

Connecticut's Volatility Cap

What is the Volatility Cap?

The volatility cap is a mechanism for diverting volatile tax revenue to the Budget Reserve Fund (BRF). It is tied to (1) personal income tax revenue from estimated and final payments (generated from taxpayers who make estimated income tax payments on a quarterly basis) and (2) pass-through entity tax revenue. Estimated and final income tax payments are the most volatile component of personal income tax collections. They generally come from investments, such as capital gains realized in the stock market, and thus fluctuate with economic booms and busts. The pass-through entity tax is a new entity-level income tax on most pass-through businesses.

The volatility cap limits the amount of this specified revenue that may be used to balance the budget. It does so as a result of two related provisions. First, the law requires the state treasurer to transfer to the BRF any revenue the state receives each fiscal year in excess of \$3.15 billion (annually adjusted for the five-year average growth in personal income) from personal income tax estimated and final payments and the pass-through entity tax ([CGS § 4-30a\(a\)\(1\)](#)).

Second, it requires consensus revenue estimates to include a line item, designated as the volatility adjustment, that reflects the estimated amount of this transfer ([CGS § 2-35\(b\)\(1\)\(B\)](#)). Consensus revenue estimates are the basis for the governor's proposed budget and the revenue statement included in the budget act the legislature passes. Thus, the new volatility adjustment effectively reduces the amount of General Fund revenue available for appropriation in the budget.

Estimated Volatility Cap Threshold for FYs 19-22

FY	Threshold
2019	\$3,196.8
2020	3,294.6
2021	3,388.5
2022	3,488.8

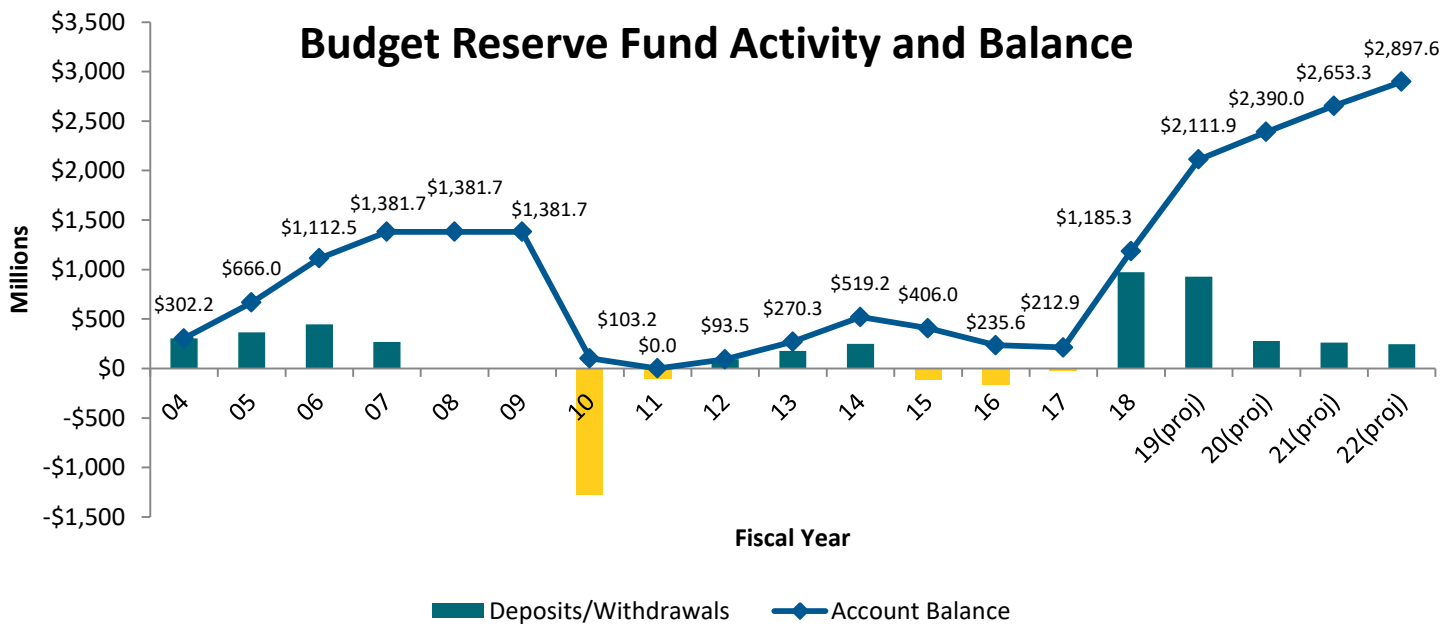
Source: [Office of Policy and Management](#)

For FY 19, the volatility cap is \$3.197 billion and is projected to result in a transfer of \$648 million to the BRF at the end of the fiscal year.

Source: OFA

Can the Legislature Amend the Cap?

Yes. The legislature may amend the \$3.15 billion threshold amount, by a vote of three-fifths of the members of each house, due to changes in state or federal tax law or policy or significant adjustments to economic growth or tax collections ([CGS § 4-30a\(a\)\(2\)](#)). Any other amendments to the volatility cap law are subject to the bond lock law described on the reverse.



What is the Bond Lock Law?

The state’s “bond lock” law requires certain state bonds to include a pledge to bondholders that the state will comply with specified state laws as long as the bonds are outstanding, except under limited circumstances ([CGS § 3-20\(aa\)](#)). Under the law, for each fiscal year during which state general obligation (GO) or credit revenue bonds issued from May 15, 2018, to June 30, 2020, are outstanding, the state must comply with the:

- BRF law, including the volatility cap;
- cap on General Fund and Special Transportation Fund expenditures;
- state spending cap; and
- caps on GO and credit revenue bond authorizations, allocations, issuances, and expenditures.

For bonds issued during this timeframe, the treasurer must include a pledge to bondholders that the state will not enact any laws taking effect from May 15, 2018, to June 30, 2023, that change the state's obligation to comply with the laws listed above until the bonds are fully paid off, unless (1) bondholders are protected in another way or (2) the governor declares an emergency or the existence of extraordinary circumstances, at least 3/5 of the members of each house of the General Assembly approve the change in compliance, and the change is limited to the fiscal year in progress. The pledge must apply for five years from the bonds' first issuance date, but not to refunding bonds issued to pay the original bonds.

What are the Limitations on Using the Revenue Diverted to the BRF?

Under the BRF law, the fund may only be used to (1) cover a deficit for the immediately preceding fiscal year; (2) finance a projected General Fund deficit of 1% or more for the current or next biennium; and (3) pay unfunded pension liabilities when the fund's balance equals 5% or more of net General Fund appropriations for the current fiscal year ([CGS § 4-30a](#)).

The law caps the BRF’s maximum balance at 15% of net General Fund appropriations for the current fiscal year. Any unappropriated surplus that remains after the BRF reaches its maximum balance must be used to reduce unfunded pension liabilities and pay off other outstanding state debt ([CGS § 4-30a\(c\)](#)).

Learn More

OFA [Fiscal Accountability Report FY 19 - FY 22](#)

OPM [Fiscal Accountability Report FY 19 - 22](#)

Pew Charitable Trusts, “[States Make More Progress Rebuilding Rainy Day Funds,](#)” August 29, 2018.

