A Review of Connecticut's Revenue Diversions

December 4, 2020

Overview

The Connecticut General Assembly has periodically created "revenue diversions" in state statute. A "revenue diversion" is established when the General Assembly diverts a portion of revenue, which would otherwise be deposited into the General Fund, to a different fund or account. Revenue diversion statutes are explicit in the amount of revenue that is diverted, established as either a percentage of total revenue or a flat dollar amount, along with a description of what the diverted revenue will support. Once established in state statute, revenue diversions exist in perpetuity unless adjusted by the General Assembly.

In an effort to make the State of Connecticut's budget and financial resources more transparent, the School and State Finance Project has conducted a review of the State's current revenue diversions. This review is intended to promote a dialogue about current revenue diversions as the General Assembly heads into the next regular legislative session facing projected deficits and the task of adopting a biennial budget.

A list of Connecticut's current revenue diversions, along with details about each one, can be found beginning on page two of this document.

Key Takeaways

The School and State Finance Project reviewed 19 revenue diversions that are found in the Connecticut General Statutes. Key takeaways from this review include:

- The diversions reviewed add up to approximately $1.3 billion being diverted from the General Fund to various other funds and initiatives.
- The largest diversion reviewed is the "Volatility Cap," which, in fiscal year 2020, resulted in $530.3 million being diverted from the General Fund to the Budget Reserve Fund.
- The smallest diversion reviewed is the "Connecticut Television Network," which, in FY 2020, resulted in $2.6 million that was generated by the Public Service Tax to be diverted from the General Fund in order to fund the operations of the Connecticut Television Network (CT-N).
- The oldest diversion reviewed is the "Mashantucket Pequot and Mohegan Fund," which was created in 1993. The most recent revenue diversion is the "Philanthropic Match Account," which was created in 2019.

State of Connecticut's Current Revenue Diversions

Revenue Diversion (Year Created)	Statutory Reference(s)	Revenue Source	FY 2020 Diversion (millions)	Description of Diversion
Mashantucket Pequot and Mohegan Fund (1993)	Conn. Gen. Statutes ch. 32, §§ 3-55i-m. Conn. Acts 19-117 § 3.	Funded by the Mashantucket Pequot and Mohegan Tribes from a portion of casino slot machine revenue.	$51.1	This account provides grants to towns to supplement Payment in Lieu of Taxes (PILOT) payments. Money from the fund is distributed to municipalities according to various statutory formulas or amounts and grant criteria, with certain grants subject to prorated reductions if inadequate funds are appropriated.
Community Investment Account (2005)	Conn. Gen. Statutes ch. 50, §§ 4-66aa, 4-66bb. Conn. Gen. Statutes ch. 92, § 7-34a. Conn. Acts 19-117 § 30.	Funded through a $40 fee on all municipal land transactions.	$18.0	The funds in the account are distributed every three months as follows: 1) $10 of each fee credited to the account is to be deposited into the Agriculture Sustainability Account, 2) of the remaining funds, 25% goes to the Department of Economic and Community Development for various specified uses; 25% goes to the Department of Housing to supplement new or existing affordable housing programs; 25% goes to the Department of Energy and Environmental Protection for municipal open space grants; and 25% goes to the Department of Agriculture for various specified. However, for FYs 20 and 21, Public Act 19-117 requires that $1.5 million be transferred from the Community Investment Account to the Agriculture Sustainability Account.
Citizens' Election Fund (2006)	Conn. Gen. Statutes ch. 157, §§ 9-701, 9-750, 9-751.	Funded primarily through escheats (the transfer of abandoned property to the State), except for the escheats that	$12.0	The Citizens' Election Program (CEP) is the state's voluntary public campaign financing program. Under the CEP, candidates who agree to limit campaign spending, forgo outside

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	Conn. Gen. Statutes ch. 155, § 9-608f. Conn. Gen. Statutes ch. 32, § 3-69a.	are directed to the Special Abandoned Property Fund. Can also be funded through Corporation Business Tax revenues when there are insufficient funds in the CEF to 1) cover the statutorily required annual deposit amount or 2) provide grants in a state election year to candidates participating in the Citizens' Election Program (CEP). Fund is also funded by: contributions of surpluses from campaign committees, exploratory committees, and certain other committees that dissolve; voluntary contributions from individuals, businesses, organizations, party committees, and political committees; and the Fund's own investment earnings.		funding sources, and comply with other requirements, may qualify for CEF grants to finance their campaigns. The grant amounts for each candidate are updated quadrennially to reflect changes in the Consumer Price Index and vary depending on: office sought, if the election is a primary election or not, whether or not the candidate has an opponent, the timing of the candidate's application for participation in the CEP, and if the candidate belongs to a minor or petitioning party and the amount of votes that party garnered in the previous election. Generally speaking, the 2020 grant amounts for State Senate and State House of Representatives are $103,955 and $30,575, respectively.
Citizens' Election Fund - Corporation Business Tax Transfer (2006)	Conn. Gen. Statutes ch. 157, § 9-750.	A portion of the revenues from the Corporation Business Tax.	—	If there's an insufficiency in the Citizens' Election Fund to fully fund grants in an election cycle, a transfer of Corporation Business Tax revenue equal to the amount of any insufficiency is deposited into the Fund. A transfer authorized pursuant to this statute has never occurred.

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Emission Enterprise Fund (2001)	Conn. Gen. Statutes ch. 246a, § 14-164m.	Funded by fees imposed on motor vehicle registrations and emissions inspections.	$5.5	On the first day of each October, January, April, and July, the State Comptroller transfers from the Special Transportation Fund into the Emissions Enterprise Fund, $1,375,000 of the funds received by the State pursuant to the fees imposed on motor vehicle registrations and emissions inspections.
Tourism Fund (2017)	Conn. Gen. Statutes ch. 184b, § 10-395b. Conn. Gen. Statutes ch. 219, §§ 12-408(1)(K)(ii), 12-411(1)(J)(ii).	Funded through a transfer of 10% of the revenues received from taxes on hotels, lodging houses, and bed and breakfasts	$14.0	Expenditures from the Tourism Fund are appropriated by the General Assembly to provide grants to various tourism-related entities in the state.
Regional Planning Incentive Account (2011)	Conn. Gen. Statutes ch. 50, § 4-66k. Conn. Gen. Statutes ch. 219, §§ 12-408(1)(K)(i), 12-411(1)(J)(i).	Funded by 6.7% of the revenues received by the State from: 1) a 15% tax on each transfer of occupancy; 2) the total amount of rent received by a hotel or lodging house for the first period not exceeding 30 consecutive calendar days; and 3) 10.7% of the amounts received by the State from the 9.35% tax on the rental or leasing of a passenger motor vehicle for a period of 30 consecutive calendar days or less.	—	The Regional Performance Incentive Account is used to incentivize regionalization between municipalities. This diversion was suspended from FY 2018 to FY 2021. It is statutorily scheduled to resume in FY 2022.
Municipal Revenue Sharing Account (2011)	Conn. Gen. Statutes ch. 50, § 4-66*l*.	Receives 0.5% of general Sales and Use Tax collections.	—	The Municipal Revenue Sharing Account (MRSA) is used to provide municipal aid to help reimburse towns

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	Conn. Gen. Statutes ch. 219, §§ 12-408(1)(L), 12-411(1)(K). Conn. Acts 15-5 (June Special Session). Conn. Acts 15-1 (December Special Session). Conn. Acts 16-2 (May Special Session). Conn. Acts 17-2 (June Special Session). Conn. Acts 18-81.			with high levels of tax-exempt property. The Account uses a formula to distribute aid, where the 25 towns with the most tax-exempt property receive a grant equal to the difference between their actual state property and college and hospital PILOT grant payments, and what their payments would have been at specified reimbursement rates. Although originally designed to be funded via a sales tax diversion into the MRSA, since FY 2018, this grant has been funded via the General Fund and its distribution has been specified in budget acts and has included non-formulaic adjustments. The diversion from the Sales and Use Tax is statutorily scheduled to resume in FY 2022, though the diversion has been suspended four times in the past.
Municipal Video Competition Trust Account (2009)	Conn. Gen. Statutes ch. 289, §§ 16-331bb, 16-331hh.	Funded through a portion of revenue received from the Public Service Tax.	—	This account is used for property tax relief to towns, cities, and boroughs. The funds in the Account are distributed using a ratio of the number of subscribers to the certified competitive video service in a town to the total number of subscribers to the certified competitive video service located in the state. Cities and boroughs not consolidated with the town in which the service is located receive a portion of a town's funds using the ratio of the property taxes levied on the city or borough and the total property taxes levied by the town as a whole. The statute creates the $5

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				million annual transfer to this account and simultaneously transfers the $5 million from the Account to the General Fund indefinitely.
Public Educational and Governmental Programming and Education Technology Investment Account (2007)	Conn. Gen. Statutes ch. 289, §§ 16-331cc, 16-331ii.	Funded through: 1) a quarterly 0.5% tax on community antenna television services, video programming services by satellite, and certified competitive video services; 2) a quarterly 0.25% tax on community antenna television services, video programming services by satellite, and certified competitive video services, and each person operating a business that provides one-way transmission to subscribers of video programming by satellite; and 3) any interest or penalties collected by the Department of Revenue Services.	—	This account is used by the Public Utilities Regulatory Authority (PURA) to provide half the funds to support community access programming in the state, and the other half supporting education technology initiatives. If the balance of the account reaches more than $150,000, the PURA must make a one-time transfer of that amount to the Office of Legislative Management for expenses related to making the CT-N available on community access programming. However, since 2017, the Account's funds have been transferred to the General Fund and the diversion is not statutorily scheduled to resume until FY 2022.
Connecticut Television Network (2003)	Conn. Gen. Statutes ch. 18a, § 2-71x.	Funded by revenues received from the Public Service Tax.	$2.6	Revenues are used to support public programming in Connecticut and the operation of the Connecticut Television Network (CT-N).
Connecticut Energy Efficiency Fund (also referred to as the Energy Conservation and Load Management Fund) (1998)	Conn. Gen. Statutes ch. 283, § 16-245m.	Receives revenues from a six-mil charge on electric bills.	$164.0	The Fund is used for electric and gas conservation and load management programs that are approved in a plan every three years by the Energy Conservation Management Board.

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CT Green Bank (1998)	Conn. Gen. Statutes ch. 283, §§ 16-245n, 16-245kk.	Receives revenues generated from a one-mil charge on electric bills.	$24.9	The Connecticut Green Bank is a quasi-public state agency. The Bank financially supports private investment in clean energy.
Regional Greenhouse Gas Initiative (2007)	Conn. Gen. Statutes ch. 446c, § 22a-200c.	DEEP auctions emissions allowances (also known as a "cap and trade" program) and invests the proceeds on behalf of electric ratepayers. The revenues received are directly levied on electricity generators and are then passed onto the consumer via the rates charged for the provision of energy.	$20.0	Funds in this account are invested in energy conservation, load management, and Class I renewable energy programs. In making such investments, the commissioner of the Department of Energy and Environmental Protection shall consider strategies that maximize cost-effective reductions in greenhouse gas emissions. The commissioner may also allocate to the Connecticut Green Bank any portion of auction proceeds in excess of the amounts budgeted by electric distribution companies to support energy efficiency programs.
Special Transportation Fund (2015 & 2019)	Conn. Acts 15-5 § 132. Conn. Acts 15-1 § 32. Conn. Acts 19-117 §§ 317-318.	Receives 0.5% of general Sales and Use Tax collections as well as a percentage of Sales and Use Tax collected from motor vehicle sales, which is being phased in.	$420.5	In addition to receiving 0.5% of general Sales and Use Tax revenue, a diversion of motor vehicle Sales and Use Tax revenue — generated from the sales of motor vehicles at car dealerships — is statutorily phased in from FY 2019 to FY 2023 with 17% being diverted in FY 2020, 25% in FY 2021, 75% in FY 2022, and 100% in FY 2023 and thereafter.
Generally Accepted Accounting Principles (GAAP) Amortization (2017)	Conn. Acts 17-51 §§ 5-6. Conn. Gen. Statutes ch. 34, § 3-115b.	The annual accumulated deficit in the General Fund, as determined on the basis of generally accepted accounting principles and identified in the	—	Prior law required the state to amortize the GAAP deficits in equal increments so they were fully paid by FY 2028. Instead, current law requires the secretary of the Office of Policy and Management to annually publish recommended schedules to fully amortize

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		comprehensive annual financial report of the state as the unassigned negative balance of the General Fund, is amortized in each fiscal year of each biennial budget.		the balances by the FY 2028 deadline. But for FYs 2017 to 2019, state law deems that $1 is appropriated for paying off the deficits.
Volatility Cap (2017)	Conn. Gen. Statutes ch. 47, § 4-30a.	Each fiscal year, all revenue in excess of $3.15 billion from the Estimated and Final Payments of the Personal Income Tax and the Affected Business Entity Tax (also known as the Pass-Through Entity Tax) are transferred to the Budget Reserve Fund. Starting in 2018, the threshold amount is adjusted annually by the compound annual growth rate of personal income in Connecticut over the preceding five calendar years.	$530.3	The Volatility Cap diversions into the Budget Reserve Fund (also know as the state's "Rainy Day Fund") may only be used to: cover a deficit for the immediately preceding fiscal year; finance a projected General Fund deficit of 1% or more for the current or next biennium; or pay unfunded pension liabilities when the Budget Reserve Fund's balance equals 5% or more of net General Fund appropriations for the current fiscal year. The Budget Reserve Fund's maximum balance is 15% of net General Fund appropriations for the current fiscal year, and any funds exceeding that maximum must be used to reduce unfunded pension liabilities and pay off other outstanding state debt.
Revenue Cap (2017)	Conn. Gen. Statutes ch. 16, § 2-33c.	The Revenue Cap limits General Fund and Special Transportation Fund appropriations each fiscal year to a percentage of the State's Consensus Revenue Estimates, unless: either the governor declares an emergency or the existence of extraordinary	—	The percentage of estimated revenue is statutorily scheduled to phase in from FY 2020 to FY 2026, resulting in a lower percentage of estimated revenues being available for General Fund and Special Transportation Fund appropriations over time. The Revenue Cap is set at 99.5% of Consensus Revenue Estimates for FY 2020, 99.25% for FY 2021, 99% for FY 2022, 98.75% for

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		circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such percentage, and the appropriations are for the fiscal year in progress only; or each house of the General Assembly approves by majority vote any such appropriation for purposes of an adjusted appropriation and revenue plan.		FY 2023, 98.5% for FY 2024, 98.25% for FY 2025, and 98% for FY 2026 and each fiscal year thereafter.
Philanthropic Match Account (2019)	Conn. Acts 19-117 § 188.	The Philanthropic Match Account was created to fund the Partnership for Connecticut, which received revenue from the General Fund and Dalio Philanthropies, and anticipated additional philanthropic funding to match the existing sources, resulting in a total of $300 million split evenly between the three parties over five years beginning in FY 2019.	$20.0	Moneys in the Account were to be expended by the secretary of the Office of Policy and Management to match philanthropic gifts made by philanthropic sources to the Partnership for Connecticut, a joint public-private venture created to help at-risk youth. However, the Partnership was disbanded in 2020, although the Dalio Philanthropies FY 2019 donation remained in the Account.