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September 30, 2025

The Honorable Ned Lamont
Governor of the State of Connecticut
State Capitol
Hartford, Connecticut

Dear Governor Lamont:

I write to provide you with the legal financial statements for fiscal year 2025. These statements have been prepared in accordance with statutory provisions designed to incorporate designated expenditure accruals of Generally Accepted Accounting Principles (GAAP) into the budget process. It is important to recognize that these statements have not been fully audited at this writing. The figures are subject to final audit adjustment and should be viewed as preliminary results. Final audited statements will be released on or before December 31, 2025.

The General Fund ended fiscal year 2025 with an operating surplus of \$410,242,524. In a typical year, once the audit is completed, the surplus would be transferred to the Budget Reserve Fund (BRF). However, the balance in the BRF has exceeded the statutory limit of 18.0 percent of current year net General Fund appropriations. Therefore, separate provisions of the Connecticut General Statutes (CGS) will apply as described below. The Special Transportation Fund had an operating surplus of \$24,843,899 that left a positive fund balance of \$469,883,097 at the close of fiscal year 2025.

In fiscal year 2025, for the seventh consecutive year, significant progress was made toward building and maintaining the balance of the BRF. This was primarily due to the revenue volatility cap, first implemented in fiscal year 2018. This statutory provision requires revenues above a certain threshold to be transferred to the BRF. For fiscal year 2025, the cap was about \$4.1 billion for Estimated and final income tax payments and revenue from the pass-through entity tax. At year-end, a volatility transfer of \$2.1 billion was made to the BRF.

Prior to the close of fiscal year 2025, the balance of the BRF was roughly \$4.1 billion. Adding the \$2.1 billion volatility transfer brought the BRF total to about \$6.2 billion, or 25.8 percent of net General Fund appropriations for fiscal year 2026. As a result, the BRF was temporarily above the statutory 18.0 percent cap. According to CGS Section 4-30a (c)(1)(C), the State Treasurer must transfer the balance above the 18.0 percent threshold as additional contributions to the State Employee Retirement Fund (SERF) and the Teachers' Retirement System (TRS). It is anticipated that the State Treasurer will transfer \$1.87 billion to reduce the unfunded pension liability of SERF and TRS within the following month.

In addition, Public Act 25-93 established the Early Childhood Education Endowment in an effort to transform access to affordable, high-quality childcare and early education across the State. The endowment was initially funded in July 2025 with \$300.0 million of the General Fund's anticipated surplus. Once the audit of fiscal year 2025 operations is completed and the General Fund surplus of \$410.2 million is confirmed, the remaining balance of \$110.2 million is anticipated to be transferred to SERF and TRS to further reduce unfunded past service liability.

Achieving and surpassing the 18.0 percent threshold continues to represent an important benchmark for Connecticut. Due to continued fiscal discipline and hard work, our State is on stronger financial footing, making it possible to provide critical services to those in need, adapt to challenges and uncertainties at the federal level, and hold steady through any future economic downturns.

General Fund

The fiscal year 2025 budget plan as initially formulated included a built-in General Fund surplus of \$297.8 million. Surplus estimates declined from the original budget plan early in the year due to higher than budgeted spending projections, especially related to Medicaid and a change in the accounting treatment of certain state employee fringe benefits. From mid-year to spring, the revenue outlook improved primarily due to increased personal income and pass-through entity tax revenues, raising the projected surplus above initial expectations. Heading into the end of the fiscal year, the surplus was projected at \$480.3 million, which was \$182.5 million higher than initially budgeted. The projected surplus was reduced by Public Act No. 25-168, the fiscal year 2026 budget bill. Certain provisions of the Act affected fiscal year 2025, including a transfer of General Fund revenues of \$150.0 million from fiscal year 2025 to fiscal year 2026. General Fund revenues finished the year higher than anticipated, partially offsetting the additional expenditures. After accounting for continued appropriations, this resulted in a General Fund surplus of \$410.2 million, \$112.4 million higher than budgeted. Pursuant to Public Act No. 25-93, \$300.0 million of the surplus was transferred into the State's new Early Childhood Education Endowment to increase childcare affordability. The remaining \$110.2 million will be used to pay down the State's pension liabilities.

General Fund expenditures totaled \$23,517,490,480 in fiscal year 2025. This represented an increase of \$738.1 million, or 3.2 percent above fiscal year 2024 spending levels. Medicaid costs, the single largest line item in the General Fund, grew \$225.2 million or 6.7 percent over fiscal year 2024, primarily due to higher than expected caseloads. Investing in our education system and families, state spending increased for Education Cost Sharing grants (+\$55.6 million), the Education Finance Reform initiative (+\$143.4 million), grants for early care and education (+\$36.6 million), and Care4Kids childcare assistance (+\$31.3 million). Expenditures for State Employee and Retiree Health Service Costs rose by a combined \$96.9 million, as a result of increases in unit cost and utilization. These increases were somewhat offset by a decrease in debt service payments in fiscal year 2025 by (\$282.9) million for General Obligation bonds. The decrease was primarily due to debt service payments returning to normal levels after the prior fiscal year's one-time expense of \$211.7 million for the early retirement of the state's outstanding General Obligation GAAP Bonds. Contributions to the unfunded liability portion of the State Employees' Retirement System (SERS) also fell by (\$13.5) million, as the state continued to fulfill its responsibility to fully fund its pension systems. The full fiscal year 2025 General Fund statement of appropriations and expenditures by line item is presented in Schedule B-3.

General Fund revenues totaled \$23,891,247,169, which represented an increase of \$1.2 billion, or 5.2 percent from fiscal year 2024 levels. While revenues were budgeted to increase over the prior fiscal year, realized revenues surpassed the budget plan by \$787.5 million or 3.4 percent. Consistent with a strong labor market and wage growth throughout the year, the withholding portion of the Personal Income Tax performed well, coming in above its budget target and growing by \$486.5 million or 5.6 percent over prior year. The Sales and Use Tax underperformed the budget plan by \$307.7 million but still grew by 2.4 percent over fiscal year 2024 collections. Investment Income increased \$285.4 million over the prior fiscal year, primarily due to interest earnings of \$239.8 on federal pandemic relief funds from prior fiscal years that had been inadvertently directed to the American Rescue Plan Act (ARPA) account and now being credited to the General Fund.

The Estimated and Finals (E&F) portion of the Personal Income Tax grew by \$674.4 million or 21.5 percent from the prior year, driven by strong stock market results for calendar year 2024. Pass-through Entity Tax and E&F revenues exceeded the budget plan by \$489.7 million and \$1.1 billion, respectively. However,

there was no net impact to the General Fund from those variances because of the volatility cap. The complete statement of estimated and realized revenue for fiscal year 2025 is presented in Schedule B-2.

Special Transportation Fund

Special Transportation Fund (STF) spending totaled \$2,269,702,141 in fiscal year 2025, increasing by \$220.9 million or 10.8 percent compared with fiscal year 2024. The largest increases incurred within Bus Operations and Rail Operations, which grew by \$128.9 million (78.9 percent) and \$51.9 million (22.5 percent) above fiscal year 2024 levels. These increases were directly correlated with an acceleration of infrastructure improvements and expansion of transit services in the State. Contributions to the unfunded liability portion of the State Employees' Retirement System (SERS) decreased (\$6.6) million compared to the prior fiscal year, as the state continued to fulfill its responsibility to fully fund its pension systems.

Special Transportation Fund revenue totaled \$2,221,018,915, which was (\$133.5) million or (5.7) percent below the budget plan for fiscal year 2025. Total revenue was (\$186.0) million or (7.7) percent less than fiscal year 2024 levels. The reduction was primarily due to the enactment of Public Act 25-168, which transferred \$140.0 million in revenues from fiscal year 2025 to fiscal years 2026 and 2027. The Oil Companies Tax and Highway Use Tax also underperformed the budget plan by (\$59.2) million and (\$34.2) million, respectively. This was somewhat offset by positive performance in Motor Vehicle Receipts, Interest Income, and Licenses, Permits and Fees. These categories exceeded budget expectations by \$19.7 million, \$20.2 million, and \$13.6 million, respectively. The complete statement of Transportation Fund estimated and realized revenue for fiscal year 2025 is presented in Schedule C-2.

The Special Transportation Fund closed fiscal year 2025 with an unappropriated surplus of \$469,883,097, which equates to 20.6 percent of fiscal year 2026 net STF appropriations. Public Act No. 25-168 Sec. 389 requires that the portion of the STF balance exceeding 18.0 percent of the current fiscal year's net STF appropriations be deemed appropriated for the following, as selected by the Treasurer:

- (1) Redeeming prior to maturity any outstanding special tax obligation indebtedness of the State;
- (2) Purchasing outstanding special tax obligation indebtedness of the State in the open market at such prices and terms and conditions that are in the best interest of the State for the purpose of extinguishing or defeasing such debt; or
- (3) Irrevocably placing with an escrow agent in trust an amount to be used solely for scheduled payments of both interest and principal.

Therefore, \$410,257,963 will remain in the STF to keep its balance at 18.0 percent of fiscal year 2026 net STF appropriations and \$59.6 million, the excess amount above 18.0 percent, is deemed appropriated as specified above. This use of STF surplus will reduce future debt service costs.

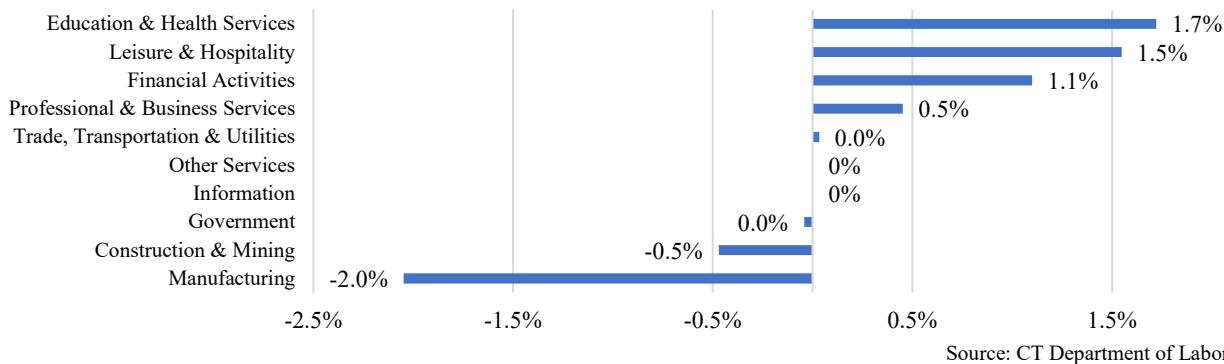
Economic Outlook

Connecticut's budget results are ultimately dependent upon the performance of the national and state economies. Overall, the U.S. economy performed well in FY 2025, a year that included solid growth in late 2024 and significant policy shifts under a new presidential administration in 2025. The Federal Reserve reduced the federal funds target rate by one full percentage point between September 2024 and December 2024 to 4.25-4.5 percent, making monetary policy less restrictive as the labor market showed signs of cooling. U.S. unemployment remained low and steady between 4.0 percent and 4.2 percent all year.

In 2025, the new presidential administration imposed a frequently changing schedule of double-digit tariffs on imports from around the world, a fundamental change to U.S. trade policy. Additional immigration enforcement action and cuts to the federal workforce and previously allocated federal funding also contributed to economic uncertainty. Investment in new artificial intelligence technology drove stock market gains in 2024, which continued in the first half of 2025.

Connecticut added 7,500 (0.4 percent) new payroll jobs in FY 2025, and private industry employment reached a new all-time high in January. The state's civilian labor force, those working or actively looking for work, expanded by 13,545 workers (0.7 percent), and reached an all-time high of 1,960,219 workers in May 2025. Total payroll employment was 1,718,500 in June 2025, the highest since March 2008. While reaching new highs, employment gains slowed in both Connecticut and the U.S. in FY 2025 as labor markets settled into a more sustainable pattern following large pandemic recovery gains in prior years. Connecticut's unemployment rate rose from 3.1 percent in June 2024 to 3.8 percent in June 2025, as the pool of available workers grew faster than employment. An unemployment rate of 3.8 percent is very low by historical standards and indicates that the state's job market remained tighter than the U.S. overall.

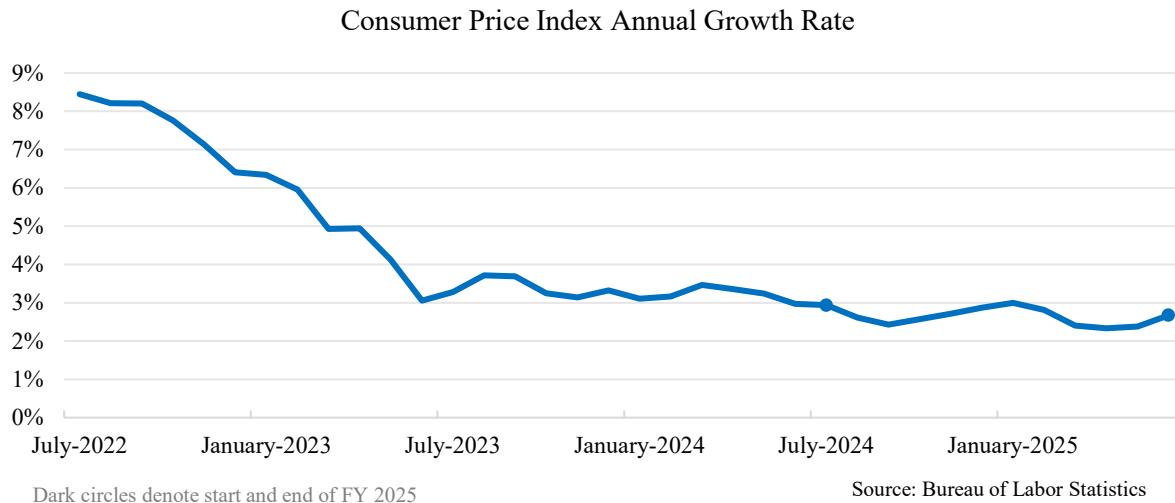
Connecticut Nonfarm Employment Year-over-Year Percentage Change



Looking at Connecticut net employment changes by major industry sector, four industries experienced growth year-over-year as of June 2025, three sectors experienced declines, and two had no change. Private Education and Health Services made the largest gain (+6,300), while Leisure and Hospitality (+2,400) and Financial Activities (+1,300) sectors also had notable growth. Following national trends, the Manufacturing sector experienced the greatest employment reduction (-3,200 jobs).

The U.S. economy added 1.5 million (1.0 percent) net payroll jobs from June 2024 to June 2025, an average of approximately 127,000 per month according to estimates available this month. The labor force expanded by 1.4 percent. The Private Education and Health Services sector led job growth (3.3 percent), followed by Leisure and Hospitality (1.4%) and Government (1.0 percent). Job growth was sluggish in the summer of 2024 and even more so entering the summer of 2025. The U.S. economy added only 19,000 positions in May and -13,000 in June. While hiring slowed, company layoffs remained limited, making it a better labor market for those who already had jobs than for those who were searching. Low unemployment supported continued growth in consumer spending, which accounts for approximately two thirds of U.S. economic activity.

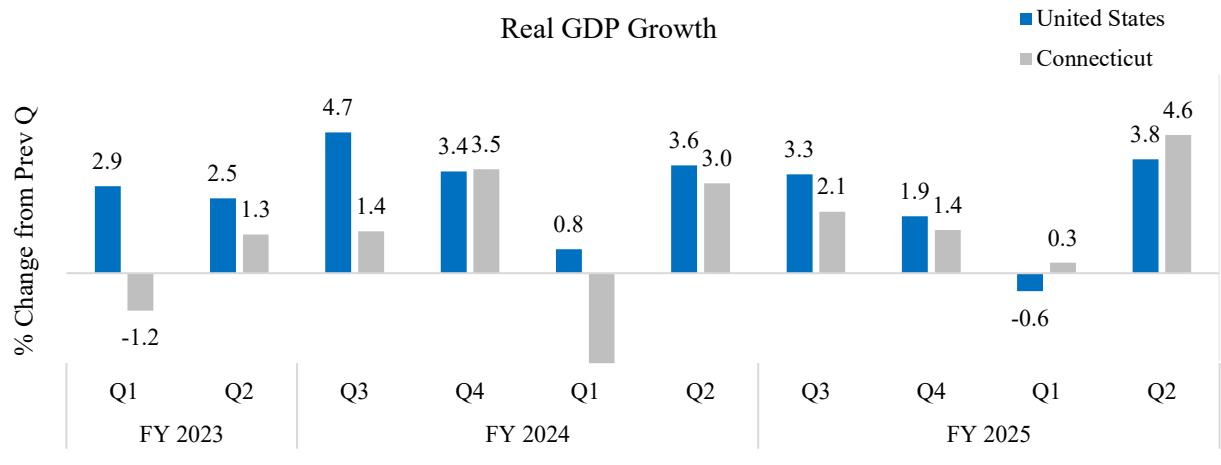
Following three successive interest rate cuts in September, November and December 2024 in response to the cooling labor market, the Federal Reserve held the federal funds rate steady at 4.25-4.5 percent for the remainder of the fiscal year. While inflation according to the Consumer Price Index (CPI) was much lower than its recent high of 9 percent in June 2022, progress bringing inflation to the central bank's 2 percent target stalled. CPI inflation was 2.9 percent in July 2024 and 2.7 percent in June 2025. Low unemployment allowed policy makers to wait for additional data on how new tariff policies would impact inflation before proceeding with additional cuts. Through June, there was limited tariff impact on consumer prices as many firms drew down pre-tariff inventories and absorbed cost increases rather than pass increased costs onto price-conscious consumers. Tariffs are expected to increase consumer prices more in the months ahead.



Connecticut's housing market continues to be impacted by relatively high interest rates and an inventory of homes to buy that is 75 percent smaller than in FY 2019. Home prices are up 8.4 percent according to the U.S. Federal Housing Finance Agency (FHFA) All-Transactions Home Price Index, increasing homeowner wealth but reducing affordability for new buyers. The average rate for a 30-year mortgage ranged between 6.1 percent and 7 percent, according to Freddie Mac, down slightly from the prior year but still much higher than the sub-5 percent rate on 72.5 percent of Connecticut outstanding mortgages in the first quarter of 2025. Yet FY 2025 marked a housing market turning point. Average monthly listings grew by 11.8 percent, and the number of sales increased 2.7 percent year-over-year according to Realtor.com and the Warren Group, respectively. Connecticut's housing market is expected to remain tight as demand continues to exceed supply. However, a 40.9 percent increase in housing permits in FY 2025 suggests new home construction (especially of multifamily rental units), will help relieve some pressure on prices in the years ahead.

Major stock market indices performed well in 2024 for the second year in a row, as shares of the companies at the center of the artificial intelligence boom drove markets higher. The S&P 500 Index ended 2024 at 5,881.6, a rise of 23.3 percent for the calendar year following the 24.2 percent gain in 2023. The tech heavy NASDAQ Composite Index was up 28.6 percent, and the Dow Jones Industrial Average rose 12.9 percent. Despite markets plunging in early April following the President's announcement of steep new tariffs, major U.S. stock indices were moderately up year-to-date through June 30th, 2025.

Connecticut saw growth in inflation-adjusted Gross Domestic Product (GDP) in all quarters of Fiscal Year 2025, while U.S. real GDP contracted in the January to March period. A surge of pre-tariff imports and inventory buildup led the economy to contract in the first quarter (because imports count negatively in GDP). That effect was reversed in the second quarter, when fewer imports boosted growth. U.S. and Connecticut real GDP grew 2.1% overall from 2024 Q2 to 2025 Q2.



My office also issues an Annual Comprehensive Financial Report as an accounting supplement to the budgetary report. This annual report includes financial statements for all state funds and component units prepared in accordance with Generally Accepted Accounting Principles (GAAP). From a balance sheet perspective, the GAAP unassigned fund balance in the General Fund was a negative \$1.1 billion as of June 30, 2024. I will report the new unassigned fund balance figure for Fiscal Year 2025 no later than February of 2026 in accordance with U.S. Securities and Exchange Commission (SEC) requirements.

If you have any questions on this report, please do not hesitate to contact me.

Sincerely,

Sean Scanlon
State Comptroller