The State of Connecticut has several budget controls, commonly referred to as "fiscal guardrails," which it has committed to bondholders to maintain through at least fiscal year 2028. These budget controls include the bond cap, revenue cap, spending cap, and volatility cap. Below is a brief summary of the history of the budget controls as well as an overview of each budget control and their impacts on the state budget.

Background

Enacted in 2017 during a period of declining revenues and fiscal instability for the state, the budget controls were part of a bipartisan compromise after the General Assembly failed to pass a biennium budget before the start of the fiscal year. The budget controls were renewed by the legislature in 2023.

Since the initial adoption of the budget controls, Connecticut's financial picture has significantly changed with the State routinely experiencing budget surpluses and the State's Budget Reserve Fund now filled to its statutory maximum level. Despite this shift in Connecticut's fiscal outlook, these budget controls have not been adjusted and, as a result, are now restricting the State's capacity to invest in critical services.

Connecticut's Budget Controls

Bond Cap	Revenue Cap
• Includes several components that limit the State's approval and issuance of bonded, long-term debt. • Restricts the State's approval and issuance of bonds. • Does **not** affect the State's anticipated revenues or appropriated expenditures. • Does **not** impact state spending on education or social services.	• Restricts how much state revenue can be spent. • Limits General Fund and Special Transportation Fund appropriations to no more than 98.75% of the anticipated revenues for those funds. • In a roughly $23 billion annual budget, this has a considerable impact with over $287 million being captured under the cap. • Impact of this cap is a built-in surplus at the beginning of each fiscal year.

Spending Cap	Volatility Cap
• Restricts the amount the legislature can appropriate each fiscal year. • Prohibits state appropriations from exceeding the previous year's appropriations plus the state's five-year growth rate in personal income or inflation, whichever is greater. • Only a limited number of spending items are excluded from the Spending Cap. These exclusions include payments on the state's bonded debt, the pass-through of federal funds, and certain required payments related to the state's unfunded teachers' pension liabilities. • Payments to the teachers' pension system will be moved under the restrictions of the cap in 2027. • Most restrictive of budget controls and significantly limits any new or increased investments for critical services, including K-12 education funding.	• As its name suggests, the Volatility Cap was intended to limit volatility in the state budget process by capturing irregular or one-time revenue. • Volatile tax revenue, primarily from stock market activity, is captured under this cap when it exceeds an annual threshold. • The revenue collected under this cap is separated from other General Fund revenue sources and deposited into the State's Budget Reserve Fund. When the Budget Reserve Fund is filled to its statutory maximum level, Volatility Cap revenue is used to pay down the State's pension debt. • From 2018 to 2023, the amount of revenue captured under this cap ranged from $530 million to over $3 billion, with an average of $1.4 billion per year.

Key Terms

Term	Description
Appropriation	• Appropriations are legislatively approved expenditures of state revenues in a budget bill.
Appropriated Fund	• Throughout the state's history, various appropriated funds have been established. • Some of the appropriated funds collect revenue and make expenditures to support specific projects or initiatives. • For instance, the State established the Special Transportation Fund to collect revenue from transportation and motor vehicles taxes and fees to support expenses associated with these activities.

	• The General Fund is the largest appropriated fund. It primarily receives revenue from the State's largest source, the Personal Income Tax. It supports most appropriations, including K-12 education, municipal aid, Medicaid, and operations of the state's judicial branch.
Budget Reserve Fund	• The Budget Reserve Fund (BRF) is essentially the state's savings account. • The dollars in the BRF can help mitigate the potential negative impact on the State from future budget deficits, which may arise from a decline in revenue or an unexpected increase in the State's expenses. • The State has set a maximum allowable level for the BRF of 18% of the State's total expenditures. • Currently, the BRF has reached its maximum allowable level. As a result, any future deposits to the BRF are statutorily required to be spent on paying down the State's remaining pension liabilities.