OFFICE OF LEGISLATIVE RESEARCH

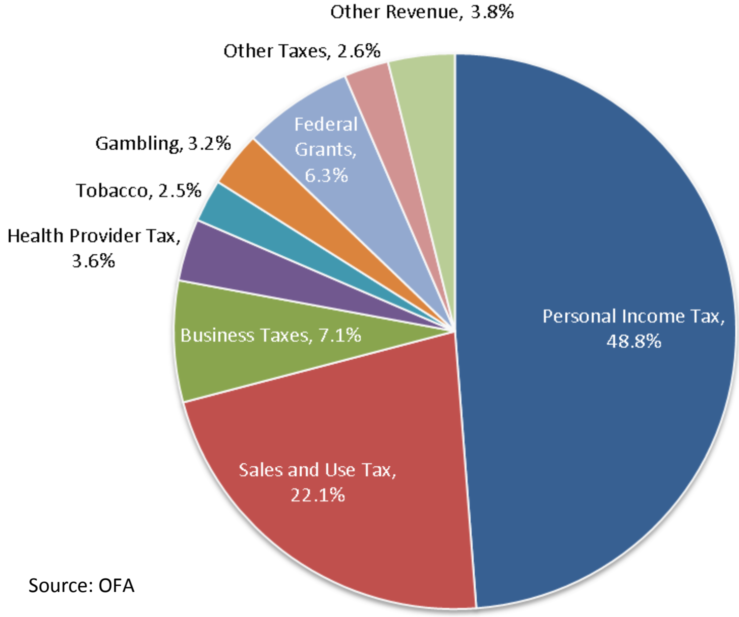
Objective Research for Connecticut's Legislature

Issue Brief

State Budget Snapshot

Where Does General Fund Money Come From?

Figure 1: FY 17 General Fund Consensus Revenue (in millions)*

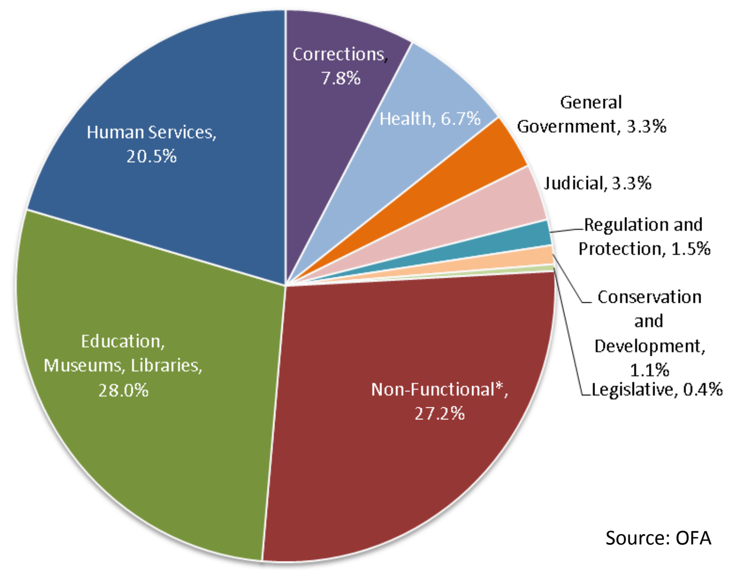


Source: OFA

**Amounts shown are on a gross basis and do not reflect reductions in revenue from refunds.*

Where Does It Go?

Figure 2: Revised FY 17 General Fund Appropriations (in millions)



Source: OFA

**Non-Functional includes debt service, fringe benefits, and certain workers' compensation claims.*

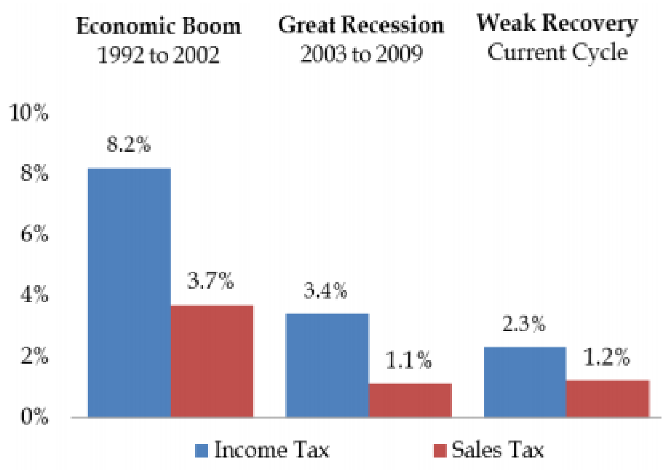
What Is Driving Spending Growth?

According to the Office of Fiscal Analysis's (OFA) recent *Fiscal Accountability Report*, the primary concern for General Fund expenditures is the significant growth of fixed costs, including pension costs, retiree health, debt service, entitlements, and adjudicated claims. Fixed costs have grown from 37% of expenditures in FY 06 to a projected 53% in FY 18. In other words, fixed costs will account for $0.53 of every dollar the state spends in the next fiscal year.

What Are the Revenue Trends and What's Driving Them?

The state is in a period of historically weak and volatile revenue growth, which began with the Great Recession and continued through the 2015 tax year. This weak growth is primarily seen in the personal income and sales tax, which have exhibited declining growth rates over the last three economic cycles as shown in Figure 3. The volatility is attributable to fluctuations in tax receipts from high income earners (i.e., those with incomes of $200,000 or more), which have accounted for 76% of all income growth since 2004; growth in this income group has been erratic since 2010.

Figure 3: Sustained Tax Growth Rates by Economic Cycle



Source: OFA

Connecticut's decline during the recession was greater than that of other states in the region primarily because the finance and insurance industry sector – one of the major pillars of the Connecticut economy – was hit particularly hard. Furthermore, this sector has had a harder time climbing out of the recession than its counterparts in other states.

What Is the Outlook for the next Biennium?

OFA is projecting that the state will need to reduce non-fixed costs by $1.2 billion in FY 18 in order to balance General Fund expenditures with consensus revenue projections. Non-fixed costs include education, municipal aid, state employee salaries and benefits, criminal justice, public safety, environment, and economy development costs.

According to OFA, fixed costs are anticipated to grow by $898.7 million in FY 18 primarily due to increasing debt service payments, Teachers' Retirement System contributions, and state employee pension and retiree health contributions.

What about the Spending Cap?

The statutory spending cap bars the legislature from authorizing an increase in general budget expenditures for any fiscal year that exceeds the greater of the (1) state' s average annual percentage increase in personal income for the preceding five years or (2) increase in the Consumer Price Index for urban consumers for the preceding 12 months, unless the governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of each house of the legislature approves the extra expenditure for those purposes (CGS § 2-33a).

The Rainy Day Fund currently contains $235.6 million or 1.3% of the net General Fund appropriations for the current fiscal year. At its highest point, from FY 07 to FY 09, it contained $1.4 billion.

Source: OFA

The constitutional spending cap requires the legislature to define "increase in personal income," "increase in inflation," and "general budget expenditures" by a three-fifths majority, but the legislature has not defined these terms to date (Conn. Const., art. III, § 18(b)). A 24-member commission has been meeting since March 2016 to develop proposed definitions for the constitutional spending cap and is expected to submit its recommendations before the 2017 session.

Learn More

OFA Fiscal Accountability Presentation

OFA *Fiscal Accountability Report FY 17 – FY 20*

Q3 2016: Snapshot of the New England Economy through September 20, 2016, Federal Reserve Bank of Boston

"Spending Cap Definitions," OLR Report 2016-R-0137

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