Section II. Revenue

January / April Consensus

The General Fund budget outlook saw significant gains in both January and again in April as a result of positive trends in collections. In total there was a net revenue increase to the General Fund of $1,574.4 billion since the passage of the FY 22 and FY 23 biennial budget.

Significant gains were projected in income-related taxes, sales and use tax, and corporation tax. While the majority of gains in estimates and finals (E&F) and the pass-through entity tax (PET) transferred to the Budget Reserve Fund under the Volatility Cap Transfer, gains under the withholding income tax positively impacted the General Fund. The Federal Grants projection increase for FY 23 is primarily due to the timing of reimbursements for federally supported programs shifting from FY 22 to FY 23.

Revised FY 23 Budget Policies

The budget included revenue-related policies which decreased total General Fund revenue by $996 million in FY 23. The highlights are listed below. For further details on revenue policies see Section IV: Major Policy Changes and Part III: Revenue.

Federal Stimulus

The federal American Rescue Plan, which was signed into law on March 22, 2021, initially allocated $2,650 million to Connecticut. The amount subsequently was revised to $2,812 million. The FY 22 and FY 23 biennial budget transfers $559.9 million in FY 22 and $1,194.9 million in FY 23 from the American Rescue Plan CT allocation to the General Fund. PA 22-118 eliminates the FY 22 transfer of ARPA funds and reduces the FY 23 revenue replacement transfer by $880 million to $314.9 million.
Child Tax Rebate
The budget establishes a one-time rebate for qualifying, domiciled taxpayers in Connecticut equal to $250 for each child. Taxpayers may claim the credit for up to three children whom they validly claimed as dependents on their federal income tax return for the 2021 tax year. The total projected revenue loss is $125 million in FY 23 only.

ARPA Limitations on Tax Policies and Revenue Replacement
As noted above, the State of Connecticut was allocated $2,812 million in funding under the American Rescue Plan Act (ARPA). In January 2022, the U.S Treasury issued its final rule which governs the use of ARPA funds. Under the rule, the state must adhere to certain conditions regarding state tax and revenue policies, else a reduction in the allocation would apply. The Governor's recommended revised FY 23 Budget applied the "de minimis" rule, which limits state tax cuts to a relatively small degree, of up to 1.0% of total revenues projected according to the prescribed formula. In contrast, the total amount of state tax cuts in the enacted, revised FY 23 Budget exceeds the "de minimis" level and thus relies on future state revenue growth to outpace the ARPA revenue baseline above (FY 19 actuals grown by inflation) to avoid any potential reductions to the state's allocation of ARPA funds.

Using ARPA Funds as State Revenue
- Treasury guidance allows for a prescribed formula to determine actual revenue loss due to the pandemic or elect a "standard allowance" of $10 million to spend on government services through the period of performance.
- Relative to the FY 22 and FY 23 Biennial Budget, PA 22-118 eliminates the $559.9 million FY 22 transfer of ARPA funds and reduces the FY 23 revenue replacement transfer by $880 million to $314.9 million.

Additional Revenue Policies
The following policies were not included in the revenue estimates as adopted by the Finance, Revenue, and Bonding Committee on May 2nd, but are nevertheless anticipated to have a revenue impact. Table 2.3 below provides the full list of those policies.

Table 2.3 Additional Revenue Policy Impacting FY 23
In Millions of Dollars

<table>
<thead>
<tr>
<th>Description</th>
<th>Public Act</th>
<th>FY 23</th>
<th>FY 24</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Fund</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undo increase of state EITC to 41.5%</td>
<td>PA 22-146</td>
<td>-</td>
<td>49.0</td>
</tr>
<tr>
<td>Transfer to Tobacco Health and Trust Fund</td>
<td>PA 22-118</td>
<td>(12.0)</td>
<td>(12.0)</td>
</tr>
<tr>
<td>Transfer the entire greenhouse gas vehicle registration fee to the CHEAPR account</td>
<td>PA 22-25</td>
<td>(5.0)</td>
<td>(5.0)</td>
</tr>
<tr>
<td>General Fund Total</td>
<td></td>
<td>(17.0)</td>
<td>32.0</td>
</tr>
<tr>
<td><strong>Special Transportation Fund</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repeal the motor vehicle registration discount for electric vehicles</td>
<td>PA 22-25</td>
<td>1.3</td>
<td>1.4</td>
</tr>
</tbody>
</table>
**GRAND TOTAL**                                                 |            | (15.7)| 33.4  |

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6 U.S. Treasury's Final Rule, January 6, 2022