Connecticut's Spending Cap

Office of Fiscal Analysis

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Tax & Expenditure Limits (TELs)

- 30 states have TELs; 23 are spending limits; 4 are tax limits; & 3 have both.
- Half have constitutional provisions and half are statutory.
- In general, no two are exactly alike in the authority or operation.
- Most expenditure limits are tied to increases in personal income or some other growth index like population. Some states have tied the appropriations limit to the revenue forecast (i.e. cannot exceed 97% of revenue).
- 13 states require supermajority legislative approval to raise taxes; 3 states require state-wide voter approval.
- Connecticut's constitutional provision requires a supermajority vote (3/5ths) to exceed the spending cap.

Budget Parameters

Spending Cap

Appropriated Funds = Estimated Revenues

The Spending Cap

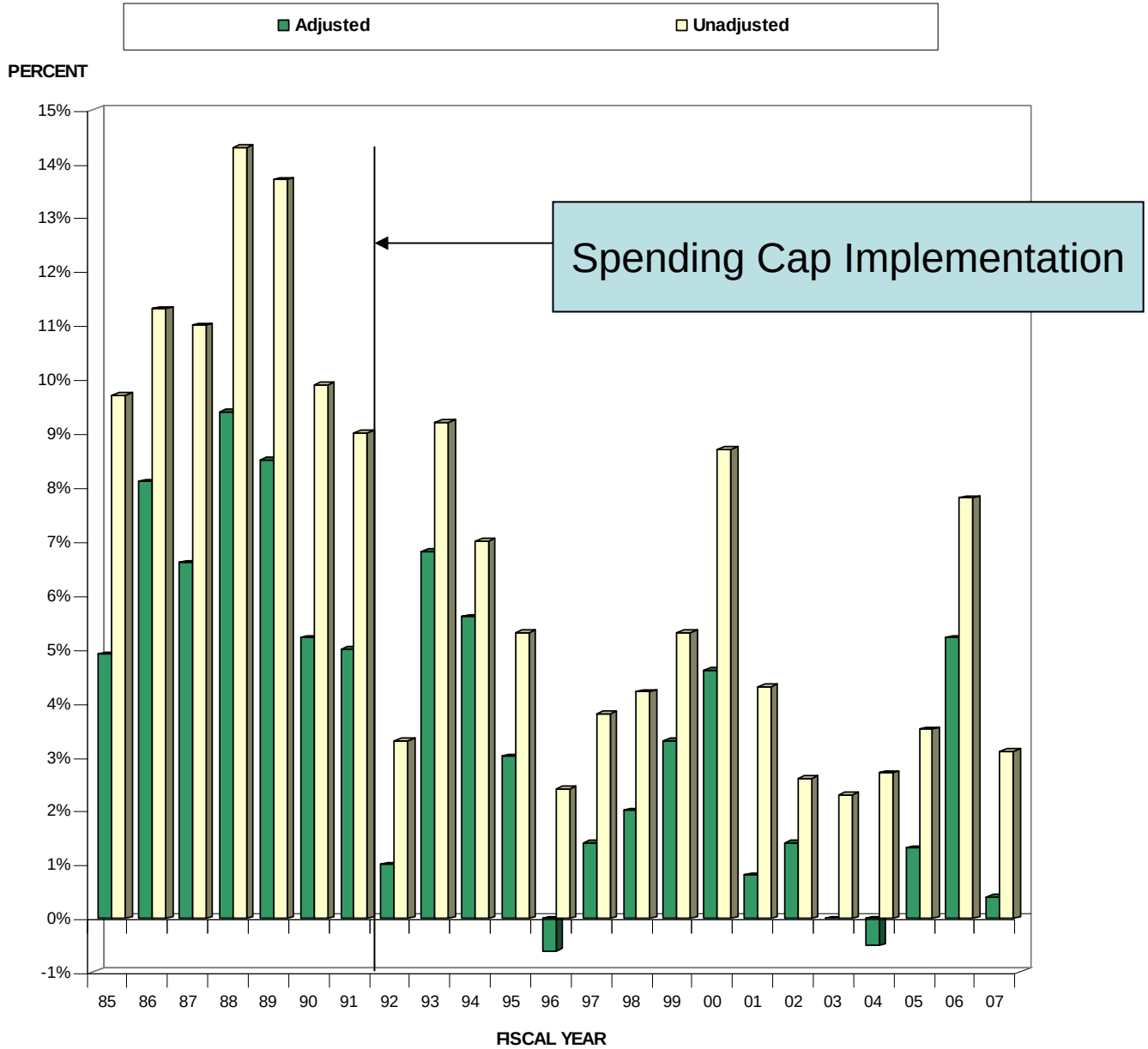
History

- Legislature Passes Income Tax & Spending Limit Legislation (1991)
- Voters Approve by 4 to 1 a Constitutional Amendment to Limit State Spending in 1992
- Statutory Cap Prevails Until Constitutional Amendment Is Implemented by 3/5ths Vote of House & Senate

The Spending Cap: Key Features

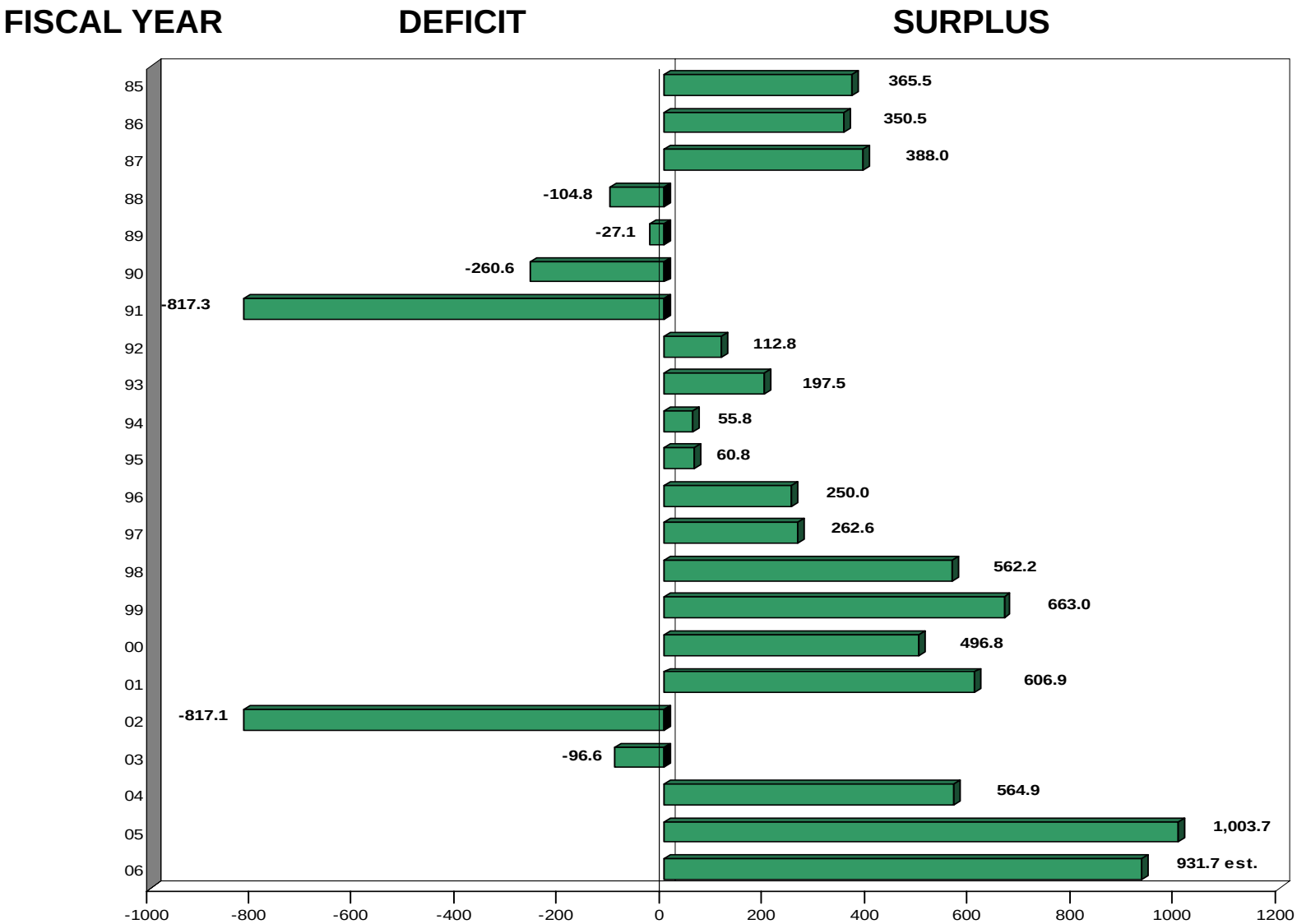
- **Calculated from Previous Year's Base (Total Appropriated Funds)**
- **Growth=Base Year X 5-Year Average Income Growth (or Prior Year's Inflation Rate, Which Ever is Higher)**
- **Excluded: Debt Payments, Grants to Distressed Municipalities & Federal Mandates & Court Orders (1st year only)**

Historical Budget Growth Rates: FY85 to FY07



General Fund Surplus or Deficit From Operations

(figures in $ millions)



Preliminary General Fund Budget Projections: FY 07 through FY 10

(figures in $ millions)

	FY 04	FY 05	FY 06	FY 07		FY 08	FY 09	FY 10
Budget Overview:								
	Surplus FY 04	**Surplus FY 05**	**Surplus Estimate FY 06**	**OFA Estimate as of Budget Passage 5/1/06 FY 07**	**OFA Revised Estimate 11/15/06 FY 07**	**OFA Current Services Estimate 11/15/06 FY 08**	**OFA Current Services Estimate 11/15/06 FY 09**	**OFA Current Services Estimate 11/15/06 FY 10**
Revenues	-	-	-	14,998.0	15,373.0	15,800.0	16,340.0	16,962.0
Expenditures	-	-	-	14,837.2	14,833.4	16,035.1	16,873.4	17,643.0
Balance	**302.2**	**363.9**	**446.2**	**160.8**	**539.6**	**(235.1)**	**(533.4)**	**(681.0)**
Maximum Allowable in Budget Reserve (Rainy Day) Fund		10.0% maximum	1,483.7					
Potential BRF Deposit		7.5% funded	1,112.3					
Extent to Which BRF Not Fully Funded		**2.5% unfunded**	**371.4**					
Spending Cap Comparisons (All Funds):								
Amount Total Appropriations (Under) Over Cap (assuming that the legislature will appropriate up to the allowed expenditure limit in FY 07 and that the appropriation will not exceed allowed expenditures in FY 08 and FY 09)				(4.0)	(4.0)	510.5	570.9	415.4

Reasons for FY 08, FY 09 & FY 10 Spending Cap Problems and Shortfalls:

FY 08 - Restore FY 07 Expenditures from FY 05 & FY 06 Anticipated Surplus to FY 08 Appropriations (General Fund)	322.6	-	-
FY 08 - Unavailable One-Time Revenue Shift from FY 06 to FY 07 (General Fund)	41.0	-	-
General Fund Growth Rates (Adjusted):			
Revenue	3.6%	3.4%	3.8%
Expenditures	5.8%	5.2%	4.6%

Exceeding the Spending Cap

- Governor is required to issue a declaration of extraordinary circumstances or emergency.
- Determines what spending in excess of the cap will be included or excluded in the base for future calculations.
- Legislature must approve additional spending by a 3/5ths majority. (91 votes in the House & 22 votes in the Senate)

Redefining the Cap

- Statutory definitions were passed in 1991.
- No changes have been made to them since.
- Changing a definition would require a 3/5^{ths} vote per A.G. Opinion (1993).
- Key terms to define: "**general budget expenditures**", **"increase in personal income"**, and **"increase in inflation".**

Are there state funds outside the cap?

- Separate non-lapsing accounts that are filled with revenue directly deposited to the account.
- Funds from the account are not appropriated, but rather are distributed by a statutory formula.
- The latest example: The Citizens' Election Fund.