

Spending Cap Commission  
September 19, 2016  
Meeting Notes

**Attendees:**

Commission Co-Chairperson William Cibes, Commission Co-Chairperson Patricia Widlitz, Suzanne Bates, Sen. Steve Cassano, Rep. Christopher Davis, Tom Fiore, Robert Frankel, Sen. Scott Frantz, Sen. Joan Hartley, Roberto Hunter, Sen. Michael McLachlan, Lori Pelletier (by telephone), Richard Porth, Ellen Shemitz (by telephone), Bart Shuldman, Rep. Jonathan Steinberg, Ron Van Winkle, Rep. Melissa Ziobron

**Staff:**

Susan Keane, Administrator  
Amanda Zabel, Appropriations Committee Clerk

**Call to Order**

Chairperson Widlitz called the meeting to order at 1:00 PM.

**Consideration of an Amendment to the Commission Rules regarding Telephone Voting**

Chairperson Widlitz asked for a motion to adopt an amendment to the Commission rules to allow voting by telephone. The language is as follows:

Notwithstanding the provisions of Mason's Manual to the contrary, a member of the Commission may participate in a meeting of the Commission by means of a conference telephone or similar communications equipment enabling all members participating in the meeting to hear one another, and such participation in a meeting shall constitute presence in person at such meeting including the right to cast votes.

The motion was made by Mr. Frankel and seconded by Chairperson Cibes.

Rep. Ziobron asked if the proposed amendment addressed holding telephonic votes open.

Chairperson Widlitz replied that there was no provision in the amendment for holding votes open.

Rep. Ziobron asked if votes would be held open during the course of commission meetings.

Chairperson Cibes responded that Section 538 of Mason's Manual provides that "no member can vote who is not present when the question is put". He added that when roll call votes are taken, members will have to be present at that time to vote.

Chairperson Widlitz remarked that members who are in the Legislative Office Building (LOB) and have been participating in the discussion should be allowed to vote. She stated that it is not the intention of the Chairs to hold votes open or to wait for members to arrive at the LOB simply to cast a vote.

Rep. Ziobron thanked the Chairs for the clarification, and agreed with the position stated by Chairperson Widlitz.

Rep. Steinberg sought further clarification of the voting procedure. He inquired as to whether he would be allowed to vote if he were to phone into a meeting in progress, and his participation began prior to the vote being called.

Chairperson Widlitz confirmed that he would be allowed to vote under that scenario.

Commission members then discussed what constitutes participation. There was agreement that an appropriate measure of participation would be difficult to establish. In addition, it was pointed out that CT-N videos are archived, thus allowing members to watch the proceedings to stay current with the commission's deliberations.

Chairperson Widlitz called for a vote on the proposed amendment. The amendment was adopted by roll call vote, with 11 voting yea and 2 voting nay.

### **Acceptance of the September 7 Meeting Notes**

Chairperson Widlitz asked for a motion to accept the September 7 meeting notes. The motion was made by Mr. Hunter, seconded by Rep. Ziobron. The following corrections were made:

Page 5, paragraph 6, line 5 – Change “differences” to “different”

Page 19, paragraph 9, line, 2 – Change “Constructional” to “Constitutional”

Seeing no further discussion, the meeting notes, as corrected, were accepted by voice vote, with Mr. Shuldman abstaining.

### **Approval of a Definition of “Increase in Inflation” (to be included in the draft proposal to be taken to public hearings)**

Chairperson Widlitz called on Chairperson Cibes to lead the discussion. Mr. Cibes moved to adopt the recommended definition of “increase in inflation” as proposed by the Co-Chairs (see Exhibit A - Definition of “Increase in Inflation” (and Commentary)). Ms. Pelletier seconded the motion. The proposed language is as follows:

“Increase in inflation” means the increase in the national Gross Domestic Product price index for government consumption expenditures and gross investment for state and local governments during the most recently completed calendar year, according to United States Bureau of Economic Analysis data.

Chairperson Cibes explained that the proposal was based on the distinction between the basket of goods and services that consumers purchase and the basket of goods and services that are purchased by government in an effort to produce the goods and services the government delivers. He then reviewed the commentary provided to members.

Speaking in opposition to the recommended definition were Mr. Shuldman, Sen. Frantz and Rep. Ziobron.

Rep. Ziobron remarked that it was important to give constituents a spending cap and accompanying definitions that are reasonable, simple, and predictable. To that end, she offered an amendment, which was the language of Potential Alternative Definition #1. Sen. McLachlan seconded the amendment. The language is as follows:

“Increase in inflation” means the increase in the consumer price index for urban consumers during the preceding calendar year, calculated on a December over December basis, according to United States Bureau of Labor Statistics data

Speaking in favor of the amendment were Sen. McLachlan, Ms. Bates, Rep. Steinberg, Rep. Davis, Mr. Van Winkle, Mr. Fiore, Mr. Shuldman and Mr. Hunter.

Mr. Hunter recommended that the commission consider revising the language to exclude food and energy from the index. He explained that CPI-U is subject to considerable volatility on an annual basis. Over time, using the core measure (less food and energy) will dampen volatility.

With regard to the issue of volatility, Ms. Shemitz expressed concern regarding the 1 year time period reflected in the proposed language. She stated it was her understanding that the problem with a 1 year lookback is the volatility. She shared for that reason, the Center for Budget and Policy Priorities (CBPP) and other sources have recommended a 10 year lookback period.

Chairperson Cibes spoke against the proposed amendment. He remarked that the language of the recommended definition addresses the purchases government makes, rather than the price of consumer goods. He believes that it is a clear distinction that is easily explainable. In addition, he shared that it is important to recognize that in an effort to keep government spending down, adopting the proposed amendment may make it impossible for the government to respond to the needs of the state’s residents. Mr. Cibes agreed with Mr. Van Winkle’s statement that personal income, not inflation, is an indicator of “ability to pay”. It is his belief that the crafters of the statutory spending cap language intended that the increase in personal income be the primary restraint on spending and that the measure of inflation was added to address extraordinary circumstances when there is a spike in the costs of producing the goods and services government provides.

Mr. Hunter commented that the Governor and the legislature had avenues available to them to deal with other types of extraordinary circumstances, like funding the pension liabilities.

Chairperson Widlitz commented that she was proud of the commission and the quality of the discussion, as well as the level of thought and supporting documentation that went into members’ positions on the issues. She shared that she would be voting against the amendment, as she believed that Chairperson Cibes had made a very strong case for the recommended definition. She reminded members that the public will have the opportunity to provide feedback on a definition of “increase in inflation” during the public hearing process.

Chairperson Widlitz then called for a vote on the amendment. The amendment was adopted, with 11 voting yea, and 6 voting nay.

Ms. Shemitz offered an amendment to change the lookback period from the preceding calendar year to the preceding 10 calendar years. For the purposes of discussion, Chairperson Cibes seconded the amendment.

Ms. Shemitz explained that as pointed out by Liz McNichol of CBPP and some commission members, a 10 year lookback period would smooth out the spikes in changes over time and would allow for more stability in the calculation of the spending cap.

Rep. Ziobron stated that she did not view the proposal as a “friendly” amendment and urged her colleagues to vote against it.

Chairperson Cibes asked Mr. Fiore if OPM had calculated a 10 year lookback on inflation.

Mr. Fiore responded that while a 10 year calculation was not done, OPM staff had done a 5 year lookback calculation, which he could share.

Chairperson Cibes asked what the 5 year calculation showed.

Mr. Fiore shared the following: for the current CPI-U with a 1 year lookback, the compound annual growth rate for the cap years from 1992-2017 is 2.30%. The compound annual growth rate with a 5 year lookback period would be 2.64%. The standard deviation on the calculation currently used is 1%; for 5 years it is 0.7%. He stated that the 5 year lookback is slightly less volatile.

Mr. Frankel stated his understanding of the language changes proposed by Ms. Shemitz – to insert “average” before “increase”; after “preceding” insert “ten”; change “year” to “years”. The amendment would read:

“Increase in inflation” means the average increase in the consumer price index for urban consumers during the preceding ten calendar years, calculated on a December over December basis, according to United States Bureau of Labor Statistics data

He asked Ms. Shemitz to confirm his understanding.

Ms. Shemitz replied that Mr. Frankel had correctly stated the changes she was proposing.

Following further discussion, Ms. Shemitz withdrew her amendment.

Mr. Hunter referenced his previous comments on volatility. He stated that a way to deal with the year-to-year volatility, while still maintaining the annual increase, was to focus on the core measure of the index being proposed, as the core measure excludes food and energy items. He remarked that OPM had done an analysis of the numbers, which showed that there is distinctively less volatility in using the core measure.

Mr. Hunter then offered the following amendment:

“Increase in inflation” means the increase in the consumer price index for urban consumers, **all items less food and energy**, during the preceding calendar year,

calculated on a December over December basis, according to United States Bureau of Labor Statistics data

Mr. Van Winkle seconded the motion. He spoke of the variability associated with food and energy prices. He added that economists look at the core inflation rate more than CPI-U to assess what is going on with inflation in the overall economy.

Speaking in opposition to the amendment were Sen. McLachlan and Mr. Fiore.

Speaking in favor of the amendment were Mr. Shuldman and Chairperson Widlitz.

After further discussion, Chairperson Widlitz called for a vote on the amendment. The amendment was adopted, with 13 voting yea, and 5 voting nay.

Mr. Frankel raised a technical issue regarding the language before the commission. He remarked that all of the definitions presented ended with the word “data”. He suggested that the better language might be to insert “the” before “United States Bureau of Economic Analysis” and to eliminate “data”. The language would then read:

“Increase in inflation” means the increase in the consumer price index for urban consumers, all items less food and energy, during the preceding calendar year, calculated on a December over December basis, according to the United States Bureau of Labor Statistics

He asked the administrator to contact the Legislative Commissioners Office (LCO) to request a review of his proposed language.

Chairperson Widlitz called for a final vote on the definition of “increase in inflation”. The language read as follows:

“Increase in inflation” means the increase in the consumer price index for urban consumers, all items less food and energy, during the preceding calendar year, calculated on a December over December basis, according to United States Bureau of Labor Statistics data

Before the roll was taken, Rep. Ziobron observed that the technical issues experienced with members voting by phone illustrated her concerns about members voting in real time. She expressed the hope that the issues could be resolved prior to the next voting meeting.

Chairperson Widlitz then asked the administrator to call the roll. The language was adopted, with 16 voting yea, and 2 voting nay.

Regarding Mr. Frankel’s technical language concerns, Mr. Hunter pointed out that the same article of speech was missing in the definition of “personal income” previously adopted by the commission. The administrator offered to have LCO look at that language, as well.

### **Future Meeting and Public Hearing Dates**

Chairperson Widlitz reviewed the proposed schedule. Mr. Van Winkle pointed out that

October 12 is Yom Kippur. Chairperson Widlitz replied that the hearing will be rescheduled. Sen. McLachlan asked that the Chairpersons consider holding the 5<sup>th</sup> Congressional hearing in Danbury, rather than Waterbury. Chairperson Widlitz replied that the Co-Chairs would take his request under consideration.

Chairperson Cibes shared the Co-Chairs' thoughts regarding the procedure for the public hearings. As the commission will not have voted on a number of issues before the first hearing and possibly before other hearings, they have decided to term the hearings "subject matter public hearings". The public will be presented with the draft definitions of personal income and increase in inflation, as well as the menu of issues that has been constructed and not yet acted upon. In addition, he shared that the Chairs intend to limit the hearings to a reasonable length of time and to limit discussion to those comments that specifically address the three definitions within the purview of the commission.

Sen. Hartley advocated for scheduling the 5<sup>th</sup> Congressional District hearing in Waterbury, as indicated on the schedule.

Rep. Ziobron expressed her thanks to the Co-Chairs for developing the proposed schedule.

Commission members then discussed the start time of the additional meetings and public hearings. Mr. Shuldman asked if the September 26 could be scheduled for 10 am, rather than 1 pm. Hearing no objections, the meeting time was changed to 10 am.

It was agreed that future meetings will be held at 1 pm (with the exception of September 26), and the public hearings will be held from 4 pm to 7 pm. Chairperson Widlitz assured members that the hearing end time could be flexible to allow late arrivals the opportunity to testify.

### **Discussion of "General Budget Expenditures"**

Commission members decided to wait to begin the discussion at the September 26 meeting.

### **Announcement of Next Meeting**

Chairperson Widlitz announced that the next meeting will be held on Monday, September 26 at 10 am in Room 1E of the LOB.

### **Adjournment**

Seeing no further discussion, Chairperson Widlitz adjourned the meeting at 3:36 pm.

Respectfully submitted,

Susan Keane, Administrator



## Exhibit A

### Definition of “Increase in Inflation” (and Commentary)

#### Current Definition (CGS 2-33a)

“Increase in inflation” means the increase in the consumer price index for urban consumers during the preceding twelve-month period, according to United States Bureau of Labor Statistics data.

#### **Recommended Definition**

“Increase in inflation” means the increase in the national Gross Domestic Product price index for government consumption expenditures and gross investment for state and local governments during the most recently completed calendar year, according to United States Bureau of Economic Analysis data.

#### Potential Alternative Definitions

1. “Increase in inflation” means the increase in the consumer price index for urban consumers during the preceding calendar year, calculated on a December over December basis, according to United States Bureau of Labor Statistics data
2. “Increase in inflation” means the average increase in the consumer price index for urban consumers in the New York and Boston metropolitan areas during the preceding calendar year, calculated on a final month over a final month basis, according to United States Bureau of Labor Statistics data.

#### **Commentary**

The Constitutional spending cap specifies that, absent extraordinary circumstances, the percentage increase in general budget expenditures each fiscal year shall not exceed the greater of the percentage increase in personal income or the percentage increase in inflation. The understanding of the Commission is that the primary restraint on increased spending was intended to be the increase in personal income, but that in some years a spike in the costs of producing the goods and services the government delivers to Connecticut residents would justify an increase greater than permitted by an increase in personal income. The state’s experience since the adoption of the



Constitutional cap has demonstrated that the limit has in fact been the increase in personal income: in only one year has the increase in inflation, as measured by the statutory cap of 1991, exceeded the increase in personal income.

However, presentations to the Commission have clarified that the measure of inflation included in the 1991 statutory cap – the consumer price index for urban consumers (CPI-U) – is by its very terms not a measure of the cost to government to produce the output goods and services it delivers. As information presented to the Commission noted, the basket of goods and services purchased by consumers is quite different from the basket of goods and services purchased by government.<sup>1</sup>

Specifically, the categories of expenditures included in the price index for consumers<sup>2</sup> are listed below.

Major Group of Consumer Expenditures	Weight (2015)
Food and beverages	14.97
Housing	42.24
Apparel	3.10
Transportation	15.26
Medical Care	8.38
Recreation	5.73
Education and Communication	7.15
Other Goods and Services	3.18

The basket of goods and services purchased by government is significantly different. Governments purchase little housing, little food, little apparel, little recreation as inputs to generate the services it delivers. Instead, in order to deliver educational, judicial, public safety and human services, as well as support services for children and families, for those with developmental needs, and those with mental health needs, it primarily pays employees to provide them, and/or pays private vendors to deliver them.<sup>3</sup> The outputs employees or vendors deliver are usually produced through face-to-face personal services, not amenable to major productivity increases (and concomitant cost savings) that might be possible in other economic sectors – like those which produce

<sup>1</sup> See, especially, Stan McMillen, et al., “Connecticut’s Spending Cap: Its History and An Alternative Spending Growth Rule,” Connecticut Center for Economic Analysis, University of Connecticut, September 2005. “...the costs state governments face are materially and significantly different from the costs (prices) consumers face. This situation is primarily due to differences in the composition of the ‘baskets’ of goods and services state governments and consumers purchase.” (p. i)

<sup>2</sup> See Appendix 5, “The Consumer Price Index,” in *Handbook of Methods*, published by the U.S. Bureau of Labor Statistics, U.S. Department of Labor, as referenced in the presentation by Dr. Dan Kennedy, May 25, 2016, who included a convenient summary, with 2015 weights.

<sup>3</sup> “Government uses labor, capital, and intermediate outputs in order to produce services such as education and defense.” And “gross output of general government is measured by the cost of the inputs used for production: Compensation of general government employees, consumption of fixed capital, and intermediate goods and services purchased.” See p. I-9, “Government Transactions: Methodology Papers, U.S. National Income and Product Accounts” (September 2005), U.S. Bureau of Economic Analysis, U.S. Department of Commerce, linked at [http://www.bea.gov/methodologies/index.htm#national\\_meth](http://www.bea.gov/methodologies/index.htm#national_meth) (listed as “MP-5 Government Transaction”)

the goods purchased by consumers – where technology and innovation can enable outputs to be generated with increasingly lower costs.<sup>4</sup> There is a need for a metric which focuses on the increases in costs of government purchasing the basket of input goods and services which are used to produce government outputs, as opposed to a metric which measures the cost of goods and services purchased by consumers.

There is such a metric. The U.S. Bureau of Economic Analysis has constructed a price index for “government consumption expenditures and gross investment,” both for the federal government and state and local governments. The BEA says that government consumption expenditures and gross investment

can be viewed as expenditures incurred by general government for goods and services – primarily services that are produced by labor and capital within the general government sector – that are provided without charge to the public, whether to individual members of society (such as education at public schools) or to society as a whole (such as national defense or law enforcement).<sup>5</sup>

The cost of the output goods and services all governments deliver (such as public safety, corrections, judicial, health services, human services, social services, education, etc. at the state and local level) consists mainly of compensation of government employees and the cost of purchasing intermediate goods (durable and non-durable) and services.<sup>6</sup> Overall, for all governments nationally, about 34% of consumption expenditures is comprised of the purchase of intermediate goods and services, and 66% involves the compensation of government employees, with both categories offset by sales to other sectors. Of gross investment, about half is investment in structures,

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<sup>4</sup> This was the insight of the economist William Baumol, who has for more than fifty years hypothesized that there is a “cost-disease of the personal services” – greater increases in prices in low productivity growth industries than in high-productivity industries. Without further exploration, it is not possible at this time to assess whether the price index discussed here adequately accounts for such cost increases. But see William Nordahl, “Baumol’s Disease: A Macroeconomic Perspective,” Working Paper 12218, for the National Bureau of Economic Research, May 2006, which concludes, *inter alia*, that “The hypothesis of a cost-price disease due to slow productivity growth is strongly supported by the historical data. Industries with a relatively lower productivity growth show a percentage-point for percentage-point higher growth in relative prices.” (pp. 18-19). This paper is available on the Commission’s website, under date of July 7, 2016.

<sup>5</sup> “Government Transactions: Methodology Papers, U.S. National Income and Product Accounts” (September 2005), pp. I-10 and I-11, U.S. Bureau of Economic Analysis, U.S. Department of Commerce, linked at [http://www.bea.gov/methodologies/index.htm#national\\_meth](http://www.bea.gov/methodologies/index.htm#national_meth) (listed as “MP-5 Government Transaction”)

<sup>6</sup> See Chapter 9, “Government Consumption Expenditures and Gross Investment,” (November 2014) in *NIPA Handbook: Concepts and Methods of the U.S. National Income and Product Accounts*, published by the U.S. Bureau of Economic Analysis, U.S. Department of Commerce, esp. page 9-5 through 9-7. (linked at [http://www.bea.gov/methodologies/index.htm#national\\_meth](http://www.bea.gov/methodologies/index.htm#national_meth) )

and the rest is investment in equipment and intellectual property products.<sup>7</sup> It would be expected that the mix of purchases is likely to be different at the state and local levels, but there is apparently no state-specific, or even level-of-government specific, data to provide a basis for determining the distribution of costs at those levels.<sup>8</sup>

The price index of all government consumption expenditures and gross investment can be broken down into “Federal” and “State and Local” government expenditures for these costs.<sup>9</sup> However, relatively contemporaneous data for the latter measure is only available as an aggregate figure for all states and local governments nationwide. The aggregate data is available on a quarterly basis with only about a 3-month lag. State-specific data is not available for 6 months to 12 months after the end of a calendar year. Please note that data for the “price index for state and local government consumption expenditures and gross investment” is nearly identical to the “implicit price deflator for state and local government consumption expenditures and gross investment.”<sup>10</sup> If one compares data in NIPA Table 1.1.4 “Price Indexes for Gross Domestic Product,” with data in NIPA Table 1.1.9, “Implicit Price Deflators for Gross Domestic Product,” one finds that disparity between the data in one table for “Government Consumption Expenditures and Gross Investment” diverges from data in the other table by 0.002 of an index point or less across the last ten quarters.<sup>11</sup>

Ideally, one might prefer to use price index<sup>12</sup> data for government consumption expenditures and gross investment that is specific to the state of Connecticut. Indeed, such data is available by performing calculations from Connecticut data on GDP in current dollars and Connecticut data on real GDP in chained dollars on the BEA interactive data website. However, there are two issues with this approach. First – and foremost – the use of state-specific data runs the risk of ratcheting up the index over a period of time. Because so much of the index is based on compensation of employees, basing a measure of inflation on past compensation increases in one jurisdiction might make it possible to dramatically increase the index over a period of time. For this reason, it makes sense to use an index based on the change in government consumption expenditures and gross investment in all states nationwide. This nationwide data is included in the index recommended here.

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<sup>7</sup> See Table 9.1, at page 9-5 in the chapter cited in footnote 6.

<sup>8</sup> An explanation of the use of the BEA State and Local Government Price Index in Vermont, in 2009, provided to the Commission by Dr. Stan McMillen on July 7, 2016, observes that the index “is an aggregation of all state and local expenditures . . . and does not account for regional price differences. Although it would be possible to develop an independent Vermont-specific measure of education inflation, the cost of developing and maintaining such an index would be extremely expensive.” (“State and Local Government Price Index: Questions and Answers,” p. 2. (linked on the Commission’s website under date of July 7, 2016).

<sup>9</sup> See, e.g., NIPA Table 1.1.4 in the interactive data section of the BEA website:

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=4>

<sup>10</sup> In his presentation to the Commission on July 18, 2016, Dr. Dan Kennedy stated, “The change in the GDP Implicit Price Deflator is roughly equal to the change in the GDP Price Index.” See “State GDP Deflator and State PI,” p. 11, linked on the Commission’s website under date of July 18, 2016.

<sup>11</sup> See in the interactive data section of the BEA website:

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=4> and

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=13>

<sup>12</sup> Assuming congruence with the implicit price deflator measure.

Secondly, as noted above, state-specific data are only available after a significant time lag. If it makes sense provide an exception to basing the spending cap on the increase in personal income because of recent increases in inflation, then surely one should use the most current data available to measure inflation.

Why should the costs associated with local government be included in the measure of “increase in inflation” as part of a state spending cap? Apart from the fact that BEA only reports data on a combined “state and local government” basis, a large part of the state’s budget – which pays for the basket of goods and services government purchases – pays at least indirectly for a large portion of the costs associated with producing educational services in local public schools, and for other locally provided services.<sup>13</sup>

### Commentary on Alternatives

1.

One alternative definition of “increase in inflation” is to update the 1991 definition, based on the increase in the consumer price index for urban consumers nationwide, to clarify the period which is the benchmark: the preceding calendar year, calculated on a December to December basis. This alternative, however, continues to use a measure of inflation which is not relevant to the costs incurred by government.

2.

A second alternative definition is to refine the 1991 statutory definition to focus on the increase in the consumer price index for urban consumers in Connecticut. Because the Bureau of Labor Statistics does not produce such a measure specifically for the state, this definition recommends using the average of the CPI-U for the New York metropolitan area, which includes New York, northern New Jersey, Long Island, and a few towns in southwestern Connecticut, and the CPI-U for the Boston metropolitan area, which includes, Boston, Brockton, Nashua, New Hampshire and a few towns in northeastern Connecticut. Because the two CPI-Us are calculated for different months of the year, it is recommended that the calculation be based on the final month of the year available for each measure.

Like the first alternative definition, however, it continues to use a measure of the basket of goods and services purchased by consumers, instead of a measure of the basket of goods and services purchased by government.

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<sup>13</sup> As Stan McMillen and his colleagues observe, “. . . the relevant standard for a spending cap is arguably state and local expenditure, not state expenditure alone—especially as the state has ramped up its transfers to local government. Local expenditures are typically nearly a quarter of total public sector expenditures; a spending cap that ignores the interdependence between state and local expenditure may result in significant increases in the inequality of local tax burdens, inequalities that may then generate negative feedbacks on a variety of areas, including economic competitiveness.” McMillen, “Connecticut’s Spending Cap . . .”, p. 10.