

BUDGET RESERVE FUND (BRF)

Quick Facts (Updated 11/20/20)

PURPOSE

As the State's rainy day fund, the Budget Reserve Fund provides a cushion against budgetary shortfalls due to such things as revenue shocks or natural disasters.

➔ OFA estimates a BRF balance of **\$3 billion** would be needed to fully address two fiscal years of a typical revenue loss during a recession.

BALANCE

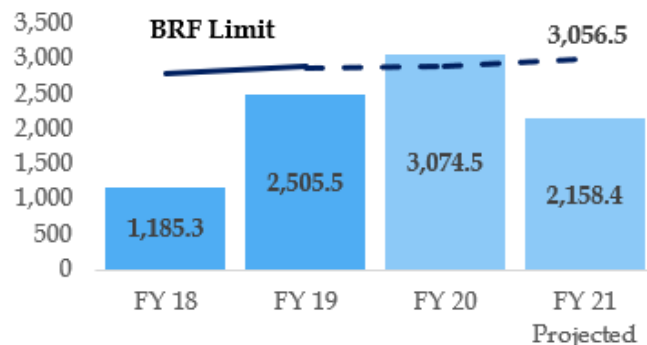
\$3,074.5 Million (FY 20 unadjusted)

- Largest ever
- 15.8% of net General Fund (GF) appropriations
- \$61.6 Million over the 15% BRF Limit
- Adjusted to **\$3,012.9 Million**

FY 21 General Fund deficit of \$854.5 Million (estimated)

The estimated deficit would reduce the BRF balance to **\$2,158.4 Million** or 10.6% of projected net GF appropriations.

Budget Reserve Fund (BRF) Year-End Balances
In Millions of Dollars



FY 20 ANTICIPATED DEPOSIT

\$530.3M

REVENUE VOLATILITY ADJUSTMENT

Certain income tax and pass-through entity tax revenues above a specified level (annually adjusted for personal income growth) are set aside for deposit.

-\$61.6M

TRANSFER TO STATE EMPLOYEES' RETIREMENT SYSTEM

By law, the State Treasurer must transfer any amounts over the 15% BRF Limit to reduce certain long-term obligations.



**NET DEPOSIT
\$507.4M**

\$38.7M

BUDGET SURPLUS

A General Fund operating surplus or deficit impacts the amount of the Budget Reserve Fund deposit or withdrawal. OFA estimates an FY 20 General Fund operating surplus of \$38.7 million.

The bond lock prohibits changes to the revenue cap or BRF statutes (including the volatility adjustment) through FY 23.

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BUDGET RESERVE FUND (BRF) USES

The BRF covers any General Fund deficit at the end of the fiscal year. It may also be used to support the General Fund budget when a decline in revenues of 1% or more is projected. Lastly, the BRF (or funds that would otherwise be deposited into it) may or must be used when its balance at the end of a fiscal year reaches certain limits (see C.G.S. Sec. 4-30a):

MAY USE AMOUNT ABOVE **5%** OF GF APPROPRIATIONS

The **Connecticut General Assembly** may choose to transfer BRF funds that exceed 5% of GF appropriations of the same fiscal year.

This transfer is limited to either the State Employees' Retirement System (SERS) or the Teachers' Retirement System (TRS) to reduce State unfunded liabilities as a supplement to required payments.

OFA projects \$1,139.6 million would be available for transfer at the end of FY 21; a transfer of this amount would:

- ➔ Reduce the BRF resources available to \$1,018.8 million, if entire eligible amount is transferred; and
- ➔ Reduce SERS or TRS unfunded liabilities, which were \$22.3 billion and \$18.1 billion, respectively, in the most recent valuations.

MUST USE AMOUNT ABOVE **15%** OF GF APPROPRIATIONS

If the BRF Balance reaches 15% of GF appropriations of the next fiscal year, the **State Treasurer** must apply all funds that would otherwise be deposited into the BRF, to either SERS or TRS to reduce the unfunded liability of the selected system by up to 5%.

If funds are still available after a 5% unfunded liability reduction to SERS or TRS, additional payments may be made to either system / other outstanding debts.

On October 1, 2020, the State Treasurer announced the planned transfer of \$61.6 million from the BRF to the SERS. The Treasurer chose to transfer funds to the SERS because it has a lower funded ratio than the TRS.

Due to the estimated, \$854.5 million withdrawal from the BRF in FY 21, it is anticipated that the BRF will remain below the 15% Limit for some time.

FUND DETAILS

BRF resources are held in the State's common cash pool.

Most of this pool is held in the State's Short-Term Investment Fund (STIF) and the Extended Investment Portfolio.

BRF interest earned is deposited as revenue into the General Fund.