



BACKGROUND INFORMATION ON CONNECTICUT'S SPENDING CAP

HOW THE CAP IS CALCULATED

The cap limits the increase in general budget expenditures each year to the average growth in personal income over the past five years or the rate of inflation over the last 12 months, whichever is greater. It applies to all state spending except payments on state debt, certain grants to distressed municipalities, and first-year expenditures on federal mandates or court orders. The cap can be exceeded if the Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of both houses of the General Assembly agree.

The previous year's appropriated funds, minus dollars spent on the three exempt areas constitutes the base of the spending cap. The base is then multiplied by the allowable growth rate to produce the amount that spending is allowed to increase in the coming year.

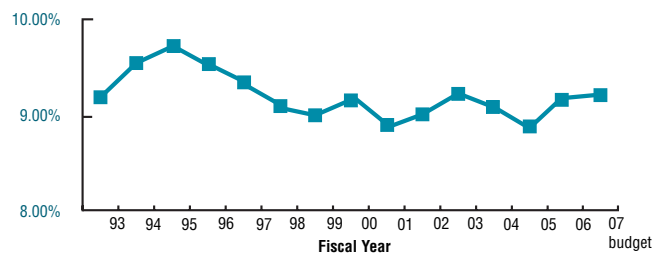
SPENDING GROWTH BEFORE AND AFTER THE CAP WAS IN PLACE

State spending growth has slowed since 1991 when the cap was adopted. Between 1985 and 1991, spending grew 11.5 percent per year. Between 1991 and 2000, average annual growth was 5.4 percent and between 2000 and 2007, it was 4.4 percent.

No analysis is currently available to indicate how much of this decline is due to the spending cap and how much is due to factors such as changes in available revenue, changes in the number of school-age children or others who use government services, or changes in public demand for state services.

Since the early 1990s, Connecticut's spending has remained a fairly constant share of personal income.

All Appropriated Spending as a Share of Personal Income



Source: Center on Budget and Policy Priorities (CBPP) calculations of Office of Fiscal Analysis (spending) and Bureau of Economic Analysis (personal income) data

Essentially, the calculation looks like this:

- Last year's appropriated funds minus exemptions = base
- Base multiplied by allowable growth rate = allowable spending increase

For example, for FY 2004:

\$13,217.8 million (FY 2003 appropriated funds) MINUS \$2,741.9 million (exemptions) = \$10,457.9 million
\$10,457.9 million MULTIPLIED BY 5.27 percent (FY 2004 allowable growth rate) = \$552.1 million

The spending cap allowed FY 2004 spending to increase \$552.1 million over FY 2003 spending.



CONNECTICUT HAS EXCEEDED THE CAP ON A NUMBER OF OCCASIONS

In six of the years since the cap has been in effect, the state has used the extraordinary circumstances provision to spend more than was allowed by the cap. The amount of spending above the cap that was for purposes other than debt reduction or transfers to the budget reserve has ranged from \$232 million to \$591 million annually.

While spending over the cap has been common, significant rebasing — that is, adjusting the base of the cap to reflect this spending — was less common. This changed with the spending for nursing homes included in FY 2006-2007 budget, financed by a provider tax and new federal funds. This spending was added to the FY 2006 base for determining the FY 2007 cap. In addition, the \$125.5 million contribution to the Teacher's Retirement Fund was added to the FY 2007 base.

Amount of Spending that Exceeded Cap (not including debt reduction and transfers to budget reserve)

\$249 million in FY 1998
\$591 million in FY 1999
\$462 million in FY 2000
\$292 million in FY 2001
\$232 million in FY 2005
\$553 million in FY 2006

Source: CBPP calculations of Office of Fiscal Analysis data

CONNECTICUT'S SPENDING CAP IS MORE RESTRICTIVE THAN THOSE OF MANY STATES

According to a recent survey by the National Conference of State Legislatures, 29 states have constitutional or statutory limits on overall taxation, expenditures or both.¹ Many of these limitations, however, are guidelines rather than hard-and-fast limits, allowing for easier adjustments to changing fiscal conditions. Budget cuts that resulted from the lack of flexibility in these limits recently led voters in Colorado — the state with the most restrictive tax and spending cap in the nation — to suspend that state's limit for five years.

Connecticut's spending limit remains among the most restrictive in the nation because:

- It applies to a base that includes 80 percent of all state expenditures, including most federal dollars received by the state. The spending limits imposed by most other states cover only about 50 percent of state spending and usually exclude federal funds.
- Connecticut is one of only two states to use a growth formula based on a five-year average in personal income growth. Most states use a shorter time period, from one to three years.
- Of the states that allow a legislative override of their cap, Connecticut is one of only six to require the Governor to declare an emergency first.
- Each year's cap is based on the previous year's actual expenditures, rather than allowable expenditures.

REFERENCES

1 Of the 29 limits, 16 (including Connecticut's) are in the state's constitution.

Connecticut Health
Foundation



74B Vine Street
New Britain, CT 06052
860.224.2200

www.cthealth.org

Alison Johnson,
Consultant
Co-author

Elizabeth McNichol,
Center on Budget and
Policy Priorities
Co-author

Rhea Hirshman,
Consultant
Editor

Monette Goodrich,
Connecticut Health
Foundation
Editor-in-Chief