



State of Connecticut

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Testimony of Representative Tom Reynolds Joint Committee on Appropriations March 5, 2010

H.B. 5104, AN ACT DIRECTING THE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE TO STUDY THE STATE SPENDING CAP

Senator Harp, Representative Geragosian, and fellow members of the Appropriations Committee, I am pleased to submit testimony in support of this proposed bill, which I introduced as part of a package of budget reform legislation to begin to change the state's policies and practices that have helped to create and perpetuate our ongoing fiscal crisis.

H.B. 5104 would direct the legislature's non-partisan Program Review and Investigations Committee to study the impacts of the state spending cap to ascertain its effectiveness in meeting its intended purpose and to make recommendations for reform.

The cap allows state spending to grow from one year to the next by the greater of a five-year average growth in state personal income or the percentage increase in inflation during the preceding 12 months.

The spending cap applies to all appropriations, except debt service payments, grants to distressed municipalities, first year expenditures on federal or court mandates, and transfers of unappropriated surplus to the Rainy Day Fund, state employee retirement fund, or debt service. The cap may be exceeded with an emergency declaration of the Governor and approval of at least 60% of members of both the House and Senate.

A spending cap can be good public policy, and it has slowed the growth in state spending in many areas. However, Connecticut's cap is poorly designed and increasingly unworkable. As a result, it is routinely ignored. For example, Governors Rowland and Rell issued "emergency" declarations, supported by the legislature, to exceed the cap in 8 of the last 11 fiscal years for a total of \$3.6 billion of spending above the cap.

What's more, the spending cap's flaws have resulted in additional "spending" through budget techniques that circumvent statutory restrictions, while giving the appearance of a "cap" on spending—leading to greater taxpayer obligations over the long-run.

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For example, the cap has increased our dependence on borrowing for small projects and ongoing expenses, since debt service payments are exempt from the cap—costing taxpayers much more in the long-run. Total debt service as a percentage of the state budget has nearly doubled in the last two decades from 5.3% of state spending in FY 1988 to 10.4% in FY 2008.

The current cap design encourages “outside the cap” spending through the use of revenue intercepts that restrict specific revenues to non-lapsing funds that provide funding for specific programs without the need for annual appropriations (e.g. Citizen’s Election Fund).

In the FY 2007 budget, nearly \$2 billion was in special, non-appropriated funds, nearly \$1 billion more than in FY 1997. Ironically, the spending cap on the growth of “appropriated” spending has actually resulted in less of the state’s spending being appropriated and subject to annual approval by the Appropriations Committee, thus reducing budget transparency and accountability.

The existing cap encourages a shift in the state’s economic development incentives from grants and loans to tax credits, exemptions and deductions—tax expenditures that do not count as appropriations and are not annually reviewed or publicly scrutinized.

Our spending cap discourages the state from claiming all federal funds to which it is entitled, since most federal funds count towards the cap. Only 16% of Connecticut’s total state and local revenue comes from the federal government—the third lowest share among all states. The state’s relative wealth will always be a factor in our share of federal funds; however, the state has not maximized its full federal funding eligibility.

The voters approved a Constitutional amendment in 1992 adopting a spending cap and directing the legislature to define the key terms and definitions governing the cap. However, the legislature has never adopted updated definitions. Therefore, the statutory cap passed in 1991 contains the operative language defining how the cap will be calculated and implemented, which contributes greatly to the cap’s structural weaknesses.

State leaders have clearly decided to routinely ignore the spending cap law. Therefore, we must mend it or end it. I support reforming it so that it is workable and capable of achieving intended results. The first step is a non-partisan study of the intended and unintended consequences of the spending cap, followed by recommendations for reform. The legislature must then take up legislation to implement the recommendations.

Failure to adopt reforms will perpetuate the practice of routinely exceeding cap, increasing borrowing, leaving federal funds on the table, and using budget gimmicks to spend outside the cap. Collectively, these habits have led to a misleading representation of spending growth, less transparency, and greater obligations on the part of taxpayers.

Thank you for your consideration of this important legislation.