

State Spending Cap

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Issue

Briefly explain the state's spending cap. **This report has been updated by OLR Report [2022-R-0214](#).**

Summary

The state's spending cap limits the annual growth in state spending by restricting the legislature's authority to make appropriations. It generally bars the legislature from authorizing an increase in general budget expenditures for any fiscal year that exceeds the greater of the growth in personal income or increase in inflation. The legislature may only exceed the cap if (1) the governor declares an emergency or extraordinary circumstance and (2) at least three-fifths of each house of the legislature approves the extra expenditure.

The spending cap is established in the state constitution and statutes ([Conn. Const., art. III, § 18\(b\)](#) & [CGS § 2-33a](#)). It applies to appropriations from the state's 10 appropriated funds, with certain exclusions. The "non-capped" expenditures include (1) debt payments, (2) statutorily required transfers of surplus funds, and (3) federal grants. The law temporarily excludes from the cap payments made toward unfunded pension liabilities.

The spending cap law also requires a base adjustment if any spending is shifted from an off-budget expenditure to a budgeted expenditure, or vice versa.

General Budget Expenditures

The spending cap applies to the state’s “general budget expenditures,” which are the expenditures from the state’s appropriated funds, subject to certain exclusions. Table 1 lists the state’s 10 appropriated funds for the FY 20-21 biennium.

By law, general budget expenditures exclude the following:

- payment of principal and interest on bonds, notes, or other evidences of indebtedness;
- transfers to and from the Budget Reserve Fund and, once the fund reaches the maximum, to fund the State Employees Retirement Fund's unfunded liability and other outstanding state debt;
- expenditures of federal funds granted to the state or state agencies;
- payments to implement federal mandates or court orders for the first fiscal year in which the spending is authorized; and
- expenditures for federal programs in which the state begins participating after October 31, 2017, and for which the state receives federal matching funds, for the first fiscal year in which the spending is authorized.

General budget expenditures also temporarily exclude the following payments for unfunded pension liabilities:

- for FYs 18 through 22, payments made for the portion of the actuarially determined employer contribution (ADEC) representing the unfunded liability for that fiscal year for any retirement system or alternative retirement program administered by the State Employees Retirement Commission, other than the teachers' retirement system; and
- for FYs 18 through 26, payments made for the portion of the ADEC representing the unfunded liability for that fiscal year for the teachers' retirement system.

Allowable Growth Rate

The spending cap restricts the annual growth in general budget expenditures by the greater of the percentage increase in personal income or inflation.

Table 1: FY 20-21 Appropriated Funds

General Fund
Special Transportation Fund
Tourism Fund
Mashantucket Pequot and Mohegan Fund
Regional Market Operation Fund
Banking Fund
Insurance Fund
Consumer Counsel and Public Utility Control Fund
Workers' Compensation Fund
Criminal Injuries Compensation Fund

The increase in personal income is the state's compound annual growth rate in personal income over the preceding five calendar years, based on U.S. Bureau of Economic Analysis data. The increase in inflation is the increase in the consumer price index for all urban consumers during the preceding calendar year (all items, except food and energy), calculated on a December over December basis using U.S. Bureau of Labor Statistics data ([CGS § 2-33a\(b\)\(1\) & \(2\)](#)).

Base Adjustment

The spending cap base for a given fiscal year is generally calculated by taking the prior year's appropriated funds and subtracting the total "non-capped" spending. The base is then multiplied by the allowable growth rate (personal income or inflation), resulting in the total dollar amount by which the budget may grow in the fiscal year.

However, if any spending is shifted from one fiscal year to the next from an off-budget expenditure to a budgeted expenditure, or vice versa, the base must be adjusted accordingly. Specifically, the law requires a base adjustment in any fiscal year in which an expenditure's funding source is converted from (1) an appropriation to state bonding, a revenue intercept, or a nonappropriated source, or (2) any of these three funding sources to an appropriation ([CGS § 2-33a\(c\)](#)).

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