Connecticut's Three-Year Report with Projections for FY26-FY28

"The Three-Year Report" Provides Little Useful Guidance; With Modest Enhancements, It Could Be Quite Valuable

by

The Townsend Group Intl, LLC

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The Townsend Group

Red Jahncke is the founder and CEO of The Townsend Group International, LLC, a business and public policy consulting firm headquartered in Connecticut. Earlier in his career, he was an investment banker at E.F. Hutton and J.P. Morgan Chase where he specialized in financial institutions.

Red is a nationally recognized columnist, who writes about politics and policy. His columns appear in numerous national publications, including *The Wall Street Journal*, *Bloomberg*, *National Review*, *The Hill*, *The New York Sun* and *USA Today*, as well as many Connecticut newspapers.

Red's columns are featured on *RealClearPolitics* and *CT Capitol Report*, often leading to TV and radio interviews.

Red was raised in Connecticut, where he and his wife have raised four children. He is a graduate of Harvard College and Harvard Business School.

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EXECUTIVE SUMMARY

This study examines the Governor's current Three Year Budget Report, aka Out-Year Report ("Out-Year"), which forecasts the budget in the three fiscal years (FY 2026 to FY2028) after the budget for FY 2024 and FY 2025. ***The Out Year does not provide reliable guidance, given its significant methodological deficiencies. Guidance is needed, however, in face of the state's massive unfunded obligations of about $92 billion and the associated risk of large future tax increases.***

The Out-Year is released in February with Governor's Budget Proposal for the biennium. Both are based upon Consensus Revenue Forecast of mid-January (CRF–Jan 23). ***The Out-Year is <u>not</u> updated, and, thus, is of limited value beyond the date of its release; often, actual results soon diverge from Out-Year expectations.*** The ultimate budget differs as to appropriations and as to revenue which is based on the Consensus Revenue Forecast of early May (CRF–May 23). ***Our findings and recommendations are summarized below***:

<u>Ill-Timed and No Disclosed Assumptions for Revenue Projections:</u>

- *Timing:* Out-Year is based on the CRF released in mid-January, before mid-January tax receipts can be tallied and analyzed. ***This is sub-optimal.*** The CRF should be delayed to allow for summary analysis of mid-January receipts.
- *No Underlying Assumptions:* There is no explanation for the methodology or assumptions used in their preparation.
- *Sensitivity Analysis:* Revenue should be projected on a "base case," "best case" and "worst case" basis, and sensitivity analysis should be performed in terms of the impact of the varying cases upon appropriations and spending.

<u>Tax Revenue Still Overestimated, Despite Major Reduction Since January 2023</u>

- Estimates & Finals were reduced by $1.9 billion in FY 23–FY 26 in the CRF–May 23 from the CRF–Jan 23, and by $3.4 billion through FY 28.
- Reduced E&F projections still appear overoptimistic, in light of Congressional Budget Office projection of a decade-long downward trend in capital gains.
- Projected corporate income tax revenue is without basis for its optimistic outlook.

<u>Highlights of Governor's February Budget vs. Assembly's April Budget</u>

- Governor and Appropriations Committee have one material difference. In FY 2025, Committee adds $150 million for unspecified "education finance reforms."
- The Governor's Proposed Budget has five appropriations which change significantly from FY 23 to FY 24 and to FY 25: Mental Health and Addiction Services, Higher Education, and Corrections increase over 10%. Medicaid increases 5% in FY 24 and 7% in FY 25. Fringe benefit expense falls 7% and 6%, respectively, due to more cost-effective health insurance coverage.
- General Fund spending grows at a modest 2.7% pace from FY 21 to FY 28, aided by a sleight-of-hand of removal of $600 million of municipal spending from the General Fund in FY 24.

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<u>THE OUT-YEAR BUDGET REPORT: 2026 – 2028</u>

Introduction

<u>*Focus:*</u> This study focuses upon the Governor's Three Year Budget Report, aka Out-Year Report ("Out-Year"), which forecasts the budget in the three fiscal years (FY 2026 to FY2028) following the biennial budget for FY 2024 and FY 2025. The Out-Year is trendline analysis, as stated in the Out-Year itself: "The governor's proposals for the biennium are annualized into the out-years, except where legislation clearly limits proposed changes to the FY 2024 – FY 2025 biennium."

The Out-Year is released with the Governor's Proposed Budget in February. Both are based upon Consensus Revenue Forecast of January 18, 2023 (CRF – Jan 23). ***The Out-Year is <u>not</u> updated. Its trendline soon-outdated analysis offers limited guidance. Yet, guidance is needed given the state's massive unfunded obligations of about $92 billion and the associated risk of large future tax increases.***

The ultimate budget differs both as to appropriations and revenue. Appropriations change as soon as the release of the Appropriations Committee Budget, most recently on April 18, 2023 ("Committee Budget"). Revenue is based on the early May Consensus Revenue Forecast, released this year on May 2 (CRF – May 23).

The scope of this analysis is limited to the General Fund budget, and only to tax revenue, which, however, represents 90% of overall General Fund revenue.

This paper assesses the Out-Year:
(1) on its own merits;
(2) comparing (a) revenue in the Out Year as based upon CRF – Jan 23 to (b) revenue in the CRF – May 23, which this study (i) extends to cover FY 2027 and FY 2028 and (ii) adjusts for tax changes in the Governor's Budget Proposal; and
(3) comparing spending in the Governor's Budget Proposal to spending proposed in the Committee Budget.

<u>*Three Year Report Revenue - General:*</u> In the first year of the Out-Year, FY 2026, revenue is as set forth in the CRF – Jan 23, which covers FY 2023 through FY 2026. In FY 2027 and FY 2028, revenue increases / decreases by unexplained percentages set forth in the Out-Year, with rare exception, such as the sunset of corporate income tax surcharge scheduled in calendar 2026. Revenue is not adjusted for inflation.

<u>*Three Year Report Spending - General:*</u> Spending in the Out-Year is extended at the level in FY 2025 of the Governor's Budget Proposal without general inflationary increases. Certain accounts, however, reflect the costs of "caseload increases." Certain accounts increase based upon legal mandates or contract provisions, such as cost-of-living adjustments.

Third, the largest expense, State employee compensation, increases pursuant to labor contracts. The wage component ("Personal Services" in State terminology) for all three years of the Out-Year is reflected in agency budgets at its level in the second year of the biennium; wage increases as per contracts are reflected in aggregate in the Reserve for Salary Adjustments ("RSA") in the budget of the Office of Policy and Management (OPM). Fringe benefits for active employees are not reflected in agency budgets, but rather are reflected, with retirement benefits for retired employees, in aggregate in the budget of the Comptroller. The RSA and fringe benefits are listed under "Non-Functional" on page 16 in the Out-Year.

Critique of the Out-Year Report Itself

Timing: The Out-Year Report and the Governor's Proposed Budget are prepared and released too early in the state's fiscal cycle.

Much of the state's revenue is derived from two categories of individual income taxes which are paid in four installments of estimated taxes before final payments are made in March and April, respectively. The fourth installment is due in mid-January and is supposed to bring cumulative installments equal to a taxpayer's expected total liability for the calendar/tax year just ended.

The fourth installment is very important for two reasons. First, it is the only installment paid after the close of the tax year on December 31st; as such, it is the first time that a taxpayer can know what his actual income and expenses are. Second, as the last installment, it serves as the last opportunity for a taxpayer to bring his overall estimated tax payments in line with his best estimate of his full-year taxes due, and, thereby avoid penalties for underpayment of taxes. As such, the mid-January estimated tax payments provide the best guide as to tax revenue which may be expected for the two categories, namely Estimates & Finals ("E&F") and the Pass-through Entity Tax ("PET").

However, the Governor's Proposed Budget and the Out-Year are based upon the Consensus Revenue Forecast released on the same day as the fourth estimated tax installment payment must be filed and paid. Obviously, it is impossible to process tens of thousands of tax filings and payments on the day received. Were the CRF prepared just a week or two later and, in turn, the Governor's Proposed Budget and the Out-Year prepared and released a week or two later, the revenue component would be much more accurate. As discussed below, the mid-January CRF for the last two years has not been accurate.

Revenue Projections – Underlying Assumptions: Once again, a weakness of the Out-Year is one that it shares with the Consensus Revenue Forecast. Neither provide meaningful bases for the revenue they forecast. The CRFs themselves disclose no underlying assumptions for their forecasts. The Out-Year provides a selection of projected U.S. and Connecticut economic metrics "as assumptions used to develop revenue estimates"; yet there is no explanation of how the metrics are used. Certain metrics would have obvious relationships, e.g. the unemployment rate to personal income tax revenue. Relationships need not be in the form of an extensive econometric model, but there should be some rationale as to how the various metrics relate to the projection of various categories of revenue.

Revenue and Budget Projections – Sensitivity Analysis: Future revenue can only be estimated, while future appropriations are a function of the deliberate decisions of elected officials. Nevertheless, officials' decisions are dependent upon revenue levels because the State must keep spending in balance with revenue. Accordingly, it would be helpful if revenue projections were provided in the form of a "base case" on which the budget is based and a "best case" and a "worst case."

The worst case would be particularly useful. Spending is divided into certain broad categories, including fixed coats, mandatory costs and discretionary spending. No matter the revenue level, fixed costs must still be paid, and many mandatory costs must not only be paid but are subject to mandatory increases, such as cost-of-living adjustments. Accordingly, declining revenue impacts discretionary spending to a disproportionate degree. The budgetary process would benefit from analysis which identified the discretionary spending categories that would be vulnerable to cutback and identified the probable magnitude of the cutbacks.

Tax Revenue in Out-Year Report for FY24 - FY28 vis-a-vis CRF-May 23

This analysis focuses upon the five major taxes which produce about 90% of General Fund tax revenue, which, in turn, represents 90% of total General Fund revenue. Those taxes are the three forms of personal income taxes - withholding, E&F and PET - plus the sales tax and the corporate income tax.

Extension and Adjustment of the CRF – May 23: There are three general differences between the Out-Year and the CRF-May 23. First, the Out-Year reflects Governor Lamont's proposed tax changes for the biennium and beyond, while the CRF-May 23 does not. Second, the Out-Year is based upon the CRF-January 23, which is obviously different from the CRF-May 23. Third, the CRF-May 23 does not cover FY 2027 and FY 2028, the last two years of the Out-Year.

To compare the Out-Year to the CRF-May 23, this study makes two adjustments to the CRF-May 23 to put the revenue projections on the same basis. First, it adjusts the CRF-May 23 for three tax changes in the Governor's Proposed Budget and in the Out-Year: (1) a reduction in the individual income tax rates, (2) an increase in the Earned Income Tax Credit (EITC), and (3) the re-imposition of the 10%

corporate income tax surcharge. Second, the five taxes in the adjusted CRF- May 23 are extended two years using the same growth rates used in the Out-Year.

In addition, this study includes two additional line items: (1) tax refunds, which relates almost exclusively to individual and corporate income taxes and captures the proposed change in the EITC, and (2) the Volatility Transfer, which relates exclusively to the gross E&F and PET individual income tax receipts.

Reduced E&F Revenue and Volatility Transfer: The comparative analysis reveals, first, that the CRF-May made a huge adjustment to projected E&F revenue, which, in turn, generated a similar change in the Volatility Transfer. Over the six years from FY 2023 to FY 2028, the analysis shows an aggregate $3.4 billion reduction in projected E&F revenue, triggering a $2.5 billion reduction in the Volatility Transfer which moves revenue from the General Fund and to the Budget Reserve Fund.

The impact of the loss of $3.4 billion in General Fund revenue, net of the $2.5 billion reduction in revenue removed from the General Fund, leaves a net reduction of about $900 million in General Fund revenue. This is mostly offset by a material increase of $680 million in projected corporate income tax revenue. The $2.5 billion reduction of the volatility Transfer will almost reduce contributions to the State's pension funds, which are severely underfunded.

The change in E&F acknowledges implicitly that the peak in capital gains reached in 2021 was far above trend and adopts a lower trend over the six-year period. The revised trend declines in FT 2024, but rises thereafter.

Yet, the Congressional Budget Office is projecting a long-term downward trend in capital gains nationally. As a percent of GDP, CBO sees capital gains declining "from an estimated high of 8.7 percent of GDP in 2021 to a long-run average of 3.7 percent of GDP by 2033." That is more than a 50% reduction, which puts Connecticut's projection in major conflict with the foremost economic and public finance forecasting organization in the country. OPM and OFA should explain the basis for their markedly contrarian projection.

Overoptimistic Corporate Income Tax Revenue Projection: The projection of healthy increases in corporate income tax revenue, apart from the 10% surcharge, seems overoptimistic. OPM and OFA increased their projection in the CRF – May 23 significantly over their projection in the CRF – Jan 23. When their CRF – May 23 projection for FY 2026 is extended using the 3% annual growth rate used in the Out-Year, corporate tax revenue exceeds the level in the Out-Year for FY 2027 and FY 2028 by more than $100 million.

Perhaps the difference relates to inflation. The Out-Year does not reflect inflation; yet presumably, CRFs are in nominal dollars, and,thus, do reflect inflation.

Appropriations in FY23 - FY28 in Governor's Proposed Budget and Out-Year Report Compared to Appropriations Committee Budget of April 18, 2023

The Governor's Proposed Budget and Out-Year, together, cover FY24 to FY28. The Appropriations Committee Budget covers FY24 and FY25; it does not cover FY26 to FY28. This analysis does not attempt to extend the Committee Budget, as there is no apparent basis upon which to do so.

This analysis compares the Governor's Proposed Budget to the Committee Budget for FY24 and FY25, which provides actual data for FY21 and FY22 and estimated data for FY23.

This study compares spending over the 8 years of FY21 to FY28 in broad categories, not agency by agency, much less program by program. However, it does break out spending in the case of large agencies and, within certain agencies, major line items. For example, within the broad category of Government B ($6.6 billion actual in FY22), it breaks out Debt Service ($2.4 billion) and Fringe Benefits ($3.2 billion). In the Human Services category ($5.2 billion), it breaks out the Dept. of Social Services, which, in turn, is broken into three major line items: Medicaid ($2.5 billion), Hospital Supplemental Payments ($568 million) and Other ($1.2 billion).

The paper assesses spending in three ways: (1) examining proposed spending increases over FY23 (a) for FY24 and (b) for FY25 in the Governor's Proposed Budget; (2) comparing spending in FY25 in the Governor's Proposed Budget vs the Committee Budget; and (3) computing the compound annual growth rate from actual levels in FY21 to levels in FY28 as set forth in the Out-Year. See Exhibit 2.

As noted on Exhibit 2, there are two major changes in categorization of spending between FY23 and FY24 and thereafter. First, about $600 million of municipal aid is moved out of the General Fund, which has the effect of presenting a lower rate of growth in General Fund spending, which actually declines 0.5% from FY23 to FY24. Second, almost $800 million of spending is transferred from the Department of Social Services to the Department of Developmental Services.

<u>*Change in Spending from FY23 to FY24 & FY25 in Governor's Proposed Budget:*</u>
In Exhibit 2, there are five categories of spending which change significantly, including three in the $700 million to 800 million range which change more than 10% from FY23 to FY24 and to FY25: (1) Mental Health and Addiction Services, (2) Higher Education, and (3) Department of Corrections.

Two large categories ($3 billion plus) change significantly (about 5% to 7%) from FY23 to FY24 and to FY25: (1) Fringe Benefits declines as the result of the negotiation of a much better health insurance policy for active and retired state employees; and (2) Medicaid continues its inexorably large annual rate of increase.

<u>Difference Between Governor's Proposed Budget and Committee Budget:</u> There is only one significant difference between the Governor's Proposed Budget and the Committee Budget. The Committee appropriates $150 million for reform of education finance in FY25. There's no explanation of the reform intended. See Education – Other in Exhibit 2.

<u>Compound Annual Growth Rate:</u> Overall, the General Fund budget grows at a very slow pace over the eight years from FY21 to FY28 – just 2.7%, or $4.7 billion from $19.4 billion to $24.1 billion. Yet, two things should be noted. First, contributing to the slow growth is the move of $600 million of spending on municipal aid out of the General Fund to another fund. Second, the 2.7% pace of spending growth is depressed by the assumption in the Out-Year of no increases for most expenditures and no inflation for the three out years.

Nevertheless, one major expenditure grows inexorably: Medicaid, which records a 5.0% CAGR, growing by $1.2 billion over the eight years from FY21 to FY28. Another line items grows smartly in the three out years: General Government B – Other, which is driven by growth in the Reserve for Salary Adjustment, where all wage increases are reflected in aggregate (rather than they're being reflected in compensation expense agency by agency).

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EXHIBIT 1

MAJOR TAXES

CONSENSUS REVENUE FORECAST OF MAY 1, 2023 AS EXTENDED AND ADJUSTED vs. THREE YEAR REPORT (OUT-YEAR FORECAST)

Consensus Revenue Forecast - Extended & Adjusted for Governor's Tax Proposals

May 1, 2023

	FY 2023	FY 2024	FY 2025	FY 2026	Annual % Change (1)	FY 2027	FY 2028	Percent of Taxes	Total FY 2023 to FY 2028
Five Largest Taxes									
Personal Income Tax									
Withholding	$ 8,309.4	$ 8,547.5	$ 8,897.0	$ 9,242.9	3.8%	$ 9,594.1	$ 9,958.7	39.8%	$ 54,549.6
Estimates and Finals	2,962.7	2,666.4	2,758.1	2,869.0	4.0%	2,983.8	3,103.1	12.4%	17,343.1
Sales & Use	5,092.6	5,301.7	5,432.5	5,563.2	2.3%	5,691.2	5,822.1	23.2%	32,903.2
Corporation	1,481.7	1,443.8	1,489.7	1,537.6	3.0%	1,583.7	1,631.2	6.5%	9,167.8
Pass-through Entity Tax	2,017.3	1,815.6	1,877.3	1,952.4	4.0%	2,030.5	2,111.7	8.4%	11,804.8
	$ 19,863.7	$ 19,775.0	$ 20,454.6	$ 21,165.1		$ 21,883.3	$ 22,626.8	90.3%	$ 125,768.5
Major Proposed Tax Changes (2)									
Individual Income Tax Cut	NA	$ (221.0)	$ (496.0)	$ (509.0)	3.8%	$ (528.3)	$ (548.4)		$ (2,302.8)
Corp Inc Tax Surchage for 2024 & 2025	NA	80.0	50.0	20.0		-	-		150.0
EITC Increased from 30.5% to 40%	NA	(44.6)	(44.6)	(44.6)		(44.6)	(44.6)		(223.0)
		$ (185.6)	$ (490.6)	$ (533.6)		$ (572.9)	$ (593.0)		$ (2,375.8)
Before Refunds	$ 19,863.7	$ 19,589.4	$ 19,964.0	$ 20,631.5		$ 21,310.3	$ 22,033.8		$ 123,392.7
Refunds (3)	(1,827.4)	(1,889.5)	(1,981.3)	(2,037.8)	3.7%	(2,113.3)	(2,191.5)	-8.7%	(12,040.8)
Net Taxes	$ 18,036.30	$ 17,699.90	$ 17,982.70	$ 18,593.70		$ 19,197.07	$ 19,842.30		$ 111,352.0
Volatility Transfer (4)	(1,347.5)	(702.1)	(701.4)	(721.1)		(752.1)	(782.2)		(5,006.5)
Available for Appropriation before Caps (5)	$ 16,688.8	$ 16,997.8	$ 17,281.3	$ 17,872.6		$ 18,444.9	$ 19,060.1		$ 106,345.5
Memo: Tax Changes Allocated (6)									
PIT - Withholding	$ 8,309.4	$ 8,402.5	$ 8,570.9	$ 8,908.4		$ 9,247.1	$ 9,598.8		$ 53,037.1
PIT - Estimates & Finals	$ 2,962.7	2,621.2	2,657.0	2,765.2		2,875.8	2,991.0		16,872.9
Pass-through Entity Tax	$ 2,017.3	1,784.8	1,808.5	1,881.7		1,957.1	2,035.4		11,484.8
Corporation	$ 1,481.7	1,523.8	1,539.7	1,557.6		1,583.7	1,631.2		9,317.8
Refunds	$ (1,827.4)	$ (1,934.1)	$ (2,025.9)	$ (2,082.4)		$ (2,157.9)	$ (2,236.1)		$ (12,263.8)

Three Year Budget Report ("Out-Year Report")

February 2023

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Percent of Taxes	Total FY 2023 to FY 2028
Five Largest Taxes:								
(NB: Proposed Tax Changes Incorporated)								
Personal Income Tax								
Withholding	$ 8,309.4	$ 8,367.9	$ 8,492.8	$ 8,826.9	$ 9,166.0	$ 9,518.1	38.3%	$ 52,681.1
Estimates and Finals	3,522.7	3,129.4	3,205.6	3,336.2	3,472.1	3,613.4	14.5%	20,279.4
Sales & Use	5,057.6	5,265.3	5,395.2	5,525.0	5,652.1	5,782.1	23.3%	32,677.3
Corporation	1,381.7	1,422.2	1,432.9	1,446.8	1,461.8	1,493.0	6.0%	8,638.4
Pass-through Entity Tax	1,957.3	1,761.6	1,832.1	1,905.3	1,981.5	2,060.8	8.3%	11,498.6
	$ 20,228.7	$ 19,946.4	$ 20,358.6	$ 21,040.2	$ 21,733.5	$ 22,467.4	90.4%	$ 125,774.8
Refunds	(1,827.4)	(1,877.0)	(1,966.3)	(2,022.8)	(2,104.3)	(2,189.1)	-8.8%	(11,986.9)
Net Taxes	$ 18,401.30	$ 18,069.40	$ 18,392.30	$ 19,017.40	$ 19,629.20	$ 20,278.30		$ 113,787.9
Volatility Transfer	(1,847.5)	(1,107.6)	(1,096.0)	(1,129.5)	(1,162.3)	(1,217.0)		(7,559.9)
Available for Appropriation before Caps	$16,553.8	$16,961.8	$17,296.3	$17,887.9	$18,466.9	$19,061.3		$ 106,228.0

EXHIBIT 1 cont

INCREASE (DECREASE)
CONSENSUS REVENUE FORECAST OF MAY 1, 2023 AS EXTENDED AND ADJUSTED
RELATIVE TO
THREE YEAR REPORT (OUT-YEAR FORECAST)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total FY 2023 to FY 2028
Five Largest Taxes:							
Personal Income Tax							
Withholding	$ -	$ 34.6	$ 78.1	$ 81.5	$ 81.1	$ 80.7	$ 356.0
Estimates and Finals	(560.0)	(508.2)	(548.6)	(571.0)	(596.3)	(622.4)	(3,406.5)
Sales & Use	35.0	36.4	37.3	38.2	39.1	40.0	225.9
Corporation	100.0	101.6	106.8	110.8	121.9	138.2	679.4
Pass-through Entity Tax	60.0	23.2	(23.6)	(23.6)	(24.4)	(25.4)	(13.8)
	$ (365.0)	$ (312.4)	$ (350.0)	$ (364.1)	$ (378.6)	$ (389.0)	$ (2,159.1)
Refunds	-	(57.1)	(59.6)	(59.6)	(53.6)	(47.0)	(276.9)
Net Taxes	(365.0)	(369.5)	(409.6)	(423.7)	(432.1)	(436.0)	(2,435.9)
Volatility Transfer	(500.0)	(405.5)	(394.6)	(408.4)	(410.2)	(434.8)	(2,553.4)
Available for Appropriation before Caps	135.0	36.0	(15.0)	(15.3)	(22.0)	(1.2)	117.5

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total FY 2023 to FY 2028
Five Largest Taxes:							
Personal Income Tax							
Withholding	0.00%	0.41%	0.92%	0.92%	0.89%	0.85%	0.68%
Estimates and Finals	-15.90%	-16.24%	-17.11%	-17.12%	-17.17%	-17.23%	-16.80%
Sales & Use	0.69%	0.69%	0.69%	0.69%	0.69%	0.69%	0.69%
Corporation	7.24%	7.14%	7.45%	7.66%	8.34%	9.26%	7.86%
Pass-through Entity Tax	3.07%	1.32%	-1.29%	-1.24%	-1.23%	-1.23%	-0.12%
Refunds	0.00%	3.04%	3.03%	2.95%	2.55%	2.15%	2.31%
Net Taxes	-1.98%	-2.04%	-2.23%	-2.23%	-2.20%	-2.15%	-2.14%
Volatility Transfer	-27.06%	-36.61%	-36.00%	-36.16%	-35.29%	-35.73%	-33.78%
Available for Appropriation before Caps	0.82%	0.21%	-0.09%	-0.09%	-0.12%	-0.01%	0.11%

(1) The CRF is extended to FY 2027 and FY 2028 by: (1) increasing (or decreasing) taxes by the percentages listed under "Economic Growth Rates for Projected Revenue" in the Out-Year Forecast.
(2) Amounts from Three-Year Report (Out-Year Forecast).
(3) Refunds includes refunds of all types of Taxes; yet refunds of individual and corporate income taxes comprise all but an immaterial amount.
(4) From CRF of May 1, 2023, which is not ajusted for Major Proposed Tax Changes.
(5) Before adjustment for Revenue Cap and Spending Cap.
(6) Allocates Indiviual Inc Tax Reduction proportionaltely over Withholding, E&F and PET; adds EITC to Refunds; adds Surchage to Corporation.

EXHIBIT 2

COMPARISON OF APPROPRIATIONS IN THE GOVERNOR'S OUT-YEAR REPORT & THE APPROPRIATIONS COMMITTEE BUDGET OF APRIL 18, 2023

		FY 2021 Actual	FY 2022 Actual	FY 2023 Appropro-priated	FY 2024 Gov Proposal	FY 2025 Gov Proposal	FY 2024 Approp Committee	FY 2025 Approp Committee	FY 2026 Out-Years	FY 2027 Out-Years	FY 2028 Out-Years	FY23 vs FY24G	FY23 vs FY25G	FY25C vs FY25G	FY21 to FY28
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(4) / (3)	(5) / (3)	(7) / (5)	(1) to (10)
Legislative		$ 69.7	$ 75.6	$ 90.0	$ 88.4	$ 93.5	$ 101.9	$ 108.2	93.5	93.5	93.5	-1.8%	3.9%	15.7%	3.7%
General Government A		19.5	20.6	24.4	27.3	27.6	27.7	31.5	27.6	27.6	27.6	11.9%	13.1%	14.1%	4.4%
General Government B															
Debt Service		2,275.8	2,383.6	2,572.4	2,586.0	2,595.4	2,574.0	2,594.4	2,639.6	2,730.2	2,808.2	0.5%	0.9%	0.0%	2.7%
Fringe Benefits		3,107.1	3,245.8	3,590.7	3,331.9	3,377.7	3,316.4	3,365.2	3,478.6	3,549.5	3,619.0	-7.2%	-5.9%	-0.4%	1.9%
Other	(a)	618.1	982.3	1,050.1	532.7	597.1	543.7	607.8	713.2	823.5	941.9	-49.3% (a)	-43.1% (a)	1.8%	5.4%
Total		6,001.0	6,611.7	7,213.2	6,450.6	6,570.2	6,434.1	6,567.4	6,831.4	7,103.2	7,369.1	-10.6%	-8.9%	0.0%	2.6%
Regulation & Protection															
Emergency & Public Protection		198.4	206.6	210.1	224.6	230.8	225.9	232.1	230.8	230.8	230.8	6.9%	9.9%	0.6%	1.9%
Other		26.0	29.2	27.9	37.6	37.8	32.2	32.3	37.8	37.8	37.8	34.8%	35.5%	-14.6%	4.8%
Total		224.4	235.8	238.0	262.2	268.6	258.1	264.4	268.6	268.6	268.6	10.2%	12.9%	-1.6%	2.3%
Conservation & Development		249.2	301.2	266.3	295.0	285.9	289.2	290.8	285.9	285.9	285.9	10.8%	7.4%	1.7%	1.7%
Health & Hospitals															
Developmental Services	(b)	543.9	559.3	611.4	1,433.4	1,445.0	1,433.6	1,457.2	1,472.6	1,493.6	1,516.8	134.4% (b)	136.3% (b)	0.8%	3.2% (b)
Mental Health & Addiction Servic		630.9	639.8	664.8	732.1	738.7	733.6	740.2	749.2	749.2	749.2	10.1%	11.1%	0.2%	2.2%
Other		91.6	100.9	119.1	111.3	112.4	108.5	109.4	112.4	112.4	112.4	-6.5%	-5.6%	-2.7%	2.6%
Total		1,266.4	1,300.0	1,395.3	2,276.8	2,296.1	2,275.7	2,306.8	2,334.2	2,355.2	2,378.4	63.2%	64.6%	0.5%	8.2%
Human Services															
Social Services - Medicaid		2,444.1	2,548.6	3,036.3	3,181.6	3,254.5	3,197.7	3,327.5	3,375.7	3,499.8	3,621.9	4.8%	7.2%	2.2%	5.0%
Social Services - Hosp Sup Pays		548.3	568.3	568.3	568.3	568.3	568.3	568.3	568.3	568.3	568.3	0.0%	0.0%	0.0%	0.4%
Social Services - Other	(b)	1,241.1	1,299.9	1,350.3	710.4	732.6	715.2	747.4	749.8	760.8	771.9	-47.4% (b)	-45.7% (b)	2.0%	3.2% (b)
Dept of Children & Families		746.5	741.2	800.6	822.3	828.6	802.2	806.0	839.4	841.4	843.7	2.7%	3.5%	-2.7%	1.5%
Other		24.5	28.1	28.6	30.4	30.6	31.2	32.8	30.6	30.6	30.6	6.3%	7.0%	7.2%	2.8%
Total		5,004.5	5,186.1	5,784.1	5,313.0	5,414.6	5,314.6	5,482.0	5,563.8	5,700.9	5,836.4	-8.1%	-6.4%	1.2%	1.9%
K-12 Education															
Education - Equalization Grants		2,098.4	2,139.4	2,178.8	2,224.2	2,269.5	2,233.4	2,287.9	2,314.7	2,360.0	2,405.3	2.1%	4.2%	0.8%	1.7%
Education - Other		933.5	963.9	876.2	879.2	892.2	893.0	1,062.5	887.0	887.6	887.9	0.3%	1.8%	19.1%	-0.6%
Office of Early Education		233.9	246.0	335.9	319.1	368.3	319.4	369.1	368.3	368.3	368.3	-5.0%	9.6%	0.2%	5.8%
Tech Educ & Career System				170.1	192.2	194.9	185.3	188.0	194.9	194.9	194.9	13.0%	14.6%	-3.5%	NA
Teachers' Retirement		1,281.2	1,468.6	1,603.1	1,580.1	1,587.5	1,580.1	1,587.5	1,676.6	1,759.4	1,766.3	-1.4%	-1.0%	0.0%	4.1%
Total		4,555.8	4,826.9	5,173.6	5,204.8	5,322.6	5,221.9	5,505.9	5,451.5	5,580.2	5,632.7	0.6%	2.9%	3.4%	2.7%
Higher Education		748.0	870.7	697.5	782.0	796.4	780.7	798.6	796.4	796.4	796.4	12.1%	14.2%	0.3%	0.8%
Judicial & Corrections															
Dept of Corrections		666.1	564.1	630.3	695.3	704.3	692.9	701.9	704.3	704.3	704.3	10.3%	11.7%	-0.3%	0.7%
Judicial Dept.		517.2	537.5	585.0	588.7	590.5	601.9	605.1	590.5	590.5	590.5	0.6%	0.9%	2.5%	1.7%
Other		114.5	121.5	131.6	139.4	141.1	150.8	152.4	141.1	141.1	141.1	5.9%	7.2%	8.0%	2.6%
Total		1,297.8	1,223.1	1,346.9	1,423.4	1,435.9	1,445.6	1,459.4	1,435.9	1,435.9	1,435.9	5.7%	6.6%	1.6%	1.3%
Grand Total		**$ 19,436.3**	**$ 20,651.7**	**$ 22,229.3**	**$ 22,123.5**	**$ 22,511.4**	**$ 22,149.5**	**$ 22,815.0**	**$ 23,088.8**	**$ 23,647.4**	**$ 24,124.5**	-0.5%	1.3%	1.3%	2.7%

(a) Approximately $600 million of municpal funding was moved from non-appropriated funding, channelled nevertheless through OPM's appropriation in FY 2023 to non-appropriated funding in FY 2024. The Reserve for Salary Adjustment fell from the $162 million in FY 2023 that was reserved to fund the ultimate wage increases under the SEBAC 2022 labor contract to $19 million in FY2024 since most of the SEBAC 2022 wage increases were accounted for in FY 2024 agency budgets. Offsetting these decreases was movement from a $184 million negative amount for accruals in FY 2023 to a $8 million positive level of accruals in FY 2024.

(b) In FY 2024, $784 million in community residential services was transferred from Department of Social Services to Department of Developmental Services. Due to the switch, the two departments were combined for calcualting Compound Annual Growtrh Rate (CAGR); both are listed as 3.2%. Yet, the broad categories couldn't be normalized, so Health shows as an unrealisticly high 8.2% and Human Services an unrealisticly low