

**TESTIMONY PRESENTED TO THE FINANCE, REVENUE AND BONDING  
COMMITTEE  
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Testimony on Senate Bill No. 1116

**AN ACT CONCERNING THE USE OF CERTAIN REVENUES TO PROVIDE FUNDS FOR THE  
BUDGET RESERVE FUND**

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Senator Fonfara, Representative Widlitz and distinguished members of the Finance, Revenue and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill No. 1116, An Act Concerning the Use of Certain Revenues to Provide Funds for the Budget Reserve Fund.

The purpose of this bill is to increase the funding level of the state's budget reserve fund. A fully-funded budget reserve fund has many benefits for the state: it positions the state to deal with any potential downturn in the economy and the resultant impact on the state's budget, it is a credit positive from the bond rating agencies' viewpoint, and it increases available cash and reduces the need for cash flow financing and/or bond fund transfers. In recognition of these advantages, the target funding level of Connecticut's Budget Reserve Fund has been increased from five percent to seven-and-a-half percent to ten percent of General Fund appropriations in the last decade, providing \$1,381.7 million for use during the most recent recession.

However, the severity and length of the most recent recession has taught us that even a reserve of \$1.4 billion was insufficient. In addition to draining the budget reserve fund, the state had to resort to Economic Recovery Notes and significant tax increases and expenditure cuts to balance the budget. The provisions in this bill would help to rebuild our reserves more rapidly. The administration is supportive of the concepts contained in this bill including:

- Increasing the funding target for the Budget Reserve Fund from ten percent to fifteen percent of General Fund appropriations;
- Depositing fifty percent of any surplus forecast in January of any fiscal year to the Budget Reserve Fund. One-time surpluses in previous years generated substantial new spending, in large measure for ongoing programs;
- Depositing one-time revenues from the sale of surplus state property to the Budget Reserve Fund; and
- Dedicating one-time revenues such as recoveries or settlements negotiated through the Office of the Attorney General to reducing unfunded liabilities for

pensions and health care. Because receipt of these settlements, some of which can run into the millions of dollars, is unplanned, the administration supports dedicating them to reducing the unfunded liabilities in the state's pension and health care trust funds.

It should be noted that this bill requires the State Treasurer to transfer any amount that exceeds the April consensus revenue estimate to the Budget Reserve Fund. I have several concerns about this provision. In a year in which we forecast a deficit, any revenue in excess of the April consensus forecast may be needed to ensure the state's budget ends in balance. Additionally, the April forecast covers multiple years, and the bill is not specific as to which fiscal year the requirement applies. It is also unclear how the Treasurer would determine the amount to transfer since the bill does not specify when she must compare the estimate to actual revenues in order to calculate the "excess revenue" to be transferred: during the year in progress, or after the year closes. For these reasons, I recommend that this provision be deleted or clarified if the bill moves forward.

I would like to again thank the committee for the opportunity to present this testimony. I respectfully request the Committee's support of this bill with revisions as noted.