

Spending Cap Commission
August 1, 2016
Meeting Notes

Attendees:

Commission Co- Chairperson William Cibes, Suzanne Bates, Rep. Jeff Berger, Sen. Steve Cassano, Rep. Chris David, Tom Fiore, Bob Frankel, Sen. Scott Frantz, Sen. Joan Hartley, Bert Hunter, Sen. Rob Kane, Sen. Michael McLachlan, Rich Porth, Ellen Shemitz, Bart Shuldman, Rep. Richard Smith, Rep. Jonathan Steinberg, Ron Van Winkle

Staff:

Amanda Zabel, Clerk

Guests:

Elizabeth McNichol, Senior Fellow, Center for Budget and Policy Priorities

Call to Order

Chairperson William Cibes called the meeting to order at 1:05 PM.

Chairperson Cibes announced that at the August 15th meeting of the Commission, Peter Gioia of CBIA would make a presentation, and that on September 7th, Mr. James Smith of Webster Bank, and Anthony Randazzo of Reason.org would make presentations.

Acceptance of the July 18th Meeting Notes

Chairperson William Cibes asked for a motion to accept the July 18 meeting notes. The motion was made by Bob Frankel, seconded by Rep. Jonathan Steinberg. Seeing no further discussion, the meeting notes were accepted by voice vote.

Preliminary Consideration of Various Options for Spending Cap Definitions

Chairperson Cibes reminded the Commission that an earlier meeting, members had asked for a menu of options that the Commission should consider. He had drafted such a menu, which detailed various alternative recommendations that the Commission might wish to consider concerning the three definitions within the Commission's charge: increase in personal income, increase in inflation, and general budget expenditures. He observed that the Commission as a whole had heard presentations concerning some options, and that members had individually suggested others. He said that the draft he presented was an effort to comprehensively list these alternatives. Going line by line, today, might elicit additions or changes to that draft.

Because it might be difficult to come up with suggestions when suddenly confronted by a draft, Chairperson Cibes suggested that members review this list after the meeting and submit additional ideas over the next few days.

Mr. Shuldman stated that there should be ample time for members' consideration, and suggested that the Commission review the menu at its next meeting. Chairperson Cibes agreed.

Increase in personal income

Chairperson Cibes observed that a number of different presenters had canvassed several different alternative definitions of personal income, many using the Bureau of Economic Analysis data on personal income as the base. It had been suggested that this data be modified by adding realized capital gains, by making an adjustment to include income earned in Connecticut by out-of-state residents, and excluding income earned out-of-state by in-state residents, and by excluding rental income imputed to homeowners. Using Adjusted Gross Income of Connecticut taxpayers, as reported by the U.S. Internal Revenue Service had also been suggested as an alternative base.

Other issues to be considered included the time period used to determine personal income, whether calendar years or fiscal years should be used, and the degree to which transparency, availability of data, and volatility should be taken into account.

Increase in Inflation

Chairperson Cibes observed that two different types of inflation had been suggested to the Commission: one based on inflation in the basket of goods and services purchased by consumers, and one based on inflation in the basket of goods and services purchased by government. For the former, several different measures existed, including several indices measuring consumer prices for different geographic areas, as well as personal consumption expenditures. He also observed that there had been competing views expressed concerning a measurement of inflation in the basket of goods and services purchased by government, and whether the impact of the "cost disease of personal services" should be considered. The draft menu also listed, as issues to be considered, the time period used to determine personal income, whether calendar years or fiscal years should be used, and the degree to which transparency, availability of data, and volatility should be taken into account. During this review, a number of questions and comments were made, as follows:

Senator McLachlan asked if there was a way to create a CPI measurement for the state, blending CPI for the New York area and CPI for Massachusetts, since there was no measure that specifically addressed consumer prices in Connecticut.

Mr. Hunter asked what index was used in the recent fiscal year when inflation was used instead of personal income to limit expenditures. He also asked for further clarification

about the specific measure that might be used to measure inflation in the basket of goods and services purchased by government.

Mr. Shuldman offered that the Commission should not consider a definition of inflation which was based on the goods and services purchased by government, because he thinks it's a license to spend.

Ms. Shemitz asked that population change be included as a factor to be considered. She observed that in Massachusetts, a limit on spending of inflation plus 2% was used, to account in part for the change in population. Mr. Shuldman asked what would happen if population goes down: does the limit decrease?

General Budget Expenditures

With respect to General Budget Expenditures, Chairperson Cibes raised a number of points to be discussed by the Commission in the future, under the following groupings:

- Whether some specific categories of expenditures which are limited by a spending cap need to be specifically identified – such as, for example
 - The “normal cost” of pensions
 - State-funded expenditures required by a federal funding program, after the first year
 - Grants to “non-distressed” municipalities

- What categories of spending should not be limited by the cap – POSSIBLY including
 - Certain appropriated funds, such as
 - ❖ Expenditures for the payment of bonds, notes or other evidences of indebtedness, such as
 - Bond premiums
 - The portion of the Annual Required Contribution representing the unfunded liability of SERS and TRS pensions
 - ❖ State-funded expenditures required by a federal funding program, in the first year
 - ❖ Expenditures pursuant to court orders
 - ❖ Grants to Distressed Municipalities
 - ❖ Investment in infrastructure required for economic growth
 - Certain non-appropriated funds, such as
 - ❖ Federal funds granted to the state or its agencies (e.g. federal share of Medicaid etc.)
 - ❖ Revolving Funds
 - ❖ Programs supported with revenue dedicated to that program
 - ❖ Other revenue intercepts
 - ❖ Tuition and fees in higher education units
 - Tax expenditures

Again, during the review of potential issues to be discussed, members of the Commission made various comments:

With respect to the first grouping (what should be included in general budget expenditures), Ms. Shemitz took issue with starting from the definition of general budget expenditures in effect in the 1991 statute. Other states define general budget expenditures much more narrowly. Other states try to limit runaway spending, but don't try to prevent investment in critical services or in programs which meet newly identified current needs. A possible definition of general budget expenditures might be, for example, usual ordinary running or incidental expenses of general government, and not including monies deposited in the treasury for a special or dedicated purpose.

Chairperson Cibes invited Ms. Shemitz to provide specific language for consideration.

Mr. Shuldman asked for further explanation of "federal mandates or court orders in their first year." Mr. Fiore explained that the language in the 1991 statute provided that spending for federal mandates and court orders in their first year was outside the cap, but in future years, such spending was limited by the cap, with the exception of spending pursuant to a multi-year phase-in, in which phased-in spending would also be exempt from the cap.

Mr. Hunter asked about rebasing of such expenditures after the first year. Mr. Fiore responded that there was no need to rebase, since the initial year's spending was built into the base.

Representative Davis asked for clarification of whether the federal share of expenditures is under the cap, or whether it was just the state share of spending. Mr. Fiore stated that only on-budget spending was included under the cap.

Chairperson Cibes then turned to a review of expenditure items that might be excluded from general budget expenditures, and reviewed a number of possibilities (the second grouping).

Ms. Shemitz asked what would happen if the required state portion of Medicaid, under the Affordable Care Act, is increased. Because this would be pursuant to federal law, should not this change require rebasing, so that the additional expense would not be capped? Mr. Fiore responded that, in his view, there would not be rebasing, and that the additional required spending would be under the cap.

Mr. Shuldman asked about the treatment of bond premiums. Would it be an expenditure item? Chairperson Cibes responded that the Commission needs to take a look at that. Bond premiums could be regarded as a revenue item, or if an expenditure item, might be classified as payment of debt service, and hence exempt from the cap. But the issue has been raised, and should probably be looked at.

Sen. McLachlan asked where revenues from the federal government received in conjunction with the hospital tax are included. Mr. Fiore's response was that such revenue is generally a revenue item, not an expenditure item, although some portion might go to an off-budget fund.

Mr. Shuldman asked for further discussion about bond premiums being classified as revenues or as lapsed funding. In either case, Mr. Fiore said, it goes to reduce a deficit.

Mr. VanWinkle suggested that the Commission come up with a definition of what a "pass-through" grant is, rather than trying to detail and review a whole list of specific grants.

Mr. Shuldman questioned how the state could afford "one-off" programs to address such items as transportation infrastructure. At some point, the state will have to make choices about what it wants to fund. Chairperson Cibes responded that such an issue might require further discussion, but it may not be within the Commission's purview, since it might involve a decision to increase revenue.

Ms. Shemitz wanted to share her view as to how the spending cap fits into a larger picture. The constitutional amendment makes the spending cap one of a three prong tool that was created. The first is a requirement to not spend more than the state takes in. The second is a limit on increased spending. The third has to do with putting unused money in the Budget Reserve Fund. All work together as an integrated whole. She just wanted to remind the Commission not to become legislators, and limit the legislature in doing what wasn't intended, or to see the spending cap as the only tool that the legislature has in order to make sure that the legislature complies with the constitutional mandate.

Representative Davis was concerned that monies in a dedicated fund, such as the Community Investment Act, could be carved away and redirected to the General Fund. He's not quite sure how to address this, but wants to avoid taking this revenue and spending it for other purposes. Mr. Fiore observed that there are many dedicated funds, such as Bradley Field, listed in the Comprehensive Annual Financial Report of the state, which some might want to determine as under the spending cap.

Representative Smith is also concerned that monies could be shifted to the General Fund. If the state is going to put money in the separate funds, and then use it for other purposes, we're just fooling ourselves. Why are we putting things outside the cap? We need to be serious about over-expenditures by government.

Chairperson Cibes reminded the Commission that OPM had presented information that the average annual growth rate of appropriations since the constitutional cap was adopted has exceeded the average annual growth rate of the spending cap by only 1/20th of one percent. So it appeared to him that the General Assembly has been fiscally responsible over this time. Indeed, when the spending for this fiscal year is included, the average annual growth rate of appropriations has been less than the average annual growth rate of the spending cap over the entire period. So the legislature has been pretty frugal.

Mr. Shuldman expressed his view that he could not see how anyone could say that the spending cap has worked.

Rebasing

There were other issues to be considered by the Commission, Chairperson Cibes continued, under the category of rebasing. The constitutional language provided for the possibility of rebasing pursuant to a declaration of emergency or extraordinary circumstances, and/or pursuant to the use of the Rainy Day Fund, CGS 4-30a. There had also been suggestions that the base for the spending cap be allowable spending in the previous year, as opposed to the actually appropriated spending in that year.

Chairperson Cibes concluded the review of this menu of items to be considered by again asking members of the Commission to make additional suggestions for inclusion, to be taken up at the meeting on August 15th.

Rep. Davis asked if our charge was to recommend definitions under the current constitutional cap, or is it under the Commission's purview to recommend changes to the constitution itself. He feared that as more and more spending is shifted to bonding and other evidences of indebtedness, as permitted by the constitutional amendment, it allows more and more spending on other items. Shifting spending to bonding may cost more over the long term.

Chairperson Cibes stated his belief that we are mandated to review the definitions for the statutory cap, and not to make recommendations concerning revision of the constitutional cap. There does not seem to be great appetite for revising the constitutional cap.

Rep. Davis said that one way to control shifts to bonding in the future is to say that anything that's currently in bonding would be exempt from the cap, but any shift to bonding in the future would be under the cap.

Chairperson Cibes remarked that it had been argued that one of the reasons for excluding payments for debt service from the cap was to assure bondholders and rating agencies that the state would continue to pay for debt service unlimited by the cap.

Rep. Davis said that he thought it might reassure the rating agencies if bonding were under the cap.

Rep. Steinberg agreed with Rep. Davis about the Commission making recommendations about a constitutional change; we should be in the solutions business. If the Commission believes that there is a way to make the spending cap more effective, it should offer to make recommendations about revision of the constitutional cap

Mr. Hunter stated his concerns, raised by the text of the constitutional amendment. What about the term "authorized" in the first sentence? Can the Commission even consider

whether to use “allowable” spending from the previous year as a base? He suggests that the Commission consider whether to ask the Attorney General to weigh in on the flexibility we have to interpret the terms of the amendment.

Ms. Shemitz said that in her view it was incumbent to look at the language which established the Commission, which is pretty clear, prescriptive and short. The Commission is not charged to reconsider the language of the amendment, or to use the definitions of the 1991 statute.

Mr. Hunter thought there should be a complete report of the Commission’s deliberations, including whether there are barriers to coming to a better definition of some of the terms it has been asked to define.

Chairperson Cibes again reiterated his request that recommended changes to the list be submitted by the time of the next meeting.

OPM’s Exhibit About Alternative Definitions of Increase in Personal Income

The Commission then turned its attention to OPM’s exhibit concerning various definitions of personal income, previously circulated to members.

Mr. Fiore called attention not only to the spreadsheet, but to the notes, which clarify some of the data. Specifically, he noted that the data were presented on a calendar year basis, and were updated with the most recent information.

Mr. Fiore clarified, in response to Mr. Hunter, that all columns were reported on the same basis (of calendar year).

Sen. McLachlan asked if the use of calendar year, versus fiscal year, could skew the results, and Mr. Fiore said that it could. OPM had used the calendar year as the basis of data for this table, because capital gains information was only available for calendar years. Data for other factors, however, were available for fiscal years.

Sen. McLachlan stated that, in deciding on a recommended definition, the Commission should specify whether calendar years or fiscal years should be used, so as not to give flexibility to the legislature to decide each year which was most desirable.

Mr. Shuldman asked why the legislature, in 2015, required the use of the fiscal year as a base for this biennium? Mr. Fiore responded that it did so because it gave additional room under the cap, in this instance because the impact of the recession five years earlier had reduced the average.

Mr. Hunter formally asked that the menu of items be expanded to include a recommendation with respect to the use of calendar versus fiscal year. Chairperson Cibes called attention to the draft menu in which this issue was already included.

Mr. Van Winkle said that as an economist, he suggested that the Commission recommend the use of BEA personal income, since there was not much difference in the measures, and the Commission could better spend its time reviewing more controversial matters such as general budget expenditures.

Ms. Bates agreed, stating that she was surprised how little difference there was in these measures. Also, BEA personal income data was easier to get.

Chairperson Cibes said that he detected a consensus emerging, so he suggested that the matter be placed on the agenda for the next meeting, for a vote.

Mr. Hunter asked that, before the Commission jumps to any quick conclusion, OPM produce a chart showing how data in this spreadsheet aligned with the growth in state revenue over the period of time included in this exhibit. There should be a measure of how the Commission thinks the revenue will grow.

Chairperson Cibes noted that state revenue depends on legislative action to raise revenue, not by underlying growth in personal income.

Mr. Hunter asked that OPM, in producing the chart he requested, highlight those years in which there were major changes in tax policy.

Ms. Shemitz suggested that the Commission hear from Ms. McNichol what she recommends: in her advance presentation, she recommends that capital gains be included in the measure of growth of personal income. There is a difference in the growth rate of AGI, which does include capital gains. Let's not jump to conclusions too quickly.

Ms. Bates called attention to the fact that when AGI is measured over 5 year and 10 year period, it actually produces a lower permitted cap. The goal should be to use a measure which is less volatile, easier to get, and easier to understand. That's why she would advocate for using the BEA personal income measure.

Mr. Shuldman observed that when one looks at the 5 year average growth rate including capital gains, the average declines. He thinks the Commission is close to decision, so it should get past this to more meaty topics.

Mr. Hunter observes that the time duration used does make a difference.

Mr. Fiore agreed that the numbers do show a remarkable convergence. Given volatility problems, given the collecting problem, it makes sense not to use complicating factors.

Mr. Van Winkle asked for a similar table/chart which shows how inflation measures affect the cap. Mr. Fiore said that OPM was working on such a chart, which would look at various measures of inflation.

Mr. Van Winkle asked if that table would use December to December numbers, or some other time frame. Mr. Fiore confirmed that the analysts would clearly identify what time frame would be used.

This portion of the discussion concluded. Chairperson Cibes observed that the OPM chart included most, if not all, of the information that would be necessary to reach a conclusion. So he thought that a vote on this topic of personal income could be held at the August 15 meeting.

Presentation by Elizabeth McNichol, Center on Budget and Policy Priorities

The attention of the Commission then turned to the presentation by Ms. McNichol. The chairperson noted that it might well address a number of items being discussed today. [Please refer to Ms. McNichol's written statement dated August 1, 2016, previously distributed, and to her PowerPoint which occasioned the questions and answers that are summarized below. The content of Ms. McNichol's presentation is not repeated here.]

Sen. McLachlan inquired why it appeared to Ms. McNichol that it was inconclusive that spending caps in states that have one did in fact limit the size of government or reduce spending growth. Was it because of continued tinkering with the cap? Ms. McNichol responded that it appeared that some of the inclination to address needs that led to putting a cap into place in the first place continues to have an impact on legislative decisions – that is, to find a way to address perceived needs. Secondly, it's hard to design a formula now for future circumstances; so that when a state is confronted with the need to increase support for education, for example, it finds a way to increase spending to do so.

Mr. Shuldman asked why Ms. McNichol said that there was little evidence that TELs improve state economies: it appears from her first slide that many states which have TELs are growing and prospering. Is it because of TELs?

Academic studies show that there are a lot of things going on, Ms. McNichol responded. There's climate, there's different mixes of industries, etc., and when academic studies control for these and other factors, it appears that the effect of TELs is not significant: that there are other things going on.

Mr. Shuldman said that his impression is that examples contradict this. He observed that Ms. McNichol had asserted that it's hard to design a spending cap that takes the place of careful deliberation by the legislature and the governor. But from his perspective, while maybe there's deliberation in these other states that are prosperous, there doesn't appear to be deliberation in Connecticut. There are few checks and balances here, so isn't it better to put spending caps in place to force that deliberation?

Ms. McNichol disagreed. Connecticut has a pretty open budget process. There's a lot of information available, and there are opportunities for the public to weigh in. Besides, spending caps can have impact outside of the appropriations process which reduces the

ability to talk about what's going on. For example, if programs are funded with intercepts or by tax credits or exemptions, there is little ongoing scrutiny of these programs.

Rep. Smith asked if the top 10 states for prosperity have spending caps or not? Might not a spending cap be one of the important factors that lead to prosperity?

Ms. McNichol replied that she would have to go back and look at her sources. She pointed out that she has cited many of those in her written statement.

Chairperson Cibes observed that there are many citations in her written statement dated August 1, and that other CBPP studies support M. McNichol's conclusions. In addition, he called attention to the NCSL paper, which provides a balanced analysis of the benefits and disadvantages of spending caps.

Ms. Shemitz asked about Ms. McNichol's comment that spending limits can undermine representative democracy by requiring a supermajority to adopt a budget or to address a particular need that comes up. Suppose that in a move of enlightened self interest, the state decided it was going to fund universal preschool, because of the tremendous positive benefits going forward, and it made the decision by majority vote. If the spending cap is applied to all state appropriations, rather than just the ordinary running of state government, would it then need to go back and make that decision by a supermajority? Ms. McNichol confirmed that was her understanding.

Chairperson Cibes further inquired, if there is concern about the inequity of property taxes in Connecticut, and the legislature decided to devote additional resources to fund a closing of the gap between identified need and the capacity to meet that need, would a super-majority be required to provide those funds if they exceeded the cap? Yes, Ms. McNichol, replied, if these were appropriated funds. Chairperson Cibes observed that in the past the state has in part done this by the use of tax credits – although the particular method has not been targeted to those towns with the biggest gap between need and capacity.

Mr. Shuldman asked what if towns mismanaged their budgets – didn't control their costs, didn't fund their pension plans – and woke up one day and needed help? Suppose a bunch of legislators got together to reward bad behavior. Wouldn't the supermajority requirement be helpful in protecting the state and its residents against 50% plus one making a decision like that?

Ms. McNichol suggested that democracy has been based on a simple majority. Moreover, a spending limit is not the only thing legislators look at. They'll look at revenues. There are checks and balances.

Mr. Shuldman said that Connecticut may be a special case, a bifurcated state. Fairfield County has the wealth, but not the votes to make sure that their interests are protected. So people in those areas say they are being attacked: they don't believe they have representation, so they are moving out.

Chairperson Cibes said that he thought Mr. Shuldman had made his point, even though he wasn't sure that it was totally relevant at this point. He went on to say that the Constitution of Connecticut, and many other state constitutions in the 18 teens and 18 twenties was revamped to make sure that property and wealth were not the only bases for representation. And as the Supreme Court has said on many occasions, legislators represent people, not trees or acres – or for that matter, wealth. That point aside, the premise that some towns are bad actors and therefore demand more money, is erroneous: NEPPC last year did an analysis which measured need not by actions of public officials, but by objective factors of need. The NEPPC found that there is often a gap between real needs and the capacity of towns to fund those needs. That study was also presented to the State Tax Panel last year, which noted that property taxes might need to be addressed, but declined to do so because it was only focused on the revenue side of the budget.

Sen. McLachlan asked about the ratchet effect identified by Ms. McNichol. In Connecticut, coming out of the recession, there was significant additional spending. Isn't Connecticut different, in that the state has failed to recover? Isn't the ratchet effect unrealistic?

Ms. McNichol replied that part of problem was that Connecticut was using a 5 year average lookback, which built in the impact of recession into the cap. In addition, personal income in Connecticut has been declining, which will be built into the cap in the future.

Chairperson Cibes observed that the ratchet effect may have a considerable impact going forward from FY 17, because of the major reduction in appropriations – some \$600 million – below the allowable level. So if the spending cap for FY 18 is based on the actual appropriations for FY 17, there will be a severe reduction in potential spending in that year. Some might say that would be a good thing. But if you also look at the impact of FY 17's budget on services to people, there may be some buyers' remorse: Metro North fare increases, tuition and fee increases in higher education, services to developmentally disabled being reduced. So the people of the state may be looking to see if remedies can be found in appropriations going forward. Those, of course, are questions for the legislature to determine, but it may be well to remember that an inflexible spending cap may prevent the legislature from responding to those needs.

Mr. Hunter commented that both the constitutional amendment and the statutory language provide for flexibility, because of the possibility of Governor's declaration of emergency or extraordinary circumstances. So there is flexibility if the case can be made. There is a need to fulfill the bargain that was struck 24 years ago.

Mr. Shuldman noted that there is a difference between a 10 year lookback and a 5 year lookback. A 10 year average would allow spending to grow more, based on spreadsheets. Wouldn't that make it worse for the state, if there was not enough revenue to fund spending?

It's matter of different perspectives, Ms. McNichol replied. From her perspective, it would give the state more flexibility to address poverty, or to invest to bump up the economy to grow out of the recession faster, and hence would be a positive. That would have to be paired with the new Rainy Day Fund provision, so that money would be set aside when times are good.

Mr. Shuldman said that using the 10 year lookback would overstate the amount of money coming in, which would create a deficit.

Ms. McNichol pointed out that using personal income in the formula is really measuring the ability of the state to pay, the state's capacity to raise revenue. You don't need a lookback formula to tell you what money is actually there. The spending cap is not telling you how much money is coming in, it's telling you if you wanted to grow the spending in a controlled fashion, as a fairly constant share of the economy, here's how much you can spend.

Mr. Shuldman asked if you set spending higher, to match a projection of income, and the income actually falls, where is the money for the budget going to come from, unless you're advocating for tax increases.

Ms. McNichol said that she was advocating for setting money aside in good times, so that it would be available to spend when it's needed.

Chairperson Cibes asked what was the "implicit price deflator" in Ms. McNichol's graph of alternative inflation measures. Ms. McNichol replied that it was the share of the GDP price deflator attributed to state and local government purchases. She noted that in recent years, it was lower than the GDP price deflator.

Mr. Van Winkle clarified, in response to Chairperson Cibes' question, that the implicit price deflator for state and local government purchases was a measure of the inflation for what state and local government actually purchased – much of it compensation.

Ms. Bates said that she was concerned about using "allowable" spending as the base for subsequent spending. It would actually ratchet UP spending, and decrease the state's ability to put money aside for future spending.

Sen. Cassano observed that Ms. McNichol did not address how court decisions are treated by spending caps. He was specifically concerned about the CCJEF case; if spending to implement a court order in the CCJEF case is only exempt from the cap in the first year, no matter how good the language of a spending cap, we would be in serious trouble if we lose the CCJEF case. He noted Ms. McNichol's comment on the first page of her August 1 statement, that "the experience of the 28 other states with spending caps . . . suggest that it is virtually impossible to design a spending cap that will ever take the place of careful deliberation by legislators and governors." There are 28 different

spending caps. It's impossible to come up with a spending cap that bridges all the differences we have.

Mr. Van Winkle asked Ms. McNichol, "so what is the best model?" Her response was that she thinks the best model is something other than a spending cap. If pressed however, she would say that one that tied the cap to a share of personal income would probably work better than others.

That would mean that one would presumably have to project personal income into the future, Chairperson Cibes asked. Ms. McNichol said yes, but you already do that in conjunction with putting the budget together with the revenue estimates.

Mr. Shuldman observed that the process didn't work last year or this year. In the end, unless the state increases taxes, it can't spend more than it takes in.

Ms. McNichol observed that that's why every state but Vermont has a balanced budget requirement. Mr. Shuldman commented that a balanced budget limit comes late in the process. Shouldn't a spending cap be used as a guidepost, to control what the state spends?

Ms. McNichol responded that, to her, a spending cap is a blunt instrument. If there are problem areas, what is needed is to look forward: project what is needed, project what revenue will come in, project what is going to be needed one-time, in the budget that we're constructing now, rather than rely on a formula based on the past.

Chairperson Cibes commented that what Ms. McNichol is suggesting in part is what 169 towns in the state do every year; they look at what they need to spend, and their revenue capacity, and if they decide that what they need to spend is more than their revenue, they generally increase taxes. That certainly seems to be a good model for the state to follow. Those taxes may not need to increase very much; it's a responsible way of complying with the balanced budget requirement, which is also part of the constitutional amendment that includes the spending cap.

Mr. Shuldman asked if the chairperson is saying that the governor and the legislature look at what they need to spend for the following year, and then just raise taxes across the board on everybody. There's no efficiencies, there's no savings, here's what we want to spend, so we're just going to raise taxes on everybody.

Chairperson Cibes said that he couldn't imagine that any responsible public servant, including the towns, and state legislators, and the governor, would automatically say that they are not going to look for efficiencies or savings, we're just going to raise, without any consideration at all, taxes. He also believed that responsible public officials look for efficiencies, look for savings, and when they have found as many as they possibly can, they then look for a package of revenue which will fund the budget.

Since there were no additional questions, Chairperson Cibes thanked Ms. McNichol for her presentation.

Adjournment

Seeing no further discussion, Chairperson Cibes adjourned the meeting at 3:37 PM.

Respectfully submitted,