

Section IV. Major Policy Changes

This section describes major policy changes impacting General Fund appropriations and revenue, which are summarized in **Table 4.1** and **Table 4.2**, respectively. Major policy changes impacting the Special Transportation Fund are described in **Section VI. Out Years**.

General Fund

Appropriations Summary

Adjustments to appropriations include an increase of \$749.3 million in current service updates and -\$89.2 million in net policy changes in FY 22 and \$1.53 billion in current service updates and -\$84.6 in net policy changes in FY 23. The most significant changes include current service updates for state employee and retiree fringe benefits, debt service, and contractual wage and fringe benefit costs.

Table 4.1 Summary of Major Changes to General Fund Appropriations
In Millions of Dollars

| Description | FY 22 | | FY 23 | |
|--------------------------------------|------------------|------------------|------------------|------------------|
| | Current Services | Policy Revisions | Current Services | Policy Revisions |
| Fixed Costs | | | | |
| Fringe & Teacher's Retirement System | 406.1 | 0.1 | 809.8 | (73.7) |
| Debt Service | 113.8 | (46.6) | 347.6 | (116.4) |
| Other Net Changes | 27.1 | (105.0) | 114.3 | 57.4 |
| Fixed Costs Subtotal | 547.0 | (151.5) | 1,271.8 | (132.7) |
| Non-Fixed Costs | | | | |
| State Employee Wage & Fringe | 115.3 | (65.4) | 363.8 | (208.6) |
| GAAP Adjustment | (1.9) | - | (206.1) | - |
| Other Net Changes | 88.9 | 127.7 | 103.1 | 256.7 |
| Policy Increases Subtotal | 202.3 | 62.3 | 260.8 | 48.1 |
| TOTAL | 749.3 | (89.2) | 1,532.6 | (84.6) |

Revenue Summary

A summary of major revenue policies is listed below. For a comprehensive listing of policies, please see the revenue budget sheets in **Part III**.

Table 4.2 Summary of Major Policy Changes to General Fund Revenues
In Millions of Dollars

| Category | FY 22 | FY 23 | % of FY 22 Total | % of FY 23 Total |
|-------------------------------|----------------|----------------|------------------|------------------|
| Federal Stimulus | 559.9 | 1,194.9 | 44% | 65% |
| MRSA Transfer | 262.7 | 276.3 | 21% | 15% |
| Other Policies: | 441.2 | 375.6 | 35% | 20% |
| Business Taxes | 104.1 | 66.5 | 8% | 4% |
| Federal Funds | 96.8 | 48.3 | 8% | 3% |
| Revenue Update (May Estimate) | 95.0 | 95.0 | 8% | 5% |
| All Other Policies | 145.3 | 165.8 | 11% | 9% |
| TOTAL | 1,263.8 | 1,846.8 | 100% | 100% |

Major Policy Changes to Appropriations

Adjustment in SERS Funding as a Result of Surplus Deposit

The FY 22 and FY 23 Budget assumes a \$1 billion deposit in the State Employee Retirement System (SERS) as a result of the Budget Reserve Fund cap being exceeded in FY 21. This deposit is anticipated to result in estimated savings of \$63.7 million in the General Fund and \$7.9 million in the Special Transportation Fund in FY 23.

Maintain Current Treatment of GO Bond Premiums

The budget delays the policy of using General Obligation (GO) bond premiums for projects through FY 23. This policy change results in a reduction of debt service needs by \$20 million in FY 22 and \$60 million in FY 23 due to premiums covering a portion of the state's General Fund debt service obligations.

Tiered PILOT Program

PA 21-3 establishes a new program for funding the Payment in of Lieu Taxes (PILOT) program to reimburse lost property taxes for state-owned and college and hospital tax exempt property. Approximately \$146 million is provided in FY 22 and FY 23 in the budget to support this new program.

Private Provider Funding

The budget provides \$40 million in FY 22 and \$80 million in FY 23 to support enhanced payments to non-profit private providers. This funding will be used, along with additional resources from carry forward funds and American Rescue Plan Act (ARPA) funds, to support a settlement between the state and DSS' contracted providers and providers of health and human services for cost-of-living adjustments to employees.

Increase Health Coverage for Children and Pregnant Women

The budget provides \$1.2 million in FY 22 and \$6.9 million in FY 23 to support health coverage for children regardless of their immigration status, prenatal services for women through the Unborn Child Option, and post-partum services for those under Medicaid as well as those that do not qualify for Medicaid due to immigration status.

Adjust Education Cost Sharing (ECS) Formula

The budget provides \$45.6 million in FY 22 and \$91.2 million in FY 23 to support various changes to the ECS formula and to maintain certain towns' funding levels at FY 21 entitlements for the biennium.

Higher Education Funding

Through carry forward and ARPA funds, the higher education constituent units (Connecticut State Colleges and Universities (CSCU) and the University of Connecticut) will receive \$157.4 million in FY 22 and \$97.3 million in FY 23 in temporary operating support.

Major Policy Changes to Revenues

Federal Stimulus

The budget transfers \$559.9 million in FY 22 and \$1,194.9 million in FY 23 from the American Rescue Plan Act Connecticut allocation to the General Fund.

MRSA Transfer

The Municipal Revenue Sharing Account (MRSA) revenue diversion at a rate of 0.5% percentage points goes into effect on July 1, 2021 under current law. However, the budget as enacted transfers revenues of \$262.7 million in FY 22 and \$276.3 million in FY 23 from MRSA to the General Fund.

Business Tax Changes

Business tax increases are primarily associated with maintaining the corporation business surcharge and adjusting the capital base tax method for a total of approximately \$100 million and \$80 million in FY 22 and FY 23 for those two policies. However, the R&D tax credit was restored to 70% liability, which decreases revenue by \$6.5 million and \$17.2 million in FY 22 and FY 23, respectively.

Federal Funds

Federal fund estimates are updated to reflect federal reimbursement for state appropriation levels as well as impacts from federal policies.

Additional Revenue Policy Impacts

The following policies were not included in the revenue estimates as adopted by the Finance, Revenue, and Bonding Committee on June 7th, but are nevertheless anticipated to have a revenue impact. **Table 4.3** below provides the full list of those policies.

Table 4.3 Additional Revenue Policy Impacting FY 22 - FY 23

In Millions of Dollars

| Revenue Policy | Public Act | FY 22 | FY 23 |
|--|-------------|------------|-------------|
| Reflect legalization of adult-use cannabis | PA 21-1 JSS | - | 18.4 |
| Do not implement a captive insurers initiative* | n/a | (7.5) | (0.2) |
| Do not ban flavored vaping products* | n/a | 1.3 | 2.5 |
| Amend the earned income tax credit rate* | PA 21-2 JSS | 6.6 | 6.6 |
| Reflect the scheduled PFMLIA loan repayments to the General Fund | PA 21-2 JSS | - | 1.7 |
| TOTAL GENERAL FUND | | 0.4 | 29.0 |

*These policies were included in the FRB adopted revenue schedule but were subsequently adjusted under PA 21-2 JSS. This table reflects the difference in those estimates.

Background: Regulation of Adult-Use Cannabis

PA 21-1 JSS establishes a state cannabis tax and municipal sales tax on retail sales of cannabis, cannabis plant material, and cannabis edible products by cannabis and hybrid retailers and micro-cultivators. The Act also establishes various licenses and fees related to the regulation of cannabis. The revenue impact of this legislation is not included in the revenue schedule adopted by the Finance, Revenue and Bonding Committee.

The Act directs the tax revenue from cannabis to the General Fund, a new General Fund account, and two new appropriated funds, according to a specified schedule. The tax rate is based on the product's type and total THC reflected on its label.

Specifically, the applicable cannabis tax rates are:

- 0.625 cents per milligram of total THC for cannabis plant material;
- 2.75 cents per milligram of total THC for cannabis edible products (i.e., products containing cannabis or cannabis concentrate, combined with other ingredients, that are intended to be ingested, including sublingual or oral absorption); and
- 0.9 cents per milligram of total THC for cannabis, other than cannabis plant material or cannabis edible products.

The General Fund share of cannabis tax revenues decreases over time, from 100% in FY 23 to 0% in FY 29 and beyond. By FY 29, state revenues generated by the cannabis tax are to be distributed as follows:

- 75% to the Social Equity and Innovation Fund; and
- 25% to the Prevention and Recovery Services Fund.

PA 21-1 JSS generally prohibits any exemptions under the state's sales and use tax law from applying to cannabis sales, other than exemptions for (1) sales of cannabis for palliative use and (2) the transfer of cannabis to a transporter.

The Act extends and expands the angel investor tax credit program as follows:

- Extends the angel investor tax credit program to eligible cannabis businesses owned and controlled by social equity applicants;
- Allows investors to claim a 40% income tax credit for credit-eligible investments in these businesses;
- Raises the aggregate cap on these credits (from \$5 million) to \$20 million per fiscal year; and
- Extends the program's sunset date by four years to 2028.

PA 21-1 JSS imposes a number of fees on the various license types. Those fees, which are required to be deposited into the Cannabis Regulatory and Investment Account in FY 22 and the General Fund in FY 23 and thereafter, are estimated to generate approximately \$2 million annually.

In addition to the state fiscal impacts mentioned above, the Act imposes a 3% municipal sales tax on the sale of cannabis that applies in addition to the state's 6.35% sales tax and the state cannabis tax established under the Act. Total projected state and municipal revenues under the state/local cannabis taxes and sales and use tax are \$73.4 million by FY 26.