CONNECTICUT

In-State Risk Factors and Safeguards

1. Is there a revenue source dedicated to K–12 education? If not, what legal protections exist for education funding?

Connecticut has no revenue source dedicated to K–12 education. Allocations are primarily driven by the state's funding formula, the calculation of which is defined in statute.[1] Given the eight-year phase-in schedule for the most recent major funding reform, 2026 is the first time the formula has been fully funded.[2]

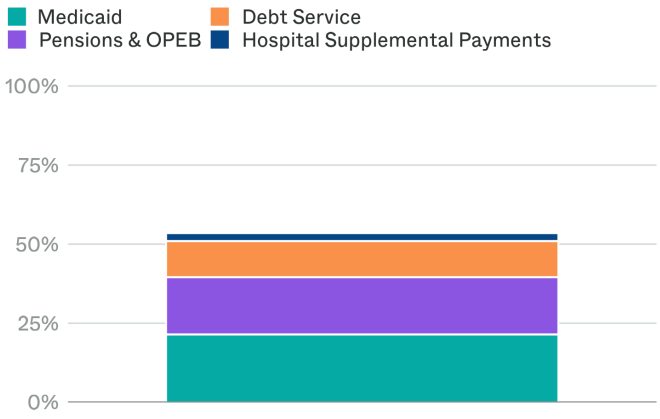
A constitutional right may act as a deterrent to large cuts to education funding. Connecticut does have a court-affirmed constitutional right to education (*Horton v. Meskill*, 1977), but recent challenges to funding adequacy have not been upheld in court (*CCJEF v. Rell*, 2018).[3]

2. What budget commitments could limit spending flexibility?

Fixed costs are expenses that the state must pay, linked to either a legal commitment or a contractual obligation. Connecticut's Office of Financial Analysis (OFA) defines the following expenses as fixed costs: entitlements (Medicaid and similar programs), debt service, state employees' retirement and retiree health care, teachers' retirement and retiree health care, hospital supplemental payments, and adjudicated claims. OFA estimates that fixed costs make up roughly 54 percent of the General Fund budget, up significantly from 35 percent in 2000.[4]

Connecticut General Fund Expenditures on Autopilot (2024)

Fixed cost expenditure projections, FY2024 (millions of dollars)



Adjudicated Claims composes <1% of total and is not visible on the chart.

Source: CT Office of Fiscal Analysis, Fiscal Accountability Report (FY24–FY28).

For the past three years, spending on Medicaid has exceeded budgetary appropriations, and

over the past decade, this spending has risen by 55 percent, while the General Fund has grown by just 34 percent.[5] With federal cuts looming, this gap may increase. Unfunded state and teacher pension liabilities are also a potential issue. Despite Connecticut making significant progress over the past several years at paying down its pension debt, the state's pension debt per capita is still higher than nearly all other states.[6] These fiscal obligations could crowd out discretionary funding, including education, in the event of an economic downturn.

3. Are the state's revenue sources vulnerable to an economic downturn?

An analysis by The Pew Charitable Trusts found Connecticut's 15-year tax revenue volatility—the swings in a state's revenues from year to year as the economy changes—to be slightly above the national average, with higher volatility in recent years.[7] Almost half of Connecticut's tax revenue, 43 percent, comes from personal income taxes.[8] These are generally progressive, designed to ensure that contributions reflect residents' ability to pay, but they are closely tied to unemployment rates and wages, making revenues potentially volatile and difficult to forecast in a downturn.[9]

4. Is the state prepared to manage an economic downturn without making cuts to education?

A robust rainy day fund can provide a buffer against budget cuts during a recession.[10] Connecticut has a healthy rainy day fund of $4.33 billion, which is enough to cover 67.4 days of state operations, well above the national median of 47.8 days.[11]

The state put in place strong fiscal guardrails in 2017, including a cap that restricts spending growth, a volatility adjustment that automatically deposits some revenue from investment earnings into the state's rainy day fund, and a revenue cap that creates a buffer between revenue and spending, creating a built-in budget surplus.[12] The guardrails helped the state pay down $10 billion in pension debt, reducing one of its largest fiscal vulnerabilities.[13] However, in a season where federal cuts and economic uncertainty may put pressure on Connecticut's budget, the cap could prevent lawmakers from making fiscal adjustments to preserve key spending.[14] While some expenses, like debt service, are exempt from the cap, education is not one of them.

Overall, Connecticut is well-positioned to manage revenue volatility. A robust budget reserve and strong economic growth protect against federal cuts and economic uncertainty.[15] In addition, the state is preparing to safeguard programs against federal policy changes to the extent possible: Governor Lamont created a $500 million emergency state response reserve in November 2025 to mitigate the impact of federal cuts.[16]

Notes

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3. Keith M. Phaneuf, "How Are CT Schools Funded? What to Know about the ECS Formula," *CT Mirror*, September 1, 2025, https://ctmirror.org/2025/09/01/ct-education-cost-sharing-formula-ecs/; School & State Finance Project, "Horton v. Meskill (1977)," April 1, 1977, https://schoolstatefinance.org/resources/horton-v-meskill-1977; and School + State Finance Project, "CCJEF v. Rell (2018) (CT Supreme Court Decision)," January 18, 2018, https://schoolstatefinance.org/resources/ccjef-v-rell-2018-ct-supreme-court-decision.
4. Connecticut General Assembly, OFA *Fiscal Accountability Report FY 24–FY 28* (Office of Fiscal Analysis, November 20, 2023), https://www.cga.ct.gov/ofa/Documents/year/FF/2024FF-20231120_Fiscal%20Accountability%20Report%20FY%2024%20-%20FY%2028.pdf; and School + State Finance Project, "Connecticut's Non-Appropriated Accounts," February 5, 2021, https://schoolstatefinance.org/hubfs/Reports/Non-Appropriated%20Accounts.pdf.
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9. Kim Rueben and Megan Randall, *Revenue Volatility: How States Manage Uncertainty* (Urban Institute, 2017).
10. Hamman, Venu, and Theal, "State Tax Revenue Is Becoming More Volatile," https://pewtrsts.org/4j9waFm; and Bernie Gallagher, "Strong Rainy Day Funds Can Help Mitigate Damage from Economic Downturns," *Off the Charts* (blog), Center on Budget and Policy Priorities, February 16, 2023, https://www.cbpp.org/blog/strong-rainy-day-funds-can-help-mitigate-damage-from-economic-downturns.
11. Page Forrest and Justin Theal, "Strength of State Rainy Day Funds Declines as Budgets Tighten," The Pew Charitable Trusts, March 24, 2026, https://www.pew.org/en/research-and-analysis/articles/2026/03/24/strength-of-state-rainy-day-funds-declines-as-budgets-tighten.
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