Fiscal Accountability Report
Fiscal Years 2021 - 2024

Melissa McCaw, Secretary
Office of Policy and Management
December 10, 2020

Presentation Overview

1. FY 2021 Estimates of Operating Results
2. Estimates of FY 2022 – FY 2024 Revenue and Fixed Cost Growth
3. Long-Term Liabilities
4. Conclusion and Key Takeaways

FY 2021 Operations

OPM November 20, 2020 Projections

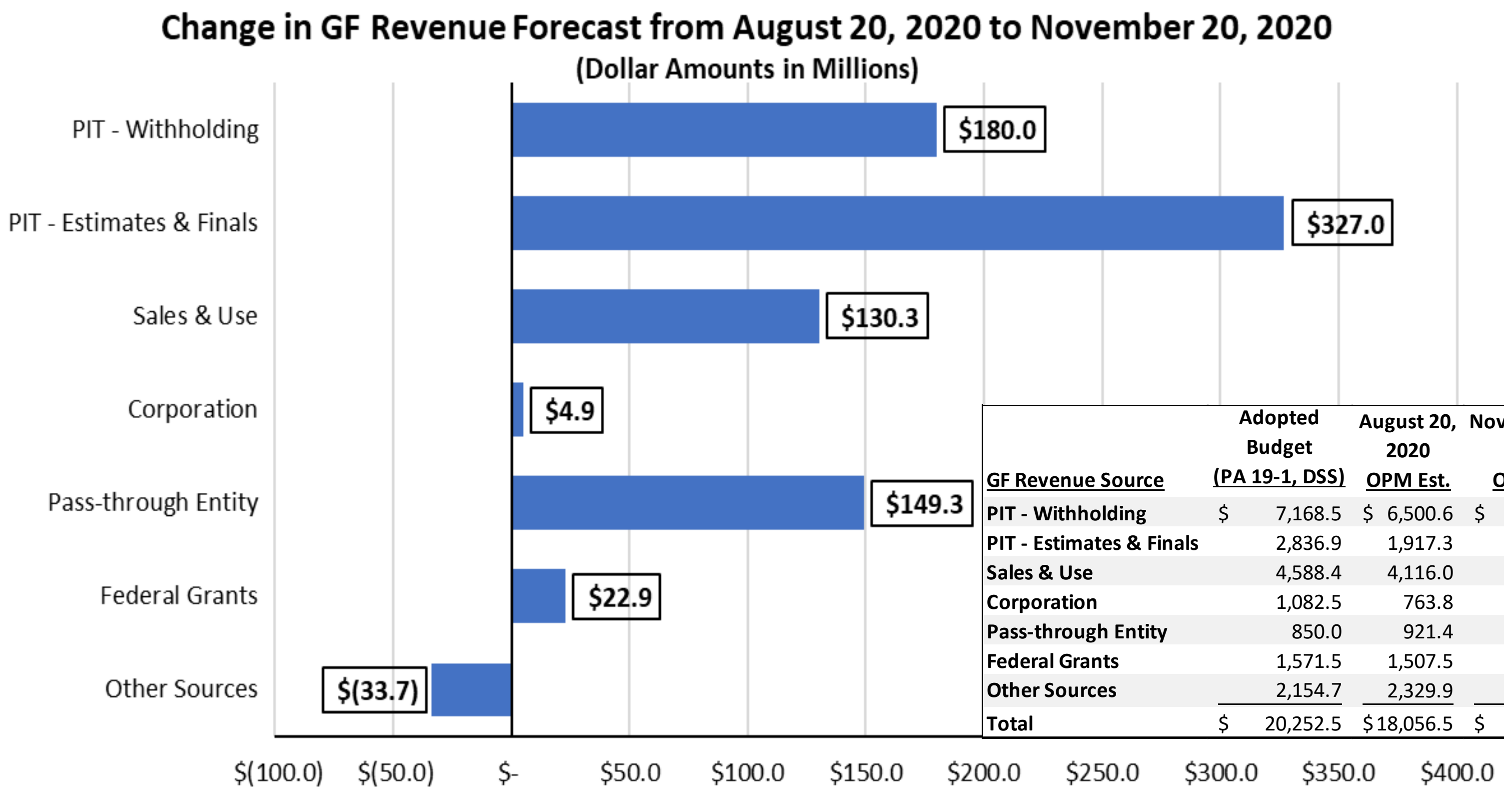
	FY 2021 Projection (in millions)				
General Fund	Budget (as Revised Dec. 2019)	Oct. Estimate	Nov. Estimate	Change in Estimate - Nov. vs. Oct.	Nov. Est. Variance from Budget
Revenues	$ 20,252.5	$ 18,510.6	$ 18,837.2	$ 326.6	$ (1,415.3)
Expenditures	20,086.3	19,772.2	19,716.6	(55.6)	(369.7)
Operating Results - Surplus/(Deficit)	$ 166.2	$ (1,261.6)	$ (879.4)	$ 382.2	$ (1,045.6)
Budget Reserve Fund					
Deposit / (Withdrawal)	$ 467.7	$ (1,323.2)	$ (941.0) [1.]	$ 382.2	$ (1,408.7)
Proj. Balance 6/30	$ 3,542.3	$ 1,751.3	$ 2,133.5	$ 382.2	$ (1,408.7)
Special Transportation Fund					
Revenues	$ 1,880.8	$ 1,697.2	$ 1,690.6	$ (6.6)	$ (190.2)
Expenditures	1,816.3	1,752.4	1,752.4	-	(63.9)
Operating Results - Surplus/(Deficit)	$ 64.5	$ (55.2)	$ (61.8)	$ (6.6)	$ (126.3)
Proj. Fund Balance 6/30	$ 423.4	$ 113.2	$ 106.6	$ (6.6)	$ (316.8)
Tourism Fund					
Revenues	$ 14.2	$ 9.2	$ 6.2	$ (3.0)	$ (8.0)
Expenditures	13.1	13.1	13.1	-	-
Operating Results - Surplus/(Deficit)	$ 1.1	$ (3.9)	$ (6.9)	$ (3.0)	$ (8.0)
Proj. Fund Balance 6/30	$ (0.1)	$ (10.8)	$ (13.8)	$ (3.0)	$ (13.7)

Notes:

1. BRF withdrawal includes the transfer out of $61.62 million pursuant to Sec. 4-30a, CGS, as the FY 2020 ending balance exceeds the statutory 15% cap. This sum would be deposited as an additional contribution to the State Employees Retirement Fund or the Teachers' Retirement Fund. Estimated draw on BRF based on projected shortfall and may not reflect future mitigation actions.

CONNECTICUT OFFICE OF POLICY AND MANAGEMENT

FY 2021 General Fund Revenue Improvement



GF Revenue Source	Adopted Budget (PA 19-1, DSS)	August 20, 2020 OPM Est.	November 20, 2020 OPM Est.	$$ Variance from Aug. 20, 2020
PIT - Withholding	$ 7,168.5	$ 6,500.6	$ 6,680.6	$ 180.0
PIT - Estimates & Finals	2,836.9	1,917.3	2,244.3	327.0
Sales & Use	4,588.4	4,116.0	4,246.3	130.3
Corporation	1,082.5	763.8	768.7	4.9
Pass-through Entity	850.0	921.4	1,070.7	149.3
Federal Grants	1,571.5	1,507.5	1,530.4	22.9
Other Sources	2,154.7	2,329.9	2,296.2	(33.7)
Total	$ 20,252.5	$ 18,056.5	$ 18,837.2	$ 780.7

Recent Revenue Trends

1. The November consensus forecast adopted a conservative outlook for the remainder of the fiscal year due to:
   a. Waning impact of federal stimulus measures
   b. Rising COVID-19 cases across the nation
   c. Cooler weather forcing more activity indoors combined with tightening physical distancing requirements
2. Fiscal year-to-date revenue growth continues to outpace the growth rates assumed in the November 2020 consensus
3. A continuation of these trends could result in more positive revisions to FY 2021 revenue

Assumed Revenue Growth Rates vs. Actual Revenue Growth Rates, FYTD

By Major Source, FY 2021

Source	11/20/2020 Assumed Growth Rate	FYTD Actual Growth Rate
1. Withholding	-1.7%	2.0%
2. Estimates and Finals	-13.1%	-2.5%
3. Sales and Use	-2.9%	0.0%
4. Pass-through Entity	-13.1%	-4.6%

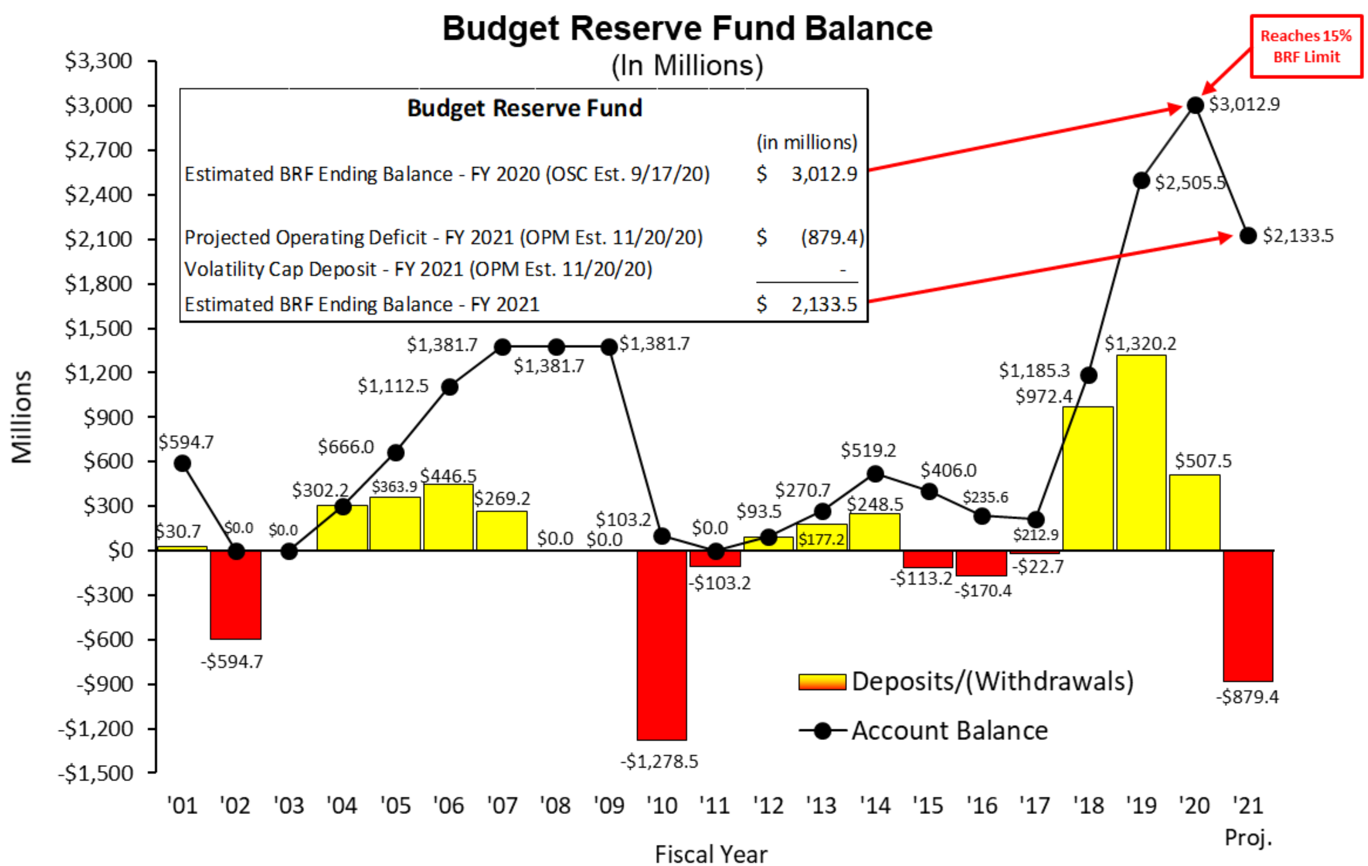
FY 2021 General Fund Expenditure Projections

FY 2021 General Fund Expenditure Projections
Based on 11/20/2020 Estimate
(in millions)

Deficiencies	
1. State Comptroller -- Fringe Benefits	$ 99.1
2. University of CT Health Center	50.0
3. Dept. of Econ. and Community Devel.	10.4
Capital Region Devel. Auth.	
4. All Other	16.2
5. Total, Deficiencies	$ 175.7

Lapses (beyond budgeted amounts)	
6. Dept. of Social Services	$ 332.1
Ext. of public health emergency/lower utilization	
7. Various Agencies	100.0
CARES Act funding public health/safety	
8. State Treasurer - Debt Service	38.4
Delayed timing of sales	
9. Dept. of Children and Families	19.7
Improved caseload/reduced overtime	
10. All Other	55.2
11. Total, Lapses	$ 545.4

FY 2021 Estimated Budget Reserve Fund Balance



Note: FY 2020 deposit and year-end balance include the transfer out of the BRF of funds in excess of the statutory 15% limit of the following fiscal year's net GF appropriations.

FY 2021 Estimated Budget Reserve Fund Balance

At least $1.3 billion of the current BRF balance is due to one-time, non-repeatable factors:

- **$750 million from repatriation of overseas hedge fund deferred profits**
  - IRS Code 457A required repatriation of overseas hedge fund profits by December 31, 2017 for activity that had occurred prior to 2008 when the federal government disallowed sheltering of such income
  - One-time revenue for economic activity that occurred a decade or more ago
- **$570 million from the initial proceeds of the new Pass-through Entity Tax (PET)**
  - CT passed the PET in response to federal capping of the SALT deduction
  - FY 2019 was the first year of collections and initial estimates were based on conservative budgeting and also did not fully account for 18 months of payment – estimated payments for 2 income years, and final payment for 1 income year
- Additionally, some (inestimable) revenue related to repatriation of overseas deferred profits under the Tax Cuts and Jobs Act of 2017
  - TCJA required individuals and businesses to pay a transition tax on untaxed foreign earnings as if those earnings had been repatriated to the U.S., generally affecting income year 2017 (SFY 2018)

Rating Agency View of the Importance of Reserves

- Moody's Investors Service
  - "The state's recent actions to build substantial reserves, federal stimulus support and better than expected revenue performance to date are enabling the state to navigate the impacts of the coronavirus while maintaining healthy liquidity."
  - "Rapidly declining reserves would be a negative for the state because the BRF helps compensate for inflexibility in the budget" due to the state's high fixed costs
- S&P Global Ratings
  - "As the state navigates a weaker and more uncertain economic environment in fiscal 2021, it estimates a $879.4 million draw from the BRF to address its budget deficit…If revenues were to weaken in the second half of the fiscal year, we view the state's reserves as adequate to address any expected fiscal imbalance [in FY21]."
  - "Maintaining good reserve balances through the next biennium and demonstrating a moderating debt burden, we may consider a higher rating."
  - "Should the state rely on significant one-time measures (including deficit bonds or pension deferrals) to address its structural gap or if it sees its reserves deteriorate to low levels as they were before implementation of the volatility transfer, we may lower the rating."
- Kroll Bond Rating Agency
  - "This sizeable reserve positions the State well to manage virus-related budget challenges" and the stable outlook reflects "strong reserve position which provides a good framework for the current pandemic-disrupted environment."
- Fitch Ratings
  - "Gap-closing capacity is strong and resilience has improved given a strengthened BRF deposit mechanism, the revenue volatility cap, enacted in 2018."

Sources: Ratings agency statements, December 2020

Summary of OPM Projections of Fixed Cost Growth vs. Revenue Growth for FY 2022 – FY 2024

Year-Over-Year Growth of Fixed Costs vs. Revenue FY 2021 through FY 2024

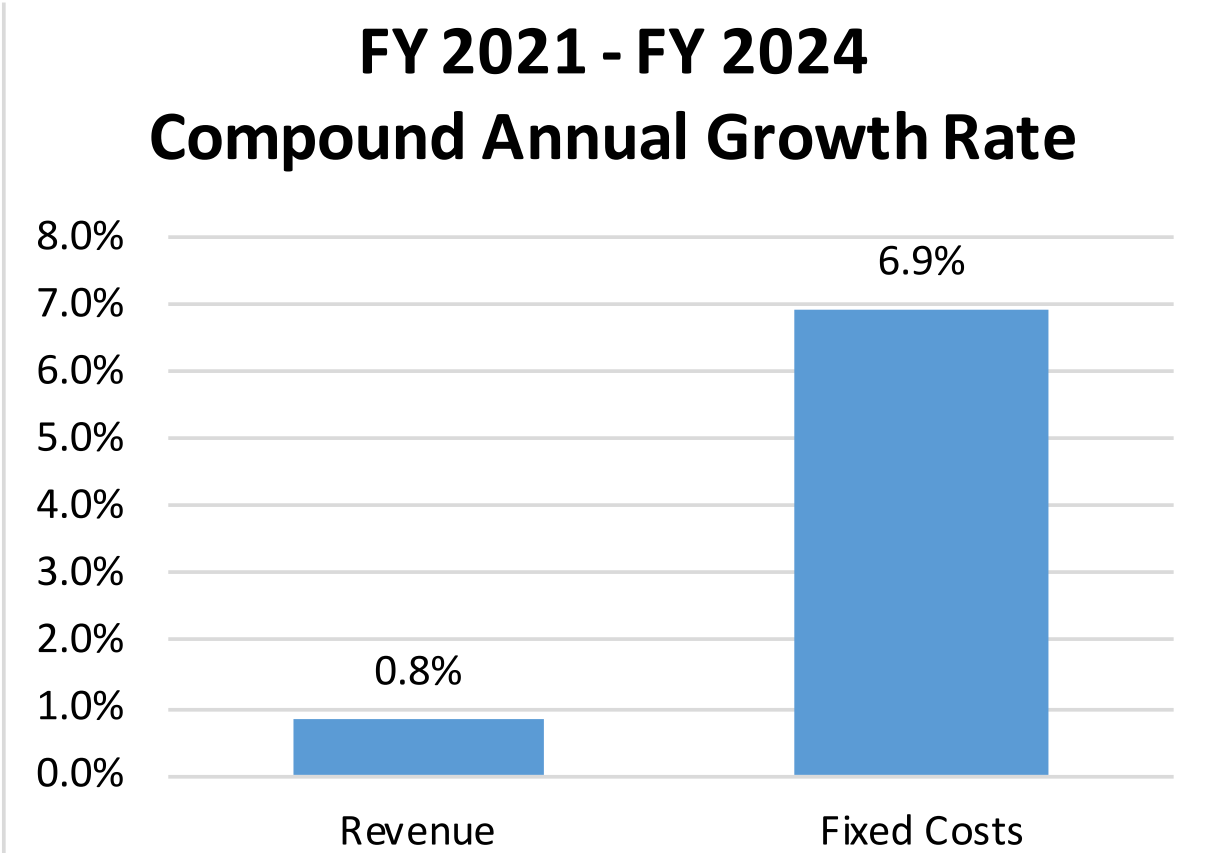
GENERAL FUND

(in millions)

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

- **Fixed costs are growing faster than revenue through FY 2023, but revenue growth is expected to catch up to fixed cost growth in FY 2024**

General Fund Revenue Growth vs. Fixed Cost Growth



- **Adjusting for FY 2022 revenue policy changes, revenue growth would be 2.6%, still far short of the growth in fixed costs**

Year-Over-Year Growth of Fixed Costs vs. Revenue FY 2021 through FY 2024

SPECIAL TRANSPORTATION FUND

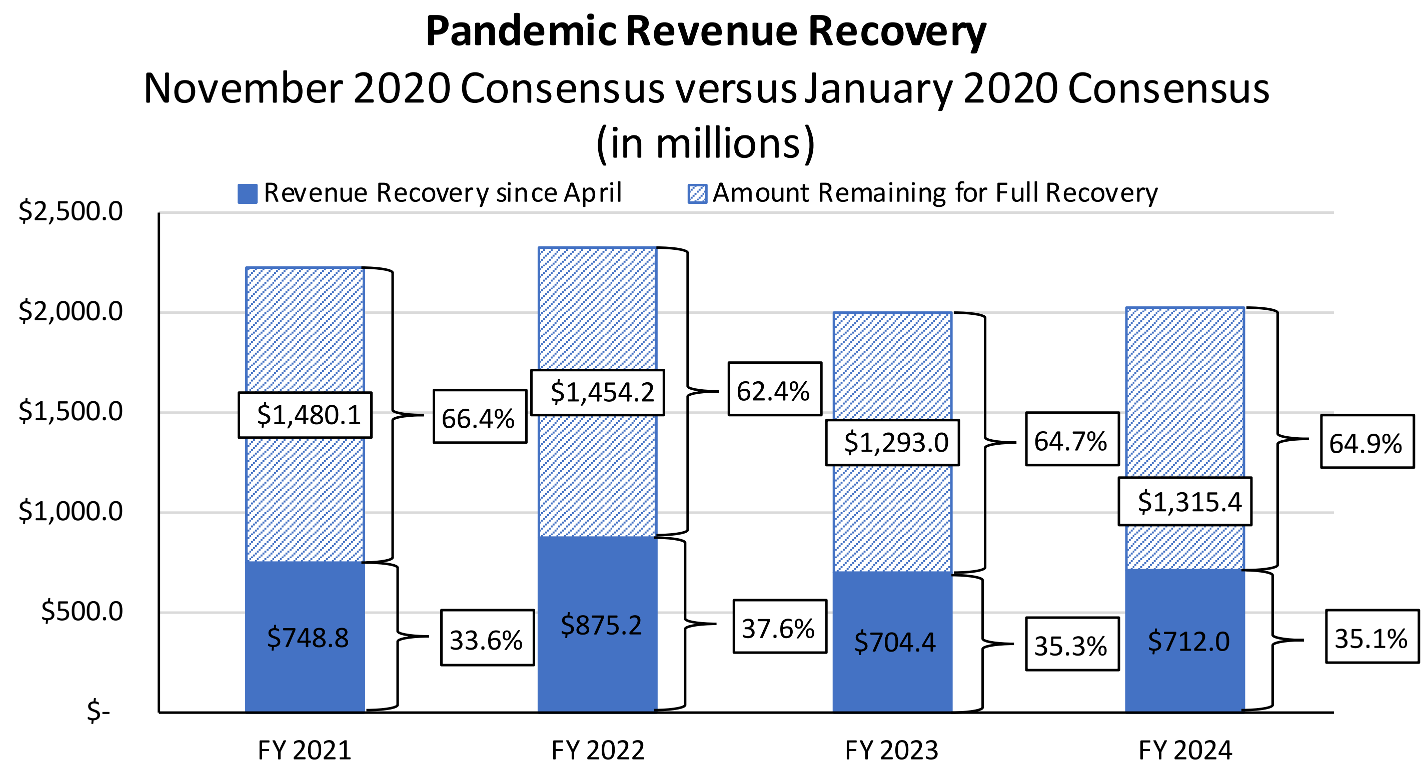
(in millions)

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

- **Revenue growth is tailing off, even with commitment of new sources of revenue, and fixed costs are expected to overtake revenue growth in FY 2024**

General Fund Revenues

Revenue Recovery



Consensus Revenue Projections

General Fund Revenues
FY 2020 Thru FY 2024
(In Millions of Dollars)

	Actual	Projection				Actual	Projection			
	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal
TAXES	**2020**	**2021**	**2022**	**2023**	**2024**	**2020**	**2021**	**2022**	**2023**	**2024**
1. PIT - Withholding	$ 6,815.2	$ 6,680.6	$ 6,904.9	$ 7,240.8	$ 7,468.7	2.2%	-2.0%	3.4%	4.9%	3.1%
2. PIT - Estimates & Finals	2,582.6	2,244.3	2,248.1	2,311.4	2,418.1	-13.2%	-13.1%	0.2%	2.8%	4.6%
3. Sales & Use	4,317.7	4,246.3	3,879.8	3,892.7	3,994.8	-0.5%	-1.7%	-8.6%	0.3%	2.6%
4. Corporations	934.5	768.7	783.5	804.7	821.1	-11.9%	-17.7%	1.9%	2.7%	2.0%
5. Pass-Through Entity	1,241.9	1,070.7	1,054.6	1,150.8	1,200.0	6.0%	-13.8%	-1.5%	9.1%	4.3%
6. Health Provider	1,004.8	1,079.5	989.7	991.8	993.2	-7.1%	7.4%	-8.3%	0.2%	0.1%
7. Federal Grants	1,796.8	1,530.4	1,557.7	1,584.2	1,605.9	-13.8%	-14.8%	1.8%	1.7%	1.4%
8. Total Refunds	(1,500.0)	(1,735.8)	(1,735.3)	(1,794.5)	(1,856.1)	2.0%	15.7%	0.0%	3.4%	3.4%
9. Other Taxes	1,296.1	1,426.6	1,323.0	1,322.5	1,326.1	-5.8%	10.1%	-7.3%	0.0%	0.3%
10. Other Revenues	704.0	1,525.9	1,303.9	1,294.3	1,330.8	92.0%	116.8%	-14.5%	-0.7%	2.8%
11. Total GF Revenues	**$ 19,193.5**	**$ 18,837.2**	**$ 18,309.9**	**$ 18,798.7**	**$ 19,302.6**	**-2.3%**	**-1.9%**	**-2.8%**	**2.7%**	**2.7%**

Notes:
(1) Updated to OPM's and OFA's November 10, 2020 consensus revenue figures.

Without previously enacted policy changes, this would be approximately +2.6%

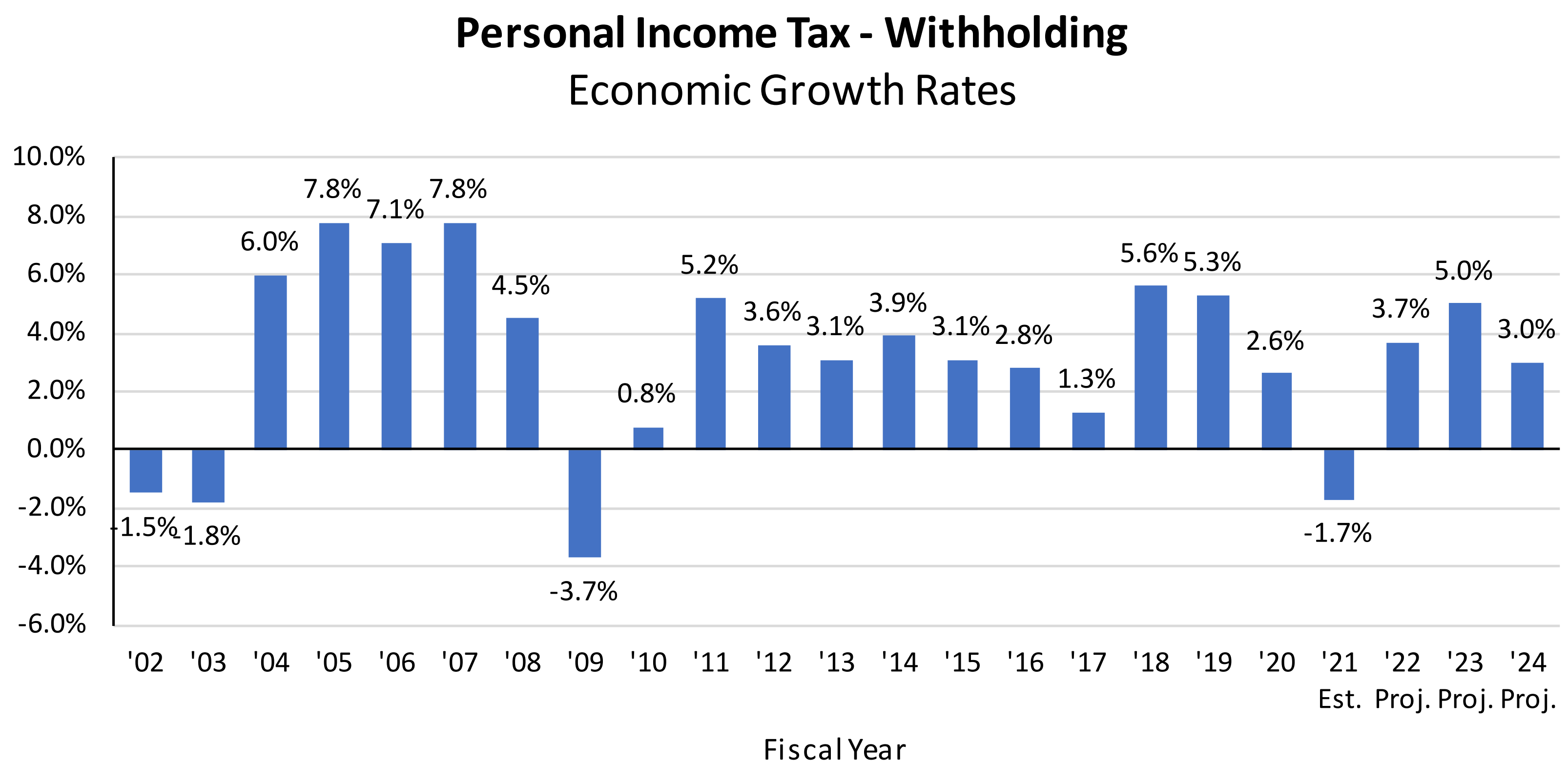
Explaining the Change in General Fund Revenue From FY 2021 to FY 2022

Enacted Policy Changes Impacting FY 2022 Revenue
FY 2022 General Fund - November 10, 2020
(in millions)

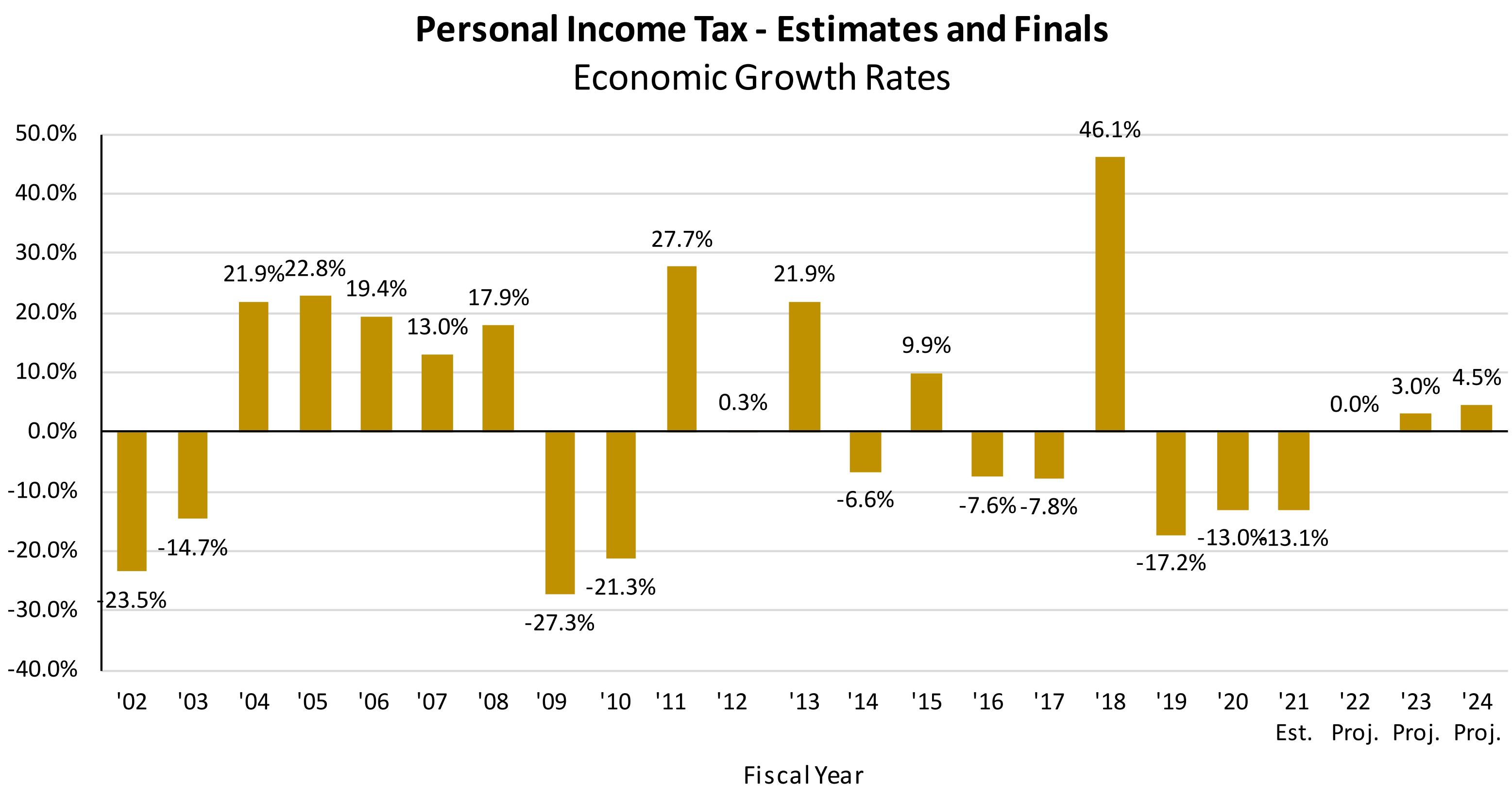
1.	**Total All Revenue, FY 2021**	**Estimated FY 2021 Revenues, as of 11/10/2020**	**$ 18,837.2**
2.	Personal Income Tax	Increase teachers' pension exemption from 25% to 50%	(8.0)
3.	Personal Income Tax	Pension and Annuity Exemption from 42% to 56%	(16.4)
4.	Sales and Use Tax	Increase in car sales tax to STF from 25% to 75%	(179.5)
5.	Sales and Use Tax	MRSA Transfer Commences	(355.8)
6.	Corporate Income Tax	Expiration of 10% Surcharge	(15.0)
7.	Corporate Income Tax	Phase-out Capital Stock Tax	(9.5)
8.	Gift and Estate	Phase-in Federal Exemption level from $5.1M to $7.1M	(13.2)
9.	Health Provider Tax	Hospital Settlement, Reduction in Provider Taxes	(32.0)
10.	Miscellaneous Tax	Ban plastic bags	(6.0)
11.	Refunds of Taxes	Revert eligibility of property tax credit	(53.0)
12.	Federal Grants	Hospital Settlement, Gain in FFP	13.4
13.	Federal Grants	Loss of Enhanced-FMAP in FY 2022 (CARES Act)	(64.4)
14.	Transfers To/(From) Other Funds	Hospital Settlement, loss of FY 2019 Surplus Funds	(59.4)
15.	Transfers To/(From) Other Funds	Loss of the Banking Fund transfer	(5.2)
16.	Transfers To/(From) Other Funds	Resume funding GAAP deficit in FY 2022	(85.1)
17.	Transfers To/(From) Other Funds	Loss of one-time 2020 to 2021 Transfer	(85.0)
18.	Transfer to Philanthropic Match	One-time return of funds in FY 2021	(14.0)
19.	Transfers to BRF - Volatility	(Increase)/Decrease in Volatility Cap Transfer	-
20.	Sub-total, Enacted Policy Changes Impacting FY 2022		$ (988.1)
21.	Various Sources	Projected FY 2022 Revenue Growth	460.8
22.	**Total All Revenue, FY 2022**	**Estimated FY 2022 Revenues, as of 11/10/2020**	**$ 18,309.9**
23.	Enacted Policy Changes as a Percentage of FY 2021 Revenue		-5.2%
24.	FY 2022 Revenue Growth Adjusted For Policy Changes		2.6%

FY22 GF Growth absent previous policy changes

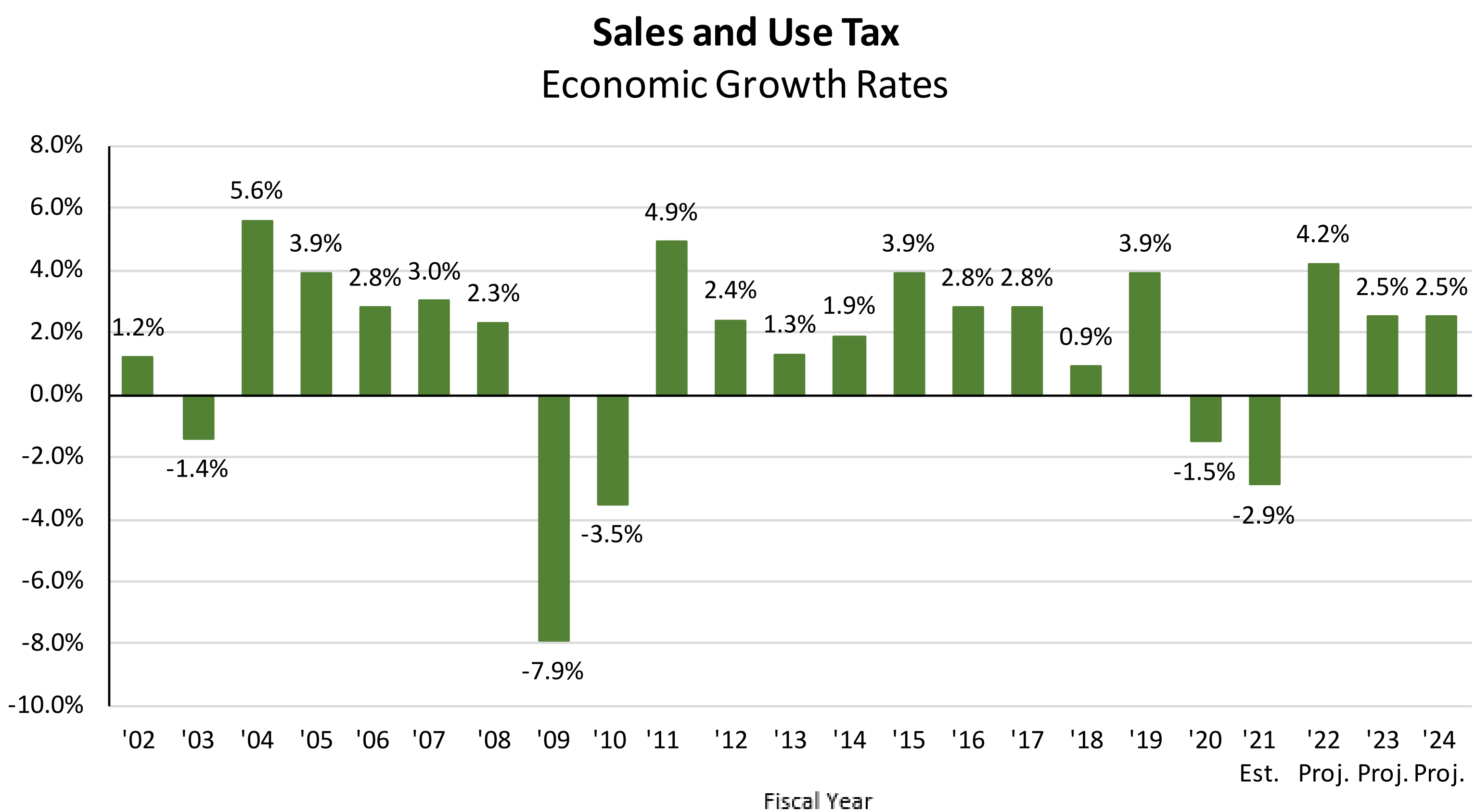
Withholding Growth Rates



Estimates and Finals Growth Rates



Sales and Use Tax Growth Rates



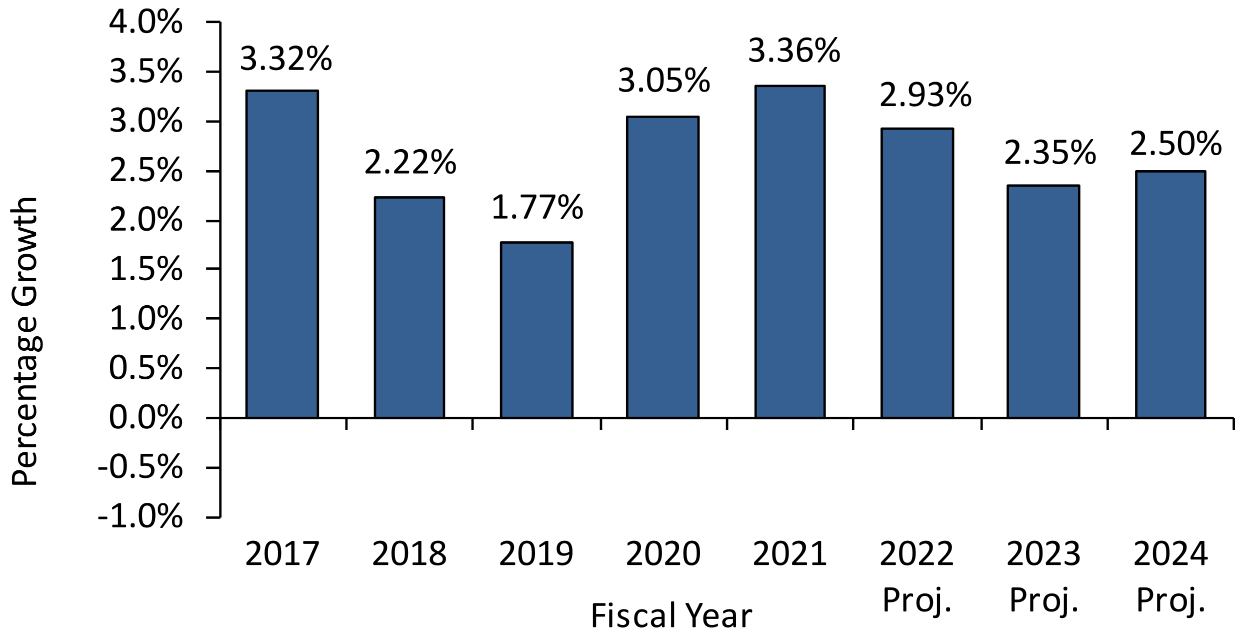
Long-Term Obligations, “Fixed” Cost Drivers and Other Topics

Efforts to Reduce Fixed Costs

While more work remains to be done, significant steps have been taken to reduce growth in fixed costs:

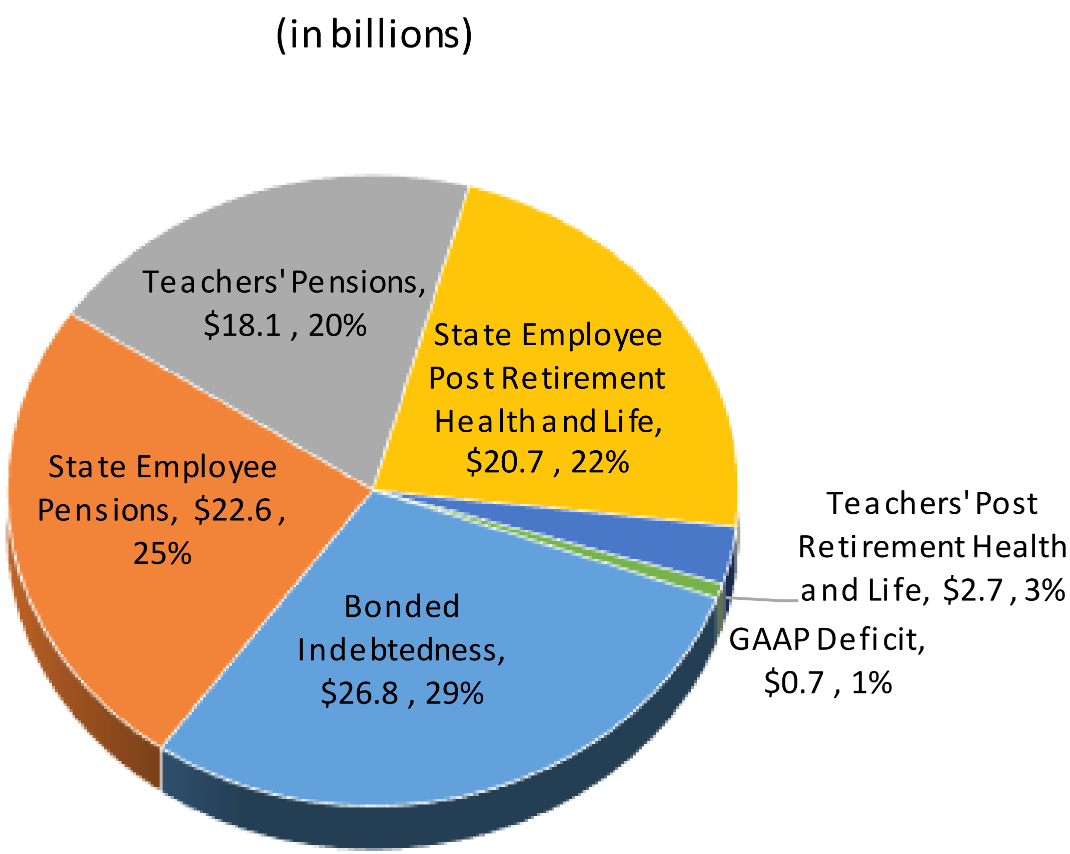
- Bond issuance has been reduced by 8.3% per year from 2015 to 2020
- Pension plans (SERS and TRS) have been stabilized through
  - Reduction of assumed rate of investment returns
  - Re-amortization of unfunded liability to mitigate impact of adopting more realistic actuarial assumptions
  - Introduction of a new hybrid retirement tier for state employees (Tier IV)
- Health coverage for active and retired state employees has seen introduction of more cost-efficient approaches, including efforts to link quality of care to payment methodologies
- Entitlement growth (e.g., Medicaid) has been modest compared to national averages, even with the expansion of coverage under the Affordable Care Act

Spending Cap Growth Rates



- Personal income is the limiting factor in FY 2020 and beyond
  - Given the state's low growth in personal income in FY 2018 and FY 2019, the core consumer price index was the limiting factor for those years
- The enacted budget was below the cap by $0.2 million for FY 2020 and $5.0 million for FY 2021

Long-Term Liabilities

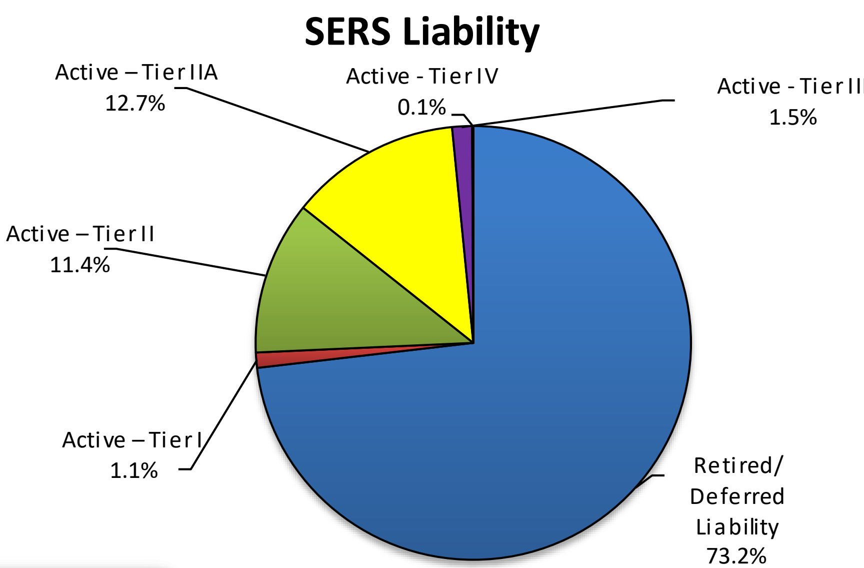


Total: $91.6 billion
Per capita: $25,714

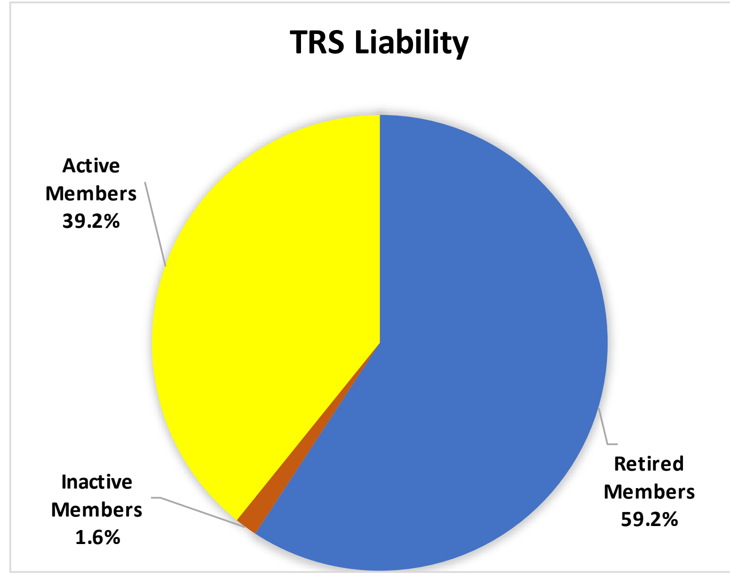
Retirement System Liabilities

State Employees Retirement System

- **$36.1 billion total liability**
- **$22.3 billion unfunded liability**
- **73.2% of the liability is related to inactive or already-retired employees**
- **88.4% of the FY 2022 actuarially determined employer contribution is for the unfunded actuarial accrued liability**

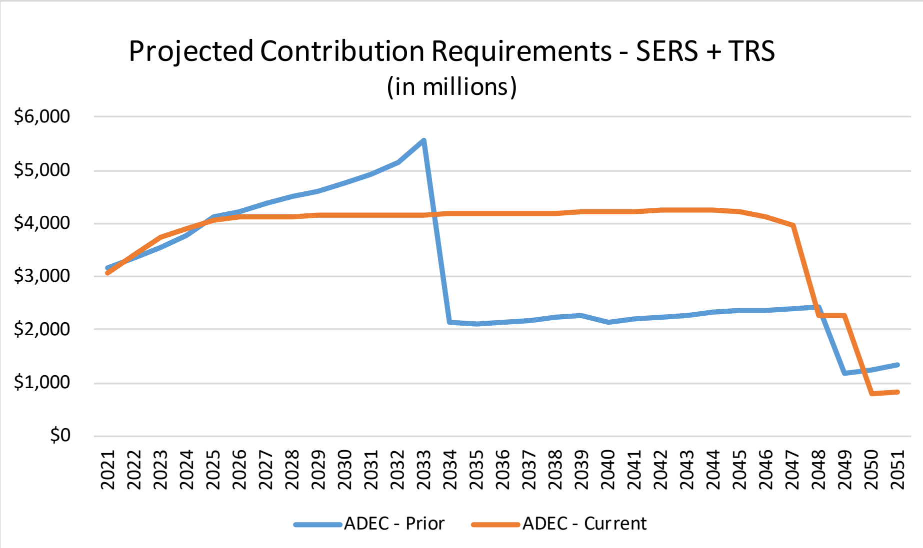


Teachers' Retirement System



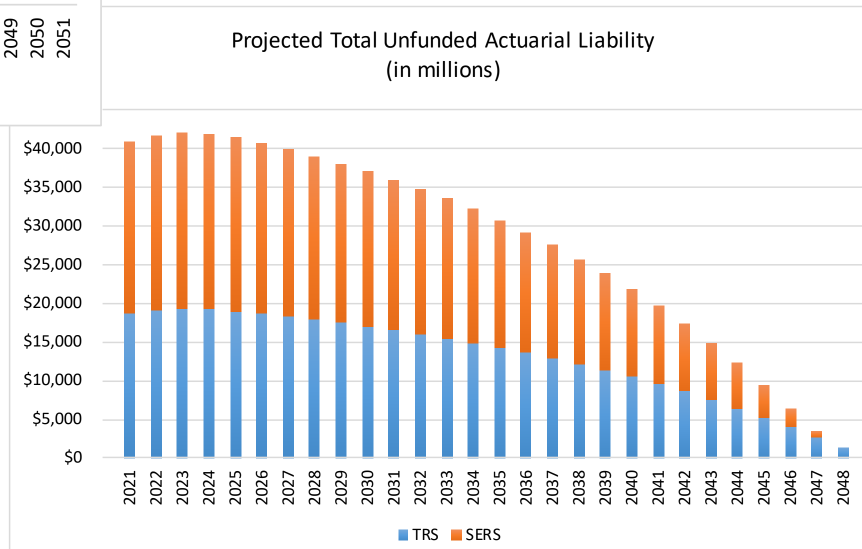
- **$37.1 billion total liability**
- **$18.1 billion unfunded liability**
- **60.85% of the liability is related to inactive or already-retired employees**
- **79.7% of the FY 2022 actuarially determined employer contribution is for the unfunded actuarial accrued liability**

Outlook for SERS and TRS

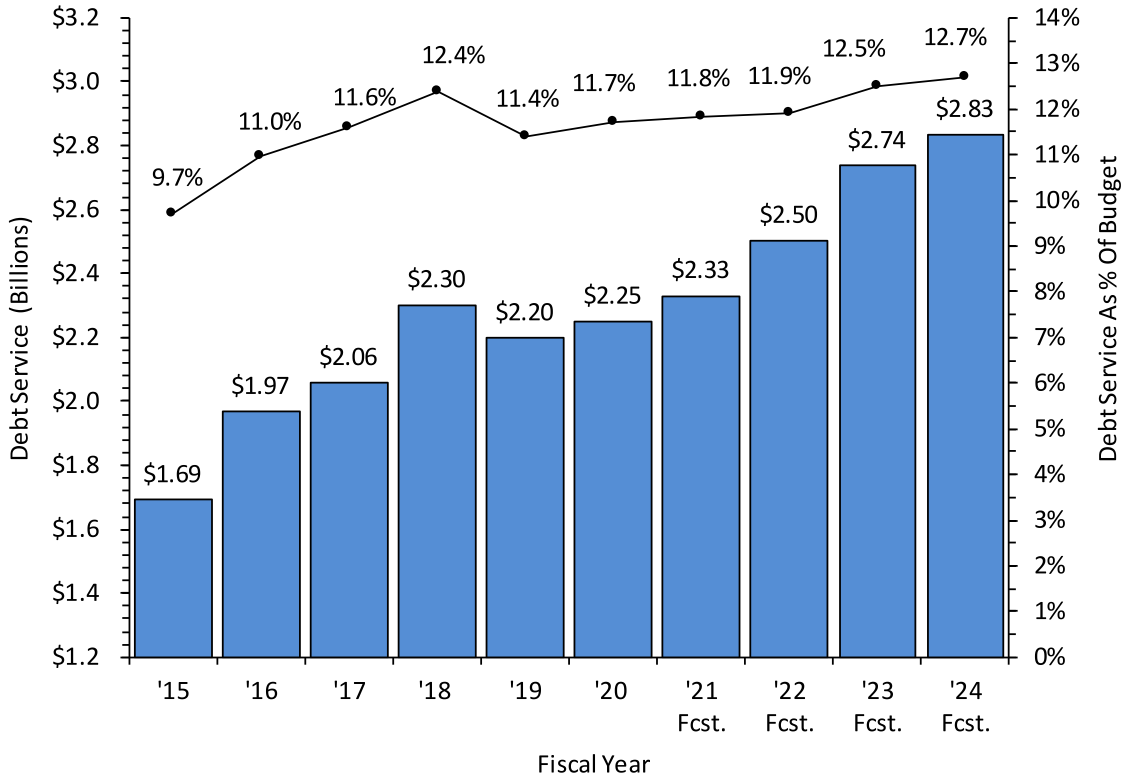


- **Structural changes have made the state's projected contributions much more stable and predictable**

- **Funding discipline will eliminate the unfunded liability in SERS in 2048 and TRS in 2050**

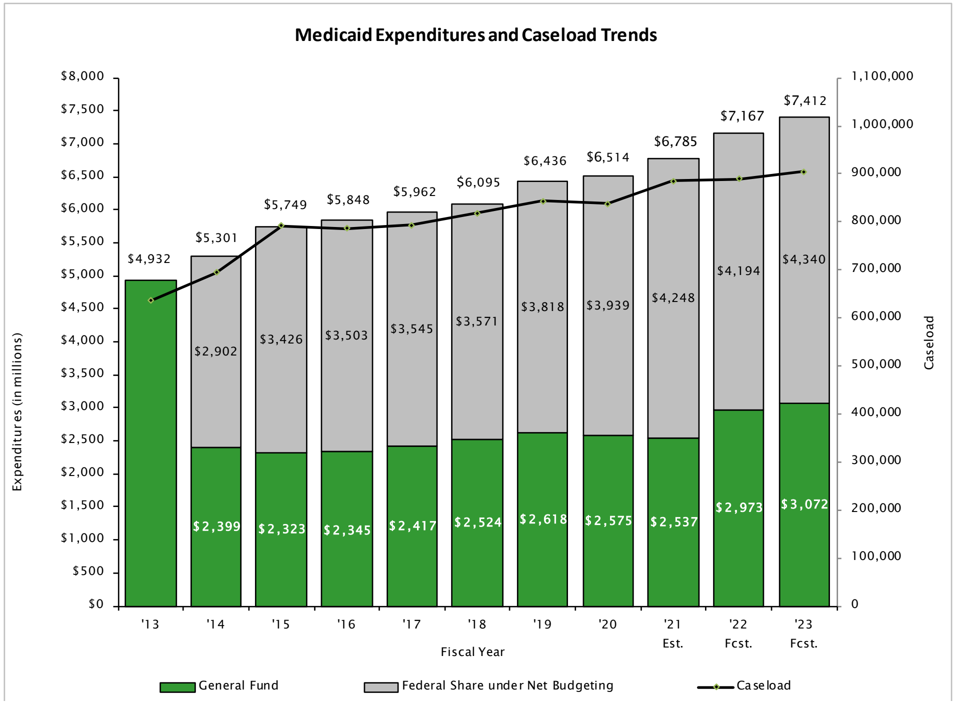


General Fund Debt Service



- **FY 2022 increase: $84.7 million due to TRS pension obligation bond repayment schedule, all other $88.2 million**
- **FY 2023 increase: $103.6 million due to TRS pension obligation bond repayment schedule, all other $130.2 million**

Medicaid – Expenditures and Caseload

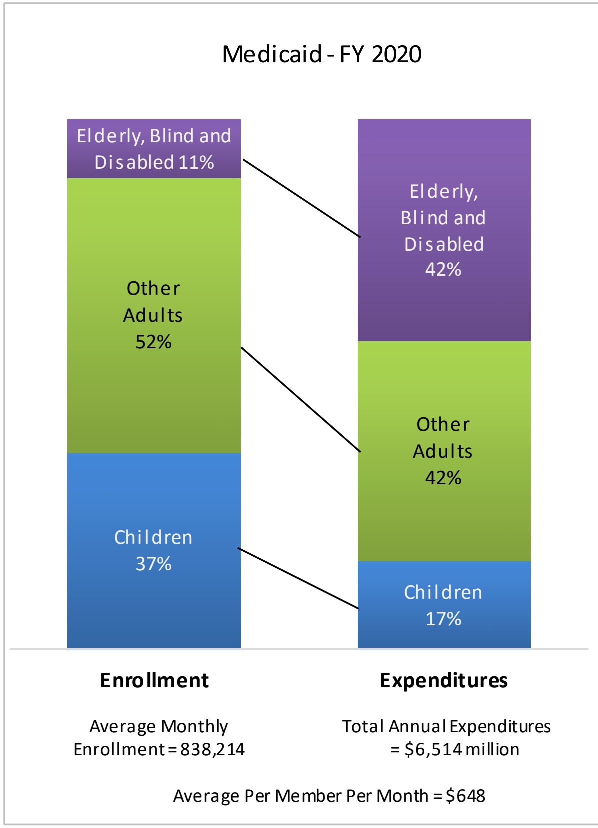


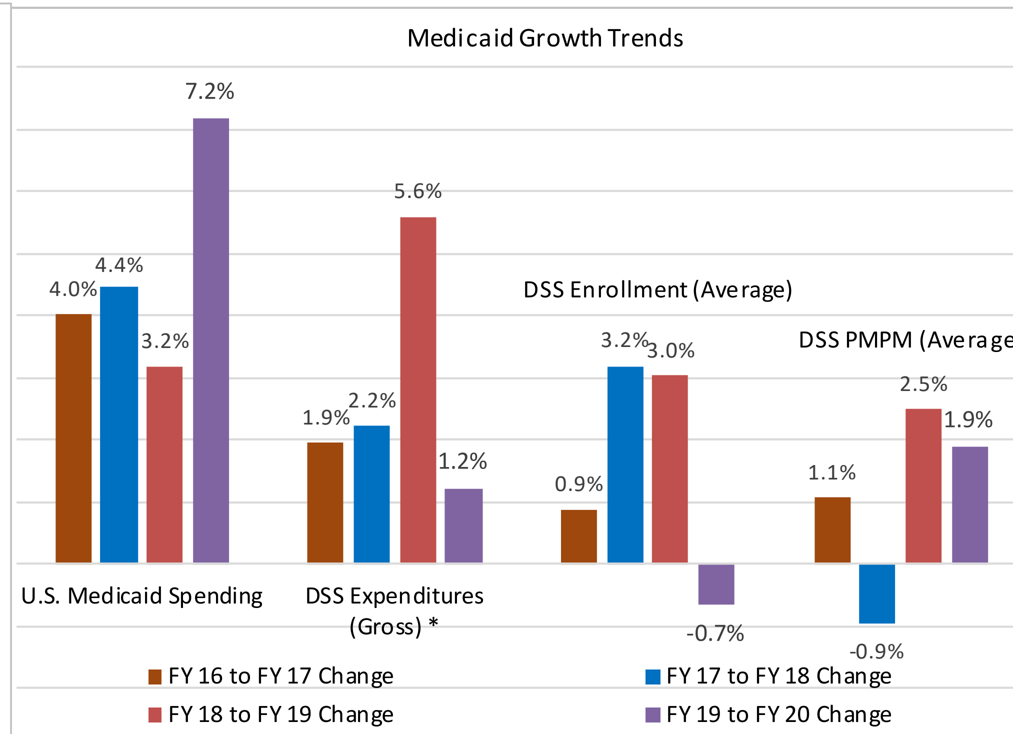
Beginning with the budget adopted in 2013, the Medicaid account in the Department of Social Services was "net appropriated." A total of $2,768.7 million was removed from both budgeted revenues and appropriations to accomplish this transition in FY 2014.

Expenditures have been adjusted to include funds transferred to DSS from DMHAS for behavioral health services which qualify for Medicaid reimbursement. Expenditures exclude hospital supplemental payments given the significant variance in that area over the years.

Note: FY 2020 and FY 2021 General Fund requirements have been reduced due to enhanced federal reimbursement of 6.2% related to the public health emergency. This enhanced reimbursement does not apply to the Medicaid expansion population, which is reimbursed at 90%.

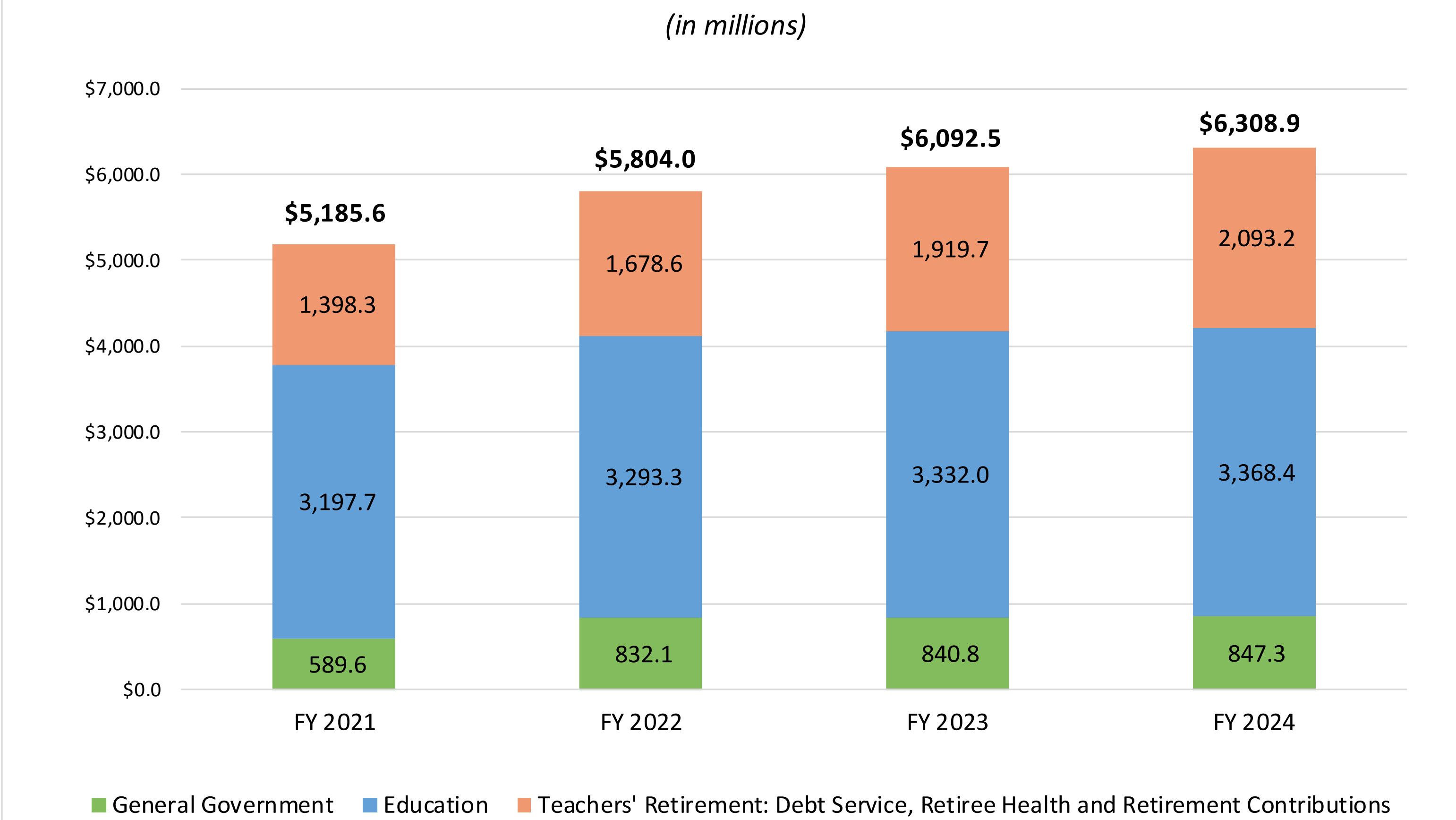
Medicaid – Enrollment and Cost Trends





** Expenditures are net of drug rebates and exclude hospital supplemental payments given the significant variance in that area over the years.*

State Aid to Municipalities



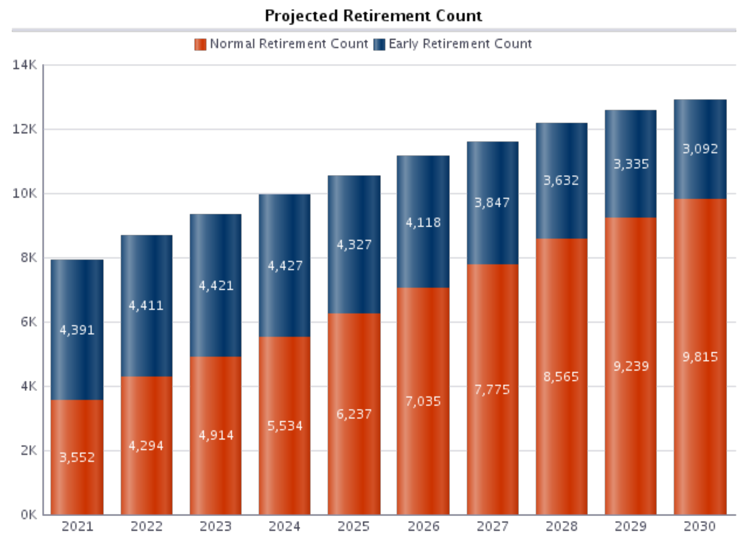
- **Estimates for FY 2022 – FY 2024 are according to formulas and appropriations in current law and do not assume future legislative action. Includes bonded aid**

Executive Branch Staffing
All Appropriated Funds (excludes Higher Education)

- **5,534 employees, or 17.2%, lower than the number at the end of FY 2008**
- **When adjusted for changes in state population, Executive branch agencies have fewer staff than at any time since the 1950s**
- **State employee wages and salaries now account for less than 1/8th of the General Fund budget**
- **A substantial number of employees are expected to retire in 2022**

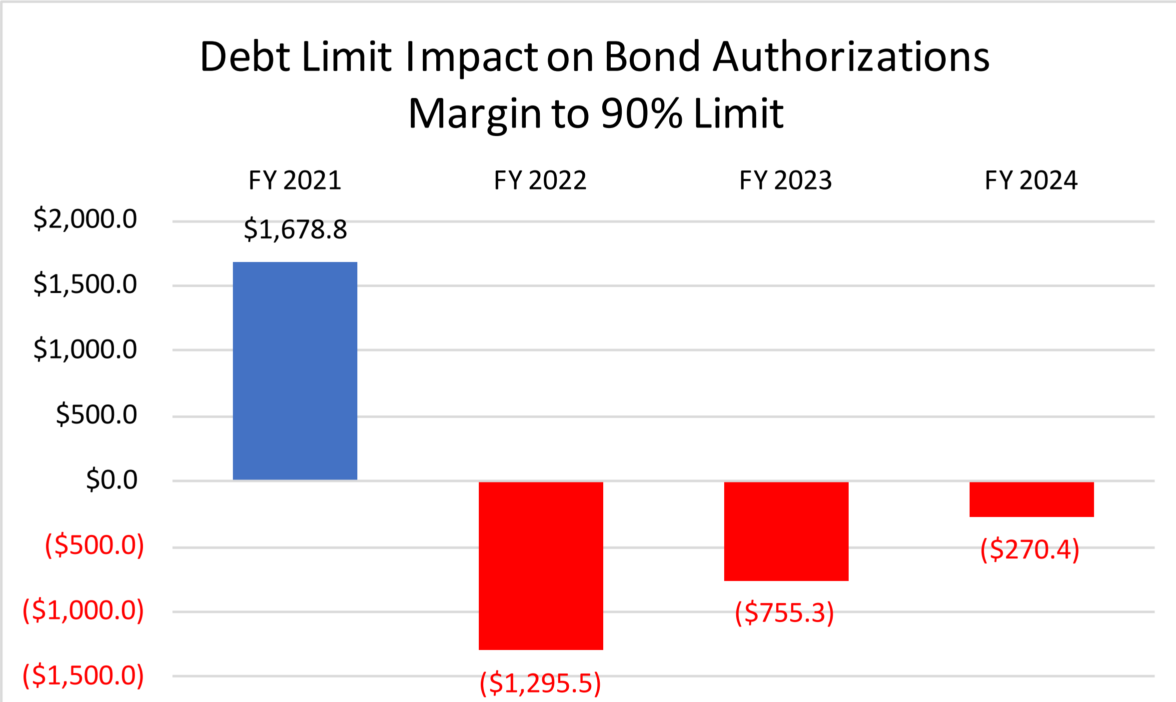
Preparing for Anticipated 2022 Retirement Wave

- Potential for a significant number of retirements among state employees by 2022
- An evaluation is underway to assess the challenges of anticipated retirements to continuity of operations
- The goal of the evaluation is to:
  - Prevent the retirement surge from impacting service provision
  - Lower costs by identifying potential efficiency improvements
  - Create value through improved citizen experience, better distribution and improved outcomes
- The evaluation is intended to provide recommendations to the Governor and General Assembly
- Final report will be issued in February 2021



Bonding

Debt Limit Requires Reducing Authorizations

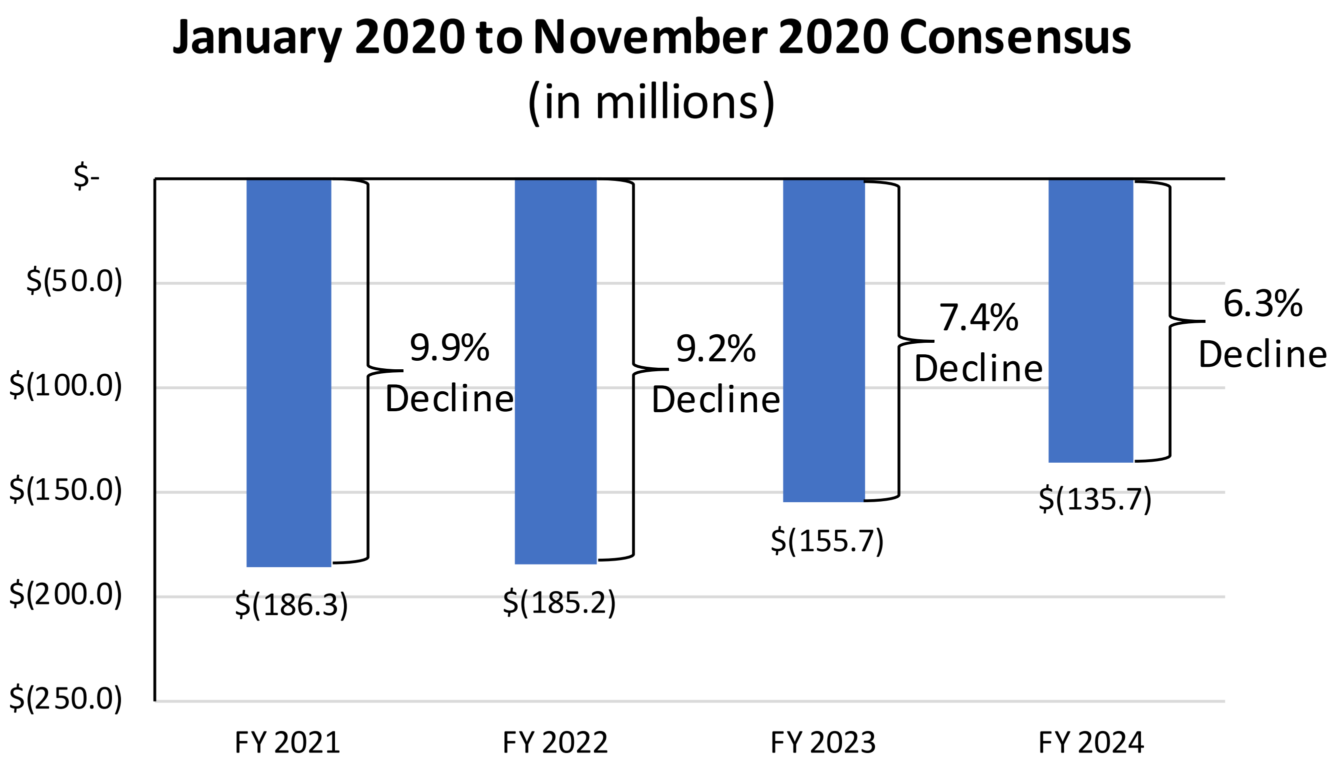


	in millions			
	FY 2021	FY 2022	FY 2023	FY 2024
Bonds Subject to Limit	$23,386.8	$23,541.1	$23,680.4	$23,837.3
100% Bond Limit: 1.6 times Revenue	$27,850.7	$24,717.3	$25,472.3	$26,185.4
Margin to 90% of Bond Limit	$1,678.8	($1,295.5)	($755.3)	($270.4)

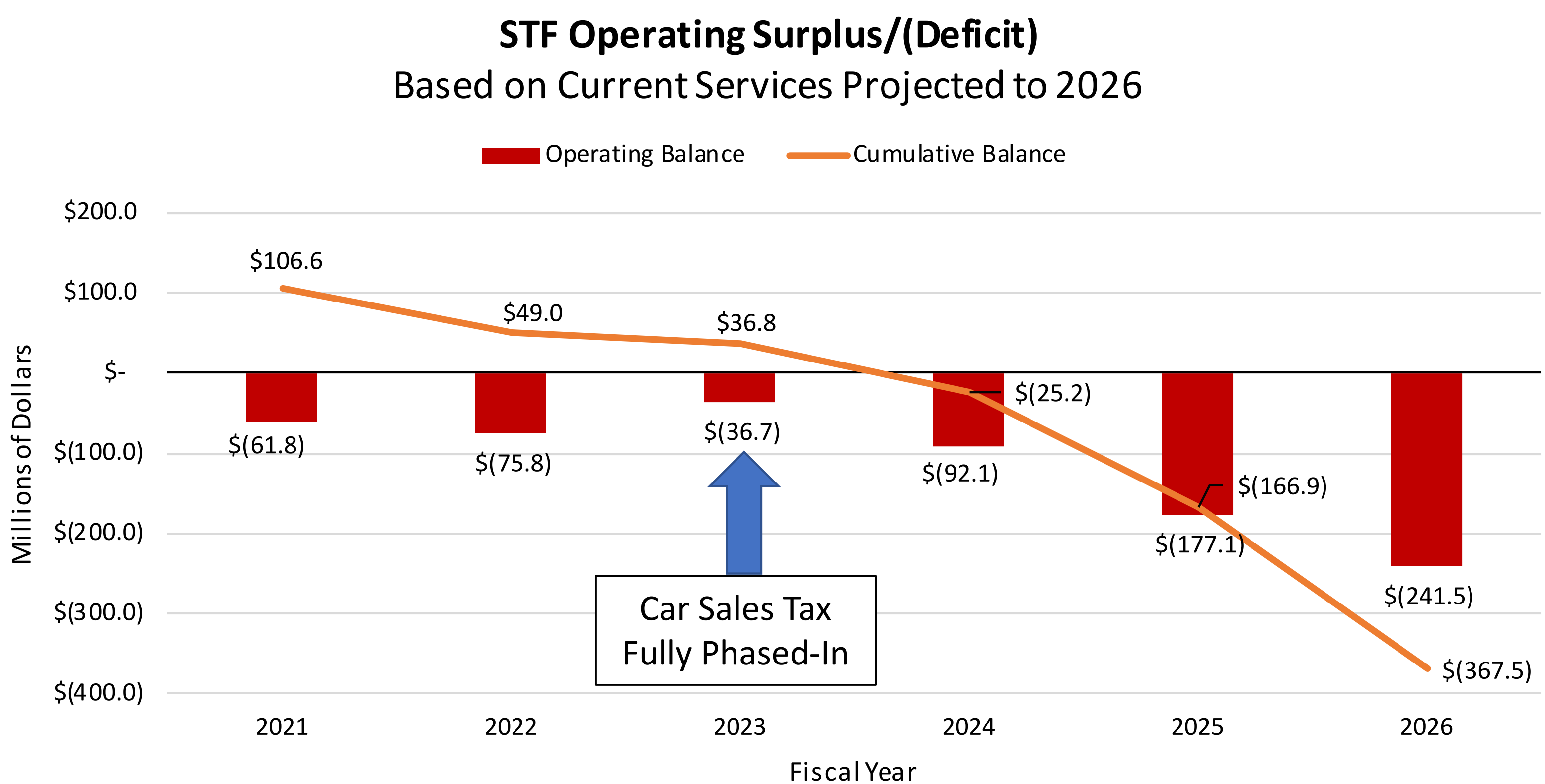
- **Estimated General Fund tax revenues drive the statutory debt limit calculation**
- **The pandemic's influence on revenues will impact the ability to enact new bond authorizations**

Special Transportation Fund

Special Transportation Fund Revenue Forecast



Special Transportation Fund Forecast



Economy

Connecticut Has Benefited From Significant Federal Stimulus

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

	Program/Benefit	Description	Estimated Impact to CT
1.	Coronavirus Relief Fund (CRF)	Through the CARES Act, the CRF provides $150 billion in assistance for State, Local, and Tribal Governments navigating the impact of the COVID-19 outbreak.	$ 1,382.5
2.	Economic Impact Payment [1]	Funds provided to citizens by the U.S. government. Single filers received $1,200 // Married filers received $2,400.	2,717.2
3.	Federal Pandemic Unemployment Compensation (FPUC)	Enhanced Unemployment Benefits - Additional $600/week of unemployment benefits for those whose employment was affected by the pandemic.	3,259.7
4.	Lost Wages Assistance Program (LWA)	Additional $300/week of unemployment benefits for those whose employment was affected by the pandemic. Must be applied for by the state and will last 6 weeks (ends 9/5/2020; payments will be retroactive). Avg. funding of $75M for weeks 1-5 & $70M for week 6 to CT. Preliminary estimate as of 11/20/2020.	445.0
5.	Paycheck Protection Program (PPP) [2]	Loans provided to businesses in which the amount spent to pay rent, utilities, and maintain payroll would be forgiven.	6,718.3
6.	Economic Impact Disaster Loans (EIDL) [3]	Low-interest loans of up to $2 million provided to small businesses (500 employees or less) and nonprofits.	2,081.6
7.	Economic Impact Disaster Loans (EIDL) Advances [4]	Grant program to provide up to $10,000 to small businesses that did not have to be repaid.	166.4
8.	Enhanced Federal Medical Assistance Percentage (FMAP) [5]	CT is receiving an enhanced FMAP for the duration of the COVID-19 pandemic of +6.2% to bring the total matching percentage to 56.2% through 3/31/2021.	555.7
9.	Federal Reserve Asset Purchases (Quantitative Easing)	The Federal Reserve has purchased treasury securities, government-guaranteed mortgage-backed securities, and residential & commercial mortgage-backed securities. In mid-March, the Fed's balance sheet grew from $3.9 trillion to $7.2 trillion as of November 4, 2020.	Unknown
10.	Interest Rate Cuts	From 7/31/2019 to 3/15/2020, Feds cut federal funds interest rate ranges 5 times from 2.25%-2.5% to 0%-0.25%.	Unknown
11.	**Total Benefits**		**$ 17,326.4**

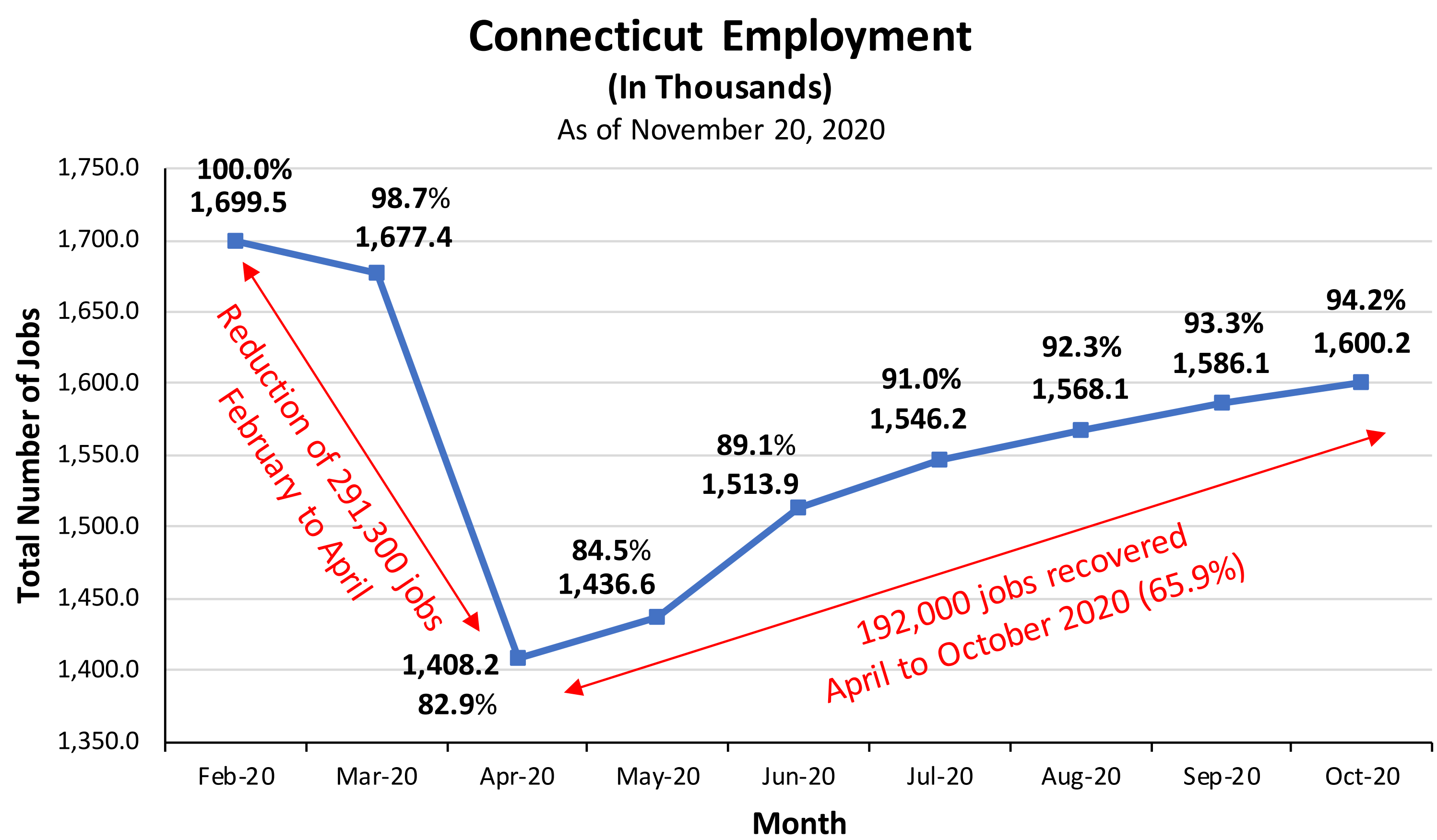
12.	Projected FY 2021 Gross State Product (GSP)	**$ 292,607.2**
13.	Federal stimulus as a percentage of Connecticut's economy	**5.9%**

Federal Stimulus Relative to Gross State Product

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

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

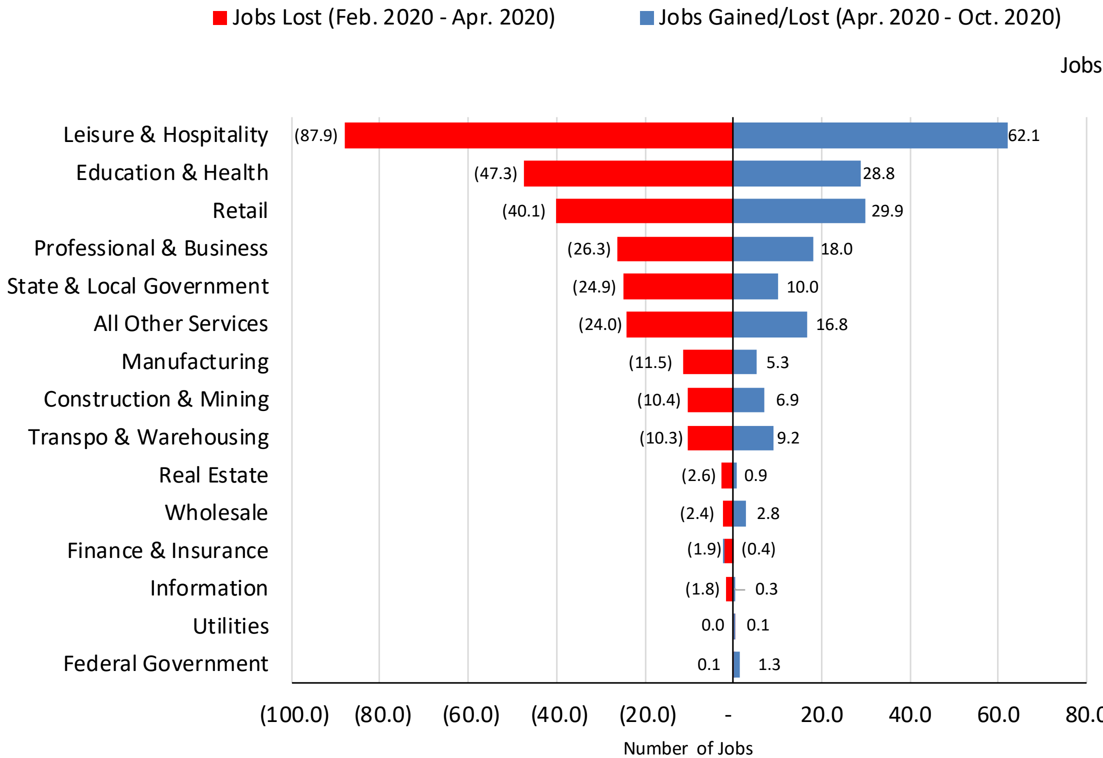
Pandemic Impact on Employment



Source: CT Dept. of Labor – Office of Research

Pandemic Impact on Employment by Sector

Connecticut Employment by Sectors
Current Employment Estimate Comparison
(in thousands)

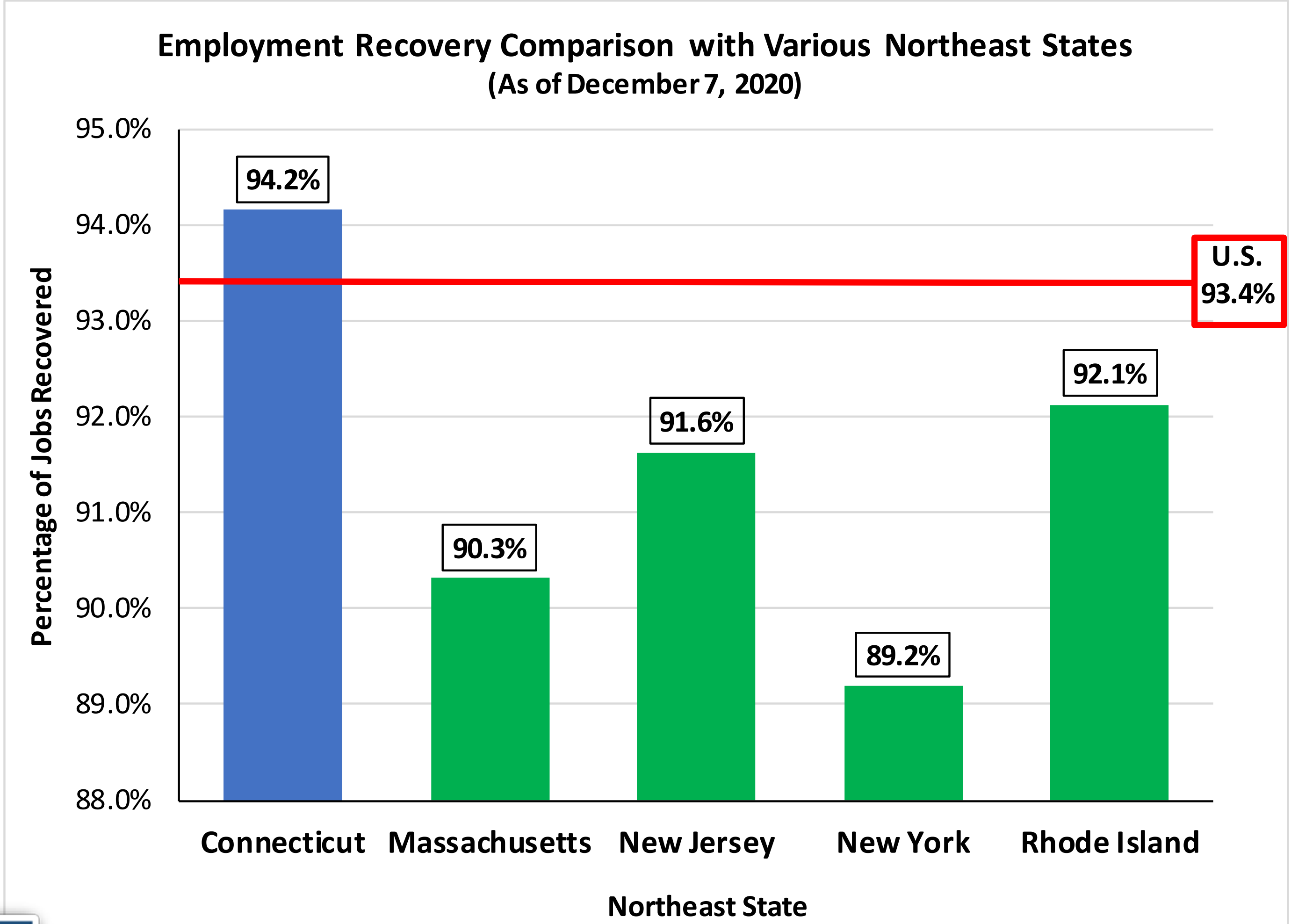


Sector	Jobs Gained/ Lost	Total Jobs Feb. 2020
Leisure & Hospitality	(25.8)	157.9
Education & Health	(18.5)	344.0
Retail	(10.2)	173.5
Professional & Business	(8.3)	222.5
State & Local Government	(14.9)	218.9
All Other Services	(7.2)	64.7
Manufacturing	(6.2)	162.5
Construction & Mining	(3.5)	61.1
Transpo & Warehousing	(1.1)	56.1
Real Estate	(1.7)	21.1
Wholesale	0.4	59.0
Finance & Insurance	(2.3)	103.2
Information	(1.5)	31.5
Utilities	0.1	5.1
Federal Government	1.4	18.4

Source: IHS Markit

Source: IHS Markit

CT Employment Compared to Neighboring States



Source: IHS Markit, CT DOL

Latest Economic Forecast

State of Connecticut

Key Economic Indicator Recoveries

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

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

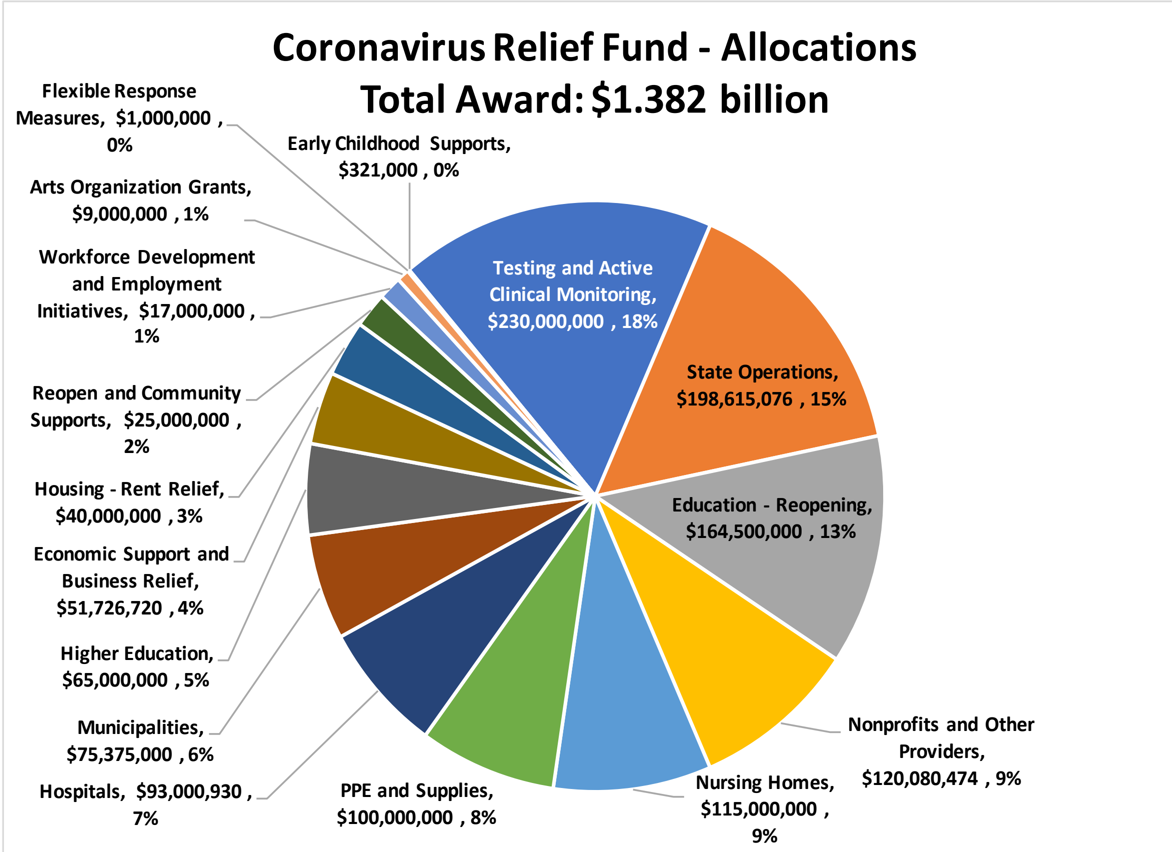
Source: IHS Markit

As of October 26, 2020

When we expect to reach pre-pandemic levels

Miscellaneous Topics

Coronavirus Relief Fund



As of November 18, 2020

$1,305.6 million (94%) has been allocated. The remaining $76.9 million is pending allocation.

Unemployment Insurance Trust Fund Update

1. CT began borrowing from the federal government at the end of August and currently continues to borrow each month in order to pay benefits
   a. Current outstanding amount is $420 million
   b. Interest on the loan does not start to accrue until January 2021
2. The mechanism to pay back the loan principal is through a Federal Unemployment Tax Act (FUTA) credit reduction, which will increase an employer's FUTA tax
   a. The tax is a federal tax on employers covered by a state's UI program. The standard tax rate is 6.0% on the first $7,000 of wages. Typically, CT employers receive a credit of 5.4% when they file their tax return, which results in a net FUTA tax rate of 0.6% (6.0% - 5.4% = 0.6%)
   b. When a state has a federal loan outstanding, the FUTA program has an automatic annual escalation of 0.3% until the loan is paid off

Conclusion

Key Takeaways

- A General Fund operating shortfall of $879.4 million is projected in FY 2021
- While revenues continue to outpace targets, the continuation of this trend is dependent on our success navigating the pandemic and the extent of additional federal relief
- The Rainy Day Fund holds $3 billion and is at the 15% target at the beginning of FY 2021. These reserves must be carefully managed to weather the pandemic-induced economic downturn

Key Takeaways

- “Fixed” costs are rising faster than revenue growth from FY 2021 to FY 2024
  - Revenues: 0.8% year-over-year growth
  - Fixed costs: 6.9% year-over-year growth
  - Spending cap will allow growth of 2.3% to 2.9% per year, but this exceeds the level of revenue growth and must accommodate growth in fixed costs subject to the cap
- The debt limit will impact the ability to propose new bond authorizations
- Future budgetary choices will be impacted by the need to align
  - Revenue growth,
  - Fixed cost growth, and
  - Allowable growth in expenditures subject to spending cap