

FISCAL ACCOUNTABILITY REPORT

FISCAL YEARS 2026 – 2030



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

OFFICE OF POLICY AND MANAGEMENT
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OFFICE OF POLICY AND MANAGEMENT
FISCAL ACCOUNTABILITY REPORT
NOVEMBER 2025

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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. As amended by Public Act 25-140, statute requires the following seven components of the report:

1. A comparison of the consensus revenue forecast to annual growth in both fixed and non-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 the state's preparedness for plausible recession scenarios.

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.

General Fund

GENERAL FUND REVENUE vs. EXPENDITURE PROJECTIONS

(in millions)

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

FY 2026

The General Fund is projected to finish fiscal year 2026 with a \$164.4 million operating surplus, \$144.6 million less than the originally budgeted figure. This is a result of expenditure projections that are \$156.0 million above the level in the adopted budget, which are offset slightly by \$11.4 million in additional revenue above the level in the adopted budget.

FY 2027-2030

We project that revenue and expenditures in the General Fund will remain largely aligned over the time period covered by this report. We note however, that these estimates include \$235 million of budgeted revenue related to an increase in hospital provider taxes that was included in P.A. 25-168, but exclude any expenditure provisions related to that \$235 million as none were enacted during the last legislative session. Excluding that \$235 million of budgeted revenue, the forecast surplus of revenues over expenditures in FY 2027 would be insufficient to meet the 1.25 percent revenue cap.

OPM's estimate of expenditure growth in this report reflects not only the inclusion of "non-fixed" costs pursuant to P.A. 25-140, but also includes inflationary growth beginning in FY 2028 for private provider grants, as required by P.A. 25-174, as well as most other purchased goods and services in order to present

a more realistic picture of anticipated future cost trends. While pension costs for both state employees and retirees are expected to shrink through FY 2030, the most significant areas of projected cost increase from FY 2026 through FY 2030 include active and retiree healthcare, which are anticipated to grow by 43% and 40%, respectively; Medicaid, which is anticipated to grow by 24% over the same time period; and debt service, which is anticipated to grow by 22%.

Special Transportation Fund

SPECIAL TRANSPORTATION FUND REVENUE vs. EXPENDITURE PROJECTIONS (in millions)

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

FY 2026

The Special Transportation Fund is projected to finish fiscal year 2026 with a \$43.7 million operating surplus, \$13.9 million more than the originally budgeted figure. This is a result of forecasted revenues that are \$19.8 million above the level in the adopted budget which are partially offset by expenditure projections that are \$5.9 million above the level in the adopted budget. Our estimate of fund balance as of June 30, 2026, is \$456.2 million.

FY 2027-2030

In the Special Transportation Fund, cost growth is anticipated to significantly outpace revenue growth, with the imbalance growing to nearly \$400 million by FY 2030. Forecast expenditure growth is driven by growth in debt service costs and bus and rail operations costs. Given the slow growth of projected revenues available to the fund, these costs increases are not sustainable that will necessitate additional revenue or reductions in transportation investments in order to maintain fund solvency.

CURRENT FISCAL YEAR OUTLOOK

FY 2026 - GENERAL FUND

The adopted FY 2026 budget anticipated a \$309.1 million balance at year end. The Office of Policy and Management is projecting an operating surplus of \$164.4 million, 0.7 percent of the General Fund. Revenues are \$11.4 million above the budget plan, while estimated expenditures are \$156.0 million above the budgeted level.

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

Revenue

Projected revenues are \$11.4 million above the level envisioned in the enacted budget for FY 2026 and are reflective of the November 10th consensus revenue forecast. While the change in bottom line revenues remains modest, there have been significant underlying changes to the components of the revenue forecast. On the positive side, the Estimates and Finals component of the Personal Income Tax has been revised upward by \$754.7 million and the Pass-through Entity Tax has been revised upward by \$325.3 million. These significant revisions are due to positive variance in FY 2025 collections relative to the April consensus, continued strong performance thus far in FY 2026, and strong returns in equity markets year-to-date. The Withholding component of the Personal Income Tax has been revised upward by \$216.2 million and the Sales Tax has been revised upward by \$109.1 million as FY 2025 collections outpaced expectations, thereby raising the base for FY 2026, along with continued strong collections relative to their targets this fiscal year. On the negative side, the Corporation Tax has been revised downward by \$257.8 million due to continuing weak performance which accounts for \$120.9 million of the downward revision combined with the expected impact of Federal legislation (the One Big Beautiful Bill Act, H.R. 1) which permits the immediate expensing of research and experimental expenditures and represents \$136.9 million of the Corporate Tax downward revision. All other changes net to a negative \$56.1 million.

Given the projected changes in the Estimates and Finals component of the Personal Income Tax and the Pass-through Entity Tax noted above, the transfer to the Budget Reserve Fund pursuant to the volatility cap will increase by \$1,080.0 million to a total of \$1,810.4 million.

Expenditures and Discussion of Projected Deficiencies

The Office of Policy and Management forecasts that FY 2026 expenditures will, in aggregate, be \$156.0 million above the level anticipated in the adopted budget, an increase of \$22.9 million from last month's estimate. A description of projected shortfalls and lapses follows.

Deficiencies: Shortfalls totaling \$151.8 million are forecast in the following agencies.

- Department of Labor. A \$500,000 shortfall is anticipated in the Other Expenses account as a result of anticipated operating and IT consultant cost increases.

- Department of Housing. A shortfall of \$12.5 million is projected in the Housing / Homeless Services account as a result of rent increases as well as cold weather funding which was not provided for in the budget.
- Department of Public Health. A \$500,000 shortfall is forecast in the Other Expenses account due to increases in the cost of lab supplies, utilities, and property management.
- Department of Mental Health and Addiction Services. A total shortfall of \$7.0 million is anticipated, with \$5.0 million in the Personal Services account, \$720,000 in the Housing Supports and Services account as a result of heightened demand for assistance to households at risk of homelessness, and \$1.3 million in Behavioral Health Medications due to rising medication costs and increased reliance on injectable treatments.
- Department of Social Services. A net shortfall of \$78.4 million is forecast based on \$85.0 million in the Medicaid account as a result of utilization growth and higher than budgeted costs, including \$11.3 million as a result of the 12/31/2025 expiration of enhanced advanced premium tax credits (APTCs) which will shift the additional cost of health insurance premiums to the Covered CT program. In addition, shortfalls of \$5.5 million in Old Age Assistance, \$3.0 million in the Connecticut Home Care Program, \$2.9 million in Aid to the Disabled, and \$180,000 in Aid to the Blind are anticipated primarily due to higher costs per case than had been budgeted. These shortfalls are partially offset by projected lapses of \$13.5 million in Temporary Family Assistance, \$2.2 million in State Administered General Assistance, and \$2.5 million in the HUSKY B Program.
- Department of Education. A total shortfall of \$37,979 is forecast in the Vocational Agriculture account based on finalized school year 2025 enrollment data.
- Technical Education and Career System. A total shortfall of \$3.8 million is projected, with \$1.0 million in the Personal Services account as a result of staffing increases and \$2.8 million in the Other Expenses account as a result of cost increases for utilities and consumables.
- Office of Early Childhood. A net shortfall of \$1.8 million is anticipated, with \$2.0 million forecast in the Birth to Three account as a result of increased caseload which is partially offset by a \$160,000 lapse in the 2Gen-TANF account.
- Department of Correction. A net shortfall of \$14.75 million is forecast including \$4.0 million in the Personal Services account, \$10.0 million in the Other Expenses account, and \$4.0 million in the Inmate Medical Services account. Partially offsetting these amounts are forecast lapses of \$250,000 in the Board of Pardons and Paroles account and \$3.0 million in the Community Support Service account.
- Judicial Department. A \$1.94 million shortfall is projected in the Other Expenses account as a result of prior year bills carried forward into FY 2026.
- State Comptroller – Miscellaneous. We estimate \$14.0 million in expenditures for Adjudicated Claims. No appropriation was made in the enacted budget for payment of these claims.
- State Comptroller – Fringe Benefits. A net shortfall of \$7.0 million is anticipated, with \$43.0 million forecast in the State Employees Health Service Cost account which is partially offset by a forecast lapses of \$30.0 million in the Higher Education Alternative Retirement System account primarily due to a change in the accounting treatment for these expenditures; \$4.0 million in the Employers Social security account; \$1.0 million in the Other Post Employment Benefits account; and \$1.0 million across the Unemployment Compensation, Pensions and Retirements - Other Statutory, Insurance – Group Life, and SERS Defined Contributions Match accounts.
- Workers’ Compensation Claims – DAS. A net shortfall of \$9.6 million is forecast, with higher than anticipated claim volume in the DMHAS, DESPP, DOC, and statewide accounts, which are partially mitigated by projected lapses in the UConn and CSU accounts.

Lapses: P.A. 25-168 included bottom-line savings targets totaling \$94.2 million. We project that aggregate lapses will total \$90.2 million including \$37.1 million remaining in funds withheld from agencies as part of the rollout of the FY 2026 budget, \$40.0 million in budgeted unallocated lapse that is anticipated to be achieved over the remainder of the year, and \$13.1 million in additional lapses in agencies as identified below.

- Secretary of the State. A \$600,000 lapse is projected in the Personal Services account.
- Department of Revenue Services. A \$300,000 lapse is projected in the Personal Services account.
- Department of Administrative Services. A total of \$2.0 million is projected to lapse, with \$750,000 in the Personal Services account and \$1.25 million in the State Insurance and Risk Management Operations account as a result of a recent decline in claim activity.
- Attorney General. A \$500,000 lapse is projected in the Personal Services account.
- Teachers' Retirement Board. A total lapse of \$675,000 is projected with \$500,000 in the Municipal Retiree Health Insurance Costs account and \$175,000 in the Retiree Health Service Cost account.
- Public Defender Services Commission. A net \$500,000 lapse is forecast based on \$350,000 in the Personal Services account and \$350,000 in the Assigned Counsel – Criminal accounts which are partially offset by a \$200,000 shortfall in the Expert Witnesses account.
- Debt Service – State Treasurer. A total lapse of \$8.5 million is forecast based on \$7.8 million in the Debt Service account based on results of the Fall GO sale which resulted in a slightly lower interest rate than assumed as well as savings due to refunding sales and \$721,991 in the Municipal Restructuring account as a result of the refunding of the Hartford restructuring debt.

FY 2026 - SPECIAL TRANSPORTATION FUND

The adopted budget anticipated a \$29.8 million balance from operations. OPM estimates that the Special Transportation Fund will end the year with an operating surplus of \$43.7 million, and that the Transportation Fund balance on June 30, 2026, after transfers to reduce indebtedness pursuant to section 389 of P.A. 25-168, will be \$456.2 million, or 20.0 percent of current year appropriations.

FY 2026 - SPECIAL TRANSPORTATION FUND			
(in millions)			
	Budget Plan	OPM Estimate 11/20/2025	Variance from Budget
Revenue	\$ 2,309.1	\$ 2,328.8	\$ 19.8
Expenditures	2,279.2	2,285.1	5.9
Operating Results - Surplus/(Deficit)	\$ 29.8	\$ 43.7	\$ 13.9

Projected revenues are \$19.8 million above the level anticipated in the enacted budget for FY 2026, reflective of the November 10, 2025, consensus revenue forecast. The largest change is in the Sales Tax, up \$18.9 million as FY 2025 collections ended better than expected along with continued healthy performance. Interest Income has been revised upward by \$17.5 million due to interest rates remaining elevated. All other changes net to a negative \$16.7 million.

Projected expenditures are anticipated to be \$5.9 million above the level in the adopted budget as described below.

Deficiencies: Shortfalls totaling \$7.85 million are forecast in the following agencies:

- State Comptroller – Fringe Benefits. A total shortfall of \$7.6 million is forecast, with \$7.0 million in the State Employees Health Service account and \$600,000 in the Employers’ Social Security Tax account.
- Workers’ Compensation Claims – DAS. A net shortfall of \$250,000 is forecast based on higher than anticipated claim volume.

Lapses: We project the following lapses, totaling \$14.0 million, will more than satisfy the budgeted bottom-line savings target.

- Department of Administrative Services. A \$400,000 lapse is projected in the Personal Services account.
- Department of Motor Vehicles. A \$500,000 lapse is projected in the Personal Services account.
- Debt Service – State Treasurer. A \$13.1 million lapse is projected in the Debt Service account in anticipation of lower-than-expected borrowing costs and debt service needs for the upcoming sale.

FY 2026 - BUDGET RESERVE FUND

The state's reserves at the close of FY 2025 were \$6.31 billion. We project that, after transfers out of the fund and into the State Employees and Teachers' Retirement Systems totaling \$1.49 billion pursuant to the close-out of FY 2025, the balance will stand at \$4.83 billion: temporarily above the statutory 18% threshold as a result of H.B. 8003 of the November 2025 Special Session, which established a \$500 million reserve appropriation for responding to federal actions affecting the state budget. We anticipate a volatility cap transfer of \$1.81 billion for FY 2026, which will result in a year-end balance, excluding any unspent portion of the H.B. 8003 reserve, of \$6.14 billion, or 24.2% of FY 2027 enacted General Fund appropriations. Note that, pursuant to P.A. 25-93, any operating surplus will be transferred to the Early Childhood Education Endowment rather than the Budget Reserve Fund.

Budget Reserve Fund	
	(in millions)
BRF Ending Balance - FY 2025 (OSC 9/30/25 Est.)	\$ 6,314.0
Deposit to SERS/TRS pursuant to FY 2025 Closeout (OPM 11/20/25 Est.)	<u>(1,487.5)</u>
Estimated FY 2025 Ending Balance After Transfers to Pensions	\$ 4,826.5
Projected Operating Surplus - FY 2026 (OPM 11/20/25 Est.)	\$ 164.4
Volatility Cap Deposit - FY 2026 (OPM 11/20/25 Est.)	1,810.4
Projected Transfer to Early Childhood Education Endowment	(164.4)
H.B. 8003 Reserve for Response to Federal Actions	<u>(500.0)</u>
Estimated BRF Ending Balance - FY 2026	\$ 6,136.9
Ending BRF as % of FY 2026 General Fund Appropriations	25.5%
Ending BRF as % of enacted FY 2027 General Fund Appropriations	24.2%

The long-term outlook for the Budget Reserve Fund is discussed on page 55.

FY 2027 TO FY 2030 - GENERAL FUND OUTLOOK

Pursuant to Section 2-36b of the Connecticut General Statutes, as amended by P.A. 25-140, this report compares projected revenue growth to likely growth in both fixed and non-fixed costs. Revenues are derived from the November 10, 2025, consensus forecast and are explained later in this document. OPM's approach for estimating likely growth in costs is explained in more detail below.

General Fund Expenditures

PROJECTED EXPENDITURES (amounts in \$ millions)					
	Estimated FY 2026	Curr. Svcs. FY 2027	Projected		
			FY 2028	FY 2029	FY 2030
Fixed Costs					
Debt Service	\$ 2,501.1	\$ 2,589.1	\$ 2,736.2	\$ 2,930.9	\$ 3,042.6
State Employee Pensions	1,723.0	1,657.0	1,656.1	1,659.0	1,661.0
Teacher Pensions	1,805.1	1,731.7	1,720.8	1,703.6	1,711.3
State and Teacher OPEB	826.0	1,056.7	1,088.6	1,119.8	1,149.8
Medicaid	4,355.7	4,686.6	4,971.8	5,186.4	5,409.6
Other Entitlements	1,707.9	1,748.9	1,804.4	1,854.3	1,907.6
Total Fixed Costs	\$ 12,918.8	\$ 13,469.9	\$ 13,977.9	\$ 14,454.1	\$ 14,881.8
Growth rate		4.3%	3.8%	3.4%	3.0%
Non-Fixed Costs					
Personal Services	\$ 2,836.1	\$ 3,040.4	\$ 3,116.4	\$ 3,194.3	\$ 3,274.2
Other Expenses	649.5	685.5	702.9	717.4	733.0
State Employees Health Service Cost	596.9	783.5	807.4	830.7	853.1
Municipal Aid	3,194.0	3,253.2	3,259.9	3,264.1	3,269.7
Other - Education	1,475.2	1,520.3	1,556.5	1,591.4	1,624.8
Other - Health & Hospitals	911.0	931.5	961.5	988.0	1,016.3
All Other	1,610.8	1,816.3	1,860.4	1,853.9	1,900.5
Total Non-Fixed Costs	\$ 11,273.6	\$ 12,030.8	\$ 12,265.0	\$ 12,439.8	\$ 12,671.6
Growth rate		6.7%	1.9%	1.4%	1.9%
Total - General Fund	\$ 24,192.4	\$ 25,500.6	\$ 26,243.0	\$ 26,893.9	\$ 27,553.4
Growth rate		5.4%	2.9%	2.5%	2.5%

*Note: Projected FY 2026 and FY 2027 expenditures exclude continuing appropriations.

Assumptions Used to Develop Expenditure Estimates

The *Estimated FY 2026* column reflects OPM's estimate of spending requirements in the current fiscal year as of OPM's November 20, 2025, letter to the Comptroller. The *Current Services FY 2027* column reflects the original FY 2027 appropriation (P.A. 25-168 as amended by P.A. 25-174), adjusted to reflect updated estimates of spending requirements. The three outyears have been developed based on the *Current Services FY 2027* level of funding adjusted by the inflation factors noted below.

While these projections represent our best estimate of future spending requirements, additional information will likely result in revision of these estimates prior to submission of the Governor's recommended budget in February 2026.

GENERAL ASSUMPTIONS

With notable exceptions, those expenditures not governed by statute were increased by projected standard inflation rates as follows:

FY 2028	2.55%
FY 2029	2.06%
FY 2030	2.18%

In addition, the following medical inflation rates were used where appropriate:

FY 2028	3.04%
FY 2029	2.89%
FY 2030	2.70%

Personal Services funding was inflated by 2.5% each year, consistent with our long-term inflation estimate.

In accordance with PA 25-151, nonprofit human services provider funding was increased by the standard inflation rates noted above. Other expenditures increased by the standard inflation rates include: Other Expenses, Equipment, Other Current Expenses, and Grants. Partial year costs are annualized. Per diem programs reflect funding for leap year costs in FY 2028.

AGENCY SPECIFIC ASSUMPTIONS

OFFICE OF POLICY AND MANAGEMENT

- *Property Tax Relief Elderly Freeze Program and Distressed Municipalities* - Reflect payment of grants within available appropriations.

DEPARTMENT OF HOUSING

- *Housing / Homeless Services* – Reflects anticipated cost increases of 5.7% per year which is based on the historical growth rate for the period FY 2020 to FY 2025.

DEPARTMENT OF PUBLIC HEALTH

- *Public Health Response* - Account was assumed to be level funded, as it is intended to be an emergency account available to offset drops in funding for public health measures.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- *Employment Opportunities and Day Services and Community Residential Services* - Reflect anticipated cost and caseload changes.

DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

- *Professional Services and Behavioral Health Medications* - Medical inflation rates were applied as appropriation funds contractual services including psychological, laboratory, pharmacy, etc.
- *Behavioral Health Recovery Services and Medicaid Adult Rehabilitation Option* - Reflects anticipated cost and caseload changes based on standard inflation rates.
- *Nursing Home Screening and Katie Blair House* - Standard inflation increases were removed to reflect lack of growth in these accounts.

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, and State Administered General Assistance* - Reflects anticipated cost and caseload changes based on current trends and statutory requirements, as well as annualization of adjustments.

DEPARTMENT OF EDUCATION

- *Magnet School, Vocational Agriculture, Charter School, and Open Choice Programs* - Reflects projected statutory funding requirements through FY 2030 based on projected enrollment.
- *Education Equalization Grants* - Reflects statutory changes to the Education Cost Sharing (ECS) grant, including the resumption of the phase-down beginning in FY 2028.

OFFICE OF EARLY CHILDHOOD

- *Care4Kids TANF/CCDF* - Standard inflation increases were removed as cost and caseload increases are subject to available resources; the agency manages the program through an enrollment management system.

OFFICE OF HIGHER EDUCATION

- *Roberta B. Willis Scholarship Fund, Minority Teacher Incentive Program, CT Loan Reimbursement, Health Care Adjunct Grant Program* – Reflects payment of appropriated grants and scholarships within available appropriations.

TEACHERS' RETIREMENT BOARD

- *Retirement Contributions - Normal Cost and UAL* - Reflect the actuarially determined employer contributions estimated by the pension actuary.

CONNECTICUT STATE COLLEGES AND UNIVERSITIES

- *Debt Free Community College, Expanded PACT* - Reflects payment of appropriated grants and scholarships within available appropriations.

DEBT SERVICE - STATE TREASURER

- *Debt Service* - Reflects the Issuance of \$1.9 billion in General Obligation Bonds in FY 2026, and \$2.0 billion in FY 2027 through FY 2030. All years have been adjusted to reflect savings attributed to bond premium in the current biennium.
- *UConn 2000* - Reflects current Office of the Treasurer Schedule for the issuance of UConn 2000 General Obligation Bonds.
- *Pension Obligation Bonds* - Reflects the debt service schedule for the Pension Obligation Bonds.
- *Municipal Restructuring* - Reflects the revised debt service payment for the City of Hartford municipal restructuring program.

STATE COMPTROLLER - MISCELLANEOUS

- *Nonfunctional - Change to Accruals* - Reflects payroll increase of 2.5% each year and the number of accrual days in each fiscal year.

STATE COMPTROLLER - FRINGE BENEFITS

- *Higher Education Alternate Retirement System, Employers Social Security Tax and Other Post Employment Benefits* - Reflect wage inflation.
- *Pensions and Retirements - Other Statutory* - Reflects statutory increases in pensions.
- *State Employee Retirement System - Normal Cost and UAL Components and Judges, Family Support Magistrates and Compensation Commissioners Retirement System* - Reflect the estimated actuarially determined employer contributions.
- *State Employee and Retired Employee Health Service Costs* - Reflect medical inflation.
- *SERS Defined Contribution Match* - Reflect wage inflation and anticipated volume of new employees in Tier IV.

General Fund Revenue

The November 10, 2025, consensus revenue forecast shows General Fund revenues at \$24.36 billion in FY 2026. The table below portrays detailed revenue estimates for each year covered by the consensus forecast.

PROJECTED REVENUES

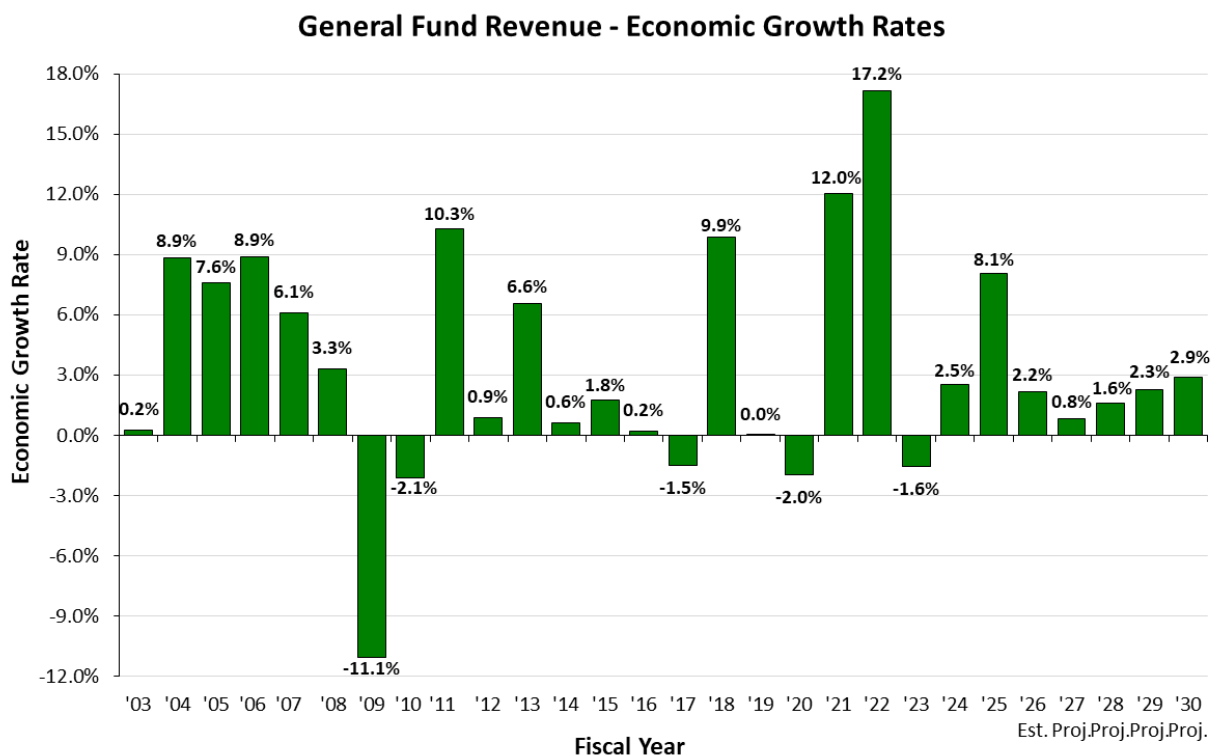
Consensus Revenue Forecast - November 10, 2025

(In millions)

	General Fund				
<u>Taxes</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Personal Income - Withholding	\$ 9,503.4	\$ 9,864.0	\$ 10,203.6	\$ 10,540.8	\$ 10,920.6
Personal Income - Estimates & Finals	4,098.4	3,876.9	3,702.4	3,754.3	3,848.1
Sales & Use Tax	5,212.2	5,342.1	5,475.2	5,612.1	5,752.4
Corporation Tax	1,401.7	1,481.1	1,430.0	1,444.6	1,466.8
Pass-through Entity Tax	2,440.6	2,365.6	2,427.4	2,517.2	2,617.9
Public Service Tax	344.7	347.5	350.4	353.4	356.3
Inheritance & Estate Tax	176.0	180.2	184.3	188.9	193.6
Insurance Companies Tax	333.9	338.7	343.9	349.1	354.3
Cigarettes Tax	217.1	203.8	192.0	179.9	168.8
Real Estate Conveyance Tax	303.6	307.7	312.7	317.4	322.1
Alcoholic Beverages Tax	76.2	76.6	76.9	77.2	77.5
Admissions & Dues Tax	43.3	43.8	44.2	44.6	45.1
Health Provider Tax	891.0	1,313.9	1,340.6	1,367.3	1,394.1
Miscellaneous Tax	21.9	21.3	21.8	19.7	20.0
Total Taxes	\$ 25,064.0	\$ 25,763.2	\$ 26,105.4	\$ 26,766.5	\$ 27,537.6
Less Refunds of Tax	(2,000.6)	(2,060.8)	(2,134.2)	(2,210.2)	(2,288.9)
Less Earned Income Tax Credit	(235.4)	(240.5)	(245.8)	(251.9)	(258.2)
Less R&D Credit Exchange	(9.8)	(10.1)	(10.3)	(10.5)	(10.7)
Total - Taxes Less Refunds	\$ 22,818.2	\$ 23,451.8	\$ 23,715.1	\$ 24,293.9	\$ 24,979.8
<u>Other Revenue</u>					
Transfers-Special Revenue	\$ 362.5	\$ 371.7	\$ 381.6	\$ 388.9	\$ 396.3
Indian Gaming Payments	344.6	360.1	370.9	380.2	389.7
Licenses, Permits, Fees	371.9	340.2	378.5	347.5	386.0
Sales of Commodities	17.6	18.0	18.4	18.8	19.2
Rents, Fines, Escheats	228.1	223.3	227.8	232.3	237.0
Investment Income	273.8	225.2	219.9	197.8	196.0
Miscellaneous	194.1	194.1	199.1	204.2	209.5
Less Refunds of Payments	(106.2)	(108.9)	(111.6)	(114.3)	(117.1)
Total - Other Revenue	\$ 1,686.4	\$ 1,623.7	\$ 1,684.6	\$ 1,655.4	\$ 1,716.6
<u>Other Sources</u>					
Federal Grants	\$ 1,835.8	\$ 1,938.5	\$ 2,008.4	\$ 2,043.2	\$ 2,080.7
Transfer From Tobacco Settlement	91.8	90.2	88.8	87.3	85.8
Transfers From (To) Other Funds	(261.4)	89.3	(54.2)	(54.3)	(54.3)
Transfers to BRF - Volatility Adjustment	(1,810.4)	(1,233.2)	(853.7)	(714.3)	(641.1)
Transfer to Housing Trust Fund	(3.6)	-	-	-	-
Total - Other Sources	\$ (147.8)	\$ 884.8	\$ 1,189.3	\$ 1,361.9	\$ 1,471.1
Total - General Fund Revenues	<u>\$ 24,356.8</u>	<u>\$ 25,960.3</u>	<u>\$ 26,589.0</u>	<u>\$ 27,311.2</u>	<u>\$ 28,167.5</u>
Percent Change		6.6%	2.4%	2.7%	3.1%

Economic Growth Rates for General Fund Tax Revenues

The November 10, 2025, consensus revenue forecast assumes that General Fund revenues will experience economic growth of 2.2 percent in FY 2026 before slowing to 0.8 percent in FY 2027 and increasing to 2.9 percent by FY 2030. Economic growth rates are defined as baseline revenue growth prior to any policy changes. Absent a recession, these growth rates remain conservative and below growth experienced in prior economic expansions. The negative 1.6 percent growth in FY 2023 was driven by the exceptional results of FY 2022 revenues that may have been fueled by the aid to consumers from the federal government as well as state and local governments as a result of the COVID-19 pandemic along with robust performance of the financial markets.



The table at right shows estimated growth rates in each tax type implied by the November 10, 2025, consensus revenue forecast. The growth rates represent changes over prior year collections. Growth in the major tax types in each year of the forecast reflect projections in tax collections at more normal, pre-pandemic levels which would still be representative of a relatively conservative forecast given the uncertainty at the federal level.

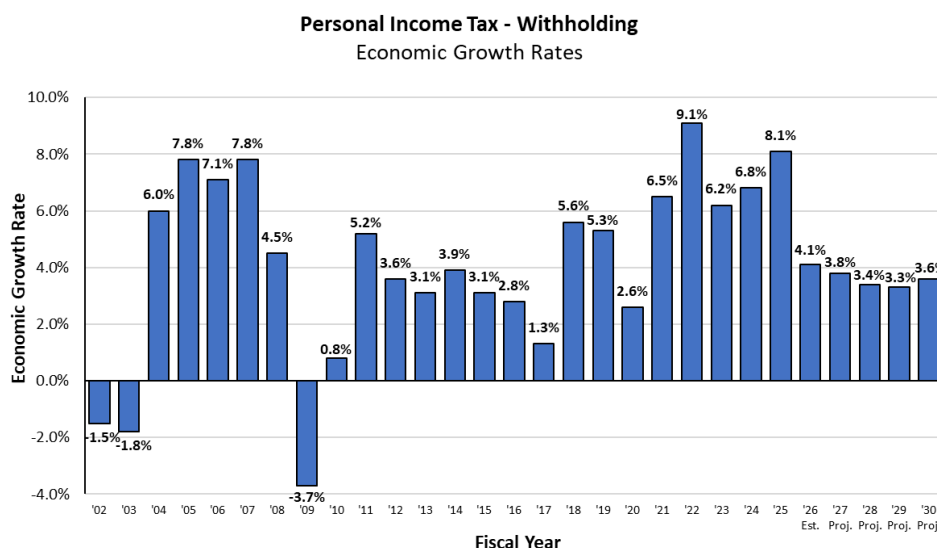
ECONOMIC GROWTH RATES OF PROJECTED TAX REVENUES

As estimated by OPM based upon the November 10, 2025 consensus revenue forecast
(Percentage Change Over Prior Year)

<u>Taxes</u>	<u>General Fund</u>					
	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Personal Income Tax - Withholding	8.1	4.1	3.8	3.4	3.3	3.6
Personal Income Tax - Estimates & Finals	22.3	7.5	-5.4	-4.5	1.4	2.5
Sales & Use Tax	2.7	2.0	2.5	2.5	2.5	2.5
Corporation Tax	-7.0	-0.8	3.1	2.9	3.1	3.0
Pass-Through Entity	20.5	3.1	-3.1	2.6	3.7	4.0
Public Service Tax	5.2	0.9	0.8	0.8	0.9	0.8
Inheritance & Estate Tax	12.8	20.4	2.4	2.3	2.5	2.5
Insurance Companies Tax	8.0	3.0	1.4	1.5	1.5	1.5
Cigarettes Tax	-7.2	-7.1	-6.1	-5.8	-6.3	-6.2
Real Estate Conveyance Tax	4.4	2.1	1.5	1.6	1.5	1.5
Alcoholic Beverages Tax	-3.9	0.5	0.5	0.4	0.4	0.4
Admissions & Dues Tax	10.3	1.6	1.2	0.9	1.1	1.1
Health Provider	1.9	1.6	5.5	0.1	0.1	0.1

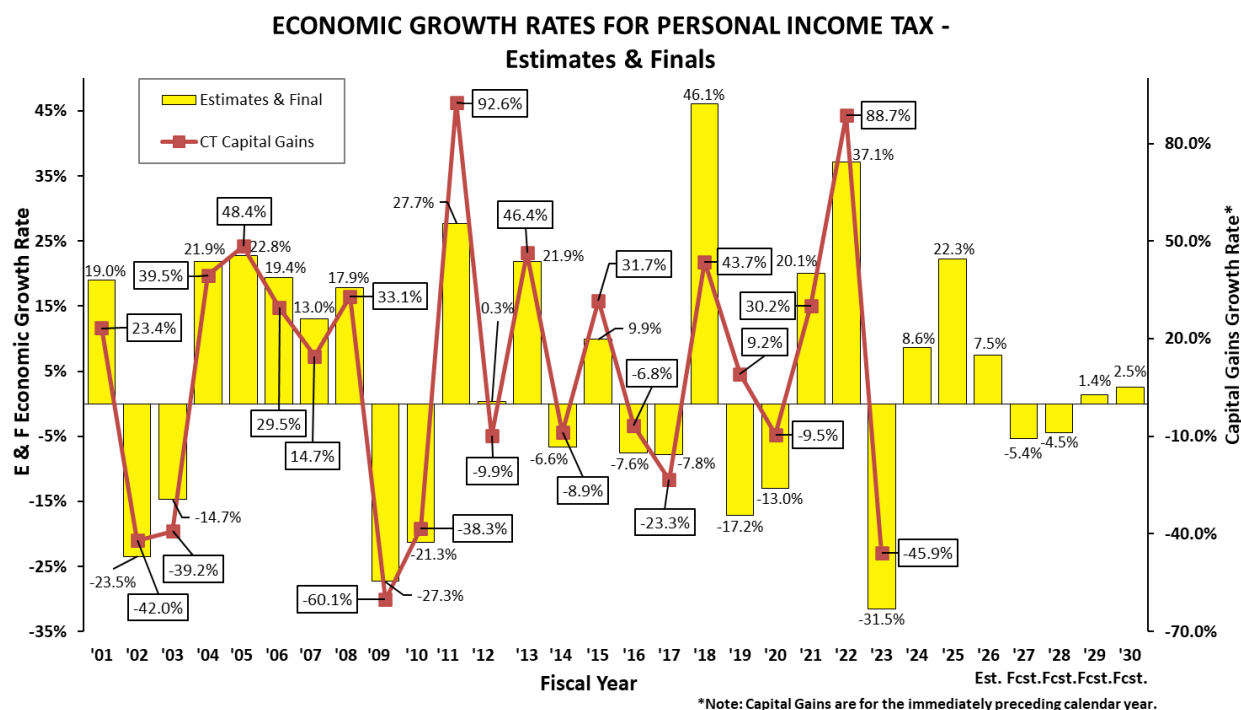
Personal Income Tax – Withholding

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 current biennium, and revenues are, in turn, expected to increase.

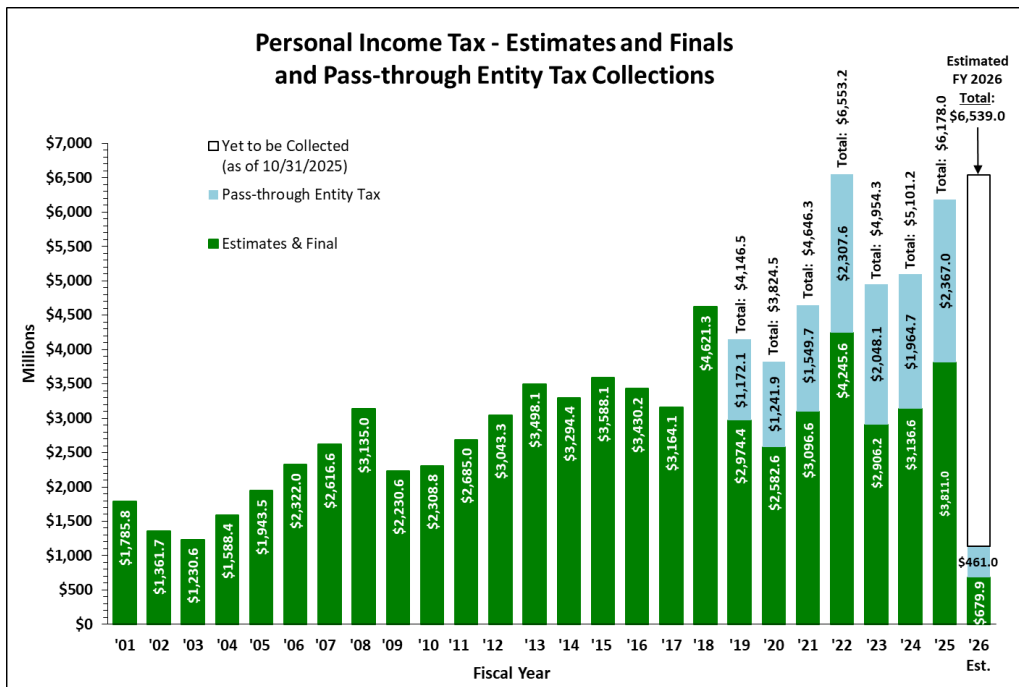


Personal Income Tax – Estimates and Finals Collections

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



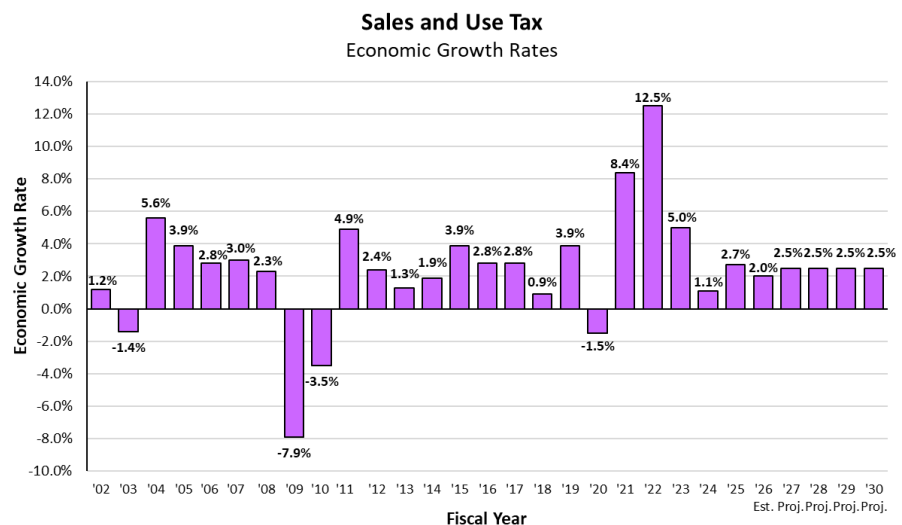
The current FY 2026 forecast calls for \$4,098.4 million in estimates and finals collections. Through October 31, 2025, the state has collected \$679.9 million, or 16.6 percent of the total forecasted amount. More than 40 percent of total collections are received in April when final tax returns are filed,



concentrating volatility into the last quarter of the fiscal year. In FY 2009 alone, as the recession gripped the country, Connecticut's estimates and finals collections fell by \$904.4 million. Excluding the impact of an enacted tax increase on millionaires at that time, estimates and finals collections fell an additional \$475.4 million in FY 2010, for a total two-year decline of about \$1.4 billion, or 44.5 percent from the 2008 peak. Fiscal year 2018 was an outlier due to extraordinary collections resulting from repatriation of offshore hedge fund income and investor behavior in anticipation of the Tax Cuts and Jobs Act of 2017. A strong economic recovery from the COVID-19 pandemic resulted in an exceptional performance in FY 2022. This was followed by a 24.4 percent drop in FY 2023, or a loss of \$1.6 billion. 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 above. Through October 31, 2025, the state has collected \$461.0 million, or 18.9 percent of the total forecast for Pass-through Entity Tax collections. Combined, the state has received \$1,140.9 million through October 31, 2025, or 17.4 percent of the total forecasted amount for estimates and finals and Pass-through Entity Tax collections in FY 2026.

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 percent range over the next several fiscal years, as shown in the graph at right. Each 1.0 percent change in the Sales and Use Tax growth rate results in an all-funds revenue change of about \$66 million.



RECESSION STRESS TEST

Public Act 25-140 modified the requirements of the Fiscal Accountability Report, effective this year. Newly enacted language requires an analysis of:

the state's preparedness for plausible recession scenarios, including estimates of the size of multiyear budget deficits that may result from revenue declines and other contingencies, and an assessment of the sufficiency of the Budget Reserve Fund and other state resources to address such budget deficits.

OPM provided a similar analysis in the 2024 Fiscal Accountability Report, analyzing potential revenue losses over a two-year period (FY 2026 and FY 2027) in the event of a recession. This year's analysis looks at the potential revenue loss if a recession were to start in FY 2027 and extends the timeframe through FY 2030, the latest year available in the November consensus revenue forecast. The potential recession impact is analyzed based on three scenarios:

1. A "mild" recession scenario based on the "dot com" recession, impacting fiscal years 2002 through 2006.
2. A "severe" recession scenario based on the "Great Recession," impacting fiscal years 2009 through 2012.
3. A "moderate" recession scenario based on the average impact of scenarios (1) and (2) above.

For reference, the following table details key economic indicators associated with the three recession scenarios utilized for this analysis:

Recession Scenarios

Economic and Financial Indicators	Mild	Moderate	Severe
Percentage of Jobs Lost from Peak to Trough	3.7%	5.3%	7.0%
Peak CT Unemployment Rate During Recession	5.6%	7.6%	9.6%
Percent Decline in CT Personal Income from Peak to Trough	1.8%	2.3%	2.8%
Cumulative 2 Year Economic Decline in GF Revenues	7.3%	10.1%	12.9%

No two recessions are alike: these scenarios are provided for illustrative purposes. Actual economic performance in a future recession may vary from these projections based on historical economic and revenue data.

In addition, this analysis looks at both the *gross revenue loss* and *net revenue loss* in a recession scenario. "Gross revenue loss" considers the total reduction in General Fund collections, including volatile revenue. "Net revenue loss" considers the impact of the volatility cap, which provides a "buffer" to bottom line General Fund revenues in the event of a recession. In the event of a mild recession, it is anticipated that volatile revenues will fall below the current cap during the period from FY 2027 – FY 2029. In the event of a moderate or severe recession, it is anticipated that volatile revenues will fall below the cap through FY 2030.

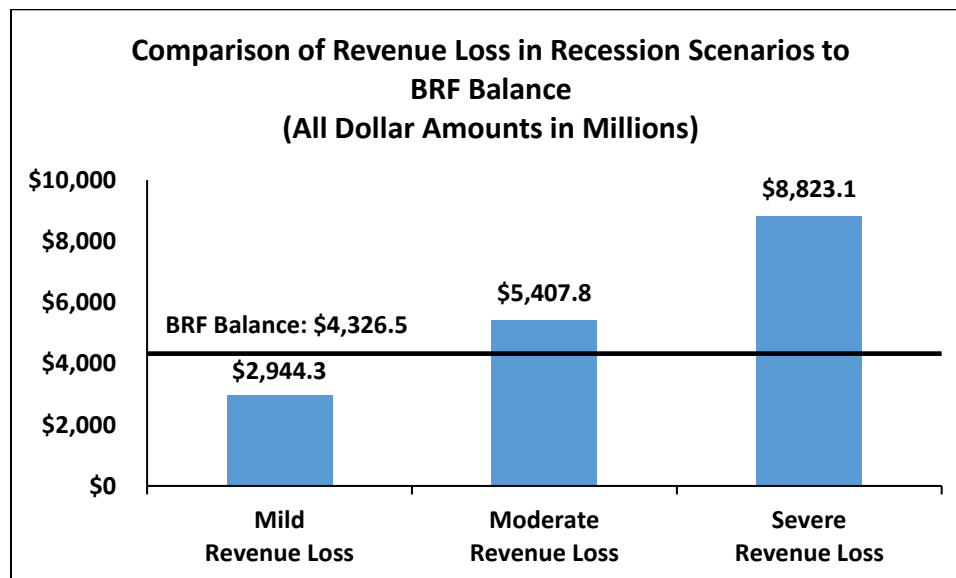
Our analysis finds that, in the event of a mild recession, revenues will fall below the November consensus forecast for a three-year period (FY 2027 through FY 2029). In the event of a moderate or

severe recession, revenues will fall below consensus through fiscal year 2030. The following table provides data on the impact of a recession on net General Fund revenues, volatility cap deposits, and gross General Fund revenues. In addition, the net General Fund revenue loss is compared to the Budget Reserve Fund balance as of 6/30/25:

Revenue Loss and Budget Reserve Fund (BRF) Balance Under Recession Scenarios
Cumulative Impact FY 2027 – FY 2030
(Dollar Amounts in Millions)

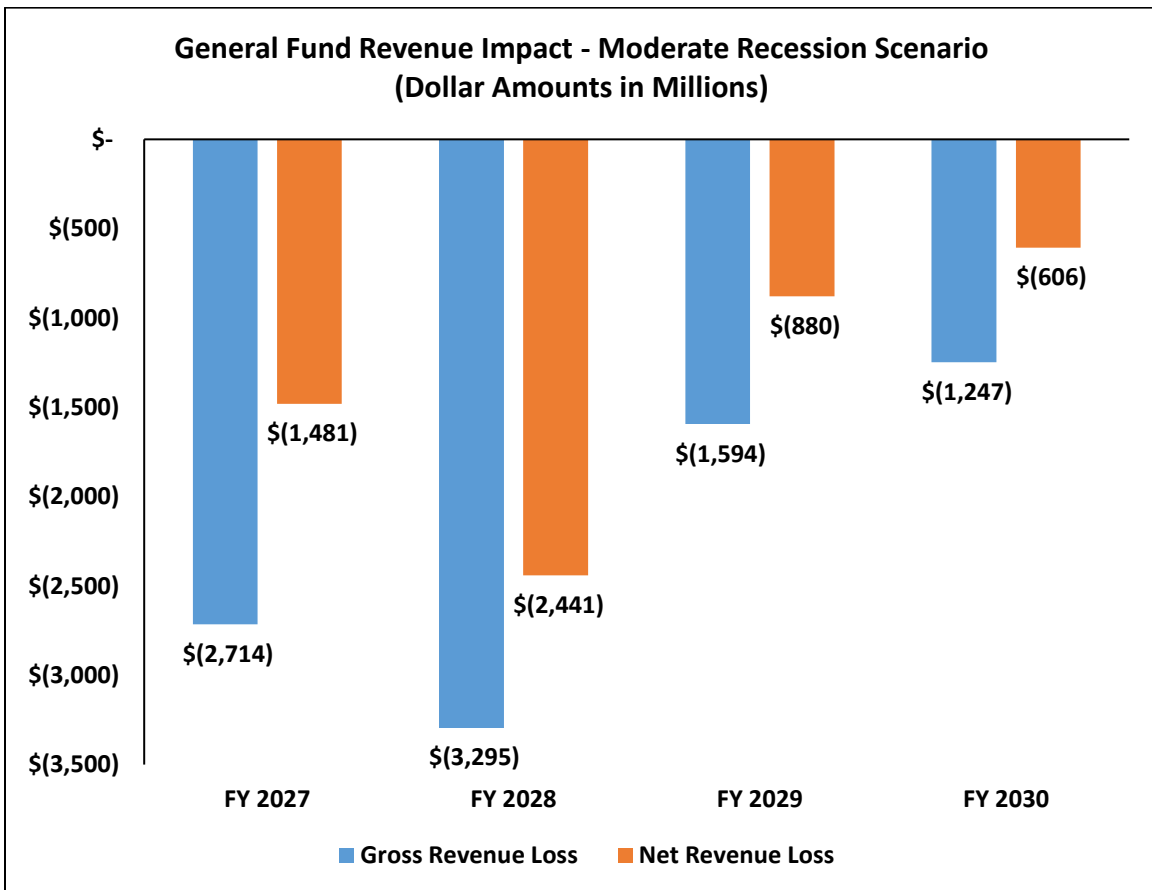
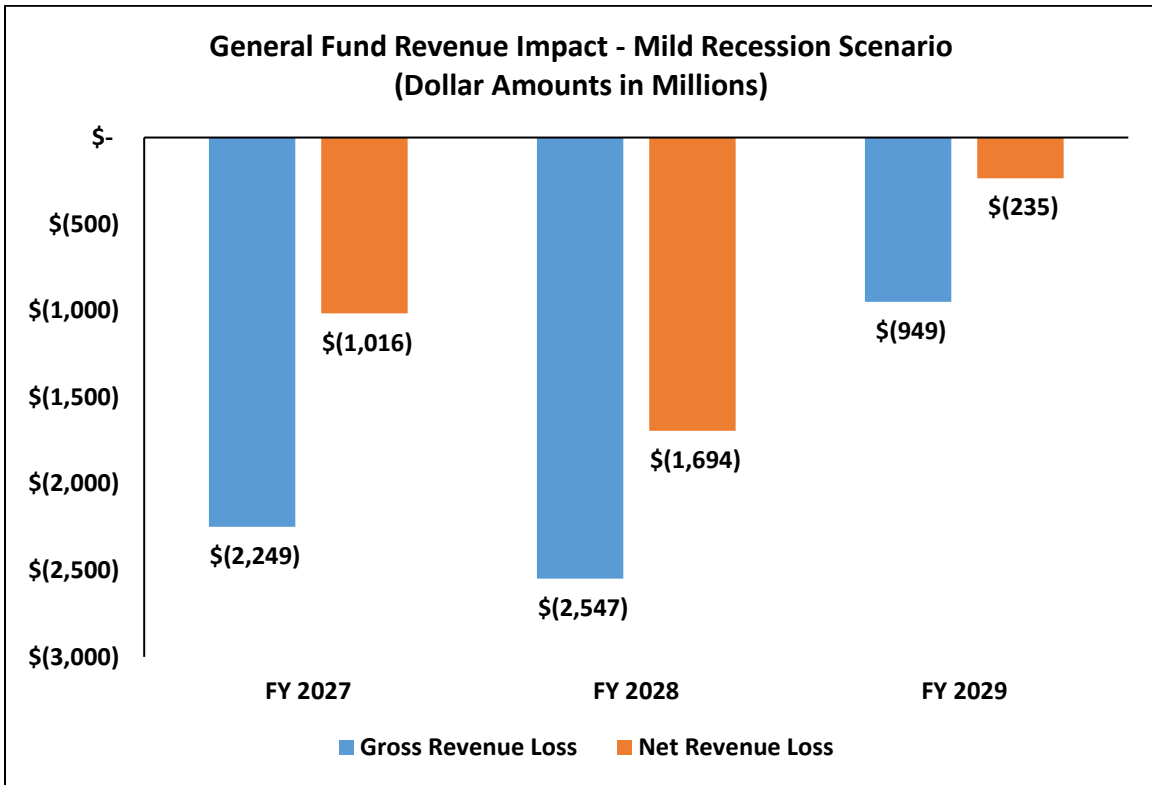
	Revenue Loss and BRF Impact	Mild	Moderate	Severe
1.	Foregone Volatility Cap Deposits	\$(2,801.2)	\$(3,442.3)	\$(3,442.3)
2.	Net General Fund Revenue Loss	<u>\$(2,944.3)</u>	<u>\$(5,407.8)</u>	<u>\$(8,823.1)</u>
3.	Gross General Fund Revenue Loss	\$(5,745.5)	\$(8,850.1)	\$(12,265.4)
4.	6/30/2025 BRF Balance	\$4,326.5	\$4,326.5	\$4,326.5
5.	Projected BRF Balance (Line 4 + Line 2)	\$1,382.2	\$(1,081.3)	\$(4,496.6)
6.	Date of Projected BRF Balance	6/30/2029	6/30/2030	6/30/2030
7.	Years Impacted	3	4	4

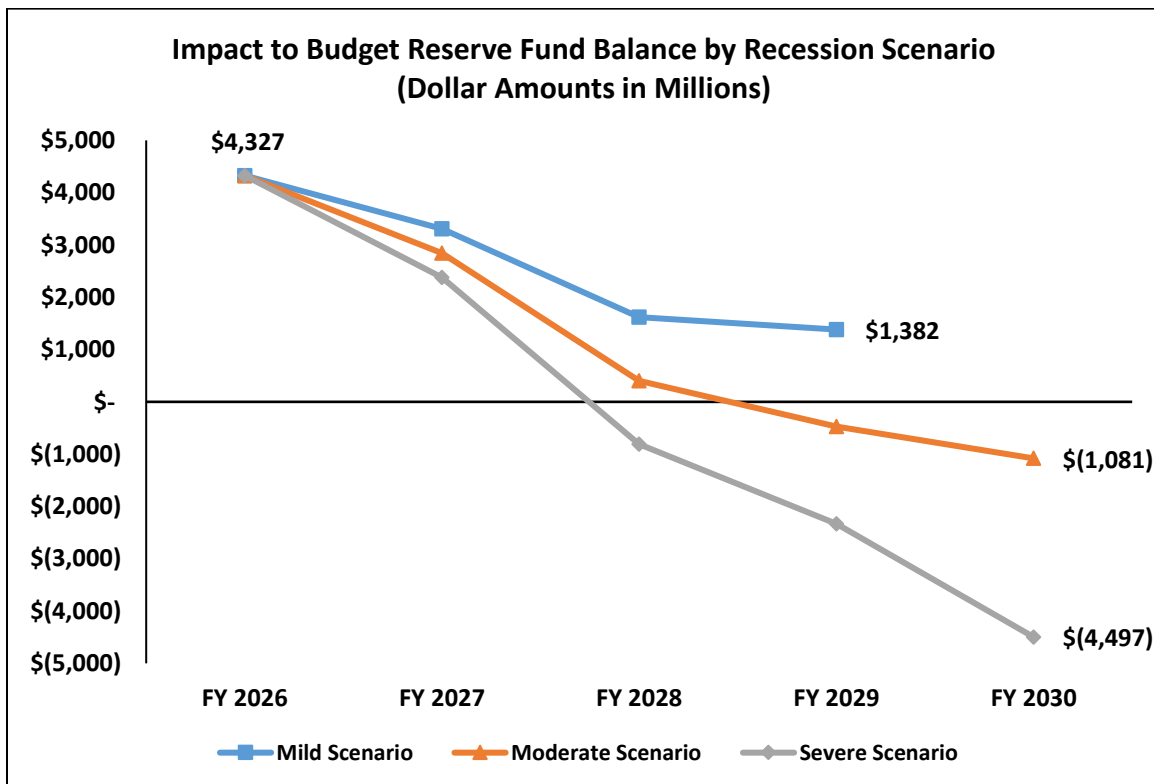
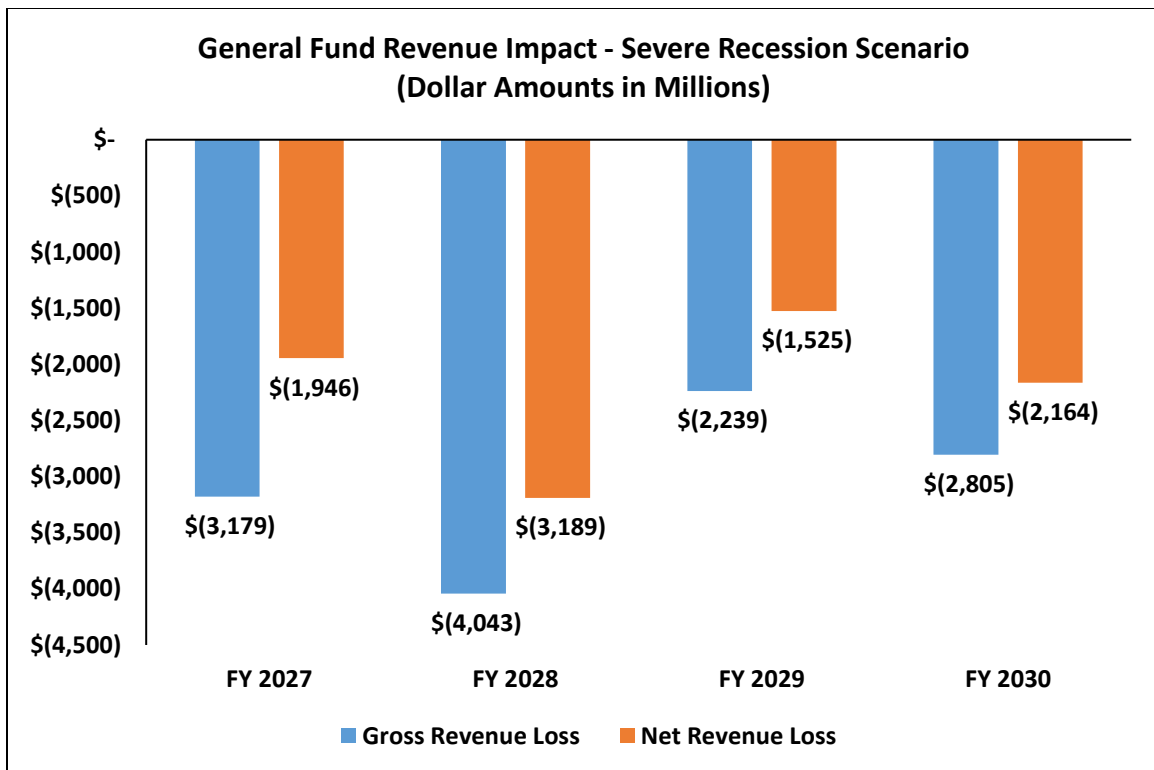
In the event of a mild recession, it is anticipated that the budget reserve fund balance will be sufficient to replace foregone revenue. In the event of a moderate or severe recession, additional measures such as tax increases or expenditure reductions may be required to balance the General Fund.



Other Contingencies

In addition to foregone revenue, we find that a recession could result in an asset shock to the state's pension funds, resulting in a higher ADEC for ensuing periods. For more information, please refer to the pension stress test section of this report. In addition, increased demand for services will put upward pressure on state expenditures, requiring difficult spending decisions during a period of declining revenues.





Note: Negative values imply that expenditure reductions, revenue increases or other budget balancing measures would be required after exhaustion of the Budget Reserve Fund.

FY 2027 TO FY 2028 – SPECIAL TRANSPORTATION FUND OUTLOOK

OPM's approach to estimating likely growth in costs in the Special Transportation Fund is explained in more detail below.

Special Transportation Fund Expenditures

PROJECTED EXPENDITURES (amounts in \$ millions)					
	Estimated FY 2026	Curr. Svcs. FY 2027	Projected		
			FY 2028	FY 2029	FY 2030
Fixed Costs					
Debt Service	\$ 901.6	\$ 1,001.7	\$ 1,081.3	\$ 1,144.5	\$ 1,208.8
State Employee Pensions	169.1	161.8	161.3	161.1	160.7
Total Fixed Costs	\$ 1,070.6	\$ 1,163.6	\$ 1,242.6	\$ 1,305.5	\$ 1,369.6
Growth rate		8.7%	6.8%	5.1%	4.9%
Non-Fixed Costs					
Personal Services	\$ 307.5	\$ 317.4	\$ 325.3	\$ 333.5	\$ 341.8
Other Expenses	83.2	84.5	86.6	88.4	90.3
State Employees Health Service Cost	73.8	80.1	82.5	84.9	87.2
Rail and Bus Operations	612.6	662.1	732.6	759.9	788.7
All Other	137.4	137.5	140.8	139.8	143.2
Total Non-Fixed Costs	\$ 1,214.4	\$ 1,281.5	\$ 1,367.9	\$ 1,406.5	\$ 1,451.3
Growth rate		5.5%	6.7%	2.8%	3.2%
Total - Special Transportation Fund	\$ 2,285.1	\$ 2,445.1	\$ 2,610.4	\$ 2,712.0	\$ 2,820.9
Growth rate		7.0%	6.8%	3.9%	4.0%

Assumptions Used to Develop Growth Estimates for Fixed Costs

The *Estimated FY 2026* column reflects OPM's estimate of spending requirements in the current fiscal year as of OPM's November 20, 2025, letter to the Comptroller. The *Current Services FY 2027* column reflects the original FY 2027 appropriation (PA 25-168 as amended by PA 25-174), adjusted to reflect updated estimates of spending requirements. The three outyears have been developed based on the *Current Services FY 2027* level of funding adjusted by the inflation factors noted below.

GENERAL ASSUMPTIONS

With notable exceptions, those expenditures not governed by statute were increased by projected standard inflation rates as follows:

FY 2028	2.55%
FY 2029	2.06%
FY 2030	2.18%

In addition, the following medical inflation rates were used where appropriate:

FY 2028	3.04%
FY 2029	2.89%
FY 2030	2.70%

Personal Services funding was inflated by 2.5% each year, consistent with our long-term inflation estimate.

AGENCY SPECIFIC ASSUMPTIONS

DEPARTMENT OF TRANSPORTATION

- *Rail Operations* – Reflects 5% annual growth in outyears. In addition, outyears include an additional \$45.0 million annually to offset one-time federal COVID funding that will be exhausted in FY 2027.

DEBT SERVICE - STATE TREASURER

- *Debt Service* - Reflects the issuance of Special Tax Obligation Bonds in the amounts of \$1.3 billion in FY 2026, \$1.2 billion in FY 2027, and \$1.1 billion in FYs 2028 through 2030.

STATE COMPTROLLER - FRINGE BENEFITS

- *State Employee Health Service Costs* - Reflects medical inflation.
- *SERS Defined Contribution Match* - Reflect wage inflation and anticipated volume of new employee in Tier IV.
- *State Employee Retirement System - Normal Cost and UAL Components* - Reflect the estimated normal cost and unfunded actuarial liability portions of the actuarially determined employer contributions (ADEC).

Special Transportation Fund Revenue

The November 10, 2025, consensus revenue forecast projects Special Transportation Fund revenues at \$2.33 billion in FY 2026. The table below shows the detailed revenue estimates.

PROJECTED REVENUES

Consensus Revenue Forecast - November 10, 2025

(In millions)

Special Transportation Fund

<u>Taxes</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Motor Fuels Tax	\$ 504.2	\$ 498.2	\$ 493.5	\$ 489.8	\$ 486.1
Oil Companies Tax	292.4	270.9	292.7	305.9	321.0
Sales & Use Tax	898.1	921.7	945.8	970.4	995.6
Sales Tax - DMV	113.7	114.8	116.0	117.2	118.3
Highway Use	60.8	61.7	62.6	63.6	64.5
Total Taxes	\$ 1,869.2	\$ 1,867.3	\$ 1,910.6	\$ 1,946.9	\$ 1,985.5
Less Refunds of Taxes	(14.3)	(10.6)	(11.0)	(11.5)	(12.0)
Total - Taxes Less Refunds	\$ 1,854.9	\$ 1,856.7	\$ 1,899.6	\$ 1,935.4	\$ 1,973.5
<u>Other Sources</u>					
Motor Vehicle Receipts	\$ 269.1	\$ 275.4	\$ 276.7	\$ 278.1	\$ 279.4
Licenses, Permits, Fees	139.7	141.1	142.5	143.9	145.4
Interest Income	64.5	48.6	46.0	47.1	47.0
Federal Grants	-	-	-	-	-
Transfers From (To) Other Funds	11.5	117.5	(5.5)	(5.5)	(5.5)
Less Refunds of Payments	(10.9)	(11.1)	(11.2)	(11.3)	(11.5)
Total - Other Sources	\$ 473.9	\$ 571.5	\$ 448.5	\$ 452.3	\$ 454.8
Total - STF Revenues	\$ 2,328.8	\$ 2,428.2	\$ 2,348.1	\$ 2,387.7	\$ 2,428.3
Percent Change		4.3%	-3.3%	1.7%	1.7%

Economic Growth Rates for Special Transportation Fund Tax Revenues

The outlook over the next several years is mixed for the key taxes that support the Special Transportation Fund, with several sources showing declines while revenues related to the Sales and Use Tax show growth in the mid 2 percent range. The table below 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, 2025

Consensus Revenue Forecast

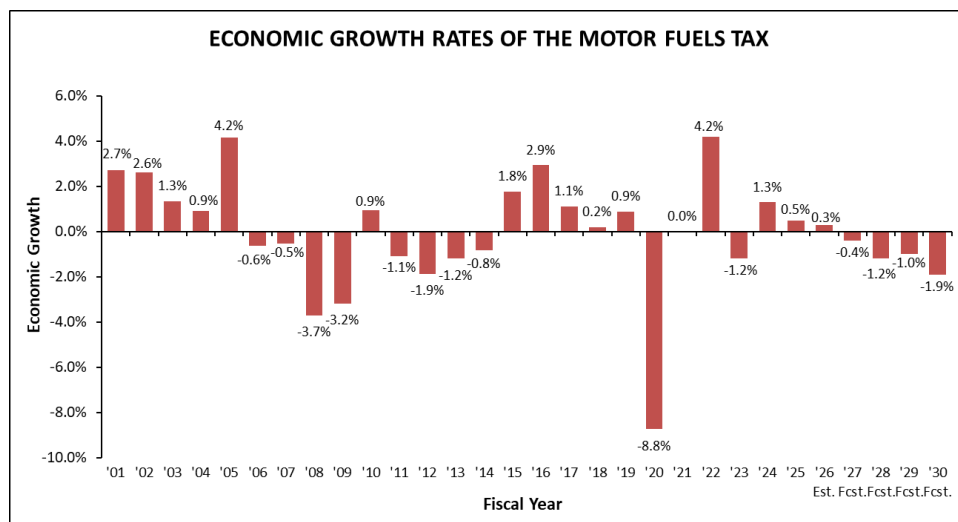
(Percent Change)

Special Transportation Fund

<u>Taxes</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Motor Fuels Tax	0.5	0.3	-0.4	-1.2	-1.0	-1.9
Oil Companies Tax	-16.9	-8.1	-1.1	8.0	4.5	4.9
Sales and Use Tax	2.7	2.0	2.5	2.5	2.5	2.5
Sales Tax - DMV	-1.1	-0.4	1.0	1.0	1.0	0.9
Highway Use	-0.6	1.5	1.5	1.5	1.6	1.4

Motor Fuels Tax

The Motor Fuels Tax remains an important, albeit increasingly smaller, component of the Special Transportation Fund. This revenue source includes a 25 cents per gallon tax on gasoline fuel and a 48.9 cents per gallon tax on diesel fuel, as of July 1, 2025. (Note that the state suspended the



gasoline tax from April 1, 2022 through November 30, 2022 and then phased the tax back in from December 1, 2022 through April 30, 2023.) Nominal adjusted¹ revenue growth of the Motor Fuels Tax from FY 2016 to FY 2025 was negative 0.8 percent, equivalent to a decline of about 0.09 percent per fiscal year over the past ten years. Growth in this revenue source is highly influenced by economic conditions, the price of motor fuels, and the fuel economy of the existing fleet. Prior to the COVID-19 pandemic, the Motor Fuels Tax showed positive growth as lower fuel prices increased consumer demand, but this growth trend dissipated after restrictions were put in place to reduce the spread of the COVID-19 virus. Consumption in FY 2024 picked up but remains below pre-pandemic peaks. Fuel consumption in FY 2025 remained relatively flat compared to FY 2024 and is expected to maintain relatively similar to consumption levels in FY 2026. Lower fuel prices will be a drag on future diesel fuel tax rates through FY 2030. The November 2025 consensus revenue forecast assumes that consumer behavior has been permanently changed, and collections will not recover to pre-pandemic levels over the next several fiscal years.

Even without the pandemic, it has always been assumed that the growth in motor fuels consumption will naturally turn negative as consumer behavior changes, either due to price increases or by increased use of alternatively powered vehicles. Since FY 2015, new revenue sources have been added to the Special Transportation Fund to address this expected lack of growth and to reduce the Special Transportation Fund's reliance on a single slow-growing revenue source. In FY 2025, Motor Fuels Tax revenue was approximately 23.1 percent of the total revenue deposited in the Special Transportation Fund, down from 45.0 percent in FY 2010. The Sales and Use Tax has overtaken the Motor Fuels Tax to become the largest single revenue component in the Special Transportation Fund; in FY 2025 it represented 39.5 percent of total collections and will remain the largest single revenue source for the foreseeable future.

¹ FY 2022 and FY 2023 revenue collections were adjusted to account for the gasoline tax holiday (April 1, 2022, to April 30, 2023).

LONG-TERM OUTLOOK FOR THE SPECIAL TRANSPORTATION FUND

In recent years the Special Transportation Fund has shown substantial financial strength. Strong Sales and Use Tax collections, a recovery in fuel-related taxes, and receipt of significant federal assistance helped to stabilize the fund in the near-term and have grown cumulative fund balances to over \$450 million. However, those strong fiscal results are not expected to continue as out-year expenditure growth continues to outpace the growth in revenues, leading to projected operating shortfalls in FY 2027 and beyond. Rising costs due to construction inflation, robust capital expenditures, and relatively slow revenue growth will put pressure on the solvency of the fund. Without the introduction of alternative financing, additional revenue, or reductions in transportation investments, the expected increase in costs will not be sustainable.

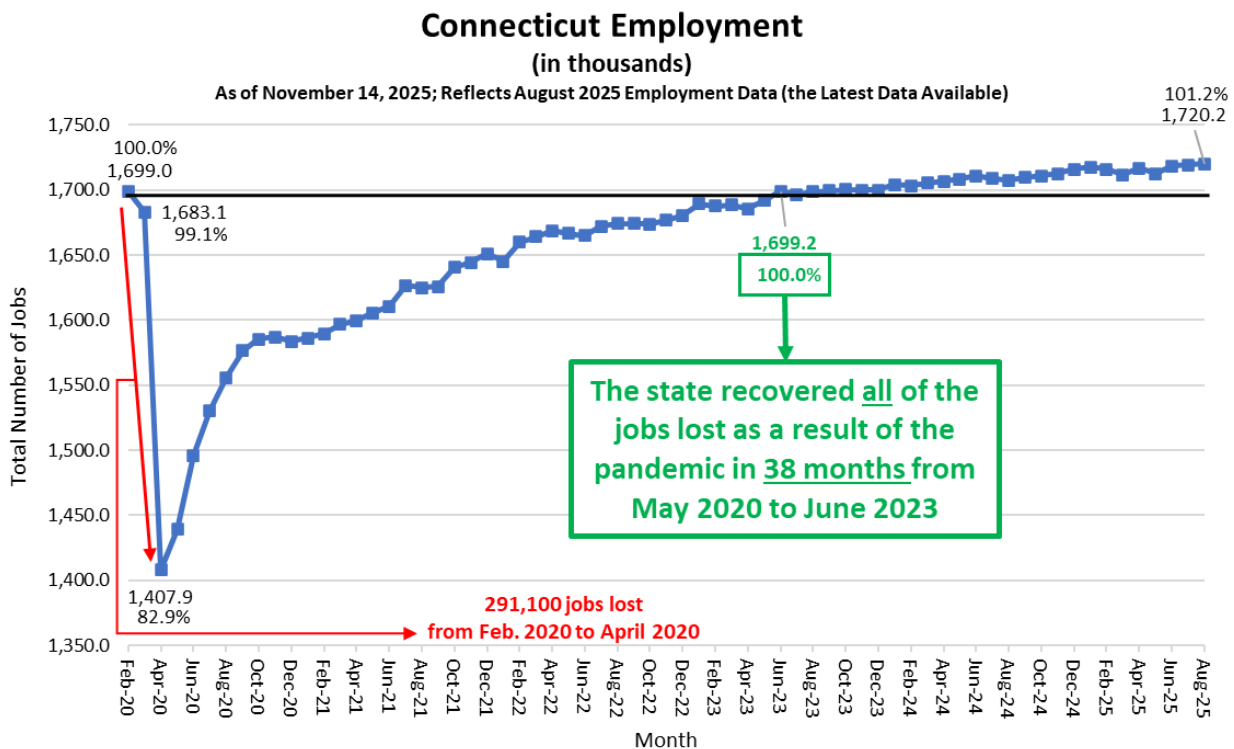
SPECIAL TRANSPORTATION FUND - STATEMENT OF FINANCIAL CONDITION

(In Millions)

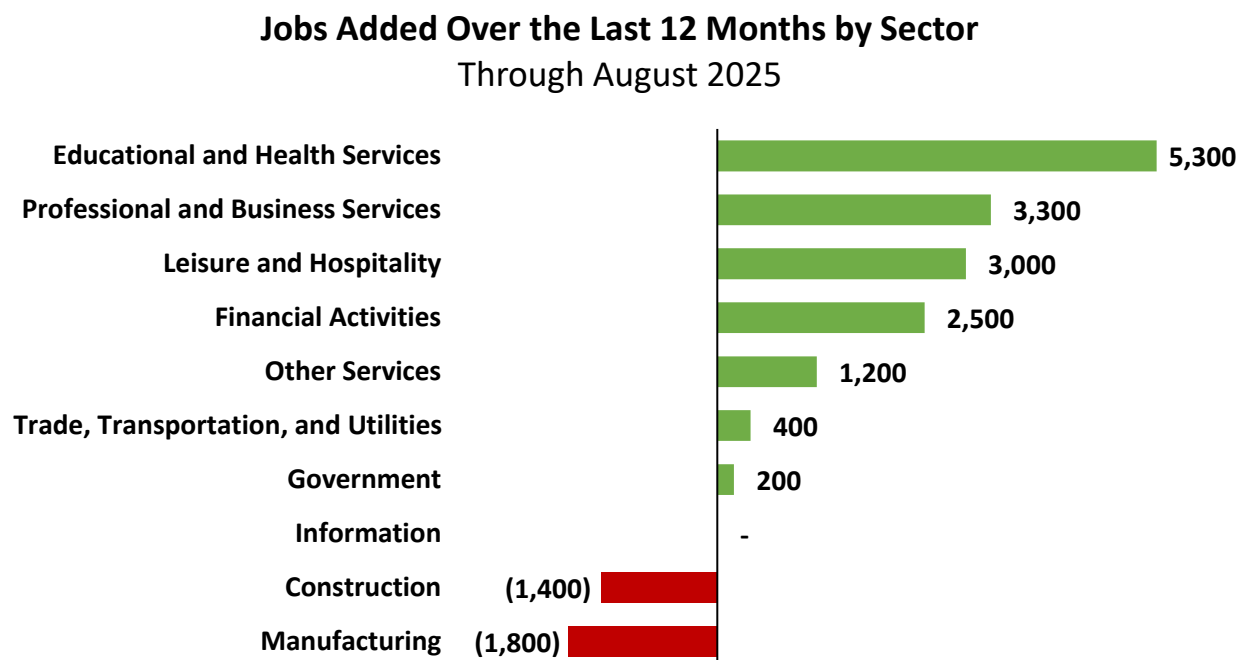
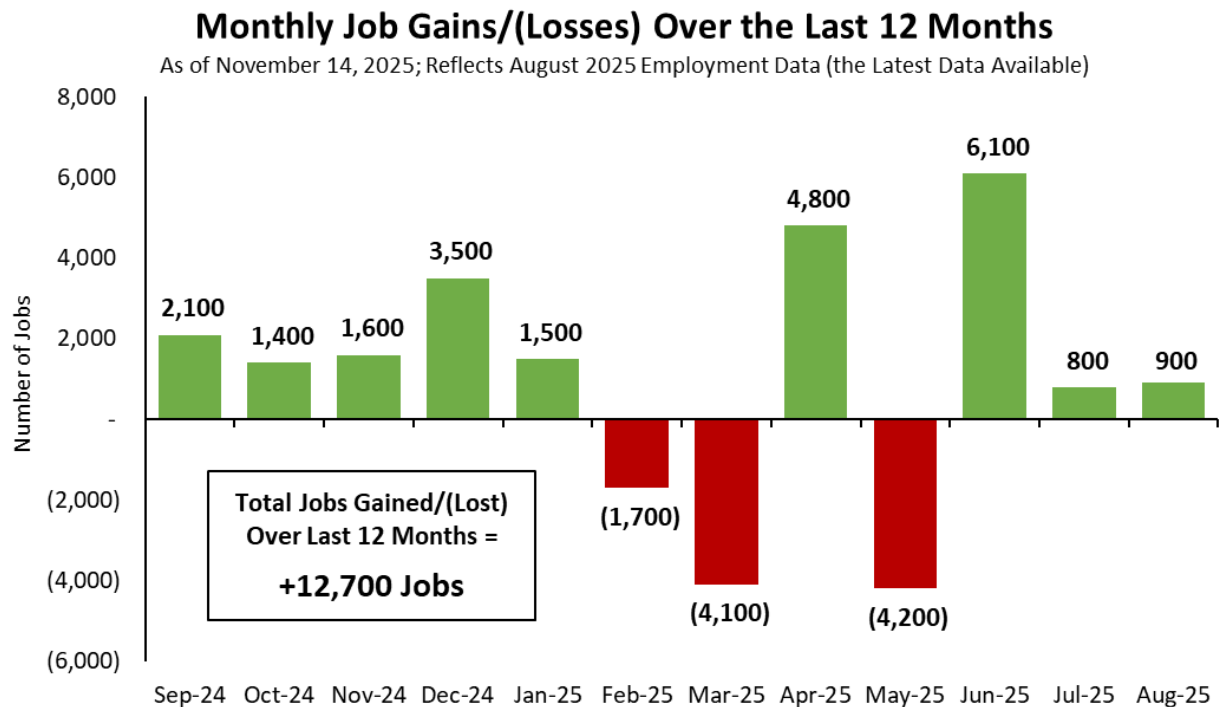
<u>Actual & Projected Revenues</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
1. Motor Fuels Tax	\$ 513.8	\$ 504.2	\$ 498.2	\$ 493.5	\$ 489.8	\$ 486.1
2. Sales & Use Tax	877.8	898.1	921.7	945.8	970.4	995.6
3. Sales Tax - DMV	114.1	113.7	114.8	116.0	117.2	118.3
4. Oil Companies Tax	298.0	292.4	270.9	292.7	305.9	321.0
5. Highway Use Fee	59.9	60.8	61.7	62.6	63.6	64.5
6. Motor Vehicle Receipts	275.1	269.1	275.4	276.7	278.1	279.4
7. Licenses, Permits, Fees	139.7	139.7	141.1	142.5	143.9	145.4
8. Federal Grants	5.2	-	-	-	-	-
9. Interest Income	71.2	64.5	48.6	46.0	47.1	47.0
10. Transfers from / (to) Other Funds	(113.1)	11.5	117.5	(5.5)	(5.5)	(5.5)
11. Total Revenues	\$ 2,241.6	\$ 2,354.0	\$ 2,449.9	\$ 2,370.3	\$ 2,410.5	\$ 2,451.8
12. Refunds	(20.6)	(25.2)	(21.7)	(22.2)	(22.8)	(23.5)
13. Total Net Revenues	\$ 2,221.0	\$ 2,328.8	\$ 2,428.2	\$ 2,348.1	\$ 2,387.7	\$ 2,428.3
14. Revenue Cap Adjustment	-	-	(30.4)	(29.4)	(29.8)	(30.4)
15. Budget Revenues	\$ 2,221.0	\$ 2,328.8	\$ 2,397.8	\$ 2,318.7	\$ 2,357.9	\$ 2,397.9
<u>Projected Debt Service and Expenditures</u>						
16. Projected Debt Service on the Bonds	\$ 859.0	\$ 901.6	\$ 1,001.7	\$ 1,081.3	\$ 1,144.5	\$ 1,208.8
17. DOT Budgeted Expenses	948.0	974.9	1,027.6	1,107.3	1,143.4	1,181.4
18. DMV Budgeted Expenses	70.2	76.5	78.3	80.3	82.2	84.2
19. Other Budget Expenses	300.9	314.0	331.4	335.0	335.1	339.2
20. Program Costs Paid from Current Operations	18.0	18.1	18.1	18.5	18.9	19.3
21. Estimated Unallocated Lapses	0.0	0.0	(12.0)	(12.0)	(12.0)	(12.0)
22. Total Expenditures	\$ 2,196.2	\$ 2,285.1	\$ 2,445.1	\$ 2,610.4	\$ 2,712.1	\$ 2,820.9
23. Excess (Deficiency)	\$ 24.8	\$ 43.7	\$ (47.3)	\$ (291.7)	\$ (354.2)	\$ (423.0)
24. Cumulative Excess (Deficiency)	\$ 469.8	\$ 455.9	\$ 439.0	\$ 176.7	\$ (147.7)	\$ (540.3)
25. Use of Excess to Pay Down Outstanding Debt	(57.5)	-	-	-	-	-
26. Remaining Cumulative Excess (Deficiency)	\$ 412.3	\$ 455.9	\$ 439.0	\$ 176.7	\$ (147.7)	\$ (540.3)
27. Debt Service Coverage Ratio	2.59	2.58	2.42	2.17	2.09	2.01

CONNECTICUT'S ECONOMY

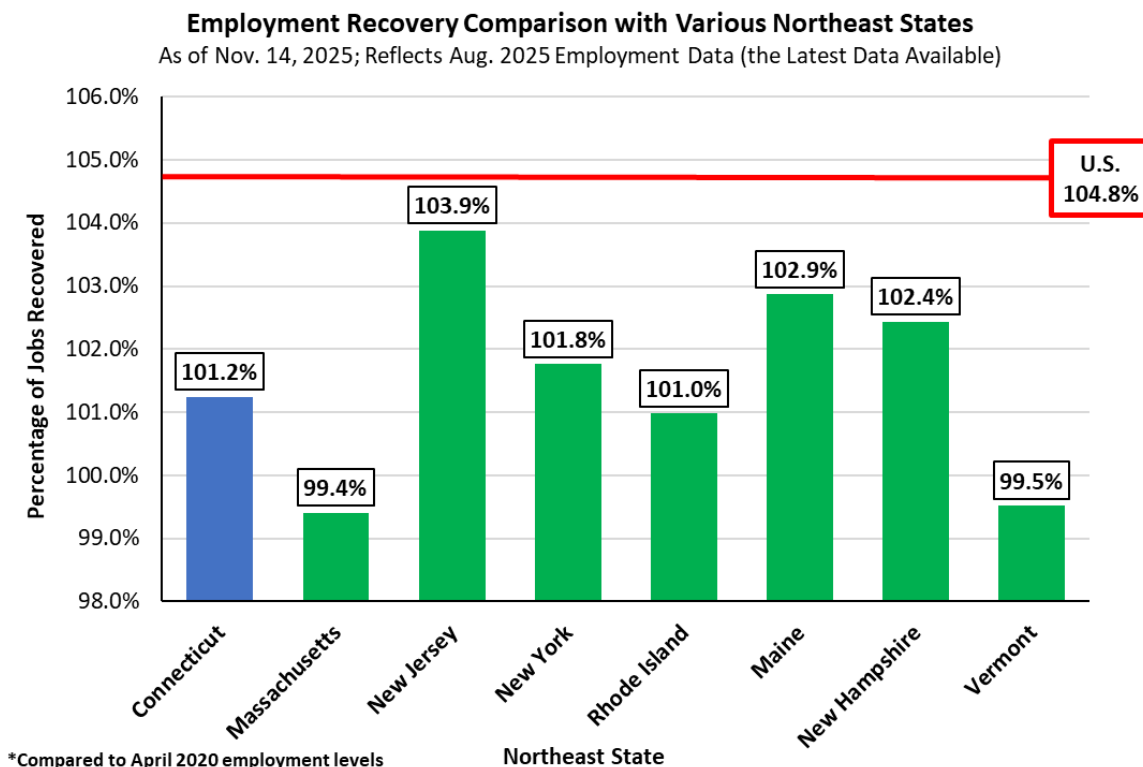
Prior to the onset of the COVID-19 pandemic-induced recession, Connecticut's economy had not fully recovered from the Great Recession of 2008. After contracting sharply in the 2008 recession, the Connecticut economy experienced slow job growth before reaching full recovery in May 2018 of all private-sector jobs lost during the 2008 recession. Although the number of Connecticut jobs was growing and had recovered 81.4 percent of all jobs as of February 2020, the coronavirus pandemic and the ensuing nonessential business closures caused a shift in the employment trajectory. At the outset of the pandemic, March and April of 2020, Connecticut lost 291,100 jobs or 17.1 percent of its workforce as seen in the graph below. The state recovered all the jobs lost as a result of the pandemic in approximately 38 months from May 2020 to June 2023. As of August 2025, employment levels continue to rise where total jobs are 1.2 percent greater than levels attained right before the pandemic.



The following graphics provide job gains and losses overall and by sector over the 12 month period through August 2025 (latest data available). Over the last 12 months, Connecticut added a net 12,700 jobs. Job gains were led by the educational and health services sector, followed by professional and business services, leisure and hospitality, financial activities, other services, trade, transportation and utilities, and government. Job losses were concentrated in the manufacturing and construction sectors, while the information technology sector was unchanged.

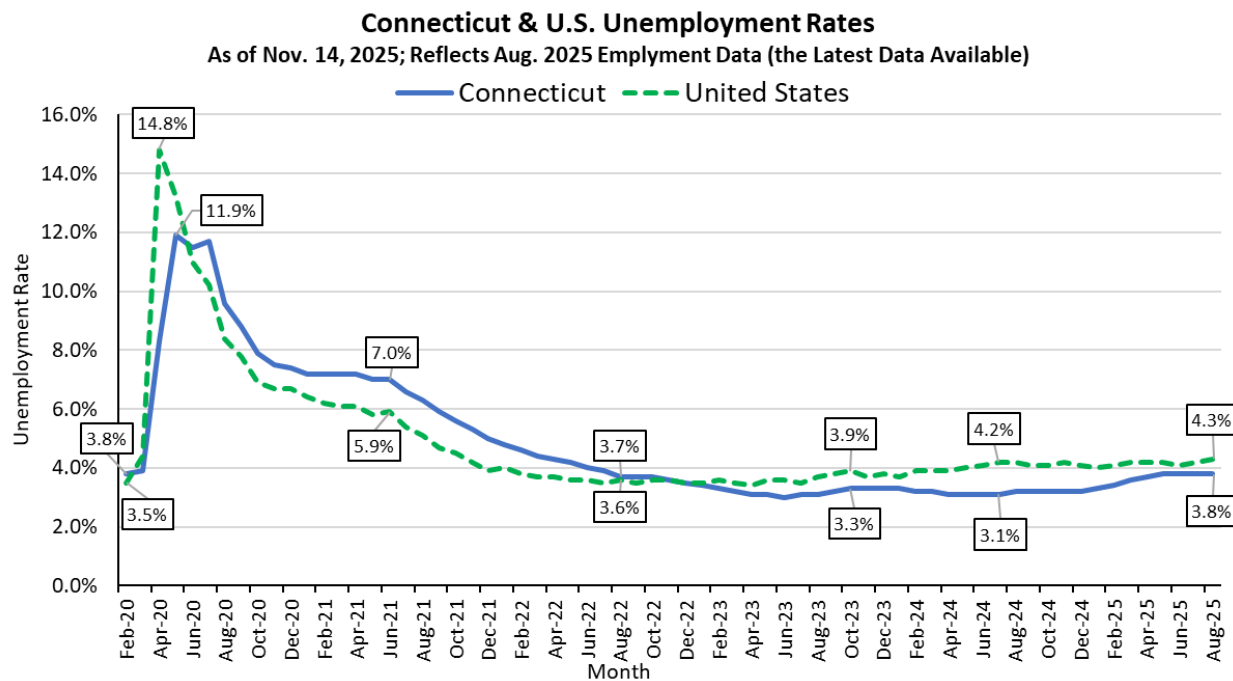


The graph below provides a comparison of Connecticut to the nation and various northeast states on post-pandemic jobs recovered. All of Connecticut's neighboring states, except Massachusetts and Vermont, have recovered all the jobs lost from the pandemic. The state's recovery is mostly in line with our neighboring states, except for New Jersey, but lags the nation as a whole, reaching 101.2 percent of the pre-pandemic job levels. Compared to the last decade, following the 2008 Great Recession where employment recovery for Connecticut was among the worst in the nation, the state's recovery from the pandemic improved significantly.



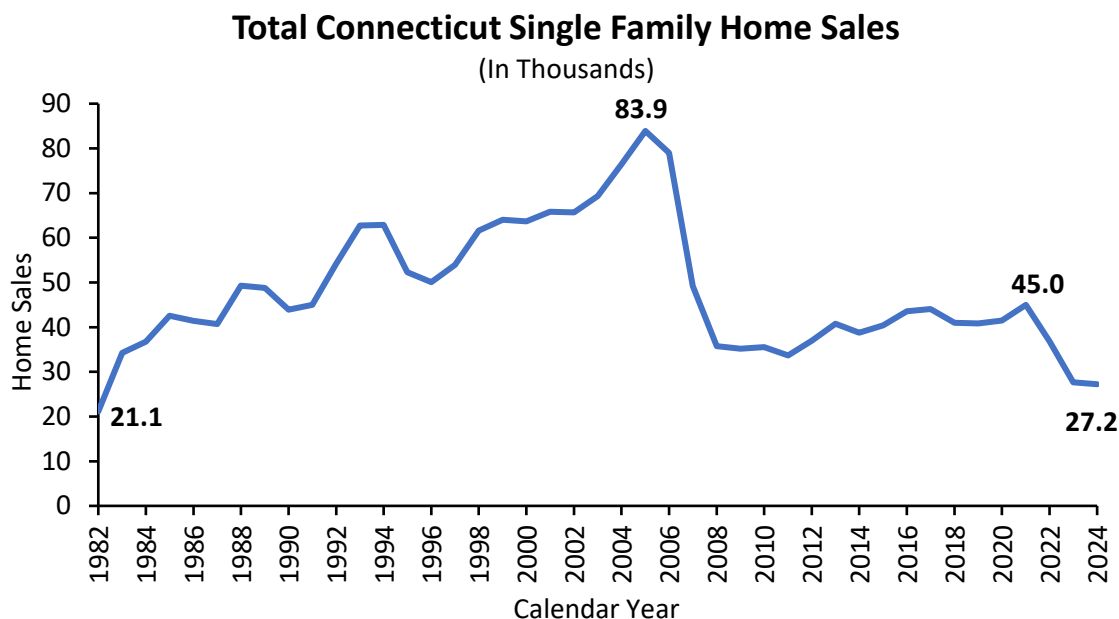
Unemployment Rates

Following the COVID-19 pandemic, unemployment rates for both Connecticut and the nation jumped significantly; the unemployment rate for the nation went from 3.5% in February 2020 to 14.8% by March 2020 and from 3.8% in Connecticut to 11.9% over the same time period. Since then, the unemployment rates for the nation and Connecticut have improved dramatically. In June 2023, the state reached an unemployment rate of 3.0%, its lowest unemployment rate since July 2001. Since the pandemic, the unemployment rates for Connecticut and the nation have improved dramatically where Connecticut has a lower unemployment rate (3.8%) than the nation (4.3%) as of August 2025.

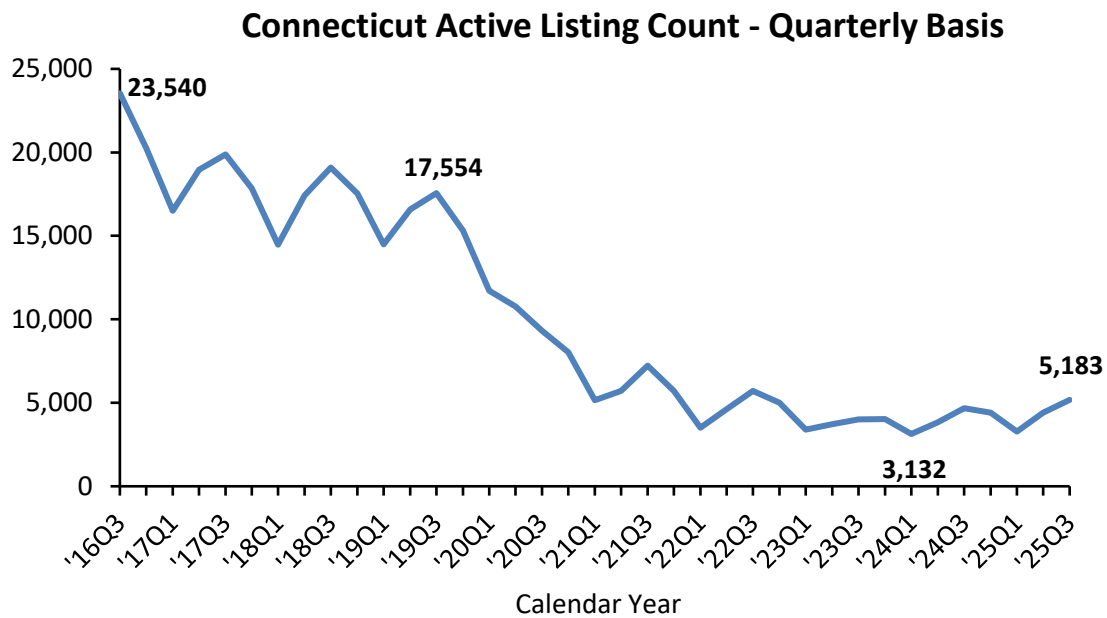


Housing

Total home sales in Connecticut remain below their peak prior to the Great Recession. Home purchasing activity ticked up during the early part of the COVID 19 pandemic, with approximately 45,000 homes sold in calendar year 2021, the highest level of activity since calendar year 2007. Since that period, home sales have decreased to approximately 27,200 as of calendar year 2024, their lowest level since 1982, when our Nation was experiencing a recession and extraordinarily high interest rates. Constrained supply and higher interest rates have had a cooling effect on total home sales. According to data from the Federal Housing Finance Agency (FHFA), 53.8% of outstanding Connecticut mortgages had interest rates below 4% in the fourth quarter of 2024. As a result, existing homeowners may be “locked in” to their existing mortgage rates given that current rates average 6.24% as of November 13, 2025.

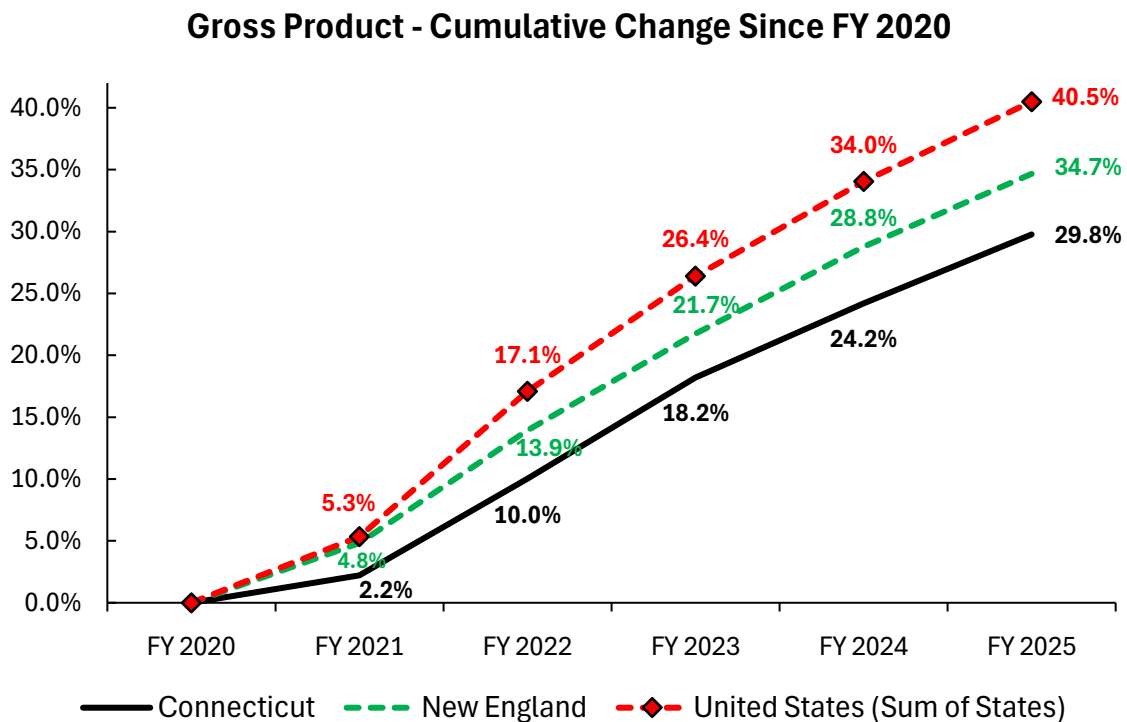


The reduction in home sales in the State is indicative of constrained supply within the state. Connecticut has not recovered the number of homes for sale since the pandemic. In the third quarter of 2019, active listings in the state averaged 17,554. Following a long decline, active listings reached a mere 3,132 in the first quarter of 2024. However, active listings have recovered somewhat in the last year, reaching 5,183 in the third quarter of 2025, still representing just 30% of their level in the third quarter of 2019.

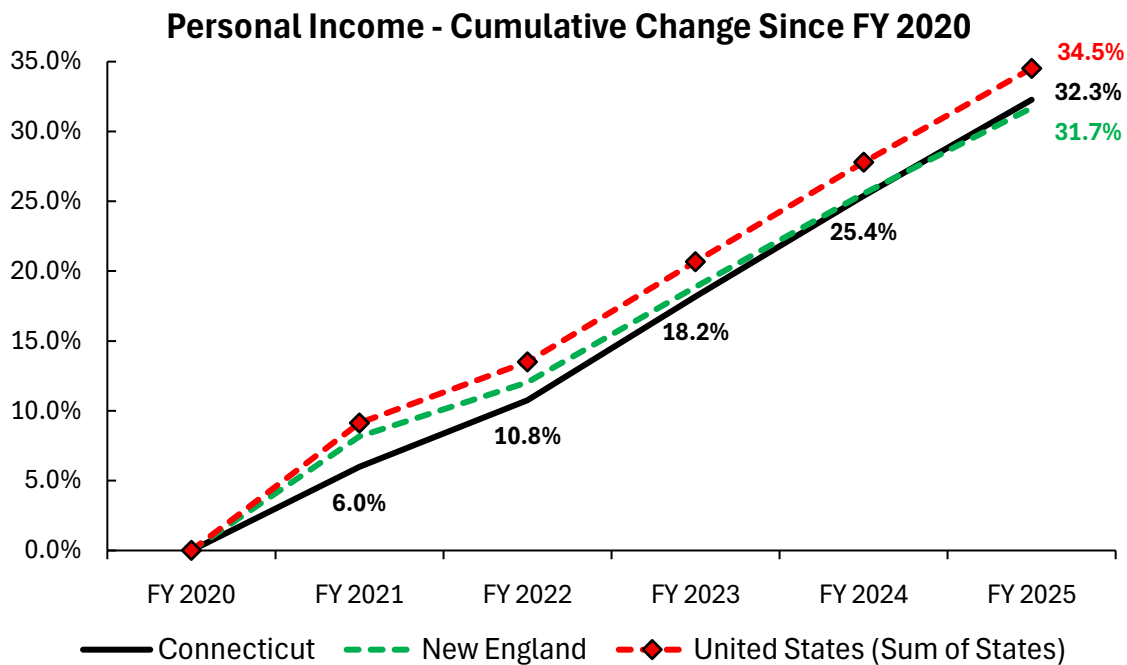


Gross State Product and Personal Income

Connecticut's gross state product has grown substantially since the pandemic, albeit at a slower pace than New England and the Nation as a whole. Not adjusting for inflation, gross product increased 29.8% from FY 2020 – FY 2025, compared to 34.7% for New England and 40.5% for the nation as a whole.

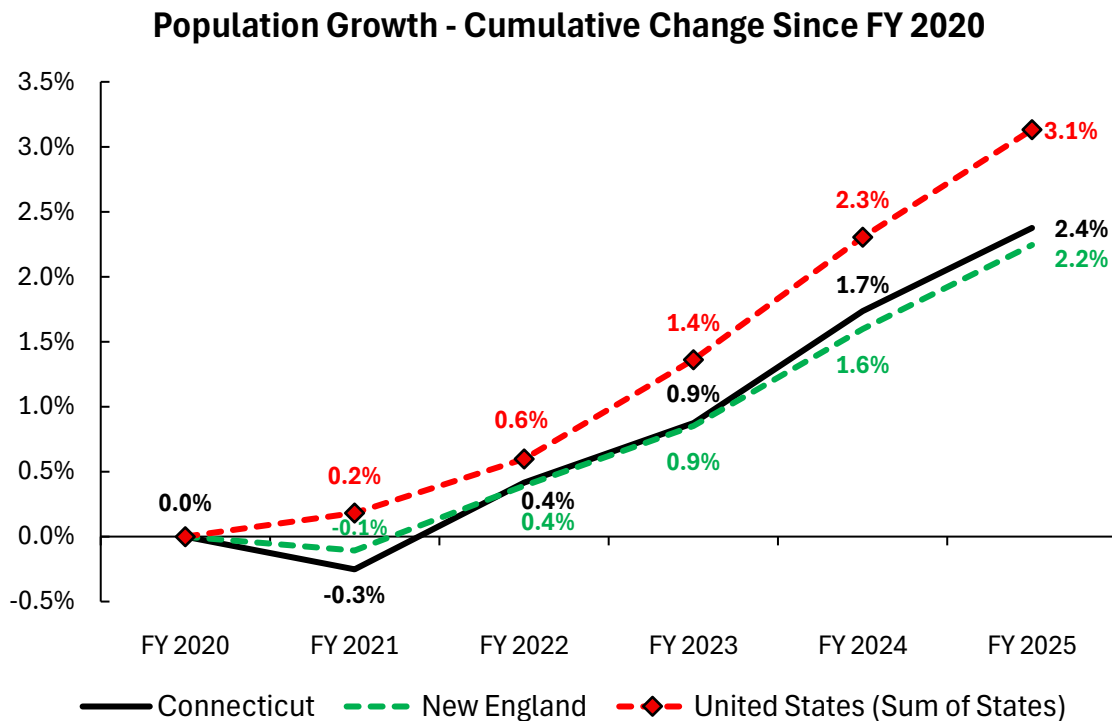


Over the same period, Connecticut has experienced growth in personal income largely in line with both New England and the Nation. Since FY 2020, Connecticut has seen personal income growth of 32.3%, compared to 31.7% for New England and 34.5% for the nation. It is important to note that capital gains are not included in the Bureau of Economic Analysis (BEA) measure of personal income.



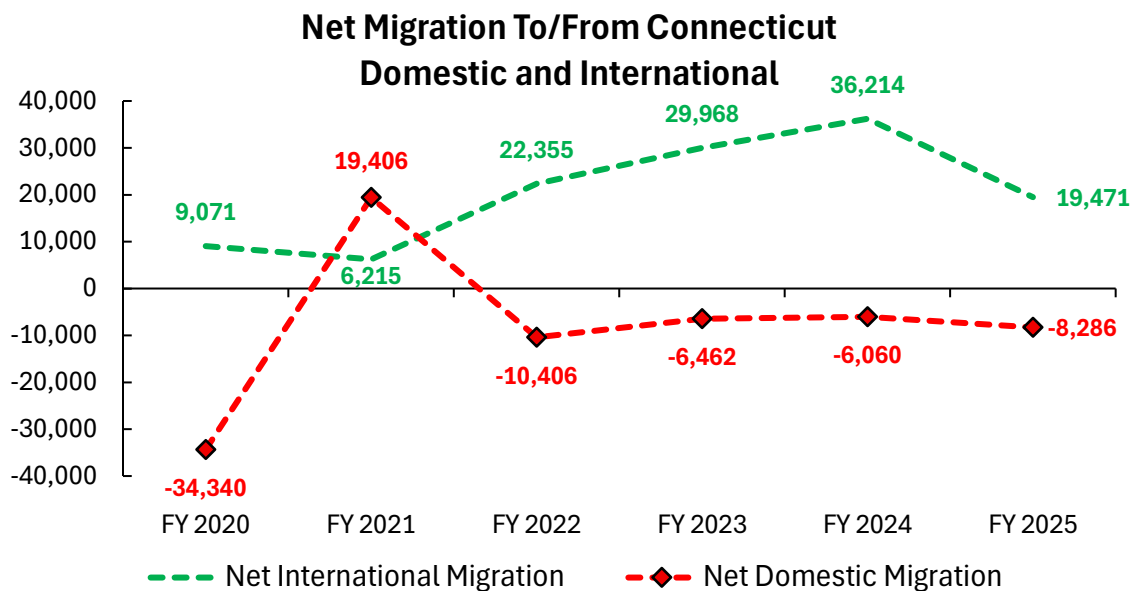
Population

Following a period of stagnant or declining population, Connecticut has seen a return to population growth since the pandemic. Since FY 2020, Connecticut has seen cumulative population growth of 2.4% through FY 2025, higher than the New England average of 2.2% but lower than the nation overall at 3.1%. This translates to more than 85,000 new residents in the state over the previous five years.



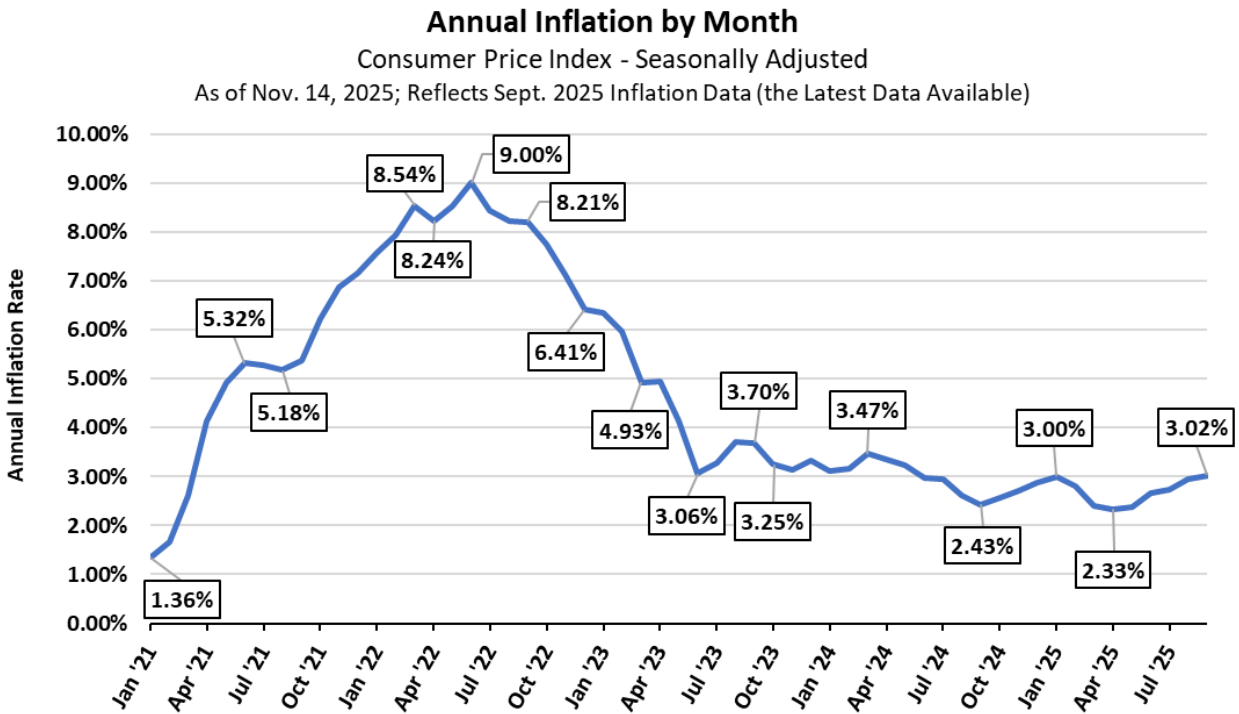
The biggest driver of population growth has been international migration into the state. The trend of net domestic migration to other states has continued since the pandemic, albeit at a slower pace. However,

robust international migration has resulted in a net population gain from migration. Since FY 2020, net international migration to the state has accounted for over 114,000 new residents in the state, more than the over 85,000 new residents overall during the same time period.

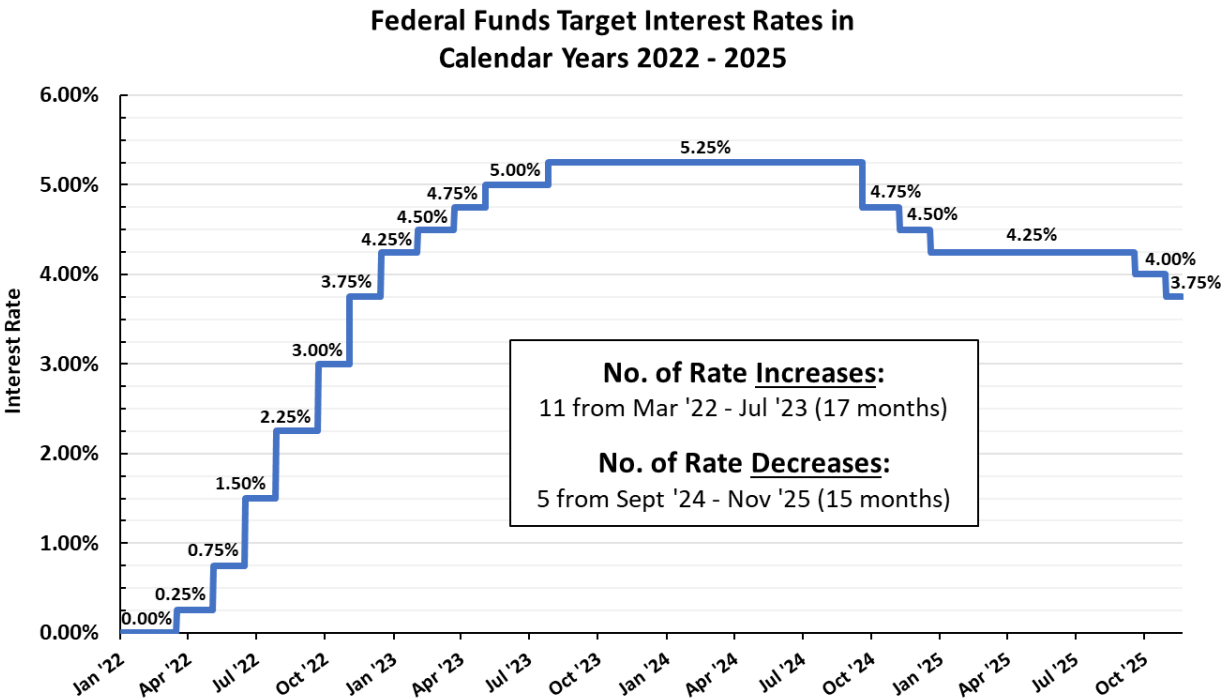


Inflation and Federal Interest Rates

For almost four years now, rapidly rising prices and the Federal Reserve's policy response to that phenomenon has dominated the headlines. Inflation at the consumer level began its upward slope as the nation began to emerge from the pandemic-induced recession, reaching 8.99 percent in June 2022. Obviously concerned, in March of 2022 the Federal Reserve embarked on a series of eleven interest rate increases totaling 525 basis points. Federal interest rates remained at 5.25 percent for approximately 14 months until the Federal Reserve cut the rate by 50 basis points in September 2024, another 25 basis points in November 2024, and another 25 basis points in December 2024. The federal funds rate stood at a range of 4.25 percent to 4.5 percent for 9 months before being cut 25 basis points in September 2025 and another 25 basis points to 3.75 percent at the end of October 2025. The federal funds rate currently stands at a range of 3.75 percent to 4.00 percent as of November 2025. It is expected that the Federal Reserve will continue to cut these short-term interest rates over the next several years if inflation remains at the targeted level in the mid-two-to-three percent range. Short-term interest rates remain elevated but have decreased slightly in the last couple months, and inflation has declined from 8.99 percent in June 2022 to 3.02 percent in September 2025. It appears that the Federal Reserve's actions have been curbing high inflation levels, however, fears that elevated interest rates might potentially induce an economic contraction still linger.



Source: Bureau of Labor Statistics as of 11/14/2025



Source: Federal Reserve Bank of New York as of 11/14/2025

SPECIAL TOPICS

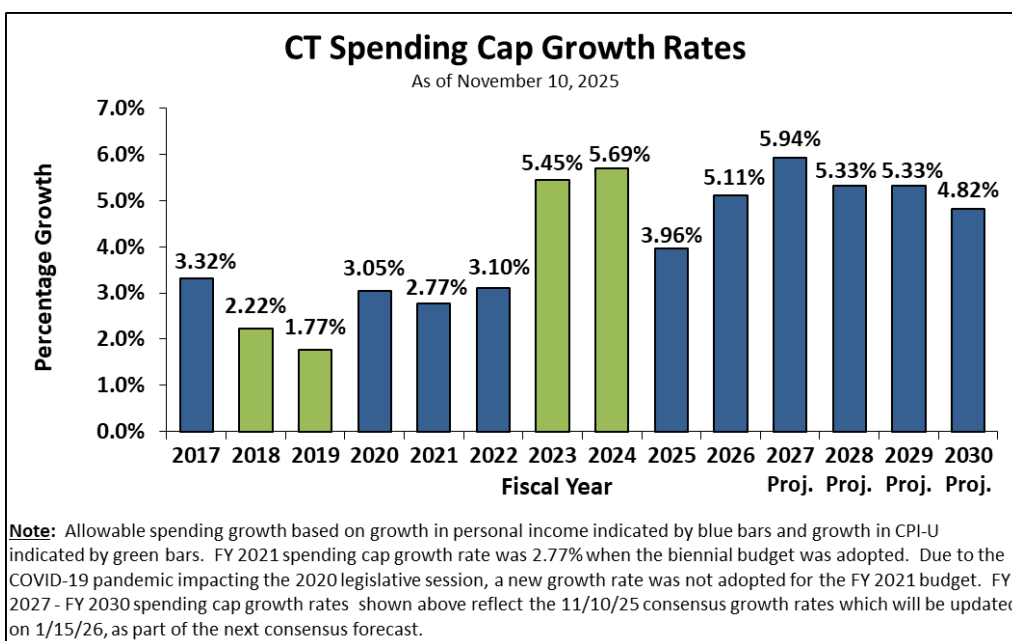
FISCAL GUARDRAILS

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

Spending Cap

The state's constitutional and statutory "spending" or "expenditure" cap is 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.²

Given the state's low growth in personal income emerging from the 2008 recession, the core consumer price index was the limiting factor in FY 2018 and FY 2019. Personal income was the limiting factor in FY 2020 through FY 2022. The growth in spending for FY 2023 and FY



2024 was limited by the growth in inflation before returning to growth limited by personal income in FY 2025 and FY 2026. As of November 2025, the growth in spending is projected to again be limited by the growth in personal income for FY 2027 through FY 2030. This growth will be calculated again during the January 2026 consensus forecast for the FY 2027 midterm budget adjustments. When the FY 2026 – FY 2027 biennial budget was adopted, FY 2026 appropriations were allowed to grow by approximately \$984.2 million over FY 2025 levels and FY 2027 appropriations were allowed to grow by \$1,179.8 million over FY 2026 levels. When adopted, FY 2026 appropriations were under the spending cap limit by \$0.7 million and FY 2027 appropriations were under the spending cap limit by \$69.8 million.

² "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, inclusive; and payment of the unfunded liability for teachers' retirement system through FY 2026, inclusive.

On May 19, 2025, the Governor issued a declaration of the existence of extraordinary circumstances highlighting a projected Medicaid deficiency of \$284 million for FY 2025 and, therefore, exceeding the spending cap limit in FY 2025 by \$284 million. This amount was not included in the base for the purpose of calculating the FY 2026 spending cap. On November 12, 2025, the Governor issued his second declaration of the existence of extraordinary circumstances due to the potential for a significant reduction in federal funding to the state primarily because of H.R. 1 (the One Big Beautiful Bill Act) and the 43-day federal government shutdown. Because of these actions by the federal government, the Governor issued a declaration to exceed the FY 2026 spending cap limit by \$500 million; this amount was not included in the base for the purpose of calculating the FY 2027 spending cap.

Revenue Cap

Public Act 17-2 of the June Special Session, as amended by section 16 of Public Act 23-1, introduced a revenue cap that limits the amount of General Fund and Special Transportation Fund appropriations to a percentage of revenue for those funds. The appropriations limit began at 99.5 percent of estimated revenue in FY 2020 and phased down to 98.75 percent for FY 2023 and thereafter. Any resulting unappropriated General Fund operating margin would provide a buffer against drastic expenditure reductions and tax increases if there is a sudden mid-year downturn in the economy. Through FY 2024, inclusive, any resulting unappropriated General Fund operating margin would also help increase the Budget Reserve Fund. Per PA 25-93, up to \$300 million of the FY 2025 unappropriated surplus and any unappropriated surplus in FY 2026 and beyond will be transferred to the new Early Childhood Education Endowment, unless the Budget Reserve Fund is below the statutory maximum of 18 percent, in which case the unappropriated surplus would first fill the Budget Reserve Fund before going to the Early Childhood Education Endowment.

Fiscal Year	Appropriations as % of Revenues
2020	99.50%
2021	99.25%
2022	99.00%
2023 & thereafter	98.75%

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, exceeds 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 in Connecticut and is estimated as shown in the table at right. See page 55 for a discussion of the Budget Reserve Fund. Although state statute and a bond covenant prevent these volatility cap thresholds from being adjusted with a simple majority vote by each chamber of the General Assembly, the thresholds may be adjusted with a three-fifths majority vote by each chamber of the General Assembly. During the 2025 legislative session, the House and Senate passed PA 25-168 with a three-fifths majority vote in which section 386 increased the FY 2025 volatility cap threshold by \$150 million and the FY 2026 volatility cap threshold by \$600 million. The FY 2026 increase was carried forward to each fiscal year thereafter since the threshold grows by the five-year compound annual growth rate in personal income in Connecticut.

Fiscal Year	Revenue Volatility Cap Threshold (in millions)
2018	\$3,150.0
2019	\$3,196.8
2020	\$3,294.2
2021	\$3,404.9
2022	\$3,505.7
2023	\$3,632.5
2024	\$3,779.9
2025	\$4,079.3
2026	\$4,728.6
2027 (proj.)	\$5,009.3
2028 (proj.)	\$5,276.1
2029 (proj.)	\$5,557.2
2030 (proj.)	\$5,824.9

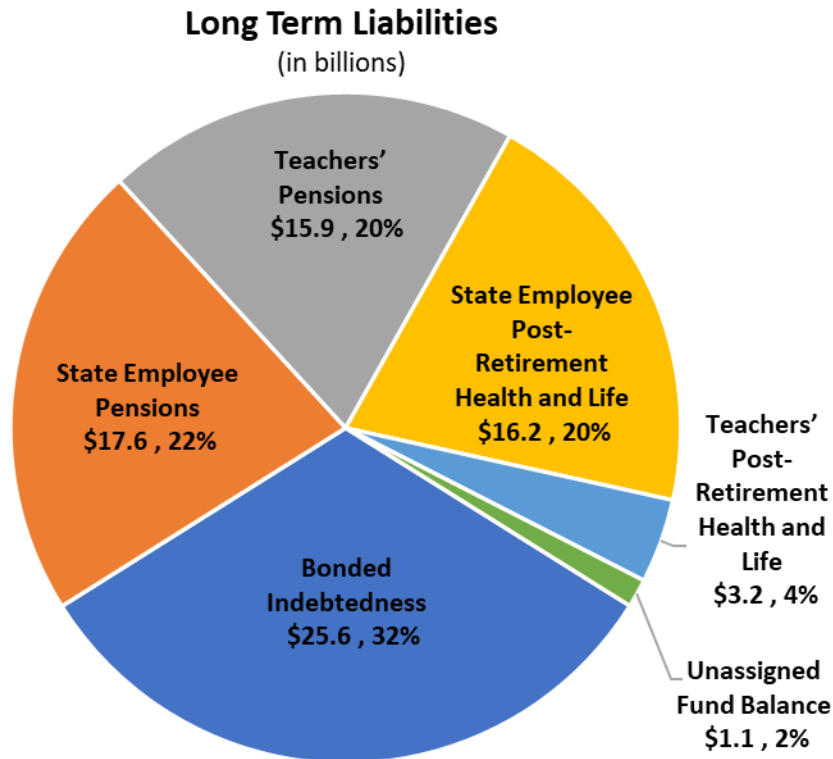
LONG-TERM LIABILITIES

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 any GAAP deficit. The state's current long-term obligations total \$79.6 billion, down \$0.2 billion from the level reported last year and down \$15.8 billion from the level reported in the November 2021 Fiscal Accountability Report. 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 6/30/25	\$ 25.6
State Employee Pensions – Unfunded as of 6/30/25	17.6
Teachers' Pensions – Unfunded as of 6/30/25	15.9
State Employee Post-Retirement Health and Life – Net Liability as of 6/30/24	16.2
Teachers' Post-Retirement Health and Life – Net Liability as of 6/30/24	3.2
Unassigned Fund Balance – Deficit as of 6/30/24	<u>1.1</u>
Total	\$ 79.6

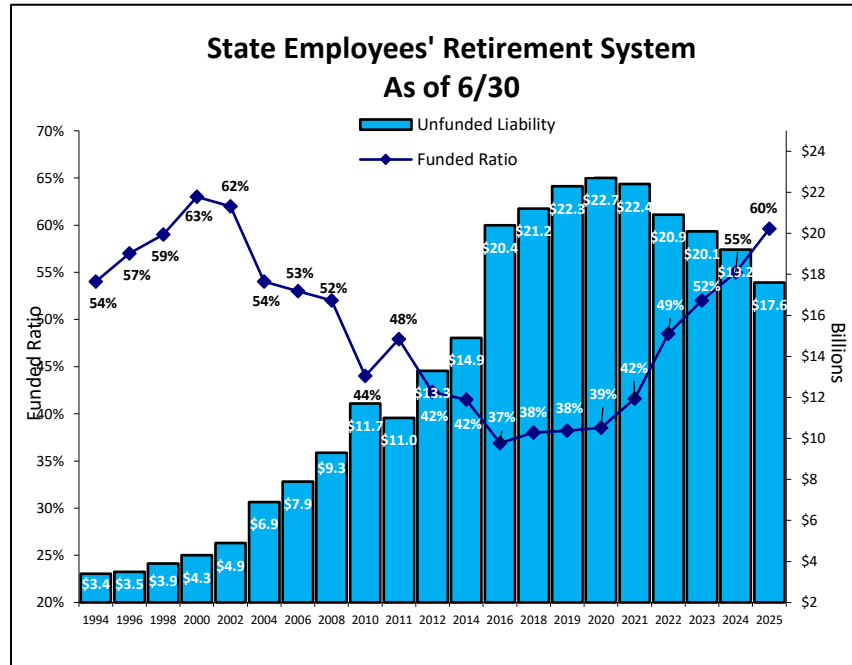


PENSIONS

The state is the sponsor of two large pension systems, one for state employees and one for teachers, as well as a retirement plan for judges, family support magistrates and compensation commissioners.

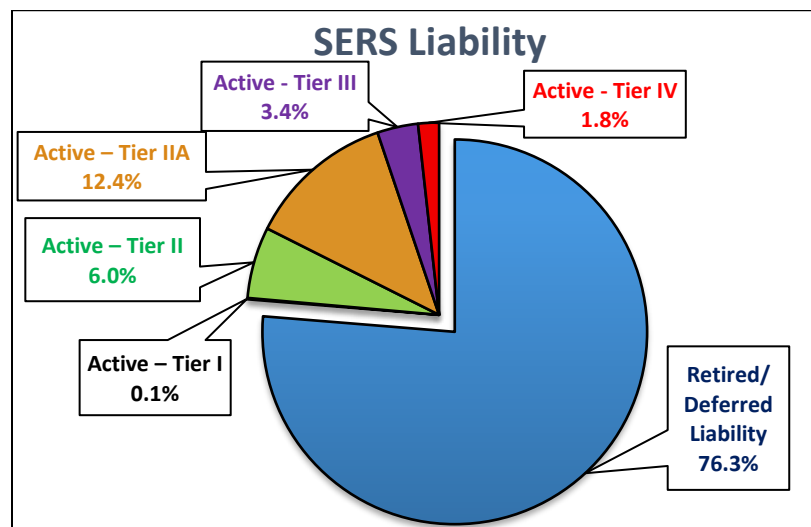
State Employees Retirement System (SERS)

The state's unfunded SERS obligation at the end of FY 2025 totaled \$17.6 billion, a decrease of over \$1.5 billion from the prior year. The funded ratio increased from 55.2 percent to 59.6 percent. The rate of return on the market value of the plan's assets was 10.30 percent for 2025, above the assumed rate of 6.9 percent. The market value of assets was \$26.8 billion and includes the transfer of \$895 million from the General Fund in FY 2025. The deposit transfer was due to the Budget Reserve Fund (BRF) exceeding the statutory limit of 18 percent. Without these transfers, the unfunded



actuarial accrued liability would be \$872 million higher, the funded ratio would only be 57.6 percent and the ADEC for FY 2027 would be approximately \$74.2 million larger. This is the sixth year in a row that the BRF exceeded the threshold.

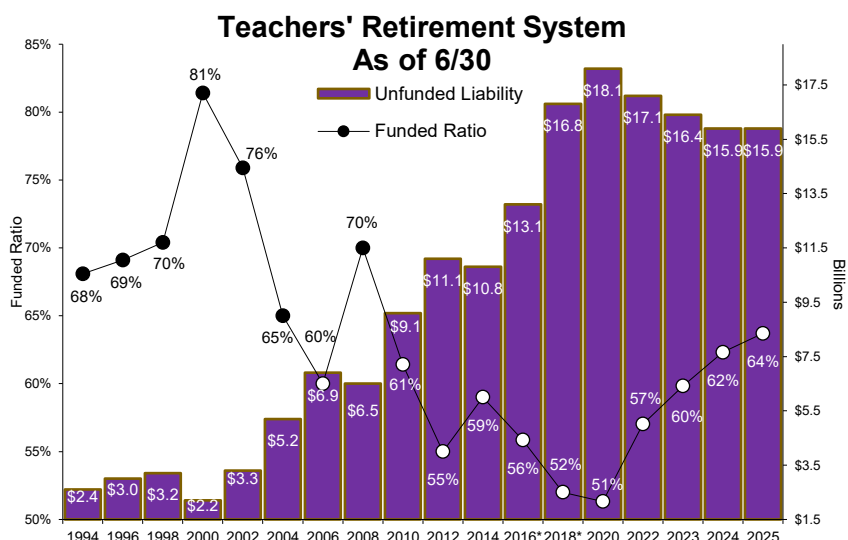
The total SERS liability is \$43.61 billion, with \$17.6 billion as the unfunded portion of that liability. Most of the liability – 76 percent – is related to already-retired employees. The pie chart and table that follow show the proportions of liability attributable to active employees and retirees. The overwhelming majority of the state's contributions in FY 2027 – 87 percent – is to address the unfunded actuarial accrued liability.



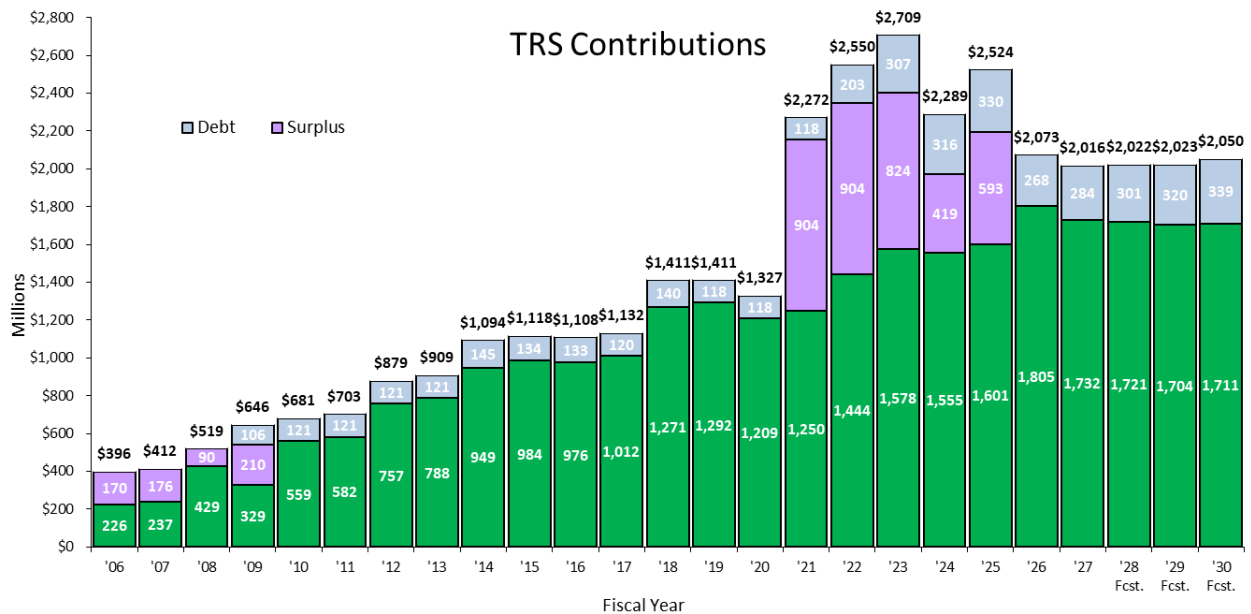
SERS Liability Based on 6/30/25 Valuation (\$ in Thousands)		
Retired/Deferred Liability	\$33,270,147	76.3%
Active – Tier I Hazardous	0	0.0%
Active – Tier IB	49,455	0.1%
Active – Tier IC	1,031	0.0%
Active – Tier II Hazardous	93,549	0.2%
Active - Tier II Hybrid Plan	132,400	0.3%
Active – Tier II Others	2,392,344	5.5%
Active – Tier IIA Hazardous	1,983,425	4.5%
Active - Tier IIA Hybrid Plan	260,830	0.6%
Active – Tier IIA Others	3,165,831	7.3%
Active - Tier III Hazardous	687,162	1.6%
Active - Tier III Hybrid	68,907	0.2%
Active - Tier III Others	740,421	1.7%
Active - Tier IV Hazardous	281,580	0.6%
Active - Tier IV Hybrid	45,882	0.1%
Active - Tier IV Others	437,052	1.0%
Total Accrued Liability	\$ 43,610,016	
Actuarial Value of Assets	25,988,551	
Unfunded Accrued Liability	\$17,621,465	
Normal Cost	\$253,718	
Amortization of Unfunded Accrued Liability	1,635,693	
FY 2027 Actuarially Determined Employer Contribution	\$1,889,411	

Teachers' Retirement System (TRS)

The state's unfunded liability in the TRS, as of June 30, 2025, totaled \$15.9 billion, a \$10.7 million decrease from the level reported at the end of FY 2024. As a result, the funded ratio increased from 62.3 percent to 63.7 percent. The market value of assets increased \$2.7 billion from the prior valuation. This increase includes approximately \$592 million due to the BRF and surplus deposits following FY 2025 as well as investment returns of 10.19 percent in FY 2025, higher than the assumed rate of 6.9 percent. These additional deposits were crucial in offsetting two major increases in the unfunded actuarial accrued liability (UAAL). TRS employs four-year asset smoothing which results in an actuarial rate of return of only 5.72 percent, resulting in a \$307.2 million increase in the UAAL. In addition, the FY 2025 valuation included changes in the assumptions adopted by the board as recommended in the experience study for the five-year period ending June 30, 2024. The assumption changes increased the UAAL by \$365.2 million.



The following graph depicts the increase in contributions to the TRS. In FYs 2006 through 2009, contributions were supplemented with surplus funds. In FYs 2021 through 2024, surplus funds were in addition to the required contributions. The bars in the graph for FY 2010 and beyond include debt service on the \$2.3 billion pension obligation bonds issued on April 30, 2008, for the benefit of the Teachers' Retirement System. Contributions grew in FYs 2018 and 2019 to reflect the impact of lowering the assumed rate of investment return to 8 percent from 8.5 percent. In FY 2020 the assumed rate was further reduced to 6.9 percent. The graph below also reflects the impact of the BRF deposits from FYs 2021 through 2025.



PENSION STRESS TEST AND OUTLOOK

Section 4-68ee of the Connecticut General Statutes mandates that the Office of Policy and Management annually report a stress test analysis for the State Employees Retirement System (SERS) and the Teachers Retirement System (TRS).

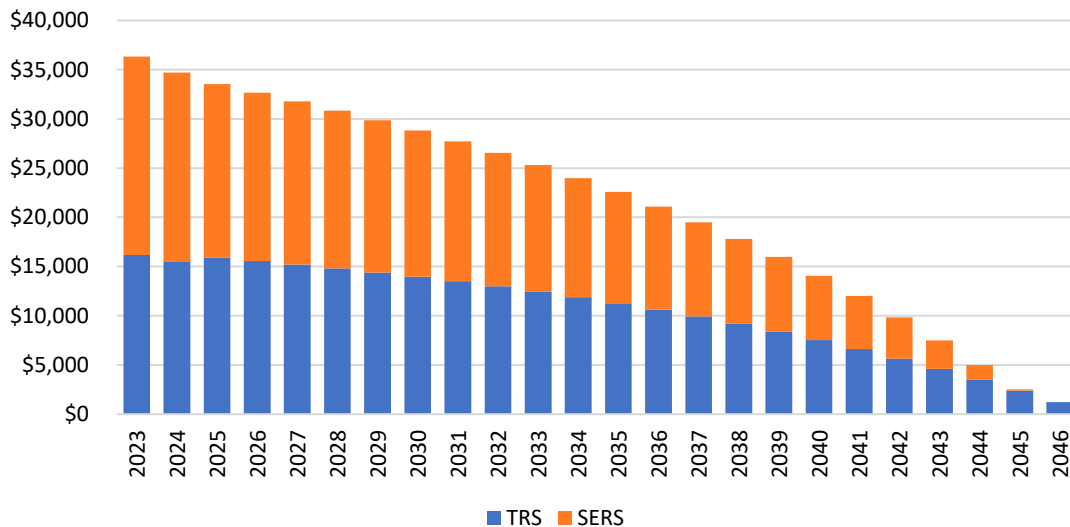
The final version of the 2025 report will not be available until late November 2025 and will utilize the valuations for SERS and TRS as of 6/30/2025 rolled forward one year to reflect the FY 2025 investment returns and supplemental contributions. The report concentrates on five specific scenarios: 1) investment return sensitivity 2) asset shock sensitivity 3) contribution sensitivity 4) inflation sensitivity (COLAs) and 5) salary sensitivity. The results combine SERS and TRS to provide a complete, statewide assessment. The preliminary key findings have not changed significantly from the prior report that stated:

- Baseline contributions requirements are projected to remain relatively stable at the current levels for the next 20 years until the unfunded liability is paid off in FY 2046.
- Without the recent additional deposits, the annual contributions would cost the state an additional \$2.9 billion over FYs 2022 through 2027.
- Funding levels will continue to improve over time even when investments underperform if contributions are adjusted according to the funding policy.
- Maintaining baseline contribution patterns in an asset shock scenario instead of contributing the Actuarially Determined Employer Contribution (ADEC) would lead to slower funding recovery for both SERS and TRS and persistently low operating cash flow ratio for SERS.
- In the near term, the asset shock scenario causes contribution requirements to grow faster than projected revenues over the next 5 years, potentially leading to budget crowd out. Increases at TRS drive this growth.

The financial outlook for the state's pension plans has been greatly enhanced by two factors. First, changes to both pension systems implemented several years ago have resulted in a much steadier stream of projected contribution requirements. Second, the recent additional deposits to both plans have

reduced the anticipated required contributions. Cumulative deposits to both plans over the six-year period totals \$10.1 billion. Each additional deposit results in reduced ADEC payments in each of the subsequent 25 years. The FY 2027 ADEC payment would have been \$553 million higher for SERS and \$310 million higher in TRS without these additional deposits. Reduced ADEC payments free up state dollars which can now be used for other items in the state budget: education, healthcare, etc.

Projected Total Unfunded Accrued Liability (as of 6/30 - in millions)



OTHER PENSION SYSTEMS

The state sponsors other pension plans besides the State Employee Retirement System (SERS) and Teachers' Retirement System (TRS). The Judges, Family Support Magistrates and Compensation Commissioners Retirement System (JRS) is a defined benefit pension plan in which, as of as of June 30, 2024, there were a total of 208 active members and 330 retirees and dependents.

Active Members	
Group	Number
Judges	185
Compensation Commissioners	15
Family Support Magistrates	8
Total	208

Retired Lives	
Type of Benefit	Number
Retirement & Disability	243
Survivor	87
Total	330

The JRS previously adopted some of the changes that were made to SERS and TRS, most notably a reduction to a more realistic assumed investment rate of return of 6.9 percent. However, the JRS had not adopt the layered amortization method used by SERS and TRS until the passage of Public Act 24-81. Before passage, the JRS plan was near the end of the 40-year amortization of its unfunded liabilities with only eight years remaining. This "single-layer" amortization approach causes volatility in pension contributions toward the end of the amortization period because the unfunded liability – and subsequent experience losses – would be amortized over a shorter and shorter timeframe. As an alternative, in a layered amortization approach, each year's actuarial experience is assigned to a new amortization period which spreads out the effects of actuarial gains and losses. It reduces the volatility of the amortization payment

portion of the state’s required contribution, resulting in a much steadier stream of projected contribution requirements.

SERS and TRS both utilize a 25-year amortization. The JRS adopted a 15-year amortization because, at that time, its unfunded actuarial accrued liabilities were only \$244 million versus \$20.1 billion for SERS and \$16.4 billion for TRS. It is important to note that the switch to the 15-year layered amortization did not extend the payments for another 15 years. It only increased the amortization period 7 years since there were 8 years remaining under the 40-year amortization previously used. For FY 2025, the change to 15-year layered amortization reduced the unfunded liability contributions by \$14.3 million.

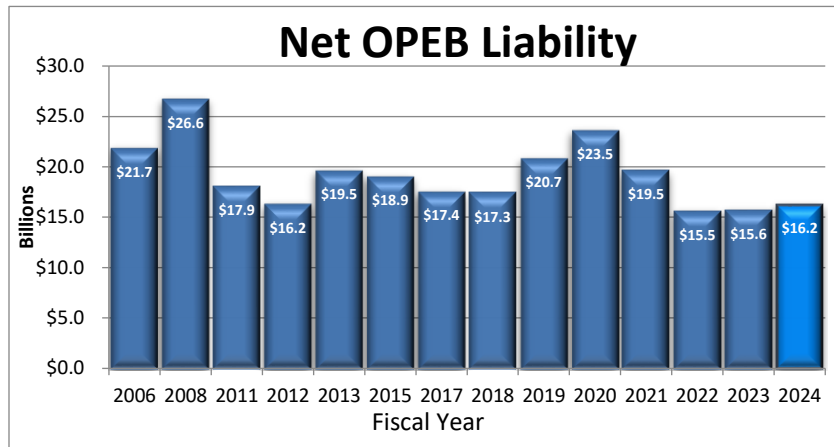
	FY 2024	FY 2025 Without Layered Amortization	FY 2025 With Layered Amortization
Normal Cost	\$7,908,954	\$8,833,810	\$8,833,810
Accrued Liability	\$27,342,829	\$35,933,431	\$21,626,108
ADEC	\$35,251,783	\$44,767,241	\$30,459,918
ADEC Change from FY 2024		27%	-13%

The state also sponsors a defined contribution 401(a) pension plan for teachers and professional staff members at the higher education constituent units called the Alternate Retirement Plan or ARP. These individuals have the option of choosing ARP instead of SERS or TRS. Both the employee and the state contribute 6.5 percent of compensation to the plan (for those hired on and after July 1, 2017). Features of ARP not found in SERS or TRS include its portability and immediate vesting. ARP is a low-risk pension plan for the state because the employee, and not the state, is responsible for the investment risk and management of the account.

Since FY 2024, the General Fund has supported 100 percent of the retirement/legacy costs of the higher education constituent units. This means that the “legacy costs”, as well as the current normal cost of retiree pension and healthcare benefits are budgeted in the Comptroller’s Fringe Benefit accounts in the General Fund for all higher education employees regardless of which university fund pays their salaries. The higher education units are financially responsible for 100 percent of the other fringe benefit-related costs of their employees, i.e., health costs, social security taxes, group life insurance, etc.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Other post-employment benefits (OPEB) include non-pension related benefits for retirees such as health care, dental coverage, and life insurance. Until FY 2010, there was no pre-funding of future OPEB liabilities, and benefits were budgeted on a “pay as you go” (PAYGO) basis, meaning that the state appropriated funds sufficient to pay for anticipated OPEB costs during the budget period. As



with pension accounting, the PAYGO approach does not capture the current value of benefits promised during future periods, i.e., unfunded liabilities. The Governmental Accounting Standards Board (GASB) requires states to report on the unfunded liabilities for OPEB. The most recent OPEB valuation (GASB Statement 75 measured as of June 30, 2024) shows the net OPEB liability (NOL) at \$16.15 billion. Even though this is a \$0.55 billion increase from the prior valuation, it is slightly less than the expected NOL of \$16.16 billion due to normal plan operations. The slight difference between the actual and expected NOL is mainly due to an investment experience gain, an actuarial experience gain, and raising the discount rate for non-contributory members, all of which decreased the NOL. The decrease in the NOL would have been significantly greater if not for the offsetting impact of changes in 2025 due to the Inflation Reduction Act of 2022 (IRA) on Medicare Advantage Prescription Drug plans.

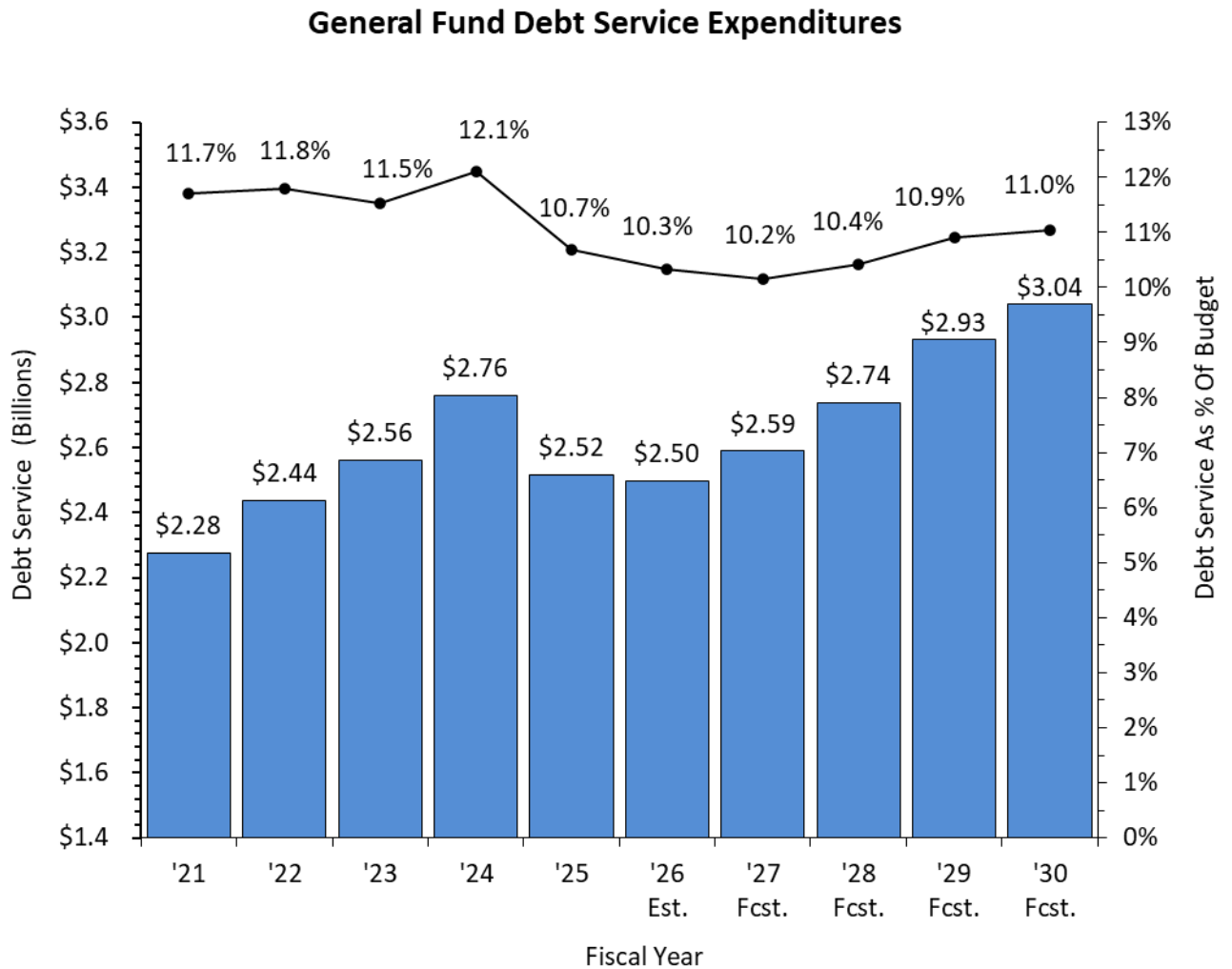
In FY 2008, the state began the process of setting aside funds in trust to address the OPEB unfunded liability. While not a full actuarial funding approach, setting aside funds now could begin a long-term transition to actuarial pre-funding of OPEB costs. The 2009 and 2011 SEBAC agreements introduced employee contributions, and now all state employees contribute 3 percent to the OPEB trust fund, with the state matching those employee contributions. The table on the right depicts OPEB contributions by both employees and the state. As of September 30, 2025, the OPEB trust fund has a market value of \$3,553.2 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. The contributions significantly decreased in FY 2024 as over 15,000 employees completed their 10-year period of contributions.

Other Post-Employment Benefit Trust Fund			
Summary of Contributions			
(in millions)			
Fiscal Year	Employee Contributions	State Contributions	Total Contributions
2008	-	\$10.0	\$10.0
2009	-	-	\$0.0
2010	\$1.4	-	\$1.4
2011	\$21.6	\$14.5	\$36.1
2012	\$25.0	-	\$25.0
2013	\$27.5	-	\$27.5
2014	\$45.5	-	\$45.5
2015	\$93.3	-	\$93.3
2016	\$125.2	-	\$125.2
2017	\$120.8	-	\$120.8
2018	\$116.8	\$122.2	\$239.0
2019	\$116.5	\$125.8	\$242.3
2020	\$120.6	\$126.5	\$247.1
2021	\$109.1	\$113.2	\$222.3
2022	\$104.5	\$112.6	\$217.1
2023	\$108.6	\$119.0	\$227.6
2024	\$67.2	\$77.2	\$144.4
2025	\$63.6	\$76.7	\$140.3
2026 est.	<u>\$66.1</u>	<u>\$76.2</u>	<u>\$142.3</u>
Total	\$1,337.0	\$974.8	\$2,311.8

Excludes investment earnings.

DEBT SERVICE

The graph below shows debt service as a proportion of General Fund expenditures. As a percentage of General Fund appropriations, debt service is projected to remain at or below 11 percent from FY 2026 to FY 2030. FY 2024 includes an additional debt service payment of \$211.7 million for the full repayment of the GAAP conversion bonds.



EARLY CHILDHOOD EDUCATION ENDOWMENT

Public Act 25-93 established the Early Care and Education Endowment (ECEE), the state's long term funding mechanism to support the expansion of access to high quality early care and education statewide. The ECEE is funded through deposits from the state's unappropriated surplus in accordance with the parameters outlined in the law, including the requirement that the state's Budget Reserve Fund be funded at 18 percent of the net General Fund appropriations. For FY 2026, \$300 million was transferred from the FY 2025 unappropriated General Fund surplus to the ECEE.³ Of this amount up to 12 percent of the total ECEE or \$36 million is available to the Office of Early Childhood (OEC) to operationalize for the following purposes:

- Expansion of early childhood education, state funded spaces (including 35% infant/toddler spaces), which includes – increasing provider rates, increasing the number of state funded slots, increasing hours, improving affordability;
 - Beginning in FY 2028 – families enrolled in Early Start CT⁴ earning under \$100,000 will have access to free childcare options and for those earning \$100,000 and more, contributions will be capped at 7% of income.
- Administrative costs (capped at 8% in FY 2026, 12% in FY 2027, and 7% in FY 2028 and each fiscal year thereafter), including IT and enhanced data collection;
- Programmatic costs, including parent outreach, local governance, provider technical assistance, workforce recruitment, and scholarships; and
- Creation of health insurance subsidy pilot for childcare providers (\$300,000 is required in FY 2026 and \$10 million in FY 2027).

For FY 2028 and each fiscal year thereafter, up to 10% of the total ECEE is available to OEC to operationalize for the aforementioned purposes. As of October 31, 2025, the balance in the ECEE was \$318 million.

In addition, PA 25-174 authorizes a total of \$80 million in General Obligation Bonds for OEC to operate a competitive grant program to support childcare facilities for the period FY 2026 – FY 2032 (up to \$11.5 million per fiscal year).

³ The ECEE is managed by the Office of the State Treasurer and resources are invested alongside the investments of the Connecticut Retirement Plans and Trust Funds. The assumed rate of return is 6.9%.

⁴ Effective July 2025, Early Start CT is the new state funding stream which combined the state's School Readiness grants, child day care contracts, and State Head Start supplemental grants.

FY 2026 ECEE Budget

For the fiscal year 2026, the budget for ECEE is as follows:

	<u>FY 2026 - \$</u>
<u>Expansion Costs</u>	
Smart Start Expansion - funds 19 new classrooms and related minor classroom capital improvements	3,595,000
Early Start Expansion - rate increases and 1,000 new spaces	19,774,264
<u>Administrative Costs</u>	
OEC staff (salary and fringe benefits), IT and data system improvements and planning.	2,816,166
<u>Programmatic Costs</u>	
Marketing	250,000
Provider Registry and Scholarships	1,150,000
Quality Enhancement and Improvement	350,000
Local Governance Partners	4,700,000
Health Insurance Pilot	300,000
Total Budgeted	32,935,430
Total Allowable	36,000,000

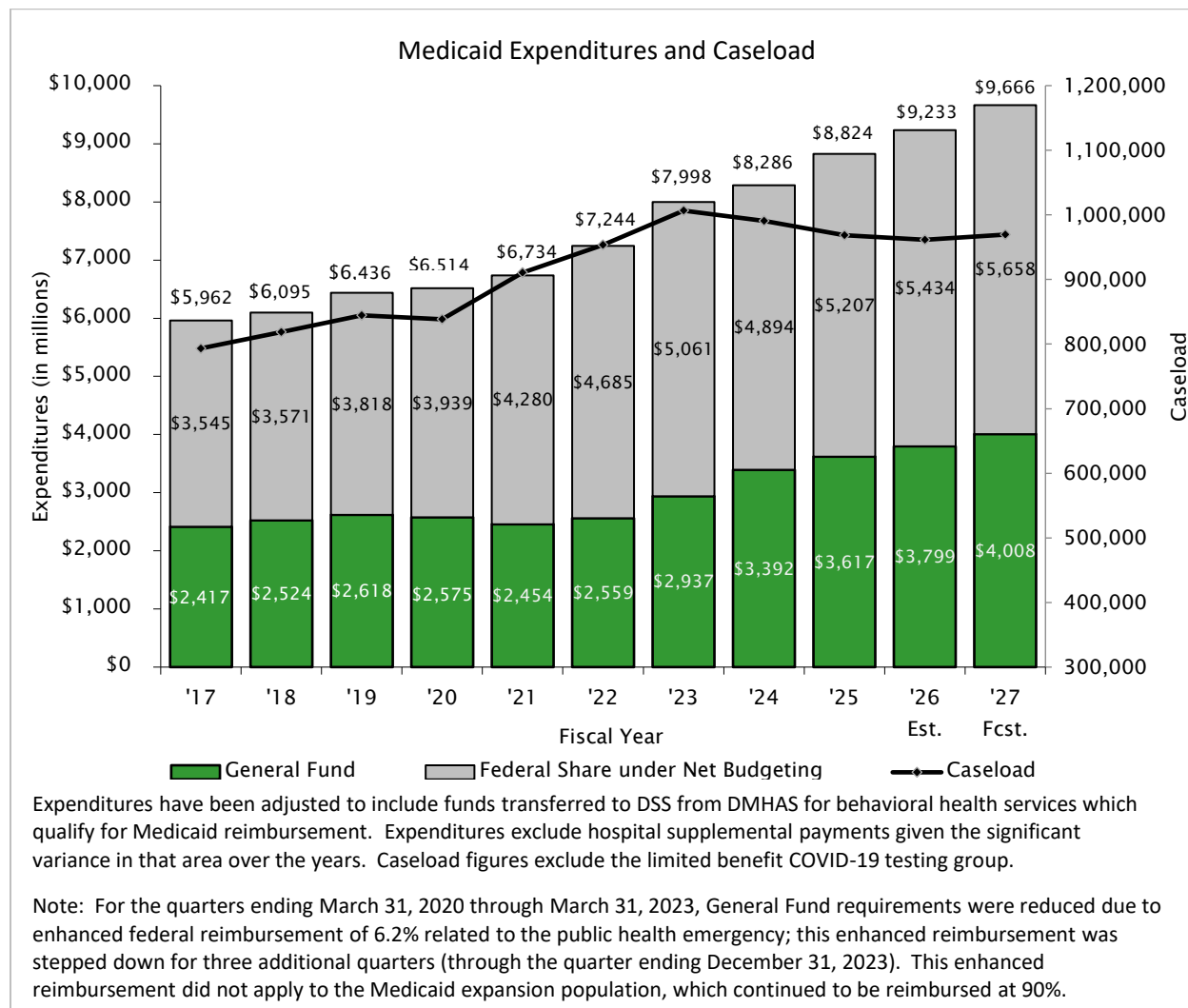
ECEE funding complements OEC resources for FY 2026 of over \$422 million in the General Fund as well as \$183 million in federal funds.

MEDICAID

Historically, Medicaid expenditure growth over the past decade has been affected by caseload growth and limited rate increases, which have been mitigated in part through cost efficiencies and care coordination efforts. To receive the enhanced federal reimbursement available under the public health emergency, the state could not terminate coverage for most Medicaid enrollees before April 1, 2023. Since the suspension of Medicaid eligibility discontinuances on March 18, 2020, Medicaid enrollment – excluding the limited benefit coverage groups – increased 22 percent, from approximately 830,000 to over 1,010,000 as of April 2023, an increase of roughly 180,000 cases. Although enrollment grew significantly during the public health emergency, expenditures in the aggregate did not increase proportionally due to lower utilization of medical services in many areas. Since that time, however, enrollment remains higher than pre-pandemic levels and utilization continues to trend upward.

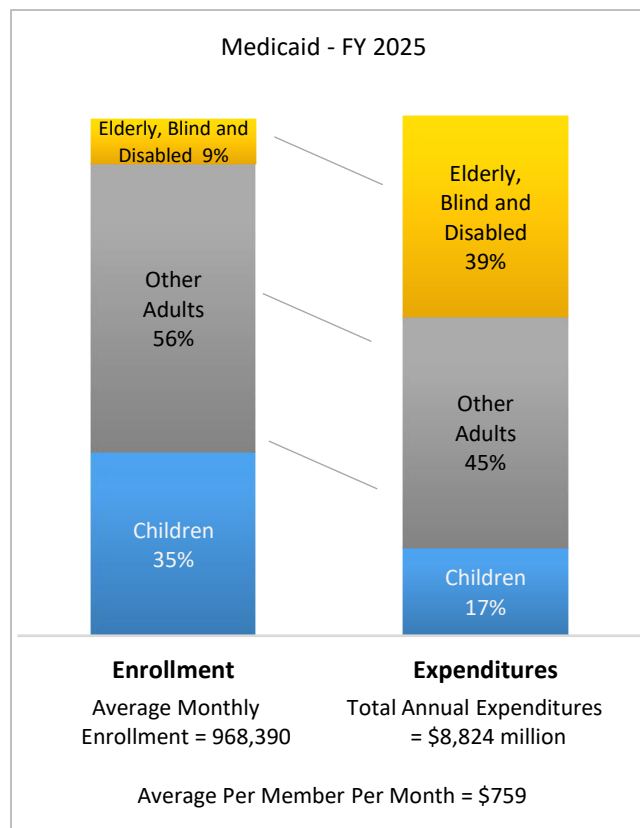
The Medicaid expansion for low-income adults, which was first approved by the federal government in June 2010, has driven significant increases in caseload and program costs. Expenditures for this program, now known as HUSKY D, increased from \$228.7 million in FY 2010 to \$769.0 million in FY 2013. The state further expanded Medicaid coverage for low-income adults by increasing income eligibility to 138 percent of the federal poverty level beginning January 1, 2014, resulting in significant additional growth. As a result of this expansion, the HUSKY D caseload has grown from 46,156 in June 2010 to over 306,000 in June 2025. HUSKY D expenditures have increased from \$916.6 million in FY 2014 to \$2,677.5 million in FY 2025, the majority of which was supported with enhanced federal reimbursement, which was phased down from 100 percent in calendar years 2014 through 2016 to 90 percent in calendar year 2020 and future years.

The graph below shows total Medicaid costs in the Department of Social Services as well as state and federal shares of the total. Note: The FY 2026 and FY 2027 estimates reflect the changes in the enacted state budget and do not make any adjustments related to the federal changes in H.R. 1 (P.L. 119-21).

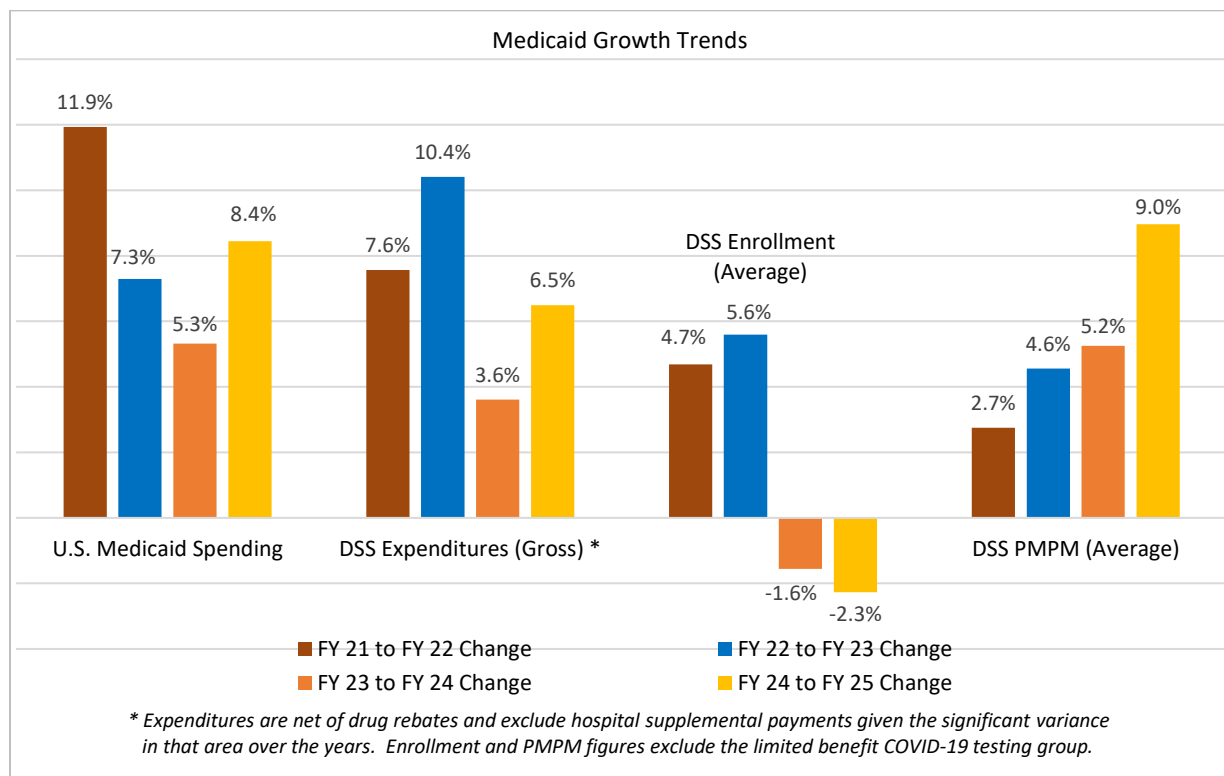


The Department of Social Services is employing diverse strategies to achieve improved health outcomes and cost efficiencies in the Medicaid program. Strategies include:

- 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 root causes of disease;
- activities designed to improve access to and use of preventive 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.



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)

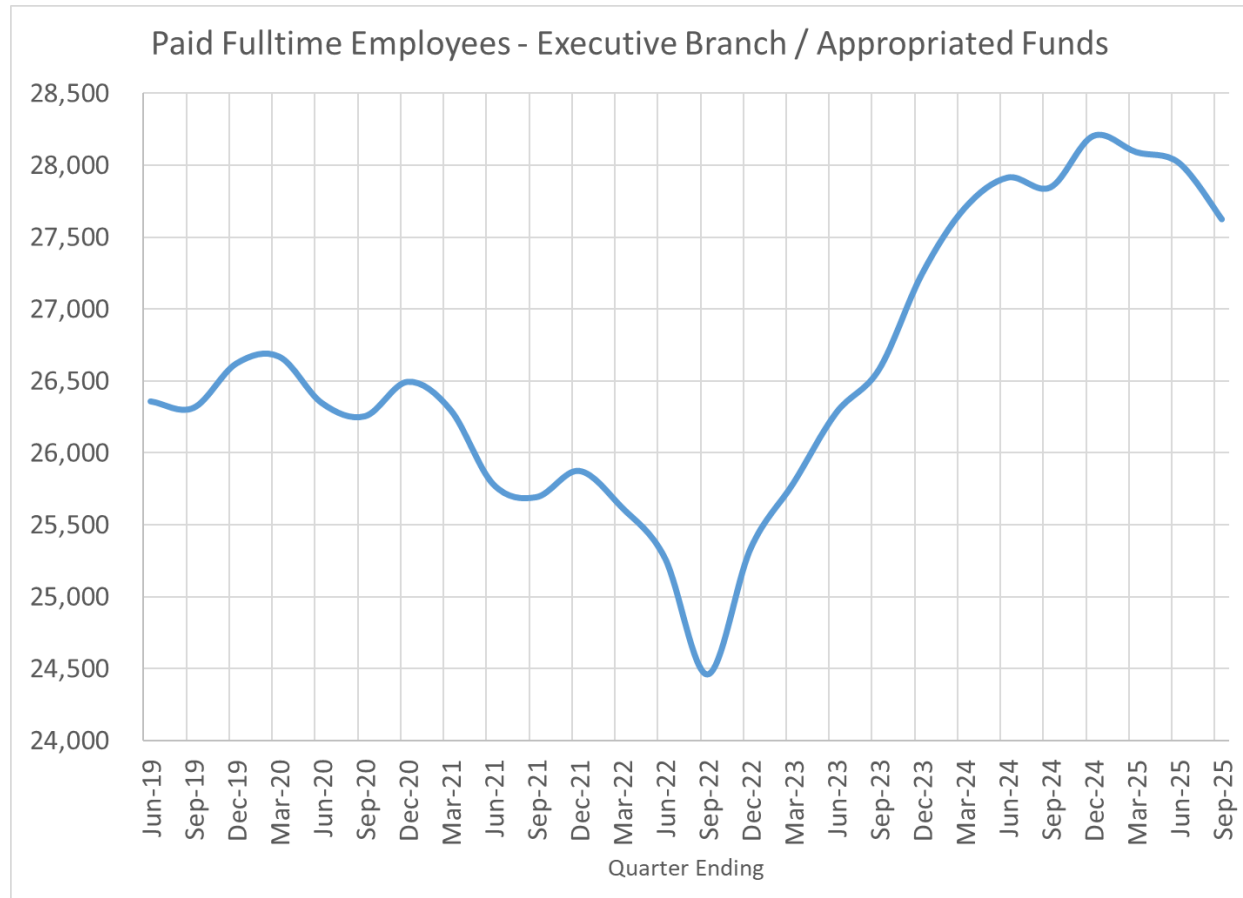
<u>General Government</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Tiered PILOT	346.0	354.4	354.4	354.4	354.4
Motor Vehicle Tax Grants	127.5	111.6	114.4	116.8	119.3
Supplemental Revenue Sharing	85.9	85.9	80.8	80.8	80.8
Mashantucket Pequot & Mohegan Grant	52.5	52.5	52.5	52.5	52.5
Town Aid Road	80.0	80.0	80.0	80.0	80.0
Local Capital Improvement Program	45.0	45.0	45.0	45.0	45.0
Municipal Grants-in-Aid ¹	150.0	150.0	91.0	91.0	91.0
Regional Performance Incentive Account	14.4	14.8	15.2	15.6	15.9
Municipal Restructuring: Debt Service	46.1	47.8	43.1	42.1	39.7
Misc. General Government Grants	24.4	26.8	27.4	28.0	28.6
Subtotal - General Government	971.9	968.8	903.9	906.2	907.2
<u>Education</u>					
Adult Education	20.9	24.6	25.3	25.8	26.4
Education Cost Sharing	2,456.8	2,456.9	2,444.0	2,432.0	2,420.0
Magnet Schools	322.9	350.2	359.1	366.5	374.5
Special Education - Student Based	221.1	221.1	226.8	231.4	236.5
Local School Construction	550.0	550.0	550.0	550.0	550.0
District Repair and Improvement Project	30.0	30.0	30.0	30.0	30.0
Special Education and Expansion Development	30.0	30.0	30.0	30.0	30.0
Misc. K-12 Education Grants	111.6	114.7	117.0	118.8	120.9
Subtotal - Education	3,743.4	3,777.6	3,782.2	3,784.6	3,788.3
<u>Fringe Benefits</u>					
TRS Retirement Contributions - Normal Cost	293.6	328.1	335.4	343.6	351.3
TRS Retirement Contributions - UAL	1,511.5	1,403.6	1,385.4	1,360.0	1,360.0
TRS Retiree Health Service Cost	29.5	44.4	45.7	47.0	48.3
Municipal Retiree Health Insurance Cost	6.6	8.8	8.8	8.8	8.8
Debt Service - Pension Obligation Bonds	268.3	284.4	301.3	319.8	339.0
Subtotal - Local Teachers' Retirement	2,109.5	2,069.2	2,076.6	2,079.3	2,107.4
Total - Aid to Municipalities	6,824.8	6,815.5	6,762.7	6,770.1	6,802.9

1. Section 55 of P.A. 25-174 enacted a \$59 million increase to the bond authorization for Municipal Grants-in-Aid to provide temporary support to eight municipalities. This table assumes the expiration of such temporary support after the current biennium.

STATE WORKFORCE

Executive Branch Staffing Trends

The chart below shows full-time staffing in Executive Branch agencies based on employees paid from appropriated funding sources. After dropping from approximately 32,000 at the start of calendar year 2009, more recent staffing levels remained steady at about 26,000 between FY 2019 and FY 2021, prior to a marked acceleration in the pace of retirements leading up to the change in COLA formula for post 7/1/2022 SERS retirees. After reaching a low point in July 2022, below 24,500 paid employees, overall Executive Branch staffing levels increased rapidly to a peak slightly above 28,000 one year ago and now stands approximately 1,100 employees above the pre-pandemic level.



EFFORTS TO PRESERVE OR MAXIMIZE FEDERAL REVENUE⁵

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

Interagency workgroups meet regularly to discuss revenue opportunities and implementation issues. Some of the major revenue maximization and revenue retention initiatives being explored, under development or now operational include:

- Further implementation of the substance use disorder (SUD) demonstration waiver to enhance the state's SUD service system and enable federal reimbursement on SUD services for individuals that were not previously eligible under federal rules. The additional revenue continues to be reinvested to strengthen the SUD service system by ensuring a complete array of services is available. This allows Medicaid members with opioid use disorder and other SUDs to receive medically necessary treatment services in the most appropriate setting. The Departments of Social Services (DSS), Mental Health and Addiction Services (DMHAS), Children and Families (DCF), Correction (DOC) and the Judicial Branch work collaboratively to identify anticipated needs in each agency. The additional federal revenue generated from this initiative that has not been allocated to the participating agencies is deposited into a reserve account to be used to meet program requirements or fund program enhancements;
- Submission of an application to the federal Centers for Medicare & Medicaid Services (CMS) to amend the SUD demonstration waiver that will enhance services and enable federal reimbursement on transition and re-entry services for incarcerated individuals 90 days pre-release – a population previously precluded from Medicaid coverage under long-standing federal rules. The additional revenue must be reinvested to strengthen inmate medical services and community-based services to improve care transitions into the community and ultimately reduce recidivism. DSS, DMHAS, DCF, DOC, and the Judicial Branch have worked collaboratively to develop an implementation plan and identify anticipated needs in each agency. The additional federal revenue generated from this initiative will be deposited into the reserve account and be distributed to meet program requirements or fund program enhancements;
- Examination of DCF's Family First Prevention Services Act Prevention Plan to ensure that all eligible prevention services allowable under Title IV-E are claimed for reimbursement;
- Ongoing evaluation of the best vehicle for Medicaid reimbursement of pre-tenancy and tenancy sustaining supports for individuals with chronic health issues who have experienced homelessness or are at risk of homelessness;
- Continued focus on leveraging and maintaining both Implementation Advanced Planning Documents (IAPDs) and Operational Advanced Planning Documents (OAPDs) to secure enhanced federal financial participation (FFP). This includes an ongoing review of systems, projects, and operational activities to ensure all eligible costs are properly identified and claimed at the highest allowable federal match rate. The state maintains a proactive approach to assessing modernization needs, system enhancements, and policy-driven updates to determine when an IAPD or OAPD is appropriate. In alignment with this approach, the state has already developed and submitted an IAPD in response to the system and policy changes required under H.R. 1, ensuring the state captures available enhanced federal funding for implementation activities. By maintaining an ongoing review cycle and aligning projects with federally matchable cost

⁵ This section fulfills the reporting requirement found in subsection (c) of Sec. 4-31d, CGS.

categories, the state is able to maximize Medicaid administrative revenue throughout the full system lifecycle; and

- Evaluation of ideas to generate additional revenue submitted by the agencies.

It is important to note that, while much effort goes into maximizing revenue, equal or greater effort goes into preserving existing sources of federal reimbursement. CMS has strengthened its compliance activities, resulting in significantly greater scrutiny of all state claims. This has meant Department of Social Services' staff and impacted state agencies spending significantly more time and effort explaining and justifying revenue items to CMS to sustain claims worth hundreds of millions of dollars that had once been considered routine.

BONDING

PROJECTED BOND AUTHORIZATIONS, ALLOCATIONS AND ISSUANCES

The table below depicts projected bond authorizations, allocations and issuances through FY 2030.

FIVE YEAR BOND PROJECTIONS

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Bond Authorizations					
General Obligation Bonds	\$ 3,076,124,754	\$ 3,205,400,000	\$ 2,682,178,572	\$ 2,684,128,572	\$ 2,747,003,572
Community Investment Fund	121,000,000	121,000,000	250,000,000	250,000,000	250,000,000
Crumbling Foundations	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Connecticut Strategic Defense Investment Act	10,321,428	10,321,428	10,321,428	10,371,428	10,496,428
Connecticut Port Authority	5,000,000	-	-	-	-
Early Childhood Facilities	11,500,000	11,500,000	11,500,000	11,500,000	11,500,000
Equitable and Affordable Housing	12,500,000	12,500,000	12,500,000	12,500,000	-
High Poverty Low Income Census Tract	50,000,000	50,000,000	50,000,000	50,000,000	-
UCONN Research Faculty	4,201,600	-	-	-	-
UCONN 2000/Next Generation	276,000,000	192,000,000	158,500,000	156,500,000	156,000,000
Total General Obligation Bonds	\$ 3,591,647,782	\$ 3,627,721,428	\$ 3,200,000,000	\$ 3,200,000,000	\$ 3,200,000,000
Special Tax Obligation Bonds	1,574,716,214	1,580,954,214	1,500,000,000	1,500,000,000	1,500,000,000
Clean Water Fund Revenue Bonds	50,000,000	500,000,000	250,000,000	350,000,000	450,000,000
Total Bond Authorizations	\$ 5,216,363,996	\$ 5,708,675,642	\$ 4,950,000,000	\$ 5,050,000,000	\$ 5,150,000,000
Bond Allocations					
General Obligation Bonds	\$ 2,600,000,000	\$ 2,600,000,000	\$ 2,700,000,000	\$ 2,700,000,000	\$ 2,700,000,000
Special Tax Obligation Bonds	2,000,000,000	1,850,000,000	1,500,000,000	1,500,000,000	1,500,000,000
Clean Water Fund Revenue Bonds	150,000,000	150,000,000	250,000,000	250,000,000	250,000,000
Total Bond Allocations	\$ 4,750,000,000	\$ 4,600,000,000	\$ 4,450,000,000	\$ 4,450,000,000	\$ 4,450,000,000
Bond Issuance					
General Obligation Bonds	\$ 1,900,000,000	\$ 2,000,000,000	\$ 2,000,000,000	\$ 2,000,000,000	\$ 2,000,000,000
Special Tax Obligation Bonds	1,300,000,000	1,200,000,000	1,100,000,000	1,100,000,000	1,100,000,000
Clean Water Revenue Bonds	-	250,000,000	-	350,000,000	-
UCONN 2000/Next Generation	200,000,000	200,000,000	200,000,000	150,000,000	101,900,000
Total Bond Issuance	\$ 3,400,000,000	\$ 3,650,000,000	\$ 3,300,000,000	\$ 3,600,000,000	\$ 3,201,900,000
Debt Service					
General Fund	\$ 2,501,104,467	\$ 2,589,110,786	\$ 2,736,226,475	\$ 2,930,944,716	\$ 3,042,596,219
Transportation Fund	901,550,787	1,001,748,294	1,081,274,113	1,144,456,436	1,208,818,118
Total Debt Service	\$ 3,402,655,254	\$ 3,590,859,080	\$ 3,817,500,588	\$ 4,075,401,152	\$ 4,251,414,337

Bond Authorizations

FY 2026 and FY 2027 are enacted bond authorizations.

FY 2028 - FY 2030 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 as amended.

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

Community Investment Fund, Crumbling Foundations, Connecticut Port Authority, Early Childhood Facilities, Equitable and Affordable Housing, High Poverty Low Opportunity, and the UCONN Research Faculty authorizations in accordance to respective amended Public Acts.

Bond Allocations

Projected GO Bond allocations are based on budgeted debt service.

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

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

Bond Issuance

Projected GO Bond issuances are based on budgeted debt service.

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

<u>Estimated General Obligation Caps</u>	<u>Inflation</u>	<u>Allocation & Issuance Cap</u>
FY 2026	3.2%	\$ 2,602,000,000
FY 2027	2.4%	\$ 2,680,000,000
FY 2028	2.3%	\$ 2,766,000,000
FY 2029	2.3%	\$ 2,833,000,000
FY 2030	2.3%	\$ 2,899,000,000

Inflation Sources: S&P Global, 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. Hartford Contract Assistance are included in the calculation.

In accordance with the General Statutes, the Treasurer computes the aggregate amount of indebtedness as of January 1, and July 1 each year and certifies the results of such computation to the Governor and the General Assembly. If the aggregate amount of indebtedness reaches 90 percent of the statutory debt limit, the Governor is required to review each bond act for which no bonds, notes or other evidence 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 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Consensus Revenues 11/10/2025	\$21,697,000,000	\$23,451,800,000	\$23,715,100,000	\$24,293,900,000	\$24,979,800,000
Multiplier	1.6	1.6	1.6	1.6	1.6
100% Limit	<u>\$34,715,200,000</u>	<u>\$37,522,880,000</u>	<u>\$37,944,160,000</u>	<u>\$38,870,240,000</u>	<u>\$39,967,680,000</u>
Bonds Subject to Limit	\$27,583,985,801	\$29,464,589,633	\$31,068,749,633	\$32,754,974,633	\$34,524,579,633
Debt Incurring Margin	\$7,131,214,199	\$8,058,290,367	\$6,875,410,367	\$6,115,265,367	\$5,443,100,367
Percentage of Limit	79.46%	78.52%	81.88%	84.27%	86.38%
Margin to 90% Limit	\$3,659,694,199	\$4,306,002,367	\$3,080,994,367	\$2,228,241,367	\$1,446,332,367

Assumptions:

- Adopted revenues for FY 2026 and Consensus Revenue as of 11/10/2025 for FY 2027 – FY 2030. Annual average of \$3.2 billion of new bond authorizations.
- \$1.9 billion of new General Obligation Bonds in FY 2026 and \$2.0 billion of new General Obligation Bonds in FY 2027 – FY 2030 plus UCONN Bonds are issued each year.
- FY 2026 – FY 2030 Bonds Subject to Limit does not include principal payments on the prior year bonds to account for possible changes to issuance schedules.

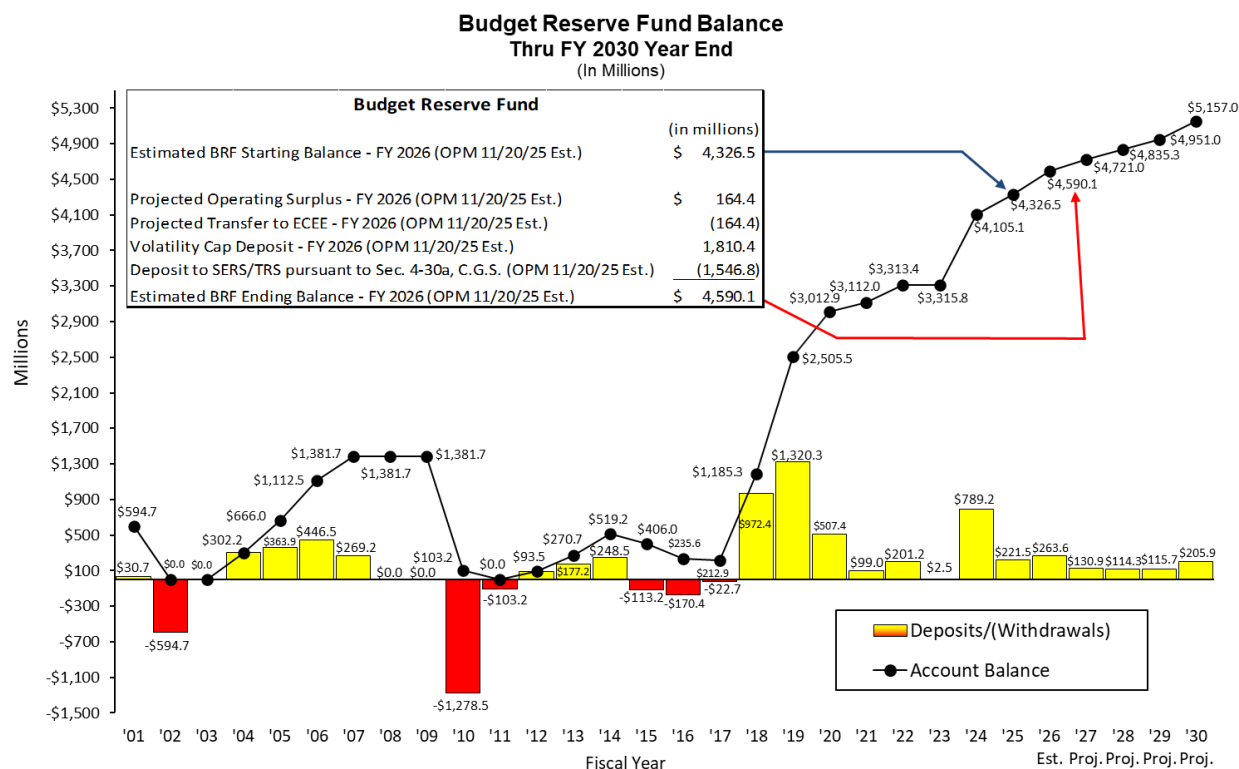
BONDING CAPS

During the 2017 legislative session, limitations on bond allocations, allotments and issuances were enacted. Public Act 23-1 extended and modified the caps. These limitations are described below.

- 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. Public Act 23-1 set the cap to \$2.400 billion in fiscal year 2024. The cap amount is indexed to inflation. The inflation-adjusted cap is \$2.602 billion for fiscal year 2026, \$2.680 billion for fiscal year 2027, \$2.766 billion for fiscal year 2028, \$2.833 billion for fiscal year 2029, and \$2.899 billion for fiscal year 2030.
- Allocation Cap: This cap imposes a limit on State Bond Commission general obligation bond allocations for each fiscal year. Public Act 23-1 set the cap to \$2.400 billion in fiscal year 2024. The cap amount is indexed to inflation. The inflation-adjusted cap is \$2.602 billion for fiscal year 2026, \$2.680 billion for fiscal year 2027, \$2.766 billion for fiscal year 2028, \$2.833 billion for fiscal year 2029, and \$2.899 billion for fiscal year 2030.
- 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. Public Act 23-1 set the cap to \$2.400 billion in fiscal year 2024. The cap amount is indexed to inflation. The inflation-adjusted cap is \$2.602 billion for fiscal year 2026, \$2.680 billion for fiscal year 2027, \$2.766 billion for fiscal year 2028, \$2.833 billion for fiscal year 2029, and \$2.899 billion for fiscal year 2030.

BUDGET RESERVE FUND

After the accounts for the General Fund have been closed at the end of each fiscal year, through FY 2024, inclusive, 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 its statutory threshold. That threshold was 15 percent of net General Fund appropriations through FY 2023, inclusive. Section 15 of Public Act 23-1 increased that threshold from 15 percent to 18 percent of net General Fund appropriations beginning in FY 2024, and per PA 25-93, up to \$300 million of any FY 2025 unappropriated surplus and any unappropriated surplus in FY 2026 and beyond will be transferred to the new Early Childhood Education Endowment and would no longer be transferred to the Budget Reserve Fund (see ‘Recent Reforms’ in the next section of this report for further explanation). The graph below depicts historical operating deposits to and withdrawals from the Budget Reserve Fund. As a result of the deposits from the volatility cap and the unappropriated surplus at the end of FY 2020, the BRF reached and exceeded its statutory cap of 15 percent at the start of FY 2021. Even with the increase in the BRF threshold for FY 2024 and annually thereafter, the BRF has remained at its maximum capacity through FY 2025, inclusive.



Note: ECEE = Early Childhood Education Endowment. FY 2030 appropriations are assumed to comply with the revenue cap.

Recent Reforms

Several recent statutory changes impact the Budget Reserve Fund. Public Act 17-2 of the June Special Session implemented, and Public Act 18-81 later amended, a revenue volatility cap which directs collections from any volatile revenue sources above a certain threshold to the Budget Reserve Fund. (See page 34 for more about the revenue volatility cap.) The volatility cap resulted in transfers shown in the table below, providing substantial — and much-needed — improvement in the state’s reserves and facilitating significant deposits to the state’s major pension funds.

Public Act 17-2 of the June Special Session, as amended by section 16 of Public Act 23-1, also introduced a revenue cap that limits the amount of General Fund appropriations to a percentage of General Fund revenue. The limit began at 99.5 percent in fiscal year 2020 and phased down to 98.75 percent for FY 2023 and thereafter (see page 34 for more about the revenue cap). Through FY 2024, inclusive, the resulting unappropriated operating margin helped 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.

Section 15 of Public Act 23-1 made several revisions to the Budget Reserve Fund. As previously discussed, it increased the Budget Reserve Fund threshold from 15 percent to 18 percent of net General Fund appropriations, allowing for greater stability in case of a recession or economic downturn. Public Act 23-1 also modified the funding mechanisms for the Budget Reserve Fund. If the Budget Reserve Fund is below the 15 percent threshold, the volatility cap transfer and the surplus are both fully deposited into the Budget Reserve Fund until it reaches that 15 percent threshold. Once the Budget Reserve Fund reaches the 15 percent threshold, 50 percent of any remaining volatility cap transfer or unappropriated surplus amount goes to the Budget Reserve Fund, and the other 50 percent is transferred to reduce the unfunded liabilities of the State Employees' Retirement System (SERS) or the Teachers' Retirement System (TRS). Once the Budget Reserve Fund reaches its maximum 18 percent threshold, through FY 2024, inclusive, any remaining volatility cap transfer or unappropriated surplus amounts are transferred to reduce the unfunded liabilities of SERS and/or TRS.

Public Act 25-93 established the Early Childhood Education Endowment along with a funding mechanism for said endowment. The public act directs up to \$300 million of the FY 2025 unappropriated surplus and any unappropriated surplus in FY 2026 and beyond will be transferred to the new Early Childhood Education Endowment unless the Budget Reserve Fund is below its 18 percent statutory maximum. If the Budget Reserve Fund is below the 18 percent threshold by the time the audited unappropriated surplus is ready to be transferred, the unappropriated surplus would first fill the Budget Reserve Fund to 18 percent and any remaining unappropriated surplus would be transferred to the Early Childhood Education Endowment. Because the volatility cap transfer occurs before the unappropriated surplus transfer, it is expected that the volatility cap transfer would true-up the Budget Reserve Fund to 18 percent for the near future, absent any withdrawals from the Budget Reserve Fund due to an economic downturn.

House Bill 8003 of the November 2025 Special Session received a three-fifths majority vote from each chamber of the General Assembly and directed \$500 million of the FY 2025 volatility cap transfer to the BRF above the 18 percent statutory limit for the purpose of mitigating certain reductions in federal funding because of OBBBA and the federal shutdown during state FY 2026. Any unspent amount of the \$500 million by June 30, 2026, would be transferred to reduce the unfunded liabilities of SERS and/or TRS if the Budget Reserve Fund is at the 18 percent statutory limit.

**Rebuilding Budgetary Reserves, Reducing Pension Liabilities,
& Funding the Early Childhood Education Endowment
Since the Enactment of the Volatility and Revenue Caps
As of November 20, 2025
(in millions)**

ACTUAL									
	Fiscal Year	Sources of Funds			Uses of Funds				
		Surplus/ (Deficit)	Volatility Cap	Total	SERS	TRS	BRF	ECEE	Total
1.	2018	\$ (482.9)	\$ 1,471.3	\$ 988.4	\$ -	\$ -	\$ 988.4	\$ -	\$ 988.4
2.	2019	370.6	949.7	1,320.3	-	-	1,320.3	-	1,320.3
3.	2020	38.7	530.3	569.0	61.6	-	507.4	-	569.0
4.	2021	475.9	1,241.5	1,717.4	714.7	903.6	99.1	-	1,717.4
5.	2022	1,261.3	3,047.5	4,308.8	3,203.8	903.6	201.4	-	4,308.8
6.	2023	555.3	1,321.8	1,877.1	1,046.5	828.1	2.5	-	1,877.1
7.	2024	401.0	1,321.3	1,722.3	514.0	419.2	789.2	-	1,722.3
8.	2025 ⁽⁹⁾	410.2	2,098.7	2,509.0	894.7	592.8	721.5	300.0	2,509.0
9.	Subtotal	\$ 3,030.1	\$ 11,982.2	\$ 15,012.3	\$ 6,435.3	\$ 3,647.2	\$ 4,629.8	\$ 300.0	\$ 15,012.3
10. Total SERS & TRS					\$ 10,082.5				
11.	% of Total	20.2%	79.8%	100.0%	42.9%	24.3%	30.8%	2.0%	100.0%

PROJECTION									
	Fiscal Year	Sources of Funds			Uses of Funds				
		Surplus/ (Deficit)	Volatility Cap	Total	SERS	TRS	BRF	ECEE	Total
12.	2026 (Est.)	\$ 164.4	\$ 1,810.4	\$ 1,974.8	TBD	TBD	TBD	\$ 164.4	\$ 1,974.8
13.	Subtotal	\$ 164.4	\$ 1,810.4	\$ 1,974.8	TBD	TBD	TBD	\$ 164.4	\$ 1,974.8
14.	% of Total	8.3%	91.7%	100.0%					
15.	Grand Total	\$ 3,194.5	\$ 13,792.6	\$ 16,987.1	\$ 6,435.3	\$ 3,647.2	\$ 4,629.8	\$ 464.4	\$ 16,987.1

Notes:

- (1) Volatility Cap is income tax estimates & finals and pass-through entity tax above a set threshold.
- (2) SERS = State Employees Retirement System
- (3) TRS = Teachers' Retirement System
- (4) BRF = Budget Reserve Fund
- (5) ECEE = Early Childhood Education Endowment
- (6) Current projections for FY 2026 estimate \$1,974.8 million will be available for allocation to SERS, TRS, BRF, and the ECEE in amounts to be determined based on updated pension valuations and the Treasurer's determination of the State's best interests.
- (7) Per PA 25-93, up to \$300M of any FY 25 unappropriated surplus and any unappropriated surplus in FY 26 and beyond will be transferred to the new Early Childhood Education Endowment.
- (8) Per sec. 40, 41, & 386 of PA 25-168, the VC threshold in FY 2025 was increased by \$150M and said amount was transferred from FY 2025 to FY 2026 to provide an additional \$150M payment towards the unfunded liabilities of the TRS in FY 2026.
- (9) HB 8003 of the 2025 November Special Session directed \$500M of the FY 2025 volatility cap transfer to the BRF above the 18% statutory limit for the purpose of mitigating certain reductions in federal funding as a result of OBBBA and the federal shutdown during state FY 2026. Any unspent amount of the \$500M by 6/30/26 will be transferred to reduce the unfunded liabilities of SERS and/or TRS.

Use of Budget Reserve Fund

Statutorily, the Budget Reserve Fund may only be expended:

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

Budget Reserve Fund Maximum Threshold

At the end of FY 2020, the Budget Reserve Fund was full for the first time since the early 2000s, reaching the statutory limit for FY 2020 of 15 percent. By statute, through FY 2024, inclusive, any amounts that are to be transferred to the Budget Reserve Fund after it has reached the statutory limit are to be transferred to reduce the unfunded liabilities of SERS and/or TRS. From FY 2020 to FY 2023, inclusive, the Budget Reserve Fund maintained its 15 percent statutory limit while also transferring substantial amounts over the 15 percent limit to reduce the unfunded liabilities of SERS and TRS. During the 2023 legislative session, the maximum threshold for the Budget Reserve Fund was increased from 15 percent to 18 percent of net General Fund appropriations beginning in FY 2024. Additionally, the mechanics of funding the Budget Reserve Fund were adjusted as well. The volatility cap transfer and any unappropriated surplus would first fill the Budget Reserve Fund to the 15 percent level then any amounts transferred to the Budget Reserve Fund between the 15 and 18 percent level would be split equally between the Budget Reserve Fund and the pension system. For FY 2024, any amount transferred to the Budget Reserve Fund in excess of the 18 percent limit went to reduce the unfunded liabilities of SERS and TRS.

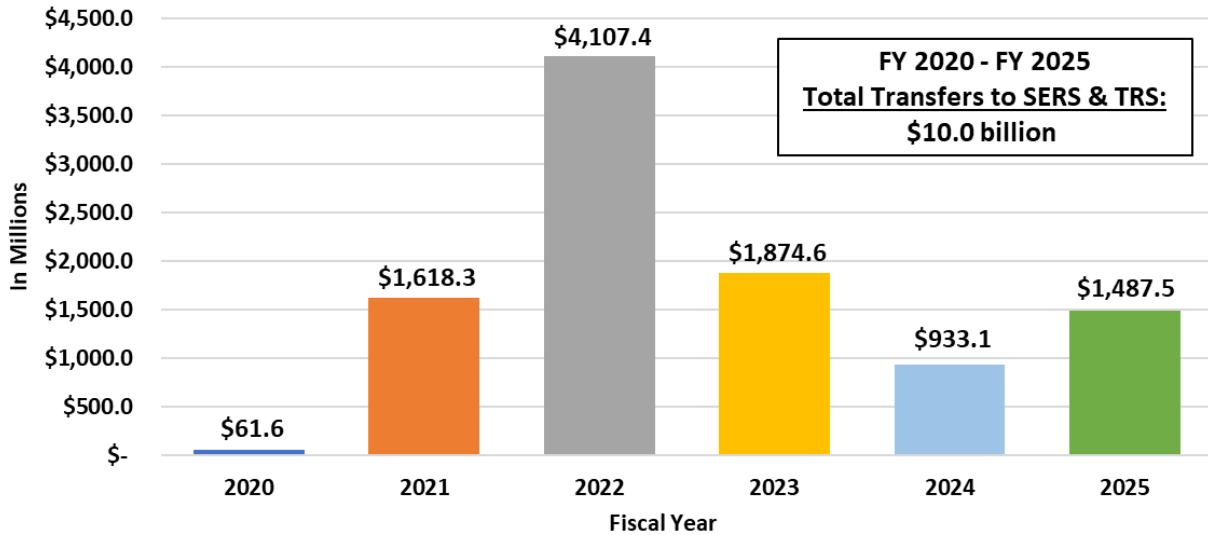
At the end of FY 2025, \$300 million of the unappropriated surplus was transferred to the new Early Childhood Education Endowment. Beginning in FY 2026, any unappropriated surplus will be transferred to the Early Childhood Education Endowment instead of the Budget Reserve Fund, unless the Budget Reserve Fund is below the 18 percent limit in which case the unappropriated surplus will first fill the Budget Reserve Fund to the 18 percent limit and any remaining surplus will be transferred to the Endowment. During the 2025 November Special Session, \$500 million of the volatility cap transfer was temporarily added to the Budget Reserve Fund, on top of the already reached 18 percent limit, for the purpose of mitigating any reduction in federal funding due to H.R. 1 (the One Big Beautiful Bill Act) or the 43-day federal government shutdown. Any unspent amount of the added \$500 million by June 30, 2026, will first ensure the Budget Reserve Fund is at the 18 percent limit, and then any remaining amount over the 18 percent limit be transferred to reduce the unfunded liabilities of SERS and/or TRS. Even with these temporary provisions, in each year from FY 2020 through FY 2025, inclusive, the Budget Reserve Fund has been at its statutory limit and additional funds have been transferred to the pension systems.

Pension Savings

The two graphs below reflect deposits to the pension funds in addition to the ADEC along with the estimated annual savings from the additional deposits. These additional deposits to the state's pension funds have a tremendous positive impact on the state's operating budget by saving hundreds of millions of dollars in pension contributions annually for the next 25 years. With the additional deposits through the fiscal year ending June 30, 2025, OPM estimates the state will save \$857.0 million annually.

Budget Reserve Fund Transfers to Pension Funds

As of November 20, 2025



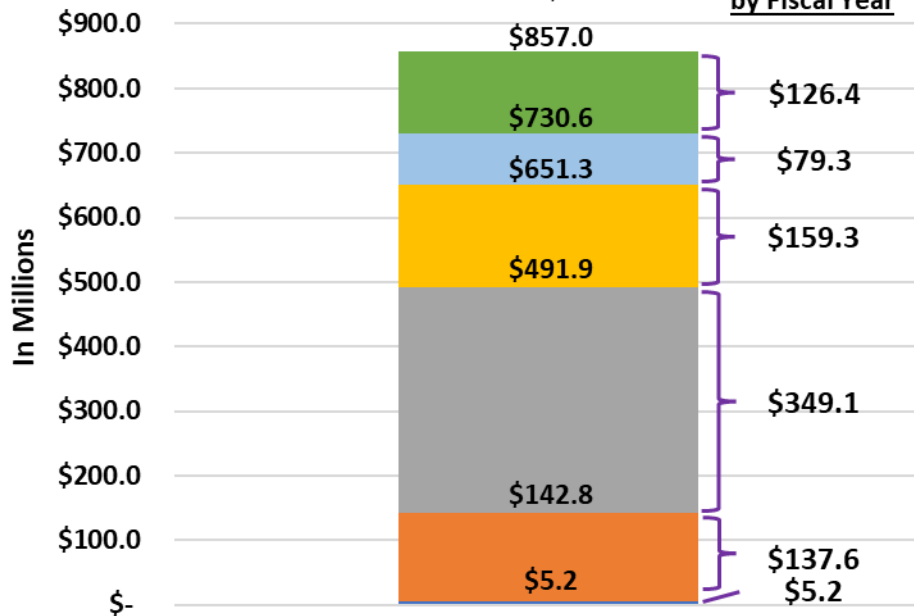
Note: Transfer amounts in FY 2020 - FY 2023 are due to the Budget Reserve Fund (BRF) reaching the 15% statutory limit & are in addition to ADEC payments. Transfer amounts in FY 2024 - FY 2025 are due to the 50/50 split of surplus & volatility cap transfer when the BRF is between 15% & 18% and after the BRF reaches the new 18% statutory limit.

Estimated Annual Cumulative Pension Savings

by Fiscal Year Contributions

As of November 20, 2025

Annual Savings
by Fiscal Year



Note: Assumes \$8.5M of annual savings for every \$100M contributed above ADEC.

**Estimated Cumulative
Annual Savings**

PROJECTED TAX CREDITS

Tax credit projections are based on data from the Department of Revenue Services. Personal Income Tax credits are projected using income years 2021-2023 data. Corporation business tax credits are projected using FY 2023-2025 data. 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 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
<u>Personal Income Tax Credits</u>	<u>Est.⁽¹⁾</u>	<u>Proj.</u>	<u>Proj.</u>	<u>Proj.</u>	<u>Proj.</u>	<u>Proj.</u>
Pass-through Entity Tax Credit	\$ 1,418,200	\$ 1,462,100	\$ 1,416,900	\$ 1,453,600	\$ 1,507,300	\$ 1,567,400
Earned Income Tax Credit	195,455	235,400	240,500	245,800	251,900	258,200
Property Tax	146,800	149,700	152,700	155,800	158,900	162,100
Connecticut Higher Education Trust (CHET)	17,800	18,600	19,500	20,400	21,300	22,200
Angel Investor	6,316	5,000	5,000	5,000	5,000	-
All Other ⁽²⁾	<u>1,164</u>	<u>4,300</u>	<u>4,300</u>	<u>4,300</u>	<u>4,300</u>	<u>4,300</u>
Total Personal Income Tax	\$ 1,785,735	\$ 1,875,100	\$ 1,838,900	\$ 1,884,900	\$ 1,948,700	\$ 2,014,200
<u>Business Tax Credits</u>						
Film Industry Production ^(3,5)	\$ 160,500	\$ 116,000	\$ 121,500	\$ 127,500	\$ 134,000	\$ 141,000
Fixed Capital	56,500	49,000	49,000	49,000	49,000	49,000
JobsCT	-	5,000	5,000	5,500	5,500	5,500
Research and Development Expenditures	12,000	12,500	13,000	13,500	14,000	14,500
Research and Experimental Expenditures	41,000	35,000	36,000	37,000	38,000	39,000
Urban and Industrial Reinvestment ⁽³⁾	15,000	17,000	17,500	17,500	18,000	18,500
Electronic Data Processing ⁽³⁾	25,000	22,500	23,000	24,000	24,500	25,500
Historic Rehabilitation ⁽³⁾	8,500	16,500	16,500	16,500	16,500	16,500
Housing Program Contribution ⁽³⁾	10,000	10,000	10,000	10,000	10,000	10,000
Human Capital	4,400	4,500	4,600	4,600	4,700	4,700
Film Industry Infrastructure ⁽³⁾	22,000	5,500	5,500	6,000	6,000	6,000
Machinery and Equipment	1,100	900	900	900	900	900
All Other Credits ^(3,4)	<u>34,000</u>	<u>62,750</u>	<u>66,500</u>	<u>66,750</u>	<u>67,250</u>	<u>54,250</u>
Total Business Tax Credits	\$ 390,000	\$ 357,150	\$ 369,000	\$ 378,750	\$ 388,350	\$ 385,350
Total Projected Amount Claimed	\$ 2,175,735	\$ 2,232,250	\$ 2,207,900	\$ 2,263,650	\$ 2,337,050	\$ 2,399,550

(1) FY 2025 Personal Income Tax credits and business tax credits are rounded actuals with ensuing fiscal years based on moving averages plus policy changes.

(2) Includes Stillborn Tax Credit, Historic Homes Rehab. Tax Credit, Youth Development Organization Contribution Tax Credit, Accredited Theater Production Tax Credit, ABLE Contribution Tax Credit, & Real Estate Conveyance Tax Credit.

(3) Includes credits claimed under the Corporation Tax, Insurance Premiums Tax, and the Public Service Companies Tax of which all projections are based off of FY 2023, 2024, and 2025 data.

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

(5) Includes amounts applied against Sales Tax liability.