

State Fiscal Controls

By: Rute Pinho, Chief Legislative Analyst
September 27, 2022 | 2022-R-0213

Issue

Provide a brief summary of the state's fiscal "caps" and bond lock laws. This report updates OLR Report [2019-R-0305](#).

Fiscal Controls

Connecticut has several laws designed to (1) limit state spending or borrowing and (2) increase deposits to the Budget Reserve Fund (BRF, i.e., the "rainy day fund").

With respect to spending, the laws include a (1) spending cap, which limits the year-to-year growth in general budget expenditures; (2) "revenue" cap, which limits the percentage of estimated revenues that may be spent in any fiscal year; and (3) volatility cap, which requires that certain revenues be transferred to the BRF.

With respect to borrowing, the laws impose limits on each component of the bonding process: the amount of debt the legislature may authorize (debt limit), Bond Commission may allocate (bond allocation cap), and state treasurer may issue (bond issuance cap). They also limit the amount of bond requisitions the governor may approve (bond allotment cap).

Each of the spending and borrowing laws is subject to a bond lock. Specifically, the lock requires the state to comply with all of these laws for each fiscal year in which certain bonds issued between May 15, 2018, and June 20, 2020, are outstanding.

Table 1 briefly describes each of these laws.

Table 1: Overview of State Fiscal Caps and Bond Lock Requirements

Fiscal Control	Description
<p>Spending Cap</p> <p>Conn. Const., art. III, § 18(b) and CGS § 2-33a</p>	<p>Prohibits the legislature from authorizing an increase in “general budget expenditures” for any fiscal year that exceeds the greater of the percentage increase in (1) personal income over the preceding five calendar years or (2) inflation over the previous calendar year, unless the governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house approve the extra expenditure for those purposes</p> <p>“General budget expenditures” excludes certain specified expenditures (see OLR Report 2022-R-0214 for a more detailed explanation)</p>
<p>“Revenue” Cap</p> <p>CGS § 2-33c</p>	<p>Prohibits the legislature from authorizing General Fund and Special Transportation Fund appropriations in any fiscal year that exceed a specified percentage of the estimated revenues included in the budget act unless the (1) governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house vote to exceed the percentage for such purposes and (2) appropriation is for the fiscal year in progress only; General Assembly may also approve the appropriation, by majority vote, for an adjusted appropriation and revenue plan</p> <p>The percentage decreases in steps from 99.5% in FY 20 to 98% in FY 26 and thereafter; for FY 23, it is 98.75%</p>
<p>Volatility Cap</p> <p>CGS § 4-30a(a)</p>	<p>Requires the state treasurer to transfer to the BRF any revenue the state receives each fiscal year in excess of \$3.15 billion (annually adjusted for the five-year average growth in personal income) from personal income tax estimated and final payments and the pass-through entity tax; for FY 23, the adjusted threshold is \$3.63 billion</p> <p>Legislature may amend the threshold amount, by a vote of three-fifths of the members of each house, due to changes in state or federal tax law or policy or significant adjustments to economic growth or tax collections</p>
<p>Debt Limit</p> <p>CGS § 3-21(a)</p>	<p>Prohibits the legislature from authorizing General Fund-supported debt that exceeds 1.6 times the estimated net General Fund tax receipts for the fiscal year of the authorization, with certain exclusions</p>
<p>Bond Allocation Cap</p> <p>CGS § 3-20(d)(2)</p>	<p>Caps at \$2 billion (annually adjusted for inflation) the amount of general obligation (GO) or credit revenue bonds the Bond Commission may allocate in each calendar year; for 2022, the inflation-adjusted cap was \$2.235 billion</p>
<p>Bond Issuance Cap</p> <p>CGS § 3-21(f)(1)(A)</p>	<p>Caps at \$1.9 billion (annually adjusted for inflation) the amount of GO or credit revenue bonds the state treasurer may issue each fiscal year, except for (1) bonds issued as part of the Connecticut State University 2020 or UConn 2000 infrastructure programs, (2) refunding bonds, and (3) certain revenue anticipation bonds; for FY 22, the inflation adjusted cap was \$2.018 billion</p>
<p>Bond Allotment Cap</p> <p>CGS § 3-21(f)(2)(B)</p>	<p>Caps at \$1.9 billion (annually adjusted for inflation) the amount of GO and credit revenue bond allotment requisitions the governor may approve each fiscal year, with the same exclusions as the issuance cap; for FY 22, the inflation adjusted cap was \$2.018 billion</p>

Table 1 (continued)

<i>Fiscal Control</i>	<i>Description</i>
<p>Bond Lock</p> <p>CGS § 3-20(aa)</p>	<p>For each fiscal year during which state GO or credit revenue bonds issued from May 15, 2018, to June 30, 2020, are outstanding, the state must comply with the (1) BRF law, including the volatility cap; (2) revenue cap; (3) state spending cap; and (4) caps on GO and credit revenue bond authorizations, allocations, issuances, and allotments</p> <p>For bonds issued during this timeframe, the treasurer must include a pledge to bondholders that the state will not enact any laws taking effect from May 15, 2018, to June 30, 2023, that change the state's obligation to comply with the laws listed above until the bonds are fully paid off unless (1) bondholders are protected in another way or (2) the governor declares an emergency or the existence of extraordinary circumstances, at least three-fifths of the members of each house approve the change, and the change is limited to the fiscal year in progress</p> <p>Pledge must apply for five years from the bonds' first issuance date but not to refunding bonds issued to pay the original bonds</p>

RP:co