

# Connecticut's Fiscal Guardrails: A Data-Driven Analysis

## Connecticut's Spending Cap: A Closer Look

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DECEMBER 2024

A joint research effort between [The Tobin Center for Economic Policy](#)  
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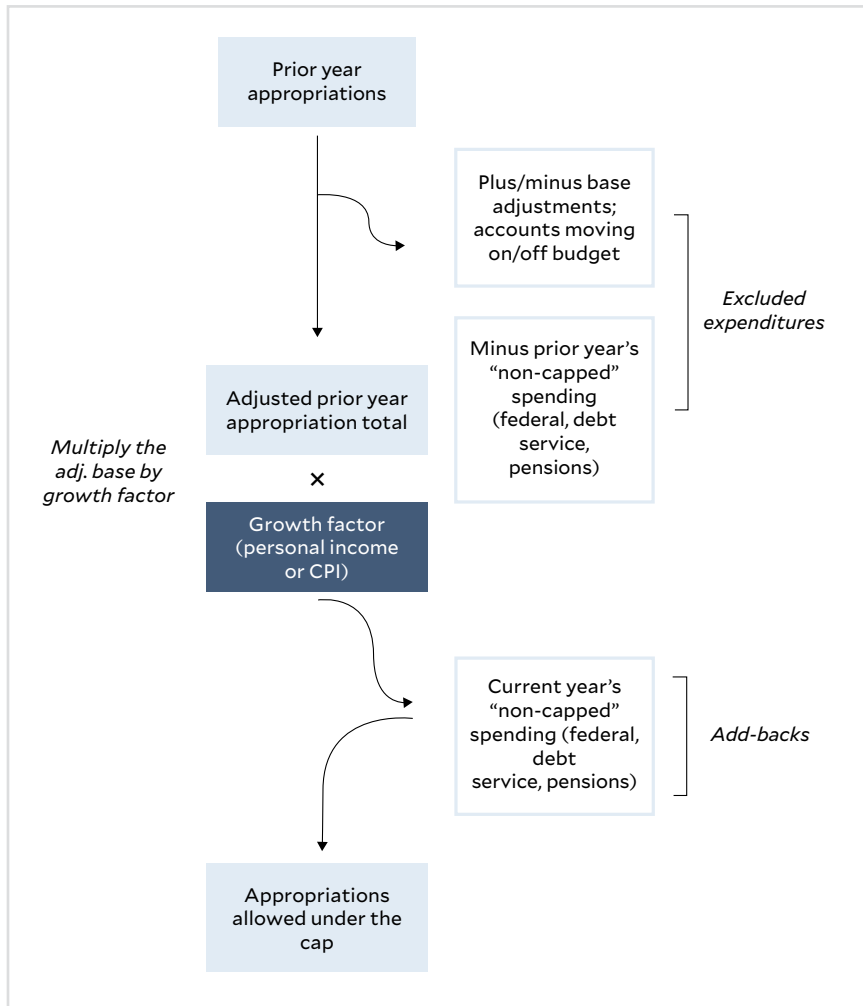
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The spending cap ties growth in state appropriations to growth in the state's economy, using the prior year's actual spending as the base and applying a growth rate to determine allowable appropriations for the current year.

Figure V.A: Connecticut's spending cap calculation



To calculate the maximum allowable growth in spending from one year to the next, the base is adjusted by the compound annual growth in personal income over the prior five years (Bureau of Economic Analysis) or the annual increase in the consumer price index (CPI) measured in December (Bureau of Labor Statistics), whichever is greater.<sup>1</sup> After adjusting for growth, the items that had previously been excluded from the calculation are added back, producing the limit for appropriations for the current year.

<sup>1</sup> "Sec. 2-33a. Limitation on expenditures authorized by General Assembly. Base year adjustment for certain expenditures," Chapter 16, General Assembly, General Statutes of Connecticut, [https://www.cga.ct.gov/current/pub/chap\\_016.htm#sec\\_2-33a](https://www.cga.ct.gov/current/pub/chap_016.htm#sec_2-33a).

According to the Connecticut state treasurer's office, the growth in personal income test has been applied twenty-seven times while the CPI has been applied as the deflator only five times over the period 1993 to 2024.<sup>2</sup>

### MODIFYING THE SPENDING CAP

Connecticut's constitution dictates key elements of the spending cap. The constitution prohibits increases in appropriations above the prior year's general budget expenditures by more than the increase in personal income or the increase in inflation, whichever is greater. The constitution leaves it to the General Assembly to define the terms "increase in personal income," "increase in inflation," and "general budget expenditures." Those definitions may be amended by a three-fifths majority of the members of each house of the legislature.<sup>3</sup>

Spending may exceed the cap when 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 in support.<sup>4</sup> If the limit is raised, the amount budgeted in that year becomes the new base going forward. The Governor has issued a declaration to exceed the cap seven times since it was imposed in 1991, most recently during the 2007–2009 budget cycle.<sup>5</sup>

### Examining the Current Base

Precisely what spending is included within the category of "general budget expenditures" has changed over time, and much of the discussion about the spending cap debate has focused on that definition. For example, aid to distressed municipalities was initially excluded from the cap. Today, it is included.

Beyond the definition of "general budget expenditures," it is worth looking at a more fundamental feature of the spending cap design: the fact that the spending cap base begins with the prior year's appropriations, rather than what *could have been* appropriated under the prior year's spending cap.

There are significant consequences to that choice. If a particular year's appropriations fall below the allowed cap level, the following year's cap is ratcheted down to the lower appropriations mark. That lower spending cap threshold is then carried forward in subsequent years, resulting in a long-term downward shift.

This downward shift is, in fact, what happened during the period between FY17 and FY19. Because spending was reduced in response to revenue shortfalls, the General Assembly did not

<sup>2</sup> "Connecticut's Fiscal Guardrails Treasurer's Office Inaugural Investor Conference," Connecticut State Treasurer's Office, 2023, <https://portal.ct.gov/-/media/opm/bud-other-projects/reports/other-reports/inaugural-ct-investor-conference--opm--fiscal-guardrails--may-23-2023.pdf>, 5.

<sup>3</sup> "Article III, Section 18(b)," Constitution of the State of Connecticut, 2023, [https://www.cga.ct.gov/asp/Content/constitutions/Constitution\\_State\\_CT.pdf](https://www.cga.ct.gov/asp/Content/constitutions/Constitution_State_CT.pdf), 115.

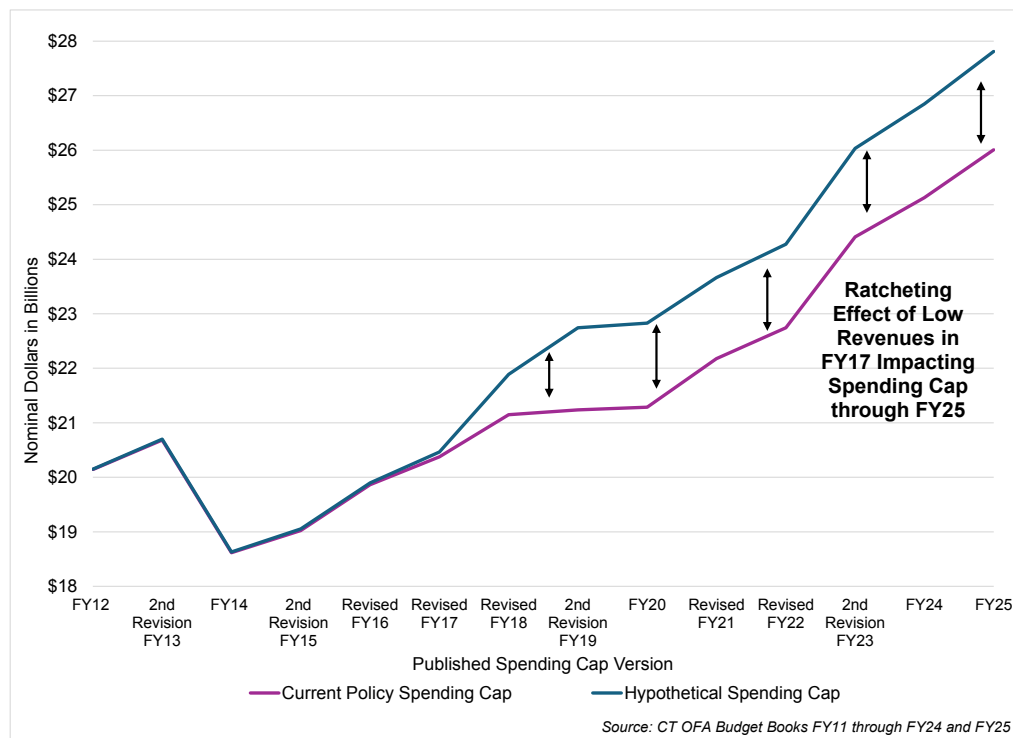
<sup>4</sup> "Sec. 2-33a."

<sup>5</sup> "Connecticut State Budget 2007–2009," Office of Fiscal Analysis. [https://www.cga.ct.gov/ofa/Documents/year/BB/2008BB-20071200\\_FY%2008%20-%20FY%2009%20Connecticut%20Budget.pdf](https://www.cga.ct.gov/ofa/Documents/year/BB/2008BB-20071200_FY%2008%20-%20FY%2009%20Connecticut%20Budget.pdf).

appropriate funds to the level that the spending cap would have allowed.<sup>6</sup> That reduction in spending effectively reset the base, so that the amount of spending allowable under the cap was approximately \$1.8 billion lower in FY25 than it would have been if the General Assembly had appropriated funds up to the allowable cap in earlier years (see Figure V.B).

In other words, because of weak revenues in 2017 and 2018, the spending cap adjusted downward and, as designed, could not adjust to catch up with economic growth in the years that followed (see Figure V.B).

Figure V.B: Additional spending cap space using prior year spending cap as alternative base, FY12–FY25



As policymakers examine the cumulative effects of the spending cap, this feature of the current spending cap deserves examination. Conceptually, the spending cap is meant to rise in a way that is consistent with economic growth in Connecticut over time. Setting the spending cap with reference to the prior year's spending cap, rather than prior year appropriations, would avoid the potential decoupling of spending and growth.

6 Revenues for FY17 were projected at \$20.6 billion with a spending cap of \$20.4 billion, but actual revenues ended up at \$19.8 billion. The General Assembly ultimately appropriated \$19.7 billion for FY17. See, "Connecticut State Budget FY 16 & FY 17," Office of Fiscal Analysis, [https://www.cga.ct.gov/ofa/Documents/year/BB/2016BB-20151007\\_FY%2016%20and%20FY%2017%20Connecticut%20Budget.pdf](https://www.cga.ct.gov/ofa/Documents/year/BB/2016BB-20151007_FY%2016%20and%20FY%2017%20Connecticut%20Budget.pdf), 2; "Connecticut State Budget FY 17 Revisions," Office of Fiscal Analysis, [https://www.cga.ct.gov/ofa/Documents/year/BB/2017BB-20161101\\_FY%2017%20Connecticut%20Budget%20Revisions.pdf](https://www.cga.ct.gov/ofa/Documents/year/BB/2017BB-20161101_FY%2017%20Connecticut%20Budget%20Revisions.pdf), 6; "Connecticut State Budget FY 18 & FY 19 Budget," Office of Fiscal Analysis, [https://www.cga.ct.gov/ofa/Documents/year/BB/2018BB-20180214\\_FY%2018%20and%20FY%2019%20Connecticut%20Budget.pdf](https://www.cga.ct.gov/ofa/Documents/year/BB/2018BB-20180214_FY%2018%20and%20FY%2019%20Connecticut%20Budget.pdf), 11.

As the constitutional spending cap language explicitly refers to the prior year's authorized spending as the base, a constitutional amendment would be required to make such a change to the spending cap design. However, the governor and the General Assembly could, pursuant to a declaration of extraordinary circumstances and a three-fifths vote, make a one-time adjustment to the base to account for the downward shift in spending that resulted from the 2017 revenue decline. Because adjustments to the spending cap base carry forward into future years, such an adjustment would allow policymakers to counteract the effect of the one-way ratchet.

#### CURRENT MECHANISMS TO AVOID THE SPENDING CAP

In part due to the procedural hurdles of amending the spending cap, the General Assembly has employed a number of methods for avoiding the constraints of the spending cap.

The spending cap is really an "appropriations cap," limiting the amount that is appropriated in any given year. As a result, if budgeted funds are left unspent in one year, they can be "carried forward" and spent in the next year, above the cap. The use of carryforwards has become routine practice and was done most recently in the 2024 legislative session.

In addition, the General Assembly can establish "revenue intercepts," diverting revenue to a dedicated purpose outside of the appropriations process. Finally, policymakers may rely more heavily on tax expenditures or on bonding than they otherwise would in the absence of the spending cap.

While such methods of avoiding the constraints of the cap are legal, they risk decreasing budget transparency and increasing inefficiency. To the extent that policymakers find themselves routinely structuring around the existing cap, more direct and transparent changes to the spending cap's design may be warranted.