DRAFT

OLR BILL ANALYSIS

SB 21 (LCO 500)

AN ACT DEFINING THE EXPENDITURE CAP.

SUMMARY:

This bill adds to the expenditures currently excluded from the state's statutory and constitutional budget spending cap. Specifically, it excludes expenditures:

1. for the state employee and teachers' retirement systems that are (a) above the required annual contribution and (b) used to reduce the systems' unfunded liabilities;
2. above the current annual cost for retiree health benefits that are used to reduce the unfunded liability for Other Post Employment Benefits; and
3. for the annual deferred charge required to implement generally accepted accounting principles (GAAP) as they are used in preparing the state budget.

EFFECTIVE DATE: July 1, 2013

BACKGROUND

Spending Cap

The state's spending cap bars the legislature from authorizing an increase in general budget expenditures for any fiscal year that exceeds the greater of (1) the state's average annual percentage increase in personal income for the preceding five years or (2) the increase in the Consumer Price Index for the preceding 12 months. The cap limits appropriations from the state's 10 appropriated funds, not just the General Fund. The cap can be exceeded if (1) the governor declares an emergency or the existence of extraordinary circumstances and (2) at least 3/5 of each legislative chamber approves it. The following spending is currently exempt from the cap:

1. payment of principal and interest on state bonds;

2. statutorily required transfers to the Budget Reserve ("Rainy Day") Fund and requirements to use unappropriated surpluses exceeding required transfers, first, to fund the state employees retirement system and, second, to pay off state debt;

3. statutory grants to municipalities, if the grants were in effect on July 1, 1991; and

4. for the first fiscal year in which the expenditures are authorized, payments to implement federal mandates or court orders (CT Const., Art. XXVIII; CGS § 2-33a).

GAAP

By law, the Comptroller, in his sole discretion, can initiate a process intended to result in the implementation of GAAP when preparing and maintaining the state's annual financial statements. The law also authorizes the Office of Policy and Management (OPM) secretary to use GAAP principles when preparing the state budget (CGS § 3-115b).

In January 2011, Governor Malloy issued Executive Order No. 1, which ordered OPM to begin implementing GAAP with respect to the preparation of the biennial budget and midterm budget adjustments. In general, GAAP requires that expenses and revenue be counted when they occur.