

FISCAL ACCOUNTABILITY REPORT

FISCAL YEARS 2021 – 2024



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

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NOVEMBER 20, 2020



OFFICE OF POLICY AND MANAGEMENT
FISCAL ACCOUNTABILITY REPORT
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OVERVIEW

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

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

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

FY 2021

The General Fund is projected to finish the year with a \$879.4 million operating deficit. This deficit, if not mitigated through legislative action or receipt of additional federal funds, would result in a draw on the Budget Reserve Fund at the end of FY 2021.

The Special Transportation Fund is expected to finish the year with a \$61.8 million operating deficit. The fund balance on June 30, 2021, is projected to decline to \$106.6 million.

The Tourism Fund is estimated to end the year with an operating shortfall of \$6.9 million. When added to the negative fund balance of \$6.9 million at the end of FY 2020, the fund balance on June 30, 2021, will be a negative \$13.8 million.

FY 2022 Through FY 2024

As shown in the table below, General Fund revenues in FY 2022 are \$527.3 million below projected FY 2021 revenues. The largest factor contributing to the decline in revenue from FY 2021 to FY 2022 is the commencement of sales tax transfers to the Municipal Revenue Sharing Account totaling \$355.8 million. In addition, the portion of the car sales tax transferred to the Special Transportation Fund rises from 25% to 75%, for an additional revenue loss of \$179.5 million. Revenues in FY 2022 also include resumption of amortization payments of \$85.0 million per year toward resolving the cumulative GAAP deficit. Phased-in tax cuts and changes in transfer levels account for another \$367.8 million. Without those factors, revenue growth in FY 2022 would amount to \$460.8 million over FY 2021.

As a result of the November 10, 2020, consensus revenue forecast, reductions in bond authorizations will be required in order to adhere to the statutory 90% General Obligation bond debt limit. In FY 2022, this would limit new bond authorizations to just \$204.4 million. For context, FY 2021 actual bond

authorizations totaled \$1,521.5 million. Page 38 of this report provides additional details on the amount of reductions needed in order to adhere to the 90% cap.

“Fixed” costs in the General Fund are anticipated to rise by \$1,063 million, \$735 million and \$474 million in fiscal years 2022 through FY 2024. These costs are driven by the following factors:

- The expiration of the pandemic-related enhanced federal matching percentage for Medicaid and the HUSKY B program, and the return to more normal service utilization patterns by FY 2023;
- Cost and caseload growth in both entitlement and quasi-entitlement services, as well as annualized impact of wage and rate increases;
- The continued phase-in from level percent of payroll to level dollar amortization of unfunded SERS liabilities (this transition will be complete, and SERS expenditure growth is anticipated to level-off, after FY 2023);
- Continued increases in the Teachers’ Retirement System (TRS) due to the phase-in to level dollar amortization through FY 2026, as well as changes in actuarial assumptions affecting FY 2022 that are intended to better reflect future experience;
- Rising debt service projections; and
- Projected growth in retired state employee healthcare requirements.

FINANCIAL SUMMARY

YEAR-OVER-YEAR REVENUE GROWTH vs. FIXED COST GROWTH (in millions)

GENERAL FUND

	FY 2022 vs. FY 2021	FY 2023 vs. FY 2022	FY 2024 vs. FY 2023
Revenue Growth	\$ (527.3)	\$ 488.8	\$ 503.9
Fixed Cost Growth			
Debt Service	172.6	233.8	97.5
State Employee Pensions	136.2	132.0	25.9
Teacher Pensions	193.8	134.4	162.7
State and Teachers OPEB	63.3	115.2	7.0
Medicaid	455.0	97.9	154.1
Other Entitlements	42.2	21.9	27.0
Total Fixed Cost Growth	1,063.0	735.1	474.2
Difference	\$ (1,590.3)	\$ (246.3)	\$ 29.7

SPECIAL TRANSPORTATION FUND

	FY 2022 vs. FY 2021	FY 2023 vs. FY 2022	FY 2024 vs. FY 2023
Revenue Growth	\$ 128.3	\$ 140.7	\$ 46.6
Fixed Cost Growth			
Debt Service	90.0	70.2	61.9
State Employee Pensions and OPEB	15.7	14.9	(1.1)
Total Fixed Cost Growth	105.7	85.1	60.9
Difference	\$ 22.6	\$ 55.6	\$ (14.3)

CURRENT FISCAL YEAR OUTLOOK

FY 2021 - GENERAL FUND

The adopted FY 2021 budget anticipates a \$166.2 million balance at year end. The Office of Policy and Management is projecting an operating shortfall of \$879.4 million, 4.4 percent of the General Fund. Revenues are \$1,415.3 million below the budget plan, while estimated expenditures are \$369.7 million below the budgeted level.

FY 2021 - General Fund			
	(in millions)		
	Budget Plan	OPM Est. 11/20/20	Change
Revenue	\$ 20,252.5	\$ 18,837.2	\$ (1,415.3)
Expenditures	\$ 20,086.3	\$ 19,716.6	\$ (369.7)
Est. Balance from Operations - 6/30/21	\$ 166.2	\$ (879.4)	\$ (1,045.6)

Revenue

Projected revenues are \$1,415.3 million below the level envisioned in the enacted budget for FY 2021, reflective of the November 10th consensus revenue forecast. Nearly all the negative variance compared to the enacted budget is a result of economic and policy impacts associated with the COVID-19 pandemic. The most significant changes are in the state’s major tax revenues: Personal Income Tax, Sales and Use Tax, and Corporation Tax. Compared to the enacted budget, the Withholding component of the Personal Income Tax is down \$487.9 million, Estimates & Finals payments under the Personal Income Tax are down \$592.6 million, Sales and Use Tax collections are down \$342.1 million, and the Corporation Tax is down \$313.8 million. The Pass-through Entity Tax has been revised upwards by \$220.7 million to reflect higher than anticipated collections through the start of the fiscal year. Additionally, the Real Estate Conveyance tax has been adjusted upwards by \$50.0 million as a result of rising economic activity in the housing market over the last quarter. All other changes net to a positive \$50.4 million.

The current forecast remains conservative for the second half of the fiscal year given the significant uncertainty surrounding the course of the COVID-19 pandemic and the waning impact of the unprecedented amount of fiscal and monetary stimulus that was injected into the nation’s economy by the federal government over the spring and summer months. In addition, pandemic-related closures of many businesses may have caused deferred consumption of goods and services, resulting in pent-up demand that is being realized in the first half of the fiscal year. Until a vaccine for the COVID-19 virus is widely available, and absent further federal measures to stimulate economic activity, significant challenges are likely over the coming months.

Expenditures and Discussion of Projected Deficiencies

OPM is projecting that FY 2021 net expenditures will be below the budget plan by \$369.7 million, as explained further below.

Deficiencies. Projected shortfalls totaling \$175.7 million are forecast in the following agencies:

- Department of Administrative Services. A \$1.6 million shortfall is anticipated in the Insurance and Risk Management account due to an increase in property insurance rates.

- Department of Economic and Community Development. A \$10.4 million shortfall is anticipated in the Capital Region Development Authority account. Of this sum, approximately \$2.55 million was the result of the failure to enact FY 2020 deficiency appropriations, resulting in bills that carried over to FY 2021. The remainder is the result of event cancellations due to COVID-19 that have impacted and are expected to continue to impact attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field, the XL Center and the CT Convention Center.
- Department of Mental Health and Addiction Services. A total shortfall of \$4.1 million is projected due to the failure to enact FY 2020 deficiency appropriations and lack of FY 2021 budget adjustments addressing direct care costs. While June Finance Advisory Committee action addressed a portion of the FY 2020 deficiency, over \$2.1 million in prior year bills were held over for payment in FY 2021. We estimate a \$0.4 million shortfall in Other Expenses due largely to various facility maintenance and repair costs and increased software licensing costs, \$2.0 million in the Professional Services account for contracted medical services including contracted psychiatrists, \$1.7 million in the Workers' Compensation Claims account to reflect claim trends, and \$3.0 million in the Discharge and Diversion account to assist with discharges from Connecticut Valley Hospital to community settings for those no longer needing inpatient care. These shortfalls are partially offset by a projected \$3.0 million lapse in Personal Services due to vacancies.
- University of Connecticut Health Center. A shortfall of at least \$50.0 million is forecast. The FY 2020 budget included a fringe benefit subsidy of \$33.2 million to assist with stabilizing the Health Center's finances, but no subsidy was included in the FY 2021 budget plan. While deficiencies at higher education institutions do not have a direct impact on the General Fund, the magnitude and recurring nature of the Health Center's deficiencies may put additional pressure on state resources in FY 2021.
- State Comptroller – Fringe Benefits. A total shortfall of \$99.1 million is anticipated. Of this amount, \$41.0 million is due to revised contribution requirements for the State Employees' Retirement System resulting from the June 30, 2019 valuation of the fund. A \$3.4 million shortfall is anticipated in the Judges Retirement System, also reflective of the June 30, 2019, valuation for that system. In addition, we anticipate shortfalls of \$4.3 million in the Unemployment Compensation account, \$125,000 in the Insurance – Group Life account, \$5.5 million in the Employers Social Security Tax account, \$30.3 million in the State Employees Health Service account, \$24.4 million in the Retired State Employees Health Service Cost account, and \$1.8 million in the SERS Defined Contribution Match account. Partially offsetting these shortfalls is a projected \$12.0 million lapse in the Higher Education Alternative Retirement System account.
- State Comptroller – Miscellaneous. We estimate \$10.0 million in expenditures for Adjudicated Claims. No appropriation was made in the enacted budget for payment of these claims.

OPM's forecast does not include a significant potential shortfall in the Connecticut State Colleges and Universities system, primarily due to pandemic-related impacts on enrollment and residential occupancy resulting in declines in tuition and fee revenue. Depending on measures the system may adopt to address the issue as well as potential assistance from federal CARES Act funding, the scale of this deficiency could materially impact future estimates.

Lapses. OPM's projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets, rescissions implemented by the Governor on October 1st, and use of federal CARES Act funding to cover \$100 million of certain public health and public safety costs that would otherwise have been borne by the General Fund. Additionally, the following sums totaling \$420.1 million are estimated to remain unspent this fiscal year:

- Office of Legislative Management. A total of \$3.0 million is projected to lapse, with \$2.0 million in Personal Services and \$1.0 million in Other Expenses.
- State Treasurer- Debt Service. A total lapse of \$38.4 million is forecast, with \$23.4 million associated with the timing of FY 2021 bond sales and revised estimates of the cost and interest rates for FY 2021 sales based on FY 2020 results, and \$15 million adjustment in the UConn debt service account associated with moving the spring FY 2020 bond sale to the fall of FY 2021.
- Department of Consumer Protection. \$125,000 is estimated to lapse in Personal Services due to vacancies.
- Department of Labor. Beyond holdbacks and rescissions, \$395,717 will lapse in the Workforce Training Authority account as the Authority has not yet been formed.
- Department of Public Health. \$850,000 will lapse in Personal Services primarily as a result of vacancies.
- Department of Social Services. A total of \$332.1 million is projected to lapse. This is primarily the result of an estimated \$300.0 million lapse in the Medicaid account due to the extension of the public health emergency declaration by the federal government, which extends the enhanced level of federal reimbursement through March 31, 2021, thus reducing the state share of program costs, as well as lower levels of service utilization. Reduced caseloads will result in lapses of \$11.8 million in Temporary Family Assistance, \$9.3 million in Aid to the Disabled, \$4.7 million in the Connecticut Home Care Program, \$3.6 million in Old Age Assistance and \$1.1 million in State Administered General Assistance. Reduced caseloads and service utilization, coupled with the extension of enhanced federal reimbursement through March 31, 2021, are expected to result in a \$1.5 million lapse in the HUSKY B account.
- Department of Aging and Disability Services. A lapse of \$550,000 is projected in the Employment Opportunities account.
- Department of Education. A net total of \$15.65 million is projected to lapse. The Education Cost Sharing grant is underfunded by \$1.55 million. This is offset by a projected lapse of \$4.5 million in the Charter School account due to the closure of two charter schools and budgeted funding exceeding the number of approved charter school slots. In addition, lapses of \$1.7 million in the Open Choice Program account and \$11.0 million in the Magnet Schools account are projected based on current enrollment trends. Both accounts lapsed funding in FY 2020.
- Office of Higher Education. \$100,000 will lapse in Personal Services.
- Teachers' Retirement Board. A net total of \$3.55 million is projected to lapse. The Retirement Contributions account is underfunded by \$1.8 million, reflective of the employer contribution adjustment required due to the revised valuation adopted after passage of the biennial budget. This is offset by a \$5.0 million lapse in the Retiree Health Service Cost account due to health premiums that are lower than assumed in the adopted budget, as well as a \$365,000 lapse in the Municipal Retiree Health Insurance Costs account due to a decrease in the number of retired teachers eligible for the municipal subsidy.
- Department of Children and Families. A net lapse of \$19.7 million is anticipated across a variety of accounts due primarily to current caseload trends and reduced overtime expenses.
- Judicial Department. A net total of \$5.4 million is projected to lapse, with \$7.9 million in Personal Services, offset by a \$2.5 million shortfall in Workers' Compensation Claims.
- Public Defender Services Commission. A total lapse of \$359,000 is projected across several accounts due to current cost trends.

FY 2021 - SPECIAL TRANSPORTATION FUND

Projected revenues are \$190.2 million below the level envisioned in the enacted budget for FY 2021, reflective of the November 10th consensus revenue forecast. The largest change is in the Oil Companies Tax, down \$126.7 million compared to the enacted budget, a result of significant price declines and reduced consumption. The Motor Fuels Tax has also been impacted by reduced consumption and has been adjusted downwards by \$16.8 million. As seen in the General Fund, reduced economic activity has hurt growth in the Sales and Use Tax, a portion of which supports the Special Transportation Fund, resulting in a downward adjustment of \$35.2 million. Interest Income has also been adjusted downwards by \$31.8 million, caused by lowered interest rate assumptions and diminishing fund reserves. All other changes net to a positive \$20.3 million.

FY 2021 - Special Transportation Fund			
	(in millions)		
	Budget Plan	OPM Est. 11/20/20	Change
Beginning Balance	\$ 363.5	\$ 168.4	\$ (195.1)
Revenue	\$ 1,880.8	\$ 1,690.6	\$ (190.2)
Expenditures	<u>\$ 1,816.3</u>	<u>\$ 1,752.4</u>	<u>\$ (63.9)</u>
Est. Balance from Operations - 6/30/21	\$ 64.5	\$ (61.8)	\$ (126.3)
Est. Fund Balance - 6/30/21	\$ 428.0	\$ 106.6	\$ (321.4)

FY 2021 - BUDGET RESERVE FUND

The state's reserves at the close of FY 2020 are \$3.07 billion, pending potential audit revisions as prior year results are finalized, or 15.3 percent of FY 2021 net General Fund appropriations. It is not expected that there will be a transfer pursuant to the statutory volatility cap by the end of FY 2021. (See page 22 for more information about the revenue volatility cap.) Notwithstanding anticipated revisions to estimated revenue from future consensus forecasts and potential mitigation efforts, the potential draw on the BRF at the end of FY 2021 would leave a balance of \$2.1 billion, or 10.6% of FY 2021 net General Fund appropriations.

Budget Reserve Fund	
	(in millions)
Estimated BRF Ending Balance - FY 2020 (OSC Est. 9/17/20)	\$ 3,074.6
Deposit to SERS or TRS pursuant to Sec. 4-30a, C.G.S. (OSC Est. 9/17/20)	\$ (61.6)
Projected Operating Deficit - FY 2021 (OPM 11/20/20 Est.)	(879.4)
Volatility Cap Deposit - FY 2021 (OPM 11/20/20 Est.)	<u>-</u>
Estimated BRF Ending Balance - FY 2021	\$ 2,133.5

OUTLOOK FOR FISCAL YEAR 2022 THROUGH FISCAL YEAR 2024

BACKGROUND AND METHODOLOGY

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

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

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

FY 2022 TO FY 2024 - GENERAL FUND OUTLOOK

Pursuant to Section 2-36b of the Connecticut General Statutes, this report compares year-over-year revenue growth to growth in fixed costs. Revenues are derived from the November 10, 2020, consensus forecast, and are explained later in this document. OPM's approach for estimating "fixed costs" is explained in more detail below.

Assumptions Used to Develop Growth Estimates for Fixed Costs

The FY 2022, FY 2023 and FY 2024 columns in the table that follows represent the anticipated increase in spending versus the estimated amounts for FY 2021, FY 2022, and FY 2023 respectively.

DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

- *General Assistance Managed Care* - Reflects anticipated caseload growth, as well as leap year payments in FY 2024.

DEPARTMENT OF SOCIAL SERVICES

- *HUSKY B Program, Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, Temporary Family Assistance, Connecticut Home Care Program, State Administered General Assistance, and Community Residential Services* - Reflect anticipated cost and caseload changes based on current trends and statutory requirements, as well as annualization of adjustments.
- *Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, and Community Residential Services* - Reflect leap year payments in FY 2024.

OFFICE OF EARLY CHILDHOOD

- *Birth to Three and Care4Kids-TANF/CCDF* - Reflect anticipated caseload increases.

TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* - Reflects the estimated actuarially determined employer contributions as calculated by the pension plan actuary.
- *Retirees Health Service Cost* - Reflects medical inflation.

DEPARTMENT OF CHILDREN AND FAMILIES

- *Board and Care for Children - Foster & Adoption* - Reflects anticipated growth in the number of children in subsidized adoptive, guardianship and foster care homes, and additional post-secondary costs for children adopted after January 1, 2005.
- *Board and Care for Children - Adoption, Foster Care, and Short-Term and Residential* - Board and Care for Children accounts have been adjusted in 2024 for the cost of an additional per diem payment due to leap year as well as the impact of the minimum wage on private providers.

STATE TREASURER - DEBT SERVICE

- *Debt Service* - Reflects projected debt service requirements for FY 2021 through FY 2024. Note that beginning in FY 2022 all net new bond premium will be used to pay for project costs and cannot be used to offset debt service.
- *Pension Obligations Bonds -- TRB* - Reflects the schedule of required debt service payments.

STATE COMPTROLLER - FRINGE BENEFITS

- *Higher Education Alternate Retirement System* - Reflects wage inflation and the impact of the 27th payroll in FY 2023.
- *Judges and Compensation Commissioners Retirement* - Reflects the estimated actuarially determined employer contribution.
- *Retired Employee Health Service Costs* - Reflect medical inflation.
- *Other Post-Employment Benefits* - Employees hired prior to July 1, 2017 pay OPEB for 10 years. The matching state contributions decrease as the number of employees coming off the 10-year period of payments increases. Also reflects the impact of the 27th pay period in FY 2023.
- *SERS Defined Contribution Match* - Reflects the pension actuary estimates of salary increases of new employees in Tier 4, plus anticipated volume of new employees and the impact of the 27th pay period in FY 2023.
- *State Employees Retirement Contributions - Normal Cost* - Reflects the estimated normal cost portions of the actuarially determined employer contributions (ADEC) from the pension plan actuary.

- *State Employees Retirement Contributions - Unfunded Actuarial Liabilities (UAL)* - Reflects the estimated UAL portions of the actuarially determined employer contributions from the pension plan actuary.

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

GENERAL FUND	FY 2022 Increase over FY 2021	FY 2023 Increase over FY 2022	FY 2024 Increase over FY 2023
DMHAS - General Assistance Managed Care	\$ 800,287	\$ 838,154	\$ 886,922
DMHAS - Medicaid Adult Rehabilitation Option	-	-	-
DSS - HUSKY B Program	4,490,000	1,070,000	-
DSS - Medicaid	434,975,340	97,910,000	154,120,000
DSS - Old Age Assistance	1,120,200	1,207,800	2,072,500
DSS - Aid To The Blind	16,000	27,300	20,500
DSS - Aid To The Disabled	858,400	1,059,700	2,029,200
DSS - Temporary Family Assistance	(1,479,400)	(1,131,500)	561,700
DSS - Connecticut Home Care Program	330,000	1,410,000	2,350,000
DSS - Community Residential Services	16,325,000	12,950,000	14,733,191
DSS - State Administered General Assistance	(964,900)	125,800	36,500
DSS - Hospital Supplemental	20,000,000	-	-
OEC - Birth to Three	500,000	500,000	500,000
OEC - Care4Kids TANF/CCDF	-	-	-
TRB - Retirement Contributions	193,821,000	134,382,000	162,662,000
TRB - Retirees Health Service Cost	1,847,600	3,194,000	1,794,060
TRB - Municipal Retiree Health Insurance Costs	(70,640)	-	-
DCF - No Nexus Special Education	(75,855)	69,411	-
DCF - Board and Care for Children - Adoption	5,481,001	3,095,473	3,139,201
DCF - Board and Care for Children - Foster	9,594,322	25,158	215,438
DCF - Board and Care for Children - Short-term and Residential	4,420,660	671,071	431,021
DCF - Individualized Family Supports	740,643	-	-
OTT - Debt Service	80,030,414	102,607,183	90,186,719
OTT - UConn 2000 - Debt Service	9,516,807	28,128,200	1,163,387
OTT - CHEFA Day Care Security	-	-	-
OTT - Pension Obligation Bonds - TRB	84,680,000	103,600,000	8,991,400
OTT - Municipal Restructuring	(1,636,919)	(579,661)	(2,846,343)
OSC - Higher Education Alternative Retirement System	(300,000)	962,800	19,244
OSC - Pensions and Retirements - Other Statutory	106,837	55,277	-
OSC - Judges and Compensation Commissioners Retirement	2,147,220	-	2,280,726
OSC - Retired State Employees Health Service Cost	60,662,000	110,863,000	57,794,640
OSC - Other Post Employment Benefits	951,361	1,100,000	(52,582,646)
OSC - SERS Defined Contribution Match	4,174,732	7,545,400	5,841,023
OSC - State Employees Retirement Contributions - Normal Cost	1,303,202	(1,848,940)	(3,222,437)
OSC - State Employees Retirement Contributions - UAL	128,752,091	125,282,772	21,024,644
TOTAL - GENERAL FUND	\$ 1,063,117,403	\$ 735,120,398	\$ 474,202,590

General Fund Revenue

The November 10, 2020, consensus revenue estimate shows General Fund revenues at \$18.8 billion in FY 2021. The table below portrays detailed revenue estimates for each year covered by the consensus forecast.

PROJECTED REVENUES

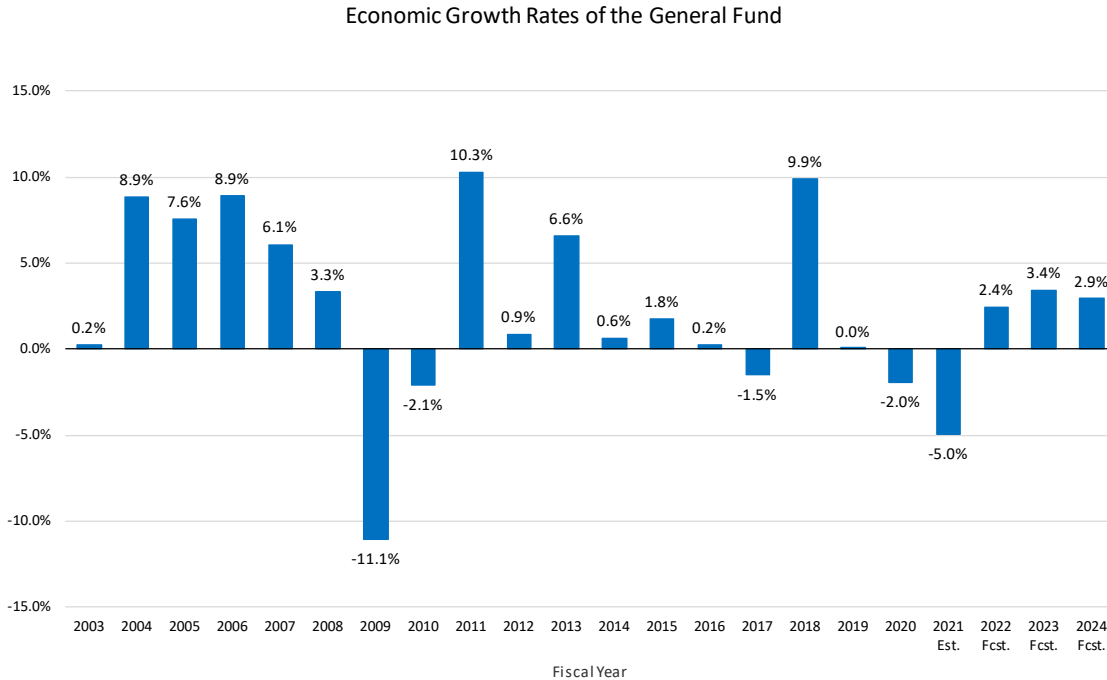
Consensus Revenue Forecast - November 10, 2020

(In Millions)

	General Fund			
<u>Taxes</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Personal Income - Withholding	\$ 6,680.6	\$ 6,904.9	\$ 7,240.8	\$ 7,468.7
Personal Income - Estimates & Finals	2,244.3	2,248.1	2,311.4	2,418.1
Sales & Use Tax	4,246.3	3,879.8	3,892.7	3,994.8
Corporation Tax	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 Tax	261.6	267.5	274.5	281.9
Inheritance & Estate Tax	212.6	154.4	150.2	149.6
Insurance Companies Tax	214.6	217.2	220.2	223.2
Cigarettes Tax	330.9	312.0	296.4	281.5
Real Estate Conveyance Tax	280.6	237.4	244.8	252.4
Alcoholic Beverages Tax	73.2	73.6	74.0	74.3
Admissions & Dues Tax	34.3	38.9	39.9	40.2
Health Provider Tax	1,079.5	989.7	991.8	993.2
Miscellaneous Tax	18.8	22.0	22.5	23.0
Total Taxes	\$ 17,516.7	\$ 17,183.6	\$ 17,714.7	\$ 18,222.0
Less Refunds of Tax	(1,629.0)	(1,624.7)	(1,680.7)	(1,739.0)
Less Earned Income Tax Credit	(100.6)	(104.0)	(107.0)	(110.1)
Less 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
<u>Other Revenue</u>				
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
Less Refunds 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
<u>Other Sources</u>				
Federal Grants	\$ 1,530.4	\$ 1,557.7	\$ 1,584.2	\$ 1,605.9
Transfer From Tobacco Settlement	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 Revenues	\$ 18,837.2	\$ 18,309.9	\$ 18,798.7	\$ 19,302.6

Economic Growth Rates for General Fund Tax Revenues

The November consensus revenue forecast assumes that General Fund revenues will experience economic growth rates ranging from -5.0% in FY 2021 to 2.9% in FY 2024. Economic growth rates are defined as baseline revenue growth prior to any state policy changes. Absent a recession, these growth rates remain conservative and well below growth experienced in prior recoveries. The -5.0% growth projected for FY 2021 is driven by the impact of the COVID-19 pandemic on various revenue sources. While some sources of revenue were able to grow, others decreased dramatically as a result of the brief shutdown of the economy in an effort to contain the spread of the virus.



The table at right shows estimated growth rates in each tax type implied by the November 10th consensus revenue forecast. The growth rates represent changes over prior year collections. Declines in FY 2020 in the Estimates and Finals component of the Personal Income Tax and other revenue sources are influenced by the pandemic. It is expected that most collections will have a slower recovery, and most will return to more normal levels over the next few fiscal years while other revenue sources and sectors of the economy remain uncertain to when they may fully recover.

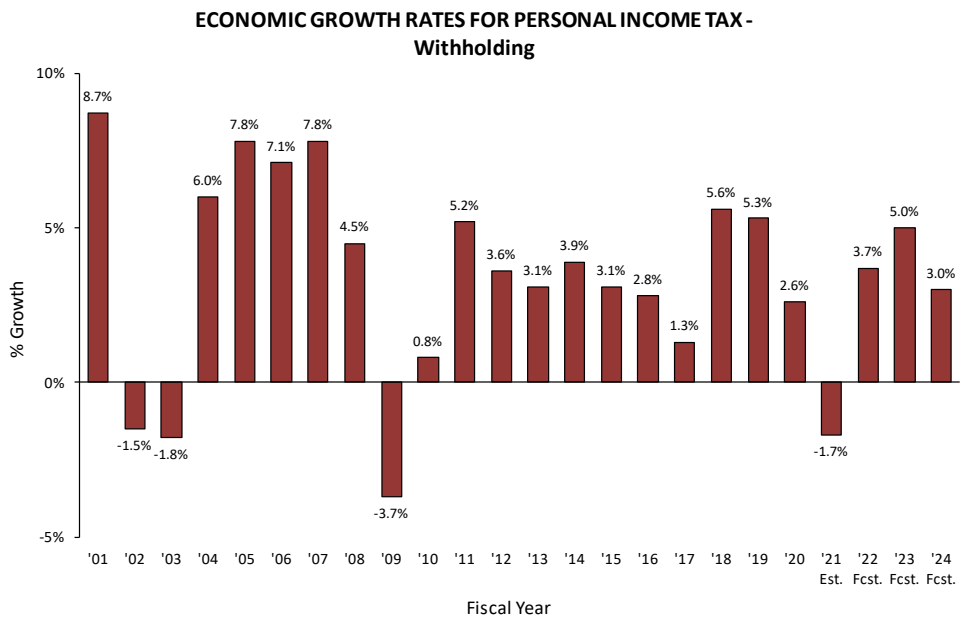
ECONOMIC GROWTH RATES OF PROJECTED TAX REVENUES

As Estimated by OPM Based Upon the November 10, 2020 Consensus Revenue Forecast
(Percentage Change Over Prior Year)

Taxes	General Fund				
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Personal Income Tax - Withholding	2.6	-1.7	3.7	5.0	3.0
Personal Income Tax - Estimates & Finals	-13.0	-13.1	0.0	3.0	4.5
Sales & Use Tax	-1.5	-2.9	4.2	2.5	2.5
Corporation Tax	-16.2	-13.9	1.7	3.4	3.0
Pass-Through Entity	0.0	-13.1	0.0	3.0	4.5
Public Service Tax	-2.4	-1.9	2.3	2.6	2.7
Inheritance & Estate Tax	10.6	-11.5	3.1	4.8	2.0
Insurance Companies Tax	17.9	-6.3	1.2	1.4	1.3
Cigarettes Tax	-3.1	-2.6	-5.7	-5.0	-5.0
Real Estate Conveyance Tax	-16.9	55.5	-15.4	3.1	3.1
Alcoholic Beverages Tax	6.9	0.2	0.5	0.5	0.5
Admissions & Dues Tax	-14.5	-4.0	13.4	2.6	0.8
Health Provider	-3.0	-3.4	0.2	0.2	0.1

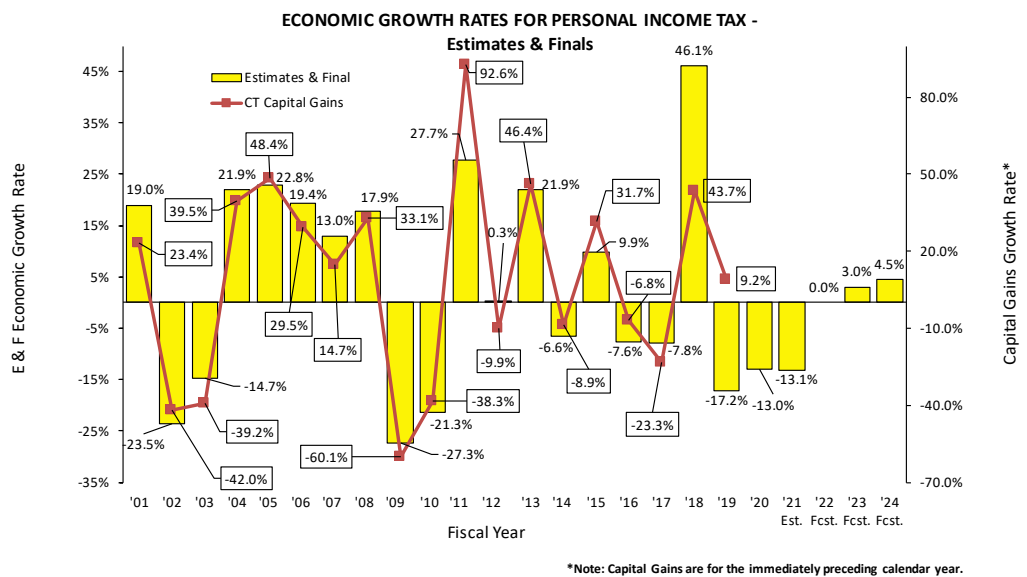
Personal Income Tax – Withholding

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



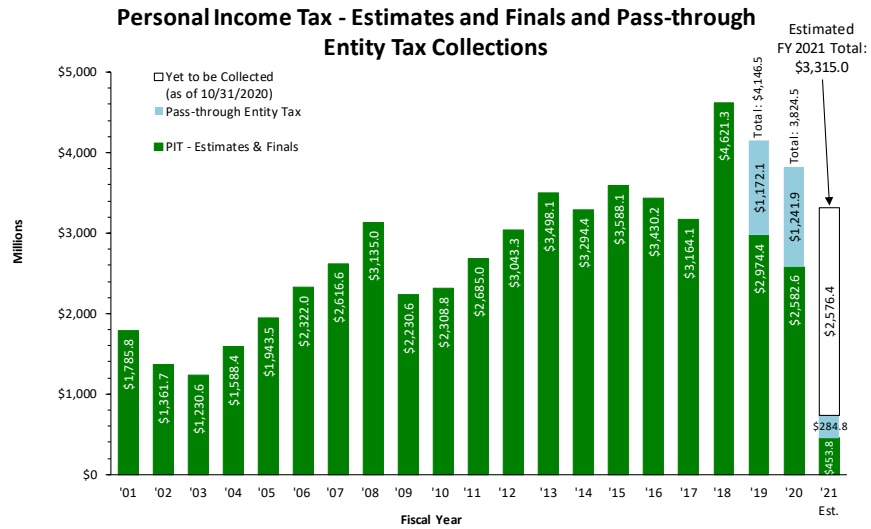
Personal Income Tax – Estimates and Finals Collections

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



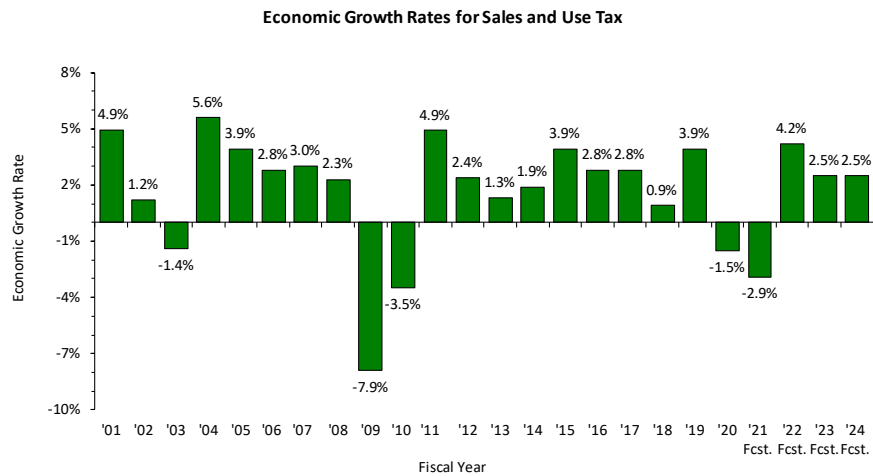
The current FY 2021 forecast calls for \$2,244.3 million in estimates and finals collections. Through October 31, 2020, the state has collected \$453.8 million, or 20.2% of the total forecasted amount. Over 30% of total collections are received in April when final tax returns are filed, concentrating volatility into the last quarter of the fiscal year. For example, in FY 2009, as the recession gripped the country, Connecticut’s estimates and finals collections fell by \$904.4 million. Excluding the impact of an enacted tax increase on millionaires, Estimates and Finals collections fell an additional \$475.4 million in FY 2010, for a total two-year decline of about \$1.4 billion, or 44.5% from the 2008 peak. Fiscal year 2018 is an outlier due to extraordinary collections resulting from repatriation of offshore hedge fund income and investor behavior

in anticipation of the Tax Cuts and Jobs Act of 2017. Beginning in FY 2019, the state began receiving revenue from its new Pass-through Entity Tax which was carved out of the income tax; for multi-year comparative purposes it has been included in the graphic at right.



Sales and Use Tax

Revenue from the Sales and Use Tax is the second largest revenue source for the General Fund. The forecast for this tax projects growth in the mid 2% range over the next few fiscal years, as shown in the graph at right. Each 1.0% change in the Sales and Use Tax growth rate results in a revenue change of about \$45 million.



FY 2021 TO FY 2024 - SPECIAL TRANSPORTATION FUND OUTLOOK

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

PROJECTED GROWTH IN EXPENDITURES

FIXED COST DRIVERS

(Amounts Represent Year Over Year Change)

SPECIAL TRANSPORTATION FUND	FY 2022 Increase over FY 2021	FY 2023 Increase over FY 2022	FY 2024 Increase over FY 2023
OTT - Debt Service	\$ 89,963,492	\$ 70,218,757	\$ 61,943,253
OSC - Other Post Employment Benefits	364,377	100,000	(3,492,176)
OSC - SERS Defined Contribution Match	234,421	481,600	372,829
OSC - State Employees Retirement Contributions - Normal Cost	165,098	(234,236)	(412,781)
OSC - State Employees Retirement Contributions - UAL	14,959,961	14,556,855	2,466,117
TOTAL - SPECIAL TRANSPORTATION FUND	\$ 105,687,349	\$ 85,122,976	\$ 60,877,242

Assumptions Used to Develop Growth Estimates for Fixed Costs

The FY 2022 column in the table above represents the anticipated increase in spending over the FY 2021 estimated level. The FY 2023 and FY 2024 columns reflect the estimated increases over FY 2022 and FY 2023, respectively.

Revenue

The November consensus forecast projects Special Transportation Fund revenues at \$1.69 billion in FY 2021. The table below shows the detailed revenue estimates.

PROJECTED REVENUES

Consensus Revenue Forecast - November 10, 2020

(In Millions)

Special Transportation Fund

<u>Taxes</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
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
Total Taxes	\$ 1,193.7	\$ 1,420.5	\$ 1,559.3	\$ 1,596.8
Less 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
 <u>Other Sources</u>				
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)
Less Refunds of Payments	(5.2)	(5.0)	(5.0)	(5.0)
Total - Other Sources	\$ 511.9	\$ 413.9	\$ 416.5	\$ 426.3
Total - STF Revenues	\$ 1,690.6	\$ 1,818.9	\$ 1,959.6	\$ 2,006.2

Note: The above schedule reflects the November 10, 2020 consensus revenue estimates pursuant to C.G.S. 2-36c.

Economic Growth Rates for Special Transportation Fund Tax Revenues

Modest growth is anticipated over the next few years in the key taxes that support the Special Transportation Fund. The table at right portrays estimated growth rates for the fund’s major tax sources.

ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES

As Estimated by OPM Based Upon the November 10, 2020
Consensus Revenue Forecast
(Percent Change)

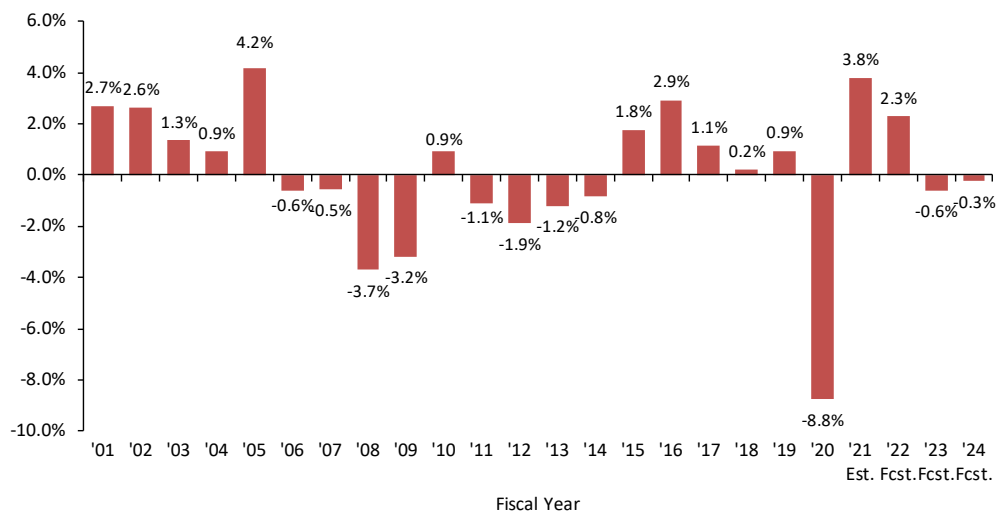
Motor Fuels Tax

The Motor Fuels Tax represents the single largest revenue source for the Transportation Fund at 31.5% of total revenues in FY 2020. The tax includes 25 cents per gallon tax on gasoline fuel and 44.6 cents per gallon tax on diesel fuel, as of July 1, 2020. Nominal revenue growth of the Motor Fuels Tax since FY 2011 to FY 2020 has been -1.1%, equivalent to about -0.1% growth per fiscal year over the past ten years. Growth in this revenue source is highly influenced by economic conditions, the price of motor fuels, and the fuel economy of the existing fleet. The last few fiscal years have shown positive growth in this revenue source, but this growth trend ground to a halt after restrictions were put in place to reduce the spread of the COVID-19 virus. Overall growth in FY 2020 showed a decline in consumption of approximately 8.8% from FY 2019. The current forecast assumes that consumer behavior has been permanently changed and collections will not recover to pre-pandemic expectations over the next five fiscal years. It is expected that growth in motor fuels consumption will naturally turn negative as consumer behavior changes, either through price increases or by increased use of alternatively-powered vehicles. Since FY 2015, new revenue sources have been added to the Special Transportation Fund in order to address this expected lack of growth and reduce the Special Transportation Fund’s reliance on a single slow-growing revenue source. In FY 2020, Motor Fuels Tax revenue was 31.5% of the total revenue deposited in the Special Transportation Fund, down from 45.0% in FY 2010.

Special Transportation Fund

Taxes	2020	2021	2022	2023	2024
Motor Fuels Tax	-8.8	3.8	2.3	-0.6	-0.3
Oil Companies Tax	-26.4	-11.7	21.0	8.8	6.0
Sales and Use Tax	-1.5	-2.9	4.2	2.5	2.5
Sales Tax - DMV	-16.2	13.5	4.2	2.0	1.0

ECONOMIC GROWTH RATES OF THE MOTOR FUELS TAX



LONG-TERM OUTLOOK FOR THE SPECIAL TRANSPORTATION FUND

The near-term health of the Special Transportation Fund (STF) has deteriorated substantially as a result of the COVID-19 pandemic. Reduced oil prices, slowing fuel consumption, and overall economic reductions have reduced the consensus forecast for the STF by a total of \$662.9 million through FY 2024. Despite various revenue diversions from the General Fund over the last several years, including 0.5% of the current sales tax rate, the sales tax from motor vehicle sales, and the full diversion of the oil companies tax, these additions have been insufficient to offset the cost of needed investment. As a result, over the next six years the cumulative fund surplus will decline from \$168.4 million in FY 2020 to an estimated negative \$367.5 million by FY 2026. Immediate action to address these shortfalls will be required. Starting in FY 2025 it is anticipated that, without alternative revenue sources or reductions in investment, the STF will become insolvent.

SPECIAL TRANSPORTATION FUND - STATEMENT OF FINANCIAL CONDITION

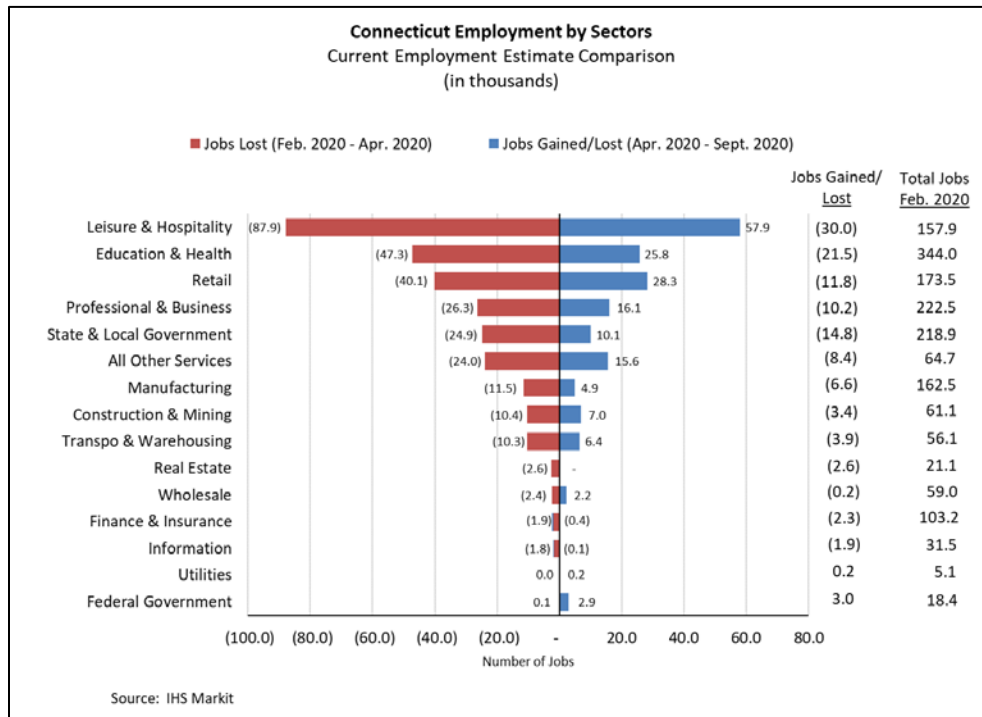
(in Millions)

<u>Actual & Projected Revenues</u>	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Motor Fuels Tax	\$ 488.3	\$ 475.6	\$ 491.4	\$ 497.6	\$ 495.1	\$ 492.6
Oil Companies Tax	203.5	246.3	268.0	284.2	291.3	298.6
Sales & Use Tax - 0.5% Tax	342.1	355.8	364.9	374.0	383.4	392.9
Sales & Use Tax - Car Sales Tax	76.8	256.3	346.8	351.9	360.7	369.7
Sales Tax - DMV	83.0	86.5	88.2	89.1	89.5	90.0
Motor Vehicle Receipts	340.8	263.5	265.6	274.4	268.3	269.9
Licenses, Permits, Fees	135.1	144.8	145.8	146.8	147.4	148.0
Interest Income	4.9	5.1	5.5	6.4	6.5	6.7
Federal Grants	11.8	11.0	10.1	9.2	8.1	6.9
Transfers From/ (To) Other Funds	24.5	(5.5)	(5.5)	(5.5)	(5.5)	(5.5)
Total Refunds	<u>(20.2)</u>	<u>(20.5)</u>	<u>(21.2)</u>	<u>(21.9)</u>	<u>(22.3)</u>	<u>(22.8)</u>
Total Revenue	\$ 1,690.6	\$ 1,818.9	\$ 1,959.6	\$ 2,006.2	\$ 2,022.5	\$ 2,047.0
Revenue Cap Deduction	<u>-</u>	<u>(18.2)</u>	<u>(24.5)</u>	<u>(30.1)</u>	<u>(35.4)</u>	<u>(40.9)</u>
Available Revenue	\$ 1,690.6	\$ 1,800.7	\$ 1,935.1	\$ 1,976.1	\$ 1,987.1	\$ 2,006.1
<u>Projected Debt Service and Expenditures</u>						
Debt Service	\$ 693.8	\$ 783.8	\$ 854.0	\$ 916.0	\$ 970.7	\$ 1,016.3
DOT - Operating Expense	302.3	305.1	312.2	323.4	335.1	347.3
DOT - Bus and Rail	417.5	429.0	434.9	452.4	470.6	489.5
DMV Budgeted Expenses	67.9	71.6	73.8	76.6	79.7	82.8
Fringe Benefits and Other Indirect Costs	257.2	285.3	295.2	297.8	305.9	309.2
Program Costs Paid from Current Operations	13.7	13.7	13.7	14.0	14.2	14.5
Estimated Unallocated Lapses	<u>-</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>
Total Expenditures	\$ 1,752.4	\$ 1,876.5	\$ 1,971.8	\$ 2,068.2	\$ 2,164.2	\$ 2,247.6
Excess (Deficiency)	\$ (61.8)	\$ (75.8)	\$ (36.7)	\$ (92.1)	\$ (177.1)	\$ (241.5)
Cumulative Excess (Deficiency)	\$ 106.6	\$ 49.0	\$ 36.8	\$ (25.2)	\$ (166.9)	\$ (367.5)
Debt Service Coverage Ratio	2.44	2.32	2.29	2.19	2.08	2.01

THE ECONOMY

Prior to the onset of the novel coronavirus-induced recession, Connecticut’s economy had not fully recovered from the Great Recession of 2008. After contracting sharply in 2008, the Connecticut economy experienced slow job growth before reaching full recovery in January 2018 of all private-sector jobs lost during the recession, and subsequently achieving a private-sector job recovery rate of 104.3% in February of 2020, before the COVID-19 recession emerged. Although Connecticut jobs were growing and had recovered 85.7% of all jobs as of February 2020, the coronavirus pandemic and the ensuing nonessential business closures caused a shift in the employment trajectory. At the outset of the pandemic – March and April of 2020 – Connecticut lost 291,300 jobs, or 17.1% of its workforce. The industry most affected by the pandemic related job losses is leisure and hospitality, shedding a total of 87,900 jobs in March and April. Since April, 57,900 jobs have been added back in that sector.

The graphic below shows job losses from the February peak through the end of April, followed by the subsequent gains from May through September totaling 176,900 jobs, or 60.7% of the jobs lost.



Employment recovery from the pandemic-induced recession varies by region, from 87.7% in Enfield to 42.7% in Waterbury. The exhibit at right depicts job recovery in the state’s labor market areas. Connecticut’s unemployment rate in September 2020 was 7.8% compared to 7.9% nationally.

Job Recovery by CT Labor Market Area From Pre-Pandemic Peak to September 2020

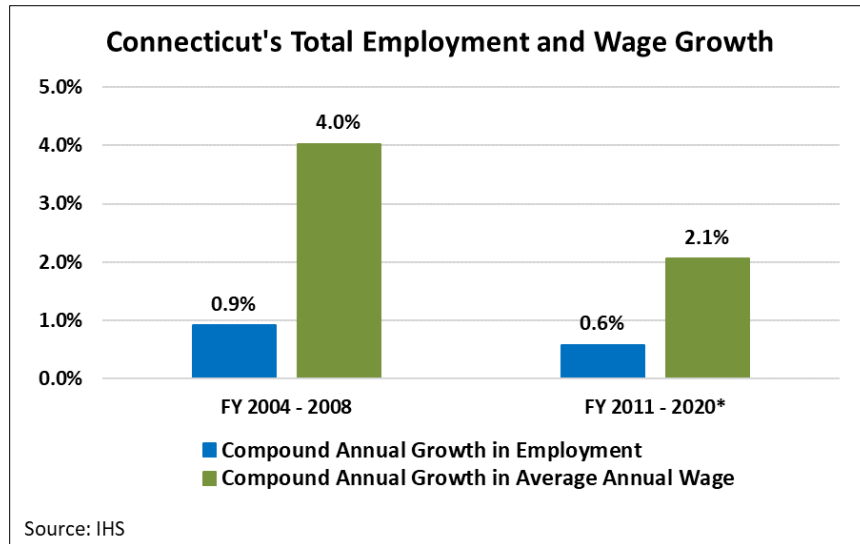
Hartford	56.4%
New Haven	64.0%
Danbury	65.1%
Bridgeport-Stamford-Norwalk	47.8%
Danielson/Northeast*	87.5%
Norwich-New London-Westerly	58.9%
Torrington/Northwest*	80.4%
Waterbury	42.7%
Enfield*	87.7%
Connecticut	60.7%

* Not seasonally adjusted

Source: CT Dept. of Labor

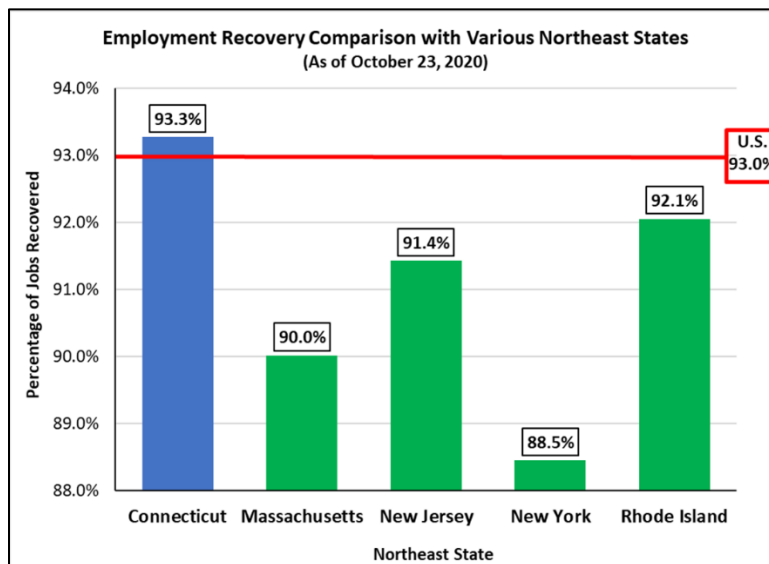
Employment and Wages – Sluggish Employment Recovery and Tepid Wage Growth

Connecticut’s employment growth between mid-2011 and the early months of 2020 is lower than it was prior to the Great Recession. Average annual wages grew 2.1% per year from the end of 2008 to the first quarter of 2020, compared to 4.0% per year before the 2008 recession.



* Fiscal Year 2020 adjusted to exclude impact of pandemic.

The graph below provides a comparison of Connecticut to the nation and our neighboring states on post-pandemic job recovery. Connecticut is faring better than our neighbors and slightly better than the nation as a whole, climbing back to 93.3% of the pre-pandemic employment level.



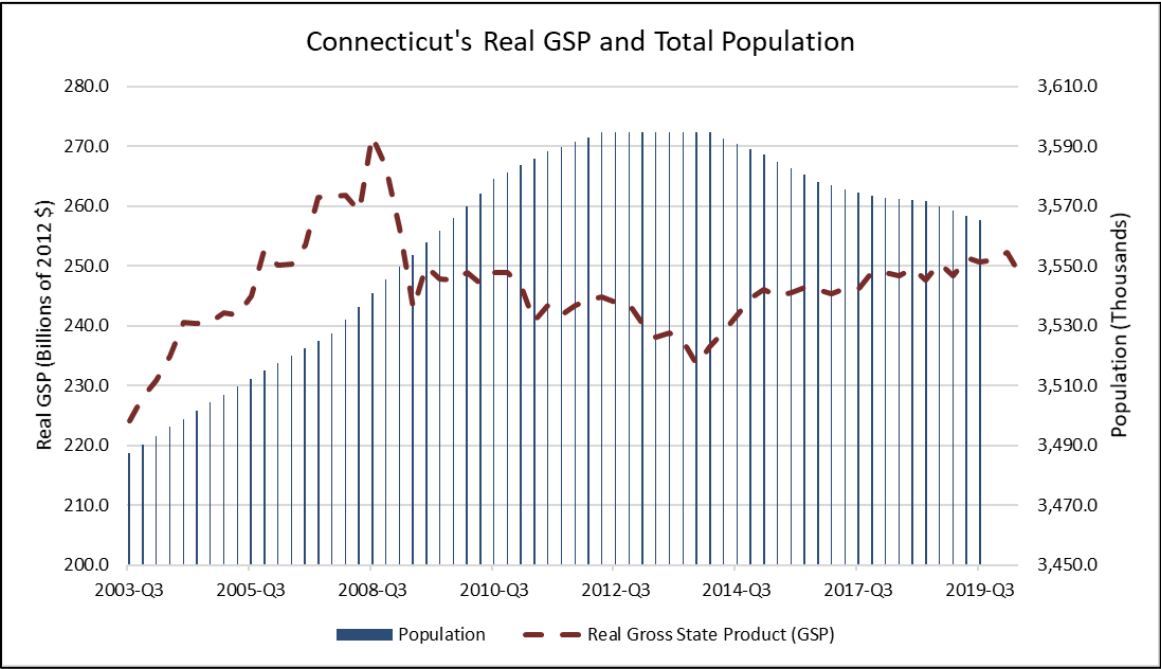
Housing

The housing market similarly remains below its 2008 pre-recession peak. Median home prices peaked at \$324,854 and fell by 10.4% by the second quarter of 2019. Compared with second quarter of 2020, housing prices have recovered somewhat, rising 2.8% to \$299,195. Recent growth in prices is attributable

to post-pandemic record-low interest rates, strong buyer activity, and a constrained supply. However, the median sales price and home sales are still 7.9% and 62.5% below the 2006 peak as of June 2020.

Gross State Product and Population

Connecticut’s real gross state product (GSP), a measure of all goods and services produced in Connecticut, fell 9.1% during the Great Recession. As seen in the graph below, Connecticut’s real GSP continued to fall even after the end of the previous economic recession, and as of June 2020 stood below 2006 levels. Since the onset of the pandemic-induced recession, GSP fell 8.9% from the first quarter of 2020 to the second quarter of 2020. Connecticut’s total population fell by 0.4% between 2013 to 2016, held steady from 2017 to 2018, and declined slowly from 2018 to 2019.



Source: IHS

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

Growth in Various Economic Indicators (2010 to 2019)					
	Employment*	Population	Home Sales	Home Prices	Real GSP
Connecticut	4.7%	-0.4%	17.1%	4.8%	1.4%
Maine	7.2%	1.3%	29.1%	30.6%	9.3%
Massachusetts	14.6%	4.9%	13.8%	39.4%	22.3%
New Hampshire	10.1%	3.3%	28.5%	34.3%	16.2%
New Jersey	9.2%	0.9%	40.1%	13.4%	7.8%
New York	14.6%	0.2%	13.9%	24.8%	17.6%
Rhode Island	9.1%	0.6%	31.2%	32.4%	4.5%
Vermont	6.0%	-0.3%	24.3%	20.3%	6.0%
United States	15.6%	6.1%	27.4%	47.8%	21.7%

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

Connecticut's Economic Projections

The COVID-induced recession has introduced greater uncertainty in the economic outlook and has resulted in uncertain economic forecasts. Although projections for some of Connecticut's major economic indicators have improved since the depths of the pandemic in April, those forecasts remain appreciably below what was being forecast in January 2020, prior to the outbreak.

	Jan. 15, 2020 Consensus Estimate	Oct. 20, 2020 Current Estimate	Change	Percent Change
CT Real G.D.P. (2012 \$B)	253.7	248.5	(5.2)	-2.0%
CT Personal Income (\$B)	298.2	284.6	(13.6)	-4.6%
CT Wages and Salaries (\$B)	129.1	123.1	(6.0)	-4.6%
CT Employment (Thousands)	1,703.6	1,607.0	(96.6)	-5.7%
CT Unemployment Rate	3.6%	7.1%	3.5%	96.3%

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

The table below shows projections for various economic indicators for Connecticut over the biennium. Growth in real GSP is projected to remain on average at 2% over the forecast period. However, personal income saw a recent decline and is anticipated to show average growth of about 3% in the outyears. Growth in wages and salaries showed some recent strength and is anticipated to remain close to 4% over the biennium

State of Connecticut Key Economic Indicator Recoveries			
	Pre Pandemic Peak	Low Point	Years Until Recovery
Real Gross State Product (2012 \$B)	\$ 252,214.6 Q4 2019	-10.3% Q2 2020	1.75 Q3 2021
Wages and Salaries (\$B)	\$ 121,406.4 Q1 2020	-6.7% Q2 2020	0.75 Q4 2020
Employment (K)	1,691.2 Q1 2020	-14.1% Q2 2020	3.75 Q4 2023
Unemployment Rate*	3.63% Q1 2020	9.31% Q2 2020	3.5 Q3 2023

*Low point indicates the actual unemployment rate for Q2 2020.

Source: IHS Markit
As of October 26, 2020

When we
expect to reach
pre-pandemic
levels

and beyond. Connecticut's employment growth is projected to peak at 3.2% in FY 2022, but then slow and decline to 0.6% by FY 2024. The unemployment rate is projected to steadily improve over the forecast period. The projected population remains flat throughout the forecast period.

Connecticut Economic Indicators

(Year-Over-Year Changes)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Real G.D.P.	0.4%	0.8%	0.6%	-2.3%	1.7%	2.7%	2.4%	1.8%
Personal Income	1.5%	3.7%	4.2%	2.9%	1.5%	0.9%	4.0%	3.7%
Wages & Salaries	0.2%	2.1%	2.9%	-0.3%	3.6%	5.0%	4.3%	3.7%
Unemployment Rate	4.9%	4.5%	3.8%	5.1%	7.1%	5.1%	3.9%	3.5%
Total Employment	0.2%	0.1%	0.1%	-3.5%	-1.5%	3.2%	1.4%	0.6%
Population	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%
Housing Starts	-18.5%	-4.0%	2.3%	22.5%	-11.2%	2.0%	1.2%	2.2%
U.S. C.P.I. - U	1.9%	2.3%	2.1%	1.6%	1.9%	2.7%	2.0%	1.8%

Source: IHS

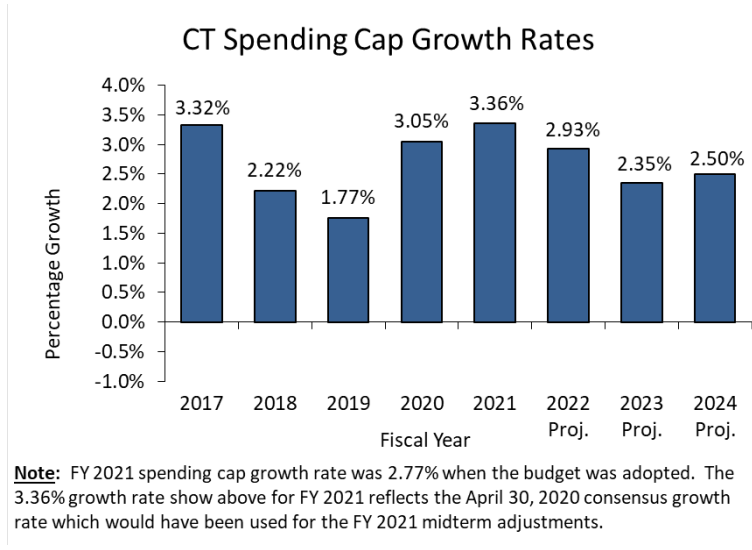
SPECIAL TOPICS

The 2017 and 2018 legislative sessions saw enactment of several caps and limitations that impact budgeting for the FY 2020 – FY 2021 biennium and subsequent biennia. These measures include adopting definitions that gave effect to the constitutional spending cap, a limitation on how much revenue can be appropriated, and a measure that directs above-average collections from volatile revenue sources to the Budget Reserve Fund. A brief description of the caps and limitations follows.

Spending Cap

The state’s constitutional and statutory “spending” or “expenditure” cap is, in reality, a limit on the amount of appropriations the General Assembly can authorize in a given year. The cap limits growth in “general budget expenditures” to the greater of the average five-year increase in personal income or the increase in inflation.¹

Given the state’s low growth in personal income in FY 2018 and FY 2019, the core consumer price index was the limiting factor for those years. Personal income is the limiting factor in FY 2020 and beyond. The enacted budget was below the cap by \$0.2 million for FY 2020 and \$5.0 million for FY 2021. The growth rate in FY 2021 was 2.77% when the budget was adopted and allowed capped expenditures to grow by approximately \$407 million over FY 2020 levels.



Revenue Cap

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

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

¹ "Increase in personal income" is defined as the compound annual growth rate of personal income in the state over the preceding five calendar years. "Increase in inflation" is defined as the increase in the consumer price index for all urban consumers, all items less food and energy, during the preceding calendar year. "General budget expenditures" are defined as expenditures from all appropriated funds, excluding the following: debt service; deposits to the Budget Reserve Fund; expenditures of federal funds; federally mandated or court ordered expenditures (in their first year); expenditures for federal programs for which the state receives federal matching funds (in their first year); payment of the unfunded liability for the state employee and judicial retirement systems through FY 2022; and payment of the unfunded liability for teachers through FY 2026.

Revenue Volatility Cap

The revenue volatility cap directs any collections from the estimated and finals component of the Personal Income Tax plus the Pass-through Entity Tax that in total exceed a designated threshold (adjusted for personal income growth) to the Budget Reserve Fund. The transfer threshold is indexed to the five-year compound annual growth rate in personal income and is estimated as shown in the table at right. See page 40 for a discussion of the Budget Reserve Fund.

Fiscal Year	Revenue Volatility Threshold (in millions)
2020	\$ 3,294.2
2021	\$ 3,404.9
2022	\$ 3,504.7
2023	\$ 3,586.9
2024	\$ 3,676.6

LONG-TERM LIABILITIES

The long-term liabilities facing the state include obligations to fully fund the State Employees Retirement System and the Teachers’ Retirement System, pay for other post-employment benefits (OPEB), retire outstanding debt service costs, and close the cumulative GAAP deficit. The state’s current long-term obligations total \$91.6 billion. It should be noted, however, that an updated valuation for the State Employee Retirement System is anticipated prior to the end of 2020. The table below depicts the components of these long-term liabilities, and a discussion of each follows.

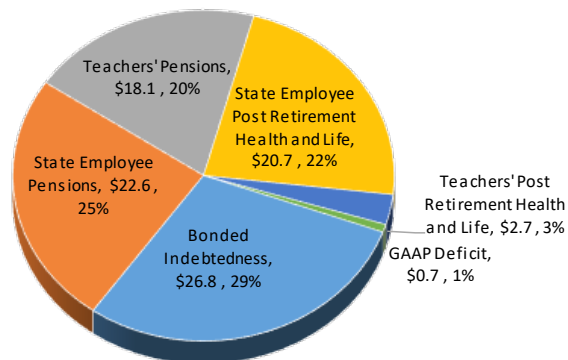
LONG-TERM OBLIGATIONS

(In Billions)

Bonded Indebtedness – As of 6/30/20	\$26.8
State Employee Pensions – Unfunded as of 6/30/20*	22.6
Teachers’ Pension – Unfunded as of 6/30/20	18.1
State Employee Post-Retirement Health and Life – Unfunded as of 6/30/17	20.7
Teachers’ Post-Retirement Health and Life – Unfunded as of 6/30/20	2.7
Cumulative GAAP Deficit – As of 6/30/20	<u>0.7</u>
Total	\$91.6

* Roll forward of the June 30, 2019 valuation incorporating June 30, 2020 asset information.

Long Term Liabilities
(in billions)

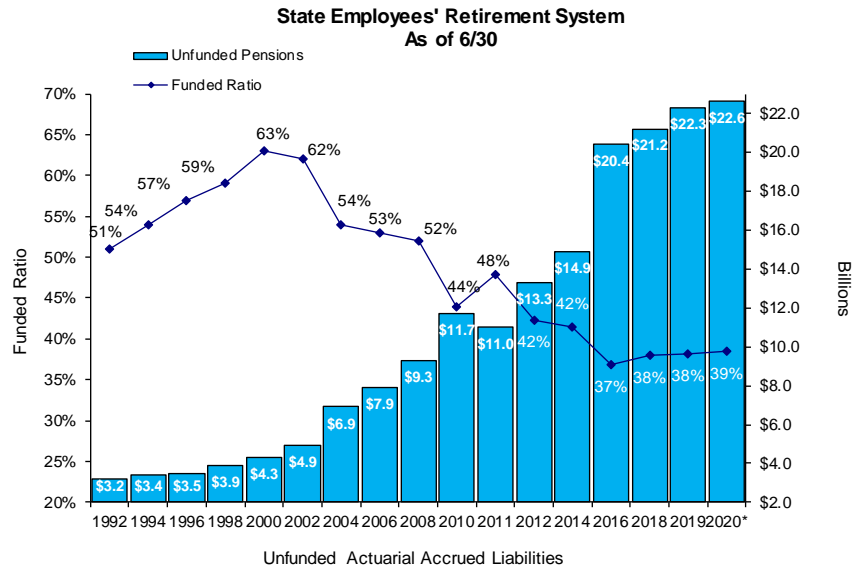


PENSIONS

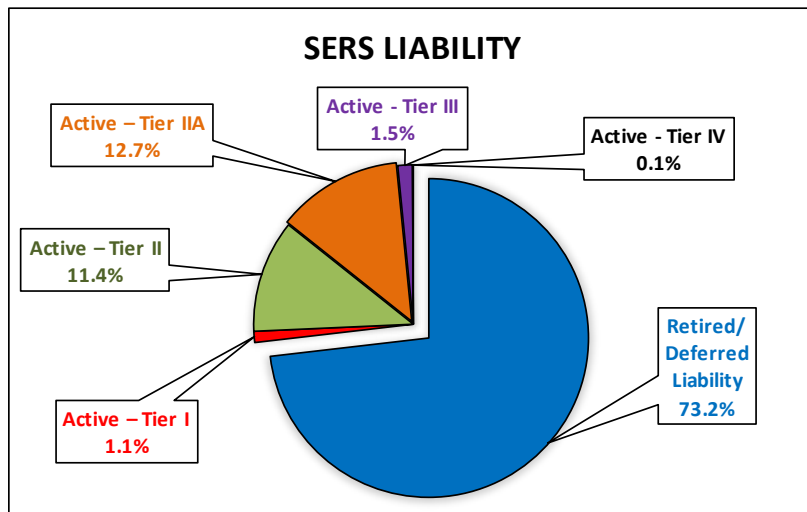
The state is the sponsor of two large pension systems, one for state employees and one for teachers (SERS and TRS), as well as several smaller retirement plans for judges, family support magistrates and compensation commissioners; and for probate judges and employees.

State Employees Retirement System (SERS)

The state's unfunded SERS obligation at the end of FY 2019 totaled \$22.3 billion. The funded ratio was 38.2%. The rate of return on the market value of the plan's assets was 2.3% for 2020 and was below the assumed return rate of 6.9%. Applying these market results to the June 30, 2019, valuation would result in an increase in the unfunded liability from \$22.3 billion as of June 30, 2019, to \$22.6 billion as of June 30, 2020. Despite this increase, the funded ratio would increase slightly to 38.5% as of June 30, 2020. The final June 30, 2020 valuation is expected in December 2020.



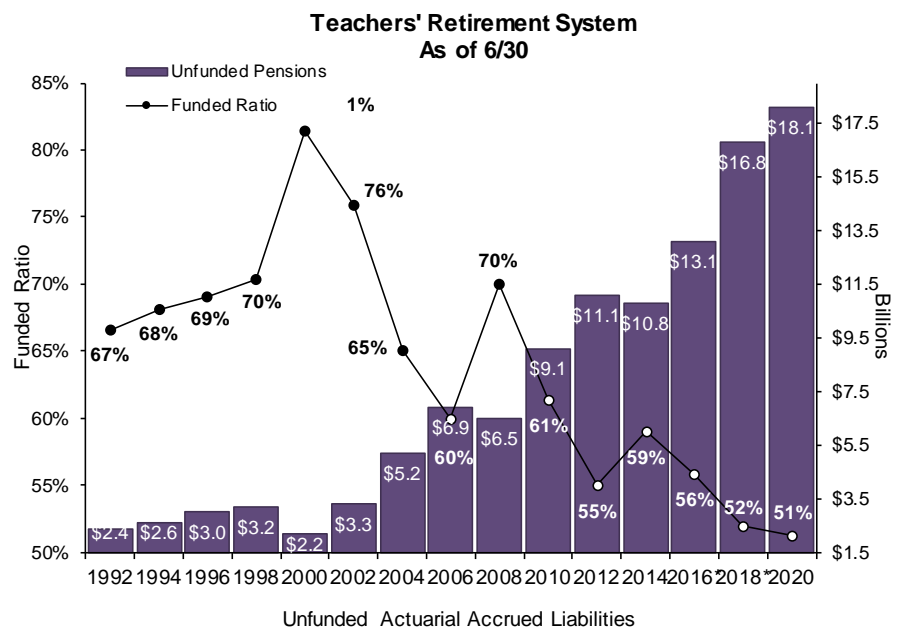
The total SERS liability is \$36.1 billion, with \$22.3 billion the unfunded portion of that liability. Most of the liability – 73.2% – is related to already-retired employees. The pie chart and table that follow show the proportions of liability attributable to active employees and retirees. The overwhelming majority of the state's contributions in FY 2021 – 88% – is to address the unfunded actuarial accrued liability.



Liability Based on 6/30/19 Valuation (\$ in Thousands)		
Retired/Deferred Liability	26,401,341	73.2%
Active – Tier I Hazardous	740	0.0%
Active – Tier IB	389,401	1.1%
Active – Tier IC	18,649	0.1%
Active – Tier II Hazardous	450,709	1.2%
Active - Tier II Hybrid Plan	238,605	0.7%
Active – Tier II Others	3,432,412	9.5%
Active – Tier IIA Hazardous	1,774,952	4.9%
Active - Tier IIA Hybrid Plan	216,686	0.6%
Active – Tier IIA Others	2,601,189	7.2%
Active - Tier III Hazardous	163,422	0.5%
Active - Tier III Hybrid	29,580	0.1%
Active - Tier III Others	339,900	0.9%
Active - Tier IV Hazardous	6,691	0.0%
Active - Tier IV Hybrid	1,854	0.0%
Active - Tier IV Others	21,807	0.1%
Total Accrued Liability	36,087,938	
Actuarial Value of Assets	13,795,389	
Unfunded Accrued Liability	22,292,549	
Normal cost	210,242	
Amortization of Unfunded Accrued Liability	1,596,466	
FY 2021 Actuarially Determined Employer Contribution	1,806,708	

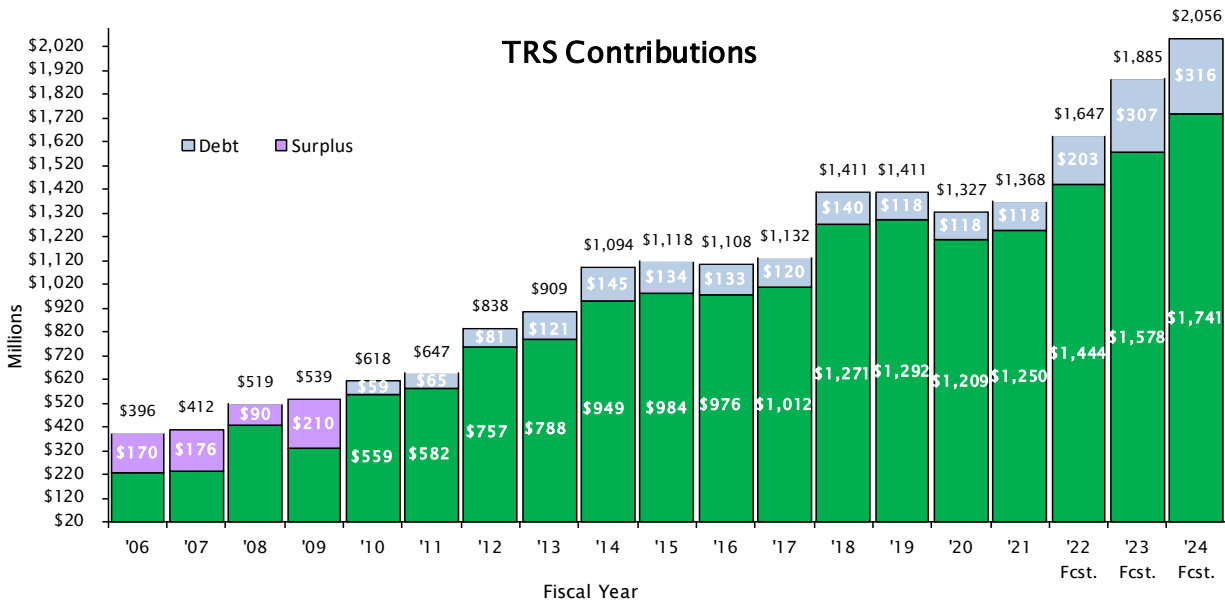
Teachers' Retirement System (TRS)

The state's TRS unfunded liability at the end of FY 2020 totaled \$19.1 billion, a \$1.1 billion increase from the end of FY 2018. Approximately \$1.02 billion of this amount is attributable to changes in actuarial assumptions as recommended from the Experience Investigation for the Five-Year Period Ending June 30, 2019. While market value investment returns were 5.71% in 2019 and 2.30% in 2020 – an average of 3.99% compared to the assumed rate of 6.9% – TRS employs four-year asset smoothing which



results in a two-year compound return of 6.11%, resulting in a \$283 million loss.

The following graph depicts the increase in contributions to the TRS. In FYs 2006 through 2009, contributions were supplemented with surplus funds. The bars in the graph for FY 2010 and beyond include debt service on the \$2.3 billion pension obligation bonds issued on April 30, 2008 for the benefit of the Teachers’ Retirement System. Contributions grew in FYs 2018 and 2019 to reflect the impact of lowering the assumed rate of investment return to 8% from 8.5%. In FY 2020 the assumed rate was further reduced to 6.9%.

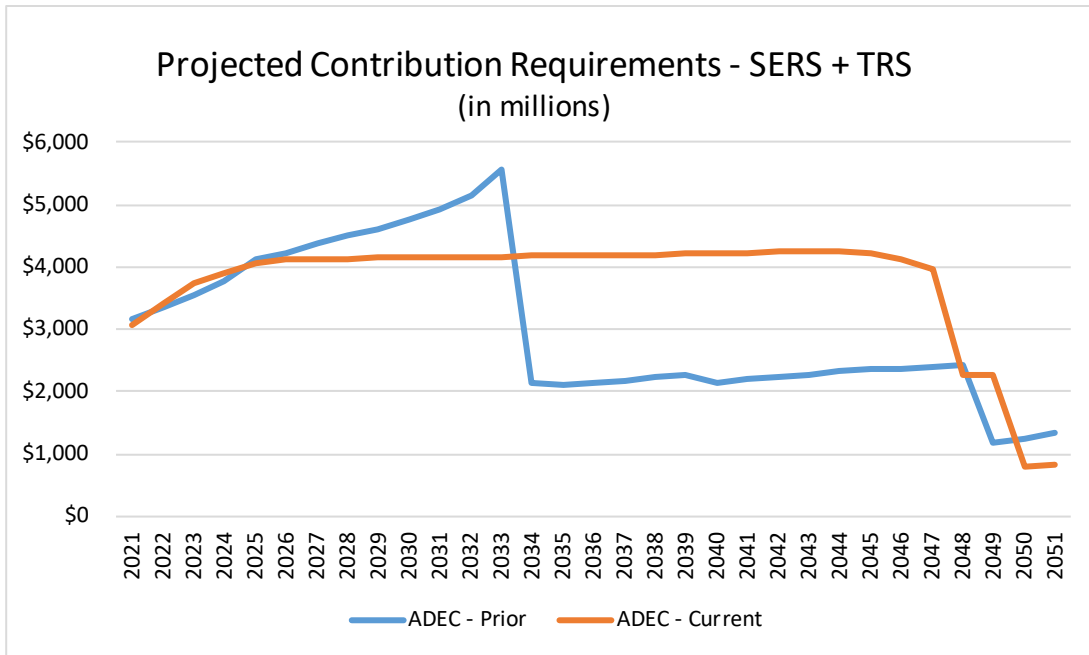


OUTLOOK FOR SERS AND TRS

As noted above, the state is the sponsor of two large pension systems, one for state employees and one for teachers (SERS and TRS). Both systems are underfunded as a result of many decades of insufficient contributions to fund the promises made to generations of employees. Each system requires annual state contributions of over \$1 billion now, and those are each expected to rise to over \$2 billion or more in the coming years. Until recently, both systems were required to pay down virtually all of the unfunded liability by 2032, regardless of market performance in the meantime. Several changes have been implemented in recent years.

Recent Pension Changes

The 2019 legislative session yielded changes to both the State Employees Retirement System (SERS) and the Teachers’ Retirement System (TRS). These changes have resulted in a much steadier stream of projected contribution requirements as seen in the following graph.



SERS underwent a re-amortization of its unfunded actuarial accrued liability (UAAL). Previously, the UAAL was split into a statutory base and a transitional base. The statutory base was the portion of the UAAL attributable to the plan as of 1984 and the transitional base was the remainder of the UAAL. The statutory base had 13 years remaining in the amortization period while the transitional base had 28 years. With the approval of SEBAC leadership, the statutory and transitional bases were combined and re-amortized over a new 30-year period. This reduced the FY 2020 state contribution from \$1,773 million to \$1,616 million, a savings of \$157 million.

Public Act 19-117 contained language to stabilize the Teachers’ Retirement Fund. It established the Teachers’ Retirement Fund Special Capital Reserve Fund (SCRF). The purpose of the SCRF is to provide adequate provision for the protection of the holders of the pension obligation bonds issued by the state in 2008. The reserve was funded by a one-time deposit of \$380,901,225 from the FY 2019 surplus, and, in the unlikely event that the reserve fund is ever drawn upon, bondholders are further protected by a pledge of lottery revenue to replenish the reserve.

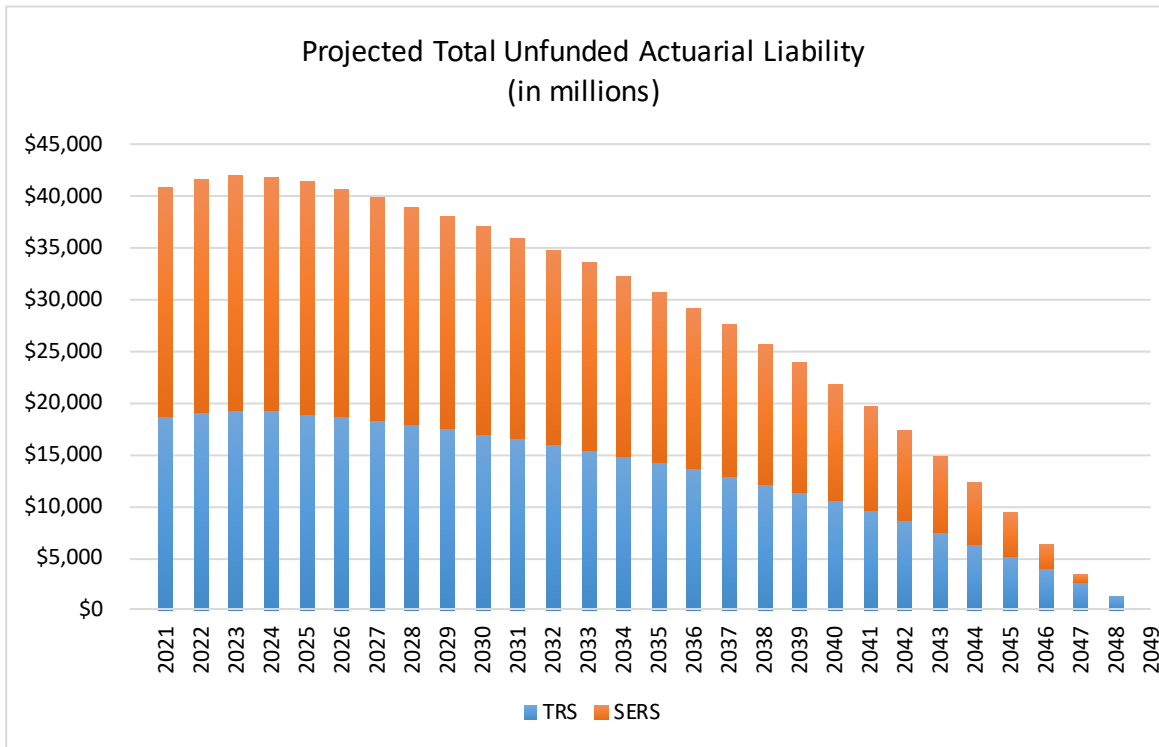
The public act included changes to the TRS actuarial factors and assumptions similar to the changes made to SERS several years ago. These included:

- Reduction of the assumed investment rate of return from 8.0 percent to 6.9 percent, a more realistic assumption that both increases the likelihood that the fund will meet the targeted return as well as reducing the magnitude of the miss when market returns are down.
- Re-amortization of the unfunded liability over a new 30-year period, which allows the impact of adopting realistic assumptions to be spread out over a longer period.
- Transition of the amortization method from level percent of payroll to level dollar, phased in over a five-year period.
- Layering of future gains and losses amortized over new 25-year periods.

There were two additional changes to TRS. First, the amount of credited interest on the mandatory contributions is limited to 4%. Second, the partial refund payment (Option N) factor was increased from 25% to 50%.

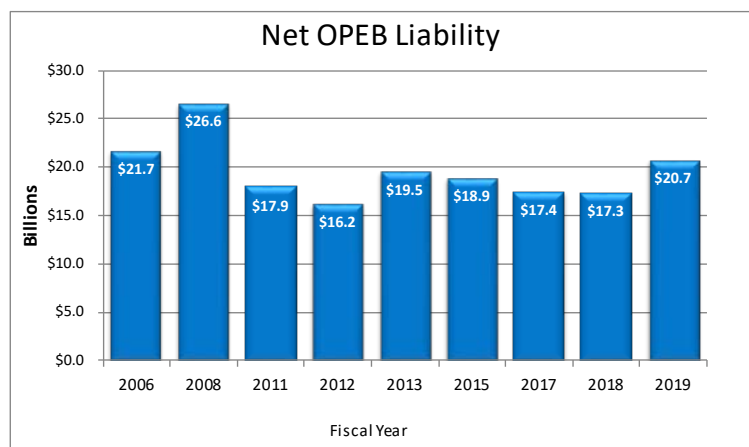
The combined impact of the changes to TRS reduced the state contribution from \$1,392 million to \$1,209 million in FY 2020, a savings of \$183 million.

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



OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Other post-employment benefits (OPEB) include non-pension related benefits for retirees such as health care, dental coverage and life insurance. Until FY 2010, benefits were budgeted on a “pay as you go” (PAYGO) basis, meaning that the state appropriated funds sufficient to pay for anticipated OPEB costs during the budget period. As with pension accounting, the PAYGO approach does not capture the current value of benefits promised during future periods, i.e., unfunded liabilities. The Governmental Accounting Standards Board



requires states to report the unfunded liabilities for OPEB. The most recent OPEB valuation (as of June 30, 2019) shows the net OPEB liability (NOL) at \$20.7 billion, a \$3.4 billion increase from the prior valuation.

The NOL had been expected to increase to \$17.9 billion due to normal plan operations. The difference between the actual and expected NOL is mainly due to valuation assumption changes that involved updating the per capita health costs and future trend on such costs and lowering the discount rate from 3.95% to 3.58%.

The state is currently implementing several new initiatives whose impact will be reflected in future OPEB valuations. These initiatives include:

- Designating Networks of Distinction comprised of high performing hospitals and groups that provide better than average quality and efficiency;
- Designating Centers of Excellence for the highest performing groups that not only provide better than average quality and efficiency but also exceed specific health metrics;
- Creating a new narrow network plan, called BlueCare Prime, with lower premiums and in and out of network deductibles;
- Implementing the Livongo Diabetes Management and Diabetes Prevention programs;
- Expanding the use of the BlueCare Prime referral tool, used to identify and refer to high performing specialists, to state employees in the POE and POS plans; and
- Utilizing the United Healthcare network for Medicare Advantage hearing aids.

In FY 2008, the state began the process of setting aside funds in trust to address the OPEB unfunded liability. While not a full actuarial funding approach, setting aside funds now could begin a long-term transition to actuarial pre-funding of OPEB costs. The 2009 and 2011 SEBAC agreements introduced employee contributions, and now all state employees contribute 3% to the OPEB trust fund, with the state matching those employee contributions. The table at right depicts OPEB contributions by both employees and the state. As of September 30, 2020, the OPEB trust fund has a market value of \$1,558.4 million and is the fourth largest investment fund managed by the Treasurer’s Office after the State Employees Retirement Fund, Teachers’ Retirement Fund and the Municipal Employees Retirement Fund.

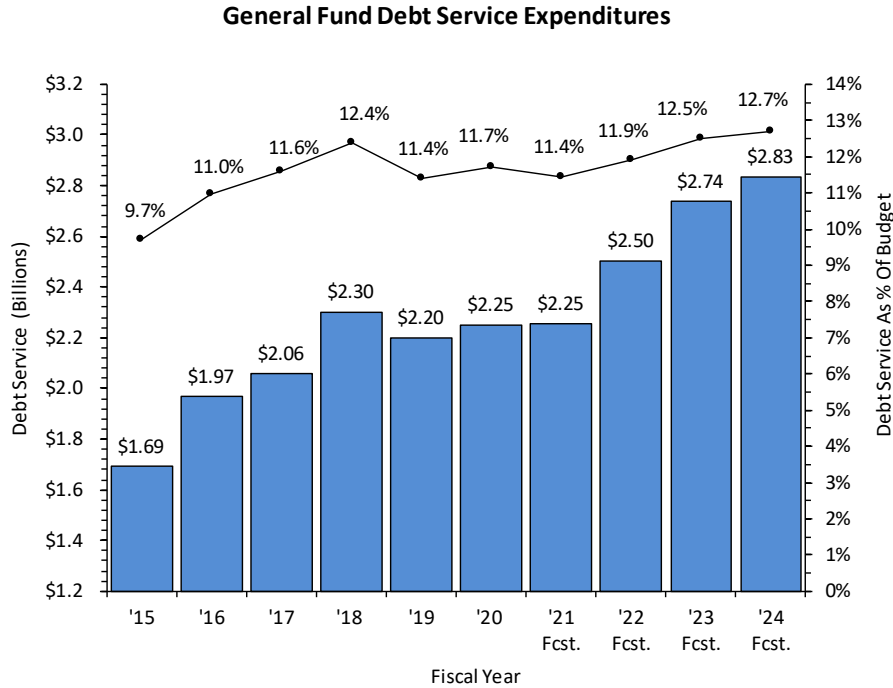
Other Post-Employment Benefits Summary of Contributions			
	Employee	State	Total
<u>Fiscal Year</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributions</u>
2007-08	-	\$10.0	\$10.0
2008-09	-	-	\$0.0
2009-10	\$1.4	-	\$1.4
2010-11	\$21.6	\$14.5	\$36.1
2011-12	\$25.0	-	\$25.0
2012-13	\$27.5	-	\$27.5
2013-14	\$45.5	-	\$45.5
2014-15	\$93.3	-	\$93.3
2015-16	\$125.2	-	\$125.2
2016-17	\$120.8	-	\$120.8
2017-18	\$116.8	\$122.2	\$239.0
2018-19	\$116.5	\$125.8	\$242.3
2019-20	\$120.6	\$126.5	\$247.1
2020-21 est.	\$107.1	\$111.6	\$218.7
Total	\$921.3	\$510.6	\$1,431.9

Excludes investment earnings

* In Millions

DEBT SERVICE

The graph below shows debt service as a proportion of General Fund expenditures. Debt service is projected to grow from just under 10% of the General Fund in FY 2015 to nearly 13% by FY 2024.

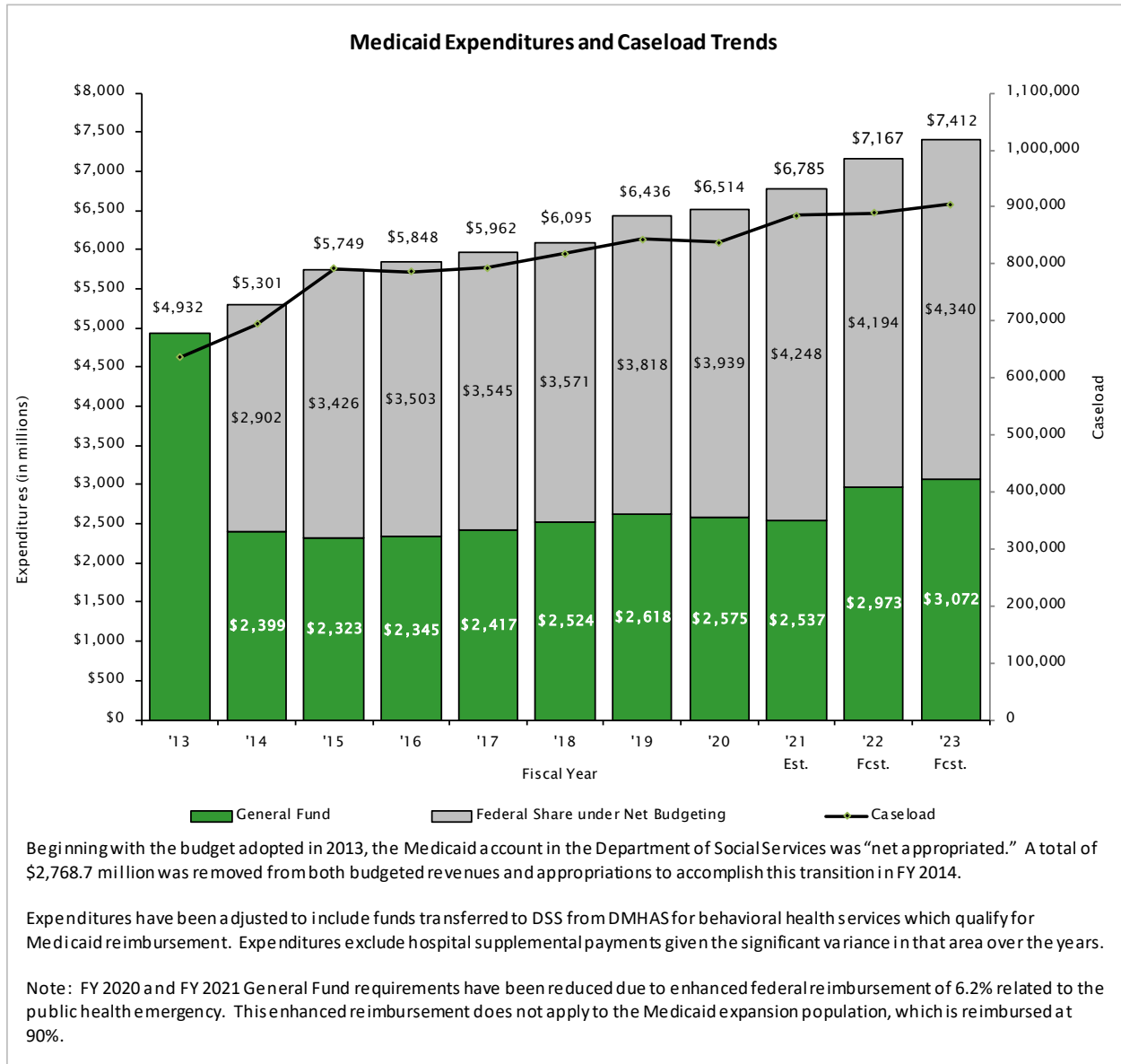


MEDICAID

Medicaid expenditure growth over the past decade has been affected by caseload growth and limited rate increases, which have been mitigated in part through efforts to increase care coordination and deliver cost efficiencies. The Medicaid expansion for low-income adults, which was first approved by the federal government in June 2010, has driven significant increases in caseload and program costs. Expenditures for this program, now known as HUSKY D, increased from \$228.7 million in FY 2010 to \$769.0 million in FY 2013. The state further expanded Medicaid coverage for low-income adults by increasing income eligibility to 138% of the federal poverty level beginning January 1, 2014, resulting in significant additional growth. As a result of this expansion, the HUSKY D caseload has grown from 46,156 in June 2010 to 292,311 in September 2020. HUSKY D expenditures have increased from \$916.6 million in FY 2014 to \$1,878.1 million in FY 2020, the majority of which was supported with enhanced federal reimbursement as shown in the table below.

Calendar Year	2014 – 2016	2017	2018	2019	2020+
Federal Reimbursement	100%	95%	94%	93%	90%

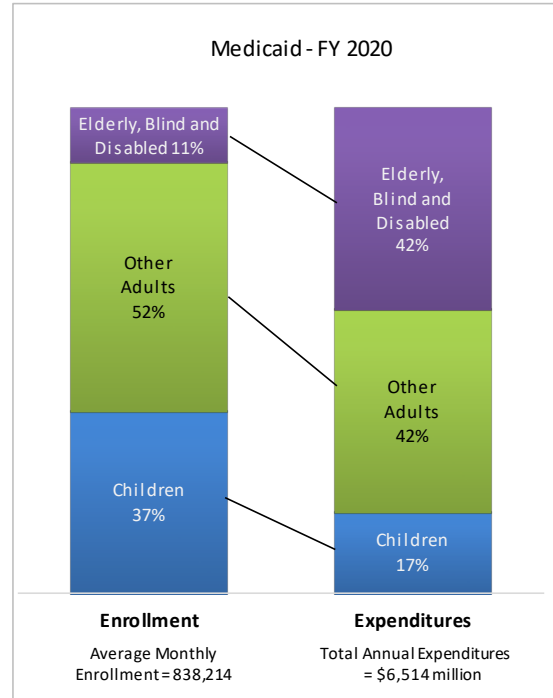
The graph below shows total Medicaid costs in the Department of Social Services as well as state and federal shares of the total, and total enrollment.



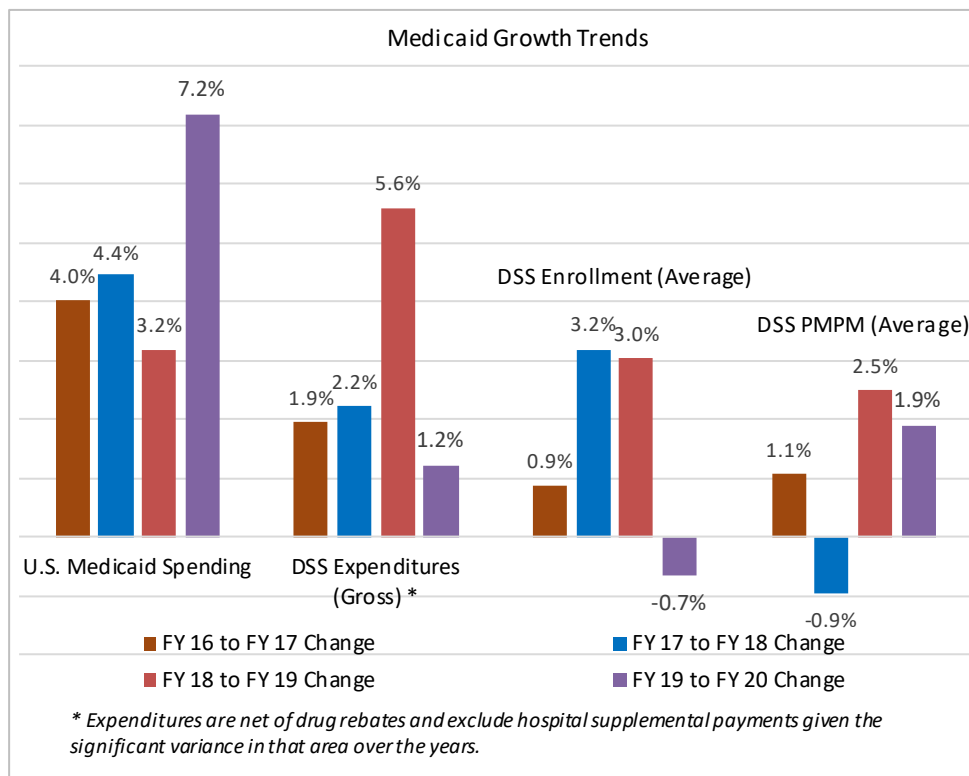
Despite an overall increase in total Medicaid expenditures of over 4% annually from FY 2013 through FY 2020, the state share of those costs only rose by 0.7% per year on average over that period.

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

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



In contrast to almost all other Medicaid programs across the nation, Connecticut Medicaid uses a self-insured, managed, fee-for-service approach rather than a managed care arrangement. It is one of the very few Medicaid programs with relatively steady expenditures on a per member, per month (PMPM) basis, growing on average at just over 1% per year since FY 2016.



MUNICIPAL AID

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

STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS

(in Millions)

General Government	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
State Owned PILOT	\$ 54.9	\$ 54.9	\$ 54.9	\$ 54.9	\$ 54.9
College & Hospital PILOT	109.9	109.9	109.9	109.9	109.9
Mashantucket Pequot & Mohegan Grant	51.5	51.5	51.5	51.5	51.5
Town Aid Road Grant	60.0	60.0	60.0	60.0	60.0
LoCIP	30.0	30.0	30.0	30.0	30.0
Grants for Municipal Projects	76.0	76.0	76.0	76.0	76.0
Regional Performance Incentive Account	4.3	9.3	8.0	8.2	8.4
Municipal Revenue Sharing Account ¹	-	-	355.8	364.9	374.0
Municipal Transition ¹	29.9	32.3	-	-	-
Municipal Revenue Sharing (P.A. 19-117) ¹	36.8	36.8	-	-	-
Municipal Stabilization Grants ¹	38.0	38.0	-	-	-
Municipal Restructuring	7.3	7.3	7.3	7.3	7.3
Municipal Restructuring: Debt Service	45.7	56.3	54.7	54.1	51.3
Misc. General Government Grants	29.6	27.3	24.0	24.0	24.0
Subtotal³ - General Government	\$ 573.9	\$ 589.6	\$ 832.1	\$ 840.8	\$ 847.3
Education					
Adult Education	\$ 20.4	\$ 20.4	\$ 21.2	\$ 21.3	\$ 21.4
Education Cost Sharing	2,048.3	2,099.0	2,123.6	2,153.5	2,183.7
Magnet Schools	288.7	294.9	297.5	300.1	300.1
Special Education - Student Based	140.6	140.6	207.4	212.4	217.4
Local School Construction	450.0	450.0	450.0	450.0	450.0
Misc. Education Grants	191.9	192.8	193.6	194.7	195.8
Subtotal³ - Education	\$ 3,139.9	\$ 3,197.7	\$ 3,293.3	\$ 3,332.0	\$ 3,368.4
Local Teachers' Retirement					
Retiree Health Service Cost	\$ 24.1	\$ 24.9	\$ 26.7	\$ 29.9	\$ 31.7
Municipal Retiree Health Insurance Cost	5.1	5.2	\$ 5.1	\$ 5.1	\$ 5.1
Retirement Contributions	1,208.8	1,249.8	\$ 1,443.7	\$ 1,578.0	\$ 1,740.7
Debt Service - Pension Obligation Bonds	118.4	118.4	\$ 203.1	\$ 306.7	\$ 315.7
Subtotal³ - Local Teachers' Retirement	\$ 1,356.4	\$ 1,398.3	\$ 1,678.6	\$ 1,919.7	\$ 2,093.2

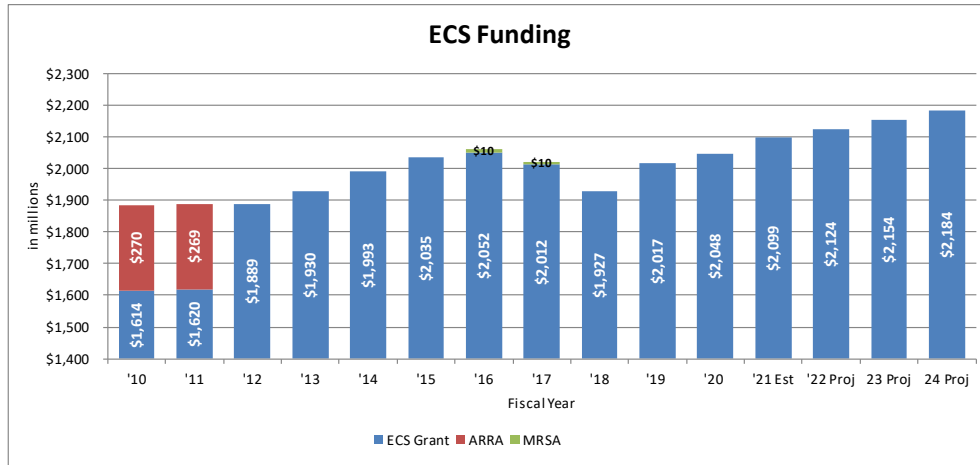
Total² - Aid to Municipalities \$ 5,070.2 \$ 5,185.6 \$ 5,804.0 \$ 6,092.5 \$ 6,308.9

1. Outyear projections for Municipal Revenue Sharing Account (MRSA) grants are based on revenue projections pursuant to section 4-66I of the General Statutes. Revenue to MRSA has been suspended until FY 2022 and municipal aid has been appropriated via payment lists in public acts instead. Under current law, payment lists for the indicated grants expire after FY 2021 and the MRSA formulas will resume in FY 2022.

2. Totals may not sum due to rounding.

Education Cost Sharing Grants

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

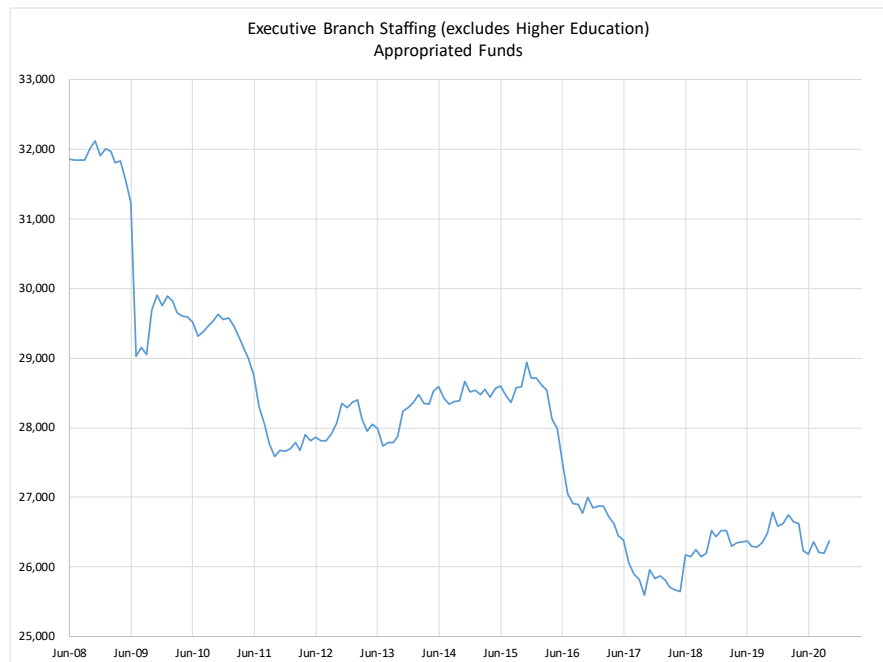


Note: The budget for FY 2010 and FY 2011 included federal ARRA SFSF funding of \$269 million (14% of the grant). From FY 2013 to FY 2016, Charter School Grants were appropriated under the ECS grant. Charter School funding is not included in the graph above. The Education Cost Sharing Grant was supplemented by \$10 million in FY 2016 and FY 2017 from the Municipal Revenue Sharing Account (MRSA).

STATE WORKFORCE

Long-Term Staffing Trends

After falling dramatically between 2009 and 2018, the number of state employees in the executive branch of state government has remained relatively constant over the past several years. As of the end of October 2020, there were 26,374 permanent full-time employees being paid from appropriated funds in the executive branch (excluding higher education). This staffing level is 5,534 employees, or 17.2%, lower than the number at the end of fiscal year 2008. To take a longer perspective, this means that, when adjusted



for changes in state population, executive branch agencies have fewer staff than at any time since the 1950s. This workforce reduction has resulted in significant budget savings, as state employee wages and salaries now account for less than one-eighth of the General Fund budget.

The State of Connecticut faces the possibility that up to 25 percent, or approximately 8,700 state non-higher education employees, may be eligible for retirement, either under normal or early retirement provisions, and that an unusually large number of employees may elect to leave their jobs by June 30, 2022. As a result, planning for the ongoing continuity of operations is underway to ensure that the large potential exodus of experienced employees can be sufficiently navigated and results in an efficient and effective agency structure. Concurrently, this potential exodus will occur on the heels of the COVID-19 pandemic which has dramatically impacted the state's economy, and with it the way in which work is performed. In looking to the future, the state will need to address whether and to what extent to adopt teleworking models, adapt office space to accommodate social distancing, and consider technologies to streamline and reduce touchpoints.

FEDERAL BUDGET AND POLICY ISSUES

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

- Because appropriations for federal fiscal year (FFY) 2021 have not yet been signed into law, a continuing resolution (CR) is in place to keep the federal government operating through December 11. In the absence of an agreement on either appropriations or an extension of the CR, a government shutdown would ensue.
- With the transition of administrations and with control of the Senate still undecided, the prospects for additional economic stimulus, federal aid for state and local governments as well as resources for addressing the coronavirus pandemic are unclear.
- Under the federal Budget Control Act, enacted in 2011, several key programs are automatically subject to mandatory sequestration (cuts) of 5.7% in FFY 2021. The cuts would apply to such programs as the Social Services Block Grant, Promoting Safe and Stable Families, Vocational Rehabilitation, Special Milk (Child Nutrition), and a portion of highway funding.
- Cases on the docket for consideration by the U.S. Supreme Court could impact the Affordable Care Act. If the Medicaid expansion – a \$2 billion program in Connecticut – is struck down, over 290,000 individuals would be without healthcare coverage or an extraordinary state investment would be required to maintain a similar program, at a time when sizable budget challenges are forecast over the coming biennium.

EFFORTS TO PRESERVE OR MAXIMIZE FEDERAL REVENUE²

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

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

² This section fulfills the reporting requirement found in subsection (c) of Sec. 4-31d, CGS.

- Completion of administrative activities required to bill for services provided in the state’s nursing home for veterans in Rocky Hill pursuant to a recent licensure change;
- Administrative process changes to help ensure eligibility is in place so that Medicaid claims on behalf of the Department of Developmental Services are fully reimbursed;
- Submission of an 1115 waiver of the federal rules that prohibit Medicaid billing for services provided in certain settings to permit coverage of certain substance use disorder treatment services currently ineligible for Medicaid reimbursement;
- Examining the implications and opportunities available under the new federal Family First Prevention Services Act and its impact on the state’s existing claims for federal Medicaid, Temporary Assistance for Needy Families (TANF) and Title IV-E (adoption and foster care services) reimbursement;
- Submission of a 1915(i) state plan amendment that will permit Medicaid reimbursement of formerly state-only funded pre-tenancy and tenancy-sustaining supports for individuals who have high Medicaid utilization and have experienced homelessness;
- Establishing an optional Medicaid coverage group to cover the costs of COVID-19 testing for uninsured Connecticut residents;
- Creating a Medicaid benefit that will allow federal reimbursement for currently state-funded residential care home services, while integrating those services into the continuum of Medicaid long-term services and supports; and
- Reviewing certified public expenditure claiming processes to ensure continued access to federal reimbursement for a wide array of agency services.

To ensure receipt of the enhanced federal match of 6.2% through the quarter ending March 31, 2021, the state has extended the suspension of Medicaid eligibility discontinuances through January 2021 to align with the date the federal public health emergency declaration is currently slated to terminate.

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

FEDERAL STIMULUS AND PANDEMIC ASSISTANCE

The federal government has provided significant and much-needed financial assistance to Connecticut since March. Four bills were enacted providing a broad array of support for both the public health as well as economic impacts of the COVID-19 pandemic.³ The table below provides a high-level summary of this federal assistance.

³ Public Law 116-123, the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020; P.L. 116-127, the Families First Coronavirus Response Act; P.L. 116-136, the Coronavirus Aid, Relief, and Economic Security (CARES) Act; and P.L. 116-139, the Paycheck Protection Program and Health Care Enhancement Act.

Major Federal Economic Stimulus Impacting Connecticut
As of November 2020
(In Millions)

	Program/Benefit	Description	Estimated Impact to CT
1.	Coronavirus Relief Fund (CRF)	Through the CARES Act, the CRF provides \$150 billion in assistance for State, Local, and Tribal Governments navigating the impact of the COVID-19 outbreak.	\$ 1,382.5
2.	Economic Impact Payment ⁽¹⁾	Funds provided to citizens by the U.S. government. Single filers received \$1,200 // Married filers received \$2,400.	2,717.2
3.	Federal Pandemic Unemployment Compensation (FPUC)	Enhanced Unemployment Benefits - Additional \$600/week of unemployment benefits for those whose employment was affected by the pandemic.	3,259.7
4.	Lost Wages Assistance Program (LWA)	Additional \$300/week of unemployment benefits for those whose employment was affected by the pandemic. Must be applied for by the state and will last 6 weeks (ends 9/5/2020; payments will be retroactive).	Unknown at this Time
5.	Paycheck Protection Program (PPP) ⁽²⁾	Loans provided to businesses in which the amount spent to pay rent, utilities, and maintain payroll would be forgiven.	6,718.3
6.	Economic Impact Disaster Loans (EIDL) ⁽³⁾	Low-interest loans of up to \$2 million provided to small businesses (500 employees or less) and nonprofits.	2,081.6
7.	Economic Impact Disaster Loans (EIDL) Advances ⁽⁴⁾	Grant program to provide up to \$10,000 to small businesses that did not have to be repaid.	166.4
8.	Enhanced Federal Medical Assistance Percentage (FMAP) ⁽⁵⁾	CT is receiving an enhanced FMAP for the duration of the COVID-19 pandemic of +6.2% to bring the total matching percentage to 56.2% through 3/31/2021.	555.7
9.	Federal Reserve Asset Purchases (Quantitative Easing)	The Federal Reserve has purchased treasury securities, government-guaranteed mortgage-backed securities, and residential & commercial mortgage-backed securities. In mid-March, the Fed's balance sheet grew from \$3.9 trillion to \$7.2 trillion as of November 4, 2020.	Unknown
10.	Interest Rate Cuts	From 7/31/2019 to 3/15/2020, Feds cut federal funds interest rate ranges 5 times from 2.25%-2.5% to 0%-0.25%.	Unknown
11.	Total Benefits		\$ 16,881.4
12.	Projected FY 2021 Gross State Product (GSP)		\$ 292,607.2
13.	Federal stimulus as a percentage of Connecticut's economy		5.8%

Notes:

- (1) Estimated Economic Impact Payment amount as of 8/28/2020.
- (2) Estimated Paycheck Protection Program amount as of 8/8/2020.
- (3) Estimated Economic Impact Disaster Loans amount as of 10/19/2020.
- (4) Estimated Economic Impact Disaster Loans Advances amount as of 7/15/2020.
- (5) Enhanced FMAP includes extension of pandemic status through the 1st quarter of CY 2021.

Sources:

- Federal funds Information for States (FFIS)
- Internal Revenue Service (IRS)
- Small Business Administration (SBA)
- CT Office of Policy & Management
- IHS Markit

BONDING

PROJECTED BOND AUTHORIZATIONS, ALLOCATIONS AND ISSUANCE

The table below depicts projected bond authorizations, allocations and issuance through FY 2024.

FIVE YEAR BOND PROJECTIONS

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Bond Authorizations					
General Obligation Bonds	\$1,521,500,000	\$1,500,000,000	\$1,500,000,000	\$1,500,000,000	\$1,500,000,000
Bioscience Collaboration Program	10,570,000	-	-	-	-
Bioscience Innovation Fund	15,000,000	25,000,000	25,000,000	24,000,000	-
Connecticut Strategic Defense Investment Act	9,446,428	9,621,428	9,796,428	9,971,428	10,321,428
UConn 2000/Next Generation	260,000,000	190,500,000	125,100,000	84,700,000	56,000,000
CSUS 2020	46,000,000	-	-	-	-
Special Tax Obligation Bonds	782,375,000	800,000,000	800,000,000	800,000,000	800,000,000
Clean Water Fund Revenue Bonds	84,000,000	150,000,000	150,000,000	150,000,000	150,000,000
Total Bond Authorizations	\$2,728,891,428	\$2,675,121,428	\$2,609,896,428	\$2,568,671,428	\$2,516,321,428
Bond Allocations					
General Obligation Bonds	\$1,400,000,000	\$1,600,000,000	\$1,600,000,000	\$1,600,000,000	\$1,600,000,000
Special Tax Obligation Bonds	850,000,000	850,000,000	850,000,000	850,000,000	850,000,000
Clean Water Fund Revenue Bonds	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000
Total Bond Allocations	\$2,400,000,000	\$2,600,000,000	\$2,600,000,000	\$2,600,000,000	\$2,600,000,000
Bond Issuance					
General Obligation Bonds	\$1,600,000,000	\$1,600,000,000	\$1,600,000,000	\$1,600,000,000	\$1,600,000,000
Special Tax Obligation Bonds	875,000,000	875,000,000	875,000,000	875,000,000	875,000,000
Clean Water Revenue Bonds	250,000,000	-	250,000,000	-	250,000,000
UConn 2000/Next Generation	197,200,000	260,000,000	190,500,000	125,100,000	84,700,000
Total Bond Issuance	\$2,922,200,000	\$2,735,000,000	\$2,915,500,000	\$2,600,100,000	\$2,809,700,000
Debt Service					
General Fund	\$2,330,429,874	\$2,503,020,176	\$2,736,775,898	\$2,834,271,061	\$2,894,623,382
Transportation Fund	693,838,231	783,801,723	854,020,480	915,963,733	970,743,462
Total Debt Service	\$3,024,268,105	\$3,286,821,899	\$3,590,796,378	\$3,750,234,794	\$3,865,366,844

Bond Authorizations

FY 2021 are enacted bond authorizations.

FY 2022-FY2025 projected bond authorizations assume that authorizations continue at historical average levels.

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

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

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

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

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

Bond Allocations

Projected GO Bond allocations are based on budgeted debt service.

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

Projected Special Tax Obligation Bond allocations assume that allocations continue at historical levels.

Bond Issuance

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

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

Estimated Caps

	Inflation	Allocation Cap	Issuance Cap
CY/FY20	1.8%	\$2,125,000,000	\$1,940,000,000
CY/FY 2021	2.3%	\$2,162,000,000	\$1,983,000,000
CY/FY 2022	2.3%	\$2,211,000,000	\$2,018,000,000
CY/FY 2023	2.2%	\$2,261,000,000	\$2,064,000,000
CY/FY 2024	2.2%	\$2,310,000,000	\$2,111,000,000
CY/FY 2025	2.2%	\$2,360,000,000	\$2,157,000,000

Source: IHS Economics, Bureau of Labor Statistics

STATUTORY GENERAL OBLIGATION BOND DEBT LIMIT

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

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

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

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

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Consensus Revenues 11/10/2020	\$17,406,700,000	\$15,448,300,000	\$15,920,200,000	\$16,365,900,000
Multiplier	1.6	1.6	1.6	1.6
100% Limit	<u>\$27,850,720,000</u>	<u>\$24,717,280,000</u>	<u>\$25,472,320,000</u>	<u>\$26,185,440,000</u>
Bonds Subject to Limit	\$23,386,790,499	\$23,541,145,721	\$23,680,423,505	\$23,837,323,365
Debt Incurring Margin	\$4,463,929,501	\$1,176,134,279	\$1,791,896,495	\$2,348,116,635
Percentage of Limit	84.0%	95.2%	92.0%	91.0%
Margin to 90% Limit	\$1,678,857,501	\$(1,295,593,721)	\$(755,335,505)	\$(270,427,365)

As shown in the table above, the General Assembly will be required to reduce bond authorizations to comply with the debt limitation.

Assumptions:

- FY 2021 official calculation by State Treasurer;
- Consensus revenue as of November 10, 2020, and the historical annual average of \$1.5 billion of new bond authorizations;
- \$1.6 billion of new General Obligation bonds plus UConn bonds are issued each year.
- FY 2022 – FY 2024 “Bonds Subject to Limit” does not include principal payments on the prior year bonds to account for possible changes to issuance schedules.

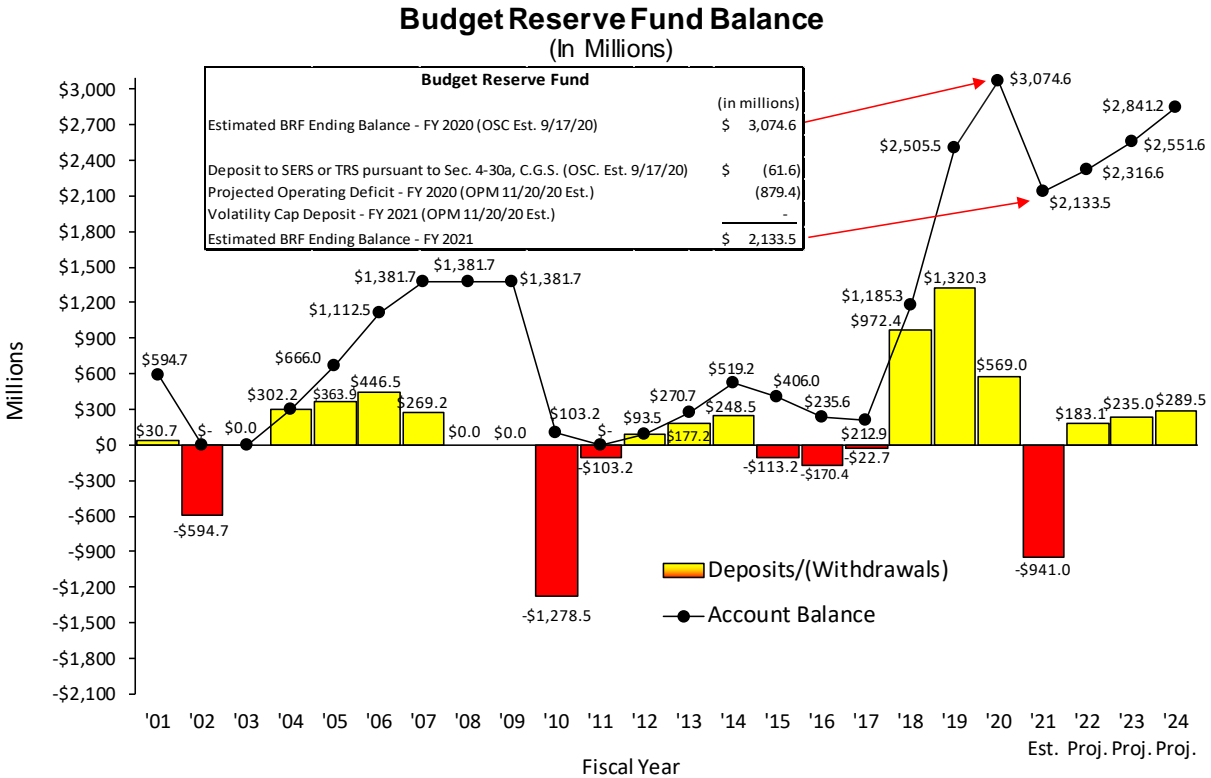
BONDING CAPS

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

- Allocation Cap: This cap imposes a limit on State Bond Commission general obligation bond allocations for each calendar year. The cap amount is indexed to inflation. The inflation-adjusted cap for calendar year 2020 is \$2.125 billion.
- Allotment Cap: This cap limits allotments issued by the Governor's Office each fiscal year. The cap amount is indexed to inflation. General obligation bonds issued as part of CSCU 2020 or UConn 2000 are exempted from the cap. The cap for FY 2021 is \$1.983 billion.
- Issuance Cap: This cap limits bond issuances by the Treasurer's Office each fiscal year. The cap amount is indexed to inflation. General obligation bonds issued as part of CSCU 2020 or UConn 2000 are exempted from this cap. The cap for FY 2021 is \$1.983 billion.

BUDGET RESERVE FUND AND POTENTIAL USES OF SURPLUS

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



Note: The FY 2020 volatility cap deposit and end of FY 2020 surplus result in a BRF balance above the maximum threshold of 15% of the following fiscal year's net GF appropriations. The amount over the threshold totals \$61.6 million and will be transferred to SERS pursuant to Sec. 4-30a, C.G.S. in FY 2021. Outyear forecast assumes balanced budgets are enacted that adhere to the revenue, spending, and volatility caps.

Impact of a Potential Recession

An October 2019 report by Moody's Analytics regarding state preparedness to withstand fiscal stress found Connecticut would need reserve balances totaling at least 10.1% of General Fund revenues to withstand a moderate recession scenario and 14.8% in a severe recession, which is consistent with the statutory 15% Budget Reserve Fund target. Moody's concluded that while Connecticut is relatively well-positioned for a moderate recession (ranked 18th of the 50 states), the state has insufficient resources to weather a severe downturn (ranked 21st of the 50 states) without having to raise taxes or cut spending.

Recent Reforms

Several recent legislative changes impact the Budget Reserve Fund. Public Act 17-2 of the June Special Session implemented, and Public Act 18-81 later amended, a revenue volatility cap which directs collections from any volatile revenue sources above a certain threshold to the Budget Reserve Fund. (See page 22 for more about the revenue volatility cap.) The volatility cap resulted in transfers of \$1,471.3 million to the rainy day fund in FY 2018, \$949.7 million in FY 2019, and \$530.3 in FY 2020, resulting in substantial — and much-needed — improvement in the state’s reserves. This will serve the state well in weathering the current impact of the pandemic on the state’s finances.

Public Act 17-2 of the June Special Session also introduced a revenue cap that limits the amount of General Fund appropriations to a percentage of General Fund revenue. The limit began at 99.5% in fiscal year 2020 and phases down to 98% for fiscal year 2026 and thereafter. (See page 21 for more about the revenue cap.) The resulting operating margin will help add to the rainy day fund in good years and provide a buffer against drastic expenditure reductions or revenue increases when there is a sudden mid-year downturn in the economy.

Use of Budget Reserve Fund

Statutorily, the Budget Reserve Fund may only be expended:

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

Discussion of Possible Uses of Surplus Funds

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

- Reducing the unfunded liability of the State Employees Retirement Fund;
- Reducing the unfunded liability of the Teachers’ Retirement Fund;
- Reducing bonded indebtedness;
- Reducing the unfunded liability for Other Post-Employment Benefits; or
- Providing funds for higher education matching grants as per sections 10a-8c, 10a-77a, 10a-99a, 10a-109c, 10a-109i, and 10a-143a of the Connecticut General Statutes.

Budget Reserve Fund 15% Maximum Threshold

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

PROJECTED TAX CREDITS

Tax credit projections are based on data from the Department of Revenue Services. Personal income tax credits are projected using income year 2018 data. Corporation business tax credits are projected using income year 2017-2019 data. This is because information regarding tax credits is typically delayed as firms often request an extension to file their final returns. This delays the receipt of such data by the Department of Revenue Services which then must still capture information from the return. Appropriate growth rates are applied to base year data to derive an estimate for future fiscal years.

Projected Total Amounts of Tax Credits Claimed (In Thousands)

	FY 2020 <u>Est.</u>	FY 2021 <u>Proj.</u>	FY 2022 <u>Proj.</u>	FY 2023 <u>Proj.</u>	FY 2024 <u>Proj.</u>
<u>Personal Income Tax Credits</u>					
Pass-through Entity Tax Credit	\$ 1,086,700	\$ 936,900	\$ 922,800	\$ 1,006,900	\$ 1,050,000
Property Tax	65,700	67,000	121,000	123,000	125,000
Earned Income Tax Credit	91,020	100,600	104,000	107,000	110,100
Connecticut Higher Education Trust (CHET)	15,600	16,500	17,500	18,500	19,700
Angel Investor	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Total Personal Income Tax	\$ 1,264,020	\$ 1,126,000	\$ 1,170,300	\$ 1,260,400	\$ 1,309,800
<u>Business Tax Credits</u>					
Fixed Capital	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000
Film Industry Production ⁽¹⁾	59,500	61,000	63,000	65,000	67,000
Film Industry Digital Animation ⁽¹⁾	15,000	15,000	15,000	15,000	15,000
Film Industry Infrastructure ⁽¹⁾	11,000	11,500	12,000	12,000	12,500
Electronic Data Processing ⁽¹⁾	34,000	35,000	36,000	37,000	38,500
Research and Experimental Expenditures	23,500	24,500	25,000	26,000	26,500
Research and Development Expenditures	46,500	47,500	61,500	62,000	63,000
Urban and Industrial Reinvestment ⁽¹⁾	25,000	25,500	26,000	27,000	27,500
Housing Program Contribution ⁽¹⁾	9,500	9,500	9,500	9,500	9,500
Historic Rehabilitation ⁽¹⁾	3,000	3,000	3,000	3,000	3,000
Human Capital	2,300	2,400	2,400	2,400	2,400
Machinery and Equipment	800	800	800	800	800
All Other Credits ^(1,2)	<u>26,250</u>	<u>39,750</u>	<u>40,000</u>	<u>40,250</u>	<u>40,500</u>
Total Business Tax Credits	\$ 310,350	\$ 329,450	\$ 348,200	\$ 353,950	\$ 360,200
Total Projected Amount Claimed	\$ 1,574,370	\$ 1,455,450	\$ 1,518,500	\$ 1,614,350	\$ 1,670,000

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

(2) Includes Aerospace Reinvestment Act with Sales Tax abatements per PA 16-1 of the September Special Session in FY 2019 and beyond.

