

# Calculating the Expenditure Cap

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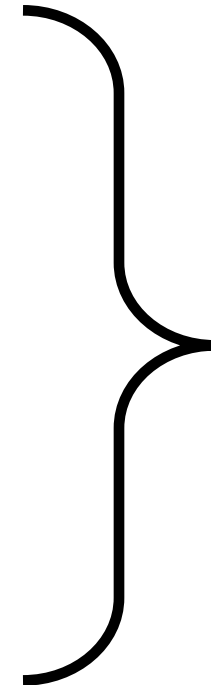
# Overview

1. Defining General Budget Expenditures
  - A. Funds Included Under the Cap
  - B. Debt Service
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  - D. Statutory Grants to Distressed Municipalities
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2. Defining Growth
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# Funds Included Under The Expenditure Cap

Per C.G.S. 2-33a, general budget expenditures means “expenditures from appropriated funds authorized by public or special act of the General Assembly.” OPM and OFA practice has been to treat appropriations, net of originally adopted lapses, as “expenditures” for cap purposes.

General Fund  
Special Transportation Fund  
Mashantucket Pequot & Mohegan Fund  
Regional Market Operating Fund  
Banking Fund  
Insurance Fund  
Public Utility Control Fund  
Workers Compensation Fund  
Criminal Injuries Compensation Fund



**Expenditure Cap**

# Exemptions from General Budget Expenditures

## Constitutional

- Debt Service

## Statutory

- Debt Service (2-33a)
- Federal Mandates and Court Orders (2-33a)
- Statutory Grants to Distressed Municipalities (2-33a)
- Expenditures pursuant to the Budget Reserve Fund (2-33a)
- Since FY 2015, Unfunded Pension Liabilities (Per Section 35 of PA 15-244)

# Debt Service

- The State Constitution exempts “expenditures for the payment of bonds, notes or other evidences of indebtedness”
- C.G.S. 2-33a similarly exempts “payment of the principal of and interest on bonds, notes or other evidences of indebtedness”
- OPM and OFA have calculated the cap exempting debt service appropriated to the Treasury
- Section 35 of Public Act 15-244 states that evidences of indebtedness shall include unfunded pension liabilities for fiscal years 2015, 2016, and 2017

# Federal Mandates and Court Orders

- C.G.S. 2-33a exempts “expenditures for the implementation of federal mandates or court orders for the first fiscal year in which such expenditures are authorized”
- OPM and OFA practice has been to exempt the first *twelve months* of federal mandates and court orders even if it spans more than one fiscal year
- OPM and OFA practice has been to exempt incremental increases in expenditures, that are part of a phased-in schedule of service increases, which meet the conditions of a settlement agreement resulting from a court order that are multi-year in nature

# Statutory Grants to Distressed Municipalities

- C.G.S. 2-33a exempts “statutory grants to distressed municipalities, provided such grants are in effect on July 1, 1991”
- OPM and OFA practice has been to use the list of 25 distressed municipalities published annually by DECD
- DECD ranks all 169 cities and towns on the basis of various socioeconomic factors; the highest scoring 25 municipalities (15% of all municipalities) are considered distressed

# Statutory Grants to Distressed Municipalities

- Annually, prior to publishing the Fiscal Accountability Report in November, OPM and OFA issue a joint letter to agencies making grants to distressed municipalities, to request information on actual payments to these towns during the recently completed fiscal year
- This data is used to determine the percent of each municipal grant awarded to distressed municipalities
- When calculating the cap, OPM and OFA exempt a pro rata amount of each grant to distressed municipalities in effect on July 1, 1991, based on these calculated percentages
- For example, the state's largest grant – the Education Cost Sharing Formula, was 58.8% exempt from the cap in the FY 2016 budget.



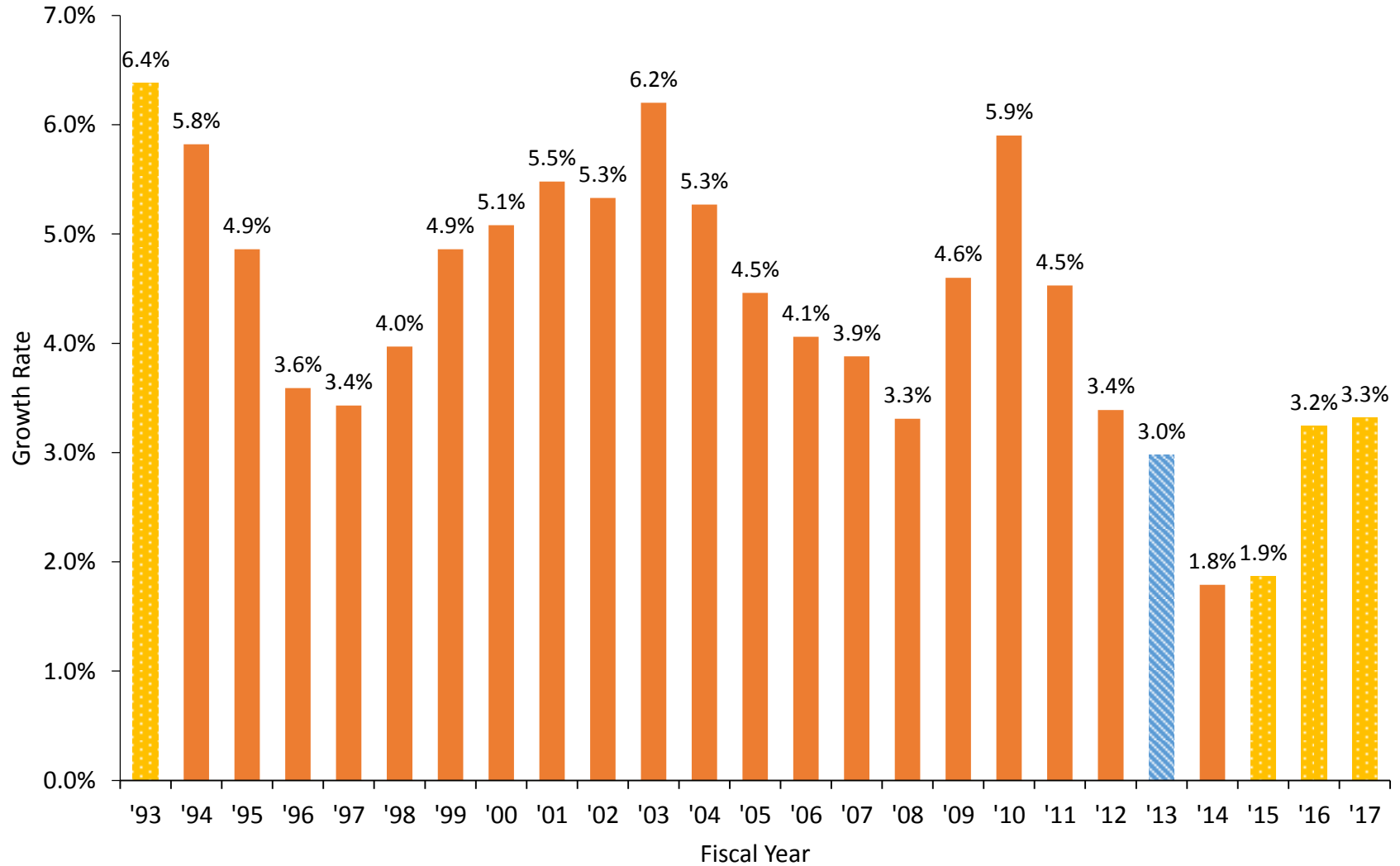
# Expenditure Cap Growth Rate

- The State Constitution caps growth at “the greater of the percentage increase in personal income or the percentage increase in inflation”
- C.G.S. 2-33a defines increase in income as “the average of the annual increase in personal income in the state for each of the preceding five years”
- C.G.S. 2-33a defines increase in inflation as “the increase in the consumer price index for urban consumers during the preceding twelve-month period, according to United States Bureau of Labor Statistics data”

# Expenditure Cap Growth Rate

- OPM and OFA practice has been to use the growth in nationwide CPI-U from December of the prior year to December of the most recently completed calendar year
- In most years, OPM and OFA practice has been to use the compound annualized growth of Connecticut personal income for the five most recent state fiscal years
- Since CT enacts a two-year budget, the 2<sup>nd</sup> year cap calculation relies on forecast data for personal income and inflation

# History of Expenditure Cap Growth Rate



# History of Expenditure Cap Growth Rate

- In FY 2013, the consumer price index, rather than personal income, was the limiting factor
- In FY 1993, 2015, 2016, and 2017, personal income was calculated on a calendar year, rather than a state fiscal year, basis
- Statutorily directed to use a calendar year basis by section 35 of PA 15-244 for fiscal years 2015, 2016, and 2017

# Declarations to Exceed Cap

C.G.S. 2-33a provides that the state shall operate under the expenditure cap “unless the Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances.” Such declarations have impacted 8 of the 25 fiscal years the cap has been in place, or 32% of state budgets.

Declaration Number	Date Issued	Associated With	Fiscal Year Impacted
1.	5/1/1998	HB 5021	1998
2.	6/4/1999	HB 6762	1999
3.	5/2/2000	HB 5216	2000
4.	6/25/2001	HB 7501	2001
5.	6/6/2005	HB 6940	2005
6.	4/30/2006	HB 5845	2006
7.	6/23/2007	HB 8001	2007, 2008

# Declarations to Exceed Cap

- C.G.S. 2-33a further provides that such declaration “may provide that such proposed additional expenditures shall not be considered general budget expenditures for the current fiscal year for the purposes of determining general budget expenditures for the ensuing fiscal year”
- Essentially providing the Governor with the authority to determine whether such expenditures are rolled into the base for calculating the ensuing year’s cap

# Rebasing

- Historically, when changes have been made to the expenditure base from the prior year, OPM and OFA have agreed to “rebase” the expenditure cap in the spirit of the cap
- Therefore, when items have been moved off- or on-budget, we have not created artificial room under the cap
- Examples of rebasing include Connecticut Lottery Corporation, The Job Training Partnership Act, and net budgeting of Medicaid

# Example Cap Calculation

(all figures in millions)

	FY 2016	
1. Total All Appropriated Funds - Prior Year	\$19,014.1	} <b>Prior Year #'s</b>
2. Net Appropriated Birth to Three Base Adjustment	(7.3)	
3. Net Appropriated HUSKY B Base Adjustment	<u>(27.1)</u>	
4. Net Total All Appropriated Funds - Prior Year	18,979.7	
5. Less "Non-Capped" Expenditures:		
6. Debt Service	2,172.9	
7. Statutory Grants to Distressed Municipalities	1,568.8	
8. SERS/TRS UAL	<u>1,736.1</u>	
9. Total "Non-Capped" Expenditures - Prior Year	5,477.9	
10. Total "Capped" Expenditures	13,501.8	
11. Allowable Cap Growth Rate	3.24%	
12. Allowable "Capped" Growth	<u>438.1</u>	
13. "Capped" Expenditures	13,939.9	
14. Plus "Non-Capped" Expenditures:		} <b>Current Year #'s</b>
15. Debt Service	2,439.5	
16. Federal Mandates and Court Orders (new \$)	42.9	
17. Statutory Grants to Distressed Municipalities	1,579.2	
18. SERS/TRS UAL	<u>1,828.8</u>	
19. Total "Non-Capped" Expenditures	5,890.3	
20. Total All Expenditures Allowed	19,830.2	
21. Appropriation for this year	19,807.2	
22. Amount Total Appropriations are Over/(Under) the Cap	<u>\$(23.0)</u>	



Questions?

# Constitutional Amendment

## Article XXVIII

- a. The amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year.
- b. The general assembly shall not authorize an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage which exceeds the greater of the percentage increase in personal income or the percentage increase in inflation, unless the governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the general assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. The general assembly shall by law define "increase in personal income", "increase in inflation" and "general budget expenditures" for the purposes of this section and may amend such definitions, from time to time, provided general budget expenditures shall not include expenditures for the payment of bonds, notes or other evidences of indebtedness. The enactment or amendment of such definitions shall require the vote of three-fifths of the members of each house of the general assembly.
- c. Any unappropriated surplus shall be used to fund a budget reserve fund or for the reduction of bonded indebtedness; or for any other purpose authorized by at least three-fifths of the members of each house of the general assembly.

# Statutory Cap – C.G.S. 2-33a

“The General Assembly shall not authorize an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage which exceeds the greater of the percentage increase in personal income or the percentage increase in inflation, unless the Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. Any such declaration shall specify the nature of such emergency or circumstances and may provide that such proposed additional expenditures shall not be considered general budget expenditures for the current fiscal year for the purposes of determining general budget expenditures for the ensuing fiscal year and any act of the General Assembly authorizing such expenditures may contain such provision. As used in this section, “increase in personal income” means the average of the annual increase in personal income in the state for each of the preceding five years, according to United States Bureau of Economic Analysis data; “increase in inflation” means the increase in the consumer price index for urban consumers during the preceding twelve-month period, according to United States Bureau of Labor Statistics data; and “general budget expenditures” means expenditures from appropriated funds authorized by public or special act of the General Assembly, provided (1) general budget expenditures shall not include expenditures for payment of the principal of and interest on bonds, notes or other evidences of indebtedness, expenditures pursuant to section 4-30a, or current or increased expenditures for statutory grants to distressed municipalities, provided such grants are in effect on July 1, 1991, and (2) expenditures for the implementation of federal mandates or court orders shall not be considered general budget expenditures for the first fiscal year in which such expenditures are authorized, but shall be considered general budget expenditures for such year for the purposes of determining general budget expenditures for the ensuing fiscal year. As used in this section, “federal mandates” means those programs or services in which the state must participate, or in which the state participated on July 1, 1991, and in which the state must meet federal entitlement and eligibility criteria in order to receive federal reimbursement, provided expenditures for program or service components which are optional under federal law or regulation shall be considered general budget expenditures.”

# Section 35 of PA 15-244

- Sec. 35. (*Effective from passage*) (a) For the purpose of determining the increase in general budget expenditures that may be authorized for the fiscal years ending June 30, 2015, to June 30, 2017, inclusive, the increase in personal income means the average of the annual increase in personal income in the state for each of the preceding five calendar years, according to the United States Bureau of Economic Analysis data.
- (b) For the purpose of determining the increase in general budget expenditures that may be authorized for the fiscal years ending June 30, 2015, through June 30, 2017, evidences of indebtedness for the fiscal years ending June 30, 2014, through June 30, 2017, shall include the portion of the annual required contribution representing the unfunded liability of (1) any retirement system or alternative retirement program administered by the State Employees Retirement Commission, or (2) the teachers' retirement system.