STATEMENT REGARDING
Senate Bill 21: *An Act Defining the Expenditure Cap*
Appropriations Committee
March 8th, 2012

The MetroHartford Alliance is the Region's economic development leader and the City's Chamber of Commerce. Our investors include businesses of all sizes, health care providers, institutions of higher education, and municipalities. All of these investors share a common interest in the full economic and employment recovery of Connecticut, in a dynamic Capital City, and in the enhanced ability for the Region to compete for jobs, capital, and talent.

To achieve these goals, our top legislative priority this session is to ensure that we adhere to the Constitutional spending cap that was established in 1992 as a fundamental condition to the adoption of Connecticut's personal income tax. Since the cap's inception, it has repeatedly served as a critical tool to restrain spending and thereby avoid the tax increases necessary to fill operating deficits.

In order for the state to spend beyond the cap, the Governor must first declare an emergency, and then a supermajority of the Legislature must approve it. Previous administrations and legislatures have taken these steps to exceed the cap, with such cumulative excesses a major factor in the severe budget crisis of 2011 that required significant tax increases and spending reductions in the FY'12 and FY'13 budgets. Accordingly, we urge the Appropriations Committee and your colleagues in the Legislature to take all steps necessary and appropriate to guarantee that the State's operating expenses adhere to the cap by keeping any spending increases within the growth in annual personal income as mandated by the cap.

We urge you to do so in order that we have the funds in subsequent years to address the investment opportunities and unfunded liability issues that are critical to sustaining job growth and economic prosperity for the state. Indeed, by keeping current services expenditures within the spending cap, we have a legitimate prospect of generating budget surpluses in future years that must first be used to address our major issue of unfunded liabilities before investing in the infrastructure that will drive sustainable employment and personal income growth. Please see the attached chart as illustration of this point.

To ensure that we maintain fiscal discipline for the long term, it is also critical that we not incorporate any such surpluses in the new budget base for calculating the spending cap going forward. Keeping surplus spending out the budget base is the single most important restraint on state expenditure growth. We therefore urge the Legislature not to adopt any exemptions from the cap that in turn generate spending growth elsewhere in the general operations budget. The detrimental impact of such exemptions is irreversible.

We applaud the Governor's leadership in tackling our enormous unfunded state employee retirement liability so as to avoid a mandated major balloon contribution in 2030, an enormous contribution that will be born by the next generation and that will be a major impediment to economic and job growth as we near that date. In that spirit, we firmly reiterate our long standing position that the priority allocation of budget surpluses must be used to reduce such liabilities. For all of these reasons, we urge the Legislature to debate the exemption of any appropriation from the spending cap to fund those liabilities as part of the biennial budget process for FY'14 and FY'15.

We thank you for the opportunity to comment on SB 21 and look forward to continuing to work with the Governor and the Legislature to implement fiscal actions that will sustain economic and employment growth for the balance of this decade and beyond.

State Budget Out Year Projections: FY13 thru FY16

How the Spending Cap Controls Expenditure Growth

	Recommended	*Current Services*		
	FY 2013	*FY 2014*	*FY 2015*	*FY 2016*
Total State Budget: Without the Spending Cap				
Revenues	$20,787.1	$21,860.2	$23,147.9	$24,145.0
Expenditures	20,729.0	22,117.3	23,161.1	24,028.8
Surplus/(Deficit)	$58.1	$(257.1)	$(13.2)	$116.2
Reserve for GAAP	(50.0)	(166.8)	(166.8)	(166.8)
Balance: Deficits in FY14 thru FY16	**$8.1**	$(423.9)	$(180.0)	$(50.6)
Budget Results When the Spending Cap is Applied				
Total All Appropriated Funds	$20,729.0	$22,117.3	$23,161.1	$24,028.8
Allowed Appropriations Applying the Spending Cap	20,734.8	21,467.8	22,038.9	22,731.2
Over/(Under) the Cap	$(5.9)	**$649.5**	**$1,122.2**	**$1,297.6**
Surpluses Result When the Cap is Applied				
Revenues - All Funds		$21,860.2	$23,147.9	$24,145.0
Allowed Appropriations per Cap		21,467.8	22,038.9	22,731.2
Revenues Less Allowed Approps		$392.4	$1,109.0	$1,413.8
Reserve for GAAP		(166.8)	(166.8)	(166.8)
Surplus Balances in the Out Years		**$225.6**	**$942.2**	**$1,247.0**

Cain Associates LLC: Data based upon Governor's Outyear Report 2012 *assumption: based on growth in per capita personal income*