Section IV. Major Policy Changes

This section describes major policy changes impacting the General Fund appropriations and revenue, which are summarized in **Tables 1.7** and **1.8** respectively. Major policy changes impacting the Special Transportation Fund are described in **Section VI. Out Year Projections**. The end of this section includes separate standalone subsections related to the hospital changes and the temporary changes to the volatility cap, given the magnitude of these changes.

GENERAL FUND APPROPRIATIONS SUMMARY

Adjustments to appropriations result in a net increase of $88.6 million for current services updates and a reduction of $576 million in net policy changes. The most significant changes include: (1) providing current services updates to the fringe benefit accounts administered by the State Comptroller; (2) increasing payments to hospitals and transferring hospital supplemental payments to a newly created off-budget account; (3) establishing the Public Utilities Regulatory Authority as an independent agency; (4) eliminating the Office of Health Strategy and transferring its functions to several other state agencies; and (5) providing funding for school meals. A description of these and other changes contained in the FY 27 Revised Budget follows **Table 1.7**.

Table 1.7 Summary of General Fund Adjustments by Subcommittee
In Millions of Dollars

Description	FY 27 Current Services	FY 27 Policy Revisions	FY 27 Total Changes
Non-Fixed Costs			
Conservation and Development	7,797,729	20,216,914	28,014,643
Element. & Secondary Education	(130,784)	16,544,400	16,413,616
General Government A	(596,464)	2,914,083	2,317,619
General Government B	91,699,485	28,466,576	120,166,061
Health	15,061,992	5,534,106	20,596,098
Higher Education	-	11,398,980	11,398,980
Human Services	(4,957,863)	9,611,492	4,653,629
Judicial and Corrections	34,920,179	6,614,284	41,534,463
Legislative	-	500,000	500,000
Regulation and Protection	10,887,922	4,249,239	15,137,161
Veterans' and Military Affairs	380,501	1,615,963	1,996,464
Subtotal Non-Fixed Costs	**155,062,697**	**107,666,037**	**262,728,734**
Fixed Costs			
Element. & Secondary Education	26,519,000	2,400,000	28,919,000
General Government B	11,300,041	56,132	11,356,173
Health	287,000	-	287,000
Human Services	(104,577,800)	(686,100,000)	790,677,800)
Subtotal Fixed Costs	**(66,471,759)**	**(683,643,868)**	**(750,115,627)**
TOTAL	**88,590,938**	**(575,977,831)**	**(487,386,893)**

Major Appropriations Policy Changes

Provide Funding to Support Absentee Voting for All

Funding of $2.1 million is provided to support the Secretary of the State costs associated with implementing absentee voting for all.

Adjust Funding for Higher Education Alternative Retirement

Reduce funding by $50.1 million to reflect an accounting change.

Adjust Funding for Health Insurance Costs to Reflect Current Activity

Funding of $58.3 million is provided to adjust for increased health care costs for active and retired state employee plans.

Establish Public Utilities Regulatory Authority (PURA) as an Independent Agency

Transfer 88 positions and funding of $19.4 million from the Department of Energy and Environmental Protection to PURA.

Eliminate the Office of Health Strategy

Transfer 42 positions and funding of $16.2 million from the Office of Health Strategy to several other state agencies to reflect the elimination of the office and reorganization of the functions.

Provide Funding to Facilitate Timely Discharge from State Hospitals

Provide funding of $3.5 million to reflect partial year funding for individuals deemed clinically ready to transition from Whiting Forensic Hospital back into the community.

Increase Hospital Supplemental Payments and Transfer to Non-Appropriated Account

Increase payments by $255 million for a total of $963.3 million in FY 27, and transfer funding to a non-appropriated Hospital Supplemental Payment account.

Support Nursing Home Transition to the Patient Driven Payment Model

Provide funding of $13.1 million to assist nursing homes in transitioning to the patient driven payment model, which reduces payments to nursing homes by $22.4 million in FY 27.

Provide Funding for School Meals

Funding of $12.5 million is provided for: (1) universal school breakfast, and (2) free lunch for students who qualify for reduced price meals.

GENERAL FUND REVENUE SUMMARY

A summary of major revenue policies is listed below in **Table 1.8**. For a comprehensive listing of policies, please see the revenue impact of policy changes table and revenue budget sheets in **Part III. Revenue**.

Table 1.8 Summary of Major Policy Changes to General Fund Revenues
In Millions of Dollars

Major Policies	FY 27	FY 28	FY 29	FY 30	FY 31
Hospital-Related Policies					
Reduce Hospital Tax	(221.0)	(222.2)	(222.8)	(222.7)	(221.9)
Transfer Hospital Tax Off-Budget	(974.0)	(997.8)	(1,022.2)	(1,047.3)	(1,073.1)
Federal Match on Hospital Payments	147.6	186.3	217.2	249.5	283.1
Use of Federal Funds Revenue for Waterbury Hospital	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)
Transfer Hospital Payment Surplus to General Fund	10.7	-	-	-	-

Subtotal Hospital Policies	**(1,051.7)**	**(1,048.7)**	**(1,042.8)**	**(1,035.5)**	**(1,026.9)**
Other Revenue Policies					
Inter-FY Transfer Revenues (Net)	103.7	-	-	-	-
Decouple from Federal P.L. 119-21 Related to Research and Experimentation Expenditures	66.8	(33.4)	(25.7)	(8.1)	-
Decouple from Federal P.L. 119-21 Related to Bonus Depreciation for Qualified Production Properties	-	103.6	100.9	98.4	95.9
Temporarily Suspend Housing Trust Fund Transfer	30.3	-	-	-	-
All Other	(4.7)	(25.4)	(24.2)	(22.8)	(23.1)
TOTAL	**(855.6)**	**(1,003.9)**	**(991.8)**	**(968.0)**	**(954.1)**

Major Revenue Changes

Hospital Tax and Supplemental Payments Move Off-Budget[2]

The most significant revenue policies in the budget involve changes to the hospital tax and hospital supplemental payments. Specifically, the budget:

- Decreases by $221 million the total amount of hospital tax due. The total hospital tax remaining due under the FY 27 Revised Budget is $974 million.
- Transfers the hospital tax revenue to a new Hospital Supplemental Payment account beginning in FY 27. In total, the decrease of the hospital tax and the transfer to this new account results in a General Fund revenue loss of $1,195 million in FY 27.
- Increases Medicaid supplemental payments to hospitals by $255 million from the original FY 27 appropriation, yielding an increase of $147.6 million in federal grants revenue for FY 27. The federal grant revenue remains within the General Fund.
- Diverts $15 million annually beginning in FY 27 from the increased federal grant revenue to fund UConn Health Center's payment of the hospital provider tax on behalf of Waterbury Hospital.
- Transfers the FY 27 difference between the total hospital tax due and the total supplemental payments ($10.7 million) to the General Fund.

Inter-FY Transfers

PA 26-68 includes two transfer policies from FY 26 to FY 27 that result in a net revenue gain of $103.7 million for FY 27:

- Decrease by $130 million the FY 26 to FY 27 revenue transfer originally included in PA 25-168, the FY 26 and FY 27 Budget. The original transfer was $244 million and the updated transfer amount in the FY 27 Revised Budget is $114 million.
- Transfer $233.7 million from the FY 26 volatility cap increase to FY 27 to support the FY 27 Revised Budget.

Decouple from Federal P.L. 119-21 Related to Research and Experimentation Expenditures

[2]This policy change requires federal approval via the Centers for Medicare and Medicaid Services (CMS) to be fully implemented.

The budget disallows the domestic research and experimentation (R&E) expenditures deduction for Connecticut tax purposes for the 2025 income year and instead requires any R&E expenditures paid or incurred for the 2022 through 2025 income years to be deducted as allowed under the federal law on amortizing R&E expenditures in effect on July 3, 2025 (i.e., before P.L. 119-21 took effect).

This policy precludes a projected state revenue loss of $66.8 million in FY 27 as R&E cumulative expenditures from the 2022 through 2025 income years would have been expensed all together. The policy has a net impact of zero over time as it effectively dilutes the state revenue loss related to historical corporate expenditures over five years rather than one.

Decouple from Federal P.L. 119-21 Related to Bonus Depreciation for Qualified Production Properties

The budget decouples the state corporation business tax from the federal bonus depreciation deduction for qualified production property, starting with the 2026 income year, which impacts revenue beginning in FY 28.

Temporarily Suspend Housing Trust Fund Transfer

The budget suspends the scheduled transfer of real estate conveyance tax collections over a certain threshold for FY 26 and FY 27, resulting in an estimated revenue gain of $33.6 million in FY 26 and $30.3 million for FY 27.

OTHER MAJOR POLICY CHANGES

Hospital-Related Budget Policies

PA 26-68, the FY 27 Revised Budget, enacts various changes to the hospital tax and hospital supplemental payments that were originally adopted under PA 25-168, the FY 26 and FY 27 Budget. In general, the FY 27 Revised Budget lowers the hospital tax and increases hospital supplemental payments beginning in FY 27. The increase in supplemental payments also results in additional federal grants revenue associated with the federal share of such payments, pending federal approval. **Table 1.9** below provides further details on the adopted changes from the original FY 27 budget as well as a comparison to FY 26, which is the final year of the 2019 hospital settlement agreement.

Table 1.9 Hospital-Related Changes Net Impact to the State
In Millions of Dollars

Components	FY 26	FY 27 Original	FY 27 Adjustments	FY 27 Revised
Revenue				
Hospital Tax	820.0	1,195.0	(221.0)	974.0
Federal Grants Share of Supplemental Payments	382.8	473.2	147.6	620.8
Federal Grants Revenue Diversion to Support Waterbury Hospital	-	-	(15.0)	(15.0)
Expenditures				
Hospital Supplemental Payments	568.3	708.3	255.0	963.3
Net Impact to the State	**634.5**	**959.9**	**(343.4)**	**616.5**

In addition, PA 26-68 transfers both the hospital tax and the hospital supplemental payments to a newly created, non-appropriated Hospital Supplemental Payment account. Historically, the hospital tax, supplemental payments and associated federal grants funding were included in the General Fund. The remaining $10.7 million surplus between the tax and the supplemental payment is to be transferred back to the General Fund under the Act. **Table 1.10** shows the total hospital related budget component impact by fund and account.

Table 1.10 FY 27 Hospital-Related Budget Components by Fund/Account
In Millions of Dollars

FY 27 Summary	Hospital Supplemental Payment Account	General Fund
Hospital Tax	974.0	-
Hospital Supplemental Payments	(963.3)	-
Net Balance to Transfer to General Fund	(10.7)	10.7
Federal Grants Share of Supplemental Payments	-	620.8
Federal Grants Revenue Diversion to Support Waterbury Hospital	-	(15.0)
TOTAL Net Impact to the State	**-**	**616.5**

Temporary Changes to the Volatility Cap

A component of the 'fiscal guardrails,' the volatility cap, limits the amount of total revenue from designated volatile sources[3] available to balance the General Fund budget. Volatile revenues exceeding the volatility cap are used maintain the Budget Reserve Fund at 18.0% of net General Fund appropriations and to reduce long-term (primarily pensions) debt.

PA 26-68 temporarily increases the volatility cap by $813.7 million in FY 26, thus making available that revenue as a resource to support the various purposes listed in **Table 1.11** below.

[3] By law, designated volatile revenues are the: (1) estimated and finals portion of the personal income tax; and (2) pass-through entity tax.

Table 1.11 FY 26 Volatility Cap Increase and Related Uses
In Millions of Dollars

Policy Change in PA 26-68	FY 26	FY 27
Increase the volatility cap - Sec. 256	813.7	-
Authorize additional spending[1] for supplemental education grants - Secs. 390-391	(162.2)	-
Authorize additional spending[1] for charter, magnet, and vocational agriculture schools - Sec. 390	(17.8)	-
Authorize additional spending[1] for State Dept. of Education's administrative costs to assist local boards of education and to distribute grants - Sec. 390(a)(6)	(3.0)	-
Authorize additional spending[1] for municipal grants to be distributed per the Mashantucket Pequot and Mohegan Fund formula - Sec. 464	(100.0)	-
Adjust the FY 26 - FY 27 revenue transfer - Sec. 258	(233.7)	233.7
TOTAL GENERAL FUND SURPLUS / (DEFICIT) IMPACT[2]	**297.0**	**-**

[1]New FY 26 General Fund spending exempted from the spending cap per an emergency declaration of the Governor and affirmative vote of at least 3/5 in each chamber of the General Assembly: (1) $183 million related to supporting K-12 education; and (2) $100 million related to municipal aid distributed via the Mashantucket Pequot and Mohegan Fund allocation formula.
The sections listed in the table above authorizing additional FY 26 spending also allow the funding to be carried forward and distributed in FY 27 except that $5 million of Hartford's supplemental education aid was to be received in FY 26.

[2]Pursuant to PA 25-93, *An Act Increasing Resources for Students, Schools and Special Education*, the entirety of any projected operating surplus in the General Fund will be transferred to the Early Childhood Education Endowment Fund.