Testimony In Support Of Governor's H.B. 6352
An Act Concerning the Expenditure Cap

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Senator Harp, Representative Walker, Senator Kane, Representative Miner, and distinguished members of the Committee:

My name is Matt Santacroce. I am a Policy Analyst at Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families**. I am here today to testify in support of Governor's H.B. 6352, *An Act Concerning the Expenditure Cap.*** This bill would make the following changes to the state's expenditure cap, pursuant to C.G.S. Sec. 2-33a:

- Spending related to federal programs that are 100 percent funded by the federal government would be exempted from the cap for the first full year in which such spending is authorized, but will be rolled into the budget "base" for purposes of determining the cap for the following year.
- The bill would broaden the definition of "evidence of indebtedness" to include annual required contributions for the unfunded accrued liability in the teachers' retirement system (TERS) and the state employees' retirement system (SERS). Under current law, payments related to "evidences of indebtedness" are exempt from the definition of "general budget expenditures" for the purposes of determining the cap.

We applaud these proposed changes. Because Connecticut "gross-budgets" Medicaid,[1] the expansion of health coverage to low-income adults under 133% of the federal poverty level beginning in calendar year 2014 will significantly increase total Medicaid spending in Connecticut – even though the net state cost of this expansion will be zero for the first three years of implementation, and will remain relatively low after that.[2] The statutory spending cap was adopted to limit growth in *state* spending, and was never intended to limit the receipt of additional funds from the federal government – as will occur under the Affordable Care Act.

[1] The state appropriation for Medicaid includes not only state funds, but also the anticipated federal matching funds that are booked as General Fund revenue when received. As a result, a dollar of increased state spending on Medicaid generally results in two dollars of "general budget expenditures" counted against the spending cap.
[2] By 2020, the state will be responsible for 10 percent of the total cost of providing coverage to this expansion group (childless adults with incomes below 133% of the federal poverty level).

But because this provision of the ACA is not considered a "federal mandate," the 100% federal funding for Connecticut's new low-income adult expansion would be deemed a "general budget expenditure" subject to the spending cap under current law. The proposed expansion of the current exemption for federally-mandated expenditures to encompass all fully-funded federal programs – not just those considered federal mandates – is a common-sense change that is consistent with the original goals of the state spending cap.

We also support the proposed expansion of the current spending cap exemption for appropriations related to payments on state indebtedness to include payments towards the state's pension liabilities. Like payments on the state's bonded debt, removing barriers to paying ahead on these outstanding obligations should be encouraged.

In addition, we urge the Committee to consider several additional adjustments to the existing statutory language governing the spending cap. Briefly, these are the following:

1.) The "base" used to calculate allowable spending under the cap should be determined using the amount that would have been <u>allowed</u> during the previous year, even if not actually spent. The existing requirement that only <u>actual</u>, rather than allowable, spending is determinant of the following year's budget base leads to a "ratcheting-down" effect with each consecutive recessionary period, as slow rates of growth are applied to depressed budget bases. Cuts in public investments, then, can never be fully undone – no matter how strongly state revenues rebound in the post-recession period.

2.) The definition of "personal income," for the purpose of determining growth in the cap, should be expanded to include capital gains (which are currently excluded). Excluding this source of income significantly underestimates growth in Connecticut's economy from year to year, and as a result, the capacity of the state to support the vital functions of government.

3.) The "lookback" period used to determine the average increase in personal income (which determines one of the two measures for the allowable growth rate) should be expanded from five to ten years. This would have a smoothing effect on the growth rate, reducing some of the dramatic fluctuations in allowable growth in spending that we have experienced since the cap was adopted.

These re-definitions of terms governing the spending cap, in concert with the changes proposed by the Governor, would more closely link growth in state spending with growth in the economy – helping to assure that our public investments can keep pace with the needs of Connecticut's families.[3]

Thank you for the opportunity to testify before you today. I look forward to your questions.

[3] Substitute language available upon request.