OFFICE of the STATE COMPTROLLER
CONNECTICUT ECONOMIC UPDATE

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State Comptroller
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In this month's edition

Outlook: Connecticut's economy continues to post steady employment growth and housing market activity picked up in recent months, though various headwinds could jeopardize that momentum. Revised Q2 2026 U.S. GDP figures show that inflation-adjusted business investment and consumer spending together grew at a very robust pace of 4.2% in the April to June period, but no growth in real personal consumption expenditures in July could signal that all is not well with the American consumer since then. U.S. job growth has also slowed in recent months.

Consumers are under increasing pressure as the boost from larger tax refunds fades, wage growth is slowing, and inflation bites, though strong corporate profits and continued growth in the stock market may help some families to continue spending freely. A **new trade war with Canada**—Connecticut's top export market, continued hostilities in Iran keeping oil prices elevated, and the rising cost of capital as the **U.S. national debt surpasses $40 trillion** will be drags on growth. Fed Chair Kevin Warsh finally revealed some of his thinking on the economy, putting an emphasis on fighting stubborn inflation. That increased expectations the U.S. central bank will begin hiking interest rates at their next meeting.

In August, **U.S. 30-year Treasury bonds reached their highest yields since 2007** before Treasury Secretary Scott Bessent announced unusual market interventions intended to reduce the interest rate the U.S. government must pay on its long-term debt. Since U.S. Treasury bonds serve as a benchmark for most other borrowing, what happens in the bond market matters for anyone who borrows money, such as for a car, a business, or a home, as well as taxpayers.

Connecticut's public schools have been facing significant funding challenges around special education. This month we take a deeper look at how, despite significant additional State investment, rising student needs and rapidly rising costs are straining town budgets. We cover Connecticut's special education funding model including recent reforms, how that compares to other states, and what initiatives are underway to rethink how Connecticut provides and pays for K-12 education.

Connecticut saw the value of new construction projects breaking ground (i.e., starts) rise by 16.9% in 2025, to $8.6 billion, and construction jobs are up 3.6% year-over-year as of July.

In July, Connecticut employers added 2,800 jobs and the job gain for June was revised up to 2,700. The pace of job growth is outpacing the nation so far in 2026, but Connecticut also has one of the highest unemployment rates at 5.2%.

While inflation cooled slightly from June, the July New England Consumer Price Index was up 3.9% year-over-year. That's faster than the 1.8% year-over-year growth in average hourly wages for Connecticut in July, meaning that paychecks are not keeping up with inflation. New England grocery prices have risen 3.8% over the past year, straining budgets.

The Connecticut housing market had a second month of year-over-year sales growth in July, but activity is lower year-to-date in 2026. More condo and townhouses on the market helped keep the July median sales price flat compared to last year in that segment, while inventories remain extremely constrained for single-family homes, driving the median sale price up 5.1% for such houses.

KEY DATES THIS MONTH

9/4 – August U.S. jobs report
9/11 –August CPI inflation report
9/15-9/16 -Federal Reserve FOMC meeting
9/17 –August CT jobs report
9/30 – Q2 2026 CT GDP & Personal Income, U.S. GDP 3rd estimate, August Personal Income & Outlays

Did you know?

Last month we looked at prediction markets, including Kalshi, which the state Department of Consumer Protection (DCP) has ordered to cease and desist from offering illegal sports wagering in Connecticut. In August, a federal judge ruled against Kalshi twice, though Kalshi is appealing the decision. On Aug. 26th the State sued Kalshi and that case is now pending in federal court. Court filings state that Kalshi has over 24,000 users in Connecticut. Similar cases are unfolding across the country as states seek to protect consumers from the harm of unregulated gambling.

About OSC

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The mission of OSC is to provide accounting and financial services, to administer employee and retiree benefits, to develop accounting policy and exercise accounting oversight, and to prepare financial reports for state, federal and municipal governments and the public.

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AN ECONOMY UNDER PRESSURE FROM RISING SPECIAL EDUCATION COSTS

In Connecticut, the greatest share of education funding comes from local governments.

Towns fund their budgets via property taxes, so when town budgets are under pressure, it has a ripple effect on property tax bills of residents and businesses. That ultimately means higher rents for renters, tighter budgets for homeowners, and higher costs for customers as businesses pass on those higher expenses. Some towns find it harder to raise taxes than others and have less wealth locally to tap.

Connecticut has excellent schools and among the highest average spending per pupil in the nation (5th highest in 2024), though also large educational disparities. In recent years, high inflation, shortages of key personnel, the end of pandemic assistance and especially rising special education expenditures have made school budgets increasingly difficult to fund.

Unlike many other areas of school spending, special education services are mandated by federal law. Additionally, that spending generally can't be reduced from year to year.

Costs for educating individual special education students regularly exceed $100,000 per year and can be hard for districts to forecast in advance. Combined with unpredictable state support, the volatility in special education costs often leaves municipalities and schools with late budget shortfalls.

Photo from the website of Milestones Behavioral Services, an approved private special education program (APSEP) that provides applied behavior analysis (ABA) for children with autism spectrum disorder. Many districts rely on private providers like Milestones to provide special education services based on a child's IEP.

Glastonbury Public Schools provides several special education programs at this Eastbury building on Neipsic Road.

This month we're doing a deep dive into **Connecticut's special education funding**—who pays, how Connecticut compares to other states, why it's at a crisis point and what's being done about it—to raise awareness on these issues and how they are impacting Connecticut's economy.

State policymakers have recognized these major issues and have begun increasing support and experimenting with new ways to fund services. At the same time, broader efforts are underway to consider longer-term structural reforms to how Connecticut provides and pays for education. We'll return to those efforts after looking at why special education costs have become such an acute challenge for school districts and municipalities in recent years.

What is Special Education?

In 1975, Congress first enacted legislation that was later renamed the **Individuals with Disabilities Education Act (IDEA)**. It defines special education as "specially designed instruction, at no cost to the parents, to meet the unique needs of a child with a disability."

Examples of disabilities include intellectual disabilities, learning disabilities (like dyslexia), hearing impairment including deafness, a speech or language impairment, blindness, autism, a traumatic brain injury, an emotional disability, and for younger kids, those experiencing a developmental delay. The disability must impact their education to be considered eligible under the act.

IDEA requires local educational agencies (typically school districts) to provide **students with disabilities under their jurisdiction with a free, appropriate public education (FAPE).**

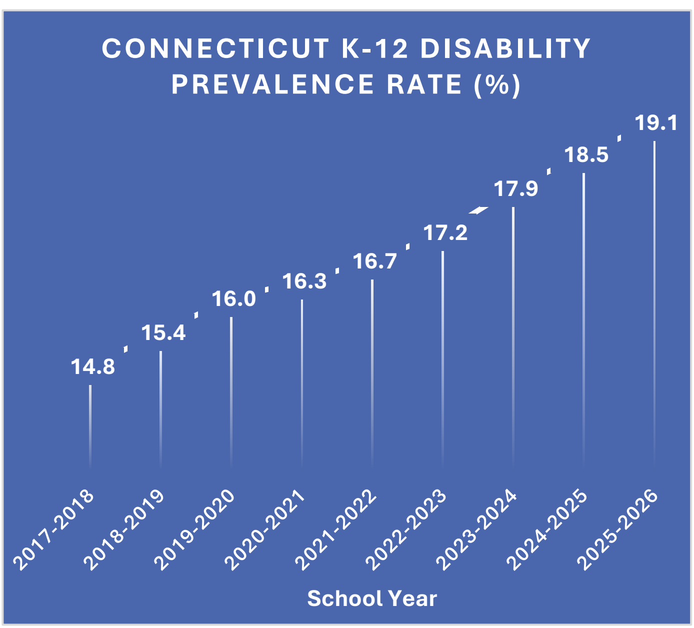
Districts are required to assess students for eligible disabilities and to ensure that such children receive an **individualized education program (IEP)**. The IEP then informs which special education services a student should receive. Federal law also mandates that students are educated alongside non-disabled children in the **least restrictive environment possible** that is appropriate with supplementary services and aids.

Nearly 1 in 5 Connecticut school children have a disability that qualifies them for special education.

Special education is individualized to each student and the program to provide that free appropriate public education looks different for each child.

It can include modalities such as speech therapy, psychological services, physical and occupational therapy, interpreting services, therapeutic recreation, counseling services, services that teach children with disabilities how to move around independently, and transportation to and from school or between schools that is adapted to a child's needs.

That could look like a deaf student in a regular kindergarten classroom that always has a certified sign language instructor with him, teaching him how to communicate.



Source: CSDE Enrollment Dashboard

Another example is a preschool student with a speech delay that has one 30-minute speech therapy session per week and is transported for that session from her daycare by a district-provided van.

On the other hand, the IEP for a student with particularly challenging behavioral or emotional needs may specify that an outplacement in a specialized school is the most appropriate setting for that student. An ecosystem of both non-profit and for-profit private providers exists around the state to support districts in meeting those needs when the district does not provide the necessary services internally.

Some children may not have a disability as defined by IDEA but be eligible for accommodations under a separate section of federal law, Section 504. Districts have obligations to students with 504 plans (which, for example, could require extra movement breaks for a child with ADHD), but students without an IEP are not typically part of special education.

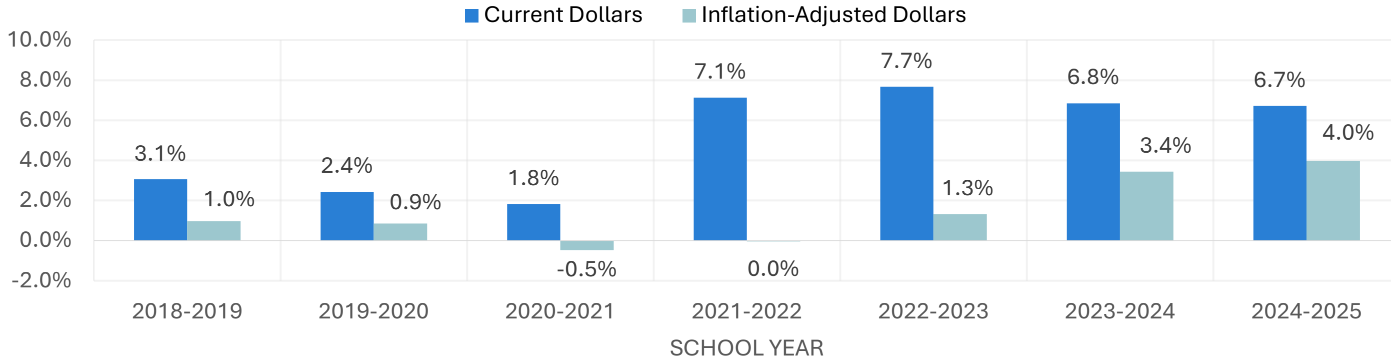
More Children with Disabilities

While total Connecticut kindergarten through twelfth grade (K-12) enrollment has been declining for years, **the share of students with a disability has been on the rise**, reaching 19.0% in the 2025-2026 school year according to the Connecticut State Department of Education's Enrollment Dashboard. That's nearly one of every five students qualifying for an IEP, up from 11.6% in 2010-2011.

Classified by primary disability, learning disability remains the most prevalent (36.3% of special education students), followed by "other health impairment" (20.3%) and autism (16.4%) as the most prevalent primary disabilities as of the 2024-2025 school year (Edsight tables).

Within special education, the intensity of need and type of services provided can vary considerably. As of the 2025-2026 school year, there were 4,557 students (roughly 5% of the 94,960 with disabilities) requiring particularly high-cost services that are eligible for cost-sharing under the State's Excess Cost Grants. That count of particularly high-cost students is up 4.7% from the 2019-2020 school year, while the total count of students with disabilities has risen by 16.1% since then.

ANNUAL GROWTH IN STATEWIDE SPECIAL EDUCATION SPENDING



Source: OSC calculations on Edsight Special Education Expenditures, adjusted for inflation using the Consumer Price Index

Special Education Expenditures

Perhaps unsurprisingly, the amount and share of statewide education expenditures going to special education has also been rising.

According to EdSight, the Connecticut State Department of Education (CSDE) database, Connecticut spent about $12.2 billion on public kindergarten through grade twelve (K-12) education in the 2024 to 2025 school year.[1] The data also shows that **Connecticut districts spent $3.3 billion on special education that year, accounting for 26.9% of those K-12 expenditures.**

Nearly 27% (in 2024-2025) represents a notable increase in the proportion of total spending on special education from a fairly stable share around 25% between 2018 and 2023. Next we look at what districts are paying for with those special education dollars and what's driving higher costs above and beyond the historic inflation of the past five years.

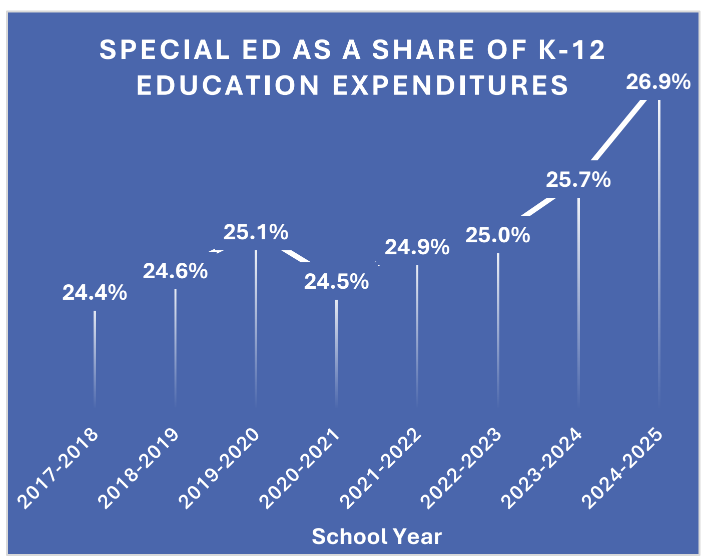
1. Staffing

In 2024-2025, **60% of special education expenditures statewide were for the salaries and employee benefits** of special education teachers, instructional aides, and other staff including paraeducators.

When it comes to the quality of education students receive, staffing with appropriate personnel is critical. **Connecticut ranks highly on state comparisons of special education staff per student ratios**, according to the Governor's Blue-Ribbon Commission, with the 6th lowest rate of students per paraeducator (8) and 13th lowest rate of students per special education teacher (14). However, shortages of certified special education teachers, school psychologists, speech language pathologists, and other positions have made it difficult for schools to hire the staff they need.

Perhaps as a result, **the growth in salaries and wages in recent years has come from higher spending on instructional aides and other staff**, while salaries for special education teachers have actually declined by 2.8% since the 2017-2018 school year after accounting for inflation.

Employee benefit spending rose a substantial 9.6% over those seven years after adjusting for inflation. While the State funds teacher pensions in Connecticut, **districts face significant and growing costs for health insurance.**



Source: EdSight per pupil & special education expenditures[1], OSC calculations

[1] Expenditures exclude food services not funded by local funds, debt, capital (other than equipment), adult education, community services, and state contributions to Teachers' Retirement.

Connecticut Statewide Special Education Expenditures

Total Spending for 2024-2025 School Year and Inflation-Adjusted Growth Since 2017-2018 (%)

Staffing Costs	2024-2025 School Year Expenditures ($ Millions)	Inflation-Adjusted Spending Growth Since 2017-2018 School Year (%)
Teacher Salaries	852.57	−2.8
Employee Benefits	422.95	9.6
Instructional Aide Salaries	335.68	18.1
Other Salaries	334.74	8.5

Non-staffing Costs	2024-2025 School Year Expenditures ($ Millions)	Inflation-Adjusted Spending Growth Since 2017-2018 School Year (%)
Special Education Tuition	757.5	13.4
Purchased Services For Transportation	297.68	25.1
Purchased Services Other Than Transportation	220.77	36.1
Supplies	19.38	43.8
Property Services	13.96	34.6
Equipment	6.67	31.4

Adjusts for inflation using U.S. Consumer Price Index for All Urban Consumers

Source: CSDE Edsight & OSC calculations using CPI from FRED • Created with Datawrapper

The share of special education expenditures for staffing declined to 60% in 2024-2025 from 63% in the 2017-2018 school year, as other special education budget lines have been growing faster.

2. Tuition

Nearly a quarter of expenditures—about $760 million in the 2024-2025 school year—are for tuition that supports students in out-of-district schools.

This can range from public options like charter schools, regional education service center (RESC) magnet schools, and special education programs in other districts, to approved private special education programs (APSEPs) or out-of-state options, with the latter typically being more expensive.

Connecticut has a relatively high rate of educating students with disabilities in "separate schools" (defined as both public and private day schools) at 5.3% as of 2023, but that rate was similar to peer states like New York (4.4%), Massachusetts (5.7%), and Rhode Island (5.4%), as reported by the U.S. Department of Education (Exhibit 68) in a [June 2026 report](#).

The 2023 national rate for "separate schools" was 2.3% of a state's special education students. Connecticut's rate declined from 6.2% (the highest among all states) in 2022.

One potential reason for Connecticut's higher outplacement rate could relate to district size. Connecticut (like other states in the Northeast) has many very small districts that struggle to meet some intense needs locally in an efficient way. Students placed in a neighboring district or Regional

Services Center (RESC) where more economies of scale can be realized are considered "outplaced" and in separate schools. However, larger states with bigger school districts may be better able to achieve those economies of scale in-district.

Total tuition spending increased by 13.4% between the 2017-2018 school year and 2024-2025, after adjusting for inflation using the Consumer Price Index. (Tuition spending rose 45.2% not adjusted for inflation). In comparison, inflation-adjusted special education staffing costs rose just 4.8% over that same period.

Some schools spend far more on tuition than others. For example, Hartford Public Schools spent 53% of its special education budget on tuition in 2024-2025, while East Lyme spent just 12%, according to Edsight data.

Spending depends to a large degree on **the intensity of student needs** in a district each year, as well as the resources a school system has to address them internally. A few new students moving into town that need expensive outplacements can increase spending by hundreds of thousands of dollars, making budgeting difficult.

Both the state and federal governments provide funds to districts in support of special education, as we discuss later, but **those funds often fall far short of the extra costs to educate students requiring outplacement** that can run as high as $200,000 per year for one student.

Transportation

Transportation services, which represented 9% of 2024-2025 statewide spending, is another bucket of spending that has been growing faster than overall expenditures.

Schools statewide spent about $300 million on purchased transportation services for special education students in the 2024-2025 school year. This category has seen inflation-adjusted spending grow by 25.1% since 2017-2018, as **a shortage of bus drivers, rising vehicle costs, and more recently rising energy prices** are straining districts' budgets.

Transportation services are included in students' IEPs, such as specialized van transport to and from a child's home to an outplacement setting. The need for specially fitted buses and vans and the physical dispersion of students needing transportation means there is less opportunity for economies of scale in providing these services.

Other Fast-Growing Categories

Smaller categories of spending have been rising the fastest, including purchased services other than transportation (36.1% growth) and supplies (43.8% growth).

Purchased services are incurred when schools contract for services such as speech-language therapy or interpreting services rather than having them performed by staff on the school district's payroll.

Such services must be provided by districts even if labor shortages in these fields mean hiring staff internally is not possible or there are not enough students with the same need to justify a staff position. Given the difficulty districts have reported in hiring specialized staff as well as the growing number of students with special needs, it's not surprising to see significant growth in spending on contracted services.

Why the Current System is Under So Much Pressure

Taken together, these trends help explain why special education has become one of the most difficult pressures facing Connecticut town budgets.

First, more students are receiving special education services. Nearly one in five Connecticut public school students now qualify for an individualized education program (IEP), substantially more than in past decades.

At the same time, the services required by those IEPs are not optional expenditures that districts can simply scale back when budgets become tight. Federal law requires districts to provide the services necessary for each eligible student to receive a free appropriate public education.

Second, **some of the fastest-growing expenses are also among the hardest for districts to control**. Out-of-district tuition, specialized transportation and contracted professional services can depend on the needs of a relatively small number of students, making them difficult to predict from one budget year to the next. A new student requiring an expensive outplacement can therefore create a significant cost for a district after its local budget has already been developed.

Cost volatility from providers increasing their fees mid-year has been such a problem for districts that lawmakers already banned such changes as part of the 2025 reforms. However, districts continue to be on the hook for the annual increases providers set (except for a fluctuating portion of the highest cost students' expenses that are reimbursed by the State).

Approved Private Special Education Programs (APSEPs)

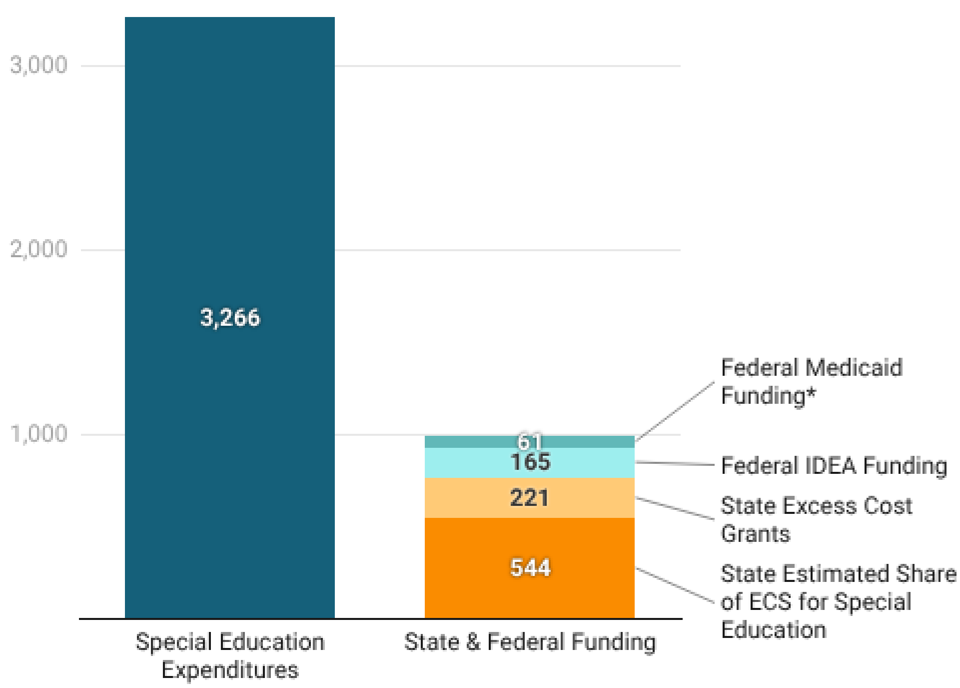
For their part, many providers are raising rates due to their own costs surging, though 25 of the 85 approved providers are for-profit entities with profit incentives that may also drive higher rates for towns.

A 2024 report by the state Office of the Child Advocate found much amiss in its investigation of High Road Schools, a private-equity owned, state approved private special education program (APSEP) that educates hundreds of Connecticut special education students across six day schools in the state.

Private equity firms typically earn hefty returns for their investors by making the companies they buy more profitable, often at the expense of both the company's long-term viability and the customers they serve. As such, education advocates have argued that private equity should have no role in providing special education services to vulnerable children in the state.

State and federal government funding supported about a third of special education spending in the 2024-2025 school year

Connecticut special education expenditures and state and federal revenue to fund it ($ Mil.)



*Medicaid revenue from Fiscal Year 2022

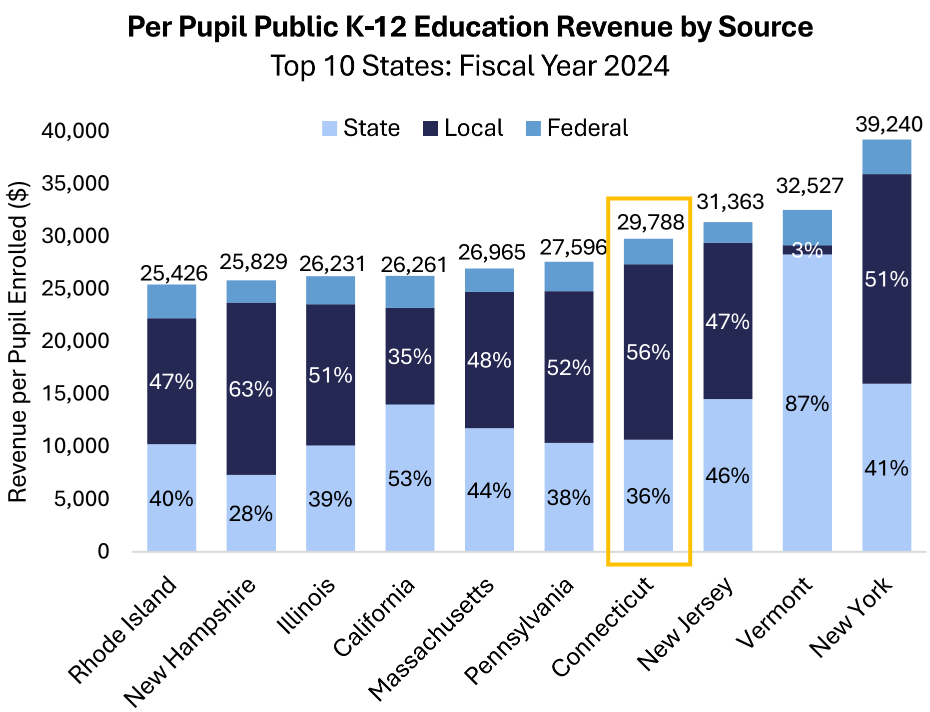
Source: Edsight, Governor's Blue Ribbon Commission June 25th Presentation • Created with Datawrapper

Legislation from 2025 also requires CSDE to **establish rate schedules** for what private providers and other tuition-charging entities can charge to school districts for outplaced students, but that is not required before fiscal year 2028. Some have suggested that providers may be raising rates more now while they still can, to try to influence the rate setting for future years, as school districts continue to face steep increases in costs.

At the end of the day, town budgets are under pressure because Connecticut's special education funding structure has left local governments responsible for much of the financial risk associated with providing this entitlement.

How Connecticut Funds Special Education

When we compare Connecticut to other states in this area, Connecticut's funding level for special education is high, at least according to one analysis (though it included only 24 states) and the limited other cross-state comparisons possible with U.S. Census Bureau data.



Source: U.S. Census Bureau 2024 Public Elementary-Secondary Education Finance Data

Yet Connecticut's state funding as a share of total K-12 education spending is at the low end among states, just 35.8% according to the Census Bureau's Annual Survey of School System Finances for 2024. The national average state funding share for K-12 education is 45.2%. *See the appendix for additional data.*

The flip side is that Connecticut has the second highest share of funding from local sources (56.1%) among states, with New Hampshire being the only state with a higher share. This puts more pressure on local budgets and property taxes to address rising costs. It also contributes to some of the greatest inequities in overall student achievement, due in part to wealth disparities between towns.

Federal Funding for Special Education

While federal government mandates surrounding FAPE and student IEPs drive much of the spending on special education, federal funding for Connecticut schools under the Individuals with Disabilities Act (IDEA) totaled just $165 million in federal fiscal year 2025, 5% of total spending for the 2024-2025 school year.

That funding flows through the Connecticut State Department of Education (CSDE) to districts based on a formula that uses a historical base amount with annual adjustments for school-age population and the share of children living in poverty (i.e., not actual costs incurred for special education).

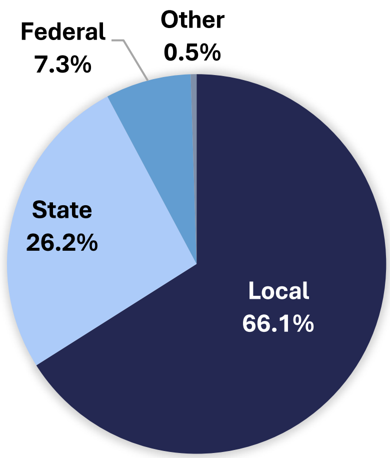
Federal reimbursement through Medicaid for certain healthcare services is another federal revenue source for special education spending. It's available when schools provide eligible health services (such as occupational therapy, mental health services, optometric services, etc.) to Medicaid-eligible special education students as part of a student's IEP.

It's called the School Based Health Services Program and is administered by the Department of Social Services in Connecticut.

When we look at funding sources for special education expenditures specifically, the overall split by level of government was **66.1% local, 26.2% state, and 7.3% federal** as of fiscal year 2023, according to the Office of Fiscal Analysis.

Those percentages, however, vary significantly by district, because special education funding comes from different sources and programs, and allocations of non-local funding depend on local resources, poverty rates, and other factors.

CONNECTICUT FUNDING FOR SPECIAL EDUCATION BY SOURCE
FISCAL YEAR 2023



Source: 2025 Office of Fiscal Analysis presentation

Education Cost Sharing Grants - $544 million out of $2.46 billion

Most state funding for special education comes from the State's main K-12 education grants for towns, called **Education Cost Sharing (ECS) Grants**, which do not direct funding specifically to special education.

Those grants totaled $2.46 billion in fiscal year 2025. CSDE estimated that about $544 million, or 28.6% of the non-alliance portion of ECS, supports special education expenditures for federal Maintenance of Effort purposes.[2]

ECS is distributed to towns based on a complex formula . It starts with a foundation amount per student, currently $11,525, multiplies that by a weighted student count—the number of students a town is responsible for with higher weights for certain types of students—and finally reduces that total by a "state aid percentage" that typically ranges between 1% and 80%.

The state aid percentage is meant to reflect a district's need for state funding based on the town's local resources (as approximated by relative property wealth and median household income). Towns with more wealth have lower state aid percentages, in some cases just 1% (resulting in significantly less ECS funding per student than for lower-resourced districts).

That's intentional because the grants are meant to help equalize funding per student in a state where resources can be dramatically different between local jurisdictions. See our September 2025 issue, which explains the formula and digs into overall K-12 education funding, for more details.

The important takeaway for ECS is that, while nearly a quarter of ECS funding is estimated to be spent on special education, the weighted student count that increases **a district's grant based on student need does not take into account how many children in a district receive special education.**

Higher weights are included for places with concentrated poverty, English language learners, and recipients of free and reduced lunch. A number of other states do include special education counts in similar formulas, and that's one proposal that Connecticut reform initiatives are considering.

Excess Cost Grants - $221.1 million

Until recently, Connecticut's only designated state funding for special education was the **Excess Cost Grants** program, a district-reimbursement program to defray current year costs of particularly high support need students.

Among states, **only Connecticut and Rhode Island limit their primary designated special education funding allocation to this approach**, though it is a component of special education funding in 36 states according to the Education Commission of the States.

[2] To be eligible for federal IDEA Part B grants, states must not decrease the level of spending on children with disabilities compared to the prior year. In the 1990's a $250 million state special education grant program was combined into ECS. Since then, the State calculates the share of ECS spent on special education to ensure that that special education funding (along with all other special education dollars) has remained constant or grown each year. This "maintenance of effort" requirement is meant to ensure federal dollars are not replacing state or local funding.

For most students, the Excess Cost program functions like catastrophic insurance, only kicking in after a district has already spent 4.5 times the average cost of educating a child in that district (i.e., the net current expenditure per pupil or NCEP, from the prior year).

Only costs above the 4.5x threshold are eligible for reimbursement by the State, and at a set percentage. If the state budget appropriation is enough to cover all eligible claims, the percentage is 100%; however, it has not been enough for at least a decade (i.e. "not fully funded").

In the case of insufficient funds, the reimbursement percentage for expenditures above the 4.5x threshold is tiered by town wealth, with poorer towns eligible for a higher reimbursement rate.

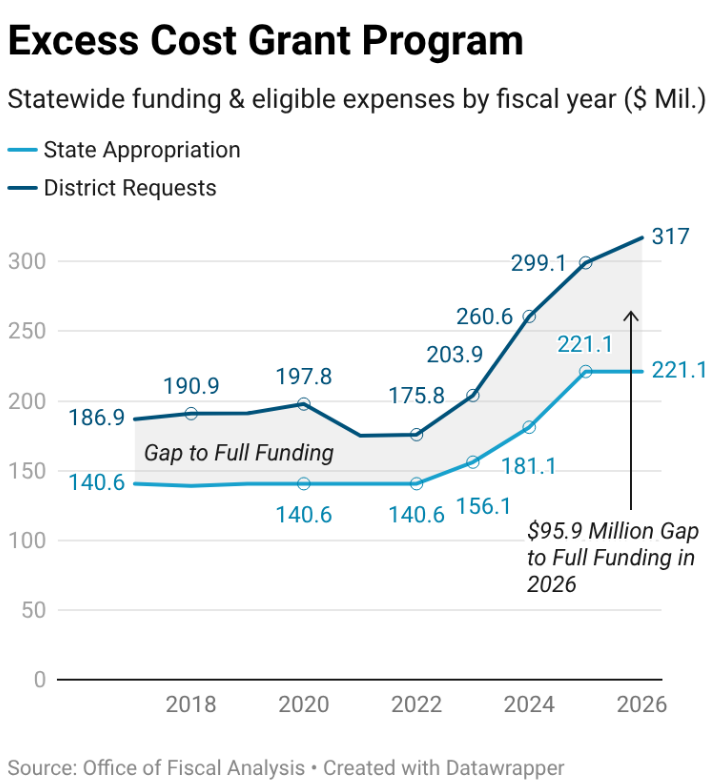
In fiscal year 2026, the rates were 71.6% (Tier I), 69.2% (Tier II), and 66.8% (Tier III)—lower than the tiered reimbursement rates in statute because the appropriation was insufficient to meet even that lower bar.

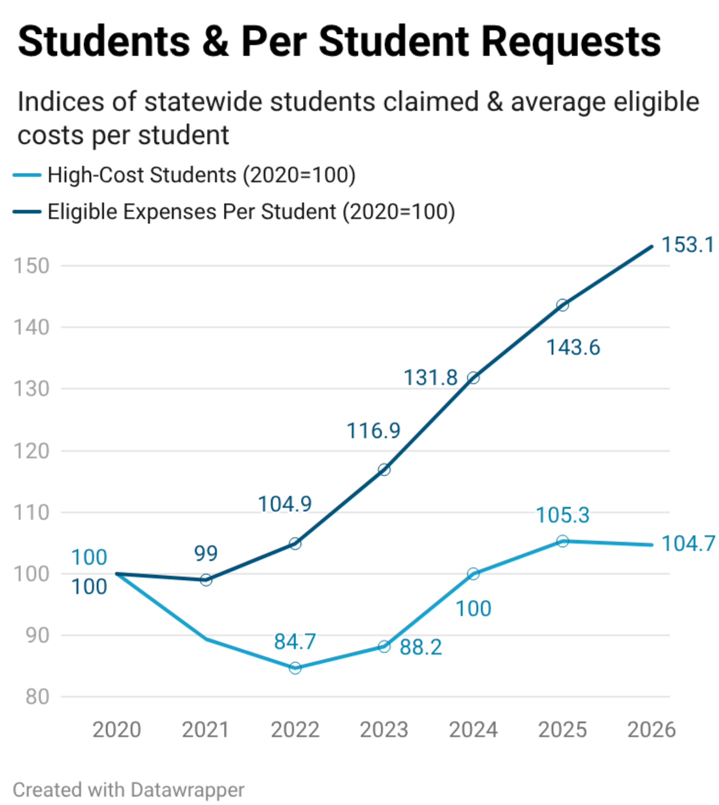
The result of this funding structure is that **districts do not know how much funding they will receive from the State** in the form of Excess Cost Grants until long after their budgets have been set. The funding they will receive depends not just on their own costs incurred and the state budget appropriation, but also the total amount of eligible costs across all districts.

Excess Cost Grant Example

Say a district's average student expenditure (i.e., NCEP) in the 2024-2025 school year was **$20,000**. In that case the 4.5x threshold, called the "basic contribution" would be **$90,000** for that town in the 2025-2026 school year. That district may have a student whose IEP requires outplacement and transportation services that results in a total cost for the year of **$150,000**. The amount eligible for reimbursement through an Excess Cost Grant would be **$60,000** (i.e., **$150,000 - $90,000**).

Using the lower reimbursement percentages from fiscal year 2026, a low-wealth district would receive **$42,960** (i.e., 71.6% of $60,000) from the State to help cover the excess costs of educating that student according to their IEP. In this example, the State ends up covering 28.6% of that student's cost, while the district pays about **$107,000**. If the account were fully funded, the district would pay just $90,000, or $17,000 less.





The **number of high-cost students** whose expenses are eligible for partial reimbursement under the Excess Cost Grants program was **4,353** in the 2019-2020 school year. That number dipped early in the immediate aftermath of the pandemic but then grew to 4,557 as of the 2025-2026 school year, up 4.7% over that time.

Conversely, the amount of eligible expenses districts incurred (i.e., all amounts above the 4.5x threshold) rose from $197.8 million in 2019-2020 to $317.0 million in 2025-2026, up 60.3% before adjusting for inflation (and up 25.8% after). This suggests that, at least on an average statewide basis, **the driver of this crisis of insufficient funding is more related to higher rates and prices than a rising number of particularly high-cost students.**

Policymakers responded to rising requests from districts by increasing the Excess Cost Grant appropriation by $80.5 million since fiscal year 2020, yet it hasn't been enough to fully fund it. Since the account was already reimbursing only 71.1% of districts' eligible expenses in the 2019-2020 school year, the new funds were not enough to close the gap. In fiscal year 2026, the gap between fully funding the grant and the appropriation was $95.9 million, leaving local governments to address that shortfall.

Special Education and Expansion Development (SEED) Grants - $30 million

In Connecticut in 2025, policymakers established a major new special education grant that takes into account the number of special education students in a district. **The addition of the Special Education and Expansion Development (SEED) grant program puts Connecticut more in line with other states** by allocating special education funding for all districts that is more predictable for budgeting, based on a weighted formula, and recognizes the extra costs of all special education students—not just the ones that are extremely high.

Public Act 25-67 (Sec. 7) entitles each school board to a SEED grant, which can be used for "direct provision of special education and related services to students; Tier 2 interventions; academic and behavioral interventions; the hiring and salaries of special education teachers, paraeducators, and behavioral and reading specialists who work directly with students; equipment purchases and maintenance; and curriculum materials."

It can't be used for administrative expenses or to contract third-party providers of services unless they are contractors on a school board's payroll. It is also meant to expand special education funding, not replace existing local dollars.

The new grants, funded at $30 million in fiscal years 2026 and 2027, are distributed to towns via a modified-ECS formula with a 50% weight for students with disabilities in the town. The funding was allocated beginning with the 2025-2026 school year, in amounts ranging from $125 in Canaan to $3.4 million in Hartford.

If SEED was fully funded according to the programs' statutory formula, the Office of Fiscal Analysis at the Connecticut General Assembly estimated a total State appropriation of $190.7 million would have been necessary for fiscal year 2026, far more than the $30 million budgeted.

While the funding amount is minor compared to districts' total spending on special education, the addition of a student weight-based formula grant specifically tied to special education student enrollment places Connecticut among the majority of states that provide special education funding this way.

Some states, now including Connecticut, use local counts of students with disabilities, while other states' formulas have multiple weights that take into account the degree of need or type of special education services associated with the special education students in a jurisdiction.

High Quality Special Education Incentives Grant - $10.6 million

Another new source of state funding that was established in 2025 (Public Act 25-93 Sec. 19) is the **High-Quality Special Education Incentive Grant**. It's a competitive grant program that started providing new funds this school year for local and regional boards of education to promote in-district or regional special education programming and services for students with disabilities.

The fiscal year 2027 state budget included $8.9 million for programming grants in the 2026-2027 school year as well as authorization for up to $10 million in state bonding for necessary capital improvements to enable the programming.

On August 17th, Governor Lamont announced that **41 special education programs across the state are receiving $10.6 million in grants** from the first round of the program. Applications for it were due July 10th. *See the list of recipients here*.

The program is meant to encourage and enable districts to provide more education within a local district or region, rather than having to rely on expensive outplacements in other locations. Funds cannot be used to contract out for special education programming.

Applying on an individual basis, districts can apply for up to $350,000 in programmatic funds and/or funds for capital improvements (like construction services, repairs, vehicle rentals, acquiring land, and site improvements). If multiple districts apply collaboratively, the limit increases to $500,000 per proposal.

Two other smaller grants were also established in 2025: one related to providing appropriate services for special education students who have experienced trauma or have behavioral health needs ($1.5 million), and one for expenses incurred for training, education, and testing for special education educators and paraeducators ($1 million).

One-Time General Education Supplemental Aid

Connecticut has increased funding for ECS, the State's main education grants to towns, by over $400 million since fiscal year 2020, making historic investments in education and leading to towns receiving their full ECS grants, based on the statutory formula, years ahead of a phase-in schedule.

Yet education advocates point out that inflation has not been accounted for in the formula funding. Connecticut's foundation amount, the theoretical cost to educate the average student in Connecticut, has not increased from the level of $11,525 in over a decade.

Recognizing the serious needs related to **special education** and **other education budget shortfalls** across the state, policymakers in the 2026 legislative session opted to provide approximately $190.7 million in additional funding to towns and other school operators in the form of one-time supplemental education funding and increases to grants for magnet, charter and agricultural schools.

All towns received some funding, worth at least 4% of the town's fiscal year 2027 ECS grant.

The state budget also put into law a sizeable increase in the ECS appropriation for fiscal year 2028 (i.e., the 2027-2028 school year) but did not change the ECS formula. It left the work of detailing how the additional funding will be allocated to next year.

Structural Reform Initiatives

As this deep dive has sought to explain, Connecticut school districts have been challenged by special education staff shortages, steeply rising costs, increasing student needs, and budget volatility tied to fulfilling their federally mandated obligations to provide a free appropriate special education (FAPE) to all students in their districts.

At the same time, many districts have declining overall enrollment, with State ECS grants tied to that enrollment set to decline starting next year.

Newly created special education grants will help, but programs like Excess Cost Grants are still not receiving full funding under the latest state budget.

Local governments have been facing difficult choices and challenging budget referendums. Thanks to fast rising home values, property revaluations since the pandemic have tended to shift local tax burdens more onto homeowners and other residential property owners in many towns, making tax increases even more painful. Businesses too, are affected by rising property taxes.

There seems to be broad agreement that **the status quo is not working**, yet reforming education funding and Connecticut's extreme reliance on local property taxes to fund education and other local services are giant tasks.

To prepare for structural reforms next session, Governor Lamont issued Executive Order 26-3, which **established a Blue-Ribbon Commission on K-12 Education Funding and Accountability**. The Commission began meeting in June and is due to submit its strategic plan by January 15, 2027.

The Commission is tackling the big questions like if existing state dollars are being well spent to address needs and inequities, if and what regionally shared services could work in practice, how the state should support special education, and what is working (vs. what is not) to help kids achieve desired outcomes.

Wilcoxson Elementary School, Stratford, CT Photo from Homes.com

In the area of special education, the Blue-Ribbon Commission will build on work done by the state **Special Education Task Force**, which issued their final report on many of these topics in May 2024, leading to several of the 2025 reforms.

CONNECTICUT CITIZENS' ASSEMBLY

Additionally, to look at how Connecticut funds local services including education, Comptroller Scanlon has partnered with the Connecticut Conference of Municipalities, Yale, and UConn to create the Connecticut Citizens Assembly on Property Taxes.

A first of its kind in the U.S., the assembly brings together roughly 100 Connecticut residents randomly selected to reflect Connecticut's population, who are meeting from July to September to deliberate on how the state can improve the funding of local services—an area that has seen little reform in decades. Some have described it as "jury duty for politics."

That initiative will also aim to deliver recommendations to the state legislature ahead of the next legislative session that begins on January 6, 2027.

Funding reform is never easy. Yet providing the quality education every child deserves and paying for it in an equitable and efficient way is both a worthy goal and **an essential investment the State can make in its economic future.**

RISKS AND EVENTS WE'RE WATCHING

The Iran conflict continues, with oil tanker traffic in the Persian Gulf still significantly below pre-war levels and no clear end in sight after six months. As of August 31st, Connecticut gas prices averaged $4.21 per gallon (regular) and $5.71 per gallon (diesel), according to AAA.

Trade negotiations between the U.S. and Canada broke down in late August, resulting in **a new trade war with one of the country's closest allies and Connecticut's top export market** for goods. New 50% U.S. tariffs on about $20 billion of Canadian imports went into effect on Aug. 22nd, while retaliatory Canadian tariffs on various U.S. exports worth the same amount will take effect on Sept. 8th. President Trump has announced further 50% tariffs on Canadian goods that will start January 1, 2027. An analysis by CBIA estimates that in the short term, the new tariffs will impact about $170 million worth of Connecticut's exports to Canada, with roughly 70% of Canada's tariffs affecting core industrial products. Tariffs are likely to hurt demand for segments of Connecticut manufacturing like wires, cables and aluminum plate, and raise prices here, such as through higher construction costs from new tariffs on plywood. Further escalation could impact Connecticut through natural gas or electricity prices, as imports from Canada account for about 25% of New England's natural gas and 11% of its electricity.

Attorney General William Tong announced a **landmark multistate legal settlement with Meta**, the parent company of Facebook and Instagram, to resolve claims brought by 51 attorneys general that the company "designed Instagram with addictive features, knowingly exposed young users to serious mental harms, and intentionally misled the public about the safety of its platforms." The largest ever state settlement with a single defendant, it includes up to $265.4 million for Connecticut in the coming years. It still must be approved by a federal judge. At least half of all funds must be directed to remediate youth harms from social media. The settlement also requires Meta to implement significant safety features for young users.

AI risks. Recent incidents, including one where a swarm of AI agents in development by OpenAI were able to escape the testing area and hack another company, are raising awareness about the serious risks posed by unregulated frontier artificial intelligence development. Rogue agents or bad actors with agents acting on their behalf are creating greater IT security risks that Connecticut organizations will need to spend resources to counter.

The State announced a new $20 million investment to establish the **Hartford Innovation Center** at State House Square in downtown Hartford. The 100,000 sq. ft. workforce campus is intended to provide a place for residents, businesses and higher education researchers to collaborate and accelerate responsible AI adoption across Connecticut industries. The funding is the second award from the $100 million **Innovation Clusters Program** at DECD.

The cost of money is rising, especially for longer-duration borrowing, increasing the cost of servicing America's now $40 trillion national debt and raising interest rates paid by businesses and consumers. The yield on the 10-year Treasury bond was 4.73% on August 28th, up from 4.23% at the same time last year, while 30-year bonds reached 5.31% on August 17th. Investors are demanding a higher premium to buy U.S. government debt, as unsustainably high U.S. budget deficits, continued inflation, and competition from AI companies issuing their own corporate bonds sends yields higher.

Late July saw a dramatic reversal of over-leveraged hedge fund **Situational Awareness**, as equity market traders cooled on some key AI stocks and the firm had to sell off big positions to meet mounting margin calls. Many of the hard-hit AI-related stocks have at least partially bounced back since, but concerns about a possible stock market bubble are driving market volatility. Connecticut has a significant concentration of hedge funds in Fairfield County, whose profits and losses have an outsized impact on state tax revenues from capital gains.

Federal cuts and policy changes at the National Endowments for the Arts and the Humanities are reducing community services and putting jobs at risk at Connecticut organizations. In an early 2026 survey conducted by New England arts groups, 39 Connecticut arts and culture organizations reported recent funding cuts of $5.27 million. The bulk of funding losses ($4.7 million) were related to 8 federal grants that were cut after being awarded.

CONNECTICUT SAW STRONG CONSTRUCTION STARTS IN 2025, FIRM PROJECTS LESS IN 2026

According to ConstructConnect, a national provider of construction industry data, Connecticut had construction starts worth $8.6 billion in 2025, about $700 million higher than predicted around this time last year.

Construction starts reflect the estimated total cost of all construction projects that begin in a specific period recorded in the first period construction begins. It is a measure of investment and activity in the construction industry.

Last August, the firm projected 2025 Connecticut starts would grow from $7.36 billion in 2024 to approximately $7.9 billion in 2025, growth of 7.4%. Instead, starts grew by 16.9%, putting Connecticut growth above the overall U.S. pace of 12.5%.

According to ConstructConnect, growth in starts nationally was driven by non-residential building and civil engineering projects, which grew by 24.2% and 14.5%, respectively. Data center construction continues to ramp up, driving 2026 Q1 growth in the Private Offices category by 382% year-over-year.

U.S. residential construction starts fell by 4.5% in 2025 and is projected to decline by another 5.2% in 2026. Lower residential development nationally reflects the fact that interest rates and building material costs remain high, and various markets outside the Northeast are now seeing an oversupply of rental housing.

ConstructConnect's 2026 Q2 forecast projects that Connecticut starts will decline from the 2025 level by 7.9% in 2026, before seeing annual growth of 6.3% in 2027 and 3.6% in 2028. National starts are projected to grow by 0.8% in 2026.

Recent growth in the state's construction activity can be seen in the payroll data. As of July 2026, there were 66,200 payroll jobs in construction (seasonally adjusted), up 3.6% from a year ago and the highest level since May 2008.

NEW FED CHAIR PROVIDES MOST GUIDANCE YET ON HIS REACTION FUNCTION & VIEW OF THE ECONOMY

After providing less forward guidance and commentary on the state of the U.S. economy than his immediate predecessors at the U.S. central bank since taking over in May, Federal Reserve Chair Kevin Warsh used central bankers' annual policy conference in Jackson Hole, Wyoming to lay out some guiding principles, note the many unanswered questions around AI, and finally to give his assessment of current conditions.

He said that he is "impressed by the overall performance of the economy, which appears to have strengthened" and that "on balance, I would be hard pressed to describe broad financial conditions as restrictive."

Important for how he will vote on and lead the Federal Open Market Committee (FOMC) that sets the short-term interest rates that cascade through the economy, Warsh said he believes "the labor markets are consistent with full employment" and that " inflation is running above our 2% target. So the Fed's predominant focus right now should be on prices."

Warsh also affirmed the use of the personal consumption expenditures (PCE) price index as the yardstick for measuring the bank's 2% inflation target.

Warsh's focus on the price-stability part of the Fed's dual mandate (full employment is the other part) led financial markets to price in a .25 percentage point interest rate hike as more likely than not at the next FOMC meeting this month, as of August 31st.

INFLATION REMAINS ELEVATED

The Consumer Price Index (CPI) report for July from the Bureau of Labor Statistics (BLS) was generally in line with economists' expectations. **The U.S. CPI for all urban consumers rose 0.1 percentage points for the month** (seasonally adjusted) and 3.4% from a year ago. The Core CPI, which strips out volatile food and energy prices, rose 0.2 percentage points for the month, putting it up 2.5% from a year ago.

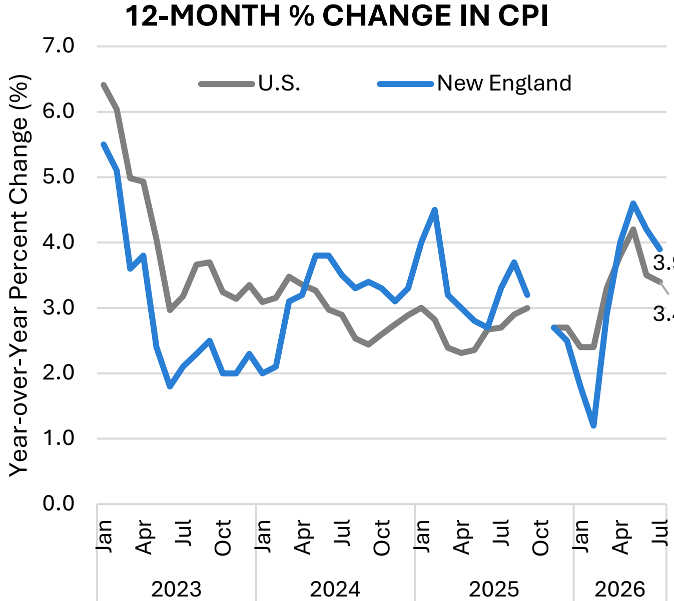
The report shows **consumer prices overall cooled compared to June but remain elevated.** In June, U.S. CPI was up 3.5% for the year, and Core CPI was up 2.6%. The Federal Reserve targets inflation (according to a slightly different measure) at 2% per year, and U.S. prices have now been rising faster than that for five years.

The Yale Budget Lab estimates that tariffs currently in place result in extra household costs of about $1,100 per year.

BLS also produces regional consumer price indices, including the New England Consumer Price Index, which is a good gauge for how local prices are changing in Connecticut. The July data shows that annual New England region price growth continues to outpace the national average.

The **New England CPI rose 3.9%** year-over-year in July, down from 4.2% in June but faster than the 1.8% growth in average hourly wages for Connecticut.

U.S. & NEW ENGLAND INFLATION
12-MONTH % CHANGE IN CPI



Source: Bureau of Labor Statistics

The main driver of that headline inflation continues to be higher energy costs related to the Iran War, though gasoline prices cooled slightly in July. The price index for **gasoline remains up 30.1%** from a year ago (vs. 34.5% higher in June).

Food is another area where New England prices are rising faster than nationally. **Overall food prices are up 3.3%** from a year ago. Particularly challenging for many households, **grocery prices have risen a dramatic 3.8%** (vs. 2.7% nationally). Prices for food away from home, such as at restaurants, were up less (2.4% from last year). Since much of that spending is discretionary, lower price growth for dining out could be a sign that restaurants in the region do not feel confident enough about demand to raise their prices as much as underlying food prices may warrant.

New England Core CPI, which excludes food and energy prices, **rose 2.9% for the year in July**, down from 3.2% in June. Some of the higher core price growth in New England is driven by faster rent growth. According to BLS, rents for a primary residence in New England rose 5.0% year-over-year in July, while nationally they rose only 2.9%.

New England apparel prices fell 2.6% year-over-year in July, contributing to slowing overall price growth. That could point to **softer consumer demand** here, requiring retailers to offer better sales. Nationally, apparel prices were up 3.9% for the year.

Focus has shifted from tariffs, a key driver of higher inflation over the past year, to the aggressive AI data center buildout (driving much higher prices for chips, cables, and electronics that compete with data centers for parts) as well as the conflict in Iran and core services prices as the key inflation drivers for consumers. Nevertheless, consumers have and will continue to pay higher prices due to the significant changes to import duties since the start of President Trump's second term.

As of mid-August, the [Yale Budget Lab] estimates that tariffs currently in place result in extra household costs of about $1,100 per year, and that consumer prices as measured by the Fed's preferred gauge (the PCE price index) are 0.7% to 0.8% higher due to tariffs than they otherwise would be. Additional tariffs on Canadian goods will likely increase that.

LABOR MARKET UPDATE

Steady Connecticut payroll job growth

In July, Connecticut non-farm employers added 2,800 jobs (+0.2%) on a seasonally adjusted basis, while the total U.S. labor market saw a net loss of 23,000 payroll jobs (-0.01%). Connecticut's June job growth was revised up from 1,500 to 2,700 jobs, also seasonally adjusted.

The data points to stable job growth in the state so far in 2026, especially in the private sector, with total July private employment of nearly 1.5 million up 15,500 jobs or 1% year-over-year. Government employment is down 1,700 positions (-0.7%) year-over-year in July.

Looking at industry sectors, Connecticut employment in five super sectors increased in July, while the other five saw declines. The largest seasonally adjusted monthly gains were in **Health Care and Social Assistance** (+2,400, 0.8%) and **Professional and Business Services** (+1,100, 0.5%), while **Wholesale and Retail Trade** saw a combined 1,300 net job loss (-0.6%).

Health care continues to be an engine of job growth as the state's population ages. People tend to spend more on healthcare as they get older. The year-over-year increase of 9,100 Health Care and Social Assistance jobs accounts for approximately 66% of total net job growth of 13,800 in Connecticut over the past 12 months.

At the national level, reliance on the Health Care and Social Assistance sector is even more pronounced, with the U.S. net gain of 552,000 jobs in that sector (year-over-year in July) significantly exceeding the total 316,000 payroll jobs added in the U.S. economy over that period.

Connecticut's job growth is broader, with the manufacturing and construction industries seeing above 3% year-over-year job growth.

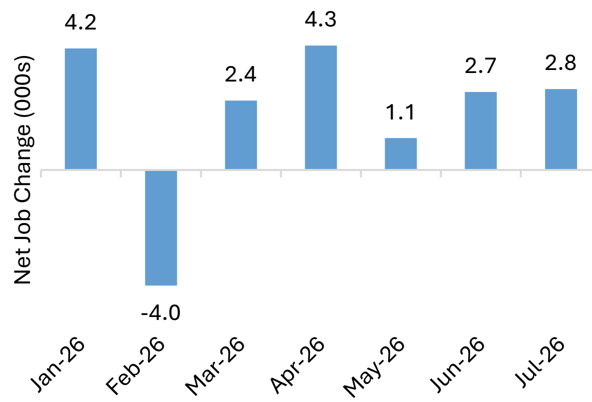
Areas of Concern: Unemployment & Wage Growth

While Connecticut's job growth indicates continued demand for workers, other indicators point to a cooling labor market. **Connecticut's unemployment rate remained at 5.2% in July**, higher than the U.S. rate (4.1% in July) for the seventh consecutive month, and significantly higher than the state's July 2025 rate of 3.9%. It's taking job seekers longer to find work.

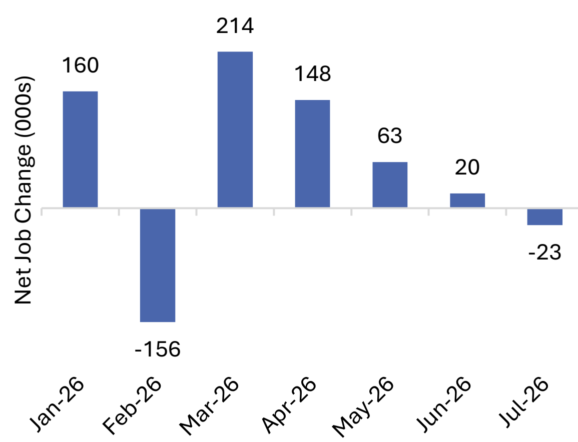
Additionally, **average hourly private sector wages in Connecticut rose only 1.8%** over the prior 12 months in July (or 2.2% smoothed with 3-month moving averages), significantly below the New England CPI rate of inflation (3.9%). With more job seekers than open positions, employers face less pressure to increase real wages. The result is that workers seeing average wage growth are falling behind, as prices for the things they buy have grown faster in the last year than their paychecks.

Healthcare and social assistance jobs increased by 2,400 in July.

MONTHLY CHANGES IN CONNECTICUT PAYROLL EMPLOYMENT
(Thousands of Jobs)



MONTHLY CHANGES IN U.S. PAYROLL EMPLOYMENT
(Thousands of Jobs)



Source: Bureau of Labor Statistics

CONNECTICUT ECONOMIC UPDATE

Sean Scanlon
State Comptroller
September 1, 2026

Connecticut Housing Market Trends
July 2026

+3.8%
3,538
Pending Sales YoY
SmartMLS

+5.2%
3,844
Home Sales YoY
SmartMLS

+3.3%
$470,000
Median Sales Price YoY
SmartMLS

-1 days
38
Median Days on Market YoY
Realtor.com

+0.07
6.67%
Freddie Mac 30-Year Fixed Rate Mortgage Average for the week ending 8/20

+0.9%
1,731
Median New Lease Rent YoY
Apartment List

-4.2%
3,464
Connecticut Building Permits, Units of Housing YTD, YoY
U.S. Census Bureau

*SmartMLS is the primary multiple listing service for Connecticut but does not include all listings in Greenwich, CT. YoY means "year-over-year."

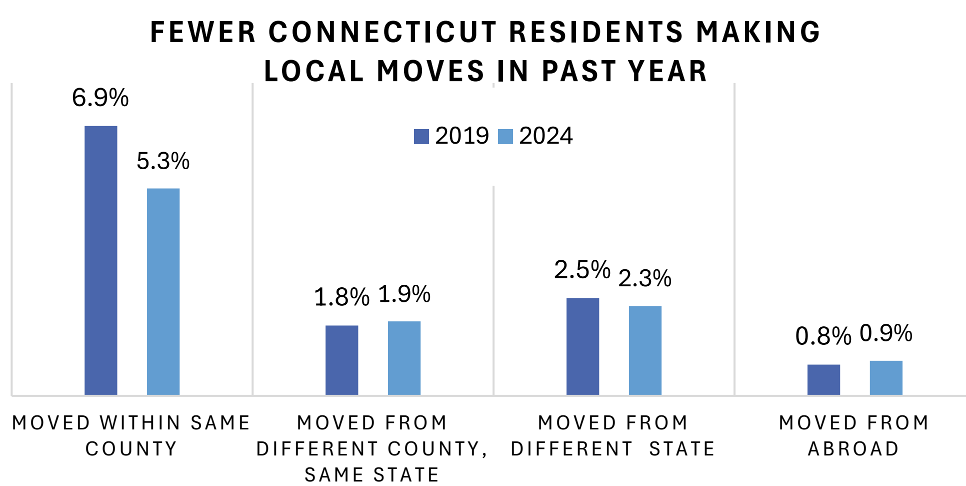
CONNECTICUT HOUSING MARKET

Connecticut home sales picked up this summer, with July sales up 5.2% over the same month last year, though slower activity earlier in the year means total sales are still down 1.9% year-to-date for 2026. Connecticut's market continues to be a tighter seller's market than nationally, though buyers are gaining ground in the condo market where the median sales price was flat year-over-year at $315,000.

The markets for single family homes versus townhouses and condos are seeing some diverging trends. Inventory levels, according to the state's primary multiple listing service SmartMLS, are trending about 10% higher than last year for townhouses and condos while the average number of single-family homes on the market in the last 12 months is up only 0.4%. With more supply to meet demand, price pressures ebbed for condos in July while the median sales price for single-family homes rose 5.1% year-over-year last month.

Mortgage rates remained higher in August as long term U.S. treasury bond yields have risen, partly because investors are demanding a higher risk premium for holding government debt. For the week ending August 20, mortgage purchaser Freddie Mac reported that the average interest rate for a fixed term 30-year mortgage was 6.65%, up .67 percentage points since its recent low of 5.98% in late February before the war.

Less Turnover in the Housing Market from Local Moves



Source: American Community Survey, 1-Year Estimates for Connecticut, Table S0701

As Connecticut's housing market continues to see fewer sales (e.g., 20% fewer home sales in 2025 versus 2019), data from the American Community Survey points to fewer people moving within the same county (e.g., local moves to a bigger house or apartment) since the pandemic as likely responsible for much of that change.

The share of the Connecticut population aged 1 and over who moved within the same county in the prior year fell from 6.9% in 2019 to 5.3% in 2024, while the proportions that moved from other location categories were little changed. The pandemic has had the effect of "locking in" more people into their housing as the availability of units to both buy and rent fell dramatically, reducing turnover and dynamism in Connecticut's housing market. Rental vacancies are now rising but inventory to buy remains extremely constrained.

APPENDIX

Connecticut Housing Market	Jul-26	Jul-25	% Change or Change
Home Sales (SmartMLS)	3,844	3,655	5.2%
Median Sales Price (SmartMLS)	$470,000	$455,000	3.3%
Inventory of Homes for Sale (SmartMLS)	7,492	7,392	1.4%
New Listings (SmartMLS)	4,216	4,185	0.7%
Freddie Mac U.S. 30-Year Fixed Rate Mortgage Average (%) (Week ending 8/20/26 and 8/21/25)	6.65	6.58	0.07
Median Active Days on Market (Realtor.com)	38	39	-1.0
Percent of List Price Received (SmartMLS)	103.5%	103.2%	0.3%
Median Rent for New Leases (Apartment List)	$1,731	$1,716	0.9%
Single-family Housing Permits YTD (U.S. Census Bureau)	1,262	1,228	2.8%
2+ Unit Structures Housing Permits YTD (U.S. Census Bureau)	2,202	2,389	-7.8%

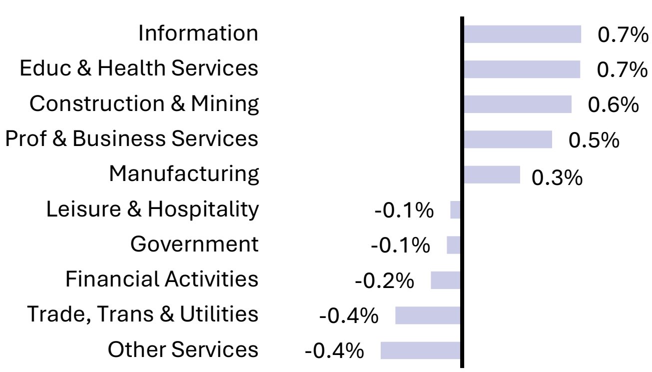
Realtor.com & Freddie Mac data Retrieved from FRED; Data derived from SmartMLS for the period of July 1 –July 30, 2026. Information is deemed reliable but not guaranteed. Statistics are provided for informational purposes only, may not reflect all real estate activity, and are subject to change.

Connecticut Labor Market	Jul-26	Jun-26	Jun-25
Unemployment Rate	5.2%	5.2%	3.9%
Total Unemployed	98,400	97,600	74,900
Total Nonfarm Employment	1,730,500	1,727,700	1,716,700
Job Growth	2,800	2,700	-800
Average Monthly Initial Unemployment Claims	3,292	3,894	4,454
Labor Force Participation Rate	62.2%	62.4%	64.1%
Average Hourly Wage (Total Private Employees)	$39.55	$39.76	$38.94
Average Hourly Wage, 3-month average, Year-over-Year Percent Change	2.2%	2.5%	3.3%

Note that BLS is no longer publishing monthly state-level JOLTs data; Source: Bureau of Labor Statistics & CT Department of Labor

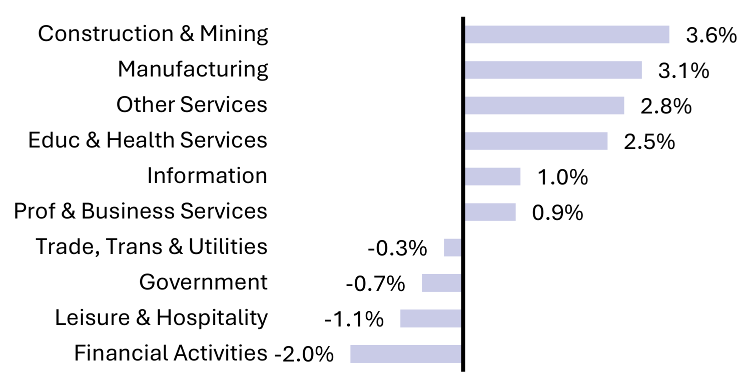
Connecticut Industry Sector Nonfarm Payroll Employment – July 2026

Month-over-Month Percent Change



Source: CT Department of Labor

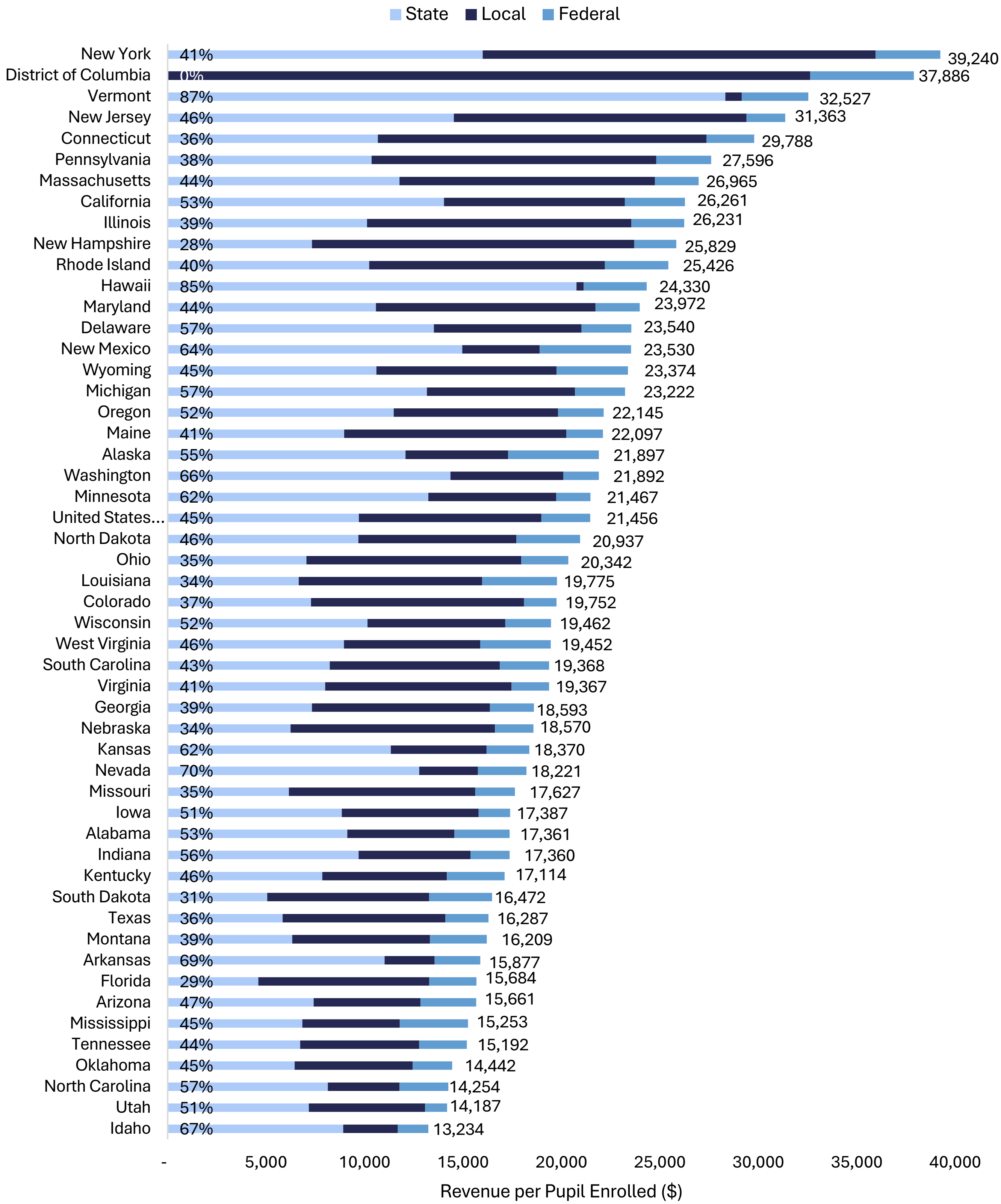
Year-over-Year Percent Change



Source: CT Department of Labor

PUBLIC ELEMENTARY-SECONDARY EDUCATION REVENUE BY SOURCE BY STATE: FISCAL YEAR 2024

Labels Reflect State Share & Total Per Pupil Spending in Dollars



Source: U.S. Census Bureau, OSC calculations using 2024 enrollment