Testimony In Support of Raised S.B. 1116
An Act Concerning the Use of Certain Revenues to Provide Funds for the Budget Reserve Fund

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Finance, Revenue, and Bonding Committee
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Senator Fonfara, Representative Widlitz, Senator Frantz, Representative Williams, and distinguished members of the Committee:

My name is Matt Santacroce. I am a Policy Analyst at Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families. **I am here today to testify in support of SB 1116, *An Act Concerning the Use of Certain Revenues to Provide Funds for the Budget Reserve Fund.*** This bill would make mandatory the contributions of the following funds to the Budget Reserve Fund:

- Fifty percent of any projected surplus as determined by the Comptroller's January cumulative monthly financial statement;
- Any amounts received from the sale of surplus state property;
- Any amounts in excess of estimated revenues in the April 30th consensus revenue estimate; and
- As current law dictates, any unappropriated surplus remaining in the General Fund at the close of the current fiscal year.

In addition, the bill would raise the statutory "cap" on contributions to the Budget Reserve Fund (BRF) from ten to fifteen percent of net General Fund appropriations for the current fiscal year.

We applaud these important steps towards restoring a robust, reliable rainy day fund that will aid our state in absorbing the impacts of the business cycle while maintaining important investments in the future.. We would also suggest a slight modification to subdivision (1) of Section 1(a) of the bill, as currently drafted.

Connecticut's economy is still digging out of the worst economic downturn since the Great Depression. The recession of mid-2008 to early 2011 had a catastrophic impact on state budgets around the country, and in Connecticut, things were particularly bad. In fiscal years 2009 through 2013, legislators acted to close a cumulative budget deficit of more than $14.5 billion – due almost entirely to steep recession-driven drop-offs in personal income, sales, and corporate business tax revenues.

A key element of these deficit mitigation efforts was the state's budget reserve fund, often referred to as the "rainy day fund." The budget reserve fund (BRF), established more than thirty years ago by PA 79-623, is an important hedge against downturns in the economy, and corresponding decreases in personal income tax revenue. By paying into the fund during good times, the state can have enough cash on hand to make up budget shortfalls resulting from lower-than-expected revenues in hard times. Simply put, the BRF provides an essential fiscal safety net for inevitable downturns in the state's economy. However, more than three years since the onset of the Great Recession, it is clear that Connecticut's budget reserve fund was ill-equipped to deal with deficits of such magnitude – when the BRF was drained almost entirely in FY 2010 alone, it still only managed to account for 1 of every 10 dollars of deficit mitigation.[1] **The proposed cap increase, from ten percent to fifteen percent of net General Fund appropriations, would significantly improve the state's capacity to absorb the fiscal blows of future economic downturns – and would be a step forward for more sustainable budgeting in the years ahead.**

We would propose a slight modification to subdivision (1) of Section 1(a) of the bill, which would require contribution of any projected surplus reported in the January Comptroller's financial statement. We are concerned that this provision may act to move funds into the BRF during periods of temporarily low spending – and that, in the event of economy-driven declines in revenue or upticks in spending, the state would have less flexibility to react to these fiscal drivers with current-year funds. To address this, we would suggest designating 50 percent of the projected surplus as a future deposit to be made if projections hold – rather than making the deposit within 5 days of the January 1 report as the bill requires. This should have the effect of making it less likely that these "surplus" funds are spend before the end of the year, but would also leave them available if projections prove too optimistic.

Thank you for the opportunity to testify before you today. I look forward to your questions.

[1] CT Voices analysis of OFA and Finance Committee historical deficit mitigation data.