Fiscal Accountability Report
FY 2024 – FY 2028

Secretary Jeffrey R. Beckham
Office of Policy and Management

December 4, 2023

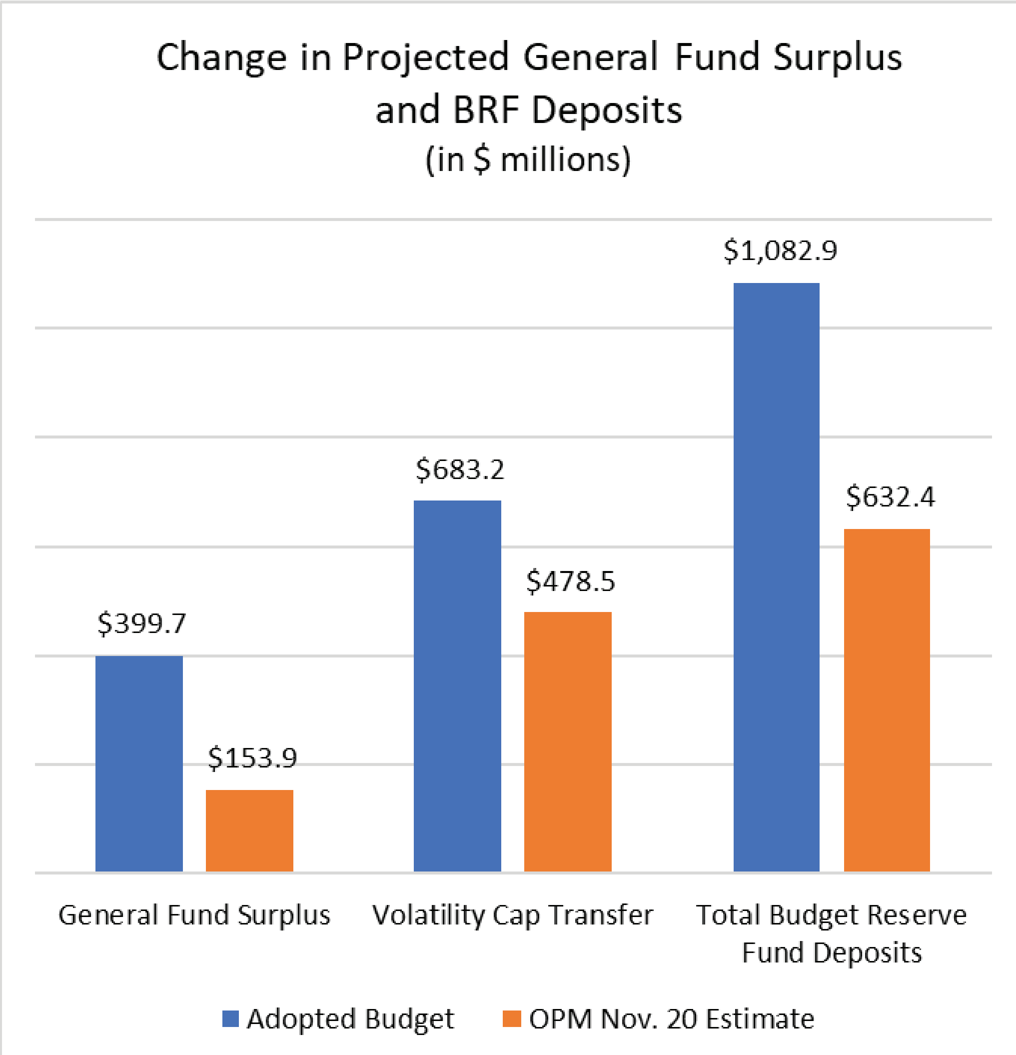
Presentation Overview

- FY 2024 Operating Projections
- Estimates of FY 2025 – FY 2028 Revenue and Fixed Cost Growth
- Long-Term Liabilities and "Fixed Cost" Drivers
- The Economy
- Conclusion and Key Takeaways

Summary of Major Points

- FY 2024
  - General Fund projected surplus of $153.9 million – down $245.8 million from adopted budget
  - Special Transportation Fund projected surplus of $208.4 million
- FY 2025 – FY 2028
  - Growth in Medicaid and Debt Service are the two largest contributors of fixed cost growth
  - However, revenue growth outpaces total fixed cost growth over entire forecast period
  - Nevertheless, growth in non-fixed costs and spending cap compliance will be the most significant budgetary issues in the near term
- Long-Term Liabilities
  - Reduction of $6.7 billion compared to last year's report and $13.8 billion compared to November 2021 report
  - Progress on healthcare and pensions are the major drivers of improvement
- The fiscal guardrails that were unanimously extended last session have played a major role in the improvement in the state's finances
  - The Administration's commitment to addressing long-term liabilities and living within our means is paying dividends
  - Over $7.6 billion in additional pension contributions since 2020 result in annual contribution savings of $650 million per year

FY 2024 – OPM November 20, 2023, Projections

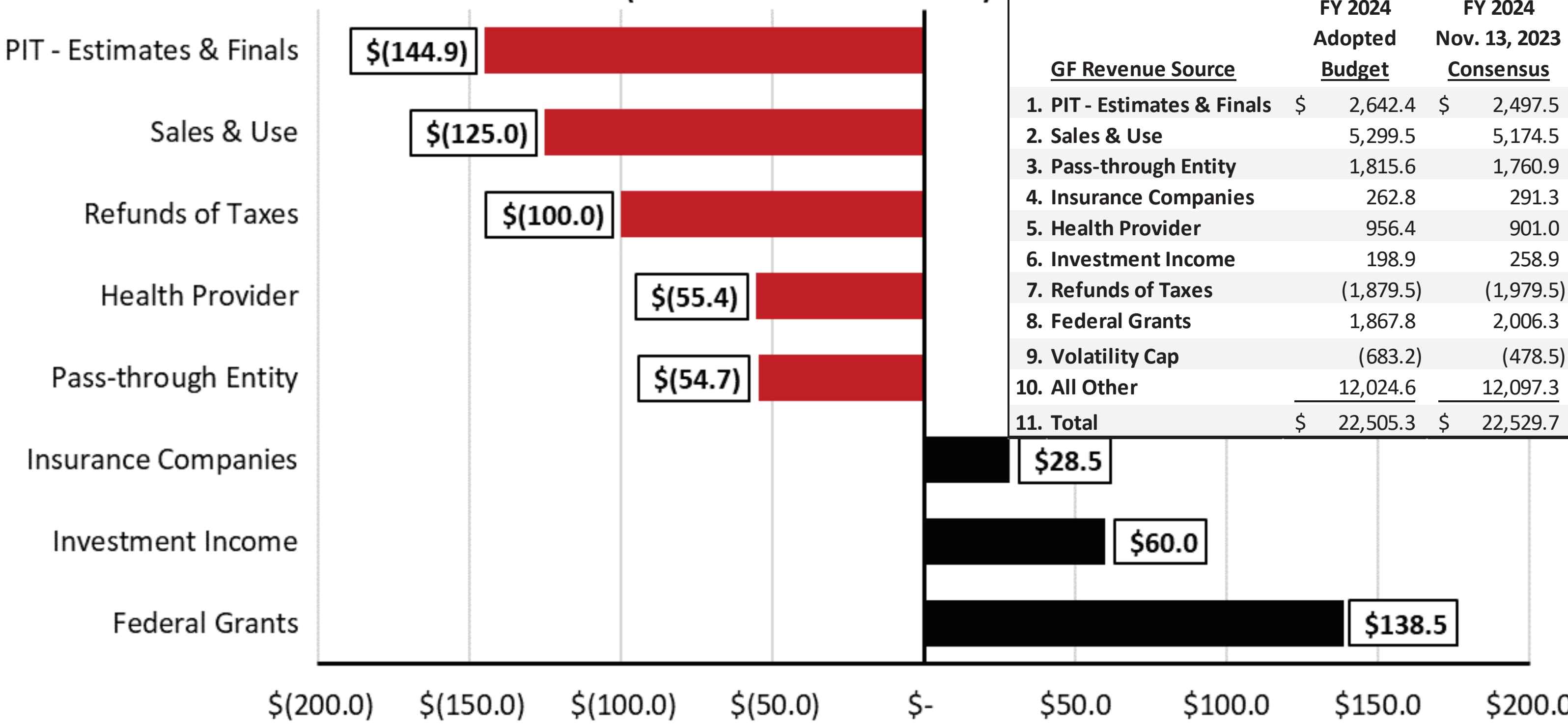


- FY 2024 remains in balance with a projected $153.9 million General Fund surplus, $245.8 million less than when the budget was adopted in June.
- Key components of the reduction in surplus include a projected $120 million shortfall in Medicaid and a $125 million downward revision in estimated sales tax collections.
- The volatility cap shields the General Fund from further weakness in the Estimated and Finals component of the income tax: excluding the volatility cap, total tax collections are projected to be nearly $450 million below the adopted budget.

FY 2024 General Fund Revenue Changes

Major Changes in FY 2024 GF Revenue Forecast from Adopted Budget to Nov. 13, 2023 Consensus

(Dollar Amounts in Millions)



GF Revenue Source		FY 2024 Adopted Budget		FY 2024 Nov. 13, 2023 Consensus		$ Variance from Adopted Budget
1. PIT - Estimates & Finals	$	2,642.4	$	2,497.5		(144.9)
2. Sales & Use		5,299.5		5,174.5		(125.0)
3. Pass-through Entity		1,815.6		1,760.9		(54.7)
4. Insurance Companies		262.8		291.3		28.5
5. Health Provider		956.4		901.0		(55.4)
6. Investment Income		198.9		258.9		60.0
7. Refunds of Taxes		(1,879.5)		(1,979.5)		(100.0)
8. Federal Grants		1,867.8		2,006.3		138.5
9. Volatility Cap		(683.2)		(478.5)		204.7
10. All Other		12,024.6		12,097.3		72.7
11. Total	$	22,505.3	$	22,529.7	$	24.4

Recent Revenue Trends

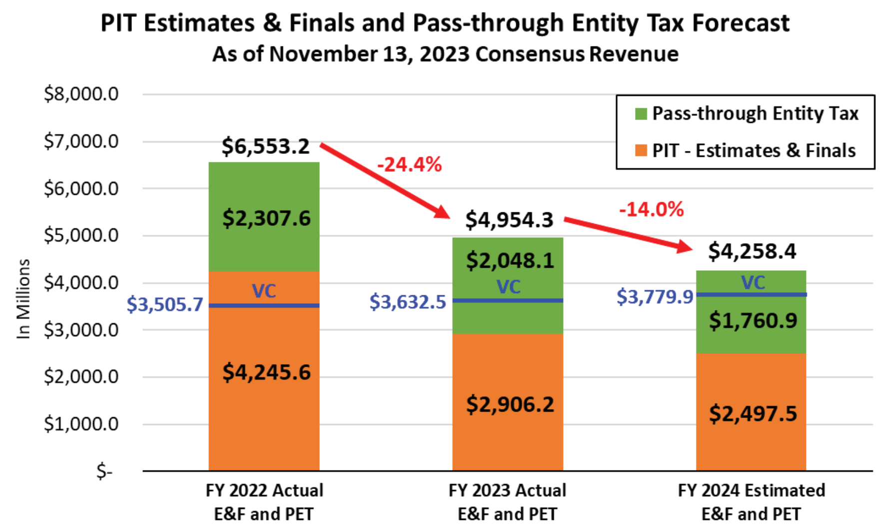
Economic Growth Rates of Major Tax Types

As of November 13, 2023 Consensus Revenue

(Percentage Change Over Prior Year)

General Fund

Taxes	Actual FY 2023	Est. FY 2024	Proj. FY 2025
1. PIT - Withholding	6.2	3.3	4.3
2. PIT - Estimates & Finals	-31.5	-13.4	3.5
3. Sales & Use Tax	5.0	4.5	2.5
4. Corporation Tax	8.1	0.3	4.1
5. Pass-Through Entity	-11.2	-14.0	3.3



Notes: E&F: Personal Income Tax Estimated & Finals Revenue
PET: Pass-through Entity Tax Revenue
VC: Volatility Cap Threshold

- The November consensus forecast adopted a conservative outlook:
  - Still early in the fiscal year
  - High interest rates
  - Uncertain capital gain realizations

- Combined Estimates and Finals and Passthrough Entity Tax collections fell by 24.4% in FY 2023 and are projected to fall an additional 14% this year, reducing the projected volatility cap transfer to the BRF to $478.5 million
- If FY 2024 collections fall by more than 23.7%, no FY 2024 volatility cap transfer would take place and General Fund revenue would be affected

FY 2024 General Fund Expenditure Projections

FY 2024 General Fund Expenditure Projections

Based on OPM 11/20/2023 Estimate

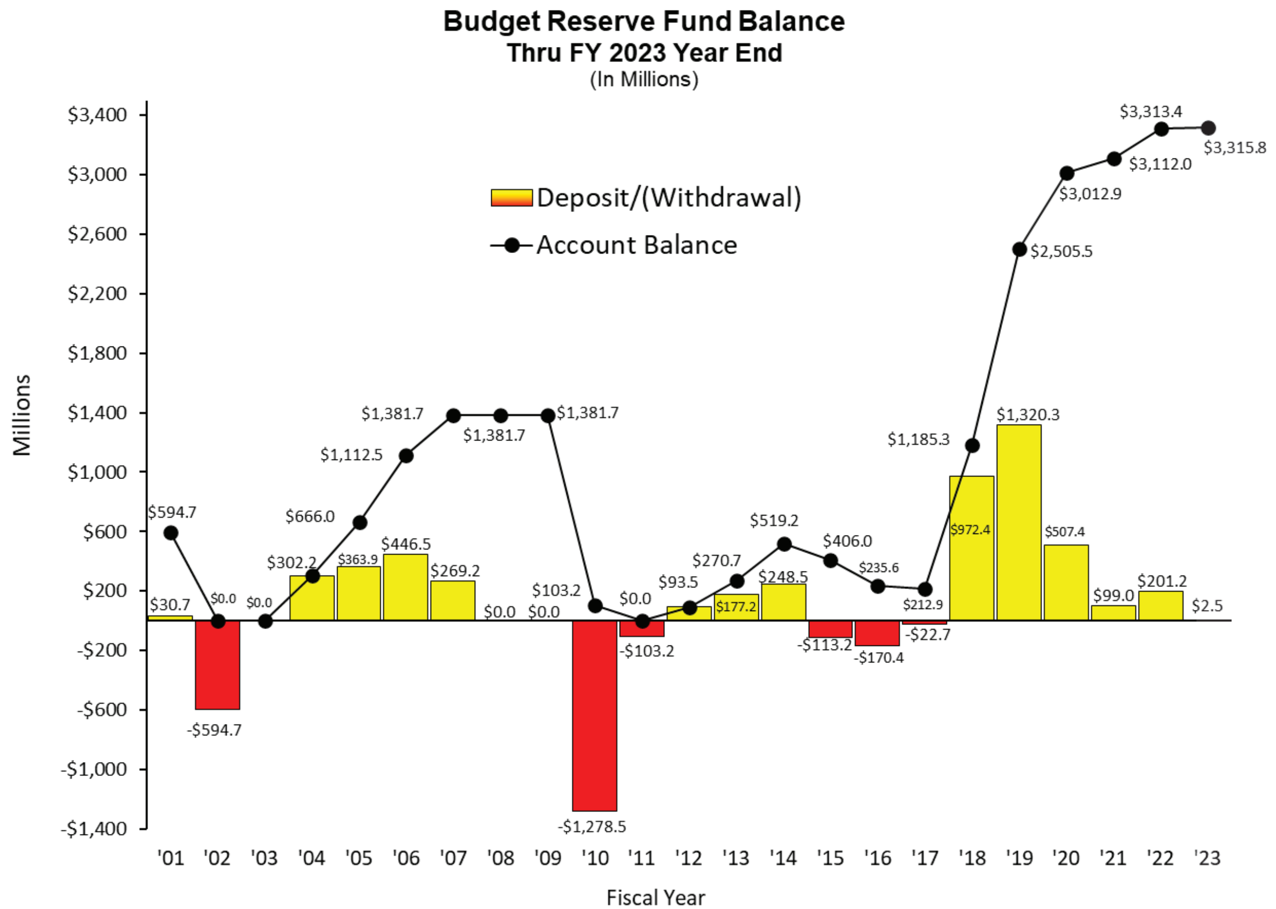
(in millions)

Deficiencies		**Lapses**	
1. Dept of Mental Health and Addiction Svcs - OE and Prof. Svcs.	$ 9.00	6. Holdbacks - Executive	$ 82.31
2. Dept of Social Services - Primarily Medicaid	115.50	7. Holdbacks - Judicial	5.00
3. Dept of Correction - OE and Inmate Medical Svcs	18.00	8. Legislative Management - PS	2.00
4. OSC - Miscellaneous - Adjudicated Claims	36.70	9. Auditors of Public Accounts - PS	0.30
5. OSC - Fringe Benefits - OPEB and Higher Ed. ARP*	91.00	10. Dept of Revenue Services - PS	0.35
		11. Dept of Consumer Protection - OE	0.50
		12. Dept of Agriculture - PS	0.30
		13. Dept of Developmental Services - Community Res., Employment & Day and Behavioral Svcs Prog.	33.60
		14. Office of Higher Education - OE	0.30
		15. Teachers' Retirement Board - Muni. Retiree Health	0.70
		16. DAS - Workers' Compensation Claims	2.00
		17. Remaining Lapses	6.36
Total Projected Deficiencies	**$ 270.20**	**Total Projected / Budgeted Lapses**	**$ 133.72**

* Forecast deficiency in OSC for Higher Education Alternative Retirement Plan is the result of an accounting revision and is offset by an upward $81.5 million revision to estimated revenues

Note: "PS" = Personal Services, "OE" = Other Expenses

Budget Reserve Fund



- Following the closeout of FY 2023, the Rainy Day Fund is at the 15% statutory limit for FY 2024
- Beginning with the closeout of FY 2024, any amounts between 15% and 18% will be split between the BRF and the pension systems until the BRF is at 18%

Year-Over-Year Growth of Fixed Costs vs. Revenue General Fund

GENERAL FUND
(in millions)

	FY 2025 vs. FY 2024	FY 2026 vs. FY 2025	FY 2027 vs. FY 2026	FY 2028 vs. FY 2027
Revenue Growth	$ 559.4	$ 393.4	$ 549.9	$ 638.3
Fixed Cost Growth				
Debt Service	$ (47.6)	$ 36.8	$ 132.8	$ 50.9
State Employee Pensions	(24.2)	15.1	16.9	17.1
Teacher Pensions	46.9	86.9	80.8	6.3
State and Teacher OPEB	86.2	22.3	21.3	22.7
Medicaid	84.6	109.7	139.2	127.8
Other Entitlements	51.0	35.0	23.0	25.4
Total Fixed Cost Growth	$ 196.9	$ 306.0	$ 413.9	$ 250.3
Difference	$ 362.5	$ 87.4	$ 136.0	$ 388.0

- Revenue growth exceeds fixed cost growth in each year
- Growth in Medicaid is the largest source of year over year fixed cost growth
- Pension costs are not anticipated to be a major source of ongoing budget pressure
  - SERS is expected to be relatively flat, while TRS is expected to experience several more years of modest growth until level dollar amortization is fully phased in in FY 2027
- **Growth in costs not categorized as "fixed" are anticipated to present significant budgetary challenges over the next few years**

SERS = State Employees Retirement System
TRS = Teachers' Retirement System

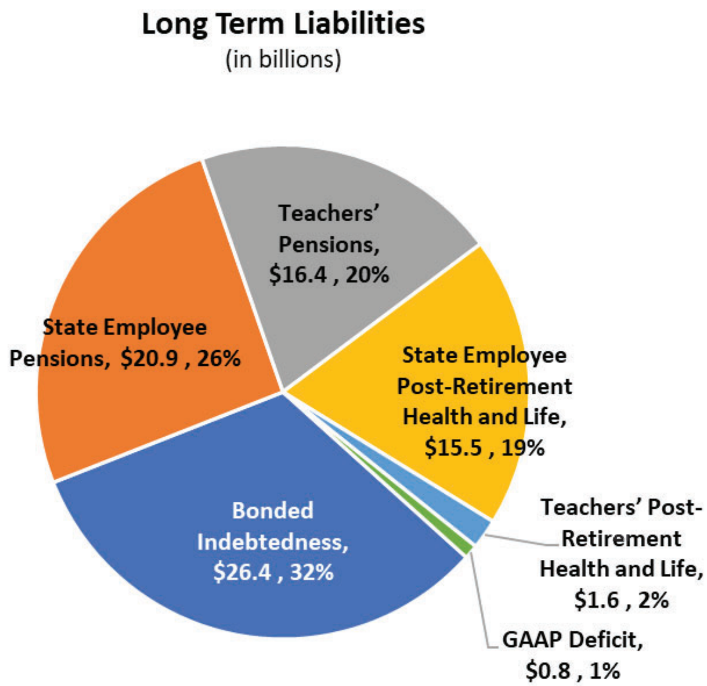
Year-Over-Year Growth of Fixed Costs vs. Revenue Special Transportation Fund

SPECIAL TRANSPORTATION FUND
(in millions)

	FY 2025 vs. FY 2024	FY 2026 vs. FY 2025	FY 2027 vs. FY 2026	FY 2028 vs. FY 2027
Revenue Growth	$ 24.7	$ 11.1	$ 20.1	$ 26.7
Fixed Cost Growth				
Debt Service	$ 71.6	$ 60.1	$ 85.0	$ 76.3
State Employee Pensions	(8.7)	1.0	1.1	1.1
Total Fixed Cost Growth	$ 63.0	$ 61.1	$ 86.2	$ 77.4
Difference	$ (38.3)	$ (50.0)	$ (66.1)	$ (50.7)

- "Fixed" cost growth is driven by growth in debt service costs, while state employee pension costs are anticipated to remain flat
- **Unlike the General Fund, Special Transportation Fund revenue growth will not keep up with rising debt service costs**
- Without additional revenue or adjustments in transportation investments, the expected increase in costs will outpace the growth in revenues in the long term, impacting fund solvency

Long-Term Liabilities



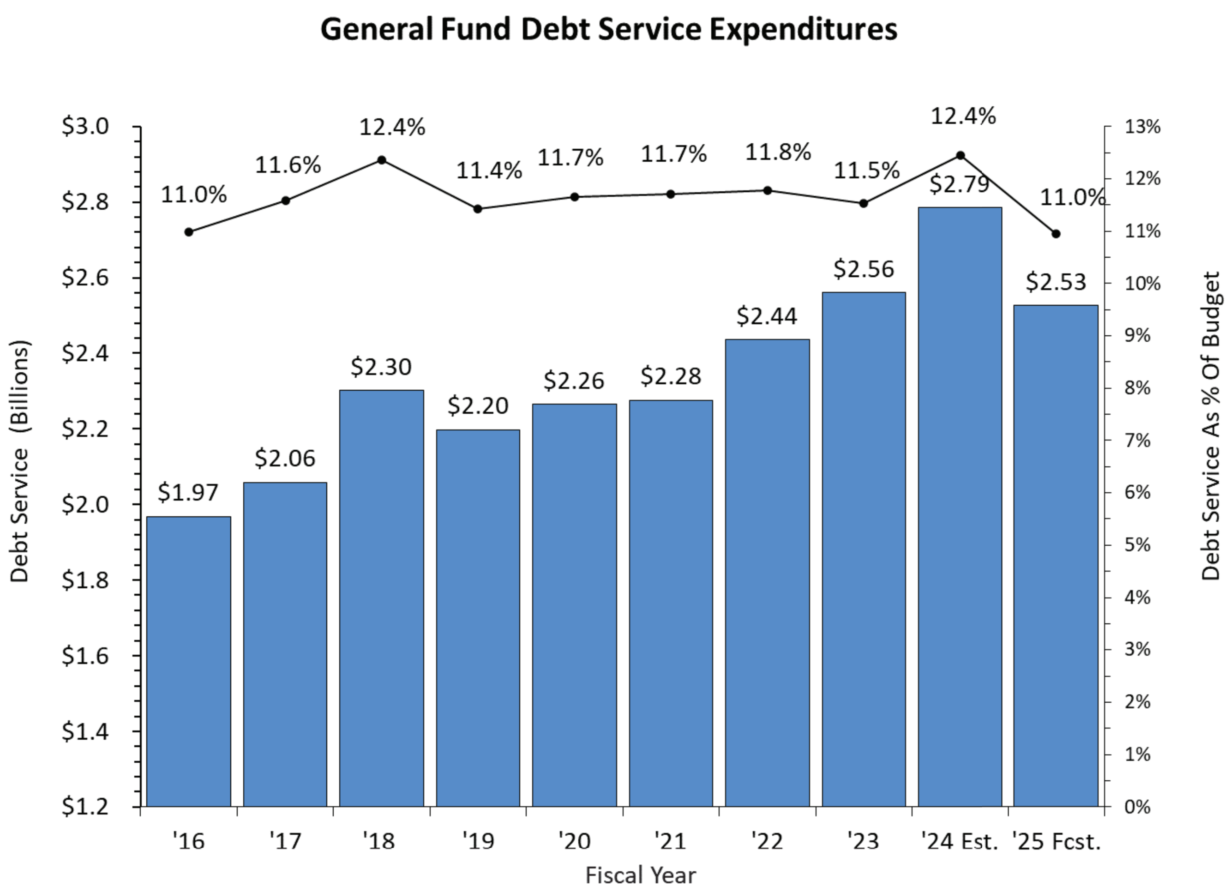
- Long-term liabilities total $81.6 billion
- Down $6.7 billion from last year's FAR and $13.8 billion from the 2022 report
- Over just two years, that represents a nominal decrease of 14% (23% in real dollars)

$ in billions

Long-Term Liability	Nov 2021 FAR	Nov 2022 FAR	Nov 2023 FAR
Bonded Indebtedness	$ 27.2	$ 27.0	$ 26.4
State Employee Pensions	22.7	22.4	20.9
Teachers' Pensions	18.1	17.1	16.4
State Employee Post-Retirement Health and Life	23.5	19.5	15.5
Teachers' Post-Retirement Health and Life	2.8	1.6	1.6
GAAP Deficit	1.1	0.7	0.8
Total	**$ 95.4**	**$ 88.3**	**$ 81.6**

GAAP = Generally Accepted Accounting Principles

General Fund Debt Service



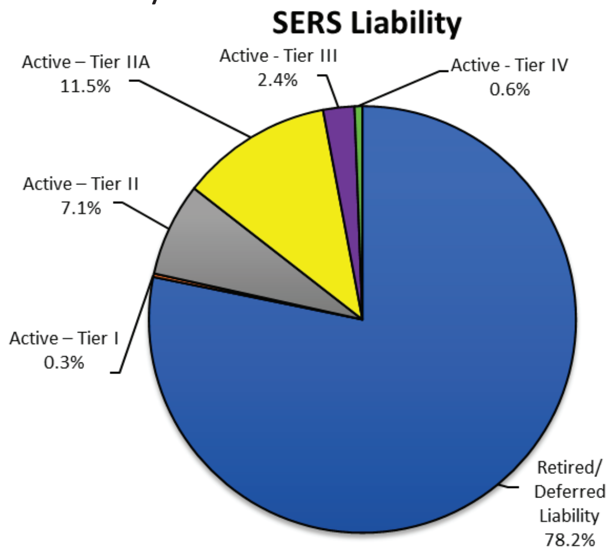
- Debt service is expected to remain relatively flat as a proportion of the budget
- FY 2024 includes the remaining payment of the GAAP Conversion Bonds of $211.7 million
- Continued prudence on debt issuances will help to keep debt service at manageable levels over the next several years

Retirement System Liabilities

State Employees Retirement System

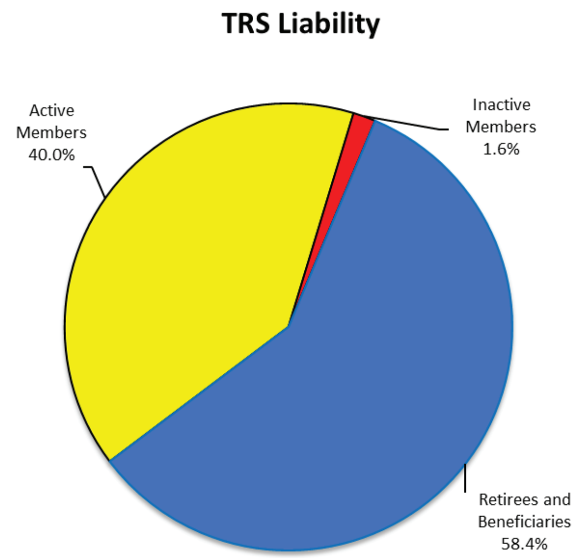
(per 6/30/22 valuation)

- $40.6 billion total liability
- $20.9 billion unfunded liability
- 78.2% of the liability is related to inactive or already-retired employees
- 89.1% of the FY 2023 actuarially determined employer contribution (ADEC) is for the unfunded actuarial accrued liability



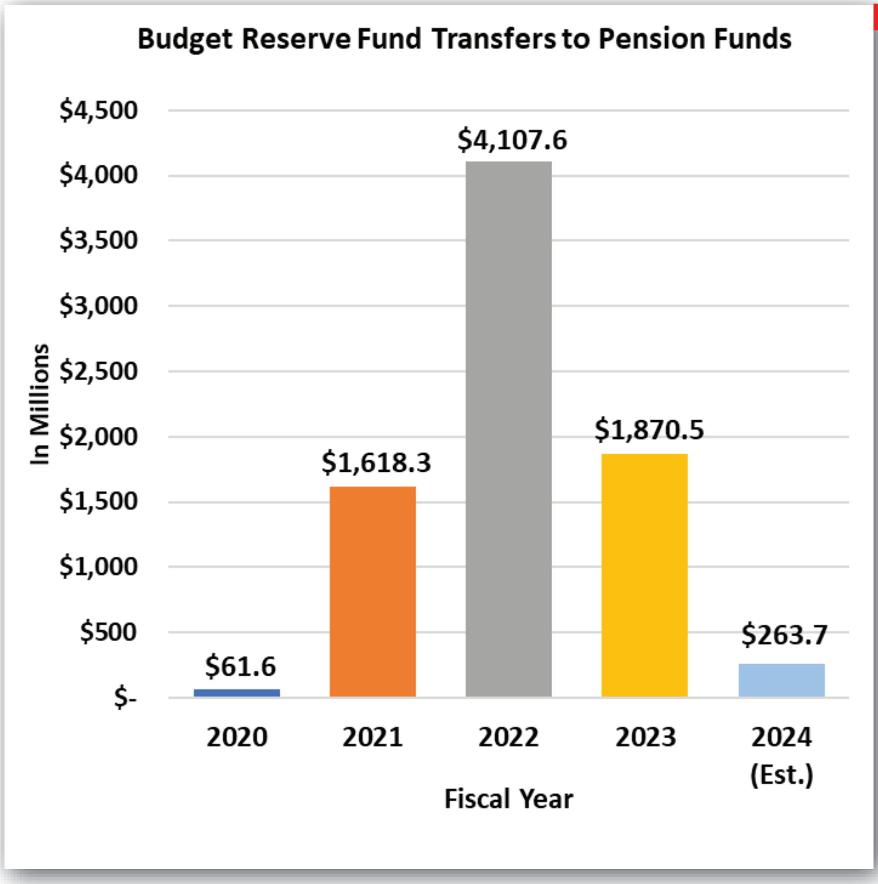
Teachers' Retirement System

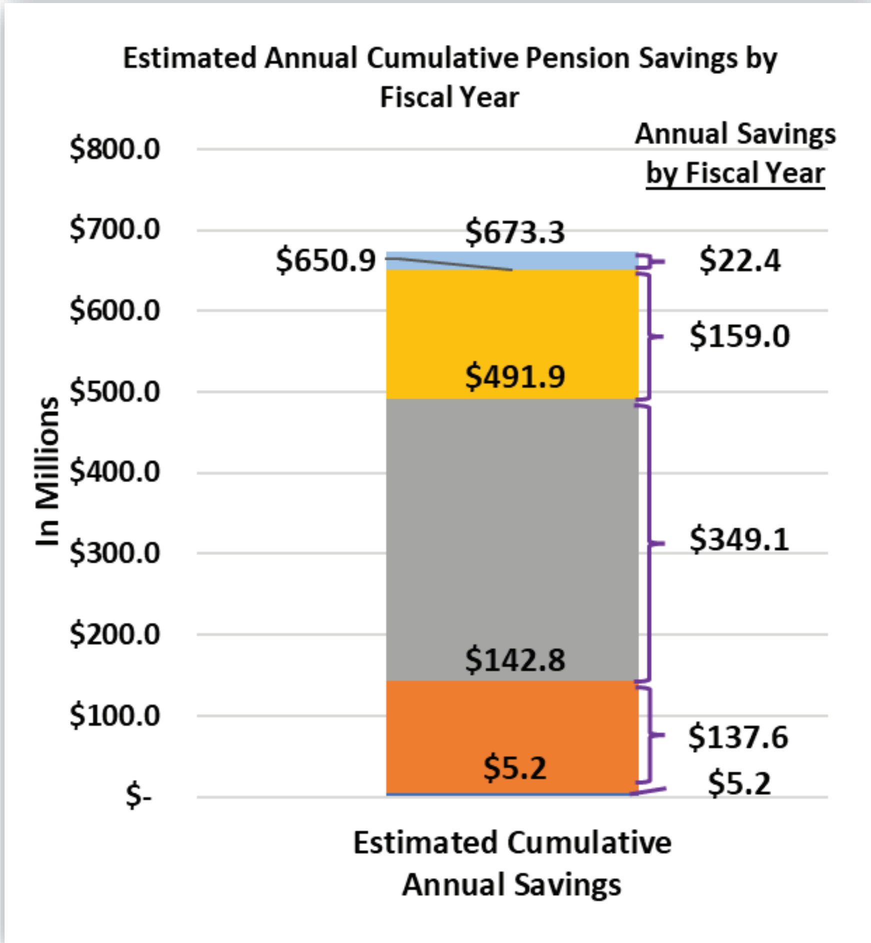
(per 6/30/23 valuation)



- $40.9 billion total liability
- $16.4 billion unfunded liability
- 60.0% of the liability is related to inactive or already-retired employees
- 82.2% of the FY 2025 actuarially determined employer contribution (ADEC) is for the unfunded actuarial accrued liability

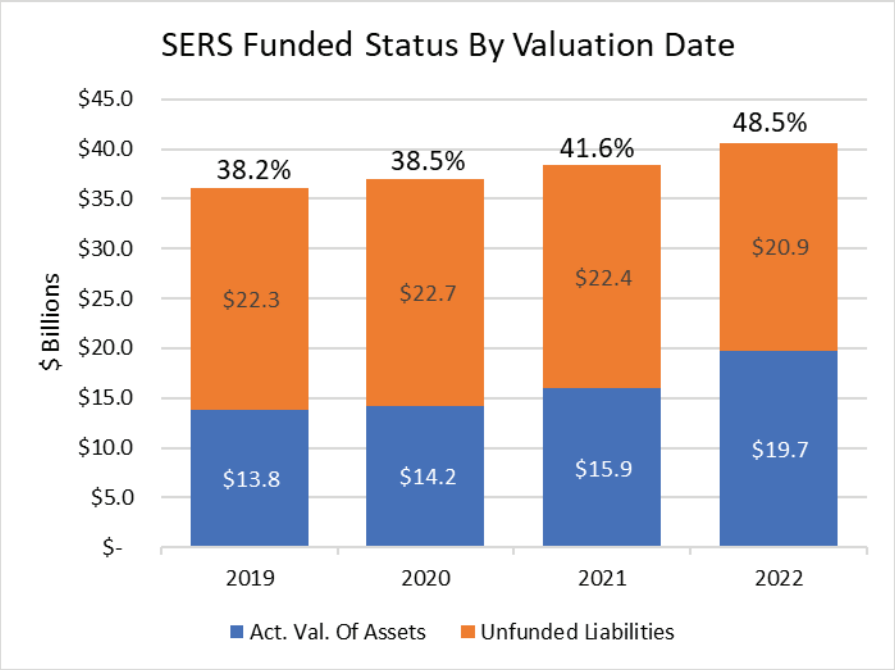
Additional Pension Contributions (Above ADEC)

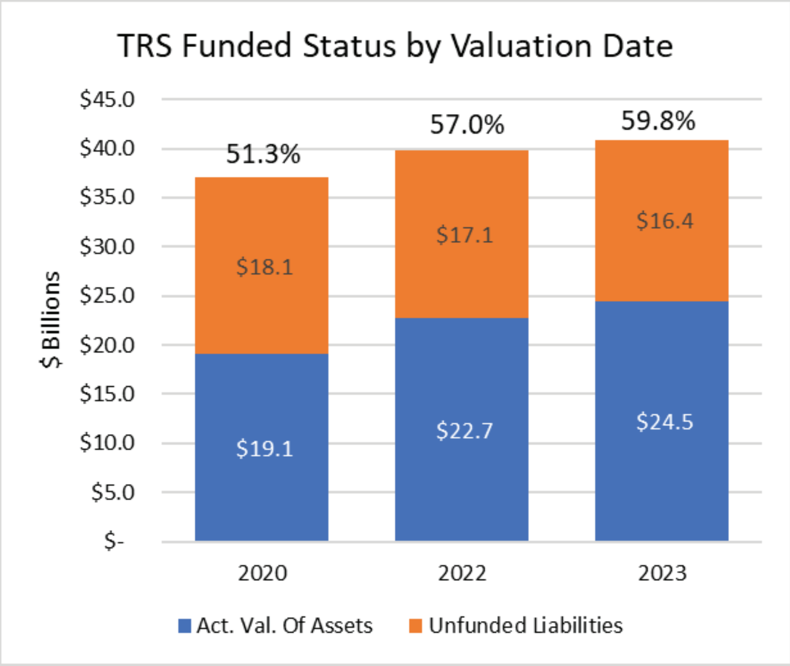




- More than $7.6 billion has been deposited in SERS and TRS over the past 4 years as a result of BRF reaching the 15% statutory limit, reducing the state's required contributions by $650.9 million annually for 25 years
- The anticipated transfer amount in FY 2024 is due to the 50/50 split of surplus and volatility cap transfer when the BRF is between 15% and 18%.

Retirement System Funding Progress

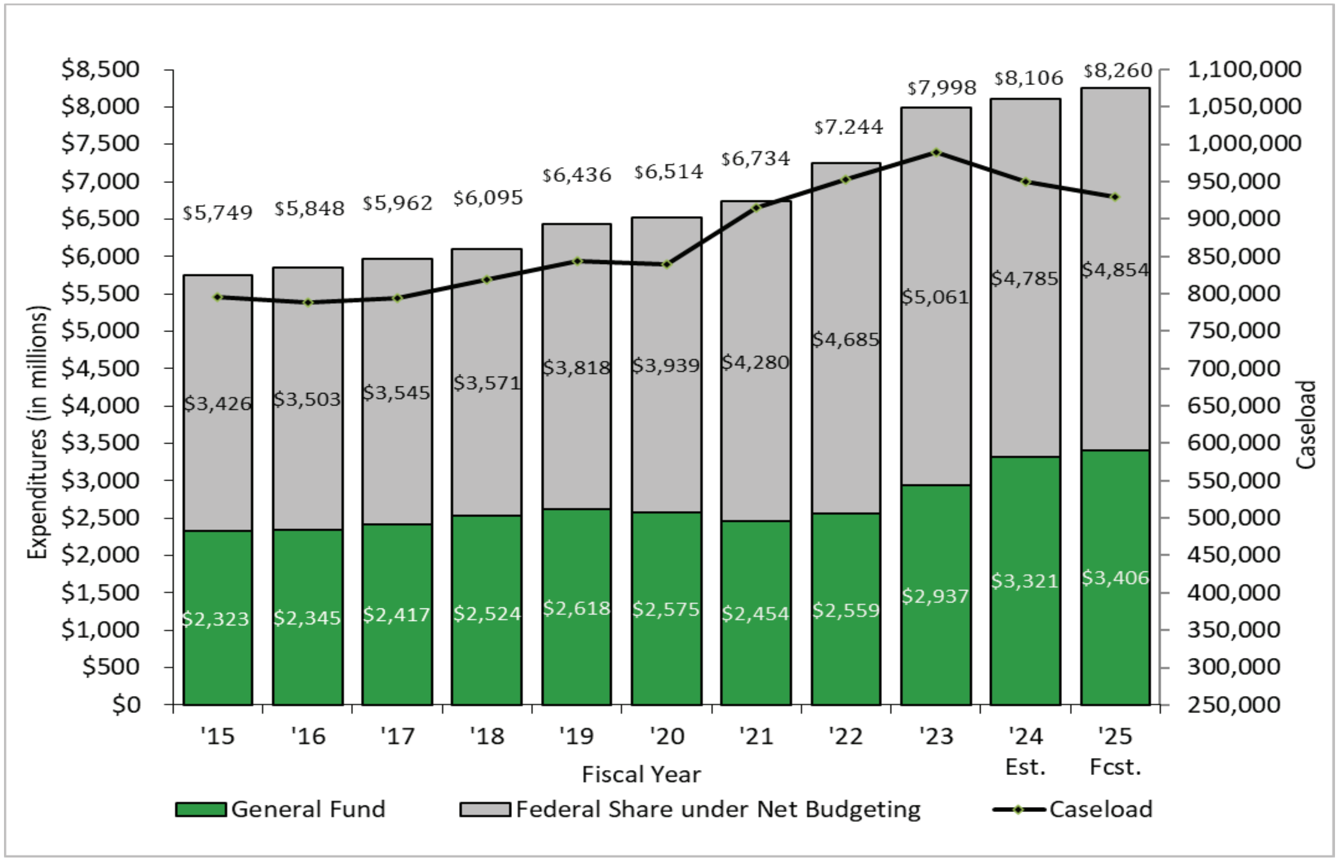




- **Funding status of both plans has improved significantly since additional contributions began – up 10.3% in SERS and 8.5% in TRS**
- Across both plans, actuarial value of assets has grown by nearly $11 billion since 2020 valuations

CONNECTICUT OFFICE OF POLICY AND MANAGEMENT

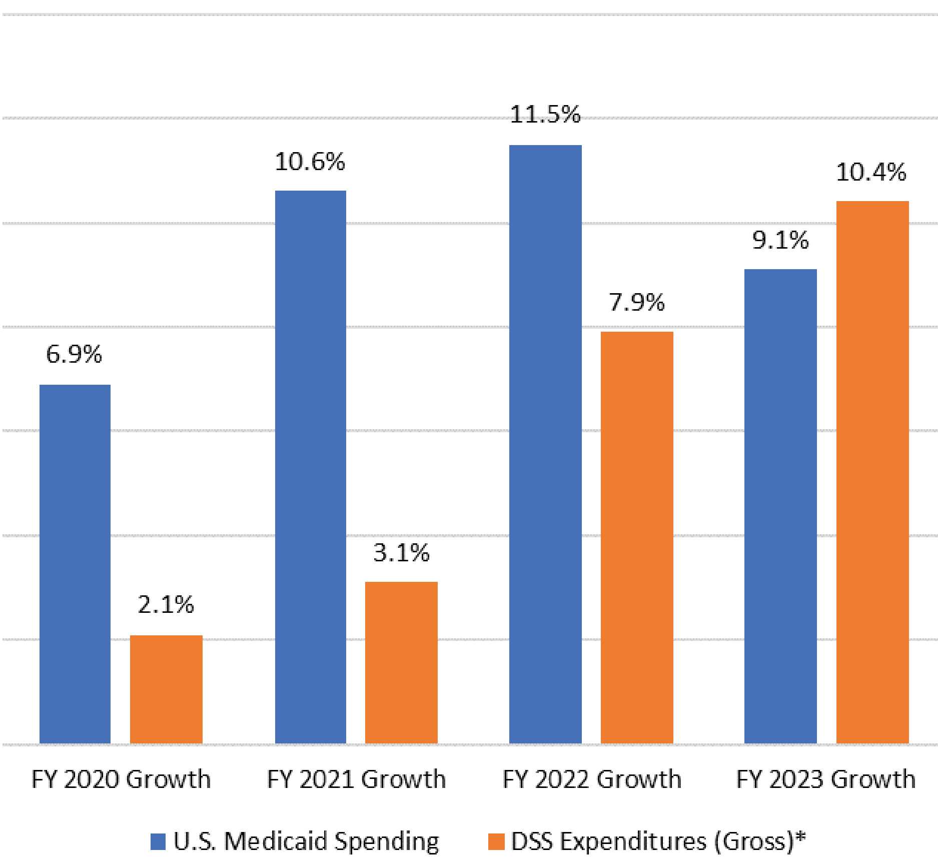
Medicaid – Expenditures and Caseload



- Expenditures above 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.
- Caseload figures exclude the limited benefit COVID-19 testing group.

- Medicaid is an $8 billion program serving approximately 1 million CT residents and is the largest component of General Fund fixed cost growth
- Beginning in calendar year 2020, General Fund requirements were reduced due to enhanced federal reimbursement of 6.2% related to the public health emergency; this enhanced reimbursement is being phased out over the three quarters ending December 31, 2023

Medicaid Cost Trends

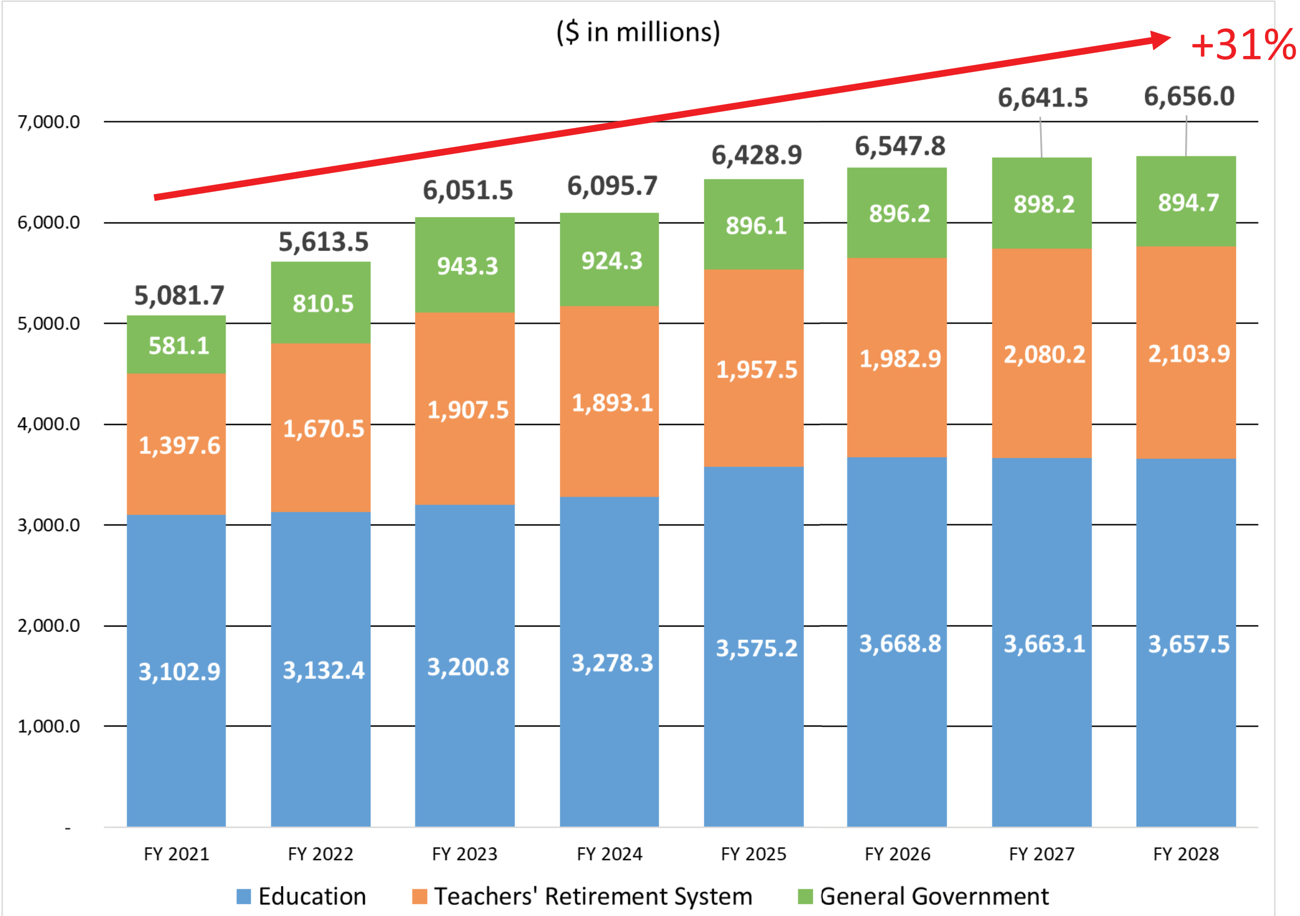


* *Expenditures are net of drug rebates and exclude hospital supplemental payments given the significant variance in that area over the years.*

- FY 2023 cost growth in DSS' Medicaid account exceeded the national average for the first time in several years
- Costs are projected to exceed the amounts assumed in the enacted budget for both years of the biennium

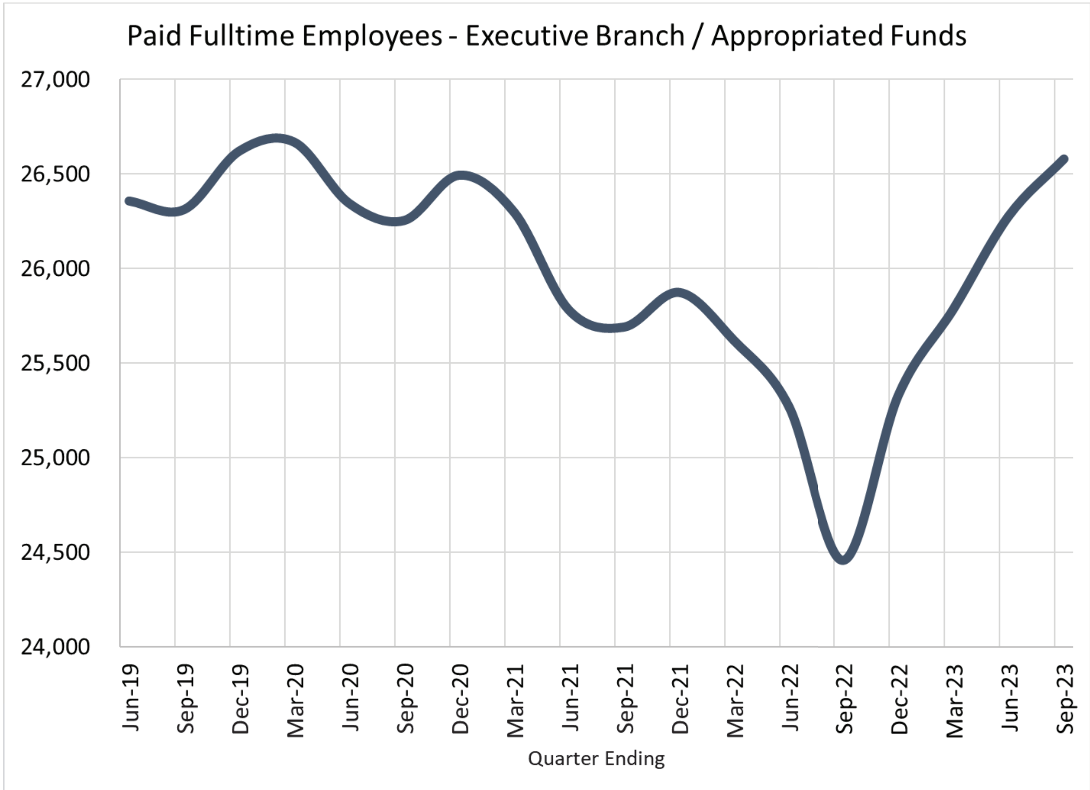
DSS = Dept. of Social Services

State Aid to Municipalities



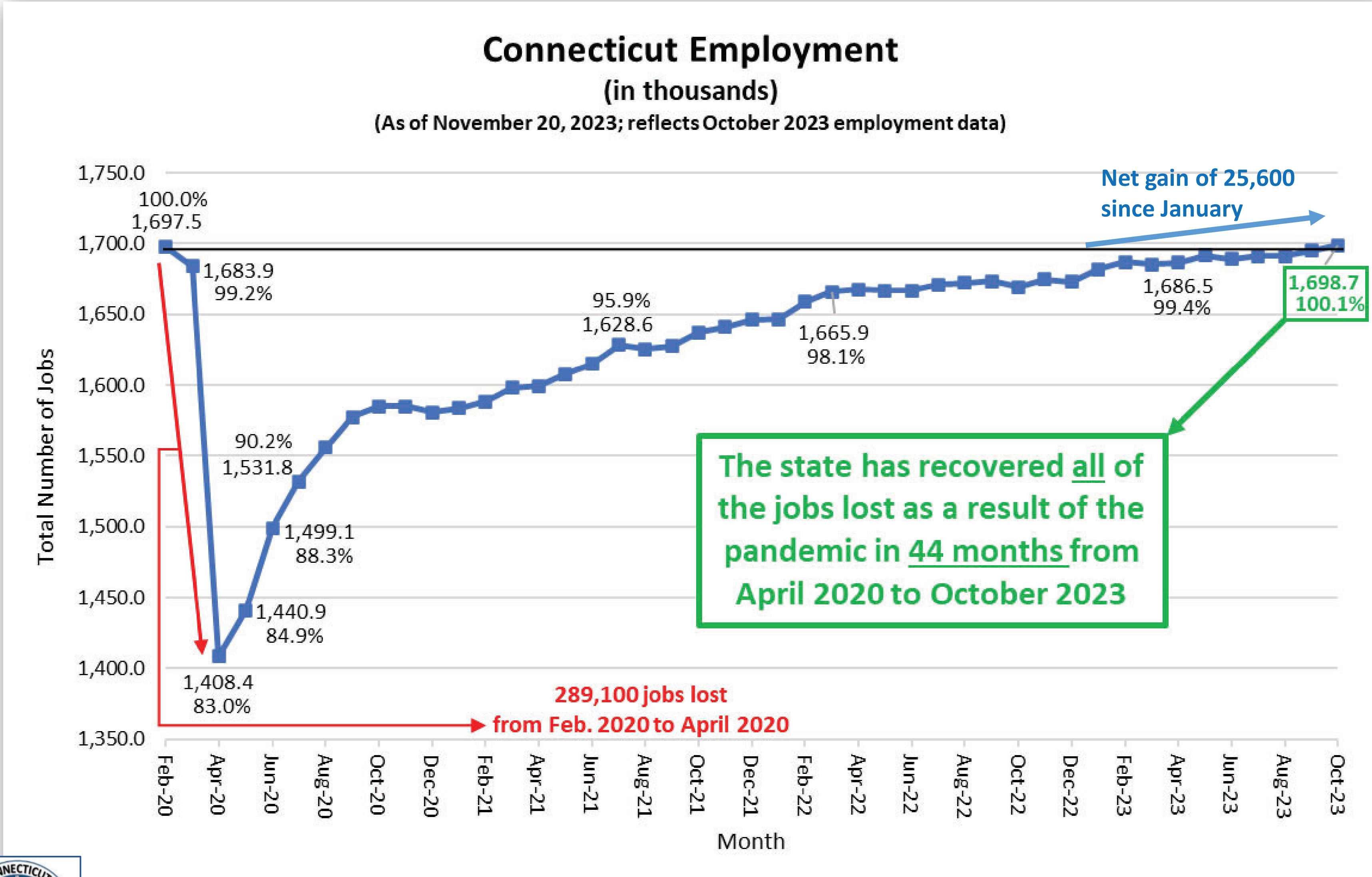
- Total state aid to municipalities is projected to grow from FY 2024 to FY 2028 by a cumulative total of nearly $400 million
- Total payments increased by 20% from FY 2021 to FY 2024, including a 62% increase in General Government programs driven by the expansion of PILOT and Motor Vehicle Tax Reimbursements

State Staffing



- Executive Branch staffing has, in aggregate, returned to pre-pandemic levels.
- Adopted FY 2025 budget calls for $129 million in bottom-line savings in Personal Services expenditures: a $49 million increase over FY 2024
- Wage provisions are unsettled for most bargaining unit employees beginning at the start of FY 2025

Pandemic Impact & Recovery on CT Employment



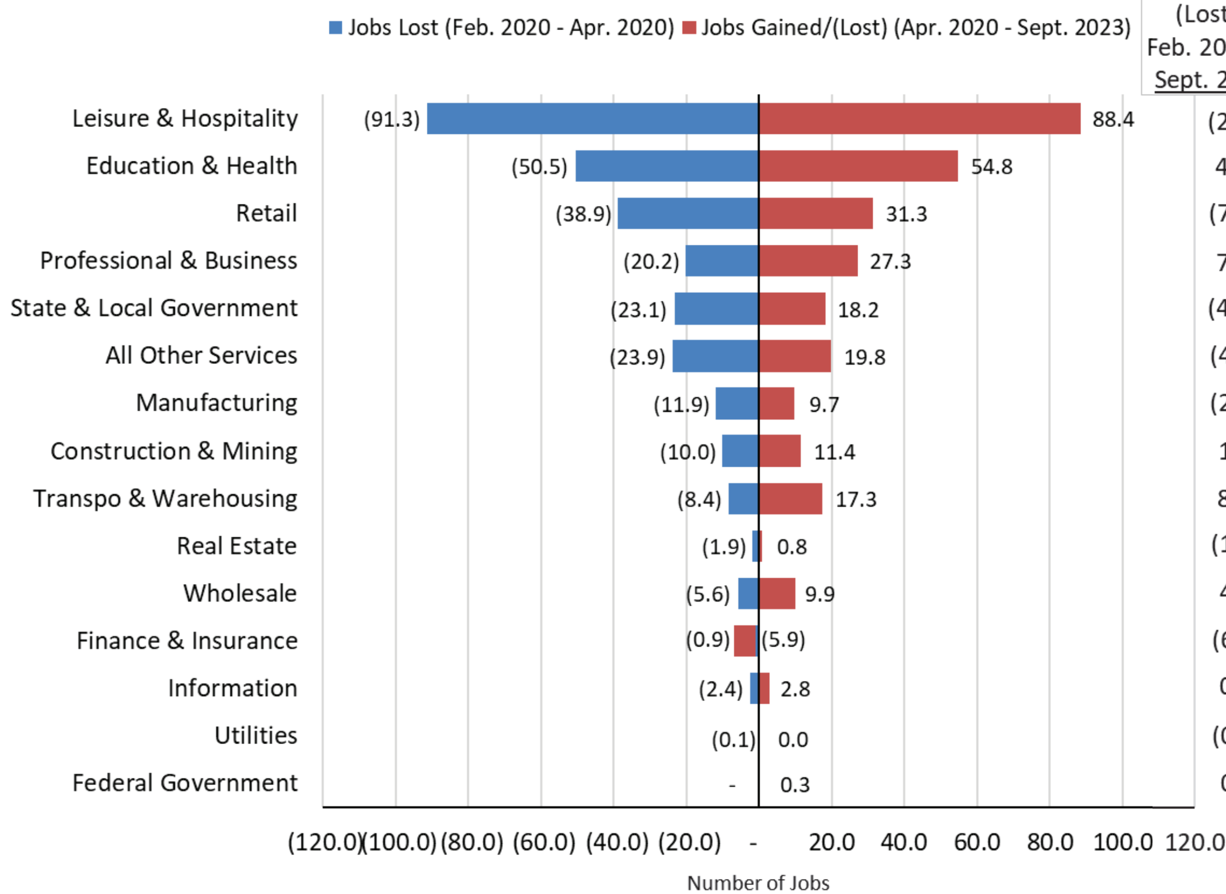
Connecticut Employment Recovery By Sector

Connecticut Employment by Sectors

Current Employment Estimate Comparison

As of November 13, 2023; Reflects September 2023 Employment Data

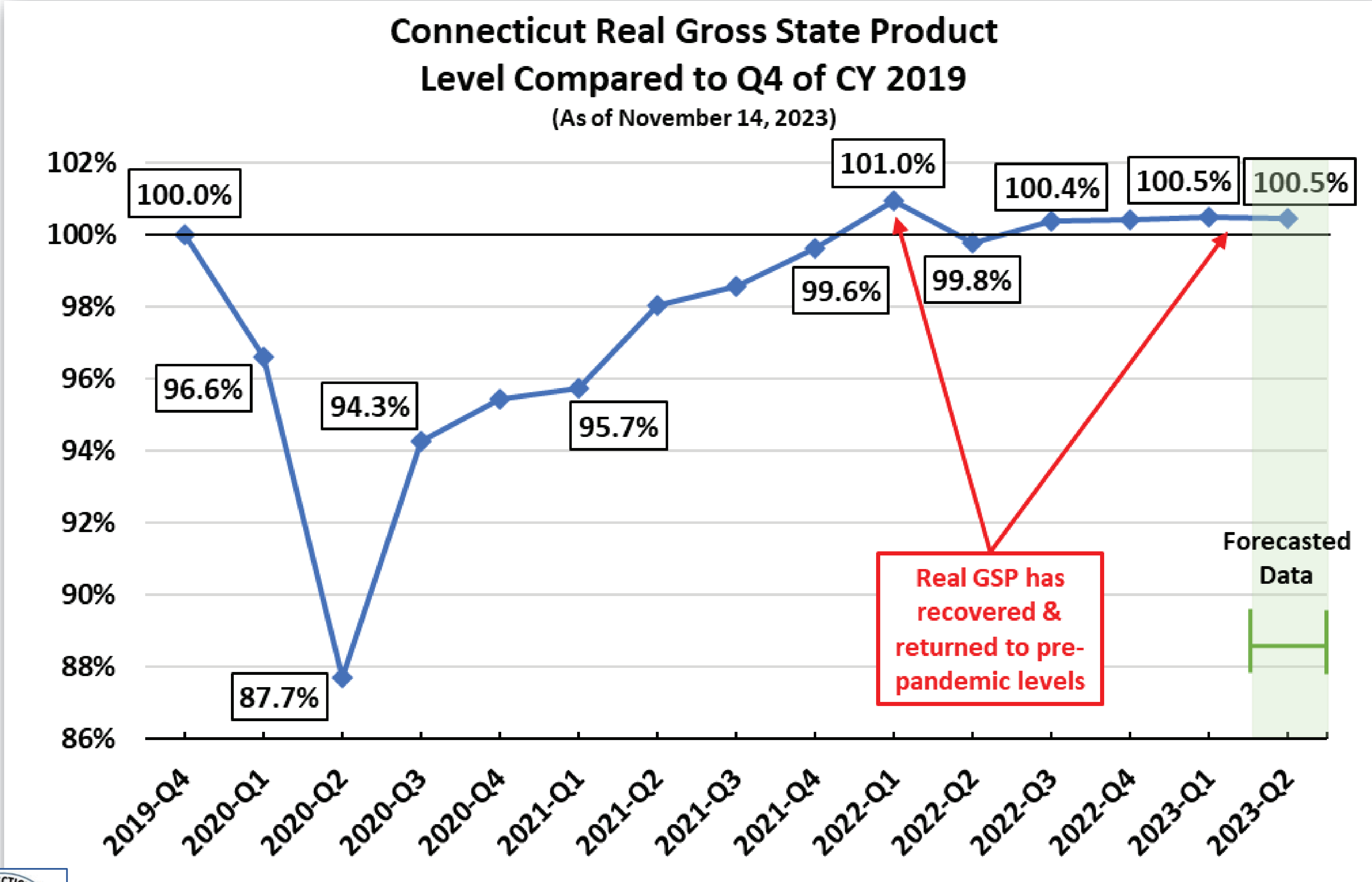
(in thousands)



Sector	Jobs Gained/(Lost) - Feb. 2020 to Sept. 2023	Total Jobs Feb. 2020	Current Job Levels as a % of Feb. 2020 Peak
Leisure & Hospitality	(2.9)	158.8	98.2%
Education & Health	4.3	351.7	101.2%
Retail	(7.6)	173.7	95.6%
Professional & Business	7.1	216.4	103.3%
State & Local Government	(4.9)	218.1	97.8%
All Other Services	(4.1)	66.0	93.8%
Manufacturing	(2.2)	160.9	98.6%
Construction & Mining	1.4	59.8	102.3%
Transpo & Warehousing	8.9	55.6	116.0%
Real Estate	(1.1)	20.1	94.5%
Wholesale	4.3	59.0	107.3%
Finance & Insurance	(6.8)	102.4	93.4%
Information	0.4	31.3	101.3%
Utilities	(0.1)	5.1	98.3%
Federal Government	0.3	18.6	101.6%

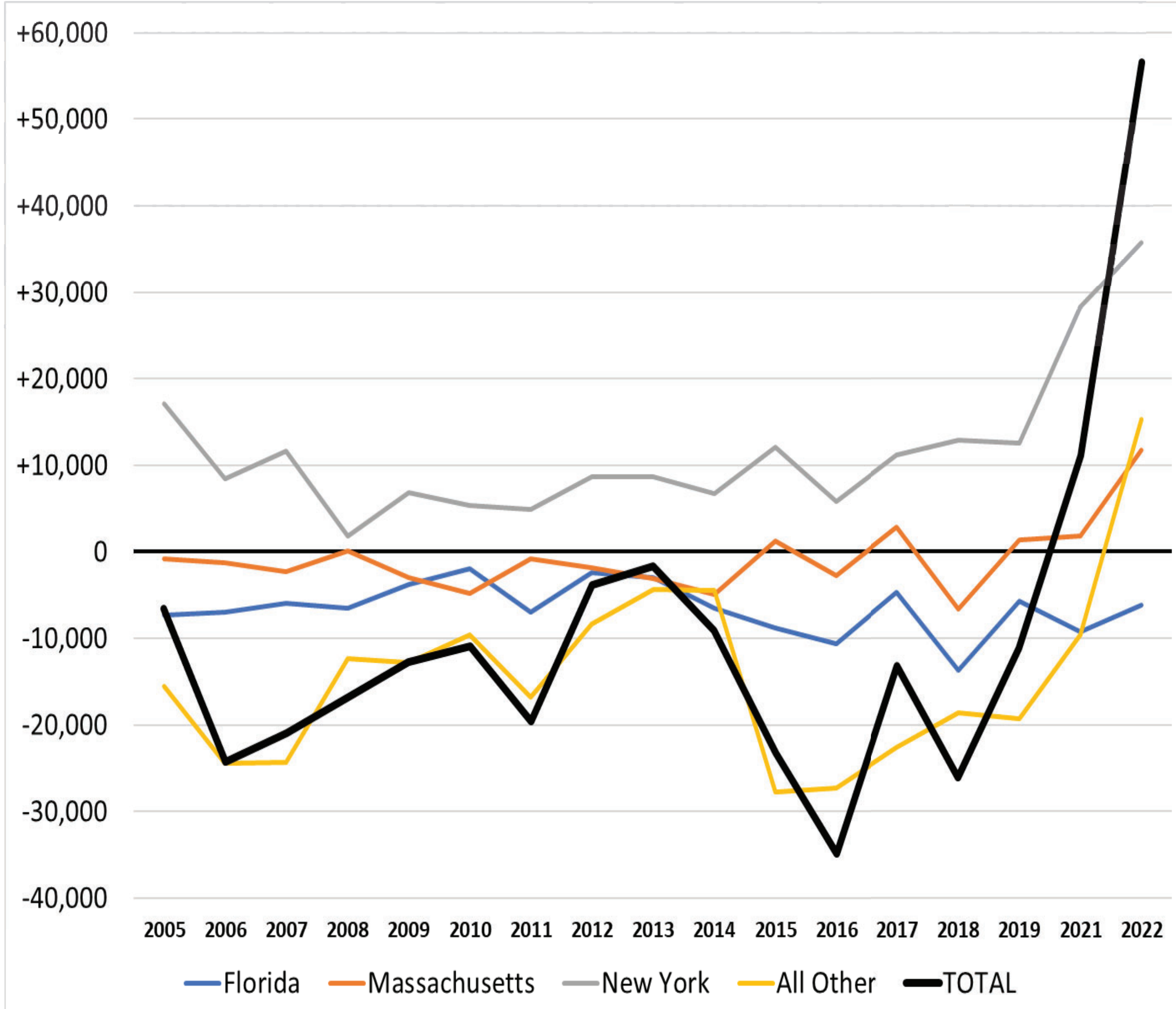
Source: IHS Markit

Connecticut Real Gross State Product Has Recovered

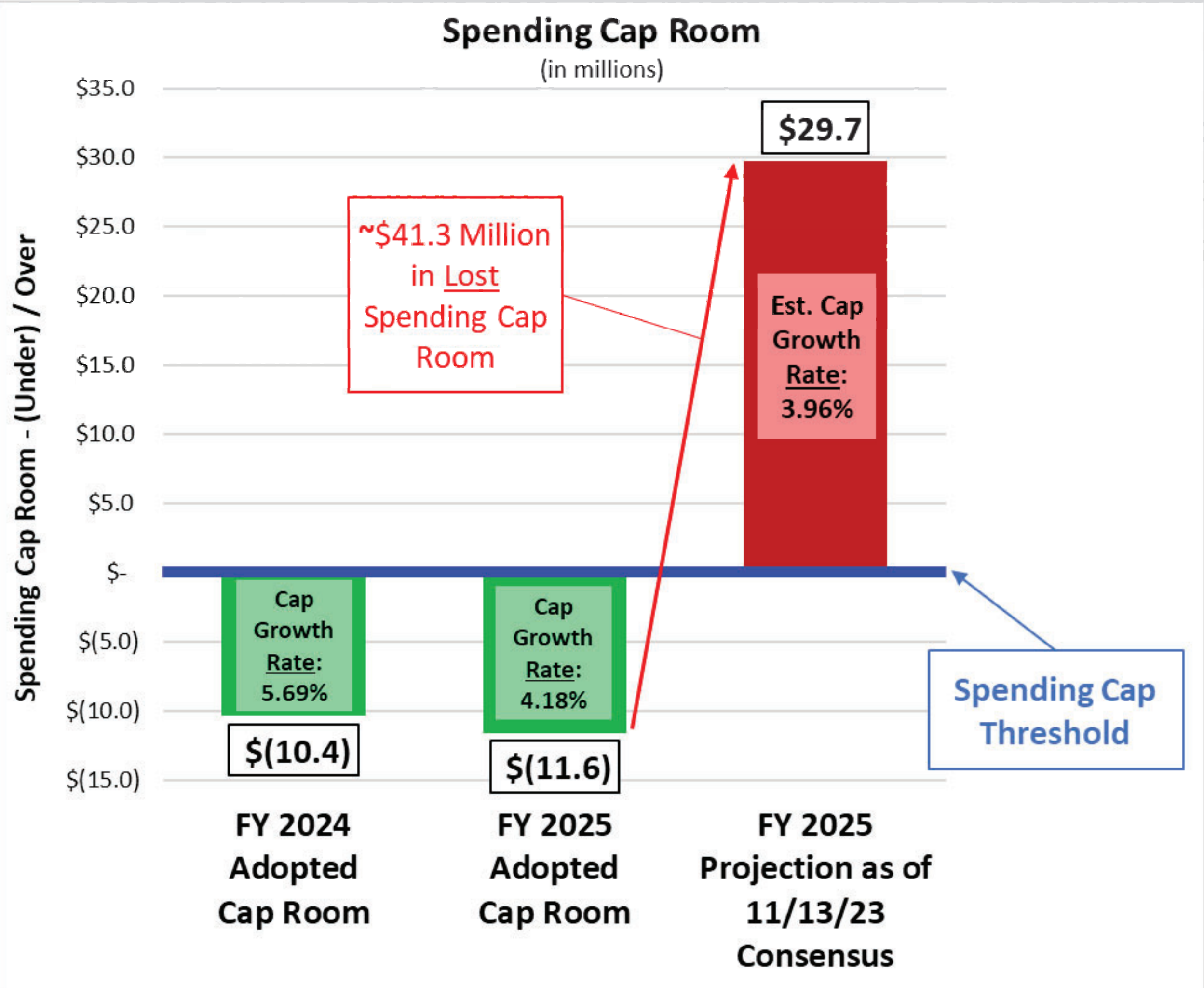


Net Annual State-to-State Migration into Connecticut

- Net migration into Connecticut from other states turned positive beginning in 2021 with a net in-migration from the 50 states, D.C. and Puerto Rico totaling 11,153 and increasing to positive 56,574 in 2022
- The most significant states contributing to this in-migration in 2022 were New York (+35,689) and Massachusetts (+11,753)



Expenditure Cap



- Chart shows impact of reduction in estimated growth rate in personal income
- Adopted FY 2025 budget is an estimated $29.7 million over the cap even before considering any technical adjustments to appropriations or other factors that will impact the cap

Key Takeaways

- A General Fund operating surplus of $153.9 million is projected in FY 2024
- The Rainy Day fund holds over $3.3 billion and is at the 15% limit for FY 2023. Balance at the end of FY 2024 is expected to grow to approximately $3.7 billion; 16.2% of FY 2025 appropriations
- Long-term liabilities have been reduced $6.7 billion compared to last year's report and $13.8 billion over two years
- General Fund revenue growth is outpacing "fixed cost" growth over the entire forecast period
- The Fiscal Accountability Report does <u>not</u> present the entire budget picture for the upcoming biennium – it only presents "fixed costs" vs. revenues
- **Non-fixed spending will need to be prioritized to remain within our fiscal guardrails and to preserve the progress we've made to date**