

Yankee Institute Policy Brief

Sustainable Spending: Respect the Cap

By Suzanne Bates
Policy Director, Yankee Institute

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Overview: Respect the Cap!

The contentious debate of 1991 over imposing a state income tax was resolved in part because of an important compromise: A spending cap would accompany the new tax that would put reasonable limits on the growth of state spending. The spending cap passed overwhelmingly with more than 80 percent of voters supporting it in November 1992, enshrining the cap in the state's constitution.

Despite these good intentions, for years the state legislature has ignored Connecticut's constitutionally mandated spending cap, whether by voting to exceed the cap's limits to pay for a new program, or by using creative accounting to get around the cap.

The impact has been significant. The state could have saved \$5.2 billion over the twenty years between the cap's inception in 1992 until 2012, if lawmakers had followed their constitutionally mandated responsibility to keep spending under the cap.¹

This year, the Legislative Research Office estimates that if state lawmakers don't rein in spending, the budget will exceed the cap in fiscal year 2016 by \$590 million, and in fiscal year 2017 by \$692 million.² But to achieve this level of spending, lawmakers would have to tax residents more or collect additional fees, since the state has projected deficits of \$1.3 billion in 2016 and \$1.4 billion in 2017.

The better path is for lawmakers to rein in state spending, to keep the budget under the constitutional spending cap, and to not engage in any questionable accounting practices. Respecting the cap's limit will provide fairness for taxpayers, and maintain a more sustainable state government for Connecticut's citizens.

The History of the Spending Cap

In 1991, as a months-long battle over the institution of a state income tax raged in Hartford, some lawmakers who opposed the income tax were eventually appeased by the legislature's approval of a state spending cap. After voters approved a ballot measure in November 1992, the spending cap became enshrined in the state's constitution. At the time the state's budget was \$7.3 billion.

The cap was supposed to limit the growth of state government, to stop lawmakers from enacting new programs without reliable sources of funding, and to smooth out the cycle from boom to bust.

As the former Hartford Courant capitol bureau chief, Larry Williams, put it in 1992:

It should be emphasized that if the spending cap restrains the governor and legislature from pouring windfall revenues into new programs, it will be doing exactly what its advocates had in mind.

¹ See Table 1 for data supporting this figure.

² Legislative Research Office. 2015 Major Issues. Dec. 15, 2014. 2014-R-0293.

http://www.cga.ct.gov/olr/Documents/year/MI/2014MI-20141215_Major%20Issues%20for%202015.pdf

The very purpose of the cap is to smooth out the feverish swings between deficits and surpluses that have characterized Connecticut's finances.

The trend has been: deficit, followed by tax increase, followed by surplus, followed by program expansion, followed by deficit. In theory, the cap should interrupt the slide toward another deficit that seems to begin with each tax increase.³

However, just after the income tax was implemented, the state was hit hard by the recession in the early 1990s. It has never fully recovered. Since 1991, growth in state spending has exploded by 187 percent, even as the Connecticut economy has failed to grow as fast as the national economy.

Connecticut's Spending Cap Explained

Connecticut's spending cap is intended to limit budget growth to the higher of either the current rate of inflation or a five-year average of the annual personal income growth for the state. Certain expenditures can grow outside the cap, including debt service payments; grants to distressed municipalities; the first year of spending on court orders; and transfers to the budget reserve fund.

The cap was designed to be difficult to circumvent, as more than 3/5 of the legislature must vote to approve spending over the cap in either in an emergency or under "extraordinary circumstances." But in reality the legislature and the governor have evaded the cap several times, whether by voting to exceed the cap or by simply moving money around to avoid it.

Gov. Dannel Malloy has used this last method regularly, moving tens of millions of dollars for education and billions for Medicaid out of the spending cap formula so that his budgets didn't – on paper – bust the cap.⁴ But Gov. Malloy was just following precedent – the spending cap was similarly disregarded under Gov. Jodi Rell and Gov. John Rowland.

Loopholes like these show that the cap is not as effective as it should be. This could be remedied by strengthening the cap, or by constituents and the media holding lawmakers accountable when they use accounting maneuvers to evade the cap.

In addition, because the cap does not cover debt service payments, successive governors and legislatures have relied on borrowed money both for long-term projects and short-term spending. The state is now spending \$2.3 billion a year on debt service, which is more than 10 percent of the state budget.

³ Williams, Larry. "State budget in place, but red ink colors rosy projections." The Hartford Courant, May 10, 1992. p. A1.

⁴ Phaneuf, Keith. "CT spending cap threatens to squeeze education, other priorities in next budget." CTMirror. Dec. 1, 2014. <http://ctmirror.org/2014/12/01/spending-cap-threatens-to-squeeze-education-other-priorities-in-next-ct-budget/>

The Cap Could Have Worked

If lawmakers had adhered to the cap in the 1990s and the 2000s, Connecticut would have had a much more substantial rainy day fund in place when the 2008 recession hit, which would have negated the need to raise taxes.

By 2008, the state could have saved an additional \$2.4 billion if it adhered to the cap from 1992-2008. Looking at 1992-2015, the savings could have been \$5.2 billion had lawmakers kept spending under the cap.

Those savings would have meant more flexibility for legislators, fewer tax increases and a stronger, more sustainable financial position for future generations.

CAPPED SPENDING (in thousands)⁵		
	Spending if Cap Observed	Actual Spending
1992-93	\$6,618.5	\$6,618.5
1993-94	\$7,003.7	\$7,335.2
1994-95	\$7,344.1	\$7,691.7
1995-96	\$7,607.7	\$7,788.4
1996-97	\$7,868.7	\$8,070.8
1997-98	\$8,181.1	\$8,404.5
1998-99	\$8,578.7	\$8,821.2
1999-2000	\$9,014.5	\$9,311.2
2000-01	\$9,508.4	\$9,821.6
2001-02	\$10,015.2	\$10,263.3
2002-03	\$10,636.2	\$10,843.5
2003-04	\$11,196.7	\$11,028.0
2004-05	\$11,696.1	\$11,408.1
2005-06	\$12,171.0	\$11,896.6
2006-07	\$12,643.2	\$12,765.6
2007-08	\$13,061.7	\$13,460.6
2008-09	\$13,662.5	\$14,913.9
2009-10	\$14,468.6	\$15,883.5
2010-11	\$15,124.0	\$15,015.8
2011-12B	\$15,636.7	\$15,709.8
2012-13B	\$16,080.8	\$16,279.6
Total:	\$228,118.0	\$233,311.0
Difference		\$5,193.0

⁵ Data compiled by Zachary Janowski at the Connecticut State Library.

Looking Ahead

The primary lesson of the last 23 years is that the spending cap could have done what it was meant to do: Smooth out revenue between boom and bust years and ensure a sustainable government that treats taxpayers fairly.

Lawmakers need to recommit to keeping state expenditures under the constitutional cap, and to stop finding creative ways to circumvent the cap's limits. Doing this will require legislators to exercise fiscal restraint, but it will also allow Connecticut to build up a rainy day fund. This is a necessary first step toward making state government more sustainable in the long run by providing predictability, fairness, and stability for the state's residents.