

Testimony before the State Spending Cap Commission

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I am Jane McNichol, Legislative Policy Advocate for the Legal Services network in Connecticut. Legal Services programs provide legal assistance to very low-income residents of the state. I work primarily on the issues of public benefits, including health care.

I appreciate the opportunity to present our concerns about the spending cap definitions to this Commission as it completes its important work on this issue. We are concerned about this issue because state investments in programs to meet the basic needs of Connecticut residents, including health care, housing, education, and economic support programs, are vitally important to low-income residents of the state.

Over the past 25 years, we have all had an opportunity to work with the spending cap and to see the impact of the existing statutory definitions of “increase in personal income”, “increase in inflation” and “general budget expenditures” on state budget policy.

As an advocate for adequate state investments in safety net programs, I have been very concerned about the inability of the state to use available state resources as the state emerges from recessions. This is known as the “ratcheting down” effect of the spending cap and the definition of “increase in personal income” that has been in use.

During recessions, when actual state revenue is low, it is understandably difficult for the state to maintain needed investments.* But the spending cap has consistently made it unnecessarily difficult for the state to recover from recessions when revenues rebound. Because the rate of inflation in personal income is based on a five-year retrospective average, the impact of low growth rates during a recession extends far into the better economic times after a recession. The result is that when we have revenue, the cap puts up unnecessary barriers to using revenues to recover from a recession.

There are a number of ways to craft the spending cap definitions to avoid this problem. I would particularly suggest:

- using a shorter number of years to calculate the rate of inflation in personal income.

A shorter look-back period would more accurately reflect the actual economic condition of the state and the state residents and therefore, the ability of the state to make needed

* One solution to this problem is a robust Rainy Day Fund. Connecticut has taken steps in recent years to ensure that increased revenues during good times are used in part to bolster the Rainy Day Fund.

investments.

- **including realized capital gains in the definition of personal income.** This change, again, would provide a more realistic estimate of the ability of the state and its residents to support needed investments. Under the standard currently used by the state, capital gains are not included in the definition of personal income, although these gains are taxed under the state's personal income tax.

There are other ways to define the key terms in the constitutional provisions relating to the spending cap to create a system that provides limits on spending while using available resources for needed investments when the economy of the state and the country are producing those resources. For a more detailed discussion of the proposals above and other proposals to improve the operation of the spending cap, I refer you to the testimony from the Center on Budget and Policy Priorities delivered to the Commission on May 9 of this year.

Finally, as many of you know, Connecticut has often exceeded the spending cap in years when the state has adequate revenue but permissible growth in spending under the cap would result in low levels of investment in needed services. This persistent use of extraordinary measures to allow needed spending tends to lead to a lack of transparency in the state budget deliberations.

Adopting reasonable definitions for key terms in the state spending cap provision will improve the ability of the Governor and the state legislature to meet the needs of the state and will also improve the ability of citizens to participate in the development of the state budget in a meaningful way.

Thank you for your work on this important issue.