State of Connecticut – G.O.

Issuer: State of Connecticut		
Assigned	**Rating**	**Outlook**
General Obligation Bonds (2023 Series A)	AA+	Stable
General Obligation Refunding Bonds (2023 Series B)	AA+	Stable
Taxable General Obligation Bonds (2023 Series A)	AA+	Stable
Upgrade	**Rating**	**Outlook**
General Obligation Bonds	AA+ *from AA*	Stable

Methodology:

U.S. State General Obligation Rating Methodology

ESG Global Rating Methodology

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Rating Summary: The rating upgrade for the State of Connecticut's General Obligation Bonds reflects the State's strong credit profile and significant and continuing progress in improving its financial position over the last six fiscal years. Also recognized at the revised rating level is the recent February 2023 extension of certain statutory fiscal guardrails which KBRA believes position the State to maintain strong reserves and achieve further progress in addressing its large unfunded pension liabilities in the years ahead.

The State implemented enhanced statutory fiscal guardrails at the commencement FY 2018 which it covenanted to certain general obligation bondholders to maintain through June 30, 2023. Among the guardrails is a requirement to annually direct unappropriated general fund balances at fiscal year end toward the State's budget reserve fund (BRF or "Rainy Day Fund") and the implementation of a revenue volatility cap requiring the most volatile components of personal income tax receipts, in excess of an indexed threshold, to be deposited into the BRF. BRF balances exceeding 15% of ensuing fiscal year general fund appropriations are required to be deposited as supplemental contributions toward the State's unfunded pension liabilities. The guardrails are projected to account for $2.72 billion in BRF deposits and $8.59 billion in supplemental pension contributions between FY 2018 and the nearly completed 2023 fiscal year. The BRF balance increased from just 1.3% of general fund expenditures at FYE 2017 to a projected 33.1% at FYE 2023. BRF balances exceeding the 15% threshold at FYE 2023 (~$2.4 billion) are projected to be deposited toward unfunded pension liabilities, supplementing the $3.73 billion actuarially determined employer contribution (ADEC) already appropriated for this year, marking a fourth consecutive year of pension contributions in excess of the ADEC.

Statute enacted in February 2023 implemented a revised package of fiscal guardrails effective July 1, 2023, providing a covenant and indenture pledge that will become operational with the first general obligation bond issuance after July 1, 2023, to maintain a number of revised fiscal guardrails through FYE 2033, subject to an option for the Legislature to suspend the guardrails in the first half of 2028. Key provisions of the revised guardrails include an increase in the BRF balance cap to 18% of budgeted appropriations commencing one year later on July 1, 2024, and the continuation of the revenue volatility cap, among other measures described in greater detail on pg. 4 of this report. The legislation was passed unanimously by both legislative chambers signaling, in KBRA's view, broad continuing support for the conservative financial practices that have bolstered the State's financial position over the last six years.

The State currently projects favorable general fund budgetary variances for the fiscal year ending June 30, 2023 with projected revenues of $23.45 billion up 6.6% YoY and expenditures of $21.86 billion up 5.9% YoY. Operations are expected to produce approximately $1.35 billion in volatility cap deposits to the BRF as well as a $1.06 billion unappropriated surplus available at year end also available to be directed to the BRF.

Budget negotiations for the FY 2024 – FY 2025 Budget Biennium are ongoing and are targeted to be completed before the June 7 end of the legislative session. Office of Policy and Management (OPM) general fund projections based on the May 1 consensus revenue estimates adjusted to include the governor's February 8, 2023 budget proposals project $22.57 billion in revenues available for appropriation in FY 2024, down 3.7% YoY.[1] The decline reflects a number of policy changes and tax cuts expected to reduce revenues $220 million from baseline estimates. Expenditures are projected to increase 0.8% YoY in FY 2024 to $22.04 billion after accounting for policy changes reducing expenditures by $224 million from the baseline estimate. Gross general fund receipts, before accounting for volatility cap deposits, are projected to exceed appropriations by $1.24 billion in FY 2024 and $1.31 billion in FY 2025. KBRA notes however that final budget decisions and unfavorable developments with respect to the U.S. economy could result in negative variances.

The States received $1.382 billion in CARES Act funds in 2020 which were applied to pandemic-related costs incurred between March 1, 2020 and December 30, 2020. The use of such funds was accounted for outside of the general fund.

[1] Projections do not incorporate the legislative appropriation committee's April 18 budget proposal or the April 19 finance committee revenue package.

The State received $2.954 billion in ARPA funds in 2021[2], the allowable uses of which are more flexible. The State had originally budgeted to apply $560 million toward revenue replacement in FY 2022 but this appropriation was eliminated due to stronger than anticipated revenue performance. An additional $1.20 billion allocated for revenue replacement in FY 2023 has been scaled back to $315 million for the same reason, and the governor's proposed budget would eliminate the allocation altogether, although this change has not been enacted. ARPA funds have instead been directly appropriated outside of the general fund to a broad range of governmental purposes. The State is projected to allocate 96% of total ARPA funds by FYE 2023, with remaining amounts allocated through FY 2025.

Connecticut's economy has recovered significantly from the early months of the pandemic, but seasonally adjusted unemployment has trended higher than that of the New England region and U.S. over the last year. As of March 2023, Connecticut's unemployment rate was 4.0%, higher than the New England region and U.S. at 3.4% and 3.5%, respectively. Wealth levels remain very high, with per capita personal income of $84,972 at 130% of the national average in 2022. The longer-term, pre-pandemic economic growth trend in the State was sluggish. Real gross state product (GSP) contracted in seven of the last fifteen years. KBRA continues to monitor economic growth in the context of the broad pandemic recovery, with an eye toward the impact of developing macroeconomic headwinds.

The State has high debt levels, but this partly reflects its practice of issuing general obligation debt for certain university projects and for purposes that municipal entities and counties fund in other states, such as local school construction. Fixed costs (debt service, OPEB and pension) were 19.5% of general government expenditures in FY 2022, which KBRA views as high. Debt amortization is favorable with 81% of general obligation debt scheduled to retire within 10 years.

The Stable Outlook reflects Connecticut's diverse and high wealth economic base, strong reserve position, and effective financial management practices, which together provide a solid foundation for future financial performance.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- State is projected to complete FY 2023 with a fully funded BRF exceeding 15% of general fund expenditures and is positioned to direct surplus resources toward supplemental pension contributions for a fourth consecutive year.
- Strong financial management framework and recent extension of enhanced statutory fiscal guardrails through at least FY 2028 position the State for strong operating results.
- Strong wealth levels with the highest per capita personal income level among all states.

Credit Challenges

- Lower relative growth in the economic indicators of population, employment, and gross state product, although there are recent signs of growth in population.
- Unfunded pension liabilities and tax-supported debt burden are high relative to personal income, each more than 3x the respective U.S. average. However, the State borrows for many local purposes and the comparison on a combined state and local basis is more moderate.

Rating Sensitivities

▪ Stronger economic growth trends than what have been experienced since the Great Recession. ▪ Significant improvement in the funded ratios for the State's pension systems.	**+**
▪ Structural operating deficits in the general fund. ▪ Sustained weakening in the State's employment base and economic activity.	**-**

Rating Highlights	
Per Capita Personal Income (2022) (in dollars)	$84,972
as a % of U.S.	*130%*
Population (2022)	3,626,205
Growth 2010 to 2022	*0.8%*
Real GDP, % Change 2010 to 2022	
Connecticut	3.3%
New England	18.3%
United States	27.9%
Budget Reserve Fund Balance ($ in millions)	
FYE 2018	$1,185
FYE 2019	$2,506
FYE 2020	$3,013
FYE 2021	$3,112
FYE 2022	$3,313
FYE 2023 Estimated[1]	$5,718
Direct Debt (2/1/2023) ($ in millions)	$26,162
Net Pension Liability[2] ($ in millions)	$40,364
Fixed Costs as a % of Governmental Expenditures (FY 2022)	19.5%

[1]Statute limits the BRF balance to 15% of the subsequent year's budget. To comply with this requirement, the State would need to apply ~$2.4 billion of this projected balance toward the State's pension liabilities as a supplemental contribution in addition to the ADEC.
[2]Reflects 6/30/2022 measurement date for SERS and TRS and 6/30/2021 for JRS.

[2] Including $2.812 billion in Coronavirus State Fiscal Recovery Funds and $142 million in Coronavirus Capital Project Funds.

Rating Determinants (RD)	
1. Management Structure, Budgeting Practices and Policies	AAA
2. Debt and Additional Continuing Obligations	A+
3. Financial Performance and Liquidity Position	AA+
4. State Resource Base	AA-

RD 1: Management Structure, Budgeting Practices and Policies

KBRA views Connecticut's management structure and policies as providing a very strong framework for managing its financial operations and debt issuance compared with other states. This framework is established by the State Constitution, statutes, and administrative practices. Within this framework, favorable financial results have been achieved in recent years.

Updated Statutory Fiscal Guardrails and "Bond Lock" Provisions

The State implemented enhanced statutory fiscal guardrails that took effect at the commencement of FY 2018 and which it covenanted to certain general obligation bondholders to maintain through FYE 2023 (the "Bond Lock" provisions). Legislation was enacted in February 2023 that made changes to these provisions effective July 1, 2023 and which will become operational with the first general obligation bonds issuance after July 1, 2023, providing a covenant and indenture pledge to maintain revised guardrails through FYE 2033, subject to an option for the Legislature to suspend the guardrails in the first half of 2028. The legislation was passed unanimously by both legislative chambers signaling, in KBRA's view, broad continuing support for the financial practices that have improved the State's financial position over the last six years. The following is a summary of these provisions:

Budget Reserve Fund (BRF, or Rainy Day Fund)

State statute dictates that unappropriated general fund surpluses and volatility cap deposits (described below) shall be transferred to the BRF at year end until the BRF reaches 15% of ensuing fiscal year general fund appropriations. Amounts exceeding this threshold are required to be deposited into the SERS and TRS pension systems as supplemental contributions. Per the February 2023 legislation, effective July 1, 2024, the BRF cap will be increased to 18%, provided that all unappropriated general fund surpluses and volatility cap deposits shall be directed to the BRF at year end up to the 15% level. Amounts exceeding the 15% level are to be split evenly between BRF deposits and supplemental SERS/TRS contributions, up to a hard cap of 18%. All amounts exceeding the 18% level are to be directed entirely toward supplemental SERS/TRS contributions.

Revenue Volatility Cap

The State implemented a revenue volatility cap beginning in FY 2018 requiring personal income tax estimated and final payments and pass-through entity tax receipts in excess of a threshold, the revenue volatility cap, to be deposited into the BRF. The revenue volatility cap is adjusted upward each year at the rate of state personal income growth and will be $3.78 billion for FY 2024. The covenant with respect to the revenue volatility cap provides that the cap may be suspended at any time subject to a three-fifths legislative vote in the event of a change in state or federal tax policy, or significant changes to economic growth or tax collections. KBRA notes that the revenue volatility cap has resulted, in the six years since it's inception, in the establishment of large consistent reserves and significant progress in addressing the State's weak pension funding progress, and views the continuing implementation of this cap as a highly favorable credit factor.

Unappropriated general fund surpluses and volatility cap deposits are projected, inclusive of projected FY 2023 results, to have contributed $2.72 billion and $8.59 billion, respectively, toward BRF deposits and supplemental pension contributions between FY 2018 and FY 2023.

Revenue Cap

State statute has limited appropriations to less than 100% of budgeted revenues in each year since FY 2020 including 99.5% in FY 2020, 99.25% in FY 2021, 99.0% in FY 2022, and 98.75% in FY 2023. The February 2023 legislation freezes the revenue cap at 98.75% annually.

Bond Caps

The State has imposed limits on annual bond allocation, allotment, and issuance since FY 2018. The limit for each of these caps will be $2.4 billion in FY 2024, subject to annual adjustment at a rate equivalent to core CPI inflation.

Debt Limit

State statutes impose a ceiling on the amount of general fund supported debt which may be authorized by the Legislature. The limit is 1.6x net general fund tax receipts as projected by the Finance, Revenue and Bonding Committee of the General Assembly. Certain types of debt are excluded from this cap, including cash flow borrowings and emergency financings, including for budget deficits. Outstanding indebtedness has declined from a high of 89.3% of the limit in FY 2019 to a projected 73.7% for FY 2023. The February 2023 legislation added exclusions to this limit for GAAP deficit funding bonds, existing authorized debt yet to be effective, and Gubernatorial emergency debt authorized by a three-fifths majority in each chamber of the legislature.

Constitutional Provisions

Under Connecticut's Constitution, the State is divided into three distinct branches: The Legislative, Executive, and Judicial. The executive power of the State is vested in the Governor. Governor Ned Lamont was first elected in November 2018 and reelected to a second four year term in November 2022. Treasurer Erick Russell was elected in November 2022 with this term commencing in January 2023. The Treasurer is primarily responsible for receiving and disbursing monies of the State and is the sole fiduciary of the State's retirement funds. The Treasurer also has the responsibility for carrying out the issuance of debt. Comptroller Sean Scanlon was also elected in November 2022 to a term commencing in January 2023. The Comptroller is required to issue monthly budgetary reports on the State's financial condition, in conjunction with the Office of Policy and Management (OPM). OPM is directly responsible to the Governor for policy development in the areas of budget and financial management and prepares the State budget.

Veto Authority

Under the State Constitution, the Governor has the power to veto any line item of any itemized appropriation bill, while at the same time approving the remainder of the bill. The General Assembly may override the Governor's veto by two thirds vote of each legislative house.

Spending Cap

The State's Constitution provides that the General Assembly may not authorize general budget expenditures in excess of estimated revenues. The Constitution also includes a cap on the annual growth in expenditures which limits the yearly increase to the greater of the five-year average growth in personal income or inflation over the previous year. The cap excludes debt service for general obligation debt, annual funding of unfunded pension liabilities, and spending supported by federal funding. The cap may be exceeded if the Governor declares a fiscal emergency, and both houses of the legislature support such action by a three-fifths vote.

Other Statutory Provisions

State law requires that total net appropriations for each fund shall not exceed estimated revenues for each respective fund. Under State statute, the State is required to monitor its financial performance monthly and the Governor is empowered to take action, under statutory limitations, to maintain budget balance. State statute requires consensus revenue forecasts to be developed three times a year and allows for broad revenue raising ability.

Financial Management Policies

The State operates under a strong and comprehensive framework of financial management policies, most of which are codified in statute. The State's framework for financial management includes the following planning and reporting components:

- Monthly Reports on Financial Performance: By statute, OPM is required to provide the State Comptroller with a letter with monthly updates to revenue and expenditure projections for the general fund in the current fiscal year, along with projections for fiscal year-end surplus or deficits. Based on the OPM letter, the Comptroller prepares a monthly letter on financial performance. KBRA views the Comptroller's and OPM's monthly monitoring and projection of the year-end financial position as an extremely valuable tool in managing the State's finances.
- Annual Report to Legislature: By statute, each November, OPM and the Office of Fiscal Analysis (OFA) is required to submit a Fiscal Accountability Report to the Legislature which projects revenues for the current biennium and the next three fiscal years.
- Three Year Out Report: As part of the budget process, the Governor must annually submit a separate report to the Legislature which sets forth the estimated revenues and expenditures for the current biennium and the next three fiscal years.
- Consensus Revenue Estimates: OPM and the OFA are required by statute to issue consensus revenue estimates each year by November 10, January 15, and April 30 that cover the current biennium and the next three fiscal years. The development of consensus revenue forecasts utilizes both in house analytic staff and external economic forecasting services.

The Treasurer has investment responsibility for all funds of the State and functions as the trustee of all State pension, retirement, and trust funds. The Treasurer is required to report annually on investment activities by December 31 to the Governor and the State's Investment Advisory Council.

State Budget Process

The State's fiscal year begins on July 1 and ends on June 30. The Governor is required to transmit a budget document to the General Assembly in February of odd numbered years setting forth a separate budget for each of the biennium years. Under State Statute, the Governor has the ability to manage the State under Executive Order to maintain essential services in the absence of a budget.

In each even numbered year, the Governor must prepare a report (Mid Term Budget Report) on the status of the budget enacted in the previous year with any recommendations on adjustment and revisions for the coming year. If a budget surplus or deficit is projected, the Governor will recommend how the deficit will be mitigated or how the surplus will be used.

Ability to Adjust Expenditures and Deficit Mitigation

Under State statute, the Governor is empowered during the fiscal year to reduce the budget allotment, or expenditure request, by up to 5.0% of any specific appropriation to an agency, except for aid to municipalities, and up to 3% of the total appropriations of any fund under certain circumstances without Legislative approval in order to maintain balanced financial operations. Beyond these limits, the General Assembly must act to reduce expenditures.

Bankruptcy

Under Chapter 9 of the U.S. Bankruptcy Code, State governments are not permitted to petition courts for protection from creditors, including holders of their general obligation debt.

RD 2: Debt and Additional Continuing Obligations Update

Tax-Supported Debt

Connecticut's state tax-supported debt burden is high relative to population, personal income, and GSP, ranking among the most highly indebted (top 5%) of states by all three metrics. The debt burden partly reflects the State's practice of issuing general obligation debt for certain university projects and purposes that municipal entities and counties fund in other states, including school construction. Connecticut has not had a county form of government since 1960. The State's debt burden compares more favorably when assessed on the basis of aggregate state and local borrowing according to data from the U.S. Census Bureau's Annual Survey of State and Local Government Finances, ranking within the highest 15% of states by this more inclusive measure.

Figure 1

Direct Tax-Supported Debt Principal Amount Outstanding (dollars in millions)	2/1/2019	5/1/2020	2/1/2021	2/1/2022	2/1/2023
General Obligation Bonds	$15,008	$14,005	$14,629	$14,994	$13,997
General Obligation Bond Anticipation Notes	-	-	-	-	-
Pension Obligation Bonds (GO)[1]	2,368	2,394	2,411	2,434	2,370
UConn 2000 Bonds (GO)	1,635	1,569	1,661	1,535	1,644
Total General Obligation Debt	19,011	17,968	18,701	18,963	18,011
Special Tax Obligation Bonds	5,958	5,575	6,102	7,095	7,501
Other[2]	257	216	244	250	255
State Guaranteed City of Hartford Debt	516	488	494	431	395
Total Direct Tax-Supported Debt	**25,741**	**24,246**	**25,540**	**26,739**	**26,162**

Source: POS and historic GO Official Statements.

[1]Includes accreted value of capital appreciation bonds.

[2]Includes lease financing, tax increment financings, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds.

Figure 2

Debt Ratios (in dollars)	Connecticut	Average of U.S. States	Connecticut Rank Among the 50 States
Tax-Supported Debt:			
Per Capita	$7,215	$1,759	Highest 5%
as a % of Personal Income	8.5%	2.7%	Highest 5%
as a % of GSP	8.1%	2.4%	Highest 5%
Aggregate State and Local Debt:			
Per Capita	$14,721	$9,856	Highest 5%
as a % of Personal Income	19.0%	16.7%	Highest 10%
as a % of GSP	19.2%	15.6%	Highest 15%

Source: U.S. Census Bureau, U.S. Bureau of Economic Activity, Credit Scope, and Annual Disclosures.

Pensions

Connecticut's two largest pension systems, the State Employee's Retirement System (SERS) and the State Teacher's Retirement System (TRS), remain among the lowest funded pension plans among U.S. states. The State has funded the full actuarially determined employer contribution (ADEC) to SERS since 2012 and TRS since 2006 but funded status of the two plans has remains weak in part because actual investment returns have lagged assumptions. The transition to more conservative return assumptions since 2016 and supplemental contributions beyond the ADEC in each of the last three years have been supportive of funding progress, but unfunded liabilities remain exceptionally large.

Figure 3

Net Pension Liability Ratios (GASB 67) (in dollars)	Connecticut	Average of U.S. States	Connecticut Rank Among the 50 States
Net Pension Liability:			
Per Capita	$11,131	$1,699	Highest 5%
as a % of Personal Income	13.1%	2.5%	Highest 5%
as a % of GSP	12.5%	2.3%	Highest 5%

Source: U.S. Census Bureau, U.S. Bureau of Economic Activity, Credit Scope, and Annual Disclosures.

Figure 4

Pension Funded Status (GASB 67) and ADEC Requirements as of 6/30/2022 Valuation (dollars in millions)			
	SERS	TRS	Total
Fiduciary Net Position (FNP)	$18,604	$21,550	$40,153
Total Pension Liability (TPL)	40,657	39,860	80,517
Net Pension Liability (NPL)	22,053	18,311	40,364
FNP as % of TPL	45.8%	54.1%	49.9%

Source: POS

The plans have been transitioning the actuarial method for amortization of unfunded liabilities to a level-dollar basis from a level percent of payroll (backloaded) basis. The transition for SERS to this more conservative funding method was completed in 2021 with the transition for TRS ongoing through 2024. The shift has been a factor in recent and projected increases in the ADEC.

State statute features several mechanisms to direct excess general fund resources toward the accelerated pay-down of long-term liabilities. The revenue volatility cap requires that estimated and final personal income tax and pass-through entity tax receipts in excess of a formula driven threshold[3], be directed to the BRF. Receipts in FY 2022 exceeded the volatility cap by $3.047 billion. State statute additionally requires unappropriated general fund surpluses remaining at year-end be directed to the BRF. The unappropriated general fund surplus for FY 2022 was $1.261 billion. The two mechanisms resulted in a total deposit to the BRF of $4.309 billion following the close of FY 2022, six months later in December 2022 (see Figure 6). Amounts in the BRF exceeding 15% of the current year's budget are required by statute to be directed toward the pay-down of long-term liabilities. This mechanism resulted in pension contributions exceeding the ADEC totaling $62 million for FY 2020, $1.618 billion in FY 2021, $4.108 billion in FY 2022, and a projected $2.405 billion for FY 2023.

Figure 5

State Contributions to SERS and TRS FYE June 30 (dollars in millions)									
	2018	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.
Actuarially Determined Employer Contribution	$ 2,714	$ 2,867	$ 2,825	$ 3,057	$ 3,437	$ 3,728	$ 3,595	$ 3,684	$ 3,788
Additional Contributions†	-	-	62	1,618	4,108	2,405			
Total Contributions	2,714	2,867	2,887	4,675	7,545	6,133			
Total Contributions as a % of ADEC	100%	100%	102%	153%	220%	164%			

Source: State of Connecticut

†Additional contributions beyond the ADEC are not budgeted for FY 2023, but surplus General Fund amounts and volatility cap deposits that would otherwise push the Budget Reserve Fund balance above the statutory cap, designated at 15% of budgeted expenditures for FY 2023, may be available for this purpose. The $2.405 billion shown for 2023 is estimated and subject to change.

Total Fixed Costs
Total FY 2022 fixed costs including debt service, pension contributions toward ADEC[4], and pay-as-you-go OPEB represented 19.5% of governmental expenditures.

RD 3: Financial Performance and Liquidity Position Update
The State's financial position has trended favorably in recent years. Positive revenue performance, pandemic-related federal assistance, and expenditure discipline have supported budgetary surpluses in each of the last five years and supplemental contributions to pensions in excess of the ADEC in each year since FY 2020. The BRF has been maintained at the statutory limit of 15% of appropriations at the end of each of the last three years and is projected to remain at this level in the current 2023 fiscal year. Negotiations with the State Employees Bargaining Agent Coalition last year resulted in agreements lasting through FY 2025, with 2.5% general wages increases for FY 2022 (retroactive), FY 2023, and FY 2024, providing increased certainty for labor expenses.

Pandemic-Related Federal Assistance
The States received $1.382 billion in CARES Act funds in 2020 which were applied to pandemic-related costs incurred between March 1, 2020 and December 30, 2020. The use of such funds was accounted for outside of the general fund. The State received $2.954 billion in ARPA funds in 2021[5], the allowable uses of which are more flexible. The State had originally budgeted to apply $560 million toward revenue replacement in FY 2022 but this appropriation was eliminated due to stronger than anticipated revenue performance. An additional $1.20 billion allocated for revenue replacement in

[3] The threshold for deposits is adjusted under a statutory formula that is pegged to a base of $3.15 billion for FY 2018, adjusted annually by the growth rate of State personal income. The cap is $3.78 billion for FY 2024.
[4] Contributions exceeding the ADEC are excluded from this calculation.
[5] Including $2.812 billion in Coronavirus State Fiscal Recovery Funds and $142 million in Coronavirus Capital Project Funds.

FY 2023 has been scaled back to $315 million for the same reason, and the governor's proposed budget would eliminate the allocation altogether, although this change has not been enacted. ARPA funds have instead been directly appropriated outside of the general fund to a broad range of governmental purposes. The State is projected to allocate 96% of total ARPA funds by FYE 2023, with remaining amounts allocated through FY 2025.

FY 2022 Operating Results

The general fund ended FY 2022 with a sizable surplus. Gross general fund receipts increased 15.0% YoY to $25.04 billion as broad federal stimulus and a rapidly reopening economy supported strength in economically sensitive receipts despite the periodically resurgent pandemic. Personal income and pass-through entity tax proceeds exceeded the revenue volatility cap by $3.05 billion, with this excess directed to the BRF resulting in estimated general fund revenues available for appropriation of $21.99 billion, an increase of 7.1% YoY. Total appropriations in contrast increased 6.3% YoY to $20.66 billion. A $1.26 billion operating surplus was realized after accounting for supplemental appropriations and year-end adjustments implemented as part of the FY 2023 budget.

Figure 6

General Fund Summary Operations Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)	2018	2019	2020	2021	2022	2023 Projected	2024 Governor's Proposed Budget	2025 Governor's Proposed Budget
Revenues	19,670	20,600	19,724	21,773	25,038	24,792	23,273	23,702
Plus BRF Draws	483	-	-	-	-			
Less Volatility Cap Deposits to BRF	(1,471)	(950)	(530)	(1,241)	(3,047)	(1,348)	(702)	(701)
Revenues Available for Appropriation	18,681	19,650	19,194	20,531	21,991	23,445	22,571	23,001
Appropriations (Net Miscellaneous Adjustments)	(18,611)	(19,249)	(19,189)	(19,436)	(20,655)	(22,387)	(22,035)	(22,393)
Miscellaneous Adjustments	3	(0)	8	(0)	1	-	-	-
Prior Year Appropriations Continued into Current FY	60	134	165	139	758	-	-	-
Current Year Appropriations Cont. into Subsequ. FY	(134)	(165)	(139)	(758)	(834)	-	-	-
Actions Per Governor's Recommended FY 2024 Budget Adjustments Carryforwards/Use of Surplus	-	-	-	-	-	(527)	-	-
Operating Surplus (Deficit)[1]	**-**	**371**	**39**	**476**	**1,261**	**1,057**	**536**	**608**
Year End Surplus Transfer to BRF[1]	-	(371)	(39)	(476)	(1,261)			
Unappropriated Surplus (Deficit)	**-**	**-**	**-**	**-**	**-**			

Source: Annual Financial Reports of the State Comptroller, OPM Letter dated May 1, 2023 and Rating Agency Presentation dated May 9, 2023.

[1]As required by statute, the projected FY 2023 unappropriated surplus of $1.057 billion will be transferred to the BRF after the audit of FY 2023 operations and the General Fund surplus is confirmed.

The $3.05 billion volatility cap deposit plus the $1.26 billion surplus resulted in $4.31 billion available for deposit to the BRF, which, together with the beginning BRF balance of $3.11 billion, resulted in an ending BRF balance of $7.42 billion, or 33.1% of budgeted FY 2023 appropriations. As required by statute, the State transferred amounts exceeding the BRF cap at 15% of subsequent year appropriations toward long-term liabilities in December 2022 toward supplemental SERS and TRS contributions. The contributions were in addition to the $3.44 billion already appropriated in satisfaction of the full ADEC for the State's pension obligations in FY 2022, for a total contribution of $7.55 billion, or 220% of the ADEC.

Figure 7

Budget Reserve Fund Summary Operations Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)	2018	2019	2020	2021	2022	2023 Projected	2024 Governor's Proposed Budget	2025 Governor's Proposed Budget
Beginning BRF Balance	213	1,185	2,506	3,013	3,112	3,313	5,718*	6,956*
Transfers to General Fund	(483)	-	-	-	-	-	-	-
Transfers from General Fund (Outside of Volatility Cap)	-	371	39	476	1,261	1,057	536	608
Volatility Cap Deposit	1,471	950	530	1,241	3,047	1,348	702	701
Ending BRF Balance Before Statutory Post-Close Transfers to SERS/TRS	**1,201**	**2,506**	**3,074**	**4,730**	**7,420**	**5,718***	**6,956***	**8,265***
as a % of Ensuing FY Net GF Approps. [1]	*6.1%*	*13.1%*	*15.0%*	22.8%	33.1%	25.5%*	31.6%*	36.9%*
Statutory Transfer to SERF and TRS Following Year End	(16)	-	(62)	(1,618)	(4,107)			
Ending BRF Balance After Statutory Post-Close Transfer to SERS/TRS	**1,185**	**2,506**	**3,013**	**3,112**	**3,313**			
as a % of Ensuing FY Net GF Approps.	*6.0%*	*13.1%*	*15.0%*	*15.0%*	*15.0%*			

Source: Annual Financial Reports of the State Comptroller, OPM Letter dated May 1, 2023, and Rating Agency Presentation dated May 9, 2023.

*Balances shown are based on KBRA calcluations and are provided for informational purposes only. In practice any ending balances, subject to any year end appropriations or carryforwards exceeding 15% of appropriations in 2023, and 18% in subsequent years, would be transferred to SERS/TRS as required by statute.

FY 2023 Projections

A revised adopted budget for the second year of the FY 2022 – FY 2023 biennium was signed into law May 9, 2022. The budget assumes $22.39 billion in revenues (down 0.4% YoY) and $22.09 billion in expenditures (up 2.6% from the original FY 2023 budget). Revenue estimates factored in an uncertain economic environment. OPM however projects favorable variances as of May 1, 2023, with revenues (net of volatility cap deposits) of $23.45 billion up 6.6% YoY and expenditures of $21.86 billion up 5.9% YoY, reflecting supplemental appropriations made due to the favorable revenue environment. As shown in Figure 6, OPM projects that FY 2023 operations will support $1.35 billion in volatility cap deposits to the BRF as well as a $1.06 billion unappropriated surplus at year end that will also be directed to the BRF.

Figure 8

General Fund Revenues and Expenditures Budgetary Modified Cash Basis (FYE June 30) (dollars in millions)	Actual										Projected and Proposed				
	2018	Δ YOY (%)	2019	Δ YOY (%)	2020	Δ YOY (%)	2021	Δ YOY (%)	2022	Δ YOY (%)	2023 Projected	Δ YOY (%)	2024 Governor's Revised Budget	Δ YOY (%)	2025 Governor's Revised Budget
Revenues															
Personal Income Tax	10,770	-10.5%	9,640	-2.5%	9,398	10.0%	10,340	17.3%	12,132	-7.1%	11,272	-0.5%	11,214	3.9%	11,655
Pass-through Entity Tax	-	-	1,172	6.0%	1,242	24.8%	1,550	48.9%	2,308	-12.6%	2,017	-10.0%	1,816	3.4%	1,877
Less: Volatility Cap Deposit	(1,471)		(950)		(530)		(1,241)		(3,047)		(1,348)		(702)		(701)
Net PIT and Pass-Through Entity Tax	9,299	6.1%	9,862	2.5%	10,109	5.3%	10,649	7.0%	11,392	4.8%	11,942	3.2%	12,327	4.1%	12,831
Federal Grants (excl. ARPA)	1,143	82.3%	2,084	-13.8%	1,797	-16.7%	1,496	29.3%	1,935	11.0%	2,147	-14.9%	1,828	0.6%	1,839
Sales and Use Tax	4,202	3.2%	4,338	-0.5%	4,318	11.0%	4,793	0.5%	4,818	5.7%	5,093	4.1%	5,302	2.5%	5,433
Corporate Income Tax	921	15.2%	1,061	-11.9%	934	23.4%	1,153	21.5%	1,401	5.7%	1,482	-2.6%	1,444	3.2%	1,490
Excise Taxes (Alcohol and Cigarettes)	440	-4.2%	421	-0.4%	419	2.6%	430	-5.7%	406	-8.0%	373	-4.9%	355	-3.9%	341
Indian Gaming Payments	273	-6.6%	255	-35.6%	164	39.4%	229	8.7%	249	12.6%	280	1.4%	284	0.8%	286
Statutory Transfers from Other Funds	110	0.0%	110	24.0%	136	-15.8%	115	10.2%	126	-10.9%	113	-3.6%	108	-1.6%	107
Other	1,811	-16.2%	1,519	-48.3%	785	112.3%	1,667	-0.2%	1,664	21.1%	2,016	-54.2%	924	-27.0%	675
Total Revenues	**18,199**	8.0%	**19,650**	-2.3%	**19,194**	7.0%	**20,531**	7.1%	**21,991**	6.6%	**23,445**	-3.7%	**22,571**	1.9%	**23,001**
Expenditures															
General Government	648	0.8%	653	-2.8%	635	1.8%	646	16.0%	750						
Public Safety	260	4.7%	272	3.2%	281	1.3%	284	6.9%	304						
Conservation and Development	181	-6.2%	170	0.9%	172	10.4%	189	23.0%	233						
Health and Hospitals	1,163	2.6%	1,194	0.7%	1,203	3.4%	1,244	2.6%	1,276						
Human Services	4,292	0.5%	4,312	1.0%	4,357	-2.3%	4,258	4.4%	4,445						
Education, Libraries and Museums	5,025	3.7%	5,208	-1.0%	5,155	2.9%	5,304	7.4%	5,698						
Corrections and Judicial	1,911	3.0%	1,968	1.8%	2,004	-0.5%	1,994	-4.1%	1,912						
Debt Service	1,956	13.8%	2,225	-0.9%	2,205	0.5%	2,216	4.9%	2,325						
Other	3,175	2.3%	3,247	-2.1%	3,179	3.7%	3,297	12.5%	3,709						
Total Expenditures	**18,611**	3.4%	**19,249**	-0.3%	**19,189**	1.3%	**19,431**	6.3%	**20,652**	5.9%	**21,861**	0.8%	**22,035**	1.6%	**22,393**

Source: Annual Financial Reports of the State Comptroller, Revised Governor's Recommended Budget, and OPM Letter dated May 1, 2023.

FY 2024 – FY 2025 Biennium Budget

OPM has compiled budget projections for the FY 2024 – FY 2025 Biennium budget based on the governor's February 8, 2023 proposed budget adjusted for the May 1 consensus revenue estimate. Budget negotiations are ongoing and a final budget is expected by the June 7 end of the legislative session.

Revenues available for appropriation are projected to decline 3.7% YoY in FY 2024 to $22.57 billion. The decline reflects a number of policy changes and tax cuts expected to reduce revenues $220 million from baseline estimates. The most notable proposed revenue item is a reduction in the two lowest personal income tax brackets that would reduce revenues $221 million in FY 2023 and $496 million in FY 2025 once fully phased in. Expenditures are projected to increase 0.8% YoY in FY 2024 to $22.04 billion after accounting for policy changes reducing expenditures by $224 million from the baseline estimate. The most notable appropriation reduction is a $127 million reduction in OPEB costs per the transition to a new Medicare Advantage provider.

As shown in Figure 7, projections call for significant volatility cap and unappropriated surplus contributions to the BRF SERS/TRS in the coming biennium.

Liquidity Position

The common cash pool represents the State's operating cash and includes the BRF. Available cash includes bond funds and other balances that can be made available to the common cash pool through temporary transfers under long established State practice. Variability in the level of cash in the common cash pool at a given point in the fiscal year reflects the seasonality of cash flow. The level of total available cash is impacted both by the rate of bond issuance and the rate of spending from those bond funds. The State has no plans to issue cash flow notes.

Figure 9

Available Cash Balance FYE June 30 (dollars in millions)	2018	2019	2020	2021	2022	4/29/2023
Common Cash Pool	$1,871	$3,558	$4,353	$9,964	$12,758	Unavailable
Total Available Cash	$3,399	$4,827	$5,725	$11,551	$14,612	$11,300

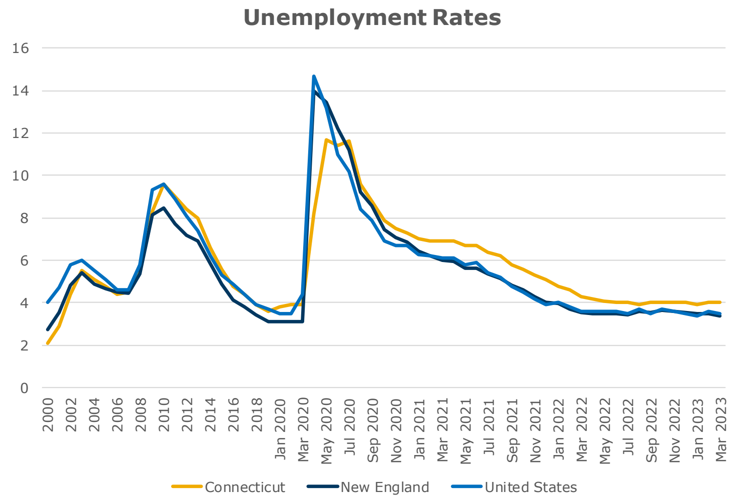
Source: State of Connecticut Treasurer's Office | Treasurer's Cash and Debt Monthly Reports.

RD 4: State Resource Base Update

Employment

State employment has rebounded from the early months of the pandemic but remains below the pre-pandemic level. According to Bureau of Labor Statistics data, as of March, the total number of jobs in the State is 2.1% below the 2019 average. State unemployment has trended higher than the regional and U.S. average in the last year. As March 2023, state unemployment was 4.0%, higher than New England and the U.S. at 3.4% and 3.5%, respectively.

Figure 10



	Connecticut	New England	United States
February 2023	4.0	3.5	3.6
March 2023	4.0	3.4	3.5
GFC Annualized Peak	9.6	8.5	9.6
Point Δ from GFC Annualized Peak	-5.6	-5.1	-6.1

Source: U.S. Bureau of Labor Statistics. Seasonally Adjusted.

Figure 11

Total Employment
(Not Seasonally Adjusted) (in thousands)

	Connecticut	Δ(%)	New England	Δ(%)	United States	Δ(%)
2000	1,724		7,138		136,891	
2001	1,699	-1.5%	7,120	-0.3%	136,933	0.0%
2002	1,698	0.0%	7,125	0.1%	136,485	-0.3%
2003	1,688	-0.6%	7,100	-0.4%	137,736	0.9%
2004	1,687	-0.1%	7,118	0.2%	139,252	1.1%
2005	1,708	1.2%	7,164	0.6%	141,730	1.8%
2006	1,750	2.5%	7,260	1.3%	144,427	1.9%
2007	1,773	1.3%	7,311	0.7%	146,047	1.1%
2008	1,772	0.0%	7,297	-0.2%	145,362	-0.5%
2009	1,731	-2.3%	7,097	-2.7%	139,877	-3.8%
2010	1,728	-0.2%	7,102	0.1%	139,064	-0.6%
2011	1,742	0.8%	7,154	0.7%	139,869	0.6%
2012	1,730	-0.7%	7,192	0.5%	142,469	1.9%
2013	1,719	-0.6%	7,204	0.2%	143,929	1.0%
2014	1,764	2.6%	7,348	2.0%	146,305	1.7%
2015	1,786	1.2%	7,437	1.2%	148,834	1.7%
2016	1,801	0.9%	7,532	1.3%	151,436	1.7%
2017	1,839	2.1%	7,726	2.6%	153,337	1.3%
2018	1,849	0.6%	7,861	1.7%	155,761	1.6%
2019	1,869	1.0%	7,932	0.9%	157,538	1.1%
2020	1,734	-7.2%	7,320	-7.7%	147,813	-6.2%
2021	1,739	0.3%	7,524	2.8%	152,586	3.2%
2022	1,853	6.5%	7,744	2.9%	158,297	3.7%
Mar 2023	1,830	-1.2%	7,730	-0.2%	161,031	1.7%
Δ 2019 Avg to Mar 2023	-2.1%		-2.5%		2.2%	

Source: U.S. Bureau of Labor Statistics. Seasonally adjusted.

Real Gross State Product

Connecticut's real gross state product (GSP) in 2022 was up 3.3% compared to 2010. In contrast, the New England region and the U.S. saw real GSP rise by 18.3% and 27.9%, respectively.

Figure 12

Real GSP
(dollars in millions) (chained 2012 dollars)

	Connecticut	Δ (%)	New England	Δ (%)	United States	Δ (%)
2000	216,158		747,745		13,138,035	
2010	244,355	13.0%	871,287	16.5%	15,648,991	19.1%
2020	235,235	-3.7%	951,602	9.2%	18,509,143	18.3%
2022	252,533	3.3%	1,030,930	18.3%	20,014,128	27.9%
CAGR 2010 to 2022	0.3%		1.4%		2.1%	
Total Δ 2010 to 2022	3.3%		18.3%		27.9%	

Souce: U.S. Bureau of Economic Analysis

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

KBRA's ESG assessment can be found in the report dated December 10, 2021.