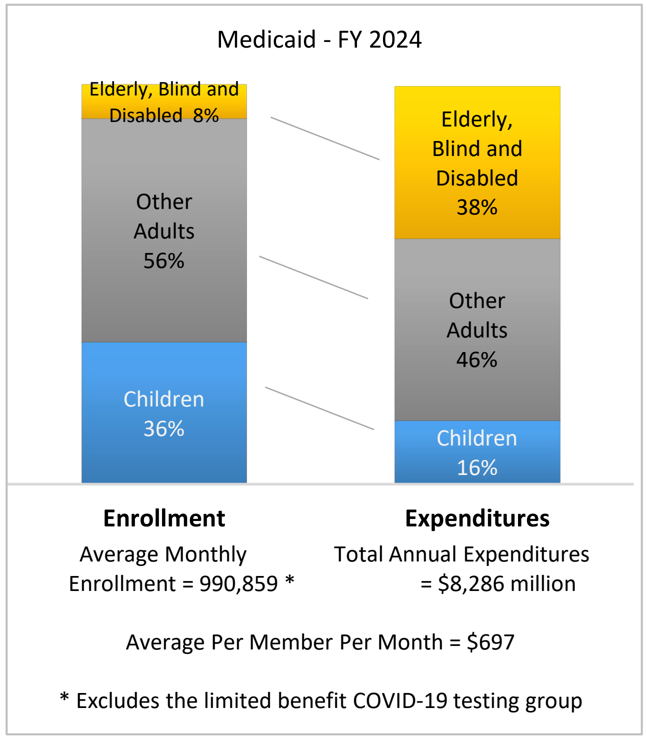


Expenditures have been adjusted to include funds transferred to DSS from DMHAS for behavioral health services which qualify for Medicaid reimbursement. Expenditures exclude hospital supplemental payments given the significant variance in that area over the years. Caseload figures exclude the limited benefit COVID-19 testing group.

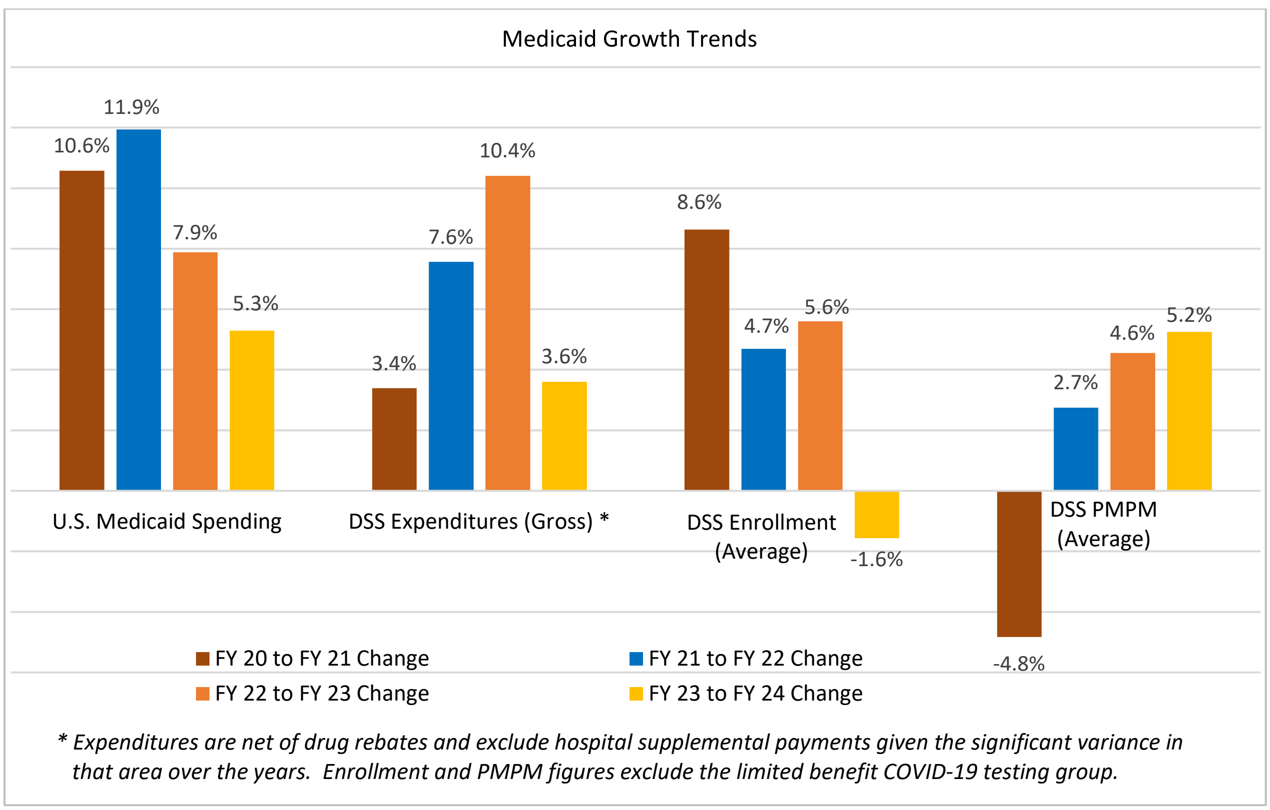
Note: For the quarters ending March 31, 2020 through March 31, 2023, General Fund requirements were reduced due to enhanced federal reimbursement of 6.2% related to the public health emergency; this enhanced reimbursement was stepped down for three additional quarters (through the quarter ending December 31, 2023). This enhanced reimbursement did not apply to the Medicaid expansion population, which continued to be reimbursed at 90%.

The Department of Social Services is employing diverse strategies to achieve improved health outcomes and cost efficiencies in the Medicaid program. Strategies include:

- use of an administrative services organization (ASO) platform to promote efficient, cost-effective and consumer/provider responsive medical, behavioral health, and dental services;
- use of data analytics to improve care;
- activities designed to improve access to and use of preventive primary care;
- efforts to integrate medical, behavioral health, long-term services and supports and social services;
- initiatives designed to "re-balance" spending on long-term services and supports (shifting from institutional to community-based care); and
- efforts to promote the use of health information technology.



In contrast to almost all other Medicaid programs across the nation, Connecticut Medicaid uses a self-insured, managed, fee-for-service approach rather than a managed care arrangement.



Municipal Aid

State aid to municipalities comes from a variety of sources: appropriated funds, bond funds, revenue intercepts, and transfers from non-appropriated funds. The table below shows major statutory aid to municipalities.

STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS

(in $ millions)

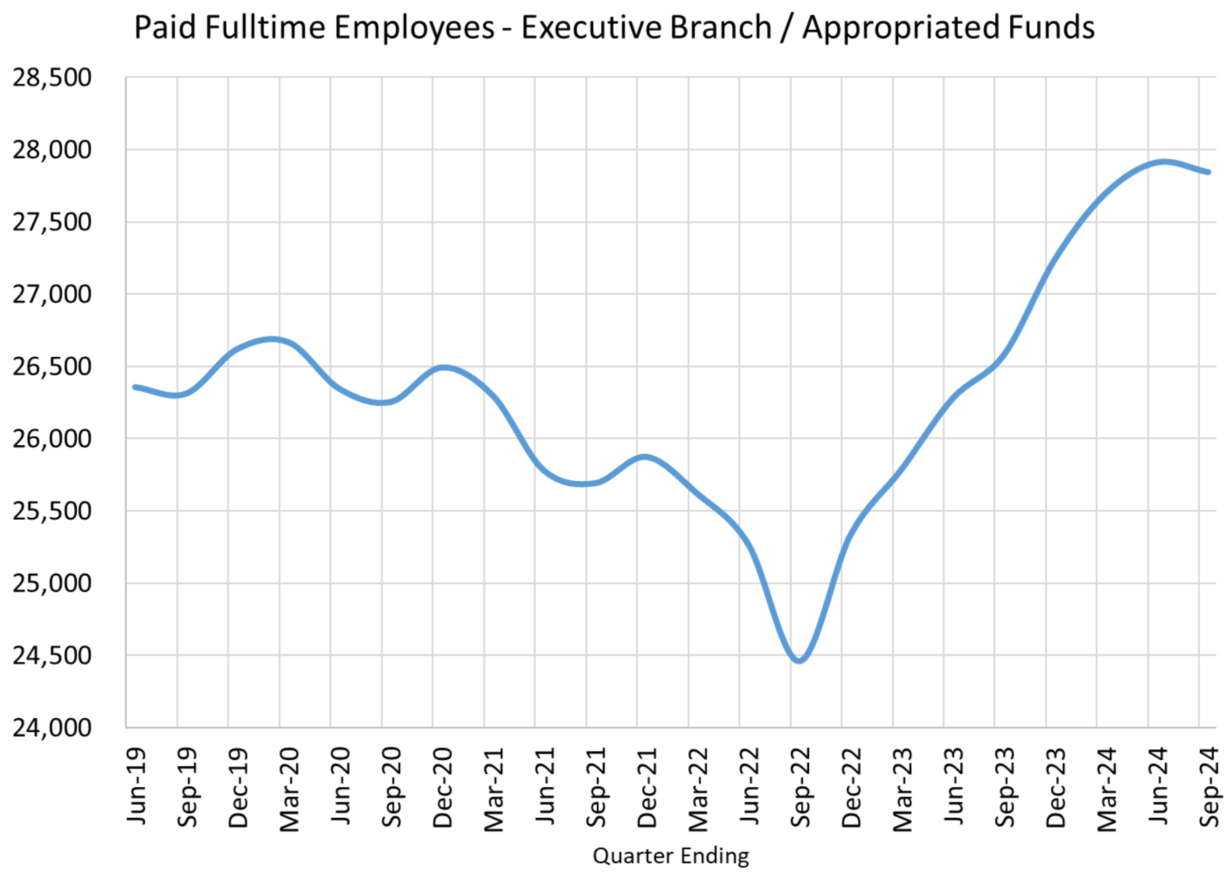
General Government	FY 2025	FY 2026	FY 2027	FY 2028
Tiered PILOT	347.1	352.1	352.1	352.1
Motor Vehicle Tax Grants	143.9	127.5	127.5	127.5
Supplemental Revenue Sharing	74.7	74.7	74.7	74.7
Mashantucket Pequot & Mohegan Grant	52.5	52.5	52.5	52.5
Town Aid Road	60.0	60.0	60.0	60.0
LoCIP	45.0	45.0	45.0	45.0
Municipal Grants-in-Aid	91.0	91.0	91.0	91.0
Regional Performance Incentive Account	14.0	14.4	14.7	15.1
Municipal Restructuring	7.3	7.3	7.3	7.3
Municipal Restructuring: Debt Service	46.5	46.1	47.8	43.8
Misc. General Government Grants	24.7	22.9	22.9	22.9
Subtotal - General Government	**906.7**	**893.5**	**895.5**	**891.9**
Education				
Adult Education	24.0	25.1	26.0	26.8
Education Cost Sharing[1]	2,289.2	2,453.3	2,446.4	2,439.4
Magnet Schools[2]	287.5	352.2	365.1	378.5
Special Education - Student Based	181.1	181.1	181.1	181.1
Local School Construction	550.0	550.0	550.0	550.0
Education Finance Reform[3]	145.0			
Misc. K-12 Education Grants	104.2	114.9	115.0	115.1
Subtotal - Education	**3,580.9**	**3,676.7**	**3,683.6**	**3,691.0**
Fringe Benefits				
TRS Retirement Contributions	1,601.4	1,655.1	1,705.1	1,674.4
TRS Retiree Health Service Cost	25.9	39.3	44.4	45.6
Municipal Retiree Health Insurance Cost	9.8	8.8	8.8	8.8
Debt Service - Pension Obligation Bonds	330.2	268.3	284.4	301.3
Subtotal - Local Teachers' Retirement	**1,967.4**	**1,971.6**	**2,042.7**	**2,030.1**
Total - Aid to Municipalities	**6,455.0**	**6,541.8**	**6,621.7**	**6,613.0**

1. For FY 2025 - An estimated $73.7 million in funding budgeted in the Education and Finance Reform account is for Education Cost Sharing (ECS). For FY 26 on this funding is reflected in the ECS account.
2. For FY 2025 - An estimated $42.5 million in funding budgeted in the Education Finance Reform account is for Magnet Schools. For FY 26 onward this funding is reflected in the Magnet School account.
3. For FY 2025, the Education Finance Reform figures reflect only the portion of the appropriation projected to be expended on educational grants which are classified as municipal aid. For FY 26 onwards, the appropriation has been distributed among various education grants in accordance with current law.

State Workforce

<u>Executive Branch Staffing Trends</u>

The chart below shows full-time staffing in Executive Branch agencies based on employees paid from appropriated funding sources. After dropping from approximately 32,000 at the start of calendar year 2009, more recent staffing levels remained steady at about 26,000 between FY 2019 and FY 2021, prior to a marked acceleration in the pace of retirements leading up to the change in COLA formula for post 7/1/2022 SERS retirees. After reaching a low point in July 2022, below 24,500 paid employees, overall Executive Branch staffing levels have increased by nearly 3,000 employees and now stand approximately 1,500 employees above the pre-pandemic level.



EFFORTS TO PRESERVE OR MAXIMIZE FEDERAL REVENUE[3]

The state continues to make federal revenue maximization efforts a priority. Medicaid state plan amendments are submitted to the federal government as appropriate, while initiatives not requiring federal approval are operationalized by impacted state agencies.

Interagency workgroups meet regularly to discuss revenue opportunities and implementation issues. Some of the major revenue maximization and revenue retention initiatives being explored, under development or now operational include:

- Further implementation of the substance use disorder (SUD) demonstration waiver to enhance the state's SUD service system and enable federal reimbursement on SUD services for individuals that were not previously eligible under federal rules. The additional revenue continues to be reinvested to strengthen the SUD service system by ensuring a complete array of services is available. This allows Medicaid members with opioid use disorder and other SUDs to receive medically necessary treatment services in the most appropriate setting. The Departments of Social Services (DSS), Mental Health and Addiction Services (DMHAS), Children and Families (DCF), Correction (DOC) and the Judicial Branch work collaboratively to identify anticipated needs in each agency. The additional federal revenue generated from this initiative that has not been allocated to the participating agencies is deposited into a reserve account to be used to meet program requirements or fund program enhancements;
- Submission of an application to the federal Centers for Medicare & Medicaid Services (CMS) to amend the SUD demonstration waiver to enhance services and enable federal reimbursement on transition and re-entry services for incarcerated individuals 90 days pre-release – a population previously precluded from Medicaid coverage under long-standing federal rules. The additional revenue must be reinvested to strengthen inmate medical services and community-based services to improve care transitions into the community and ultimately reduce recidivism. DSS, DMHAS, DCF, DOC, and the Judicial Branch have worked collaboratively to develop an implementation plan and identify anticipated needs in each agency. The additional federal revenue generated from this initiative will be deposited into the reserve account and be distributed to meet program requirements or fund program enhancements;
- Examination of DCF's Family First Prevention Services Act Prevention Plan to ensure that all eligible prevention services allowable under Title IV-E are claimed for reimbursement;
- Continued implementation of section 9817 of the American Rescue Plan Act, which allowed the state to earn an extra 10 percent in federal reimbursement on a range of waiver and related home and community-based services (HCBS) from April 1, 2021 through March 31, 2022. This additional federal funding (approximately $207 million) must be reinvested in new qualifying services which support community-based long-term services and supports over the multi-year period ending June 30, 2025. The $207 million in new federal funding, once reinvested as the state share for Medicaid-supported services, will leverage approximately $230 million in new federal reimbursement to match those expenditures, resulting in total increase in expenditures of roughly $440 million over the reinvestment period. The 10 percent HCBS match authorized in ARPA allows the state to leverage significant federal resources over the reinvestment period, with an ongoing cost, excluding the costs associated with the personal care attendant (PCA) collective bargaining agreement, to the state of approximately $25 million; and
- Evaluation of ideas to generate additional revenue submitted by the agencies

[3] This section fulfills the reporting requirement found in subsection (c) of Sec. 4-31d, CGS.

It is important to note that, while much effort goes into maximizing revenue, equal or greater effort goes into preserving existing sources of federal reimbursement. CMS has strengthened its compliance activities, resulting in significantly greater scrutiny of all state claims. This has meant Department of Social Services' staff and impacted state agencies spending significantly more time and effort explaining and justifying revenue items to CMS to sustain claims worth hundreds of millions of dollars that had once been considered routine.

BONDING

PROJECTED BOND AUTHORIZATIONS, ALLOCATIONS AND ISSUANCES

The table below depicts projected bond authorizations, allocations and issuances through FY 2029.

FIVE YEAR BOND PROJECTIONS

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Bond Authorizations					
General Obligation Bonds	$ 2,372,635,451	$ 2,206,476,972	$ 2,248,678,572	$ 2,186,178,572	$ 2,188,178,572
Community Investment Fund	175,000,000	175,000,000	175,000,000	250,000,000	250,000,000
Crumbling Foundations	25,000,000	25,000,000	-	-	-
Connecticut Strategic Defense Investment Act	10,321,428	10,321,428	10,321,428	10,321,428	10,321,428
Connecticut Port Authority	2,500,000	5,000,000	-	-	-
High Poverty Low Income Census Tract	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
UCONN Research Faculty	9,220,000	4,201,600	-	-	-
UCONN 2000/Next Generation	122,000,000	124,000,000	116,000,000	103,500,000	101,500,000
Total General Obligation Bonds	$ 2,766,676,879	$ 2,600,000,000	$ 2,600,000,000	$ 2,600,000,000	$ 2,600,000,000
Special Tax Obligation Bonds	1,642,372,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
Clean Water Fund Revenue Bonds	25,000,000	250,000,000	250,000,000	250,000,000	250,000,000
Total Bond Authorizations	**$ 4,434,048,879**	**$ 4,350,000,000**	**$ 4,350,000,000**	**$ 4,350,000,000**	**$ 4,350,000,000**
Bond Allocations					
General Obligation Bonds	$ 1,900,000,000	$ 2,000,000,000	$ 2,000,000,000	$ 2,000,000,000	$ 2,000,000,000
Special Tax Obligation Bonds	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000	1,500,000,000
Clean Water Fund Revenue Bonds	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000
Total Bond Allocations	**$ 3,550,000,000**	**$ 3,650,000,000**	**$ 3,650,000,000**	**$ 3,650,000,000**	**$ 3,650,000,000**

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Bond Issuance					
General Obligation Bonds	$ 1,600,000,000	$ 1,600,000,000	$ 1,600,000,000	$ 1,600,000,000	$ 1,600,000,000
Special Tax Obligation Bonds	1,000,000,000	1,300,000,000	1,400,000,000	1,400,000,000	1,400,000,000
Clean Water Revenue Bonds	-	250,000,000	-	250,000,000	-
UCONN 2000/Next Generation	-	200,000,000	200,000,000	200,000,000	150,000,000
Total Bond Issuance	**$ 2,600,000,000**	**$ 3,350,000,000**	**$ 3,200,000,000**	**$ 3,450,000,000**	**$ 3,150,000,000**
Debt Service					
General Fund	$ 2,515,481,101	$ 2,529,626,458	$ 2,651,794,241	$ 2,752,307,814	$ 2,805,483,318
Transportation Fund	887,397,498	941,171,026	1,048,953,709	1,149,810,367	1,236,069,879
Total Debt Service	**$ 3,402,878,599**	**$ 3,470,797,484**	**$ 3,700,747,950**	**$ 3,902,118,181**	**$ 4,041,553,197**

Bond Authorizations
FY 2025 are enacted bond authorizations.
FY 2026 - FY 2029 projected bond authorizations assume that authorizations continue at historical average levels.
UConn 2000/Next Generation automatic authorizations in accordance with C.G.S. Section 10a-109g.
Connecticut Strategic Defense Investment Act automatic authorizations in accordance with C.G.S. Section 32-4o.
Community Investment Fund, Crumbling Foundations, Connecticut Port Authority, High Poverty Low Opportunity, and the UCONN Research Faculty authorizations in accordance to respective amended Public Acts.

Bond Allocations
Projected GO Bond allocations are based on budgeted debt service.
Projected GO Bond Allocations will be substantially under the C.G.S. Section 3-20(d)(2) projected fiscal year caps.
Projected Special Tax Obligation Bond allocations assume to match debt issuance levels scheduled in the out-year assumptions.

Bond Issuance
Projected GO Bond issuances are based on budgeted debt service.
Projected GO Bond issuances will be substantially under the C.G.S. Section 3-21(f)(1) projected fiscal year caps.

Estimated General Obligation Caps	Inflation	Allocation & Issuance Cap
FY 2025	2.6%	$ 2,515,000,000
FY 2026	2.3%	$ 2,601,000,000
FY 2027	2.3%	$ 2,668,000,000
FY 2028	2.3%	$ 2,730,000,000
FY 2029	2.2%	$ 2,792,000,000

Inflation Sources: S&P Global, Bureau of Labor Statistics

Statutory General Obligation Bond Debt Limit

Section 3-21 of the General Statutes, as amended, provides that "No bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the general assembly except such as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the general assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed one and six-tenths times the total general fund tax receipts of the State for the fiscal year in which any such authorization will become effective, as estimated for such fiscal year by the joint standing committee of the general assembly having cognizance of finance, revenue and bonding in accordance with section 2-35."

Tax Incremental Financings, Special Transportation, Bradley Airport, Clean Water Fund Revenue, Connecticut Unemployment Revenue Bonds, Economic Recovery Notes and Pension Obligation Bonds are excluded from the calculation. Hartford Contract Assistance are included in the calculation.

In accordance with the General Statutes, the Treasurer computes the aggregate amount of indebtedness as of January 1, and July 1 each year and certifies the results of such computation to the Governor and the General Assembly. If the aggregate amount of indebtedness reaches 90 percent of the statutory debt limit, the Governor is required to review each bond act for which no bonds, notes or other evidences of indebtedness have been issued, and recommend to the General Assembly priorities for repealing authorizations for remaining projects.

The estimated debt-incurring margins as of July 1 of each fiscal year are as follows:

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Consensus Revenues 11/12/2024	$20,326,300,000	$21,625,600,000	$22,327,700,000	$23,018,700,000	$23,732,279,700
Multiplier	1.6	1.6	1.6	1.6	1.6
100% Limit	$32,522,080,000	$34,600,960,000	$35,724,320,000	$36,829,920,000	$37,971,647,520
Bonds Subject to Limit	$25,680,947,212	$26,694,002,212	$27,781,222,212	$28,935,617,212	$30,173,067,212
Debt Incurring Margin	$6,841,132,788	$7,906,957,788	$7,943,097,788	$7,894,302,788	$7,798,580,308
Percentage of Limit	78.96%	77.15%	77.77%	78.57%	79.46%
Margin to 90% Limit	$3,588,924,788	$4,446,861,788	$4,370,665,788	$4,211,310,788	$4,001,415,556

Assumptions:

- Consensus Revenue as of 11/12/2024 and Office of Policy and Management estimate for FY 2029. Annual average of $2.6 billion of new bond authorizations;
- $1.6 billion of new General Obligation Bonds (FY 25 – FY 29) plus UCONN Bonds are issued each year.
- FY 2025 – FY 2029 Bonds Subject to Limit does not include principal payments on the prior year bonds to account for possible changes to issuance schedules.

BONDING CAPS

During the 2017 legislative session, limitations on bond allocations, allotments and issuances were enacted. Public Act 23-1 extended and modified the caps. These limitations are described below.

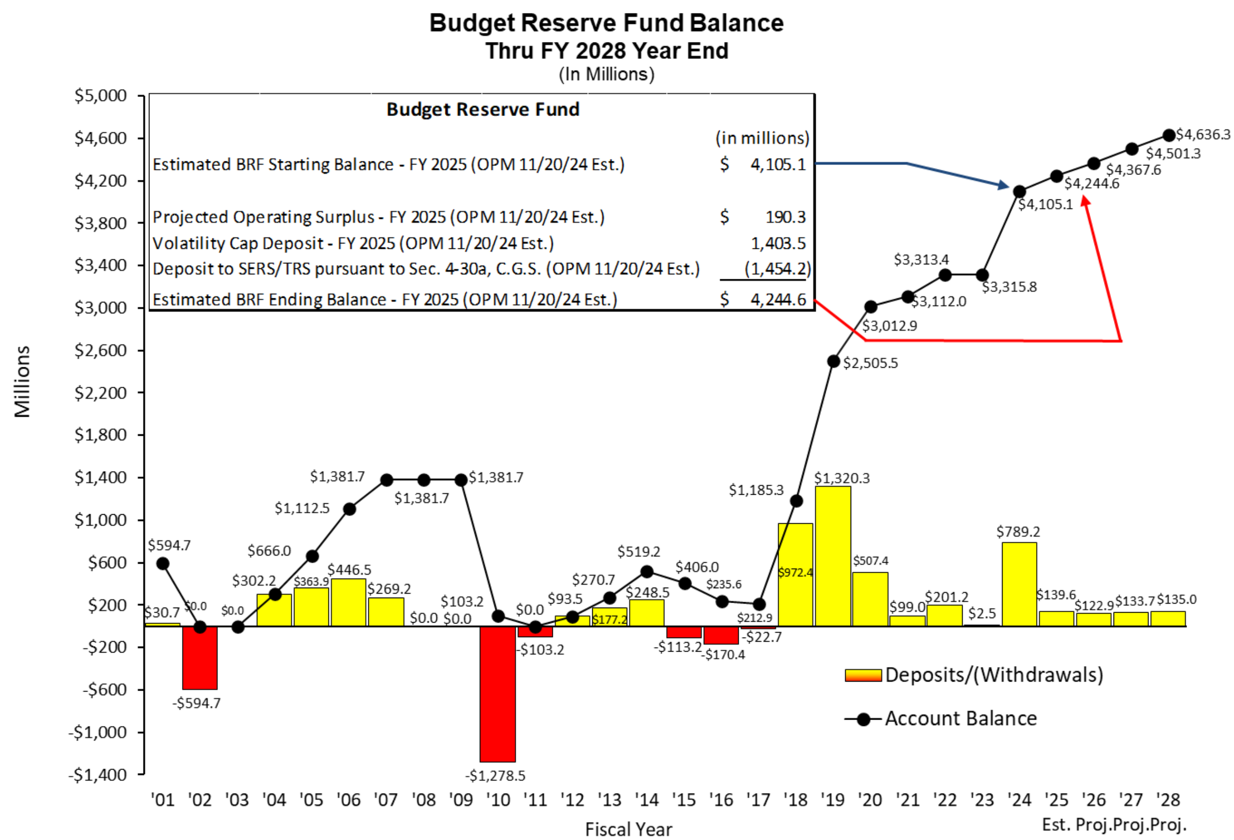
- Allocation Cap: This cap imposes a limit on State Bond Commission general obligation bond allocations for each fiscal year. Public Act 23-1 set the cap to $2.400 billion in fiscal year 2024. The cap amount is indexed to inflation. The inflation-adjusted cap is $2.515 billion for fiscal year 2025, $2.601 billion for fiscal year 2026, $2.668 billion for fiscal year 2027, $2.730 billion for fiscal year 2028, and $2.792 billion for fiscal year 2029.

- Allotment Cap: This cap limits allotments issued by the Governor's Office each fiscal year. The cap amount is indexed to inflation. General obligation bonds issued as part of CSCU 2020 or UConn 2000 are exempted from the cap. Public Act 23-1 set the cap to $2.400 billion in fiscal year 2024. The inflation-adjusted cap is $2.515 billion for fiscal year 2025, $2.601 billion for fiscal year 2026, $2.668 billion for fiscal year 2027, $2.730 billion for fiscal year 2028, and $2.792 billion for fiscal year 2029.

- Issuance Cap: This cap limits bond issuances by the Treasurer's Office each fiscal year. The cap amount is indexed to inflation. General obligation bonds issued as part of CSCU 2020 or UConn 2000 are exempted from this cap. Public Act 23-1 set the cap to $2.400 billion in fiscal year 2024. The inflation-adjusted cap is $2.515 billion for fiscal year 2025, $2.601 billion for fiscal year 2026, $2.668 billion for fiscal year 2027, $2.730 billion for fiscal year 2028, and $2.792 billion for fiscal year 2029.

BUDGET RESERVE FUND AND POTENTIAL USES OF SURPLUS

After the accounts for the General Fund have been closed at the end of each fiscal year, Connecticut statute directs the Comptroller to deposit any unappropriated General Fund surplus in the Budget Reserve Fund (BRF, a.k.a. “rainy day fund”) until the fund reaches its statutory threshold. That threshold was 15 percent of net General Fund appropriations through FY 2023. Section 15 of Public Act 23-1 increased that threshold from 15 percent to 18 percent of net General Fund appropriations beginning in FY 2024 (see ‘Recent Reforms’ in the next section of this report for further explanation). The graph below depicts historical operating deposits to and withdrawals from the Budget Reserve Fund. As a result of the deposits from the volatility cap and the unappropriated surplus at the end of FY 2020, the BRF reached and exceeded its statutory cap of 15 percent at the start of FY 2021. Prior to the increase in the BRF threshold for FY 2024, the BRF has remained at its maximum capacity through FY 2023. In just one year, unaudited financial results indicate that the BRF attained its new maximum 18 percent threshold at the conclusion of FY 2024.



Note: FY 2026 - FY 2028 appropriations are assumed to comply with the revenue cap.

Recent Reforms

Several recent statutory changes impact the Budget Reserve Fund. Public Act 17-2 of the June Special Session implemented, and Public Act 18-81 later amended, a revenue volatility cap which directs collections from any volatile revenue sources above a certain threshold to the Budget Reserve Fund. (See page 30 for more about the revenue volatility cap.) The volatility cap resulted in transfers shown in the table below, providing substantial — and much-needed — improvement in the state’s reserves and facilitating significant deposits to the state’s major pension funds.

Rebuilding Budgetary Reserves and Reducing Pension Liabilities
Since the Enactment of the Volatility and Revenue Caps
As of November 20, 2024
(in millions)

ACTUAL

	Fiscal Year	Sources of Funds: Surplus/ (Deficit)	Sources of Funds: Volatility Cap	Sources of Funds: Total	Uses of Funds: SERS	Uses of Funds: TRS	Uses of Funds: BRF	Uses of Funds: Total
1.	2018	$ (482.9)	$ 1,471.3	$ 988.4	$ -	$ -	$ 988.4	$ 988.4
2.	2019	370.6	949.7	1,320.3	-	-	1,320.3	1,320.3
3.	2020	38.7	530.3	569.0	61.6	-	507.4	569.0
4.	2021	475.9	1,241.5	1,717.4	714.7	903.6	99.1	1,717.4
5.	2022	1,261.4	3,047.5	4,308.9	3,204.0	903.6	201.3	4,308.9
6.	2023	555.3	1,321.8	1,877.1	1,046.5	828.1	2.5	1,877.1
7.	2024	400.9	1,321.3	1,722.3	513.9	419.1	789.2	1,722.3
8.	**Subtotal**	**$ 2,619.9**	**$ 9,883.4**	**$ 12,503.4**	**$ 5,540.7**	**$ 3,054.4**	**$ 3,908.2**	**$ 12,503.4**
9.	**Total SERS & TRS**					**$ 8,595.2**		
10.	% of Total	21.0%	79.0%	100.0%	44.3%	24.4%	31.3%	100.0%

PROJECTION

	Fiscal Year	Sources of Funds: Surplus/ (Deficit)	Sources of Funds: Volatility Cap	Sources of Funds: Total	Uses of Funds: SERS	Uses of Funds: TRS	Uses of Funds: BRF	Uses of Funds: Total
11.	2025 (Est.)	$ 190.3	$ 1,403.5	$ 1,593.8	TBD	TBD	TBD	$ 1,593.8
12.	**Subtotal**	**$ 190.3**	**$ 1,403.5**	**$ 1,593.8**	**TBD**	**TBD**	**TBD**	**$ 1,593.8**
13.	**Grand Total**	**$ 2,810.2**	**$ 11,286.9**	**$ 14,097.2**	**$ 5,540.7**	**$ 3,054.4**	**$ 3,908.2**	**$ 14,097.2**
14.	% of Total	11.9%	88.1%	100.0%				

Notes:
(1) Volatility Cap is income tax estimates & finals and pass-through entity tax above a set threshold.
(2) SERS = State Employees Retirement System
(3) TRS = Teachers' Retirement System
(4) BRF = Budget Reserve Fund
(5) Current projections for FY 2025 estimate $1,593.8 million will be available for allocation to SERS, TRS, and the BRF in amounts to be determined based on updated pension valuations and the Treasurer's determination of the State's best interests.

Public Act 17-2 of the June Special Session, as amended by section 16 of Public Act 23-1, also introduced a revenue cap that limits the amount of General Fund appropriations to a percentage of General Fund revenue. The limit began at 99.5 percent in fiscal year 2020 and phases down to 98.75 percent for FY 2023 and thereafter. (See page 30 for more about the revenue cap) The resulting unappropriated operating margin will help add to the rainy day fund in good years and provide a buffer against drastic expenditure reductions or revenue increases when there is a sudden mid-year downturn in the economy.

Section 15 of Public Act 23-1 made several revisions to the Budget Reserve Fund. As previously discussed, it increased the Budget Reserve Fund threshold from 15 percent to 18 percent of net General Fund appropriations, allowing for greater stability in case of a recession or economic downturn. Public Act 23-1 also modified the funding mechanisms for the Budget Reserve Fund. If the Budget Reserve Fund is below the 15 percent threshold, the volatility cap transfer and the surplus are both fully deposited into the Budget Reserve Fund until it reaches that 15 percent threshold. Once the Budget Reserve Fund reaches the 15 percent threshold, 50 percent of any remining volatility cap transfer or unappropriated surplus amount goes to the Budget Reserve Fund, and the other 50 percent is transferred to reduce the unfunded liabilities of the State Employees' Retirement System (SERS) or the Teachers' Retirement System (TRS). Once the Budget Reserve Fund reaches its maximum 18 percent threshold, any remaining volatility cap transfer or unappropriated surplus amounts get transferred to reduce the unfunded liabilities of SERS and/or TRS.

Use of Budget Reserve Fund

Statutorily, the Budget Reserve Fund may only be expended:

- To fund a deficit in the immediately preceding fiscal year;
- By transfer of the General Assembly if any consensus revenue forecast projects a decline in General Fund revenues in the current biennium of one percent or more;
- By transfer of the General Assembly if the April 30th consensus revenue forecast projects a decline in General Fund revenues in the ensuing biennium of one percent or more from the current year; or
- By transfer of the General Assembly if the BRF equals 5 percent or more of current year appropriations of the amount in excess of the 5 percent for the payment of unfunded past service liability of the SERS and TRS pension systems which are in addition to any regular contributions.

Discussion of Possible Uses of Surplus Funds

Under current law (CGS Sec. 4-30a), unappropriated surpluses are committed to the Budget Reserve Fund until the maximum 18 percent authorized by law. Other possible uses of surplus funds could include:

- Reducing the unfunded liability of the State Employees Retirement Fund;
- Reducing the unfunded liability of the Teachers' Retirement Fund;
- Reducing bonded indebtedness;
- Reducing the unfunded liability for other post-employment benefits (OPEB); or
- Providing funds for higher education matching grants as per sections 10a-8c, 10a-77a, 10a-99a, 10a-109c, 10a-109i, and 10a-143a of the Connecticut General Statutes.

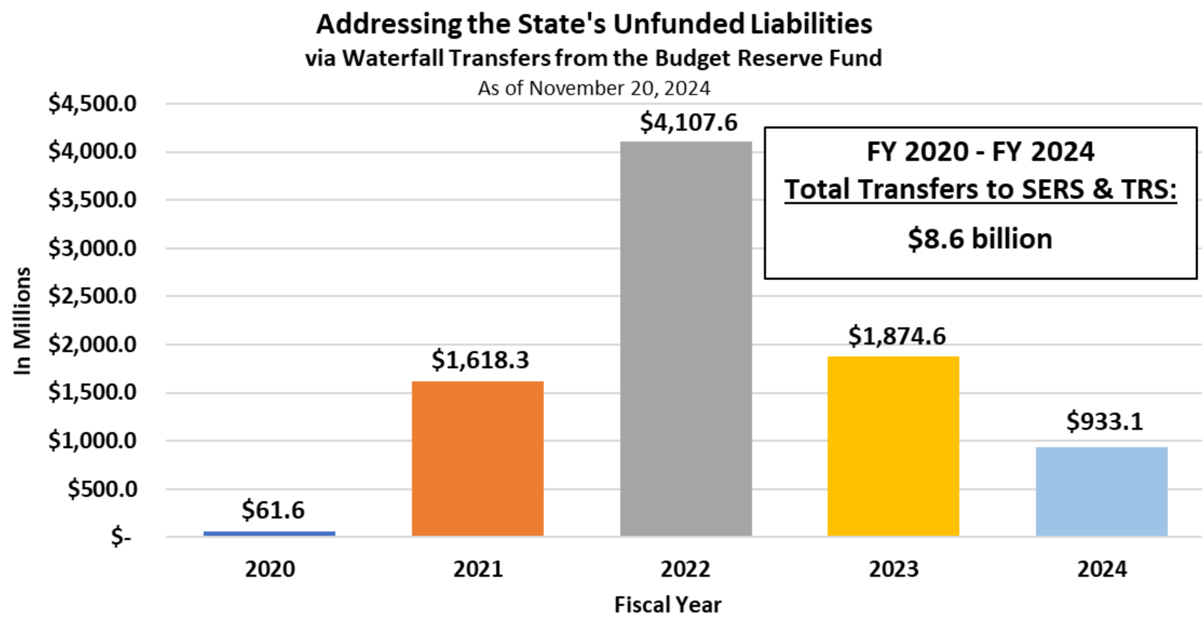
Budget Reserve Fund Maximum Threshold

At the end of FY 2020, the balance of the Budget Reserve Fund was estimated at 15.3 percent, $61.6 million more than the statutory threshold of 15 percent of the following fiscal year's net General Fund appropriations. By statute, the State Treasurer determines whether to transfer any sums that exceed the statutory 15 percent cap to reduce unfunded liabilities in the State Employees Retirement Fund or the Teachers' Retirement Fund. The $61.6 million in excess of the 15 percent threshold was transferred to reduce the unfunded liabilities of the State Employees Retirement Fund. Again, at the conclusion of FY 2021, the balance of the Budget Reserve Fund was estimated at 22.8 percent, about $1,618.3 million more than the statutory threshold of 15 percent of the following fiscal year's net General Fund appropriations. Of the estimated $1,618.3 million in excess of the 15 percent threshold, $903.6 million was transferred to reduce the unfunded liabilities of the Teachers' Retirement Fund and the balance of $714.7 million was transferred to reduce the unfunded liabilities of the State Employees Retirement Fund. FY 2022 concluded with the Budget Reserve Fund at 33.6 percent of the following fiscal year's net General Fund appropriations, about $4,107.6 million over the 15 percent statutory limit. Of the $4,107.6 million, approximately $903.6 million was transferred to reduce the unfunded liabilities of the Teachers' Retirement Fund and the estimated balance of $3,204.0 million was transferred to reduce the unfunded liabilities of the State Employees Retirement Fund. FY 2023 concluded with the Budget Reserve Fund at 23.5 percent of the following fiscal year's net General Fund appropriations, about $1,874.6 million over the 15 percent statutory limit. Of the $1,874.6 million, $828.1 million was transferred to reduce the unfunded liabilities of the Teachers' Retirement Fund and the balance of $1,046.5 million was transferred to reduce the unfunded liabilities of the State Employees Retirement Fund.

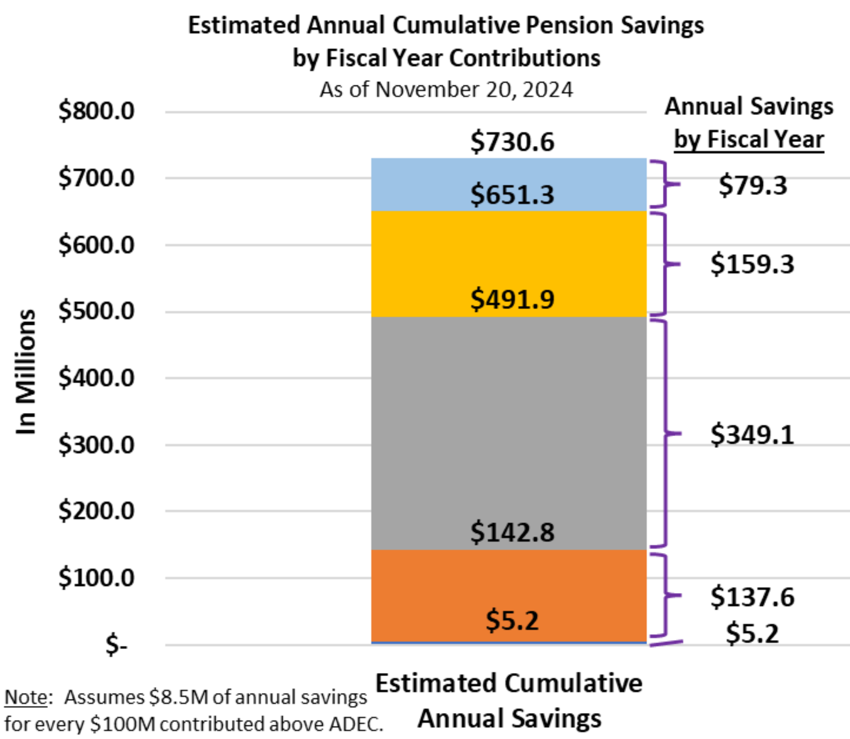
At the conclusion of FY 2024, the volatility cap transfer and unappropriated surplus totaled $1,722.3 million. Of the $1,722.3 million, approximately $105.0 million was transferred to the Budget Reserve Fund to bring the total to 15 percent of the following fiscal year's net General Fund appropriations. The balance of $1,617.3 million was available to be split evenly – $808.6 million each – between SERS/TRS and the Budget Reserve Fund until the Budget Reserve Fund reached 18%. Approximately $684.2 million was needed to bring the Budget Reserve Fund total to 18% (total transfer of $789.2 million) leaving the other half ($808.6 million) and remaining portion of the Budget Reserve Fund's share ($124.5 million) to be transferred to the State Employees Retirement Fund and the Teachers' Retirement Fund (total transfer of $933.1 million). Of the $933.1 million, approximately $513.9 million was transferred to reduce the unfunded liabilities of the State Employees Retirement Fund and $419.1 million was transferred to reduce the unfunded liabilities of the Teachers' Retirement Fund. It should be noted that the FY 2024 ending balance and the estimated $1,722.3 million excess balance are unaudited figures and may be revised as the State Comptroller completes the state's Annual Comprehensive Financial Report for FY 2024.

Pension Savings

The two graphs below reflect deposits to the pension funds in addition to the ADEC along with the estimated annual savings from the additional deposits. These additional deposits to the state's pension funds have a tremendous positive impact on the state's operating budget by saving hundreds of millions of dollars in pension contributions annually for the next 25 years. With the additional deposits through the fiscal year ending June 30, 2024, OPM estimates the state will save $730.6 million annually.



Note: Transfer amounts in FY 2020 - FY 2023 are due to the Budget Reserve Fund (BRF) reaching the 15% statutory limit & are in addition to ADEC payments. Transfer amount in FY 2024 is due to the 50/50 split of surplus & volatility cap transfer when the BRF is between 15% & 18% and after the BRF reaches the new 18% statutory limit.



Note: Assumes $8.5M of annual savings for every $100M contributed above ADEC.

PROJECTED TAX CREDITS

Tax credit projections are based on data from the Department of Revenue Services. Personal Income Tax credits are projected using income years 2020-2022 data. Corporation business tax credits are projected using FY 2022-2024 data. Appropriate growth rates are applied to base year data to derive an estimate for future fiscal years.

Projected Total Amounts of Tax Credits Claimed

(In Thousands)

Personal Income Tax Credits	**FY 2024 Est.[1]**	**FY 2025 Proj.**	**FY 2026 Proj.**	**FY 2027 Proj.**	**FY 2028 Proj.**
Pass-through Entity Tax Credit	$ 1,137,700	$ 1,195,400	$ 1,239,400	$ 1,286,300	$ 1,335,000
Earned Income Tax Credit	186,800	196,200	199,900	205,000	210,300
Property Tax	146,900	149,800	152,800	155,900	159,000
Connecticut Higher Education Trust (CHET)	17,800	18,600	19,500	20,400	21,300
Angel Investor	7,500	5,000	5,000	5,000	5,000
All Other[2]	1,550	3,050	3,050	3,050	3,050
Total Personal Income Tax	$ 1,498,250	$ 1,568,050	$ 1,619,650	$ 1,675,650	$ 1,733,650
Business Tax Credits					
Film Industry Production[3,5]	$ 118,000	$ 105,000	$ 104,500	$ 109,000	$ 113,500
Fixed Capital	43,500	41,000	44,000	44,000	44,000
JobsCT	-	1,000	5,000	5,000	5,500
Research and Development Expenditures	40,500	59,000	59,000	59,500	60,000
Research and Experimental Expenditures	33,500	29,500	30,500	31,000	32,000
Urban and Industrial Reinvestment[3]	9,000	20,500	21,000	21,500	22,000
Electronic Data Processing[3]	21,500	21,500	22,000	23,000	23,500
Historic Rehabilitation[3]	14,500	18,000	18,000	18,000	18,500
Housing Program Contribution[3]	10,000	10,000	10,000	10,000	10,000
Human Capital	4,000	7,300	7,300	7,400	7,400
Film Industry Infrastructure[3]	3,000	2,000	2,000	2,000	2,000
Machinery and Equipment	600	700	700	700	700
All Other Credits[3,4]	38,250	67,500	93,250	94,250	94,500
Total Business Tax Credits	$ 336,350	$ 383,000	$ 417,250	$ 425,350	$ 433,600
Total Projected Amount Claimed	$ 1,834,600	$ 1,951,050	$ 2,036,900	$ 2,101,000	$ 2,167,250

(1) FY 2024 Personal Income Tax credits are based on moving averages; FY 2024 business tax credits are rounded actuals with ensuing fiscal years based on moving averages plus policy changes.

(2) Includes Stillborn Tax Credit, Historic Homes Rehab. Tax Credit, & Youth Development Organization Contribution Tax Credit.

(3) Includes credits claimed under the Corporation Tax, Insurance Premiums Tax, and the Public Service Companies Tax of which all projections are based off of FY 2022, 2023, and 2024 data.

(4) Includes Aerospace Reinvestment Act with Sales Tax abatements per PA 16-1 of the September Special Session in FY 2021 and

(5) Includes amounts applied against Sales Tax liability.