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State Fiscal Controls

By: Rute Pinho, Chief Legislative Analyst
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Issue

Provide a brief summary of the state's fiscal "caps" and bond lock laws. This report updates OLR Report 2022-R-0213.

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 the "bond lock" law. Specifically, this law requires the state treasurer to include a pledge to bondholders in general obligation (GO) and credit revenue bonds issued in FYs 24 and 25 that the state will comply with these fiscal controls except under limited circumstances. This pledge applies through FY 33 unless the General Assembly adopts a resolution not to continue it beyond FY 28. Table 1 briefly describes each of these laws.

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

Fiscal Control	Description
Spending Cap Conn. Const., art. III, § 18(b) and CGS § 2-33a	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 "General budget expenditures" excludes certain specified expenditures (see OLR Report 2022-R-0214 for a more detailed explanation)
"Revenue" Cap CGS § 2-33c, as amended by PA 23-1, § 16	Prohibits the legislature from authorizing General Fund and Special Transportation Fund appropriations in any fiscal year that exceed 98.75% 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; the General Assembly may also approve the appropriation, by majority vote, for an adjusted appropriation and revenue plan The percentage decreased in steps from 99.5% in FY 20 to 98.75% in FY 23 and, under prior law, would have continued decreasing in steps until reaching 98% in FY 26; PA 23-1, § 16, instead freezes the percentage at 98.75%
Volatility Cap CGS § 4-30a(a)	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 24, the adjusted threshold is $3.78 billion The 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
Debt Limit CGS § 3-21(a), as amended by PA 23-1, § 18	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, excluding certain kinds of debt (e.g., any debt authorized and issued to fund any state budget deficits for any fiscal year)

Table 1 (continued)

Fiscal Control	Description
Bond Allocation Cap CGS § 3-20(d)(2), as amended by PA 23-1, § 17	Caps at $2.4 billion (annually adjusted for inflation beginning in FY 25) the amount of general obligation (GO) or credit revenue bonds the Bond Commission may allocate in each calendar year
Bond Issuance Cap CGS § 3-21(f)(1), as amended by PA 23-1, § 18	Caps at $2.4 billion (annually adjusted for inflation beginning in FY 25) 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; (3) certain revenue anticipation bonds; and (4) any debt issued to meet cash flow needs, cover emergency needs during natural disasters, or fund state budget deficits for any fiscal year
Bond Allotment Cap CGS § 3-21(f)(3), as amended by PA 23-1, § 18	Caps at $2.4 billion (annually adjusted for inflation beginning in FY 25) 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
Bond Lock CGS § 3-20(bb), as amended by PA 23-1, § 14	For each fiscal year during which state GO or credit revenue bonds issued during FYs 24 and 25 are outstanding, the state must comply with the (1) BRF law, including the volatility cap; (2) revenue cap; (3) state spending cap; (4) caps on GO and credit revenue bond authorizations (i.e., debt limit), allocations, issuances, and allotments; and (5) specified procedural requirements under the GO bond act For bonds issued during FYs 24 and 25, the treasurer must include a pledge to bondholders that the state will not enact any laws taking effect in FYs 24-28 and FYs 29-33, except as described below, that change the state's obligation to comply with the laws listed above 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; for the second five-year period described above (i.e., FYs 29-33), the pledge applies to laws taking effect during this timeframe unless the General Assembly adopts by June 30, 2028, a resolution not to continue the pledge beyond that date; the pledge does not apply to refunding bonds issued to pay the original bonds A similar pledge applied to bonds issued from May 15, 2018, to June 30, 2020

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