

February 11, 2021

On February 10, 2021, Governor Ned Lamont released his biennial budget proposal for fiscal years 2022 and 2023.<sup>1</sup> The proposed budget contains revenue sources needed to fund government services, policy priorities, and all other state appropriations. Below is a snapshot of how the governor proposes to fund the State of Connecticut's budget over the next two fiscal years.

### **Governor's budget proposal is the first step of the budget development process<sup>2</sup>**

- The General Assembly will review the governor's proposed budget, beginning with the Appropriations and Finance, Revenue and Bonding Committees.
- The General Assembly will make adjustments to the budget, and then the amended budget will be put to a vote by each chamber of the legislature.
- Once each chamber passes the same exact version of the budget, the budget is presented to the governor will sign it into law, veto it, veto specific line items, or let it go into effect without signing.

### **Key Proposed Revenue Policies<sup>3</sup>**

- Budget proposal is supported by \$1.75 billion in yet to be approved federal stimulus dollars and Budget Reserve Fund resources across the biennium.
- Personal Income Tax exemption phase-ins for teachers' pensions (25%) and other pensions and annuities (28%) are delayed through the biennium, netting the state \$65 million over the next two fiscal years.
- 10% Corporation Tax Surcharge has been extended through the biennium, providing \$130 million over the next two fiscal years.
- Scheduled transfer of Sales and Use Tax revenue to the Municipal Revenue Sharing Account is delayed for the biennium, resulting in \$764 million staying in the General Fund over the next two fiscal years.
- Legalization of the sale of adult-use cannabis provides a new source of Sales and Use Tax and Excise Tax revenue, resulting in \$37 million in additional General Fund and Special Transportation Fund revenue across the biennium.
- The Special Transportation Fund is supported by a new mileage-based tax on heavy-weight vehicles based on the weight of the truck, which is projected to provide \$45 million in new resources in FY 2023 annualized to \$90 million in FY 2024.

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<sup>1</sup> State of Connecticut, Office of Policy and Management. (2021). *Connecticut FY 2022 – FY 2023 Biennium Governor's Budget*. Hartford, CT: Author. Retrieved from [https://portal.ct.gov/-/media/OPM/Budget/2022\\_2023\\_Biennial\\_Budget/Bud\\_WebPage/GovBud\\_2022-23\\_Final\\_Web.pdf](https://portal.ct.gov/-/media/OPM/Budget/2022_2023_Biennial_Budget/Bud_WebPage/GovBud_2022-23_Final_Web.pdf).

<sup>2</sup> A more detailed explanation of Connecticut's state budget process can be found at <http://ctstatefinance.org/resources/connecticuts-state-budget-process>.

<sup>3</sup> This analysis is focused on the high-level impact of the governor's proposed budget. For a review of all revenue sources and associated policy changes in the governor's budget proposal, please see: State of Connecticut, Office of Policy and Management. (2021). *Connecticut FY 2022 – FY 2023 Biennium Governor's Budget*. Hartford, CT: Author. Retrieved from [https://portal.ct.gov/-/media/OPM/Budget/2022\\_2023\\_Biennial\\_Budget/Bud\\_WebPage/GovBud\\_2022-23\\_Final\\_Web.pdf](https://portal.ct.gov/-/media/OPM/Budget/2022_2023_Biennial_Budget/Bud_WebPage/GovBud_2022-23_Final_Web.pdf).

For a more in-depth examination of all state revenue sources, please see <http://ctstatefinance.org/revenue>.

## Analysis of Selected State Revenues

Tables 1 and 2 below contain proposed revenue estimates for significant state General Fund (Table 1) and Special Transportation Fund (Table 2) revenue sources, and key policy changes contained in the governor's budget proposal for each source. Each revenue item is compared its FY 2021 estimated revenue.

The sole revenue sources included in Tables 1 and 2 are those **revenues projected to exceed \$100 million in revenue in FY 2022**, or **tax revenues with significant policy changes or public interest** for the sake of clarity.

State revenues projected to increase — as compared to FY 2021 estimated revenues — under Governor Lamont's proposed budget are highlighted in green, while state revenues projected to decrease are highlighted in red. The far-right column of each table details the policy changes for each revenue source that are contained in the governor's proposed budget.

**Table 1: Selected Proposed General Fund Revenue Sources  
Under Governor's Proposed Biennial Budget<sup>4</sup>**

Revenue Source	FY 2021 Estimated (Millions of \$)	Governor's Proposed Budget (Millions of \$)		Change from FY 2021 Estimate (Millions of \$) <sup>5</sup>		Key Policy Details & Impact
		FY 2022	FY 2023	FY 2022	FY 2023	
<b>Taxes</b>						
Personal Income Tax: Withholding	\$6,915.6	\$7,184.6	\$7,490.6	\$269.0	\$575.0	<ul style="list-style-type: none"> <li>Hold Teachers' Pension Exemption at 25% (+\$8m in FY 22, +\$8m in FY 23)</li> <li>Hold Pension and Annuity Exemption at 28% (+\$16m in FY 22, +\$33m in FY 23)</li> </ul>
Personal Income Tax: Estimates and Finals	\$2,538.7	\$2,589.1	\$2,651.5	\$50.4	\$112.8	
Sales & Use	\$4,532.7	\$4,513.8	\$4,546.1	(\$18.9)	\$13.4	<ul style="list-style-type: none"> <li>Delay transfers to the Municipal Revenue Sharing Account (+\$377m in FY 22, +\$387m in FY 23)</li> <li>Cannabis Legalization Sales Tax (+\$1.9m in FY 22, +\$12m in FY 23)</li> </ul>
Corporation	\$960.0	\$1,090.7	\$1,098.5	\$130.7	\$138.5	<ul style="list-style-type: none"> <li>Maintain 10% Tax Surcharge (+\$80m in FY 22, +\$50m in FY 23)</li> <li>Delay and extend the elimination of the Capital Base Tax (+\$21m in FY 22, +\$29m in FY 23)</li> <li>Limit carryforward of new R&amp;D credits to 15 years (no revenue change)</li> </ul>
Pass-Through Entity Tax	\$1,221.3	\$1,233.3	\$1,301.5	\$12.0	\$80.2	<ul style="list-style-type: none"> <li>No significant policy changes</li> </ul>
Public Service	\$261.6	\$272.8	\$279.8	\$11.2	\$18.2	<ul style="list-style-type: none"> <li>Eliminate certain exemptions (+\$3m in FY 22, +\$3m in FY 23)</li> </ul>

<sup>4</sup> State of Connecticut, Office of Policy and Management. (2021). *Connecticut FY 2022 – FY 2023 Biennium Governor's Budget*. Hartford, CT: Author. Retrieved from [https://portal.ct.gov/-/media/OPM/Budget/2022\\_2023\\_Biennial\\_Budget/Bud\\_WebPage/GovBud\\_2022-23\\_Final\\_Web.pdf](https://portal.ct.gov/-/media/OPM/Budget/2022_2023_Biennial_Budget/Bud_WebPage/GovBud_2022-23_Final_Web.pdf).

<sup>5</sup> Changes from FY 2021 estimates include not only the proposed policy changes but also changes to economic growth rates as a result of the January 2021 consensus revenue estimates from the Office of Policy and Management and the Office of Fiscal Analysis.

Revenue Source	FY 2021 Estimated (Millions of \$)	Governor's Proposed Budget (Millions of \$)		Change from FY 2021 Estimate (Millions of \$) <sup>5</sup>		Key Policy Details & Impact
		FY 2022	FY 2023	FY 2022	FY 2023	
						<ul style="list-style-type: none"> <li>Cap tax credits to 50.01% of liability (+\$2m in FY 22, +\$2m in FY 23)</li> </ul>
Inheritance & Estate	\$222.6	\$154.4	\$150.2	(\$68.2)	(\$72.4)	<ul style="list-style-type: none"> <li>No significant policy changes</li> </ul>
Insurance Companies	\$214.6	\$224.7	\$220.4	\$10.1	\$5.8	<ul style="list-style-type: none"> <li>Captive insurers initiative (+\$8m in FY 22, +\$0.2m in FY 23)</li> </ul>
Cigarettes	\$343.9	\$317.7	\$301.2	(\$26.2)	(\$42.7)	<ul style="list-style-type: none"> <li>Ban flavored vaping products (-\$1.9m in FY 22, -\$2.5m in FY 23)</li> </ul>
Real Estate Conveyance	\$305.6	\$237.4	\$244.8	(\$68.2)	(\$60.8)	<ul style="list-style-type: none"> <li>No significant policy changes</li> </ul>
Health Provider Tax	\$1,079.5	\$989.2	\$991.3	(\$90.3)	(\$88.2)	<ul style="list-style-type: none"> <li>Implement recommendation of ambulatory surgical centers tax study (-\$0.5m in FY 22 and FY 23)</li> </ul>
Miscellaneous Tax	\$18.8	\$65.2	\$77.4	\$46.4	\$58.6	<ul style="list-style-type: none"> <li>Cannabis Excise Tax (+\$3.2m in FY 22, +\$19m in FY 23)</li> <li>DRS Tax Amnesty Program (+\$40m in FY 22, -\$4m in FY 23)</li> <li>CREATES Revenue Initiative (+40m in FY 23)</li> </ul>
<b>Other Revenue</b>						
Transfers-Special Revenue	\$376.6	\$373.3	\$380.8	(\$3.3)	\$4.2	<ul style="list-style-type: none"> <li>No significant policy changes</li> </ul>
Indian Gaming Payments	\$232.3	\$232.6	\$275.7	\$0.3	\$43.4	<ul style="list-style-type: none"> <li>Implement iGaming and sports betting (+\$2m in FY 22m, +\$3m in FY 23)</li> </ul>
Licenses, Permits Fees	\$338.8	\$366.5	\$339.4	\$27.7	\$0.6	<ul style="list-style-type: none"> <li>Safe drinking water assessment (+\$2m in FY 22, +2m in FY 23)</li> <li>Cannabis licensing (+\$5m in FY 22, +\$2m in FY 23)</li> </ul>
Rents, Fines, Escheats	\$155.5	\$160.0	\$164.4	\$4.5	\$8.9	<ul style="list-style-type: none"> <li>No significant policy changes</li> </ul>

Revenue Source	FY 2021 Estimated (Millions of \$)	Governor's Proposed Budget (Millions of \$)		Change from FY 2021 Estimate (Millions of \$) <sup>5</sup>		Key Policy Details & Impact
		FY 2022	FY 2023	FY 2022	FY 2023	
Miscellaneous	\$216.9	\$245.4	\$237.9	\$28.5	\$21.0	<ul style="list-style-type: none"> <li>Implement 2% convenience fee for credit/debit card use (+\$3m in FY 23)</li> </ul>
<b>Other Sources</b>						
Federal Grants	\$1,657.2	\$1,549.7	\$1,596.6	(\$107.5)	(\$60.6)	<ul style="list-style-type: none"> <li>Revenue gain attributable to expenditure changes (+\$25m in FY 22, +\$24m in FY 23)</li> <li>Enhanced FMAP (+\$59m in FY 22)</li> </ul>
Transfer from Tobacco Fund	\$114.5	\$113.1	\$112.2	(\$1.4)	(\$2.3)	<ul style="list-style-type: none"> <li>No significant policy changes</li> </ul>
Transfers From/(To) Other Funds	\$98.8	\$730.4	\$938.6	\$631.6	\$839.8	<ul style="list-style-type: none"> <li>Delay GAAP deficit payment (+\$85m in FY 22, +\$85m in FY 23)</li> <li>Transfer excess Regional Performance Incentive funds (+4m in FY 22 and 23)</li> <li>Federal stimulus/budget reserve fund transfer (+\$775m in FY 22, +\$975m in FY 23)</li> <li>Transfer to the Tourism Fund (-\$3m in FY 22)</li> </ul>
Transfers to Budget Reserve Fund - Volatility Adjustment	(\$355.1)	(\$312.0)	(\$338.6)	\$43.1	\$16.5	<ul style="list-style-type: none"> <li>No significant policy changes</li> </ul>

**Table 2: Selected Proposed Special Transportation Fund Revenue Sources  
Under Governor's Proposed Biennial Budget<sup>6</sup>**

Revenue Source	FY 2021 Estimated (Millions of \$)	Governor's Proposed Budget (Millions of \$)		Change from FY 2021 Estimate (Millions of \$)		Key Policy Details & Impact
		FY 2022	FY 2023	FY 2022	FY 2023	
<b>Taxes</b>						
Motor Fuels Tax	\$467.4	\$473.3	\$486.0	\$5.9	\$18.6	• No significant policy changes
Oil Companies Tax	\$203.5	\$246.3	\$268.0	\$42.8	\$64.5	• No significant policy changes
Sales & Use Tax	\$442.3	\$652.0	\$755.6	\$209.7	\$313.3	• Cannabis Legalization Sales Tax (+\$200K in FY 22, +\$1.0m in FY 23)
Sales Tax - DMV	\$94.0	\$88.2	\$89.5	(\$5.8)	(\$4.5)	• No significant policy changes
Highway Use Tax	-	-	\$45.0	-	\$45.0	• Tax per mile for heavy weight vehicles with rate assessed by truck weight, effective January 1, 2023 (+\$45m in FY 23)
<b>Other Sources</b>						
Motor Vehicle Receipts	\$332.9	\$263.5	\$265.6	(\$69.4)	(\$67.3)	• No significant policy changes
Licenses, Permits, Fees	\$129.6	\$140.7	\$141.9	\$11.1	\$12.3	• No significant policy changes
Less refunds of Payments	(\$5.2)	(\$5.0)	(\$2.5)	\$0.2	\$2.7	• Impose 2% convenience fee for credit/debit cards

<sup>6</sup> Ibid.