CONNECTICUT
Policy and Management

Fiscal Accountability Report
FY 2026 – FY 2030

Secretary Jeffrey R. Beckham
December 4, 2025

Presentation Overview

- FY 2026 Operating Results
- FY 2027 – FY 2030 Projections
- Budget Reserve Fund and Recession Stress Test
- Long-Term Obligations and Major Cost Drivers
- Conclusion

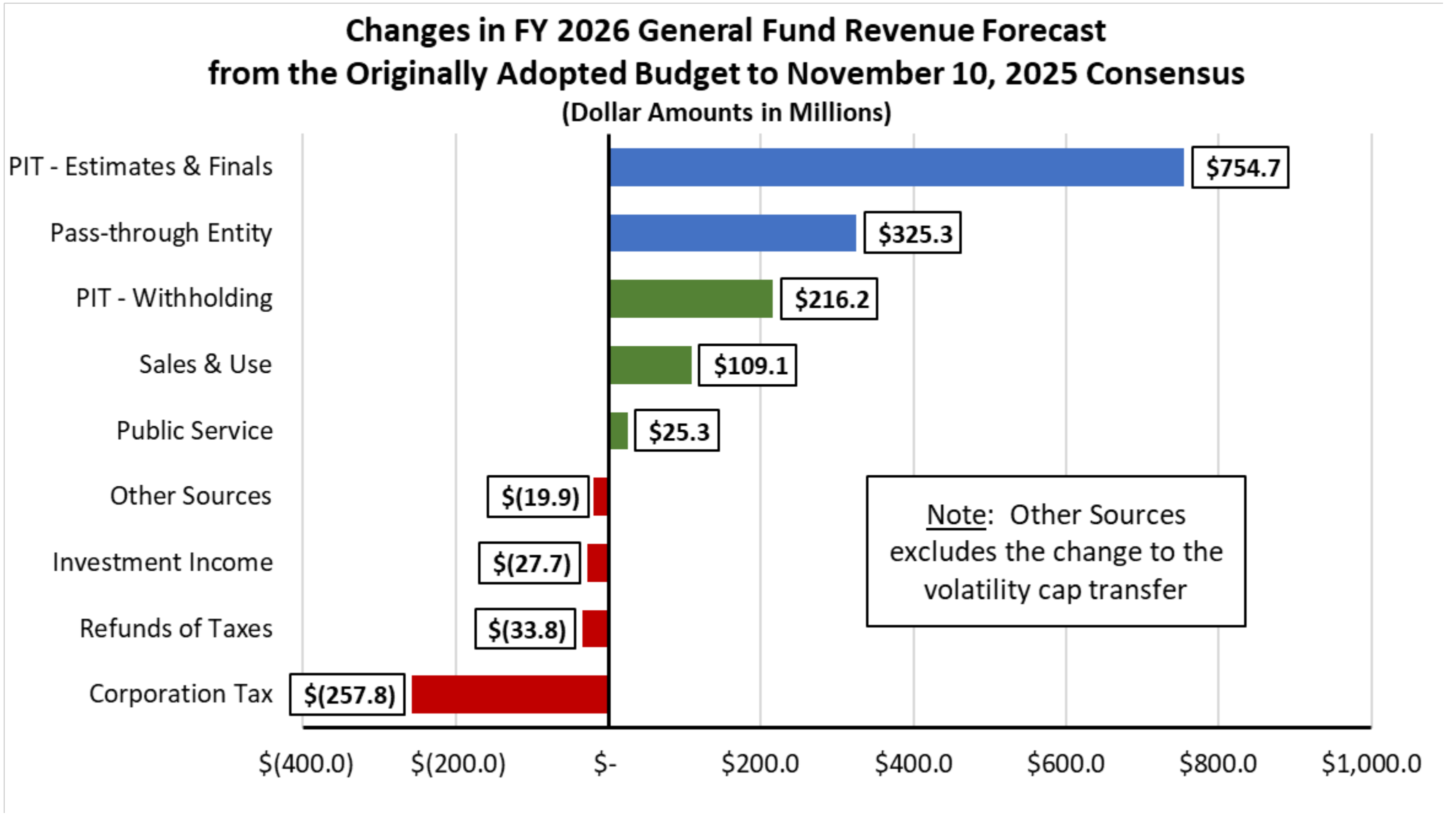
FY 2026 Operating Results

FY 2026 Estimated Results – General Fund

FY 2026 - GENERAL FUND (in millions)	Budget Plan	OPM Estimate 11/20/2025	Variance from Budget
Revenue	$ 24,345.4	$ 24,356.8	$ 11.4
Expenditures	24,036.4	24,192.4	156.0
Operating Results - Surplus/(Deficit)	$ 309.1	$ 164.4	$ (144.6)

- Adopted budget anticipated a $309.1 million balance at year-end – 1.3% of General Fund appropriations
- OPM's November 20, 2025, forecast reflects a $164.4 million operating surplus – 0.7% of General Fund appropriations
- In accordance with P.A. 25-93, this surplus will be transferred to the Early Childhood Education Endowment

FY 2026 General Fund Revenue Changes



- Overall FY 2026 General Fund revenues are up $11.4 million compared to the originally adopted budget
- Corporation tax revenues are down $257.8 million
  - $136.9 million is due to the research & experimental expenditures (R&E) expensing provisions outlined in P.L. 119-21, effective retroactive to 1/1/2025
  - $120.9 million is due to weak economic performance unrelated to the adoption of P.L. 119-21 on 7/4/2025

FY 2026 General Fund – Agency Deficiencies

GENERAL FUND - Recognized Deficiencies as of 11/20/2025

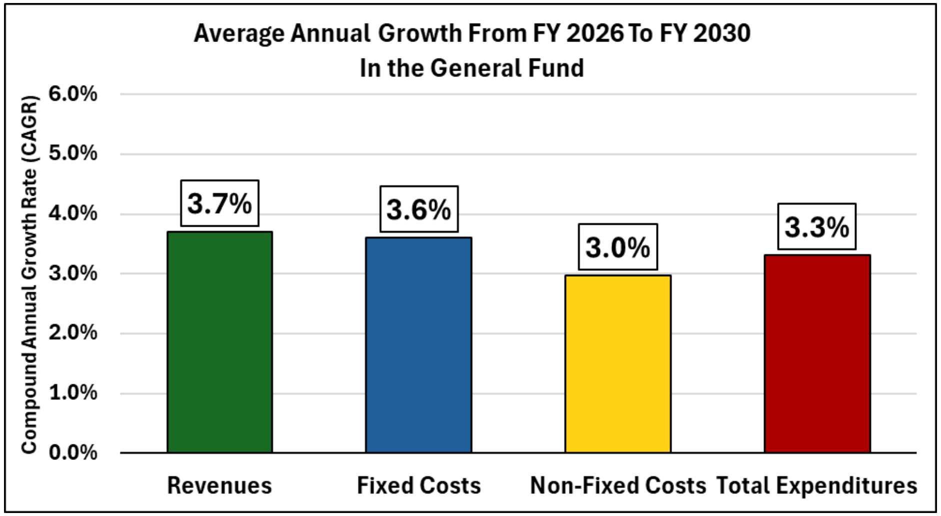
Department of Social Services	$ 78,380,000
Department of Correction	14,750,000
State Comptroller - Miscellaneous	14,000,000
Department of Housing	12,500,000
Workers' Compensation Claims - DAS	9,550,000
Department of Mental Health and Addiction Services	7,020,000
State Comptroller - Fringe Benefits	7,000,000
Technical Education and Career System	3,800,000
Judicial Department	1,935,000
Office of Early Childhood	1,840,000
Department of Labor	500,000
Department of Public Health	500,000
Department of Education	37,979
Total	$ 151,812,979

FY 2027–FY 2030 Revenue and Expenditure Projections

General Fund Revenues vs. Expenditures

(in millions)

	Estimated	Curr. Svcs.	Projected		
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Consensus Revenue Forecast	$ 24,356.8	$ 25,960.3	$ 26,589.0	$ 27,311.2	$ 28,167.5
Projected Expenditures	24,192.4	25,500.6	26,243.0	26,893.9	27,553.4
Revenue less Expenditures	$ 164.4	$ 459.7	$ 346.0	$ 417.3	$ 614.1

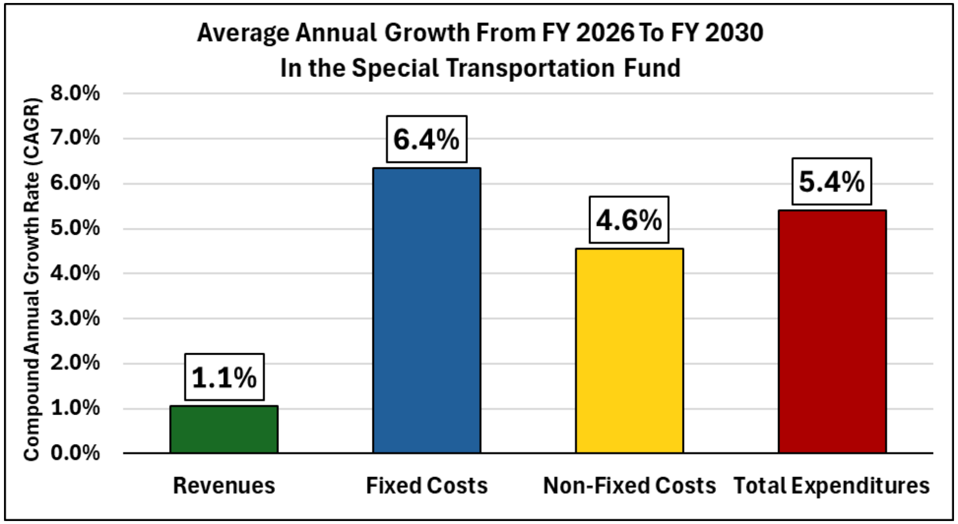


- Forecast revenue growth is approximately equal to forecast increases in expenditure requirements over the next four years
- Revenues in FY 2027 & beyond include $235 million of budgeted revenue related to the hospital tax without a corresponding expenditure provision related to the hospital tax increase

Special Transportation Fund Revenues vs. Expenditures

(in millions)

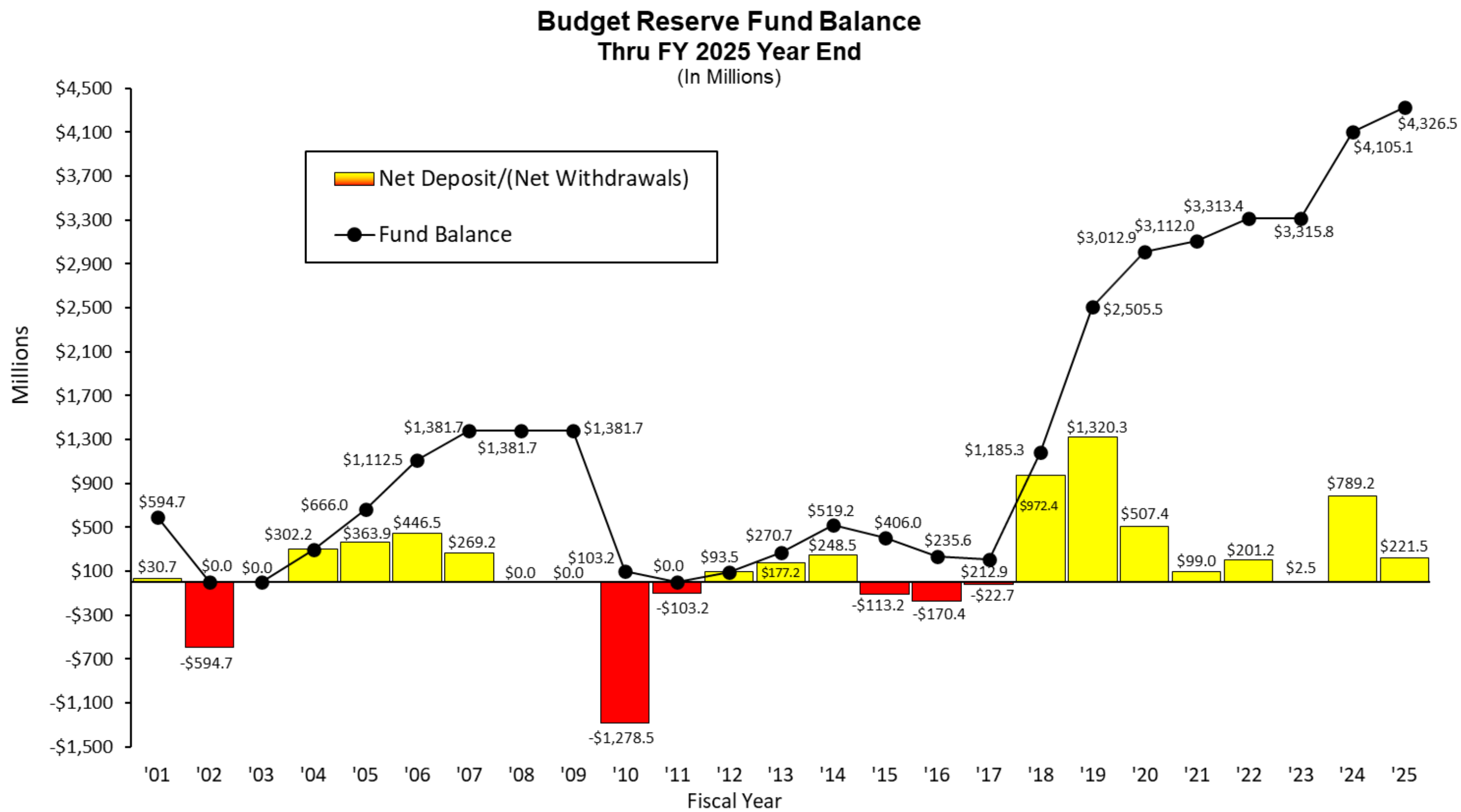
	Estimated	Curr. Svcs.	Projected		
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Consensus Revenue Forecast	$ 2,328.8	$ 2,428.2	$ 2,348.1	$ 2,387.7	$ 2,428.3
Projected Expenditures	2,285.1	2,445.1	2,610.4	2,712.0	2,820.9
Revenue less Expenditures	$ 43.7	$ (16.9)	$ (262.3)	$ (324.3)	$ (392.6)



- Revenue growth in the Special Transportation Fund is inadequate to support current spending trends
- Debt service is projected to grow at an average annual rate of 7.6% from FY 2026 to FY 2030

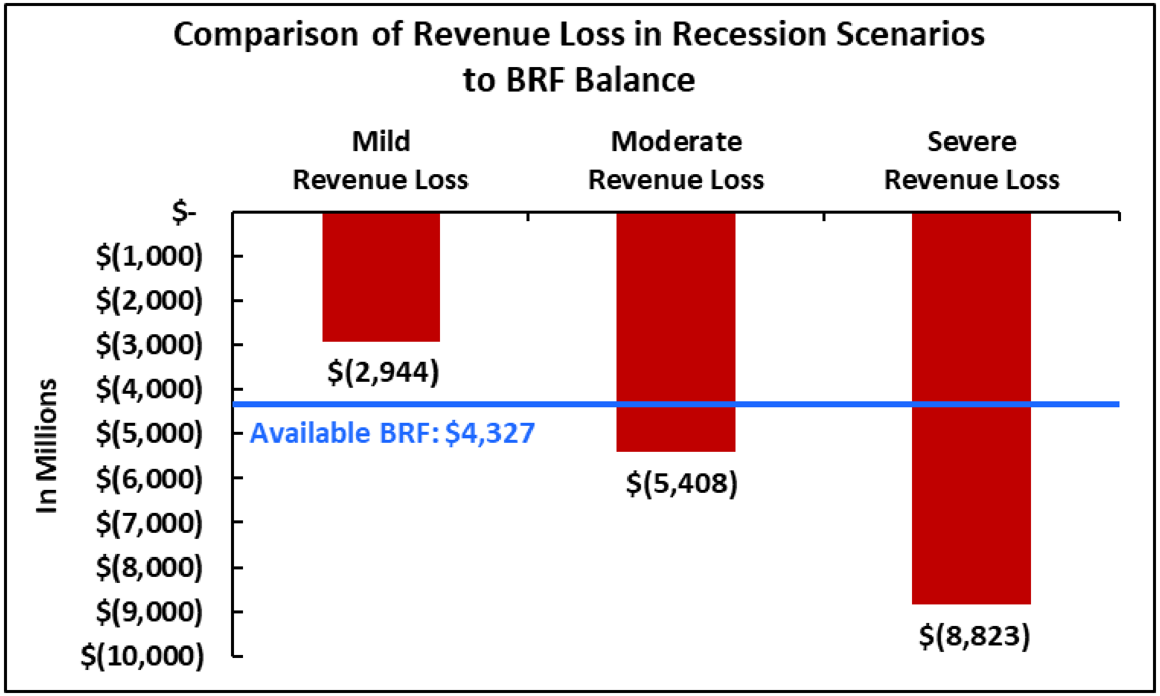
Budget Reserve Fund and Recession Stress Test

Budget Reserve Fund



- Following the closeout of FY 2025, the BRF remains at its statutory maximum threshold of 18%
- The BRF has been at its maximum threshold for the last 6 fiscal years

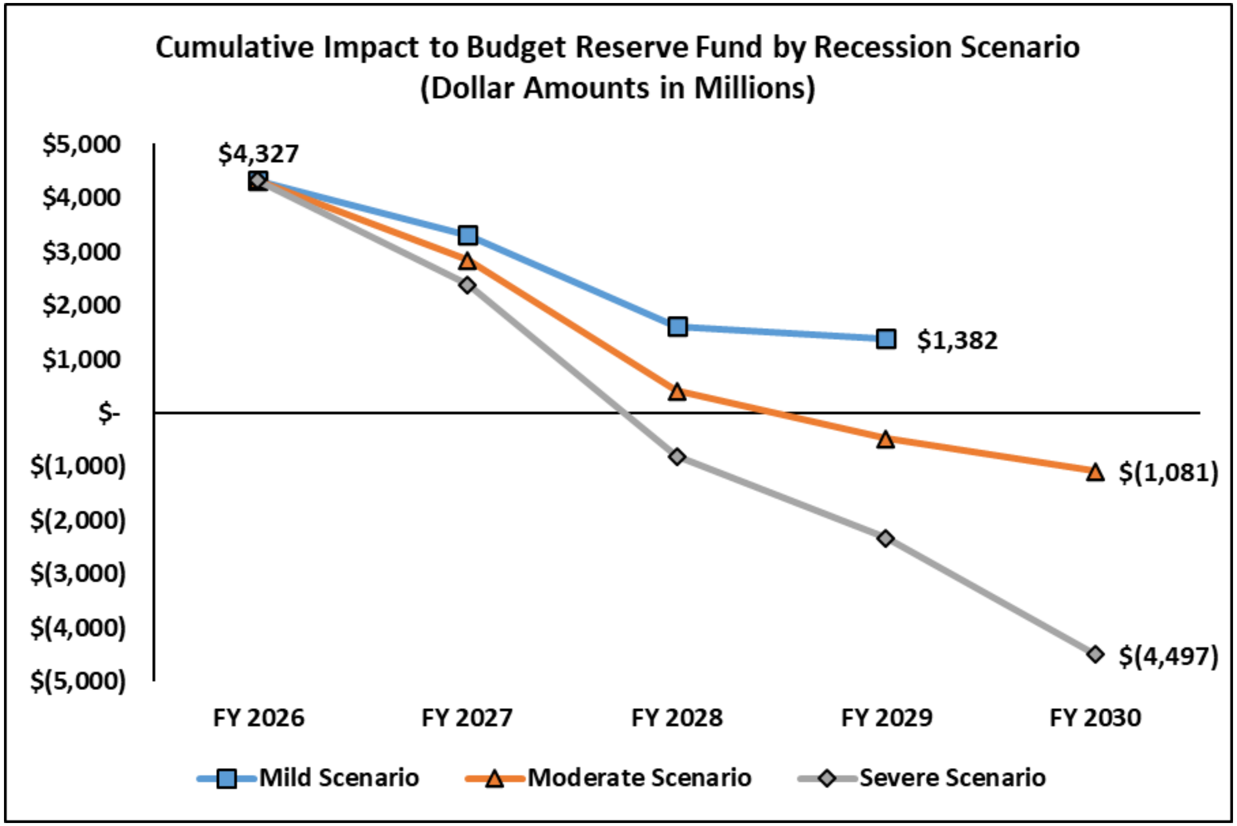
General Fund Revenue Stress Test



- The Budget Reserve Fund (BRF) balance was $4.3 billion at the closeout of FY 2025
- The dollar amounts listed for the 3 recession scenarios above reflect the cumulative net impact to General Fund revenues after accounting for the reduction in volatility cap-related revenues that would first reduce the volatility cap transfer to the BRF (i.e., the 'buffer')
- In a mild recession scenario, the BRF would be sufficient to cover the cumulative revenue loss
- In a moderate or severe recession scenario, the BRF would be insufficient to cover the cumulative revenue loss

Note: The revenue losses reflected in the graph are the cumulative revenue losses from FY 2027 through FY 2030 for each scenario

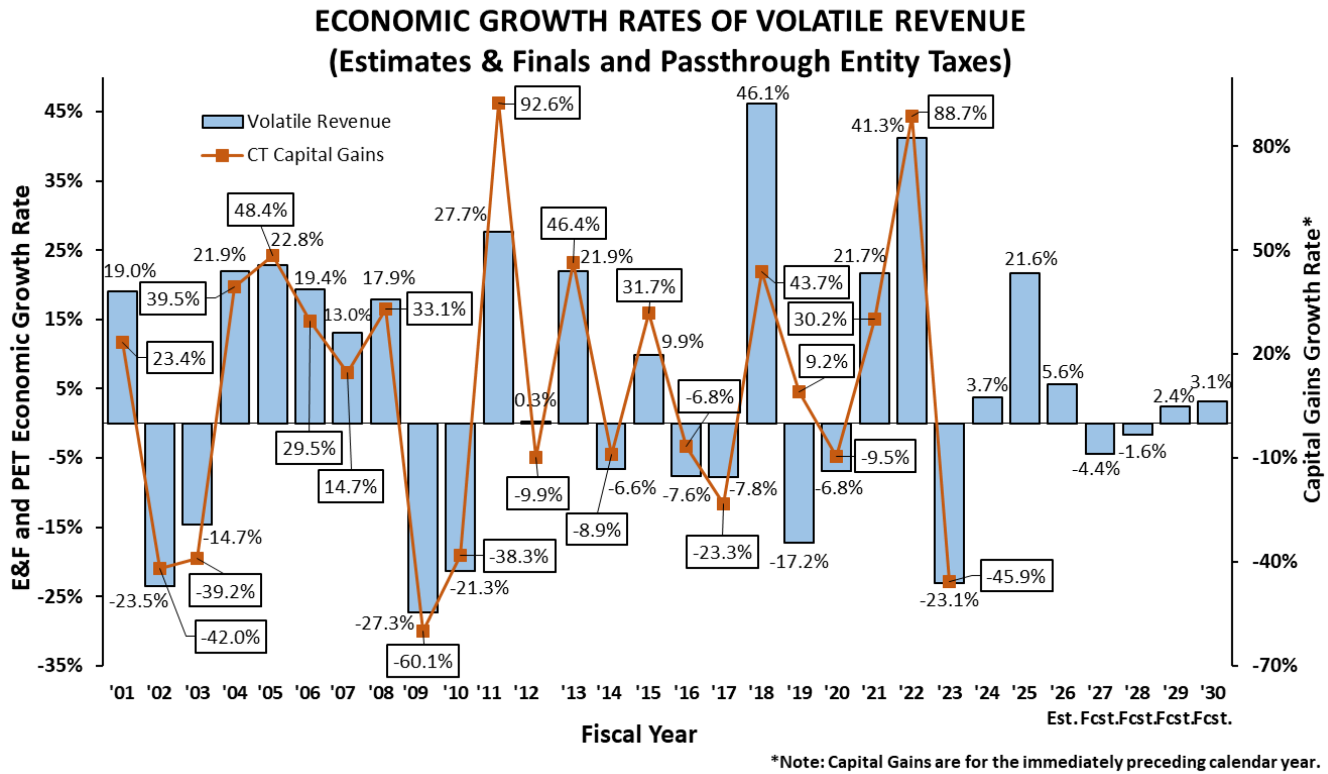
General Fund Revenue Stress Test – Cont'd



Similar to the previous slide, after accounting for the volatility cap buffer, the BRF balance is estimated to be:

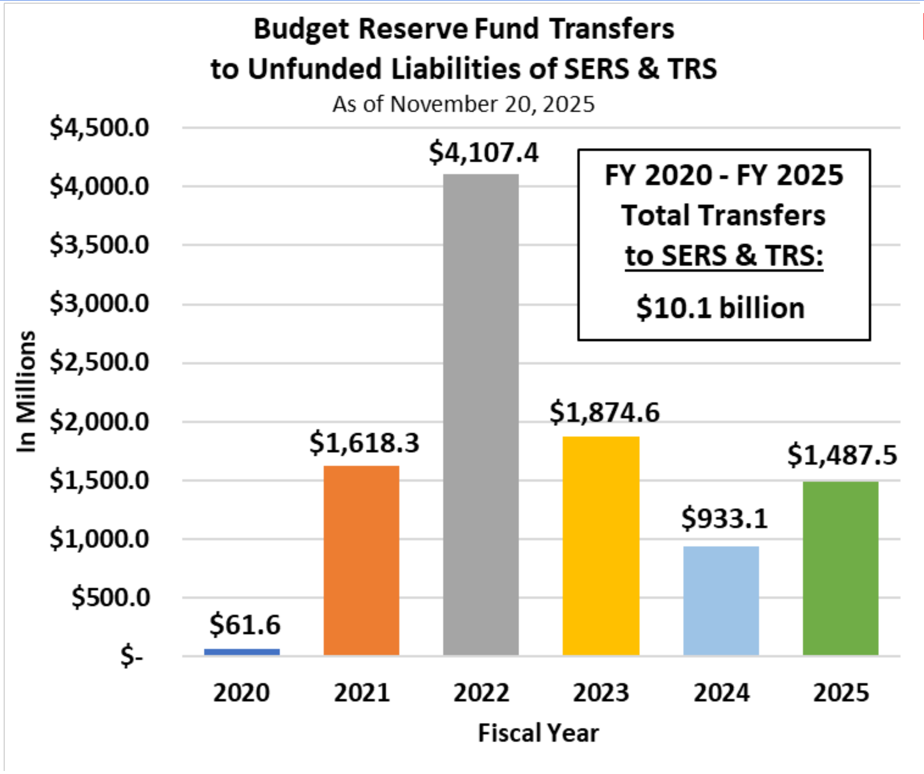
- $1.38 billion under a mild recession scenario (sufficient to cover the cumulative revenue loss) by the end of FY 2029
- Insufficient under a moderate recession scenario, requiring $1.08 billion of additional resources by the end of FY 2030
- Insufficient under a severe recession scenario, requiring $4.5 billion of additional resources by the end of FY 2030

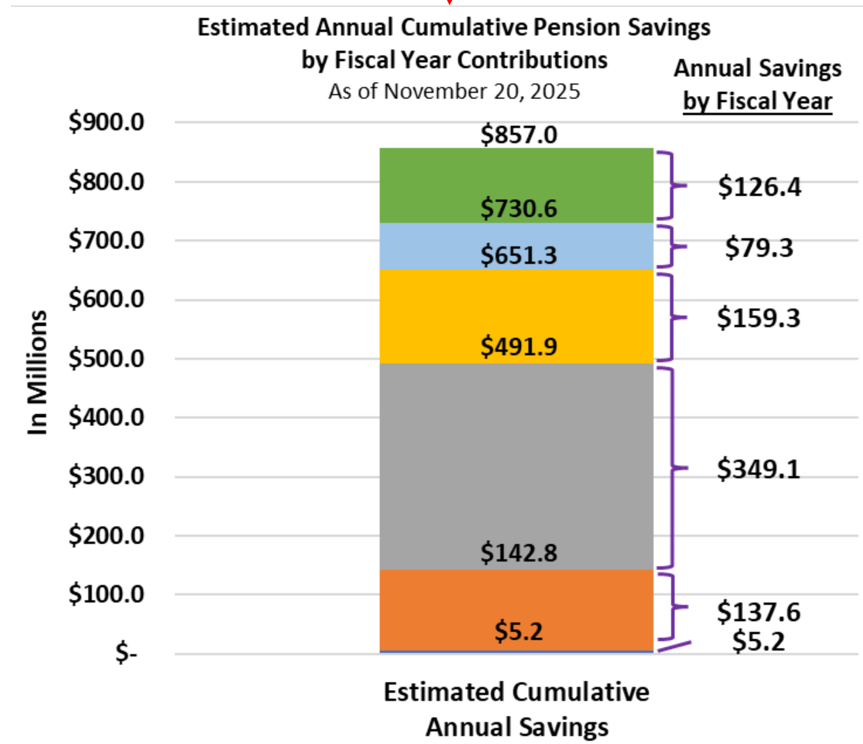
Volatile Revenues are Highly Correlated with Capital Gains



- The estimated & finals portion of the income tax and the pass-through entity tax are subject to the volatility cap
- Currently, those sources represent approximately one quarter of net General Fund tax revenue
- Receipts are highly correlated with capital gains, and as a result, are highly volatile
- In FY 2026, 72.3% of volatile revenues will be deposited to the General Fund with the remaining 27.7% subject to the volatility cap (based on November 2025 consensus figures)

Additional Contributions to Unfunded Liabilities (Above ADEC)





- $10.1 billion has been deposited in SERS and TRS over the past 6 years as a result of the BRF reaching the statutory limit, reducing the state's required contributions to the pension systems by approximately $857 million annually for 25 years

Fiscal Guardrails Impact – by the Numbers

8 **Consecutive Budget Surpluses**
From FY 2018 through FY 2025, Connecticut achieved eight straight years of General Fund surpluses

8 **Credit Rating Upgrades**
Since March 2021, the state's General Obligation ratings were upgraded eight times – the first upgrades in twenty years

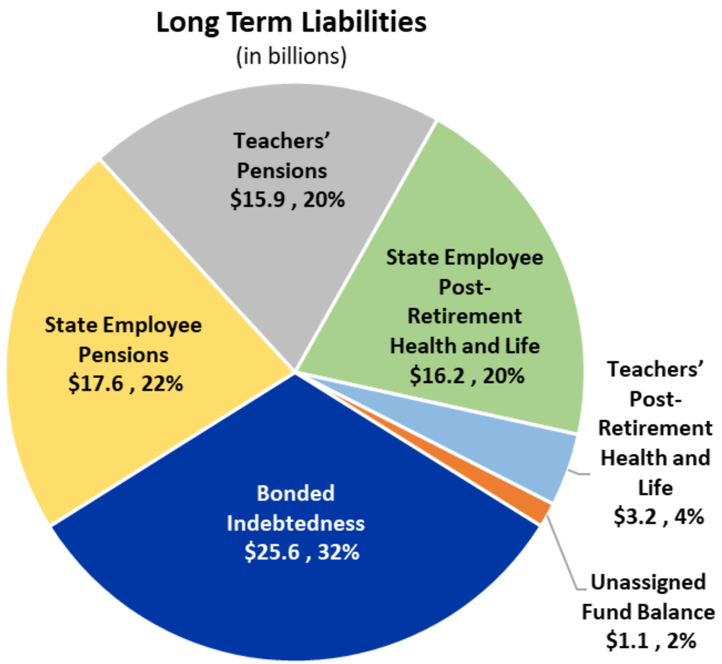
18% **Budget Reserve Fund**
The Budget Reserve Fund has grown from 1.1% to its statutory maximum 18.0% of the annual General Fund budget

$10.1 billion **Reduced Pension Debt**
Connecticut has contributed an additional $10.1 billion since 2020 to reduce unfunded pension liabilities

$857 million **Annual Pension Savings**
Additional contributions to pension systems have reduced required annual contributions by $857 million per year

Long-Term Obligations and Major Cost Drivers

Long-Term Liabilities

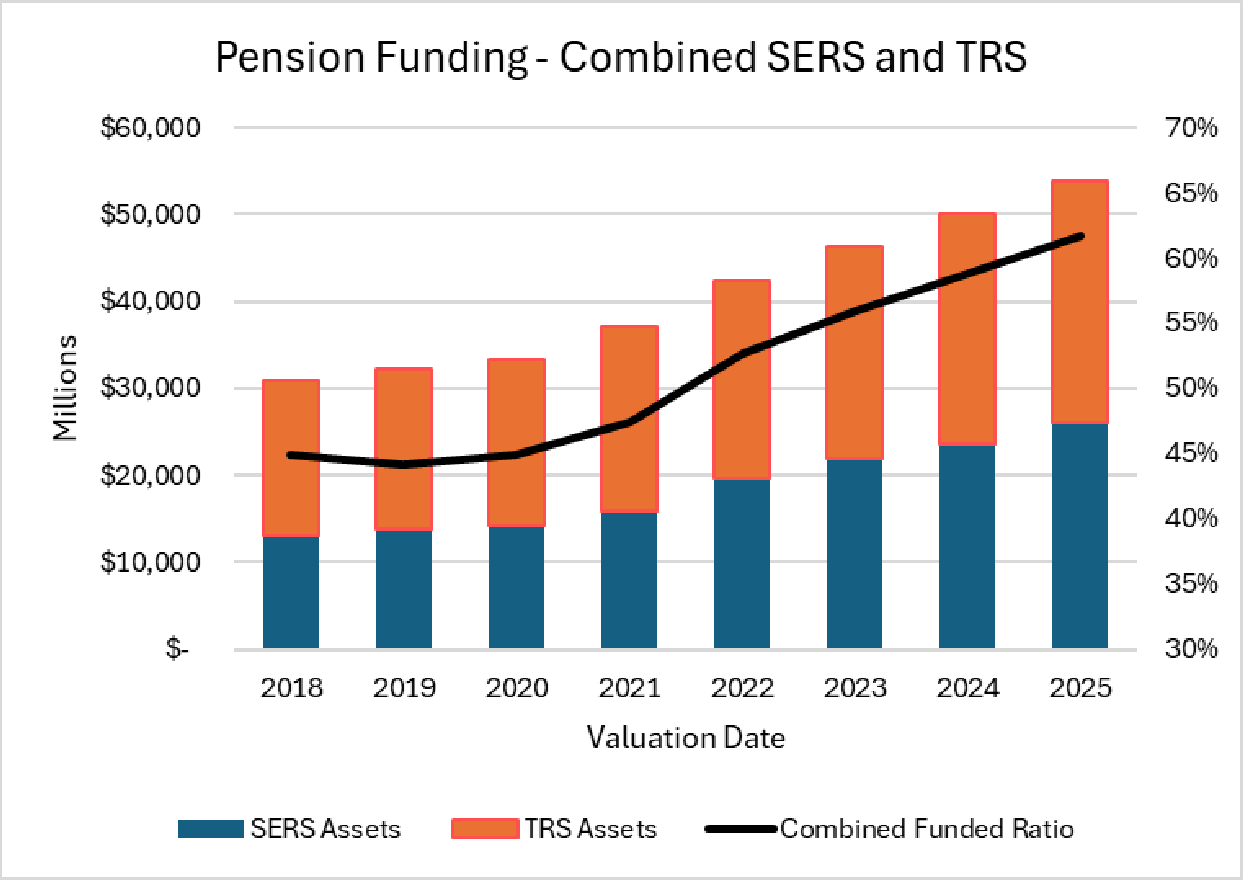


- Long-term liabilities total $79.6 billion
- Down $0.2 billion from last year's FAR and $15.8 billion from the 2021 report
- Since 2021, that represents a 30.9% decrease in inflation adjusted dollars (16.6% nominal decrease)

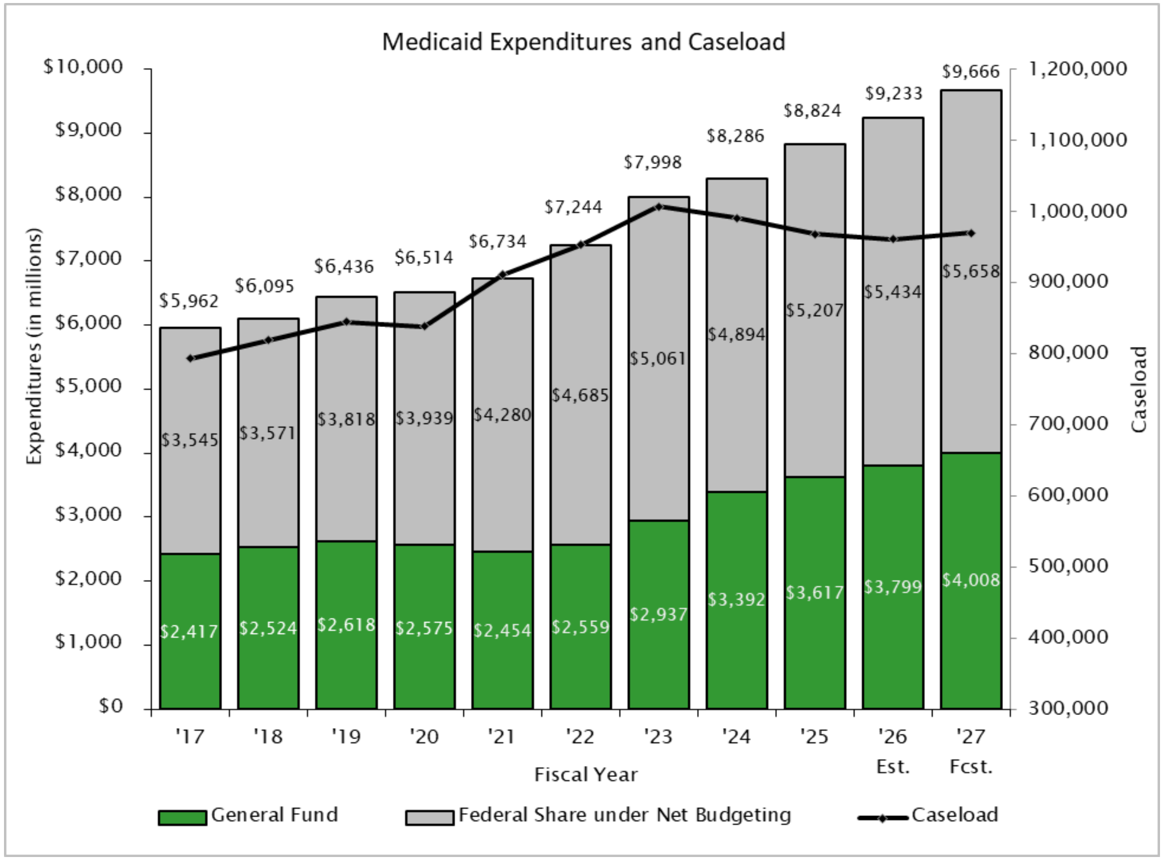
	$ in billions				
Long-Term Liability	**Nov 2021 FAR**	**Nov 2022 FAR**	**Nov 2023 FAR**	**Nov 2024 FAR**	**Nov 2025 FAR**
Bonded Indebtedness	$ 27.2	$ 27.0	$ 26.4	$ 26.0	$ 25.6
State Employee Pensions	22.7	22.4	20.9	20.1	17.6
Teachers' Pensions	18.1	17.1	16.4	15.9	15.9
State Employee Post-Retirement Health and Life	23.5	19.5	15.5	15.6	16.2
Teachers' Post-Retirement Health and Life	2.8	1.6	1.6	1.6	3.2
GAAP Deficit	1.1	0.7	0.8	0.6	1.1
Total	**$ 95.4**	**$ 88.3**	**$ 81.6**	**$ 79.8**	**$ 79.6**

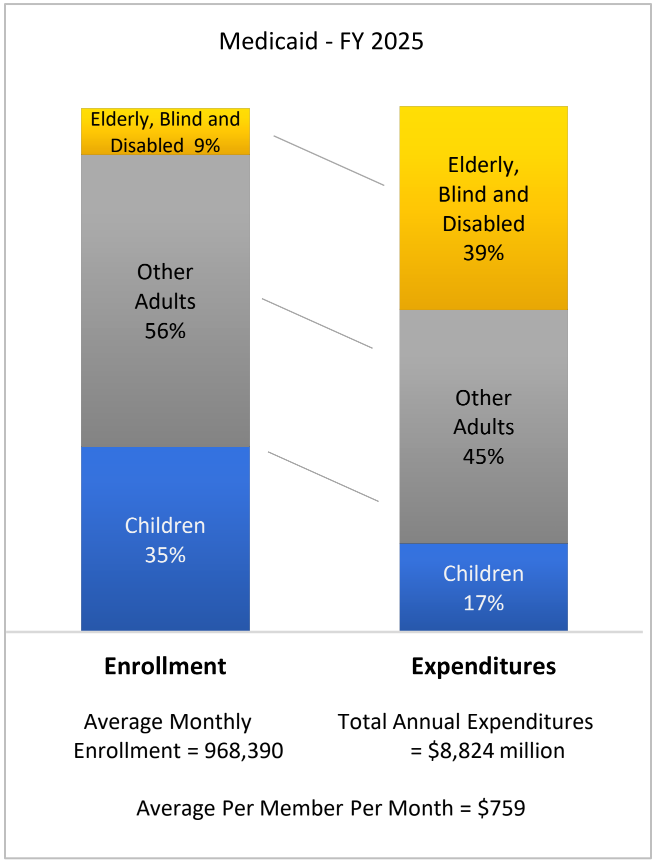
Pension Funding

- Over the past 7 years, the actuarial value of SERS and TRS assets has grown 74% - from $30.9 billion to $53.9 billion
- That growth has improved the combined funding ratio for both plans from 45% to 62%
- Funded ratio improved from 37% to 60% for SERS and from 52% to 64% for TRS between the 2018 and 2025 valuations



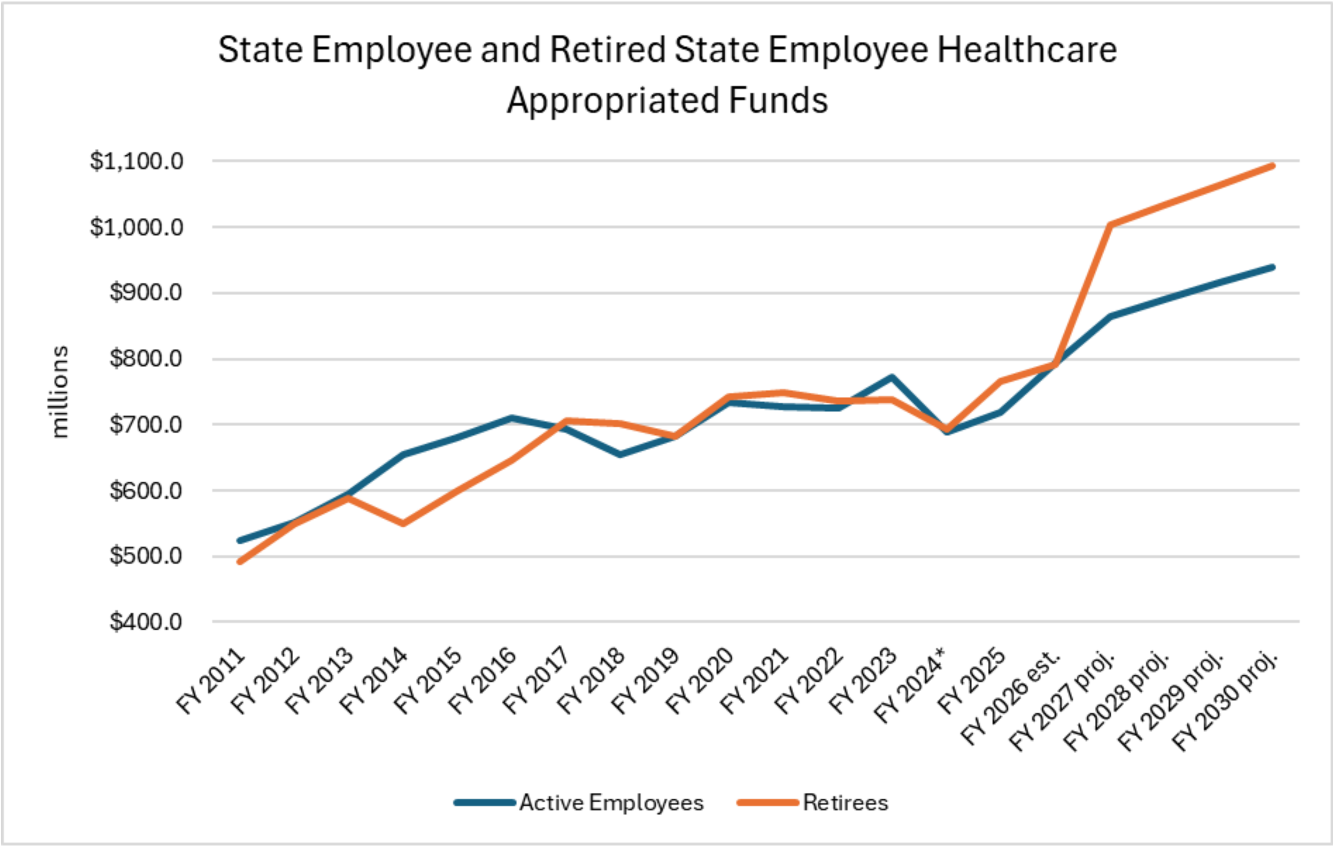
Medicaid





- Enrollment has declined recently but remains higher than pre-pandemic levels and costs / utilization continue to trend upward
- The growth is driven in part by higher costs to serve the elderly, blind and disabled
- Recent federal policy changes are expected to have a state fiscal impact

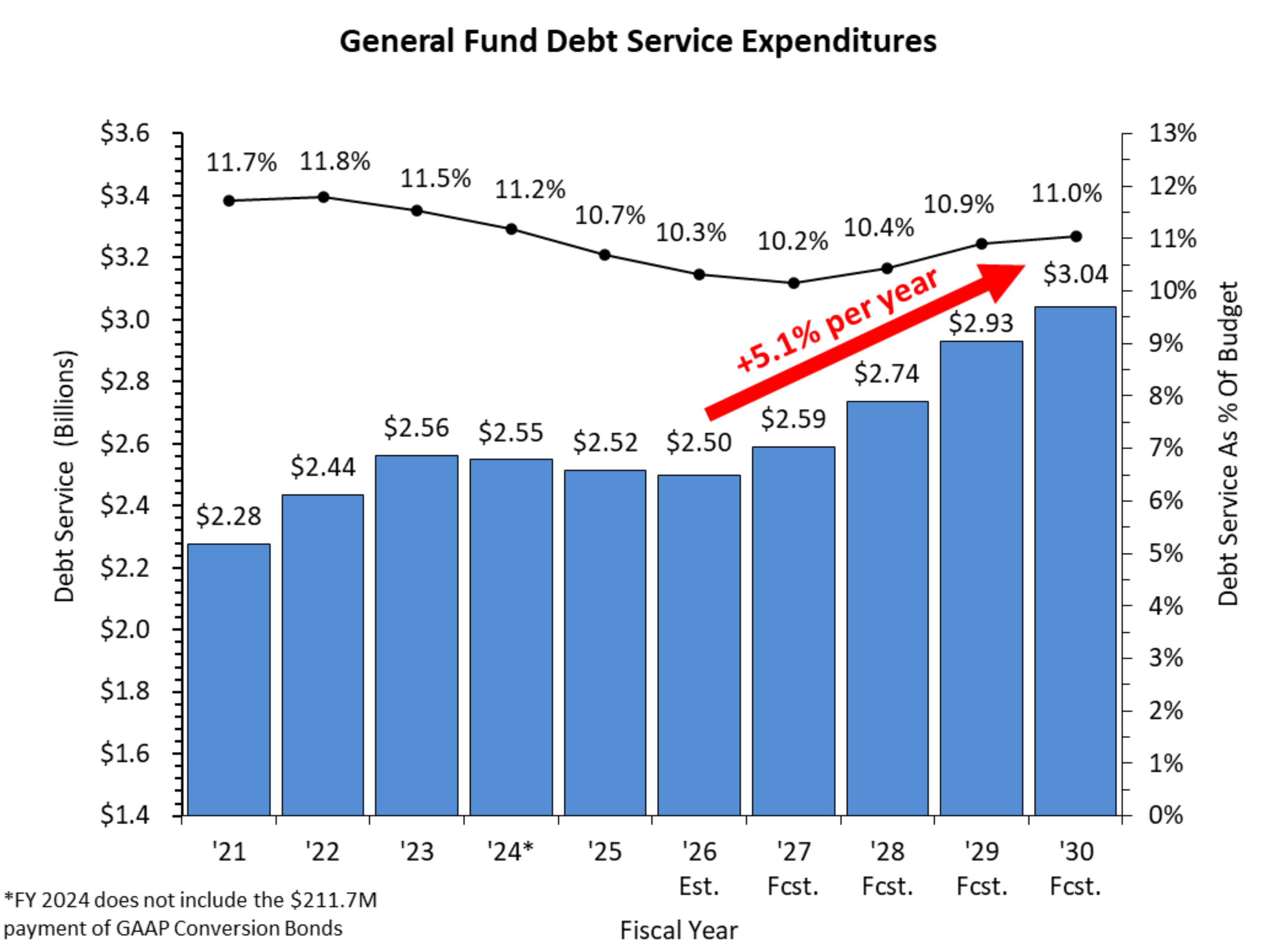
State Employee and Retiree Healthcare



- Modest spending growth through FY 2025
- Significant outyear growth is anticipated – particularly for Retiree Healthcare which is projected to experience an increase of more than 30% from FY 2025 to FY 2027

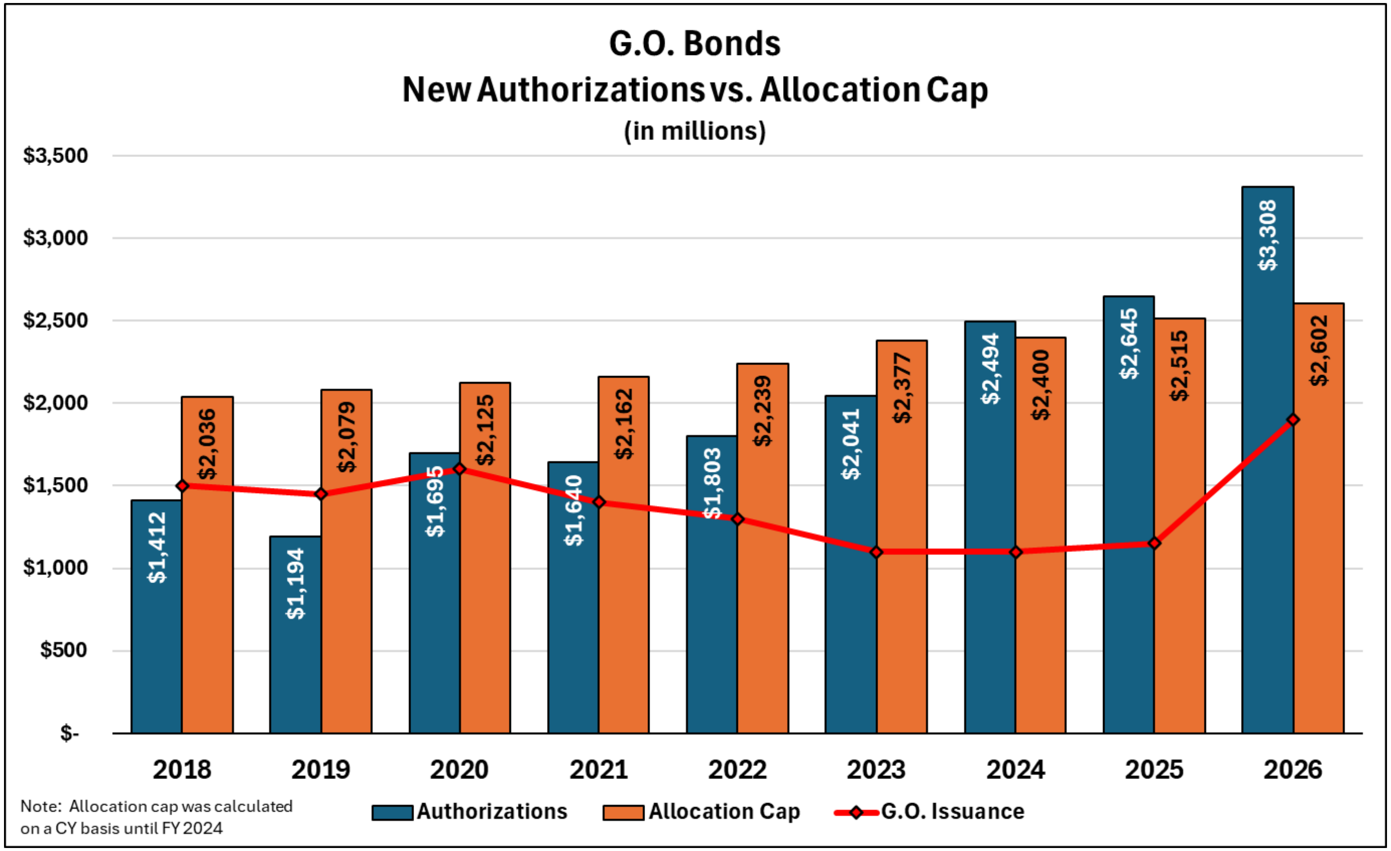
* Note that the decrease in budgeted expenditures for active healthcare between FY 2023 and FY 2024 is driven by change in accounting method for higher education units.

Debt Service



- Debt Service is expected to remain relatively flat between FY 2023 and FY 2027
- Beginning in FY 2027 Debt Service is projected to grow an estimated $500M by FY 2030
- As bond allocations have risen, debt issuance is also expected to rise, increasing debt service costs

History of General Obligation Bonding Levels



- Allocation cap has risen by 3.1% annually since its implementation (U.S. CPI less food & energy)
- New authorizations have risen by 11.2% per year over the same period
- Net new authorizations, excluding UCONN 2000 which are outside of the allocation cap, began to exceed the allocation cap in FY 2024

Selected Tax Credits

Business Tax Credits Claimed in FY 2025
(in millions)

Tax Credit Name	Amount	% of Total
1. Film Production	$ 160.6	39.8%
2. Fixed Capital Investment	56.5	14.0%
3. R&E Expenditures	41.0	10.2%
4. Electronic Data Processing Equip.	25.1	6.2%
5. Film Production Infrastructure	22.2	5.5%
6. All Other	98.2	24.3%
7. Total Tax Credits Claimed in FY 2025	**$ 403.6**	**100.0%**

Personal Income Tax Credits Claimed in FY 2025
(in millions)

Tax Credit Name	Amount	% of Total
1. Earned Income Tax Credit (EITC)	$ 195.5	53.2%
2. Property Tax Credit (est.)	146.8	39.9%
3. All Other (est.)	25.3	6.9%
4. Total Tax Credits Claimed in FY 2025	**$ 367.5**	**100.0%**

- In FY 2025, the Film Production Tax Credit accounted for 39.8% of all business tax credit claims
  - This is by far the most expensive business tax credit program for the state
- The Earned Income Tax Credit is the largest Personal Income Tax Credit with claims totaling $195.5M in FY 2025

Conclusion

Summary of Findings

- **Recession Stress Testing**
  - Current balance in the BRF would fall to approximately 6% of GF appropriations by FY 2029 in a mild recession and would be insufficient to offset revenue losses predicted through FY 2030 in a moderate or severe recession
- **Long-Term Liabilities**
  - Total long-term liabilities are estimated at $79.6 billion, down $15.8 billion from our November 2021 report
  - Funded ratio for SERS and TRS stand at approximately 60% and 64%, respectively, up from 37% and 52% as of 6/30/2018

Summary of Findings

- **FY 2027 – FY 2030**
  - Revenue growth in the Special Transportation Fund does not keep pace with projected cost growth
    - Anticipated growth in debt service on transportation improvements exceeds total revenue growth
  - Total General Fund revenue growth is roughly aligned with projected growth in combined fixed and non-fixed costs, but FY 2027 will require policy decisions to remain in balance
    - Growth in active and retired state employee healthcare, Medicaid, and debt service are the largest contributors to cost growth for FY 2027 through FY 2030