

Budgeting in an Era of Fiscal Constraints



How do Fiscal Constraints Shape the Budget Process?



Constitutional Budget Requirements

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Statutory Fiscal Controls

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Fiscal Constraints

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Constitution of the State of Connecticut

PREAMBLE

WE, the People of the State of Connecticut, do hereby certify that the following Constitution is the result of the deliberations of the people of this State, and that the same is hereby adopted and ratified.

ARTICLE FIRST

Section 1. The Executive Power shall be vested in the Governor, who shall hold his Office for a Term of Years, to be determined by the People, and shall be eligible for Re-election.

ARTICLE SECOND

Section 1. The Legislative Power shall be vested in the Senate and House of Representatives, who shall be chosen by the People for a Term of Years, to be determined by the People.

Section 2. The Executive Power shall be vested in the Governor, who shall hold his Office for a Term of Years, to be determined by the People, and shall be eligible for Re-election.

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Constitutional Budget Requirements

Constitutional Budget Requirements

- Article Third, Section 18 of the Connecticut Constitution:
 - a. Balanced Budget Requirement
 - b. Spending Cap
 - c. Unappropriated Surplus



Balanced Budget Requirement

“a. The amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year.”

Spending Cap

“b. The general assembly shall not authorize an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage which exceeds the greater of the percentage increase in personal income or the percentage increase in inflation”

General Budget Expenditures

Includes, with certain exceptions, expenditures from appropriated funds authorized by public or special act of the General Assembly.

Does not include spending from nonappropriated sources, such as nonappropriated accounts, bonding, and revenue diversions.

General Budget Expenditures

Exceptions

Certain spending from appropriated sources is not included under the cap:

- Principal and interest on bonds, notes or other similar debts
- Certain expenditures from the budget reserve fund
- Federal funds granted to the state or its agencies
- Expenditures for federal mandates, federal programs for which the state receives matching funds, and court orders do not count in the first year but do thereafter
- For fiscal years 2018 to 2022, the employer contribution for unfunded liabilities of retirement programs administered by the State Employees Retirement Commission
- For fiscal years 2018 to 2026, the employer contribution for unfunded liabilities of the teachers' retirement system

Exceeding the Spending Cap

The budget can exceed the spending cap if the governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed the cap.

Use of Unappropriated Surplus

“c. Any unappropriated surplus shall be used to fund a budget reserve fund or for the reduction of bonded indebtedness; or for any other purpose authorized by at least three-fifths of the members of each house of the general assembly.”

The image shows the Wisconsin State Capitol building, a grand neoclassical structure with a prominent golden dome and ornate facade. The building is set against a clear blue sky and is partially framed by lush green trees in the foreground. A paved walkway leads towards the entrance of the building. The overall scene is bright and clear, suggesting a sunny day.

Statutory Fiscal Controls

Statutory Fiscal Controls

- Cap on General Fund and Special Transportation Fund Spending
- Volatility Cap
- Budget Reserve Fund
- “Bond Lock” Law



Cap on General Fund and Special Transportation Fund Spending

- New cap on GF and STF appropriations that essentially prevents the legislature from budgeting to the last dollar
- Prohibits the legislature from authorizing appropriations that exceed a specified percentage of the estimated revenues included in the budget act
- Increases in steps from 0.5% in FY 20 to 2% in FY 26

Volatility Cap

- Mechanism that diverts volatile tax revenue to the state's Budget Reserve Fund
- Tied to two revenue sources: personal income tax revenue from estimated and final payments and pass-through entity tax revenue
- Effectively caps at \$3.15 billion (annually adjusted for personal income growth) the amount of this revenue that can be used to balance the budget; any amount the state receives over this threshold must be diverted to the Budget Reserve Fund

Budget Reserve Fund (BRF)

- The law directs to the BRF (1) unappropriated General Fund surplus at the end of each fiscal year, (2) revenue in excess of the volatility cap, and (3) any savings realized from the credit revenue bond program (not yet implemented)
- BRF's maximum balance is 15% of net General Fund appropriations for the current fiscal year

“Bond Lock” Law

- For the next five years, the state has promised bondholders that it will comply with fiscal controls – this pledge is referred to as the “bond lock” law
- Under this law, for each fiscal year during which state general obligation or credit revenue bonds issued from May 15, 2018, to June 30, 2020, are outstanding, the state must comply with the specified fiscal controls
- Legislature may change the state’s obligation to comply with these laws under limited circumstances

Fiscal Constraints



339 970
56 969
817
58
373 967
804 029
1 296 731
1 859 317
2 499 808
3 227 076
4 050 935
R 28 331

Investment	Yr
424 963	1
446 211	1
468 522	2
491 948	3
516 545	4
542 372	5
569 491	6

Start at monthly
Can we do this

Fiscal Constraints

- Financial Summary by Fund
- FY 20 Fiscal Cliff
- Fixed vs. Non-Fixed Costs
- Projected BRF Balances



Financial Summary by Fund

In Million of Dollars

Fund	FY 19	FY 20	FY 21	FY 22
General Fund (GF)				
November Consensus Revenue	19,269.4	17,823.2	18,038.0	17,910.1
Expenditures				
Previous Year Expenditure		18,990.8	17,823.2	18,038.0
Fixed Cost Growth		654.6	536.8	578.1
Other Expenditure Adjustments		(261.7)	127.2	18.6
Expenditure Reduction (CGS Sec. 2-36b)		(1,560.6)	(449.2)	(724.6)
Subtotal	18,990.8	17,823.2	18,038.0	17,910.1
GF Balance	278.6	-	-	-
Special Transportation Fund (STF)				
November Consensus Revenue	1,684.6	1,803.5	1,904.8	1,994.6
Expenditures				
Previous Year Expenditure		1,618.0	1,686.6	1,783.0
Fixed Cost Growth		58.4	82.6	79.9
Other Expenditure Adjustments		10.2	13.8	1.1
Subtotal	1,618.0	1,686.6	1,783.0	1,864.0
STF Balance	66.6	116.9	121.8	130.6
Other Appropriated Funds				
Revenue ¹	246.3	251.0	251.4	254.4
Expenditure Reduction (CGS Sec. 2-36b) ²	-	(2.7)	(0.3)	-
Expenditures	241.8	240.4	242.4	242.7
Other Appropriated Funds Balance	4.5	10.6	8.9	11.6
All Appropriated Funds				
Revenue	21,200.3	19,877.7	20,194.2	20,159.1
Expenditures	20,850.6	19,750.2	20,063.4	20,016.8
ALL APPROP. FUNDS BALANCE	349.7	127.5	130.8	142.3

¹The Other Appropriated Funds FY 19 revenue projection includes the use of \$5.5 million in prior year fund balances that are needed to accommodate projected FY 19 expenditures.

²These reductions are built into the expenditure projections in the following row.

FY 20 Fiscal Cliff

The FY 20 Deficit

+\$278.6 million
(FY 19 proj. surplus)

-\$1,839.1 million
(FY 20 changes)

= -\$1,560.6 million
anticipated FY 20
deficit

	\$276.8 million	Revenue Growth
	\$104.8 million	Net Impact of Hospital Supplemental Payment Reduction
Hospital Related: -\$814.9 million	-\$516.0 million	Hospital Tax Decrease as Required by CGS 12-263q
	-\$403.7 million	Federal Grants Revenue Adjustment due to Delayed FY 18 Supplemental Payments
	-\$209.1 million	Budgeted Fund Sweeps
Revenue Policy & Technical: -\$581.3 million	-\$98.4 million	Increase Motor Vehicle Sales Tax Transfer to STF
	-\$273.8 million	Other Revenue Policy & Technical Adjustments Policy (\$116.6 million) Technical Adjustments (\$157.2 million)
	-\$654.6 million	Fixed Cost Increases Medicaid & Other Entitlements (\$253.9 million) State Employee Pension & Retiree Health (\$188.3 million) Teachers' Retirement & Retiree Health (\$113.0 million) Debt Service (\$110.9 million) Adjudicated Claims (-\$11.5 million)
Expenditure Growth: -\$719.8 million		
TOTAL: -\$1,839.1 million	-\$65.1 million	SEBAC

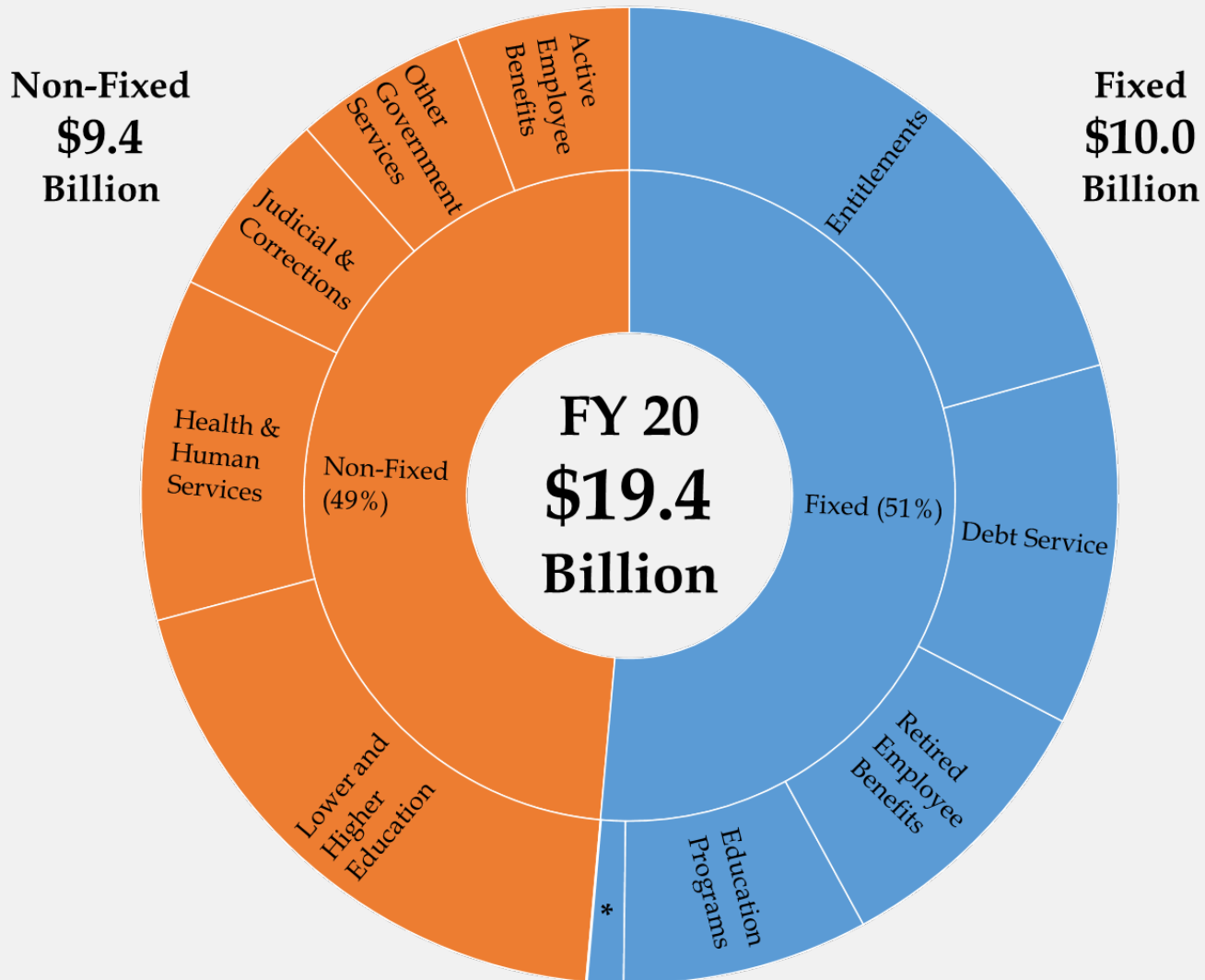
Hospital Related: -\$814.9 million	\$104.8 million	Federal Grants impact of Medicaid Supplemental Payment Reduction
	-\$516.0 million	Hospital Tax Decrease as Required by CGS 12-263q
	-\$403.7 million	Federal Grants Revenue Adjustment due to delayed FY 18 Supplemental Payments

Revenue
Policy:
-\$581.3 million

-\$209.1 million	Budgeted Fund Sweeps
-\$98.4 million	Increase Motor Vehicle Sales Tax Transfer to STF
-\$273.8 million	Other Policy including restoration of property tax credit (\$55 million); Inheritance & Estate, Corporation Tax Reductions (\$34 million); Income Tax Reductions (\$33 million)

<p>Expenditure Growth: -\$719.8 million</p>	<p>-\$654.6 million</p>	<p>Fixed Cost Increase Medicaid & Other Entitlements (\$253.9 million) State Employee Pension & Retiree Health (\$188.3 million) Teacher's Retirement & Retiree Health (\$113.0 million) Debt Service (\$110.9) million Adjudicated Claims (-\$11.5 million)</p>
<p>TOTAL: -\$1,839.1 million</p>	<p>-\$65.1 million</p>	<p>SEBAC</p>

GF Non-Fixed & Fixed Costs in the Out-Years



*Active Employee Benefits - Fixed Costs

Projected Balances of the BRF^{1,2,3}

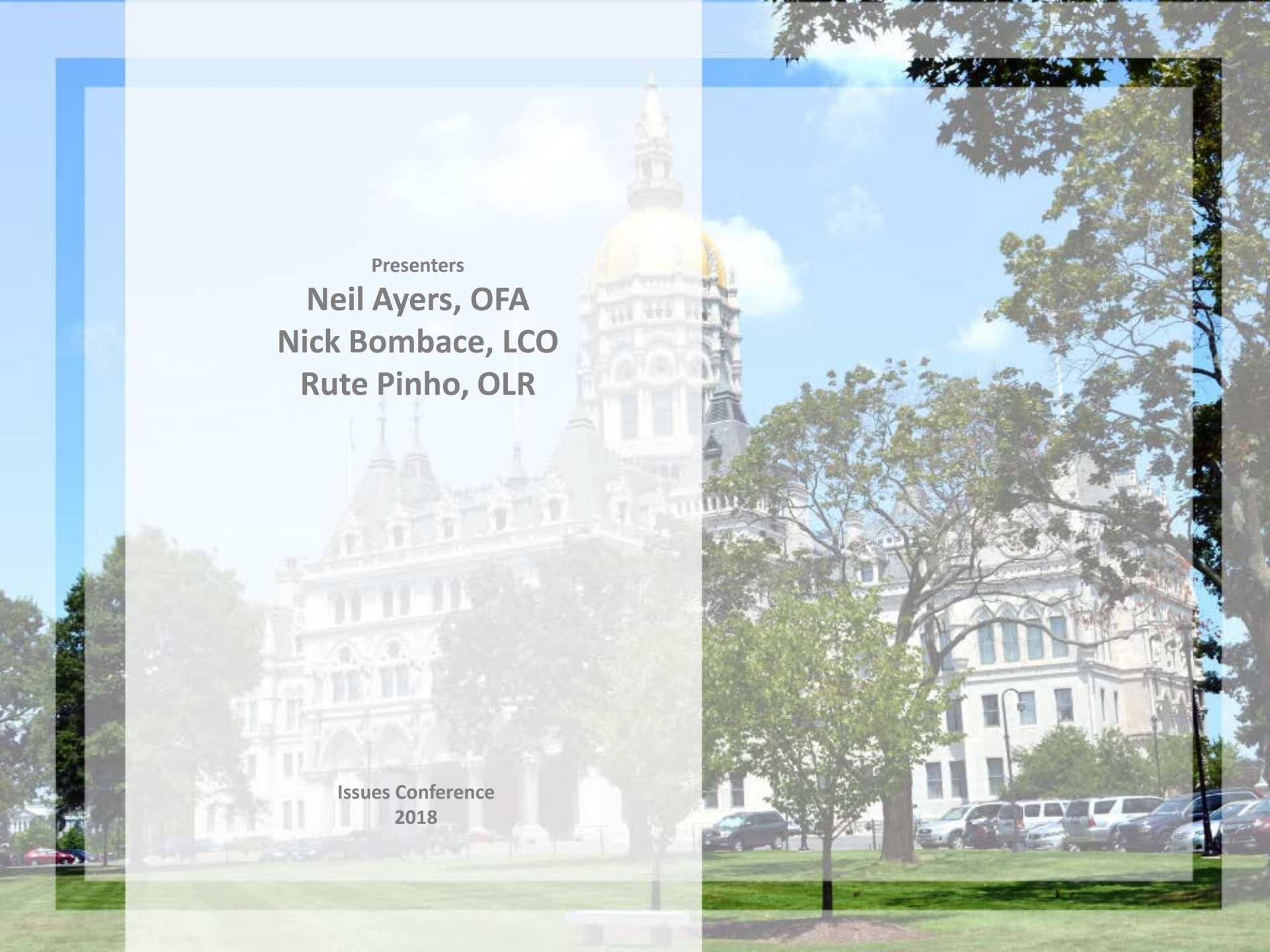
In Millions of Dollars

Fiscal Year (FY)	Balance at FY Start	Change	Balance at End of FY
18	212.9	972.4	1,185.3
19	1,185.3	926.6	2,111.9
20 (proj.)	2,111.9	278.1	2,390.0
21 (proj.)	2,390.0	263.3	2,653.3
22 (proj.)	2,653.3	244.3	2,897.6
TOTAL		1,712.3	

¹The FY 19 "Change" estimate includes a Volatility Adjustment transfer of \$648 million and a net operating surplus (after the Volatility Adjustment transfer) of \$278.6 million.

²Assumes none of the following takes place: (a) withdrawals from the BRF, (b) diversion of projected Volatility Adjustment transfers, or (c) diversion of the estimated FY 19 net operating surplus.

³Assumes FY 20 - FY 22 appropriations add back expenditure reductions that are assumed to balance future budgets.



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Issues Conference
2018