

Executive Summary

The Connecticut General Assembly renewed and made several changes (Conn. Acts 23-1) to the state's spending and volatility caps during the 2023 legislative session. The spending cap changes hold the percentage of General Fund and Special Transportation Fund appropriations at 98.75 percent of consensus revenue levels for fiscal year 2023 and every year after.¹ This change holds the spending cap in place, which potentially frees up additional funds for appropriation beyond current law.

The changes passed in 2023 also included a provision to the volatility cap, outlining how the legislature — beginning July 1, 2024 — should appropriate dollars from the state's Budget Reserve Fund whenever the Fund is between 15 percent and 18 percent. This change would allow for more surplus funds to be transferred to the Budget Reserve Fund instead of being used to pay the unfunded liabilities of the State Employees Retirement Fund and/or the Teachers' Retirement Fund.

Introduction

As part of the biennial state budget for fiscal years 2018 and 2019, the General Assembly passed two fiscal accountability measures known as the spending cap and the volatility cap.² These measures included changes to multiple sections of the Connecticut General Statutes. During the 2023 legislative session, updates were made to both the spending and volatility caps. These changes are discussed in this policy brief.

What are the Spending and Volatility Caps?

The spending cap restricts the legislature's ability to authorize increases in general budget expenditures for any given fiscal year where spending exceeds the greater of the growth in personal income or increase in inflation. This creates a limit in annual growth in state spending.³ The volatility cap imposes limits on specified revenues that may be used to balance Connecticut's budget in the hopes of smoothing out unstable revenue streams and reducing the reliance on one-time cash influxes. Once funds reach above a certain threshold, the excess funds must be deposited into the state's Budget Reserve Fund.⁴

History of the Spending Cap

In the 1991 biennial state budget, the General Assembly adopted a state personal income tax for Connecticut. This budget also included a statutory spending cap that was intended to be a check on the new revenue stream.⁵ In 1992, Connecticut voters approved a constitutional amendment to further codify these spending constraints on the General Assembly.⁶

The constitutional spending cap bars the legislature from increasing general budget expenditures in an amount that exceeds the increase in personal income revenue or inflation, whichever is greater, unless the governor declares a state of emergency and three-fifths of each house of the General Assembly approves the additional expenditure. The constitutional amendment also required the General Assembly to define three primary terms: "increase in personal income," "increase in inflation," and "general budget expenditures." However, between FYs 1993 and 2017, those terms remained undefined, resulting in budgets having different interpretations of the spending cap.⁷

Since 1993, the General Assembly's Office of Legislative Research has identified at least 74 bills proposed by legislators that would have defined the above terms. However, none of those bills passed both chambers of the General Assembly with the required three-fifths majority, and therefore, the terms remained undefined.⁸ In the 2015 December Special Session, the General Assembly created a 24-member Spending Cap Commission, which was charged with creating spending cap definitions.⁹

However, in January 2017, the Commission suspended its work and reported it could not come to an agreement on a set of recommendations for defining the necessary terms.¹⁰ Instead, the Commission submitted "separate statements" from various groups of legislators named to the Commission.¹¹ As a result, the spending cap definitions included in the biennial budget for FYs 2018-19 (Conn. Acts 17-2 (June Special Session)), which was passed by a three-fifths majority of the General Assembly, are the first cap definitions to be set in statute since the constitutional cap was approved by voters in 1992.¹²

Changes to Caps During 2023 Legislative Session

During the 2023 legislative session, the General Assembly took steps to renew and amend the spending and volatility caps. Under Conn. Acts 23-1, provisions were put in place for how to increase the Budget Reserve Fund maximum cap and how to allocate any resulting surplus. The new act also amended the previous percentage at which the General Fund and Special Transportation Fund appropriations may exceed in a fiscal year, freezing it at 98.75 percent. Tables 1 and 2 on the next page outline the changes made to the spending and volatility caps during the 2023 legislative session.

Table 1: Spending Cap Changes

Current Law	Conn. Acts 23-1
<ul style="list-style-type: none"> • The spending cap limits general budget expenditures at fixed percentages of projected revenues from the consensus revenue estimates.¹³ • The percentages for consensus revenues are: <ul style="list-style-type: none"> ○ FY 2020: 99.5% ○ FY 2021: 99.25% ○ FY 2022: 99% ○ FY 2023: 98.75% ○ FY 2024: 98.5% ○ FY 2025: 98.25% ○ FY 2026 and each fiscal year thereafter: 98% 	<ul style="list-style-type: none"> • The spending cap constraints are paused in FY 2023, which holds general budget expenditures at 98.75% of consensus revenues.¹⁴ • The new percentages for consensus revenues are: <ul style="list-style-type: none"> ○ FY 2020: 99.5% ○ FY 2021: 99.25% ○ FY 2022: 99% ○ FY 2023 and each fiscal year thereafter: 98.75%

Table 2: Volatility Cap Changes

Current Law	Conn. Acts 23-1
<ul style="list-style-type: none"> • Income Tax and Pass-Through Entity Tax revenue in excess of \$3.15 billion must be transferred to the Budget Reserve Fund. This requirement is annually adjusted by the compound annual growth rate from the preceding five calendar years.^{15,16,17} • Whenever the Budget Reserve Fund equals 15% of the net General Fund appropriations, the state treasurer is empowered to 	<ul style="list-style-type: none"> • Whenever the Budget Reserve Fund equals 15% or more, but less than 18% of the General Fund appropriations for the current fiscal year, the following must happen: <ul style="list-style-type: none"> ○ 50% of the surplus must be transferred to the Budget Reserve Fund, up to 18% of the cap, and; ○ 50% must be appropriated toward the State Employees Retirement Fund and the

Current Law	Conn. Acts 23-1
<p>apply any additional surplus to either the unfunded liabilities of the State Employees Retirement Fund and/or the Teachers' Retirement Fund, in addition to the Actuarial Determined Employer Contribution (ADEC). However, the surplus applied may not exceed five percent of the unfunded liabilities of either system.¹⁸</p>	<p>Teachers' Retirement Fund.¹⁹</p> <ul style="list-style-type: none"> On and after July 1, 2024, whenever the Budget Reserve Fund equals 18% of the net General Fund appropriations for the current fiscal year, the state treasurer is empowered to apply any additional surplus to either the unfunded liabilities of the State Employees Retirement Fund and/or the Teachers' Retirement Fund, in addition to the ADEC. However, the surplus applied may not exceed five percent of the unfunded liabilities of either system.²⁰

Endnotes

¹ Conn. Acts 23-1 § 16.

² Conn. Acts 17-2 (June Special Session).

³ Pinho, R. (2022). *State Spending Cap*. Hartford, CT: General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2022/rpt/pdf/2022-R-0214.pdf>.

⁴ Office of Legislative Research. (2018). *Connecticut's Volatility Cap*. Hartford, CT: Author. Retrieved from <https://www.cga.ct.gov/2018/rpt/pdf/2018-R-0296.pdf>.

⁵ Johnson, K. (1991, August 23). Budget is passed for Connecticut with income tax. *The New York Times*. Retrieved from <http://www.nytimes.com/1991/08/23/nyregion/budget-is-passed-for-connecticut-with-income-tax.html>.

⁶ Pinho, R., & McCluskey, C. (2016). *Spending Cap Definitions (2016-R-0137)*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2016/rpt/pdf/2016-R-0137.pdf>.

⁷ Ibid.

⁸ Ibid.

⁹ Connecticut General Assembly. (n.d.). Spending Cap Commission. Retrieved from https://www.cga.ct.gov/app/taskforce.asp?TF=20160330_Spending%20Cap%20Commission.

¹⁰ Widlitz, P., & Cibes Jr., W.J. (2017). *Report of the Chairpersons, Spending Cap Commission*. Hartford, CT: Connecticut General Assembly, Spending Cap Commission. Retrieved from https://www.cga.ct.gov/app/dfs/20160330_Spending%20Cap%20Commission/Complete%20Set%20of%20Reports%20and%20Separate%20Statements%20Produced%20by%20Spending%20Cap%20Commission%20Members.pdf.

¹¹ Ibid.

¹² Pinho, R., & McCluskey, C. (2016). *Spending Cap Definitions (2016-R-0137)*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2016/rpt/pdf/2016-R-0137.pdf>.

¹³ Conn. Acts 17-2 § 709 (June Special Session).

¹⁴ Conn. Acts 23-1 § 16.

¹⁵ Conn. Acts 17-2 § 709 (June Special Session).

¹⁶ Conn. Acts 18-81 § 20.

¹⁷ Conn. Acts 18-49 § 7.

¹⁸ Conn. Acts 17-2 § 704 (June Special Session).

¹⁹ Conn. Acts 23-1 § 15

²⁰ Ibid.