Connecticut's Spending Cap: It's History and An Alternative Spending Growth Rule

By:

Stan McMillen, Ph.D., Manager, Research Projects
Mark Sheridan, Research Assistant
Bryant Goulding, Research Assistant
Patrick Flaherty, Research Assistant
Sharan Sharma, Research Assistant
Bingbo Hu, Research Assistant

Research Assistance by:
Marina-Selini Katsaiti, Research Assistant

September 2005

CONNECTICUT CENTER FOR ECONOMIC ANALYSIS©
Fred V. Carstensen, Director
William F. Lott, Director of Research
University of Connecticut
341 Mansfield Road
Unit 1240
Storrs, CT 06269
Voice: 860-486-0485 Fax: 860-486-0204
http://ccea.uconn.edu

Executive Summary

The Comptroller of the State of Connecticut commissioned the Center for Economic Analysis (CCEA) at the University of Connecticut to assess the state's spending cap with respect to its adequacy for state budget (that is, general fund) growth in the face of escalating costs that are materially different from those to which the growth rule applies. The spending cap is a rule that limits the state's budget growth to the greater of a five-year moving average growth rate of Connecticut's personal income (PI) or the annual rate of inflation measured by the growth of the Consumer Price Index (CPI). The proposition addressed in this study is that the costs state governments face are materially and significantly different from the costs (prices) consumers face. This situation is primarily due to differences in the composition of the 'baskets' of goods and services state governments and consumers purchase. To the extent the growth rates of the 'prices' of these baskets differ, the state may suffer under its rule if the CPI/PI growth rate is insufficient for the state to meet its obligations.

This study proposes a new growth rule (spending cap) that addresses the growing costs of health care, education, public safety and public administration. The study describes the spending rules for the states which have them and places Connecticut in context (Appendix I). It traces the history of the spending cap from its inception to the present (Appendix II).

Major Findings

Comparing Connecticut with its New England neighbors, the study shows the range of variation in state and combined state and local spending as shares of GSP or PI suggests that the restriction on spending growth has had to date no discernible *systematic* impact on the pattern of Connecticut's expenditures, measured at either the state or at the combined state and local level.

New England states' public sector expenditures as shares of PI or GSP declined during the boom years of the 1990s, years that saw significant budget surpluses, and then grew again from about 1998, with state expenditure growing faster than contemporaneous growth in personal income or regional output, even as the growth rate itself declined. Second, the relevant standard for a spending cap is arguably combined state and local

expenditure, not state expenditure alone—especially as the state has ramped up its transfers to local government. Local expenditures are typically nearly a quarter of total public sector expenditure; a spending cap that ignores the interdependence between state and local expenditure may result in significant increases in the inequality of local tax burdens, inequalities that may then generate negative feedbacks on a variety of areas, including economic competitiveness.

Third, insofar as the level of public services has a positive impact on economic performance and competitiveness (e.g., higher quality education, support for research and development, or superior access to health care, labor markets and goods and services markets),[1] Connecticut's spending cap may undermine its long-term capacity to maintain its current position as one of the two or three wealthiest states in the nation.[2] Fourth, the comparative analysis suggests that Connecticut might adopt a growth formula that permits it to retain its comparative position relative to its neighbors and enable it to respond to recognized needs for public expenditure or the need to sustain or enhance its competitive position through strategic investments. Such a formula might exclude all federal funds and avoid annual rebasing, which now produces a downward "ratcheting" effect. Given that the constitutional amendment permits the legislature to adopt interpretive language, it would be feasible to craft an appropriate formulaic framework.

CCEA develops a new price index that captures the dynamic costs of the basket of goods that state and local governments actually purchase and the increasing costs and utilization of Medicaid services due to increasing child poverty, the slow recovery from the recession and the aging population.[3] It combines the state and local GDP deflator (SLGD) with the growth rate of Connecticut's expenditure on Medicaid. An examination of the state and local GDP deflator shows it is growing at a slightly faster rate than the CPI. The SLGD is a broad-based, well-documented, and consistently maintained measure of state and local government expenditure. We portray the new index as a five-year moving average of the weighted annual growth rates of Connecticut's Medicaid

---

[1] David Alan Aschauer has written extensively on the relation of public investment and the productivity of private capital; see http://abacus.bates.edu/~daschaue/cv.html.

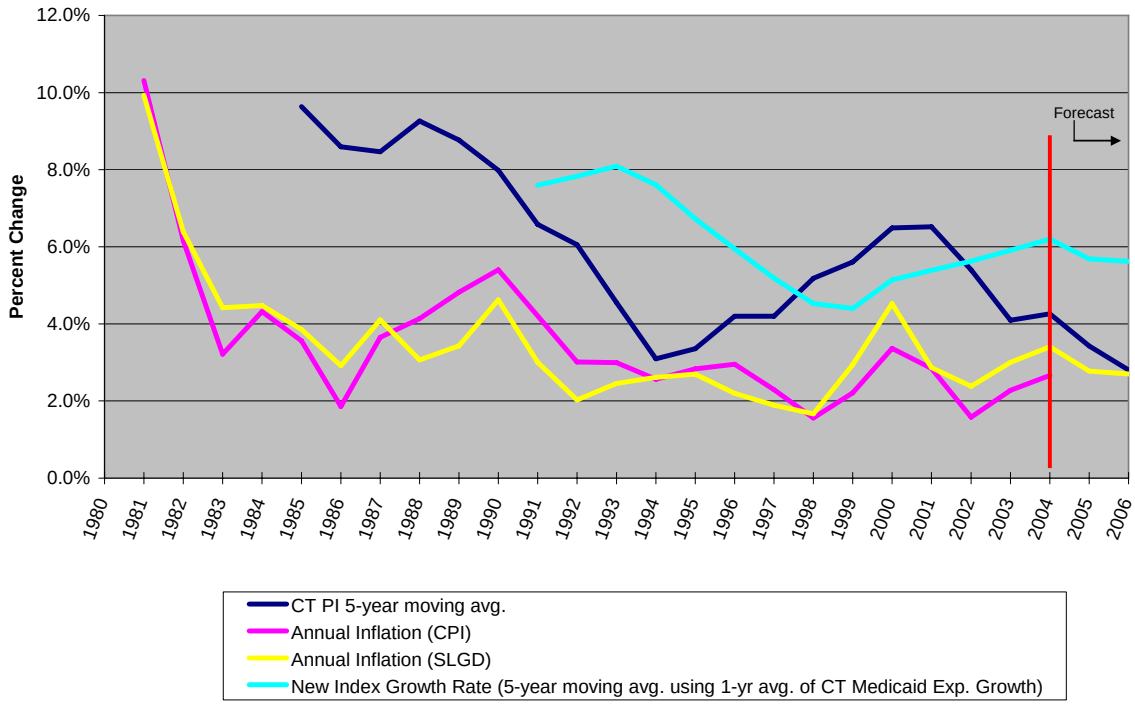
[2] Its rank varies depending on the measure, e.g., per capita income or median household income.

[3] The Kaiser Commission on Medicaid Facts, November 2004, www.kff.org, publication #7220 and Holahan and Ghosh (2005), "Understanding the Recent Growth in Medicaid Spending, 2000-2003," *Health Affairs*, 10.1377/hlthaff.w5.52, Copyright © 2005 by Project HOPE, http://content.healthaffairs.org/cgi/content/abstract/hlthaff.w5.52

expenditure and the SLGD. To this, we add Connecticut's historical trend growth of Medicaid enrollment.

The chart below, reproduced from the body of the study, shows the new index in relation to CPI and SLGD inflation and in relation to the five-year moving average of Connecticut personal income. It is immediately apparent that Connecticut has used the five-year moving average of the growth rate in its personal income as its spending rule, as the former has exceeded CPI inflation in every year since 1992. The new index (in cyan) significantly exceeded personal income in the mid-1990s only to be briefly dominated by it in the last two years of the decade and the first two of the new century. In 2002, the new index exceeds personal income growth by almost two percentage points allowing for growth in spending to meet Medicaid obligations among others. In addition, we forecast through 2006 growth in the SLGD, personal income growth, and the new index. Thus, while personal income growth is falling, the new index permits reasonable and sustained growth in Connecticut expenditure of 5.7% in 2005 and 2006.

Chart 24: CT PI (5-yr moving avg.), CPI & SLGD Growth, New Index Growth



Introduction and Background

The current budget process in Connecticut works within two separate constraints. The first is a "balanced budget requirement," imposed through a state constitutional amendment that limits spending to available revenue. The second is a limitation on the rate of growth in state spending. While this restriction is included in the constitutional amendment, implementing legislation has never been adopted, so the actual restraint comes from legislation passed before the constitutional amendment was put to the voters. The Attorney General has ruled that the pre-existing statute would govern spending until the constitutional amendment is implemented through legislation. Technically, therefore, Connecticut is not operating under its constitutional spending cap, but with a pre-existing statutory one. The current Connecticut state spending rule uses the larger of the rate of inflation or the growth in personal income as the basis on which, fiscal year over fiscal year, most state spending can grow (that is, the general fund).

This study focuses on the role of the spending cap in the formulating the state budget. It places the history of Connecticut's state and local spending patterns in the context of its pattern of growth and measures it relative to its wealth, as measured by either gross regional product or aggregate personal income. It also situates the Connecticut experience in comparison to similar metrics for Connecticut's neighbors. The following section examines a crucial element of the spending cap: what an alternative, appropriate measure of the rate of inflation for the cost of government-provided services might be and suggests a prototype index by which to measure that rate. Finally, the study includes appendices that describe revenue and spending rules used by other states and a chronology of Connecticut's experience with its spending cap.

Connecticut's Spending Cap: Paper Tiger or Serious Constraint?

In 1992, Connecticut adopted what appeared to be a strict constitutional spending cap, with two components. First, it limited general budget expenditures to no more than anticipated revenues (a balanced budget requirement) and, second, it restricted growth in spending over the previous year's authorized spending to the larger of the five-year moving average of the growth in personal income or the rate of inflation (CPI-U). The

adoption of the spending cap, first in its statutory form and then as an amendment to the state's constitution, was part of the political settlement that produced the state's personal income tax. The constitutional amendment has never been fully implemented because the limitation on spending growth required statutory interpretation of the terms "general budget expenditure," "personal income," and "rate of inflation." The legislature has not adopted the necessary interpretative laws; thus, based on an opinion of the Attorney General, the statutory language remains in effect, along with the constitutional balanced budget requirement.

On its face, the spending cap appears to be comprehensive, covering nearly eighty (80) per cent of the authorized budget, excluding as a matter of law only interest payments on the state's bonded debt, programs for distressed municipalities in place in 1992, and the first year of mandated federal programs. In fact, the legislature, working with the Governor, can and has exceeded the cap through the declaration of extraordinary circumstances (see Appendix II). The legislature and the Governor could also redefine the base for the authorized budget, and/or, with enabling legislation, could exclude virtually any element of the budget from the capped "general budget expenditure." Thus, the spending cap is only as restrictive as the legislative process decides it should be; its strictures are not written in stone.

Before looking at the cap itself—given that its objective is to control state spending—we place Connecticut's pattern of public sector expenditure in perspective by looking at its historical rate of growth as a share of Gross State Product and Personal Income (hereafter GSP and PI).[4] After a period of rapid growth in the late 1980s, state expenditure as a share of both PI and GSP declined until the economic reversals late in the decade, reaching nearly 11.2% of personal income and 10% of GSP in 2002 (see Charts 2 – 5 below). But this is misleading. A more appropriate measure—because it reflects the total state and local tax burden actually borne by state residents—is to consider the pattern of state and local expenditure. Municipalities, in many cases, get a significant share of their revenue from the state through intergovernmental transfers. If the state chooses to reduce its transfers to municipalities or reduces some state programs

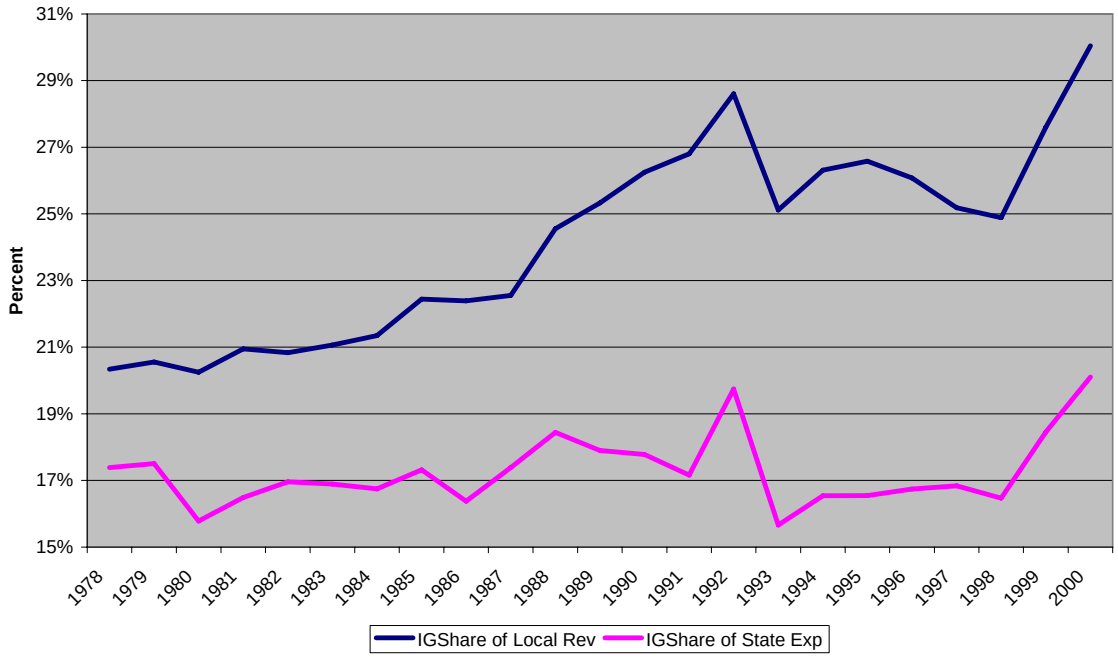
[4] Gross State Product measures the value of goods and services produced in Connecticut in a given year on a value added basis. Personal Income is a broad measure of income received by individuals from all sources.

that municipalities then attempt to sustain, local taxes necessarily go up, offsetting either cuts in state taxes or the foregone increases in state taxes that would have been necessary to sustain these expenditures at the state level.

Chart 1 shows the trends for state intergovernmental transfers as shares of total state expenditure and of local revenue. Chart 1 shows a rather flat share (between 16% and 18%) of state intergovernmental transfers in total state expenditure for 14 years, until 1992, when there is a jump up to nearly 20%. Then there is a sharp reversal, reducing state transfers in 1993 to 15.66%. For municipalities, which had been increasingly reliant on transfers from the state (see the upper line in Chart 1), this meant a dramatic cut in support of just under 4% of their budget—moderately less than the cuts from the state would imply because, in aggregate, municipalities compensated by raising local taxes. From 1994 on, the trend share of intergovernmental transfers in state expenditure rises modestly until, in 1999, it turns sharply upward, reaching an unprecedented 20% in 2001. For municipalities, this meant that in aggregate about 30% of their budgets were now coming from the state. This shift was the result of both the boom of the late 1990s with Connecticut's resulting windfall in personal income tax revenue, and, recognition of the need to reduce the burden of local property taxes in sustaining local services, especially education.

What Chart 1 does not show is how the increased state transfers to municipalities were distributed. We suspect, however, that towns benefited differentially; the aggregate data presented does not show this. Town level detail is not currently available. Nevertheless, there is nothing in the available data to suggest that the spending cap played any role in these shifts; they were apparently driven by revenues that the state had in hand. Furthermore, this data is available up through 2000; the picture surely changed after the 2001 recession.

Chart 1: CT Intergovermental Transfers as Shares of Total State Expenditure and Local Revenue



Charts 2 through 5 show the patterns for state only and combined state and local expenditures as shares of Connecticut PI and GSP. The overall trend in each case is upward (except for the period between 1993 and 1998) indicating that state and local governments took increasingly more of Connecticut residents' personal income on the one hand and grew progressively larger as a portion of Connecticut's economy on the other. The exceptional period between 1993 and 1998 reflects perhaps the economic boom Connecticut then experienced when personal incomes grew faster than governments' expenditures on the one hand, and when Connecticut's value added (that is, GSP) grew faster than governments' expenditures (denoting a relatively smaller public sector) on the other. These trends roughly mimic those of Chart 1.

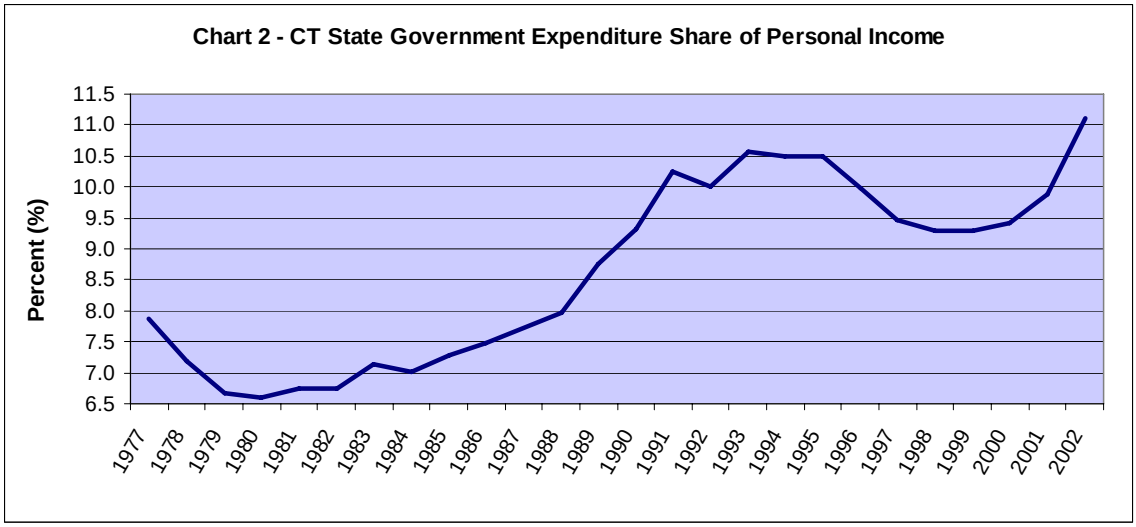


Chart 2 - CT State Government Expenditure Share of Personal Income
Percent (%)
11.5
11.0
10.5
10.0
9.5
9.0
8.5
8.0
7.5
7.0
6.5
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002

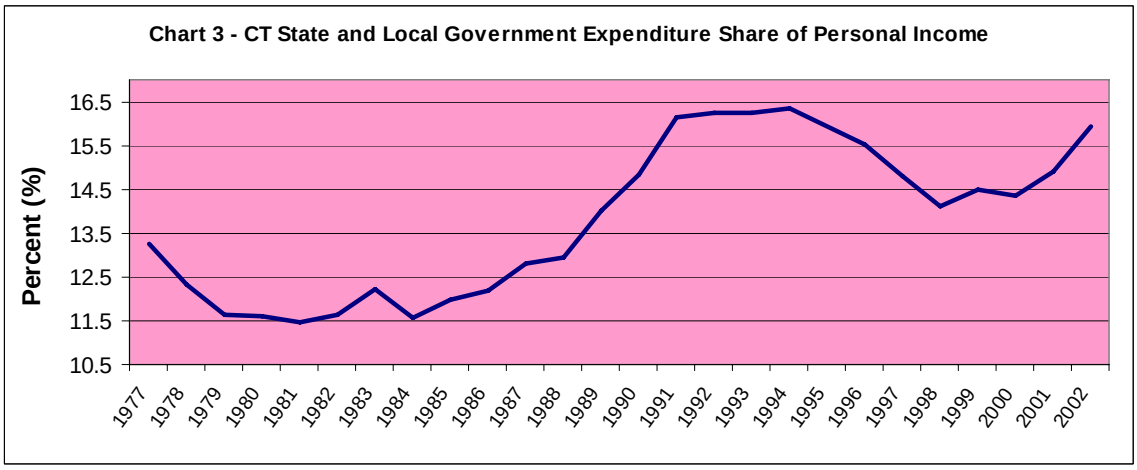
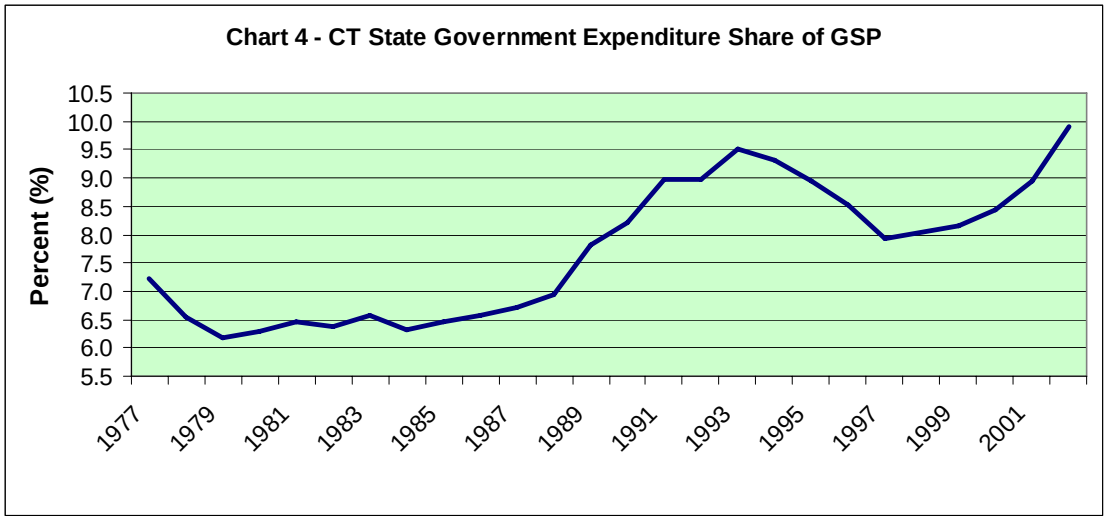


Chart 3 - CT State and Local Government Expenditure Share of Personal Income
Percent (%)
16.5
15.5
14.5
13.5
12.5
11.5
10.5
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002



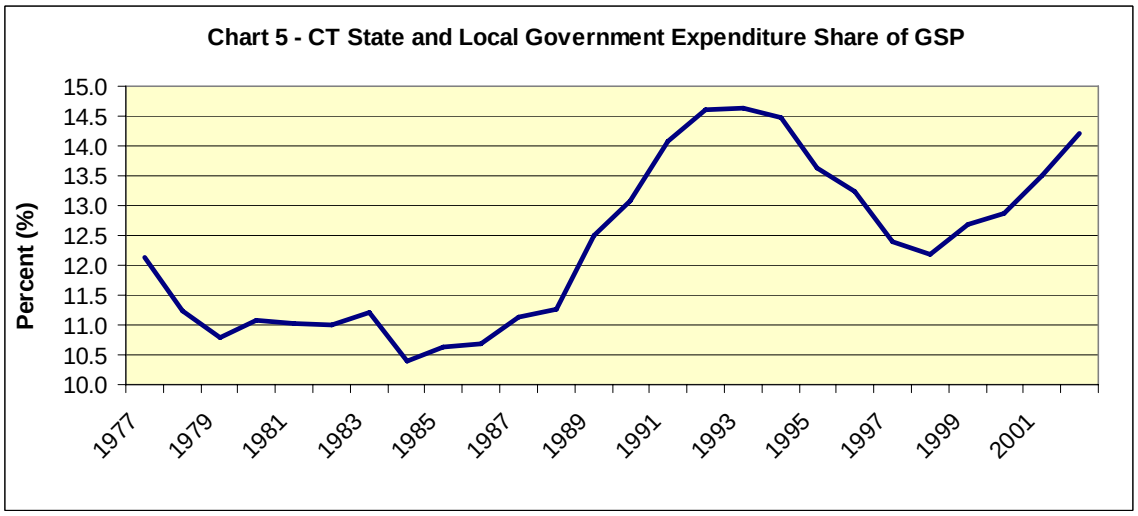
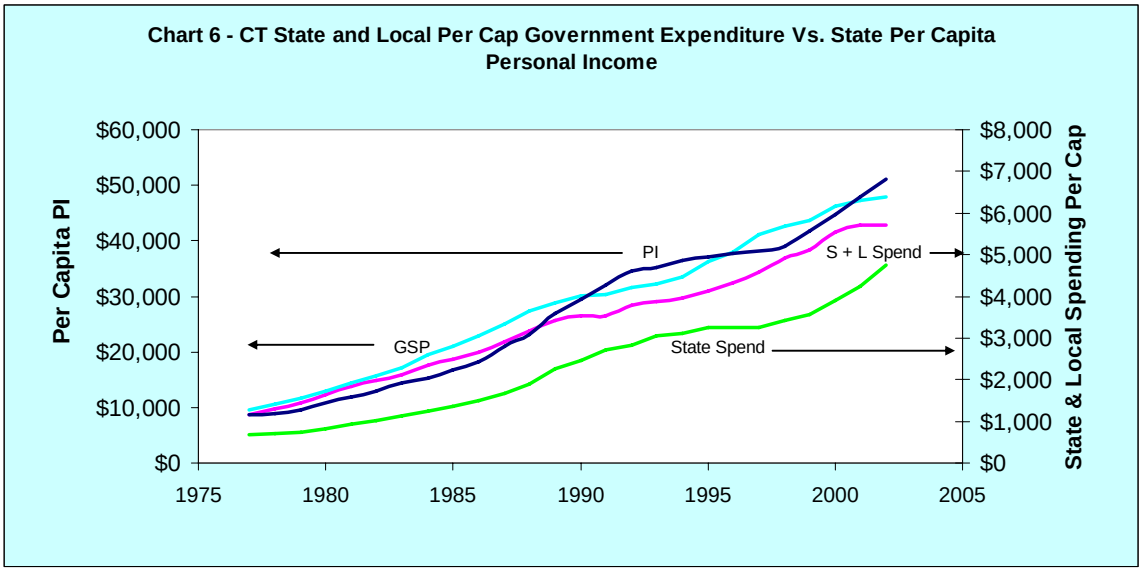
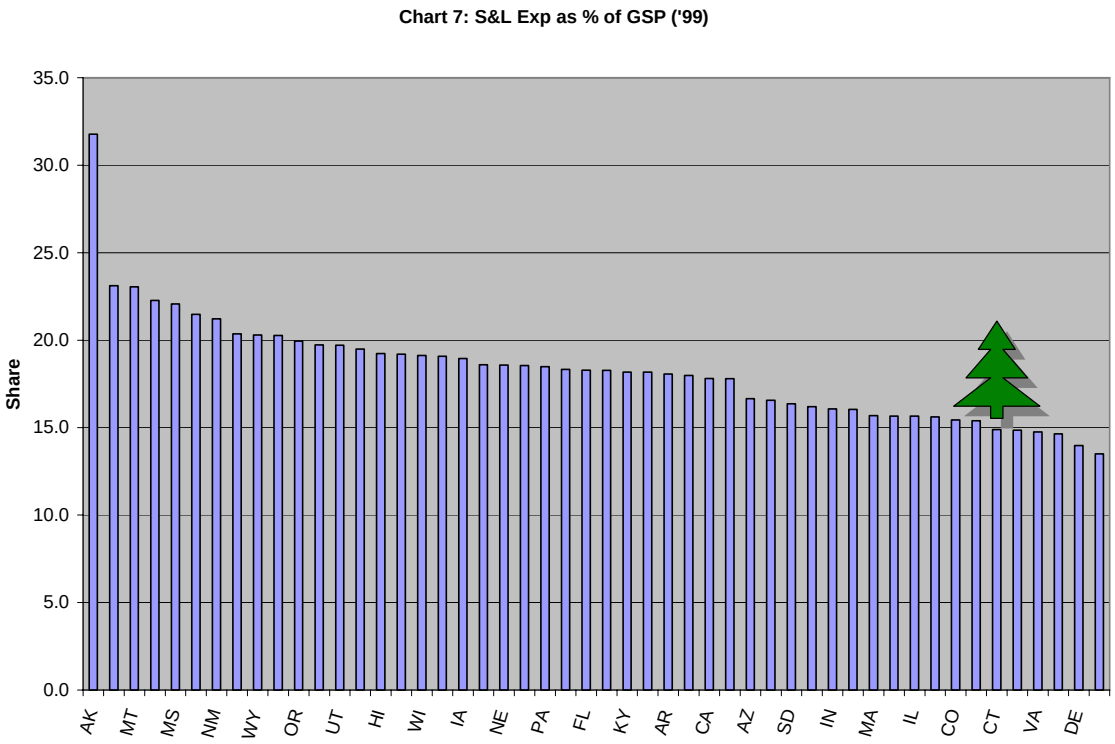


Chart 6 shows the trends of state spending per capita and state and local spending per capita with respect to PI and GSP per capita. Each trend slopes upward between 1977 and 2002. These trends imply that as nominal, average personal incomes (that is, per capita and not adjusted for inflation) increased, the state's ability to tax in terms of income (after 1992) and consumption increased, and the state and local governments spent more in response to increased nominal income. In addition, as Connecticut's value added (its GSP) increased, the state and its municipalities spent more. GSP represents the payments to all factors of production including labor, capital and land. As such payments

increased, the state's and its municipalities' ability to raise revenue from capital and land increased, and they spent more on average per person. In other words, state and local governments got larger.



Looking at the expenditure patterns in Connecticut does not show how the state compares with the experience in other states, which is an important perspective for both appreciating the pattern of demand for public sector expenditure and for the competitive context, insofar as tax burdens influence overall economic performance and the attractiveness of the state for business. Prof. Dennis Heffley, in a study published in the fall 2002 issue of *The Connecticut Economy*, showed that Connecticut had a remarkably "lean" public sector, whether measured by employees, share of personal income, or other measures. Indeed, it had one of the leanest public sectors in the nation (see Exhibit A).



Charts 8 and 9 show state and state and local expenditures as shares in GSP for Connecticut and five northeastern states: Massachusetts, Rhode Island, New Jersey, New York, and Pennsylvania. Each chart is net of federal transfers, again capturing state and local expenditures funded from taxes on the residents and businesses of each state. Charts 9 and 10 show the time paths of state and state and local expenditures as shares in PI for Connecticut and these same five northeastern states. They show that, whether measured against regional product, personal income, and aggregate public sector expenditures—state and local spending combined—are smaller shares in Connecticut than in Rhode Island, Massachusetts, New York, New Jersey, or Pennsylvania. It is striking that, while Massachusetts and New Jersey are modestly higher in terms of spending shares than Connecticut, the other states are twenty (20) to forty (40) percent higher. To achieve this level of performance, Connecticut jointly at the state and local levels must provide fewer public services than these neighboring states, provide public sector services more efficiently, or a combination of both. It is also worth noting that Connecticut public sector expenditure, even with the significant growth in 2001-2002, remains below its historic highs of 1992-1996.

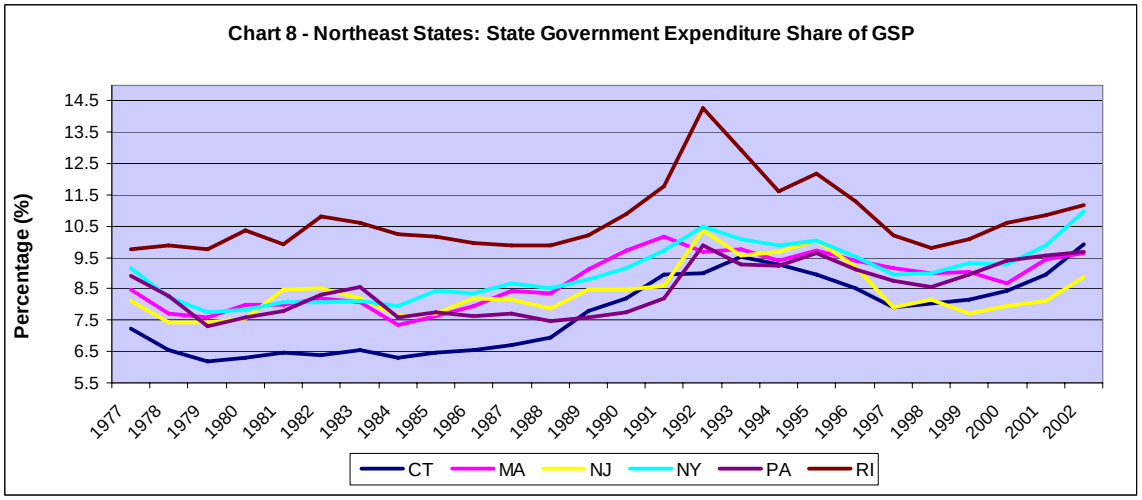


Chart 8 - Northeast States: State Government Expenditure Share of GSP
Percentage (%)
14.5
13.5
12.5
11.5
10.5
9.5
8.5
7.5
6.5
5.5
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
CT MA NJ NY PA RI

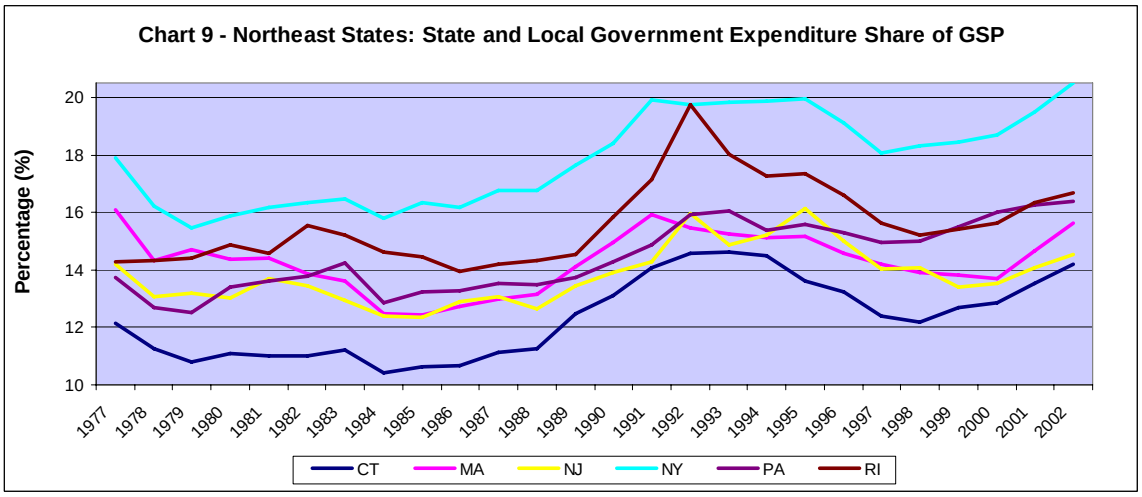


Chart 9 - Northeast States: State and Local Government Expenditure Share of GSP
Percentage (%)
20
18
16
14
12
10
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
CT MA NJ NY PA RI

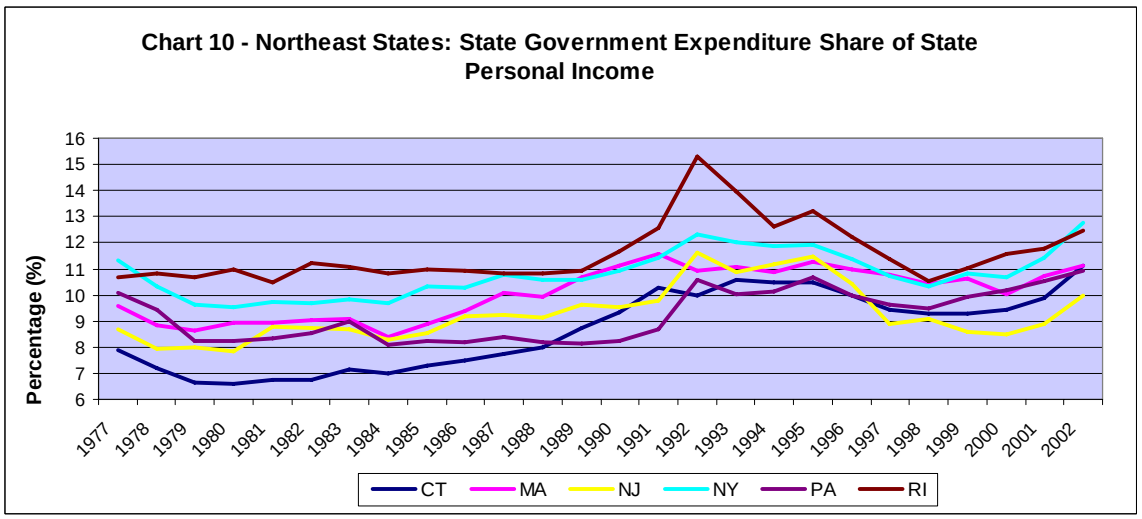
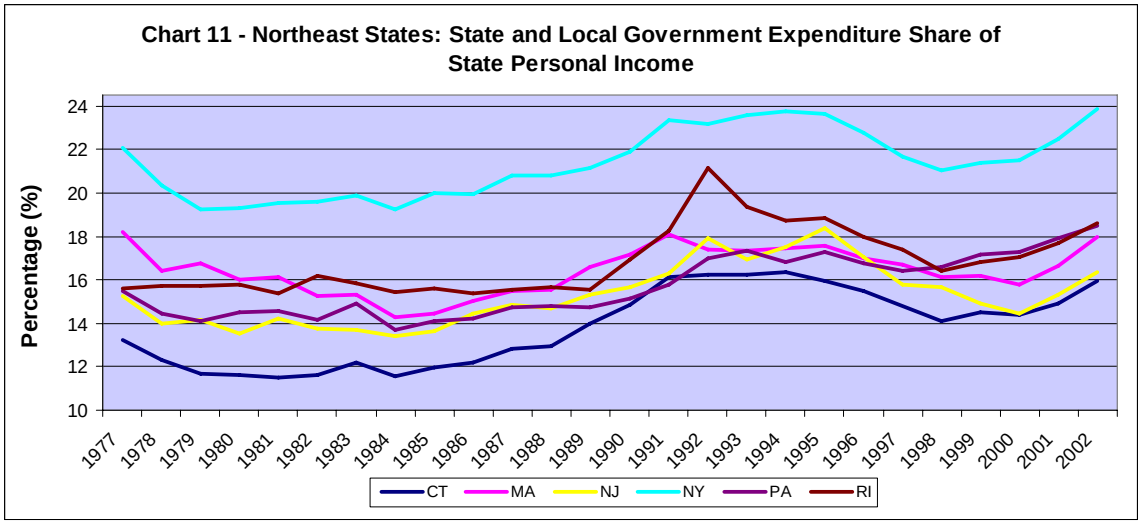


Chart 10 - Northeast States: State Government Expenditure Share of State Personal Income
Percentage (%)
16
15
14
13
12
11
10
9
8
7
6
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
CT MA NJ NY PA RI



Several implications flow from these descriptive statistics. First, the range of variation in the share of GSP or PI suggests that the restriction on spending growth has had to date no discernible *systematic* impact on the pattern of Connecticut's expenditures, whether measured at just the state level or, more appropriately, at the aggregate state and local level. Public sector expenditures as a share of PI or GSP declined during the boom years of the 1990s, years that saw significant budget surpluses, and then grew again from about 1998, with state expenditure growing faster than contemporaneous growth in personal income or regional output, even as the growth rate itself declined. Second, the relevant standard for a spending cap is arguably state and local expenditure, not state expenditure alone—especially as the state has ramped up its transfers to local government. Local expenditures are typically nearly a quarter of total public sector expenditures; a spending cap that ignores the interdependence between state and local expenditure may result in significant increases in the inequality of local tax burdens, inequalities that may then generate negative feedbacks on a variety of areas, including economic competitiveness. Third, insofar as the level of public services has a positive impact on economic performance and competitiveness (e.g., higher quality education, support for research and development, or superior access to health care, labor markets and goods and services markets),[5] Connecticut's spending cap may undermine its long-term capacity to maintain its current position as one of the two or three wealthiest states

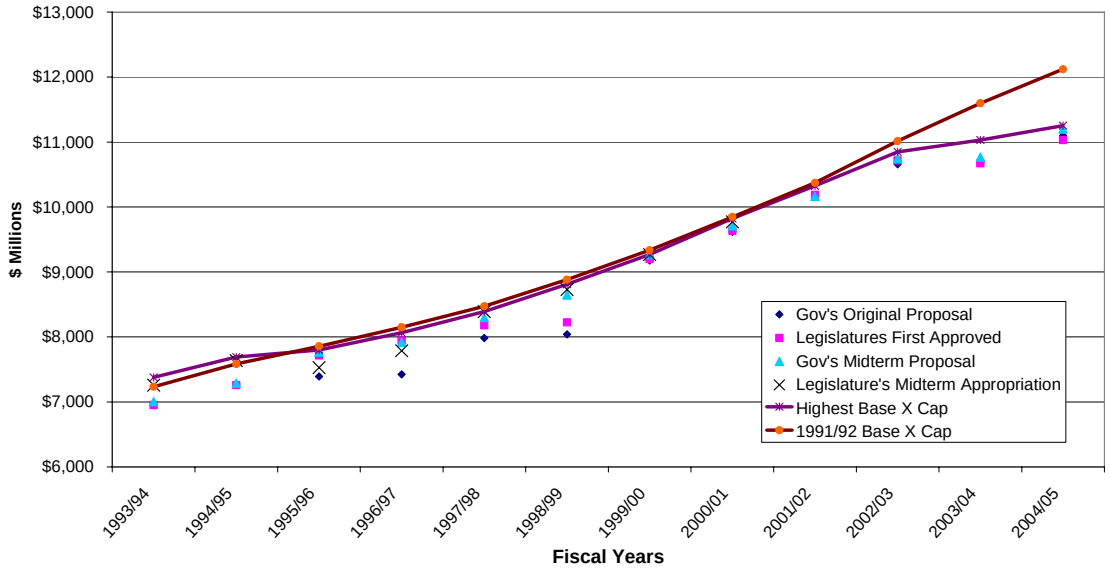
[5] David Alan Aschauer has written extensively on the relation of public investment and the productivity of private capital; see http://abacus.bates.edu/~daschaue/cv.html.

in the nation.[6] Fourth, the comparative analysis suggests that Connecticut might adopt a spending formula that permits it to retain its comparative position relative to its nearest neighbors but still enables it to respond to recognized needs for public expenditure or the need to sustain or enhance its competitive position through strategic investments. Such a formula might exclude all federal funds and avoid annual rebasing, which produces a downward "ratcheting" effect. Given that the constitutional amendment permits the legislature to adopt interpretive language, it would be feasible to craft an appropriate formulaic framework.

Another perspective from which to evaluate the spending cap is to consider how the cap relates to the larger authorized budget. Despite the concerns that the exclusion of interest payments on state bonds might lead to a pattern in which the budget hides current services expenditures in debt service—a shift that would be reflected in a declining ratio of the capped budget to the total budget—that shift does not seem to be occurring. The FY 2002 budget showed the capped portion ($11,028 million) to be about the same as in earlier years, that is, eighty (80) percent. However, there clearly has been a "ratcheting" effect. That is, under current statutory restrictions, any year in which the "authorized budget" is less than the growth permitted for that year, lowers the spending cap for the following year. Thus, in difficult years, when there is insufficient revenue, the legislative process cuts the budget below what the formula permits; then in all subsequent years the spending cap is lowered. This locks the state into a process that must necessarily and progressively, reduce state spending, regardless of revenues or needs. Chart 12 shows what would have happened over the years if the capped budget had grown each year by the maximum permitted under the law and contrasts this with what actually has happened. Until 2002, the budget tracked what the formula permitted closely, but in the last three fiscal years the budget has fallen further and further from what a "fixed" base formula would have permitted. This shows the impact of the "ratcheting effect"; the state spending cap is now about $1 billion below what it would have been without the "ratcheting" effect.

[6] Its rank varies depending on the measure, e.g., per capita income or median household income.

Chart 12: Connecticut's Capped Appropriations History



The cap, as calculated under the statutory requirement, is now more than $1 billion below what it could have been, as note above. However, this appears to be the result of the limitations that declining tax revenues imposed, hence the result of the balanced budget restriction, not the result of the spending cap itself. Moreover, when the state, during the late 1990s, enjoyed high revenues, the budgetary process found no obstacles to spending those monies. Thus the spending cap may have rhetorical value, but there is little to suggest that is has played a meaningful role to date in shaping the Connecticut state budget.

Assuming Connecticut wants to retain its presumptive advantage of a lean public sector that, compared to other states—and especially its neighbors—takes a smaller share of PI and GSP to support state and local public services, while enabling it to make strategic public sector investments that are central to sustaining its competitive position, a reasonable approach would be to benchmark its spending and/or institutional restraints against the patterns in neighboring states (or nationally), and to incorporate tax incidence analysis into its tax strategy. This would permit the state to construct tax policy in ways that minimize actual burdens, through recognition of the interdependence of state and local taxes and federal rules, and reduce inequalities at the local level, inequalities that can generate significant negative impacts, and preserve its comparative advantage in tax

burdens. The constitutional provisions on the spending cap provide sufficient flexibility in defining the controlling terms that Connecticut can achieve this balanced approach within the required framework.

An Alternative Spending Rule

The spending cap—whether the current statutory standard or the constitutional language—invokes two standards for controlling the growth of spending. One is the growth in personal income; the second is the rate of inflation. However, measuring the rate of change in prices is complex, depending on what "basket of goods" is purchased. The conventional Consumer Price Index (CPI)—which the media widely reports and most people think of as the standard for measuring inflation—measures prices "paid by urban consumers for a market basket of consumer goods and services."[7] The State of Connecticut purchases a bundle of goods and services different from the basket of the goods and services used to develop the CPI. Simply put, the CPI tracks the prices relevant to urban consumers over time, not governments.

Inflation (deflation) measures the increase (decrease) in the general level of prices of goods and services in some basket. There are several ways to measure inflation in an economy. According to the Bureau of Labor Statistics (BLS), "The 'best' measure of inflation for a given application depends on the intended use of the data." Further, the BLS points out that, "The CPI is generally the best measure for adjusting payments to consumers when the intent is to allow consumers to purchase, at today's prices, a market basket of goods and services equivalent to one that they could purchase in an earlier period." Thus, the official CPI looks at the prices of goods and services in a consumer's basket, neither of which bears a meaningful relationship to those that the State of Connecticut purchases.

An important measure of the strength of a nation's economy is GDP[8] growth. When creating the National Index and Products Accounts (NIPA), the Bureau of Economic Analysis (BEA) distinguishes between GDP growth that inflation generates

[7] BLS website's FAQ "What is the CPI?" http://www.bls.gov/cpi/cpifaq.htm#Question_1, January 31, 2005.
[8] GDP is a measure of the value of all goods and services produced in a region in a year on a value added basis.

(that is, from a general rise in prices) and GDP growth that results from an expanding economy (that is, from creating more physical goods and services). The BEA does this by deflating (adjusting) nominal GDP to obtain real GDP; that is, BEA takes price growth out of GDP so that the comparison over time is in "constant dollars" or real (physical) terms. To make this adjustment, BEA decides on a measure of inflation. As argued above, governments and other sectors purchase differing bundles of goods and services and thus experience different rates of inflation. Recognizing this, the BEA creates and publishes a series of deflators for different sectors of the economy, including one for state and local governments.

An option that may be more appropriate in capturing the changing pattern of state and local spending behavior is the BEA state and local government GDP deflator (a measure of the price level that state and local governments face). Below we characterize the trends of personal income in the U.S. and Connecticut, as well as the CPI and the state and local GDP deflator (hereafter SLGD). Chart 13 shows U.S. and Connecticut personal income converted to indices (1980 =100) compared to the CPI and the SLGD (also converted to indices) with respect to time. This allows us to observe relative changes (growth rates) on a comparable basis. We observe that U.S. and Connecticut personal income track closely for 25 years as do the CPI and SLGD. However, personal incomes in Connecticut and the U.S. have grown faster than either measure of the general price level that urban consumers face or that state and local governments face. This is evident in Chart 14, which shows the growth rates (year-to-year percent changes) in the four variables. The growth rates of personal incomes in the U.S. and Connecticut are not only larger, represented by the top two curves in blue and magenta, they are more variable or volatile than either measure of inflation.

Connecticut's spending rule allows the capped portion of the budget to grow at the larger of a five-year moving average of Connecticut personal income and the (national) CPI. The five-year moving average smoothes the variability as shown in Chart 15 which repeats the underlying growth rates of U.S. and Connecticut personal incomes of Chart 14 and superimposes the five-year moving averages of U.S. and Connecticut personal incomes (heavy magenta and cyan lines).

Chart 13: Personal Income (US & CT), CPI & SLG Def. As Indices

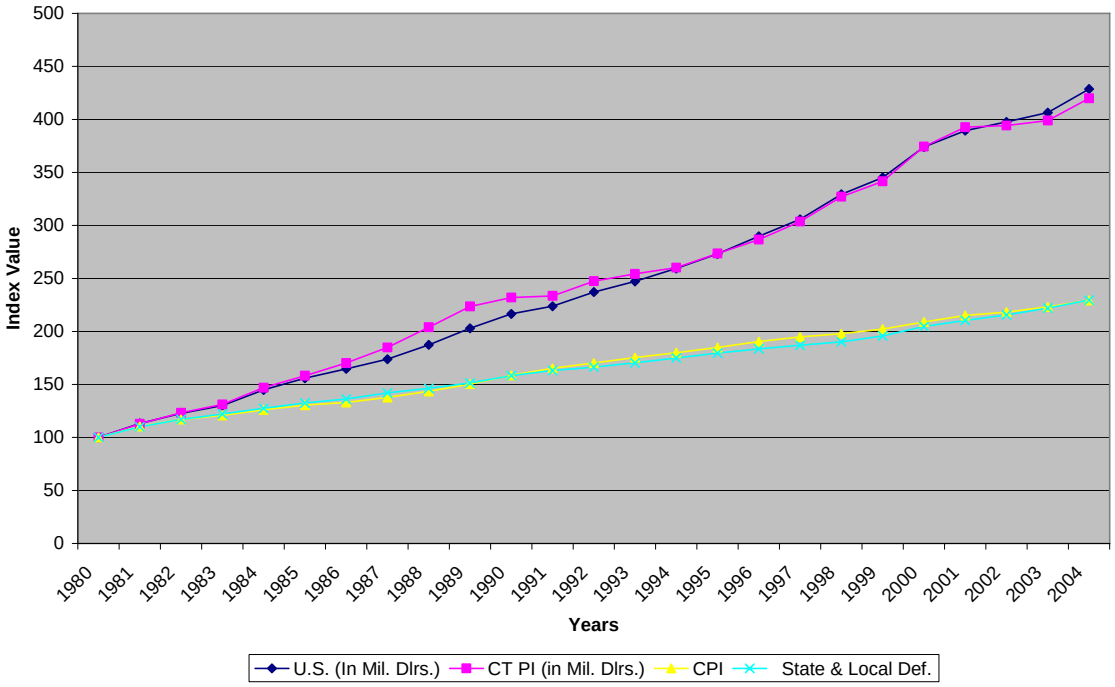


Chart 14: Annual Growth Rates in U.S. & CT PI, CPI & SLG Def.

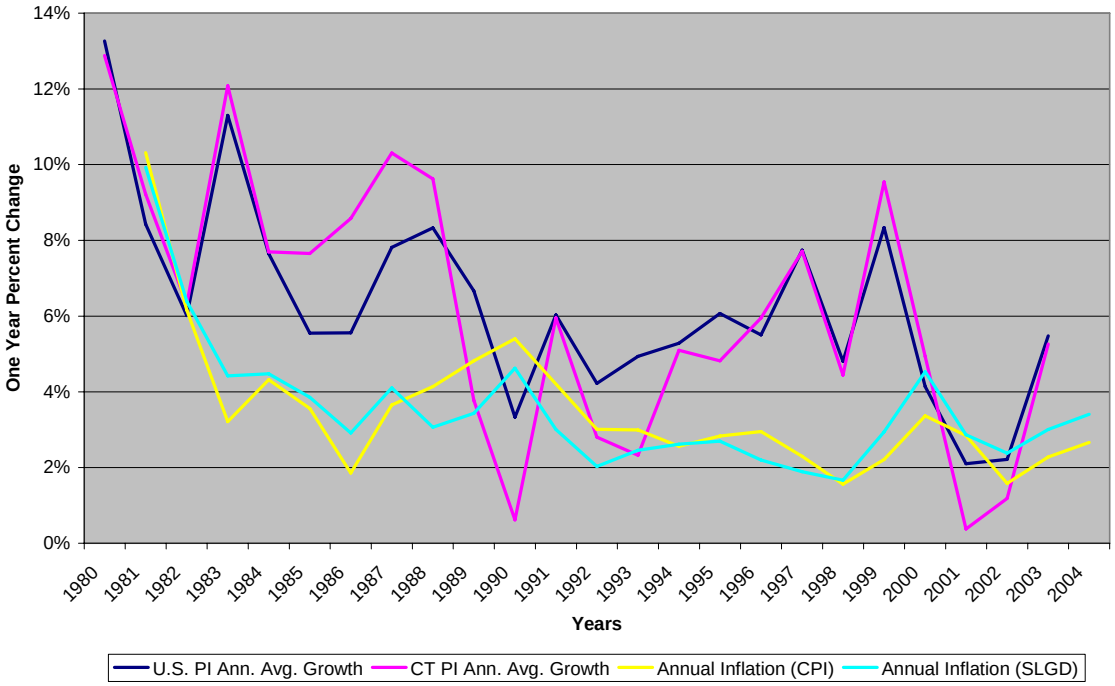
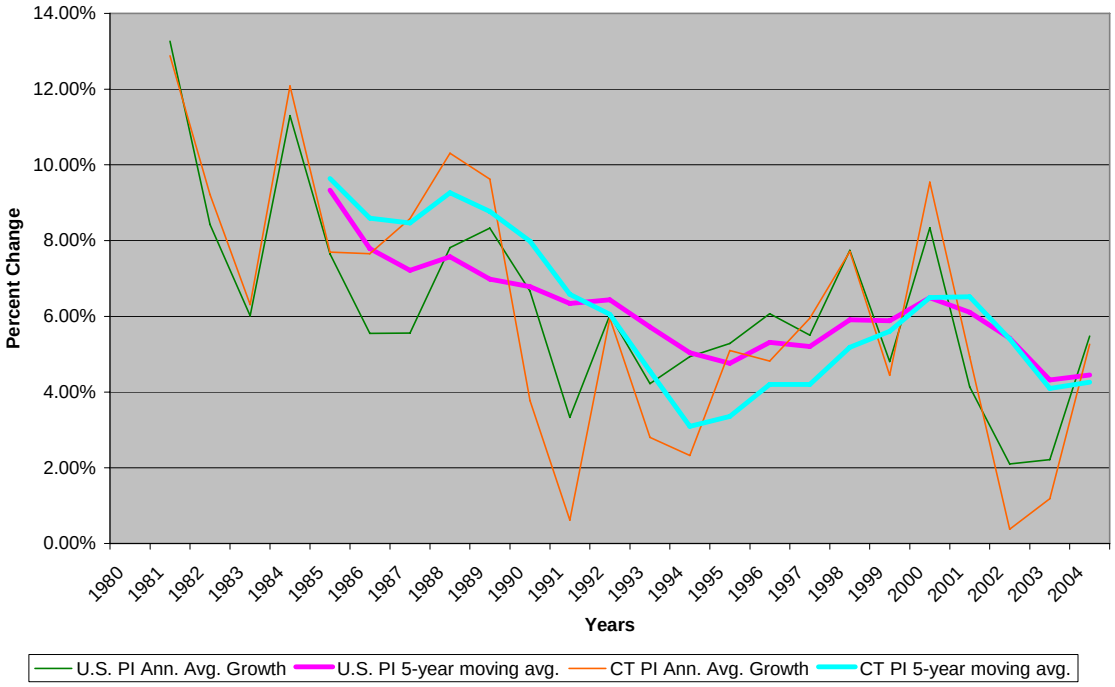


Chart 15: Annual & Five-Year Moving Averages for U.S & CT PI



There is some concern that Connecticut's cost of living differs from the national averages. To address this we examine CPI data for several regions to compare them to the national average. Charts 16 and 17 shows CPIs and their growth rates respectively from the 1) U.S. city average, New York – Northern New Jersey-Long Island, NY-NJ-CT-PA, 2) the Northeast urban CPI, and 3) the CPI for Boston-Brockton-Nashua, MA-NH-ME-CT. Charts 16 and 17 suggest that over the past 20 year the general price level in the northeast region of the nation has been growing slightly faster than the national average. However, Chart 16 shows that the regional CPI growth rates are highly correlated with the national pattern. In fact, the average annual growth rates over the 24-year period differ by less than 0.4%. Notwithstanding, a regional consumer CPI still does not capture the types of goods purchased by state and local governments.

Chart 16: CPI Indexes National and Local

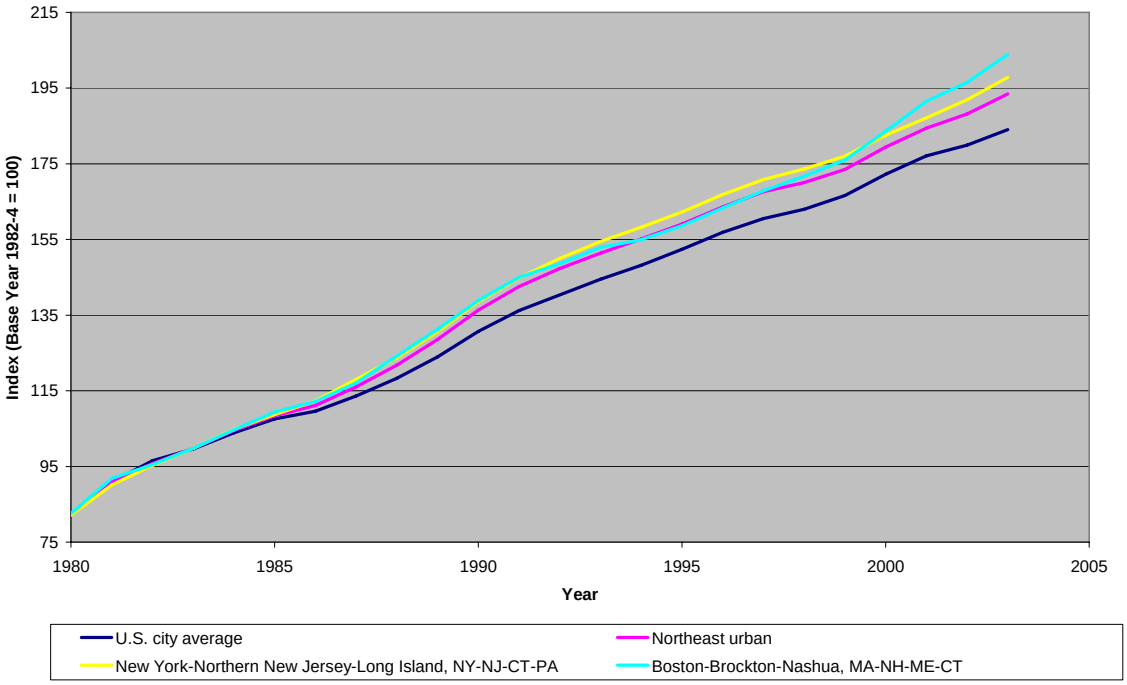
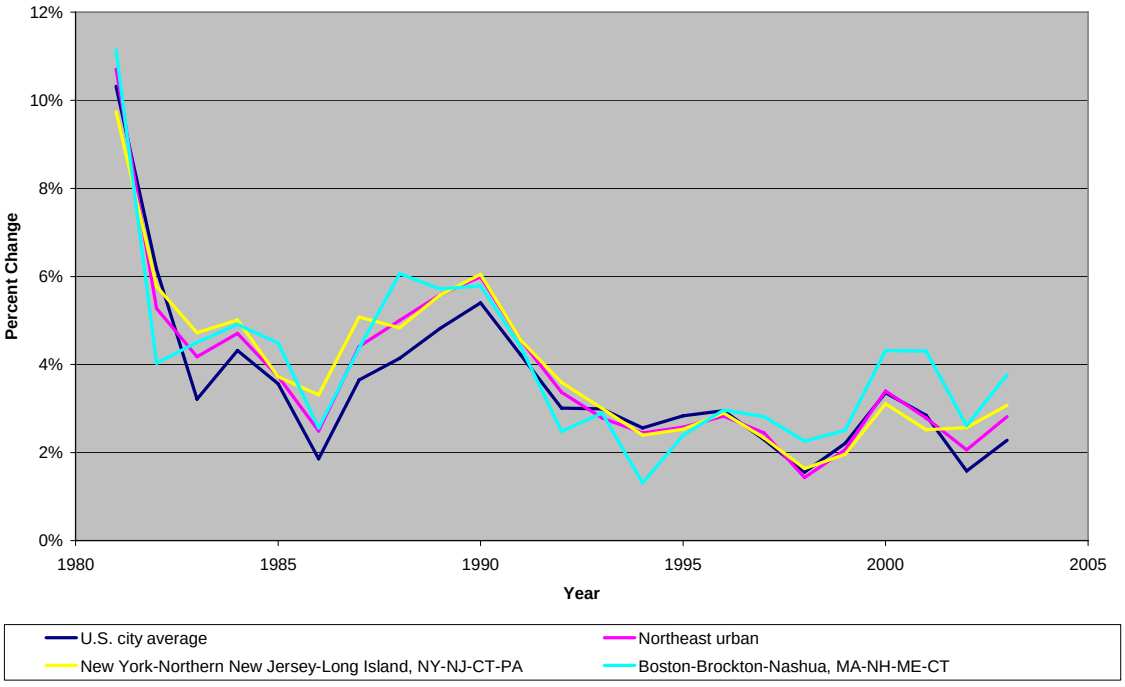


Chart 17: CPI Growth Rates for National and Local Regions



The State and Local Government GDP Deflator

According to the BEA, the state and local government GDP deflator (hereafter SLGD) derives from "data on the finances of state and local governments."[9] As the CPI's market basket of goods and services track purchases of urban consumers, so the SLGD arises from the "basket" of goods and services that state and local governments' purchase.

This SLGD is an implicit price deflator (IPD), meaning that is an aggregation of several indexes representing different categories of state and local government spending. The BEA adjusts the weights and components of this basket of indexes as the composition of state and local government expenditures change over time. We regard this price index as a starting point for a new index because it is broad-based, well documented, regularly maintained, and methodologically sound.

In 1988, the BEA published the methodology and a complete list of indexes and weights for the 1982 SLGD. It consists of four major IPDs (durable goods, nondurable, goods, services and structures) that are on average an aggregate of 25 different indexes produced by various government organizations, such as the BLS, the EPA and the BEA.[10] Each index is weighted to represent the goods and services that state and local governments purchase (we assume such goods and services are quite similar). We describe some of the major components of the SLGD below.

Compensation for State Employees

State worker compensation represents 61% of the entire SLGD. To measure the changing compensation costs of state employees, the BEA creates IPDs for different types of employment. The IPDs are then assigned weights based on the portion of state

[9] U.S. Department of Commerce and the Bureau of Economic Analysis, "Government Transactions, Methodology Papers: U.S. National Income and Product Accounts," November 1988. http://www.bea.gov/bea/articles/NATIONAL/NIPA/Methpap/methpap5.pdf

[10] The implicit GDP deflator for example is the value of all goods and services produced in the U.S. in the current year divided by their chained dollar value. The latter is the value of all goods and services produced in the U.S. in a reference year (now 1996) times the chain-type quantity index for the current year. See "A Guide to the NIPA's," http://www.bea.doc.gov/bea/an/nipaguid.pdf.

and local governments' budgets. This IPD for services accounts for 75% of the total SLGD, and itself gets 82% of its value from compensation for state employees.[11]

Education

Another major component of state and local budgets is education expenditure. NIPA tracks these costs and they are included in creating the SLGD. While there is no IPD created specifically for education, its expenditure components appear in every major category. Under the IPD for services, education compensation contributes approximately 33% of the entire SLGD. The IPD for structures comprises of 12% of the SLGD and has a component that tracks the costs of education buildings. Twelve percent the IPD for durable goods (4% of SLGD) is expenditure for "books and other durable printed material" (0.5% of SLGD), while 3% of the nondurable goods IPD (9% of SLGD) is expenditure for "pens, pencils and other marking devices."[8]

Limitations of the State and Local Government Deflator

The principal shortcoming of the SLGD is that it does not include state transfer payments in its calculation. These are state (we do not consider federal payments) payments to individuals and nonprofit institutions serving individuals. Payments to individuals consist primarily of retirement and disability insurance payments, medical payments, income maintenance payments, unemployment insurance payments, and payments to veterans. Payments to nonprofit institutions serving individuals include Job Training Partnership Act payments and educational assistance.[8] Such payments are obviously expenditures that must be budgeted.

If the BEA included transfer payments in the state and local government GDP deflator, it would overstate inflation through a ratchet effect.[12] This is because some transfer payments are already indexed to a measure of inflation, such as Social Security payments. Including these inflation adjusted payments in an index to adjust for inflation would overstate the extent of that very inflation.

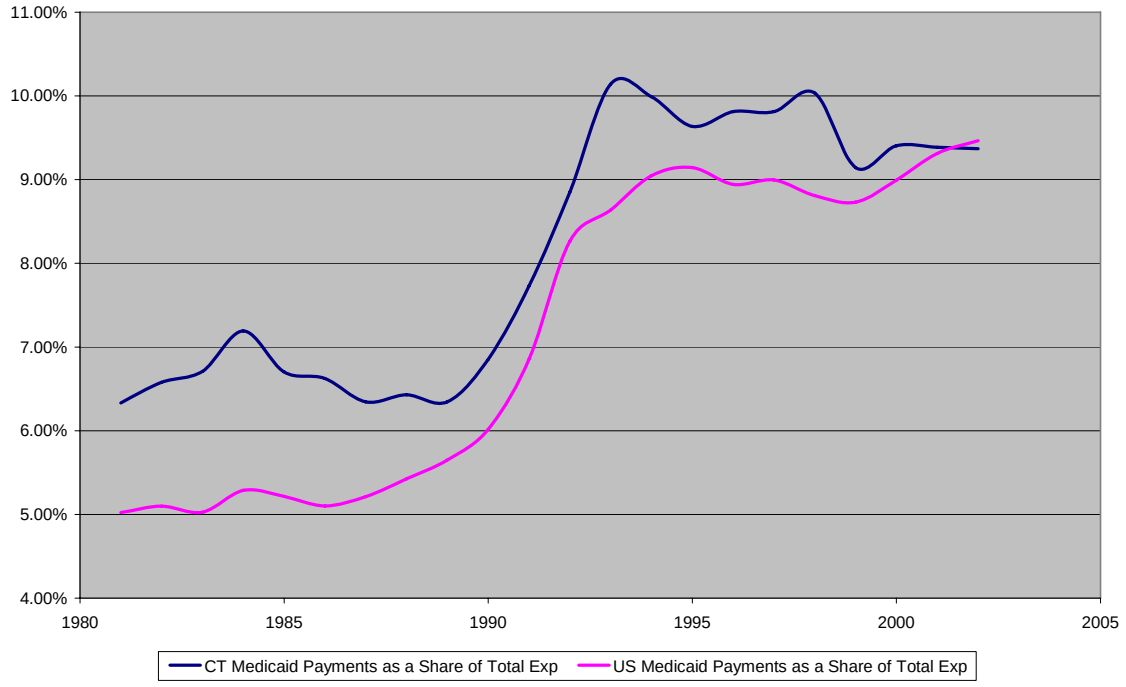
---

[11] U.S. Department of Commerce and the Bureau of Economic Analysis, "Government Transactions, Methodology Papers: U.S. National Income and Product Accounts," November 1988, http://www.bea.gov/bea/articles/NATIONAL/NIPA/Methpap/methpap5.pdf.

[12] At What Price? Conceptualizing and Measuring Cost-of-Living and Price Indexes, Charles L. Schulze and Christopher Mackie, National Research Council, National Academy Price.

Medicaid is a transfer payment in state budgets. The National Association of State Budget Officers (NASBO) publishes an annual report of state expenditures that tracks and projects the portion of states' budgets spent on Medicaid. In 2003, Medicaid consisted of 25.3% of total expenditures for the State of Connecticut, slightly higher than the national average of 21.4%.[13] Medicaid is a significant part of the basket of goods and services that the State of Connecticut purchases. However, NASBO apparently includes the federal portion of Medicaid in its estimation of the Medicaid share in total state expenditure (personal communication with NASBO). CCEA believes the important concept is the state's burden for Medicaid *exclusive* of the federal contribution. Chart 18 shows vendor payments (that match Medicaid expenditure from the Connecticut general fund in the NASBO 2003 State Expenditure Report) for Connecticut and the U.S. as shares in total expenditure from the Census Bureau's data on state expenditures.

Chart 18: Medicaid Payments as a Share of Total State Expenditure



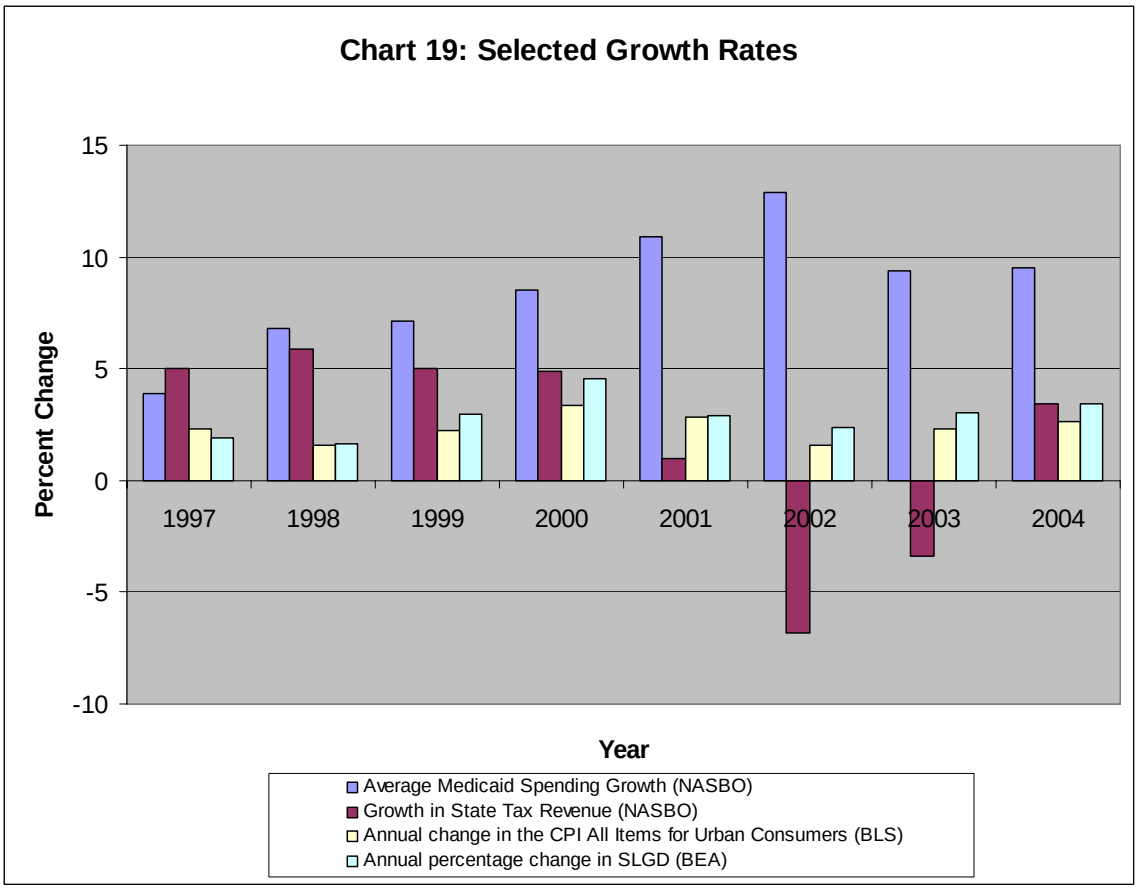
The story is clear: both the U.S. and Connecticut have experienced sharp increases in the shares of their budgets that support Medicaid. The increases were especially large in the early 1990s; after 1995 they level off at about 9% for the U.S. and

[13] State Expenditure Report 2003, NASBO.

9.5% for Connecticut. For at least 25 years, Connecticut has contributed a larger share of its budget to Medicaid than the federal government has. Excluding Medicaid expenditure or some proxy characterizing the underlying cost drivers from an index meant to characterize state spending behavior would be misleading. Other transfer payments are not included and we do not know the precise level or composition of the state's portion of these payments from Census data.

The growth of the states' Medicaid expenditures captures both the increasing costs due to inflation and those from the growth of Medicaid services due to additional enrollments, increased uptake rates, and increased usage. National Medicaid enrollment has been increasing since 1999. Though the enrollment rate slowed from a 9.8% increase in 2002 to a projected 4.7% increase in 2005,[14] increases in total enrollment contribute to the escalation of costs of Medicaid because the burden faced by states is price multiplied by quantity. An index used to track the costs (burden) faced by state and local governments should consider this large and growing component of spending. NASBO tracks the annual percentage change in Medicaid expenditures that appear annually in their state expenditure report. This growth rate and those of state tax revenue, the CPI, and the SLGD appear in Chart 19. The story is clear: the average states' Medicaid spending has grown faster than state tax revenues, and faster than other measures of general price growth (inflation). The negative growth in state tax revenue that Chart 19 shows in 2002 and 2003 reflects the lingering effects of the recession.

[14] Eileen R. Ellis, Vernon K. Smith and David M. Rousseau, *Medicaid Enrolment in the 50 States, June 2003 Data Update,* Kaiser Commission on Medicaid and the Uninsured, September 2004.



Indexing Medical Costs

Given that the current SLG-CPI does not include Medicaid expenditure, and given the large and growing share of state expenditures devoted to this area, it is clearly important to augment the SLG-CPI to capture this cost component. Chart 20 shows the growth rates for federal Medicaid and total federal expenditure in absolute and per capita terms. The spike in growth rates of federal spending reflects the increase in government's share of Medicaid spending in the early 1990s. Chart 21 repeats the trends of Chart 20 for Connecticut.

Unfortunately, there is currently no published price index or deflator that measures the cost of Medicaid's basket of goods and services to state and local governments. A feasible approach to developing such an index is to develop a reasonable proxy that represents the basket of goods and services comprising Medicaid.

Chart 20: U.S. Growth Rates for Medicaid and Total Expenditure

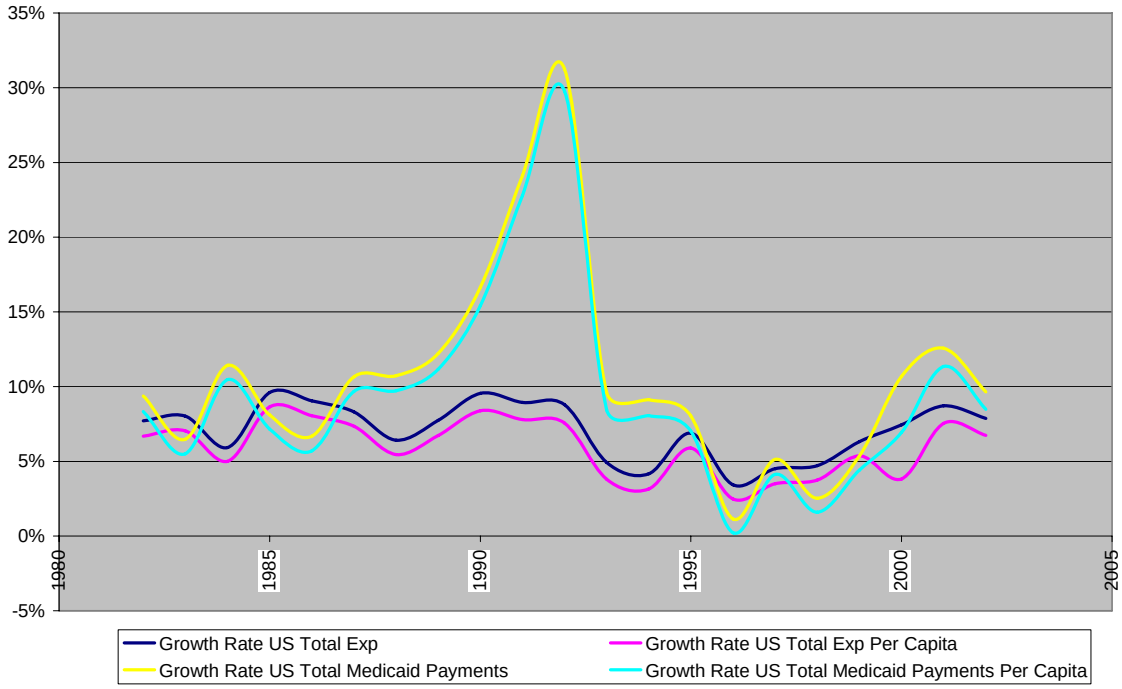
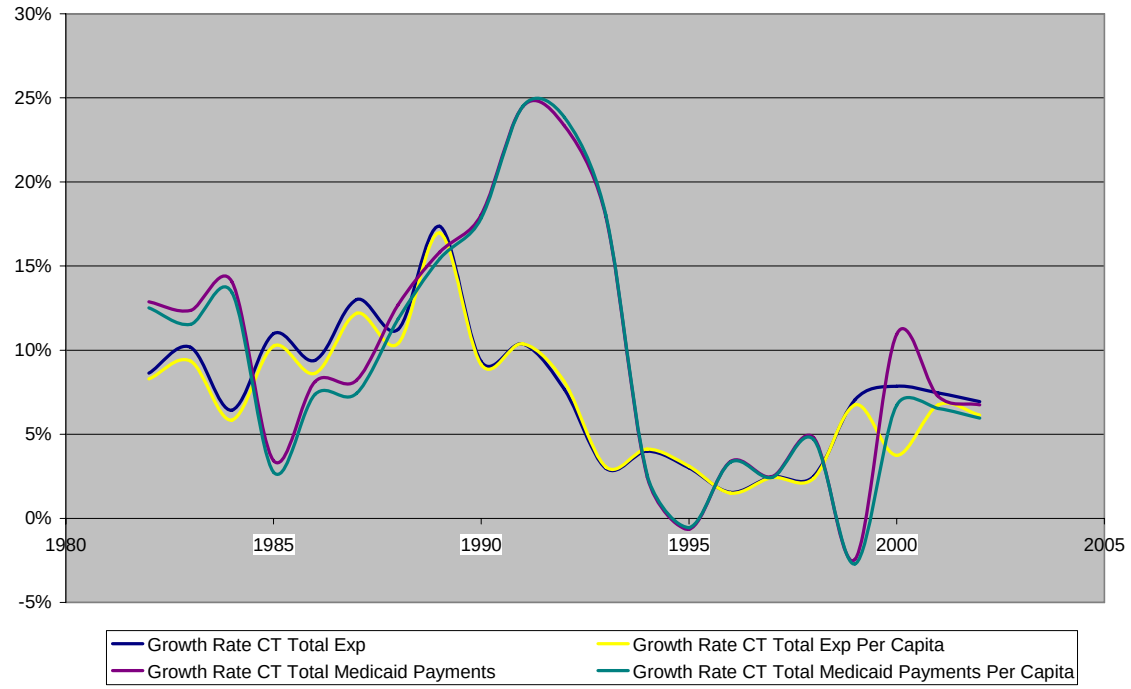


Chart 21: CT Growth Rates for Medicaid and Total Expenditure

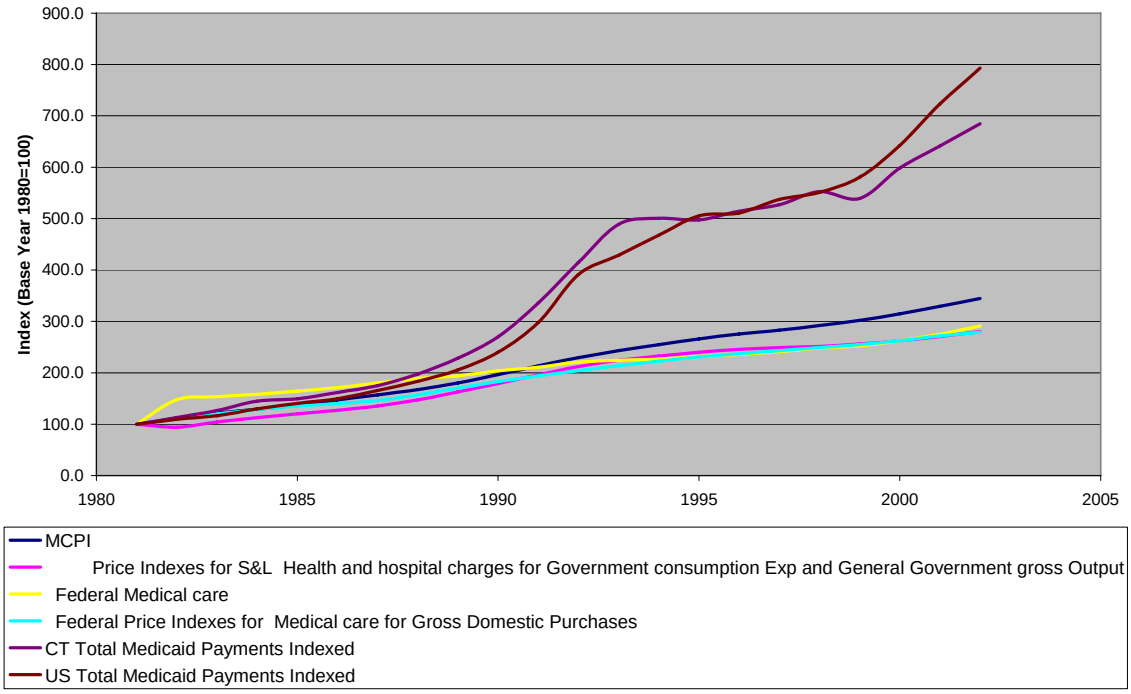


The Medical Consumer Price Index (MCPI)

CCEA considers the Medical Consumer Price Index (MCPI) and its sub-indexes as a measure of the price level of fundamental medical costs. The MCPI measures the costs individual consumers without insurance face when purchasing medical commodities and services. The MCPI and its sub-indexes track list prices for the services it measures. Just as the prices that insurance companies pay for private health care differ from those the uninsured pay, the list prices used in MCPI are not the prices state and local governments face when purchasing goods and services under Medicaid. Medicaid has a reimbursement schedule; it does not pay the list prices that the MCPI measures. Because list prices are higher than negotiated prices or reimbursement rates, indexing the State of Connecticut portion of its budget using the MCPI would overstate the growth rate and level of the underlying prices driving medical costs.

However, comparing the growth in national and Connecticut payments to Medicaid to the growth rates of various medical indexes, the MCPI seems to track the changes in expenditures better than the Medical indexes analyzed. Chart 22 shows the MCPI lies above indexes for state and local health and hospital charges in government consumption expenditure, a federal medical care price index, and federal price indexes for medical care for gross domestic purchases. The MCPI necessarily lies below the indexes for Connecticut and U.S. expenditures for Medicaid because those indexes reflect the combination of both increased utilization and increased costs of services.

Chart 22: Index of Medicaid Payments Compared to Various Medical Price Indexes



New Index

CCEA develops below an index that captures the dynamic costs of the basket of goods that state and local governments actually purchase and the increasing costs and utilization of Medicaid services due to increasing child poverty, the slow recovery from the recession and the aging population.[15] It combines the state and local GDP deflator (SLGD) with the growth rate of Connecticut's expenditure on Medicaid. An examination of the state and local GDP deflator shows it is growing at a slightly faster rate than the CPI. The SLGD is a broad-based, well-documented, and consistently maintained measure of state and local government expenditure. We portray the new index as a five-year moving average of the weighted annual growth rates of Connecticut's Medicaid expenditure and the SLGD. To this, we add Connecticut's historical trend growth of Medicaid enrollment.

[15] The Kaiser Commission on Medicaid Facts, November 2004, www.kff.org, publication #7220 and Holahan and Ghosh (2005), "Understanding the Recent Growth in Medicaid Spending, 2000-2003," *Health Affairs*, 10.1377/hlthaff.w5.52, Copyright © 2005 by Project HOPE, http://content.healthaffairs.org/cgi/content/abstract/hlthaff.w5.52

For example, in 2002, Connecticut's Medicaid expenditure was $2,585,307,000, representing, when adding the federal one-for-one match, 18.7% of the budget. In 2002, Medicaid spending grew 6.75% from the previous year. The SLGD grew 2.38% from the previous year and represents 81.3% (the remainder) of state spending for 2002. The weighted average growth rate for 2002 is 3.2%. We take the five-year moving average of these growth rates to smooth variation; this yields 3.38% for 2002. To this we add the historical trend growth rate of Connecticut's Medicaid enrollment (2.25%), capturing increasing utilization irrespective of underlying price changes and government strategies to reduce exposure (the article in footnote 10 describes cost containment strategies adopted by the states, and Governor Rell's budget recommends reductions to current services along these lines[16]). States have limited discretion over the federal Medicaid program in terms of who qualifies, of what procedures and drugs are covered, and of the amount of re-imbursement. They have great discretion over the state funded SCHIP programs for which they can influence reimbursement rates and eligibility requirements, as well as which procedures and drugs are covered and by how much. In addition, as states move to a managed care model, they can cap transfers to providers, reducing or constraining their health care expenditure. Of course, downward expenditure pressure has a limit: providers may cease to offer services to the Medicaid population and at the same time seek additional DSH (federal) payments. Worse, some hospitals and clinics may downsize, reducing the availability of health facilities to all regardless of wealth. The bottom line is that the new index, shown in Chart 24 below, allows the limit on state expenditure to grow according to a rule that recognizes that a major component of state spending grows more rapidly than the conventional CPI or personal income.

Chart 23 shows actual Connecticut Medicaid enrollment since 1991 and the trend whose slope (2.25%) represents the secular growth rate of Medicaid enrollment in Connecticut. Reflected in this graph are the discretionary changes in the SCHIP program.

[16] http://www.opm.state.ct.us/budget/2006-2007Books/BigBook/Part2Detail/HumanSvcLong.pdf.

Chart 23: Connecticut Medicaid Enrollment & Trend

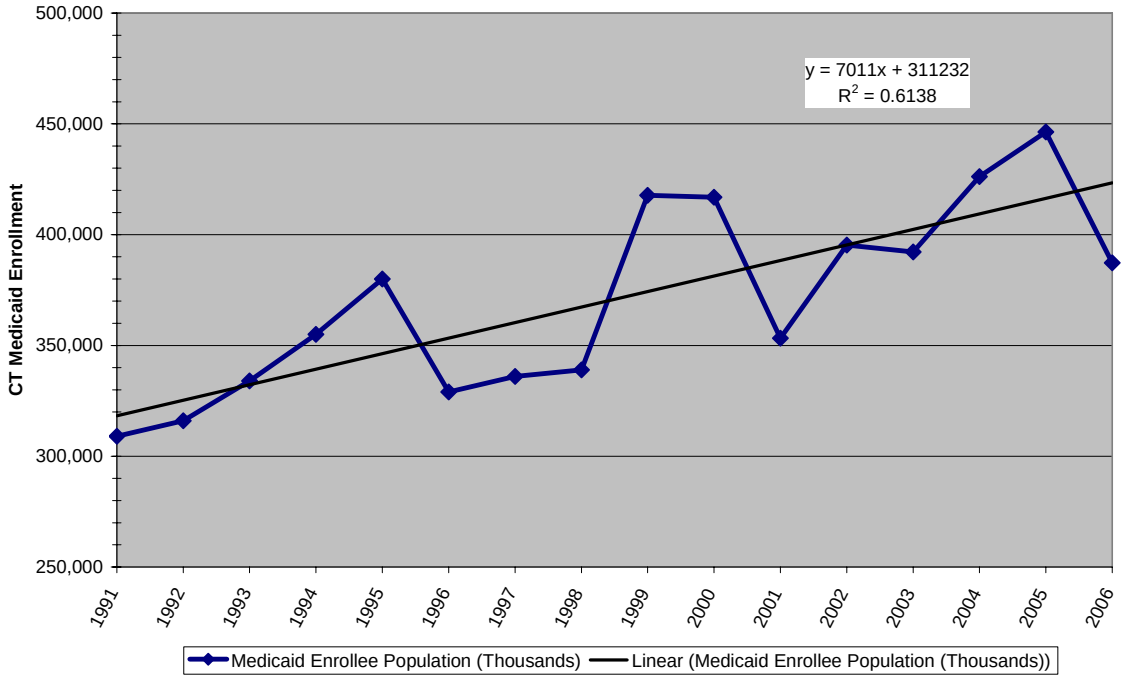
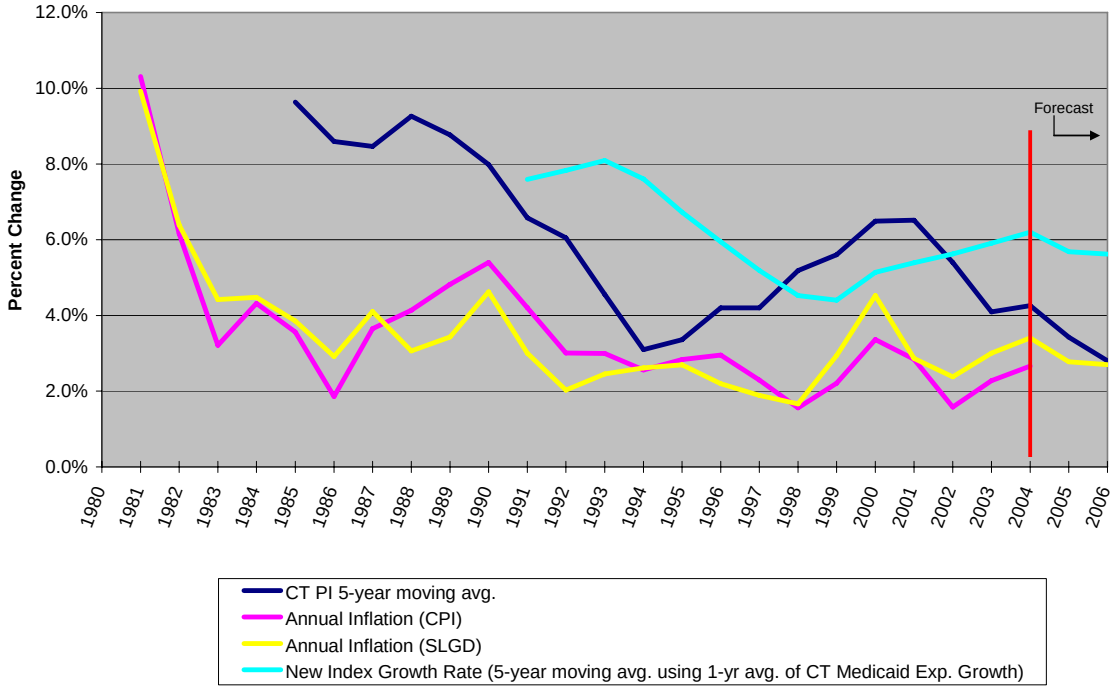


Chart 24 shows the new index in relation to the inflation in the CPI and the SLGD and in relation to the five-year moving average of Connecticut personal income. It is immediately apparent that Connecticut has used the five-year moving average of the growth rate in its personal income as the spending rule, as the former has exceeded CPI inflation in every year since 1992. The new index (in cyan) significantly exceeded personal income in the mid-1990s only to be briefly dominated by it in the last two years of the decade and the first two of the new century. In 2002, the new index exceeds personal income growth by almost two percentage points allowing for growth in spending to meet Medicaid obligations. In addition, we forecast through 2006 growth in the SLGD, personal income growth, and the new index. Thus, while personal income growth is falling, the new index permits reasonable and sustained growth in expenditure of 5.7% in 2005 and 2006.

Chart 24: CT PI (5-yr moving avg.), CPI & SLGD Growth, New Index Growth



Appendix I: Spending Rules of the States

Introduction

We distinguish between states' self-imposed institutional constraints on revenue and spending that consist of balanced budget and carry-over rules, veto types, citizen initiatives and elected or appointed Supreme Courts on the one hand and rules that define the growth or level of spending at the state level (a revenue rule limits spending). In this section, we explicate the state level tax and expenditure limitations (STELs) currently used in twenty-eight states. We do not show spending or revenue constraints that states impose on sub-state jurisdictions such as municipalities or counties. The approaches used to limit expenditures vary state by state. The majority of states limit appropriations, a preemptive measure. Appropriations are funds that are allocated for targeted spending in the state's budget. Some states limit expenditures and spend up to the limit. These states do not necessarily spend the maximum amount under the limit, and this can further restrict the amount they are able to spend under the cap, by decreasing the base to which the spending rule applies in the next budget cycle. Some states cap revenue growth, which can sometimes be more effective than spending restrictions, because in limiting the states' income, insufficient funds must be borrowed to meet obligations.

The underlying measure (basis) to which the cap is applied varies across the states. Expenditure limitations can be tied to growth in personal income, population, wages and salaries, or to inflation. These growth guides make sense, as increased population will likely demand more public services. As personal income increases, citizens are likely to demand more and higher quality public services (that is, we assume that the government services are normal goods). Increasing population and increasing personal incomes also mean a larger base from which to extract revenue. On the other hand, if both personal incomes and population are increasing, but per capita income is decreasing, the base in terms of a household's ability to pay can be decreasing.

Inflation is an insidious tax that reduces the purchasing power of money meaning that it costs more today to purchase the same quantity of goods and services than it did last month or last year. Even if personal incomes and population do not grow, inflation makes provision of a given basket of services more expensive (in nominal terms).

Regardless of a household's ability to pay, a growing population requires more public services, although if segments of the population are poorer in real (inflation-adjusted) terms, they may want their tax burdens to reflect their actual economic status despite higher prices governments must pay for the goods and services it consumes.

Expenditure limits are only as effective as they are enforced. If there are easy ways to circumvent spending limits, then rules will be less effective. If the governor has veto power, then funds can be spent with his signature, and this reduces the strength of an expenditure limitation. If much of the government spending does not fall under the cap, there will also be a reduction in the effect of the spending limitation.

State's Spending Rules

This section focuses on the revenue and/or expenditure rules in each state and compares Connecticut's expenditure limitation with other states.

Alaska's growth of appropriations is tied to population and inflation growth. The spending cap applies to general funds, which are 86% of state revenues. Federal and other funds are excluded.

Arizona passed a Constitutional Amendment in 1978 based on which appropriations are limited to 7.23% of personal income. State revenues do not include receipts from bonds or other lawful long-term obligations, dividends or interest, grants, aid, contributions of gifts of any type, amounts or property received by the state in the capacity of trustee, custodian or agent, amounts received from employers for deposit in the unemployment compensation fund or any successor fund, receipts from the sale, lease or redemption of property, amounts received pursuant to a transfer during a fiscal year from another agency, department, office, board, commission, authority, council or institution of the state which were included as state revenues for such fiscal year. The spending limitation applies to general funds and revenues of certain type for example, taxes, licenses, and university fees. Federal funds are excluded from the cap.

California passed a Constitutional Amendment in 1979 establishing that the growth of appropriations shall not be greater than the growth of personal income and population. Taxes, bond revenues, federal funds and all fees are included under this rule.

Unlike most states in this study, Colorado passed a law in 1991 establishing a limit in the growth of appropriations to 6% of prior year's appropriations or an amount equal to 5% of Colorado personal income. The constraint applies to the entire budget with the following exceptions: (1) the limitation does not apply to any state general fund appropriation which, as a result of any requirement of federal law, is made for any new program or service or for any increase in the level of service for an existing program beyond the existing level of service; or (2) any state general fund appropriation which, as a result of any requirement of a final state or federal court order, is made for any new program or service or for any increase in the level of service for an existing program beyond the existing level of service; or (3) any state general fund appropriation of any moneys which are derived from any increase in the rate or amount of any tax or fee which is approved by a majority of the registered electors of the state voting at any general election. Colorado voters approved a Taxpayer's Bill of Rights Constitutional Amendment in 1992. It limits expenditures to the growth of population and inflation. Revenue exceeding the limit must be refunded. Maximum spending change must equal inflation plus the percentage change in state population in the prior calendar year. Annual federal census estimates determine population. Moreover, concerning revenue limitations, new or increased transfer tax rates on real property are prohibited. No new real property tax or local district income tax shall be imposed. Neither an income tax rate increase nor a new state definition of taxable income shall apply before the next tax year.

Delaware passed a Constitutional Amendment in 1980 that limits appropriations to 98% of estimated revenues. The rule applies to the general budget. Federal funds and transportation and appropriated special funds are excluded.

Florida's Constitution established in 1994 that revenue growth be limited to the five-year average of personal income growth. State revenues are limited to state revenues allowed for the prior fiscal year plus an adjustment for growth. "Growth" means an amount equal to the average annual rate of growth in Florida personal income over the most recent twenty quarters times the state revenues for the prior fiscal year.

Hawaii's growth of appropriations is limited to the three-year average of personal income growth.

Since 1980, Idaho limits spending of general fund revenues to 5.33% of total state personal income in the ensuing fiscal year as determined by the economic estimates

commission. One time general fund appropriations are not included in this rule. The spending cap is tied to revenues but there is no rule that establishes what portion of revenues. It depends on the year and the specific amounts; however, the cap includes all expenditure categories.

Iowa enacted a spending rule in 1992, according to which general fund expenditures are limited to 99% of the adjusted estimate of state revenue. Dedicated funds, gas tax, maintenance funds, funds for the construction of highways, and federal funds are excluded from the cap.

Revenue growth in Louisiana has been tied to the ratio of fiscal year 1978-79 tax revenue to 1977 state personal income following 1979's statutory code. The State Tax Revenue Limit is rounded to the nearest tenth of one percent. State tax revenue includes all funds received from sales and use, income, gift, inheritance, excise, property, license, corporations, franchise, and all other taxes, charges and fees. State revenue does not include federal funds, royalties, interagency transfers, proceeds from the First Use Tax, severance taxes, or self-generated funds. Moreover, since 1993 Louisiana has a Constitutional Amendment limiting the growth of appropriations to per capital personal income growth. The expenditure limit applies to all general funds from which federal funds are excluded

Massachusetts amended its statutory code in 1998 with a tax revenue growth limit tied to the three-year average growth of wages and salaries. An amendment in 2002 specified revenue growth to be tied to inflation in government spending plus 2%.

Michigan limits revenues to 9.49% of the immediately prior 3-year average of personal income, a rule ratified in 1978. Excess revenues beyond this percentage are refunded to taxpayers. The revenue limitation can be exceeded only in case of emergency. No expenses of state government may be incurred which exceed the revenue limit.

Since 1992, according to its statutory code, Mississippi limits appropriations to 98% of projected revenue for the succeeding fiscal year. The total proposed expenditures of the overall budget shall not exceed the amount of estimated revenues. The limitation includes all funds except federal funds.

Missouri amended its constitution in 1980 that limits revenue to the ratio of fiscal year 1980-1981 state revenue to calendar year 1979 state personal income (5.64%) multiplied by the greater of state personal income in the previous calendar year or the average state personal income over the previous three calendar years. "Total state revenues" include all general and special revenues, licenses and fees, excluding federal funds and the amounts of any credits based on actual tax liabilities but includes the amount of any credits not related to actual tax liabilities. The limitation applies only to general funds, which consist of 38% of the entire budget (revenue). Federal funds (30.9%) and other funds (31.1 %) are excluded from the cap.

Montana specified in its statutes in 198 that growth of appropriations is tied to personal income growth. "State expenditures" includes general fund appropriations, the special revenue fund type appropriations, and the cash portion of the appropriations in the capital projects fund type, and excludes federal funds, payments of principal and interest on bonded indebtedness, money paid for unemployment or disability insurance benefits, money received from the sale of goods or services provided that the purchase of the goods or services is discretionary, money paid from permanent endowments, constitutional trusts, or pension funds, proceeds of gifts or bequests made for purposes specified by the donor, money appropriated for tax relief and funds transferred within state government or used to purchase goods for resale. This limitation covers approximately 63% of all funds.

Since 1979, Nevada's expenditures are statutorily allowed to grow by the biennial percentage change in population from the population on July 1, 1974. Beyond the growth in population, expenditures are allowed to grow by the rate of inflation. It covers 100% of general funds, excluding federal funds. The proposed budget of each fiscal year of the biennium must provide for a reserve of neither less than 5% nor more than 10% of the total of all proposed appropriations from the state general fund.

Since 1990, expenditure growth in New Jersey has been tied to per capita personal income's average annual increase over the past four years. Grants, state aid, federal funds, capital, debt service, money in the property tax relief fund, the casino control fund and casino revenue fund and the governor's elections fund are excluded from the spending limitation.

In 1991, North Carolina legislated that the General Fund operating budget cannot exceed 7% of projected total state personal income for that fiscal year. The General Fund operating budget accounts for 50% of the state budget, with federal funds, representing 30% of the operating budget, excluded from the cap.

Since 1985, Oklahoma's spending has been tied to 95% of estimated revenue, and not to exceed the prior year's appropriations by 12% adjusted for inflation of the last fiscal year. Appropriations account for approximately 80% of the state appropriated budget. Federal funds, fees and licenses (8% of the budget) are not included in the limitation. The cap applies to an 80-82% of state appropriated budget.

Oregon enacted a statute in 1979 limiting the growth of appropriations to personal income growth in Oregon in the two preceding calendar years. Revenue received from excise taxes and corporate income is limited to 102% of estimated revenues, excluding federal funds, pensions, and loan and enterprise programs.

Since its 1992 constitutional amendment, Rhode Island's appropriations have been tied to 98% of estimated state general revenues, excluding federal and restricted funds, which are an insignificant fraction of the whole.

South Carolina amended its constitution from 1980 and 1984 such that spending cannot exceed 9.5% of the average growth rate of the economy of the state. The spending limitation applies to education and transportation funds that account for approximately 35% of the total budget. Federal funds are excluded.

In 1978, Tennessee constitutionally adopted an appropriations growth limit tied to personal income growth. In no year shall the rate of growth of appropriations from state tax revenues exceed the estimated rate of growth of the state's economy. Expenditures for any fiscal year shall not exceed the state's revenues and reserves, including the proceeds of any debt obligation for that year.

In 1978, Texas amended its constitution such that it limits the growth of appropriations to personal income growth. In no biennium shall the rate of growth of appropriations from state tax revenues not dedicated by the Texas Constitution exceed the estimated rate of growth of the state's economy. This rule applies only to the General Revenue Fund, which represents 53% of the entire state budget. The limitation does not

apply to federal and constitutional funds, agency operating accounts, agency appropriated receipts, permanent funds, bonds, investment funds, nor lottery and retirement funds.

Since 1988, when Utah amended its statutory code, appropriations' growth has been tied to inflation and population growth as well as to an average of changes in personal income. General funds, school funds, transportation projects, federal funds, general obligatory revenue bonds, and the rainy day fund or emergency expenses are excluded. Utah has placed limitations on the state mandated property tax and on the state's outstanding general obligation debt.

In 1993, Washington enacted a statute that limits expenditure growth to the growth of population and inflation. The state expenditure limit for any fiscal year is the previous fiscal year's state expenditure limit increased by a percentage rate that equals the fiscal growth factor. The spending limit applied to the general fund, about 80% of which covers K-12 education, higher education, medical assistance, other social services, and corrections. The State General Fund represents approximately half of state expenditures. The other half consists of "dedicated accounts" and federal monies. The dedicated accounts allow spending only on specific activities, such as hazardous waste, transportation, and environmental remediation. Federal funds are excluded from the cap.

Connecticut's spending is limited to the average growth of personal income for the previous five years, or the prior year's inflation, whichever is greater. Expenditures are limited, as opposed to appropriations or revenue. Expenditures exempt from the cap include: 1) payments on principal or interest of bonds, notes, and other forms of indebtedness, 2) state grants to distressed municipalities, and 3) first year expenditures on federal mandates or court orders. A three-fifths vote to enact the definition of "general budget expenditures" has not yet been achieved. The expenditure limits can be relaxed with three-fifths vote of the members of both houses in favor. Federal funds, which make up approximately 17 % of Connecticut's General Fund Revenue, are included in the capped funds (those to which the spending applies). Including federal funds in the expenditures affected by the spending cap hampers Connecticut's ability to utilize federal funds.

Federally matched funds are funds available to states, but for which states must pay a portion of the cost. There is a chance that federal matching funds for a certain

project could overextend the state, because federal funding is sometimes offered to create new programs, after which federal funds may decrease over time. In this way, the state faces an increasing burden of continuing support for the new program, as federal support decreases. Thus, there may be an incentive to include discretionary federal funds in the cap because that would discourage states from accepting federal funds that may diminish or disappear.

Tying expenditure growth to the five-year moving average growth rate in personal income links current expenditures to past business cycles. In years following an expansion, this would tend to relax the spending cap, but would tighten the cap in years following a contraction. Other states use three-year average growth rates, but Connecticut is alone in using a five-year average. This longer period impedes Connecticut's ability to change spending behavior in response to rapidly changing economic conditions. On the other hand, it smoothes the spending rule and reduces volatility.

Because debt service is excluded from its spending cap, Connecticut tends to use bonds for funding not only capital expenditures, but also to cover operating expenditure shortfalls. In paying the interest premium on borrowed funds, Connecticut increases its operating expenses, costs that could be averted with a relaxation of expenditure limitations. Connecticut sometimes spends less than the cap would allow exacerbating future years' expenditures, because the base to which the spending rule is applied is smaller than it could have been had expenditures been at the specified limit.

Appendix II: A Chronology of Connecticut's Spending Rule

Lowell Weicker was elected Governor in 1990 in the midst of an economic and fiscal crisis for the State of Connecticut. His signature proposal was a state income tax that the legislature adopted in a special session in 1991. During that same special session, the legislature adopted a constitutional amendment to limit the growth of state spending as well as a statutory limit on the growth of state spending. Although the constitutional amendment was approved by state voters in November 1992, and it is now part of the state constitution, the amendment has never been implemented because it required the legislature, by 3/5 vote, to adopt certain definitions. To quote the amendment:

> 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.[17]

To date, the legislature has not adopted these definitions. However, in a separate action, the same 1991 special session adopted a statutory spending cap that limits expenditures "authorized by the General Assembly." That statute, Sec. 2-33a of the Connecticut General Statutes is in effect today and has been since it became law more than a decade ago. Pursuant to an opinion of the Attorney General, issued April 14, 1993, the current statutory cap remains in place until the General Assembly enacts the definitions required by the constitution, by a three-fifths majority.[18]

During that same term, the legislature also changed the budgeting calendar to require 2-year budgets to be submitted by the Governor at the beginning of each odd numbered year.

What has happened to the state budget under the cap? We begin with Governor Weicker's proposal made in 1993 for the 1993-95 biennium, the first two-year proposal under the cap.

---

[17] Connecticut State Constitution, *Connecticut General Statutes Revised to 1993*.
[18] *Connecticut State Budget 1993-95*, Office of Fiscal Analysis, Connecticut General Assembly, p. xlii.

1993:

Governor Weicker's proposal (dollars in millions):[19]

FY93 estimated expenditure: $8,120.3

FY93 appropriated base: $8,155.6 capped $6,602.1 uncapped $1,553.5
FY94 recommended: $8,636.0 capped $6,951.4 +5.3% uncapped $1,684.6 +8.4%

FY94 for 95 cap: $8,636.0 capped $6,996.8 uncapped $1,639.2
FY95 recommended: $9,065.0 capped $7,275.2 +4.0% uncapped $1,789.8 +9.2%

"For Fiscal Year 1993-94, permitted growth in capped expenditures is 5.82%. The spending cap in Fiscal Year 1994-95 is set at 4.49%. The proposed budget comes in at about $35 million under the spending cap in each year of the biennium."[20]

"$45.4 million, which are the first year costs of Federal and Court mandates in Fiscal 1993-94, are uncapped expenditures. However, these first year costs are included in the 1993-94 capped base when calculating the 1994-95 cap."[21]

Data on pages A-6 and A-7 show that FY 93-94 proposal is exactly $35.0 under cap while FY94-95 is $35.8 under the cap.[22]

Legislature adopted budget:[23]

	All app.	Capped	Noncapped
1992-93	$8,228.4	$6,618.5	$1,609.9
1993-94	$8589.5	$6,953.4	$1,636.1
1993-94*	$8,589.5	$6,972.8	$1,616.7
1994-95	$9,038.2	$7,259.8	$1,778.7

*for FY95 cap calculation

[19] *Governor's Budget Summary 1993-95* (Feb. 1993), A-5.
[20] *Governor's Budget Summary 1993-95* (Feb. 1993), 10.
[21] *Governor's Budget Summary 1993-95* (Feb. 1993), A-5.
[22] *Governor's Budget Summary 1993-95* (Feb. 1993), A-6 & A-7.
[23] *Connecticut State Budget 1993-95*, Office of Fiscal Analysis, Connecticut General Assembly (August 1993), p. xliii.

1994:

Governor Proposed budget adjustments (dollars in millions):

1993-94 (legislature appropriated)	$8,589.5	
1993-94 (Governor's revised appropriated base	$8,677.3	
1994-95 previous appropriation	$9,038.1	($26.5 under cap)
1994-95 recommendation different base)	$9,094.1	($13.4 under cap – from a

	Total	Capped	Uncapped
1993-94 app. Base	$8,608.1	$6,964.4	$1,643.7
1994-95 recommendation	$9,094.1	$7,289.4	$1,804.7

The 1993-94 appropriated base is lowered because it "includes removed of Industry Funds and the Bureau of Collections Services From the 1993-94 Appropriated Base."[24]

Allowable cap (personal income growth):

94-95 4.86%
95-96 4.05%
96-97 4.23%
97-98 4.79%[25]

Legislature:

The legislature adopted a revised 1994-95 that was *higher* than the Governor proposed but further *under* the cap! That is because changes adopted in 1994 increased 1993-94 "capped" expenditures to $7,335.2 to total appropriated funds:

1993-94	$9,038.2 (after 1994 action basis for calculating 1993-94 CAP)
1993-94	$9,225.9 (after 1994 action basis for calculating 1994-95 CAP)
1994-95	$9,038.2 adopted in 1993, under cap by $26.4
1994-95	$9,484.8 revised, under cap by $53.4

The difference between the two numbers for 1993-94 is explained as follows: "For 1993-4, includes $113.5 million for Debt Service (from 1992-93 General Fund surplus) per Sec. 53(b) of PA 93-80; deficiencies of $83.5 million (per SA 94-12); "uncompensated

[24] *Governor's Midterm Budget Adjustments*, February 1994, p. A-5.
[25] *Governor's Midterm Budget Adjustments*, February 1994, p. A-4.

care appropriations" of $289.8 million (see PA 94-9)\, and an appropriation of $149.6 million to the Economic Recovery Fund (ERF), per Sec. 43 of PA 94-1, MSS."[26]

1995:

John Rowland was elected Governor in 1994 and presented his first 2-year budget to the legislature in 1995(dollars in millions).

FY95 appropriated base: $9,193.8 capped $7,257.3 uncapped $1,936.5
FY96 recommended: $9,435.9 capped $7,391.6+1.85% uncapped $2,044.3 +5.57%

FY96 for 97 cap: $9,435.9 capped $7,396.4 uncapped $2,039.5
FY97 recommended: $9,581.7 capped $7,424.2 +0.38% uncapped $2,157.5 +5.79%

First year costs of Federal and Court Mandates in fiscal 1995-96 of $4.8 million are uncapped expenditures. However, these first year costs are included in the 1995-96 capped base when calculating the 1996-97 cap.

Proposed 1995-96 budget is $126.2 or 1.3% below the cap. 1996-97 is $246.6 or 2.5% below the cap.[27]
During the 1995 session, a bill to implement the constitutional amendment failed in the Appropriations Committee.

Legislature adopted budget:

	All app.	Capped	Noncapped	
1994-95	$9,484.8	$7,528.5	$1,956.3	
1995-96	$9,792.8	$7,714.0	$2,078.8	($84.8 under cap)
1995-96*	$9,792.8	$7,720.4	$2,072.4	
1996-97	$10,149.2	$7,944.3	$2,204.9	($62.5 under cap)

*for FY97 cap calculation[28]

[26] *Connecticut State Budget 1993-95 Revisions*, Office of Fiscal Analysis, Connecticut General Assembly (July 1994), p. 33.
[27] *1995-1997 Governor's Budget Summary*, February 1995, pp. A-6 to A-8.
[28] *Connecticut State Budget 1995-97*, Office of Fiscal Analysis Connecticut General Assembly, July 1995, pp. 37-38.

Note that for cap purposes, the legislature uses as the 1994-95 base the same figure ($9,484.8) that was appropriated during the 1994 session. This is higher than the 1994-95 in Gov. Rowland's proposed budget (9,193.8).

1996:

Governor's Proposed budget adjustments (dollars in millions):

	Total	Capped	Uncapped
1995-96 Appropriated Base:	$9,849.3	$7,776.9	$2,072.4
1996-97 Recommended:	$10,076.3	$7,920.1 +1.84%	$2,156.2 +4.04%

The 1995-96 base has been revised to reflect estimated deficiencies of $76.5 million and total de-appropriations of $20 million.

Expenditure cap is pegged at 3.43% (personal income growth) so 1.84% is well below cap.[29]

Legislative Action:

"For the 1996-97 fiscal year, the calculation of the spending cap shows the budget as amended to be under the cap by $212.0 million. The Governor's revised recommendations were under the cap by $123.6 million for FY '97"[30]
The amount under the cap increased because the 1995-96 base was raised and the amount spend was reduced.

1995-96 (original budget): $9,792.8
1996-96 (revised in 1996): $9,861.0

1996-97 (original budget): $10,149.2
1996-97 (revised in 1996): $10,022.0

Note this was a reduction in spending that had nothing to do with the spending cap. The budget was already well under the spending cap but it was reduced even more. In our judgment, this is a revenue driven phenomenon. Even after adoption of these reductions

[29] *1995-1997 Biennium Governor's Midterm Budget Adjustments*, February 1996, pp. A-5 to A-7.
[30] *Connecticut State Budget 1995-97 Revisions*, Office of Fiscal Analysis, Connecticut General Assembly, July 1996, p. 41.

"A total estimated shortfall of approximately $10.0 million ($7.5 million General Fund and $2.5 million Transportation Fund) could result in FY 1996-97 as a result of several arbitrated (last best offer) contracts related to Judicial employees and other units . . . ."[31] "During the 1996 Session, a bill (SB 544) to implement the constitutional amendment [on the spending cap] failed to achieve the two-thirds vote necessary."[32] [Note: the amendment requires a three-fifths vote, not two-thirds. This is probably a typo in the OFA budget book.]

1997:

Governor's proposed budget for the biennium (dollars in millions).

FY97 appropriated base: $10,209.9 capped $8,047.9 uncapped $2,162.0
FY98 recommended: $10,164.3 capped $7,983.3 -0.80% uncapped $2,181.0 +0.88%

FY98 for 99 cap: $10,164.3 capped $7,994.9 uncapped $2,169.4
FY99 recommended: $10,311.5 capped $8,039.9 +0.56% uncapped $2,271.6 +4.71%

Cap for 97-98 is +3.97%, and capped budget is down so is well under cap.
Cap for 98-99 is +4.41%, again capped budget is well under cap.[33]
According to OFA, "The Governor's recommendations were under the cap by $384.1 million for FY 98 and by $307.6 million for FY 99.

No action was taken during the 1997 session regarding the spending cap issue.

Legislature adopted budget:

	All app.	Capped	Noncapped
1996-97:	$10,283.0	$8,070.8	$2,212.2
1997-98:	$10,377.7	$8,178.1	$2,199.6 ($213.1 under cap)
1997-98:*	$10,377.7	$8,189.0	$2,188.7
1998-99	$10,531.8	$8,225.0	$2,306.8 ($325.1 under cap)

*for FY99 cap calculation[34]

[31] *Connecticut State Budget 1995-97 Revisions*, Office of Fiscal Analysis, Connecticut General Assembly, July 1996, p. 41.
[32] *Connecticut State Budget 1995-97 Revisions*, Office of Fiscal Analysis, Connecticut General Assembly, July 1996, p. 41.
[33] *1997-99 Governor's Budget Summary*, February 1997, pp. A-5 to A-8.

1998:

Governor Proposed budget adjustments (dollars in millions):

	Total	Capped	Uncapped
1997-98 Appropriated Base:	$10,502.4	$8,313.7	$2,188.7
1998-99 Recommended:	$10,927.0	$8,648.4 +4.03%	$2,278.6 +4.11%

Total appropriated funds for fiscal 1997-98 have been revised to reflect estimated deficiencies of $106.4 million and an additional appropriation of $18.3 million for the HUSKY program.[35]

Legislature revised budget:

	All app.	Capped	Noncapped	
1996-97	$10,283.0	$,070.8	$2,212.2	
1997-98	$10,608.2	$8,390.8	$2,217.4	($0.4 under cap)
1997-98*	$10,608.2	$8,404.5	$2,203.7	
1998-99	$10,994.7	$8,730.7	$2,264.0	($82.3 under cap)

* base for calculating FY99 cap.

According to OFA, "The FY 1998-99 budget is under the statutory spending cap by $82.3 million. The governor's revised recommended budget was under the cap by 69.3 million.

"On May 1, 1998, after six consecutive years of budget surpluses, the governor issued a declaration of "the existence of . . .extraordinary circumstances" to allow for the statutory spending cap to be exceeded after a three-fifths vote by the General Assembly. **For the first time since its adoption in 1991, the statutory spending cap was exceeded,** resulting in a $115.0 million appropriation for the tax rebate program, and a $79.5 million appropriation for the year 2000 problem for the state's 1,500 information systems, totaling $194.5 million in additional FY 1997-98 appropriations."

No action was taken in the 1998 session with regard to the constitutional spending cap.[36]

---

[34] *Connecticut State Budget 1997-99,* Office of Fiscal Analysis Connecticut General Assembly, September 1997, pp. 52-53.
[35] *1997-1999 Biennium Governor's Midterm Budget Adjustments,* February 1998, pp. A-6 to A-8.
[36] *Connecticut State Budget 1997-99 Revisions,* Office of Fiscal Analysis Connecticut General Assembly, July 1998, pp. 46-47.

1999:

Governor Rowland's proposed budget for the biennium (dollars in millions).

FY99 Appropriated Base: $11,074.8 capped $8,821.2 uncapped $2,253.6
FY00 Recommended: $11,574.6 capped $9,177.4 +4.04% uncapped $2,397.2 +6.37%

FY00 For 01 Cap: $11,547.6 capped $9,182.6 uncapped $2,392.0
FY01 Recommended: $12,126.7 capped $9,619.2 +4.75% uncapped $2,507.5 +4.83%

Expenditure Cap for FY 99-00 is 5.08% and 00-01 is 5.16% so proposed budget is below cap.[37]

Legislature adopted budget:

	All app.	Capped	Noncapped
1998-99	$11,074.8	$8,821.2	$2,253.6
1999-00	$11,618.9	$9,200.7	$2,418.2 ($68.6 under cap)
1999-00*	$11,618.9	$9,216.1	$2,402.9
2000-01	$12,156.8	$9,632.3	$2,524.5 ($59.3 under cap)

*for FY01 cap calculation

According to OFA, "The 1999-2001 biennial budget is under the statutory spending cap by $68.6 million for FY 00 and 59.3 million for FY01. The governor's original recommended budget was under the cap by $91.9 million for FY00 and $39.7 million for FY 01. However, this did not include the nursing home settlement reached shortly after the submittal of the budget. Incorporating the costs of that settlement ($62.2 million for FY 00 and $67.9 million for FY 01) into the Governor's recommended budget would have put it under the cap by $29.7 million in FY 00 and $37.2 million in FY 01.

"On June 4, 1999, after seven consecutive years of budget surpluses, the governor issued a declaration of "the existence of . . extraordinary circumstances" to allow for the statutory spending cap to be exceeded after a three-fifths vote by the General Assembly. **This is the second year in a row that the cap has been exceeded since its adoption in 1991.** Prior to the passage of the appropriations act, SA 99-10 the FY 99 budget was under the cap by $2.3 million. The act appropriated $511.2 million from the General

[37] *Governor's Budget Summary 1999-2001*, February 1999, pp. A-4 to A-5.

Fund surplus and $16.8 million from the Transportation Fund surplus for various items. . . As a result the FY 99 budget exceeded the statutory spending cap by $525.7 million."

No action was taken in the 1999 session with regard to the constitutional spending cap.[38]

2000:

Governor Proposed budget adjustments (dollars in millions):

	Total	Capped	Uncapped
1999-00 Appropriated Base:	$11,686.6	$9,283.7	$2,402.9
2000-01 Recommended:	$12,267.6	$9,708.3 +4.57%	$2,559.3 +6.51%

Total appropriated funds for fiscal 1999-00 have been revised to reflect estimated deficiencies of $67.7 million.

Cap set at +5.48%.[39]

Legislature revised budget:

	All appropriated.	Capped	Noncapped
1998-99	$11,074.8	$8,821.1	$2,253.6
1999-00	$11,687.1	$9,268.9	$2,418.2 ($0.4 under cap)
1999-00*	$11,714.2	$9,311.2	$2,532.8
2000-01	$12,305.0	$9,772.2	$2,532.8 ($49.4 under cap)

* base for calculating FY01 cap.

"The FY 00 base was adjusted to reflect the level of the Job Training Partnership Act (JTPA) funds the state is to receive in FY01. Workforce Investment Act funds replace JTPA funds, which were not subject to appropriation."

"FY00 Total appropriations excludes appropriations of surplus ($498.7 million) that put total appropriations over the cap by $498.3 million."

[38] *Connecticut State Budget 1999-2001*, Office of Fiscal Analysis Connecticut General Assembly, September 1999, pp. 55-57.
[39] *1999-2001 Biennium Governor's Midterm Budget Adjustments*, February 2000, pp. A-4 to A-6.

According to OFA: "The revised FY01 budget is under the statutory spending cap by $49.4 million, compared to the original FY01 budget which was under the cap by $59.3 million. The governor's revised recommended budget was under the cap by $84.1 million.

"On May 3, 2000, after eight consecutive years of budget surpluses, the governor issued a declaration of "the existence of . . extraordinary circumstances" to allow for the statutory spending cap to be exceeded after a three-fifths vote by the General Assembly. **This is the third year in a row that the cap has been exceeded since its adoption in 1991.** The original FY00 budget was under the cap by $68.6 million. As a result of surplus spending of $498.7 million and deficiency appropriations of $68.2 million, the FY 00 spending cap was effectively exceeded by $98.3 million (when additional surplus appropriations of $255.5 million for school construction grants and $10 million for school wiring are included in accordance with Section 72 of SA 00-13).

During the 2000 session, no action was taken on the constitutional spending cap issue.[40]

2001:

Governor proposed budget for the biennium (dollars in millions):

FY01 Appropriated Base: $12,360.6 capped $9,803.9 uncapped $2,556.7
FY02 Recommended: $12,889.9 capped $10,172.8+3.76% uncapped $2,717.1 +6.27%

FY02 For 03 Cap: $12,889.9 capped $10,174.8 uncapped $2,715.1
FY03 Recommended: $13,446.5 capped $10,656.9 +4.74% uncapped $2,789.6+2.74%

Total Appropriated Funds for fiscal 2000-2001 have been revised to reflect estimated deficiencies of $55.6 million.
The Cap was set at 5.33% for FY 2001-2002 and 5.53% for FY 2002-2003.[41]

[40] *Connecticut State Budget 1999-2001 Revisions*, Office of Fiscal Analysis Connecticut General Assembly, July 2000, pp. 47-48.
[41] *Governor's Budget Summary 2001-2003*, February 2001, pp. A-4 to A-5.

Legislature adopted budget:

	All appro.	Capped	Noncapped	
1999-00	$11,714.24	$9,294.46	$2,419.68	
2000-01	$12,360.89	$9,803.86	$2,557.03	($0.00 under)
cap				
2000-01	$12,360.58	$9,744.00	$2,616.58	
2001-02	$12,947.00	$10,185.18	$2,761.82	($78.17 under
cap)				
2001-02*	$12,947.00	$10,214.39	$2,732.61	
2002-03	$13,517.98	$10,716.29	$2,801.69	($62.97 under
cap)				

*for FY03 cap calculation[42]

"Spending Cap Exceeded for FY 01. In order to appropriate sums for specific purposes outlined in the above table of surplus spending, the spending cap was exceeded for the fourth time since it was adopted in 1991. The revised FY 01 budget was under the spending cap by $55.6 million. Three deficiency bills (SA 01-4, SA 01-5 and SA 01-9) appropriated a net total of $55.6 million for FY 01, leaving no room under the cap in FY 01. Therefore, by making $608.1 million in original FY 01 surplus appropriations, the budget act in effect resulted in the FY 01 budget being over the cap by $608.1 million, with the remainder intended for the rainy day fund. The fund is specifically designated to receive any excess monies beyond that which is appropriated from surplus up to 5% of the following year's net General Fund appropriation.

"To exceed the spending cap requires a three-fifths vote by the General Assembly, which was obtained after the Governor issued a declaration of "the existence of … extraordinary circumstances." Those circumstances included nine years of consecutive budget surpluses, sufficient funds to fund fully the Budget Reserve Fund, and the requirement for additional state funds for other needs.

"Both the spending cap and revenues acted as a constraint on the biennial budget. The spending cap again became a restraint on the appropriation for the biennium. However,

[42] *Connecticut State Budget 2001-2003*, Office of Fiscal Analysis Connecticut General Assembly, August 2001, p. 46.

the need to keep the budget equal to forecasted revenues also was a major limiting factor on expenditures. The spending cap limits year-to-year growth in expenditures to the five-year average in personal income growth or the twelve-month rate of inflation, which ever is greater. For FY 02, the estimated increase in personal income is expected to be 5.33 percent. For FY 03 the growth rate is projected to be 5.53 percent."[43]

2002:

Governor Rowland's proposed budget adjustments (dollars in millions):

	Total	Capped	Uncapped
2001-02 Appropriated Base:	$12,919.7	$10,207.7	$2,712.0
2002-03 Recommended:	$13,489.6	$10,746.2 +5.3%	$2,743.4 +1.2%

Total appropriated funds for fiscal 2001-2002 have been revised to reflect an additional deficiency appropriation of $4.6 million.
Cap set at +6.2%. "Revised to reflect actual personal income growth through fiscal year 2001."[44]

Legislature revised budget:

"The original biennial State Budget, as approved by the 2001 General Assembly for FY 03 (the second year of the 2001-03 biennium), was $13.52 billion. However, due to fiscal constraints it was necessary to reduce the overall level of expenditures. The 2002 session of the General Assembly revised the FY 03 budget by lowering the appropriation for FY 03 by $300.21 million resulting in a budgeted $13.22 billion."[45]

"For the first time in five years, the limitation placed upon the budget by the statutory spending cap was not a factor in arriving at the level of appropriations. With surpluses in excess of $500 million over the last five years, the spending cap limited both the growth in expenditures as well as the nature of surplus spending. The spending cap largely limited surplus spending to one-time items. The FY 03 revised appropriation is $363

[43] *Connecticut State Budget 2001-2003,* Office of Fiscal Analysis Connecticut General Assembly, August 2001, p. 9.
[44] *2001-2003 Biennium Governor's Midterm Budget Adjustments,* February 2002, pp. A-4 to A-5.
[45] *Connecticut State Budget 2001-2003 Revisions,* Office of Fiscal Analysis Connecticut General Assembly, August 2002, p. 7.

million under the statutory spending cap. It had been $63 million under the cap in the original FY03 budget passed by the 2001 General Assembly.

2003:

Governor Rowland's proposed budget for the biennium (dollars in millions):

FY03 Appropriated Base: $13,132.6 capped $10,425.6 uncapped $2,707.2
FY04 Recommended: $13,542.7 capped $10,683.0+2.47% uncapped $2,859.7 +5.63%

FY04 for 03 Cap: $13,542.7 capped $0,683.0 uncapped $2,859.7
FY05 Recommended: $14,116.4 capped $11,096.0 +3.87% uncapped $3,020.4+5.62%

Total Appropriated Funds for fiscal 2002-03 have been revised to reflect estimated de-appropriations of $85 million.

The Cap was set at 5.27% for FY 2003-2004 and 4.48% for FY 2004-2005.[46]

Legislature adopted budget:

	All app.	Capped	Noncapped
2001-02	$12,925.3	$10,210.5	$2,714.8
2002-03	$13,217.8	$10,467.4	$2,750.4 ($376.1 under cap)
2002-03	$13,217.8	$10,475.9	$2,741.9
2003-04	$13,520.5	$10,672.0	$2,848.5 ($356.0 under cap)
2003-04	$13,520.5	$10,672.0	$2,848.5
2004-05	$14,056.2	$11,030.9	$3,025.3 ($119.2 under cap)[47]

The legislature also gave the Governor "Extraordinary Rescission Authority – Section 60 of PA 03-1 June Special Session, gives the Governor expanded temporary rescission authority. For FY 05, if the Governor determines there is a fiscal exigency that cannot be remedied under his existing authority, he may make additional rescissions up to $55 million. These expanded rescissions may not exceed an additional 5 percent of any appropriations or a fund beyond the governor's current authority."[48]

---

[46] *2003-2005 Governor's Budget Summary*, February 2003, pp. A-4 to A-5
[47] *Connecticut State Budget 2003-2005*, Office of Fiscal Analysis Connecticut General Assembly, August 2003, p. 12.
[48] *Connecticut State Budget 2003-2005*, Office of Fiscal Analysis Connecticut General Assembly, August 2003, p. 9.

2004:

Biennial budget adopted previous year in deficit.

From Governor's midterm budget adjustments:

"What accounts for the better budgetary position going into the recession? The spending cap, of course! It has been the taxpayers' best friend these past dozen years or so."

"While the spending cap has been exceeded in several occasions by agreement between the Governor and legislature, the monies were spent largely on debt avoidance and retirement and one-time projects that did not add to ongoing spending growth. And at no time were the extra expenditures added to the spending base so as to inflate spending in the out-years or to create new programs with ongoing costs."

"The lesson learned: while many complained about the supposed inflexibility of the spending cap in good revenue times, it did exactly what the framers expected it would do – it controlled everyone's appetite to grow beyond our long-term means."[49]

Governor Proposed budget adjustments (dollars in millions):

	Total	Capped	Uncapped
2003-04 Appropriated Base:	$13,618.4	$10,768.1	$2,850.3
2004-05 Recommended:	$14,235.3	$11,200.0+4.01%	$3,035.3 +6.49%

Total Appropriated funds for fiscal 2003-2004 have been revised to include appropriation of $66.2 million in FY 2003-04 deficiencies, $11.7 million for TANF Bonus, and $20.0 million in CATCH-F in the General Fund. This lowers amount FY05 budget would be under the spending cap from $119.2 million to $58.6 million.
The cap for FY 2004-05 is set at 4.46%. Raising base of FY04 appropriation provides additional room under the spending cap, allowing the governor to add $179.2 million over the FY05 enacted budget.[50]

[49] *FY2004-2005 Governor's Midterm Budget Adjustments,* February 4, 2004, pp. 4 & 5.
[50] *FY2004-2005 Governor's Midterm Budget Adjustments,* February 4, 2004, pp. A-4 & A-5.

Legislative Action:

"The budget revisions reflect an FY 05 all funds appropriated base of $14,322.1, which results in the FY 05 budget being 129.1 million under the cap. This calculation is based upon adjustments made to the base of all funds appropriated in FY 04.

"Appropriations made in FY 04 have a significant impact on the calculation of the spending cap. In the original FY 05 budget, the total funds appropriated for FY 04 were $356 million under the spending cap. The revised budget includes several appropriations that raise the level of all funds and reduce the amount by which the FY 04 budget is under the spending cap. Those appropriations include $234.9 million in deficiencies and additional appropriations. Additional appropriations for FY 04 include $5 million for interim rate increases for nursing homes, $48.4 million for the Reserve for Salary Adjustments account, which is used to fund collectively bargained labor agreements, $11.7 million in federal TANF block grant bonus funds, $20 million for the Commission on Culture and Tourism, $30 million for the continuation of HUSKY Adults in FY 05 as mandated by the federal court, $25.3 million for the Department of Higher Education Matching Grants and $3.95 million of additional miscellaneous appropriations. In addition, $90.5 million is appropriated to cover agency deficiencies in the current fiscal year. These additional appropriations raise the base total funds to $13.755.4 million and results in the FY 04 budget being $122.9 million under the spending cap and the FY 05 budget being under the cap by $129.1 million."[51]

2005:

Gov. Rowland resigned in 2004 and the Lt. Gov. Jodi Rell became Governor. Governor Rell will present her first budget to the legislature in January 2005.

[51] *Connecticut State Budget 2003-2005 Revisions*, Office of Fiscal Analysis Connecticut General Assembly, August 2004, pp. 8-9.