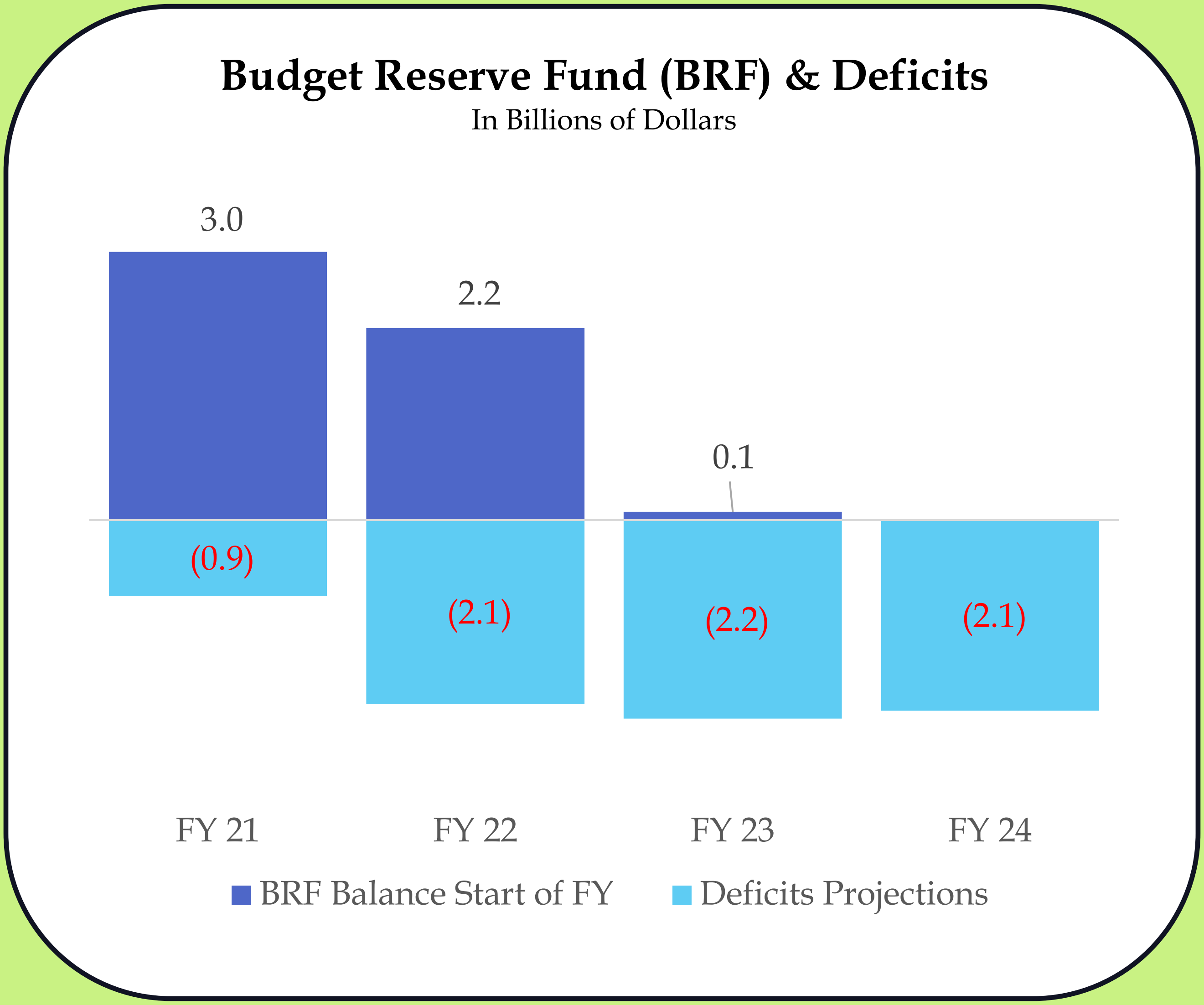
CONNECTICUT GENERAL ASSEMBLY
OFFICE OF FISCAL ANALYSIS

OFA

FISCAL ACCOUNTABILITY REPORT

FY 21 – FY 24



November 20, 2020

CONNECTICUT GENERAL ASSEMBLY
OFFICE OF FISCAL ANALYSIS

November 20, 2020

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

Section I. Executive Summary

Coronavirus Impact on the Current Biennium: FY 20 & FY 21

The coronavirus shut down the state in mid-March; but its initial impact on the state budget was somewhat muted as FY 20 ended with a $38.7 million General Fund surplus. Two primary reasons were: (1) a $474.5 million increase in federal funding, mostly due to a shift of $369.5 million received in FY 20, rather than FY 21, and (2) a reduction in spending of $255 million in the last three months of the fiscal year.

In FY 21, the economic damage from the coronavirus pandemic is significantly impacting the state budget. The Office of Fiscal Analysis (OFA) is projecting a current year General Fund deficit of $854.5 million.

Large Deficits Deplete $3 Billion Budget Reserve Fund (BRF) in Three Years

The pandemic recession will adversely impact the state budget for years to come. OFA is projecting General Fund deficits of more than $2 billion in each of the next three fiscal years. While the current balance in the BRF is $3,012.9 million, the highest ever, the BRF is projected to be almost entirely depleted by the end of FY 22, absent mitigating action.

- FY 21: The projected deficit is $854.5 million. If no other action is taken, the deficit will be addressed by the BRF, leaving an FY 22 beginning balance of $2,158.4 million.
- FY 22: The projected deficit is $2,067 million. Using only the BRF to address the deficit will result in an FY 23 BRF beginning balance of $91.4 million.
- FY 23: The projected FY 23 deficit is $2,230.4 million, only a small portion of which (about 4%) can be covered by the BRF.
- FY 24: The deficit is estimated to be $2,142 million. At this point, the BRF balance is anticipated to be zero.

Statutorily Required Report Methodology

OFA is statutorily required to produce the Fiscal Accountability Report every November. The report must explain:

1. The level of spending changes from current year spending allowed by consensus revenue estimates,
2. Any changes to current year spending necessary because of "fixed cost drivers," and
3. The total change to current year spending that is required to accommodate fixed cost drivers, without exceeding current revenue estimates.

For this report, fixed cost drivers include debt service, pension contributions, retiree health care, entitlement programs, adjudicated claims, and for the first time, hospital supplemental payments.

Utilizing the methodology required by CGS Section 2-36b, out-year spending projections must be aligned with consensus revenue estimates through non-fixed cost reductions, thereby eliminating any deficits. In FY 22, $2,067 million in non-fixed costs reductions will be necessary to balance the budget. In FY 23, additional non-fixed costs reductions of $163.4 million, for a total of $2,230.4 million, will be required. In FY 24, projected revenue growth exceeds fixed cost growth by $88.4 million; thus, no additional reductions in non-fixed costs will be necessary.

Special Transportation Fund (STF)

OFA is projecting an STF operating deficit in each fiscal year from FY 21 through FY 24. The FY 21 operating deficit is estimated to be $46.1 million; in FY 24 the deficit is projected to be $65.9 million. The cumulative fund balance is projected to drop from $122.3 million in FY 21 to a deficit of $21.5 million in FY 24.

Table 1.1 Financial Summary by Fund
In Millions of Dollars

Fund	FY 21	FY 22	FY 23	FY 24
General Fund				
November Consensus Revenue	18,837.2	18,309.9	18,798.7	19,302.6
Expenditures				
Previous Year Expenditure		19,691.7	18,309.9	18,798.7
Fixed Cost Growth		685.2	652.2	415.5
Expenditure Reduction (CGS Sec. 2-36b)		(2,067.0)	(163.4)	-
Subtotal	**19,691.7**	**18,309.9**	**18,798.7**	**19,214.2**
GENERAL FUND BALANCE	**(854.5)**	**-**	**-**	**88.4**
Special Transportation Fund (STF)				
November Consensus Revenue	1,690.6	1,818.9	1,959.6	2,006.2
Expenditures				
Previous Year Expenditure		1,736.7	1,818.9	1,930.4
Fixed Cost Growth		135.8	111.5	88.2
Expenditure Reduction (CGS Sec. 2-36b)		(53.6)	-	(12.3)
Subtotal	**1,736.7**	**1,818.9**	**1,930.4**	**2,006.2**
STF BALANCE	**(46.1)**	**-**	**29.2**	**-**
Other Appropriated Funds				
Revenue[1]	257.2	269.0	265.9	266.2
Expenditures	258.2	258.2	258.2	258.2
OTHER APPROP. FUNDS BALANCE	**(1.1)**	**10.7**	**7.6**	**8.0**
All Appropriated Funds				
Revenue	20,785.0	20,397.8	21,024.2	21,575.0
Expenditures	21,686.6	20,387.0	20,987.3	21,478.6
ALL APPROP. FUNDS BALANCE	**(901.7)**	**10.7**	**36.9**	**96.4**

[1]The Other Appropriated Funds revenue projection includes the use of prior year fund balances ($4.1 million in FY 21 and $0.6 million in FY 23) that are needed to accommodate projected expenditures in those years.

Section II. General Fund – Current Biennium

The coronavirus pandemic, and the associated shutdown of large portions of the state economy, led to considerable concern about substantial budget deficits in the FY 20 – FY 21 biennial budget. However, FY 20 ended with a surplus of $38.7 million [1] as the pandemic's initial economic impact was muted by several factors. However, its impact on FY 21 is significant – with OFA projecting a deficit of $854.5 million.

FY 20 SUMMARY

The difference between OFA's April 2020 projection of a $958.5 million deficit in FY 20 and the final surplus figure of $38.7 million represents a swing of $963.4 million. This significant swing is due to: (1) revenue improvements of $708.4 million and (2) substantial reductions in spending--$255 million less than projected. **Table 2.1** shows a breakdown of the changes between April projections and end-of-year actuals.

Table 2.1 FY 20 April Projections to End-of-Year Actuals
In Millions of Dollars

FY 20 General Fund	April Estimate	Change Since April	Final EOY
Budgeted Surplus[1]	120.4	-	120.4
Revenue Adjustments	**(1,058.6)**	**708.4**	**(350.2)**
Personal Income Tax - Withholding	*(190.3)*	*95.0*	*(95.3)*
Sales and Use Tax	*(257.1)*	*130.7*	*(126.4)*
Federal Funds	*(266.6)*	*474.5*	*207.9*
All Other Net	*(344.6)*	*8.2*	*(336.4)*
Expenditure (Cost)/Savings	**(20.3)**	**255.0**	**234.7**
Technical Year-End Updates	-	-	33.8
FINAL SURPLUS/DEFICIT	**(958.5)**	**963.4**	**38.7**

[1]Includes December Special Session Revisions

REVENUE

The most significant change from April to June was a $474.5 million shift in federal funding. This was primarily driven by the timing of federal approval of hospital settlement changes. In April, hospital supplemental payment revenue was adjusted downward by $369.5 million in FY 20 with a corresponding increase to FY 21 due to a delay in federal approval of related state plan amendments (SPAs). That decrease was partially offset by increased federal grants revenue related to the enhanced Medicaid Federal Medical Assistance Percentage (FMAP), net funding, and various other technical adjustments totaling approximately $100 million. Ultimately, the SPAs were approved, enabling the associated revenue to shift back to FY 20.

Additionally, withholding and sales taxes did not decline as significantly as projected in April. Withheld income tax revenue performed better than April's estimates by $95.0 million and sales taxes bettered projections by $130.7 million, resulting in a $225.7 million improvement.

[1] As reported by the Office of the State Comptroller in a September 17, 2020 letter to the Governor.

The improvement in withholding is due to temporary Federal Pandemic Unemployment Compensation (FPUC) payments which provided an additional $600 per week to unemployment insurance claimants from late April through the end of July. Payments for FPUC in Connecticut totaled $2.9 billion over the course of the program, yielding an estimated $97 million in withheld state income taxes.

EXPENDITURES

Actual FY 20 expenditures were approximately $255 million less than April projections largely due to the onset of the coronavirus. This reduction in spending occurred across about 190 accounts. The two most significant changes, cumulatively accounting for about half of the total reduction, were: (1) a $90.5 million reduction in Medicaid expenditures, and (2) about $36.1 million in Personal Services reductions across 35 agencies.

The change in estimated Medicaid expenditures is due to: (1) reduced utilization of various services due to the pandemic, (2) shifting certain nursing home costs from Medicaid to the Coronavirus Relief Funds (CRF), and (3) refining the impact of the enhanced federal funds on the state share of Medicaid expenditures. The reduction in Personal Services is due at least in part to hiring delays as a result of the pandemic-related shutdown, and an increase in retirements.

Additionally, Connecticut received approximately $1.4 billion from the CRF as part of the federal government's pandemic response. A portion of this funding was used to reimburse a variety of General Fund expenditures related to the pandemic, such as the purchase of personal protective equipment and cleaning and sanitizing supplies.

BUDGET RESERVE FUND

The Budget Reserve Fund (BRF) ended FY 20 with a balance of $3,074.5 million. Pursuant to CGS 4-30a, any amount in the Fund exceeding 15% of net General Fund appropriations in the same fiscal year is applied to the State Employee Retirement System or the Teachers' Retirement System.

Table 2.2 FY 20 Budget Reserve Fund
In Millions of Dollars

	FY 20
Beginning Balance	**2,505.5**
Volatility Cap Adjustment	530.3
Operating Surplus	38.7
End of Year Balance	**3,074.5**
BRF Cap	3,012.9
AMOUNT OVER/UNDER CAP	**61.6**

As **Table 2.2** illustrates, the FY 20 end-of-year balance of the BRF exceeded the cap by $61.6 million. This is the result of: (1) a volatility cap adjustment of $530.3 million, and (2) an operating surplus of $38.7 million. The cap excess of $61.6 million will be applied to the State Employee Retirement System.

A more detailed discussion of the BRF is available in **Section IV**.

FY 21 UPDATE

Despite FY 20 ending with a surplus, an historic economic downturn continues to impact the state's economy. November consensus revenue downgraded projections by $1,415.3 million from budget. Although this is partially offset by projected expenditures a net $394.6 million below budget, OFA is projecting a FY 21 deficit of $854.5 million.

Table 2.3 FY 21 General Fund Summary
In Millions of Dollars

Summary	FY 21
Budgeted Balance	166.2
Revenue	
Budgeted	20,252.5
Consensus Adjustment	
Withholding	(487.9)
Sales & Use Tax	(342.1)
Corporations	(313.8)
Estimates & Finals / Pass-Through Entity Tax	(371.9)
Volatility Cap	301.5
Other	(201.1)
Subtotal	**(1,415.3)**
Expenditures	
Budgeted	20,086.3
Rescissions, CRF & Hiring Savings	155.4
Lapses[1]	370.3
Deficiencies[1]	(131.1)
Subtotal	**394.6**
SURPLUS/(DEFICIT)	**(854.5)**

[1]These represent cumulative lapses and deficiencies across all General Fund accounts in all agencies.

REVENUE

Revenue projections have improved since April 2020 consensus revenue estimates were made but continue to fall short of budget: (1) FY 21 General Fund revenue projections have improved by approximately $750 million over April 2020 consensus, but (2) remain $1,415.3 million below estimated FY 21 revenues in the adopted FY 20 – FY 21 biennial budget.

The coronavirus pandemic is significant and its economic impact unique, with a wide range of possible outcomes on the budget. April 2020 consensus revenue estimates reflected a broad economic downturn. However, the downturn triggered by the coronavirus pandemic thus far has been relatively narrow: centered on low wage employment in the leisure and hospitality industry.

Table 2.4 Revenue Adjustments to Budget
In Millions of Dollars

Category	Difference	%
Withholding	(487.9)	
Sales & Use Tax	(342.1)	
Corporations	(313.8)	
Subtotal	**(1,143.8)**	**-8.9%**
Other Taxes (Net)	(92.1)	
Other Revenue	(42.3)	
Other Sources	(66.7)	
Subtotal	**(201.1)**	**-5.0%**
Estimates & Finals / Pass-Through Entity Tax	(371.9)	
Volatility Cap	301.5	
Subtotal	**(70.4)**	**-2.1%**
TOTAL	**(1,415.3)**	**-7.0%**

Federal assistance of approximately $13.4 billion during late spring and summer of 2020 temporarily helped Connecticut mute the economic and fiscal impact of the coronavirus pandemic.[2] Additionally, some state revenue sources have outperformed expectations during the pandemic: sales tax on home improvement supplies during the summer; online sales; real estate conveyance tax; and alcohol and cigarette taxes. Despite these (rather limited) bright spots in state tax collections, the overall revenue picture remains grim relative to budget.

Tax collections for withholding, sales & use, and corporations together have borne the brunt of the coronavirus downturn and are lower than budget by approximately $1,143.8 million (or 8.9%) in total. Revenues governed by the volatility cap are projected to fall $70.4 million (or 2.1%) short of the volatility cap in the FY 20 – FY 21 biennial budget.[3] All other revenues are lower than budget by $201.1 million (or 5%) in total.

A high degree of uncertainty remains in our revenue projections as the pandemic continues to pose a significant risk and further federal assistance is unknown at this time.

EXPENDITURES

FY 21 expenditures are an estimated $394.6 million below budgeted appropriations. This includes: (1) agency account lapses totaling $370.3 million and (2) bottom line lapses and rescissions of $155.4 million. These lapses are partially offset by agency account deficiencies of $131.1 million.

Significant account lapses, deficiencies, and expenditure trends are described below. Please see **Appendix G** for a listing of deficient and lapsing agencies.

Table 2.5 FY 21 Expenditure Projections
In Millions of Dollars

Expenditures	FY 21
Budgeted	20,086.3
Lapses[1]	370.3
Rescissions, CRF & Hiring Savings	155.4
Deficiencies[1]	(131.1)
NET LAPSE/(DEFICIENCY)	**394.6**

[1]These represent cumulative lapses and deficiencies across all General Fund accounts in all agencies.

[2] Federal assistance to public and private organizations and individuals includes: forgivable Paycheck Protection Program loans ($6.7 billion), additional unemployment compensation ($2.9 billion for the period of May through August 2020) recovery (tax) rebates ($2.4 billion), and Coronavirus Relief Fund grants ($1.4 billion).

[3] The volatility cap limits the total amount of estimated & final income taxes and passthrough entity taxes that may be included in a budget.

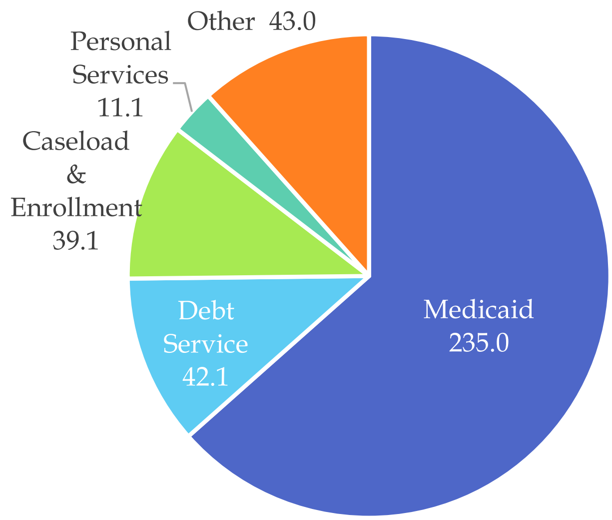
Lapses

As shown in **Figure 2.1**, account lapses are primarily related to: (1) Medicaid, (2) Debt Service, (3) caseload and enrollment trends, and (4) Personal Services.

Medicaid

Medicaid, with a projected lapse of $235 million is the largest account lapse, representing 64% of total account lapses. This reflects: (1) a lower state share of expenditures as a result of enhanced federal reimbursement through March 2021, and (2) decreased utilization of services.

Figure 2.1 FY 21 Lapses by Account
In Millions of Dollars



Debt Service

Debt Service is lapsing $42.1 million in total, due to: (1) favorable changes in the borrowing market, and in Connecticut's place in the borrowing market, and (2) timing of bond issuance. It is important to note that timing of bond issuance does not reduce the full cost of borrowing but has reduced short term costs.

Caseload and Enrollment

An anticipated $39.1 million is expected to lapse across eight accounts within the Department of Social Services (DSS) and the Department of Education (SDE) due to lower than anticipated caseload and enrollment for various programs.

In DSS, this includes a total lapse of $21.8 million in: (1) Temporary Aid for Needy Families, (2) Aid to the Disabled, (3) Connecticut Home Care Program, (4) Old Age Assistance, and (5) State Administered General Assistance.

In SDE, this includes lapses of $17.3 million across the Magnet School and Charter School accounts, and OPEN Choice. This is a result of: (1) lower than anticipated enrollment across all three accounts, and (2) the closure of two charter schools in Stamford.

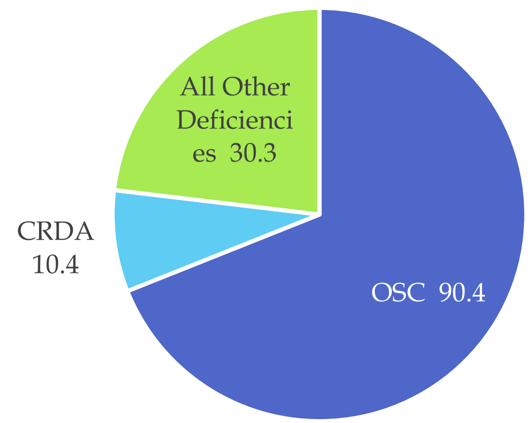
Personal Services

There are seven agencies with estimated Personal Services lapses cumulatively totaling $11.1 million. The three largest lapses, accounting for $8.6 million of the total, are: (1) $3 million in the Department of Mental Health and Addiction Services, (2) $3 million in the Department of Developmental Services, and (3) $2.6 million in the Judicial Department. The lapses are primarily due to delays in filling vacancies and anticipated turnover.

Deficiencies

Almost $100 million of the $131.4 million in FY 21 account deficiencies[4] are related to the Office of the State Comptroller (OSC) and to the Capital Region Development Authority account (CRDA) under the Department of Economic and Community Development (DECD), as described below.

Figure 2.2 FY 21 Deficiencies by Account
In Millions of Dollars



Office of the State Comptroller

Fringe Benefits and Adjudicated Claims accounts within OSC have a cumulative deficiency of $90.4 million. About half of that is due to changes to the required actuarially determined employer contribution to the State Employee Retirement System and the Judges Retirement System, based on their respective June 2019 revaluations.

Capital Region Development Authority

The next largest deficiency is $10.4 million deficiency in the CRDA account under DECD due to pandemic-related cancellations at Hartford area event facilities that are reliant on state funds to ameliorate budgetary shortfalls. Event cancellations have impacted attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field ($1.8 million), the XL Center ($5.4 million), and the CT Convention Center ($3.3 million).

Rescissions, Coronavirus Relief Fund (CRF), and Hiring Savings

The Governor's October 1, 2020 Deficit Mitigation Plan (DMP) included $25.3 million in FY 21 rescissions and $130 million in FY 21 targeted savings. Targeted savings include: (1) $100 million in CRF, and (2) $30 million in Personal Services savings related to vacancies and turnover.

Federal rules allow states to use the CRF to cover the coronavirus-related costs of public health and public safety staff. The Governor’s DMP uses $100 million of these federal funds to cover certain salaries and associated fringe benefit costs for a variety of agencies. This includes the Departments of: (1) Public Health, (2) Correction, (3) Mental Health and Addiction Services, (4) Developmental Services, and (5) Veterans' Affairs.

[4] While the UConn Health Center anticipates a current year deficit exceeding $50 million, the deficit is unlikely to impact the General Fund as UConn Health is projected to have sufficient funds to operate through the end of FY 21.

BUDGET RESERVE FUND

The BRF begins FY 21 with a balance of 3,012.9 million. The estimated current deficit of $854.5 million represents 28.4% of this amount. If the FY 21 deficit is addressed entirely using the BRF, the end-of-year balance of $2,158.4 million would be available to address deficits in the next biennium.

Table 2.6 FY 21 Budget Reserve Fund
In Millions of Dollars

	FY 21
Beginning Balance	3,012.9
Estimated Transfer[1]	(854.5)
END OF YEAR BALANCE	**2,158.4**

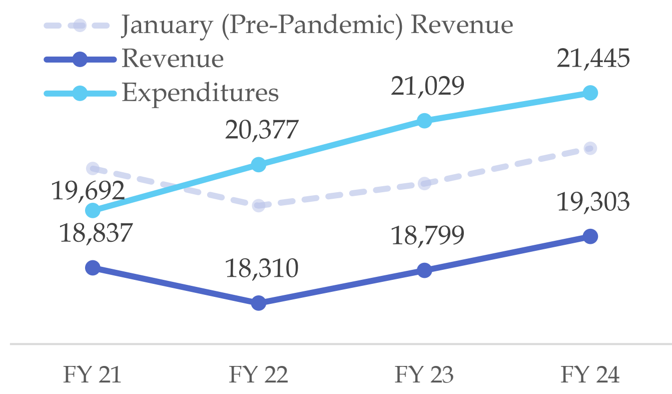
[1]This represents the amount necessary to cover the projected FY 21 deficit if no other action is taken.

Section III. General Fund – FY 22 to FY 24 Projections

GENERAL FUND OUT OF BALANCE IN THE OUT-YEARS

The pandemic-induced downturn continues to negatively impact the General Fund in the out-years. Without adjustment, OFA projects General Fund budget deficits of $2,067 million in FY 22, $2,230.4 million in FY 23, and $2,142 million in FY 24.

Figure 3.1 Revenue and Unadjusted Expenditures[1]
In Millions of Dollars



[1]Changes in expenditures are limited to fixed cost accounts, excluding non-fixed cost reductions, as shown in **Table 3.1**.

A significant factor contributing to these deficits is the downward revenue base shift that first occurs in FY 21 and rolls into the out-years. As reflected in **Figure 3.1**, this base shift results in a revenue loss, when compared to January 2020 consensus, of $1,454.2 million in FY 22 to $1,315.4 million in FY 24.

Additionally, the state continues to grapple with annual fixed cost expenditure growth that exceeds annual revenue growth, creating a structural imbalance of $297.8 million in FY 22. The imbalance is exacerbated by a $914.7 million revenue loss in FY 22 due to various policies, as illustrated in **Figure 3.2** below.

Fixed cost expenditures increase by an average of 5.4% per year in the out-years. This outpaces average revenue growth of 2.8% annually. This means that 100% of annual revenue growth is needed to cover fixed cost expenditure growth, which is only 52% of budget expenditures.

Pursuant to CGS Sec. 2-36b, which requires certain estimates to be included in this report, non-fixed cost expenditure reductions of $2,067 million in FY 22 and an additional $163.4 million in FY 23 are needed to align General Fund expenditures with consensus revenue estimates. No reduction is needed in FY 24.

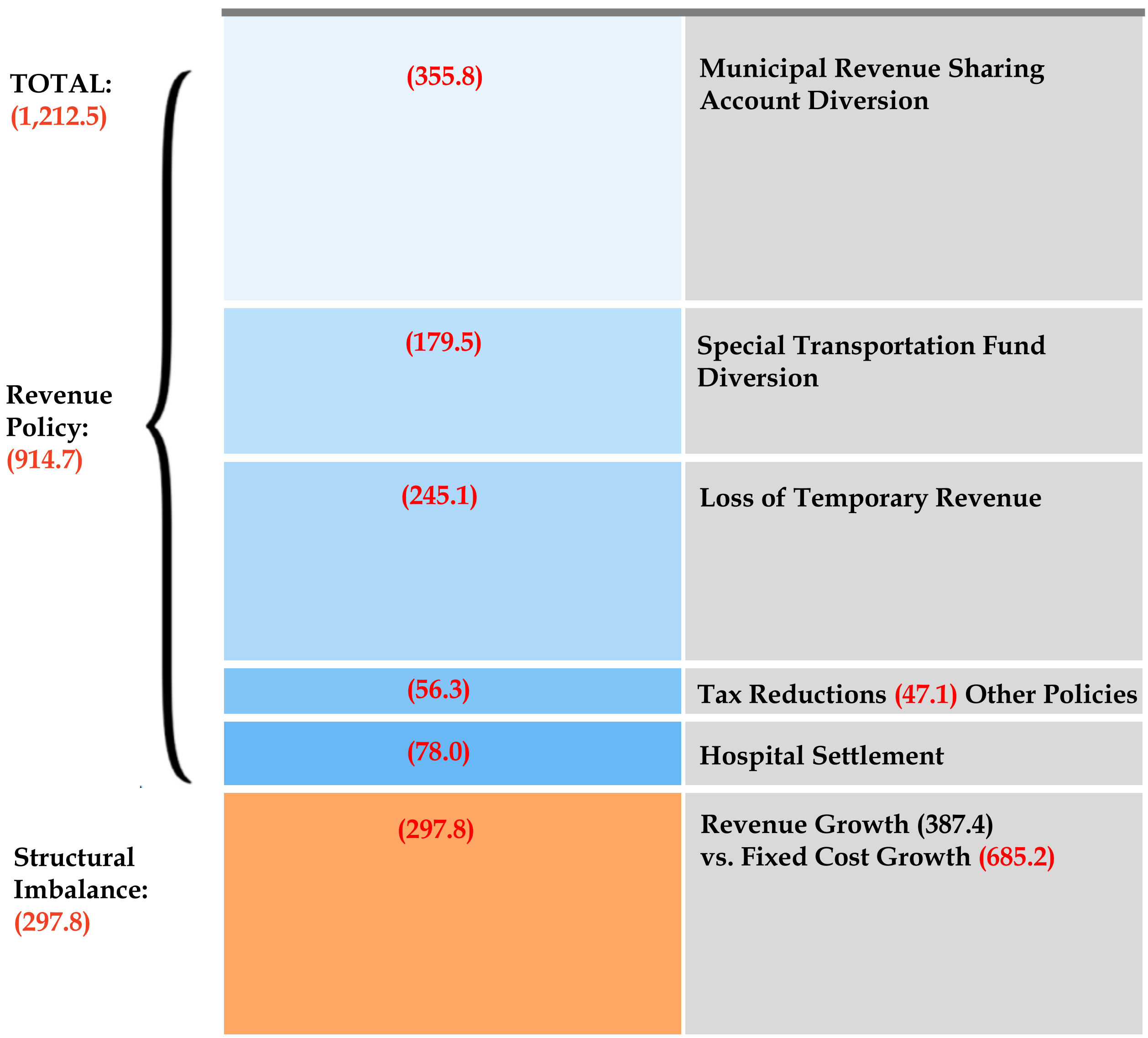
Table 3.1 General Fund Fixed Cost Changes and Non-Fixed Cost Reductions
In Millions of Dollars

Category	FY 21	FY 22	FY 23	FY 24
January (Pre-Pandemic) Consensus Revenue	20,317.3	19,764.1	20,091.7	20,618.0
Base Shift	*(1,480.1)*	*(1,454.2)*	*(1,293.0)*	*(1,315.4)*
November Consensus Revenue	18,837.2	18,309.9	18,798.7	19,302.6
Previous Year Expenditure		19,691.7	18,309.9	18,798.7
Fixed Cost Growth		685.2	652.2	415.5
Non-Fixed Cost Expenditure Reductions		(2,067.0)	(163.4)	-
Subtotal - Expenditures	19,691.7	18,309.9	18,798.7	19,214.2
BALANCE	**(854.5)**	**-**	**-**	**88.4**
Unadjusted Balance	**(854.5)**	**(2,067.0)**	**(2,230.4)**	**(2,142.0)**

FY 22 General Fund Imbalance

The FY 21 deficit of $854.5 million, combined with $1,212.5 million total net negative changes from FY 21 to FY 22, results in an anticipated FY 22 deficit of $2,067 million. As shown in **Figure 3.2**, projected changes include policy-related revenue reductions of $914.7 million and a structural imbalance of $297.8 million. A structural imbalance is defined as the difference between fixed cost expenditure growth and revenue growth, which is comprised of economic growth and technical changes. The remainder of **Section III** explores these out-year changes in more detail.

Figure 3.2 Projected General Fund Changes from FY 21 to FY 22
In Millions of Dollars



REVENUE POLICY AND TECHNICAL ADJUSTMENTS
The net FY 22 revenue policy adjustment decreases the balance by a total of $914.7 million in FY 22. **Table 3.2** below highlights the major components of that adjustment, with descriptions of specific items following.

Table 3.2 Major Components of the FY 22 General Fund Revenue Adjustment
In Millions of Dollars

Components	FY 22
1. MRSA revenue diversion of sales tax resumes	**(355.8)**
2. STF motor vehicle sales tax revenue diversion increases 25% to 75%	**(179.5)**
3. Expiration of temporary (one-time) revenue policies	**(245.1)**
Amortization of the historical GAAP deficit resumes	(85.1)
Revenue credit from FY 20 to FY 21 expires	(85.0)
Temporary restrictions on property tax credits expire	(53.0)
Sunset of the corporation tax 10% surcharge (Income Year 2020)	(15.0)
Sunset of 10 cent surcharge on plastic bags	(7.0)
4. Tax Reductions	**(47.1)**
Exemption levels for annuities and other pension income increase	(16.4)
Exemption threshold for inheritance and estate tax increases: $5.1 million to $7.1 million (Income Year 2021)	(13.2)
Capital basis method for corporation tax continues to be phased out	(9.5)
Exemption rate for teachers' pension income increases from 25% to 50% (Income Year 2021)	(8.0)
5. Hospital Settlement (PA 19-1 DSS)	**(78.0)**
6. Other Policies (net)	**(9.2)**
TOTAL	**(914.7)**

1. Municipal Revenue Sharing Account (MRSA) Sales Tax Diversion
Current law restores the MRSA sales and use tax diversion in FY 22, which decreases revenue to the General Fund by $355.8 million.

The MRSA revenue diversion was established in FY 16 for the general purpose of providing property tax relief grants to municipalities. This diversion was suspended from FY 17 to FY 21 due to budget constraints. In FY 20, MRSA-related-grants were partially funded through General Fund appropriations of $70.8 million. When the transfer resumes in FY 22, 0.5 percentage points of the sales and use tax will be diverted from the General Fund to support MRSA.

2. Special Transportation Fund (STF) Motor Vehicle Sales Tax Diversion
The continual phase-in of the motor vehicle sales tax transfer to the STF decreases revenue to the General Fund by $179.5 million in FY 22. This represents an increase from 25% of all motor vehicle sales to 75% that is to be transferred from the General Fund to the STF. This transfer will be fully phased-in at 100% of all motor vehicle sales by FY 23.

See the Sales Tax Backgrounder (November 2020) for the more information on the sales tax transfers to other funds and **Section V** of this report for more information on the STF.

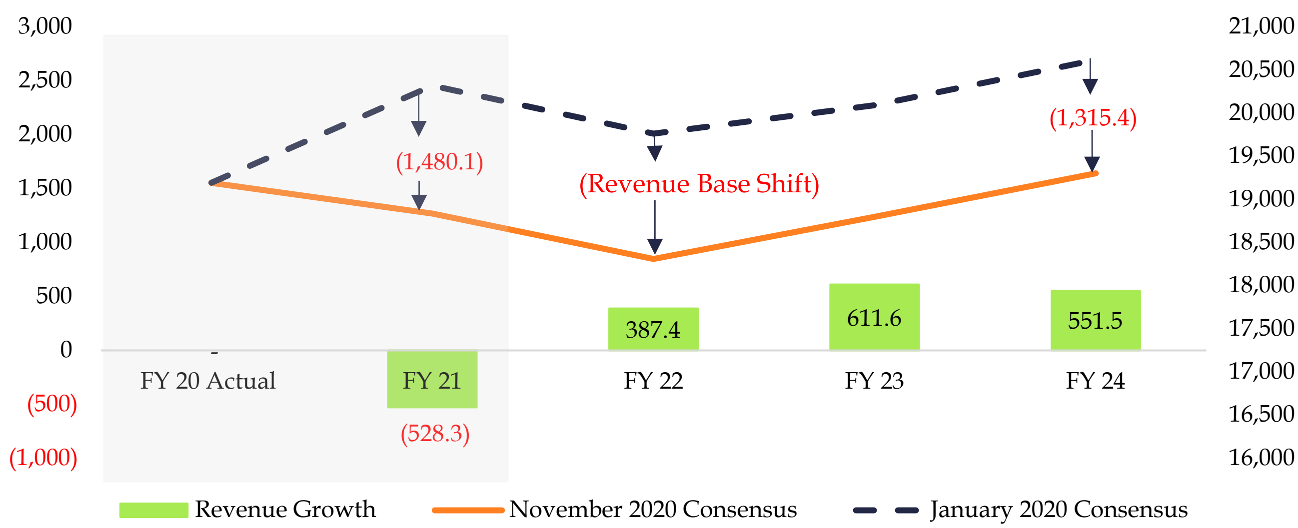
STRUCTURAL IMBALANCE

Permanent Revenue Base Shift

Connecticut has been dealing with a structural budget challenge for years: fixed cost expenditures have been growing faster than economic revenue growth and technical changes, due in part to the state's slow recovery from the 2009 recession. The state has made progress in recent years to address this structural imbalance, and last year's November projections for FY 22 – FY 24 showed fixed cost growth and revenue growth nearly aligned. However, due to the pandemic-induced downturn, the state now faces a significant gap between projected out-year expenditures and the revenue available to pay for them. This is because an economic downturn permanently alters the trajectory of revenue downward (i.e., a revenue base shift) while fixed costs continue to grow.

To illustrate the impact of the revenue base shift, **Figure 3.3** compares the General Fund revenue projections between consensus estimates from January 2020 (pre-pandemic) and November 2020.

Figure 3.3 General Fund Revenue Base Shift in the Out-Years
In Millions of Dollars



Note: Revenue growth reflects year-over-year changes in the November consensus estimate excluding policy adjustments.

Due to the pandemic, revenue is projected to decrease by $528.3 million in FY 21 from FY 20 actual collections. When compared to the January 2020 (pre-pandemic) estimate for FY 21, the decrease is a larger $1,480.1 million. By FY 24, year-over-year (YoY) revenue growth is projected to be $551.5 million but this is calculated from a lower, post-pandemic base. There is still a persistent gap, an estimated $1,315.4 million, from the January 2020 consensus estimate. **Table 3.3** provides a numerical analysis that is reflected in **Figure 3.3.**

Positive vs Negative Growth

While revenue growth is normally positive, an economic downturn will result in a revenue loss which is reflected in this report as a negative revenue "growth."

As noted in **Figure 3.3** a negative revenue growth is projected for FY 21.

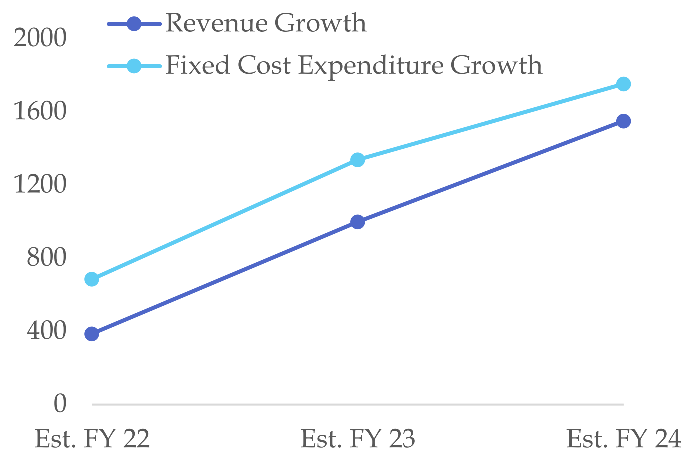
Table 3.3 General Fund Revenue Comparison (Jan. 2020 to Nov. 2020)
In Millions of Dollars

Category	FY 21	FY 22	FY 23	FY 24
November 2020 Consensus (a)	18,837.2	18,309.9	18,798.7	19,302.6
January 2020 Consensus (b)	20,317.3	19,764.1	20,091.7	20,618.0
Revenue Base Shift (= a - b)	(1,480.1)	(1,454.2)	(1,293.0)	(1,315.4)
Revenue Growth (Nov. 2020 estimate)	(528.3)	387.4	611.6	551.5

A fully-funded Budget Reserve Fund can help mitigate the revenue loss in FY 21, but it does not replace the forgone revenue that was expected in the absence of an economic downturn. As discussed in the section below, future revenue growth is necessary to cover growing fixed costs in the out-years, so a long-term solution will be needed to address this permanent revenue shift.

Fixed Cost Growth vs Revenue Growth
Separate from the revenue base shift, single year fixed cost expenditure growth is estimated to exceed revenue growth in FY 22 and FY 23, leading to structural imbalances of $297.8 million and $40.6 million, in those years respectively. Conversely, revenue growth is estimated to exceed fixed cost growth by $136 million in FY 24. **Table 3.4** displays this comparison of fixed cost growth to revenue growth for each of the out-years. **Figure 3.4** illustrates how the improvement in FY 24 is insufficient to close the cumulative gap of $202.4 million that is projected to accumulate over the three years.

Figure 3.4 Cumulative Structural Imbalance
In Millions of Dollars



Over this time, annual fixed cost growth is projected to be on average $67.5 million more than revenue growth, a seemingly small structural imbalance. Notably, however, the average growth rate for revenue is 2.8% while the average fixed cost growth rate is 5.4%. This means that more than 100% of revenue growth is needed to cover only fixed cost expenditure growth, which is just 52% of budget expenditures.

Table 3.4 Structural Imbalance (FY 22 to FY 24)
In Millions of Dollars

Category	FY 22	FY 23	FY 24	TOTAL	Average Growth	
					$	%
Revenue Growth	387.4	611.6	551.5	1,550.50	516.8	2.8%
Fixed Cost Growth	685.2	652.2	415.5	1,752.92	584.3	5.4%
BALANCE	**(297.8)**	**(40.6)**	**136.0**	**(202.4)**	**(67.5)**	

REVENUE GROWTH

Revenue growth rates in the out-years range from 2.1% to 3.3% annually which comprises economic growth and technical adjustments. A detailed breakout of growth amounts is included in **Table 3.5**.

Table 3.5 Revenue Growth by Source – Change from Prior Year
In Millions of Dollars

Source	FY 22	FY 23	FY 24
Personal Income Tax	252.5	415.6	351.1
Sales Tax	173.1	100.9	104.6
Business Taxes	(22.9)	143.5	94.4
Other Revenue	(81.4)	(14.9)	42.2
Federal Grants	13.9	26.5	21.7
Refunds	52.2	(60.0)	(62.5)
TOTAL GROWTH	**387.4**	**611.6**	**551.5**
PERCENT GROWTH %	**2.1%**	**3.3%**	**2.9%**

FIXED COST EXPENDITURES

The General Fund fixed costs are statutorily-defined[5] and organized into the following expenditure categories, listed below in order of overall magnitude:

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

The total projected fixed cost expenditures increase by an average of 5.4% annually in the out-years. This reflects net growth of $685.2 million from FY 21 to FY 22, $652.2 million from FY 22 to FY 23, and $415.5 million from FY 23 to FY 24. **Table 3.6** below shows the fixed cost changes by expenditure category and year.

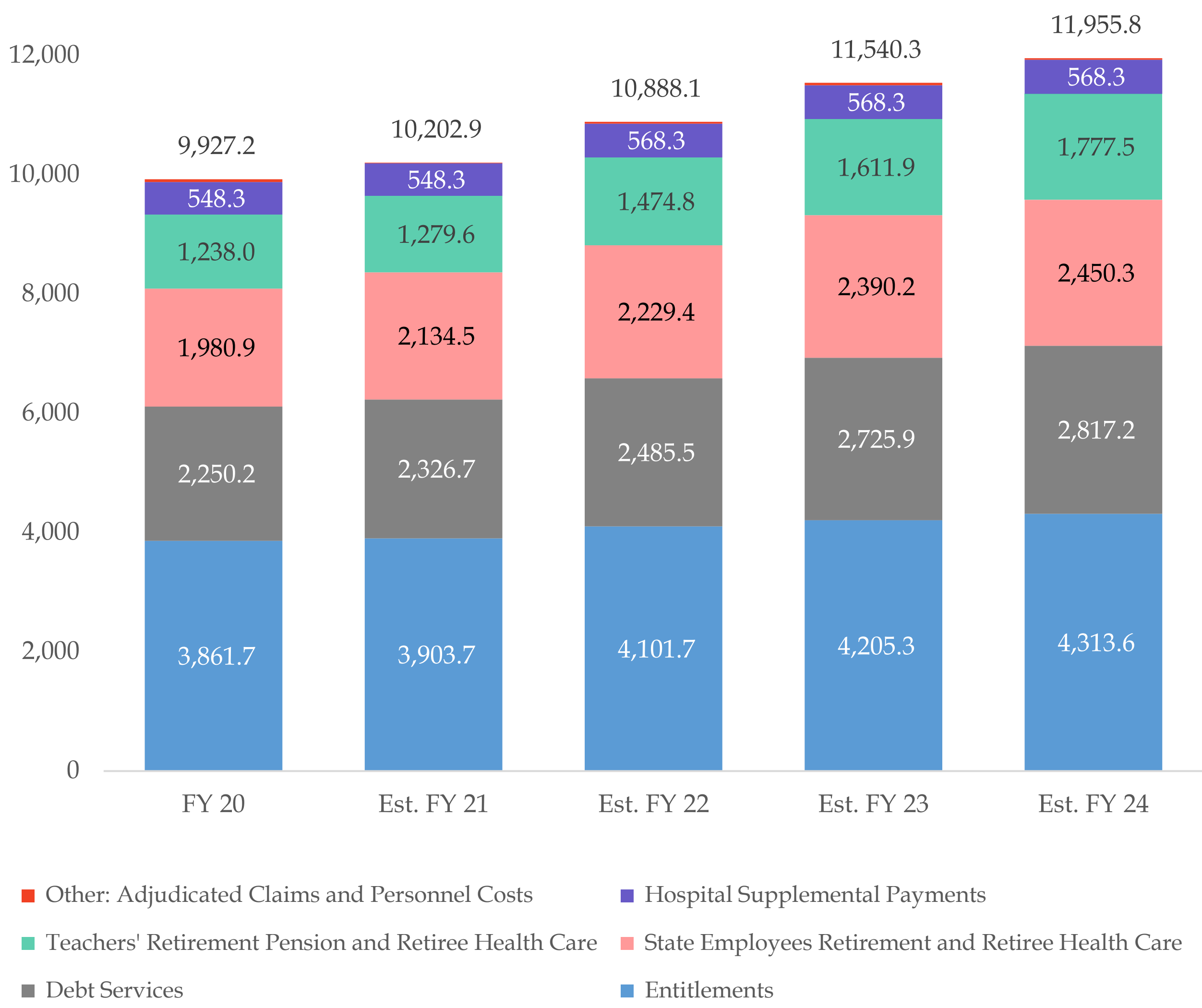
Table 3.6 Fixed Cost Changes from Prior Year
In Millions of Dollars

Category	FY 22	FY 23	FY 24
Entitlements	198.1	103.6	108.3
Debt Service	158.8	240.4	91.3
State Employees' Pension & Retiree Health Care	94.8	160.8	60.1
Teachers' Retirement & Retiree Health Care	195.2	137.1	165.6
Hospital Supplemental Payments	20.0	-	-
Other	18.4	10.3	(9.9)
Total - Fixed Costs	**685.2**	**652.2**	**415.5**

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

The hospital supplemental payments are included as a fixed cost category in this report for the first-time in FY 21 as a result of the Hospital Settlement Agreement that was finalized in December 2019. The agreement specifies the appropriation level for this account through FY 26. Hospital supplemental payments, which total $568.3 million in FY 24, account for 4.8% of projected fixed costs. The fixed cost accounts are shown in **Appendix D** and each major category is examined in further detail in **Appendix E.**

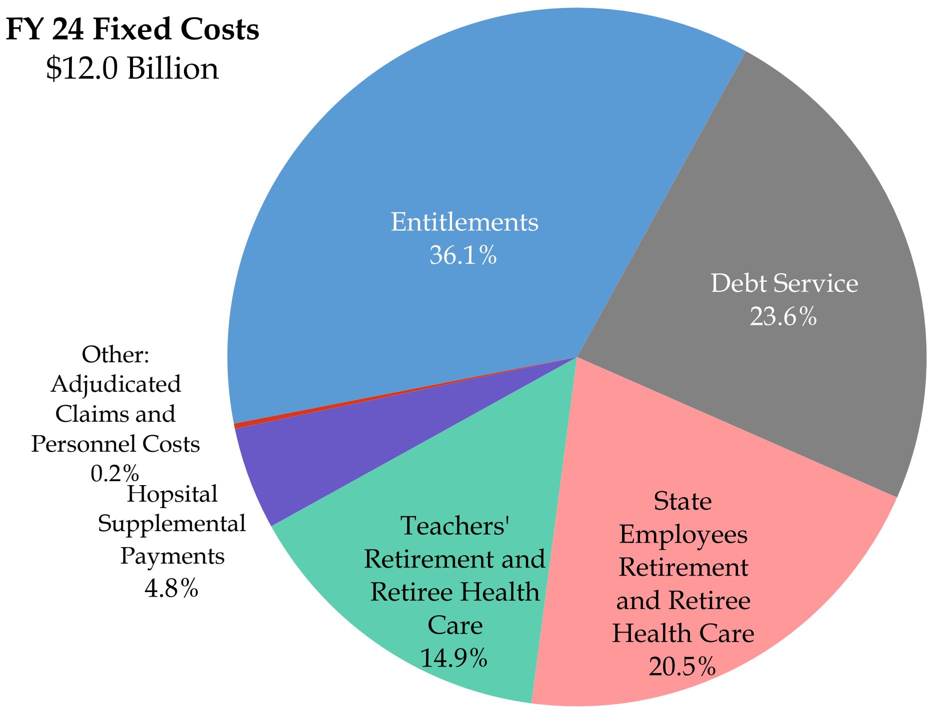
Figure 3.5 General Fund Fixed Cost Expenditures (FY 20 – FY 24)[1,2]
In Millions of Dollars



[1]Personnel costs reflect expenses associated with collective bargaining contracts and the 27th payroll in FY 23.
[2]Included in the totals for each fiscal year is Other: Adjudicated Claims and Personnel Costs. The amount for this category is, relative to the others, too small to be visible.

Each of these six expenditure categories maintains its relative percentage of overall General Fund fixed costs, as shown in **Figure 3.6**.

Figure 3.6 FY 24 Fixed Cost General Fund Expenditures



Growth Rate

OFA projects an average annual growth rate of **5.4%** in FY 22 through FY 24 across all General Fund fixed cost expenditure categories**.**

Section IV. Budget Reserve Fund & the Ongoing Impact of the Coronavirus

The projected deficits discussed in Sections II and III create a significant budgetary challenge to the state in the short and the long term. In this section, we will discuss the use of the Budget Reserve Fund (BRF), some of the initial economic impacts of the pandemic, and the continued uncertainty around the cumulative impact the coronavirus pandemic will have on the state's finances.

1. Based on current estimates, the BRF balance is enough to cover projected deficits in FY 21 and FY 22, but not enough to address deficits in FY 23 and beyond.
2. The coronavirus pandemic has had a large impact on the economy with a concentrated impact on the leisure and hospitality industry and drove a significant but temporary drop in retail sales.
3. Uncertainty remains about the impacts of the coronavirus pandemic as cases continue to rise across the country.

BUDGET RESERVE FUND

The BRF reached the 15% statutory cap at the end of FY 20 resulting in the current balance of $3,012.9 million. A large portion of this balance may be used to cover the $854.5 million estimated deficit in FY 21, leaving an estimated balance of $2,158.4 million leading into the FY 22 – FY 23 Biennium. This remaining balance can help with the FY 22 - FY 23 Biennium but will fall significantly short of fully addressing the projected deficit of $2,230.4 million in FY 23. **Table 4.1** below shows what the balance of the BRF would be if it was used to help balance projected deficits.

Table 4.1 Projected Deficits and BRF Balances
In Millions of Dollars

Description	FY 21	FY 22	FY 23	FY 24
Budget Reserve Fund Balance at End of Year	3,012.9	2,158.4	91.4	-
Projected Deficits[1]	(854.5)	(2,067.0)	(2,230.4)	(2,142.0)
Use of Budget Reserve Fund	854.5	2,067.0	91.4	-
Revised Deficits	**-**	**-**	**(2,139.0)**	**(2,142.0)**
Budget Reserve Fund Balance at End of Year	2,158.4	91.4	-	-

[1]Note that projected deficits reflect the estimates provided in Section III. Under the FAR methodology only accounts considered fixed costs can have expenditure growth in the out-years. Expenditure growth that would occur in other accounts under current law (e.g. ECS) is not included in these figures.

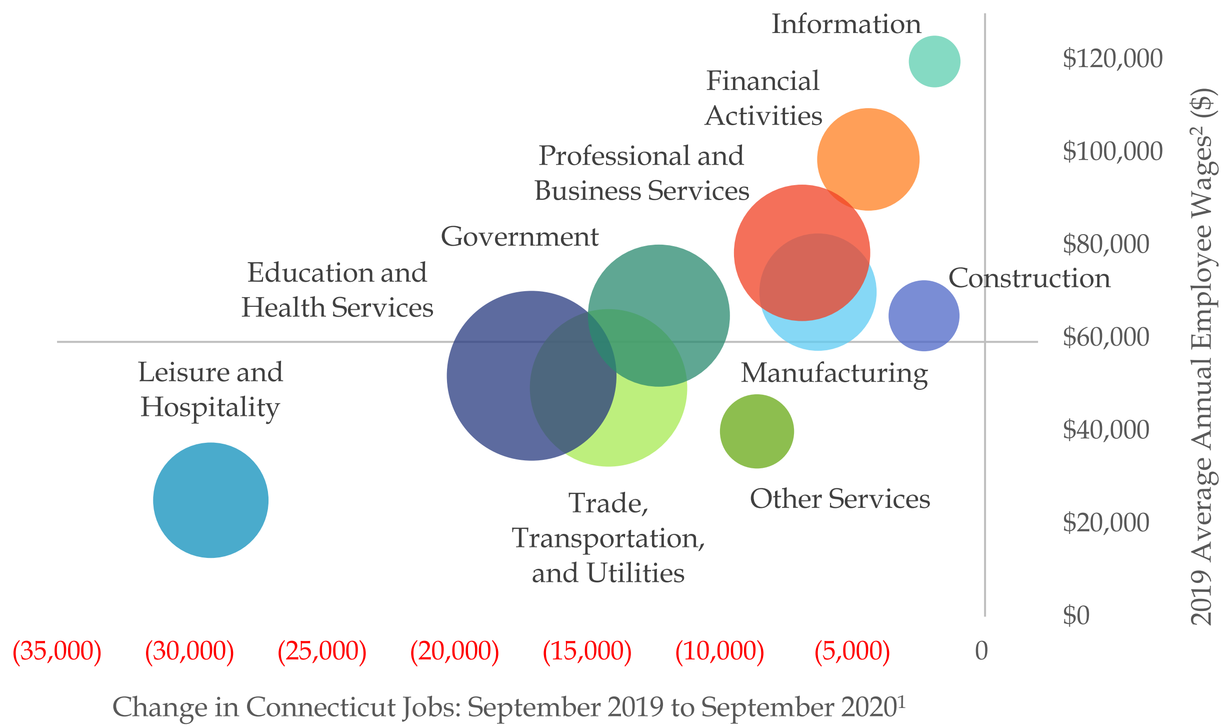
ONGOING IMPACT OF CORONAVIRUS

The impact of the coronavirus pandemic on the economy has been wide reaching. To date, there has been significant budgetary impacts both here in Connecticut and across the country. The public health crisis is ongoing, and there is significant uncertainty about when it will end. What will be the long-term impacts on both the national and Connecticut economies? There are many open questions as states brace for another wave of the coronavirus.

What We Know So Far
The pandemic has particularly affected specific industries in terms of both employment and retail sales. The impact to retail sales reflects significant changes in consumer behavior.

Industry Analysis
The pandemic has affected each industry sector within Connecticut, though job losses have been particularly concentrated in the leisure and hospitality industry. There were also significant drops in employment in the education and health services and trade, transportation, and utilities industries. Pandemic-related impacts to these industries are clear as people largely stayed home and stopped going to places like restaurants or even schools. As demonstrated in **Figure 4.1** below, the biggest impacts were in industries with relatively low average wages, while high wage industries like financial activities and information have been impacted the least.

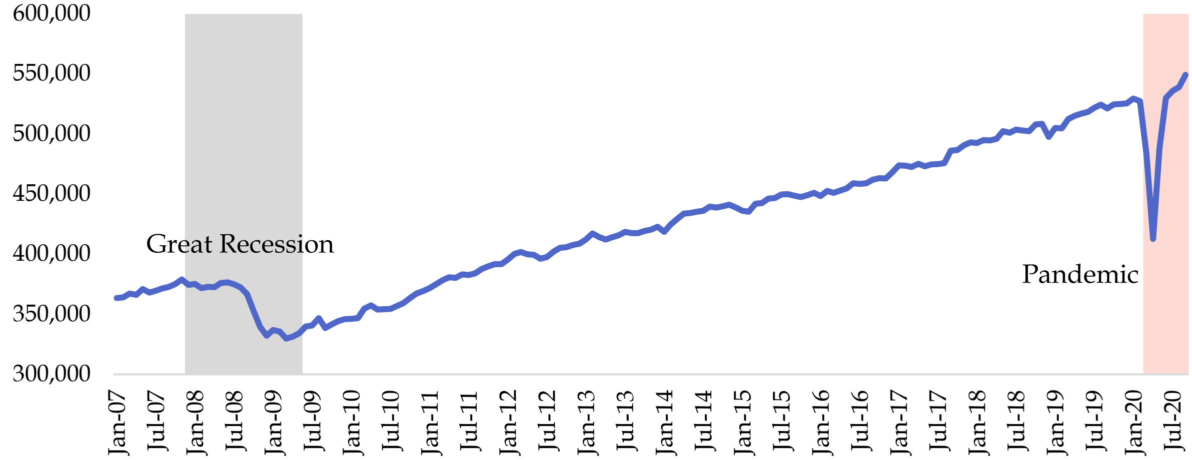
Figure 4.1 Connecticut Job Losses vs. Average Annual Wage by Industry



[1]Change in Employment reflects preliminary September 2020 data from the US Bureau of Labor Statistics (BLS) Current Employment Survey. Natural Resources/Mining and Unclassified industries are not included due to size.
[2]Average Annual Wages reflects 2019 private sector annual data from the BLS Quarterly Census of Employment and Wages except for Government, which reflects the average wage for all Government employment regardless of industry. **Bubble size** reflects each industry's total employment in September 2019.

Retail Sales
The pandemic and subsequent business restrictions in spring 2020 resulted in an unprecedented negative shock to retail sales. Retail experienced a significant recovery beginning in summer 2020 which can be attributed to the easing of business restrictions as well as shifts in consumer behavior. **Figure 4.2** highlights the severity of the pandemic on retail sales in the spring, as well as the summer recovery based on national monthly sales for retail and food services.

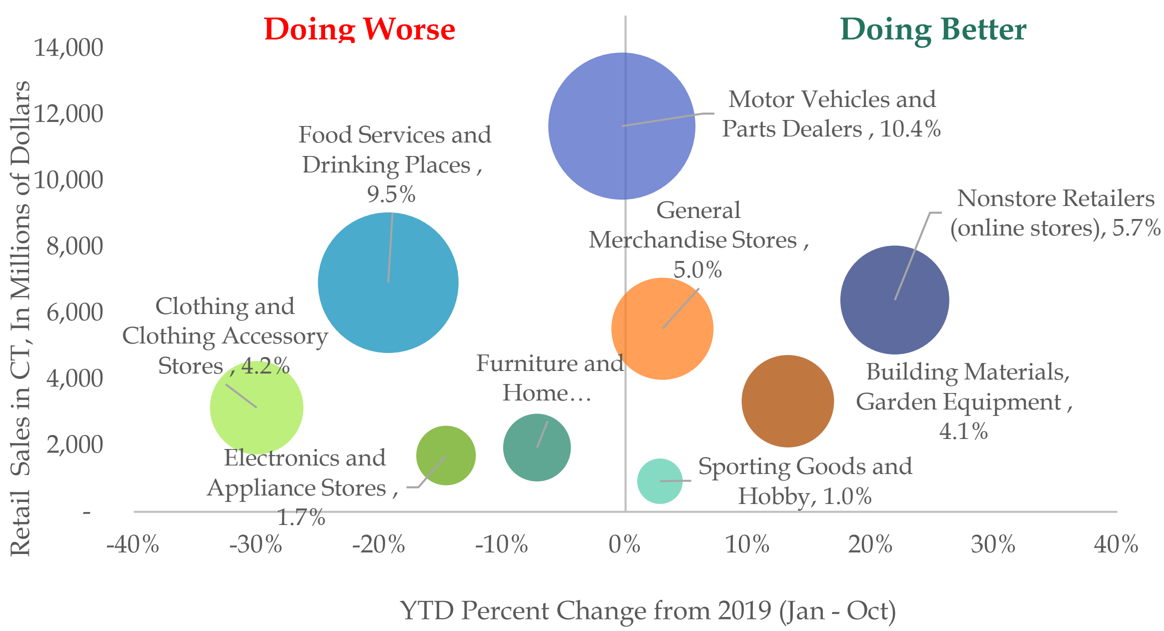
Figure 4.2 Monthly Sales for Retail and Food Services (Jan. 2007 to Sep. 2020)
In Millions of Dollars



Note: Seasonally Adjusted
Source: U.S. Census

Looking at more detailed retail sales data by industry, it is evident that while some industries have fared well despite the pandemic, others continue to be worse off even with the summer recovery. Consumers have shifted their purchases to online rather than brick and mortar department stores. Food service (restaurants and bars) and clothing stores sales continue to be down while building materials and garden supply sales are up. **Figure 4.3** shows the change in year-to-date sales for certain retail industries over 2019 as well as their relative size in Connecticut sales and use tax collections.

Figure 4.3 Estimated % Change in Sales over 2019 (Jan. to Oct.) – Example Industries



Bubble size reflects estimated share of Connecticut sales and use tax collections.
Source: U.S. Census, CT Department of Revenue Services, OFA Calculations

Uncertainty Remains

The revenue projections included in this report reflect analysts' best estimates at this specific point in time with the available information. Given the uncertainties surrounding the major drivers of the state's financial well-being that are discussed below, our projections are subject to change to a greater extent than in previous years. Policymakers should consider contingencies in the event of major revisions that are likely to occur throughout the biennial budget development process.

Federal Aid

What actions will the federal government take (or not take), such as additional fiscal stimulus, in the short term? The budgetary impact of any aid will depend on the timing of the legislation, the amount of funding, and the target recipients of those funds (e.g. businesses, individuals, state and local governments). Additionally, Federal Reserve policy actions affecting interest rates may impact the stock market and therefore potentially affect income tax collections in the out-years.

Managing the Coronavirus Pandemic

How will the public health crisis and the response to it unfold? State finances may be impacted by the timing and distribution of a vaccine and the additional state and local measures taken to contain the virus in the event of a resurgence. For example, mandated business closures have a direct impact on state revenues.

Economic Volatility

Will the economy (and state revenues) bounce back quickly or will the recovery be long and slow like Connecticut's recovery from the 2009 recession? Some indicators suggest that the downturn will not turn out to be as severe as originally feared; however, as the pandemic continues there is still significant risk of a further economic decline. Revenue may swing by large amounts. Since the combined estimated & final payment/pass-through entity tax revenue streams are now well below the volatility cap, the General Fund budget is more exposed to positive or negative adjustments to revenue projections in these areas.

There is still a serious concern going forward that a wave of business failures could have a cascading effect on other businesses, the stock market, and the whole economy. On the other hand, there is some reason to hope that collections will turn out to be better than anticipated. Due to the disparate impact various sectors have on state revenues, the nature of the downturn and which parts of the economy are most damaged or spared will have significant implications for the state's financial well-being going forward.

Section V. Special Transportation Fund

OFA anticipates that the Special Transportation Fund (STF) will have a FY 21 operating deficit of $46.1 million, which will decrease the Fund's cumulative balance to $122.3 million by the end of the fiscal year. Under current expenditure projections and November consensus revenue, operating deficits are expected in each of FY 22 through FY 24.[6] If unchanged, the cumulative balance of the STF is expected to be fully expended in FY 24.

Table 5.1 Special Transportation Fund Summary (FY 21 – FY 24)
In Millions of Dollars

Components	FY 21	FY 22	FY 23	FY 24
Expenditures				
Non-Debt Service Expenditures	1,048.3	1,089.6	1,130.7	1,158.2
Debt Service	688.4	782.9	853.2	913.9
Expenditures Total	**1,736.7**	**1,872.5**	**1,983.9**	**2,072.1**
Revenue				
STF Revenue (Other Than Sales)	1,271.7	1,206.8	1,247.9	1,280.3
0.5% Sales Tax	342.1	355.8	364.9	374.0
Motor Vehicle Sales Tax	76.8	256.3	346.8	351.9
Revenue Total	**1,690.6**	**1,818.9**	**1,959.6**	**2,006.2**
Operating Balance				
Surplus/(Deficit)	(46.1)	(53.6)	(24.3)	(65.9)
Year End Cumulative Balance	**122.3**	**68.7**	**44.4**	**(21.5)**
Debt Service Ratio	2.5	2.3	2.3	2.2

FY 21 REVENUE AND EXPENDITURE HIGHLIGHTS

STF revenues are projected to be $140.7 million less than budgeted in FY 21. Oil companies tax, motor fuels tax, and interest income decreased by a combined $175.3 million in FY 21. The decrease was partially offset by a one-time increase of $84.4 million in motor vehicle receipts due to pandemic-related license and registration delays that allowed a portion of expected payments from FY 20 to be paid in FY 21.

STF expenditures are projected to be $79.6 million less than budgeted appropriations in FY 21 from changes to STF debt service, due to: (1) results from the FY 20 Special Tax Obligation (STO) bond issuance, and (2) a delay of the planned FY 21 STO bond issuance from the fall to the spring.

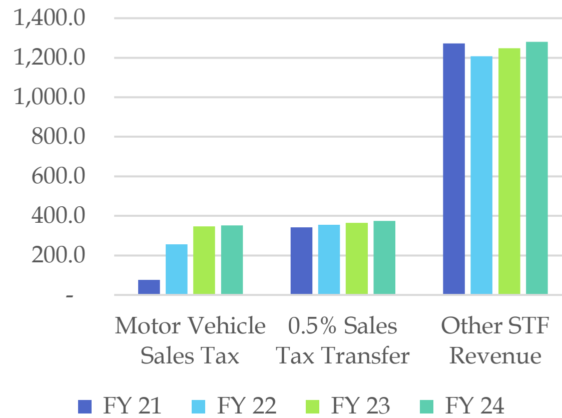
Growth Disparities

The STF is expected to see a disparity between annualized revenue change of 5.9% and annualized debt service growth of 9.9% from FY 21 through FY 24. Annualized growth for non-debt service expenditures is projected to be 3.4% during this period. The discrepancy between revenue and debt service is expected to widen after the motor vehicle sales tax transfer is fully phased in.

[6] Operating balance estimates in this section are based on unadjusted fixed cost expenditure estimates. They may differ from STF balance estimates elsewhere in the report that use other methodologies.

Revenue Source Growth Disparities
A leading factor in the 5.9% revenue increase is a 66.1% increase in the motor vehicle sales tax. Once fully phased in, the growth from FY 23 to FY 24 is 1.5%. The annualized growth rate from FY 21 to FY 24 for the 0.5% sales tax transfer is 3.0%, and 0.2% for all other STF revenue. After the phase-in is complete, total STF revenue growth from FY 23 to FY 24 is projected to be 2.4%.

Figure 5.1 STF Revenue Summary
In Millions of Dollars



Debt Service Growth
The expected 9.9% annualized growth rate in debt service from FY 21 to FY 24 is relatively high due to the specific timing of older STO debt repayment requirements and because of an expected delay in the FY 21 STO bond issuance lowers the estimated FY 21 payment without lowering payments in subsequent years. However, even the annualized debt service growth rate from FY 15 to FY 20 (7.2%) remains substantially greater than long-term revenue growth projections (under 3%).

Debt Service Ratio
Transportation bonds are issued with a requirement that revenues in the STF must be at least twice annual debt service needs. Debt service growing faster than revenues translates to the revenue-to-debt service ratio falling from 2.5 for FY 21 to 2.2 for FY 24. A ratio that is consistently approaching the two-times minimum is likely to have a negative impact on borrowing costs.

Transportation Bonding
Statute requires OFA to project bond authorizations, allocations, and issuances, along with their impact on the debt service, for future years. The projections for STO bonds are provided **Table 5.2** below.

Table 5.2 Estimates of STO Bond Fund Use
In Millions of Dollars

FY	Debt Service	Authorization	Allocation	Issuance
21	688.4	782	875	875
22	782.9	800	875	875
23	853.2	800	875	875
24	913.9	800	875	875
25	968.0	800	875	875

A bond package for the FY 20 – FY 21 biennium was adopted in March 2020 (PA 20-1), which included $778 million of new STO bonds in FY 20 and $782 million new STO bonds in FY 21.[7] As of October 1, 2020, approximately $2.4 billion authorized STO bonds remain unallocated.

[7] The bond package included $200 million of General Obligation (GO) bonds for transportation purposes in each of FY 20 and FY 21, which are part of the discussion in Section VI.

Section VI. General Obligation Bonding

Bonding is a financing mechanism in which long-term borrowing is used to finance capital projects or other programs not directly funded by appropriations. Statute requires OFA to project bond authorizations, allocations and issuances, along with their impact on the debt service, for future years. The projections for General Obligation (GO) bonds are provided in **Table 6.1**, below, with a discussion of each aspect to follow.[8]

Debt Limit Problem in FY 22

Table 6.1 Estimates of GO Bond Fund Use
In Millions of Dollars

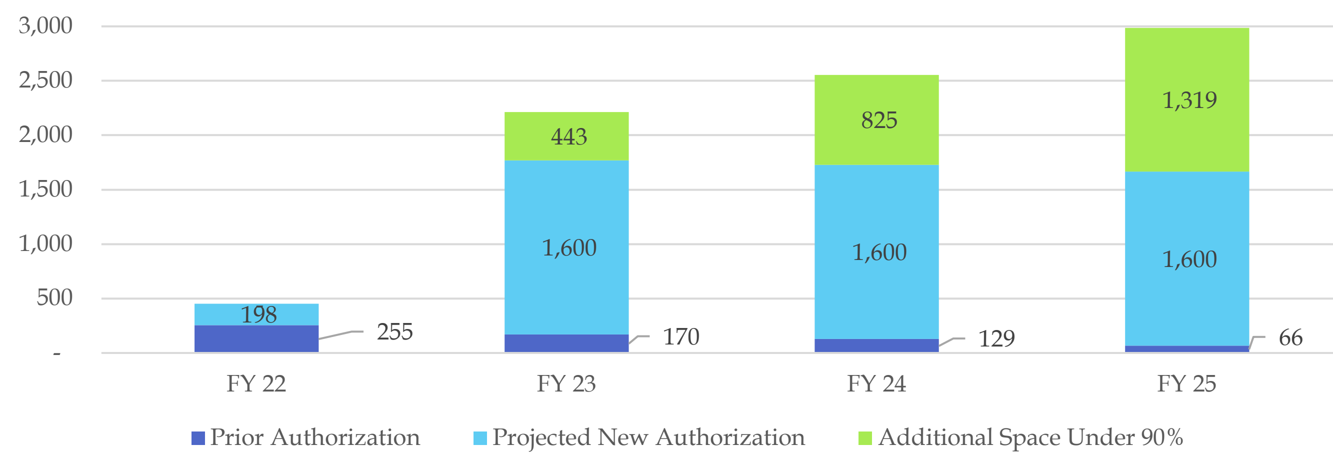
Fiscal Year	Debt Service	Authorizations	CY Allocations	Issuances^
21	2,327	1,904*	1,791	1,797
22	2,486	453**	1,725	2,051
23	2,726	1,770	1,685	1,725
24	2,817	1,729	1,656	1,685
25	2,874	1,666	1,614	1,600

*Actual net effective new authorizations for FY 21 (through July)
**FY 22 assumes authorizations limited by the 90% threshold
^Issuances include UConn 2000 program, which is exempted from the annual issuance limit

The debt limit is statutorily required to be calculated using net tax revenue estimates adopted by the Finance Revenue and Bonding committee. Using November consensus revenues for FY 22 and beyond, current debt levels are anticipated to be approximately 89.2% of the debt limit to start FY 22. The projections here assume the remaining $198 million of space under the threshold is authorized for FY 22. Reducing or canceling existing authorizations or otherwise not using all the space under 90% of the limit in FY 22 would carry over and result in an additional authorization space in future years.

Authorizations after FY 22 reflect $1.6 billion of new authorizations on top of prior authorizations becoming effective each year. These new authorizations are projected to allow the state to remain at least $400 million under 90% of the debt limit.

Figure 6.1 Projected Bond Authorizations and Remaining Authorization Space
In Millions of Dollars



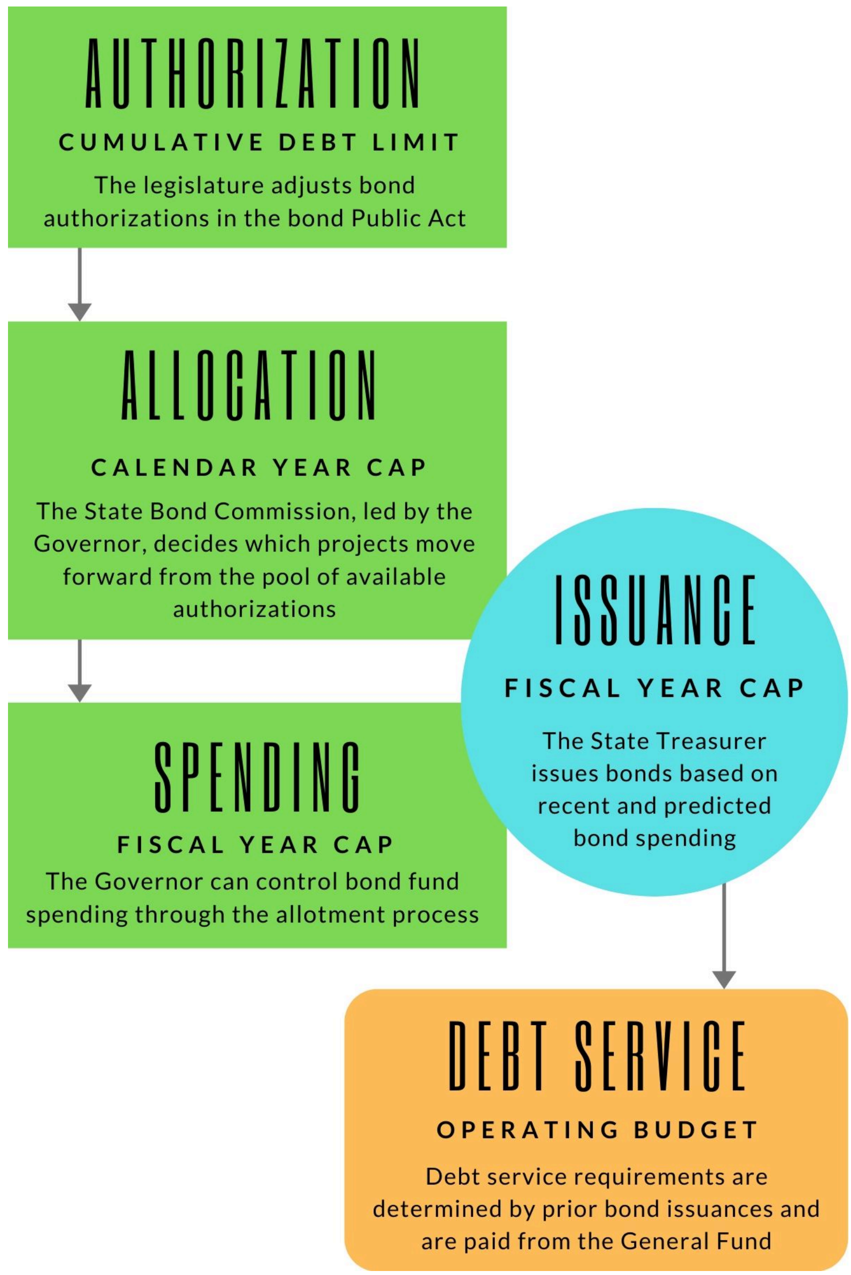
[8] Discussion of Special Tax Obligation (STO) bonds is provided in Section V.

Capacity for additional bonding is heavily dependent on net tax revenue changes (positive or negative), whether that change is from economic growth or revenue policy changes. In recent years, lack of bonding capacity has been mitigated through a combination of reduction or cancellation of existing authorized but unallocated debt, increasing revenue through new policy changes, and reclassification of current revenue as tax revenue (e.g., MRSA revenue, hospital taxes).

Biennial Bond Package

A bond package for the FY 20 – FY 21 biennium was adopted in March 2020 (PA 20-1). Combined with prior authorizations that became effective in the biennium, the total net effective GO bond authorizations were approximately $1.9 billion each year. Across the biennium, the largest GO bond authorizations include $856 million to fund state grants for school building projects, $457 million for the UConn 2000 program, and $400 million of GO bonds for transportation. The bond act also included authorization of $84 million of Clean Water Fund revenue bonds, which complement $150 million of GO bonds for Clean Water grants.

Figure 6.2 General Obligation Bond Process



Bond Process

Using bond funds for programs involves several steps overseen by the legislature, State Bond Commission, the Governor, and the State Treasurer. **Figure 6.2**, to the right, provides an overview of the process, a description of how and if its use is capped, and the controlling party for each step. The various steps in the bond process can be broken into two sub-groups: **Bond Use** and **Financing**.

Bond Use

Authorizations

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

Additional capacity for new bond authorizations is typically created through the combination of paying off existing debt (approximately $1.5 billion per year in recent years) and revenue increases over time. The high-water mark for use of debt is often July 1 of a given fiscal year, when new authorizations become effective, but the state has not yet paid down any debt on the year.

Exceeding the Debt Limit and the 90% Threshold

Should the state exceed 100% of the debt limit using the statutorily determined calculation, the Treasurer's ability to issue new debt would be curtailed and there would likely be negative consequences for the state's credit rating and its costs of borrowing.

The 90% threshold is relevant, as statute requires the Governor to propose reductions and cancellations to previously authorized debt whenever the Treasurer certifies that the state has exceeded 90% of the debt limit. As it would be difficult for a Governor to sign a bill that would leave the state above the 90% threshold, the 90% limit has long been the determining factor for capacity for new legislative bond authorizations.

Bonding Capacity in FY 22

As previously mentioned, under current revenue estimates the state would have the capacity to authorize a net of $198 million of new GO bonds to match 90% of the debt limit in FY 22, to go along with the $255 million of prior authorizations set to become effective in FY 22. If the legislature wanted to replicate the FY 21 net new GO bond authorization of $1.9 billion in FY 22, it would need to reduce approximately $1.5 billion of the $3.7 billion unallocated balance, raise net tax revenues by just over $1 billion, or some combination of the two.[9]

Bonding Capacity After FY 22

The projected authorizations presented above for FY 23 through FY 25 assume $1.6 billion of new authorizations, added to prior authorizations becoming effective in those years. Under this scenario, the state would be at roughly 85% of the debt limit after accounting for new authorizations to start FY 25 ($1.3 billion below the 90% threshold). Under current consensus revenue estimates, there is expected to be enough room to accommodate approximately $2.1 billion of net effective authorizations and remain below the 90% threshold, well over the $1.9 billion net effective authorizations for FY 20 and FY 21.

Because the debt limit is cumulative, changes to authorized debt levels in any year impact future capacity for new authorization. If the state made a net reduction to authorizations in FY 22 or otherwise did not use a portion of the space available under the 90% threshold, the excess capacity would be available for new authorizations in FY 23 and beyond. Any change in debt

[9] Cancelling prior allocations for projects that never moved forward may also help reduce the state's debt level, but that is an executive branch function, not a legislative one.

limit due to revenue would be subject to the effective dates of new or extended policies, along with growth in existing revenue sources.

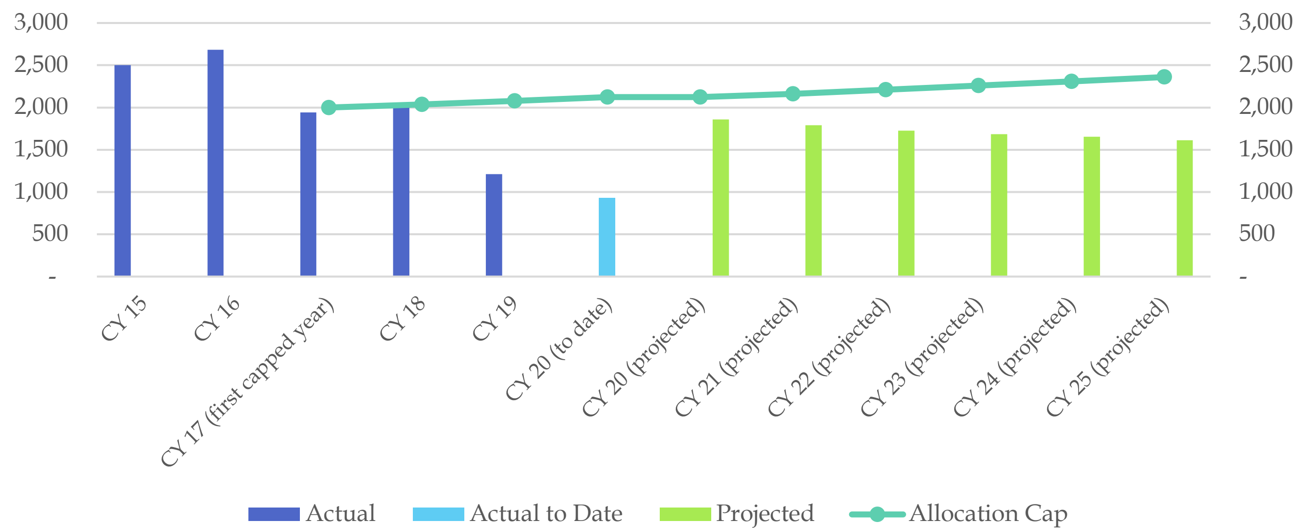
***Allocations*[10]**

Projected allocations, between $1.6 billion and $1.8 billion per calendar year, are based on the Governor's planned GO bond issuance ($1.6 billion plus funds available annually for the UConn 2000 program), but actual allocations could be substantially lower than these figures.

To date in CY 20, less than $930 million has been allocated, which is $150 million less than had been allocated through October in CY 19. Absent UConn 2000 allocations ($260 million in CY 20), $669 million has been allocated in CY 20 to date; an additional $931 million would need to be allocated in the remainder of the calendar year to meet the issuance-based estimate.

Total allocations for the year are anticipated to be hundreds of millions less than under the prior administration (a peak of $2.7 billion was allocated in CY 16) and less than the annual allocation cap (approximately $2.1 billion for CY 20).

Figure 6.2 GO Bond Allocations and Cap
In Millions of Dollars



By CY 25, the annual allocation cap is expected to increase to roughly $2.4 billion based on projected inflation.[11]

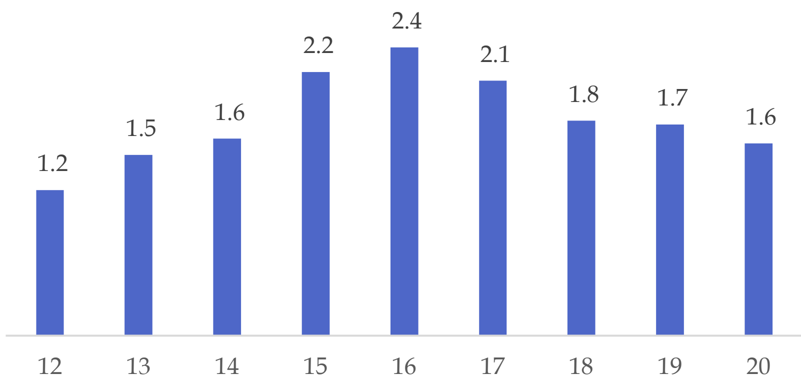
[10]GO bond allocations are made through the State Bond Commission. Allocations are measured by CY due to the statutory limit (CGS 3-20).

[11]Statute requires inflation of the allocation, issuance, and allotment caps by the Bureau of Labor Statistics' Consumer Price Index, less Food and Energy. The CY 21 allocation cap and FY 22 issuance cap are based on inflation during CY 20. This section assumes rates of 1.8, 2.3, 2.3, 2.2, and 2.2% respectively for CY 20 through CY 24, respectively.

Bond Spending

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

Figure 6.3 General Obligation Bond Project Spending by FY
In Billions of Dollars



GO bond spending on projects increased through a peak in FY 16 at $2.4 billion, as shown in **Figure 6.3**, to the left.[12] Spending has been on a downward trend since the peak. The FY 17 and FY 18 decreases can be partially attributed to the delayed budget adoption and new bond caps in 2017. FY 19 and FY 20 continued the downward trend, though both values are above allocation levels for CY 19 and CY 20 to date. Higher spending than the allocation in these years gives further evidence to the long-term lag from allocation to spending.

Bond Financing

Issuance

Bonds are issued by the State Treasurer based on expected need and past programmatic spending rates, not immediately when allocated. As recent allocations and overall spending from bond funds have declined in recent years, issuances are expected to remain relatively low and well below the annual cap. Issuances in FY 21 and beyond are expected to be limited by the Governor’s debt diet to no more than $1.6 billion annually, in addition to fully issuing annual allocations to the UConn 2000 program. If bond spending levels continue a downward trend, or are below the targeted issuance level, issuances would be lowered in FY 21 or later years. By FY 25, the annual issuance cap is expected to increase to almost $2.2 billion, plus UConn 2000 issuance, based on projected inflation.[13]

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

[13]The CPI rates used to inflate the allocation cap, see above, are also used to inflate the issuance cap. The issuance and allotment caps both exempt the UConn 2000 and CSUS 2020 programs.

Debt Service

Debt repayment requirements are part of the contract agreed to when bonds are first issued. Besides the amount and type of bonds issued, debt service payments from any particular bond issuance can vary with changes in the bond market and changes to Connecticut's creditworthiness.[14] While several of these factors have been trending positively for the state, it is important to note that the vast majority of debt service payment from FY 21 through FY 25 is based on decisions made and expenditures made prior to the current biennium.

[14]The debt service estimates shown here, and discussed further in Appendix E, are based on market borrowing rates, including interest rates for 20-year fixed rate tax exempt bonds of 5%.

Section VII. Tax Expenditure Estimates

State law currently permits various tax expenditures in the form of tax credits, exemptions, and deductions which amount to an estimated $7.1 billion in FY 21. This amount is approximately 34.4% of the total projected FY 21 General Fund and Special Transportation Fund revenue. The majority of tax expenditures occur in the sales and use tax and motor fuels tax (approximately 63.3% and 17.9%, respectively). **Table 7.1** below reflects OFA's estimated total tax credits, exemptions and deductions for FY 21 through FY 24.[15]

Table 7.1 Summary of Major Identifiable State Tax Expenditure Estimates[1]
In Millions of Dollars

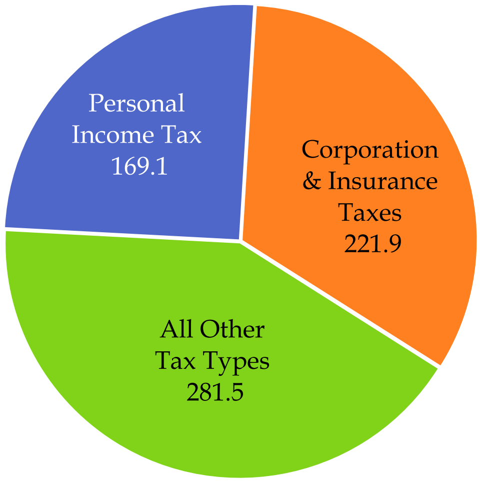
Category	FY 21	FY 22	FY 23	FY 24
Personal Income Tax	470.2	564.1	597.3	631.5
Sales and Use Tax	4,470.7	4,658.3	4,772.5	4,890.4
Corporation and Insurance Taxes	410.1	420.6	422.7	433.2
Petroleum Companies Gross Earnings Tax	230.7	279.2	303.9	322.3
Motor Fuels and Motor Carrier Road Taxes	1,263.6	1,273.5	1,274.5	1,275.5
All Other Taxes	215.2	206.7	212.3	217.9
TOTAL	**7,060.5**	**7,402.4**	**7,583.3**	**7,770.8**

TAX CREDITS

Tax credits are estimated to be $672.5 million in FY 21, or 9.5% of all projected FY 21 tax expenditures. The remaining $6.4 billion in FY 21 in total tax expenditures includes all exemptions and deductions. A breakout of credits by tax type is provided in **Figure 7.1** below.

[15]For more information, please see the Connecticut Tax Expenditure Report, Office of Fiscal Analysis (February 2020). Please note that this report includes updated estimates on certain expenditures where necessary. The next report will be released in February 2022.
https://www.cga.ct.gov/ofa/Documents/year/TER/2020TER-20200203_Tax%20Expenditure%20Report%20FY%2020.pdf

Figure 7.1 FY 21 Tax Credit Estimates by Revenue Type
In Millions of Dollars



Types of Tax Expenditures

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

SALES AND USE TAX

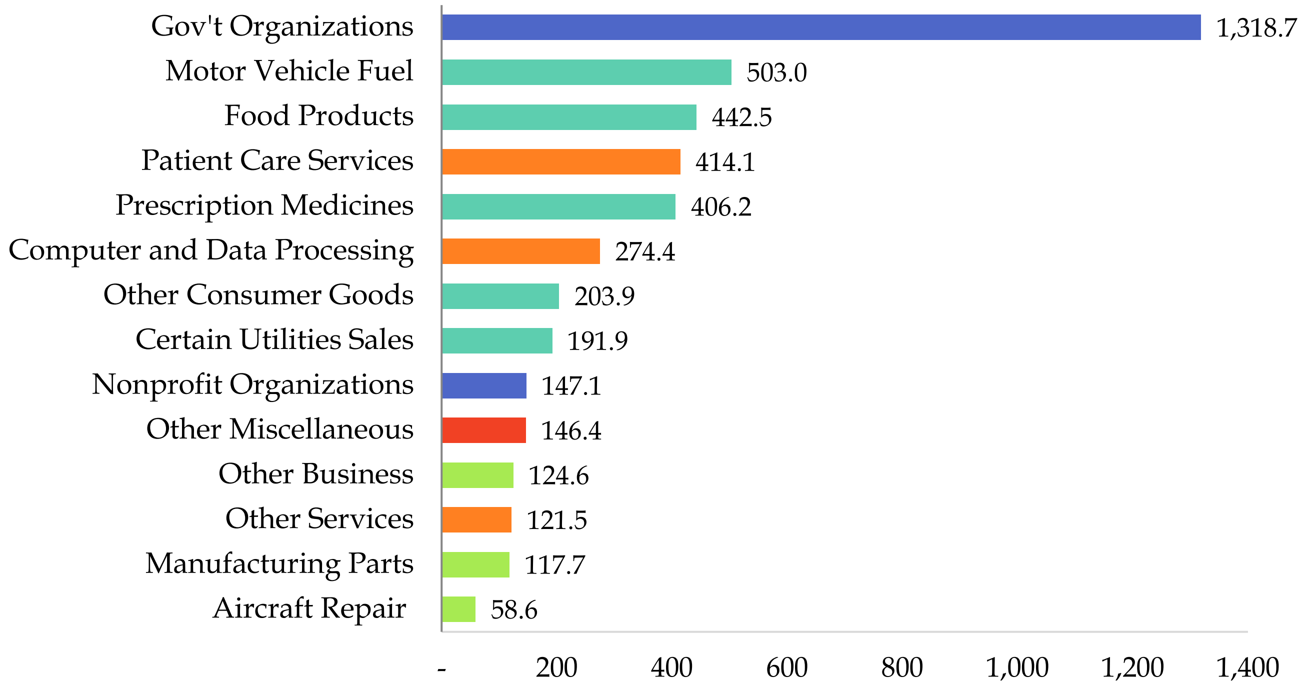
Sales and use tax expenditures represent approximately **63.3%** of all identifiable tax expenditures and are estimated to be **$4.5 billion** in FY 21.

Consumer goods consist of approximately 39.1% of all total sales and use tax exemptions. Government Organizations make up the single largest type of exemption at $1.4 billion estimated for FY 21. **Table 7.2** below details the categories of sales and use tax expenditures available as well as the value of each category.

Table 7.2 Sales and Use Tax Category Comparison
In Millions of Dollars

Category	FY 21	% of Total
Consumer Goods	1,747.5	39.1%
Business Exemptions	300.9	6.7%
Service Exemptions	810.1	18.1%
Government and Nonprofit Organizations	1,465.8	32.8%
Miscellaneous	146.4	3.3%
Total Sales and Use Tax Exemptions	**4,470.7**	**100.0%**

Figure 7.2 Major Sales and Use Tax Expenditures (FY 21)
In Millions of Dollars



Appendix A. Consensus Revenues

Revenue Estimates: FY 21 - FY 24
In Millions of Dollars

Fund/Component	FY 21	FY 22	FY 23	FY 24
General Fund				
Taxes				
Personal Income Tax - Withholding	6,680.6	6,904.9	7,240.8	7,468.7
Personal Income Tax - Estimates and Finals	2,244.3	2,248.1	2,311.4	2,418.1
Sales & Use	4,246.3	3,879.8	3,892.7	3,994.8
Corporation	768.7	783.5	804.7	821.1
Pass-through Entity Tax	1,070.7	1,054.6	1,150.8	1,200.0
Public Service	261.6	267.5	274.5	281.9
Inheritance & Estate	212.6	154.4	150.2	149.6
Insurance Companies	214.6	217.2	220.2	223.2
Cigarettes	330.9	312.0	296.4	281.5
Real Estate Conveyance	280.6	237.4	244.8	252.4
Alcoholic Beverages	73.2	73.6	74.0	74.3
Admissions & Dues	34.3	38.9	39.9	40.2
Health Provider Tax	1,079.5	989.7	991.8	993.2
Miscellaneous	18.8	22.0	22.5	23.0
Total - Taxes	**17,516.7**	**17,183.6**	**17,714.7**	**18,222**
Refund of Taxes	(1,629.0)	(1,624.7)	(1,680.7)	(1,739.0)
Earned Income Tax Credit	(100.6)	(104.0)	(107.0)	(110.1)
R&D Credit Exchange	(6.2)	(6.6)	(6.8)	(7.0)
Total - Taxes Less Refunds	**15,780.9**	**15,448.3**	**15,920.2**	**16,365.9**
Other Revenue				
Transfers - Special Revenue	361.5	363.7	370.1	376.6
Indian Gaming Payments	247.3	240.8	236.5	232.2
Licenses, Permits, Fees	338.8	359.5	335.0	369.9
Sales of Commodities	26.8	27.4	28.1	28.7
Rents, Fines, Escheats	155.5	160.0	164.4	166.2
Investment Income	9.7	6.6	7.4	7.5
Miscellaneous	230.9	231.4	235.4	239.5
Refund of Payments	(67.7)	(69.0)	(70.3)	(71.7)
Total - Other Revenue	**1,302.8**	**1,320.4**	**1,306.6**	**1,348.9**
Other Sources				
Federal Grants	1530.4	1557.7	1584.2	1605.9
Transfer from Tobacco Fund	114.5	113.1	112.2	111.5
Transfers from/ (To) Other Funds	108.6	(129.6)	(124.5)	(129.6)
Transfers to BRF - Volatility Adjustment	-	-	-	-
Total - Other Sources	**1,753.5**	**1,541.2**	**1,571.9**	**1,587.8**
TOTAL - GENERAL FUND	**18,837.2**	**18,309.9**	**18,798.7**	**19,302.6**

Fund/Component	FY 21	FY 22	FY 23	FY 24
Special Transportation Fund (STF)				
Taxes				
Motor Fuels Tax	488.3	475.6	491.4	497.6
Oil Companies Tax	203.5	246.3	268.0	284.2
Sales & Use Tax	418.9	612.1	711.7	725.9
Sales Tax - DMV	83.0	86.5	88.2	89.1
Refunds of Taxes	(15.0)	(15.5)	(16.2)	(16.9)
Total - Taxes Less Refunds	1,178.7	1,405.0	1,543.1	1,579.9
Other Sources				
Motor Vehicle Receipts	340.8	263.5	265.6	274.4
Licenses, Permits, Fees	135.1	144.8	145.8	146.8
Interest Income	4.9	5.1	5.5	6.4
Federal Grants	11.8	11.0	10.1	9.2
Transfers From/(To) Other Funds	24.5	(5.5)	(5.5)	(5.5)
Refunds of Payments	(5.2)	(5.0)	(5.0)	(5.0)
Total Other Revenues	511.9	413.9	416.5	426.3
TOTAL - STF	**1,690.6**	**1,818.9**	**1,959.6**	**2,006.2**

Appendix B. Other Appropriated Funds

Fund	Actual FY 20	Projected FY 21	Projected FY 22	Projected FY 23	Projected FY 24
Mashantucket Pequot and Mohegan Fund					
Beginning Balance	23,397	50,608	50,608	50,608	50,608
Revenue	-	-	-	-	-
Expenditures	(51,472,789)	(51,472,796)	(51,472,796)	(51,472,796)	(51,472,796)
Transfers	51,500,000	51,472,796	51,472,796	51,472,796	51,472,796
Ending Balance	**50,608**	**50,608**	**50,608**	**50,608**	**50,608**
Regional Market Operation Fund					
Beginning Balance	(186,308)	-	-	-	-
Revenue	400,289	-	-	-	-
Expenditures	(554,453)	-	-	-	-
Transfers	-	-	-	-	-
Ending Balance	**(340,472)**	-	-	-	-
Banking Fund					
Beginning Balance	1,746,578	6,730,032	7,778,399	14,026,766	20,275,133
Revenue	35,728,140	35,000,000	35,000,000	35,000,000	35,000,000
Expenditures	(25,544,687)	(28,751,633)	(28,751,633)	(28,751,633)	(28,751,633)
Transfers	(5,200,000)	(5,200,000)	-	-	-
Ending Balance	**6,730,032**	**7,778,399**	**14,026,766**	**20,275,133**	**26,523,500**
Insurance Fund					
Beginning Balance	15,701,481	4,847,162	8,550,190	10,875,524	10,294,191
Revenue	90,707,127	115,093,694	113,716,000	110,809,332	111,535,999
Expenditures	(101,628,064)	(111,390,666)	(111,390,666)	(111,390,666)	(111,390,666)
Transfers	66,618	-			
Ending Balance	**4,847,162**	**8,550,190**	**10,875,524**	**10,294,191**	**10,439,524**
Consumer Counsel and Public Utility Control Fund					
Beginning Balance	7,010,032	7,459,993	8,394,432	9,328,871	10,263,310
Revenue	24,811,079	26,200,000	26,200,000	26,200,000	26,200,000
Expenditures	(24,361,118)	(25,265,561)	(25,265,561)	(25,265,561)	(25,265,561)
Transfers	-	-	-	-	-
Ending Balance	**7,459,993**	**8,394,432**	**9,328,871**	**10,263,310**	**11,197,749**
Workers' Compensation Fund					
Beginning Balance	12,743,522	15,812,649	11,727,899	12,707,974	12,707,974
Revenue	26,524,925	21,331,198	26,396,021	25,415,947	25,415,947
Expenditures	(23,455,799)	(25,415,947)	(25,415,947)	(25,415,947)	(25,415,947)
Transfers	-	-	-	-	-
Ending Balance	**15,812,649**	**11,727,899**	**12,707,974**	**12,707,974**	**12,707,974**
Criminal Injuries Compensation Fund					
Beginning Balance	3,811,418	4,528,051	4,632,354	4,736,657	4,840,960
Revenue	2,753,962	3,000,000	3,000,000	3,000,000	3,000,000
Expenditures	(2,037,329)	(2,895,697)	(2,895,697)	(2,895,697)	(2,895,697)
Transfers	-	-	-	-	-

Fund	Actual FY 20	Projected FY 21	Projected FY 22	Projected FY 23	Projected FY 24
Ending Balance	**4,528,051**	**4,632,354**	**4,736,657**	**4,840,960**	**4,945,263**
Tourism Fund					
Beginning Balance	(2,445,500)	(2,857,229)	(9,708,140)	(9,559,051)	(9,209,962)
Revenue	12,601,682	6,200,000	13,200,000	13,400,000	13,600,000
Expenditures	(13,013,411)	(13,050,911)	(13,050,911)	(13,050,911)	(13,050,911)
Transfers	-	-	-	-	-
Ending Balance	**(2,857,229)**	**(9,708,140)**	**(9,559,051)**	**(9,209,962)**	**(8,660,873)**
TOTALS					
Beginning Balance	38,404,621	36,571,266	31,425,743	42,167,350	49,222,214
Revenue	193,527,205	206,824,892	217,512,021	213,825,279	214,751,946
Expenditures	(242,067,649)	(258,243,211)	(258,243,211)	(258,243,211)	(258,243,211)
Transfers	46,366,618	46,272,796	51,472,796	51,472,796	51,472,796
TOTAL ENDING BALANCE	**36,230,794**	**31,425,743**	**42,167,350**	**49,222,214**	**57,203,745**

Source: Actuals from CORE-CT

EXPENDITURE ASSUMPTIONS

Expenditures in the other appropriated funds are non-fixed costs, and as such are flat-funded through FY 24.

REVENUE ASSUMPTIONS

Banking Fund
Through FY 24, revenue from statutory banking licenses and fees, as well as assessments, is anticipated to remain constant at approximately $35 million annually.

Consumer Counsel/Department of Public Utility Control Fund
There is no assumed growth from fees and assessments in the out-years, as the fund has experienced variation in year to year revenue.

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

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

Mashantucket Pequot/Mohegan Fund
Out-year projections assume a General Fund transfer to the Pequot Fund equal to the FY 21 appropriation of $51.5 million. Pursuant to PA 14-217, General Fund transfers to the Pequot Fund are equal to the amount appropriated for Pequot Fund grants in a given fiscal year.

Regional Market Operation Fund

Pursuant to Section 10 of PA 18-154, the Hartford Regional Market was conveyed to the Capital Regional Development Authority and CRDA has assumed operation of that market. As a result, the FY 21 appropriation of $1.1 million will lapse.

Tourism Fund

Revenue from 10% of room occupancy tax collections supports this fund. The coronavirus pandemic has a direct negative impact on room occupancy taxes for FY 20 and FY 21. Revenues are projected to recover in FY 22 with a return to growth of approximately 1.5% for FY 23 and FY 24. But as a result of the downturn in revenue in FY 20 and 21, the balance of the fund is projected to be negative for FY 21 – FY 24.

Workers' Compensation Fund

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

Appendix C. Methodologies, Assumptions, and Sources

METHODOLOGY

CGS Sec. 2-36b requires OFA to estimate any changes to current year expenditures due to fixed cost drivers.

This methodology compares the statutorily required annual consensus revenue estimates with the previous year's expenditures plus the annual growth in fixed costs. For years in which expenditures are greater than revenue, an adjustment is calculated. This calculation represents how much non-fixed spending will have to be decreased to achieve a zero ending balance at the end of a given fiscal year. See below for a list of key assumptions used to develop cost projections through FY 24.

Flat Funding of Non-Fixed Accounts

The expenditure projections contained in this report may adjust only the accounts categorized as fixed costs to reflect changes over the previous year's expenditures. Most other accounts are flat-funded at FY 21 levels.

FIXED COSTS

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

Categories of Non-Fixed and Fixed Costs

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

[1]Excluding retirement benefits.

See **Appendix D** for account-level details through FY 24 on the fixed cost expenditure categories identified above.

OTHER ADJUSTMENTS TO EXPENDITURES

In addition to fixed cost increases, OFA includes adjustments relating to: (1) collective bargaining increases that were part of the State Employees' Bargaining Agent Coalition (SEBAC) 2017, (2) individual bargaining unit's contracts, and (3) non-union wage adjustments.

FIXED COST ASSUMPTIONS

The following assumptions were used to develop fixed cost projections.

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

Board and Care for Children – Adoption
Expenditures for this account reflect a growth rate of 2% each fiscal year. An extra per diem of approximately $216,612 is included in FY 24 due to the leap year.

Board and Care for Children – Foster
Expenditures for this account reflect a growth rate of approximately 1.5% each fiscal year. An extra per diem of approximately $285,885 is included in FY 24 due to the leap year.

Board and Care for Children – Short-term and Residential
It is anticipated that the caseload for this account will continue to trend downward in FY 21 and in the out-years. An extra per diem of approximately $127,761 is included in FY 24 due to the leap year.

Individualized Family Supports
This wraparound services account is projected to remain at approximately FY 21 expenditure levels in the out-years.

Department of Mental Health and Addiction Services
General Assistance Managed Care
Assumes an average account growth of 4% to accommodate cost and caseload needs.

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

Department of Social Services
Medicaid
Reflects average growth of 3% per year.

HUSKY B
Reflects average growth of 4.5% per year.

Community Residential Services
Reflects new and annualized caseload growth for community placements, including individuals aging out of services provided by the DCF and local education agencies, long-term care residents (Money Follows the Person), and Southbury Training School residents.

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

Other Entitlements
Annual growth for State Administered General Assistance, Temporary Family Assistance, Old Age Assistance, Aid to the Disabled, and Aid to the Blind are all flat-funded based on caseload trends in recent years.

Office of Early Childhood
Birth to Three
Projections reflect a 4% growth rate per fiscal year based on recent service expenditures.

Care4Kids TANF/CCDF
This account is currently flat-funded. Projections for this account only reflect the state's share of costs, due to net appropriation of the account. While overall program costs are estimated to increase in the out-years, federal funds are anticipated to be available to support expenditures, based on currently available information.

Collective Bargaining
Wages
Growth of 1% in FY 22 is assumed based on: (1) the 2017 SEBAC agreement, (2) individual bargaining unit's contracts, and (3) non-union wage adjustments. Almost all union contracts expire on June 30, 2021; the State Police and Judicial Information Technology and Legal Services' contracts expire on June 30, 2022. Except for the annualization of these FY 22 contract increments, no other wage increases are projected in FY 23 and FY 24. In addition, every 10 years an extra pay period occurs (27 pay periods as opposed to 26). This will occur in FY 23 and the net General Fund cost is projected to be approximately $10 million.

State Comptroller – Fringe Benefits
State Employee Retirement (SERS)
Reflects actuarial projections of the unfunded accrued liability payment (UAL), and the normal cost, based on assumptions in the June 30, 2019 SERS valuation. Projections assume: (1) level percentage of payroll amortization and a closed five-year phase-in to level dollar, (2) a 6.9% discount rate, and (3) amortization of UAL over the remaining 27 years for both statutory and transitional bases.

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

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

Judges and Compensation Commissioners' Retirement System
Reflects the unfunded accrued liability payment, and the normal cost, based on actuarial projections and assumptions in the most recent June 30, 2019 valuation. Projections assume: (1) level percentage of payroll amortization, (2) a 6.9% discount rate, and (3) a 13-year closed amortization period.

Retired State Employees Health Service Cost
Reflects an average annual account growth of 5.7% per year. Growth is based on projected changes in medical, dental, and pharmacy trends for non-Medicare covered retirees and dependents, and projections for the Medicare Advantage Plan for Medicare covered retirees and dependents.

State Treasurer
Debt service
Estimates were made using outstanding debt payments plus modeled projections that used current market interest rates.

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

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

Teachers' Retirement Board
Retirement Contributions
Reflects the actuarially determined employer contribution (ADEC) calculated by the pension plan actuaries in the June 30, 2020 valuation. The account projections assume: (1) a transition to a level-dollar amortization methodology, (2) a 6.9% assumed rate of investment return, and (3) the amortization of the unfunded accrued liability over the remaining 28 years for the statutory base.

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

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

TAX EXPENDITURE SOURCES, METHODOLOGIES, AND ASSUMPTIONS

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

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

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

Appendix D. Fixed Cost Account Details

In Millions of Dollars

Fixed Cost Account	FY 21	FY 22	FY 23	FY 24
GENERAL FUND				
Debt Service - State Treasurer				
Debt Service	1,940.1	2,009.0	2,122.1	2,207.6
UConn 2000 - Debt Service	206.5	213.2	237.5	237.2
CHEFA Day Care Security	5.5	5.5	5.5	5.5
Pension Obligation Bonds - TRB	118.4	203.1	306.7	315.7
Municipal Restructuring	56.3	54.7	54.1	51.3
Debt Service - State Treasurer Total	**2,326.7**	**2,485.5**	**2,725.9**	**2,817.2**
State Comptroller - Miscellaneous				
Adjudicated Claims	10.0	10.0	10.0	10.0
State Comptroller - Miscellaneous Total	**10.0**	**10.0**	**10.0**	**10.0**
State Comptroller - Fringe Benefits				
Higher Education Alternative Retirement System	12.0	13.1	14.2	16.1
Pensions and Retirements - Other Statutory	2.0	2.1	2.2	2.3
Judges and Compensation Commissioners Retirement	31.9	31.9	33.2	33.2
Retired State Employees Health Service Cost	767.3	811.1	857.3	906.2
SERS Defined Contribution Match	5.7	6.8	8.5	10.1
State Employees Retirement Contributions - Normal Cost	149.0	145.9	145.9	138.2
State Employees Retirement Contributions - UAL	1,166.5	1,218.4	1,328.9	1,344.2
State Comptroller - Fringe Benefits Total	**2,134.5**	**2,229.4**	**2,390.2**	**2,450.3**
Department of Mental Health and Addiction Services				
General Assistance Managed Care	40.6	42.2	43.9	45.6
Medicaid Adult Rehabilitation Option	4.2	4.2	4.2	4.2
DMHAS Total	**44.8**	**46.4**	**48.1**	**49.8**
Department of Social Services				
HUSKY B Program	13.3	13.9	14.6	15.2
Medicaid	2,591.2	2,768.9	2,852.0	2,937.5
Old Age Assistance	42.3	42.3	42.3	42.3
Aid To The Blind	0.5	0.5	0.5	0.5
Aid To The Disabled	52.7	52.7	52.7	52.7
Temporary Family Assistance - TANF	49.4	49.4	49.4	49.4
Connecticut Home Care Program	33.8	33.8	33.8	33.8
Community Residential Services	638.0	651.0	664.0	678.3

Fixed Cost Account	FY 21	FY 22	FY 23	FY 24
State Administered General Assistance	17.2	17.2	17.2	17.2
Hospital Supplemental Payments	548.3	568.3	568.3	568.3
Department of Social Services Total	**3,986.7**	**4,198.1**	**4,294.8**	**4,395.3**
Office of Early Childhood				
Birth to Three	23.5	24.4	25.4	26.4
Care4Kids TANF/CCDF	59.5	59.5	59.5	59.5
Office of Early Childhood Total	**83.0**	**83.9**	**84.9**	**85.9**
Teachers' Retirement Board				
Retirement Contributions	1,249.8	1,443.7	1,578.0	1,740.7
Retirees Health Service Cost	24.6	26.0	28.7	31.7
Municipal Retiree Health Insurance Costs	5.1	5.1	5.1	5.1
Teachers' Retirement Board Total	**1,279.6**	**1,474.8**	**1,611.9**	**1,777.5**
Department of Children and Families				
No Nexus Special Education	2.0	2.0	2.0	2.0
Board and Care for Children - Adoption	104.1	106.2	108.3	110.7
Board and Care for Children - Foster	138.7	140.8	142.9	145.4
Board and Care for Children - Short-term and Residential	86.9	86.9	86.9	87.1
Individualized Family Supports	5.9	5.9	5.9	5.9
Department of Children and Families Total	**337.5**	**341.7**	**345.9**	**350.9**
Various Agencies				
Salary and Wages Out-Year Growth	-	18.4	28.7	18.9
TOTAL - GENERAL FUND	**10,202.9**	**10,888.1**	**11,540.3**	**11,955.8**

Fixed Cost Account	FY 21	FY 22	FY 23	FY 24
SPECIAL TRANSPORTATION FUND				
Debt Service - State Treasurer				
Debt Service	688.4	782.9	853.2	913.9
Debt Service - State Treasurer Total	**688.4**	**782.9**	**853.2**	**913.9**
State Comptroller - Fringe Benefits				
SERS Defined Contribution Match	0.4	0.4	0.4	0.4
State Employees Retirement Contributions - Normal Cost	19.1	18.7	18.3	17.7
State Employees Retirement Contributions - UAL	137.1	151.2	164.9	166.8
State Comptroller - Fringe Benefits Total	**156.6**	**170.2**	**183.6**	**184.9**
Department of Transportation				
Rail Operations	215.9	230.9	245.9	260.9
Bus Operations	201.5	213.5	225.5	237.5
Department of Transportation Total	**417.5**	**444.5**	**471.5**	**498.5**
Various Agencies				
Salary and Wages Out-Year Growth	-	0.5	1.4	0.5
TOTAL - SPECIAL TRANSPORTATION FUND	**1,262.4**	**1,398.1**	**1,509.6**	**1,597.8**

Appendix E. Fixed Cost Detail FY 22 – FY 24

The fixed cost drivers discussed in **Section III** make up 54.7% of total expenditures in FY 24. General Fund fixed costs are projected to grow in the out-years from approximately $10.9 billion in FY 22 to approximately $12.0 billion in FY 24; a total increase of $1 billion. The major categories of fixed costs are discussed, below, in order of overall magnitude.

ENTITLEMENTS

Entitlements are the largest category of fixed costs, representing 36.1% ($4.3 billion) of projected fixed costs in FY 24. Absent future specific state, or federal, policy changes impacting these programs, expenditures are anticipated to increase consistently with recent historical trends. It should be noted that these projections do not reflect the impact of potential resurgences of the coronavirus, or resource requirements that extend beyond those currently being met by federal funds.

Medicaid is the largest entitlement program. It is projected to cost the General Fund $2.9 billion in FY 24 (or 68.1% of entitlements). The program is anticipated to grow by $177.7 million in FY 22, which reflects a base adjustment to offset unusually low utilization in FY 21, as well as standard growth. This growth of approximately 3% captures caseload growth and utilization costs resulting in adjustments of $83.1 million in FY 23 and $85.6 million in FY 24. The Medicaid account is net funded reflecting the state's share of expenditures after federal reimbursement.

Community Residential Services is the second largest entitlement program. It serves the Department of Developmental Services consumers. The Community Residential Services account is projected to cost approximately $678.3 million in FY 24 (or 15.7% of entitlements). This program is anticipated to grow by $13 million in both FY 22 and FY 23, and by another $14.3 million in FY 24, which reflects an average rate of growth of approximately 2.1% per fiscal year. Increases are due to: (1) prior year annualization of community placement caseload increases, and (2) new caseload growth which is limited to community placement for individuals aging out of the Department of Children and Families and local education agency placements at 21 years of age, long-term care residents (Money Follows the Person) and Southbury Training School residents. The Community Residential Services account is gross funded, reflecting the total program expenditures before factoring in the federal reimbursement of 50% under the Medicaid waiver program.

DEBT SERVICE

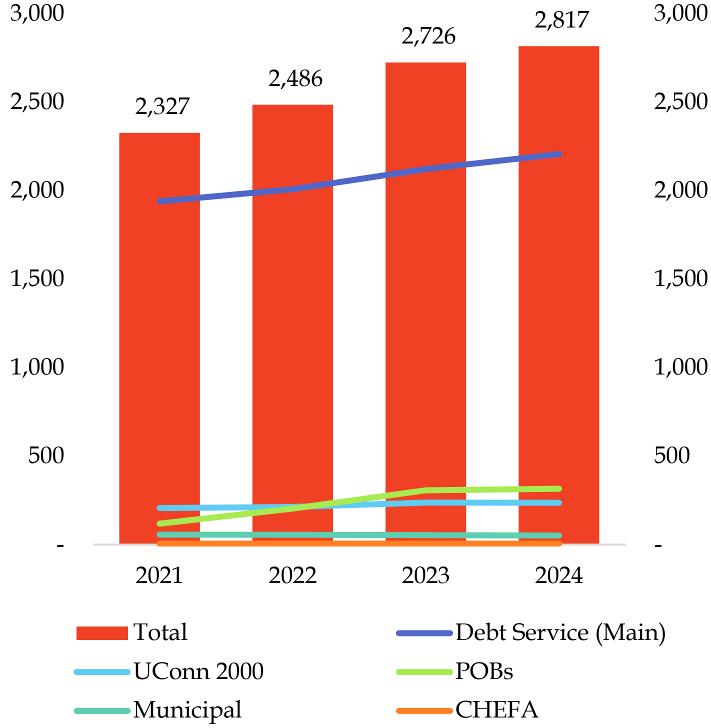
Annual General Fund debt service is expected to grow by approximately $490.4 million in the out-years, from $2.3 billion in FY 21 to $2.8 billion in FY 24. During this time, the largest increases are to debt service, primarily as the result of issuing new debt (a net increase of $267.5 million from FY 21 to FY 24), and the back-loaded repayment schedule for Pension Obligation Bonds (POBs).[16] Annual debt service repayment requirements for the UConn 2000 program are also expected to increase by $30.7 million, from $206.5 million in FY 21 to $237.2 million in FY 24. While overall annualized growth in debt service payments is estimated to be 6.6% during this time period, much of that increase comes from the scheduled increase in POBs (38.7%

[16]Annual payment increases from $118.4 million in FY 21 to $315.7 million in FY 24. After FY 24, annual payment of POBs debt service fluctuates between $269 and $381 million before the bonds are fully repaid in FY 32.

annualized increase). Total annualized growth in General Fund debt service line items, less POBs, is 4.2%.

Over 90% of all FY 22 General Fund debt service payments are based on debt incurred prior to FY 21 as it takes years to realize the full impact of bonding decisions. The growth from new bond issuance, described above, has been limited by several recent policies, and factors regarding bonding, including slowed capital spending beginning in CY 17. Greater detail on bonding-related projections is provided in **Section VI**.

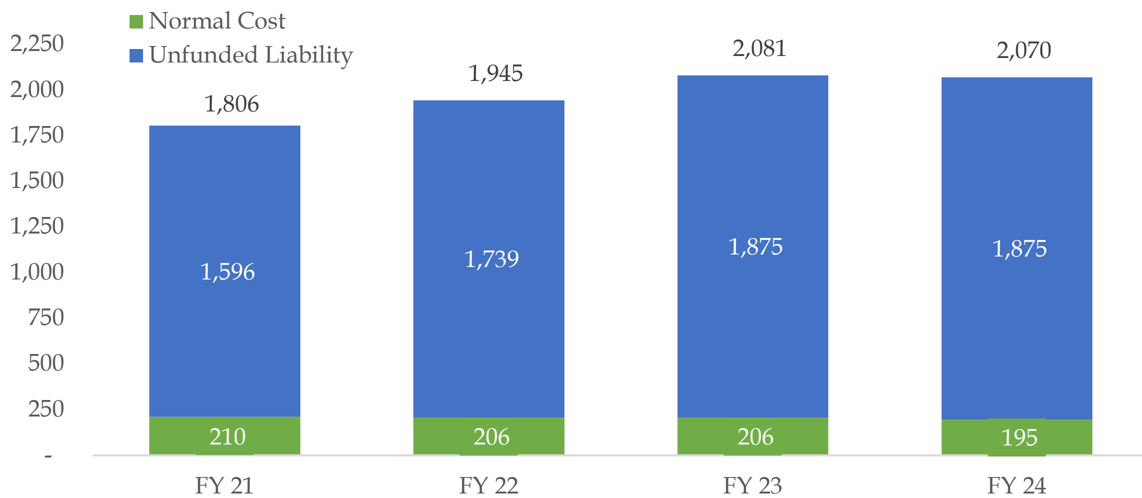
Figure 1. Annual General Fund Debt Service Estimates
In Millions of Dollars



STATE EMPLOYEE RETIREMENT AND RETIREE HEALTH CARE

The projected General Fund growth in state employee retirement costs through FY 24 is predominately due to increases in the State Employees' Retirement System's (SERS') actuarially determined employer contribution (ADEC). Growth in the ADEC is a net result of an increase in SERS' unfunded accrued liability (UAL) payment and a decrease in the normal cost,[17] discussed below, and reflected in **Figure 2**.

Figure 1. Trends in the State Employees' Retirement System (SERS) Costs for All Funds[18]
In Millions of Dollars



[17]The State funds three retirement systems for retired State employees: SERS, the Judges' and Compensation Commissioners' Retirement System, and the Higher Education Alternate Retirement Program (a defined contribution plan). General Fund support for SERS comprises 97% of the projected FY 20 expenditures for the three systems.
[18]See OFA SERS Fact Sheet for historical information.

General Fund Share of ADEC Increases to $1.5 Billion by FY 24
Currently, the General Fund supports approximately 74%, and the Special Transportation Fund supports approximately 9%, of the SERS' ADEC. The balance is paid by recoveries from other funds. The average annual growth in the General Fund's share of the ADEC is estimated to be 4.1% in the out-years, reflecting increases of approximately $48.7 million from FY 21 to FY 22, $110.4 million from FY 22 to FY 23, and $7.6 million from FY 23 to FY 24. This is a total increase of $167 million, with the General Fund ADEC growing from approximately $1.3 billion in FY 21 to approximately $1.5 billion by FY 24.

Treasurer Opts to Deposit Excess Reserves into SERS

The Budget Reserve Fund (BRF) ended FY 20 in excess of the 15% cap. Pursuant to CGS Sec. 4-30a (c)(1)(A), any amount above this threshold is to be transferred to either SERS, or TRS, by the State Treasurer. The Treasurer has opted to transfer the entirety of the $61.6 million balance – $38.7 million from General Fund surplus and $22.9 million from the revenue volatility transfer – to SERS due to its lower funded ratio (38.2%). The impact to the fund and the State's UAL will be reflected in the next scheduled SERS actuarial valuation expected in December.

Unfunded Accrued Liability (UAL) Payment Increases to $1.9 Billion by FY 24
Through FY 24, the UAL portion of the ADEC represents approximately 90% of the total SERS' ADEC. The amortized payment associated with the UAL is estimated to be $1.9 billion in FY 24 according to the most recent actuarial valuation.

Normal Cost Decreases to $194.7 Million by FY 24 and Slowly Declines over the Next Decade
Through FY 24, the total normal cost portion of the ADEC represents a decreasing percentage of the total SERS' ADEC going from 11% to 9%. The normal cost portion is estimated to be approximately $205.5 million in FY 22 and 23, and $194.7 million in FY 24.

Retiree State Employee Health Costs Projected to Increase to $906.2 Million in FY 24
The projected increase in retiree health care is $43.7 million in FY 22, $46.2 million in FY 23, and $48.9 million in FY 24, for a total increase of approximately 18%, or $139 million, over the FY 21 level (including projected lapses) of $767 million. Growth in retiree health is predominately due to increases in the costs of medical and prescription services for Medicare, and non-Medicare, eligible dependents. Aggregate program expenditures are projected to increase by approximately 5.7% per year from FY 22 through FY 24.

TEACHERS' RETIREMENT SYSTEM AND RETIREE HEALTH CARE COSTS

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

Total Pension Costs Grow to $2 Billion by FY 24
Pension-related payments are expected to grow by approximately $688.2 million in the out-years, from nearly $1.4 billion in FY 21 to $2 billion in FY 24. TRS' pension costs, shown in

Table 1 is comprised of: (1) the state's actuarially determined employer contribution (ADEC) payments, which include both unfunded accrued liability (UAL) and normal pension costs, and (2) POB debt service. The projected increase in pension costs in the out-years is predominately due to: (1) increases in UAL payments which are expected to grow through FY2 5 due to the five-year phase in of the amortization method from level percent of payroll to level dollar, and (2) increases to debt service from the POBs repayment schedule.

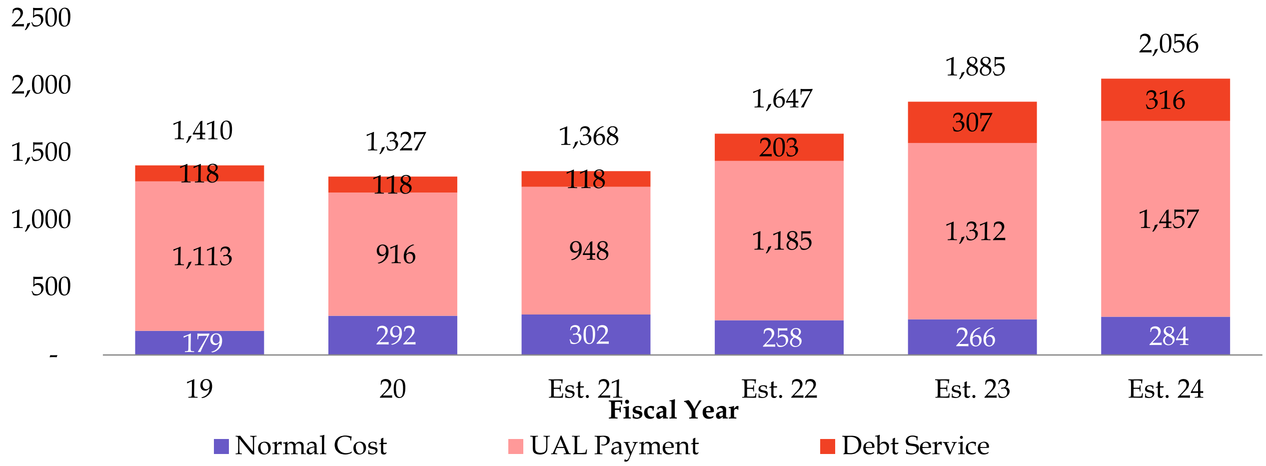
Table 1. State Teachers' Retirement System (TRS) Pension Costs
In Millions of Dollars

Cost	FY 21	FY 22	FY 23	FY 24	Average Annual Growth FY 21 to FY 24
Actuarially Determined Employer Contribution (ADEC)					
Unfunded Accrued Liability	947.9	1,185.4	1,312.0	1,456.9	15.4%
Normal Cost	301.9	258.3	266.0	283.8	-2.0%
ADEC - Subtotal	**1,249.8**	**1,443.7**	**1,578.0**	**1,740.7**	11.7%
Debt Service	118.4	118.4	203.1	306.7	38.7%
TOTAL	**1,368.2**	**1,562.1**	**1,781.1**	**2,047.4**	**14.5%**

TRS' ADEC Costs Grows to $1.7 Billion by FY 24
The overall annualized growth in ADEC payments is estimated to be 11.7% in the out-years. The state's ADEC increases by $193.9 million from FY 21 to FY 22, $134.4 million from FY 22 to FY 23, and $162.7 million from FY 23 to FY 24. This results in an overall increase of $490.9 million to the TRS' ADEC in the out-years, growing from approximately $1.4 billion in FY 22 to approximately $1.7 billion in FY 24. In addition to establishing the FY 22 and FY 23 ADEC, the recent valuation measured that the state's TRS UAL at the end of FY 20 totaled $18.1 billion, a $1.3 billion increase from $16.8 billion at the end of FY 18. This growth is primarily due to changes in assumptions adopted by the TRB as a result of the 2019 Experience Study which increased the UAL by $1 billion. The most notable assumption change is the use of new mortality tables.

Figure 3 reflects the trends in TRS Pension Costs. It shows both debt service on the POBs, and the ADEC, which is broken out between normal cost and UAL payments for FY 19 through FY 24.

Figure 3 Trends in the State Teachers' Retirement System (TRS) Pension Related Costs[19][20]
In Millions of Dollars



Valuation Highlights

- Market value investment returns of 5.7% for FY 19 and 1.8% for FY 20 with an average return of a 3.8% compared to the 6.9% assumed rate.
- TRS uses four-year asset smoothing resulting in a two-year compound average return of 6.1% and a subsequent $304 million increased in the UAL.
- This increase was offset by net non-investment experience (e.g., salary increases, and COLAs) reducing the expected UAL by $289 million
- The impact of newly adopted assumptions, most notably updating the mortality tables, had the most significant impact, increasing the UAL by $1 billion.

Source: TRS Actuarial Valuation as of June 30, 2020

[19] In FY 20, the state's ADEC payment dropped by $83.4 million, or 6.5%, largely due to a re-amortization of the system's unfunded liability over a new 30-year period. PA 19-117 implemented this, and other changes, to the TRS.

[20] See OFA TRS Fact Sheet for historical information

State Costs for TRS Retiree Health Care Grow to $36.8 Million by FY 24
State funding for the two retiree health options provided by the TRB represents 2.1% of the state's TRS expenditures in FY 24:

1. TRB retiree health plan expenditures are anticipated to grow by $1.4 million from FY 21 to FY 22, $2.7 million from FY 22 to FY 23, and $3 million from FY 23 to FY 24. Total TRB retiree health plan expenditures are anticipated to grow from $24.6 million in FY 21 to $31.7 million by FY 24. Projected retiree health plan expenditures increase at an average annual rate of 8.8% during this time due to projected trends in medical and prescription drug coverage costs, and health plan membership.

2. The municipal retiree health insurance account is projected to remain flat-funded at $5.1 million annually based on the fixed monthly subsidy, and steady membership.

HOSPITAL SUPPLEMENTAL PAYMENTS

Hospital Supplemental Payments, a newly-considered fixed cost, will total $568.3 million in FY 24, representing 4.8% of fixed costs. SA 19-1, and PA 19-1 of the December Special Session, approved and implemented the hospital settlement agreement for The Connecticut Hospital Association et al. v. Connecticut Department of Social Services et al. Exhibit 6 of the hospital settlement agreement specifies the appropriation level for the line item at $568.3 million for FY 22 through FY 26.

Appendix F. Municipal Aid

Municipal aid[21] is estimated to total $3.28 billion in FY 21, an $83.7 million (2.62%) increase over FY 20 actual expenditures. Compared to FY 20, most grants remain level or increase slightly in FY 21. FY 21 growth is primarily driven by a $45 million increase in the Education Cost Sharing (ECS) appropriation, which is part of a formula phase-in schedule that began in FY 19. The schedule will result in full ECS funding for every town in FY 28 if no changes are made to statute. Magnet school funding is estimated to increase by $17.3 million in FY 21 and the annual payment by the state on behalf of Hartford for their debt service based on a 2018 agreement is expected to increase by $10.6 million.

Municipal aid continues to represent a large portion of General Fund expenditures. Appropriated municipal aid from the General Fund is estimated to total $3.06 billion in FY 21, or 15.5% of expenditures. When including $1.39 billion in state assistance from the Teachers' Retirement System (TRS), this figure increases to $4.45 billion, or 22.6% of the General Fund.

Municipal Aid Funding (FY 20 Actual – FY 24 Estimated)

Grant or Account	FY 20 Actual	FY 21 Estimate	FY 22 Estimate	FY 23 Estimate	FY 24 Estimate
Appropriated Property Tax Relief and General Aid					
State Property PILOT	54,944,031	54,944,031	54,944,031	54,944,031	54,944,031
College & Hospital PILOT	109,889,434	109,889,434	109,889,434	109,889,434	109,889,434
Disability Exemption	364,713	364,713	364,713	364,713	364,713
Elderly Freeze Program	17,960	40,000	40,000	40,000	40,000
Property Tax Relief for Veterans	2,389,169	2,708,107	2,708,107	2,708,107	2,708,107
Municipal Revenue Sharing	36,819,135	36,819,135	36,819,135	36,819,135	36,819,135
Municipal Transition	29,917,078	32,331,732	32,331,732	32,331,732	32,331,732
Municipal Stabilization Grant	38,253,335	38,253,335	38,253,335	38,253,335	38,253,335
Municipal Restructuring	3,600,000	7,300,000	7,300,000	7,300,000	7,300,000
Municipal Restructuring (Debt Service)	45,666,625	56,314,629	54,677,709	54,098,048	51,251,705
Pequot Grant	51,472,796	51,472,796	51,472,796	51,472,796	51,472,796
Subtotal	**373,334,277**	**390,437,912**	**388,800,992**	**388,221,331**	**385,374,988**
ECS and other Appropriated Education Aid					
Vocational Agriculture	15,124,200	15,124,200	15,124,200	15,124,200	15,124,200
Adult Education	20,383,960	20,383,960	20,383,960	20,383,960	20,383,960
Health and Welfare Services Pupils Private Schools	3,438,415	3,438,415	3,438,415	3,438,415	3,438,415
Education Equalization Grants	2,048,252,063	2,093,587,666	2,132,537,404	2,171,487,090	2,210,436,776
Bilingual Education	3,177,112	3,177,112	3,177,112	3,177,112	3,177,112
Priority School Districts	30,818,778	30,818,778	30,818,778	30,818,778	30,818,778
Extended School Hours	2,919,883	2,919,883	2,919,883	2,919,883	2,919,883
School Accountability	3,412,207	3,412,207	3,412,207	3,412,207	3,412,207
Interdistrict Cooperation	1,537,500	1,537,500	1,537,500	1,537,500	1,537,500

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

Grant or Account	FY 20 Actual	FY 21 Estimate	FY 22 Estimate	FY 23 Estimate	FY 24 Estimate
School Breakfast Program	2,158,900	2,158,900	2,158,900	2,158,900	2,158,900
Excess Cost - Student Based	140,619,782	140,619,782	140,619,782	140,619,782	140,619,782
Open Choice Program	25,109,179	27,682,027	27,682,027	27,682,027	27,682,027
Magnet Schools	288,715,181	306,033,302	306,033,302	306,033,302	306,033,302
Sheff Transportation	44,750,421	45,781,798	45,781,798	45,781,798	45,781,798
After School Programs	5,382,598	5,750,695	5,750,695	5,750,695	5,750,695
Subtotal	**2,635,800,179**	**2,702,426,225**	**2,741,375,963**	**2,780,325,649**	**2,819,275,335**
Bonded Grants					
Town Aid Road	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Local Capital Improvement Projects (LOCIP)	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Grants for Municipal Projects	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000
Subtotal	**166,000,000**	**166,000,000**	**166,000,000**	**166,000,000**	**166,000,000**
Various Other Grants					
Youth Service Bureau	2,626,772	2,626,772	2,626,772	2,626,772	2,626,772
Youth Service Bureau Enhancement	1,093,973	1,093,973	1,093,973	1,093,973	1,093,973
Housing/Homeless Services - Municipality	575,226	575,226	575,226	575,226	575,226
Local and District Departments of Health	4,210,499	4,210,499	4,210,499	4,210,499	4,210,499
School Based Health Clinics	10,550,187	10,550,187	10,550,187	10,550,187	10,550,187
Teen Pregnancy Prevention – Municipality	98,281	98,281	98,281	98,281	98,281
Connecticard Payments	703,638	703,638	703,638	703,638	703,638
Subtotal	**19,858,576**	**19,858,576**	**19,858,576**	**19,858,576**	**19,858,576**
Total, Less Teacher's Retirement System	**3,194,993,032**	**3,278,722,713**	**3,316,035,531**	**3,354,405,556**	**3,390,508,899**
Teacher's Retirement System (TRS)					
Debt Service	118,400,521	118,400,521	203,080,521	306,680,521	315,671,921
Retirement Contributions	1,208,819,000	1,249,835,000	1,443,656,000	1,578,038,000	1,740,700,000
Retirees Health Service Cost	24,063,941	24,649,400	26,030,000	28,740,000	31,720,000
Municipal Retiree Health Insurance Costs	5,108,813	5,135,640	5,100,000	5,100,000	5,100,000
Subtotal	**1,356,392,275**	**1,398,020,561**	**1,677,866,521**	**1,918,558,521**	**2,093,191,921**
GRAND TOTAL	**4,551,385,307**	**4,676,743,274**	**4,993,902,052**	**5,272,964,077**	**5,483,700,820**

CORONAVIRUS IMPACT TO MUNICIPALITIES

Municipal budgets have been strained due to impacts from the coronavirus in the form of increased expenditures for emergency costs and revenue shortfalls from implementing property tax deferment programs. In an OPM survey updated in October, municipalities self-reported that they have incurred significant increases in emergency expenditures since March.
The federal response to the coronavirus includes several funding sources that are available to municipalities either through direct reimbursement from the federal government or are distributed at the Governor's discretion. The table below shows $274 million in grant funding

distributed to municipalities. In addition to these grants below, municipalities are eligible for direct reimbursement for costs from the Federal Emergency Management Agency (FEMA) public assistance program. This is a significant share of coronavirus funding and distribution amounts are currently unknown due to the lack of reporting data. The federal and state response to the coronavirus does not include any grant funding that towns may use to cover revenue shortfalls.

Federal Coronavirus Relief Funding Sources

Grant or Program	Amount
Coronavirus Relief Fund, Non-education	39,824,049
Coronavirus Relief Fund, Education	111,350,215
Elementary and Secondary Education Emergency Relief Fund	89,655,533
Justice Assistance Grants	2,766,076
Community Development Block Grant	30,000,912
Emergency Solutions Grant	10,174,786
Housing Opportunities for Persons with AIDS	471,940
TOTAL	**274,068,725**

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Appendix G. Detail on the FY 21 Agency Deficiencies and Lapses

DEFICIENCIES

Agency	Account	Deficiency
General Fund		
Office of the State Comptroller (OSC) – Fringe Benefits	**Various**	**$68.3 million**

A deficiency of $68.3 million is anticipated across various fringe benefit accounts within OSC. Of this total, approximately $41 million is due to the changes in the actuarially determined employer contribution (ADEC) for the State Employees Retirement System, and $3.4 million is due to changes to the ADEC for the Judges Retirement System, based on their respective June 2019 valuations.

A cumulative $36 million in deficits are anticipated across four other Fringe Benefits accounts. This includes State Employees Health Services ($25 million), Employers' Social Security Tax ($4.3 million), Unemployment Compensation ($4.3 million), and SERS Defined Contribution ($2.4 million).

These shortfalls are partially offset by a lapse of approximately $12 million anticipated in the Higher Education Alternative Retirement System account to reflect the 1,600 ARP members who switched from the ARP to SERS effective January 2019, pursuant to the 2010 ARP Grievance Award.

Department of Economic and Community Development (DECD)	**Capital Region Development Authority**	**$10.4 million**

There is a projected deficiency of $10.4 million in the Capital Region Development Authority account within DECD due to pandemic-related cancellations at Hartford area event facilities. These facilities are reliant on state funds to ameliorate budgetary shortfalls. Event cancellations have impacted attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field ($1.8 million), the XL Center ($5.4 million) and the CT Convention Center ($3.3 million).

Office of the State Comptroller – Adjudicated Claims	**Various**	**$10 million**

There is an anticipated shortfall of $10 million in the Adjudicated Claims account within OSC due to no appropriation being made for FY 21 in the enacted budget.

Department of Mental Health and Addiction Services (DMHAS)	Various	$4.6 million

There is an anticipated deficiency of $4.6 million across several accounts within the Department of Mental Health and Addiction Services. The shortfall in Other Expenses ($900,000) is due to facility maintenance costs that were carried forward from FY 20 as well as continued costs in FY 21. The Professional Services shortfall ($2 million) reflects costs for contracted doctors while the agency recruits for full-time staff. The shortfall in Workers' Compensation Claims ($1.7 million) is due to costs carried forward from FY 20. The Discharge and Diversion shortfall ($3 million) reflects costs associated with community placements for individuals ready for discharge from inpatient settings. These costs are partially off-set by a projected lapse in Personal Services ($3 million) primarily due to delays in hiring and some reduction in overtime.

LAPSES

Agency	Account	Lapse
General Fund		
Department of Social Services (DSS)	**Various**	**$258.3 million**

The projected lapse of $258.3 million is across several accounts; the most significant of which is Medicaid. The projected $235 million lapse in Medicaid reflects a lower state share of expenditures as a result of enhanced federal reimbursement through March 2021 as well as decreased utilization of services. Lapses for Temporary Family Assistance ($9 million), Aid to the Disabled ($7 million), Connecticut Home Care Program ($4 million), Old Age Assistance ($1.3 million), and State Administered General Assistance ($500,000) is due to continued decreases in caseload. The lapse for HUSKY B ($1.5 million) is due to both reduced caseload and utilization, in addition to a lower state share of expenditures as a result of enhanced federal reimbursement through March 2021.

Office of the State Treasurer – Debt Service	Various	$42.1 million

The projected lapse of $42.1 million across several debt service line items is primarily due to positive changes in borrowing market conditions for FY 20 bond issuances, and the expectation that the favorable markets continue for the upcoming FY 21 issuances. Additionally, revisions to the bond issuance schedule have delayed some long-term debt service repayment requirements beyond the biennium.

Department of Education (SDE)	Various	$15.4 million

There is a projected net lapse of $15.4 million across several accounts. This includes a projected lapse in the Charter School account of $4.6 million due to the closure of two charter schools in Stamford; The Stamford Academy and Trailblazers. Additionally, seats were funded across various charter schools that were not filled, resulting in actual enrollment being less than projected enrollment. The projected lapse of $1.7 million in the Open Choice account and the projected lapse of $11 million in the Magnet School account is due to lower than anticipated enrollment.

The lapses are partially offset by a $1.6 million deficiency in the Education Equalization Grants (ECS) account. ECS is projected to have a $1.6 million deficiency due to the annual updating of ECS formula data used to calculate the grants.

Department of Housing (DOH)	Housing/Homeless Services	$4.5 million

There is a projected lapse of $4.5 million in the Housing Homeless Services account within DOH. This account supports rental assistance vouchers in the state's Rental Assistance Program and is projected to lapse approximately $4.5 million due to delays in signing new leases associated with supportive housing programs. This account has a history of lapses exceeding $1 million.

Teachers' Retirement Board (TRB)	Various	$3.8 million

A net TRB lapse of $3.8 million is anticipated in FY 21. A combined total of $5.6 million in account lapses is used to offset a deficiency of $1.8 million.

The Retirement Contributions account is underfunded by $1.8 million, as a result of the adjustment to the employer contribution required by the revised valuation adopted in June 2019 after the passage of the biennial budget.

The projected lapse in the Retirees Health Service Cost account is $5.2 million due to lower than budgeted prescription drug program costs. The agency remains self-insured for prescription drug coverage for retirees. The Municipal Retiree Health Insurance Costs account is anticipated to lapse $400,000 due to a lower number of retired teachers participating in the municipal subsidy than had been budgeted.

Appendix H. Personnel Trends

Labor Agreement Change May Lead to Retirement Surge Prior to July 1, 2022
The 2017 Agreement between the State and the State Employees Bargaining Agent Coalition (SEBAC) changed the cost of living adjustment (COLA) calculations for employees retiring after July 1, 2022. Currently, the COLA for retirees increases at a minimum of 2% annually and is based on the Consumer Price Index for Urban Wage Earners (CPI-W)[22]. The agreement eliminated the minimum annual increase and delayed the first increase until 30 months after an employee retires; affecting retirements after July 1, 2022. These changes may lead to an increase in retirements.

Historical staffing data provided by OPM indicates that changes made to retiree benefits have led to retirement surges in the year prior to each effective date. The 2011 SEBAC agreement decreased the minimum annual COLA from 2.5% to 2.0% and is estimated to have increased early and normal retirements by 3.3 and 8.1 percentage points, respectively. The table below shows how the 2011 COLA change increased the take-rate – the rate at which eligible employees opt to retire – in the preceding calendar year compared to a 10-year average.

Estimated Impact of Benefit Changes to Retirement Levels

Take-Rates Prior to Benefit Change			
CY	Event	Early Retirement	Normal Retirement
2011	SEBAC COLA Change	10.6%	31.3%
2008-2018	10-year Average	7.3%	23.2%
	Difference	**3.3%**	**8.1%**

The Office of the State Comptroller has estimated that approximately 13,800 SERS employees, or 24% of the total active SERS population, will be eligible for normal or early retirement by July 1, 2022.[23] If the state experiences the same retirement rates as in 2011, the state would see approximately 2,900 retirements preceding the July 1, 2022 change.

[22] According to the Bureau of Labor Statistics, the CPI-W increased 1.5% from September 2019 to September 2020.
[23] Data provided to OFA in February 2020. Includes part-time workers and all branches of government, excluding higher education.