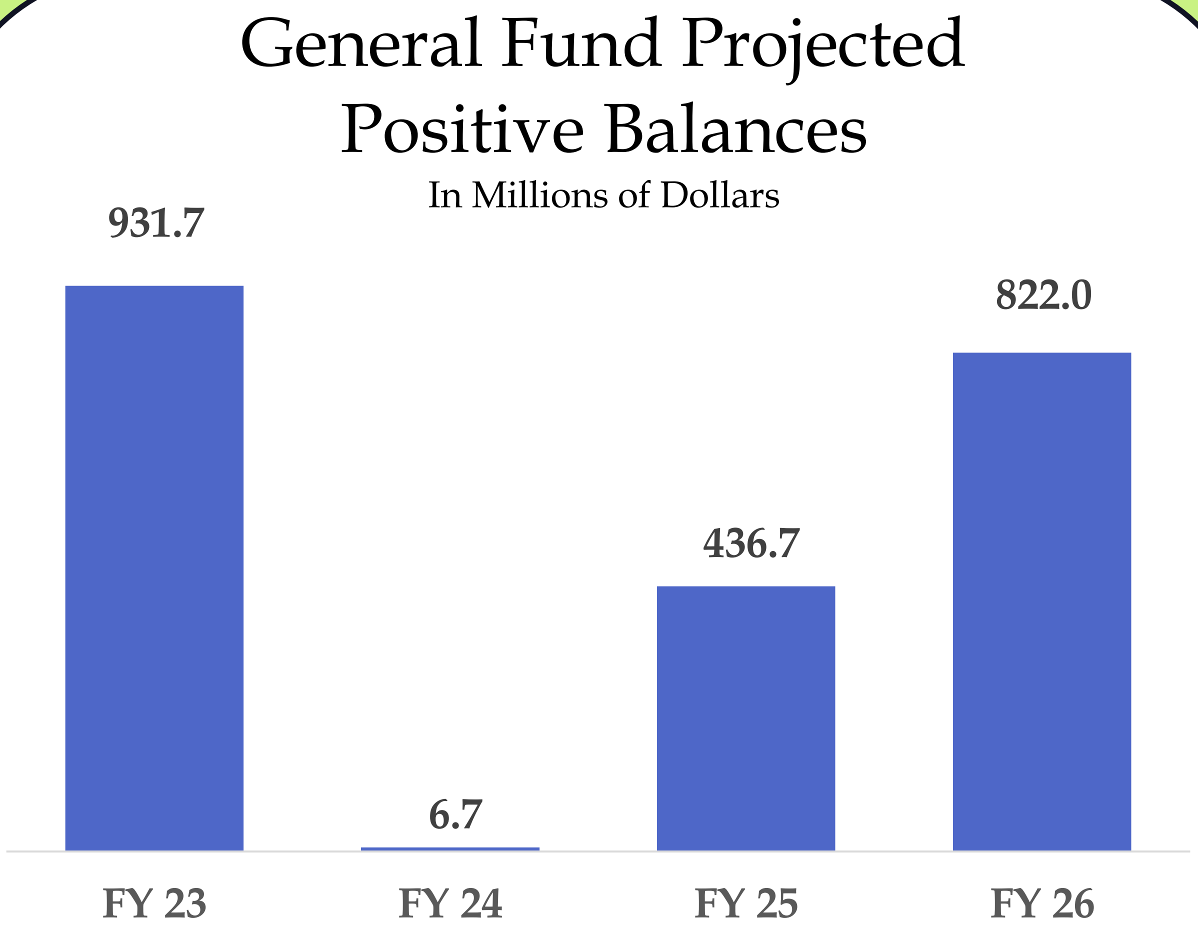
CONNECTICUT GENERAL ASSEMBLY
OFFICE OF FISCAL ANALYSIS

OFA

FISCAL ACCOUNTABILITY REPORT

FY 23 – FY 26



Out-year projections do not include expenditure growth in non-fixed cost accounts.

November 18, 2022

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NOTE:

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

Section I. Executive Summary

Surplus in Current Year: FY 23

OFA is projecting a General Fund surplus of $931.7 million in the current fiscal year. The surplus is a result of multiple factors, including: (1) strong growth in revenues, primarily in sales and use tax as well as investment income, (2) a budgeted surplus, and (3) various projected lapses that exceed anticipated deficiencies.

Positive Balances in Out-Years: FY 24 – FY 26

OFA is projecting positive General Fund balances in FY 24 ($6.7 million), FY 25 ($436.7 million), and FY 26 ($822 million) using the required report methodology. In FY 24, total revenues expected (net of revenue policy adjustments and underlying revenue growth) are lower than FY 23 but sufficient to exceed projected spending. Revenue growth surpasses fixed cost growth in FY 24, creating a positive structural balance, which continues and is more clearly reflected in the FY 25 and FY 26 projections. However, there may be pressure in the FY 24 – FY 25 biennial budget cycle to replace some of the FY 23 carryforward[1] and American Rescue Plan Act (ARPA) funding. There is also a measure of uncertainty in the economic outlook.

Budget Reserve Fund (BRF) At the Capped Balance, Benefiting Retirement Systems

The current BRF balance of approximately $3.3 billion is at the statutory maximum level (the cap) of 15% of General Fund net appropriations. It is anticipated that the BRF will surpass the cap by over $2.7 billion at the close of FY 23. OFA is projecting that the BRF will continue to exceed the cap in the out-years based on expected volatility deposits.[2] Statute requires that funds beyond the cap are transferred to the State Employees Retirement System and Teachers' Retirement System to reduce unfunded liabilities. The transfers lower required out-year expenditures for these systems (which are also affected by other factors).

Statutorily Required Report Methodology

OFA is statutorily required to produce the Fiscal Accountability Report (FAR) every November using a specific methodology (CGS Sec. 2-36b). The report must include an update on the expected current year balance and balance projections for the next three fiscal years, using consensus revenue estimates. For the projections, only spending on "fixed cost drivers" may increase in the out-years; all other spending must remain at the current year level. Fixed cost drivers include debt service, pension contributions, retiree health care, entitlement programs, adjudicated claims, and hospital supplemental payments.[3]

[1] Carryforward funds are unspent funds from the prior fiscal year which have been reallocated.
[2] The volatility cap requires that certain volatile revenues received above a threshold are deposited into the BRF.
[3] This report additionally includes out-year adjustments to expenditures to account for the ongoing expenses of the private provider and personnel/wage increases in FY 23 that are partially supported by one-time carryforward funding.

If any negative balance is projected, then the report must provide the total reduction to non-fixed costs that would be necessary to eliminate the anticipated deficit. Because this report projects positive balances using the required methodology, no such reductions will be needed.

Special Transportation Fund (STF)

OFA is projecting an STF operating surplus in each fiscal year from FY 23 through FY 26 using the required report methodology. The FY 23 surplus is estimated to be $348 million; in FY 26, the surplus is projected to be $327 million. The cumulative fund balance is projected to increase from $398 million at the start of FY 23 to more than $1.9 billion by the end of FY 26.

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

Fund	FY 23	FY 24	FY 25	FY 26
General Fund (GF)				
November Consensus Revenue	22,959.2	22,312.6	22,903.2	23,557.4
Expenditures				
Previous Year Expenditure		22,027.5	22,305.9	22,466.5
Fixed Cost Growth		278.4	160.7	268.9
Expenditure Reduction[1]		-	-	-
Subtotal - Expenditures	**22,027.5**	**22,305.9**	**22,466.5**	**22,735.4**
GF BALANCE	**931.7**	**6.7**	**436.7**	**822.0**
Special Transportation Fund (STF)				
November Consensus Revenue	2,132.6	2,342.2	2,312.9	2,299.0
Expenditures				
Previous Year Expenditure		1,785.1	1,852.9	1,910.7
Fixed Cost Growth		67.8	57.8	61.2
Expenditure Reduction[1]		-	-	-
Subtotal - Expenditures	**1,785.1**	**1,852.9**	**1,910.7**	**1,971.9**
STF BALANCE	**347.5**	**489.3**	**402.2**	**327.1**
Other Appropriated Funds				
Revenue	281.9	290.0	299.9	297.3
Expenditures	280.8	280.8	280.8	280.8
OTHER APPROP. FUNDS BALANCE	**1.1**	**9.2**	**19.1**	**16.4**
All Appropriated Funds				
Revenue	25,373.7	24,944.8	25,516.0	26,153.7
Expenditures	24,093.4	24,439.6	24,658.1	24,988.2
ALL APPROP. FUNDS BALANCE	**1,280.4**	**505.2**	**858.0**	**1,165.5**

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

Section II. General Fund – Current Year

The adopted FY 23 budget anticipated a $299 million General Fund balance at year end. Current projections estimate an operating surplus of $931.7 million, an increase of $632.7 million since the budget was enacted. The projected surplus represents 4.2% of General Fund appropriations. **Table 2.1** shows that the operating surplus is comprised of:

- the $299 million positive beginning balance;
- increased revenue of $571 million; and
- $61.7 million in net expenditures below the enacted budget plan.

Table 2.1 November Updates to FY 23 General Fund Estimates
In Millions of Dollars

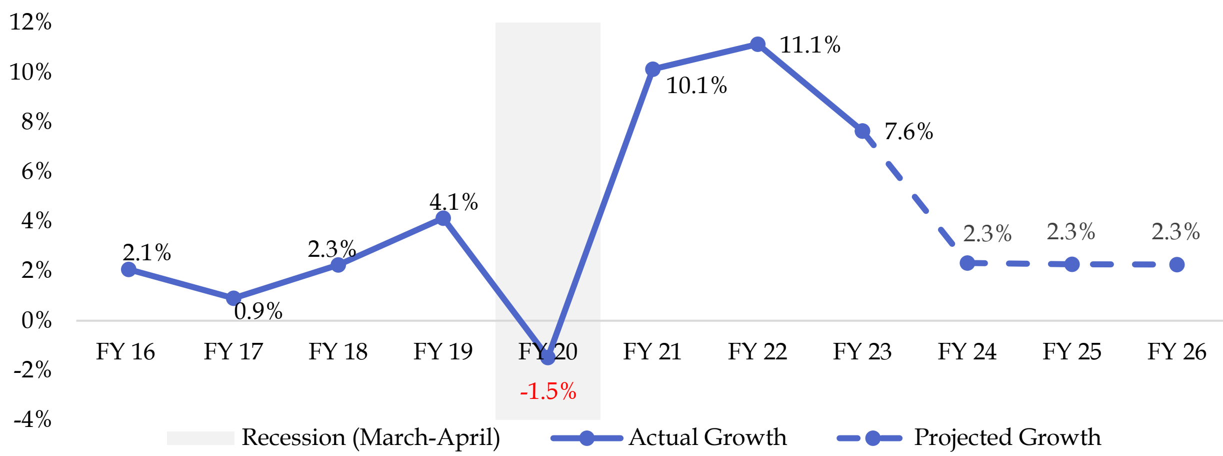
Summary	FY 22
Budgeted Balance	299.0
Revenue	
Budgeted	22,388.2
Consensus Adjustment	
Sales and Use	280.0
Investment Income	180.2
Transfers – Special Revenue	(10.0)
Other Revenue (net)	120.8
Subtotal	**571.0**
Expenditures	
Budgeted	22,089.2
Net Lapses	144.0
Deficiencies	(82.3)
Subtotal	**61.7**
SURPLUS/(DEFICIT)	**931.7**

REVENUE

The November consensus revenue estimates increased total General Fund projections by $571 million in FY 23, primarily in sales and use tax and investment income.

The **sales and use tax** continues to exhibit robust growth and thus was adjusted upward by $280 million in FY 23. Total collections across all funds through October are 9.7% above collections for the same period last year. This is mainly due to continual strength in demand for goods and services, as well as historically high inflation (see Section VII for further discussion).

Figure 2.1 Sales Tax Growth Rates (All Funds)



Source: OFA Calculations

Investment income is adjusted upward by $180.2 million in FY 23 due to a combination of rising interest rates and an increase in the common cash pool (i.e., money available for investing). In particular, the federal funds rate has increased from 0.33% when the budget was adopted to 3.83% in November.

Additionally, there is a net negative adjustment of $10 million in **transfer-special revenue** to reflect:

- the underperformance of Connecticut Lottery Corporation sports betting revenues relative to projections (-$10.7 million); and
- an anticipated delay in the opening/operation of the XL Center retail sports wagering venue, revenue from which is statutorily scheduled to be transferred from the General Fund to the Capital Region Development Authority (+$0.7 million).

Despite overall positive trends in revenue collections, a degree of uncertainty remains in the revenue projections. Further federal monetary policy action may be taken to combat high inflation and such actions have historically resulted in economic downturn. However, current economic trends (e.g., jobs data and consumer spending) do not indicate a negative outlook in the short-term.

EXPENDITURES

PA 22-118 (as amended by PA 22-146) authorized FY 23 General Fund appropriations of $22.1 billion.[4] Currently, expenditures are projected to be $61.7 million below budgeted appropriations. This is due to lapses of $291.7 million offset by deficiencies of $82.3 million and technical adjustments of $147.6 million, as displayed in **Table 2.2** and detailed in **Figure 2.2**.

Table 2.2 FY 23 Expenditure Projections
In Millions of Dollars

Expenditures	FY 23
Budgeted	22,089.2
Lapses	291.7
Deficiencies	(82.3)
Technical	
Unallocated Lapses	(148.4)
Distribution to Other Fund	0.8
Technical Subtotal	**(147.6)**
NET LAPSE/(DEFICIENCY)	**61.7**

Lapses

State Employees and Retired State Employees Health Service Cost

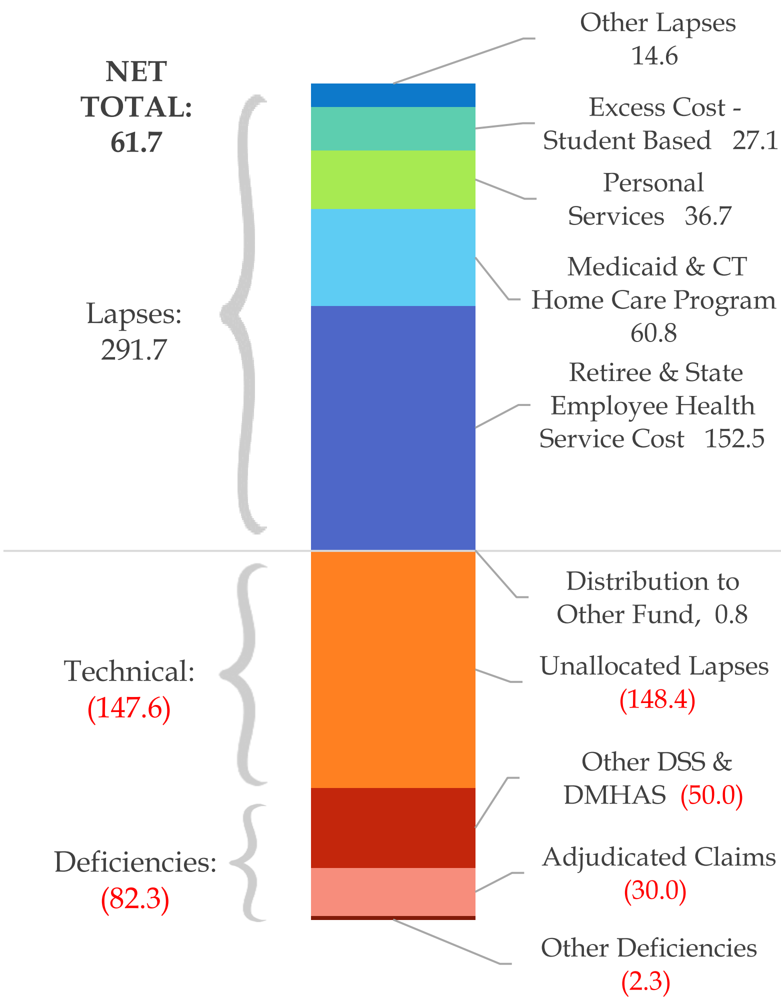
Approximately $152.5 million is anticipated to lapse in the State Employees and Retired State Employees Health Service Cost accounts within the Office of the State Comptroller – Fringe Benefits. The lapse is attributable to: (1) favorable rates negotiated by the Comptroller's office for the state Medicare Advantage program, (2) a greater number of recent retirees transitioning directly into Medicare than originally projected, and (3) a decrease in Medicare Part B premiums effective January 1, 2023.

[4]This total is regular appropriations and does not include surplus appropriations from prior years carried forward for FY 23.

Medicaid
Approximately $60 million is anticipated to lapse in the Medicaid account within the Department of Social Services due to: (1) a lower state share of expenditures because of enhanced federal reimbursement during the public health emergency, and (2) adjustments to the American Rescue Plan Act (ARPA) Home and Community Based Services (HCBS) reinvestment plan. A lapse of $800,000, also related to the ARPA HCBS reinvestment plan, is projected for the Connecticut Home Care Program.

Personal Services
A total of $36.7 million is anticipated to lapse across several agencies because of the delay in filling a high number of vacancies, exacerbated by a recent wave of retirements, newly created positions yet to be filled, and difficulties in hiring certain positions (e.g., nurses and doctors). The most significant lapses are in the Department of Mental Health and Addiction Services ($15 million), the Department of Developmental Services ($6.5 million), the Department of Revenue Services ($6 million), and the Office of Legislative Management ($5 million).

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



Excess Cost – Student Based
A lapse of $27.1 million is projected in the Excess Cost – Student Based account within the Department of Education because of lower than anticipated expenditures associated with the tiered reimbursement structure of eligible town special education costs (which was established by Section 265 of PA 22-118). Because the FY 23 appropriation would not fully fund the grant, the new reimbursement structure will be applied at a cost that is now $27.1 million less than the appropriation.

Deficiencies

Adjudicated Claims

There is a projected deficiency of $30 million within the Adjudicated Claims account administered by the Office of the State Comptroller. No appropriation was made for this account for FY 23. Through October 1, approximately $21.5 million has been expended in FY 23.

DSS and DMHAS Various Accounts

There are projected shortfalls in the Department of Social Services (DSS) in Other Expenses ($12 million), Temporary Family Assistance ($9 million), HUSKY B ($1.5 million), Old Age Assistance ($5 million), and the Aid to the Blind and Disabled ($7.5 million).

There are projected shortfalls in the Department of Mental Health and Addiction Services (DMHAS) in Other Expenses ($7 million) and Professional Services ($8 million).

The shortfalls in both DSS and DMHAS are expected to be addressed through transfers from accounts (within these agencies) in which lapses are currently projected (described above).

Technical

Unallocated Lapses

Section 37 of Public Act 22-118 prohibits the Office of Policy and Management from reducing allotments to implement budgeted lapses if the budget is projected to have a surplus. Since the General Fund is currently projected to end FY 23 in surplus, the budgeted unallocated lapses totaling $148.4 million have been removed to reflect that no adjustments have been made to agency allotments to implement the budgeted lapses.

Distribution to Other Fund

Private provider COLA funding ($767,276) is distributed from the General Fund, where it was appropriated, to Insurance Fund-supported agency accounts.

BUDGET RESERVE FUND

The Budget Reserve Fund (BRF) is anticipated to exceed its cap of 15% of net General Fund appropriations through the biennium, as shown in **Table 2.3**. Over the biennium, funds in excess of the BRF cap are projected to total $6,854.2 million (approximately $6.9 billion).

Table 2.3 Budget Reserve Fund in the Biennium
In Millions of Dollars

Description	FY 22	FY 23 Est.
Budget Reserve Fund Balance Starting Point	**3,112.0**	**3,313.4**
Volatility Deposit	3,047.5	1,847.5
Surplus	1,261.4	931.7
Volatility Deposit and Surplus Subtotal	**4,308.9**	**2,779.2**
Budget Reserve Fund Capped Balance	**3,313.4**	**3,345.9**
Funds in Excess of Budget Reserve Fund Cap	**4,107.4**	**2,746.7**

For information about the BRF in the out-years, please see Section IV.

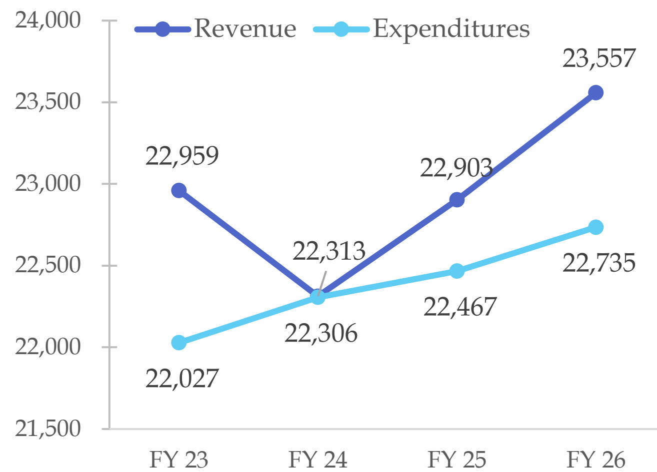
Section III. General Fund – FY 24 to FY 26 Projections

GENERAL FUND IN BALANCE IN THE OUT-YEARS

Positive balances in the General Fund are anticipated in the out-years due to the FY 23 surplus and the projection that revenue growth will outpace fixed cost growth. However, the report's required methodology does not allow for growth in non-fixed costs or consideration of other potential budgetary pressures.

Figure 3.1 shows the current year and out-years projections of General Fund revenue and expenditures, allowing for only fixed costs to increase and keeping non-fixed costs flat at FY 23 levels.[5] This statutorily required methodology results in projected annual positive balances in FY 24 though FY 26.

Figure 3.1 Revenue and Expenditures
In Millions of Dollars



Revenues will decline from FY 23 to FY 24 for multiple reasons: (1) expiration of federal stimulus revenue that supported the FY 23 budget ($314.9 million), (2) resumption of the transfer from the General Fund to the Municipal Revenue Sharing Account in FY 24 ($276.3 million), (3) other revenue policy ($229.8 million), and (4) federal grant adjustments and other technical changes ($354.6 million). These impacts will be partially offset by anticipated growth in certain revenues (e.g., sales and use tax). However, despite the revenue changes, revenues are projected to be sufficient to support the growth in fixed costs. Projected revenue growth is expected to comfortably outpace fixed cost growth in FY 25 and FY 26.

Table 3.1 General Fund Fixed Cost Changes and Non-Fixed Cost Reductions
In Millions of Dollars

Fund	FY 23	FY 24	FY 25	FY 26
November Consensus Revenue	22,959.2	22,312.6	22,903.2	23,557.4
Expenditures				
Previous Year Expenditure		22,027.5	22,305.9	22,466.5
Fixed Cost Growth[5]		278.4	160.7	268.9
Non-Fixed Cost Expenditure Reduction		-	-	-
Subtotal - Expenditures	**22,027.5**	**22,305.9**	**22,466.5**	**22,735.4**
BALANCE	**931.7**	**6.7**	**436.7**	**822.0**

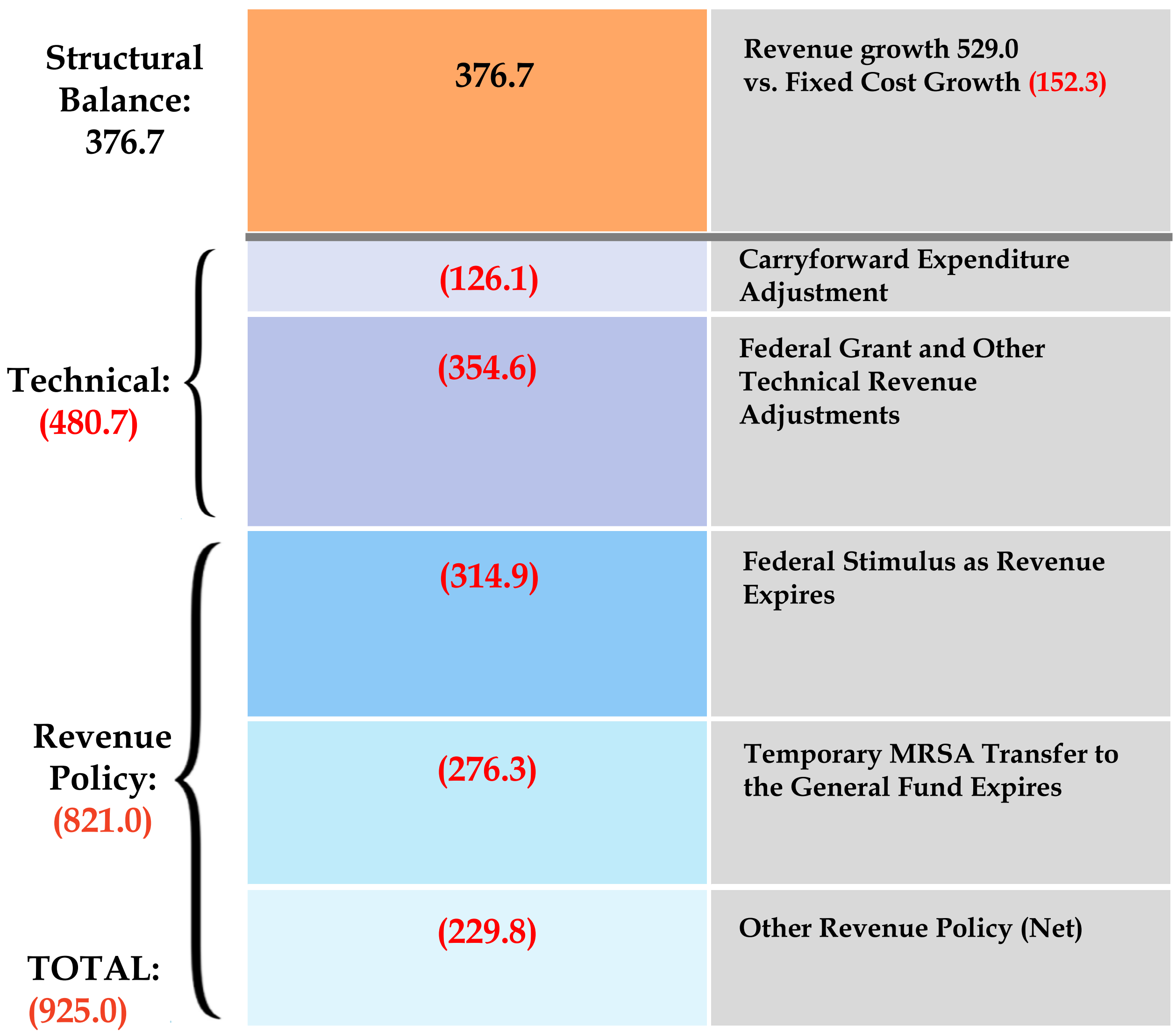
[5] FY 23 expenditures reflect surplus funding carried forward from prior fiscal years to partially support ongoing expenditures for (1) state employee salaries and wages and (2) FY 23 increases for private providers. The FY 24 expenditures include a technical adjustment to reflect the additional expenditure growth ($126.1 million in the General Fund and $16.4 million in the Special Transportation Fund) necessary to accommodate the full cost of these ongoing expenditures at the FY 23 budgeted level.

Table 3.1 presents estimates for FY 24 though FY 26 using the fixed cost methodology as required by CGS Section 2-36b. Despite a drop in projected revenue from FY 23 to FY 24, no adjustments to non-fixed cost expenditures are necessary to bring overall expenditures in balance with projected revenue for FY 24 through FY 26.

FY 24 GENERAL FUND BALANCE

The projected FY 23 surplus of $931.7 million combined with $925 million in net negative changes from FY 23 to FY 24 results in an anticipated positive balance in FY 24 of $6.7 million.

Figure 3.2 Projected General Fund Changes from FY 23 to FY 24
In Millions of Dollars



REVENUE POLICY AND TECHNICAL ADJUSTMENTS

The net FY 24 revenue policy and technical adjustment decreases the balance of the General Fund by a total of $1,175.6 million in FY 24. **Table 3.2** below highlights the major components of that adjustment, with descriptions of specific items following.

Table 3.2 Major Components of the FY 24 General Fund Revenue Adjustment
In Millions of Dollars

Components	FY 24
1. Federal stimulus as revenue expires	**(314.9)**
2. Temporary MRSA transfer to the GF expires	**(276.3)**
3. All other revenue policies (net)	**(229.8)**
3a. Expiration of temporary measures	**(181.7)**
Delay historical GAAP (Generally Accepted Accounting Principles) deficit payment to FY 24	(119.1)
Temporary corporation business tax surcharge expires	(20.0)
Credit FY 22 General Fund revenues to FY 23	(33.0)
Provide tax amnesty for certain insurers	(7.3)
Provide sales tax rebates to beer and wine manufacturers	(2.3)
3b. Scheduled reduction in taxes	**(53.0)**
Phase-in tax exemption for Individual Retirement Accounts (IRAs)	(32.5)
Increase inheritance tax exemption threshold	(6.0)
Phase-out of capital base method under the corporation business tax	(5.7)
Restore the R&D tax credit to 70% of liability	(4.3)
Extend the repeal of the admissions tax to include movie theaters	(2.5)
Adjust alcohol excise tax rate from $.24/gallon to $.20/gallon, effective July 1, 2023	(2.0)
3c. Other minor policies (net)	**4.9**
Revenue Policy Total	**(821.0)**
Federal Grant and Other Technical Revenue Adjustments	**(354.6)**
GRAND TOTAL	**(1,175.6)**

1. Federal Stimulus
The FY 22-23 biennial budget transferred $559.9 million in FY 22 and $1,194.9 million in FY 23 from the federal American Rescue Plan Act (ARPA) allocation to the General Fund. PA 22-118 eliminated the FY 22 transfer of ARPA funds and reduced the FY 23 revenue replacement transfer by $880 million, to $314.9 million. Because the amended allocation applies to FY 23 only, there is an associated revenue decrease from FY 23 to FY 24 of $314.9 million.

2. MRSA Transfer
SA 21-15 maintained the sales tax revenue transfer to the Municipal Revenue Sharing Account (MRSA) from the General Fund but transferred funding of $276.3 million from MRSA back to the General Fund in FY 23. This transfer supports various General Fund appropriations in the biennium. As the budget bill specified the transfer in FY 22 and FY 23 only, FY 24 projections

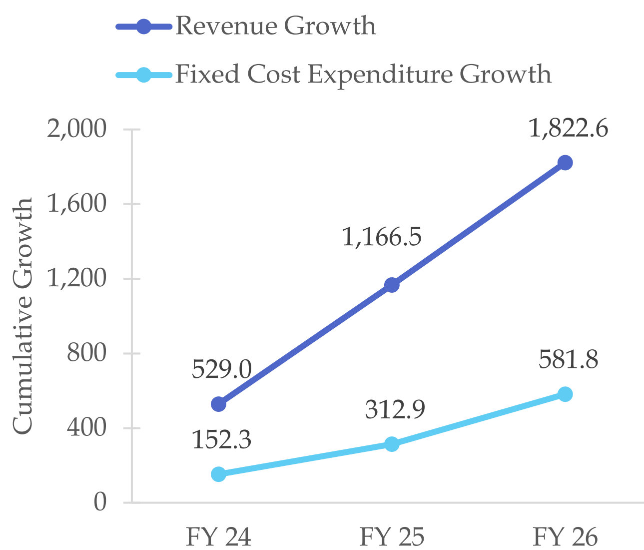
reflect this transfer expiring in the out-years. It is anticipated that the appropriations will continue to be funded via the General Fund in the out-years.

STRUCTURAL BALANCE

Fixed Cost Growth versus Revenue Growth

The out-years structural balance in the General Fund continues a recent trend first projected last year. **Figure 3.3** presents revenue growth outpacing fixed cost expenditure growth in each year from FY 24 to FY 26. Revenue growth over the three out-year period is expected to total $1.8 billion, while fixed cost growth is expected to total $581.8 million over the same period.

Figure 3.3 Cumulative Structural Balance
In Millions of Dollars



A significant contributor to the structural balance is a slowdown in fixed cost growth in the out-years, compared to prior years. This is due in large part to a reduction in the projected annual contributions to the State Employee Retirement System (SERS) and the Teachers' Retirement System (TRS) because of additional deposits into the system over the past three years, as well as the completed phase-in of how SERS is funded.

Table 3.3 shows the projected annual gap between revenue growth and expenditure growth in each of the out-years ranging from $376.7 million to $476.9 million. Since the expenditure growth methodology for this report limits growth to fixed cost accounts only, these positive balances should be viewed as resources available to fund growth in non-fixed cost areas as well as ongoing costs that were funded by ARPA and carryforward funding.

In the out-years, the estimated average annual revenue growth rate is 2.7% while the corresponding fixed cost growth rate is 1.6%. The difference in average growth rates over this period results in an average annual differential of $413.6 million.

Table 3.3 General Fund Structural Balance (FY 24 to FY 26)
In Millions of Dollars

Category	FY 24	FY 25	FY 26	Total	Average Growth $	Average Growth %
Revenue Growth	529.0	637.5	656.1	1,822.6	607.5	2.7
Fixed Cost Growth	152.3	160.7	268.9	581.8	193.9	1.6
BALANCE	**376.7**	**476.9**	**387.2**	**1,240.8**	**413.6**	

REVENUE GROWTH

Revenue growth in the out-years ranges from 2.3% to 2.9% annually based on economic growth. A detailed breakout of growth amounts is included in **Table 3.4**.

Table 3.4 Revenue Growth by Source – Change from Prior Year
In Millions of Dollars

Source	FY 24	FY 25	FY 26
Personal Income Tax	418.4	512.9	532.0
Sales Tax	120.3	115.9	120.0
Business Taxes	53.9	60.2	61.5
Other Revenue	1.0	8.3	4.3
Refunds	(64.6)	(59.8)	(61.7)
TOTAL GROWTH	**529.0**	**637.5**	**656.1**
PERCENT GROWTH %	**2.3%**	**2.9%**	**2.9%**

FIXED COST EXPENDITURES

The General Fund fixed costs are statutorily defined[6] and organized into the following expenditure categories, listed below in order of overall magnitude:

1. Entitlements (e.g., Medicaid and other programs)
2. Debt Service
3. State Employees' Retirement and Retiree Health Care
4. Teachers' Retirement and Retiree Health Care
5. Hospital Supplemental Payments
6. Adjudicated Claims

Projected fixed cost expenditures increase by an average of 1.6% from FY 23 to FY 26. This reflects net growth of $152.3 million from FY 23 to FY 24, $160.7 million from FY 24 to FY 25, and $268.9 million from FY 25 to FY 26. **Table 3.5** reflects the annual fixed cost changes by expenditure category and year.

[6] CGS 2-36(b)(7)

Table 3.5 General Fund Out-years Fixed Costs – Change from Prior Year
In Millions of Dollars

Category	FY 24	FY 25	FY 26
Entitlements	261.7	83.9	123.6
Debt Service	70.3	111.3	4.9
State Employee Pension & Retiree Health Care	(157.8)	(75.0)	41.5
Teachers' Retirement & Retiree Health Care	(22.0)	40.4	98.9
Hospitals	-	-	-
Adjudicated Claims	-	-	-
TOTAL	**152.3**	**160.7**	**268.9**
Technical Adjustment[1]	126.1	-	-
Grand Total	**278.4**	**160.7**	**268.9**

[1]FY 23 expenditures reflect surplus funding carried forward from prior fiscal years to partially support ongoing expenditures for (1) state employee salaries and wages and (2) FY 23 increases for private providers. The FY 24 fixed cost changes include a technical adjustment (shown above) to reflect the additional expenditure growth ($126.1 million in the General Fund and $16.4 million in the Special Transportation Fund) necessary to accommodate the full cost of these ongoing expenditures at the FY 23 budgeted level.

Fixed costs are anticipated to grow at a slower pace in the out-years than the current biennium largely due to savings in state employee and teachers' pensions. Historic deposits from an accumulated excess in the Budget Reserve Fund (BRF) to the assets of both the State Employees Retirement System (SERS) and the Teachers' Retirement System (TRS) continue to result in reductions to the state's Actuarially Determined Employer Contribution (ADEC). In 2022, $4.1 billion in deposits - $3.2 billion to SERS and $903.6 million to TRS – are being used to lower the systems' respective unfunded accrued liabilities (UAL).

The TRS 2022 valuation, which captures the impact of the $903.6 million deposits made in both 2021 and 2022, highlighted two improvements to the system's financial health: (1) a total decrease in UAL of $941.8 million and (2) a 5.7 percentage point increase in the funded ratio. **Table 3.6** below shows these changes from the 2020 to 2022 valuations. The 2022 valuation for SERS has not yet been made available.

Table 3.6 TRS Funding Progress
In Millions of Dollars

Year (June 30)	Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (b)-(a)	Funded Ratio (a)/(b)
2020	19,055.1	37,128.0	18,072.9	51.3%
2022	22,729.2	39,860.3	17,131.1	57.0%
CHANGE	**3,674.1**	**2,732.3**	**(941.8)**	**5.7% pts.**

The BRF is again projected to exceed its statutory cap this fiscal year, resulting in total additional deposits in 2023 of over $2.7 billion. The deposits and marginal reductions to the state's ADEC for SERS and TRS are shown in **Tables 3.7** and **3.8.** It must be noted that many variables have a significant impact on a system's ADEC determination, including the amount available for additional deposits, the investment return, and cost-of-living-adjustment assumptions. The marginal General Fund ADEC reductions from the current biennium's projected deposits are $340.7 million in FY 24 and $183.3 million in FY 25, with the impacts continued through the 25-year amortization period. Any future BRF transfers (e.g., in 2024 and 2025) would result in further ADEC reductions.

Table 3.7 Additional Deposits to Pensions
In Millions of Dollars

Deposit Year	SERS	TRS[1]	Total
2022	3,203.8	903.6	4,107.4
Est. 2023	1,890.2	856.5	2,746.7
TOTAL	**5,094.0**	**1,760.1**	**6,854.1**

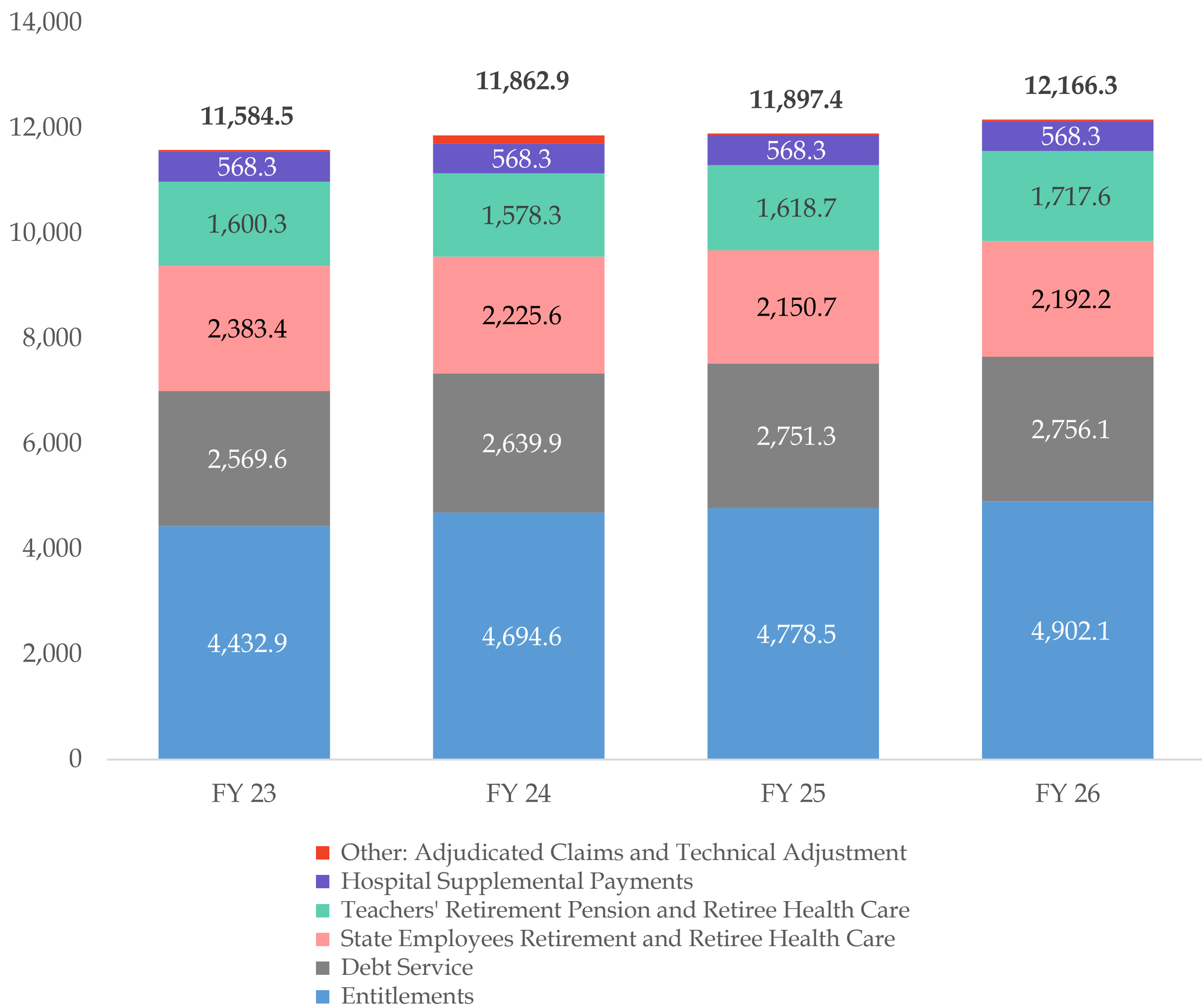
Table 3.8 Est. Marginal ADEC Reductions
In Millions of Dollars

Fiscal Year	SERS	TRS	Total
FY 24	194.3	146.4	340.7
FY 25	114.5	68.8	183.3
TOTAL	**308.8**	**215.2**	**524.0**

Source: Cavanaugh Macdonald Consulting, OFA estimates
[1]The FY 24 TRS ADEC savings reflects a deposit of $903.6 million in both 2021 and 2022. The 2021 deposit was not reflected in the FY 23 ADEC because the system previously had valuations completed on a biennnial basis.

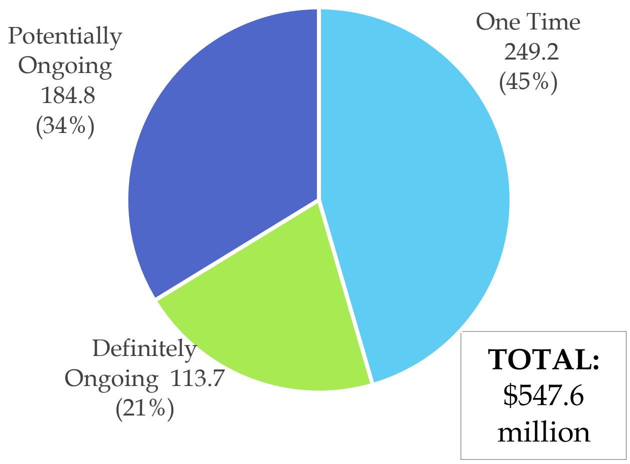
Figure 3.4 shows the fixed cost expenditures by category from FY 23 to FY 26. Average annual growth in fixed cost expenditures for this period is 1.6%. Medicaid and other entitlements represent the largest increase at 3.4% while state employee pension and retiree health expenses decrease by approximately 2.7%. See Appendix D for details on the major fixed cost categories. Fixed cost expenditures are 52.1% of General Fund expenditures in FY 23 and are projected to remain relatively constant throughout the out-years (e.g., 52.6% in FY 26).

Figure 3.4 General Fund Fixed Cost Expenditures (FY 23 – FY 26)
In Millions of Dollars



POTENTIAL IMPACT OF FY 23 CARRYFORWARD SPENDING AND AMERICAN RESCUE PLAN ACT (ARPA) ALLOCATIONS

Figure 3.5 Nature of FY 23 Carryforwards
In Millions of Dollars



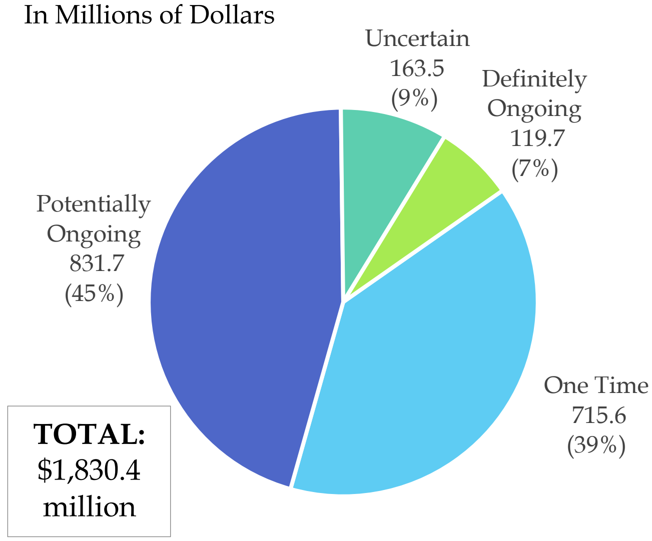
The FY 23 Revised Budget received significant support from carryforwards and American Rescue Plan Act (ARPA) spending, some of which will need to continue to be funded in the out-years.

Carryforward Spending
The FY 23 Revised Budget included $547.6 million in carryforward funding to be spent in FY 23.[7] **Figure 3.5** categorizes the carryforward spending into three groups: (1) Definitely Ongoing, (2) Potentially Ongoing, and (3) One Time. The most significant Definitely Ongoing items include funding for salary and wage increases ($73 million) and funding for private providers ($34.8 million), both of which are part of this report's FY 24 Technical Adjustment. In addition, the legislature will likely face pressure to provide additional funds in the FY 24 and FY 25 budget for Potentially Ongoing expenditures in areas such as higher education support ($102.6 million), grants to tourism organizations ($25 million), and stabilization payments to childcare providers ($20 million).

The One Time category includes items such as: (1) matching funds for the federal infrastructure bill ($100 million), (2) funds for temporary staff for the unemployment insurance program ($25 million), (3) funding for the Connecticut Premium Pay Account ($30 million), and (4) funds to settle old workers' compensation claims ($15 million).

American Rescue Plan Act (ARPA) Allocations
The FY 23 Revised Budget included a total of $1,830.4 million in FY 23 ARPA allocations. All ARPA allocations must be spent by December 31, 2024.

Figure 3.6 Nature of FY 23 ARPA Allocations
In Millions of Dollars



[7] This carryforward figure and the ARPA figure below include funds to be spent in FY 23 from both the biennial budget (SA 21-15, as amended by PA 21-2 JSS) and the FY 23 Revised Budget (PA 22-118, as amended by PA 22-146).

Figure 3.6 categorizes the ARPA allocations into four categories: the same three categories as the carryforward spending, and Uncertain.

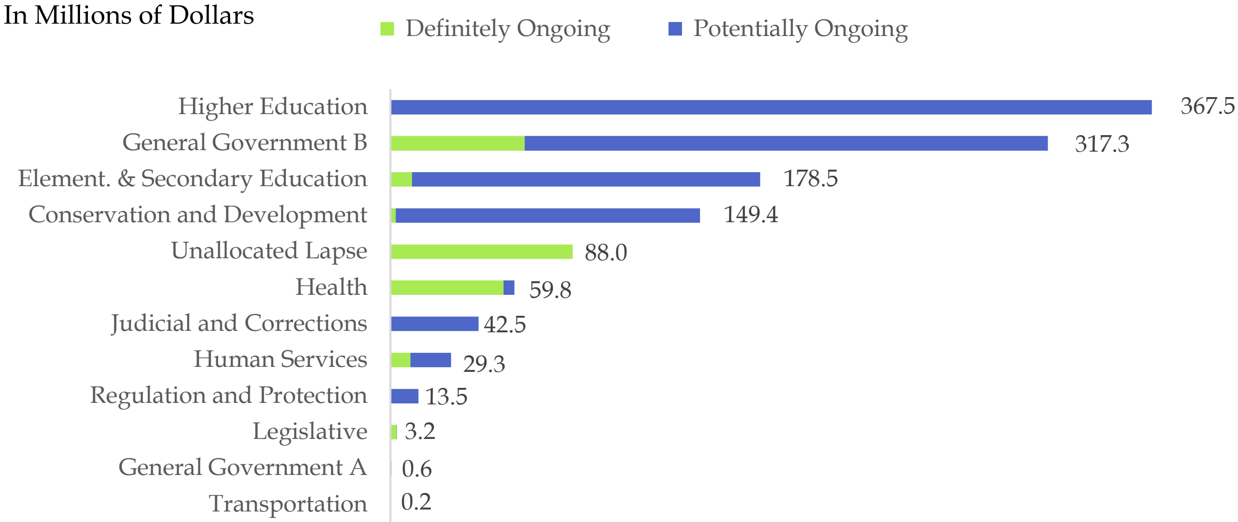
The most significant Definitely Ongoing expenditures include funding for: the Department of Developmental Services (DDS) settlement ($30 million), healthy and lead safe homes ($20 million), private provider COLAs ($15 million), and expansion of mobile crisis mental health services ($14.6 million). Funding for these expenditures will need to be included in the budget as soon as ARPA allocations for these initiatives run out. In addition, the legislature will possibly face pressure to provide additional funds in the FY 24 and FY 25 budget for Potentially Ongoing expenditures in areas such as higher education support ($264.9 million), COVID response measures ($157.5 million), various lower education and early childhood education initiatives ($145.3 million), and improvements to air quality in schools ($75 million).

The One Time category includes items such as: (1) payment for the EITC program ($42.5 million), (2) affordable housing ($50 million), (3) replacement of funds due to the gasoline tax suspension ($150 million), (4) higher education initiatives ($68.6 million), and (5) early childhood education improvements and enhancements ($65.5 million).

Ongoing Expenditures by Subcommittee

Figure 3.7 presents the carryforward funding and APRA allocations that are Definitely and Potentially Ongoing expenditures by Appropriations Subcommittee. As the figure shows, the highest concentration of these expenditures is in Higher Education, General Government B,[8] Elementary and Secondary Education, and Conservation and Development.

Figure 3.7 FY 23 Carryforward and ARPA Combined: Ongoing Expenditures by Subcommittee
In Millions of Dollars



[8] General Government B includes the agencies that fund debt service and state employee and retiree fringe benefits, as well as other major agencies such as the Office of Policy and Management and the Department of Administrative Services.

Section IV. Budget Reserve Fund

The Budget Reserve Fund (BRF) is projected to remain at the 15% statutory cap (relative to General Fund net appropriations) in each year from FY 24 to FY 26.

Since FY 21, the BRF has been at the cap while growing to the current balance of $3,313.4 million ($3.313 billion), reflecting increased General Fund net appropriations. The BRF cap and estimated balance is projected to grow to $3,345.9 million by FY 24.

Table 4.1 below shows what the balance of the BRF would be in the out-years based on the following assumptions:

1. No surplus or deficit is estimated in FY 24 to FY 26 for illustrative purposes under the assumption a balanced budget will be adopted in those years;
2. Volatility cap transfers from November consensus revenue estimates;
3. FY 23 surplus estimate as described in Section II; and
4. Appropriations growth in FY 24 to FY 26 equal to the estimated fixed cost increases in those years, resulting in an increased BRF cap.

Table 4.1 Projected BRF Balances
In Millions of Dollars

Description	FY 23	FY 24	FY 25	FY 26
Budget Reserve Fund Balance Starting Point	**3,313.4**	**3,345.9**	**3,370.0**	**3,410.3**
Projected Volatility Deposit	1,847.5	1,149.5	1,191.4	1,228.9
Projected Surplus[1]	931.7	-	-	-
Volatility Deposit and Surplus Subtotal	**2,779.2**	**1,149.5**	**1,191.4**	**1,228.9**
Budget Reserve Fund Capped Balance	**3,345.9**	**3,370.0**	**3,410.3**	**3,410.3**
Funds in Excess of Budget Reserve Fund Cap	2,746.7	1,125.4	1,151.1	1,228.9

[1]Note that projected surplus in FY 23 reflects the estimates provided in Section II. There is no surplus or deficit assumed from FY 24 to FY 26 due to the lack of a budget in place.

ECONOMIC UNCERTAINTY

Given the prevalence of economic uncertainty it is worth mentioning that the Connecticut state budget is relatively well positioned to deal with a potential economic downturn in FY 23 and beyond. There are three major factors contributing to this position:

1. The Budget Reserve Fund balance is estimated to exceed the cap for each year;
2. There are estimated FY 23 surpluses of $931.7 million in the General Fund and $347.5 million in the Special Transportation Fund; and
3. There are budgeted volatility cap adjustments of over $1.8 billion in FY 23 and estimated adjustments exceeding $1.1 billion in each year from FY 24 to FY 26.

In FY 23, the combination of the Budget Reserve Fund, the volatility cap deposit, and the projected surplus produce a safety net of $6.1 billion.

Section V. Special Transportation Fund

The outlook for the Special Transportation Fund (STF) remains strong. OFA anticipates an operating surplus in each fiscal year from FY 23 through FY 26 which, if realized, would increase the fund's balance from $397.8 million at the start of FY 23 to more than $1.9 billion at the end of FY 26. These projections use the statutorily required fixed cost methodology.

Revenue growth has significantly outpaced expenditures in recent years due primarily to the multiyear phase-in of the motor vehicle sales tax transfer, which reached 100% in FY 23, as well as higher oil prices in FY 22. While this trend is expected to reverse itself in the out-years, as revenue growth turns negative in FY 25, the STF is expected to remain healthy through the fiscal years projected in **Table 5.1** below.

Table 5.1 Special Transportation Fund Projections
In Millions of Dollars

Components	FY 23	FY 24	FY 25	FY 26
Expenditures[1]				
Temporary Federal Support	(100.0)	-	-	-
Debt Service	802.5	876.9	948.2	1,009.4
All Other	1,082.6	976.0	962.5	962.5
TOTAL	**1,785.1**	**1,852.9**	**1,910.7**	**1,971.9**
Revenue				
Sales Taxes[2]	820.1	835.9	856.1	875.7
Fuel Taxes	730.6	879.0	831.9	796.1
Highway Use Tax	45.0	90.0	94.1	98.3
All Other	536.9	537.3	530.8	528.9
TOTAL	**2,132.6**	**2,342.2**	**2,312.9**	**2,299.0**
Operating Balance				
Surplus/ (Deficit)	347.5	489.3	402.4	327.1
Year End Cumulative Balance	**745.3**	**1,234.6**	**1,636.8**	**1,963.9**
Debt Service Ratio	2.7	2.7	2.4	2.3

[1] Expenditures follow the fixed cost methodology which only allows for growth on necessary "fixed cost drivers" such as debt service and pension contributions. Historically, however, expenses have grown in other areas for a variety of reasons including rising costs for materials and supplies, new services on the State's public transportation network, and to adjust to changing operational requirements.
[2] Excludes sales tax on non-dealer transactions (casual sales), which are collected by the Department of Motor Vehicles.

REVENUE HIGHLIGHTS

STF revenues are projected to be $40.7 million more than budgeted in FY 23. This includes upward adjustments of $32 million to reflect better than expected sales tax collections as well as an additional $29.9 million for interest income due to rising rates. These increases are partially offset by a $21.2 million downward adjustment to various motor vehicle fee items due to lower than anticipated collections.

Further, beginning January 1, 2023, PA 21-177, *AAC A Highway Use Fee*, imposes a mileage-based tax on most trucks weighing 26,000 pounds or more (tractor trailers). This new revenue source is projected to bring in $45 million in FY 23 and approximately $90 million once fully annualized in FY 24. While no revisions have been made to HUT revenue estimates, it is worth noting that because this is a new source of collections for the state, there is a higher degree of uncertainty regarding amounts compared to other, more established, STF revenue sources.

EXPENDITURE HIGHLIGHTS

In FY 23, STF expenditures are projected to be $41.1 million less than budgeted in FY 23 as detailed below. These projected lapses will fully satisfy the budgeted bottom-line lapse target of $12 million for the STF.

Debt Service: $40.2 million ($28.2 million beyond budgeted lapse)
OFA anticipates savings of $40.2 million in FY 23 (inclusive of the $12 million budgeted lapse) due to positive results in the FY 22 transportation bond issuance and a reduction of the FY 23 transportation issuance (from the planned $1,225 million to $830 million), along with market changes and the refinancing of over $300 million of previously issued transportation bonds.

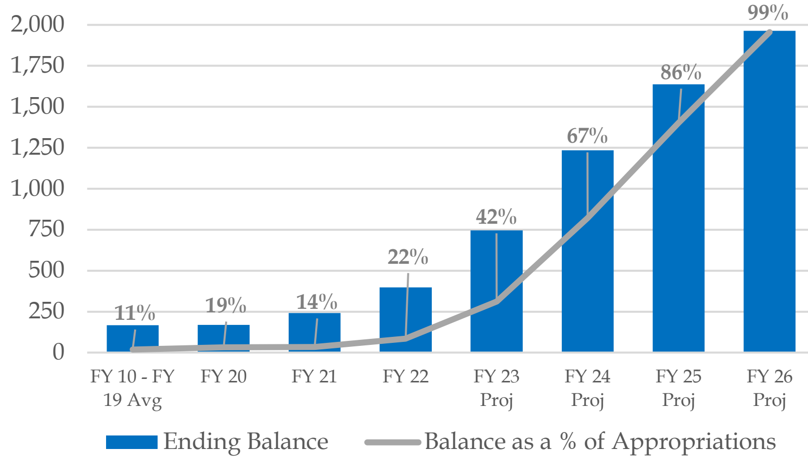
Personal Services in DOT and DMV: $10.9 million
OFA anticipates savings of $10.9 million in the Personal Services accounts for the Department of Transportation (DOT) and Department of Motor Vehicles (DMV) due to delays in the hiring process. There are currently 649 vacant positions at DOT which is an increase of 264 compared with the same time last year, though much of this is due to the 206 newly authorized positions for implementing the federal Infrastructure Investment and Jobs Act (IIJA). For DMV, there are currently 268 vacant positions compared with 148 at the same time last year. Both agencies have consistently under-spent the budgeted appropriations for Personal Services in recent years. These estimates will fluctuate depending on the pace of hiring at both agencies and on DOT's winter weather response, which is dependent on the severity and volume of storms.

ADA Para-transit Program: $2 million
OFA anticipates savings of $2 million in DOT's ADA Para-transit Program account due to lower than expected ridership.

FUND GROWTH AND OUT-YEARS

The STF cumulative balance is projected to grow by more than $1 billion over the next four years, attaining the highest level since the fund's inception in 1983 and reaching nearly 100% of annual STF appropriations in FY 26 (see **Figure 5.1**). However, unlike with the General Fund and the Budget Reserve Fund, there is no mechanism to redistribute excess balances in the STF. The cumulative balance of the STF cannot be directly spent absent legislative action or unexpected deficits.

Figure 5.1 STF Balances
In Millions of Dollars



Growth Disparities

The introduction of a portion of the general retail sales tax as a pledged revenue of the STF in FY 16, and its related expansions to sales tax on motor vehicles in FY 19, has provided the fund with rapidly growing revenues. The compound annual growth rate (CAGR) from FY 16 to the FY 23 estimate is 6.7% for revenues compared to 3.5% for expenditures (see **Table 5.2**). However, this revenue growth is due almost entirely to the statutory phase-in of motor vehicle sales tax transfers, which reaches 100% in FY 23, rather than organic growth.

While this trend has helped grow the STF balance, it is not projected to continue. Revenues are anticipated to increase in FY 24, due primarily to the resumption of full-year gas tax collections, but will turn negative in FY 25 and FY 26, due to a drop in fuel tax collections stemming from projected declines in oil prices and demand for motor fuels. Conversely, expenditures are expected to rise due to growing debt service costs, which have been trending upward for several years.

Table 5.2 STF Select Growth Rates
In Millions of Dollars

Component	CAGR FY 16-FY 23	FY 24	FY 25	FY 26
Expenditures (Total)	3.5%	3.8%	3.1%	3.2%
Revenues (Total)	6.7%	9.8%	-1.3%	-0.6%
Revenues (Less: Sales Tax[1])	0.8%	14.8%	-3.3%	-2.3%

[1] Excludes sales tax on non-dealer transactions (casual sales) collected by DMV, which has been an STF revenue since FY 2000.

TRANSPORTATION BONDING

Statute requires OFA to project bond authorizations, allocations, and issuances, along with their impact on the debt service, for future years. The projections for STO bonds are provided in **Table 5.3**.

Table 5.3 Estimates of STO Bond Fund Use
In Millions of Dollars

Year	Debt Service	Authorization	Allocation	Issuance
FY 23	802.5	950	1,000	830
FY 24	876.9	1,000	1,000	1,000
FY 25	948.2	1,000	1,000	1,000
FY 26	1,009.4	1,100	1,100	1,100
FY 27	1,103.2	1,100	1,100	1,100

A bond package for the FY 22 - 23 biennium was adopted in June 2021 (PA 21-111), which included $930 million new STO bonds in FY 23. An additional $20 million of STO bonds were authorized for FY 23 in PA 22-118. As of October 1, 2022, approximately $1.6 billion in authorized STO bonds remain unallocated.

Debt Service Ratio

Transportation bonds are issued with a requirement that revenues in the STF must be at least twice annual debt service needs. Current estimates show the revenue-to-debt service ratio falling from 2.7 for FY 23 and FY 24 to 2.3 for FY 26, as provided in **Table 5.1**. Debt service ratios approaching the 2.0 minimum in the out-years are often addressed in future budgets, either by increasing revenues or by limiting future debt service. The level of issuance after FY 23 can be adjusted from current projections for several reasons, including as a response to long-term debt service ratio decline, the availability of increased federal funds, and the cash flow needs of the STF.

FEDERAL INFRASTRUCTURE BILL

In November 2021, IIJA was signed into law, providing Connecticut with approximately $5.38 billion in federal transportation funding over the next five years, an increase of approximately 43% compared to the previous period. Separately, IIJA established over $100 billion in new competitive grants nationwide, for which Connecticut projects will be potentially eligible. The impact of the bill on the STF will continue to depend on federal and state implementation, which is ongoing and has been incorporated into DOT's capital planning processes.

Section VI. General Obligation Bonding

Bonding is a financing mechanism in which long-term borrowing is used to finance capital projects or other programs not directly funded by appropriations. Statute requires OFA to project bond authorizations, allocations and issuances, along with their impact on the debt service, for future years. The projections for General Obligation (GO) bonds are provided in **Table 6.1**, below, with a discussion of each aspect to follow.[9]

BOND USE PROJECTIONS

Table 6.1 Estimates of GO Bond Use
In Millions of Dollars

FY	Debt Service	Authorizations	Allocations (CY)	Issuances^
23	2,570	2,159*	1,942	1,800
24	2,640	2,021	2,039	1,750
25	2,751	1,944	2,141	1,700
26	2,756	1,897	2,248	1,600
27	2,916	1,844	2,361	1,654

*Actual net effective new authorizations for FY 23
^Issuances include UConn 2000 program, which are exempted from annual issuance limit

The GO projections are based on the following assumptions:

- Authorization projections include current net effective authorizations for FY 23 and $1.6 billion of new authorizations annually beginning in FY 24, added to existing authorizations becoming effective in those years.
- Allocations assume $1,850 million in CY 22 ($1,200 million has been allocated to date), and an approximately 5% increase annually thereafter.
- Issuances are based on a $1.6 billion issuance target for GO bonds, plus issuances for the UConn 2000 program.
- Debt service is based on outstanding debt and new borrowing at market rates.

Biennial Bond Package
A bond package for the FY 22 – FY 23 biennium was adopted in June 2021 (PA 21-111, as adjusted by PA 21-1 JSS – the budget implementer). Revisions to the bond package, primarily impacting FY 23 and prior authorizations, were adopted in May 2022 (PA 22-118). Combined with prior authorizations that became effective in the biennium, the total net effective GO bond authorizations for FY 23 were $2,159 million.

BOND PROCESS

Using bond funds for programs involves several steps overseen by the legislature, State Bond Commission, the Governor, and the State Treasurer. **Figure 6.1**, below, provides an overview of the process, a description of how and if bond use is capped, and the controlling party for each step. The various steps in the bond process can be broken into two sub-groups: **Bond Use** and **Financing**.

[9] Discussion of Special Tax Obligation (STO) bonds is provided in Section V.

Bond Use

Authorizations

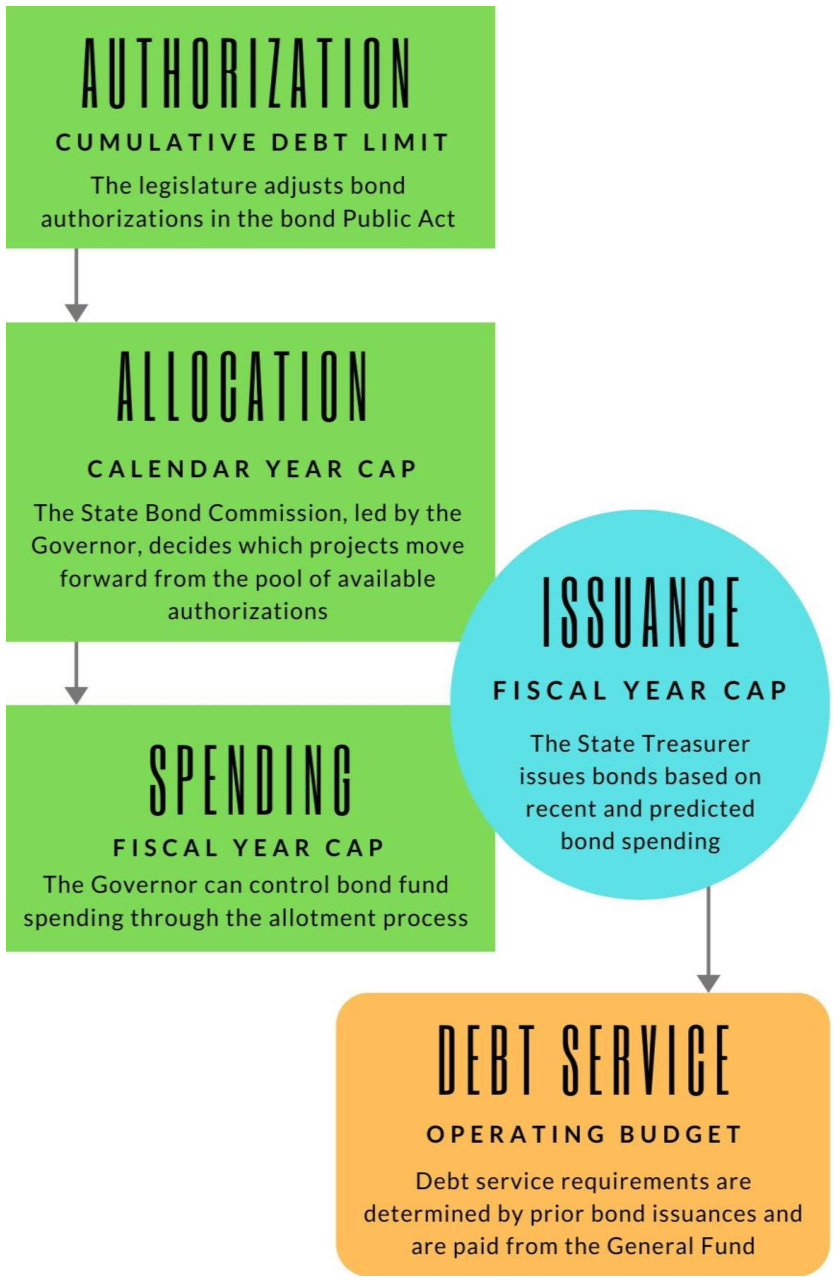
Bond authorizations are restricted by the state's statutory debt limit. The debt limit is determined by the ratio of General Fund (GF)-supported debt to net tax revenues. In the calculation, GF-supported debt includes bonds that have been legislatively authorized, but not yet allocated by the State Bond Commission. Statutory debt limit calculations, including the statutory revenue multiplier and exemptions to what is or is not counted, are locked under the bond lock covenant through FY 23.

Additional capacity for new bond authorizations is typically created through a combination of paying off existing debt and revenue increases over time. The high-water mark for indebtedness is often July 1 of a given fiscal year, when new authorizations become effective, but before the state has yet paid down any debt on the year.

Exceeding the Debt Limit and the 90% Threshold

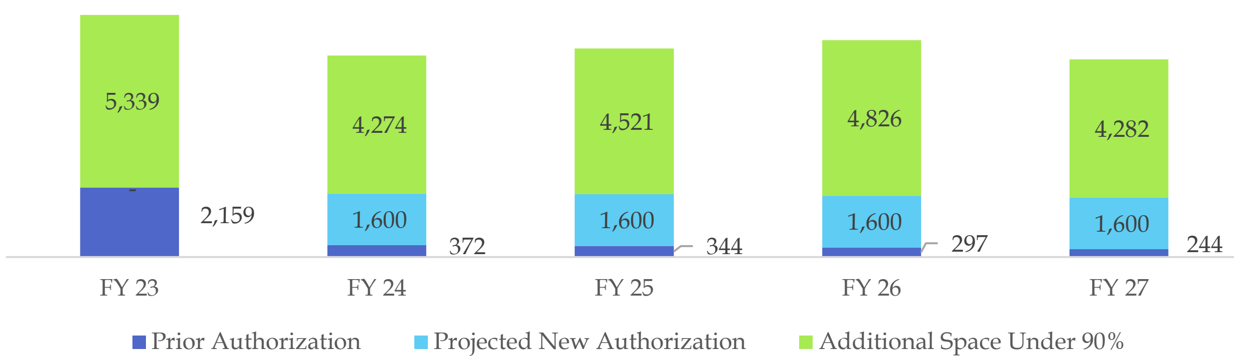
Should the state exceed 100% of the debt limit using the statutorily determined calculation, the Treasurer's ability to issue new debt would be curtailed. However, the 90% threshold of the limit has long been the determining factor for capacity for new legislative bond authorizations. Statute requires the Governor to propose reductions and cancellations to previously authorized debt whenever the Treasurer certifies that the state has exceeded 90% of the debt limit, making it impractical to adopt a bill that would place the state above the 90% threshold.

Figure 6.1 General Obligation Bond Process



Bonding Capacity
The projected authorizations for FY 24 through FY 27 assume $1.6 billion of new authorizations added to prior authorizations under current law becoming effective in those years. Based on November consensus revenues, the state is projected to remain at least $4.2 billion under the 90% threshold of the debt limit (well below 80% of the limit), as shown in **Figure 6.2**. There is expected to be enough room to accommodate annual net effective authorizations of approximately $3 billion for FY 24 through FY 27 and remain below the 90% threshold.

Figure 6.2 Projected Bond Authorizations and Remaining Authorization Space Under 90% Threshold
In Millions of Dollars

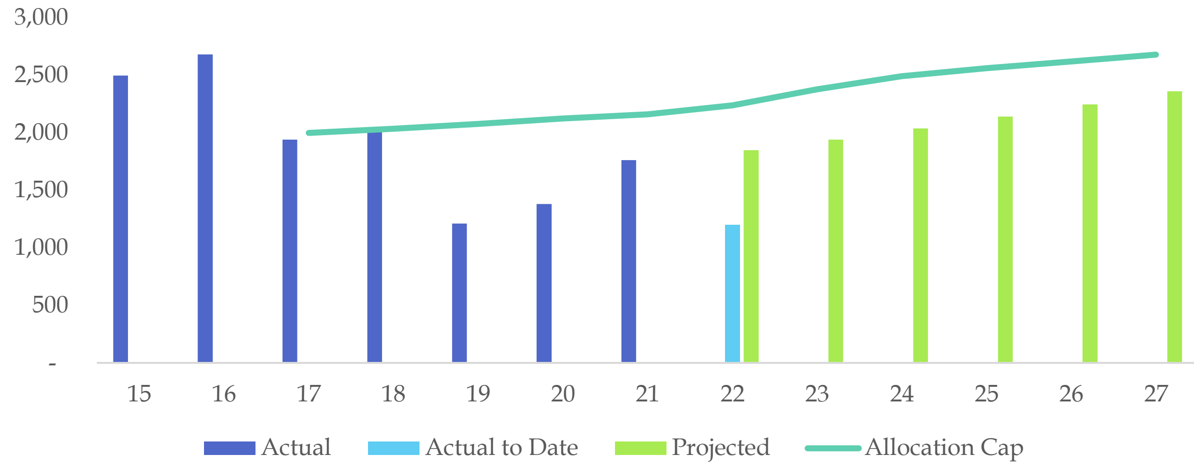


Because the debt limit is cumulative, changes to authorized debt levels in any year impact future capacity for new authorizations. If the state authorized new debt in the biennium, the capacity for new authorizations in FY 24 and beyond would be decreased. Any change in debt limit due to revenue would be subject to the effective dates of new or extended policies, along with growth in existing revenue sources.

Allocations[10]
Projected allocations are based on CY 21 allocations with an annual increase, but actual allocations could be substantially lower than these figures. Through October 1, 2022, CY 22 allocations are $1.2 billion, over $1 billion below the annual cap. Total annual allocations moving forward are anticipated to remain well below the allocation cap, as shown in **Figure 6.3**. By CY 27, the annual allocation cap is expected to increase to nearly $2.7 billion based on projected inflation.[11]

[10]GO bond allocations are made through the State Bond Commission. Allocations are measured by CY due to the statutory limit (CGS Sec. 3-20).
[11]Statute requires inflation of the allocation, issuance, and allotment caps by the Bureau of Labor Statistics' Consumer Price Index, less Food and Energy. The CY 23 allocation cap and FY 24 issuance cap are based on inflation during CY 22. This section assumes rates of 6.2, 4.8, 2.8, 2.4, and 2.2% for CY 22 through CY 26, respectively.

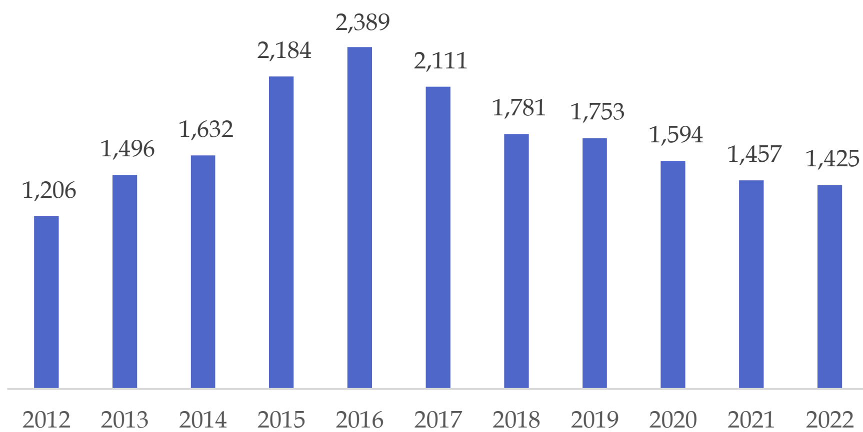
Figure 6.3 GO Bond Allocations and Cap by Calendar Year
In Millions of Dollars



Bond Spending

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

Figure 6.4 GO Bond Project Spending by FY
In Millions of Dollars



GO bond spending on projects increased to a peak in FY 16 at $2,389 million, as shown in **Figure 6.4**, to the left.[12] Spending has been on a downward trend since the peak.

Bond Financing

Issuance

Bonds are issued by the State Treasurer based on expected need and past programmatic spending rates, not immediately when allocated. As recent allocations and overall spending from bond funds have declined in recent years, issuances are expected to remain relatively low and well below the annual cap. Beginning in FY 21, annual GO bond issuances have been and

[12] This figure does not include one-time non-project spending, such as Economic Recovery Notes (ERNs), bonds issued to pay down the state's GAAP deficit, and Pension Obligation Bonds.

are expected to be limited to no more than $1.6 billion annually, plus issuances for the UConn 2000 program.[13] Due to the previously discussed declining bond spending, FY 22 GO bond issuances were limited to $1.3 billion. If bond spending levels continue a downward trend, GO issuances could continue to be under $1.6 billion in FY 23 or later years.

Most GO bond issuances were first limited to $1.9 billion annually in FY 19.[14] By FY 27, the annual issuance cap is expected to increase to over $2.4 billion, based on projected CPI rates.[15]

Debt Service

Debt repayment requirements are part of the contract agreed to when bonds are first issued. Besides the amount and type of bonds issued, debt service payments from any particular bond issuance may vary with changes in the bond market and changes to Connecticut's creditworthiness.[16] It is important to note that the majority of debt service payment from FY 23 through FY 27 is based on decisions made and expenditures from years prior to the current biennium.

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[13] GO bond issuance projections in Table 6.1 are inclusive of typical GO bonds and those issued separately for the UConn 2000 program.

[14] The issuance and allotment caps both exempt the UConn 2000 and CSUS 2020 programs.

[15] The CPI rates used to inflate the allocation cap, see above, are also used to inflate the issuance cap.

[16] The debt service estimates shown here are discussed further in Appendix D.

Section VII. Economic Trends

Connecticut's economy is continuing its recovery from the pandemic. While economic trends are generally strong with a few issues, inflation remains a looming concern.

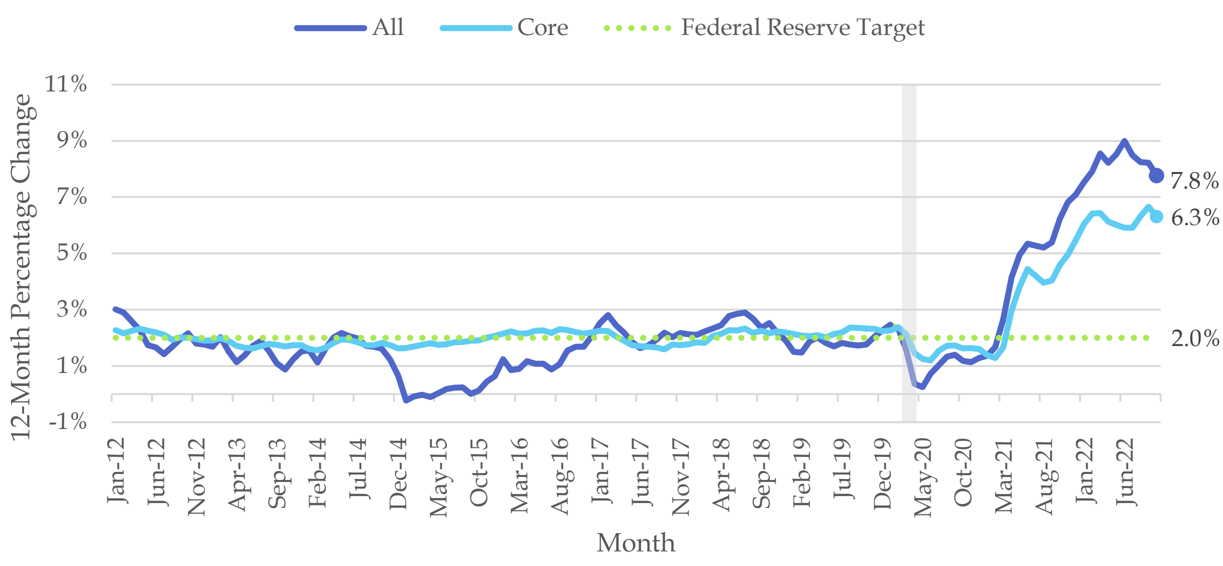
In the Connecticut labor market, the unemployment rate has improved, but the labor participation rate and employment levels still remain below pre-pandemic levels and lag behind the nation. Wages are increasing but not as fast as inflation on average. Retail sales growth remains strong in 2022 relative to pre-pandemic growth, though demand for goods is decreasing and consumer spending is shifting back to services. Housing costs are rising, too, amidst declining rental vacancy rates and a low supply of homes for sale.

Nationally, inflation is currently at a 40-year high, and it is inevitable that some state expenditures as well as certain state revenues will be impacted.

INFLATION

The United States' central bank, the Federal Reserve, targets an inflation rate of 2%, year-over-year; however, price growth in the economy is currently much higher, as shown in **Figure 7.1**.

Figure 7.1 Consumer Price Indices for All Urban Consumers: Percent Change Year-Over-Year



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, and Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average, both seasonally adjusted, as retrieved from FRED, Federal Reserve Bank of St. Louis

The United States experienced price growth of only 1.7% year-over-year on average from 2010 to 2020, as measured by the full monthly Consumer Price Index (CPI) for All Urban

Consumers.[17] Then in 2021, various factors such as pandemic-related supply chain disruptions and Russia's invasion of Ukraine appear to have sparked increasing inflation, especially in prices for goods and commodities like oil.

What is Inflation?

When prices rise, a dollar effectively buys less goods and services than it did in prior periods. The Consumer Price Index (CPI) is one measure of the average change in the prices paid by urban consumers for a consistent basket of consumer goods and services. The "Core" series is for the basket of goods and services excluding food and energy, which have greater price volatility. The 12-month percentage change in the CPI is one frequently used "inflation rate."

U.S. consumer prices have risen even faster in 2022, with a peak seasonally adjusted growth rate (year-over-year) of 9% in June, which fell slightly to 7.7% in October. Stripping out the volatile prices of food and fuel, core CPI grew 6.3% over the prior year in October, as shown in **Figure 7.1**. Inflation by either measure (core or comprehensive) is the highest since 1982.

Coupled with a tight labor market, the steep rise in prices is having ripple effects throughout the economy. Businesses are facing higher prices for workers and inputs, which can be passed onto consumers to varying degrees. Consumers are now experiencing higher prices than last year for rent and most of what they buy.

With the inflation rate running significantly above the central bank's 2% target, the Federal Reserve began steeply raising the federal funds rate in March 2022 to tamp down demand, with the goal of lowering inflation. Since the bank's interest rate increases have an indirect and delayed impact on most prices in the economy, the Federal Reserve has a difficult task in calibrating the optimal amount of monetary tightening.

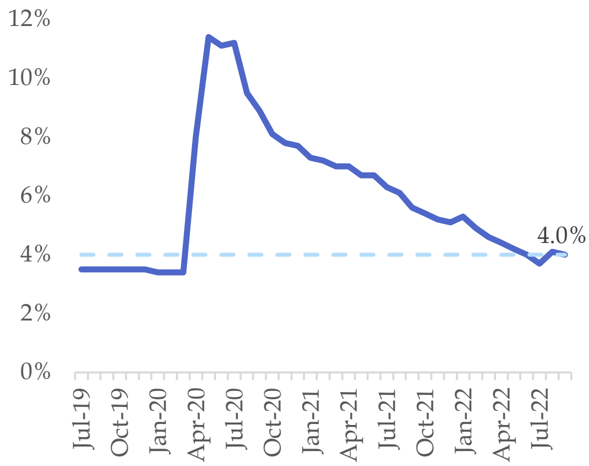
According to statements made at the November 2nd meeting of the Federal Open Market Committee, the Federal Reserve is committed to bringing down inflation back to its target. It is not clear how high interest rates will eventually need to go to accomplish that goal. Whether the Federal Reserve can reduce inflation without triggering a recession is uncertain.

LABOR MARKET

The total unemployment rate for Connecticut has decreased to 4% in September 2022 from the height of the pandemic. As noted in **Figure 7.2**, the unemployment rate is now nearly equal to pre-pandemic. However, this is partially attributable to the state's lower labor force participation rate, which remains below its pre-pandemic peak, more so than most other states. **Figure 7.3** shows a high pre-pandemic labor force participation rate of 67.2% in fall 2019 as compared to 64.6% in fall 2022.

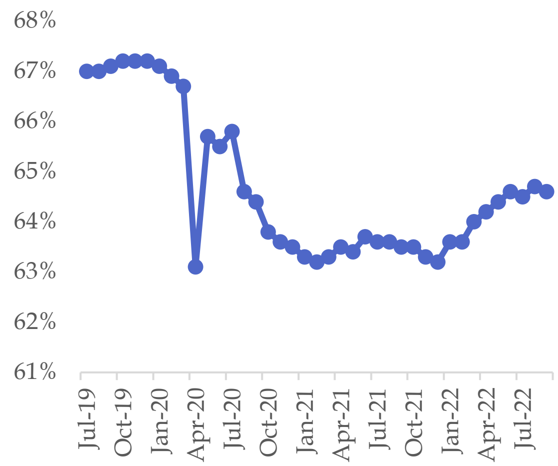
[17] The U.S. Department of Labor's Bureau of Labor Statistics (BLS) publishes the consumer price index (CPI) and its variations.

Figure 7.2 Connecticut Unemployment Rate (Seasonally Adjusted)



Source: CT Department of Labor

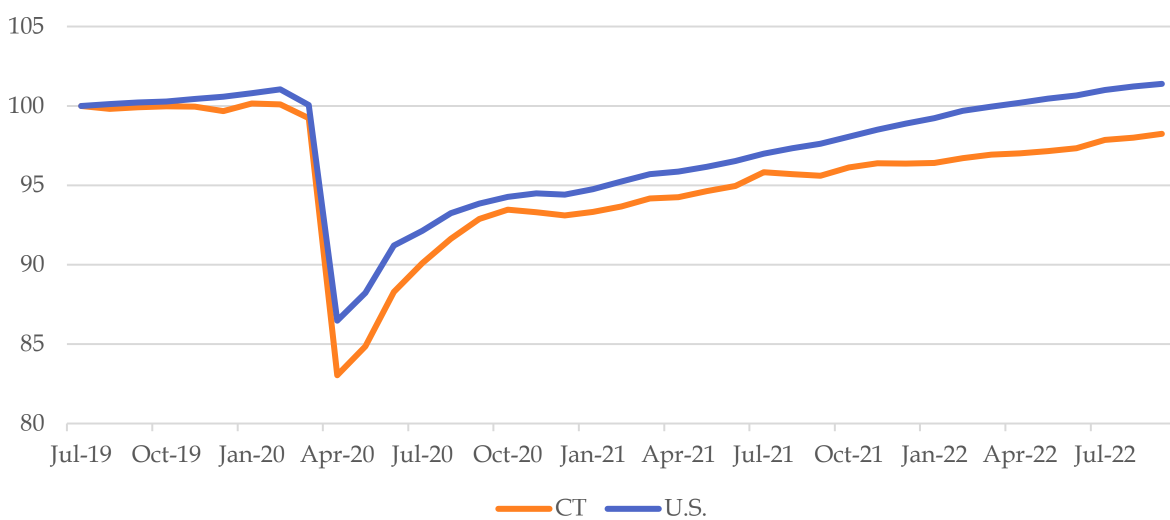
Figure 7.3 Connecticut Labor Participation Rate (Seasonally Adjusted)



Source: US Bureau of Labor Statistics as retrieved from FRED, Federal Reserve Bank of St. Louis

Connecticut's total non-farm employment level has improved from the decrease induced by the pandemic, but remains below pre-pandemic levels, as noted in **Figure 7.4** below. In contrast, in March 2022 the U.S. surpassed its pre-pandemic level and then continued to rise.

Figure 7.4 Connecticut and U.S. Employment Levels (Seasonally Adjusted)
Index July 2019 = 100



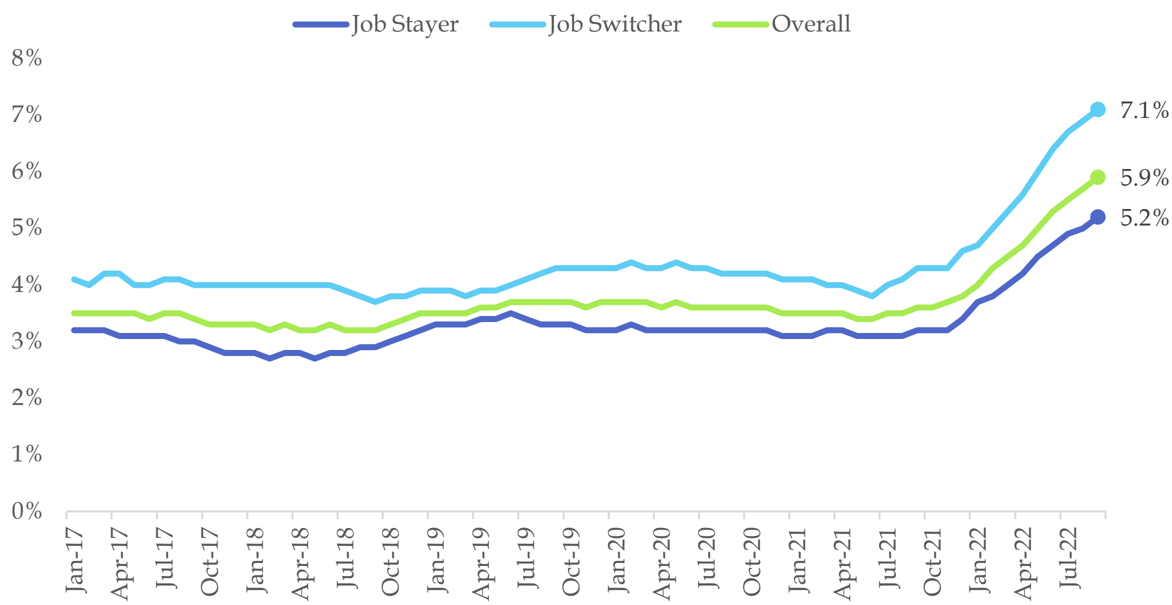
Source: U.S. Bureau of Labor Statistics as retrieved from FRED, Federal Reserve Bank of St. Louis, OFA Calculations

WAGE GROWTH

Average hourly earnings for Connecticut private employees were up 4% year-over-year in September 2022 to $35.20 per hour, with employees in service-providing industries experiencing 4.7% growth in hourly earnings on average.[18] However, with inflation at 7.7% for the same period (according to the comprehensive CPI), workers on average are seeing their buying power decline, despite much higher wage growth currently than in the past several decades.

Figure 7.5 shows the growing gap nationally in wage growth for those who stay at their jobs and "switchers", defined as someone in a different occupation or industry than a year ago or who has changed employers or job duties in the past three months. Job switchers can take advantage of higher wages offered by employers struggling to find workers in the tight labor market.

Figure 7.5 United States Median Year-over-Year Wage Growth for Job "Stayers" and "Switchers"
12-Month Moving Average of Monthly Median Wage Growth



Source: Federal Reserve Bank of Atlanta Wage Growth Tracker, Hourly Data

RETAIL SALES

In 2022, total retail sales are experiencing a second year of strong recovery from the economic downturn driven by the pandemic.

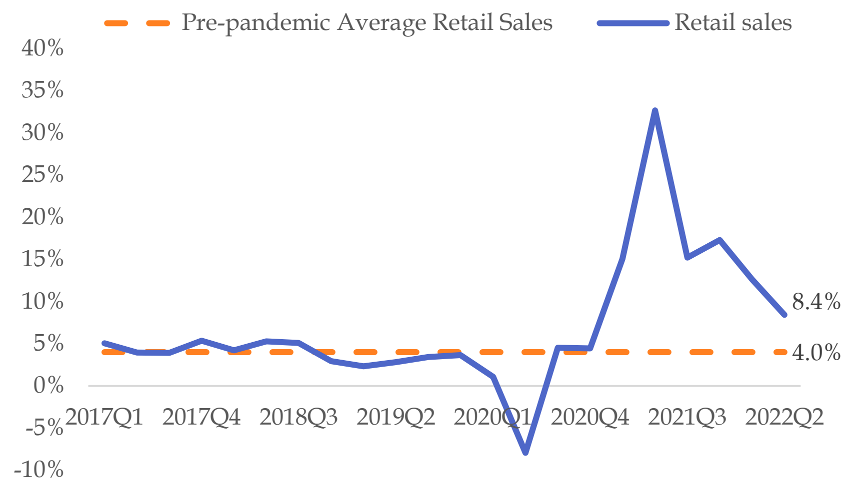
Figure 7.6 shows that nationally, retail sales growth over the prior year has slowed in 2022 from the initial recovery year of 2021 but remains above the pre-pandemic average. Robust retail

[18] CT Department of Labor: Current Employment Statistics

sales are anticipated to continue through 2022 before decelerating back to historically average growth in 2023.

Some retail industries continue to show strong growth in sales in 2022 while others have fallen back to pre-pandemic growth levels. **Figure 7.7** provides a comparison of growth over the prior year (January through August period) of 2019 (i.e., pre-pandemic) to 2022 for a few example consumer industries that generally sell taxable goods and services.

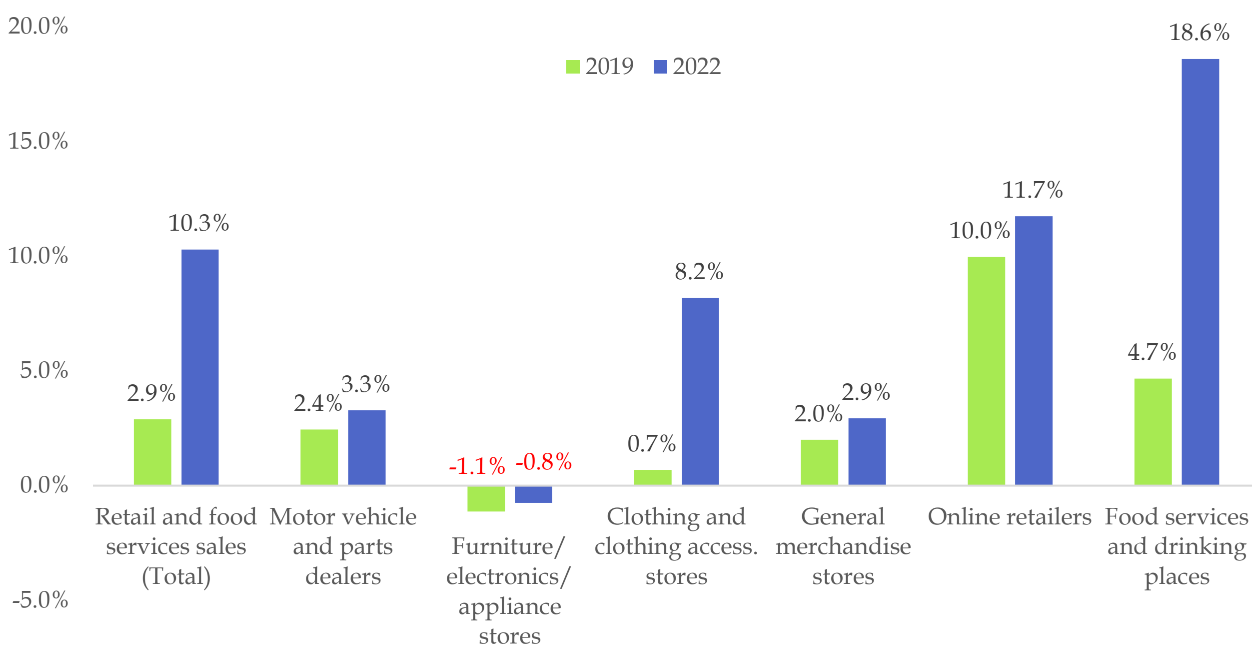
Figure 7.6 Total U.S. Retail Sales: Growth over Prior Year



Source: U.S. Census, OFA Calculations

Food service and drinking places has strong growth relative to pre-pandemic levels. However, major durable goods industries – like motor vehicle and parts dealers along with furniture/home appliance/electronics stores – are trending closer to pre-pandemic growth. While clothing-specific stores show strong growth in 2022, general merchandise stores (i.e., big box stores) as well as online retailers are closer to, but slightly higher than, pre-pandemic growth levels.

Figure 7.7 U.S. Monthly Retail Sales Year-Over-Year Growth Comparison, 2019 & 2022 (January – August period)

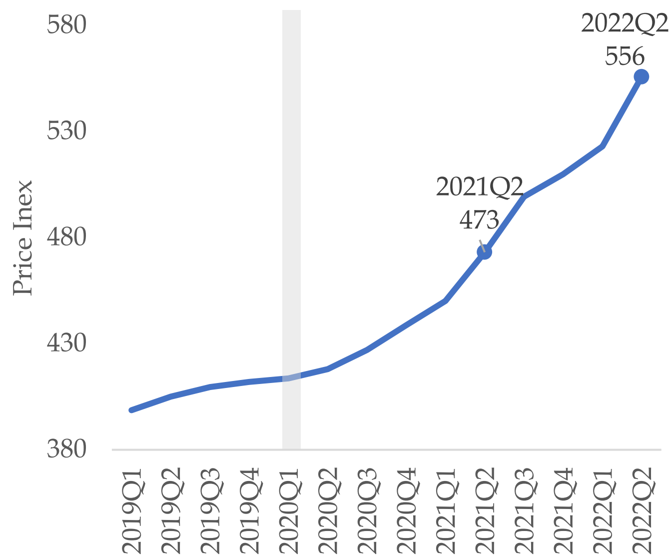


Source: U.S. Census, OFA Calculations

HOUSING

Connecticut housing costs are rising. While some regions of the country are beginning to see home price declines following the recent surge, the latest Connecticut data (2022 Q2) show home prices still rising as depicted in **Figure 7.8**. Some "cooling" in the homebuying market is inevitable due to increasing borrowing costs, which price out some homebuyers. According to Freddie Mac data, the U.S. average rate for a 30-year fixed rate mortgage in late October 2022 was up 125% (3.94 percentage points) year-over-year. However, home prices are supported by a lack of available inventory. The number of active listings in Connecticut continues to trend downward (unlike nationally), with 22% fewer active listings in September 2022 than a year earlier.[19]

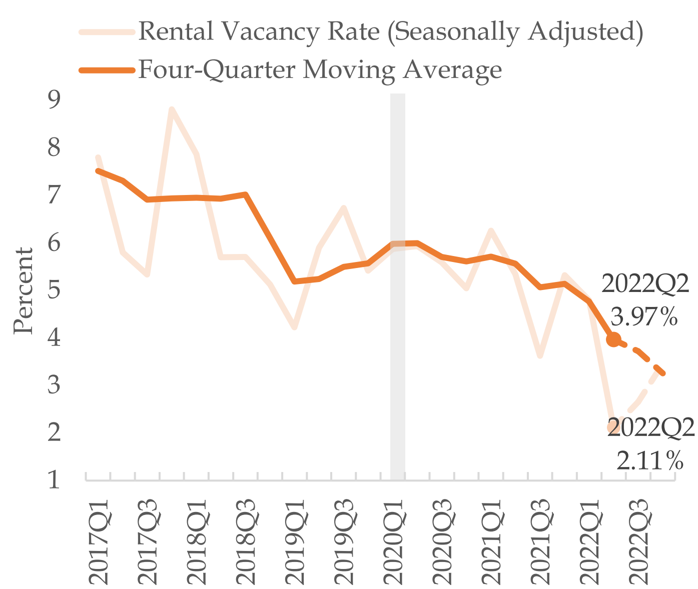
Figure 7.8 All-Transactions Single-Family House Price Index for Connecticut
1980Q1=100



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

Turning to the rental housing market, the national CPI for all Urban Consumers shows that rent increases are accelerating. The price index for rent of a primary residence grew 7.2% year-over-year in September 2022 and 7.5% in October 2022.[20] The declining availability of vacant units is contributing to upward pressure on rents. The vacancy rate in Connecticut has been trending downward since before the pandemic, as shown in **Figure 7.9.** The figure shows both the vacancy rate (lighter line) and a four-quarter moving average of that rate (darker line), which smooths out some of the volatility. The average vacancy rate for the year ending the second quarter of 2022 dropped to 3.97%, from 7.31% in the second quarter of 2017. Moody's projected vacancy rates for Connecticut suggest that the moving average will fall even further through the rest of this year.

Figure 7.9 Connecticut Rental Vacancy Rate



Sources: U.S. Census Bureau, Moody's forecast, OFA Calculations

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[19] Realtor.com, Housing Inventory: Active Listing Count in Connecticut
[20] U.S. Bureau of Labor Statistics, CPI for All Urban Consumers: Rent of Primary Residence in U.S. City Average; not seasonally adjusted.

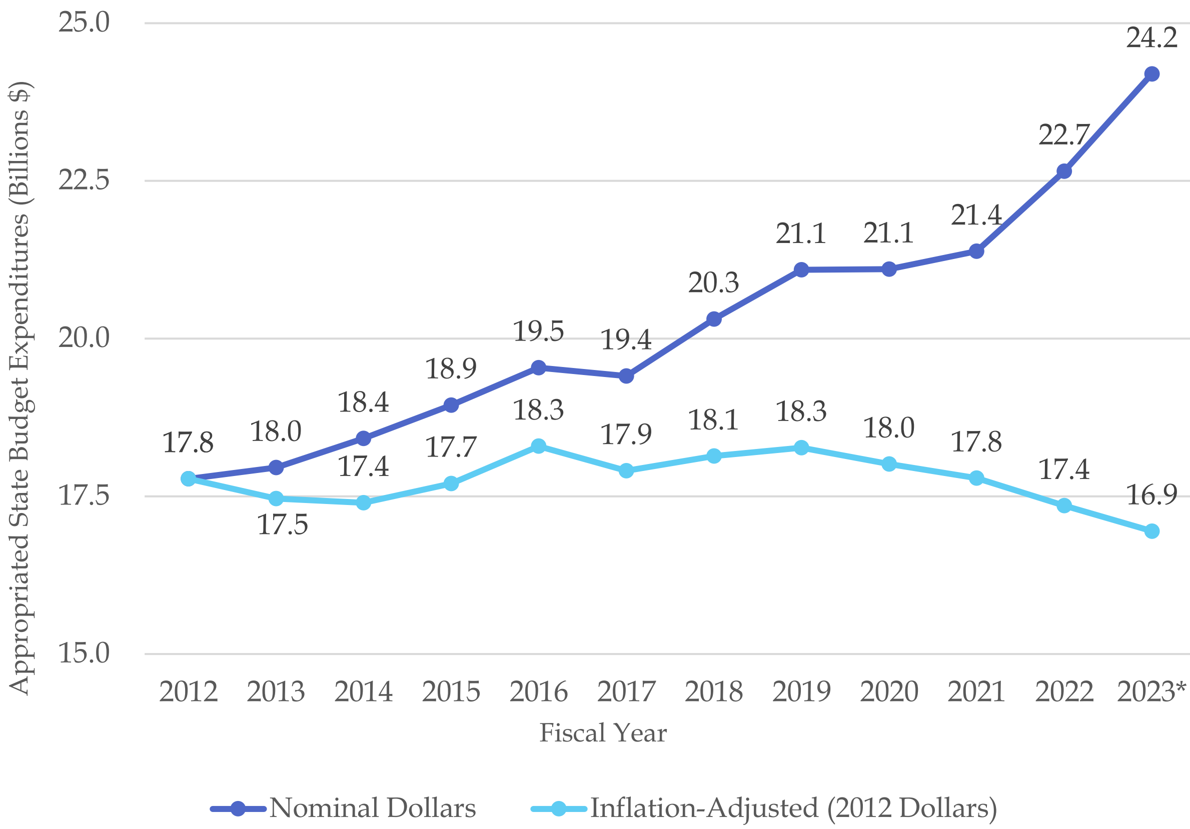
INFLATION AND THE CONNECTICUT STATE BUDGET

A general rise in prices impacts government budgets as it does for households. Governments face higher prices on the expenditure side of the budget, and higher prices of goods, assets, wages, etc., can impact government revenues as well.

Historical Expenditures

Because the purchasing power of a dollar declines over time (due to inflation), the state must increase expenditures (in current dollars) in line with inflation to continue buying the same amount of goods and services. **Figure 7.10** shows that state expenditures of appropriated funding since 2012 have not grown in real terms (i.e., adjusted for inflation).

Figure 7.10 All Appropriated Funds Budget Expenditures
In Billions of Dollars



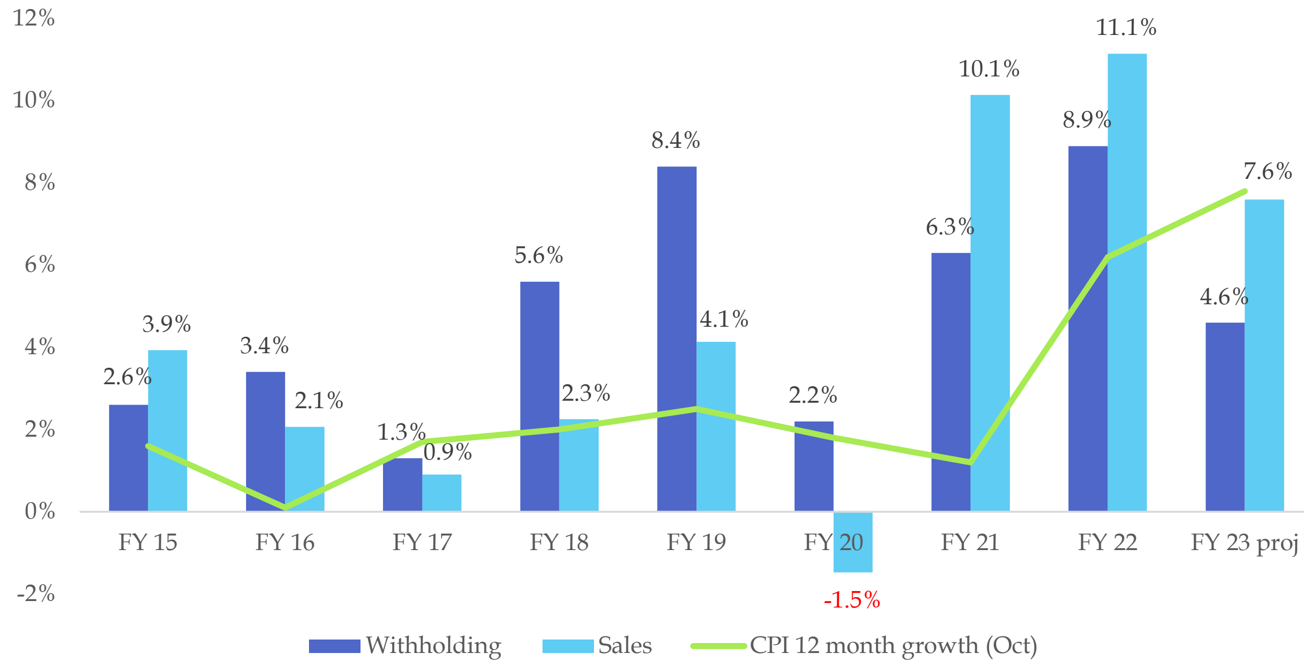
* FY 23 expenditures reflect budget.
Source: Comptroller's reports, CORE-CT, OFA calculations using the Implicit Price Deflator for State and Local Governments from the Bureau of Economic Analysis (BEA) and FY 23 forecasted amounts from Moody's. See Appendix G. in the FY 23 Revised State Budget book for details.

While expenditures have grown nearly every year since FY 12 in nominal dollars, the graph shows that after adjusting for inflation, the state is purchasing about the same amount of goods and services now as in FY 12. One important caveat is that state expenditures funded with federal funds, such as American Rescue Plan Act (ARPA) dollars, are not included in this graph.

Historical Revenues
Inflation also impacts certain state tax revenues. The effects of inflation on taxes may be offset by behavioral changes such as a shift in demand to other goods or services (which may or may not be taxable) or a swing from purchasing to saving. Wage growth, interest rates, and savings rates are additional factors.

Figure 7.11 shows annual growth rates of withholding income tax and sales tax, compared to the 12-month percentage change in CPI. In FY 22, there was significant growth in withholding and sales tax in line with substantial CPI growth. This is unlike the low inflation environment in the years prior to FY 22, when withholding and sales tax growth did not necessarily trend closely with CPI.

Figure 7.11 Withholding Income and Sales Tax Annual Growth Relative to CPI



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average (seasonally adjusted), OFA Calculations

Section VIII. Tax Expenditure Estimates

State law currently permits various tax expenditures in the form of tax exemptions, credits, and deductions which total an estimated total of $9.3 billion in FY 23. This amount is approximately 37% of the total projected FY 23 General Fund and Special Transportation Fund revenue. The majority of tax expenditures occur in sales and use tax and motor fuels tax (approximately 58.2% and 23.4%, respectively). The table below reflects OFA's estimated total tax expenditures for FY 23 through FY 26.[21]

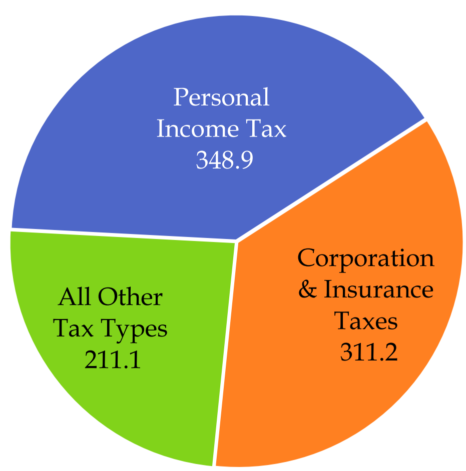
Table 8.1 Summary of Major Identifiable State Tax Expenditure Estimates[1]
In Millions of Dollars

Category	FY 23	FY 24	FY 25	FY 26
Personal Income Tax	702.1	751.3	779.3	812.1
Sales and Use Tax	5,404.2	5,530.1	5,656.5	5,784.6
Corporation and Insurance Taxes	440.9	445.5	485.8	486.1
Petroleum Companies Gross Earnings Tax	376.4	351.4	323.9	298.9
Motor Fuels and Motor Carrier Road Taxes	2,178.2	1,248.1	1,248.1	1,248.1
All Other Taxes	190.7	186.6	188.3	190.1
TOTAL	**9,292.4**	**8,512.8**	**8,681.9**	**8,819.8**

TAX CREDITS

Tax credits are estimated to be $871.1 million in FY 23 or 9.4% of all projected FY 23 tax expenditures. The remaining $8.4 billion in FY 23 in total tax expenditures includes all exemptions and deductions. A breakout of credits by tax type is provided in **Figure 8.1**.

Figure 8.1 FY 23 Tax Credit Estimates by Revenue Type
In Millions of Dollars



[21]For more information, please see the Connecticut Tax Expenditure Report, Office of Fiscal Analysis (February 2022). Please note that this report includes updated estimates on certain expenditures where necessary. The next report will be released in February 2024.

SALES AND USE TAX EXPENDITURES

Sales and use tax expenditures represent approximately 58.2% of all identifiable tax expenditures and are estimated to be $5.4 billion in FY 23.

Table 8.2 below details the categories of sales and use tax expenditures available as well as the value of each category. Consumer goods consist of approximately 39.6% of all total sales and use tax expenditures, more than any other category. **Figure 8.2** provides a list of significant individual sales tax expenditures with their estimated revenue loss for FY 23. Government organizations make up the single largest type of expenditure at $1.6 billion estimated for FY 23.

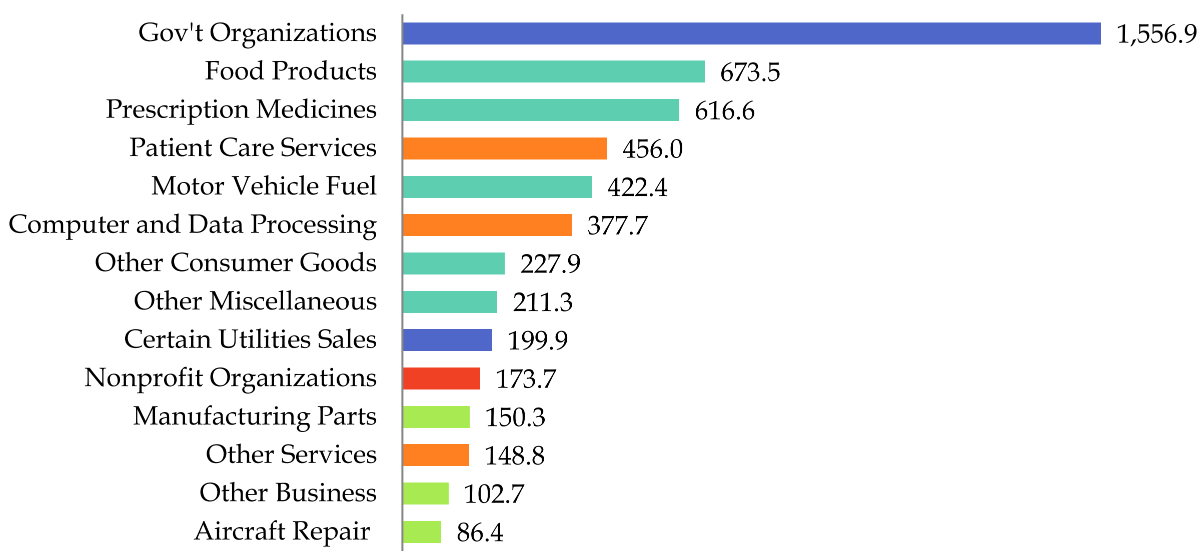
Types of Tax Expenditures

A **credit** directly reduces a taxpayer's tax liability. An **exemption** excludes specified transactions from a tax (e.g., food products are exempted from sales tax). A **deduction** reduces a taxpayer's taxable income by the amount of a specific transaction (e.g., contributions to CHET reduce taxable income).

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

Category	FY 23	% of Total
Consumer Goods	2,140.3	39.6%
Business Exemptions	339.4	6.3%
Service Exemptions	982.5	18.2%
Government and Nonprofit Organizations	1,730.5	32.0%
Miscellaneous	211.3	3.9%
TOTAL	**5,404.2**	**100.0%**

Figure 8.2 FY 23 Major Sales and Use Tax Expenditures
In Millions of Dollars



Appendix A. Consensus Revenues

Revenue Estimates for FY 23 - FY 26
In Millions of Dollars

Fund/Component	FY 23	FY 24	FY 25	FY 26
General Fund				
Taxes				
Personal Income Tax - Withholding	8,184.4	8,420.3	8,766.9	9,110.1
Personal Income Tax - Estimates and Finals	3,522.7	3,170.4	3,297.2	3,429.1
Sales & Use	5,057.6	5,185.6	5,309.4	5,430.2
Corporation	1,294.2	1,306.0	1,346.7	1,389.0
Pass-through Entity Tax	1,957.3	1,761.6	1,832.1	1,905.3
Public Service	277.0	284.5	286.7	289.1
Inheritance & Estate	180.2	163.1	167.2	171.3
Insurance Companies	243.1	239.0	242.6	246.2
Cigarettes	308.1	292.6	278.0	264.1
Real Estate Conveyance	290.4	287.7	292.6	297
Alcoholic Beverages	78.0	76.4	76.8	77.1
Admissions & Dues	27.2	25.0	25.3	25.6
Health Provider Tax	973.8	974.7	978.4	952.2
Miscellaneous	66.5	65.4	67.8	68.4
Total - Taxes	**22,460.5**	**22,252.3**	**22,967.7**	**23,654.7**
Refund of Taxes	(1,827.7)	(1,889.5)	(1,981.3)	(2,037.8)
Earned Income Tax Credit	(143.8)	(147.0)	(151.6)	(155.3)
R&D Credit Exchange	(7.9)	(7.5)	(7.8)	(8.0)
Total - Taxes Less Refunds	**20,482.0**	**20,208.3**	**20,827.0**	**21,453.6**
Other Revenue				
Transfers - Special Revenue	392.2	403.8	408.9	414.2
Indian Gaming Payments	251.8	257.3	261.5	269.3
Licenses, Permits, Fees	327.5	357.0	331.2	366.1
Sales of Commodities	23.9	24.3	26.3	26.8
Rents, Fines, Escheats	163.3	164.7	166.8	155.1
Investment Income	185.0	198.9	201.7	204.8
Miscellaneous	224.9	229.5	234.3	239.3
Refund of Payments	(63.8)	(65.7)	(67.1)	(68.4)
Total - Other Revenue	**1,504.8**	**1,569.8**	**1,563.6**	**1,607.2**
Other Sources				
Federal Grants	2,128.8	1,744.2	1,765.9	1,789.1
Transfer from Tobacco Fund	110.1	108.4	106.7	105.0
Transfers from/ (To) Other Funds	581.0	(168.6)	(168.6)	(168.6)
Transfers to BRF - Volatility Adjustment	(1,847.5)	(1,149.5)	(1,191.4)	(1,228.9)
Total - Other Sources	**972.4**	**534.5**	**512.6**	**496.6**
TOTAL - GENERAL FUND	**22,959.2**	**22,312.6**	**22,903.2**	**23,557.4**

Fund/Component	FY 23	FY 24	FY 25	FY 26
Special Transportation Fund				
Taxes				
Motor Fuels Tax	344.4	515.7	499.0	490.9
Oil Companies Tax	402.4	380.2	350.3	323.1
Sales & Use Tax	820.1	835.9	856.1	875.7
Sales Tax - DMV	112.3	103.2	102.2	103.1
Highway Use	45.0	90.0	94.1	98.3
Refunds of Taxes	(16.2)	(16.9)	(17.4)	(17.9)
Total - Taxes Less Refunds	**1,708.0**	**1,908.1**	**1,884.3**	**1,873.2**
Other Sources				
Motor Vehicle Receipts	260.3	261.6	262.9	264.2
Licenses, Permits, Fees	132.1	132.7	133.6	134.5
Interest Income	33.2	39.2	32.7	29.0
Federal Grants	10.1	9.2	8.1	6.9
Transfers From/(To) Other Funds	(5.5)	(5.5)	(5.5)	(5.5)
Refunds of Payments	(5.6)	(3.1)	(3.2)	(3.3)
Total Other Revenues	424.6	434.1	428.6	425.8
TOTAL - STF	**2,132.6**	**2,342.2**	**2,312.9**	**2,299.0**

Appendix B. Other Appropriated Funds

Fund	Actual FY 22	Projected FY 23	Projected FY 24	Projected FY 25	Projected FY 26
Mashantucket Pequot and Mohegan Fund					
Beginning Balance	77,819	77,819	77,819	77,819	77,819
Revenue	-	-	-	-	-
Expenditures	(51,472,789)	(51,481,796)	(51,481,796)	(51,481,796)	(51,481,796)
Transfers	51,472,789	51,481,796	51,481,796	51,481,796	51,481,796
Ending Balance	**77,819**	**77,819**	**77,819**	**77,819**	**77,819**
Banking Fund					
Beginning Balance	13,161,203	26,232,113	39,366,754	52,501,395	65,636,036
Revenue	42,108,807	42,000,000	42,000,000	42,000,000	42,000,000
Expenditures	(29,037,897)	(28,865,359)	(28,865,359)	(28,865,359)	(28,865,359)
Transfers	-	-	-	-	-
Ending Balance	**26,232,113**	**39,366,754**	**52,501,395**	**65,636,036**	**78,770,677**
Insurance Fund					
Beginning Balance	7,579,362	24,122,167	10,386,660	5,138,831	9,505,112
Revenue	134,681,500	111,248,846	119,736,524	129,350,634	126,296,310
Expenditures	(118,526,609)	(124,984,353)	(124,984,353)	(124,984,353)	(124,984,353)
Transfers	387,914	-	-	-	-
Ending Balance	**24,122,167**	**10,386,660**	**5,138,831**	**9,505,112**	**10,817,069**
Consumer Counsel and Public Utility Control Fund					
Beginning Balance	7,622,248	11,506,475	11,789,908	12,073,341	12,356,774
Revenue	33,279,842	33,000,000	33,000,000	33,000,000	33,000,000
Expenditures	(29,395,615)	(32,716,567)	(32,716,567)	(32,716,567)	(32,716,567)
Transfers	-	-	-	-	-
Ending Balance	**11,506,475**	**11,789,908**	**12,073,341**	**12,356,774**	**12,640,207**
Workers' Compensation Fund					
Beginning Balance	15,816,659	13,199,929	14,058,252	14,116,575	14,174,898
Revenue	21,394,248	27,300,000	26,500,000	26,500,000	26,500,000
Expenditures	(24,010,979)	(26,441,677)	(26,441,677)	(26,441,677)	(26,441,677)
Transfers	-	-	-	-	-
Ending Balance	**13,199,929**	**14,058,252**	**14,116,575**	**14,174,898**	**14,233,221**

Fund	Actual FY 22	Projected FY 23	Projected FY 24	Projected FY 25	Projected FY 26
Criminal Injuries Compensation Fund					
Beginning Balance	3,998,458	3,615,949	3,681,149	3,746,349	3,811,549
Revenue	1,985,586	3,000,000	3,000,000	3,000,000	3,000,000
Expenditures	(2,368,094)	(2,934,800)	(2,934,800)	(2,934,800)	(2,934,800)
Transfers	-	-	-	-	-
Ending Balance	**3,615,949**	**3,681,149**	**3,746,349**	**3,811,549**	**3,876,749**
Tourism Fund					
Beginning Balance	1,934,558	5,134,059	5,608,959	6,483,859	7,658,759
Revenue	13,140,191	13,900,000	14,300,000	14,600,000	15,000,000
Expenditures	(20,933,690)	(13,425,100)	(13,425,100)	(13,425,100)	(13,425,100)
Transfers	10,993,000	-	-	-	-
Ending Balance	**5,134,059**	**5,608,959**	**6,483,859**	**7,658,759**	**9,233,659**
TOTALS					
Beginning Balance	50,190,307	83,888,511	84,969,501	94,138,169	113,220,947
Revenue	246,590,173	230,448,846	238,536,524	248,450,634	245,796,310
Expenditures	(275,745,673)	(280,849,652)	(280,849,652)	(280,849,652)	(280,849,652)
Transfers	62,853,703	51,481,796	51,481,796	51,481,796	51,481,796
TOTAL ENDING BALANCE	**83,888,511**	**84,969,501**	**94,138,169**	**113,220,947**	**129,649,401**

Source: Actuals from CORE-CT

EXPENDITURE ASSUMPTIONS

Expenditures in the other appropriated funds are non-fixed costs and as such are flat through FY 26.

REVENUE ASSUMPTIONS

Banking Fund

Annual revenue from statutory banking licenses and fees, as well as assessments, is anticipated to remain constant at approximately $42 million.

Consumer Counsel/Department of Public Utility Control Fund

There is no assumed growth from fees and assessments in the out-years, as the fund has experienced variation in year-to-year revenue.

Criminal Injuries Compensation Fund

Annual revenue from criminal fines, which are set by statute, is anticipated to remain flat at approximately $3 million.

Insurance Fund
The Insurance Department annually assesses insurers, HMOs, and certain third-party administrators to cover the Insurance Fund's costs, with one assessment adjusted by the amount of the fund balance at the close of the fiscal year. As such, annual revenue is assumed to fluctuate based on expenditures and the previous year's fund balance.

Mashantucket Pequot/Mohegan Fund
Out-year projections assume a General Fund annual transfer to the Pequot Fund equal to the FY 23 appropriation of $51,481,796. Pursuant to PA 14-217, General Fund transfers to the Pequot Fund are equal to the amount appropriated for Pequot Fund grants in a given fiscal year.

Tourism Fund
Revenue from 10% of room occupancy tax collections supports this fund. The COVID-19 pandemic had a direct negative impact on room occupancy taxes for FY 20 and FY 21. Revenues began recovering in FY 22 and are projected to continue recovery through FY 23 with a return to annual growth of approximately 2.3% for FY 24 and beyond.

Workers' Compensation Fund
The State Treasurer assesses private insurance companies and employers to cover the Commission's annual costs. Revenue is based on the statutorily defined assessment formula. In fiscal years following a fund sweep, the amount of the revenue (assessment) reflects the impact of the fund sweep. In fiscal years where the impact of a fund sweep is not reflected in the revenue, the fund balance at the end of the fiscal year reflects a sum equal to approximately six months' worth of expenditures, which has historically been approximately $10 million to $14 million.

Appendix C. Fixed Cost Account Projections

In Millions of Dollars

Fixed Cost Account	FY 23	FY 24	FY 25	FY 26
GENERAL FUND				
Debt Service - State Treasurer				
Debt Service	1,987.1	2,044.4	2,142.0	2,213.2
UConn 2000 - Debt Service	216.2	223.1	225.6	224.7
CHEFA Day Care Security	5.5	5.5	5.5	5.5
Pension Obligation Bonds - TRB	306.7	315.7	330.2	265.3
Municipal Restructuring	54.1	51.3	47.9	47.5
Debt Service - State Treasurer Total	**2,569.6**	**2,639.9**	**2,751.3**	**2,756.1**
State Comptroller - Miscellaneous				
Adjudicated Claims	30.0	30.0	30.0	30.0
State Comptroller - Miscellaneous Total	**30.0**	**30.0**	**30.0**	**30.0**
State Comptroller - Fringe Benefits				
Higher Education Alternative Retirement System	13.0	12.5	12.5	12.5
Pensions and Retirements - Other Statutory	2.2	2.3	2.4	2.5
Judges and Compensation Commissioners Retirement	32.5	32.5	32.5	32.5
Retired State Employees Health Service Cost	750.8	788.3	827.7	869.1
SERS Defined Contribution Match	17.1	16.4	16.4	16.4
State Employees Retirement Contributions - Normal Cost	167.6	167.6	167.6	167.6
State Employees Retirement Contributions - UAL	1,400.2	1,205.9	1,091.4	1,091.4
State Comptroller - Fringe Benefits Total	**2,383.4**	**2,225.6**	**2,150.7**	**2,192.2**
Department of Mental Health and Addiction Services (DMHAS)				
General Assistance Managed Care	18.6	20.1	20.7	21.3
Medicaid Adult Rehabilitation Option	4.4	4.4	4.4	4.4
DMHAS Total	**23.1**	**24.5**	**25.1**	**25.7**
Department of Social Services				
HUSKY B Program	17.1	22.2	25.3	25.3
Medicaid	2,976.3	3,224.3	3,287.0	3,385.6
Old Age Assistance	38.4	39.3	40.3	41.3
Aid to the Blind	0.5	0.5	0.5	0.5
Aid to the Disabled	45.6	46.8	47.9	49.1
Temporary Family Assistance - TANF	45.9	49.4	53.4	56.6
Connecticut Home Care Program	41.2	47.3	45.9	45.9
Community Residential Services	801.3	787.3	792.2	802.4
State Administered General Assistance	12.9	12.9	12.9	12.9
Hospital Supplemental Payments	568.3	568.3	568.3	568.3
Department of Social Services Total	**4,547.4**	**4,798.2**	**4,873.7**	**4,988.0**

Fixed Cost Account	FY 23	FY 24	FY 25	FY 26
Office of Early Childhood				
Birth to Three	29.5	30.8	31.8	32.7
Care4Kids TANF/CCDF	59.5	61.9	64.4	67.0
Office of Early Childhood Total	**89.0**	**92.7**	**96.1**	**99.7**
Teachers' Retirement Board				
Retirement Contributions	1,578.0	1,554.5	1,593.3	1,690.6
Retirees Health Service Cost	12.4	13.9	15.5	17.1
Municipal Retiree Health Insurance Costs	9.8	9.8	9.8	9.8
Teachers' Retirement Board Total	**1,600.3**	**1,578.3**	**1,618.7**	**1,717.6**
Department of Children and Families				
No Nexus Special Education	3.1	3.1	3.1	3.1
Board and Care for Children - Adoption	109.4	111.8	113.8	116.1
Board and Care for Children - Foster	140.7	143.8	146.4	149.3
Board and Care for Children - Short-term and Residential	83.3	83.5	83.3	83.3
Individualized Family Supports	5.3	5.3	5.3	5.3
Department of Children and Families Total	**341.8**	**347.5**	**351.9**	**357.1**
TOTAL - GENERAL FUND	**11,584.5**	**11,736.8**	**11,897.4**	**12,166.3**
Fixed Cost Account	**FY 23**	**FY 24**	**FY 25**	**FY 26**
SPECIAL TRANSPORTATION FUND				
Debt Service - State Treasurer				
Debt Service	802.5	876.9	948.2	1,009.4
Debt Service - State Treasurer Total	**802.5**	**876.9**	**948.2**	**1,009.4**
State Comptroller - Fringe Benefits				
SERS Defined Contribution Match	1.1	1.1	1.1	1.1
State Employees Retirement Contributions - Normal Cost	21.3	21.3	21.3	21.3
State Employees Retirement Contributions - UAL	163.8	140.9	127.4	127.4
State Comptroller - Fringe Benefits Total	**186.2**	**163.3**	**149.8**	**149.8**
TOTAL - SPECIAL TRANSPORTATION FUND	**988.7**	**1,040.2**	**1,098.0**	**1,159.2**

Appendix D. Fixed Cost Detail FY 23 – FY 26

The fixed costs discussed in Section III make up 52.6% of total General Fund (GF) expenditures in FY 26 under the report's mandated methodology. General Fund fixed costs are projected to grow in the out-years from approximately $11,584.5 million in FY 23 to approximately $12,166.3 million in FY 26, for a total increase of approximately $581.8 million. The major categories of fixed costs are discussed below in order of overall magnitude.

ENTITLEMENTS

Entitlements are the largest category of fixed costs, representing 40.3% ($4,902.1 million) of projected fixed costs in FY 26. The Medicaid and Community Residential Services accounts, appropriated in the Department of Social Services, collectively represent 85.4% of those projected entitlement costs.

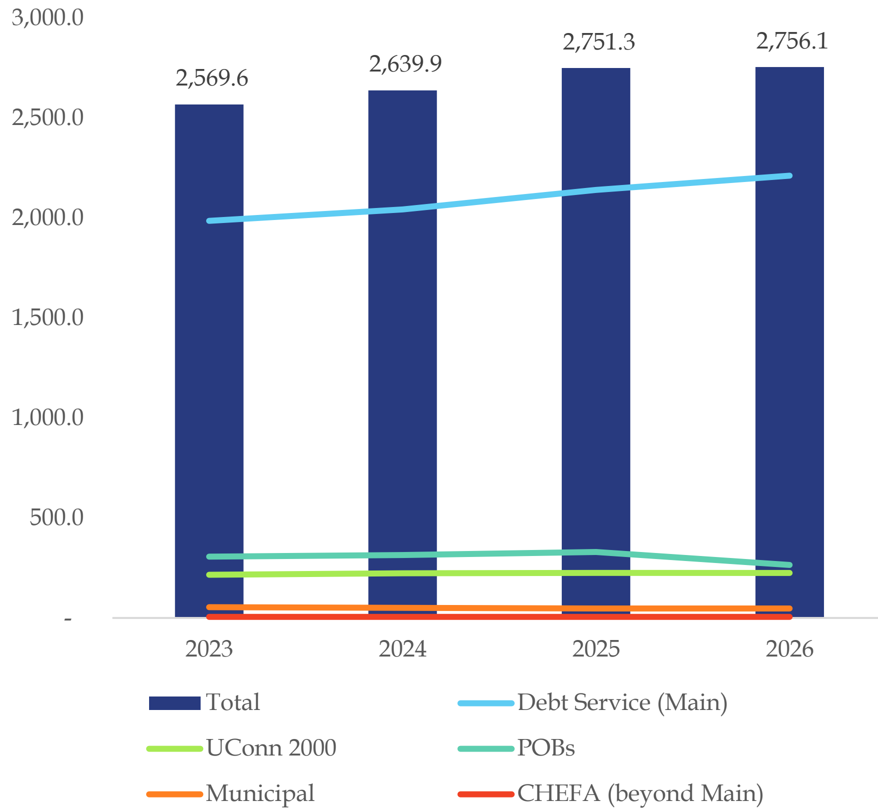
Medicaid, the largest entitlement program, is projected to cost the General Fund $3,385.6 million in FY 26 (or 69.1% of entitlements). The program is anticipated to grow by approximately $248 million between FY 23 and FY 24, which reflects a return to more typical utilization and the standard federal funds matching rate, following the impact of the COVID-19 pandemic. Annual growth of approximately 4% captures anticipated caseload and utilization costs in the out-years. The Medicaid account is net funded, reflecting the state’s share of expenditures after federal reimbursement.

Community Residential Services is the second largest entitlement program. It serves Department of Developmental Services' (DDS) consumers. The Community Residential Services account is projected to increase to approximately $802.4 million in FY 26 (or 16.4% of entitlements). The program is anticipated to grow by approximately $1.2 million between FY 23 and FY 26, which reflects the net impact of expected caseload increases and the sunsetting of American Rescue Plan Act (ARPA) Home and Community Based Services funding in FY 24 and FY 25. Carryforward funding of $12.7 million used in FY 23 to support the settlement of increased wages and benefits for the employees of DDS contracted providers is shifted to the General Fund in FY 24. The Community Residential Services account is gross funded, reflecting the total program expenditures before factoring in the federal reimbursement of 50% under the Medicaid waiver program (which is deposited to the General Fund).

DEBT SERVICE

Annual General Fund debt service is expected to grow by approximately $186.5 million, from $2,569.6 million in FY 23 to $2,756.1 million in FY 26, as shown in **Figure 1**. During this time, the largest increase to debt service is the result of issuing new debt (a net increase of $226.1 million from FY 23 to FY 26). The debt service schedule for Pension Obligation Bonds (POBs) includes an increase from $306.7 million in FY 23 to $316.7 million in FY 24, and then to $330.5 million in FY 25, before decreasing back to $268.5 million in FY 26.[22] Annual debt service repayment requirements for the UConn 2000 program are also expected to plateau around $225 million in FY 24 through FY 26, before declining thereafter.[23]

Figure 1. Annual General Fund Debt Service Estimates
In Millions of Dollars



Total annualized growth in GF debt service line items from FY 23 to FY 26 is 2.4%.

It takes several years to realize the full impact of bonding decisions. Over 90% of all FY 23 GF debt service payment is based on debt incurred prior to FY 23. The growth from new bond issuance described above has been limited by several recent policies and factors regarding bonding, including slowed capital spending beginning in CY 17. Greater detail on bonding-related projections is provided in Section VI.

[22] After FY 26, annual payment of POBs debt service fluctuates between $285 million and $381 million before the bonds are fully repaid in FY 32.
[23] The UConn 2000 program has new authorizations under current law through FY 27.

STATE EMPLOYEES RETIREMENT SYSTEM AND RETIREE HEALTH

The State Employees Retirement System (SERS) provides pension benefits to 53,699 retired members and their beneficiaries and covers another 48,014 active members. The system is funded on an actuarial basis and receives an annual valuation. The latest valuation, dated June 30, 2021, established an Actuarially Determined Employer Contribution (ADEC) of $2.14 billion for FY 23, of which $1.57 billion is appropriated from the General Fund.

Treasurer Deposits Excess Reserves into SERS

The BRF ended FY 22 in excess of the 15% statutory cap. Pursuant to CGS Section 4-30a (c)(1)(A), any amount above this threshold is to be transferred to SERS and TRS. The State Treasurer transferred $3.2 billion of that balance to SERS in 2022. This deposit is estimated to save the state approximately $6.7 billion over a 25-year period. Actual savings will be determined by the next actuarial valuation.

Table 1. SERS Actuarial Assets and Liabilities – June 30, 2021
In Millions of Dollars

Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio
(a)	(b)	(b)-(a)	(a)/(b)
15,946.9	**38,344.4**	**22,397.6**	**41.6%**

Positive Outlook for SERS in the Out-Years

The state's annual contribution to SERS is anticipated to decrease in the out-years. This decrease is due to savings created by additional deposits into the system from the BRF exceeding its statutory limit and the system reaching level dollar amortization in FY 23.

Deposits of $3.2 billion in 2022 and an estimated $1.9 billion in 2023 are expected to reduce the SERS ADEC by $266.2 million in FY 24 and $156.9 million in FY 25 (All Funds). **Table 3** below illustrates how the series of deposits is anticipated to result in an ADEC reduction moving forward. It should be noted that the total ADEC is a net result of many factors.

Table 2. Additional Deposits to SERS
In Millions of Dollars

Deposit Year	Amount
2022	3,203.8
Est. 2023	1,890.2
TOTAL	**5,094.0**

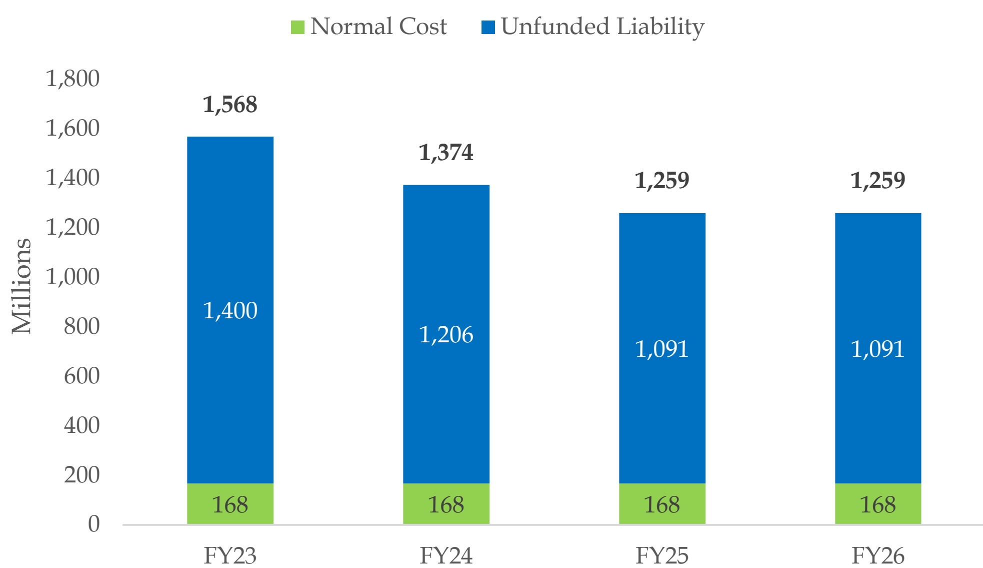
Table 3. Est. Marginal ADEC Reductions
In Millions of Dollars – All Funds

Fiscal Year	Annual	25 Year
FY 24	266.2	6,655.0
FY 25	156.9	3,922.5
TOTAL	**423.1**	**10,577.5**

Source: Cavanaugh Macdonald Consulting, OFA estimates

Figure 2 reflects the General Fund's share of projected ADEC costs in the out-years. The cumulative effect of the additional $3.2 billion deposit in 2022 and projected additional $1.8 billion deposit in 2023 is anticipated to reduce the SERS ADEC from $1.57 billion in FY 23 to $1.26 billion in FY 26.

Figure 2. Projected General Fund Portion of SERS Costs (FY 23 – FY 26)[24]
In Millions of Dollars



Retiree Healthcare Costs Expected to Increase to Over $700 Million by FY 26

The projected marginal increases in retiree healthcare costs are $38 million in FY 24, $39 million in FY 25, and $41 million in FY 26, for a total increase of 16%, or $118 million over the FY 23 level of $751 million. Growth in retiree health is predominantly due to increases in the costs of medical and prescription services for Medicare and non-Medicare eligible dependents. Aggregate program expenditures are projected to increase approximately 5% per year from FY 24 through FY 26.

Although retiree healthcare costs are anticipated to experience net growth, there are areas of savings expected. Effective January 1, 2023, all Medicare eligible retiree health enrollees will transition to Aetna Medicare Advantage, a Medicare Advantage Plan with Part D (MAPD). Savings of $65 million is expected due to new MAPD contracting. Additionally, the makeup of recent retirees, which consists of an older population that transitioned directly to the lower cost MAPD as opposed to remaining on the commercial plan, results in anticipated savings of $54 million going forward.

[24] See OFA's SERS Fact Sheet for historical information

TEACHERS' RETIREMENT AND RETIREE HEALTH CARE COSTS

The Teachers' Retirement System (TRS) provides pension and healthcare benefits for retired public-school teachers. State TRS funding is appropriated to three accounts within the Teachers' Retirement Board (TRB). Additionally, debt service costs, associated with Pension Obligation Bonds (POBs), are funded through the Office of the State Treasurer's Debt Service account. This combined funding represents fiscal support to local education agencies for expenses related to their retired public-school teachers.

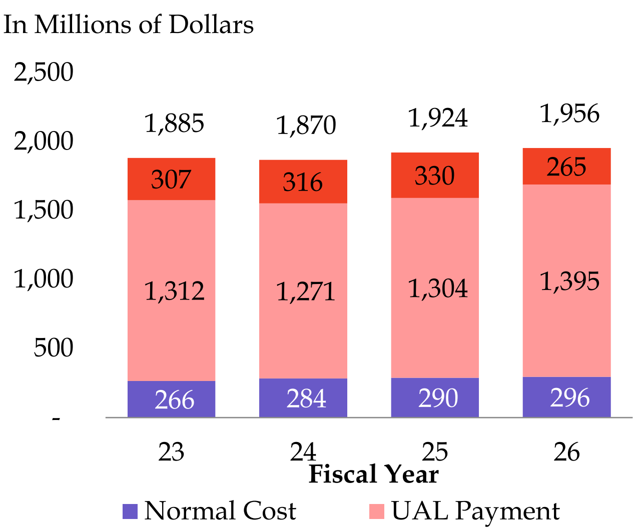
Total TRS Pension Costs – Actuarially Determined Employer Contribution (ADEC) and Debt Service

The 2022 TRS actuarial valuation established the state's FY 24 ADEC of $1,554.5 million. This reflects a decrease of $23.5 million from the FY 23 ADEC which is largely attributable to the additional contributions made to the system in 2021 and 2022 totaling $1,807.2 million discussed below. The ADEC is projected to increase by $38.8 million in FY 25 and $97.3 million in FY 26. The ADEC is a combination of the TRS unfunded accrued liability (UAL) payment and the normal costs. The UAL is the difference between accrued liabilities and the value of assets, while the normal cost represents the portion of the cost of projected benefits allocated to the current plan year. Key findings from the valuation are presented to the right. The ADEC combined with the Debt Service reflect the total TRS pension cost and is shown in **Figure 3** for FY 23 through FY 26.

2022 Valuation Highlights

- Total net decrease in the UAL of $941.8 million and increase in the funded ratio from 51% to 57%.
- These changes are the net result of multiple factors which include:
    - Additional deposits of $903.6 million in both 2021 and 2022 decreased the UAL by $1,777 million. These additional deposits were the first since 2008, when $2 billion from the pension obligation bond went to the TRS.
    - Higher than anticipated Cost-of-Living Adjustments for many retirees resulted in a UAL increase of $716.3 million.
    - Market value investment returns of 25.6% in 2021 and -8.7% for 2022. On a smoothed basis, the two-year compound average rate of return was 7.6% compared to the assumed rate of 6.9%, which decreased the UAL by $207.1 million.

Figure 3. Trends in Teachers' Retirement System Pension-Related Costs[25]



[25] See OFA's TRS Fact Sheet for historical information.

Treasurer Deposits Excess Reserves into TRS

As noted above, the Budget Reserve Fund (BRF) ended FY 21 and FY 22 in excess of the 15% cap. Based on current law, any amount above this threshold is to be transferred to SERS and TRS. The amount the Treasurer designated for TRS, $903.6 million in both 2021 and 2022, was 5% of the system's 2020 UAL of $18,072.8 million. The 2021 and 2022 deposits, totaling $1,807.2 million, result in a marginal ADEC reduction of approximately $146.4 million beginning in FY 24 and totaling over $4,099.1 million over the 25-year amortization as shown in **Table 5**.

Table 4. Additional Deposits to TRS
In Millions of Dollars

Deposit Year	Amount
2021	903.6
2022	903.6
Est. 2023	856.5
Total	**2,663.7**

Table 5. Est. Marginal ADEC Reductions
In Millions of Dollars

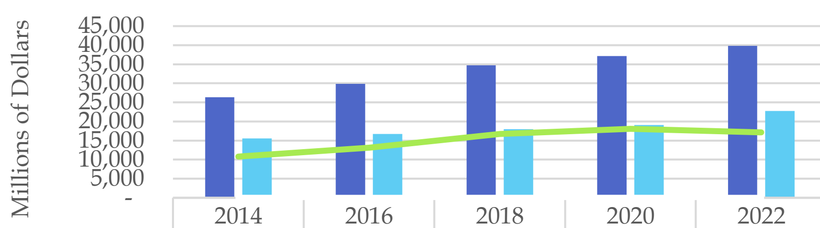
Fiscal Year	Annual	25 Year
FY 24	146.4	4,099.1
FY 25	68.8	2,000.0
	215.2	**4,099.1**

Source: Cavanaugh Macdonald Consulting, OFA estimates

Based on projected 2023 BRF transfers to pensions of $2,746.7 million and past precedent, it is anticipated that the Treasurer will transfer $856.5 million to TRS, which is equal to 5% of the system's 2022 UAL of $17,131.1 million. This is anticipated to result in a marginal ADEC reduction of $68.8 million in FY 25 and a total reduction of $2,000 million over the 25-year amortization period.

The significant additional contributions in 2021 and 2022 were both recognized in the 2022 actuarial valuation because at that time, TRS had actuarial valuations performed biennially. The TRS has moved to annual valuations, which will recognize additional funding and other actuarial gains and losses on an annual basis. The positive results from the 2020 valuation to 2022 valuation, including the $941.8 million net decrease in the UAL and the increase in the funded ratio from 51.3% to 57%, are detailed in **Figure 4**.

Figure 4. TRS Valuation Results – Assets and Liabilities (2014 -2022)
In Millions of Dollars



	2014	2016	2018	2020	2022
Actuarial Liability	26,349	29,860	34,712	37,128	39,860
Actuarial Assets	15,547	16,712	17,952	19,055	22,729
UAL	10,802	13,148	16,760	18,073	17,131
Funded Ratio	59.0%	56.0%	51.7%	51.3%	57.0%

Source: Connecticut TRS Actuarial Valuation, June 30, 2022

The TRS UAL payments are projected to have an average annual growth rate of 2.1% from FY 23 to FY 26 as reflected in **Table 6**. The FY 26 ADEC is the first fully phased in level dollar UAL payment[26] and will remain a stable payment through the remainder of the amortization period. Normal Costs are projected to grow 3.6% while POB Debt Service will decrease by 4.3% from FY 23 to FY 26.

Table 6. Average Annual Growth in TRS Pension Costs (FY 23 – FY 26)

Cost	Average Annual Growth
Actuarially Determined Employer Contribution (ADEC)	
Unfunded Accrued Liability (UAL)	2.1%
Normal Cost	3.6%
ADEC Subtotal	2.3%
POB Debt Service	-4.3%
TOTAL	**1.3%**

Municipal Subsidy Cost Anticipated to Remain Stable after FY 23 Increase in the Subsidy for Retired Teachers in Local School District Health Plans

Retired teachers and spouses, under age 65 and not currently eligible for Medicare, may maintain coverage from their last employing school district. While the cost of health insurance varies from district to district, the TRB sends a monthly subsidy to the school district to offset the cost of the coverage. This subsidy had remained fixed since 1996. Effective July 1, 2022, the monthly subsidy payment was increased to $220 for individual coverage and up to $440 for retiree/spouse coverage for those not yet eligible for Medicare and the TRB health plan. For a small number of older retirees who are ineligible for Medicare, the subsidy increased from $220 to $440 for individual coverage and $880 for retiree/spouse coverage. The state funds one-third of the cost of this subsidy, estimated at approximately $10 million in the out-years with projected flat participation and a fixed subsidy. The remaining two-thirds is paid from the TRB Health Fund, which is supported by active teachers who contribute 1.25% of salary to the Fund.

[26] PA 19-117 included changes to the TRS actuarial factors and assumptions to stabilize the state's contribution to the system. These changes included a transition of the amortization method from level percent of payroll to level dollar amount. This resulted in increasing amortization payments during the 5-yeear phase-in period to achieve a level, more predictable payment schedule in the long-term.

Appendix E. Municipal Aid

Municipal aid[27] is estimated to total $3.7 billion in FY 23, a $216.1 million (6.1%) increase over FY 22 actual expenditures. The most significant driver of the increase is an additional $100 million in Municipal Transition Grants (i.e., car tax grants) to reimburse municipalities for the revenue loss resulting from the reduction in the motor vehicle mill rate cap from 45 mills to 32.46 mills.

The Municipal Revenue Sharing Account (MRSA) is supported via a sales tax revenue diversion. PA 21-2 Sec. 448 transferred $276.3 million from MRSA in FY 23 to the General Fund to support various grants. This transfer will end in FY 24 as reflected in the table out-years.

Municipal aid continues to represent a large portion of General Fund expenditures. Appropriated municipal aid from the General Fund is estimated to total 17% of FY 23 General Fund appropriations. When including $1.6 billion in state assistance from the Teachers' Retirement System (TRS), this figure increases to $5.3 billion or 24.2% of the General Fund.

Municipal Aid Funding (FY 22 Actual – FY 26 Estimated)

Grant or Account	FY 22 Actual	FY 23 Estimated	FY 24 Estimated	FY 25 Estimated	FY 26 Estimated
Appropriated Property Tax Relief and General Aid					
State Property PILOT	54,944,031	54,944,031	54,944,031	54,944,031	54,944,031
College and Hospital PILOT	109,889,434	108,998,308	108,998,308	108,998,308	108,998,308
Disability Exemption	364,713	364,713	364,713	364,713	364,713
Distressed Municipalities	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Elderly Freeze Program	6,647	10,000	10,000	10,000	10,000
Property Tax Relief for Veterans	2,066,166	2,708,107	2,708,107	2,708,107	2,708,107
Municipal Revenue Sharing	36,819,135	36,819,135	36,819,135	36,819,135	36,819,135
Municipal Transition	32,331,732	132,331,732	132,331,732	132,331,732	132,331,732
Municipal Stabilization Grant	37,853,335	37,853,335	37,853,335	37,853,335	37,853,335
Municipal Restructuring	3,900,000	7,300,000	7,300,000	7,300,000	7,300,000
Municipal Restructuring - Debt Service	54,677,710	54,098,049	51,251,707	47,910,459	47,514,279
Pequot Grant	51,472,789	51,481,796	51,481,796	51,481,796	51,481,796
Tiered PILOT	65,508,874	83,092,573	83,092,573	83,092,573	83,092,573
Subtotal	**451,334,566**	**571,501,779**	**568,655,437**	**565,314,189**	**564,918,009**

[27] "Municipal Aid" refers to all grants included in the table in this section, less TRS totals. TRS is included in the table to illustrate other payments made by the state on behalf of municipalities.

Grant or Account	FY 22 Actual	FY 23 Estimated	FY 24 Estimated	FY 25 Estimated	FY 26 Estimated
ECS and Other Education Aid					
Vocational Agriculture	18,824,200	18,824,200	18,824,200	18,824,200	18,824,200
Adult Education	21,214,072	22,333,248	22,326,496	22,326,496	22,326,496
Health and Welfare Services Pupils Private	3,438,415	3,438,415	3,438,415	3,438,415	3,438,415
Education Equalization Grants (ECS)	2,139,188,165	2,178,800,382	2,210,699,648	2,242,460,045	2,274,218,330
Bilingual Education	1,916,130	3,823,260	3,823,260	3,823,260	3,823,260
Priority School Districts	30,818,778	30,818,778	30,818,778	30,818,778	30,818,778
Extended School Hours	2,919,883	2,919,883	2,919,883	2,919,883	2,919,883
School Accountability	3,412,207	3,412,207	3,412,207	3,412,207	3,412,207
Interdistrict Cooperation	1,537,500	1,537,500	1,537,500	1,537,500	1,537,500
Excess Cost - Student Based	140,619,782	156,119,782	156,119,782	156,119,782	156,119,782
Open Choice Program	25,480,849	38,360,327	38,860,327	39,360,327	39,860,327
Magnet Schools	277,438,044	292,926,486	294,786,892	299,552,051	302,805,794
Sheff Transportation	51,843,244	54,240,688	54,910,824	55,731,191	56,701,205
After School Programs	5,750,695	5,750,695	5,750,695	5,750,695	5,750,695
Subtotal	**2,724,401,964**	**2,813,305,851**	**2,848,228,907**	**2,886,074,830**	**2,922,556,872**
Various Other Grants					
Youth Service Bureau	2,631,948	2,654,772	2,654,772	2,654,772	2,654,772
Housing/Homeless Services - Municipality	575,226	575,226	710,306	723,573	737,204
Local and District Departments of Health	7,014,166	7,179,622	7,179,622	7,179,622	7,179,622
School Based Health Clinics	10,607,995	10,680,828	11,545,640	11,546,273	11,546,923
Teen Pregnancy Prevention - Municipality	98,281	98,281	98,281	98,281	98,281
Connecticard Payments	703,638	703,638	703,638	703,638	703,638
Subtotal	**21,631,254**	**21,892,367**	**22,892,259**	**22,906,159**	**22,920,440**
Major Bonding and Other Funding Sources					
MRSA	153,300,000	160,100,000	446,500,000	457,200,000	467,500,000
Town Aid Road	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
LoCIP	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Grants for Municipal Projects/ MME	91,000,000	91,000,000	91,000,000	91,000,000	91,000,000
Subtotal	**334,300,000**	**341,100,000**	**627,500,000**	**638,200,000**	**648,500,000**
TOTAL - Less TRS	**3,531,667,784**	**3,747,799,997**	**4,067,276,603**	**4,112,495,178**	**4,158,895,321**
Teachers' Retirement System (TRS)					
Retirement Contributions	1,443,656,000	1,578,038,000	1,554,542,000	1,593,342,000	1,690,642,000
Retirees Health Service Cost	17,798,866	12,401,000	13,900,000	15,500,000	17,100,000
Municipal Retiree Health Insurance Cost	5,044,148	9,840,000	9,840,000	9,840,000	9,840,000
Subtotal	**1,466,499,014**	**1,600,279,000**	**1,578,282,000**	**1,618,682,000**	**1,717,582,000**
GRAND TOTAL	**4,998,166,798**	**5,348,078,997**	**5,645,558,603**	**5,731,177,178**	**5,876,477,321**

Appendix F. Detail on the FY 23 Agency Deficiencies and Lapses

DEFICIENCIES

Agency	Account	Deficiency $
General Fund		
Office of the State Comptroller	**Adjudicated Claims**	**30.0 million**

There is a projected deficiency of $30 million within the Adjudicated Claims account of the Office of the State Comptroller. No FY 23 appropriation was made for this account. Through October 1, approximately $21.5 million has been expended.

LAPSES

Agency	Account	Lapse $
General Fund		
Office of the State Comptroller	**Various**	**152.5 million**

There is a projected lapse of $27.5 million in the State Employees Health Service Cost account and $125 million in the Retired State Employees Health Services Cost account. The lapse in the retiree health account is attributable to favorable rates negotiated by the Comptroller's office for the state Medicare Advantage program. The remainder of the lapse is due to a greater than anticipated number of retirees transitioning directly into Medicare upon retirement as well as a decrease in Medicare Part B premiums effective January 1, 2023.

State Department of Education	**Excess Cost – Student Based**	**27.1 million**

A lapse of $27.1 million is projected in the Excess Cost – Student Based account due to lower than anticipated expenditures associated with a tiered reimbursement structure for eligible town special education costs, which was established by Section 265 of PA 22-118, the FY 23 Revised Budget. Because the FY 23 appropriation would not fully fund the grant, the new reimbursement structure will be applied at a cost that is now estimated to be $27.1 million less than the appropriation.

Department of Social Services	**Various**	**25.8 million**

The projected lapse of $25.8 million reflects the net impact of a $60 million lapse in Medicaid offset by shortfalls in several accounts. The Medicaid lapse is driven primarily by a lower state share of expenditures because of enhanced federal reimbursement during the public health emergency, as well as adjustments to the ARPA Home and Community Based Services (HCBS) reinvestment plan. An additional lapse of $800,000, also related to the ARPA HCBS reinvestment plan, is projected for the Connecticut Home Care Program. The Other Expenses shortfall ($12 million) reflects increased contract and systems costs. The shortfalls in Temporary Family Assistance ($9 million) and HUSKY B ($1.5 million) are due to a higher than budgeted cost per case. Shortfalls in Old Age Assistance ($5 million) and Aid to the Disabled ($7.5

million) are driven by a delayed start in Medicaid billing for services provided by residential care homes.

Various Agencies	Personal Services	21.4 million

There is a projected lapse in Personal Services totaling $21.4 million across multiple agencies due to the delay in filling vacancies because of recent retirements, newly created positions that have yet to be filled, and difficulties in hiring certain positions (for example nurse and doctors). The table below summarizes the projected lapse for each agency.

Agency	Lapse $
Department of Developmental Services	6.5 million
Department of Revenue Services	6.0 million
Office of Legislative Management	5.0 million
Department of Public Health	1.9 million
Judicial Department	1.2 million
Department of Veterans' Affairs	700,000
Department of Agriculture	70,000
Office of the Attorney General	50,000

Office of the State Treasurer	UConn 2000 Debt Service	2.9 million

A projected lapse of approximately $2.9 million in FY 23 is due to positive results in the FY 22 UConn 2000 General Obligation bond issuance.

Department of Labor	Various	800,000

The projected lapse of approximately $800,000 occurs in: (1) the Veterans' Opportunity Pilot ($253,773), and (2) the Healthcare Apprenticeship Initiative ($500,000). The Veterans' Opportunity Pilot program was suspended in March 2020 due to the pandemic and is not expected to be reestablished within the fiscal year. The Healthcare Apprenticeship Initiative has never been established and it is anticipated that the agency will not have enough staff to do so in FY 23.

Department of Developmental Services	Other Expenses	600,000

A lapse of $600,000 is projected in Other Expenses due to changes in the implementation of the ARPA Home and Community-Based Services reinvestment plan.

Teachers' Retirement Board	Retiree Health Service Cost	500,000

The Retiree Health Service Cost account is projected to lapse $500,000 due to medical rates that are effective January 1, 2023.

Agency	Account	Lapse $
Special Transportation Fund		
Department of Transportation	**Various**	**10.9 million**

There is a projected lapse of $10.9 million for DOT, including $8.9 million in the Personal Services account due to delays in the hiring process to replace vacant positions. There are currently 649 vacancies at the agency. There is a projected lapse of $2 million in the ADA Para-transit Program account due to lower-than-expected ridership.

Department of Motor Vehicles	**Personal Services**	**2.0 million**

There is a projected lapse of $2 million in the Personal Services account. This is due to delays in the hiring process to replace vacant positions. There are currently 268 vacancies at the agency.

Office of the State Treasurer	**STO - Debt Service**	**35.0 million**

A projected lapse of $35 million in FY 23 in STO-Debt Service is due to positive results in the FY 22 transportation bond issuance and a reduction of the FY 23 transportation issuance (from the planned $1,225 million to $830 million), along with market changes and the refinancing of over $300 million of previously issued transportation bonds.

Agency	Account	Lapse $
Insurance Fund		
Department of Insurance	**Personal Services**	**1.4 million**

There is a projected lapse of $1.4 million in Personal Services due to delays in refilling vacancies.

Agency	Account	Lapse $
Workers' Compensation Fund		
Workers' Compensation Fund	**Personal Services**	**1.0 million**

There is a projected lapse of $1 million in the Other Expenses account. This is due to a purchase order cancellation with Journal Technology.

Appendix G. Methodologies, Assumptions, and Sources

METHODOLOGY

CGS Sec. 2-36b requires the Office of Fiscal Analysis (OFA) to estimate, for the out-years, any changes to current year expenditures due to fixed cost drivers.

Flat Funding of Non-Fixed Accounts

The expenditure projections contained in this report may adjust only the accounts categorized as fixed costs to reflect changes over the previous year's expenditures. Most other accounts are flat-funded at FY 23 levels.

This methodology compares the statutorily required annual consensus revenue estimates with the previous year's expenditures plus the annual growth in fixed costs. For years in which expenditures are greater than revenue, an adjustment is calculated. This calculation represents how much non-fixed spending will have to be decreased to achieve a zero ending balance at the end of a given fiscal year. In this year's report, no decreases to non-fixed cost spending are required because revenues are projected to exceed expenditures. See below for a list of key assumptions used to develop cost projections through FY 26.

FIXED COSTS

For this report, OFA examined all expenditure accounts to identify the array of fixed costs. The table below shows the categories of expenditures that compose fixed costs, as well as major categories that, while not identified as fixed costs, make up a significant portion of the budget.

Categories of Non-Fixed and Fixed Costs

Non-Fixed Costs	Fixed Costs
Education (Lower & Higher)	Entitlements
Municipal Aid	Debt Service
Wages and Active Employee Fringe Benefits[1]	Pension Payments
Criminal Justice	Retiree Healthcare Costs
Environment & Economic Development	Adjudicated Claims
Public Safety	Hospital Supplemental Payments

[1]Excluding retirement benefits.

See **Appendix C** for account-level details through FY 26 on the fixed cost expenditure categories identified above.

OTHER ADJUSTMENTS TO EXPENDITURES

In addition to fixed cost increases, OFA includes adjustments to account for ongoing expenses of the private provider and personnel/wage increases that were included in FY 23 and paid for through carryforward funding.

FIXED COST ASSUMPTIONS

The following assumptions were used to develop fixed cost projections.

Department of Children and Families (DCF)
No Nexus Special Education
Expenditures are flat-funded as residential treatment special education caseloads are anticipated to remain at approximately the current levels in the out-years.

Board and Care for Children – Adoption
Expenditures for this account reflect a growth rate of approximately 2% each fiscal year.

Board and Care for Children – Foster
Expenditures for this account reflect a growth rate of approximately 2% each fiscal year.

Board and Care for Children – Short-term and Residential
It is anticipated that the caseload will remain at approximately the current levels in the out-years.

Individualized Family Supports
This wraparound services account is projected to remain at approximately its current spending level in the out-years.

Department of Mental Health and Addiction Services
General Assistance Managed Care
Assumes an average account growth of 3% to accommodate cost and caseload needs.

Medicaid Adult Rehabilitation Option
Expenditures are flat-funded based on trends in recent years.

Department of Social Services
Medicaid
Reflects average growth of 3% per year to accommodate cost and caseload requirements as well as adjustments to reflect a return to the state's standard Federal Medical Assistance Percentage (FMAP).

HUSKY B
Reflects adjustments for caseload growth as member months are anticipated to increase due to recent program expansions. Costs are also adjusted to reflect a return to the state's standard FMAP for this program.

Community Residential Services
Reflects new and annualized caseload growth for DDS community placements, including individuals aging out of services provided by the DCF and local education agencies, long-term care residents (Money Follows the Person), and Southbury Training School residents. Funding in the OPM Private Providers account in the out-years reflects General Fund support of DDS settlement costs that were funded by carryforward and ARPA funds in the biennium.

Hospital Supplemental Payments
Reflects appropriation levels as dictated by Exhibit 6 of the hospital settlement agreement. SA 19-1 and PA 19-1 of the December Special Session approved and implemented the hospital settlement agreement for *The Connecticut Hospital Association et al. v. Connecticut Department of Social Services et al*.

Temporary Family Assistance
Reflects adjustments to support increased benefits and caseload based on program changes included in the FY 23 Revised Budget.

Old Age Assistance
Reflects standards increases and adjustments for caseload requirements.

Aid to the Disabled
Reflects standards increases and adjustments for caseload requirements.

Other Entitlements
Annual growth for State Administered General Assistance and Aid to the Blind are flat-funded based on caseload trends in recent years.

Office of Early Childhood
Birth to Three
Projections reflect a 3% growth rate per fiscal year based on expenditure trends.

Care4Kids TANF/CCDF
Reflects adjustments for caseload growth. Projections for this account only reflect the state's share of costs, due to net appropriation of the account.

State Comptroller – Fringe Benefits
State Employee Retirement (SERS)
Reflects actuarial projections of the unfunded accrued liability payment (UAL), and the normal cost, based on assumptions in the June 30, 2021 SERS valuation. Projections assume: (1) level percentage of payroll amortization and a closed five-year phase-in to level dollar in FY 23, (2) a 6.9% discount rate, and (3) amortization of UAL over the remaining 25 years for both statutory and transitional bases.

Projections for the impact of additional deposits into SERS are based on information supplied by Cavanaugh MacDonald (the state's actuary), using modeling software of the SERS plan, and internal OFA revenue projections. The ADEC payments reflect the savings from additional deposits in 2022 and the projected deposit in 2023 from the Budget Reserve Fund.

OFA assumes all volatility transfer amounts will be deposited into SERS in the out-years to remain consistent with assumptions in the FY 22 and FY 23 Budget.

Higher Education Alternative Retirement System
Reflects growth based on projected changes in personal services.

Pensions & Retirements - Other Statutory
Assumes approximately 5% growth per fiscal year based on average, historical changes in the account, including Cost of Living Adjustments.

Judges and Compensation Commissioners' Retirement System
Reflects the unfunded accrued liability payment, and the normal cost, based on actuarial projections and assumptions in the most recent June 30, 2021 valuation. Projections assume: (1) level percentage of payroll amortization, (2) a 6.9% discount rate, and (3) a closed amortization period.

Retired State Employees Health Service Cost
Reflects an average annual account growth of 5% per year. Growth is based on projected changes in medical, dental, and pharmacy trends for non-Medicare covered retirees and dependents, and projections for the Medicare Advantage Plan for Medicare covered retirees and dependents.

State Treasurer
Debt service
Reflects outstanding debt payments plus modeled projections that used current market interest rates.

Debt limit
Reflects consensus net tax revenues, except as noted.

Annual Limits on Bond Usage
The allocation and issuance bond caps reflect statutorily required adjustments, as per the Bureau of Labor Statistics Consumer Price Index (CPI) Less Food and Energy. Projected adjustments to those bond caps reflect estimated annual growth in the CPI.

Teachers' Retirement Board
Retirement Contributions
Reflects the actuarially determined employer contribution (ADEC) calculated by the pension plan actuaries. The account projections assume: (1) a transition to a level-dollar amortization methodology, (2) a 6.9% assumed rate of investment return, and (3) the amortization of the unfunded accrued liability over the remaining 26 years for the statutory base. The ADEC payments reflect the savings from additional deposits in 2021 and 2022 and the projected deposit in 2023 from the Budget Reserve Fund.

Retiree Health Service Cost
Reflects the state share of one-third of the basic plan premium costs as provided by statute and incorporates projected premium costs and membership trends.

Municipal Retiree Health Insurance Costs
Reflects the state share of one-third of the municipal subsidy, which assumes flat growth in both the statutory municipal subsidy and participation.

TAX EXPENDITURE SOURCES, METHODOLOGIES, AND ASSUMPTIONS

The Department of Revenue Services (DRS) is the primary source for data on tax expenditures. However, if DRS does not have information available, other viable sources are utilized. Such sources include federal agencies (such as the Census Bureau and the Energy Information Administration), other Connecticut state agencies outside of DRS, and state agencies from other U.S. states.

To provide estimates for the current fiscal year and the out-years, collected data was analyzed and grown on an individual basis, holding constant all other tax provisions. Certain tax expenditures have no growth in the out-years or follow a historical trending pattern. In other cases, a variety of sources are utilized when applicable. These include, but are not limited to:

1. Growth rates, calculated with consensus revenue estimates;
2. Economic indicator projections provided by Moody's Analytics;
3. CPI growth rates reported by the Bureau of Labor Statistics; and
4. Federal Open Market Committee statements.