

# **FISCAL ACCOUNTABILITY REPORT**

## **FISCAL YEARS 2022 – 2026**



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

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**NOVEMBER 19, 2021**





# OFFICE OF POLICY AND MANAGEMENT

## FISCAL ACCOUNTABILITY REPORT

### NOVEMBER 2021

## TABLE OF CONTENTS

|                                                                | <u>Page</u> |
|----------------------------------------------------------------|-------------|
| Overview .....                                                 | 3           |
| Current Fiscal Year Outlook .....                              | 6           |
| General Fund.....                                              | 6           |
| Special Transportation Fund .....                              | 8           |
| Budget Reserve Fund .....                                      | 9           |
| Outlook for FY 2023 Through FY 2026 .....                      | 10          |
| General Fund.....                                              | 11          |
| Special Transportation Fund .....                              | 18          |
| Connecticut's Economy.....                                     | 22          |
| Special Topics.....                                            | 28          |
| Spending Cap .....                                             | 28          |
| Revenue Cap .....                                              | 29          |
| Revenue Volatility Cap .....                                   | 29          |
| Long-Term Liabilities.....                                     | 29          |
| Pensions.....                                                  | 30          |
| State Employees Retirement System (SERS) .....                 | 30          |
| Teachers' Retirement System (TRS).....                         | 32          |
| Outlook for SERS and TRS .....                                 | 33          |
| Other Post-Employment Benefits (OPEB).....                     | 36          |
| Debt Service .....                                             | 37          |
| Medicaid .....                                                 | 37          |
| ARPA Home and Community Based Services Reinvestment Plan ..... | 40          |
| Substance Use Disorder Waiver.....                             | 41          |
| Municipal Aid .....                                            | 42          |
| State Workforce .....                                          | 43          |
| Gaming Modernization .....                                     | 44          |

|                                                               |    |
|---------------------------------------------------------------|----|
| Adult-Use Cannabis.....                                       | 45 |
| Federal Funds.....                                            | 48 |
| Federal Budget and Policy Issues.....                         | 48 |
| Efforts to Preserve or Maximize Federal Revenue .....         | 48 |
| Federal Stimulus and Pandemic Assistance.....                 | 49 |
| Federal Infrastructure Legislation.....                       | 52 |
| Bonding .....                                                 | 54 |
| Projected Bond Authorizations, Allocations and Issuances..... | 54 |
| Statutory General Obligation Bond Debt Limit.....             | 55 |
| Bonding Caps .....                                            | 56 |
| Community Investment Fund .....                               | 56 |
| Budget Reserve Fund .....                                     | 57 |
| Projected Tax Credits .....                                   | 59 |

## OVERVIEW

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

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

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

### FY 2022

The General Fund is projected to finish the year with a \$894.7 million operating surplus. This surplus is due to favorable revenue collections as well as expenditure requirements less than those in the enacted budget. The favorable variance is largely due to the federal extension of the pandemic emergency declaration through the quarter ending March 31, 2022, and to the American Rescue Plan Act (ARPA) home and community-based services (HCBS) reinvestment plan and the substance use disorder (SUD) waiver, both of which were unbudgeted but will be implemented this year.<sup>1</sup> Because at least \$150 million of the projected increase in federal revenue driving this surplus is related to the early receipt of federal Medicaid funding for services that will be rendered in future fiscal years (pursuant to the ARPA reinvestment requirements), it is recommended that funds be transferred to realign the timing of receipt of federal revenue with expenditures; this would reduce the estimated surplus for FY 2022 to \$744.7 million. It is anticipated that the operating surplus and any revenues that exceed the volatility cap will be deposited into the Budget Reserve Fund at the end of FY 2022.

It is important to emphasize that the enacted budget for the current biennium relies on one-time ARPA funds of \$560 million in FY 2022 and almost \$1.2 billion in FY 2023 to achieve balance. If not for the use of this one-time source, projected results for FY 2022 would only be modestly positive—estimated at \$185 million, less than 1 percent above the General Fund—and FY 2023 would end with a sizable operating deficit. Because of this reliance on one-time funding, the state will need to experience significant revenue growth this biennium to prevent a large budgetary gap in FY 2024 and beyond.

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<sup>1</sup> Pages 40 and 41 discuss these two initiatives in greater detail.

| <b>General Fund - Structural Balance</b><br>(in millions) |                |                      |                |
|-----------------------------------------------------------|----------------|----------------------|----------------|
|                                                           | FY 2022        |                      | FY 2023        |
| <b>General Fund</b>                                       | Budget<br>Plan | OPM Nov.<br>Estimate | Budget<br>Plan |
| Revenues                                                  | \$21,021.3     | \$21,549.0           | \$21,537.2     |
| Expenditures                                              | 20,746.4       | 20,654.3             | 21,534.3       |
| Operating Balance - Surplus/(Deficit)                     | \$ 274.9       | \$ 894.7             | \$ 2.8         |
| Consensus Revenue Adjustment                              |                |                      | \$ 253.7       |
| Less One-Time Revenues:                                   |                |                      |                |
| ARPA Revenue Replacement                                  | (559.9)        | (559.9)              | (1,194.9)      |
| ARPA HCBS Revenue - reserved for 3-year reinvestment      |                | (150.0)              | -              |
| Revised Balance                                           | \$ (285.0)     | \$ 184.8             | \$ (938.4)     |

The Special Transportation Fund is expected to finish the year with a \$251.3 million operating surplus. The fund balance on June 30, 2022, is projected to be \$492.4 million.

#### FY 2023 Through FY 2026

As shown in the table below, General Fund revenues in FY 2023 are \$517.7 million above projected FY 2022 revenues, while FY 2024 revenues are projected to drop by \$1,189.5 million before resuming growth in FY 2025 and FY 2026. The largest factor contributing to the decrease in revenue from FY 2023 to FY 2024 is the loss of almost \$1.2 billion in Coronavirus State Fiscal Recovery Funds which were used to balance the FY 2023 budget, followed by the full diversion of 0.5% of the Sales and Use Tax to the Municipal Revenue Sharing Account, for a loss of \$276.3 million. Revenues in FY 2024 also include resumption of amortization payments of \$120.8 million per year toward resolving the cumulative GAAP deficit. Without those factors, revenue growth in FY 2024 would amount to \$748.0 million over FY 2023.

As a result of the November 10, 2021, consensus revenue forecast, bond authorizations are anticipated to remain under the statutory 90 percent General Obligation bond debt limit. As a result, no reductions in bond authorizations are anticipated in order to remain compliant with the debt limit.

As depicted in the table below, “fixed” costs in the General Fund are anticipated to rise by \$994 million in FY 2023, driven largely by the expiration of the pandemic-related enhanced federal matching percentage for Medicaid, the return to more normal service utilization patterns in FY 2023, additional expenditures related to the ARPA HCBS reinvestment plan and the SUD waiver, and annualization of various initiatives in Medicaid including hospital and nursing home rate increases. Beyond the current biennium, fixed costs are projected to increase less dramatically, with annual increases of \$282 million, \$420 million, and \$307 million in fiscal years 2024 through 2026. Fixed cost growth during this period is driven by continued Medicaid growth; rising debts service costs, in part due to the amortization schedule for paying pension obligation bonds issued to support the Teachers’ Retirement Fund; and Teacher’s Retirement Fund pension costs during the phase-in to level dollar amortization through FY 2026.

In the Special Transportation Fund, “fixed” cost growth during the FY 2023 through FY 2026 period is driven by growth in debt service costs, while state employee pension costs are anticipated to remain essentially flat for the foreseeable future.

# FINANCIAL SUMMARY

## YEAR-OVER-YEAR REVENUE GROWTH vs. FIXED COST GROWTH

(in millions)

### GENERAL FUND

|                         | FY 2023 vs.<br>FY 2022 | FY 2024 vs.<br>FY 2023 | FY 2025 vs.<br>FY 2024 | FY 2026 vs.<br>FY 2025 |
|-------------------------|------------------------|------------------------|------------------------|------------------------|
| Revenue Growth          | \$ 517.7               | \$ (1,189.5)           | \$ 551.5               | \$ 588.6               |
| Fixed Cost Growth       |                        |                        |                        |                        |
| Debt Service            | 164.1                  | 20.1                   | 132.2                  | 51.7                   |
| State Employee Pensions | 79.6                   | 24.6                   | 33.7                   | (8.7)                  |
| Teacher Pensions        | 134.4                  | 85.8                   | 107.6                  | 97.3                   |
| State and Teachers OPEB | 122.5                  | (26.2)                 | 28.3                   | 27.8                   |
| Medicaid                | 476.7                  | 168.9                  | 118.4                  | 134.8                  |
| Other Entitlements      | 17.3                   | 9.1                    | (0.3)                  | 4.4                    |
| Total Fixed Cost Growth | 994.4                  | 282.3                  | 419.9                  | 307.4                  |
| Difference              | \$ (476.7)             | \$ (1,471.8)           | \$ 131.6               | \$ 281.2               |

### SPECIAL TRANSPORTATION FUND

|                                  | FY 2023 vs.<br>FY 2022 | FY 2024 vs.<br>FY 2023 | FY 2025 vs.<br>FY 2024 | FY 2026 vs.<br>FY 2025 |
|----------------------------------|------------------------|------------------------|------------------------|------------------------|
| Revenue Growth                   | \$ 165.0               | \$ 56.3                | \$ 24.2                | \$ 33.5                |
| Fixed Cost Growth                |                        |                        |                        |                        |
| Debt Service                     | 94.6                   | 76.4                   | 64.1                   | 55.9                   |
| State Employee Pensions and OPEB | 9.3                    | (1.1)                  | 3.4                    | (1.6)                  |
| Total Fixed Cost Growth          | 103.9                  | 75.3                   | 67.5                   | 54.3                   |
| Difference                       | \$ 61.1                | \$ (19.0)              | \$ (43.3)              | \$ (20.8)              |

# CURRENT FISCAL YEAR OUTLOOK

## FY 2022 - GENERAL FUND

The adopted FY 2022 budget anticipated a \$274.9 million balance at year end. The Office of Policy and Management is projecting an operating surplus of \$894.7 million, 4.3 percent of the General Fund. Revenues are \$527.7 million above the budget plan, while estimated expenditures are \$92.1 million below the budgeted level.

| FY 2022 - General Fund                |               |                 |               |
|---------------------------------------|---------------|-----------------|---------------|
|                                       | (in millions) |                 |               |
|                                       | Budget        | OPM             | Variance      |
| <u>General Fund</u>                   | <u>Plan</u>   | <u>Estimate</u> | <u>from</u>   |
|                                       |               | <u>11/19/21</u> | <u>Budget</u> |
| Revenues                              | \$ 21,021.3   | \$ 21,549.0     | \$ 527.7      |
| Expenditures                          | 20,746.4      | 20,654.3        | (92.1)        |
| Operating Results - Surplus/(Deficit) | \$ 274.9      | \$ 894.7        | \$ 619.8      |

### Revenue

Projected revenues are \$527.7 million above the level envisioned in the enacted budget for FY 2022, reflective of the November 10, 2021, consensus revenue forecast. The largest variance is in Federal Grants, up \$380.8 million, due mainly to the inclusion of \$159.5 million from the American Rescue Plan Act HCBS reinvestment plan and \$4.1 million for the new Medicaid 1115 SUD waiver. The remaining \$217.2 million increase in Federal Grants is due to greater federal reimbursement than originally anticipated; this is partly due to continuation of enhanced Medicaid matching payments associated with the extension of the public health emergency through the quarter ending March 31, 2022. The Sales and Use Tax is \$155.3 million ahead of budgeted levels as collections continue to exceed our target. All other changes net to a negative \$8.4 million.

Although this positive variance is certainly good news, by far the majority is related to receipts from the federal government, not own-source revenues. Moreover, some of these increased federal revenues will be associated with additional expenditure requirements in FY 2022 and future years. For example, the revenue generated under the ARPA HCBS initiative in FY 2022 must be reinvested over the three-year reinvestment period; legislative action to transfer these revenues for use in future years will therefore be required. As mentioned in prior months, the adopted budget for the biennium was balanced with more than \$1.75 billion in one-time federal funds from the American Rescue Plan Act being used for general revenue replacement. In order to offset the expiration of that one-time funding, the state will need to experience significant revenue growth this biennium to prevent a large budgetary gap in FY 2024 and beyond.

### Expenditures and Discussion of Projected Deficiencies

The Office of Policy and Management (OPM) is projecting that FY 2022 net expenditures will be below the budget plan by \$92.1 million, as explained further below.

*Deficiencies.* Projected shortfalls totaling \$55.7 million are forecast in the following agencies:

- Department of Labor. A net \$14.75 million deficiency is projected in the Personal Services account due to the expiration of approximately \$16.3 million in federal funds supporting additional temporary staff responsible for responding to the increased and ongoing pandemic-related demand in the Unemployment Insurance program.

- Commission on Human Rights and Opportunities. A \$350,000 shortfall in Personal Services is projected due largely to the addition of durational staff to aid with the agency's COVID-related caseload.
- Office of the Chief Medical Examiner. A \$200,000 shortfall is estimated due to overtime coverage of vacant positions.
- Department of Developmental Services. A net \$15.4 million shortfall is anticipated due to expenditure requirements associated with the implementation of the American Rescue Plan Act HCBS reinvestment plan. The accounts with the largest additional funding requirements are Employment and Day Services, \$12.55 million; Other Expenses, \$7.6 million; and ID Partnership, \$1.25 million. Partially mitigating these additional requirements are projected lapses of \$2.0 million in Personal Services due to turnover, and \$4.0 million in the Behavioral Services Program due to lower caseloads and more individuals receiving services in their homes rather than in more expensive residential settings.
- State Comptroller – Miscellaneous. We estimate \$25.0 million in expenditures for Adjudicated Claims. No appropriation was made in the enacted budget for payment of these claims.

*Lapses.* The following sums totaling \$164.55 million beyond programmed lapses are estimated to remain unspent this fiscal year:

- Auditors of Public Accounts. A lapse of \$400,000 is forecast in the Personal Services account due to vacancies.
- Secretary of the State. A lapse of \$200,000 is projected in the Personal Services account due to vacancies.
- Division of Criminal Justice. A lapse of \$1.1 million is forecast in the Personal Services account due to vacancies.
- Department of Revenue Services. A lapse of \$200,000 is estimated in the Personal Services account due to vacancies.
- Department of Public Health. A lapse of \$800,000 is forecast in the Personal Services account due to vacancies.
- Department of Mental Health and Addiction Services. A net lapse of \$3.8 million is anticipated in the Personal Services account due to vacancies. This estimate includes the impact of additional requirements for the agency to implement the American Rescue Plan Act HCBS reinvestment plan and the SUD waiver.
- Department of Social Services. A total of \$121.2 million is projected to lapse. This is primarily the result of an estimated \$116.0 million lapse in the Medicaid account due to the extension of the public health emergency declaration by the federal government, which maintains the enhanced level of federal reimbursement through March 31, 2022, thus reducing the state share of program costs, as well as lower levels of service utilization. Medicaid requirements are further reduced by \$34.0 million as a result of the combined impact of the ARPA HCBS reinvestment plan and the SUD waiver; the extra 10% federal reimbursement available on home and community-based services through March 31, 2022, reduces overall state requirements under Medicaid and is partially offset by the anticipated costs to Medicaid under the SUD waiver. The ARPA HCBS reinvestment plan and the SUD waiver will also require additional funding of \$5.2 million under Other Expenses while the ARPA HCBS plan will require an additional \$31.2 million under the Community Residential Services account and \$4.0 million under the Connecticut Home Care program. Reduced caseloads will result in lapses of \$5.0 million in Temporary Family Assistance, \$1.5 million in State Administered General Assistance and \$1.1 million in the Connecticut Home Care program. Reduced caseloads and service utilization, coupled with the extension of enhanced federal reimbursement through March 31, 2022, are expected to result in a \$4.0 million lapse in the HUSKY B account.

- Department of Aging and Disability Services. A \$200,000 lapse is projected in the Educational Aid for Children account due to vacancies.
- Office of Higher Education. A lapse of \$100,000 is estimated in the Personal Services account due to vacancies.
- Teachers' Retirement Board. A lapse of \$8.5 million is anticipated in the Retiree Health Service Cost account due to lower than budgeted health premium costs.
- Department of Children and Families. A total of \$18.4 million is anticipated to lapse across a variety of accounts, primarily those related to board and care, due to the continuing impact of the pandemic on agency caseloads and service utilization.
- Judicial Department. A lapse of \$3.0 million is estimated in the Personal Services account due to vacancies.
- Public Defender Services Commission. A \$400,000 lapse in the Assigned Counsel – Criminal account is projected due to current cost trends.
- State Comptroller – Fringe Benefits. A total lapse of \$6.25 million is projected. The Unemployment Compensation account will lapse \$5 million as a result of increased federal support during the first four months of the fiscal year. All other accounts net to a positive lapse of \$1.25 million.

In addition to the items noted above, there may be additional funding requirements resulting from implementation activities associated with the passage of Public Act 21-1, June Special Session. See page 45 for a discussion of this topic.

## FY 2022 - SPECIAL TRANSPORTATION FUND

The adopted budget anticipates a \$167.9 million balance from operations. OPM estimates that the Special Transportation Fund will end the year with an operating surplus of \$251.3 million, and that the Transportation Fund balance on June 30, 2022, will be \$492.4 million.

Projected revenues are \$64.2 million above the level envisioned in the enacted budget for FY 2022, reflective of the November 10, 2021, consensus revenue forecast. The largest variances from budget are in the Oil Companies Tax, up \$20.0 million compared to the enacted budget, a result of increasing prices and consumption. Sales Tax – DMV is also trending \$20.0 million ahead of budget and Motor Vehicle Receipts are \$15.0 million above budgeted levels, both because of increased sales transactions. As seen in the General Fund, improved economic activity has translated into increases in the Sales and Use Tax, a portion of which supports the Special Transportation Fund, resulting in an upward variance of \$19.3 million. All other changes net to a negative \$10.1 million.

In aggregate, expenditures are projected to be \$19.2 million below the level assumed in the adopted budget. The items identified below more than satisfy the unassigned, budgeted lapse of \$12.0 million.

- Department of Transportation. A lapse of \$8.8 million in Personal Services is anticipated due to vacancies.
- State Treasurer – Debt Service. A lapse of \$22.4 million is projected primarily due to a reduction in the par amount and timing of the Fall 2022 Special Tax Obligation bond sale. The projected lapse also includes savings associated with lower than anticipated interest rates for that sale.

| <b>FY 2022 - Special Transportation Fund</b> |                |                             |                            |
|----------------------------------------------|----------------|-----------------------------|----------------------------|
|                                              | (in millions)  |                             |                            |
|                                              | Budget<br>Plan | OPM<br>Estimate<br>11/19/21 | Variance<br>from<br>Budget |
| <b><u>Special Transportation Fund</u></b>    |                |                             |                            |
| Revenues                                     | \$ 1,889.7     | \$ 1,953.9                  | \$ 64.2                    |
| Expenditures                                 | <u>1,721.8</u> | <u>1,702.6</u>              | <u>(19.2)</u>              |
| Operating Results - Surplus/(Deficit)        | \$ 167.9       | \$ 251.3                    | \$ 83.4                    |
| Proj. Fund Balance 6/30                      |                | \$ 492.4                    |                            |

## FY 2022 - BUDGET RESERVE FUND

The state's reserves at the close of FY 2021 are \$4.7 billion, or 22.8 percent of FY 2022 net General Fund appropriations. We project that, after transfers out of the fund pursuant to the close-out of FY 2021 and transfers into the fund pursuant to the statutory volatility cap<sup>2</sup> and the estimated FY 2022 operating surplus, the fund balance at the end of FY 2022 will be \$4.98 billion, or 24 percent of net General Fund appropriations for the current year and 23 percent of FY 2023 appropriations contained in Special Act 21-15. Given that this balance exceeds the statutory 15 percent cap for the Budget Reserve Fund, additional transfers to the State Employees Retirement Fund and/or the Teachers' Retirement Fund are expected during the close-out period for FY 2022.

| <b>Budget Reserve Fund</b>                                            |                 |
|-----------------------------------------------------------------------|-----------------|
|                                                                       | (in millions)   |
| Estimated BRF Starting Balance - FY 2022 (OSC 9/30/21 Est.)           | \$ 4,735.4      |
| Deposit to SERS/TRS pursuant to Sec. 4-30a, C.G.S. (OSC 9/30/21 Est.) | \$ (1,623.3)    |
| Projected Operating Surplus - FY 2022 (OPM 11/19/21 Est.)             | \$ 894.7        |
| Volatility Cap Deposit - FY 2022 (OPM 11/19/21 Est.)                  | <u>\$ 969.2</u> |
| Estimated BRF Ending Balance - FY 2022                                | \$ 4,975.9      |

The long-term outlook for the Budget Reserve Fund is discussed on page 57.

<sup>2</sup> See page 29 for more information about the revenue volatility cap.

# **OUTLOOK FOR FISCAL YEAR 2023 THROUGH FISCAL YEAR 2026**

## **BACKGROUND AND METHODOLOGY**

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

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

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

## FY 2023 TO FY 2026 - GENERAL FUND OUTLOOK

Pursuant to Section 2-36b of the Connecticut General Statutes, this report compares year-over-year revenue growth to growth in fixed costs. Revenues are derived from the November 10, 2021, consensus forecast, and are explained later in this document. OPM's approach for estimating "fixed costs" is explained in more detail below.

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

### PROJECTED GROWTH IN EXPENDITURES FIXED COST DRIVERS (Amounts Represent Year Over Year Change)

| <b>GENERAL FUND</b>                                            | <b>FY 2023 increase<br/>over FY 2022</b> | <b>FY 2024 increase<br/>over FY 2023</b> | <b>FY 2025 increase<br/>over FY 2024</b> | <b>FY 2026 increase<br/>over FY 2025</b> |
|----------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| DMHAS - General Assistance Managed Care                        | (16,753,840)                             | 1,129,602                                | (66,500)                                 | -                                        |
| DMHAS - Medicaid Adult Rehabilitation Option                   | -                                        | 167,370                                  | -                                        | -                                        |
| DSS - HUSKY B Program                                          | 2,810,000                                | 4,040,000                                | 1,140,000                                | 830,000                                  |
| DSS - Medicaid                                                 | 476,650,123                              | 168,863,877                              | 118,370,000                              | 134,820,000                              |
| DSS - Old Age Assistance                                       | (4,710,000)                              | (1,902,093)                              | 244,061                                  | 177,387                                  |
| DSS - Aid To The Blind                                         | 20,700                                   | 13,281                                   | 3,243                                    | (19)                                     |
| DSS - Aid To The Disabled                                      | (9,400,000)                              | (3,022,217)                              | (246,017)                                | (356,464)                                |
| DSS - Temporary Family Assistance - TANF                       | (2,880,000)                              | (257,368)                                | (292,526)                                | (289,601)                                |
| DSS - Connecticut Home Care Program                            | 6,105,127                                | 1,389,873                                | (3,160,000)                              | 1,240,000                                |
| DSS - Community Residential Services                           | 25,688,587                               | -                                        | -                                        | -                                        |
| DSS - State Administered General Assistance                    | (890,000)                                | (107,882)                                | (146,615)                                | (96,277)                                 |
| DSS - Hospital Supplemental Payments                           | -                                        | -                                        | -                                        | -                                        |
| OEC - Birth to Three                                           | 1,000,000                                | 1,200,000                                | -                                        | -                                        |
| OEC - Care4Kids TANF/CCDF                                      | -                                        | -                                        | -                                        | -                                        |
| TRB - Retirement Contributions                                 | 134,382,000                              | 85,817,000                               | 107,600,000                              | 97,300,000                               |
| TRB - Retirees Health Service Cost                             | (5,306,000)                              | 389,610                                  | 394,731                                  | 388,664                                  |
| TRB - Municipal Retiree Health Insurance Costs                 | -                                        | -                                        | -                                        | -                                        |
| DCF - No Nexus Special Education                               | 275,874                                  | -                                        | -                                        | -                                        |
| DCF - Board and Care for Children - Adoption                   | 4,253,953                                | 3,041,346                                | 1,928,943                                | 2,207,649                                |
| DCF - Board and Care for Children - Foster                     | 13,914,082                               | 2,878,133                                | 341,778                                  | 559,447                                  |
| DCF - Board and Care for Children - Short-term and Residential | (3,128,506)                              | 485,597                                  | (349)                                    | 111,202                                  |
| DCF - Individualized Family Supports                           | 978,180                                  | -                                        | -                                        | -                                        |
| OTT - Debt Service                                             | 47,018,233                               | 10,651,970                               | 120,396,065                              | 119,246,434                              |
| OTT - UConn 2000 - Debt Service                                | 14,018,025                               | 3,306,125                                | 602,744                                  | (2,181,312)                              |
| OTT - CHEFA Day Care Security                                  | -                                        | -                                        | -                                        | -                                        |
| OTT - Pension Obligation Bonds - TRB                           | 103,600,000                              | 8,991,400                                | 14,519,000                               | (64,939,150)                             |
| OTT - Municipal Restructuring                                  | (579,661)                                | (2,846,342)                              | (3,341,248)                              | (396,180)                                |
| OSC - Higher Education Alternative Retirement System           | 962,800                                  | (168,486)                                | 320,725                                  | 328,743                                  |
| OSC - Pensions and Retirements - Other Statutory               | 55,277                                   | 65,737                                   | 67,710                                   | 69,741                                   |
| OSC - Judges and Compensation Commissioners Retirement         | 1,966,222                                | 1,308,281                                | 1,357,572                                | 1,408,776                                |
| OSC - Retired State Employees Health Service Cost              | 124,282,000                              | 26,448,888                               | 26,886,749                               | 26,387,196                               |
| OSC - Other Post Employment Benefits                           | 3,488,364                                | (53,021,630)                             | 1,001,815                                | 1,031,869                                |
| OSC - SERS Defined Contribution Match                          | 9,174,855                                | 5,924,052                                | 6,881,982                                | 7,455,481                                |
| OSC - State Employees Retirement Contributions - Normal Cost   | 5,288,885                                | (3,435,006)                              | (1,396,718)                              | (549,479)                                |
| OSC - State Employees Retirement Contributions - UAL           | 62,154,516                               | 20,945,984                               | 26,469,153                               | (17,398,962)                             |
| <b>TOTAL - GENERAL FUND</b>                                    | <b>994,439,796</b>                       | <b>282,297,102</b>                       | <b>419,876,298</b>                       | <b>307,355,145</b>                       |

### Assumptions Used to Develop Growth Estimates for Fixed Costs

The FY 2023 column in the table above represents the anticipated increase in spending over the FY 2022 estimated level. The FY 2024 through FY 2026 columns in that table represent the anticipated increase in spending versus the estimated amounts for the immediately preceding fiscal year. Explanations of assumptions used to develop the forecast follow.

#### DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

- *General Assistance Managed Care* - Reflects reduced expenditures resulting from the new Medicaid 1115 substance use disorder waiver. Substance use residential treatment services currently funded out of this account will become Medicaid-reimbursable and associated costs are reflected in the DSS Medicaid account.

#### DEPARTMENT OF SOCIAL SERVICES

- *HUSKY B Program, Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, Temporary Family Assistance, Connecticut Home Care Program, State Administered General Assistance, and Community Residential Services* - Reflect anticipated cost and caseload changes based on current trends, as well as annualization of adjustments.
- *Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, and Community Residential Services* - Reflect leap year payments in FY 2024.
- *Medicaid, Connecticut Home Care Program, Community Residential Services* - Reflect additional costs related to the ARPA home and community-based services reinvestment plan and the Medicaid 1115 substance use disorder waiver.
- *Medicaid* - Reflects pickup of ARPA-funded programs where ongoing support is required: increase in personal needs allowance, and additional support for nursing homes to meet minimum social work staffing requirements.

#### OFFICE OF EARLY CHILDHOOD

- *Birth to Three* - Reflects pickup of costs for program expenses previously covered by parent fees that were supported during the FY 2022 - FY 2023 biennium through funds carried forward from FY 2021.

#### TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* - Reflects the estimated actuarially determined employer contributions from the pension plan actuaries adjusted for the impact of the FY 2021 Budget Reserve Fund deposit starting in FY 2024.
- *Retirees Health Service Cost* - Reflects medical inflation.

#### DEPARTMENT OF CHILDREN AND FAMILIES

- *Board and Care for Children - Adoption, Foster Care, and Short-Term and Residential* - Board and Care for Children accounts have been adjusted in FY 2024 for the cost of an additional per diem payment due to leap year.
- *Board and Care for Children - Adoption, Foster Care, Short-Term and Residential* - Reflect anticipated growth in the number of children in subsidized adoption, guardianship and foster care homes, additional post-secondary costs for children adopted after January 1, 2005, and aligning congregate care capacity with utilization.

#### DEBT SERVICE - STATE TREASURER

- *Debt Service* - Reflects the issuance of \$1.6 billion in General Obligation bonds each year.
- *UConn 2000 - Debt Service* - Reflects Treasurer's current schedule for the issuance of UConn 2000 General Obligation bonds.

- *Pension Obligation Bonds - TRB* - Reflects the debt service schedule for the pension obligation bonds issued for the Teachers' Retirement Fund.
- *Municipal Restructuring* - Reflects debt service payments for the City of Hartford municipal restructuring program.

#### STATE COMPTROLLER - FRINGE BENEFITS

- *Higher Education Alternate Retirement System* - Reflects wage inflation. FY 2024 also reflects the return to 26 payrolls in a fiscal year.
- *Pension and Retirements - Other Statutory* - Reflects statutory increase in pensions.
- *Judges and Compensation Commissioners Retirement* - Reflects the estimated actuarially determined employer contribution.
- *Retired Employee Health Service Costs* - Reflects medical inflation.
- *SERS Defined Contribution Match* - Reflects estimates from the pension plan actuary of salary increases and anticipated volume of new employees in Tier 4. FY 2024 also reflects the return to 26 payrolls in a fiscal year.
- *Other Post Employment Benefits* - Employees hired prior to July 1, 2017, pay Other Post Employment Benefits (OPEB) for ten years. The matching state contributions decrease as the employees complete the ten-year payment obligation. FY 2024 also reflects the return to 26 payrolls in a fiscal year.
- *State Employees Retirement Contributions - Normal Cost* - Reflects the normal cost portions of the actuarially determined employer contributions (ADEC) estimated by the pension plan actuary.
- *State Employees Retirement Contributions - Unfunded Actuarial Liabilities* - Reflects the estimated unfunded actuarial liability portions of the ADEC estimated by the pension plan actuary, adjusted to reflect the impact of the additional deposit made during FY 2022.

### General Fund Revenue

The November 10, 2021, consensus revenue estimate shows General Fund revenues at \$21.55 billion in FY 2022. The table below portrays detailed revenue estimates for each year covered by the consensus forecast.

## PROJECTED REVENUES

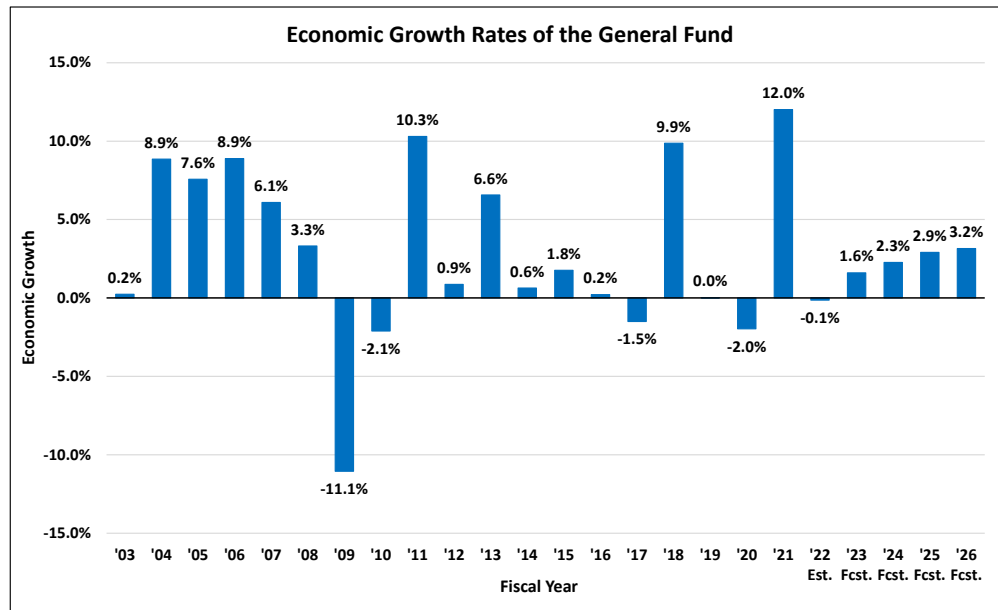
### Consensus Revenue Forecast - November 10, 2021

(In Millions)

| <b>General Fund</b>                      |                    |                    |                    |                    |                    |
|------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <u>Taxes</u>                             | <u>FY 2022</u>     | <u>FY 2023</u>     | <u>FY 2024</u>     | <u>FY 2025</u>     | <u>FY 2026</u>     |
| Personal Income - Withholding            | \$ 7,371.9         | \$ 7,668.2         | \$ 7,872.0         | \$ 8,180.4         | \$ 8,483.9         |
| Personal Income - Estimates & Finals     | 2,989.1            | 2,838.9            | 2,830.2            | 2,955.6            | 3,089.0            |
| Sales & Use Tax                          | 4,429.8            | 4,441.8            | 4,548.1            | 4,656.7            | 4,763.2            |
| Corporation Tax                          | 1,115.6            | 1,114.0            | 1,117.9            | 1,152.4            | 1,188.1            |
| Pass-through Entity Tax                  | 1,485.8            | 1,567.9            | 1,617.7            | 1,674.3            | 1,733.0            |
| Public Service Tax                       | 262.4              | 269.3              | 276.5              | 278.7              | 281.0              |
| Inheritance & Estate Tax                 | 164.4              | 150.2              | 149.6              | 153.3              | 157.1              |
| Insurance Companies Tax                  | 232.4              | 235.6              | 238.8              | 242.4              | 246.0              |
| Cigarettes Tax                           | 324.2              | 308.1              | 292.6              | 278.0              | 264.1              |
| Real Estate Conveyance Tax               | 267.4              | 244.8              | 242.5              | 246.6              | 250.4              |
| Alcoholic Beverages Tax                  | 76.6               | 77.0               | 75.4               | 75.7               | 76.1               |
| Admissions & Dues Tax                    | 27.3               | 31.0               | 31.3               | 31.5               | 31.8               |
| Health Provider Tax                      | 974.7              | 991.8              | 984.1              | 988.3              | 962.6              |
| Miscellaneous Tax                        | 62.0               | 66.5               | 65.4               | 67.8               | 68.4               |
| Total Taxes                              | \$ 19,783.6        | \$ 20,005.1        | \$ 20,342.1        | \$ 20,981.7        | \$ 21,594.7        |
| Less Refunds of Tax                      | (1,571.7)          | (1,627.7)          | (1,739.0)          | (1,793.5)          | (1,850.6)          |
| Less Earned Income Tax Credit            | (166.8)            | (143.8)            | (147.0)            | (151.6)            | (155.3)            |
| Less R&D Credit Exchange                 | (6.6)              | (6.8)              | (7.0)              | (7.2)              | (7.4)              |
| Total - Taxes Less Refunds               | \$ 18,038.5        | \$ 18,226.8        | \$ 18,449.1        | \$ 19,029.4        | \$ 19,581.4        |
| <u>Other Revenue</u>                     |                    |                    |                    |                    |                    |
| Transfers-Special Revenue                | \$ 392.4           | \$ 401.6           | \$ 410.1           | \$ 415.9           | \$ 426.8           |
| Indian Gaming Payments                   | 246.0              | 251.8              | 257.3              | 261.5              | 269.3              |
| Licenses, Permits, Fees                  | 352.1              | 327.5              | 362.3              | 336.5              | 371.4              |
| Sales of Commodities                     | 23.4               | 23.9               | 24.3               | 26.3               | 26.8               |
| Rents, Fines, Escheats                   | 160.0              | 164.9              | 166.3              | 168.4              | 156.7              |
| Investment Income                        | 3.3                | 4.8                | 5.9                | 9.3                | 15.5               |
| Miscellaneous                            | 227.4              | 219.9              | 224.1              | 228.5              | 233.1              |
| Less Refunds of Payments                 | (62.6)             | (63.8)             | (65.7)             | (67.1)             | (68.4)             |
| Total - Other Revenue                    | \$ 1,342.0         | \$ 1,330.6         | \$ 1,384.6         | \$ 1,379.3         | \$ 1,431.2         |
| <u>Other Sources</u>                     |                    |                    |                    |                    |                    |
| Federal Grants                           | \$ 2,232.7         | \$ 1,739.2         | \$ 1,787.5         | \$ 1,821.5         | \$ 1,850.9         |
| Transfer From Tobacco Settlement         | 126.2              | 122.1              | 120.4              | 118.7              | 117.0              |
| Transfers From (To) Other Funds          | 778.8              | 1,428.0            | (163.6)            | (163.6)            | (163.6)            |
| Transfers to BRF - Volatility Adjustment | (969.2)            | (780.0)            | (700.8)            | (756.6)            | (799.6)            |
| Total - Other Sources                    | \$ 2,168.5         | \$ 2,509.3         | \$ 1,043.5         | \$ 1,020.0         | \$ 1,004.7         |
| <b>Total - General Fund Revenues</b>     | <b>\$ 21,549.0</b> | <b>\$ 22,066.7</b> | <b>\$ 20,877.2</b> | <b>\$ 21,428.7</b> | <b>\$ 22,017.3</b> |

### Economic Growth Rates for General Fund Tax Revenues

The November 10, 2021, consensus revenue forecast assumes that General Fund revenues will experience economic growth rates ranging from -0.1 percent in FY 2022 to 3.2 percent in FY 2026. Economic growth rates are defined as baseline revenue growth prior to any state policy changes. Absent a recession, these growth rates remain conservative and well below growth experienced in prior recoveries. The -0.1 percent growth projected for FY 2022 is driven by the exceptional results of FY 2021 revenues that may have been fueled by the aid from the federal government to consumers as well as state and local governments as a result of the COVID-19 pandemic. While some sources of revenue grew significantly, others remained steady and some decreased as a result of the brief shutdown of the economy in an effort to contain the spread of the virus.



The table at right shows estimated growth rates in each tax type implied by the November 10, 2021, consensus revenue forecast. The growth rates represent changes over prior year collections. Significant increases in many tax types in FY 2021 are a result of stronger than anticipated collections through the COVID-19 pandemic. Declines in FY 2022 and beyond are projections in tax

### ECONOMIC GROWTH RATES OF PROJECTED TAX REVENUES

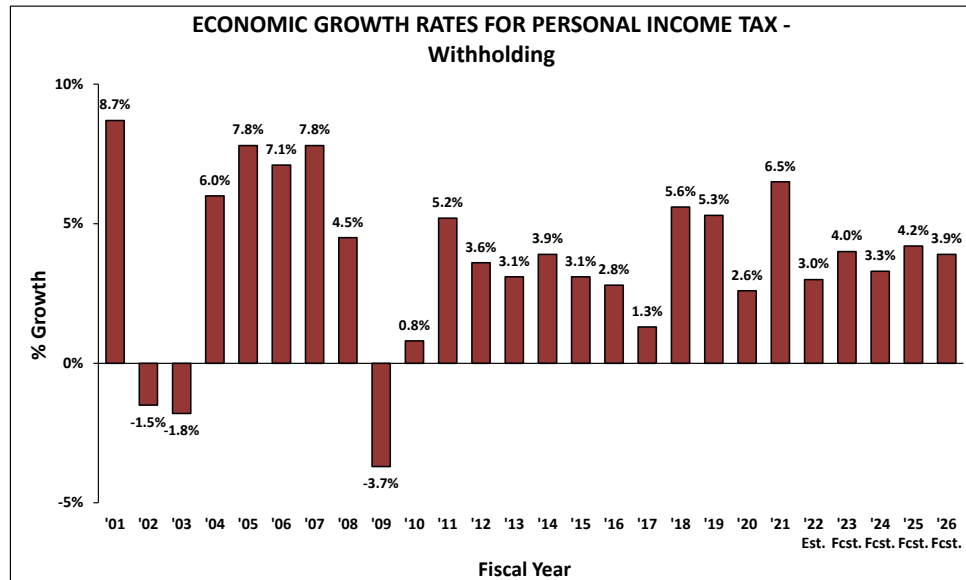
As estimated by OPM based upon the November 10, 2021 consensus revenue forecast  
(Percentage Change Over Prior Year)

| Taxes                                    | General Fund |         |         |         |         |         |
|------------------------------------------|--------------|---------|---------|---------|---------|---------|
|                                          | FY 2021      | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 |
| Personal Income Tax - Withholding        | 6.5          | 3.0     | 4.0     | 3.3     | 4.2     | 3.9     |
| Personal Income Tax - Estimates & Finals | 20.1         | -3.5    | -4.5    | -0.3    | 4.4     | 4.5     |
| Sales & Use Tax                          | 8.4          | 5.0     | 2.0     | 2.2     | 2.2     | 2.3     |
| Corporation Tax                          | 31.7         | -8.9    | 3.5     | 5.2     | 3.0     | 3.1     |
| Pass-Through Entity                      | 25.1         | -4.4    | 5.5     | 3.2     | 3.5     | 3.5     |
| Public Service Tax                       | -4.1         | -4.1    | 7.7     | 2.6     | 0.1     | 0.1     |
| Inheritance & Estate Tax                 | 31.8         | -29.9   | -1.6    | 2.0     | 2.5     | 2.5     |
| Insurance Companies Tax                  | 0.6          | 1.1     | 1.4     | 1.4     | 1.5     | 1.5     |
| Cigarettes Tax                           | 3.4          | 3.4     | -25.3   | -5.0    | -5.0    | -5.0    |
| Real Estate Conveyance Tax               | 73.2         | -16.3   | -8.5    | -0.9    | 1.7     | 1.7     |
| Alcoholic Beverages Tax                  | 6.8          | 6.8     | 3.2     | 0.5     | 0.4     | 0.5     |
| Admissions & Dues Tax                    | -14.0        | 9.1     | 13.6    | 1.0     | 0.6     | 1.0     |
| Health Provider                          | -7.3         | 2.9     | 1.7     | 0.2     | 0.4     | 0.4     |

collections returning to more normal, pre-pandemic trends. It is expected that some collections will return to pre-pandemic trends with some collections reverting faster than others while other revenue sources and sectors of the economy remain uncertain to when they may fully recover.

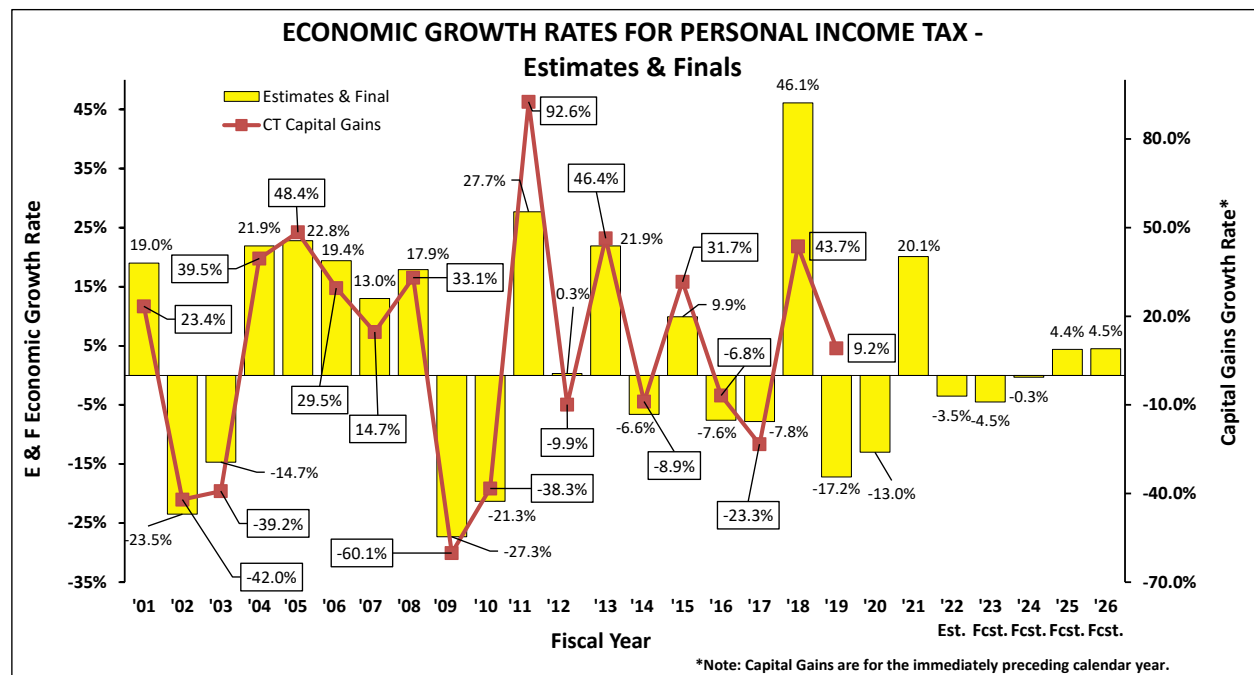
## Personal Income Tax – Withholding

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



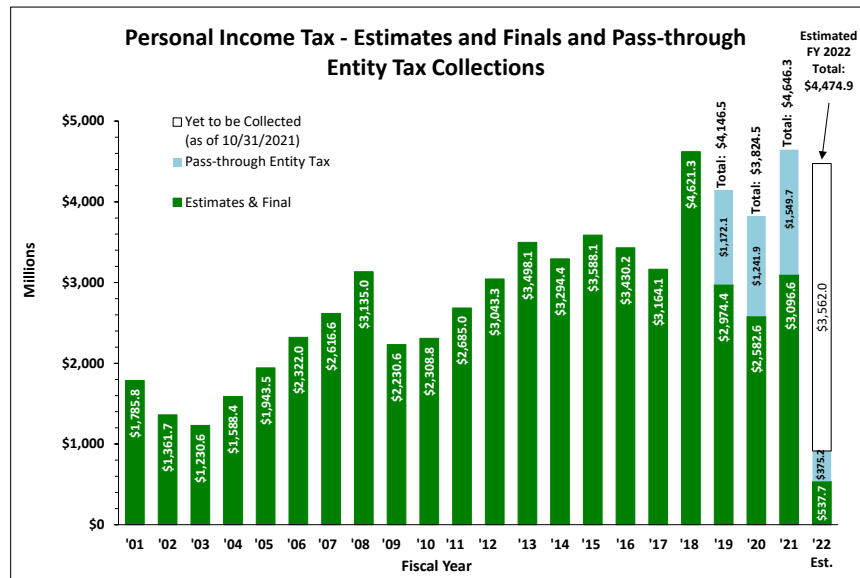
## Personal Income Tax – Estimates and Finals Collections

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



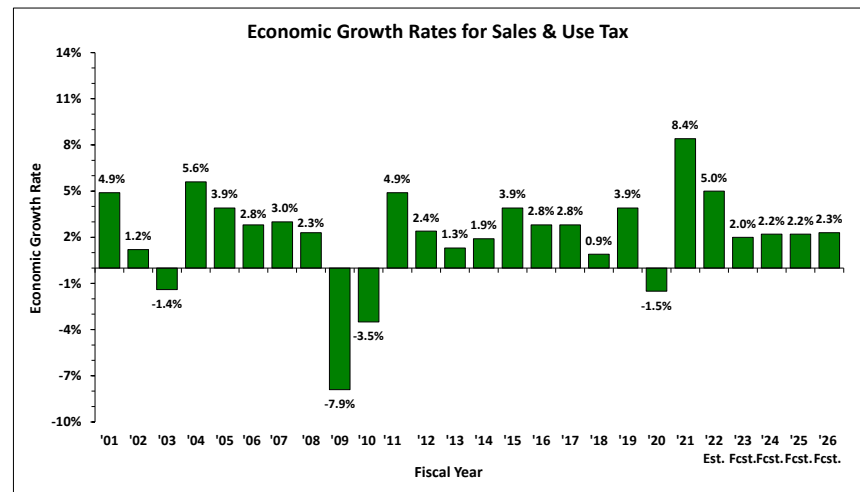
The current FY 2022 forecast calls for \$2,989.1 million in estimates and finals collections. Through October 31, 2021, the state has collected \$537.7 million, or 18.0 percent of the total forecasted amount. Over 30 percent of total collections are received in April when final tax returns are filed, concentrating volatility into the last quarter of the fiscal year. In FY 2009 alone, as the recession gripped the country, Connecticut's estimates and finals collections fell by \$904.4 million. Excluding the impact of an enacted tax increase on millionaires at that time, estimates and finals collections fell an additional \$475.4 million in FY 2010, for a

total two-year decline of about \$1.4 billion, or 44.5 percent from the 2008 peak. Fiscal year 2018 was an outlier due to extraordinary collections resulting from repatriation of offshore hedge fund income and investor behavior in anticipation of the Tax Cuts and Jobs Act of 2017. Beginning in FY 2019, the state began receiving revenue from its new Pass-through Entity Tax which was carved out of the income tax; for multi-year comparative purposes it has been included in the graphic at right.



### Sales and Use Tax

Revenue from the Sales and Use Tax is the second largest revenue source for the General Fund. The forecast for this tax projects growth in the low 2 percent range over the next few fiscal years, as shown in the graph at right. Each 1.0 percent change in the Sales and Use Tax growth rate results in an all-funds revenue change of about \$55 million.



## FY 2023 TO FY 2026 – SPECIAL TRANSPORTATION FUND OUTLOOK

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

### PROJECTED GROWTH IN EXPENDITURES

#### FIXED COST DRIVERS

(Amounts Represent Year Over Year Change)

| <b>SPECIAL TRANSPORTATION FUND</b>                           | <b>FY 2023 increase<br/>over FY 2022</b> | <b>FY 2024 increase<br/>over FY 2023</b> | <b>FY 2025 increase<br/>over FY 2024</b> | <b>FY 2026 increase<br/>over FY 2025</b> |
|--------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| OTT - Debt Service                                           | 94,618,757                               | 76,379,520                               | 64,100,000                               | 55,900,000                               |
| OSC - Other Post Employment Benefits                         | 129,822                                  | (3,510,447)                              | 66,581                                   | 68,579                                   |
| OSC - SERS Defined Contribution Match                        | 491,541                                  | 376,290                                  | 437,139                                  | 473,568                                  |
| OSC - State Employees Retirement Contributions - Normal Cost | 677,458                                  | (439,993)                                | (178,907)                                | (70,383)                                 |
| OSC - State Employees Retirement Contributions - UAL         | 7,989,132                                | 2,458,057                                | 3,106,213                                | (2,041,806)                              |
| <b>TOTAL - SPECIAL TRANSPORTATION FUND</b>                   | <b>103,906,710</b>                       | <b>75,263,427</b>                        | <b>67,531,026</b>                        | <b>54,329,958</b>                        |

#### Assumptions Used to Develop Growth Estimates for Fixed Costs

The FY 2023 column in the table above represents the anticipated increase in spending over the FY 2022 estimated level. The FY 2024 through FY 2026 columns reflect the estimated increases each year over the immediately preceding fiscal year. Explanations of assumptions used to develop the forecast follow.

#### DEBT SERVICE - STATE TREASURER

- *Debt Service* - Reflects the issuance of Special Tax Obligation Bonds of \$1.2 billion in FY 2023, \$1.0 billion in FY 2024, \$1.0 billion in FY 2025, and \$1.1 billion in FY 2026.

#### STATE COMPTROLLER - FRINGE BENEFITS

- *Other Post Employment Benefits* - Employees hired prior to July 1, 2017, pay Other Post Employment Benefits (OPEB) for ten years. The matching state contributions decrease as the employees complete the ten-year payment obligation. FY 2024 also reflects the return to 26 payrolls in a fiscal year.
- *SERS Defined Contribution Match* - Reflects estimates from the pension plan actuary of salary increases and anticipated volume of new employees in Tier 4. FY 2024 also reflects the return to 26 payrolls in a fiscal year.
- *State Employees Retirement Contributions - Normal Cost* - Reflects the normal cost portions of the actuarially determined employer contributions (ADEC) estimated by the pension plan actuary.
- *State Employees Retirement Contributions - Unfunded Actuarial Liabilities* - Reflects the estimated unfunded actuarial liability portions of the ADEC estimated by the pension plan actuary, adjusted to reflect the impact of the additional deposit made during FY 2022.

## Revenue

The November 10, 2021, consensus forecast projects Special Transportation Fund revenues at \$1.95 billion in FY 2022. The table below shows the detailed revenue estimates.

## PROJECTED REVENUES

### Consensus Revenue Forecast - November 10, 2021

(In Millions)

#### Special Transportation Fund

| <u>Taxes</u>                    | <u>FY 2022</u>    | <u>FY 2023</u>    | <u>FY 2024</u>    | <u>FY 2025</u>    | <u>FY 2026</u>    |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Motor Fuels Tax                 | \$ 473.3          | \$ 490.2          | \$ 489.9          | \$ 487.8          | \$ 485.3          |
| Oil Companies Tax               | 270.4             | 294.7             | 290.4             | 290.5             | 296.6             |
| Sales & Use Tax                 | 689.3             | 794.4             | 809.6             | 829.1             | 848.2             |
| Sales Tax - DMV                 | 113.9             | 96.8              | 90.2              | 91.1              | 92.0              |
| Highway Use                     | -                 | 45.0              | 90.0              | 94.1              | 98.3              |
| Total Taxes                     | \$ 1,546.9        | \$ 1,721.1        | \$ 1,770.1        | \$ 1,792.6        | \$ 1,820.4        |
| Less Refunds of Taxes           | (15.5)            | (16.2)            | (16.9)            | (17.4)            | (17.9)            |
| Total - Taxes Less Refunds      | \$ 1,531.4        | \$ 1,704.9        | \$ 1,753.2        | \$ 1,775.2        | \$ 1,802.5        |
| <u>Other Sources</u>            |                   |                   |                   |                   |                   |
| Motor Vehicle Receipts          | \$ 279.2          | \$ 266.5          | \$ 273.6          | \$ 274.9          | \$ 280.1          |
| Licenses, Permits, Fees         | 140.8             | 142.1             | 142.7             | 143.6             | 144.5             |
| Interest Income                 | 2.0               | 3.3               | 4.5               | 5.7               | 7.1               |
| Federal Grants                  | 11.0              | 10.1              | 9.2               | 8.1               | 6.9               |
| Transfers From (To) Other Funds | (5.5)             | (5.5)             | (5.5)             | (5.5)             | (5.5)             |
| Less Refunds of Payments        | (5.0)             | (2.5)             | (2.5)             | (2.6)             | (2.7)             |
| Total - Other Sources           | \$ 422.5          | \$ 414.0          | \$ 422.0          | \$ 424.2          | \$ 430.4          |
| <b>Total - STF Revenues</b>     | <b>\$ 1,953.9</b> | <b>\$ 2,118.9</b> | <b>\$ 2,175.2</b> | <b>\$ 2,199.4</b> | <b>\$ 2,232.9</b> |

## Economic Growth Rates for Special Transportation Fund Tax Revenues

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

## ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES

As Estimated by OPM Based Upon the November 10, 2021 Consensus Revenue Forecast  
(Percent Change)

#### Special Transportation Fund

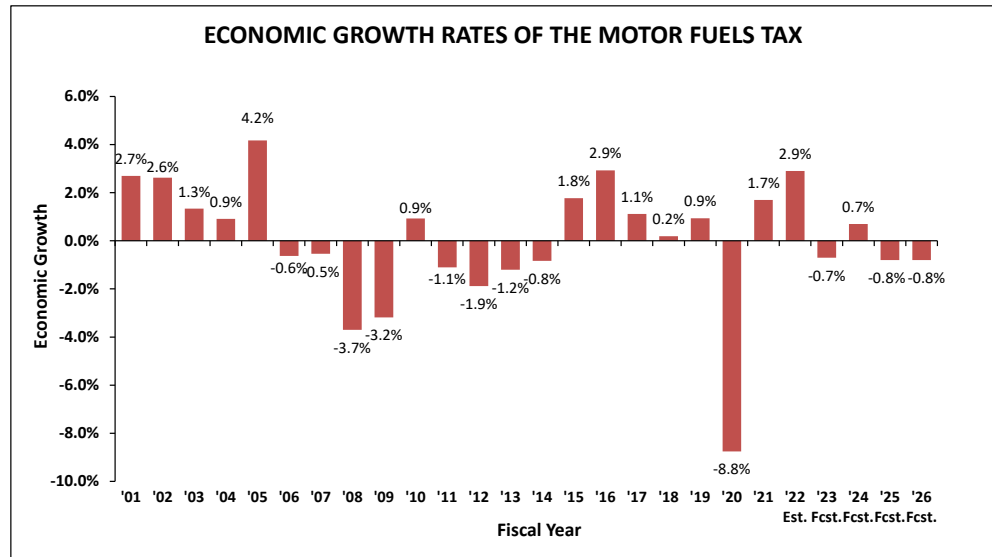
| <u>Taxes</u>      | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> | <u>FY 2025</u> | <u>FY 2026</u> |
|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Motor Fuels Tax   | 1.7            | 2.9            | -0.7           | 0.7            | -0.8           | -0.8           |
| Oil Companies Tax | -0.6           | 18.0           | 9.0            | -1.5           | 0.0            | 2.1            |
| Sales and Use Tax | 8.4            | 5.0            | 2.0            | 2.2            | 2.2            | 2.3            |
| Sales Tax - DMV   | 60.3           | -2.8           | -15.0          | -6.8           | 1.0            | 1.0            |
| Highway Use       | N/A            | N/A            | N/A            | 0.0            | 4.6            | 4.5            |

## Motor Fuels Tax

The Motor Fuels Tax remains an important, albeit increasingly smaller, component of the Special Transportation Fund. The tax includes 25 cents per gallon tax on gasoline fuel and 40.1 cents per gallon tax on diesel fuel, as of July 1, 2021. Nominal revenue growth of the Motor Fuels Tax from FY 2012 to FY 2021 was -4.2 percent, equivalent to about -0.4 percent growth per fiscal year over the past ten years. Growth in this revenue source is highly influenced by economic conditions, the price of motor fuels, and the fuel economy of the existing fleet. Prior to the COVID-19 pandemic, the Motor Fuels Tax showed positive growth as lower fuel prices increased consumer demand, but this growth trend dissipated after restrictions were put in place to reduce the spread of the COVID-19 virus. Overall growth in FY 2020

showed a decline in consumption of approximately 8.8 percent from FY 2019. Consumption in FY 2021 picked up but remains well below pre-pandemic peaks and this trend appears to be continuing through the beginning of FY 2022. The November 2021 consensus revenue forecast assumes that consumer behavior has been permanently changed and collections will not recover to pre-pandemic expectations over the next five fiscal years.

Even without the pandemic, it has always been the assumption that the growth in motor fuels consumption will naturally turn negative as consumer behavior changes, either due to price increases or by increased use of alternatively-powered vehicles. Since FY 2015, new revenue sources



have been added to the Special Transportation Fund in order to address this expected lack of growth and to reduce the Special Transportation Fund's reliance on a single slow-growing revenue source. In FY 2021, Motor Fuels Tax revenue was 26.5 percent of the total revenue deposited in the Special Transportation Fund, down from 45.0 percent in FY 2010. The Sales and Use Tax has overtaken the Motor Fuels Tax to become the largest single revenue component in the Special Transportation Fund; in FY 2021 it represented 26.9 percent of total collections.

## LONG-TERM OUTLOOK FOR THE SPECIAL TRANSPORTATION FUND

The Special Transportation Fund has seen a substantial financial reversal from estimates just a year ago during the height of the COVID-19 pandemic. Strong Sales and Use Tax collections, a rapid recovery in fuel-related taxes, and receipt of significant federal assistance have helped to stabilize the fund over the near-term. In the outyears, the introduction of the Highway Use Fee will help to maintain balances and allow for additional capital investment. As a result, over the next six years the cumulative fund surplus will increase from \$241.1 million in FY 2021 to an estimated \$944.7 million by FY 2026. However, expenditure growth is outpacing growth in revenues, leading to a projected operating shortfall in FY 2026. Without additional revenue or reductions in needed transportation investments, the expected increase in costs will outpace the growth in revenues in the long term, impacting fund solvency.

### SPECIAL TRANSPORTATION FUND - STATEMENT OF FINANCIAL CONDITION

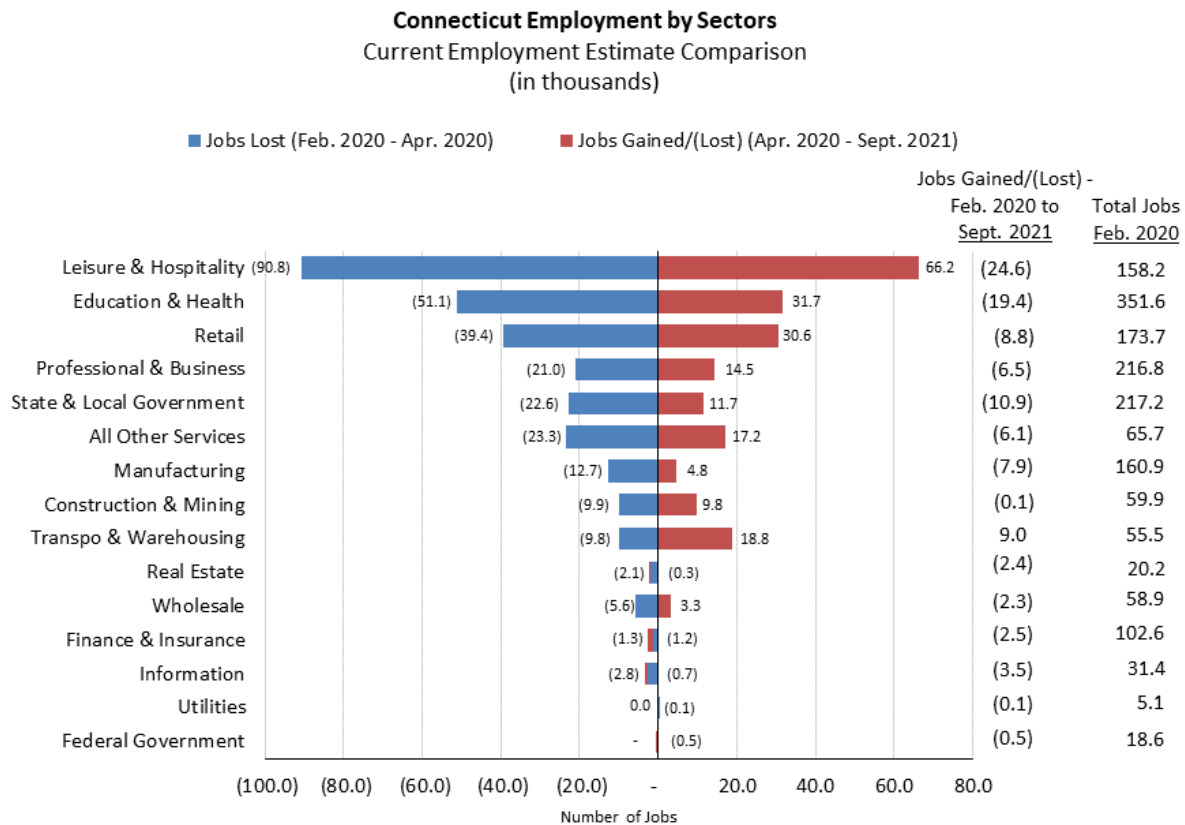
(in millions)

| <b><u>Actual &amp; Projected Revenues</u></b>         | <b>FY 2022</b> | <b>FY 2023</b> | <b>FY 2024</b> | <b>FY 2025</b> | <b>FY 2026</b> |
|-------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Motor Fuels Tax                                       | \$ 473.3       | \$ 490.2       | \$ 489.9       | \$ 487.8       | \$ 485.3       |
| Oil Companies Tax                                     | 270.4          | 294.7          | 290.4          | 290.5          | 296.6          |
| Sales & Use Tax - 0.5% Tax                            | 414.9          | 424.7          | 434.5          | 444.9          | 455.0          |
| Sales & Use Tax - Car Sales Tax                       | 274.4          | 369.7          | 375.1          | 384.2          | 393.2          |
| Sales Tax - DMV                                       | 113.9          | 96.8           | 90.2           | 91.1           | 92.0           |
| Highway Use                                           | -              | 45.0           | 90.0           | 94.1           | 98.3           |
| Motor Vehicle Receipts                                | 279.2          | 266.5          | 273.6          | 274.9          | 280.1          |
| Licenses, Permits, Fees                               | 140.8          | 142.1          | 142.7          | 143.6          | 144.5          |
| Interest Income                                       | 2.0            | 3.3            | 4.5            | 5.7            | 7.1            |
| Federal Grants                                        | 11.0           | 10.1           | 9.2            | 8.1            | 6.9            |
| Transfers From/ (To) Other Funds                      | (5.5)          | (5.5)          | (5.5)          | (5.5)          | (5.5)          |
| Total Refunds                                         | <u>(20.5)</u>  | <u>(18.7)</u>  | <u>(19.4)</u>  | <u>(20.0)</u>  | <u>(20.6)</u>  |
| Total Revenue                                         | \$ 1,953.9     | \$ 2,118.9     | \$ 2,175.2     | \$ 2,199.4     | \$ 2,232.9     |
| Revenue Cap Deduction                                 | <u>-</u>       | <u>(26.5)</u>  | <u>(32.6)</u>  | <u>(38.5)</u>  | <u>(44.7)</u>  |
| Available Revenue                                     | \$ 1,953.9     | \$ 2,092.4     | \$ 2,142.6     | \$ 2,160.9     | \$ 2,188.2     |
| <b><u>Projected Debt Service and Expenditures</u></b> |                |                |                |                |                |
| Debt Service                                          | \$ 748.1       | \$ 842.7       | \$ 919.1       | \$ 983.2       | \$ 1,039.1     |
| DOT - Operating Expense                               | 293.9          | 311.9          | 315.1          | 326.4          | 338.1          |
| DOT - Bus and Rail                                    | 393.6          | 408.7          | 425.0          | 441.9          | 459.5          |
| DMV Budgeted Expenses                                 | 67.2           | 69.4           | 70.1           | 72.8           | 75.7           |
| Fringe Benefits and Other Indirect Costs              | 282.4          | 286.4          | 310.6          | 323.4          | 331.3          |
| Program Costs Paid from Current Operations            | 17.4           | 17.4           | 17.7           | 18.1           | 18.4           |
| Estimated Unallocated Lapses                          | <u>(100.0)</u> | <u>(112.0)</u> | <u>(12.0)</u>  | <u>(12.0)</u>  | <u>(12.0)</u>  |
| Total Expenditures                                    | \$ 1,702.6     | \$ 1,824.6     | \$ 2,045.6     | \$ 2,153.8     | \$ 2,250.1     |
| <b>Excess (Deficiency)</b>                            | \$ 251.3       | \$ 267.8       | \$ 97.0        | \$ 7.1         | \$ (61.9)      |
| <b>Cumulative Excess (Deficiency)</b>                 | \$ 492.5       | \$ 786.8       | \$ 916.4       | \$ 962.0       | \$ 944.7       |
| <b>Debt Service Coverage Ratio</b>                    | 2.61           | 2.51           | 2.37           | 2.24           | 2.15           |

## CONNECTICUT'S ECONOMY

Prior to the onset of the COVID-19 pandemic induced recession, Connecticut's economy had not fully recovered from the Great Recession of 2008. After contracting sharply in the Great Recession of 2008, the Connecticut economy experienced slow job growth before reaching full recovery in January 2018 of all private-sector jobs lost during the recession and subsequently achieving a private-sector job recovery rate of 104.3 percent in February of 2020, before the COVID-19 recession emerged. Although Connecticut jobs were growing and had recovered 85.7 percent of all jobs as of February 2020, the coronavirus pandemic and the ensuing nonessential business closures caused a shift in the employment trajectory. At the outset of the pandemic, March and April of 2020, Connecticut lost 292,400 jobs or 17.2 percent of its workforce. The industry most affected by the pandemic related job losses is leisure and hospitality, shedding a total of 90,800 jobs in March and April of 2020. Since April 2020, 66,200 jobs have been added back in that sector as of September 2021. The only sector that has recovered and surpassed all the jobs lost is the transportation and warehousing sector, adding about 9,000 additional jobs from February 2020 levels.

The graphic below shows job losses from the February 2020 peak through the end of April 2020, followed by the subsequent gains from May 2020 through September 2021.



Source: IHS Markit

Employment recovery from the pandemic-induced recession varies by region, from 86.8 percent in New Haven to 62.4 percent in Hartford. Connecticut's unemployment rate in September 2021 was at 6.8 percent compared to 4.8 percent nationally.

**Job Recovery by CT Labor Market Area  
From Pre-Pandemic (Feb. 2020) to Sept. 2021**

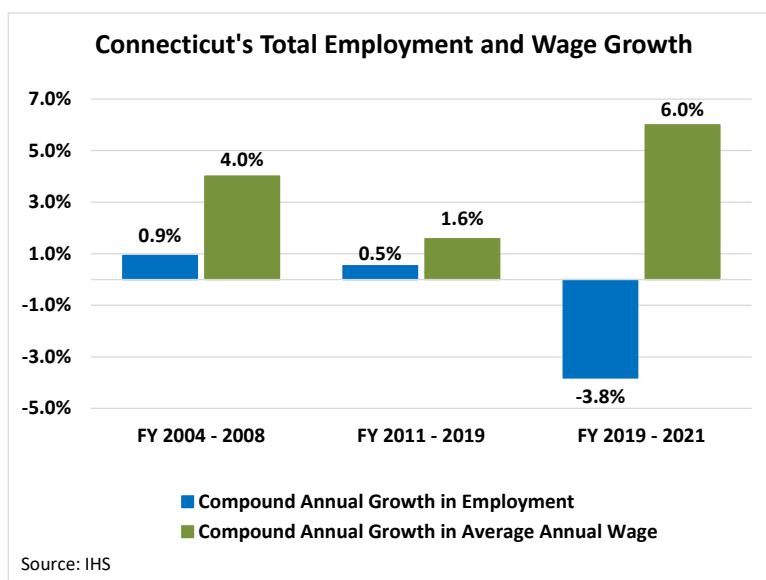
| <u>Labor Market Area</u>    | Current Employment                |                                     |
|-----------------------------|-----------------------------------|-------------------------------------|
|                             | Percentage of Jobs Lost Recovered | Levels as a Percentage of Feb. 2020 |
| Hartford                    | 62.4%                             | 94.1%                               |
| New Haven                   | 86.8%                             | 97.9%                               |
| Danbury                     | 72.6%                             | 94.5%                               |
| Bridgeport-Stamford-Norwalk | 64.5%                             | 93.5%                               |
| Danielson/Northeast*        | 86.8%                             | 98.1%                               |
| Norwich-New London-Westerly | 72.9%                             | 92.6%                               |
| Torrington/Northwest*       | 81.3%                             | 97.2%                               |
| Waterbury                   | 79.4%                             | 96.2%                               |
| Enfield*                    | 65.7%                             | 94.6%                               |
| <b>Connecticut</b>          | <b>70.4%</b>                      | <b>94.9%</b>                        |

\* Not seasonally adjusted

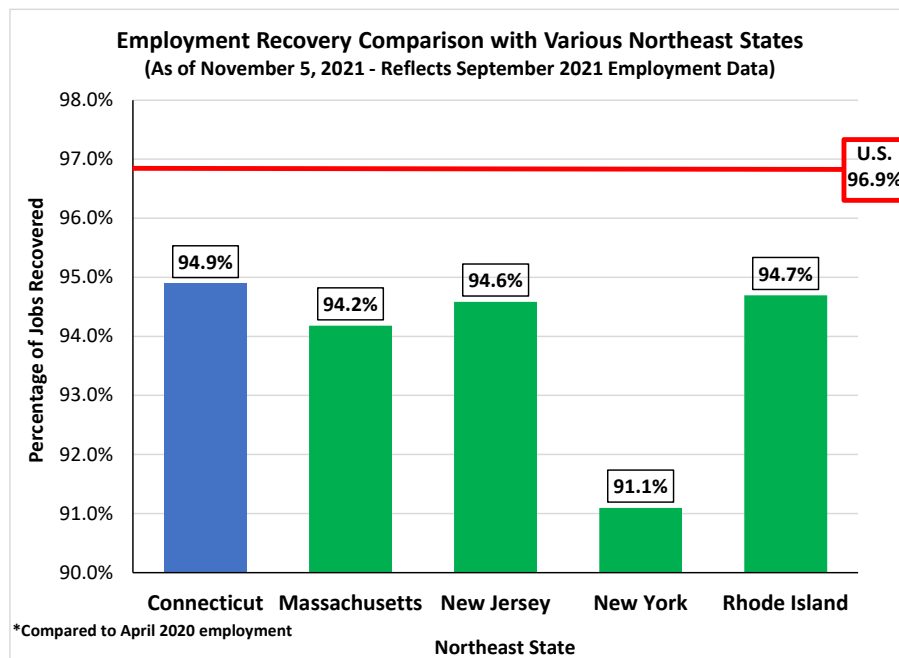
Source: CT Dept. of Labor

**Employment and Wages – Sluggish Employment Recovery and Tepid Wage Growth**

Connecticut's employment growth between FY 2011 and FY 2019 was lower than it was prior to the 2008 recession. Average annual wages grew 1.6 percent per year following the recession through FY 2019, compared to 4.0 percent per year before the recession. From the recent peak in employment in FY 2019 following the recession, employment has decreased by 3.8 percent annually through the end of FY 2021 because of the pandemic. This can be compared to average annual wages which have grown by 6.0 percent per year from FY 2019 to FY 2021 as employers struggle to fill open positions.



The graph below provides a comparison of Connecticut to the nation and our neighboring states on post-pandemic jobs recovered. Connecticut is faring slightly better than our neighboring states, but lags the nation as a whole, recovering 94.9 percent of the 292,400 jobs shed in March and April of 2020.

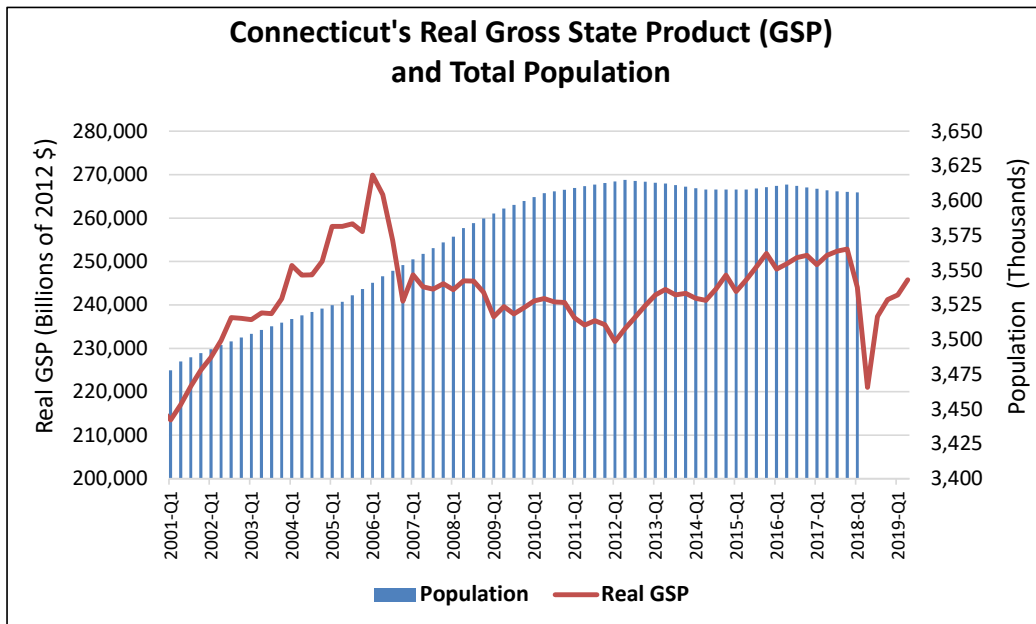


### Housing

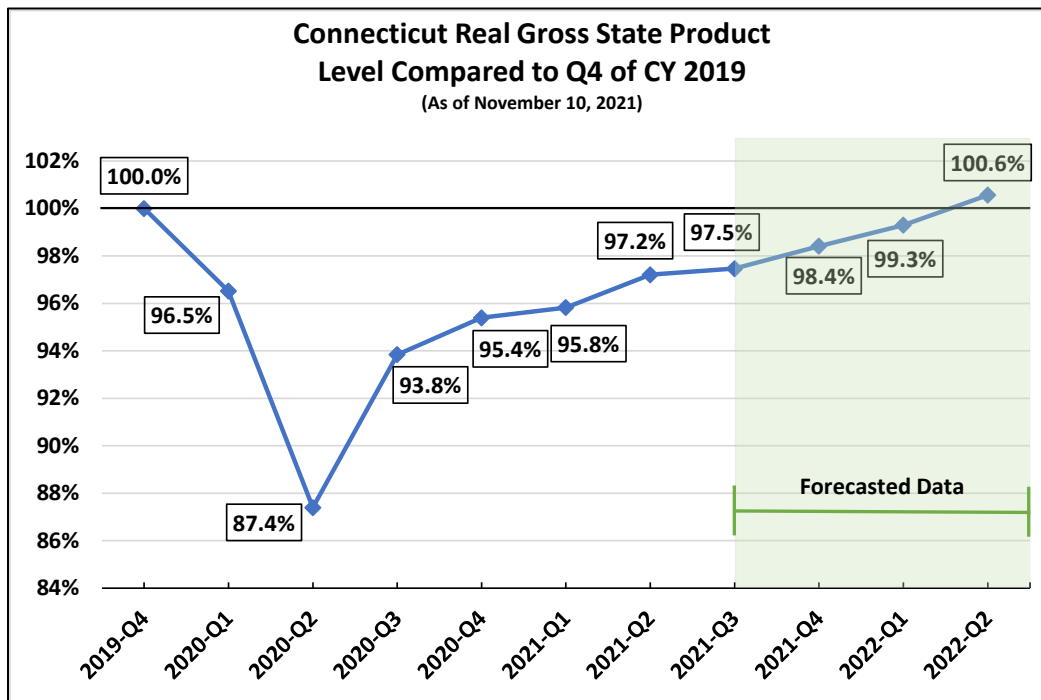
The housing market similarly remains below its 2008 pre-recession peak. Home sales in Connecticut peaked in the second quarter of calendar year 2006 and have not attained the same levels since then. In the fourth quarter of calendar year 2020, home sales attained a new peak since the 2008 recession but still remained 37.1 percent below 2006 home sales. The most recent data shows that home sales have decreased by 13.7 percent from the recent peak in the fourth quarter of calendar year 2020 to the second quarter of calendar year 2021. Median home prices prior to the 2008 recession peaked at \$325,688 in 2006. This median home price was not reached again until the fourth quarter of calendar year 2020. Since then, the median home price in Connecticut has increased by 10.3 percent to \$361,391 by the end of the second quarter of calendar year 2021. Recent growth in prices is attributable to post-pandemic record-low interest rates, strong buyer activity, and a constrained supply.

### Gross State Product and Population

Connecticut's real gross state product (GSP), a measure of all goods and services produced in Connecticut, fell 9.5 percent during the 2008 recession. As seen in the graphs below, Connecticut's real GSP began to reach levels just prior to the recession in calendar years 2017-2019 but decreased by 12.6 percent between the fourth quarter of calendar year 2019 and the second quarter of calendar year 2020 due to the onset of the pandemic induced recession. Connecticut is not expected to return to real GSP levels attained in the fourth quarter of calendar year 2019 until about the second quarter of calendar year 2022. The state's total population fell by 0.2 percent between calendar year 2014 and calendar year 2019 and has held steady into calendar year 2020.



Source: IHS



Source: IHS

The table below compares Connecticut's growth since the 2008 recession to states in the region and to the national average. In essentially all indicators, Connecticut was the slowest or one of the slowest in growth before the onset of the 2020 recession.

| Growth in Various Economic Indicators (2010 to 2020) |             |            |            |             |          |
|------------------------------------------------------|-------------|------------|------------|-------------|----------|
|                                                      | Employment* | Population | Home Sales | Home Prices | Real GSP |
| Connecticut                                          | -3.2%       | 0.5%       | 17.2%      | 12.1%       | -3.5%    |
| Maine                                                | 0.5%        | 2.7%       | 35.9%      | 43.3%       | 8.2%     |
| Massachusetts                                        | 4.6%        | 6.8%       | 18.1%      | 49.6%       | 17.1%    |
| New Hampshire                                        | 2.8%        | 4.6%       | 37.6%      | 46.6%       | 12.5%    |
| New Jersey                                           | 0.2%        | 5.2%       | 44.6%      | 21.5%       | 4.3%     |
| New York                                             | 2.8%        | 3.6%       | 13.9%      | 33.0%       | 11.2%    |
| Rhode Island                                         | -0.4%       | 4.0%       | 33.4%      | 42.8%       | 0.2%     |
| Vermont                                              | -3.9%       | 2.6%       | 30.2%      | 27.7%       | 0.9%     |
| United States                                        | 8.5%        | 7.1%       | 35.3%      | 58.3%       | 16.9%    |

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, IHS

### Connecticut's Economic Projections

The COVID-induced recession has introduced greater uncertainty in the economic outlook and has resulted in shifting economic forecasts. Although projections for some of Connecticut's major economic indicators have improved since the depths of the pandemic in April 2020, some forecasts remain appreciably below pre-pandemic levels.

Moreover, as shown in the table at right, recovery to pre-pandemic economic levels could take years to reach.

The table below shows projections for various economic indicators for Connecticut over the biennium. Growth in real GSP is projected to remain on average at 2.3 percent over the forecast period. Personal income is expected to slow in FY 2022 as pandemic-related

| State of Connecticut<br>Key Economic Indicator Recoveries<br>From COVID-19 Pandemic |                         |                      |                                    |              |                         |
|-------------------------------------------------------------------------------------|-------------------------|----------------------|------------------------------------|--------------|-------------------------|
|                                                                                     | Pre-Pandemic<br>Peak    | Low Point            | Current Data<br>(Compared to Peak) |              | Years Until<br>Recovery |
| Real Gross State<br>Product (2012 \$B)                                              | \$ 252,864.9<br>Q4 2019 | -12.6%<br>Q2 2020    | -2.8%<br>----- Q2 2021 -----       | \$ 245,803.0 | 2.5<br>Q2 2022          |
| Wages and<br>Salaries (\$B)                                                         | \$ 122,196.6<br>Q4 2019 | -6.0%<br>Q2 2020     | 3.1%<br>----- Q2 2021 -----        | \$ 126,040.0 | 1.0<br>Q4 2020          |
| Employment (K)                                                                      | 1,696.3<br>Feb. 2020    | -17.2%<br>April 2020 | -5.1%<br>----- Sept. 2021 -----    | 1,609.7      | Unknown<br>At This Time |
| Unemployment<br>Rate*                                                               | 3.70%<br>Feb. 2020      | 11.40%<br>May 2020   | 6.80%<br>Sept. 2021                |              | Unknown<br>At This Time |

\*Low point indicates the actual unemployment rate for May 2020.

Source: IHS Markit, CT Dept. of Labor  
As of November 16, 2021

When we  
expect to  
reach pre-  
pandemic  
levels

transfer payments from the federal government decline, thus offsetting strength in wages and salaries as more workers are rehired. Personal income is anticipated to show average growth at about 4.6 percent in the outyears. Wages and salaries growth is anticipated to remain close to 5.1 percent over the biennium and beyond. Connecticut's employment growth is projected to peak at 3.3 percent in FY 2022, but then slow. The unemployment rate, which increased due to the pandemic, is expected to decline and remain steady at approximately 4.1 percent over the forecast period. Population remains flat throughout the forecast period.

| <b>Connecticut Economic Indicators</b> |                |                |                |                |                |                |                |                |
|----------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| (Year-Over-Year Changes)               |                |                |                |                |                |                |                |                |
|                                        | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> | <u>2021-22</u> | <u>2022-23</u> | <u>2024-24</u> | <u>2024-25</u> | <u>2025-26</u> |
| Real G.D.P.                            | 0.5%           | -3.3%          | -0.4%          | 3.5%           | 3.4%           | 2.0%           | 2.0%           | 1.9%           |
| Personal Income                        | 3.7%           | 2.5%           | 5.0%           | 0.8%           | 4.4%           | 4.4%           | 4.7%           | 4.8%           |
| Wages & Salaries                       | 2.2%           | 0.8%           | 3.2%           | 6.6%           | 6.0%           | 4.5%           | 4.4%           | 4.2%           |
| Unemployment Rate                      | 3.7%           | 5.3%           | 8.4%           | 6.1%           | 4.3%           | 4.0%           | 4.0%           | 4.1%           |
| Total Employment                       | 0.1%           | -3.9%          | -3.7%          | 3.3%           | 2.6%           | 0.7%           | 0.3%           | 0.1%           |
| Population                             | 0.0%           | -0.1%          | -0.4%          | -0.3%          | -0.1%          | 0.0%           | 0.0%           | 0.1%           |
| Housing Starts                         | -4.0%          | 12.9%          | -1.5%          | -4.1%          | 12.9%          | 0.3%           | 1.6%           | -0.4%          |
| U.S. C.P.I. - U                        | 2.1%           | 1.6%           | 2.3%           | 4.6%           | 2.0%           | 2.1%           | 2.2%           | 2.3%           |
| Source: IHS, 11/1/2021                 |                |                |                |                |                |                |                |                |

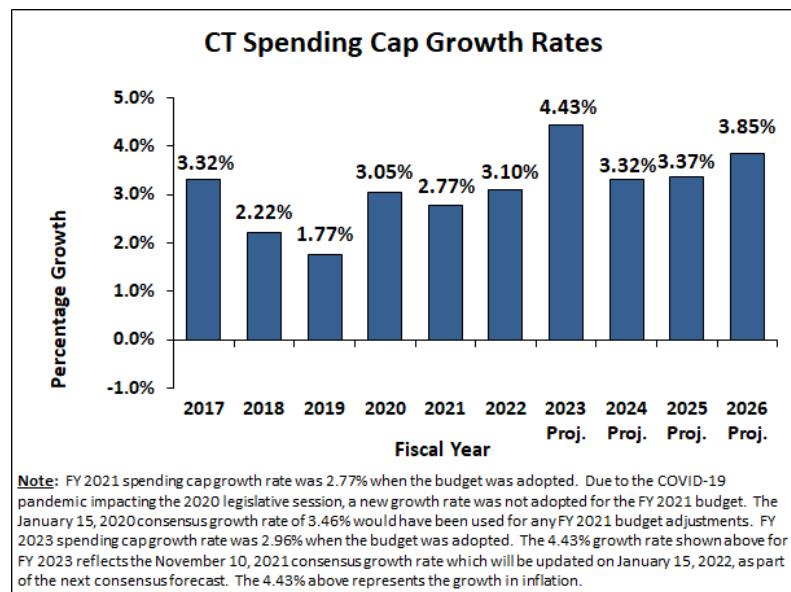
## SPECIAL TOPICS

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

### Spending Cap

The state's constitutional and statutory "spending" or "expenditure" cap is, in reality, a limit on the amount of appropriations the General Assembly can authorize in a given year. The cap limits growth in "general budget expenditures" to the greater of the average five-year increase in personal income or the increase in inflation.<sup>3</sup>

Given the state's low growth in personal income emerging from the 2008 recession, the core consumer price index was the limiting factor in FY 2018 and FY 2019. Personal income is the limiting factor in FY 2020 through FY 2022. The growth in spending for FY 2023 was originally the growth in personal income, however, as of November 2021, the growth in inflation exceeded the growth in personal income and is now projected to be the limiting factor in FY 2023. This growth will be calculated again during the January 2022 consensus for the FY 2023 midterm adjustments. The enacted budget for FY 2022 was \$22.2 million below the cap and \$35.7 million below the cap for FY 2023. The growth rate in FY 2022 was 3.10 percent when the budget was adopted and allowed capped expenditures to grow by approximately \$460.4 million over FY 2021 levels.



<sup>3</sup> "Increase in personal income" is defined as the compound annual growth rate of personal income in the state over the preceding five calendar years. "Increase in inflation" is defined as the increase in the consumer price index for all urban consumers, all items less food and energy, during the preceding calendar year. "General budget expenditures" are defined as expenditures from all appropriated funds, excluding the following: debt service; deposits to the Budget Reserve Fund; expenditures of federal funds; federally mandated or court-ordered expenditures (in their first year); expenditures for federal programs for which the state receives federal matching funds (in their first year); payment of the unfunded liability for the state employee and judicial retirement systems through FY 2022; and payment of the unfunded liability for teachers through FY 2026.

### Revenue Cap

Public Act 17-2 of the June Special Session introduced a revenue cap that limits the amount of General Fund and Special Transportation Fund appropriations to a percentage of revenue for those funds. The appropriations limit began at 99.5 percent of estimated revenue in FY 2020 and phases down to 98 percent for FY 2026 and thereafter. Any resulting General Fund operating margin will help increase the rainy day fund and will also provide a buffer against drastic expenditure reductions and tax increases if there is a sudden mid-year downturn in the economy.

| Fiscal Year | Appropriations as % of Revenues |
|-------------|---------------------------------|
| 2020        | 99.50%                          |
| 2021        | 99.25%                          |
| 2022        | 99.00%                          |
| 2023        | 98.75%                          |
| 2024        | 98.50%                          |
| 2025        | 98.25%                          |
| 2026        | 98.00%                          |

### Revenue Volatility Cap

The revenue volatility cap directs any collections from the estimated and finals component of the Personal Income Tax plus the Pass-through Entity Tax that in total exceed a designated threshold (adjusted for personal income growth) to the Budget Reserve Fund. The transfer threshold is indexed to the five-year compound annual growth rate in personal income and is estimated as shown in the table at right. See page 57 for a discussion of the Budget Reserve Fund.

| Fiscal Year  | Revenue Volatility Threshold (in millions) |
|--------------|--------------------------------------------|
| 2020         | \$ 3,294.2                                 |
| 2021         | \$ 3,404.9                                 |
| 2022         | \$ 3,505.7                                 |
| 2023 (proj.) | \$ 3,626.8                                 |
| 2024 (proj.) | \$ 3,747.1                                 |
| 2025 (proj.) | \$ 3,873.3                                 |
| 2026 (proj.) | \$ 4,022.4                                 |

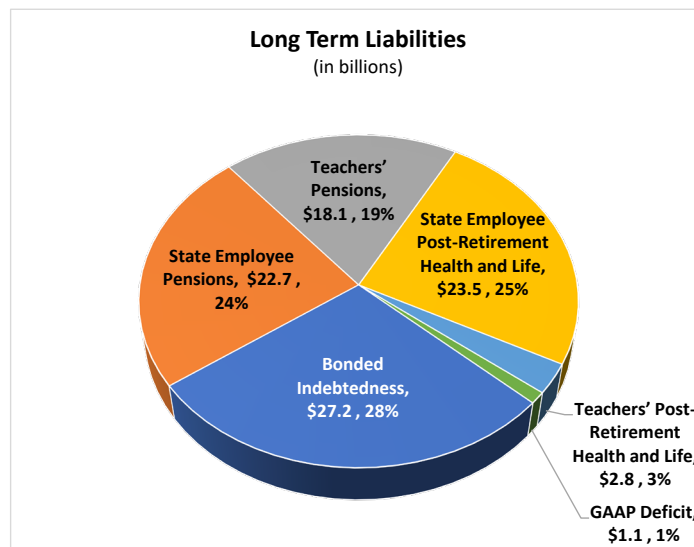
## LONG-TERM LIABILITIES

The long-term liabilities facing the state include obligations to fully fund the State Employees Retirement System and the Teachers' Retirement System, pay for other post-employment benefits (OPEB), retire outstanding debt service costs, and close the cumulative GAAP deficit. The state's current long-term obligations total \$95.4 billion. It should be noted, however, that an updated valuation for the State Employees Retirement System is anticipated prior to the end of 2021. The table below depicts the components of these long-term liabilities, and a discussion of each follows.

### LONG-TERM OBLIGATIONS

(in billions)

|                                                                         |            |
|-------------------------------------------------------------------------|------------|
| Bonded Indebtedness – As of 6/30/21                                     | \$27.2     |
| State Employee Pensions – Unfunded as of 6/30/20                        | 22.7       |
| Teachers' Pensions – Unfunded as of 6/30/20                             | 18.1       |
| State Employee Post-Retirement Health and Life – Unfunded as of 6/30/20 | 23.5       |
| Teachers' Post-Retirement Health and Life – Unfunded as of 6/30/20      | 2.8        |
| Cumulative GAAP Deficit – As of 6/30/20                                 | <u>1.1</u> |
| Total                                                                   | \$95.4     |

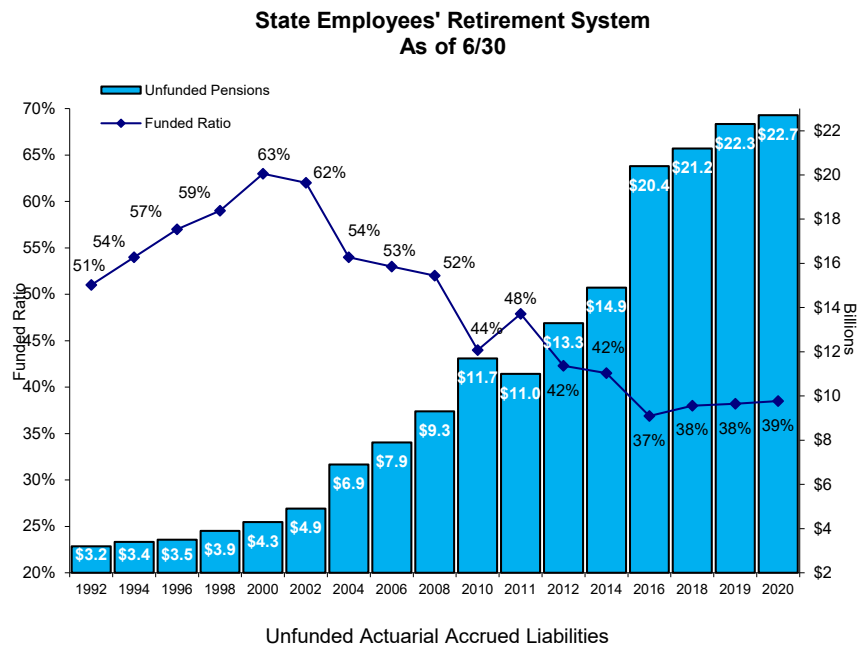


## PENSIONS

The state is the sponsor of two large pension systems, one for state employees and one for teachers, as well as several smaller retirement plans for judges, family support magistrates and compensation commissioners; and for probate judges and employees.

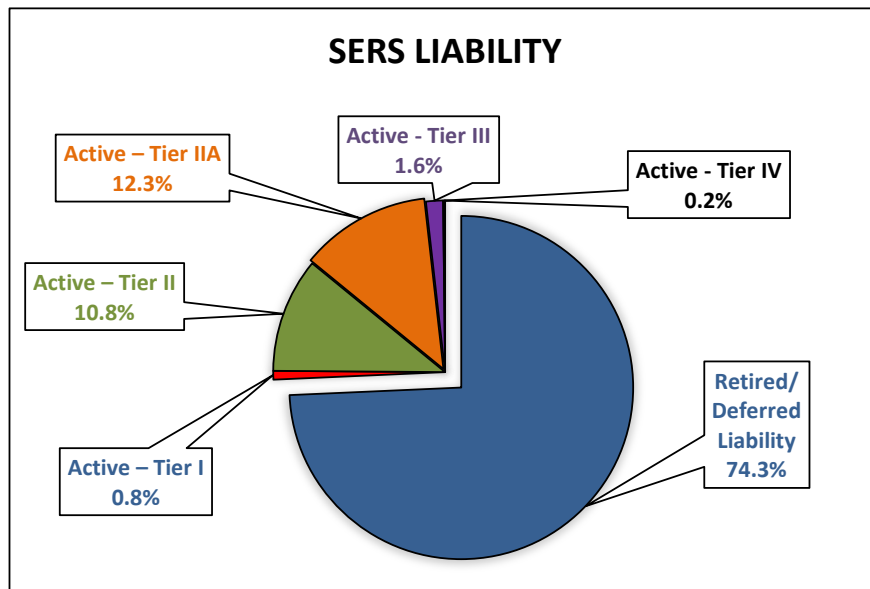
### State Employees Retirement System (SERS)

The state's unfunded SERS obligation at the end of FY 2020 totaled \$22.7 billion. The funded ratio was 38.5 percent. The rate of return on the market value of the plan's assets was 2.3 percent for 2020 and was below the assumed return rate of 6.9 percent. The adjusted market value of assets was \$13.3 billion and includes the transfer of \$61.6 million from the General Fund in FY 2020 due to the Budget Reserve Fund (BRF) exceeding the statutory limit of 15 percent. The June 30, 2021, valuation is expected in December



2021. This next valuation will also reflect an additional pension fund deposit of approximately \$719.7 million into the fund due to the BRF exceeding the 15 percent threshold for the second year in a row.

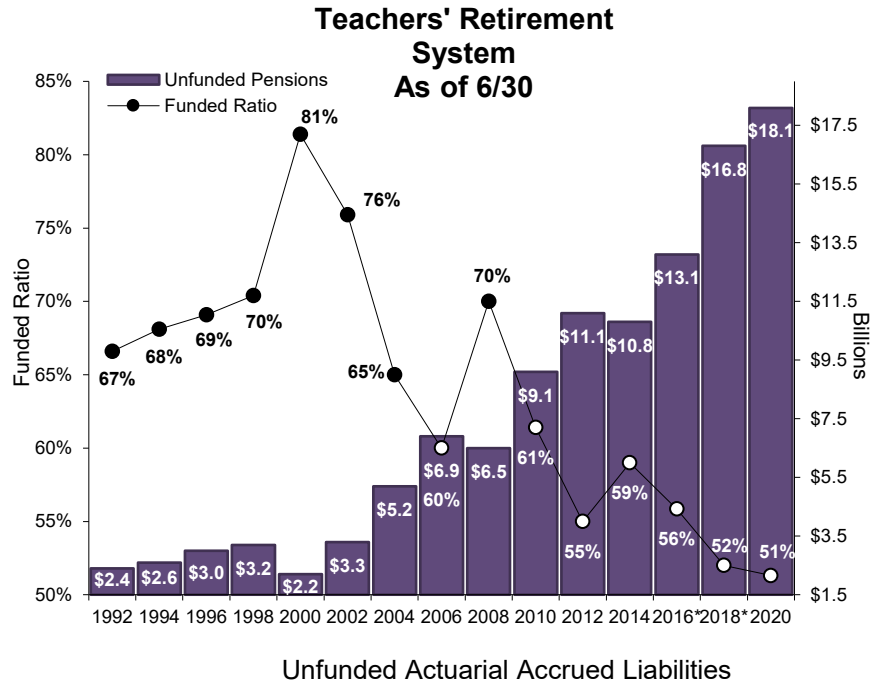
The total SERS liability is \$37.0 billion, with \$22.7 billion the unfunded portion of that liability. Most of the liability – 74.3 percent – is related to already-retired employees. The pie chart and table that follow show the proportions of liability attributable to active employees and retirees. The overwhelming majority of the state's contributions in FY 2022 – 89 percent – is to address the unfunded actuarial accrued liability.



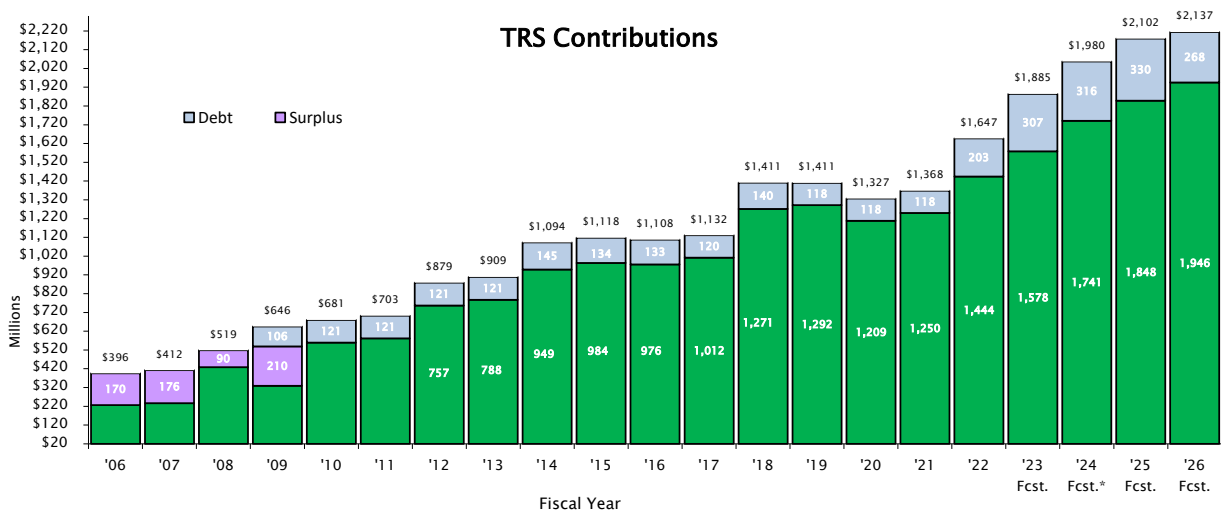
| Liability Based on 6/30/20 Valuation (\$ in Thousands) |            |       |
|--------------------------------------------------------|------------|-------|
| Retired/Deferred Liability                             | 27,468,822 | 74.3% |
| Active – Tier I Hazardous                              | 399        | 0.0%  |
| Active – Tier IB                                       | 291,393    | 0.8%  |
| Active – Tier IC                                       | 12,092     | 0.0%  |
| Active – Tier II Hazardous                             | 375,793    | 1.0%  |
| Active - Tier II Hybrid Plan                           | 223,713    | 0.6%  |
| Active – Tier II Others                                | 3,395,613  | 9.2%  |
| Active – Tier IIA Hazardous                            | 1,858,601  | 5.0%  |
| Active - Tier IIA Hybrid Plan                          | 219,025    | 0.6%  |
| Active – Tier IIA Others                               | 2,465,192  | 6.7%  |
| Active - Tier III Hazardous                            | 200,483    | 0.5%  |
| Active - Tier III Hybrid                               | 30,201     | 0.1%  |
| Active - Tier III Others                               | 362,176    | 1.0%  |
| Active - Tier IV Hazardous                             | 18,679     | 0.1%  |
| Active - Tier IV Hybrid                                | 4,656      | 0.0%  |
| Active - Tier IV Others                                | 44,298     | 0.1%  |
| Total Accrued Liability                                | 36,971,136 |       |
| Actuarial Value of Assets                              | 14,242,897 |       |
| Unfunded Accrued Liability                             | 22,728,239 |       |
|                                                        |            |       |
| Normal Cost                                            | 212,497    |       |
| Amortization of Unfunded Accrued Liability             | 1,780,654  |       |
| FY 2022 Actuarially Determined Employer Contribution   | 1,993,151  |       |

## Teachers' Retirement System (TRS)

The state's TRS unfunded liability at the end of FY 2020 totaled \$18.1 billion, a \$1.3 billion increase from the end of FY 2018. Approximately \$1.02 billion of this amount is attributable to changes in actuarial assumptions as recommended from the Experience Investigation for the Five-Year Period Ending June 30, 2019. While market value investment returns were 5.71 percent in 2019 and 2.30 percent in 2020 – an average of 3.99 percent compared to the assumed rate of 6.9 percent – TRS employs four-year asset smoothing which results in a two-year compound return of 6.11 percent, resulting in a \$283 million loss.



The following graph depicts the increase in contributions to the TRS. In FYs 2006 through 2009, contributions were supplemented with surplus funds. The bars in the graph for FY 2010 and beyond include debt service on the \$2.3 billion pension obligation bonds issued on April 30, 2008 for the benefit of the Teachers' Retirement System. Contributions grew in FYs 2018 and 2019 to reflect the impact of lowering the assumed rate of investment return to 8 percent from 8.5 percent. In FY 2020 the assumed rate was further reduced to 6.9 percent. Unlike SERS, the TRS valuations are completed biennially. The next valuation, as of June 30, 2022, is anticipated in November 2022. This next valuation will reflect the impact of the \$903.4 million additional pension fund deposit due to the BRF exceeding the 15 percent threshold. The graph below contains the estimated impact of the BRF deposit starting in FY 2024.



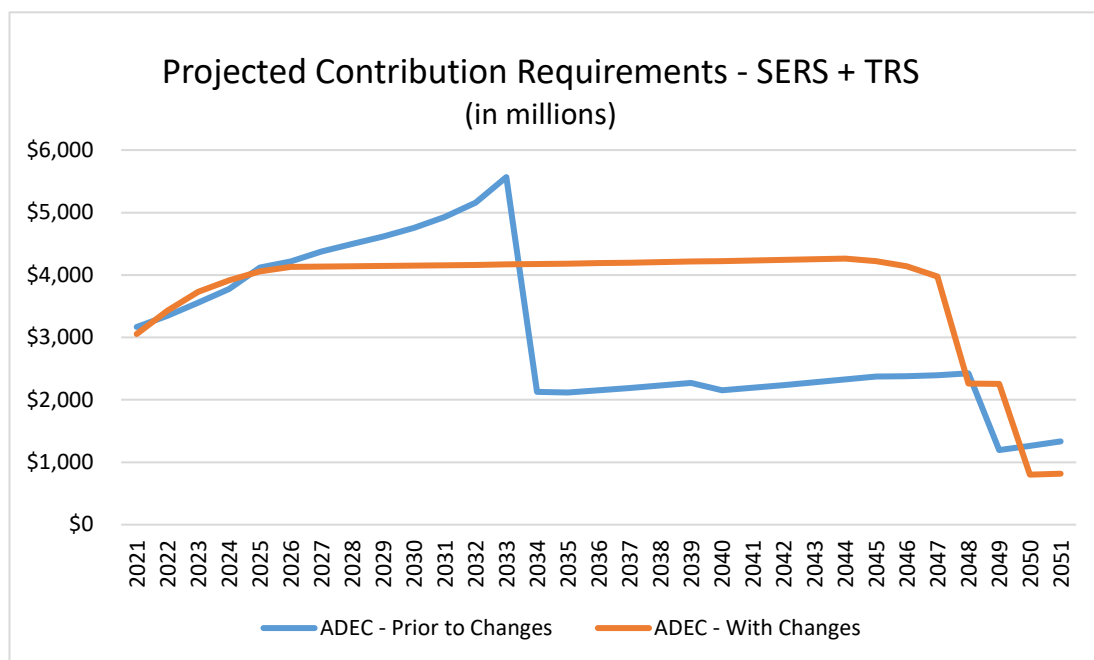
## OUTLOOK FOR SERS AND TRS

As noted above, the state is the sponsor of two large pension systems, one for state employees and one for teachers (SERS and TRS). Both systems are underfunded as a result of many decades of insufficient contributions to fund the promises made to generations of employees. Each system requires annual state contributions of over \$1 billion now, and those are each expected to rise to over \$2 billion or more in the coming years.

### Recent Pension Changes

Several changes have been implemented in recent years which resulted in a much steadier stream of projected contribution requirements. These changes included:

- Combining of the SERS statutory and transitional unfunded actuarial accrued liability (UAAL) bases which resulted in saving of \$157 million in FY 2020.
- Re-amortizing both the SERS and TRS unfunded liabilities over a new 30-year period, which allows the impact of adopting realistic assumptions to be spread out over a longer period.
- Establishing the Teachers' Retirement Fund Special Capital Reserve Fund (SCRF) to provide adequate provision for the protection of the holders of the pension obligation bonds issued by the state in 2008 with a one-time deposit of \$380.9 million from the FY 2019 surplus.
- Reducing the assumed investment rate of return for both SERS and TRS to 6.9 percent.
- Transitioning the SERS amortization method from level percent of payroll to level dollar, phased in over a five-year period.
- Layering of future gains and losses amortized over new 25-year periods.
- Limiting the amount of credited interest on the TRS mandatory contribution to 4 percent.
- Increasing the TRS partial refund payment (Option N) factor from 25 percent to 50 percent.

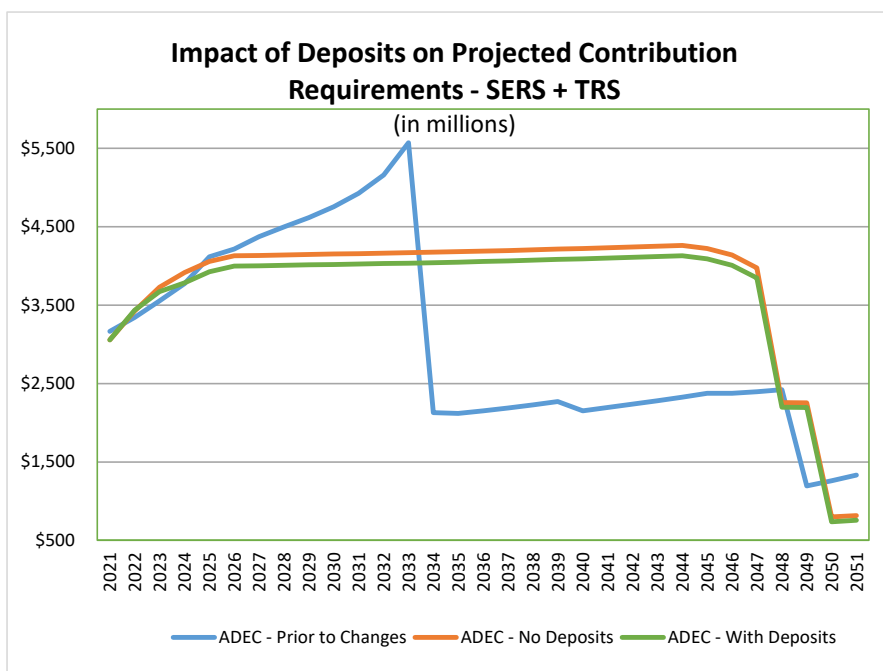


### Recent Additional Deposits

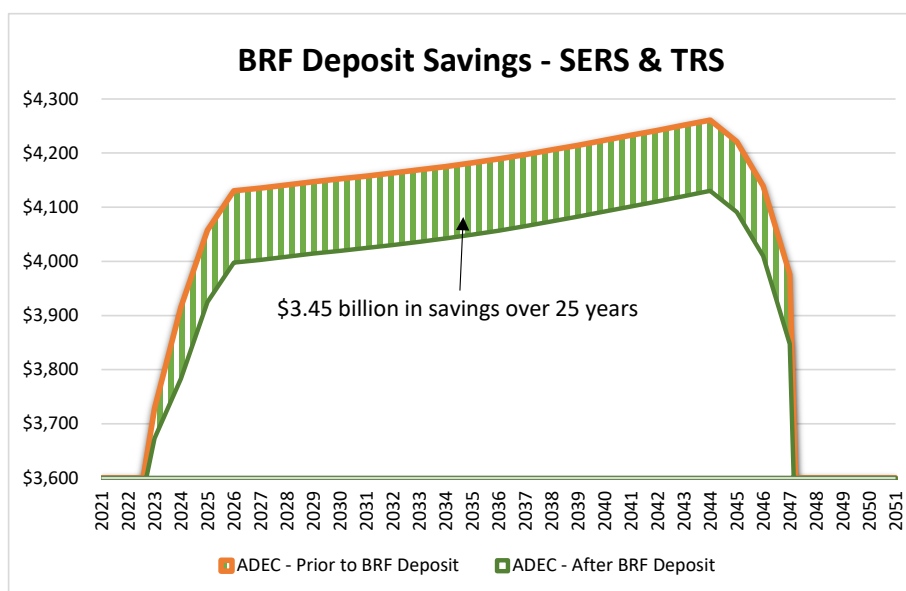
After the accounts for the General Fund have been closed at the end of each fiscal year, the statutes require any unappropriated General Fund surplus be deposited into the Budget Reserve Fund (BRF) until the fund reaches an amount equal to 15 percent of net General Fund appropriations. If the BRF balance exceeds the maximum threshold of 15 percent, the amount over the threshold is transferred to the State

Employees Retirement Fund and/or the Teachers' Retirement Fund, but not exceeding 5 percent of the retirement fund's unfunded liability. This allows the state to reduce its long-term obligations.

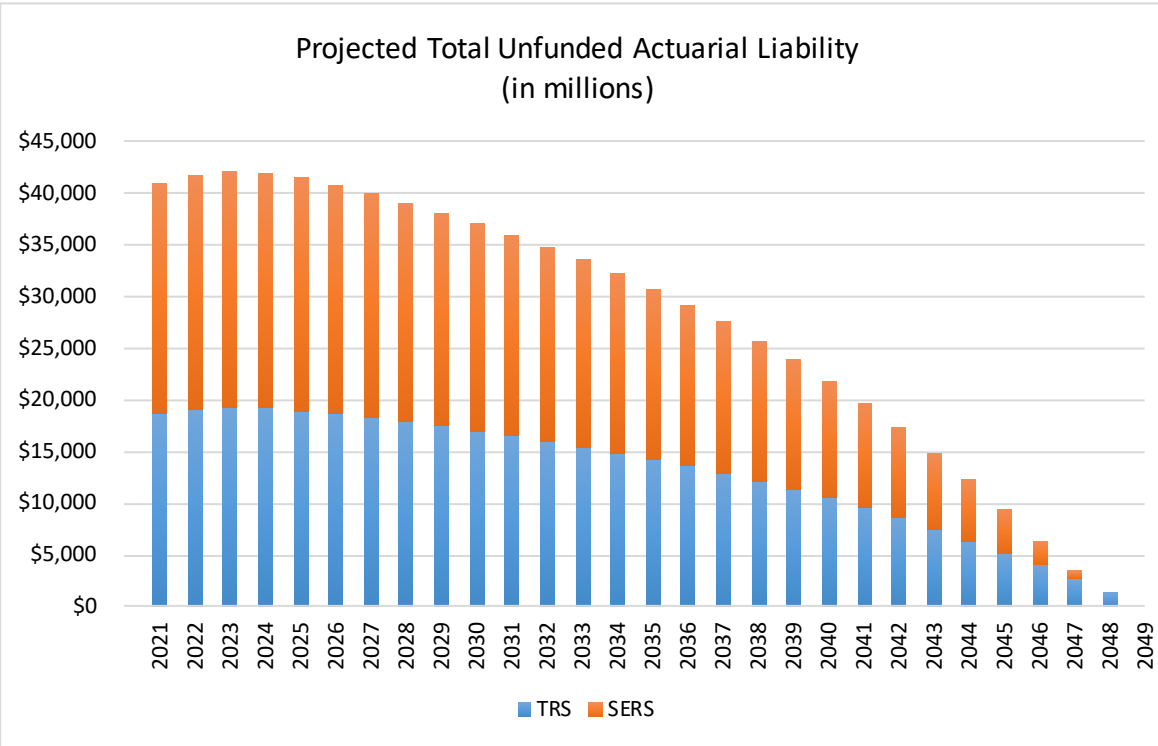
For the second year in a row the BRF has exceeded the 15 percent threshold. At the end of FY 2020, the \$61.6 million over the 15 percent threshold was deposited into SERS. This additional deposit was reflected in the June 30, 2020, pension valuation which set the FY 2022 state's contribution (ADEC). For FY 2021, the excess amount is \$1.623 billion comprised of the volatility cap transfer of \$1.142 billion and the estimated budget surplus of \$481 million. Once the budget surplus is audited, approximately \$903.6



million will be deposited to TRS, which is the full 5 percent of its unfunded liability. The remaining \$719.7 million will be deposited to SERS. The SERS valuation as of June 30, 2021, expected in December 2021, will reflect this additional deposit in the calculation of the state's contribution (ADEC) for FY 2023. The TRS additional deposit will be reflected in the net valuation which is due in November of 2022 and will impact the FY 2024 ADEC. The following updates the graph above to reflect the impact of the deposits spread over 25 years on the state's projected contribution requirements.

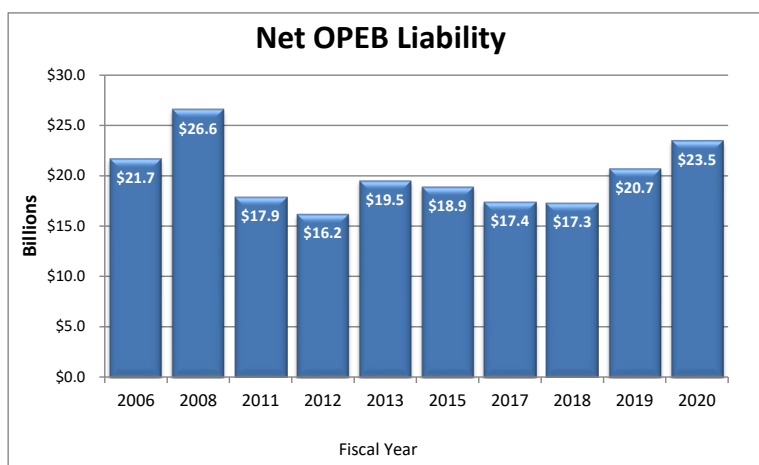


Due to these recent changes, SERS is now projected to be fully funded in 2048, and TRS in 2050.



## OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Other post-employment benefits (OPEB) include non-pension related benefits for retirees such as health care, dental coverage and life insurance. Until FY 2010, there was no pre-funding of future OPEB liabilities, and benefits were budgeted on a “pay as you go” (PAYGO) basis, meaning that the state appropriated funds sufficient to pay for anticipated OPEB costs during the budget period. As with pension accounting, the PAYGO approach does not capture the current value of benefits promised



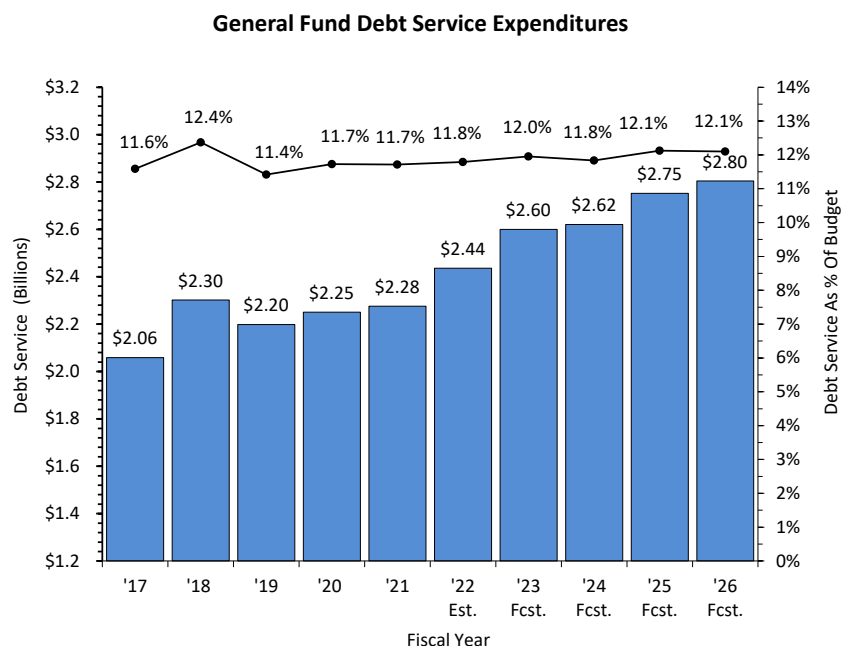
during future periods, i.e., unfunded liabilities. The Governmental Accounting Standards Board requires states to report the unfunded liabilities for OPEB. The most recent OPEB valuation (GASB Statement 75 measured as of June 30, 2020) shows the net OPEB liability (NOL) at \$23.5 billion, a \$2.9 billion increase from the prior valuation. The NOL had been expected to increase to \$21.4 billion due to normal plan operations. The difference between the actual and expected NOL is mainly due to valuation assumption changes that involved lowering the discount rate from 3.58 percent to 2.38 percent. The increase in the NOL would have been much higher if not for the offsetting decrease in obligations due to the known changes to the Medicare Advantage plan rates for 2022. The rate renewal resulted in an average rate decrease of less than 2 percent and a decrease in obligations of approximately \$2.1 billion.

In FY 2008, the state began the process of setting aside funds in trust to address the OPEB unfunded liability. While not a full actuarial funding approach, setting aside funds now could begin a long-term transition to actuarial pre-funding of OPEB costs. The 2009 and 2011 SEBAC agreements introduced employee contributions, and now all state employees contribute 3 percent to the OPEB trust fund, with the state matching those employee contributions. The table at right depicts OPEB contributions by both employees and the state. As of September 30, 2021, the OPEB trust fund has a market value of \$2,087.6 million and is the fourth largest investment fund managed by the Treasurer’s Office after the State Employees Retirement Fund, Teachers’ Retirement Fund and the Municipal Employees Retirement Fund.

| Other Post-Employment Benefits<br>Summary of Contributions<br>(in millions) |                           |                        |                        |
|-----------------------------------------------------------------------------|---------------------------|------------------------|------------------------|
| Fiscal Year                                                                 | Employee<br>Contributions | State<br>Contributions | Total<br>Contributions |
| 2008                                                                        | -                         | \$10.0                 | \$10.0                 |
| 2009                                                                        | -                         | -                      | \$0.0                  |
| 2010                                                                        | \$1.4                     | -                      | \$1.4                  |
| 2011                                                                        | \$21.6                    | \$14.5                 | \$36.1                 |
| 2012                                                                        | \$25.0                    | -                      | \$25.0                 |
| 2013                                                                        | \$27.5                    | -                      | \$27.5                 |
| 2014                                                                        | \$45.5                    | -                      | \$45.5                 |
| 2015                                                                        | \$93.3                    | -                      | \$93.3                 |
| 2016                                                                        | \$125.2                   | -                      | \$125.2                |
| 2017                                                                        | \$120.8                   | -                      | \$120.8                |
| 2018                                                                        | \$116.8                   | \$122.2                | \$239.0                |
| 2019                                                                        | \$116.5                   | \$125.8                | \$242.3                |
| 2020                                                                        | \$120.6                   | \$126.5                | \$247.1                |
| 2021                                                                        | \$109.1                   | \$113.2                | \$222.3                |
| 2022 est.                                                                   | \$100.4                   | \$107.8                | \$208.2                |
| <b>Total</b>                                                                | <b>\$1,023.7</b>          | <b>\$620.0</b>         | <b>\$1,643.7</b>       |
| Excludes investment earnings                                                |                           |                        |                        |

## DEBT SERVICE

The graph below shows debt service as a proportion of General Fund expenditures. Debt service is projected to grow from just under 10 percent of the General Fund in FY 2015 to about 12 percent by FY 2026.

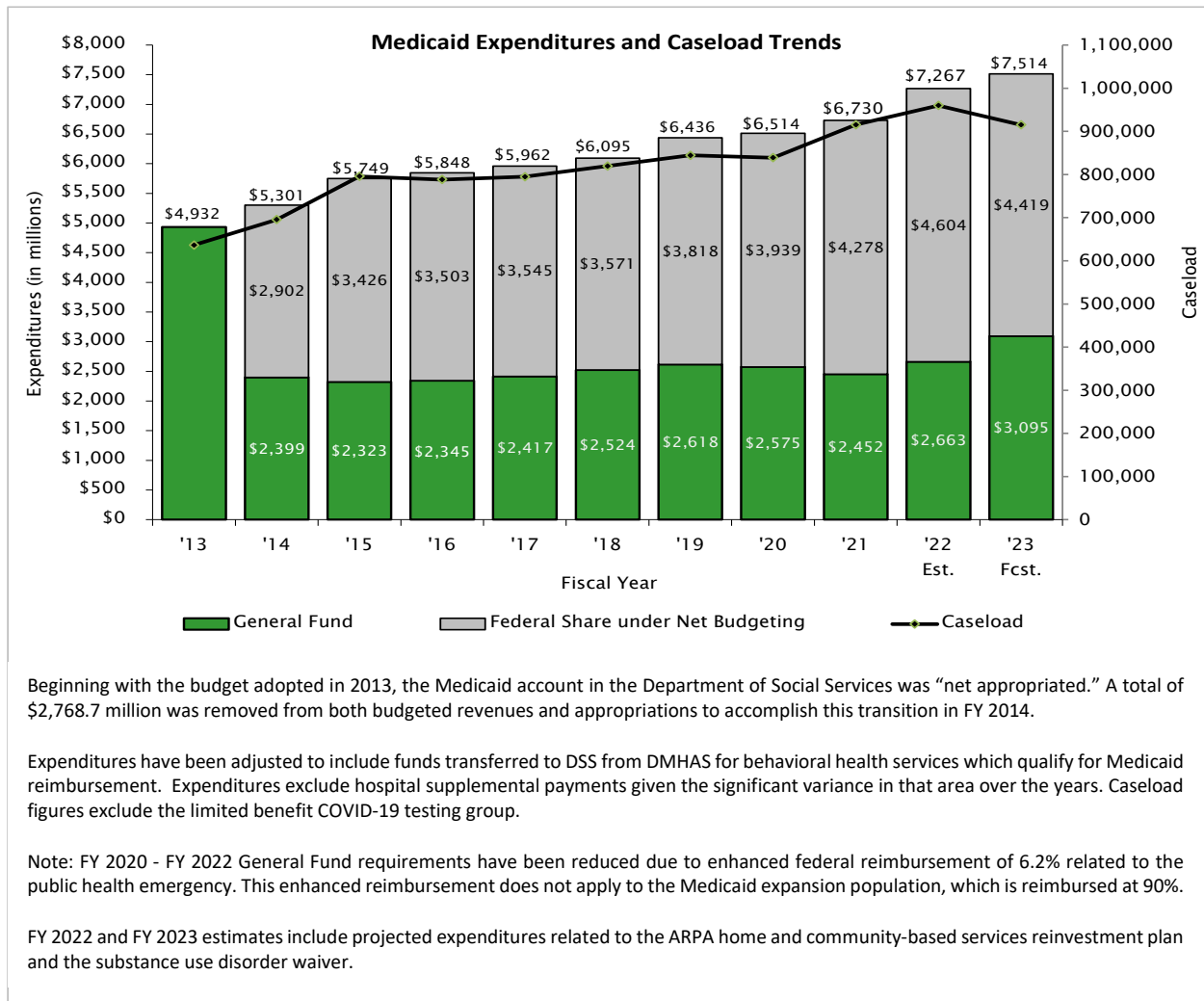


## MEDICAID

Medicaid expenditure growth over the past decade has been affected by caseload growth and limited rate increases, which have been mitigated in part through efforts to increase care coordination and deliver cost efficiencies. To receive the enhanced federal reimbursement available under the public health emergency, the state may not terminate coverage for Medicaid enrollees until the end of the month in which the emergency period ends. Since the suspension of Medicaid eligibility discontinuances on March 18, 2020, Medicaid enrollment – excluding the limited benefit COVID-19 testing group – has increased 14 percent, from approximately 830,000 to nearly 950,000 as of September 2021, an increase of over 115,000 cases. Despite the significant growth in enrollment, expenditures in the aggregate have not increased proportionally due to lower utilization of medical services in many areas.

The Medicaid expansion for low-income adults, which was first approved by the federal government in June 2010, has driven significant increases in caseload and program costs. Expenditures for this program, now known as HUSKY D, increased from \$228.7 million in FY 2010 to \$769.0 million in FY 2013. The state further expanded Medicaid coverage for low-income adults by increasing income eligibility to 138 percent of the federal poverty level beginning January 1, 2014, resulting in significant additional growth. As a result of this expansion, the HUSKY D caseload has grown from 46,156 in June 2010 to 331,213 in June 2021. HUSKY D expenditures have increased from \$916.6 million in FY 2014 to \$2,165.0 million in FY 2021, the majority of which was supported with enhanced federal reimbursement, which was phased down from 100 percent in calendar years 2014 through 2016 to 90 percent in calendar year 2020 and future years.

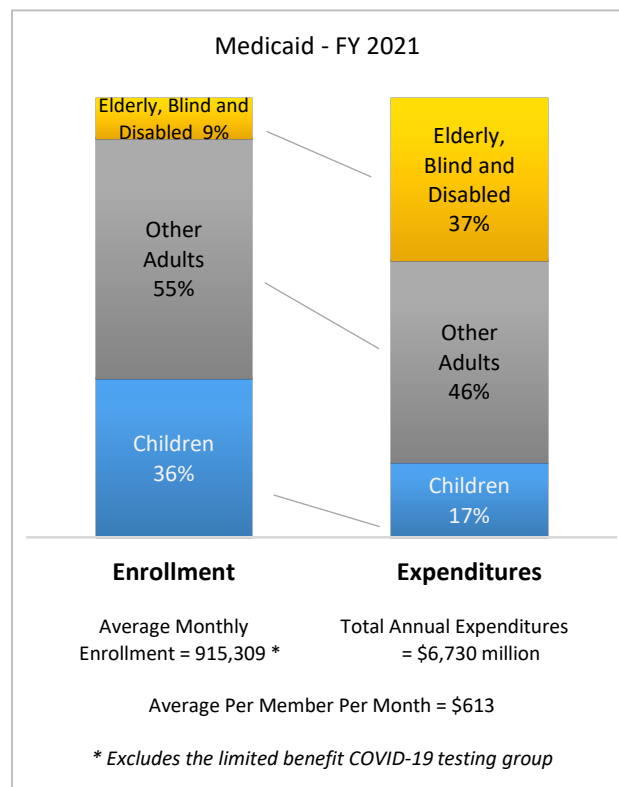
The graph below shows total Medicaid costs in the Department of Social Services as well as state and federal shares of the total.



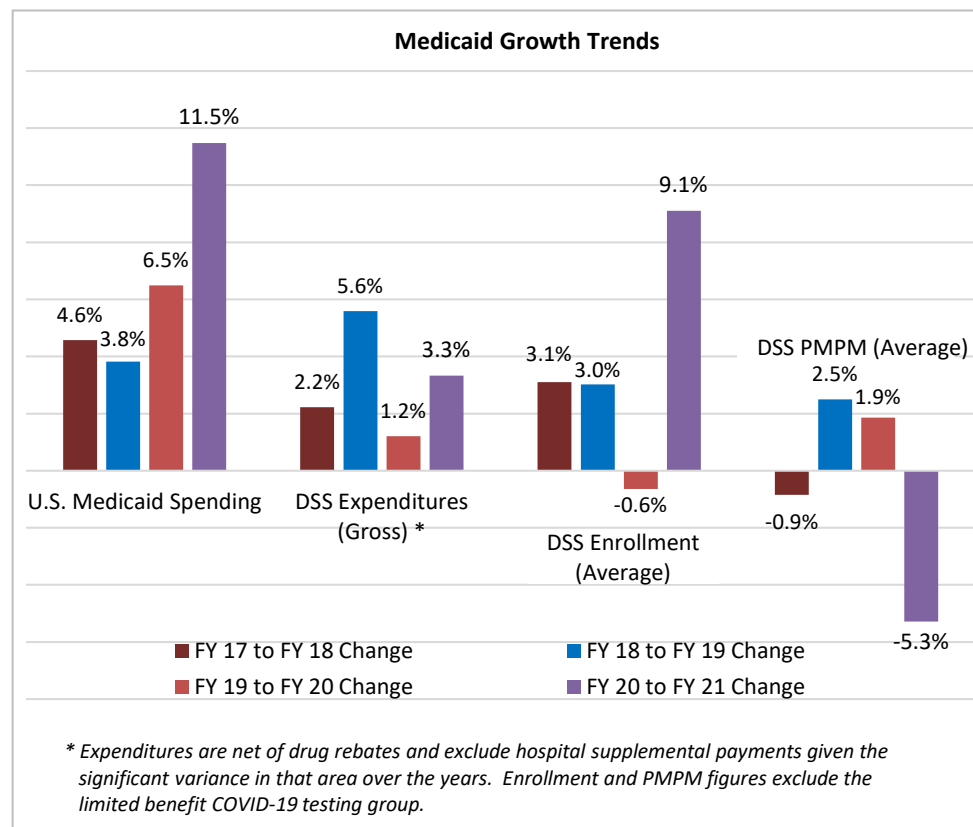
Despite an overall annual increase in total Medicaid expenditures of approximately 4 percent on average from FY 2013 through FY 2021, the state share of those costs per year on average was essentially flat over that period.

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

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



In contrast to almost all other Medicaid programs across the nation, Connecticut Medicaid uses a self-insured, managed, fee-for-service approach rather than a managed care arrangement. It is one of the very few Medicaid programs with relatively steady expenditures on a per member, per month (PMPM) basis, though there was a fairly significant drop in the PMPM this last fiscal year due to lower utilization related to the pandemic.



## ARPA HOME AND COMMUNITY-BASED SERVICES REINVESTMENT PLAN

Section 9817 of the American Rescue Plan Act enables states to earn an extra 10 percent federal reimbursement on a range of Medicaid waiver and related home and community-based services from April 1, 2021, through March 31, 2022. This extra federal reimbursement – approximately \$225.7 million for Connecticut – must be reinvested in new qualifying services which support community-based long-term services and supports over a three-year period beginning April 1, 2021 through March 31, 2024. The \$225.7 million in new federal funding, once reinvested as the state share, will leverage an estimated \$247.9 million in new federal reimbursement to match those expenditures, resulting in total expenditures of nearly \$500 million over the full three-year period with an ongoing cost to the state of approximately \$25.7 million. The reinvestment plan was submitted by the Department of Social Services to the Centers for Medicare & Medicaid Services (CMS) on July 12, 2021, and is awaiting final approval. The Office of Policy and Management and the Departments of Social Services and Developmental Services participated in a joint informational forum hosted by the legislative committees of cognizance on August 25, 2021, to discuss the plan and the various initiatives funded under the reinvestment plan, which are intended to:

- enhance the home and community-based services workforce;
- expand integration and use of assistive technology;
- expand environmental adaptations;
- enhance self-direction;
- expand and enhance home and community-based services delivery transformation;
- enhance provider infrastructure; and
- strengthen quality.

In FY 2022, estimated expenditures of \$19.1 million will be more than offset by an estimated \$172.9 million in additional Federal Grants revenue. In FY 2023, additional expenditures of \$160.9 million are expected to be partially offset by anticipated Federal Grants revenue of \$51.8 million. In addition to Federal Grants revenue, this initiative is expected to generate additional federal reimbursement of \$53.6 million in FY 2022 and \$44.2 million in FY 2023 under DSS' net-funded Medicaid account.

| ARPA HCBS Reinvestment Plan                                                                                           |              |              |             |             |             |
|-----------------------------------------------------------------------------------------------------------------------|--------------|--------------|-------------|-------------|-------------|
| (in millions)                                                                                                         |              |              |             |             |             |
|                                                                                                                       | FY 2022      | FY 2023      | FY 2024     | FY 2025     | FY 2026     |
| Projected Revenue                                                                                                     |              |              |             |             |             |
| Federal Grants Revenue                                                                                                | \$172.9      | \$51.8       | \$32.5      | \$5.3       | \$5.3       |
| <i>DSS Medicaid Federal Share *</i>                                                                                   | \$53.6       | \$44.2       | \$37.9      | \$19.3      | \$19.3      |
| Projected Expenditures                                                                                                |              |              |             |             |             |
| Office of State Comptroller (Fringes)                                                                                 | \$0.2        | \$0.4        | \$0.4       | \$0.4       | \$0.4       |
| Department of Developmental Services                                                                                  | 21.5         | 43.0         | 33.6        | 6.3         | 6.3         |
| Department of Mental Health & Addiction Services                                                                      | 1.0          | 1.2          | 1.0         | 0.7         | 0.7         |
| Department of Social Services                                                                                         | <u>(3.6)</u> | <u>116.3</u> | <u>79.4</u> | <u>23.4</u> | <u>23.4</u> |
| Total                                                                                                                 | \$19.1       | \$160.9      | \$114.5     | \$30.9      | \$30.9      |
| Net State Impact - Surplus / (Deficit)                                                                                | \$153.9      | (\$109.1)    | (\$82.0)    | (\$25.7)    | (\$25.7)    |
| <i>* Reflects federal share associated with DSS net-funded Medicaid account - no appropriation or revenue impact.</i> |              |              |             |             |             |

Note: FY 2022 revenues will be needed to support program costs over the three-year reinvestment period. Additional appropriations of up to \$19.1 million in FY 2022 and \$160.9 million in FY 2023 will be needed to support the implementation of the ARPA HCBS plan.

## SUBSTANCE USE DISORDER WAIVER

Through a collaborative effort among various state agencies, including the three state agencies that comprise the Connecticut Behavioral Health Partnership (i.e., the Departments of Social Services (DSS), Mental Health and Addiction Services, and Children and Families), DSS submitted a substance use disorder (SUD) demonstration waiver to the federal Centers for Medicare & Medicaid Services on August 9, 2021. The demonstration waiver, which was approved by the legislative committees of cognizance on June 11, 2021, will enhance the state's SUD service system and will enable federal reimbursement on SUD services for individuals that would ordinarily not be covered under federal law. The additional revenue will be reinvested to strengthen the SUD service system by ensuring that a complete array of services at all levels of care recommended by the American Society of Addiction Medicine is available in the state. This will allow Medicaid members with opioid use disorder and other SUDs to have access to a full continuum of care, ensuring they receive the medically necessary SUD treatment services in the most appropriate setting. Pending federal approval, the demonstration waiver will be implemented this year. In FY 2022, estimated expenditures of \$11.9 million will be partially offset by an estimated \$5.3 million in additional Federal Grants revenue. In FY 2023, additional expenditures of \$29.6 million are expected to be fully offset by anticipated Federal Grants revenue of \$29.6 million. In addition to Federal Grants revenue, this initiative is expected to generate additional federal reimbursement of \$44.3 million in FY 2022 and \$106.2 million in FY 2023 under DSS' net-funded Medicaid account.

| <b>SUD Waiver</b>                                                                                                     |                |                |                |                |                |
|-----------------------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (in millions)                                                                                                         |                |                |                |                |                |
|                                                                                                                       | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> | <u>FY 2025</u> | <u>FY 2026</u> |
| Projected Revenue                                                                                                     |                |                |                |                |                |
| Federal Grants Revenue                                                                                                | \$5.3          | \$29.6         | \$45.7         | \$52.2         | \$52.2         |
| <i>DSS Medicaid Federal Share *</i>                                                                                   | <i>\$44.3</i>  | <i>\$106.2</i> | <i>\$106.2</i> | <i>\$106.2</i> | <i>\$106.2</i> |
| Projected Expenditures                                                                                                |                |                |                |                |                |
| Office of State Comptroller (Fringes)                                                                                 | \$0.3          | \$0.9          | \$0.9          | \$0.9          | \$1.0          |
| Department of Mental Health & Addiction Services                                                                      | 1.0            | (5.7)          | (5.8)          | (5.8)          | (5.8)          |
| Department of Social Services                                                                                         | 10.4           | 33.7           | 49.8           | 56.3           | 56.3           |
| Department of Children & Families                                                                                     | 0.2            | 0.6            | 0.6            | 0.6            | 0.6            |
| Judicial - Court Support Services Division                                                                            | <u>0.0</u>     | <u>0.2</u>     | <u>0.2</u>     | <u>0.2</u>     | <u>0.2</u>     |
| Total                                                                                                                 | \$11.9         | \$29.6         | \$45.7         | \$52.2         | \$52.2         |
| Net State Impact - Surplus / (Deficit)                                                                                | (\$6.6)        | \$0.0          | \$0.0          | \$0.0          | \$0.0          |
| <i>* Reflects federal share associated with DSS net-funded Medicaid account - no appropriation or revenue impact.</i> |                |                |                |                |                |

Note: Additional appropriations of up to \$11.9 million in FY 2022 and \$29.6 million in FY 2023 will be needed to support the implementation of the SUD waiver.

# MUNICIPAL AID

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

## STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS

(in millions)

| <b>General Government</b>                                | <b>FY 2021</b>    | <b>FY 2022</b>    | <b>FY 2023</b>    | <b>FY 2024</b>    | <b>FY 2025</b>    | <b>FY 2026</b>    |
|----------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Municipal Revenue Sharing Account <sup>1</sup>           | \$ -              | \$ 414.9          | \$ 424.7          | \$ 434.5          | \$ 444.9          | \$ 455.0          |
| MRSA Transfers to General Fund <sup>1</sup>              | -                 | (262.7)           | (276.3)           | -                 | -                 | -                 |
| State Owned PILOT <sup>2</sup>                           | 54.9              | 54.9              | 54.9              | -                 | -                 | -                 |
| College & Hospital PILOT <sup>2</sup>                    | 109.9             | 109.0             | 109.0             | -                 | -                 | -                 |
| Tiered PILOT <sup>2</sup>                                | -                 | 66.4              | 80.0              | -                 | -                 | -                 |
| Municipal Transition <sup>2</sup>                        | 32.3              | 32.3              | 32.3              | -                 | -                 | -                 |
| Mashantucket Pequot & Mohegan Grant                      | 51.5              | 51.5              | 51.5              | 51.5              | 51.5              | 51.5              |
| Town Aid Road Grant                                      | 60.0              | 60.0              | 60.0              | 60.0              | 60.0              | 60.0              |
| LoCIP                                                    | 30.0              | 30.0              | 30.0              | 30.0              | 30.0              | 30.0              |
| Grants for Municipal Projects                            | 76.0              | 91.0              | 91.0              | 91.0              | 91.0              | 91.0              |
| Regional Performance Incentive Account                   | 9.3               | 8.0               | 8.2               | 8.4               | 8.6               | 8.8               |
| Municipal Revenue Sharing (S.A. 21-15)                   | 36.8              | 36.8              | 36.8              | 36.8              | 36.8              | 36.8              |
| Municipal Stabilization Grants                           | 38.3              | 37.9              | 37.9              | 37.9              | 37.9              | 37.9              |
| Municipal Restructuring                                  | 7.3               | 7.3               | 7.3               | 7.3               | 7.3               | 7.3               |
| Municipal Restructuring: Debt Service                    | 56.3              | 54.7              | 54.1              | 51.3              | 47.9              | 47.5              |
| Misc. General Government Grants                          | 27.3              | 26.8              | 26.1              | 26.1              | 26.1              | 26.1              |
| <b>Subtotal<sup>3</sup> - General Government</b>         | <b>\$ 589.9</b>   | <b>\$ 818.8</b>   | <b>\$ 827.5</b>   | <b>\$ 834.7</b>   | <b>\$ 841.9</b>   | <b>\$ 851.8</b>   |
| <b>Education</b>                                         |                   |                   |                   |                   |                   |                   |
| Adult Education                                          | \$ 20.4           | \$ 21.2           | \$ 21.3           | \$ 21.8           | \$ 22.0           | \$ 22.1           |
| Education Cost Sharing                                   | 2,092.0           | 2,139.2           | 2,184.8           | 2,223.3           | 2,261.8           | 2,300.3           |
| Magnet Schools                                           | 306.0             | 282.4             | 284.6             | 288.7             | 291.6             | 294.5             |
| Special Education - Student Based                        | 140.6             | 140.6             | 140.6             | 209.6             | 213.6             | 217.8             |
| Local School Construction                                | 550.0             | 550.0             | 550.0             | 550.0             | 550.0             | 550.0             |
| Misc. Education Grants                                   | 230.3             | 234.9             | 240.4             | 244.7             | 245.9             | 247.1             |
| <b>Subtotal<sup>3</sup> - Education</b>                  | <b>\$ 3,339.3</b> | <b>\$ 3,368.3</b> | <b>\$ 3,421.7</b> | <b>\$ 3,538.0</b> | <b>\$ 3,584.8</b> | <b>\$ 3,631.8</b> |
| <b>Fringe Benefits</b>                                   |                   |                   |                   |                   |                   |                   |
| TRS Retirement Contributions                             | \$ 1,249.8        | \$ 1,443.7        | \$ 1,578.0        | \$ 1,663.9        | \$ 1,771.5        | \$ 1,868.8        |
| TRS Retiree Health Service Cost                          | 24.4              | 18.7              | 12.9              | 13.3              | 13.7              | 14.1              |
| Municipal Retiree Health Insurance Cost                  | 5.0               | 5.1               | 5.1               | 5.1               | 5.1               | 5.1               |
| Debt Service - Pension Obligation Bonds                  | 118.4             | 203.1             | 306.7             | 315.7             | 330.2             | 265.3             |
| <b>Subtotal<sup>3</sup> - Local Teachers' Retirement</b> | <b>\$ 1,397.6</b> | <b>\$ 1,670.5</b> | <b>\$ 1,902.7</b> | <b>\$ 1,997.9</b> | <b>\$ 2,120.4</b> | <b>\$ 2,153.2</b> |
| <b>Total<sup>3</sup> - Aid to Municipalities</b>         | <b>\$ 5,326.9</b> | <b>\$ 5,857.6</b> | <b>\$ 6,151.9</b> | <b>\$ 6,370.6</b> | <b>\$ 6,547.2</b> | <b>\$ 6,636.9</b> |
| <b>Dollar Change from Prior Year</b>                     |                   | <b>530.7</b>      | <b>294.3</b>      | <b>218.7</b>      | <b>176.6</b>      | <b>89.7</b>       |
| <b>Percent Change from Prior Year</b>                    |                   | <b>10.0%</b>      | <b>5.0%</b>       | <b>3.6%</b>       | <b>2.8%</b>       | <b>1.4%</b>       |

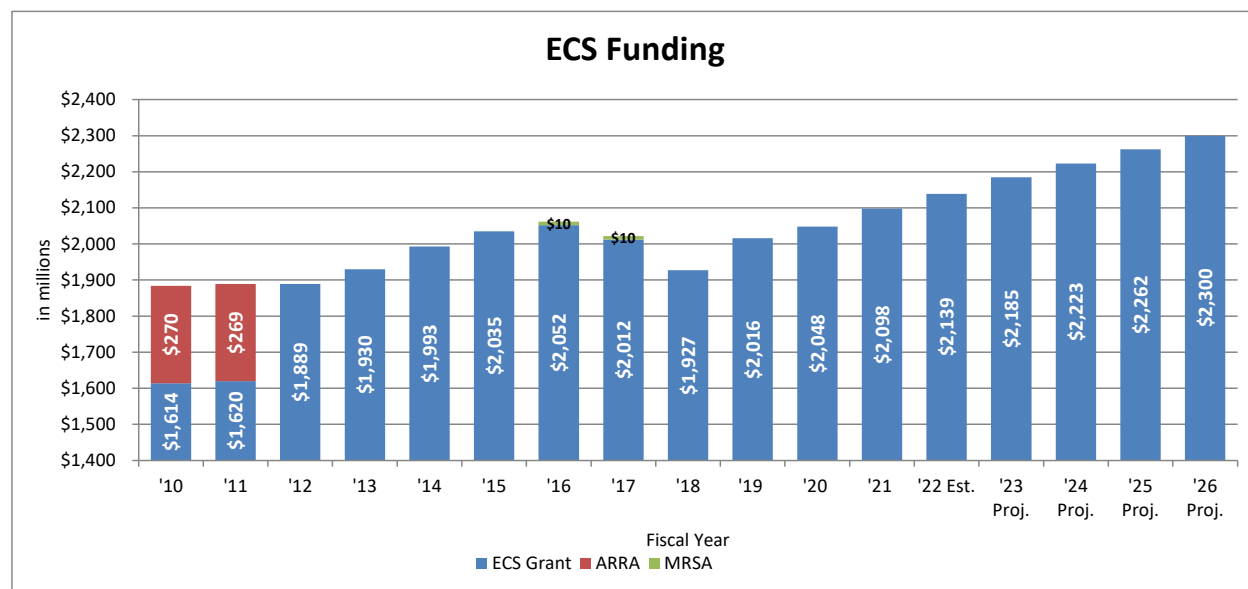
1. The Municipal Revenue Sharing Account (MRSA) began receiving a portion of sales tax revenue in FY 2022. Pursuant to P.A. 21-2, JSS, OPM anticipates disbursement of FY 2022 and FY 2023 revenues deposited into MRSA for: 1) the balance of PILOT payments due beyond available appropriations, 2) transfers of the amounts prescribed in P.A. 21-2, JSS, from MRSA to the General Fund, and 3) MRSA Revenue Sharing grants pursuant to C.G.S. section 4-66I. Under current law, all deposits into MRSA will be distributed according to C.G.S. section 4-66I beginning in FY 2024.

2. Funding is appropriated for PILOT and Municipal Transition (car tax) grants in FY 2022 and FY 2023. Under current law, these grants will be paid entirely from MRSA beginning in FY 2024.

3. Totals may not add due to rounding.

### Education Cost Sharing Grants

The Education Cost Sharing Grant (ECS) is the state's major education grant, designed to equalize the ability of towns to finance local education costs. The graph below shows past and projected levels of ECS funding; projections are based on the current formula.

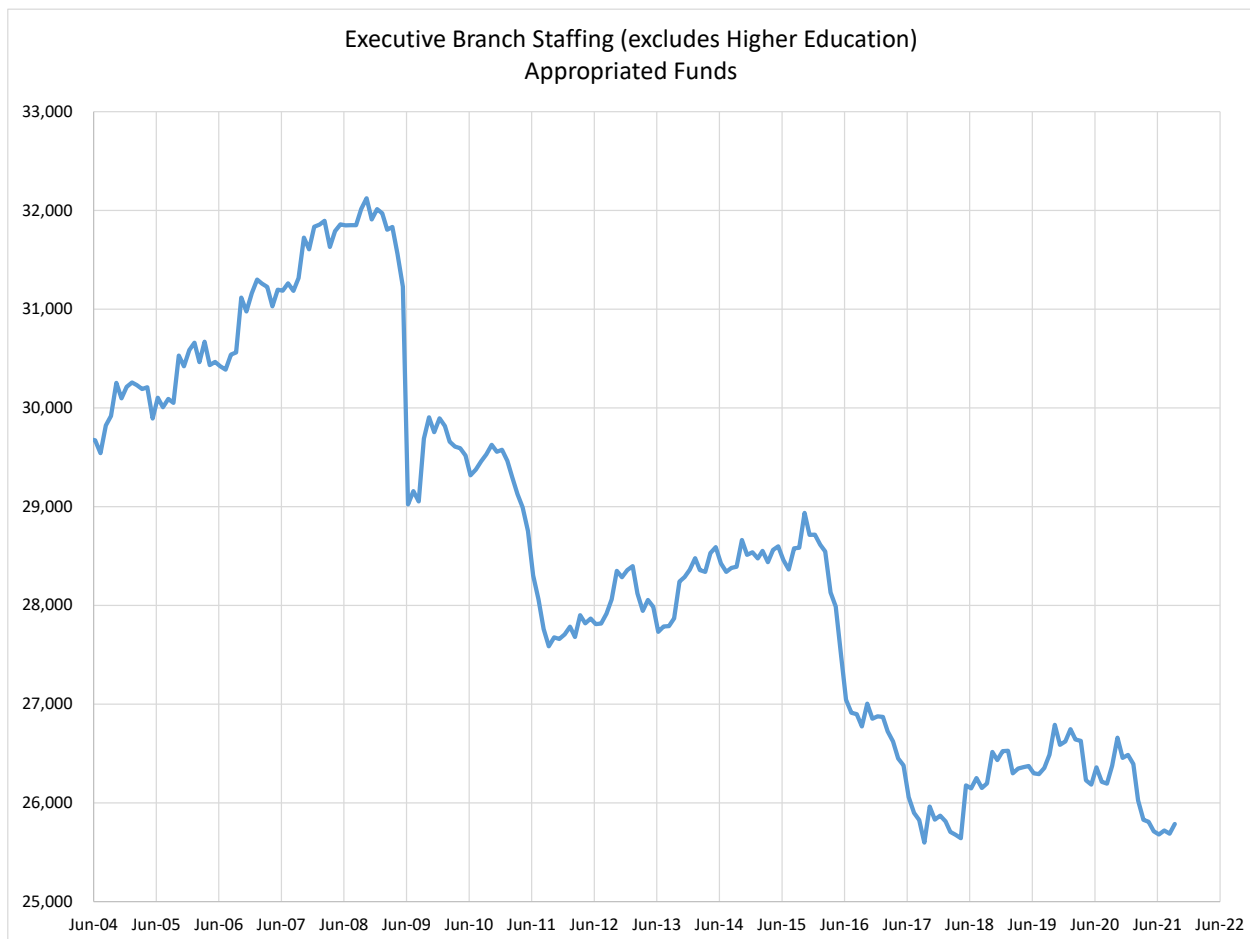


Notes: The budget for FY 2010 and FY 2011 included federal ARRA SFSF funding of \$269 million (14 percent of the grant). While Charter School grants were appropriated under the ECS grant from FY 2013 to FY 2016, Charter School funding is excluded from the graph above. The Education Cost Sharing Grant was supplemented by \$10 million in FY 2016 and FY 2017 from the Municipal Revenue Sharing Account (MRSA).

## STATE WORKFORCE

### Long-Term Staffing Trends

The number of state employees in the executive branch of state government has experienced three major drops since 2009: the first, as a result of the 2009 Retirement Incentive Program, saw paid fulltime Executive branch staffing fall by 9.6 percent, from approximately 32,000 at the start of calendar year 2009 to as low as 29,023, before stabilizing at about 29,500. The second drop, driven by benefits changes negotiated as part of SEBAC 2011 and relatively strict hiring controls saw staffing fall by 6.7 percent to a low of 27,585 as of October 2011. After slowly rising to approximately 28,700 by January 2015, the third decrease, again driven by strict hiring controls and benefit changes negotiated as part of SEBAC 2017, saw staffing fall by 10.8 percent to approximately 25,600 employees in October 2017. After steadying at approximately 26,400 employees during calendar years 2019 and 2020, there are, as of the end of October 2021, 25,785 permanent full-time employees being paid from appropriated funds in the Executive branch (excluding higher education). This staffing level is 589 employees fewer than the number one year ago and over 19 percent lower – more than 6,000 fewer employees – than at the beginning of 2009.



Given negotiated changes in pension and healthcare benefits that take effect for retirements after July 1, 2022, the State of Connecticut faces the possibility that an unusually large number of employees may elect to leave their jobs by the end of FY 2022. As a result, planning for the ongoing continuity of operations has been underway to ensure that the large potential exodus of experienced employees can be sufficiently navigated and an efficient and effective agency structure results. Concurrently, this potential exodus occurs on the heels of the COVID-19 pandemic which has dramatically impacted the way in which work is performed. In looking to the future, the state will need to address whether and to what extent to adopt teleworking models, adapt office space to accommodate social distancing, and consider technologies to streamline and reduce touchpoints.

## GAMING MODERNIZATION

During the 2021 legislative session, Public Act 21-23 was enacted, expanding and modernizing gaming offerings in the state. The act authorizes the licensing and regulation of:

- Online casino gaming;
- Sport wagering, both retail and online;
- Online Keno; and
- Online sales of lottery tickets.

The act responds to the evolving nature of various markets and enables Connecticut to keep pace with neighboring states and the nation in the gaming industry. In passing this milestone legislation, the Mashantucket Pequot and Mohegan tribal nations and the State of Connecticut reached an agreement

on an expansion of gaming offerings. As the gaming market expands, policymakers have also recognized the increased potential risk for problem gambling. Consequently, the state and the tribal nations have agreed to increase problem gambling funding by \$2 million annually. The table below provides insight to what is offered by each party as well as the share of revenue for the State of Connecticut. Approximately \$304.8 million in revenue is projected to be collected between FY 2022 and FY 2026 as a result of the expansion of gaming.

### Summary of Gaming Modernization - 2021 Legislative Session Public Act 21-23

| PERCENTAGE OF NET REVENUE TO THE STATE OF CONNECTICUT |                          |                 |                      |             |                   |             |                  |
|-------------------------------------------------------|--------------------------|-----------------|----------------------|-------------|-------------------|-------------|------------------|
| Entity                                                | Platform                 | Sports Wagering | Online Casino Gaming |             | Online Draw Games | Keno        | Fantasy Contests |
|                                                       |                          |                 | Years 1-5            | Years 6+    |                   |             |                  |
| CT Lottery Corp.                                      | Retail                   | 100%            | Not Allowed          | Not Allowed | N/A               | 75%         | N/A              |
| CT Lottery Corp.                                      | Online                   | 100%            | Not Allowed          | Not Allowed | 100%              | 75%         | 13.75%           |
| Casinos/Tribes                                        | On-Reservation - Retail  | 0%              | N/A                  | N/A         | N/A               | 0%          | N/A              |
| Casinos/Tribes                                        | On-Reservation - Online  | 0%              | Not Allowed          | Not Allowed | N/A               | Not Allowed | 13.75%           |
| Casinos/Tribes                                        | Off-Reservation - Online | 13.75%          | 18%                  | 20%         | N/A               | Not Allowed | Not Allowed      |
| Off-Track Betting Facility                            | Retail                   | 13.75%          | N/A                  | N/A         | N/A               | N/A         | N/A              |
| Off-Track Betting Facility                            | Online                   | Not Allowed     | Not Allowed          | Not Allowed | N/A               | N/A         | 13.75%           |

**Notes:**

- (1) CT shares 25% of Keno revenue with the tribes.
- (2) PA 21-23 authorizes the use of credit cards for all online gaming and wagering.
- (3) Tax rates for CT Lottery Corp. are the percent of net profit after expenses transferred to the General Fund.

| PROJECTED REVENUE FROM GAMING OPERATIONS<br>(In Millions)    |                |                |                |
|--------------------------------------------------------------|----------------|----------------|----------------|
| Game Type                                                    | FY 2022        | FY 2023        | FY 2024        |
| Online Draw Games (i-Lottery)                                | \$ 2.0         | \$ 3.0         | \$ 7.5         |
| Sports Wagering (Retail & Online)                            | 19.2           | 21.1           | 22.4           |
| Online Casino Gaming (a.k.a. i-Gaming)                       | 8.6            | 11.4           | 14.3           |
| Online Keno                                                  | 0.7            | 0.9            | 1.3            |
| Increased Retail Casino Activity Due to Gaming Modernization | -              | 6.7            | 13.4           |
| CT Lottery Corp. Increased Contribution to Chronic Gamblers  | (1.0)          | (1.0)          | (1.0)          |
| <b>Total NEW Gaming Revenue</b>                              | <b>\$ 29.5</b> | <b>\$ 42.1</b> | <b>\$ 57.9</b> |

**Notes:**

- (1) i-Lottery includes the sale of online draw games, but does not include instant games.
- (2) Online Casino Gaming includes online games such as Slots, Blackjack, Craps, Roulette, Baccarat, Poker & Video Poker, Bingo, live dealer, and other "peer-to-peer" games.

## ADULT-USE CANNABIS

Public Act 21-1, June Special Session, brings Connecticut in line with neighboring states by legalizing adult-use cannabis and provides a comprehensive framework for the cultivation, manufacture, sale, possession, use, and taxation of cannabis that prioritizes public health, public safety, and social justice. Responsibly regulating adult-use cannabis will increase economic activity, reduce race-based disparities in the dispensation of justice, and protect public health and safety. Given the wide-ranging nature of the issues covered in the bill, the topics described below focus on the budgetary impacts of the legislation.

For the FY 2022 and FY 2023 biennium, the act establishes two accounts to support implementation activities: the Cannabis Regulatory and Investment Account and the Social Equity and Innovation Account. These accounts are described further below.

- **Cannabis Regulatory and Investment Account**
  - Revenue Sources. The act deposits certain licensing fees, the state cannabis tax, and 6.35% general sales tax on cannabis sales in FY 2022.
  - Uses. The (OPM Secretary may allocate the account's funds to state agencies to pay any costs incurred to implement the act.
- **Social Equity and Innovation Account**
  - Revenue Sources. This account is the repository for all fees received by the state during FY 2022 from the following: medical marijuana producers to expand their licenses and be authorized to engage in expanded activities; dispensary facilities to convert to a hybrid retailer; social equity applicants to receive a cultivator license for facilities located in a disproportionately impacted area without participating in a lottery; and license conversion for a dispensary facility to become a hybrid retailer or for a producer to engage in the adult use cannabis market.
  - Uses. The legislation appropriates funds for various purposes including: paying for administrative costs incurred by the Social Equity Council; access to capital for businesses; technical assistance for the start-up and operation of a business; funding for workforce education; and funding for community investments.

The act creates two new appropriated funds: the Social Equity and Innovation Fund and the Prevention and Recovery Services Fund. These new funds are described further below.

- **Social Equity and Innovation Fund**
  - Revenue Sources. For FY 2023 and future years, this fund is the repository for the fees described under the Social Equity and Innovation Account.
  - Uses. The act requires that the fund be appropriated for access to business capital; technical assistance for business start-ups and operations; workforce education; and community investments. These appropriations must be used for expenditures that further the act's principles of equity. The act defines "equity" and "equitable" as efforts, regulations, policies, programs, standards, processes, and any other government functions or principles of law and governance intended to: identify and remedy past and present patterns of discrimination and disparities of race, ethnicity, gender, and sexual orientation; ensure that these intentional or unintentional patterns are not reinforced or perpetuated; and prevent the emergence and persistence of foreseeable future patterns of discrimination or disparities on these bases. Under the act, the Social Equity Council will submit expenditure requirements and recommended adjustments to OPM.
- **Prevention and Recovery Services Fund**
  - Revenue Sources. A portion of the state cannabis tax will be deposited into the fund. The transfer of state cannabis tax into the fund is expected to begin in FY 2024.
  - Uses. The legislation appropriates those funds for various purposes including: substance abuse prevention, treatment and recovery services; and substance abuse data collection and analysis.

#### Social Equity Council (SEC)

As part of the focus on equity, a council is established to promote participation in the cannabis industry by people from communities disproportionately harmed by cannabis prohibition and enforcement. The act identifies the following purposes of the council that might involve appropriations: access to capital for businesses; technical assistance for the start-up and operation of a business; funding for workforce education; and funding for community investments. In addition, the act requires that the SEC recommend "for each fiscal year commencing with the fiscal year ending June 30, 2023, appropriate funding for all credits payable to angel investors that invest in cannabis businesses pursuant to section 12-704d of the general statutes."

### State Agency Expenditures

Funding to support state agency expenditures related to the licensing, regulation, and enforcement of recreational cannabis was not appropriated as part of the enacted budget for FY 2022 and FY 2023. In the long term, these activities are expected to be funded through the Cannabis Regulatory and Investment Account, which is backed by revenue generated from the licensing and taxation of cannabis. Until the adult-use market is established, this account is unable to support the scale of state agency implementation expenditures expected to occur in FY 2022, which is estimated at \$16.9 million. The budget for the current biennium provides \$5 million in funds carried forward from FY 2021 into FY 2022 for costs associated with the legalization of cannabis, which the OPM Secretary may transfer to agencies that incur implementation expenditures.

The table below shows the estimated expenditures for FY 2022 and FY 2023 across various agencies within the General Fund and Special Transportation Fund to implement, regulate, and enforce this act.

### **Summary of Projected Adult-Use Cannabis Expenditures**

**Public Act No. 21-1, June Special Session**

| Agency                                                 | FY 2022   |                     | FY 2023   |                     |
|--------------------------------------------------------|-----------|---------------------|-----------|---------------------|
|                                                        | Positions | Funding             | Positions | Funding             |
| Department of Revenue Services                         | 7         | \$ 168,095          | 7         | \$ 490,547          |
| Office of the Attorney General                         | -         | \$ -                | 4         | \$ 434,275          |
| Department of Emergency Services and Public Protection | -         | \$ 1,058,582        | 2         | \$ 1,213,749        |
| Department of Consumer Protection                      | 59        | \$ 5,853,990        | 62        | \$ 6,056,461        |
| Department of Economic and Community Development       | 7         | \$ 982,844          | 7         | \$ 1,398,231        |
| Agricultural Experiment Station                        | 3         | \$ 224,377          | 3         | \$ 304,065          |
| Department of Public Health                            | 2         | \$ 254,913          | 3         | \$ 496,405          |
| Department of Mental Health and Addiction Services     | 1         | \$ 2,309,500        | 1         | \$ 2,340,251        |
| UConn Health Center                                    | -         | \$ -                | 2         | \$ 178,385          |
| Department of Motor Vehicles                           | 7         | \$ 369,743          | 7         | \$ 529,446          |
| Department of Transportation                           | -         | \$ 425,000          | -         | \$ 550,000          |
| Comptroller - Fringe Benefits                          | -         | \$ 5,249,827        | -         | \$ 8,622,359        |
| <b>Total</b>                                           | <b>86</b> | <b>\$16,896,871</b> | <b>98</b> | <b>\$22,614,174</b> |

The Office of Policy and Management's estimates of revenue anticipated from the legalization of adult-use cannabis are depicted below.

### **Cannabis Related Revenue**

(in millions)

| Fiscal Year | Total GF Revenue | Total STF Revenue | Municipal Revenue Sharing | 3.0% Sales Tax | Cannabis Regulatory Acct. | Social Equity & Innovation Acct. | Social Equity & Innovation Fund | Prevention & Recovery Svcs. Fund | Grand Total    |
|-------------|------------------|-------------------|---------------------------|----------------|---------------------------|----------------------------------|---------------------------------|----------------------------------|----------------|
| 2022        | \$ -             | \$ -              | \$ -                      | \$ 1.0         | \$ 8.4                    | \$ 25.0                          | \$ -                            | \$ -                             | <b>\$ 34.4</b> |
| 2023        | 31.3             | 1.0               | 1.0                       | 5.9            | -                         | -                                | -                               | -                                | <b>39.1</b>    |
| 2024        | 27.4             | 1.9               | 1.9                       | 11.2           | -                         | -                                | 23.6                            | 9.9                              | <b>75.9</b>    |
| 2025        | 42.4             | 2.9               | 2.9                       | 17.4           | -                         | -                                | 39.5                            | 16.5                             | <b>121.5</b>   |
| 2026        | 43.9             | 3.0               | 3.0                       | 17.8           | -                         | -                                | 42.7                            | 17.8                             | <b>128.1</b>   |
| 2027        | 41.7             | 3.0               | 3.0                       | 18.2           | -                         | -                                | 49.9                            | 19.2                             | <b>135.1</b>   |
| 2028        | 42.7             | 3.1               | 3.1                       | 18.7           | -                         | -                                | 51.1                            | 19.7                             | <b>138.4</b>   |
| 2029        | 35.7             | 3.2               | 3.2                       | 19.2           | -                         | -                                | 61.7                            | 20.6                             | <b>143.6</b>   |

## FEDERAL BUDGET AND POLICY ISSUES

Several significant federal budget and policy issues must be dealt with over the next year, creating uncertainty for state policymakers as well as for the budgeting process.

- Because appropriations for federal fiscal year (FFY) 2022 have not yet been signed into law, a continuing resolution (CR) is in place to keep the federal government operating through December 3, 2021. In the absence of an agreement on either appropriations or an extension of the CR, a government shutdown would ensue.
- The federal debt limit must be increased in early- to mid-December to enable the Treasury Department to continue to pay government obligations. Partisan wrangling over increasing the debt limit may complicate adoption of a budget as well as other legislation.
- A social spending bill is reportedly under consideration and may provide both funding opportunities as well as potential state matching or other costs in order to leverage federal funds. Insufficient detail is available at this time to assess the impact on the State of Connecticut.

## EFFORTS TO PRESERVE OR MAXIMIZE FEDERAL REVENUE<sup>4</sup>

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

An interagency workgroup meets regularly to discuss revenue opportunities and implementation issues. Some of the major revenue-maximization and revenue-retention initiatives being explored or under development or now operational include:

- Use of available federal authorities to flexibly respond to the public health emergency, including establishment of an optional Medicaid coverage group (i.e., the COVID-19 Testing Group) to cover the costs of COVID-19 testing for uninsured Connecticut residents, coverage of telehealth and service reconfigurations required to adapt to needs of Connecticut's vulnerable populations;
- Submission of an 1115 waiver of the federal rules that prohibit Medicaid billing for services provided in certain settings to permit coverage of certain substance use disorder treatment services currently ineligible for Medicaid reimbursement;
- Submission of a Family First Prevention Services Act Prevention Plan that will allow for eligible prevention services to be covered under Title IV-E;
- Approval of a 1915(i) state plan amendment that will permit Medicaid reimbursement of formerly state-only funded pre-tenancy and tenancy sustaining supports for individuals with chronic health issues who have experienced homelessness or are at risk of homelessness; and
- Submission of the state's plan to implement section 9817 of the American Rescue Plan Act, which provides states the opportunity to earn an extra 10 percent federal reimbursement on a range of waiver and related home and community-based services from April 1, 2021 through March 31, 2022. For Connecticut, this extra federal reimbursement – currently estimated at approximately \$225.7 million – will be reinvested in new qualifying services which support community-based long-term services and supports over a three-year period from April 1, 2021 through March 31, 2024.

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<sup>4</sup> This section fulfills the reporting requirement found in subsection (c) of Sec. 4-31d, CGS.

To ensure receipt of the enhanced federal Medicaid program match of 6.2 percent through the quarter ending March 31, 2022, the state has extended the suspension of Medicaid eligibility discontinuances through January 2022 to align with the date the federal public health emergency declaration is currently slated to terminate.

While much effort goes into maximizing revenue, equal or greater effort goes into preserving existing sources of federal reimbursement. The federal Centers for Medicare & Medicaid Services has strengthened its compliance activities, resulting in significantly greater scrutiny of all state claims. Department of Social Services' staff and impacted state agencies continue to experience significantly increased time and effort explaining and justifying revenue items to CMS in order to sustain claims worth hundreds of millions of dollars that had once been considered routine.

## FEDERAL STIMULUS AND PANDEMIC ASSISTANCE

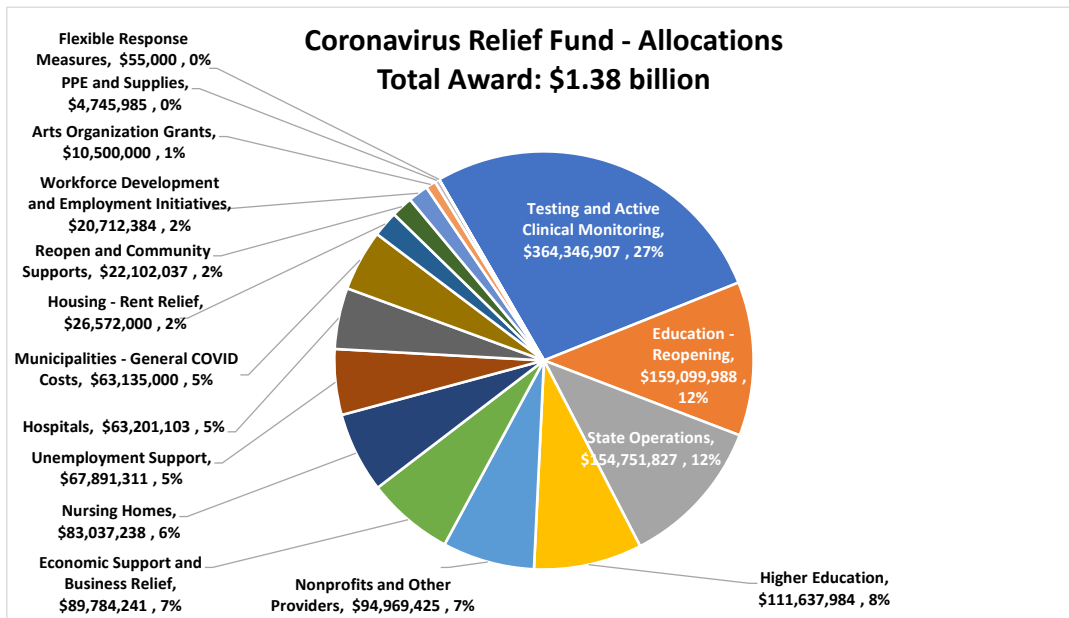
The federal government has provided significant and much-needed financial assistance to Connecticut since March 2020. Six bills have been enacted providing a broad array of support for both the public health as well as economic impacts of the COVID-19 pandemic.<sup>5</sup> The information below highlights the uses to which the two largest federal assistance funding streams – the Coronavirus Relief Fund and the Coronavirus State and Local Fiscal Recovery Fund -- have been deployed in the State of Connecticut.

The state's Coronavirus Relief Fund (CRF) award totals about \$1.38 billion. This federal assistance, received in May 2020 and available for use through December 31, 2021, has been instrumental in enabling the state to support significant needs in addressing the pandemic, including: purchase of personal protective equipment (PPE); support for municipalities, including education reopening costs; financial support for hospitals, nursing homes and private providers; economic assistance for small businesses and arts organizations; support for pandemic-related state operating costs, including cleaning and sanitizing, protective measures for public-facing operations, and teleworking costs; and costs for COVID-19 testing. It is important to note that allocations of funds have shifted over time, given a.) delays and revisions in Treasury guidance, b.) shifting interpretations from the Federal Emergency Management Agency (FEMA) about costs they would cover, and c.) the natural evolution of "needs" as the pandemic progressed. Large categories of CRF allocations have been shifted to FEMA funding sources over time, freeing up CRF for re-allocation to other priorities. For example, with respect to PPE, at the peak in November 2020, \$100 million was set aside for PPE. As FEMA has approved coverage of those costs, CRF has been recovered for re-allocation; currently, less than \$5 million is allocated for PPE. Similarly, with regard to COVID-19 testing, \$151 million was initially set aside; this amount was later increased to \$364.3 million given the expansion in the scope of testing efforts. FEMA has already approved reimbursement for a significant portion of these costs, and further claims will be pursued by the state, leading to uncertainty about the amount of CRF ultimately required. Assuming the state's requests for FEMA reimbursement are ultimately successful, the state's CRF exposure from testing is currently estimated at \$205.7 million.

The graph and table below depict the current allocations of CRF by category and agency.

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<sup>5</sup> Public Law 116-123, the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020; P.L. 116-127, the Families First Coronavirus Response Act; P.L. 116-136, the Coronavirus Aid, Relief, and Economic Security (CARES) Act; P.L. 116-139, the Paycheck Protection Program and Health Care Enhancement Act; P.L. 116-260, the Consolidation Appropriations Act, 2021; and P.L. 117-2, the American Rescue Plan Act of 2021.



| Agency Code | Agency Name                                            | Approved Amount            |
|-------------|--------------------------------------------------------|----------------------------|
| BOR77700    | Connecticut State Colleges and Universities            | \$ 59,572,126.25           |
| CME49500    | Office of the Chief Medical Examiner                   | \$ 262,633.99              |
| CRD47200    | Capital Region Development Authority                   | \$ 1,904,788.45            |
| CSL66000    | State Library                                          | \$ 2,627,718.00            |
| DAG42500    | Department of Agriculture                              | \$ 9,850,000.00            |
| DAS23000    | Department of Administrative Services                  | \$ 8,192,131.00            |
| DCF91000    | Department of Children and Families                    | \$ 6,712,947.26            |
| DCJ30000    | Division of Criminal Justice                           | \$ 913,928.00              |
| DCP39500    | Department of Consumer Protection                      | \$ -                       |
| DDS50000    | Department of Developmental Services                   | \$ 52,137,601.00           |
| DEP43000    | Department of Energy and Environmental Protection      | \$ 298,307.36              |
| DHE66500    | Office of Higher Education                             | \$ 5,800,000.00            |
| DMV35000    | Department of Motor Vehicles                           | \$ 9,988,502.18            |
| DOC88000    | Department of Correction                               | \$ 41,480,304.00           |
| DOH46900    | Department of Housing                                  | \$ 32,216,875.00           |
| DOI37500    | Insurance Department                                   | \$ 15,341.85               |
| DOL40000    | Labor Department                                       | \$ 71,893,034.71           |
| DOT57000    | Department of Transportation                           | \$ 343,836.96              |
| DPH48500    | Department of Public Health                            | \$ 157,233,228.00          |
| DPS32000    | Department of Emergency Services and Public Protection | \$ 4,024,138.59            |
| DRS16000    | Department of Revenue Services                         | \$ 10,512,896.00           |
| DSS60000    | Department of Social Services                          | \$ 184,621,167.00          |
| DVA21000    | Department of Veterans Affairs                         | \$ 1,296,341.99            |
| ECD46000    | Department of Economic and Community Development       | \$ 111,610,190.87          |
| GOV12000    | Governor's Office                                      | \$ 12,000,000.00           |
| HRO41100    | Commission on Human Rights and Opportunities           | \$ 160,127.00              |
| JUD95000    | Judicial Department                                    | \$ 11,254,894.04           |
| MHA53000    | Department of Mental Health and Addiction Services     | \$ 15,505,792.00           |
| MIL36000    | Military Department                                    | \$ 413,817.00              |
| OAG29000    | Attorney General                                       | \$ 96,867.61               |
| OEC64800    | Office of Early Childhood                              | \$ 6,759,357.00            |
| OLM10000    | Legislative Management                                 | \$ 81,350.32               |
| OPM20000    | Office of Policy and Management                        | \$ 100,158,080.00          |
| OSC15000    | State Comptroller                                      | \$ 78,112,109.00           |
| OSC15200    | State Comptroller - Fringe Benefits                    | \$ 40,000,000.00           |
| OTT14000    | State Treasurer                                        | \$ 211,962.00              |
| PCA98000    | Probate Court Administration                           | \$ 55,574.00               |
| PDS98500    | Public Defender Services Commission                    | \$ 929,853.31              |
| SDE64000    | Department of Education                                | \$ 155,499,988.00          |
| SDR63500    | Department of Aging and Disability Services            | \$ 195,333.00              |
| SOS12500    | Secretary of the State                                 | \$ 421,011.00              |
| TBD         | Responsible Agency Pending                             | \$ 89,087,847.00           |
| TRB77500    | Teachers' Retirement Board                             | \$ 24,572.00               |
| UHC72000    | University of Connecticut Health Center                | \$ 12,218,931.50           |
|             | <b>Grand Total</b>                                     | <b>\$ 1,336,542,430.49</b> |

Early in 2021, following passage of the American Rescue Plan Act, the state was awarded \$2.8 billion from the Coronavirus State Fiscal Recovery Fund (CSFRF). The table below depicts CSFRF allocations. About \$232.9 million of the award is currently unallocated.

| <b>Coronavirus State Fiscal Recovery Fund (CSFRF)</b>                 |                                                                          |                    |                   |                   |  |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------|--------------------|-------------------|-------------------|--|
| Special Act 21-15 as amended by Public Act 21-2, June Special Session |                                                                          |                    |                   |                   |  |
| <u>Agency</u>                                                         | <u>Allocation</u>                                                        | <u>FY 2022</u>     | <u>FY 2023</u>    | <u>FY 2024</u>    |  |
| <b>Board of Regents</b>                                               | <b>Agency Total</b>                                                      | <b>6,500,000</b>   | <b>6,500,000</b>  | <b>6,500,000</b>  |  |
|                                                                       | Enhance Student Retention at Community Colleges                          | 6,500,000          | 6,500,000         | 6,500,000         |  |
| <b>Connecticut State Colleges and Universities</b>                    | <b>Agency Total</b>                                                      | <b>10,000,000</b>  | <b>5,000,000</b>  |                   |  |
|                                                                       | Higher Education - CSCU                                                  | 10,000,000         | 5,000,000         |                   |  |
| <b>Dept. of Aging and Disability Services</b>                         | <b>Agency Total</b>                                                      | <b>2,000,000</b>   |                   |                   |  |
|                                                                       | Blind and Deaf Community Supports                                        | 2,000,000          |                   |                   |  |
| <b>Dept. of Agriculture</b>                                           | <b>Agency Total</b>                                                      | <b>1,450,000</b>   | <b>450,000</b>    |                   |  |
|                                                                       | Farmer's Market Nutrition                                                | 100,000            | 100,000           |                   |  |
|                                                                       | Farm-to-School Grant                                                     | 250,000            | 250,000           |                   |  |
|                                                                       | Food Insecurity Grants to Food Pantries and Food Banks                   | 1,000,000          |                   |                   |  |
|                                                                       | Senior Food Vouchers                                                     | 100,000            | 100,000           |                   |  |
| <b>Dept. of Children and Families</b>                                 | <b>Agency Total</b>                                                      | <b>15,660,000</b>  | <b>5,160,000</b>  |                   |  |
|                                                                       | Casa Boricua-Meriden                                                     | 50,000             | 50,000            |                   |  |
|                                                                       | Child First                                                              | 5,100,000          | 5,100,000         |                   |  |
|                                                                       | Children's Mental Health Initiatives                                     | 10,500,000         |                   |                   |  |
|                                                                       | Fostering Community                                                      | 10,000             | 10,000            |                   |  |
| <b>Dept. of Correction</b>                                            | <b>Agency Total</b>                                                      | <b>20,750,000</b>  | <b>750,000</b>    |                   |  |
|                                                                       | TRUE Unit - Cheshire CI                                                  | 500,000            | 500,000           |                   |  |
|                                                                       | Vocational Village Dept Corrections                                      | 20,000,000         |                   |                   |  |
|                                                                       | WORTH Program York CI                                                    | 250,000            | 250,000           |                   |  |
| <b>Dept. of Developmental Services</b>                                | <b>Agency Total</b>                                                      | <b>3,000,000</b>   |                   |                   |  |
|                                                                       | Respite Care for Family Caregivers                                       | 3,000,000          |                   |                   |  |
| <b>Dept. of Economic and Community Development</b>                    | <b>Agency Total</b>                                                      | <b>137,432,019</b> | <b>5,375,019</b>  |                   |  |
|                                                                       | Amistad                                                                  | 200,000            | 200,000           |                   |  |
|                                                                       | Ball and Sockets - Cheshire                                              | 200,000            |                   |                   |  |
|                                                                       | Beardsley Zoo                                                            | 246,121            | 246,121           |                   |  |
|                                                                       | Beta Iota Boule Foundation -Youth Services                               | 100,000            |                   |                   |  |
|                                                                       | Charter Oak Temple Restoration Association                               | 100,000            | 100,000           |                   |  |
|                                                                       | Connecticut Center for Advanced Technologies                             | 1,000,000          |                   |                   |  |
|                                                                       | Connecticut Main Street Center                                           | 350,000            | 350,000           |                   |  |
|                                                                       | CRDA Economic Support for Venues                                         | 5,000,000          | 2,500,000         |                   |  |
|                                                                       | CT Airport Authority                                                     | 2,000,000          |                   |                   |  |
|                                                                       | CT Hospitality Industry Support                                          | 30,000,000         |                   |                   |  |
|                                                                       | East Hartford Little League                                              | 50,000             |                   |                   |  |
|                                                                       | ESF/Dream Camp of Hartford                                               | 100,000            |                   |                   |  |
|                                                                       | Family Justice Center                                                    | 50,000             | 50,000            |                   |  |
|                                                                       | Governor's Workforce Initiatives                                         | 70,000,000         |                   |                   |  |
|                                                                       | Hartford YMCA                                                            | 1,000,000          |                   |                   |  |
|                                                                       | Historic Wooster Square Association                                      | 500,000            |                   |                   |  |
|                                                                       | Humane Commission/Animal Shelter of New Haven                            | 500,000            |                   |                   |  |
|                                                                       | Junta for Progressive Action                                             | 750,000            |                   |                   |  |
|                                                                       | Legacy Foundation for Health and Disparities                             | 100,000            |                   |                   |  |
|                                                                       | Maritime Center Authority                                                | 196,295            | 196,295           |                   |  |
|                                                                       | Middlesex YMCA                                                           | 50,000             |                   |                   |  |
|                                                                       | Middletown Downtown Business District                                    | 100,000            | 100,000           |                   |  |
|                                                                       | Music Haven                                                              | 100,000            | 100,000           |                   |  |
|                                                                       | Mystic Aquarium                                                          | 177,603            | 177,603           |                   |  |
|                                                                       | Norwalk Symphony                                                         | 50,000             | 50,000            |                   |  |
|                                                                       | Playhouse on Park                                                        | 15,000             | 15,000            |                   |  |
|                                                                       | Regulatory Modernization                                                 | 1,000,000          |                   |                   |  |
|                                                                       | Riverfront Recapture                                                     | 250,000            | 250,000           |                   |  |
|                                                                       | Shatterproof                                                             | 100,000            |                   |                   |  |
|                                                                       | Statewide Marketing                                                      | 7,107,000          |                   |                   |  |
|                                                                       | Summer Experience at Connecticut's Top Venues                            | 15,000,000         |                   |                   |  |
|                                                                       | VFW Rocky Hill                                                           | 15,000             | 15,000            |                   |  |
|                                                                       | West Haven Veterans Museum                                               | 25,000             | 25,000            |                   |  |
|                                                                       | Working Cities Challenge                                                 | 1,000,000          | 1,000,000         |                   |  |
| <b>Dept. of Education</b>                                             | <b>Agency Total</b>                                                      | <b>10,516,750</b>  | <b>18,554,750</b> | <b>12,860,000</b> |  |
|                                                                       | Ascend Mentoring - Windsor                                               | 150,000            | 150,000           |                   |  |
|                                                                       | CT Writing Project                                                       | 79,750             | 79,750            |                   |  |
|                                                                       | East Hartford Youth Services                                             | 200,000            |                   |                   |  |
|                                                                       | Elevate Bridgeport                                                       | 400,000            | 400,000           |                   |  |
|                                                                       | Faith Acts Priority School Districts                                     | 5,000,000          | 5,000,000         |                   |  |
|                                                                       | Grant to RHAM Manufacturing Program                                      | 22,000             |                   |                   |  |
|                                                                       | Hamden Before and After School Programming                               | 400,000            |                   |                   |  |
|                                                                       | Hamden Pre-K Programming                                                 | 100,000            |                   |                   |  |
|                                                                       | New Haven Local Little League                                            | 500,000            |                   |                   |  |
|                                                                       | Right to Read                                                            |                    | 12,860,000        | 12,860,000        |  |
|                                                                       | Student Achievement Through Opportunity                                  | 100,000            |                   |                   |  |
|                                                                       | Summer Camp Scholarships for Families                                    | 3,500,000          |                   |                   |  |
|                                                                       | Women in Manufacturing - Platt Tech Regional Vocational Technical School | 65,000             | 65,000            |                   |  |

| <u>Agency</u>                                        | <u>Allocation</u>                                                 | <u>FY 2022</u>          | <u>FY 2023</u>          | <u>FY 2024</u>         |
|------------------------------------------------------|-------------------------------------------------------------------|-------------------------|-------------------------|------------------------|
| <b>Dept. of Energy and Environmental Protection</b>  | <b>Agency Total</b>                                               | <b>14,770,000</b>       | <b>500,000</b>          | <b>500,000</b>         |
|                                                      | Air Quality Study                                                 | 20,000                  |                         |                        |
|                                                      | Efficient Energy Retrofit for Housing                             | 7,000,000               |                         |                        |
|                                                      | Health and Safety Barriers to Housing Remediation                 | 7,000,000               |                         |                        |
|                                                      | Quinnipiac Avenue Canoe Launch                                    | 250,000                 |                         |                        |
|                                                      | Swimming Lessons to DEEP                                          | 500,000                 | 500,000                 | 500,000                |
| <b>Dept. of Housing</b>                              | <b>Agency Total</b>                                               | <b>300,000</b>          |                         |                        |
|                                                      | Downtown Evening Soup Kitchen                                     | 200,000                 |                         |                        |
|                                                      | Hands on Hartford                                                 | 100,000                 |                         |                        |
| <b>Dept. of Mental Health and Addiction Services</b> | <b>Agency Total</b>                                               | <b>25,000,000</b>       | <b>25,000,000</b>       |                        |
|                                                      | DMHAS Private Providers                                           | 25,000,000              | 25,000,000              |                        |
| <b>Dept. of Public Health</b>                        | <b>Agency Total</b>                                               | <b>4,250,000</b>        | <b>4,000,000</b>        |                        |
|                                                      | Community Health Workers                                          | 3,000,000               | 3,000,000               |                        |
|                                                      | Cornell Scott- Hill Health                                        | 250,000                 |                         |                        |
|                                                      | DPH Loan Repayment                                                | 500,000                 | 500,000                 |                        |
|                                                      | Obesity & COVID-19 Study                                          | 500,000                 | 500,000                 |                        |
| <b>Dept. of Social Services</b>                      | <b>Agency Total</b>                                               | <b>29,750,000</b>       |                         |                        |
|                                                      | Community Action Agencies                                         | 5,000,000               |                         |                        |
|                                                      | Fair Haven Clinic                                                 | 10,000,000              |                         |                        |
|                                                      | Mary Wade                                                         | 750,000                 |                         |                        |
|                                                      | MyCT Resident One Stop                                            | 2,500,000               |                         |                        |
|                                                      | New Reach Life Haven Shelter                                      | 500,000                 |                         |                        |
|                                                      | Nursing Home Facility Support                                     | 10,000,000              |                         |                        |
|                                                      | Workforce Development, Education and Training                     | 1,000,000               |                         |                        |
| <b>Dept. of Transportation</b>                       | <b>Agency Total</b>                                               | <b>100,000</b>          | <b>100,000</b>          |                        |
|                                                      | Groton Water Taxi                                                 | 100,000                 | 100,000                 |                        |
| <b>Judicial Dept.</b>                                | <b>Agency Total</b>                                               | <b>10,125,000</b>       | <b>10,025,000</b>       |                        |
|                                                      | Legal Representation for Tenant Eviction                          | 10,000,000              | 10,000,000              |                        |
|                                                      | Mothers Against Violence                                          | 25,000                  | 25,000                  |                        |
|                                                      | New Haven Police Activities League                                | 100,000                 |                         |                        |
| <b>Labor Dept.</b>                                   | <b>Agency Total</b>                                               | <b>171,640,000</b>      | <b>1,640,000</b>        |                        |
|                                                      | Boys and Girls Club Workforce Development - Milford               | 50,000                  | 50,000                  |                        |
|                                                      | Domestic Worker Grants                                            | 200,000                 | 200,000                 |                        |
|                                                      | Greater Bridgeport OIC Job Development and Training Program       | 250,000                 | 250,000                 |                        |
|                                                      | Opportunities for Long Term Unemployed Returning Citizens         | 750,000                 | 750,000                 |                        |
|                                                      | Senior Jobs Bank - West Hartford                                  | 10,000                  | 10,000                  |                        |
|                                                      | TBICO Danbury Women's Employment Program                          | 25,000                  | 25,000                  |                        |
|                                                      | Unemployment Support                                              | 15,000,000              |                         |                        |
|                                                      | Unemployment Trust Fund                                           | 155,000,000             |                         |                        |
|                                                      | Veterans Employment Opportunity PILOT                             | 350,000                 | 350,000                 |                        |
|                                                      | Women's Mentoring Network- Strategic Life Skills Workshop         | 5,000                   | 5,000                   |                        |
| <b>Labor Dept. - Banking Fund</b>                    | <b>Agency Total</b>                                               | <b>550,000</b>          | <b>550,000</b>          |                        |
|                                                      | Customized Services for Mortgage Crisis Jobs Training Program     | 550,000                 | 550,000                 |                        |
| <b>Legislative Management</b>                        | <b>Agency Total</b>                                               | <b>1,000,000</b>        |                         |                        |
|                                                      | CTN                                                               | 1,000,000               |                         |                        |
| <b>Office of Early Childhood</b>                     | <b>Agency Total</b>                                               | <b>16,800,000</b>       |                         |                        |
|                                                      | Care4Kids Parent Fees                                             | 5,300,000               |                         |                        |
|                                                      | Parents Fees for 3-4 Year Old's at State Funded Childcare Centers | 3,500,000               |                         |                        |
|                                                      | Universal Home Visiting                                           | 8,000,000               |                         |                        |
| <b>Office of Higher Education</b>                    | <b>Agency Total</b>                                               | <b>21,500,000</b>       | <b>20,000,000</b>       |                        |
|                                                      | Roberta Willis Need-Based Scholarships                            | 20,000,000              | 20,000,000              |                        |
|                                                      | Summer College Corps                                              | 1,500,000               |                         |                        |
| <b>Office of Policy and Management</b>               | <b>Agency Total</b>                                               | <b>60,000,000</b>       | <b>40,000,000</b>       |                        |
|                                                      | PPE & Supplies                                                    | 10,000,000              | 10,000,000              |                        |
|                                                      | Private Providers                                                 | 30,000,000              | 30,000,000              |                        |
|                                                      | State Employee Essential Workers and National Guard Premium Pay   | 20,000,000              |                         |                        |
| <b>Revenue</b>                                       | <b>Total</b>                                                      | <b>559,900,000</b>      | <b>1,194,900,000</b>    |                        |
|                                                      | Revenue                                                           | 559,900,000             | 1,194,900,000           |                        |
| <b>Univ. of Connecticut</b>                          | <b>Agency Total</b>                                               | <b>20,000,000</b>       | <b>5,000,000</b>        |                        |
|                                                      | Higher Education - UConn                                          | 20,000,000              | 5,000,000               |                        |
| <b>Univ. of Connecticut Health Center</b>            | <b>Agency Total</b>                                               | <b>73,000,000</b>       |                         |                        |
|                                                      | Revenue Impact                                                    | 35,000,000              |                         |                        |
|                                                      | University of Connecticut Health Center                           | 38,000,000              |                         |                        |
| <b>Grand Total - Allocations</b>                     |                                                                   | <b>\$ 1,215,993,769</b> | <b>\$ 1,343,504,769</b> | <b>\$ 19,860,000</b>   |
|                                                      | <b>Award</b>                                                      |                         |                         | <b>\$2,812,288,082</b> |
|                                                      | <b>Grand Total Allocated</b>                                      |                         |                         | <b>2,579,358,538</b>   |
|                                                      | <b>Remaining Unallocated</b>                                      |                         |                         | <b>\$232,929,544</b>   |

## FEDERAL INFRASTRUCTURE LEGISLATION

The Bipartisan Infrastructure Investment and Jobs Act (IIJA) represents a federal investment of at least \$6.04 billion in Connecticut, including a \$5.38 billion investment in Connecticut's transportation infrastructure and systems – a \$1.62 billion increase for Connecticut over the last transportation bill (enacted in 2015) – and makes more than \$100 billion in competitive federal transportation grants available for Connecticut to pursue.

The bill:

- Enables Connecticut to repair and rebuild its roads and bridges and invest in major projects with safety, equity, resiliency and sustainability at its core.
- Represents the largest investment of federal dollars in passenger rail in the past 50 years (since the creation of Amtrak), helping to bring the Northeast Corridor, including Connecticut's rail assets, into a state-of-good-repair and advance Time for CT, Governor Lamont's comprehensive investment plan to deliver faster trains and improve travel time in Connecticut.
- Fundamentally moves Connecticut forward in reducing transportation emissions and accelerating investments in a cleaner, more equitable and resilient transportation system.

According to fact sheets released by the White House,<sup>6</sup> over five years Connecticut could receive:

- \$3.5 billion for highway programs and \$561 million for bridge replacement and repair with a focus on climate change mitigation, resilience, equity, and safety for all users, including cyclists and pedestrians.
- \$1.3 billion to improve public transportation further developing healthy and sustainable transportation options in Connecticut.
- \$53 million to support expansion of the electric vehicle (EV) charging network, building a network of EV chargers to facilitate long-distance travel and provide convenient charging options. Connecticut will also have the opportunity to apply for \$2.5 billion in grant funding dedicated to EV charging.
- \$100 million to provide broadband coverage across the state, helping connect every citizen to reliable high-speed internet.
- \$6.4 million to protect against wildfires and \$13 million to protect against cyberattacks and prepare more of our infrastructure for the impacts of climate change, cyberattacks, and extreme weather events. Connecticut will also benefit from the bill's historic \$3.5 billion national investment in weatherization which will reduce energy costs for families.
- \$445 million to improve water infrastructure across the state and ensure that clean, safe drinking water is a right in all communities by eliminating Connecticut's lead service lines and pipes.
- \$62 million for airport infrastructure development, improving and modernizing Connecticut's airports.

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<sup>6</sup> Sources:

1. [White House Releases Updated State Fact Sheets Highlighting the Impact of the Infrastructure Investment and Jobs Act Nationwide | The White House](#)
2. [CONNECTICUT The-Infrastructure-Investment-and-Jobs-Act-State-Fact-Sheet.pdf \(whitehouse.gov\)](#)

# BONDING

## PROJECTED BOND AUTHORIZATIONS, ALLOCATIONS AND ISSUANCES

The table below depicts projected bond authorizations, allocations and issuances through FY 2026.

### FIVE YEAR BOND PROJECTIONS

|                                              | FY 2022                | FY 2023                | FY 2024                | FY 2025                | FY 2026                |
|----------------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| <b>Bond Authorizations</b>                   |                        |                        |                        |                        |                        |
| General Obligation Bonds                     | \$1,749,084,914        | \$1,456,115,000        | \$1,700,000,000        | \$1,700,000,000        | \$1,700,000,000        |
| Baby Bond Program                            | -                      | 50,000,000             | 50,000,000             | 50,000,000             | 50,000,000             |
| Bioscience Innovation Fund                   | 25,000,000             | 25,000,000             | 24,000,000             | -                      | -                      |
| Community Investment Fund                    | -                      | 175,000,000            | 175,000,000            | 175,000,000            | 175,000,000            |
| Crumbling Foundations                        | 20,000,000             | 25,000,000             | 25,000,000             | 25,000,000             | 25,000,000             |
| CT Next and Innovation Places                | 200,000                | 13,500,000             | 23,500,000             | 13,500,000             | 13,500,000             |
| Connecticut Strategic Defense Investment Act | 9,621,428              | 9,796,428              | 9,971,428              | 10,321,428             | 10,321,428             |
| Connecticut Port Authority                   | 5,000,000              | 5,000,000              | 5,000,000              | 5,000,000              | 5,000,000              |
| Smart Start Program                          | 10,000,000             | 10,000,000             | 10,000,000             | -                      | -                      |
| UConn Research Faculty                       | 6,460,000              | 11,729,200             | 14,489,200             | 9,220,000              | 4,201,600              |
| UConn 2000/Next Generation                   | 190,500,000            | 125,100,000            | 84,700,000             | 56,000,000             | 14,000,000             |
| Total General Obligation Bonds               | \$2,015,866,342        | \$1,906,240,628        | \$2,121,660,628        | \$2,044,041,428        | \$1,997,023,028        |
| Special Tax Obligation Bonds                 | 836,910,000            | 929,558,000            | 950,000,000            | 950,000,000            | 950,000,000            |
| Clean Water Fund Revenue Bonds               | 281,000,000            | 237,000,000            | 200,000,000            | 200,000,000            | 200,000,000            |
| <b>Total Bond Authorizations</b>             | <b>\$3,133,776,342</b> | <b>\$3,072,798,628</b> | <b>\$3,271,660,628</b> | <b>\$3,194,041,428</b> | <b>\$3,147,023,028</b> |
| <b>Bond Allocations</b>                      |                        |                        |                        |                        |                        |
| General Obligation Bonds                     | \$1,900,000,000        | \$1,900,000,000        | \$1,600,000,000        | \$1,600,000,000        | \$1,600,000,000        |
| Special Tax Obligation Bonds                 | 1,000,000,000          | 1,000,000,000          | 1,000,000,000          | 1,000,000,000          | 1,000,000,000          |
| Clean Water Fund Revenue Bonds               | 150,000,000            | 150,000,000            | 150,000,000            | 150,000,000            | 150,000,000            |
| <b>Total Bond Allocations</b>                | <b>\$3,050,000,000</b> | <b>\$3,050,000,000</b> | <b>\$2,750,000,000</b> | <b>\$2,750,000,000</b> | <b>\$2,750,000,000</b> |
| <b>Bond Issuance</b>                         |                        |                        |                        |                        |                        |
| General Obligation Bonds                     | \$1,600,000,000        | \$1,600,000,000        | \$1,600,000,000        | \$1,600,000,000        | \$1,600,000,000        |
| Special Tax Obligation Bonds                 | 500,000,000            | 1,225,000,000          | 1,000,000,000          | 1,000,000,000          | 1,100,000,000          |
| Clean Water Revenue Bonds                    | -                      | 250,000,000            | -                      | 250,000,000            | -                      |
| UConn 2000/Next Generation                   | 260,000,000            | 190,500,000            | 125,100,000            | 84,700,000             | 70,000,000             |
| <b>Total Bond Issuance</b>                   | <b>\$2,360,000,000</b> | <b>\$3,265,500,000</b> | <b>\$2,725,100,000</b> | <b>\$2,934,700,000</b> | <b>\$2,770,000,000</b> |
| <b>Debt Service</b>                          |                        |                        |                        |                        |                        |
| General Fund                                 | \$2,436,014,136        | \$2,600,070,733        | \$2,620,173,886        | \$2,752,350,446        | \$2,804,080,238        |
| Transportation Fund                          | 748,101,723            | 842,720,480            | 919,100,000            | 983,200,000            | 1,039,100,000          |
| <b>Total Debt Service</b>                    | <b>\$3,184,115,859</b> | <b>\$3,442,791,213</b> | <b>\$3,539,273,886</b> | <b>\$3,735,550,446</b> | <b>\$3,843,180,238</b> |

#### Bond Authorizations

FY 2022 and FY 2023 are enacted bond authorizations.

FY 2022-FY 2026 projected bond authorizations assume that authorizations continue at historical average levels.

UConn 2000/Next Generation automatic authorizations in accordance with C.G.S. Section 10a-109g.

CSCU 2020 automatic authorizations in accordance with C.G.S. Section 10a-91e.

Bioscience Collaboration Program automatic authorizations in accordance with C.G.S. Section 32-41z.

Bioscience Innovation Fund automatic authorizations in accordance with C.G.S. Section 32-41dd.

Connecticut Strategic Defense Investment Act automatic authorizations in accordance with C.G.S. Section 32-4o.

Baby Bonds, Community Investment Fund, Crumbling Foundations, CT Next & Innovation Places, Connecticut Port Authority, Smart Start Program and the UConn Research Faculty automatic authorizations in accordance with Public Act 21-111.

#### Bond Allocations

Projected GO Bond allocations are based on budgeted debt service.

Projected GO Bond Allocations will be substantially under the C.G.S. Section 3-20(d)(2) projected calendar year caps.

Projected Special Tax Obligation Bond allocations assume to match debt issuance levels scheduled in the out-year assumptions.

#### Bond Issuance

Projected GO Bond issuances are based on budgeted debt service and the Governor's plan to stabilize new debt.

Projected GO Bond issuances will be substantially under the C.G.S. Section 3-21(f)(1) projected fiscal year caps.

#### Estimated Caps

|            | Inflation | Allocation Cap  | Issuance Cap    |
|------------|-----------|-----------------|-----------------|
| CY/FY 2020 | 1.8%      | \$2,125,000,000 | \$1,940,000,000 |
| CY/FY 2021 | 3.4%      | \$2,162,000,000 | \$1,983,000,000 |
| CY/FY 2022 | 3.3%      | \$2,235,000,000 | \$2,018,000,000 |
| CY/FY 2023 | 2.5%      | \$2,309,000,000 | \$2,086,000,000 |
| CY/FY 2024 | 2.5%      | \$2,367,000,000 | \$2,155,000,000 |
| CY/FY 2025 | 2.5%      | \$2,426,000,000 | \$2,209,000,000 |
| CY/FY 2026 | 2.4%      | \$2,486,000,000 | \$2,264,000,000 |

Source: IHS Economics, Bureau of Labor Statistics

## STATUTORY GENERAL OBLIGATION BOND DEBT LIMIT

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

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

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

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

|                               | <u>FY 2022</u>          | <u>FY 2023</u>          | <u>FY 2024</u>          | <u>FY 2025</u>          | <u>FY 2026</u>          |
|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Consensus Revenues 11/10/2020 | \$17,882,850,000        | \$18,080,300,000        | \$18,449,100,000        | \$19,029,400,000        | \$19,581,400,000        |
| Multiplier                    | 1.6                     | 1.6                     | 1.6                     | 1.6                     | 1.6                     |
| 100% Limit                    | <u>\$28,612,560,000</u> | <u>\$28,928,480,000</u> | <u>\$29,518,560,000</u> | <u>\$30,447,040,000</u> | <u>\$31,330,240,000</u> |
| Bonds Subject to Limit        | \$23,743,796,203        | \$24,241,017,428        | \$24,805,836,488        | \$25,384,962,916        | \$25,992,410,944        |
| Debt Incurring Margin         | \$4,868,763,797         | \$4,687,462,572         | \$4,712,723,512         | \$5,062,077,084         | \$5,337,829,056         |
| Percentage of Limit           | 82.98%                  | 83.80%                  | 84.03%                  | 83.37%                  | 82.96%                  |
| Margin to 90% Limit           | \$2,007,507,797         | \$1,794,614,572         | \$1,760,867,512         | \$2,017,373,084         | \$2,204,805,056         |

### Assumptions:

- FY 2022 and FY 2023 official calculation by State Treasurer;
- Consensus revenue as of November 10, 2021, and the historical annual average of \$1.7 billion of new bond authorizations;
- \$1.6 billion of new General Obligation bonds plus UConn bonds are issued each year.
- FY 2022 – FY 2026 “Bonds Subject to Limit” does not include principal payments on the prior year bonds to account for possible changes to issuance schedules.

## BONDING CAPS

During the 2017 legislative session, limitations on bond allocations, allotments and issuances were enacted. These limitations are described below.

- **Allocation Cap:** This cap imposes a limit on State Bond Commission general obligation bond allocations for each calendar year. The cap amount is indexed to inflation. The inflation-adjusted cap for calendar year 2022 is \$2.235 billion.
- **Allotment Cap:** This cap limits allotments issued by the Governor's Office each fiscal year. The cap amount is indexed to inflation. General obligation bonds issued as part of CSCU 2020 or UConn 2000 are exempted from the cap. The cap for FY 2022 is \$2.018 billion.
- **Issuance Cap:** This cap limits bond issuances by the Treasurer's Office each fiscal year. The cap amount is indexed to inflation. General obligation bonds issued as part of CSCU 2020 or UConn 2000 are exempted from this cap. The cap for FY 2022 is \$2.018 billion.

## COMMUNITY INVESTMENT FUND

Public Act 21-111 authorizes up to \$875 million in bonds for a five-year bonding program to fund qualifying projects and grants in distressed communities.

| Authorized                                        |                       | Authorized            |                         |
|---------------------------------------------------|-----------------------|-----------------------|-------------------------|
| <u>Fiscal Year</u>                                | <u>Funding Amount</u> | <u>Fiscal Year</u>    | <u>Funding Amount</u>   |
| 2023                                              | \$ 175,000,000        | 2028 (Proj.)          | \$ 250,000,000          |
| 2024                                              | 175,000,000           | 2029 (Proj.)          | 250,000,000             |
| 2025                                              | 175,000,000           | 2030 (Proj.)          | 250,000,000             |
| 2026                                              | 175,000,000           | 2031 (Proj.)          | 250,000,000             |
| 2027                                              | 175,000,000           | 2032 (Proj.)          | 250,000,000             |
| <b>FY 23-27 Total</b>                             | <b>\$ 875,000,000</b> | <b>FY 28-32 Total</b> | <b>\$ 1,250,000,000</b> |
| <b>FY 2023-2032 Grand Total: \$ 2,125,000,000</b> |                       |                       |                         |

Projects that can be funded and that serve the purpose of the act include, but are not limited to:

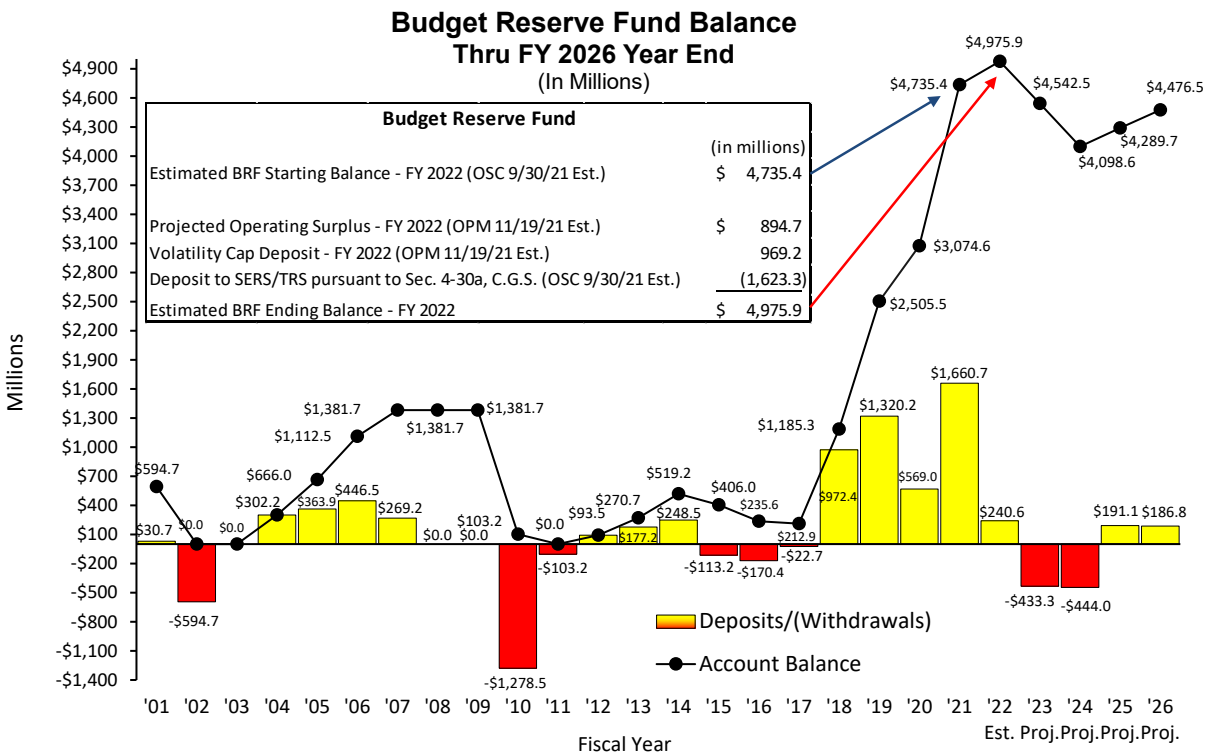
1. Providing financing and loans for small businesses;
2. Providing affordable housing;
3. Improving water and sewer infrastructure to boost economic development; and
4. Improving energy resiliency and home rehabilitation programs and facilities such as senior centers and libraries.

The act establishes a 21-member board, the Community Investment Fund 2030 board, within the Department of Economic of Community Development (DECD), to accept applications for funding under the program.

An additional \$1.25 billion in bonds is authorized for the program in the subsequent five-year period, contingent on an agreement between the Governor and board, as well as legislative reauthorization of the program.

## BUDGET RESERVE FUND AND POTENTIAL USES OF SURPLUS

After the accounts for the General Fund have been closed at the end of each fiscal year, Connecticut statute directs the Comptroller to deposit any unappropriated General Fund surplus in the Budget Reserve Fund (BRF, a.k.a. “rainy day fund”) until the fund reaches an amount equal to 15 percent of net General Fund appropriations. The graph below depicts historical operating deposits to and withdrawals from the Budget Reserve Fund. As a result of the deposits from the volatility cap and the unappropriated surplus at the end of FY 2020, the BRF reached and exceeded its statutory cap of 15 percent at the start of FY 2021.



**Note:** FY 2021 includes the transfer of \$61.6 million out of the BRF and FY 2022 includes the transfer of \$1,623.3 million out of the BRF, both as a result of exceeding the 15% limit at the end of FY 2020 and FY 2021, respectively. In FY 2023, approx. \$1,745.7 million is expected to be transferred out of the BRF to reduce the unfunded liabilities of SERS/TRS as a result of the BRF again exceeding the 15% statutory limit at the end of FY 2022. Outyear forecast assumes balanced budgets are enacted that adhere to the revenue, spending, and volatility caps.

### Recent Reforms

Several recent statutory changes impact the Budget Reserve Fund. Public Act 17-2 of the June Special Session implemented, and Public Act 18-81 later amended, a revenue volatility cap which directs collections from any volatile revenue sources above a certain threshold to the Budget Reserve Fund. (See page 29 for more about the revenue volatility cap.) The volatility cap resulted in transfers of \$1,471.3 million to the Budget Reserve Fund in FY 2018, \$949.7 million in FY 2019, \$530.3 million in FY 2020, and \$1,421.5 million in FY 2021, resulting in substantial — and much-needed — improvement in the state’s reserves and facilitating significant deposits to the state’s major pension funds.

Public Act 17-2 of the June Special Session also introduced a revenue cap that limits the amount of General Fund appropriations to a percentage of General Fund revenue. The limit began at 99.5 percent in fiscal year 2020 and phases down to 98 percent for FY 2026 and thereafter. (See page 29 for more about the revenue cap.) The resulting operating margin will help add to the rainy day fund in good years and provide a buffer against drastic expenditure reductions or revenue increases when there is a sudden mid-year downturn in the economy.

### Use of Budget Reserve Fund

Statutorily, the Budget Reserve Fund may only be expended:

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

### Discussion of Possible Uses of Surplus Funds

Under current law (CGS Sec. 4-30a), unappropriated surpluses are committed to the Budget Reserve Fund until the maximum 15 percent authorized by law. Other possible uses of surplus funds could include:

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

### Budget Reserve Fund 15 Percent Maximum Threshold

At the end of FY 2020, the balance of the Budget Reserve Fund was estimated at 15.3 percent, \$61.6 million more than the statutory threshold of 15 percent of the following fiscal year's net General Fund appropriations. By statute, the State Treasurer determines whether to transfer any sums that exceed the statutory 15 percent cap to reduce unfunded liabilities in the State Employees Retirement Fund or the Teachers' Retirement Fund. The estimated \$61.6 million in excess of the 15 percent threshold was transferred to reduce the unfunded liabilities of the State Employees Retirement Fund. Again, at the conclusion of FY 2021, the balance of the Budget Reserve Fund was estimated at 22.8 percent, about \$1,623.3 million more than the statutory threshold of 15 percent of the following fiscal year's net General Fund appropriations. Of the estimated \$1,623.3 million in excess of the 15 percent threshold, the Treasurer announced that \$903.6 million will be transferred to reduce the unfunded liabilities of the Teachers' Retirement Fund and the estimated balance of \$719.7 million will be transferred to reduce the unfunded liabilities of the State Employees Retirement Fund. It should be noted that the FY 2021 ending balance and the estimated \$1,623.3 million excess balance are unaudited figures and may be revised as the State Comptroller completes the state's Comprehensive Annual Financial Report for FY 2021.

## PROJECTED TAX CREDITS

Tax credit projections are based on data from the Department of Revenue Services. Personal income tax credits are projected using income year 2019 data. Corporation business tax credits are projected using FY 2017-2019 data. This is because information regarding tax credits is typically delayed as firms often request an extension to file their final returns. This delays the receipt of such data by the Department of Revenue Services which then must still capture information from the return. Appropriate growth rates are applied to base year data to derive an estimate for future fiscal years.

### Projected Total Amounts of Tax Credits Claimed (In Thousands)

|                                                  | FY 2021<br><u>Est.</u> | FY 2022<br><u>Proj.</u> | FY 2023<br><u>Proj.</u> | FY 2024<br><u>Proj.</u> | FY 2025<br><u>Proj.</u> | FY 2026<br><u>Proj.</u> |
|--------------------------------------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <b><u>Personal Income Tax Credits</u></b>        |                        |                         |                         |                         |                         |                         |
| Pass-through Entity Tax Credit                   | \$ 701,500             | \$ 670,700              | \$ 707,600              | \$ 730,200              | \$ 755,800              | \$ 782,200              |
| Property Tax                                     | 65,400                 | 67,000                  | 68,000                  | 121,000                 | 123,000                 | 125,000                 |
| Earned Income Tax Credit                         | 80,500                 | 166,800                 | 143,800                 | 147,000                 | 151,600                 | 155,300                 |
| Connecticut Higher Education Trust (CHET)        | 16,500                 | 17,500                  | 18,600                  | 19,700                  | 20,900                  | 22,100                  |
| Angel Investor                                   | <u>5,000</u>           | <u>5,000</u>            | <u>20,000</u>           | <u>20,000</u>           | <u>20,000</u>           | <u>20,000</u>           |
| <b>Total Personal Income Tax</b>                 | <b>\$ 868,900</b>      | <b>\$ 927,000</b>       | <b>\$ 958,000</b>       | <b>\$ 1,037,900</b>     | <b>\$ 1,071,300</b>     | <b>\$ 1,104,600</b>     |
| <b><u>Business Tax Credits</u></b>               |                        |                         |                         |                         |                         |                         |
| Fixed Capital                                    | \$ 54,000              | \$ 54,000               | \$ 54,000               | \$ 54,000               | \$ 54,000               | 54,000                  |
| Film Industry Production <sup>(1)</sup>          | 59,500                 | 63,500                  | 67,500                  | 69,500                  | 71,000                  | 73,000                  |
| Film Industry Infrastructure <sup>(1)</sup>      | 11,000                 | 11,500                  | 12,000                  | 12,000                  | 12,500                  | 13,000                  |
| Electronic Data Processing <sup>(1)</sup>        | 34,000                 | 35,000                  | 36,000                  | 37,000                  | 38,500                  | 39,500                  |
| Research and Experimental Expenditures           | 23,500                 | 24,500                  | 25,000                  | 26,000                  | 26,500                  | 27,500                  |
| Research and Development Expenditures            | 52,500                 | 60,000                  | 72,000                  | 76,500                  | 77,500                  | 78,500                  |
| Urban and Industrial Reinvestment <sup>(1)</sup> | 25,000                 | 25,500                  | 26,000                  | 27,000                  | 27,500                  | 28,000                  |
| Housing Program Contribution <sup>(1)</sup>      | 9,500                  | 9,500                   | 9,500                   | 9,500                   | 9,500                   | 9,500                   |
| Historic Rehabilitation <sup>(1)</sup>           | 3,000                  | 3,000                   | 3,000                   | 3,000                   | 3,000                   | 3,000                   |
| Human Capital                                    | 2,300                  | 2,400                   | 2,400                   | 2,400                   | 2,400                   | 2,500                   |
| Machinery and Equipment                          | 800                    | 800                     | 800                     | 800                     | 800                     | 800                     |
| All Other Credits <sup>(1,2)</sup>               | <u>39,500</u>          | <u>39,750</u>           | <u>40,000</u>           | <u>40,250</u>           | <u>40,500</u>           | <u>40,750</u>           |
| <b>Total Business Tax Credits</b>                | <b>\$ 314,600</b>      | <b>\$ 329,450</b>       | <b>\$ 348,200</b>       | <b>\$ 357,950</b>       | <b>\$ 363,700</b>       | <b>\$ 370,050</b>       |
| <b>Total Projected Amount Claimed</b>            | <b>\$ 1,183,500</b>    | <b>\$ 1,256,450</b>     | <b>\$ 1,306,200</b>     | <b>\$ 1,395,850</b>     | <b>\$ 1,435,000</b>     | <b>\$ 1,474,650</b>     |

(1) Includes credits claimed under the Corporation Tax, Insurance Premiums Tax, and the Public Service Companies Tax. Public Service Companies Tax credit projections based off of FY 2017, 2018, and 2019 data.

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