Budgeting under the new caps: The law of unintended consequences

Rachel Silbermann, Fiscal Policy Fellow, Connecticut Voices for Children
Sam Whipple, Legislative Advocacy Clinic, Yale Law School
Unintended consequences of the new caps

• Ratchet down spending after a recession.
• Require deposit into Budget Reserve Fund even when projected deficits.
• Growing “fixed costs” under the caps will squeeze “functional spending.”
• If state functional spending is squeezed, costs will be transferred to towns, increasing economic and racial inequality.
Background: Locking in tight budget, painful cuts
The Caps

Spending
Volatility
Appropriations
Bond
Goal of caps: Tie legislators' hands
Spending cap

• Each year, “General budget expenditures” cannot increase more than average income growth over the past 5 years or growth in consumer price index, whichever is greater.

• “Base” for calculations is appropriated (budgeted) spending rather than allowed spending.
“General Budget Expenditures” are capped

General Budget Expenditures include all appropriated funds **EXCEPT**:

- Bond payments
- Transfers to the Budget Reserve Fund
- Federal Funds
- Uncapped in first FY, but capped thereafter: Expenditures due to federal mandates or court orders and to federal programs where state receives matching funds.
- Through 2022: Payments to fund State Employee Retirement System (SERS)
- Through 2026: Payments to fund Teacher’s Retirement System (TRS)
Grants to “distressed municipalities” now under cap

These grants (when granted to distressed municipalities) used to be excluded from the cap:

• *Education Equalization Grants*
• *School Based Health Clinics*
• *Teen Pregnancy Prevention*
• *Bilingual Education*
• *Others*
Spending Cap based on actual spending ratchets down spending after recession (hypothetical).

- **Revenue**: Our capacity to spend in a given year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1 (normal)</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Year 2 (recession)</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Year 3 (recovery)</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Year 4 (booming)</td>
<td>$12,000,000</td>
</tr>
</tbody>
</table>

Note: Assumes 3% allowed growth rate.
Spending Cap based on actual spending ratchets down spending after recession (hypothetical).

- **Revenue**: Our capacity to spend in a given year.
- **SC– Allowed**: Spending cap, where “Base” is previous year’s allowed spending.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>SC - Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1 (normal)</td>
<td>$6,000,000</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Year 2 (recession)</td>
<td>$7,000,000</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Year 3 (recovery)</td>
<td>$8,000,000</td>
<td>$9,000,000</td>
</tr>
<tr>
<td>Year 4 (booming)</td>
<td>$9,000,000</td>
<td>$10,000,000</td>
</tr>
</tbody>
</table>

Note: Assumes 3% allowed growth rate
Spending Cap based on actual spending ratchets down spending after recession (hypothetical).

- **Revenue**: Our capacity to spend in a given year.

- **SC– Allowed**: Spending cap, where “Base” is previous year’s allowed spending.

- **SC – Actual**: Spending cap, where “Base” is previous year’s appropriated spending.
  - Limits spending after recession – even when we’ve recovered.

Note: Assumes 3% allowed growth rate
Ratcheting down: badly timed, long lasting

- After recessions, the worst time to cut public investment.
- One bad revenue year could diminish public investment for years.
Volatility Cap

• All revenues from Estimates and Finals portion of income tax above a threshold are deposited in Budget Reserve Fund and excluded from budget making.

• Indexed to average income growth over the past 5 years.
Volatility transfers even in deficit years

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Volatility Transfer to Budget Reserve Fund</td>
<td>$(648,000,000)</td>
<td>$(278,100,000)</td>
<td>$(263,300,000)</td>
</tr>
<tr>
<td>Projected General Fund Surplus/(Deficit)</td>
<td>$330,200,000</td>
<td>$(1,661,800,000)</td>
<td>$(2,310,200,000)</td>
</tr>
</tbody>
</table>

Sources: November Consensus Revenue Projections, Transition Budget
Appropriations Cap

The General Assembly can only appropriate a percent of estimated revenue, as follows:

- FY 2020: 99.5%
- FY 2021: 99.25%
- FY 2022: 99.00%
- FY 2023: 98.75%
- FY 2024: 98.50%
- FY 2025: 98.25%
- FY 2026 and after: 98%
Interaction of Spending, Volatility, and Appropriation Caps

• The Volatility Cap and Appropriations Cap further lower the amount of revenue available for appropriation.

• Caps supposed to encourage saving revenue from spikes or one-time sources.

• But as designed, they prevent spending normal growth of revenue and limit economic growth.
Bond Cap

• Bonding is capped at $1.9 billion
• Indexed to CPI
Early Defects in the Bond Cap

• Legislature realized shortcomings in the bond cap and passed amendments to exempt some categories of borrowing
  • Refinancing bonds
  • Transportation bonds, up to $250 million per year
• Exemptions ensure that these bonds won't "crowd out" other general borrowing (e.g. for school construction and economic development)
• However, the Bond Lock might stop those changes from taking effect
The Bond Lock and the Bond Cap
“Drafting Error” explained.

Locking in restrictive caps
Bond Lock

• Connecticut has handcuffed itself to the four caps and given the key to Wall Street bondholders

• For each bond issuance between 2018 and 2020, the Treasurer must write a promise into the bond covenant stating that the caps will remain in effect, without amendment, through 2023

• Only exit options are:
  (1) Governor’s emergency declaration, with a 3/5 vote in both houses; or
  (2) Adequate protection for bondholders

• Otherwise amending the caps would place the state in technical default, and at risk of a lawsuit
Bond Lock Already Imperiled Key Changes to Bond Cap

Due to a “drafting error,” the bond cap amendments took effect too late, after the Treasurer had inadvertently locked into the overly restrictive bond cap
Connecticut’s Costly “Drafting Error”


May 9, 2018

Bond lock and strict bond cap from the 2017 budget Implementer takes effect. The two exemptions are not yet effective.

June 20, 2018

Two exemptions in the looser bond cap are set to take effect but are barred by the bond lock.

Oct. 26, 2017

2018 bond bill creates looser bond cap to exempt refinancing bonds and transportation bonds up to $250 million per year. Effective date is July 1, 2018.

May 15, 2018

State Treasurer issues general obligation bonds and locks in the strict bond cap for the next five years.

July 1, 2018

*In past years, the state has issued around $500 million in debt refinancing. The transportation allowances were set to an additional $250 million. These bonds now must crowd out other general borrowing for school construction, municipal aid, environmental protection, etc., until the bond lock expires.

Today: If the state follows the looser bond cap, it will violate the terms locked in on June 20. The state will enter technical default and could be sued by its creditors. Thus, Connecticut cannot take advantage of the refinancing and transportation exemptions. Inadvertently, the legislature has bound itself to the strict bond cap for five years and forfeited $750 million in bonding capacity.*
To take advantage of the amendments it passed last May, the legislature must escape from the covenant already contained in $500 million of GO bonds. Options:

1) Judicial remedies (AG’s opinion or Scrivener’s Error)
2) Exercise the emergency clause annually until 2023
3) Refinance the GO bonds, at a steep penalty

All are expensive and risky, and they signal poor financial health.
Judicial Review
• The state could borrow using the July 1 bond cap, thereby entering technical default on the bonds issued June 20
• "Bond vultures" will buy up the bonds from current holders, looking to sue CT for profit
• As a defense, Connecticut can argue that the restrictive bond cap has nullified clear legislative intent (AG’s opinion), or that the bond bill contained a "Scrivener’s Error."
• Advantages: State can immediately utilize the two exemptions
• Costs: State risks losing the lawsuit, and litigation could leave other investors uneasy

Emergency Clause
• Connecticut can suspend the bond lock for one year at a time, enabling it to alter the bond cap
• This procedure requires a declaration by the Governor and a 3/5 vote in the legislature, each time it is invoked
• Connecticut would need to exercise this option annually until the bond lock lifts in 2023
• Advantages: State follows established procedures and does not risk litigation
• Costs: State signals poor fiscal health, and the supermajority requirement could prove infeasible

Refinancing
• Connecticut can issue new bonds to refinance the $500 million issued on June 20
• New bond covenants could include the proper bond cap, allowing the two exemptions to take effect
• Advantages: The defective bonds are cleared, and the refinancing bonds would be properly exempt from the $1.9 billion cap
• Costs: Steep banking and transaction fees
What can we expect in the absence of reform?

The caps and the future
Growing fixed costs under spending cap will squeeze spending

**Without reform**, capped fixed costs (contractual spending) will take up an increasing proportion of capped spending, leaving less room for functional spending (education, health care, municipal grants, etc).

Note: Capped fixed costs as defined by OFA. All fixed costs except SERS and TRS payments after 2022 assumed to grow at same rate as did from 2020-2022. SERS and TRS numbers from actuarial projections.
Growing fixed costs under spending cap will squeeze spending

**Without reform**, capped fixed costs (contractual spending) will take up an increasing proportion of capped spending, leaving less room for functional spending (education, health care, municipal grants, etc).

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**Note**: Capped fixed costs as defined by OFA. All fixed costs except SERS and TRS payments after 2022 assumed to grow at same rate as did from 2020-2022. SERS and TRS numbers from actuarial projections.
Growing fixed costs will squeeze capped spending (cont.)

Starting in 2028, growth in payments to Teacher’s Retirement System (TRS) will eat up more and more of allowed growth in capped spending.
Growing fixed costs will squeeze capped spending (cont.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Equalization Grants</td>
<td>$2 billion</td>
<td>22%</td>
<td>$340 million</td>
</tr>
<tr>
<td>Grants to Distressed Municipalities (newly under cap)</td>
<td>$1.5 billion</td>
<td>16%</td>
<td>$250 million</td>
</tr>
<tr>
<td>Dept. of Ed. (aside from Ed. Equal. Grants)</td>
<td>$945 million</td>
<td>10%</td>
<td>$160 million</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$635 million</td>
<td>7%</td>
<td>$105 million</td>
</tr>
</tbody>
</table>

*Note: Assumes each line item in capped functional spending will be the same proportion of capped discretionary spending in 2032 as it is in 2019 and an inflation rate of 2.5% per year.*
...inequitably pushing more costs onto towns
Caps also make budget process less transparent, less accountable to constituents

• Caps incentivize spending outside of the budget including revenue intercepts, bonding for ongoing state expenses, and tax expenditures

• Supermajority requirements to exceed the caps:
  • Encourage gridlock, allowing a minority of legislators to hold up the budget making process.
Ways around the caps
<table>
<thead>
<tr>
<th></th>
<th>Spending cap</th>
<th>Volatility cap</th>
<th>Appropriations cap</th>
<th>Bond cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governor declares emergency or extraordinary circumstances AND At least three-fifths of the both houses vote to do so.</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At least three-fifths of the both houses vote to do so (due to changes in state or federal tax law or policy or significant adjustments to economic growth or tax collections)</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Majority vote of both houses vote to do so (for purposes of an adjusted appropriation and revenue plan)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Statutory ways to exceed the caps (one yr. only)
Removing the Bond Lock Handcuffs

• The bond cap “drafting error” arose just two months into the bond lock. What else will arise over the next five years?
  • Economic fluctuations
  • Growing fixed costs (e.g. TRS pension payments)
  • Changes in federal taxation
  • Needs of municipalities
  • Forward-looking public investments

• Sounder public policy would be to release the bond lock and restore discretion to make considered changes to the caps
Removing the Bond Lock Handcuffs

Options available to exit the bond lock:

1) Provide “adequate protection” for bondholders
2) Refund outstanding bonds and repeal the bond lock law
3) Successfully argue its unconstitutionality
"Adequate Protection"

- If the state passes a law to impair its contractual obligations, it risks running afoul of the Contract Clause of the U.S. Constitution
- CT would need to show that the impairment was (1) not substantial, and (2) reasonable and necessary to serve an important public purpose
- If the state amends the bond lock through a public process, soliciting feedback and considering the impacts, a court could say bondholders were adequately protected
- Advantages: State can engage all stakeholders and set clear procedures for future changes
- Costs: Stakeholders may seek concessions, backed with the threat of a lawsuit

Refund and Repeal

- Connecticut can refund all outstanding bonds containing the covenant, then repeal the bond lock statute
- New bonds can then be reissued, without the problematic covenant
- This would need to be done quickly. It grows more costly with each new bond issuance by the Treasurer
- Advantages: The defective bonds are cleared, and state does not risk litigation
- Costs: Banking and transaction fees, and the move could signal indecision by the state

Unconstitutional

- Connecticut can argue that the bond lock was beyond the legislature’s constitutional powers
- The General Assembly cannot delegate its core lawmaking functions
- By one view, the legislature has impermissibly delegated its control over the budget. Bondholders now hold a power that the state constitution reserves for the General Assembly
- Advantages: The bond lock is removed in its entirety, and the legislature is prevented from reenacting a similar lock
- Costs: Caselaw is not settled; state risks losing the lawsuit
Conclusions

• The caps are flawed: they ratchet down spending after a recession – exactly when it is needed most.

• The caps remove discretion from lawmakers.

• The caps make the budget less transparent, further removed from democratic accountability.

• The caps will force additional cuts in our investments in children and families and inequitably push more of the costs onto towns.

• Without reform, the caps will prevent Connecticut from investing in broad-based prosperity.
Thank you.
References

- Alex Knopp article on bond lock: [https://www.ctnewsjunkie.com/archives/entry/20180202_op-ed_six_reasons_to_repeal_the_doomsday_bond_covenant/](https://www.ctnewsjunkie.com/archives/entry/20180202_op-ed_six_reasons_to_repeal_the_doomsday_bond_covenant/)
- Fiscal Accountability Reports:
Contact us

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Twitter (@CTVoices):  https://twitter.com/CTVoices
Facebook:  https://www.facebook.com/CTVoicesforChildren

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Extra Slides
Grants to distressed municipalities that used to be uncapped

- DPH
  - 17009 Local and District Departments of Health
  - 17013 Venereal Disease Control
  - 17019 School Based Health Clinics
- DSS
  - 17022 Child Day Care
  - 17025 Human Resource Development
  - 17029 Human Resource Development- Hispanic Prgm
  - 17032 Teen Pregnancy Prevention
- DOE
  - 17014 School Building Grants and Int. Subsidy
  - 17017 Vocational Agriculture
  - 17027 Transportation of School Children
  - 17030 Adult Education
  - 17034 Health and Welfare Services- Private School
  - 17041 Education Equalization Grants
  - 17042 Bilingual Education
  - 17043 Priority School Districts
- 17044 Young Parents Program
- 17045 Interdistrict Cooperation
- 17046 School Breakfast Program
- 17047 Excess Cost Program
- 17049 Non-Public School Transportation
- 17052 Youth Service Bureaus
- 16119 Charter Schools Lib
- 17003 Grants to Public Libraries
- 17010 Connecticutcard Payments
- OSC
  - 17004 State Property PILOT
  - 17005 Mashantucket Pequot- Grants to Towns
  - 17006 Colleges and Hospitals (Private Property) PILOT
- DOT
  - 17036 Town Aid Road
CT Spending Cap Timeline

• **1991**: Spending cap created through constitutional amendment, but that amendment left it to the legislature to define, by three-fifths vote, the terms “increase in personal income,” “increase in inflation,” and “general budget expenditures,” i.e. how much the cap could increase year to year and what fell under the cap.

• The legislature only managed to define these terms by simple majority.

• **1993**: Attorney General releases opinion that current statutory cap is operative until Assembly defines terms by three-fifths majority making it constitutional.

• **2018**: FY 18-19 budget redefines terms and, because it was passed with three-fifths vote, gives the new definitions a constitutional effect. We can now only modify these definitions by a three-fifths vote.
Included in Capped Fixed Costs (from OFA’s Fixed Costs List)

- SERS (starting 2023) and TRS (Starting in 2027) UAALs
- State Comptroller Misc - TOTAL
- Retired State Employees Health Service
- Dept. of Mental Health and Addiction Services TOTAL
- DSS TOTAL
- OEC TOTAL
- Teacher’s Retirement Board - Retirees Health Service Costs
- Teacher’s Retirement Board - Municipal Retiree Health Insurance Costs
- DCF Total

(Note: TOTAL refers to total fixed costs NOT department total.)

Sources: OFA 2018 Fiscal Accountability Report, Fixed Cost Detail; Actuarial reports of SERS and TRS
The legislation: details

• **Spending cap:** “The General Assembly shall not authorize an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage which exceeds the greater of the percentage increase in personal income or the percentage increase in inflation” (2017 Budget Implementer, Sec. 709)

• **Volatility Cap:** "All revenue in excess of $3.15 billion received by the state each fiscal year from estimated and final payments of the personal income tax... shall be transferred by the Treasurer to a special fund to be known as the Budget Reserve Fund...On and after July 1, 2018, the threshold amount shall be adjusted annually by the compound annual growth rate of personal income in the state over the preceding five calendar years.” (2018 Budget Implementer, Sec. 20)
Capped general budget expenditures, detail

- General Budget Expenditures include all appropriated funds EXCEPT:
  - Bond payments
  - Transfers to the Budget Reserve Fund
  - Federal Funds
  - Expenditures related to implementation of federal mandates or court orders, in first FY.
  - Expenditures for federal programs that the state starts participating in after the effective date and for which the state receives matching funds, in the first FY that participates.
  - Through 2022: All actuarially determined employer contribution (ADEC) pension payments.
  - Through 2026: ADEC payments for Teacher’s Retirement System

- SB 1502, 2017 Implementer, Sec. 709
## Calculations for cuts slide

<table>
<thead>
<tr>
<th>line item</th>
<th>2019 approp</th>
<th>2019 total unfixed capped costs</th>
<th>2019 percent capped approps</th>
<th>2032 projected total unfixed capped approps</th>
<th>2032 projected approps</th>
<th>1 dollar in 2019 worth x in 2032 (from <a href="https://smartasset.com/investing/inflation-calculator#YfZ1SuCMw">https://smartasset.com/investing/inflation-calculator#YfZ1SuCMw</a>)</th>
<th>2032 approps in 2019 dollars</th>
<th>Effective Cut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Equalization Grants</td>
<td>2,016.7</td>
<td>9,375.0</td>
<td>0.2</td>
<td>11,018.2</td>
<td>2,370.2</td>
<td>0.7</td>
<td>1,677.4</td>
<td>339.3</td>
</tr>
<tr>
<td>Department of Education (aside from Ed. Equal Grants)</td>
<td>945.0</td>
<td>9,375.0</td>
<td>0.1</td>
<td>11,018.2</td>
<td>1,110.6</td>
<td>0.7</td>
<td>786.0</td>
<td>159.0</td>
</tr>
<tr>
<td>Higher Education</td>
<td>636.9</td>
<td>9,375.0</td>
<td>0.1</td>
<td>11,018.2</td>
<td>748.5</td>
<td>0.7</td>
<td>529.7</td>
<td>107.2</td>
</tr>
<tr>
<td>Statutory Grants to Distressed municipalities (2017)</td>
<td>1,496.80</td>
<td>9,375.0</td>
<td>0.2</td>
<td>11,018.2</td>
<td>1,759.2</td>
<td>0.7</td>
<td>1,245.0</td>
<td>251.8</td>
</tr>
</tbody>
</table>
A change: grants to distressed municipalities are now under the cap


Putting grants to distressed municipalities under the cap may make it harder for the state to direct spending to where it is needed most, when it is most needed.
The Spending Cap calculation

\[
\text{Spending Cap} = \text{“Base”} \times (1 + \text{Allowed Growth Rate})
\]

where,

Base = Previous year’s \textbf{appropriated} spending (not previous year's \textbf{allowed} spending).

\textbf{Allowed Growth Rate} = The compound annual growth rate of personal income in the state over the preceding five calendar years OR the increase in the Consumer Price Index over the past year. Whichever is greater.

- \textbf{Implications}: The base definition and the allowed growth rate ratchet down spending after a recession and into the future.
Spending cap based on appropriated (rather than allowed) spending ratchets down spending after a recession (hypo. example)

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2 (recession)</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$10,000,000</td>
<td>$9,000,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Maximum allowed by cap, if growth rate applied to Allowed Spending (assuming a 3% allowed growth rate)</td>
<td>$10,000,000</td>
<td>$10,300,000</td>
<td>$10,609,000</td>
</tr>
<tr>
<td>(1) Amount appropriated, when base is the Allowed Spending</td>
<td>$10,000,000</td>
<td>$9,000,000</td>
<td>$10,000,000 to $10,609,000</td>
</tr>
<tr>
<td>(2) Amount appropriated, when base is Appropriated Spending</td>
<td>$10,000,000</td>
<td>$9,000,000</td>
<td>$9,270,000</td>
</tr>
<tr>
<td>Difference between (1) and (2)</td>
<td>0</td>
<td>0</td>
<td>Up to 12.6% ($1,339,000)</td>
</tr>
</tbody>
</table>
Who pays taxes in CT?

TOTAL STATE AND LOCAL TAXES IN CONNECTICUT
Share of Family Income

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Income Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest 20%</td>
<td>11.5%</td>
<td>Less than $25,000</td>
</tr>
<tr>
<td>Second 20%</td>
<td>9.2%</td>
<td>$25,000 - $45,000</td>
</tr>
<tr>
<td>Middle 20%</td>
<td>12.2%</td>
<td>$45,000 - $77,100</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>12.1%</td>
<td>$77,100 - $131,500</td>
</tr>
<tr>
<td>Next 15%</td>
<td>11.1%</td>
<td>$131,500 - $341,400</td>
</tr>
<tr>
<td>Next 4%</td>
<td>9.6%</td>
<td>$341,400 - $968,200</td>
</tr>
<tr>
<td>Top 1%</td>
<td>8.1%</td>
<td>$968,200+</td>
</tr>
</tbody>
</table>

Source: ITEP
Who pays taxes in CT?

SALES & EXCISE TAXES IN CONNECTICUT
Share of Family Income

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Income Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOWEST</td>
<td>6.8%</td>
<td>Less than $25,000</td>
</tr>
<tr>
<td>SECOND</td>
<td>4.9%</td>
<td>$25,000 - $45,000</td>
</tr>
<tr>
<td>MIDDLE</td>
<td>3.8%</td>
<td>$45,000 - $75,000</td>
</tr>
<tr>
<td>FOURTH</td>
<td>3.2%</td>
<td>$75,000 - $115,000</td>
</tr>
<tr>
<td>NEXT 15%</td>
<td>2.2%</td>
<td>$115,000 - $341,000</td>
</tr>
<tr>
<td>NEXT 4%</td>
<td>1.4%</td>
<td>$341,000 - $968,000</td>
</tr>
<tr>
<td>TOP 1%</td>
<td>0.8%</td>
<td>$968,000 or more</td>
</tr>
</tbody>
</table>

Source: ITEP
Who pays taxes in CT?

Source: ITEP
Who pays taxes in CT?

Source: ITEP
# PROJECTED REVENUES

Consensus Revenue Forecast - November 13, 2018  
(In Millions)

<table>
<thead>
<tr>
<th>Taxes</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income - Withholding</td>
<td>$6,403.1</td>
<td>$6,498.4</td>
<td>$6,633.8</td>
<td>$6,774.3</td>
</tr>
<tr>
<td>Personal Income - Estimates &amp; Finals</td>
<td>3,244.8</td>
<td>2,972.7</td>
<td>3,051.8</td>
<td>3,133.1</td>
</tr>
<tr>
<td>Sales &amp; Use Tax</td>
<td>4,211.6</td>
<td>4,203.5</td>
<td>4,218.6</td>
<td>3,902.7</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>969.2</td>
<td>928.6</td>
<td>992.7</td>
<td>971.7</td>
</tr>
<tr>
<td>Pass-through Entity Tax</td>
<td>600.0</td>
<td>600.0</td>
<td>600.0</td>
<td>600.0</td>
</tr>
<tr>
<td>Public Service Tax</td>
<td>230.8</td>
<td>237.7</td>
<td>244.7</td>
<td>251.9</td>
</tr>
<tr>
<td>Inheritance &amp; Estate Tax</td>
<td>176.2</td>
<td>155.8</td>
<td>134.2</td>
<td>126.0</td>
</tr>
<tr>
<td>Insurance Companies Tax</td>
<td>234.3</td>
<td>237.4</td>
<td>239.6</td>
<td>241.8</td>
</tr>
<tr>
<td>Cigarettes Tax</td>
<td>375.5</td>
<td>356.4</td>
<td>338.8</td>
<td>322.0</td>
</tr>
<tr>
<td>Real Estate Conveyance Tax</td>
<td>209.4</td>
<td>217.5</td>
<td>224.4</td>
<td>232.7</td>
</tr>
<tr>
<td>Alcoholic Beverages Tax</td>
<td>63.0</td>
<td>63.4</td>
<td>63.8</td>
<td>64.1</td>
</tr>
<tr>
<td>Admissions &amp; Dues Tax</td>
<td>41.8</td>
<td>42.1</td>
<td>42.4</td>
<td>42.7</td>
</tr>
<tr>
<td>Health Provider Tax</td>
<td>1,049.2</td>
<td>534.0</td>
<td>535.5</td>
<td>536.9</td>
</tr>
<tr>
<td>Miscellaneous Tax</td>
<td>20.2</td>
<td>20.7</td>
<td>21.2</td>
<td>21.6</td>
</tr>
<tr>
<td><strong>Total Taxes</strong></td>
<td>$17,829.1</td>
<td>$17,068.2</td>
<td>$17,341.5</td>
<td>$17,221.5</td>
</tr>
</tbody>
</table>

| Less Refunds of Tax           | (1,287.3)| (1,391.6)| (1,460.3)| (1,530.8)|
| Less Earned Income Tax Credit | (94.2)   | (97.3)   | (100.6)  | (104.0)  |
| Less R&D Credit Exchange      | (6.4)    | (6.7)    | (6.9)    | (7.7)    |
| **Total - Taxes Less Refunds**| $16,441.2| $15,572.6| $15,773.8| $15,579.0|

<table>
<thead>
<tr>
<th>Other Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers-Special Revenue</td>
</tr>
<tr>
<td>Indian Gaming Payments</td>
</tr>
<tr>
<td>Licenses, Permits, Fees</td>
</tr>
<tr>
<td>Sales of Commodities</td>
</tr>
<tr>
<td>Rents, Fines, Escrows</td>
</tr>
<tr>
<td>Investment Income</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td>Less Refunds of Payments</td>
</tr>
<tr>
<td><strong>Total - Other Revenue</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Grants</td>
</tr>
<tr>
<td>Transfer From Tobacco Settlement</td>
</tr>
<tr>
<td>Transfers From (To) Other Funds</td>
</tr>
<tr>
<td>Transfers to BRF - Volatility Adjustment</td>
</tr>
<tr>
<td><strong>Total - Other Sources</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total - General Fund Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>$19,269.4</td>
</tr>
</tbody>
</table>
# Tentative Budget Plan

(In Millions)

<table>
<thead>
<tr>
<th>General Fund</th>
<th>Estimated FY 2019</th>
<th>Current Services FY 2020</th>
<th>Current Services FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$19,269.4</td>
<td>$17,823.2</td>
<td>$18,038.0</td>
</tr>
<tr>
<td>Expenditures</td>
<td>19,014.5</td>
<td>19,556.9</td>
<td>20,410.0</td>
</tr>
<tr>
<td>Projected Surplus/(Deficit) 6/30</td>
<td>$254.9</td>
<td>$(1,733.7)</td>
<td>$(2,372.0)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Special Transportation Fund</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$245.7</td>
<td>$313.0</td>
<td>$384.6</td>
</tr>
<tr>
<td>Revenues</td>
<td>1,684.6</td>
<td>1,803.5</td>
<td>1,904.8</td>
</tr>
<tr>
<td>Total Available Resources</td>
<td>1,930.3</td>
<td>2,116.5</td>
<td>2,289.4</td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,617.3</td>
<td>1,731.9</td>
<td>1,843.4</td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>$67.3</td>
<td>$71.6</td>
<td>$61.4</td>
</tr>
<tr>
<td>Projected Fund Balance 6/30 (1)</td>
<td>$313.0</td>
<td>$384.6</td>
<td>$446.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Funds (2)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$249.5</td>
<td>$258.2</td>
<td>$265.5</td>
</tr>
<tr>
<td>Expenditures</td>
<td>241.5</td>
<td>257.9</td>
<td>265.2</td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>$8.0</td>
<td>$0.3</td>
<td>$0.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total All Appropriated Funds</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$21,203.5</td>
<td>$19,884.9</td>
<td>$20,208.3</td>
</tr>
<tr>
<td>Expenditures</td>
<td>20,873.3</td>
<td>21,566.7</td>
<td>22,518.5</td>
</tr>
<tr>
<td>Surplus/(Deficit)</td>
<td>$330.2</td>
<td>$(1,661.8)</td>
<td>$(2,310.2)</td>
</tr>
</tbody>
</table>

(1) The balance in the Special Transportation Fund is required for the financing of the multi-year Infrastructure Renewal Plan.

(2) Other funds include the: a) Mashantucket Pequot and Mohegan Fund, b) Regional Market Operation Fund, c) Banking Fund, d) Insurance Fund, e) Consumer Counsel and Public Utility Control Fund, f) Workers' Compensation Fund, g) Criminal Injuries Compensation Fund, and h) Tourism Fund.