CONNECTICUT'S FISCAL CONTROLS

Options for Responsible Adjustments

CONNECTICUT VOICES FOR CHILDREN

DECEMBER 2024

Patrick R. O'Brien, Ph.D. Research and Policy Director

Table of Contents

Introduction **3**

Connecticut's Revenue Controls **7**

The Volatility Cap, Revenue Cap, and Budget Reserve Fund 7

- Statutory Design of the Volatility Cap 7
- Statutory Design of the Revenue Cap 8
- Statutory Design of the Budget Reserve Fund 8
- The Revenue Controls in Practice 11

Comparison of State and Local Revenue Levels 26

Connecticut's Spending Controls **30**

The Spending Cap, Debt Limit, and Bonding Caps 30

- Constitutional and Statutory Design of the Spending Cap 30
- Statutory Design of the Debt Limit and Bonding Caps 35
- The Spending Controls in Practice 36

Comparison of State and Local Spending Levels 49

Options to Adjust Connecticut's Fiscal Controls **56**

Procedural Options for the Bond Lock 56

Policy and Procedural Options for the Revenue and Spending Controls 58

- The Volatility Cap 58
- The Revenue Cap 59
- The Budget Reserve Fund 61
- The Spending Cap 62
- The Debt Limit and Bonding Caps 63

Conclusion **65**

Acknowledgments **65**

References and Notes **66**

Introduction

Starting in fiscal year (FY) 2018, Connecticut initiated a sweeping program of fiscal controls to stabilize the state's budget and long-term finances. These controls have contributed to $5.8 billion in total budgeted surpluses for the General Fund through FY 2024, which has grown to $12.5 billion in actual total surpluses—more than doubling the impact of the already substantial budgeted surpluses. While these surpluses demonstrate a strong shift to fiscal responsibility, they also highlight the challenge of balancing fiscal responsibility with current public needs.

Of the $12.5 billion in total surpluses to date, $3.9 billion (31 percent) has been allocated to the expanded Budget Reserve Fund, which is essential for stabilizing the budget, especially during economic downturns. However, $8.6 billion (69 percent) has been directed toward additional payments for unfunded retirement liabilities dating back to the 1930s. Based on the structuring of the retirement liabilities, these additional payments reduce future annual obligations into the 2040s, which, along with the regular payments, place a combined burden of billions of dollars a year on current taxpayers for commitments that span more than a century. At the same time, total appropriations for the regular budget have decreased by hundreds of millions of dollars in inflation-adjusted terms, reducing the resources available for current public services and investments. Together, these trends make clear that the fiscal controls have prioritized long-term liabilities at the expense of immediate public needs and critical public investments, all in the name of fiscal responsibility.

The same trends persist in the current FY 2025 budget. The General Fund's surplus was initially budgeted at $957 million but—at the time of this writing—it has increased to a projected $1.6 billion.[1] Similar to previous years, the vast majority of the projected surplus is earmarked for additional payments toward unfunded retirement liabilities, meaning current taxpayers will once again bear an excessive burden of obligations incurred by past generations by making additional payments that largely benefit future taxpayers. Adding to the intergenerational inequity, policymakers are working to reduce General Fund spending by hundreds of millions of dollars to comply with the spending cap, further constraining the resources available for current public services and investments.

This report does not advocate for dismantling Connecticut's fiscal controls, nor does it support rigid adherence to the fiscal controls as currently designed as the sole path to fiscal responsibility. Instead, the report makes the case for a more balanced approach—one that maintains fiscal discipline while introducing the flexibility necessary to fund current needs and make public investments essential to growing the state's economy. In addition to better addressing current needs, this more balanced, pro-economic growth approach would allow Connecticut to reduce its long-term liabilities relative to the size of its economy, improving the state's fiscal standing without making substantial additional payments to the retirement systems. In contrast, the current approach of prioritizing additional payments to the retirement systems at the expense of all other priorities risks slowing the state's economic growth, partially offsetting the benefits of directly reducing the long-term liabilities. This is a major concern for Connecticut, as the state has experienced historically slow economic growth since the implementation of the spending cap.

To be clear, the more balanced, pro-economic growth approach outlined in this report retains all the major revenue and spending controls while advocating for responsible adjustments to their design to address key flaws identified in practice. In support of this approach, the report proceeds in three sections. The first section, divided into two parts, reviews Connecticut's revenue controls and makes the case for responsible adjustments. The first part focuses on the volatility cap, revenue cap, and Budget Reserve Fund, reviewing their statutory design and actual impact. The key findings include:

- The purpose of Connecticut's major revenue controls—the volatility cap and revenue cap—is to stabilize the budget and long-term finances by directing surplus revenue, particularly from volatile sources, into the Budget Reserve Fund and toward paying down unfunded retirement liabilities.

- From FY 2018 to FY 2024, the approved budget surplus for the General Fund totaled $5.8 billion, while the actual budget surplus totaled $12.5 billion, making the revenue controls more than twice as restrictive in practice as originally budgeted, primarily due to the volatility cap, and nearly 70 percent of the surplus has been used to pay down unfunded retirement liabilities.

- Two of Connecticut's taxes—the personal income tax estimated and final payments and the pass-through entity tax—remain highly volatile and substantial in size, making a well-designed volatility cap essential for stabilizing the state's budget.

- The current volatility cap has an initial threshold that was set too low and is indexed to a variable that has no meaningful correlation to the volatile taxes, resulting in excess restricted revenue of up to $755 million per year on average and $5.3 billion in total from FY 2018 to FY 2024.

- Despite the increased challenges presented by the two volatile taxes, generating revenue from them is crucial because they both operate as progressive components of Connecticut's regressive tax system.

The second part compares Connecticut's revenue levels to those of all 50 states and New England states, offering additional context for the proposed adjustments. The key finding is:

- Connecticut's state and local revenue level as a percentage of state personal income is below the average for all 50 states and New England states, demonstrating that the state has capacity to responsibly increase its revenue.

The second section, divided into two parts, reviews Connecticut's spending controls and makes the case for responsible adjustments. The first part focuses on the spending cap, debt limit, and bonding caps, reviewing their constitutional and statutory design and actual impact. The key findings are:

- The purpose of Connecticut's major spending controls—the spending cap, debt limit, and bonding caps—is to stabilize the budget and long-term finances by limiting the growth in spending.

- In FY 2025, Connecticut's appropriations totaled $25.99 billion but could have totaled $32.7 billion—an increase of $6.7 billion—if the state's personal income had grown at the same rate as the U.S. over the past three decades rather than at a historically slow rate that has made the spending cap excessively restrictive.

- In FY 2025, Connecticut's appropriations totaled $25.99 billion but could have totaled $26.46 billion—an increase of $466 million—if the state's spending cap had continued adjusting since FY 2018 based on the original inflation index rather than a narrower index that excludes food and energy, which has made the spending cap excessively restrictive.

- From FY 2018 to FY 2025, Connecticut's total appropriations in inflation-adjusted dollars decreased by over $250 million due to historically slow personal income growth and the use of a narrow inflation index, both of which have made the spending cap excessively restrictive and caused real spending reductions in several areas, including regulation and protection, human services, elementary and secondary education, and higher education.

- From FY 2018 to FY 2024, Connecticut's actuarially determined employer contributions for the two largest retirement systems averaged $3.4 billion per year, largely due to unfunded liabilities dating back to the 1930s. The state also used surplus funds to make additional payments averaging $1.2 billion per year, reducing future obligations into the 2040s but placing a total annual burden of $4.6 billion on current taxpayers for commitments spanning more than a century—all while total appropriations decreased in inflation-adjusted dollars.

- From FY 2018 to FY 2024, Connecticut's retirement system debt decreased by $2.9 billion due largely to regular and additional payments, but the state lost out on the equivalent of a $2.3 billion debt reduction due to slow economic growth, partially offsetting the benefits of the debt payments.

The second part compares Connecticut's spending levels to those of all 50 states and New England states, offering additional context for the proposed adjustments. The key finding is:

- Connecticut's state and local spending level as a percentage of state personal income is below the average for all 50 states and New England states, demonstrating that the state has capacity to responsibly increase its spending.

The third section, divided into two parts, provides options for a more balanced, pro-economic growth approach that retains all the major revenue and spending controls but makes responsible adjustments to their design to address key flaws identified in practice. The first part reviews the procedural options to end or work around the bond lock securing the revenue and spending controls. The key finding is:

- Connecticut's major revenue and spending controls are secured by the 2023 bond lock set to remain in effect until 2033, but policymakers can adopt a resolution to end it in 2028 or provide adequate protection for bondholders to work around it before 2028.

The second part provides policy and procedural options to adjust the revenue and spending controls. The key finding and recommended policy options include:

- Policymakers can develop a more balanced, pro-economic growth approach that retains all of Connecticut's major revenue and spending controls but incorporates responsible adjustments to their design to address key flaws identified in practice.

The Volatility Cap

- Adjust the volatility cap using an inflation-adjusted moving average of the covered volatile revenue.

The Revenue Cap

- Adjust the revenue cap for the General Fund based on the balance of the Budget Reserve Fund.
- Adjust the revenue cap for the Special Transportation Fund based on the balance of the STF.

The Budget Reserve Fund

- Adjust the restrictions on surplus funds to allow for uses beyond debt reduction.
- Adjust the restrictions on surplus funds to limit the amount used for debt reduction.

The Spending Cap

- Adjust the spending cap's definition of increase in personal income to account for the state's historically slow growth and below-average spending levels.
- Adjust the spending cap's definition of increase in inflation to more accurately reflect changes in the cost of living.
- Adjust the spending cap's definition of general budget expenditures to use allowable appropriations.
- Adjust prior calculations of the spending cap based on upward data revisions in personal income growth.
- Adjust the spending cap's base to exclude regular retirement system payments.

The Debt Limit and Bonding Caps

- Adjust the bonding process to require economic impact estimates for proposed expenditures.
- Adjust the bonding process to require economic impact estimates for actual expenditures.

Connecticut's Revenue Controls

This section reviews Connecticut's revenue controls and makes the case for responsible adjustments. The first part focuses on the volatility cap, revenue cap, and Budget Reserve Fund, reviewing their statutory design and actual impact. The second part compares Connecticut's revenue levels to those of all 50 states and New England states, offering additional context for the proposed adjustments.

The Volatility Cap, Revenue Cap, and Budget Reserve Fund

The purpose of Connecticut's major revenue controls—the volatility cap and revenue cap—is to stabilize the budget and long-term finances by directing surplus revenue, particularly from volatile sources, into the Budget Reserve Fund and toward paying down unfunded retirement liabilities.

Statutory Design of the Volatility Cap

To limit the impact of large fluctuations in revenue as economic conditions change, policymakers established the volatility cap in several steps during 2017 and 2018.[2] Starting in FY 2018, the volatility cap directs to the Budget Reserve Fund all revenue exceeding $3.15 billion annually from the total of two volatile sources:

- Personal income tax estimated and final payments: Applies to income not subject to withholding, such as investment income.

- Pass-through entity tax: Applies to the income of partnerships and S corporations at the entity level, with tax credits available to individual members to offset their personal income tax liability or corporation business tax liability.[3]

After FY 2018, the initial volatility cap threshold of $3.15 billion has been adjusted annually based on the following measure:

- Increase in personal income: Defined as "the compound annual growth rate of personal income in the state over the preceding five calendar years, using data reported by United States Bureau of Economic Analysis."[4]

The statute also allows a three-fifths supermajority to adjust the volatility cap threshold for the following reasons:

- Changes in policy, the economy, or tax revenue: "The General Assembly may amend the threshold amount of three billion one hundred fifty million dollars, by vote of at least three-fifths of the members of each house of the General Assembly, due to changes in state or federal tax law or policy or significant adjustments to economic growth or tax collections."[5]

Statutory Design of the Revenue Cap

To further limit the impact of fluctuations in revenue, policymakers established the revenue cap in 2017.[6] Unlike the volatility cap, which targets specific revenue sources, the revenue cap restricts the General Assembly from authorizing appropriations for the General Fund and Special Transportation Fund that exceed a set percentage of estimated revenue. Initially, the revenue cap was set to phase in through annual 0.25 percentage point reductions from 99.5 percent in FY 2020 to 98 percent in FY 2026.[7] However, in FY 2023, after several consecutive years of large budget surpluses, policymakers ended the phase-in and made the existing revenue cap of 98.75 percent permanent:

- Restricted estimated revenue: "[T]he General Assembly shall not authorize General Fund and Special Transportation Fund appropriations for any fiscal year in an amount that, in the aggregate, exceeds the percentage of the statement of estimated revenue passed pursuant to subsection (b) of section 2-35 for each fiscal year indicated as follows": in fiscal year "2023, and each fiscal year thereafter" the percentage is set at 98.75 percent.[8]

The statute also allows either a supermajority or a simple majority of policymakers to bypass the revenue cap depending on the circumstances:

- Emergency or extraordinary conditions: "(A) The Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such percentage for the purposes of such emergency or extraordinary circumstances, and (B) any such appropriation is for the fiscal year in progress only"

- Budget adjustment: "Each house of the General Assembly approves by majority vote any such appropriation for purposes of an adjusted appropriation and revenue plan"[9]

The statute does not define "adjusted appropriation and revenue plan." One interpretation is that a simple majority can bypass the revenue cap to make adjustments during the second year of the biennial budget. However, another possible interpretation is that a simple majority can bypass the revenue cap at any time after the initial passage of the biennial budget.

Statutory Design of the Budget Reserve Fund

Along with the creation of the volatility cap and the revenue cap, policymakers increased the capacity of the Budget Reserve Fund (BRF), which holds the surplus funds generated by the revenue controls. This occurred in two stages. In 2017, policymakers increased the BRF's capacity from 10 percent to 15 percent of net General Fund appropriations.[10] In 2023, they further increased the BRF's capacity to 18 percent of net General Fund appropriations.[11]

The statute provides detailed guidelines for managing surplus funds, depending on the BRF's capacity and the size of the surplus:

- BRF below 15 percent: If the BRF is below 15 percent of net General Fund appropriations, the fiscal year surplus is transferred to the BRF. This includes the revenue exceeding the volatility cap threshold and any unappropriated surplus from the General Fund.

- BRF between 15 and 18 percent: If the BRF is equal to 15 percent or more of net General Fund appropriations but less than 18 percent, half of the surplus is transferred to the BRF, up to a maximum capacity of 18 percent of net General Fund appropriations. The other half of the surplus is transferred "as selected by the Treasurer" to one or both of the following retirement funds, up to a maximum of 5 percent of the unfunded past service liability:

    - State Employees Retirement Fund: This transfer is "in addition to the contributions required pursuant to section 5-156a, but not exceeding five per cent of the unfunded past service liability of the state employees retirement system as set forth in the most recent actuarial valuation certified by the State Employee Retirement Commission."

    - Teachers' Retirement Fund: This transfer is "in addition to the payments required pursuant to section 10-183z, but not exceeding five per cent of the unfunded past service liability of the teachers' retirement system as set forth in the most recent actuarial valuation prepared for the Teachers' Retirement Board."

- BRF at 18 percent: If the BRF is equal to 18 percent of net General Fund appropriations, the full surplus is transferred "as selected by the Treasurer" to one or both of the following retirement funds, up to a maximum of 5 percent of the unfunded past service liability:

    - State Employees Retirement Fund: This transfer is "in addition to the contributions required pursuant to section 5-156a, but not exceeding five per cent of the unfunded past service liability of the state employees retirement system as set forth in the most recent actuarial valuation certified by the State Employee Retirement Commission."

    - Teachers' Retirement Fund: This transfer is "in addition to the payments required pursuant to section 10-183z, but not exceeding five per cent of the unfunded past service liability of the teachers' retirement system as set forth in the most recent actuarial valuation prepared for the Teachers' Retirement Board."

- Remaining surplus: The Treasurer has discretion to allocate any remaining surplus for the following purposes:

    - Early debt repayment: The Treasurer may "[redeem] prior to maturity any outstanding indebtedness of the state."

    - Debt purchases in open market: The Treasurer may "[purchase] outstanding indebtedness of the state in the open market at such prices and on such terms and conditions as … determine[d] to be in the best interests of the state."

- Debt defeasance: The Treasurer may "[provide] for the defeasance of any outstanding indebtedness of the state … by irrevocably placing with an escrow agent in trust an amount to be used solely for, and sufficient to satisfy, scheduled payments of both interest and principal on such indebtedness."

- Additional retirement system payments: The Treasurer may "[make] additional payments towards unfunded past service liability of the state employees retirement system or of the teachers' retirement system."

- Combined approach: The Treasurer may use "any combination of these methods."[12]

The statute also provides four allowable uses for money in the BRF:

- Reduce unfunded retirement liabilities: "Whenever the amount in the Budget Reserve Fund equals five per cent or more of the net General Fund appropriations for the current fiscal year, the General Assembly may transfer funds in excess of the five per cent threshold from the Budget Reserve Fund, for the purpose of paying unfunded past service liability of the state employees retirement system or of the teachers' retirement system as the General Assembly, in consultation with the Treasurer, determines to be in the best interests of the state."

- Eliminate a budget deficit: "Whenever in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary, the amount of funds credited to the Budget Reserve Fund shall be deemed to be appropriated for purposes of funding such deficit"

- Offset a decline in revenue for the current budget: "The General Assembly may transfer funds from the Budget Reserve Fund to the General Fund if any consensus revenue estimate maintained or revised pursuant to section 2-36c for the current biennium projects a decline in General Fund revenues for the current biennium of one per cent or more from the total amount of General Fund estimated revenue on which the budget act or any adjusted appropriation and revenue plan, enacted by the General Assembly for the current biennium, was based. Any such transfer may be made at any time during the remainder of the current biennium."

- Offset a decline in revenue for the upcoming budget: "The General Assembly may transfer funds from the Budget Reserve Fund to the General Fund if the consensus revenue estimate maintained or revised not later than April thirtieth annually pursuant to section 2-36c projects a decline in General Fund revenues, in either year or both years of the biennium immediately following such consensus revenue estimate, of one per cent or more from the total of General Fund appropriations for the current year. Any such transfer shall be made in the fiscal year for which such deficit is projected."[13]

The Revenue Controls in Practice

Connecticut's revenue controls have helped to stabilize the budget and long-term finances, but they have also proven to be excessively restrictive in practice. This section reviews four key findings.

From FY 2018 to FY 2024, the approved budget surplus for the General Fund totaled $5.8 billion, while the actual budget surplus totaled $12.5 billion, making the revenue controls more than twice as restrictive in practice as originally budgeted, primarily due to the volatility cap, and nearly 70 percent of the surplus has been used to pay down unfunded retirement liabilities.

As reviewed, the revenue controls were initially passed as part of the FY 2018 and FY 2019 biennial budget. To understand the intended impact of the revenue controls, **Table 1** shows the approved budget—revenue estimates, appropriations, and budget balance—that the General Assembly passed into law each year for FY 2018 to FY 2025.[14] The key terms are reviewed below.

- The total budget includes the General Fund, Special Transportation Fund, and several smaller appropriated funds (e.g., the Banking Fund, Insurance Fund, Workers' Compensation Fund).

- The budgeted operating balance is the difference between the revenue estimate and net appropriations. An operating surplus occurs when the revenue estimate is greater than net appropriations, and an operating deficit occurs when the revenue estimate is less than net appropriations. In FY 2025, the budgeted operating balance was $297.8 million for the General Fund and $372.7 million for the total budget.

- The revenue unavailable due to the revenue cap is calculated by applying the percentage of restricted revenue to the estimated revenue for the fiscal year. In FY 2025, the revenue cap was set at 98.75 percent, restricting 1.25 percent of the estimated revenue from funding appropriations. This resulted in $288.8 million in restricted revenue for the General Fund, which largely generated the budgeted operating balance of $297.8 million. The revenue cap also resulted in $29.4 million in restricted revenue for the Special Transportation Fund, bringing the total restricted revenue for the entire budget to $318.2 million.

- The budgeted volatility adjustment is the amount of volatile revenue above the volatility cap threshold. In FY 2025, the total budgeted volatility adjustment was $659.6 million for the General Fund and the total budget because the two volatile revenue sources restricted by the volatility cap only fund the General Fund.

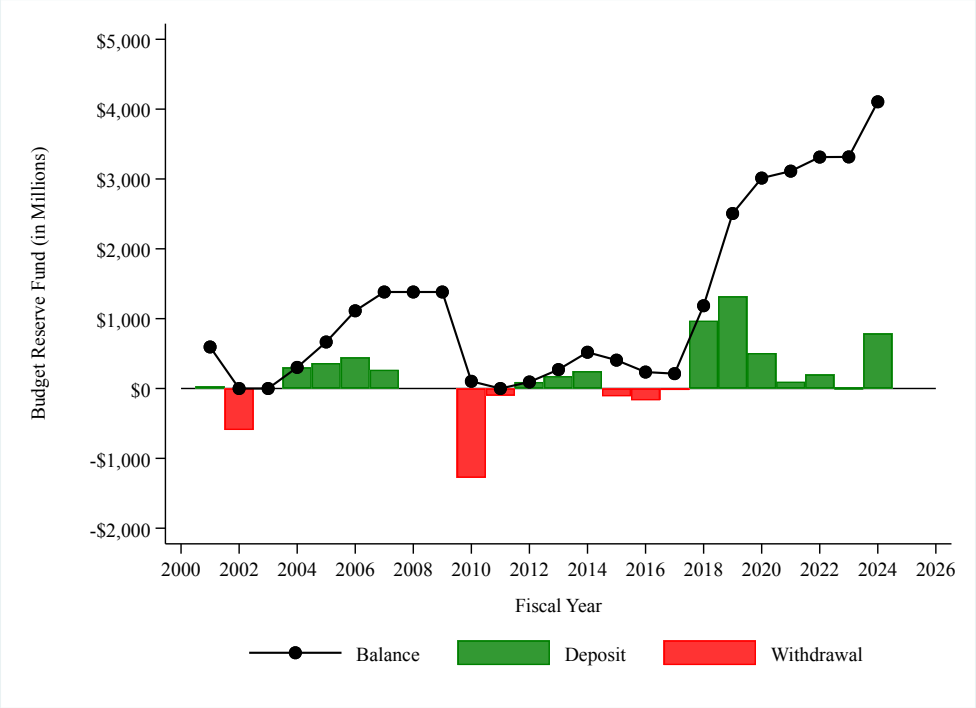
- The budgeted total balance is the operating balance plus the volatility adjustment. To account for the volatility adjustment being subtracted from the revenue estimate, it must be added back to the operating balance to determine the total balance. In FY 2025, the combination of the revenue-cap-restricted revenue and the volatility adjustment contributed to a total budgeted surplus of $957.4 million for the General Fund and $1.03 billion for the total budget.

To understand the actual impact of the revenue controls compared to the budgeted impact, **Table 2** shows the General Fund's approved budget, actual budget, and the use of the actual surplus for FY 2018 to FY 2024—the first seven completed budgets under the revenue controls.[15]

- The revenue controls have been more than twice as restrictive in practice as originally budgeted, primarily due to the volatility cap. The approved budget for the General Fund averaged a surplus of $831.9 million per year, equal to 4.1 percent of the estimated revenue, and the surpluses totaled $5.8 billion. However, the actual budget for the General Fund averaged a surplus of $1.8 billion per year, equal to 8.6 percent of estimated revenue, and the surpluses totaled $12.5 billion. Additionally, the volatility adjustment accounted for $9.9 billion of the $12.5 billion actual total surplus for the General Fund.

- Nearly 70 percent of the total surplus has been used to pay down unfunded retirement liabilities. From FY 2018 to FY 2020, most of the surpluses were deposited into the BRF, allowing it to reach its statutory cap of 15 percent, as shown in **Figure 1**.[16] In FY 2024, substantial surplus funds again supported the BRF, quickly increasing it to the expanded statutory cap of 18 percent, which is essential for stabilizing the budget in future years, especially during an economic downturn. Overall, however, $8.6 billion of the total surplus, equal to 69 percent, was allocated toward reducing the state's unfunded retirement liabilities, which largely benefits future taxpayers and is discussed in more detail in the next section of the report.

Figure 1. Budget Reserve Fund, in Millions



Source: CT Office of Policy and Management.

Table 1. Approved Budget: Revenue Estimates, Appropriations, and Balance, FY 2018–2025
in Millions

Fund	FY 18	FY 19 R.	FY 20	FY 21	FY 22	FY 23 R.	FY 24	FY 25
General Fund								
Revenue Estimate	$18,739.3	$19,008.7	$19,460.2	$20,148.2	$21,021.3	$22,388.2	$22,505.3	$23,103.7
Net Approriations	$18,690.1	$18,998.2	$19,319.1	$19,982.0	$20,746.4	$22,089.2	$22,105.6	$22,805.9
Operating Balance	$49.3	$10.5	$141.1	$166.2	$274.9	$299.0	$399.7	$297.8
Revenue Unavailable Due to Revenue Cap	$0.0	$0.0	$97.3	$151.1	$210.2	$279.9	$281.3	$288.8
Volatility Adjustment	$0.0	$363.1	$318.3	$301.5	$969.2	$1,847.5	$683.2	$659.6
Total Balance (Operating + Volatility Adj.)	**$49.3**	**$373.6**	**$459.4**	**$467.7**	**$1,244.1**	**$2,146.5**	**$1,082.9**	**$957.4**
Special Transportation Fund								
Revenue Estimate	$1,588.5	$1,620.5	$1,723.4	$1,831.3	$1,889.7	$2,091.9	$2,352.6	$2,354.5
Net Approriations	$1,510.9	$1,617.3	$1,710.3	$1,816.3	$1,721.8	$1,826.2	$2,148.4	$2,286.4
Revenue Unavailable Due to Revenue Cap	$0.0	$0.0	$8.6	$13.7	$18.9	$26.1	$29.4	$29.4
Total Balance (Operating)	**$77.6**	**$3.2**	**$13.1**	**$15.0**	**$167.9**	**$265.7**	**$204.2**	**$68.1**
Other Appropriated Funds								
Revenue Estimate	$239.0	$249.2	$259.5	$270.5	$275.5	$281.1	$871.3	$908.9
Net Approriations	$229.5	$239.9	$255.9	$267.8	$275.1	$280.7	$864.8	$902.2
Total Balance (Operating)	**$9.5**	**$9.3**	**$3.6**	**$2.7**	**$0.3**	**$0.4**	**$6.5**	**$6.7**
Total Budget								
Revenue Estimate	$20,566.8	$20,878.4	$21,443.1	$22,250.0	$23,186.5	$24,761.2	$25,729.2	$26,367.1
Net Approriations	$20,430.5	$20,855.4	$21,285.2	$22,066.1	$22,743.3	$24,196.0	$25,118.8	$25,994.4
Operating Balance	$136.3	$23.0	$157.9	$183.9	$443.1	$565.1	$610.4	$372.7
Revenue Unavailable Due to Revenue Cap	$0.0	$0.0	$105.9	$164.8	$229.1	$306.0	$310.7	$318.2
Volatility Adjustment	$0.0	$363.1	$318.3	$301.5	$969.2	$1,847.5	$683.2	$659.6
Total Balance (Operating + Volatility Adj.)	**$136.3**	**$386.1**	**$476.2**	**$485.4**	**$1,412.3**	**$2,412.6**	**$1,293.6**	**$1,032.3**

Source: CT Office of Fiscal Analysis. “R” is for revised budget.

Table 2. General Fund: Approved Budget, Actual Budget, and Use of Actual Surplus, FY 2018–2024 in Millions

General Fund	FY 18	FY 19 R.	FY 20	FY 21	FY 22	FY 23 R.	FY 24	Average	Total
Approved Budget									
Operating Balance	$49.3	$10.5	$141.1	$166.2	$274.9	$299.0	$399.7	$191.5	$1,340.7
Volatility Adjustment	$0.0	$363.1	$318.3	$301.5	$969.2	$1,847.5	$683.2	$640.4	$4,482.8
Total Balance: $	**$49.3**	**$373.6**	**$459.4**	**$467.7**	**$1,244.1**	**$2,146.5**	**$1,082.9**	**$831.9**	**$5,823.5**
Total Balance: % of Revenue Est.	**0.3%**	**2.0%**	**2.4%**	**2.3%**	**5.9%**	**9.6%**	**4.8%**	**4.1%**	**4.1%**
Actual Budget									
Operating Balance	($482.9)	$370.6	$38.7	$475.9	$1,261.4	$555.3	$400.9	$374.3	$2,619.9
Volatility Adjustment	$1,471.3	$949.7	$530.3	$1,241.5	$3,047.5	$1,321.8	$1,321.3	$1,411.9	$9,883.4
Total Balance: $	**$988.4**	**$1,320.3**	**$569.0**	**$1,717.4**	**$4,308.9**	**$1,877.1**	**$1,722.2**	**$1,786.2**	**$12,503.3**
Total Balance: % of Revenue	**5.4%**	**6.7%**	**3.0%**	**8.4%**	**19.6%**	**8.2%**	**7.6%**	**8.6%**	**8.6%**
Difference in Actual Budget and Approved Budget									
Operating Balance	($532.2)	$360.1	($102.4)	$309.7	$986.5	$256.3	$1.2	$182.7	$1,279.2
Volatility Adjustment	$1,471.3	$586.6	$212.0	$940.0	$2,078.3	($525.7)	$638.1	$771.5	$5,400.6
Total Balance: $	**$939.1**	**$946.7**	**$109.6**	**$1,249.7**	**$3,064.8**	**($269.4)**	**$639.3**	**$954.3**	**$6,679.8**
Use of Actual Surplus									
Budget Reserve Fund	$988.4	$1,320.3	$507.4	$99.1	$201.3	$2.5	$789.2	$558.3	$3,908.2
State Employees Retirement System	$0.0	$0.0	$61.6	$714.7	$3,204.0	$1,046.5	$513.9	$791.5	$5,540.7
Teachers' Retirement System	$0.0	$0.0	$0.0	$903.6	$903.6	$828.1	$419.1	$436.3	$3,054.4
SERS + TRS	$0.0	$0.0	$61.6	$1,618.3	$4,107.6	$1,874.6	$933.1	$1,227.9	$8,595.2
Total Actual Surplus	**$988.4**	**$1,320.3**	**$569.0**	**$1,717.4**	**$4,308.9**	**$1,877.1**	**$1,722.2**	**$1,786.2**	**$12,503.3**

Source: CT Office of Fiscal Analysis, CT Office of Policy and Management, CT Office of the State Comptroller, and author's calculations.

Two of Connecticut's taxes—the personal income tax estimated and final payments and the pass-through entity tax—remain highly volatile and substantial in size, making a well-designed volatility cap essential for stabilizing the state's budget.

Table 3 provides an overview of the volatility of General Fund taxes from FY 2018 to 2024.[17] For each tax, the table includes the estimated revenue, actual revenue, percentage change in actual revenue from year to year, percentage difference between estimated and actual revenue for each year, and the dollar difference between estimated and actual revenue for each year. Volatility for the last three components is measured using the standard deviation, which quantifies the variability of each tax and identifies those that are highly volatile and large enough in size to substantially impact the budget.

- For the percentage change in actual revenue, a high standard deviation shows that the tax revenue fluctuates significantly from year to year.

- For the percentage difference between estimated and actual revenue, a high standard deviation shows that it is difficult to accurately estimate the amount of tax revenue generated each year.

- For the dollar difference between estimated and actual revenue, a high standard deviation shows that a tax substantially impacts the budget due to its high volatility, large size, or both.

The General Fund's total net taxes have a standard deviation of 8.4 percent for the percentage change in actual revenue and 7.4 percent for the percentage difference between actual and estimated revenue. Using a threshold of twice those values (16.8 percent and 14.8 percent) to define high volatility, four taxes qualify: the estate and gift tax (47.7 percent and 42.2 percent), the real estate conveyance tax (52.6 percent and 31 percent), the pass-through entity tax (24.3 percent and 37.2 percent), and the personal income tax estimated and final payments (27 percent and 20.9 percent).

Although four taxes are highly volatile, two of the taxes are too small to substantially impact the budget. The estate and gift tax has a standard deviation of only $64 million for the dollar difference between estimated and actual revenue, equal to 4.9 percent of the $1.29 billion standard deviation for the General Fund's net taxes. Likewise, the real estate conveyance tax has a standard deviation of only $74 million, equal to 5.7 percent of the standard deviation for the General Fund's total net taxes.

The other two taxes are highly volatile and large enough in size to substantially impact the budget, making a well-designed volatility cap essential for stabilizing the state's budget. For the dollar difference between estimated and actual revenue:

- The estimated and final payments have a standard deviation of $640.6 million, equal to 49.5 percent of the standard deviation for the General Fund's total net taxes.

- The pass-through entity tax has a standard deviation of $296.1 million, equal to 22.9 percent of the standard deviation for the General Fund's total net taxes.

Table 3. Volatility of General Fund Taxes, FY 2018–2024, in Millions

General Fund Tax	FY 18	FY 19 R.	FY 20	FY 21	FY 22	FY 23 R.	FY 24	Volatility
Personal Income Tax								
Estimated Revenue	$9,182.5	$9,107.6	$9,673.0	$10,005.4	$10,361.0	$11,707.1	$11,023.3	
Actual Revenue	$10,770.1	$9,640.2	$9,397.8	$10,340.4	$12,131.8	$11,223.4	$11,803.0	
% Annual Change in Actual		-10.5%	-2.5%	10.0%	17.3%	-7.5%	5.2%	10.7%
% Difference in Estimated and Actual	17.3%	5.8%	-2.8%	3.3%	17.1%	-4.1%	7.1%	8.6%
$ Difference in Estimated and Actual	$1,587.6	$532.6	($275.2)	$335.0	$1,770.8	($483.7)	$779.7	$855.7
Withholding								
Estimated Revenue		$6,147.7	$6,910.5	$7,168.5	$7,371.9	$8,184.4	$8,380.9	
Actual Revenue		$6,665.8	$6,815.2	$7,243.8	$7,886.2	$8,317.2	$8,666.4	
% Annual Change in Actual			2.2%	6.3%	8.9%	5.5%	4.2%	2.5%
% Difference in Estimated and Actual		8.4%	-1.4%	1.1%	7.0%	1.6%	3.4%	3.7%
$ Difference in Estimated and Actual		$518.1	($95.3)	$75.3	$514.3	$132.8	$285.5	$247.3
Estimated and Final Payments								
Estimated Revenue		$2,959.9	$2,762.5	$2,836.9	$2,989.1	$3,522.7	$2,642.4	
Actual Revenue		$2,974.4	$2,582.6	$3,096.6	$4,245.6	$2,906.2	$3,136.6	
% Annual Change in Actual			-13.2%	19.9%	37.1%	-31.5%	7.9%	27.0%
% Difference in Estimated and Actual		0.5%	-6.5%	9.2%	42.0%	-17.5%	18.7%	20.9%
$ Difference in Estimated and Actual		$14.5	($179.9)	$259.7	$1,256.5	($616.5)	$494.2	$640.6
Sales & Use Tax								
Estimated Revenue	$4,220.5	$4,153.6	$4,444.1	$4,588.4	$4,274.6	$4,777.6	$5,299.5	
Actual Revenue	$4,202.2	$4,338.1	$4,317.7	$4,792.7	$4,818.1	$4,944.8	$5,003.0	
% Annual Change in Actual		3.2%	-0.5%	11.0%	0.5%	2.6%	1.2%	4.1%
% Difference in Estimated and Actual	-0.4%	4.4%	-2.8%	4.5%	12.7%	3.5%	-5.6%	6.0%
$ Difference in Estimated and Actual	($18.3)	$184.5	($126.4)	$204.3	$543.5	$167.2	($296.5)	$271.2
Pass-through Entity Tax								
Estimated Revenue		$600.0	$850.0	$850.0	$1,485.8	$1,957.3	$1,815.6	
Actual Revenue		$1,172.1	$1,241.9	$1,549.7	$2,307.6	$2,048.1	$1,964.7	
% Annual Change in Actual			6.0%	24.8%	48.9%	-11.2%	-4.1%	24.3%
% Difference in Estimated and Actual		95.4%	46.1%	82.3%	55.3%	4.6%	8.2%	37.2%
$ Difference in Estimated and Actual		$572.1	$391.9	$699.7	$821.8	$90.8	$149.1	$296.1

Table 3. Volatility of General Fund Taxes, FY 2018–2024, in Millions (continued)

General Fund Tax	FY 18	FY 19 R.	FY 20	FY 21	FY 22	FY 23 R.	FY 24	Volatility
Corporation Tax								
Estimated Revenue	$933.3	$920.2	$1,099.8	$1,082.5	$1,115.6	$1,294.2	$1,514.5	
Actual Revenue	$920.7	$1,060.9	$934.5	$1,153.1	$1,401.2	$1,516.6	$1,555.6	
% Annual Change in Actual		15.2%	-11.9%	23.4%	21.5%	8.2%	2.6%	13.2%
% Difference in Estimated and Actual	-1.4%	15.3%	-15.0%	6.5%	25.6%	17.2%	2.7%	13.5%
$ Difference in Estimated and Actual	($12.6)	$140.7	($165.3)	$70.6	$285.6	$222.4	$41.1	$150.8
Public Service Companies Tax								
Estimated Revenue	$284.9	$243.8	$237.7	$244.7	$262.4	$277.0	$291.6	
Actual Revenue	$250.6	$262.1	$254.1	$243.7	$295.7	$278.2	$343.8	
% Annual Change in Actual		4.6%	-3.1%	-4.1%	21.3%	-5.9%	23.6%	13.2%
% Difference in Estimated and Actual	-12.0%	7.5%	6.9%	-0.4%	12.7%	0.4%	17.9%	9.8%
$ Difference in Estimated and Actual	($34.3)	$18.3	$16.4	($1.0)	$33.3	$1.2	$52.2	$27.6
Estate & Gift Tax								
Estimated Revenue	$180.1	$176.2	$165.8	$146.3	$164.4	$150.2	$178.1	
Actual Revenue	$223.8	$225.2	$159.5	$303.3	$220.2	$218.4	$129.6	
% Annual Change in Actual		0.6%	-29.2%	90.2%	-27.4%	-0.8%	-40.7%	47.7%
% Difference in Estimated and Actual	24.3%	27.8%	-3.8%	107.3%	33.9%	45.4%	-27.2%	42.2%
$ Difference in Estimated and Actual	$43.7	$49.0	($6.3)	$157.0	$55.8	$68.2	($48.5)	$64.0
Insurance Companies Tax								
Estimated Revenue	$230.6	$234.3	$203.3	$205.8	$239.9	$243.1	$262.8	
Actual Revenue	$230.6	$193.8	$228.4	$229.8	$241.0	$295.7	$300.2	
% Annual Change in Actual		-16.0%	17.9%	0.6%	4.9%	22.7%	1.5%	13.8%
% Difference in Estimated and Actual	0.0%	-17.3%	12.3%	11.7%	0.5%	21.6%	14.2%	12.9%
$ Difference in Estimated and Actual	$0.0	($40.5)	$25.1	$24.0	$1.1	$52.6	$37.4	$30.5
Cigarettes Tax								
Estimated Revenue	$394.2	$381.0	$344.7	$326.9	$322.9	$308.1	$276.4	
Actual Revenue	$376.4	$357.5	$346.3	$351.1	$326.7	$290.8	$251.8	
% Annual Change in Actual		-5.0%	-3.1%	1.4%	-6.9%	-11.0%	-13.4%	5.4%
% Difference in Estimated and Actual	-4.5%	-6.2%	0.5%	7.4%	1.2%	-5.6%	-8.9%	5.6%
$ Difference in Estimated and Actual	($17.8)	($23.5)	$1.6	$24.2	$3.8	($17.3)	($24.6)	$18.1

Table 3. Volatility of General Fund Taxes, FY 2018–2024, in Millions (continued)

General Fund Tax	FY 18	FY 19 R.	FY 20	FY 21	FY 22	FY 23 R.	FY 24	Volatility
Real Estate Conveyance Tax								
Estimated Revenue	$215.6	$209.4	$217.4	$230.6	$267.4	$290.4	$287.7	
Actual Revenue	$202.5	$213.2	$176.6	$385.0	$384.5	$287.2	$284.6	
% Annual Change in Actual		5.3%	-17.2%	118.0%	-0.1%	-25.3%	-0.9%	52.6%
% Difference in Estimated and Actual	-6.1%	1.8%	-18.8%	67.0%	43.8%	-1.1%	-1.1%	31.0%
$ Difference in Estimated and Actual	($13.1)	$3.8	($40.8)	$154.4	$117.1	($3.2)	($3.1)	$74.0
Alcoholic Beverages Tax								
Estimated Revenue	$62.6	$63.0	$68.9	$69.7	$76.6	$78.0	$78.4	
Actual Revenue	$63.2	$64.1	$73.1	$79.1	$78.9	$80.2	$78.9	
% Annual Change in Actual		1.4%	14.0%	8.2%	-0.3%	1.6%	-1.6%	6.0%
% Difference in Estimated and Actual	1.0%	1.7%	6.1%	13.5%	3.0%	2.8%	0.6%	4.5%
$ Difference in Estimated and Actual	$0.6	$1.1	$4.2	$9.4	$2.3	$2.2	$0.5	$3.1
Admissions & Dues Tax								
Estimated Revenue	$41.5	$41.8	$41.9	$41.5	$27.3	$27.2	$31.0	
Actual Revenue	$40.3	$42.8	$39.9	$36.0	$41.0	$40.7	$38.9	
% Annual Change in Actual		6.2%	-6.8%	-9.8%	13.9%	-0.7%	-4.4%	8.9%
% Difference in Estimated and Actual	-2.9%	2.4%	-4.8%	-13.3%	50.2%	49.6%	25.5%	26.5%
$ Difference in Estimated and Actual	($1.2)	$1.0	($2.0)	($5.5)	$13.7	$13.5	$7.9	$7.8
Miscellaneous Taxes								
Estimated Revenue	$1,072.7	$1,071.2	$1,098.5	$1,081.6	$1,036.7	$1,040.3	$1,001.8	
Actual Revenue	$1,059.9	$1,100.1	$1,023.0	$1,052.1	$1,051.8	$852.0	$908.5	
% Annual Change in Actual		3.8%	-7.0%	2.8%	0.0%	-19.0%	6.6%	9.5%
% Difference in Estimated and Actual	-1.2%	2.7%	-6.9%	-2.7%	1.5%	-18.1%	-9.3%	7.2%
$ Difference in Estimated and Actual	($12.8)	$28.9	($75.5)	($29.5)	$15.1	($188.3)	($93.3)	$75.2
Total Net Taxes								
Estimated Revenue	$15,549.4	$15,862.3	$17,033.4	$17,388.7	$17,882.9	$20,047.8	$19,982.1	
Actual Revenue	$17,065.3	$17,199.4	$16,692.8	$18,651.4	$21,481.4	$20,079.8	$20,496.6	
% Annual Change in Actual		0.8%	-2.9%	11.7%	15.2%	-6.5%	2.1%	8.4%
% Difference in Estimated and Actual	9.7%	8.4%	-2.0%	7.3%	20.1%	0.2%	2.6%	7.4%
$ Difference in Estimated and Actual	$1,515.9	$1,337.1	($340.6)	$1,262.7	$3,598.5	$32.0	$514.5	$1,294.2

Sources: CT Office of the State Comptroller, and author's calculations. Miscellaneous taxes include health provider tax.

The current volatility cap has an initial threshold that was set too low and is indexed to a variable that has no meaningful correlation to the volatile taxes, resulting in excess restricted revenue of up to $755 million per year on average and $5.3 billion in total from FY 2018 to FY 2024.

As reviewed, the volatility cap restricts the use of tax revenue from two highly volatile taxes: the personal income tax estimated and final payments and the pass-through entity tax. The volatility cap's threshold is set at $3.15 billion, adjusted annually after FY 2018 based on the compound annual growth rate of personal income in the state over the preceding five calendar years. This statutory design contains two major flaws:

- The initial volatility cap threshold was set too low. An analysis of historical revenue data shows that a simple inflation-adjusted 5-year moving average of revenue from the covered taxes would have resulted in a threshold of $3.46 billion, $313 million higher than the statutory cap. Moreover, an inflation-adjusted 10-year moving average would have set the threshold at $3.22 billion, reflecting a more conservative but still higher estimate than the actual threshold.

- The volatility cap is indexed to a variable that has no meaningful correlation to the volatile taxes. The U.S. Bureau of Economic Analysis specifically excludes capital gains—a primary component of estimated and final payments—from personal income because capital gains are "volatile and not always positive," unlike ordinary income, which is considered a stable measure. This disconnect significantly reduces the volatility cap's effectiveness in addressing revenue fluctuations.[18]

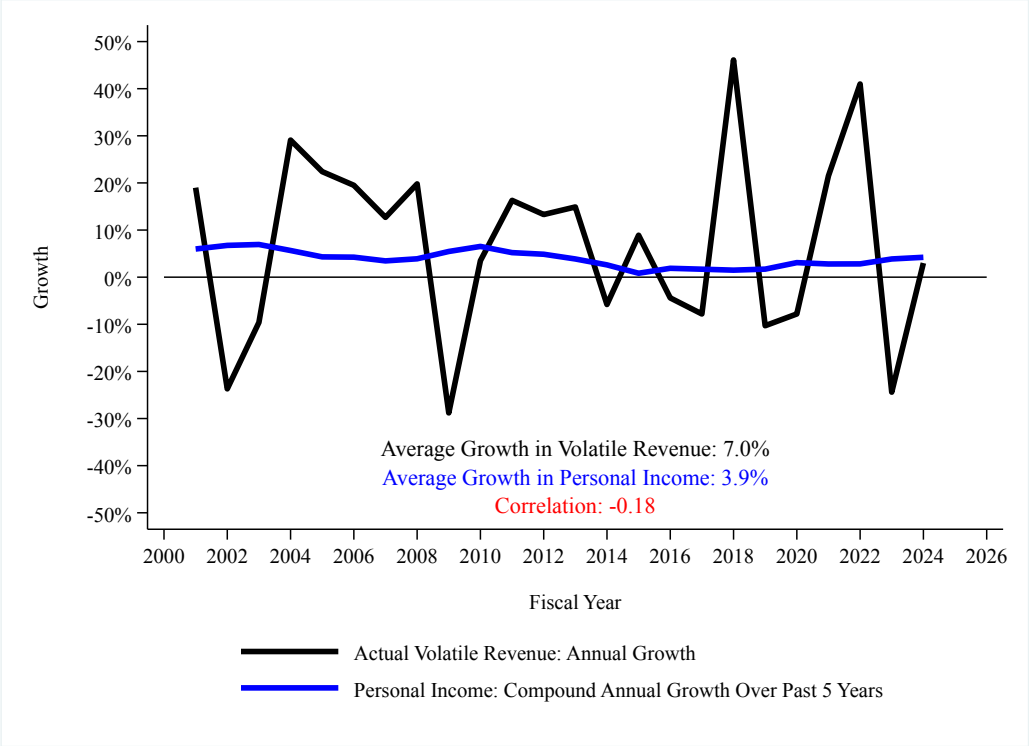
Figure 2 shows the problem by comparing the annual growth in Connecticut's volatile tax revenue to the five-year compound annual growth in state personal income from FY 2001 to FY 2024.[19] The two variables display no meaningful relationship: volatile tax revenue grew at an average annual rate of 7 percent, compared to 3.9 percent for state personal income, and the correlation is -0.18, indicating a very weak negative linear relationship. **Figure 3** further shows the problem by comparing cumulative growth.[20] Volatile tax revenue grew by 239.9 percent, while state personal income grew by only 143.4 percent, demonstrating that the two measures increasingly diverge over time.

To show more effective designs, **Figure 4** and **Table 4** compare the current volatility cap to two simple alternatives for FY 2018 to FY 2024:[21]

- Using an inflation-adjusted 5-year moving average cap, volatile tax revenue would have exceeded the volatility cap threshold in only four of the seven years (57 percent), averaging $657.2 million annually and totaling $4.6 billion. This alternative cap would have restricted $754.7 million less per year less on average, freeing up a total of $5.3 billion.

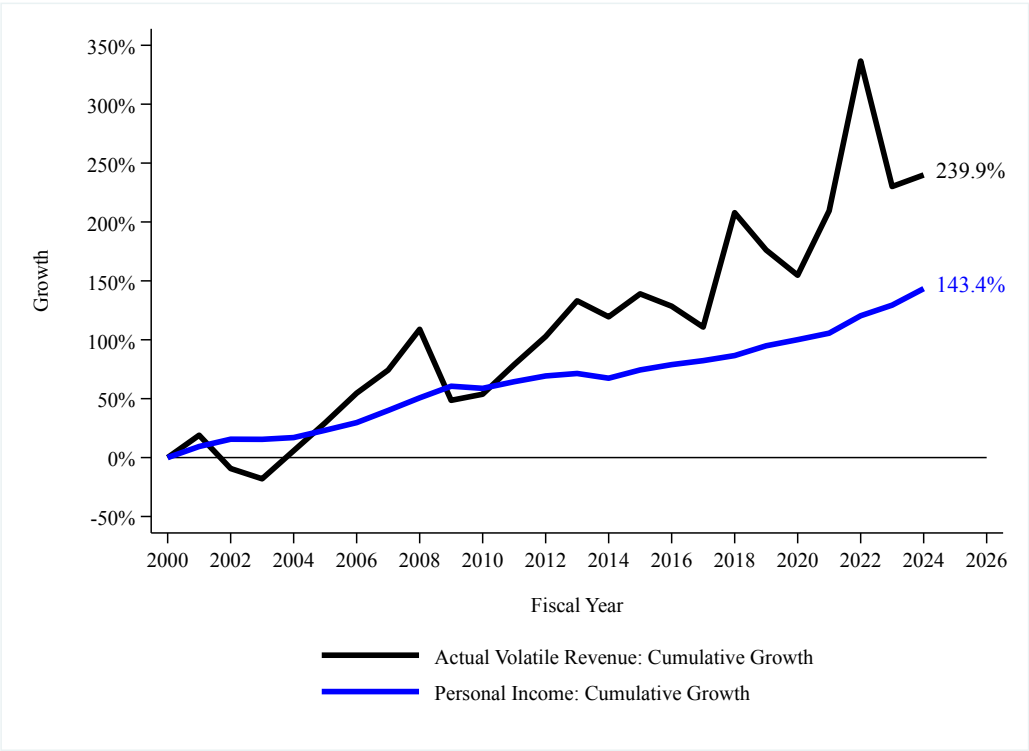
- Using an inflation-adjusted 10-year moving average cap, volatile tax revenue would have exceeded the volatility cap threshold in all seven years but would have averaged $925.6 million and totaled $6.5 billion. This alternative cap would have restricted $486.3 million less per year on average, freeing up a total of $3.4 billion.

Figure 2. Annual Growth in Volatile Revenue and Personal Income



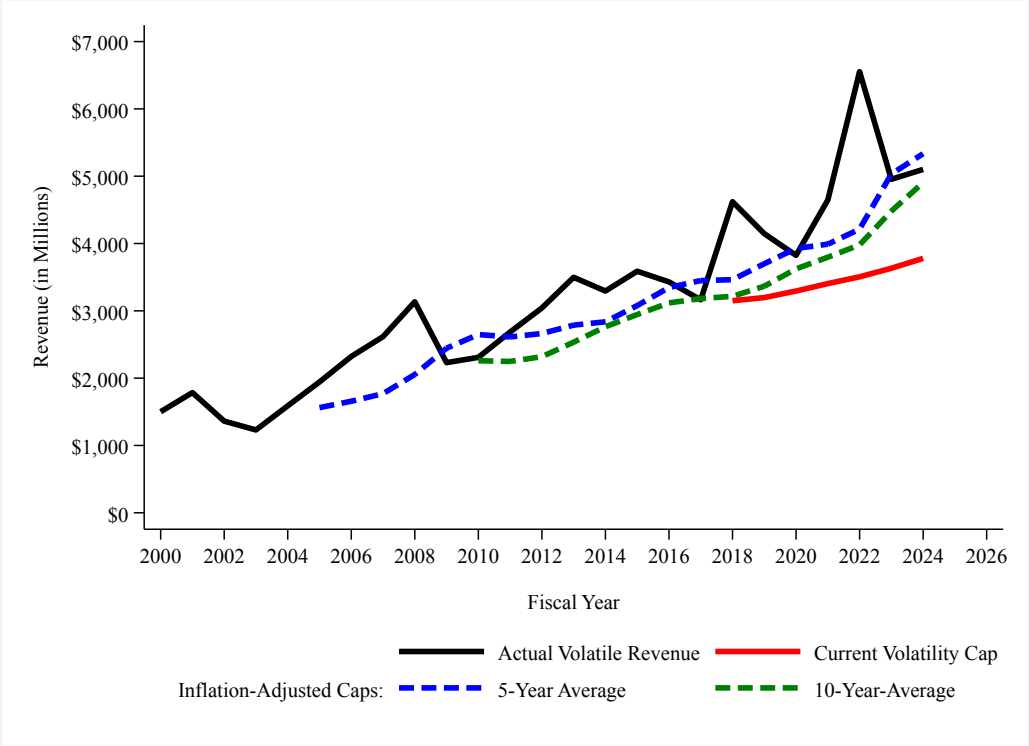
Sources: CT Office of Policy and Management, U.S. Bureau of Economic Analysis, and author's calculations.

Figure 3. Cumulative Growth in Volatile Revenue and Personal Income



Sources: CT Office of Policy and Management, U.S. Bureau of Economic Analysis, and author's calculations.

Figure 4. Volatility Cap Threshold: Current and Alternatives, in Millions



Sources: CT Office of Policy and Management, U.S. Bureau of Labor Statistics, and author's calculations.

Table 4. Volatility Cap Threshold and Adjustment: Current and Alternatives, in Millions

Fiscal Year	Actual Volatile Revenue	Current Volatility Cap		Alternative Inflation-Adjusted Volatility Caps			
				5-Year Average		10-Year Average	
		Threshold	Volatility Adjustment	Threshold	Volatility Adjustment	Threshold	Volatility Adjustment
2018	$4,621.3	$3,150.0	$1,471.3	$3,462.8	$1,158.5	$3,216.1	$1,405.2
2019	$4,146.5	$3,196.8	$949.7	$3,699.4	$447.1	$3,365.4	$781.1
2020	$3,824.5	$3,294.2	$530.3	$3,927.0	$0	$3,623.7	$200.8
2021	$4,646.3	$3,404.9	$1,241.5	$3,990.3	$656.0	$3,796.7	$849.6
2022	$6,553.2	$3,505.7	$3,047.5	$4,214.1	$2,339.1	$3,979.7	$2,573.5
2023	$4,954.3	$3,632.5	$1,321.8	$5,032.8	$0	$4,480.8	$473.5
2024	$5,101.2	$3,779.9	$1,321.3	$5,334.1	$0	$4,905.8	$195.4
Average			**$1,411.9**		**$657.2**		**$925.6**
Total			**$9,883.4**		**$4,600.7**		**$6,479.1**

Sources: CT Office of Policy and Management, U.S. Bureau of Labor Statistics, and author's calculations.

Despite the increased challenges presented by the two volatile taxes, generating revenue from them is crucial because they both operate as progressive components of Connecticut's regressive tax system.

From a distributional perspective, there are three types of tax systems:

- A regressive tax system requires low- and middle-income tax units to pay a larger share of their income in taxes than high-income tax units.

- A proportional tax system requires all tax units to pay the same share of their income in taxes.

- A progressive tax system requires high-income tax units to pay a larger share of their income in taxes than low- and middle-income tax units.

Table 5 shows the total state and local tax incidence for tax filers by income decile in 2020 using the latest tax incidence study from the Connecticut Department of Revenue Services (DRS).[22]

- Tax incidence includes both legal and economic tax incidence. Legal tax incidence refers to taxes that tax units are required to pay directly, such as the personal income tax. Economic tax incidence refers to business taxes that tax units pay indirectly when businesses shift their legal tax liability. These taxes are ultimately borne by either business owners through reduced profits, employees through lower compensation, and/or consumers through higher prices.

- Effective tax rates are measured as tax incidence as a percentage of Connecticut adjusted gross income (CT AGI).

- Connecticut's state and local tax system is regressive. The DRS warns against focusing on the effective tax rate for the first income decile for several reasons. Following that guidance, and focusing on the next lowest group, tax filers in the second income decile have an average CT AGI of $61,000 and pay an average of 19.8 percent of their income in state and local taxes on average. In comparison, tax filers in the tenth income decile have an average CT AGI of $40.4 million and pay an average of only 7.3 percent of their income in state and local taxes.

Expanding the analysis, **Table 6** shows Connecticut's state and local tax incidence for tax filers by income decile and tax type.[23]

- The personal income tax is the only major progressive component of Connecticut's regressive tax system. The latest tax incidence study includes the property tax, personal income tax, corporation business tax, sales and use tax, excise tax, public service tax, motor vehicles tax, and petroleum products tax. Apart from the personal income tax, all of the included taxes are regressive. This makes the personal income tax a crucial progressive component of the overall tax system, though it is not sufficient to fully offset the other regressive taxes.

Further expanding and updating the analysis, **Table 7** shows an income-based distribution of the personal income tax estimated payments and the pass-through entity tax credit in tax year 2022 using the latest tax return data from the DRS.[24]

- In both statutory design and practice, the highly volatile estimated and final payments are an especially progressive component of Connecticut's personal income tax. The personal income tax includes tax brackets ranging from 3 percent on the first $20,000 of taxable income to 6.99 percent on taxable income above $1 million (for married tax filers) and tax brackets apply to both withholding and estimated and final payments. The personal income tax also provides various exemptions and credits that target relief to low- and middle-income tax filers. These features make the personal income tax progressive by design.

  The personal income tax is also progressive in practice. Excluding final payments, which are not separately available in the tax return data, Connecticut residents made $1.8 billion in estimated payments in 2022. Tax filers with a CT AGI up to $50,000 (the bottom 49 percent of tax filers) paid only $46.9 million of the tax (2.6 percent), resulting in an average effective tax rate of 0.3 percent. Similarly, tax filers with a CT AGI from $50,001 to $200,000 (the next 40 percent of tax filers) paid only $208.7 million of the tax (11.4 percent), also resulting in an average effective tax rate of 0.3 percent. In contrast, tax filers with a CT AGI above $1 million (approximately the top 1 percent of tax filers) paid $1.09 billion of the tax (59.4 percent), resulting in an average effective tax rate of 2 percent.

- Although not progressive in statutory design, the highly volatile pass-through entity tax operates as a progressive component of Connecticut's tax system. The pass-through entity tax was created in 2018 in response to a federal law that capped the federal deduction for state and local taxes at $10,000. Connecticut's pass-through entity tax addresses this limitation by shifting the tax liability from individual owners to the pass-through entity itself, enabling the entity to fully deduct state taxes as a business expense on its federal tax return. The tax is imposed at a flat rate of 6.99 percent on the entity's taxable income, mirroring the top personal income tax rate. To prevent double taxation, individual owners receive a tax credit equal to 87.5 percent of their share of the pass-through entity tax paid, which can be used to offset either their personal income tax liability or corporation business tax liability.

  The pass-through entity tax is progressive in practice due to the income distribution of pass-through entity owners. In 2022, the pass-through entity tax credit against the personal income tax—which reveals who pays the pass-through entity tax—totaled $1 billion for Connecticut residents. Tax filers with a CT AGI up to $50,000 (the bottom 49 percent of tax filers) received only $11.5 million of the credit (1.1 percent), resulting in an average effective tax credit rate of 0.1 percent. Similarly, tax filers with a CT AGI from $50,001 to $200,000 (the next 40 percent of tax filers) received only $54.4 million of the credit (5.4 percent), also resulting in an average effective tax credit rate of 0.1 percent. In contrast, tax filers with a CT AGI above $1 million (approximately the top 1 percent of tax filers) received $702.1 million of the credit, (70.2 percent), resulting in an average effective tax credit rate of 1.3 percent.

Table 5. Connecticut's Total Tax Incidence by Income Decile, 2020

Income Decile	Tax Filers	Total CT AGI	Median CT AGI	Mean CT AGI	Effective Tax Rate
1	883,552	$19,288,483,000	$21,000	$22,000	39.9%
2	316,630	$19,288,457,000	$60,000	$61,000	19.8%
3	203,484	$19,288,527,000	$94,000	$95,000	16.5%
4	143,461	$19,288,513,000	$133,000	$134,000	14.7%
5	102,145	$19,288,351,000	$186,000	$189,000	13.0%
6	67,721	$19,288,456,000	$277,000	$285,000	11.5%
7	37,424	$19,288,301,000	$488,000	$515,000	10.3%
8	15,302	$19,288,596,000	$1,115,000	$1,261,000	9.0%
9	3,846	$19,278,057,000	$4,103,000	$5,012,000	7.7%
10	478	$19,299,308,000	$23,784,000	$40,375,000	7.3%
Total	**1,774,043**	**$192,885,049,000**	*	*	**15.0%**

Source: CT Department of Revenue Services. Effective tax rate is based on 100 percent pass-through tax model
*Data not provided.

Table 6. Connecticut's Tax Incidence by Income Decile and Tax Type, 2020

Income Decile	Effective Tax Rate by Tax								Total Effective Tax rate
	Property Tax	Personal Income Tax	Corp. Business Tax	Sales and Use Tax	Excise Tax	Public Service Tax	Motor Vehicles Fuel Tax	Petroleum Products Tax	
1	28.7%	0.81%	1.5%	6.1%	0.7%	0.7%	1.1%	0.4%	39.9%
2	10.5%	4.00%	0.4%	3.7%	0.4%	0.2%	0.4%	0.2%	19.8%
3	7.1%	4.70%	0.4%	3.5%	0.3%	0.2%	0.3%	0.1%	16.5%
4	5.2%	5.14%	0.5%	3.2%	0.3%	0.1%	0.2%	0.1%	14.7%
5	4.0%	5.31%	0.4%	2.9%	0.2%	0.1%	0.1%	0.1%	13.0%
6	2.9%	5.60%	0.4%	2.3%	0.2%	0.1%	0.1%	0.0%	11.5%
7	1.8%	6.36%	0.3%	1.6%	0.1%	0.0%	0.1%	0.0%	10.3%
8	0.8%	6.96%	0.2%	0.9%	0.1%	0.0%	0.0%	0.0%	9.0%
9	0.2%	6.99%	0.2%	0.3%	0.0%	0.0%	0.0%	0.0%	7.7%
10	0.0%	6.99%	0.3%	0.1%	0.0%	0.0%	0.0%	0.0%	7.3%
Total	**6.1%**	**5.29%**	**0.4%**	**2.5%**	**0.2%**	**0.1%**	**0.2%**	**0.1%**	**15.0%**

Source: CT Department of Revenue Services and author's calculations. Effective tax rate is based on 100 percent pass-through tax model.

Table 7. Distribution of Personal Income Tax Estimated Payments and Pass-Through Entity Tax Credit, 2022

Connecticut Adjusted Gross Income	Tax Filers		Personal Income Tax Estimated Payments				Pass-Through Entity Tax Credit			
	Number	% of All	Total	% of Total	Average	Effective Rate	Total	% of Total	Average	Effective Rate
Up to $50,000	**830,368**	**49.2%**	**$46,861,101**	**2.6%**	**$56**	**0.3%**	**$11,463,326**	**1.1%**	**$14**	**0.1%**
$5,000 or less	148,462	8.8%	$9,539,156	0.5%	$64	*	$4,187,654	0.4%	$28	*
$5,001 to $10,000	91,055	5.4%	$1,933,637	0.1%	$21	0.3%	$343,921	0.0%	$4	0.1%
$10,001 to $15,000	90,284	5.3%	$2,078,291	0.1%	$23	0.2%	$484,196	0.0%	$5	0.0%
$15,001 to $20,000	82,107	4.9%	$2,450,982	0.1%	$30	0.2%	$559,229	0.1%	$7	0.0%
$20,001 to $25,000	74,717	4.4%	$3,097,440	0.2%	$41	0.2%	$825,678	0.1%	$11	0.0%
$25,001 to $30,000	74,177	4.4%	$3,227,189	0.2%	$44	0.2%	$780,553	0.1%	$11	0.0%
$30,001 to $35,000	74,872	4.4%	$12,883,620	0.7%	$172	0.5%	$859,017	0.1%	$11	0.0%
$35,001 to $40,000	71,829	4.3%	$3,836,821	0.2%	$53	0.1%	$1,077,395	0.1%	$15	0.0%
$40,001 to $45,000	64,568	3.8%	$3,850,827	0.2%	$60	0.1%	$1,156,251	0.1%	$18	0.0%
$45,001 to $50,000	58,297	3.5%	$3,963,138	0.2%	$68	0.1%	$1,189,432	0.1%	$20	0.0%
$50,001 to $200,000	**679,642**	**40.2%**	**$208,706,033**	**11.4%**	**$307**	**0.3%**	**$54,441,896**	**5.4%**	**$80**	**0.1%**
$50,001 to $60,000	101,673	6.0%	$8,198,718	0.4%	$81	0.1%	$2,476,274	0.2%	$24	0.0%
$60,001 to $75,000	125,025	7.4%	$16,455,670	0.9%	$132	0.2%	$4,035,860	0.4%	$32	0.0%
$75,001 to $100,000	161,145	9.5%	$35,786,222	1.9%	$222	0.3%	$8,142,918	0.8%	$51	0.1%
$100,001 to $150,000	189,969	11.2%	$79,130,311	4.3%	$417	0.3%	$18,751,072	1.9%	$99	0.1%
$150,001 to $200,000	101,830	6.0%	$69,135,112	3.8%	$679	0.4%	$21,035,772	2.1%	$207	0.1%
$200,001 to $1,000,000	**163,757**	**9.7%**	**$489,912,276**	**26.7%**	**$2,992**	**0.8%**	**$232,040,667**	**23.2%**	**$1,417**	**0.4%**
$200,001 to $250,000	54,549	3.2%	$61,000,444	3.3%	$1,118	0.5%	$21,367,395	2.1%	$392	0.2%
$250,001 to $350,000	51,357	3.0%	$97,674,000	5.3%	$1,902	0.7%	$41,819,704	4.2%	$814	0.3%
$350,001 to $500,000	30,566	1.8%	$106,305,536	5.8%	$3,478	0.8%	$53,739,536	5.4%	$1,758	0.4%
$500,001 to $1,000,000	27,285	1.6%	$224,932,296	12.3%	$8,244	1.2%	$115,114,032	11.5%	$4,219	0.6%
Above $1,000,000	**15,667**	**0.9%**	**$1,090,290,397**	**59.4%**	**$69,592**	**2.0%**	**$702,137,123**	**70.2%**	**$44,816**	**1.3%**
$1,000,001 to $2,000,000	9,404	0.6%	$203,271,025	11.1%	$21,615	1.6%	$103,229,262	10.3%	$10,977	0.8%
Above $2,000,000	6,263	0.4%	$887,019,372	48.3%	$141,629	2.1%	$598,907,861	59.9%	$95,626	1.4%
All Resident Tax Filers	**1,689,434**	**100%**	**$1,835,769,807**	**100%**	**$1,087**	**0.9%**	**$1,000,083,012**	**100.0%**	**$592**	**0.5%**

Source: CT Department of Revenue Services and author's calculations. *Effective tax rate not provided because CT AGI is negative for the income group.

Comparison of State and Local Revenue Levels

Connecticut's state and local revenue level as a percentage of state personal income is below the average for all 50 states and New England states, demonstrating that the state has capacity to responsibly increase its revenue.

The preceding analysis reviewed Connecticut's revenue controls, which focus on *restricting the use of revenue*, especially from volatile taxes. However, it is also essential to examine the *overall level of revenue* to determine whether Connecticut's revenue aligns with what the state can afford to raise and how it compares to other states.

There are several methods to analyze revenue levels:

- Absolute revenue includes the revenue level but does not account for population size, making comparisons between larger and smaller states misleading.

- Revenue per capita adjusts for population size by dividing the revenue level by the number of residents, but it does not account for differences in income levels, which are crucial for determining a state's capacity to raise revenue.

- Revenue as a percentage of state personal income is calculated by dividing the revenue level by state personal income. This method provides a more accurate comparison across states because it reflects each state's ability to raise revenue relative to its financial resources.

Using the latest five years of data from the U.S. Census Bureau, **Figure 5** compares the annual average of each state's total state and local tax revenue as a percentage of state personal income from 2018 to 2022.[25] For the same period, **Table 8** compares Connecticut to the averages for all 50 states and New England states using the three broadest measures of revenue—total revenue, general revenue, general revenue from own sources—as well as the components of the three measures.[26] The Census Bureau defines the revenue classifications as follows:[27]

- Total revenue includes:

    - General revenue: intergovernmental revenue and general revenue from own sources.

    - Utility revenue: "receipts from sales and directly related services and by-products of the four types of state and local government utilities recognized by the Census Bureau: water supply, electric power, gas supply, and public mass transit systems."

    - Liquor store revenue: "receipts from sales and associated services or products of liquor stores owned and operated by state and local governments."

- Insurance trust revenue: "retirement and social insurance contributions, including unemployment compensation 'taxes' received from employees and other government or private employers," and "net earnings on investments set aside to provide income for insurance trusts."

- General revenue includes:
  - Intergovernmental revenue: revenue from the federal government.
  - General revenue from own sources: taxes and current charges and miscellaneous revenue.

- General revenue from own sources includes:
  - Taxes: property taxes, sales and gross receipts taxes, individual income taxes, corporate income taxes, motor vehicles licenses, and other taxes.
  - Current charges and miscellaneous general revenue: "charges imposed for providing current services or for the sale of products in connection with general government activities," and "all other general revenue of governments from their own sources."

Based on all three broad measures, Connecticut's state and local revenue as a percentage of state personal income is below the average for all 50 states as well as New England states:

- For total revenue (the broadest measure), Connecticut averages 20.42 percent of state personal income, 3.49 percentage points below the average for all 50 states and 2.77 percentage points below the average for New England states. Connecticut's average revenue is also lower for all four components of this measure.

- For general revenue (the second broadest measure), Connecticut averages 17.13 percent of state personal income, 2.75 percentage points below the average for all 50 states and 1.85 percentage points below the average for New England states. Connecticut's average revenue is also lower for both components of this measure.

- For general revenue from own sources (the third broadest measure), Connecticut averages 13.44 percent of state personal income, 1.01 percentage points below the average for all 50 states and 0.19 percentage points below the average for New England states. Connecticut's average revenue from taxes is higher than average but that is more than offset by the state's lower average revenue from current charges and miscellaneous general revenue.

This comprehensive comparison shows that Connecticut has the capacity to raise additional revenue to better fund current needs and make public investments, all while maintaining fiscal responsibility. For additional revenue options, refer to past reports from Connecticut Voices for Children.[28]

Figure 5. State and Local Total Revenue
as a Percentage of State Personal Income, Annual Average 2018–2022

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, and author's calculations.

Table 8. State and Local Revenue as a Percent of State Personal Income Annual Average, 2018–2022

Revenue Categories	Connecticut	All 50 States		New England States	
		Average	Difference from CT	Average	Difference from CT
Total Revenue	**20.42%**	**23.91%**	**3.49**	**23.19%**	**2.77**
General Revenue	17.13%	19.88%	2.75	18.98%	1.85
Utility Revenue	0.30%	0.85%	0.55	0.40%	0.10
Liquor Store Revenue	0.00%	0.10%	0.10	0.22%	0.22
Insurance Trust Revenue	2.99%	3.08%	0.09	3.59%	0.60
General Revenue	**17.13%**	**19.88%**	**2.75**	**18.98%**	**1.85**
Intergovernmental Revenue	3.69%	5.44%	1.75	5.35%	1.66
From Own Sources	13.44%	14.45%	1.01	13.63%	0.19
General Revenue Own Sources	**13.44%**	**14.45%**	**1.01**	**13.63%**	**0.19**
Taxes	**11.41%**	**9.81%**	**-1.60**	**10.57%**	**-0.84**
Property Tax	4.15%	2.91%	-1.24	4.42%	0.27
Sales and Gross Receipts Tax	2.80%	3.42%	0.62	2.61%	-0.19
Individual Income Tax	3.31%	2.19%	-1.12	2.42%	-0.89
Corporate Income Tax	0.78%	0.38%	-0.40	0.58%	-0.20
Motor Vehicle License Tax	0.08%	0.17%	0.09	0.11%	0.03
Other Taxes	0.28%	0.74%	0.46	0.43%	0.15
Current Charges and Miscellaneous General Revenue	**2.02%**	**4.64%**	**2.62**	**3.06%**	**1.04**
Current Charges	1.31%	3.06%	1.75	1.92%	0.61
Miscellaneous General Revenue	0.71%	1.58%	0.87	1.14%	0.43

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, and author's calculations.

Connecticut's Spending Controls

This section reviews Connecticut's spending controls and makes the case for responsible adjustments. The first part focuses on the spending cap, debt limit, and bonding caps, reviewing their constitutional and statutory design and actual impact. The second part compares Connecticut's spending levels to those of all 50 states and New England states, offering additional context for the proposed adjustments.

The Spending Cap, Debt Limit, and Bonding Caps

The purpose of Connecticut's major spending controls—the spending cap, debt limit, and bonding caps—is to stabilize the budget and long-term finances by limiting the growth in spending.

Constitutional and Statutory Design of the Spending Cap

To limit the growth in spending, policymakers established Connecticut's constitutional and statutory spending cap in several steps over the last three decades.

In 1991, policymakers established the state's statutory spending cap, limiting the increase in "general budget expenditures" to the amount authorized in the prior fiscal year plus the greater of the "increase in personal income" or the "increase in inflation." The statute defined the key terms as follows:

- General budget expenditures: "expenditures from appropriated funds authorized by public or special act of the general assembly"
    - Excludes debt payment, transfer of surplus to the Budget Reserve Fund and retirement funds, and existing grants to distressed municipalities: "general budget expenditures shall not include expenditures for payment of the principal of and interest on bonds, notes or other evidences of indebtedness, expenditures pursuant to section 4-30a of the general statutes, or current or increased expenditures for statutory grants to distressed municipalities, provided such grants are in effect on July 1, 1991"
    - Excludes the first year of federal mandates or court orders: "expenditures for the implementation of federal mandates or court orders shall not be considered general budget expenditures for the first fiscal year in which such expenditures are authorized, but shall be considered general budget expenditures for such year for the purposes of determining general budget expenditures for the ensuing fiscal year"
- Increase in personal income: "the average of the annual increase in personal income in the state for each of the preceding five years, according to United States Bureau of Economic Analysis data"

- Increase in inflation: "the increase in the consumer price index for urban consumers during the preceding twelve-month period, according to United States Bureau of Labor Statistics data"[29]

The statute also provided a provision for a three-fifths supermajority to bypass the spending cap:

- Emergency or extraordinary circumstances: "the governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the general assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. Any such declaration shall specify the nature of such emergency or circumstances and may provide that such proposed additional expenditures shall not be considered general budget expenditures for the current fiscal year for the purposes of determining general budget expenditures for the ensuing fiscal year and any act of the general assembly authorizing such expenditures may contain such provision."[30]

In 1992, voters approved an amendment to the Connecticut Constitution adding the following budget provisions:

- Balanced budget requirement: "The amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year."

- 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"

    - Emergency or extraordinary circumstances: The constitutional spending cap can be bypassed if "the governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the general assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances"

    - Defining key terms: "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."

- Use of surplus funds: "Any unappropriated surplus shall be used to fund a budget reserve fund or for the reduction of bonded indebtedness; or for any other purpose authorized by at least three-fifths of the members of each house of the general assembly."[31]

In 2017, the General Assembly defined in statute the three key spending cap terms for the first time since the passage of the constitutional amendment. Compared to the 1991 statute, the definitions in the 2017 statute are significantly more detailed:

- General budget expenditures: "expenditures from appropriated funds authorized by public or special act of the General Assembly"

    - Excludes debt payment, transfer of surplus to the Budget Reserve Fund and retirement funds, and federal funds: "general budget expenditures shall not include expenditures for payment of the principal of and interest on bonds, notes or other evidences of indebtedness, expenditures pursuant to section 4-30a, or expenditures of any federal funds granted to the state or its agencies"

    - Excludes the first year of federal mandates or court orders: "expenditures for the implementation of federal mandates or court orders shall not be considered general budget expenditures for the first fiscal year in which such expenditures are authorized, but shall be considered general budget expenditures for such year for the purposes of determining general budget expenditures for the ensuing fiscal year"

    - Excludes the first year of state spending on new federal programs with matching federal funds: "expenditures for federal programs in which the state is participating on October 31, 2017, for which the state receives federal matching funds shall be considered general budget expenditures, but expenditures for federal programs in which the state commences participation after October 31, 2017, for which the state receives federal matching funds shall not be considered general budget expenditures for the first fiscal year in which such expenditures are authorized, but shall be considered general budget expenditures for such year for the purposes of determining general budget expenditures for the ensuing fiscal year"

    - Excludes regular annual payment to the State Employment Retirement System for FY 18 to FY 22: "for the fiscal years ending June 30, 2018, to June 30, 2022, inclusive, general budget expenditures shall not include annual expenditures for the payment of the portion of the actuarially determined employer contribution representing the unfunded liability for that fiscal year of any retirement system, other than the teachers' retirement system, or any alternative retirement program administered by the State Employees Retirement Commission"

    - Excludes regular annual payment to the Teachers' Retirement System for FY 18 to FY 26: "for the fiscal years ending June 30, 2018, to June 30, 2026, inclusive, general budget expenditures shall not include annual expenditures for the payment of the portion of the actuarially determined employer contribution representing the unfunded liability for that fiscal year of the teachers' retirement system"

- Increase in personal income: "the compound annual growth rate of personal income in the state over the preceding five calendar years, using data reported by United States Bureau of Economic Analysis"

- Increase in inflation: "the increase in the consumer price index for all urban consumers, all items, less food and energy, during the preceding calendar year, calculated on a December over December basis, using data reported by the United States Bureau of Labor Statistics"[32]

The 2017 statute retains the provision for a three-fifths supermajority to bypass the spending cap:

- Emergency or extraordinary circumstances: "the Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. Any such declaration shall specify the nature of such emergency or circumstances and may provide that such proposed additional expenditures shall not be considered general budget expenditures for the current fiscal year for the purposes of determining general budget expenditures for the ensuing fiscal year and any act of the General Assembly authorizing such expenditures may contain such provision."[33]

Additionally, unlike the 1991 statute, the 2017 statute includes specific guidelines for moving spending out from or under the spending cap:

- Base year adjustment:

    - Adjustment for capped appropriations shifting to noncapped spending: "A base year adjustment shall be made in any fiscal year in which … any expenditure funded in the previous fiscal year by an appropriation is funded in the current fiscal year by either state bonding, a revenue intercept or a nonappropriated state funding source if the program or purpose being funded in the current fiscal year is essentially the same as that funded in the previous fiscal year"

    - Adjustment for noncapped spending shifting to capped appropriations: "A base year adjustment shall be made in any fiscal year in which …any expenditure funded in the previous fiscal year by either state bonding, a revenue intercept or a nonappropriated state funding source is funded in the current fiscal year by an appropriation if the program or purpose being funded in the current fiscal year is essentially the same as that funded in the previous fiscal year"[34]

Table 9 provides a comparison of the key spending cap components included in the 1991 and 2017 statutes.[35]

Table 9. Connecticut State Spending Cap Statutes

Spending Cap Component	1991 Spending Cap Statute	2017 Spending Cap Statute
General Budget Expenditures	**Includes:** Expenditures from appropriated funds **Excludes:** Expenditures for payment of the principal of and interest on bonds, notes or other evidences of indebtedness Transfers to and from the Budget Reserve Fund Expenditures for statutory grants to distressed municipalities in effect on July 1, 1991 First year of expenditures for the implementation of federal mandates or court orders - - - - -	**Includes:** Expenditures from appropriated funds **Excludes:** Expenditures for payment of the principal of and interest on bonds, notes or other evidences of indebtedness Transfers to and from the Budget Reserve Fund - First year of expenditures for the implementation of federal mandates or court orders Expenditures of federal funds granted to the state Expenditures for federal programs the state participates in and are in effect on October 13, 2017 First year of expenditures for federal programs that the state commences participation after October 31, 2017 FYs 2018 to 2022: Annual ADEC for retirement systems administrated by the State Employees Retirement Commission FYs 2018 to 2026: Annual ADEC for Teachers' Retirement System
Base Adjustment	-	Add to (substract from) budget base previous expenditures that move from (to) state bonding, a revenue intercept, or a nonappropriated state funding source
Growth Rate	Greater of the increase in: Personal income (average of the annual increase for preceding five years) Increase in inflation (consumer price index for urban consumers during preceding 12-month period)	Greater of the increase in: Personal income (compound annual growth rate for preceding five calendar years) Increase in inflation (consumer price index for all urban consumers during preceding calendar year, from December to December)
Bypass Provision	Governor declares emergency or existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote in support	Governor declares emergency or existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote in support

Source: Connecticut General Statutes.

Statutory Design of the Debt Limit and Bonding Caps

As reviewed, Connecticut's spending cap excludes debt payments. However, spending on debt payments is separately restricted by the state's statutory debt limit and several bonding caps. In 2023, policymakers updated these restrictions, the most relevant components are summarized below:

- General Fund debt is limited to 1.6 times tax revenue: "No bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the state shall be authorized by the General Assembly or issued except such as shall not cause the aggregate amount of the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and the total amount of such indebtedness which has been issued and remains outstanding to exceed one and six-tenths times the total General Fund tax receipts of the state for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding in accordance with section 2-35. Credit revenue bonds issued pursuant to section 3-20j shall be considered as payable from General Fund tax receipts of the state for purposes of this subsection."[36]

- The bond allocation cap limits to $2.4 billion (adjusted annually for inflation) the amount of bonding authorized by the State Bond Commission: "For the fiscal year commencing July 1, 2023, and for each fiscal year thereafter, the State Bond Commission may not authorize bond issuances or credit revenue bond issuances of more than two billion four hundred million dollars in the aggregate in any fiscal year. Commencing July 1, 2024, and each fiscal year thereafter, the aggregate limit shall be adjusted in accordance with any change in the consumer price index for all urban consumers for the preceding calendar year, less food and energy, as published by the United States Department of Labor, Bureau of Labor Statistics."[37]

- The bond issuance cap limits to $2.4 billion (adjusted annually for inflation) the amount of bonding issued by the Treasurer: "For the fiscal year commencing July 1, 2023, and for each fiscal year thereafter, the Treasurer may not issue general obligation bonds or notes pursuant to section 3-20, as amended by this act, or credit revenue bonds pursuant to section 3-20j that exceed in the aggregate of two billion four hundred million dollars in the aggregate in any fiscal year. Commencing July 1, 2024, and each fiscal year thereafter, the aggregate limit shall be adjusted in accordance with any change in the consumer price index for all urban consumers for the preceding calendar year, less food and energy, as published by the United States Department of Labor, Bureau of Labor Statistics."[38]

- The bond allotment cap limits to $2.4 billion (adjusted annually for inflation) the amount of bonding approved by the Governor: "Notwithstanding the provisions of section 4-85, the Governor shall not approve allotment requisitions pursuant to said section of general obligation bonds or notes or credit revenue bonds in an amount greater than the issuance limit set forth in subdivision (1) of subsection (f) of this section."[39]

The Spending Controls in Practice

Connecticut's spending controls have helped to stabilize the budget and long-term finances, but they have also proven to be excessively restrictive in practice, especially when combined with the revenue controls that have directed billions of surplus dollars toward unfunded retirement liabilities instead of increasing funding to meet current needs and make public investments that grow the state's economy. This section reviews five key findings.

In FY 2025, Connecticut's appropriations totaled $25.99 billion but could have totaled $32.7 billion—an increase of $6.7 billion—if the state's personal income had grown at the same rate as the U.S. over the past three decades rather than at a historically slow rate that has made the spending cap excessively restrictive.

As reviewed, Connecticut's allowable spending cap growth is based on the greater of the increase in personal income or inflation. Since the creation of the spending cap, personal income growth has served as the operational restriction nearly 85 percent of the time. To demonstrate the excessively restrictive impact of the spending cap due to the state's historically slow personal income growth, this analysis first compares personal income growth in Connecticut to both the U.S. and New England over time. It then models the potential size of Connecticut's total appropriations using alternative measures of personal income growth.

Figure 6 shows the difference in Connecticut's personal income growth compared to the U.S. and New England for the recovery from each recession since 1948, the earliest period for which quarterly data are available.[40]

- Connecticut's personal income growth has been historically slow relative to the U.S. since the creation of the spending cap. For the recoveries from five of the eight recessions (62.5 percent) that began between 1948 and 1981, before the spending cap was in place, personal income growth in Connecticut exceeded personal income growth in the U.S., averaging 2 percentage points higher for each recovery. Since the creation of the spending cap, personal income growth in Connecticut has lagged behind personal income growth in the U.S. for all four recoveries (100 percent), averaging 8.8 percent lower for each recovery.

- Connecticut's personal income growth has been historically slow relative to New England since the creation of the spending cap. For the recoveries from five of the eight recessions (62.5 percent) that began between 1948 and 1981, personal income growth in Connecticut exceeded personal income growth in New England, averaging 3.1 percentage points higher for each recovery. Since the creation of the spending cap, personal income growth in Connecticut has lagged behind personal income growth in New England for three of the four recoveries (75 percent), averaging 4.6 percentage points lower for each recovery. This demonstrates that the decline in Connecticut's personal income growth relative to the U.S. is not simply due to slower regional growth in New England.

Next, **Figure 7** shows the excessively restrictive impact of Connecticut's slow personal income growth on the budget by comparing, in both current dollars and 2024 dollars, actual and potential total appropriations from FY 1993 to FY 2025 using three alternative measures for the spending cap.[41]

- Connecticut's actual appropriations totaled $25.99 billion in FY 2025. The spending cap took effect using appropriations of $8.23 billion in FY 1993 as the baseline. The budget grew in current (non-inflation adjusted) dollars annually until 2014, when a $2.2 billion base adjustment removed the federally reimbursed share of appropriations for Medicaid. Following that adjustment, the budget continued to grow, reaching $25.99 billion dollars in FY 2025. In inflation-adjusted 2024 dollars, budget appropriations generally grew annually to FY 2013 but have remained relatively flat since FY 2014.

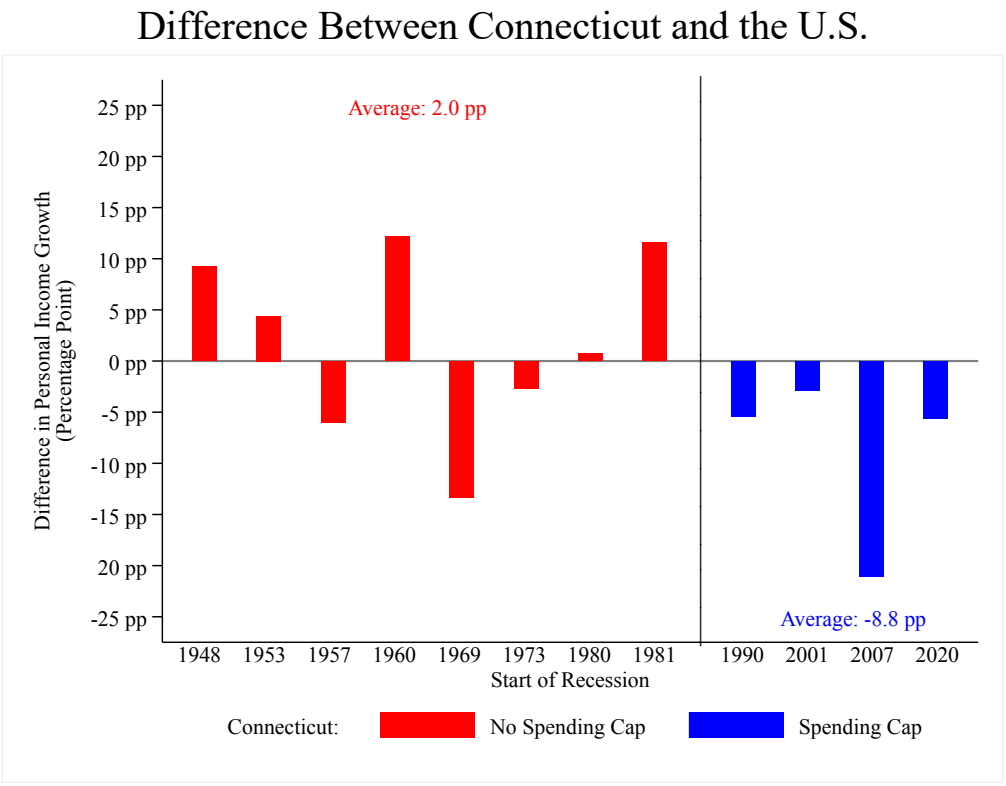
- Using updated data, Connecticut's appropriations could have totaled $28.07 billion in FY 2025. The spending cap relies on personal income growth data from the U.S. Bureau of Economic Analysis and consumer price growth data from the U.S. Bureau of Labor Statistics. The use of both data sources presents two issues: some discretion remains in applying the economic indicators despite the increased detail in the 2017 statute, and also the estimates for the indicators are regularly updated. These factors can generate significantly different annual spending cap growth rates compared to the rates used for actual appropriations, leading to significant differences in allowable appropriations over time. Using a consistent approach and updated data, the recalculated spending cap growth rate averages 4.27 percent annually compared to the rate of 4.02 percent used by the state. With this alternative measure for the spending cap, the state's appropriations could have totaled $28.07 billion in FY 2025, an increase of $2.08 billion compared to the actual total appropriations.

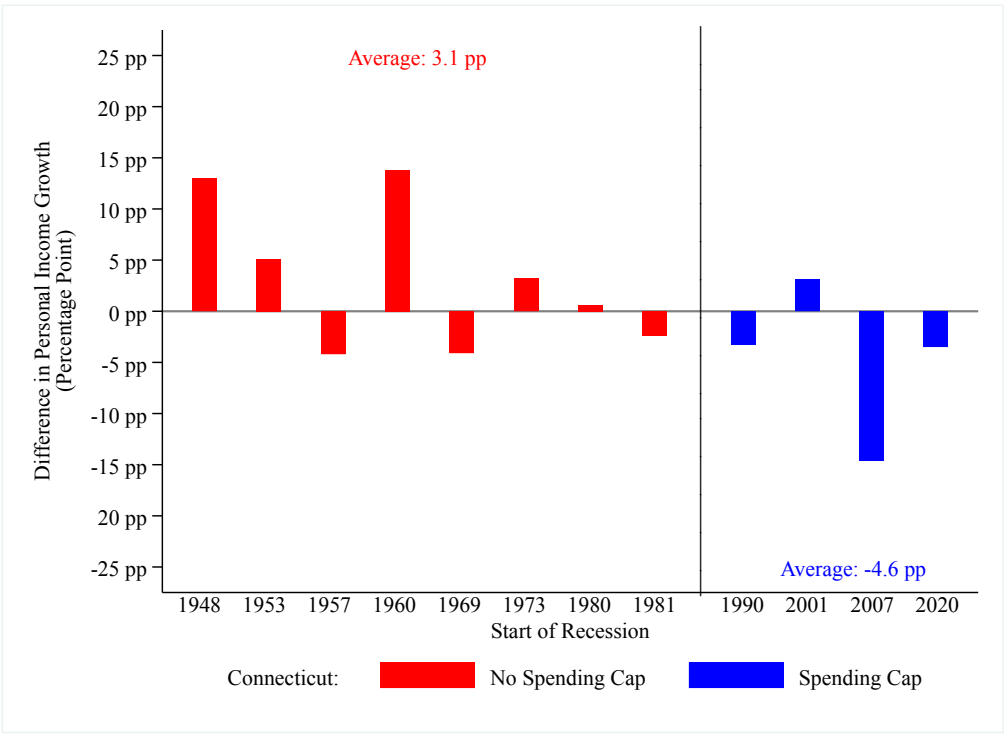
- Using New England personal income growth, Connecticut's appropriations could have totaled $29.51 billion. The gap between actual and potential appropriations grows when addressing the state's relatively slow personal income growth since the implementation of the spending cap. Using updated personal income growth for New England in place of Connecticut's personal income growth for the spending cap, the state's appropriations could have totaled $29.51 billion in FY 2025, an increase of $3.51 billion compared to the actual appropriations.

- Using U.S. personal income growth, Connecticut's appropriations could have totaled $32.71 billion. The gap between actual and potential appropriations is greater still when using updated personal income growth for the U.S. in place of Connecticut's personal income growth. With this alternative measure for the spending cap, the state's appropriations could have totaled $32.71 billion in FY 2025, an increase of $6.72 billion compared to the actual appropriations.

While this analysis focuses on the impact of Connecticut's slow economic growth on the budget, it is important to understand that the relationship is reciprocal. A budget constrained by slow economic growth reduces public services and investments, further slowing economic growth and creating a negative feedback loop. Conversely, a budget supported by strong economic growth can boost public services and investments, generating faster economic growth and creating a positive feedback loop.

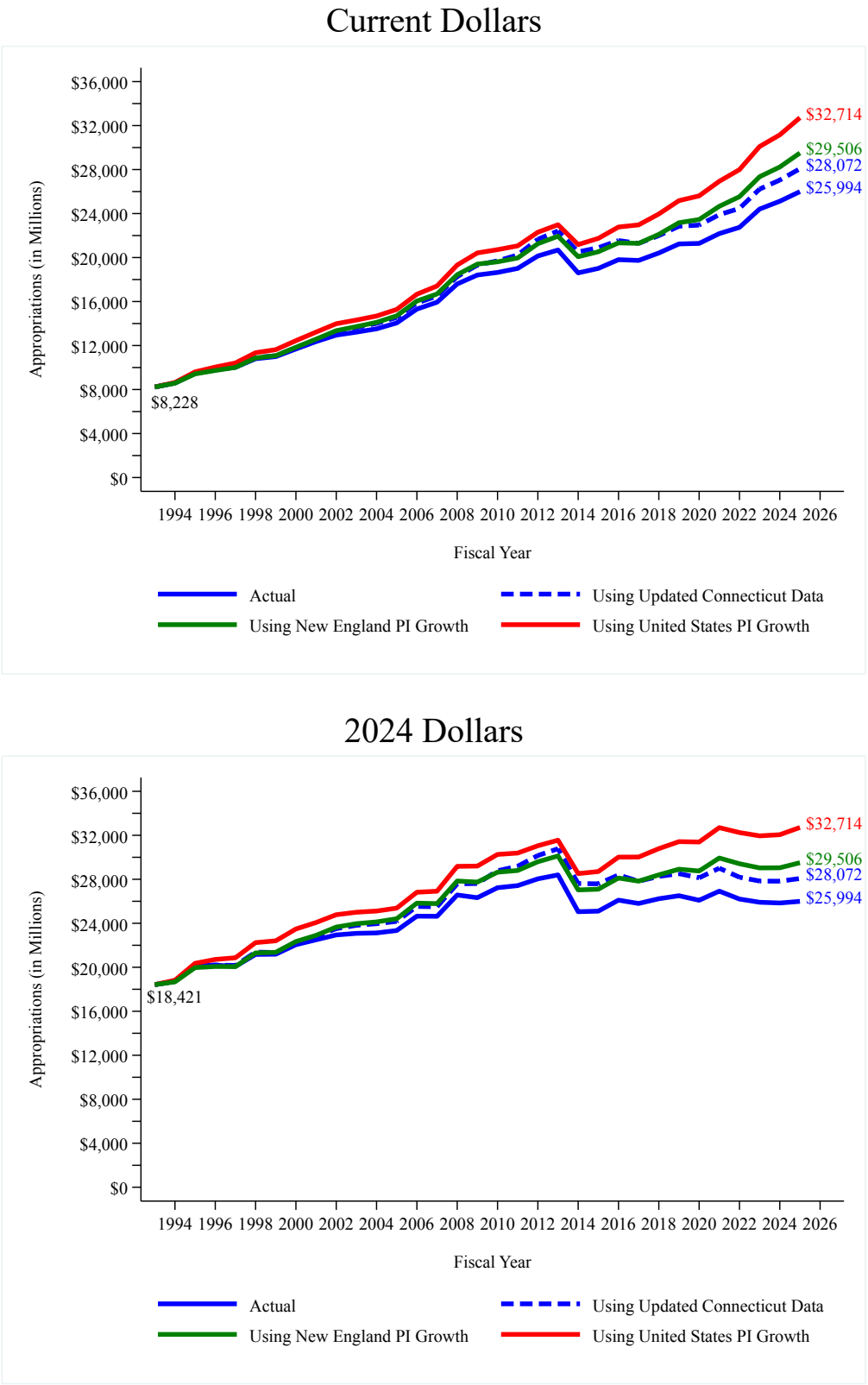
Figure 6. Difference in Personal Income Growth for Recession Recoveries





Sources: U.S. Bureau of Economic Analysis, National Bureau of Economic Research, and author's calculations. Positive difference means growth in Connecticut is higher than in the U.S. or New England.

Figure 7. Connecticut's Total Appropriations: Actual and Potential, FY 1993–2025



Sources: CT Office of Fiscal Analysis, CT Office of Policy and Management, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, and author's calculations.

In FY 2025, Connecticut's appropriations totaled $25.99 billion but could have totaled $26.46 billion—an increase of $466 million—if the state's spending cap had continued adjusting since FY 2018 based on the original inflation index rather than a narrower index that excludes food and energy, which has made the spending cap excessively restrictive.

As reviewed, Connecticut's spending cap growth is based on the greater of the increase in personal income or inflation, and personal income growth has served as the operational restriction nearly 85 percent of the time. In the other years, inflation has served as the operational restriction. Before FY 2018, the inflation index for the spending cap was "the increase in the consumer price index for urban consumers," a broad measure referred to as CPI-U. Since FY 2018, the inflation index has been "the increase in the consumer price index for all urban consumers, all items, less food and energy," a narrower measure referred to as core CPI-U.

Figure 8 compares the year-over-year change in inflation from January 2016 through December 2023 for the two different measures of inflation.[42] Inflation served as the operational restriction for spending cap growth in four fiscal years during this period.

- Using core CPI-U—calculated on a December over December basis during the preceding calendar year—as the inflation index, the spending cap actually increased by 2.2 percent in FY 2018, 1.8 percent for FY 2019, 5.5 percent for FY 2023, and 5.7 percent for FY 2024.

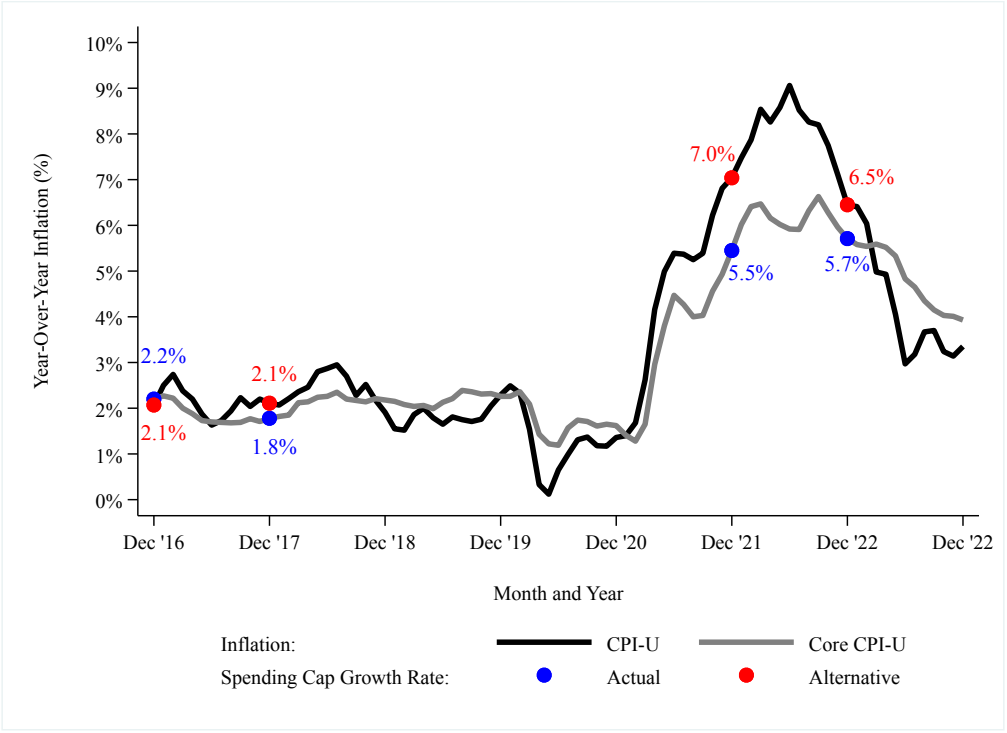
- Using CPI-U—calculated on a December over December basis during the preceding calendar year—as the inflation index, the spending cap could have increased by 2.1 percent in FY 2018, 2.1 percent for FY 2019, 7 percent for FY 2023, and 6.5 percent for FY 2024.

Next, to show the impact on the budget, **Figure 9** compares Connecticut's actual and potential total appropriations from FY 2018 to FY 2025 using core CPI-U and CPI-U to adjust the spending cap.[43]

- Connecticut's actual appropriations totaled $25.99 billion in FY 2025 using core CPI-U as the inflation index. By excluding food and energy, which are significant components of household expenses, this narrower measure of inflation fails to capture the full increase in the cost of living, particularly during periods of sharp price hikes in these categories. As a result, the spending cap's annual adjustment does not adequately increase the budget's capacity to meet the needs of the state's residents, making the spending cap excessively restrictive.

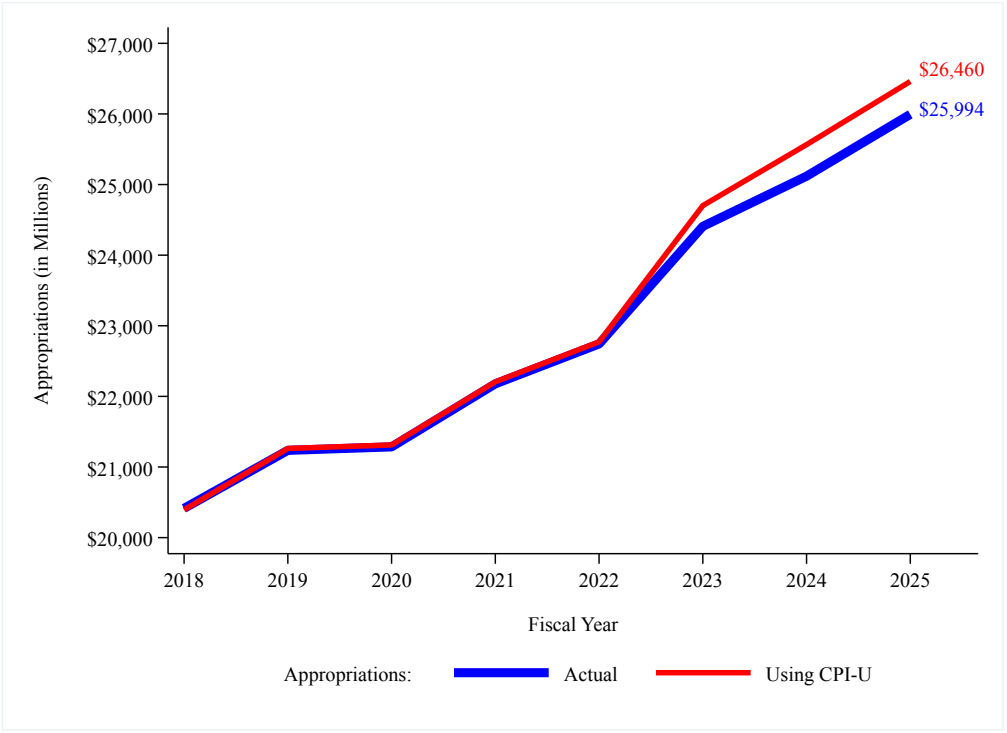
- Connecticut's appropriations could have totaled $26.46 billion in FY 2025 if the spending cap continued using CPI-U as the inflation index, and also the gap will grow over time. The gap of $465.7 million between actual and potential total appropriations in FY 2025 is the current impact of using a more comprehensive inflation measure that aligns with actual living costs. Additionally, due to compounding, this gap will continue to grow. For example, if the spending cap increases by 4 percent a year based on personal income growth, this initial inflation-indexing-based gap will increase to $689 million in 10 years and to $1 billion in 20 years.

Figure 8. Year-Over-Year Inflation



Source: U.S. Bureau of Labor Statistics and author's calculations.

Figure 9. Connecticut's Total Appropriations: Actual and Potential, FY 2018–2025, in Millions



Sources: CT Office of Fiscal Analysis, CT Office of Policy and Management, U.S. Bureau of Labor Statistics, and author's calculations.

From FY 2018 to FY 2025, Connecticut's total appropriations in inflation-adjusted dollars decreased by over $250 million due to historically slow personal income growth and the use of a narrow inflation index, both of which have made the spending cap excessively restrictive and caused real spending reductions in several areas, including regulation and protection, human services, elementary and secondary education, and higher education.

Connecticut's budget each year is presented in current (non-inflation-adjusted) dollars, creating the impression of consistent growth and obscuring the tradeoffs made among policy areas. However, when analyzed in real (inflation-adjusted) dollars, the constraints imposed by the spending cap become evident. Specifically, when the state's personal income growth is slow and the gap between the broad and narrow inflation indexes is large, the spending cap proves excessively restrictive, forcing any real increase in spending in one area to be more than offset by a reduction in another area.

To demonstrate, **Table 10** shows Connecticut's total appropriations from FY 2018 to FY 2025 in both current dollars and inflation-adjusted 2024 dollars.[44]

- In current dollars, total regular appropriations increased from $20.4 billion in FY 2018 to $25.99 billion in FY 2025, a growth of $5.6 billion or 27.2 percent. Along with the growth in total appropriations in current dollars, appropriations increased for every major budget area: Legislative, General Government A, General Government B, Regulation and Protection, Conservation and Development, Health, Human Services, Transportation, Elementary and Secondary Education, Higher Education, and Judicial and Corrections.

- In 2024 dollars, total regular appropriations decreased from $26.3 billion in FY 2018 to $25.99 billion in FY 2025, a reduction of $258 million or 1 percent. While the budget included real increases in some areas, those increases were more than offset by real decreases in other areas: General Government B, Regulation and Protection, Human Services, Elementary and Secondary Education, Higher Education, and Judicial and Corrections.

- Temporary funds. In addition to the regular annual appropriations, Connecticut's budget included two major temporary funding sources. However, these temporary funding sources simply mask the problem of the spending cap rather than provide a permanent solution.

    - Carryforward funds: These are unspent appropriations from one fiscal year reallocated to another. While they provide a temporary increase to specific budget areas, carryforward funds merely shift capped appropriations, leaving the problem of the excessively restrictive spending cap unchanged.

    - American Rescue Plan Act (ARPA) funds: From FY 2022 to FY 2025, Connecticut relied on $2.8 billion in one-time ARPA funds to increase public investments and mask the impact of the spending cap. However, as a temporary, non-recurring resource, ARPA funds provide no long-term solution to the problem of the state's excessively restrictive spending cap.

Table 10. Regular Appropriations by Budget Category and Agency, FY 2018 and FY 2025
Current Dollars and 2024 Dollars, in Millions

Budget Cateogry Agency	FY 18	FY 25	Change: Current $ $	 %	FY 18 in 2024 $	FY 25 in 2024 $	Change: 2024 $ $	 %
Legislative	**$70.1**	**$108.3**	**$38.2**	**54.5%**	**$90.1**	**$108.3**	**$18.2**	**20.3%**
Office of Legislative Management	$58.6	$92.3	$33.6	57.4%	$75.3	$92.3	$16.9	22.5%
Auditors of Public Accounts	$10.6	$15.0	$4.4	41.6%	$13.6	$15.0	$1.4	10.2%
Commission on WCSEO	$0.9	$1.0	$0.2	19.8%	$1.1	$1.0	($0.1)	-6.8%
General Government A	**$19.8**	**$30.1**	**$10.3**	**51.8%**	**$25.4**	**$30.1**	**$4.6**	**18.1%**
Governor's Office	$2.4	$4.6	$2.3	95.6%	$3.1	$4.6	$1.6	52.2%
Secretary of the State	$9.0	$13.2	$4.2	47.0%	$11.5	$13.2	$1.7	14.4%
Lieutenant Governor's Office	$0.7	$0.8	$0.1	17.3%	$0.8	$0.8	($0.1)	-8.7%
Elections Enforcement Commission	$3.1	$4.2	$1.1	35.5%	$4.0	$4.2	$0.2	5.4%
Office of State Ethics	$1.4	$2.0	$0.5	37.2%	$1.8	$2.0	$0.1	6.8%
Freedom of Information Commission	$1.5	$2.2	$0.7	46.1%	$1.9	$2.2	$0.3	13.7%
Office of Governmental Accountability	$1.7	$3.0	$1.3	75.7%	$2.2	$3.0	$0.8	36.7%
General Government B	**$7,096.7**	**$8,515.2**	**$1,418.5**	**20.0%**	**$9,118.9**	**$8,515.2**	**($603.8)**	**-6.6%**
Office of the State Treasurer	$3.0	$3.9	$0.9	31.6%	$3.8	$3.9	$0.1	2.4%
Debt Service - State Treasurer	$2,925.7	$3,545.5	$619.7	21.2%	$3,759.5	$3,545.5	($214.0)	-5.7%
Office of the State Comptroller	$27.4	$35.7	$8.3	30.3%	$35.2	$35.7	$0.5	1.4%
State Comptroller - Misc	$1.6	$43.6	$42.0	2630.5%	$2.1	$43.6	$41.6	2024.9%
State Comptroller - Fringe Benefits	$3,174.6	$3,655.7	$481.1	15.2%	$4,079.2	$3,655.7	($423.5)	-10.4%
Department of Revenue Services	$64.3	$66.8	$2.5	3.9%	$82.7	$66.8	($15.9)	-19.2%
Office of Policy and Management	$410.7	$735.9	$325.2	79.2%	$527.7	$735.9	$208.1	39.4%
Reserve for Salary Adjustments	$319.4	$55.9	($263.4)	-82.5%	$410.4	$55.9	($354.4)	-86.4%
Department of Administrative Services	$124.4	$226.4	$102.1	82.0%	$159.8	$226.4	$66.6	41.7%
Workers' Compensation Claims - Admin. Services	$14.3	$106.5	$92.1	643.1%	$18.4	$106.5	$88.1	478.3%
Attorney General	$31.3	$39.3	$8.0	25.4%	$40.2	$39.3	($1.0)	-2.4%

Table 10. Regular Appropriations by Budget Category and Agency, FY 2018 and FY 2025 Current Dollars and 2024 Dollars, in Millions (continued)

Budget Cateogry Agency	FY 18	FY 25	Change: Current $		FY 18	FY 25	Change: 2024 $	
			$	%	in 2024 $	in 2024 $	$	%
Regulation and Protection	**$287.3**	**$366.3**	**$79.0**	**27.5%**	**$369.2**	**$366.3**	**($2.9)**	**-0.8%**
Dept. of Emergency Services and Public Protection	$185.1	$233.8	$48.7	26.3%	$237.8	$233.8	($4.0)	-1.7%
Miliary Department	$5.6	$6.4	$0.8	14.8%	$7.2	$6.4	($0.8)	-10.6%
Department of Consumer Protection	$13.9	$23.8	$9.8	70.4%	$17.9	$23.8	$5.8	32.6%
Commission on Human Rights and Opportunities	$6.2	$8.2	$1.9	31.3%	$8.0	$8.2	$0.2	2.2%
Department of Banking	$21.6	$30.1	$8.5	39.4%	$27.8	$30.1	$2.4	8.5%
Insurance Department	$27.2	$35.5	$8.3	30.4%	$35.0	$35.5	$0.5	1.5%
Office of the Healthcare Advocate	$6.6	$4.1	($2.5)	-38.1%	$8.4	$4.1	($4.4)	-51.9%
Office of the Behavioral Health Advocate		$0.9	$0.9			$0.9	$0.9	
Workers' Compensation Commission	$21.1	$23.6	$2.5	11.9%	$27.1	$23.6	($3.5)	-12.9%
Conservation and Development	**$289.3**	**$386.6**	**$97.3**	**33.6%**	**$371.7**	**$386.6**	**$14.8**	**4.0%**
Labor Department	$69.3	$92.6	$23.3	33.7%	$89.0	$92.6	$3.6	4.0%
Department of Agriculture	$6.0	$8.2	$2.1	35.5%	$7.8	$8.2	$0.4	5.5%
Dept. of Energy and Environmental Protection	$81.8	$93.2	$11.4	14.0%	$105.1	$93.2	($11.9)	-11.3%
Dept. of Economic and Community Development	$30.0	$63.9	$34.0	113.4%	$38.5	$63.9	$25.4	66.1%
Department of Housing	$92.2	$114.8	$22.6	24.5%	$118.4	$114.8	($3.7)	-3.1%
Agricultural Experiment Station	$7.1	$9.2	$2.1	29.1%	$9.2	$9.2	$0.0	0.4%
Council on Environmental Quality	$0.2		($0.2)		$0.2		($0.2)	
Office of Consumer Counsel	$2.7	$4.6	$1.9	72.0%	$3.4	$4.6	$1.2	33.9%
Health	**$1,275.9**	**$2,464.3**	**$1,188.4**	**93.1%**	**$1,639.4**	**$2,464.3**	**$824.9**	**50.3%**
Department of Veterans' Affairs	$23.8	$27.3	$3.5	14.9%	$30.6	$27.3	($3.2)	-10.6%
Department of Public Health	$115.6	$151.6	$36.0	31.1%	$148.5	$151.6	$3.0	2.0%
Office of Health Strategy	$0.0	$18.2	$18.2			$18.2	$18.2	
Office of Chief Medical Examiner	$6.4	$10.8	$4.4	68.7%	$8.2	$10.8	$2.6	31.3%
Department of Developmental Services	$519.6	$1,511.7	$992.1	190.9%	$667.6	$1,511.7	$844.0	126.4%
Dept. of Mental Health and Addiction Services	$610.2	$744.3	$134.1	22.0%	$784.1	$744.3	($39.8)	-5.1%
Psychiatric Security Review Board	$0.3	$0.4	$0.1	25.9%	$0.4	$0.4	($0.0)	-2.0%

Table 10. Regular Appropriations by Budget Category and Agency, FY 2018 and FY 2025 Current Dollars and 2024 Dollars, in Millions (continued)

Budget Cateogry Agency	FY 18	FY 25	Change: Current $ $	 %	FY 18 in 2024 $	FY 25 in 2024 $	Change: 2024 $ $	 %
Human Services	**$5,176.5**	**$5,446.9**	**$270.3**	**5.2%**	**$6,651.6**	**$5,446.9**	**($1,204.8)**	**-18.1%**
Department of Social Services	$4,368.6	$4,599.1	$230.6	5.3%	$5,613.4	$4,599.1	($1,014.3)	-18.1%
Department of Aging and Disability Services	$21.5	$36.7	$15.2	70.6%	$27.7	$36.7	$9.1	32.7%
Department of Children and Families	$786.4	$811.0	$24.6	3.1%	$1,010.5	$811.0	($199.5)	-19.7%
Transportation	**$686.3**	**$1,043.2**	**$356.9**	**52.0%**	**$881.9**	**$1,043.2**	**$161.3**	**18.3%**
Department of Motor Vehicles	$66.2	$77.9	$11.7	17.7%	$85.0	$77.9	($7.2)	-8.4%
Department of Transportation	$620.1	$965.4	$345.2	55.7%	$796.9	$965.4	$168.5	21.1%
Elementary and Secondary Education	**$4,534.9**	**$5,548.0**	**$1,013.1**	**22.3%**	**$5,827.1**	**$5,548.0**	**($279.2)**	**-4.8%**
Department of Education	$2,930.8	$3,381.9	$451.2	15.4%	$3,766.0	$3,381.9	($384.0)	-10.2%
CT Technical Education and Career System	$0.0	$191.5	$191.5			$191.5	$191.5	
Office of Early Childhood	$283.3	$376.2	$92.8	32.8%	$364.0	$376.2	$12.1	3.3%
State Library	$9.1	$10.9	$1.8	19.6%	$11.7	$10.9	($0.8)	-7.0%
Teachers' Retirement Board	$1,311.7	$1,587.5	$275.8	21.0%	$1,685.5	$1,587.5	($98.0)	-5.8%
Higher Education	**$669.9**	**$810.7**	**$140.7**	**21.0%**	**$860.8**	**$810.7**	**($50.2)**	**-5.8%**
Office of Higher Education	$39.3	$36.8	($2.4)	-6.2%	$50.4	$36.8	($13.6)	-27.0%
University of Connecticut	$199.3	$219.6	$20.4	10.2%	$256.0	$219.6	($36.4)	-14.2%
University of Connecticut Health Center	$122.4	$114.1	($8.4)	-6.8%	$157.3	$114.1	($43.2)	-27.5%
Connecticut State Colleges and Universities	$309.0	$440.2	$131.2	42.4%	$397.0	$440.2	$43.1	10.9%
Judicial and Corrections	**$1,217.3**	**$1,469.6**	**$252.3**	**20.7%**	**$1,564.2**	**$1,469.6**	**($94.6)**	**-6.0%**
Division of Criminal Justice	$49.7	$64.1	$14.4	29.0%	$63.8	$64.1	$0.3	0.4%
Department of Correction	$599.6	$705.7	$106.1	17.7%	$770.5	$705.7	($64.8)	-8.4%
Judicial Department	$500.9	$610.3	$109.4	21.8%	$643.7	$610.3	($33.4)	-5.2%
Public Defender Services Commission	$67.1	$89.5	$22.4	33.4%	$86.2	$89.5	$3.3	3.8%
Total Appropriations	**$20,430.5**	**$25,994.4**	**$5,563.9**	**27.2%**	**$26,252.4**	**$25,994.4**	**($258.0)**	**-1.0%**
Gross Total	$21,324.1	$26,189.1	$4,865.1	22.8%	$27,400.6	$26,189.1	($1,211.4)	-4.4%
Lapses	($893.6)	($194.7)	$698.8	-78.2%	($1,148.2)	($194.7)	$953.5	-83.0%

Source: CT Office of Fiscal Analysis, U.S Bureau of Labor Statistics, and author's calculations. Regular appropriations exclude carryforward funds and federal funds (such as American Rescue Plan Act funds). Budget categories are based on the OFA's FY 2025 budget book. FY 2025 budget started in July 2024, making an inflation adjustment unnecessary for that year.

From FY 2018 to FY 2024, Connecticut's actuarially determined employer contributions for the two largest retirement systems averaged $3.4 billion per year, largely due to unfunded liabilities dating back to the 1930s. The state also used surplus funds to make additional payments averaging $1.2 billion per year, reducing future obligations into the 2040s but placing a total annual burden of $4.6 billion on current taxpayers for commitments spanning more than a century—all while total regular appropriations decreased in inflation-adjusted dollars.

Table 11 shows the sources of Connecticut's unfunded liabilities for the two largest retirement systems using the latest analyses from the Center for Retirement Research at Boston College.[45]

- The State Employees Retirement System (SERS) began providing retirement benefits in 1939, but prefunding was not started until 1971. This delay generated $800 million in legacy debt by 1971, which grew to $6 billion by 2020, accounting for 26 percent of the total unfunded liability that year. The remaining $16.7 billion in historic liabilities since 1971 is due to a range of factors, including inadequate contributions and lower-than-expected investment returns.

- The Teachers' Retirement System (TRS) began providing retirement benefits by at least 1939, but prefunding was not started until 1979. This delay generated $2.3 billion in legacy debt by 1979, which grew to $12.6 billion by 2020, accounting for 70 percent of the total unfunded liability that year. The remaining $5.5 billion in historic liabilities since 1979 is due to similar factors affecting SERS.

To address these historic liabilities, the state implemented major changes to SERS and TRS, including re-amortizing the unfunded liabilities over a new 30-year period to spread out the impact of adopting more realistic assumptions and ease the burden on current taxpayers. The state also adopted a layering approach to future gains and losses, amortizing them over new 25-year periods.[46]

For FY 2018 to FY 2024, **Table 12** shows the actuarially determined employer contributions (ADEC) required to pay down the re-amortized unfunded liabilities, the additional payments made using surplus funds, and the estimated annual savings resulting from the additional payments.[47]

- Paying the full ADEC of $3.4 billion per year on average for SERS and TRS is essential to responsibly reduce the state's debt. Since FY 2018, the average ADEC has been $1.8 billion for SERS and $1.6 billion for TRS (when including the debt service payments for pension obligation bonds), resulting in a total annual average payment of $3.4 billion per year. These regular payments are designed to pay down the re-amortized debt over the new 30-year amortization period, ensuring that the state addresses its longstanding financial obligations without further delay. By consistently paying the full ADEC, Connecticut can prevent the pension debt from growing due to interest and compounding, thereby stabilizing the financial health of SERS and TRS. These payments also send a positive signal to key stakeholders, including credit rating agencies, that the state is taking concrete steps to manage its retirement system obligations effectively.

- Making additional payments to SERS and TRS using surplus funds imposes an excessive burden on current taxpayers. Since FY 2018, the average additional payment using surplus funds has been $1.2 billion per year. Together with the ADEC, this has placed an average burden of $4.6 billion per year on current taxpayers, which raises two major, related problems.

    - The additional payments undermine the purpose of re-amortization, which was designed to balance the retirement system debt more equitably across generations. The re-amortization spread out the unfunded liabilities over a new 30-year period, reducing the annual payments required from current taxpayers and preventing any single generation from bearing an excessive portion of the cost. By making large additional payments, the state shifts a disproportionate share of the financial responsibility back onto the current generation.

    - The additional payments reduce future regular payments, but the benefits are distributed over a 25-year period. The $8.6 billion in additional payments is projected to reduce future annual payments by up to $731 million per year through much of the 2040s. This reduction is achieved through a layering approach, which allocates future gains and losses over successive 25-year amortization periods, resulting in substantial savings for future taxpayers. However, the entire financial burden of the additional payments is borne by current taxpayers, increasing intergenerational inequity, as current taxpayers are subsidizing both future generations through the additional payments and past generations through the ongoing regular payments. Adding to the problem, these payments are occurring at a time when the regular budget is decreasing in inflation-adjusted dollars, reducing the support available for current taxpayers.

Table 11. Sources of Unfunded Liabilities for Retirement Systems, 1939–2020
in Millions

Amout and Sources of Unfunded Liabilities	State Employees Retirement System	Teachers' Retirement System
Initial Legacy Debt	**Years: 1939 to 1971**	**Years 1939 to 1979**
Amount	$800	$2,300
Sources of Change in Unfunded Liabilities	**Years: 1971 to 2020**	**Years: 1979 to 2020**
Inadequate Contributions	$5,500	$6,700
Investment Returns	$3,900	$4,000
Assumptions & Methods Changes	$3,200	$1,800
Changes to Assumed Return	$4,000	$4,400
Actuarial Experience	$6,200	($2,800)
Benefit Changes	($300)	$1,200
All Other Sources	($200)	$700
Total Unfunded Liabilities	**Year: 2020**	**Year: 2020**
Total Unfunded Liabilities	$22,700	$18,100
Legacy Debt Amount	$6,000	$12,600
Legacy Debt Percentage	26.4%	69.6%

Source: Boston College Center for Retirement Research.

Table 12. Regular and Additional Retirement System Payments and Estimated Savings, FY 2018–2024 in Millions

Payments and Savings	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	Average	Total
Regular Payments	**$2,854.1**	**$2,979.2**	**$2,943.1**	**$3,174.5**	**$3,639.8**	**$4,028.4**	**$3,910.9**	**$3,361.4**	**$23,530.1**
SERS ADEC	$1,443.1	$1,568.9	$1,616.3	$1,806.7	$1,993.2	$2,143.3	$2,040.4	$1,801.7	$12,611.9
TRS ADEC	$1,271.0	$1,292.3	$1,208.8	$1,249.8	$1,443.7	$1,578.0	$1,554.5	$1,371.2	$9,598.2
Debt Service for TRS Bonds	$140	$118	$118	$118	$203	$307	$316	$188.6	$1,320.0
Additional Payments	**$0**	**$0**	**$61.6**	**$1,618.3**	**$4,107.6**	**$1,874.6**	**$933.1**	**$1,227.9**	**$8,595.2**
State Employees Retirement System	$0	$0	$61.6	$714.7	$3,204.0	$1,046.5	$513.9	$791.5	$5,540.7
Teachers' Retirement System	$0	$0	$0.0	$903.6	$903.6	$828.1	$419.1	$436.3	$3,054.4
Total Payments	**$2,854.1**	**$2,979.2**	**$3,004.7**	**$4,792.8**	**$7,747.4**	**$5,903.0**	**$4,843.9**	**$4,589.3**	**$32,125.2**
State Employees Retirement System	$1,443	$1,569	$1,678	$2,521	$5,197	$3,190	$2,554	$2,593.2	$18,152.6
Teachers' Retirement System	$1,411	$1,410	$1,327	$2,271	$2,550	$2,713	$2,290	$1,996.1	$13,972.6
Estimated Annual Savings	**$0**	**$0**	**$5.2**	**$137.6**	**$349.1**	**$159.3**	**$79.3**	**$104.4**	**$730.6**
Time Period	25 Years	25 Years	25 Years	25 Years	25 Years	25 Years	25 years		
Estimated End Year	2043	2044	2045	2046	2047	2048	2049		

Sources: Cavanaugh Macdonald Consulting, CT Office of Policy and Management, and author's calculations.

From FY 2018 to FY 2024, Connecticut's retirement system debt decreased by $2.9 billion due largely to regular and additional payments, but the state lost out on the equivalent of a $2.3 billion debt reduction due to slow economic growth, partially offsetting the benefits of the debt payments.

For FY 2018 to FY 2024, **Table 13** shows both the actual and potential personal income growth in Connecticut and the impact on the state's retirement system debt.[48]

- Personal income growth totaled 41.6 percent in the U.S. compared to 32.2 percent in Connecticut during this period. If personal income in Connecticut had grown at the same rate as the U.S., the state's personal income would have increased from $258.8 billion in FY 2018 to $366.5 billion in FY 2024 rather than $342.1 billion.

- The State Employees Retirement System (SERS) had a total unfunded liability of $21.2 billion in FY 2018 and $19.2 billion in FY 2024—a decrease of $2.0 billion due largely to the regular and additional payments. In FY 2024, the debt equaled 5.61 percent of Connecticut's actual personal income and 5.23 percent of its potential personal income at the U.S. growth rate. The equivalent debt burden of 5.23 percent of actual personal income is $17.9 billion, meaning Connecticut lost out on the equivalent of a $1.28 billion reduction in SERS debt due to slow economic growth, partially offsetting the benefits of the direct debt payments.

- The Teachers' Retirement System (TRS) had a total unfunded liability of $16.8 billion in FY 2018 and $15.9 billion in FY 2024—a decrease of $834 million due largely to the regular and additional payments. In FY 2024, the debt equaled 4.66 percent of Connecticut's actual personal income and 4.35 percent of its potential personal income at the U.S. growth rate. The equivalent debt burden of 4.35 percent of actual personal income is $14.9 billion, meaning Connecticut lost out on the equivalent of a $1.06 billion reduction in TRS debt due to slow economic growth, partially offsetting the benefits of the direct debt payments.

- Together, SERS and TRS had a total unfunded liability of $37.98 billion in FY 2018 and $35.1 billion in FY 2024—a decrease of $2.87 billion due largely to the regular and additional payments. In FY 2024, the debt equaled 10.26 percent of Connecticut's actual personal income and 9.58 percent of its potential personal income at the U.S. growth rate. The equivalent debt burden of 9.58 percent of actual personal income is $32.8 billion, meaning Connecticut lost out on the equivalent of a $2.34 billion reduction in total retirement system debt due to slow economic growth, partially offsetting the benefits of the direct debt payments.

This analysis demonstrates the impact of Connecticut's slow personal income growth on debt reduction and supports the case for a more balanced approach. By making regular payments and using surplus funds to address current needs and make public investments essential to growing the economy rather than making additional debt payments, the state can better support current taxpayers while also reducing its relative debt burden. In contrast, the current approach of prioritizing additional payments functions as a contractionary fiscal policy that likely contributes to the state's slow personal income growth, partially offsetting the benefits of the direct debt payments.

Table 13. Actual and Potential Personal Income Growth in Connecticut, and the Impact on Retirement System Debt, FY 2018–2024, in Millions

Fiscal Year	Actual U.S. Personal Income		Actual CT Personal Income		Potential CT Personal Income		Actual Retirement System Debt			Equal % Debt Burden at U.S. Growth Rate		Lost Change in Debt Due to Slow PI Growth
	$	Total Growth	$	Total Growth	$	Total Growth	$	% of Actual CT PI	% of Potential CT PI	$	% of Actual CT PI	
							State Employees Retirement					
2018	$17,393,989.1	0%	$258,801.7	0%	$258,801.7	0%	$21,223.8	8.20%	8.20%	$21,223.8	8.20%	**($0.0)**
2019	$18,279,908.9	5.1%	$267,116.5	3.2%	$271,983.1	5.1%	$22,292.5	8.35%	8.20%	$21,893.7	8.20%	**($398.9)**
2020	$20,173,999.4	16.0%	$279,470.2	8.0%	$300,164.9	16.0%	$22,728.2	8.13%	7.57%	$21,161.3	7.57%	**($1,567.0)**
2021	$21,021,064.9	20.9%	$290,973.0	12.4%	$312,768.2	20.9%	$22,397.6	7.70%	7.16%	$20,836.8	7.16%	**($1,560.8)**
2022	$21,841,650.8	25.6%	$302,472.9	16.9%	$324,977.6	25.6%	$20,931.0	6.92%	6.44%	$19,481.5	6.44%	**($1,449.5)**
2023	$23,267,230.3	33.8%	$324,038.3	25.2%	$346,188.5	33.8%	$20,134.4	6.21%	5.82%	$18,846.1	5.82%	**($1,288.3)**
2024	$24,634,341.8	41.6%	$342,112.7	32.2%	$366,529.5	41.6%	$19,186.2	5.61%	5.23%	$17,908.1	5.23%	**($1,278.1)**
Change							**($2,037.5)**					
							Teachers' Retirement System					
2018	$17,393,989.1	0%	$258,801.7	0%	$258,801.7	0%	$16,760.3	6.48%	6.48%	$16,760.3	6.48%	**($0.0)**
2019	$18,279,908.9	5.1%	$267,116.5	3.2%	$271,983.1	5.1%	$17,416.6	6.52%	6.40%	$17,104.9	6.40%	**($311.6)**
2020	$20,173,999.4	16.0%	$279,470.2	8.0%	$300,164.9	16.0%	$18,072.9	6.47%	6.02%	$16,826.8	6.02%	**($1,246.0)**
2021	$21,021,064.9	20.9%	$290,973.0	12.4%	$312,768.2	20.9%	$17,602.0	6.05%	5.63%	$16,375.4	5.63%	**($1,226.6)**
2022	$21,841,650.8	25.6%	$302,472.9	16.9%	$324,977.6	25.6%	$17,131.1	5.66%	5.27%	$15,944.8	5.27%	**($1,186.3)**
2023	$23,267,230.3	33.8%	$324,038.3	25.2%	$346,188.5	33.8%	$16,422.1	5.07%	4.74%	$15,371.3	4.74%	**($1,050.7)**
2024	$24,634,341.8	41.6%	$342,112.7	32.2%	$366,529.5	41.6%	$15,926.3	4.66%	4.35%	$14,865.4	4.35%	**($1,061.0)**
Change							**($833.9)**					
							SERS + TRS					
2018	$17,393,989.1	0%	$258,801.7	0%	$258,801.7	0%	$37,984.0	14.68%	14.68%	$37,984.0	14.68%	**($0.0)**
2019	$18,279,908.9	5.1%	$267,116.5	3.2%	$271,983.1	5.1%	$39,709.1	14.87%	14.60%	$38,998.6	14.60%	**($710.5)**
2020	$20,173,999.4	16.0%	$279,470.2	8.0%	$300,164.9	16.0%	$40,801.1	14.60%	13.59%	$37,988.1	13.59%	**($2,813.0)**
2021	$21,021,064.9	20.9%	$290,973.0	12.4%	$312,768.2	20.9%	$39,999.5	13.75%	12.79%	$37,212.2	12.79%	**($2,787.4)**
2022	$21,841,650.8	25.6%	$302,472.9	16.9%	$324,977.6	25.6%	$38,062.0	12.58%	11.71%	$35,426.2	11.71%	**($2,635.8)**
2023	$23,267,230.3	33.8%	$324,038.3	25.2%	$346,188.5	33.8%	$36,556.5	11.28%	10.56%	$34,217.5	10.56%	**($2,339.0)**
2024	$24,634,341.8	41.6%	$342,112.7	32.2%	$366,529.5	41.6%	$35,112.6	10.26%	9.58%	$32,773.5	9.58%	**($2,339.1)**
Change							**($2,871.5)**					

Sources: Cavanaugh Macdonald Consulting, U.S. Bureau of Economic Analysis, and author's calculations.

Comparison of State and Local Spending Levels

Connecticut's state and local spending level as a percentage of state personal income is below the average for all 50 states and New England states, demonstrating that the state has capacity to responsibly increase its spending.

The preceding analysis reviewed Connecticut's spending controls, primarily the spending cap, which focuses on the *growth in spending*. However, it is also essential to examine the *overall level of spending* to determine whether Connecticut's spending aligns with what the state can afford and how it compares to other states.

Similar to the analysis of revenue, there are several methods to analyze spending levels:

- Absolute spending includes the spending level but does not account for population size, making comparisons between larger and smaller states misleading.

- Spending per capita adjusts for population size by dividing the spending level by the number of residents, but it does not account for differences in income levels, which are crucial for determining a state's capacity to fund spending.

- Spending as a percentage of state personal income is calculated by dividing the spending level by state personal income. This method provides a more accurate comparison across states because it reflects each state's ability to fund its spending. It also aligns with the calculation of the spending cap, which is based on the growth of state personal income to account for the state's ability to fund an increase in spending.

Using the latest five years of data from the U.S. Census Bureau, **Figure 10** compares the annual average of each state's total state and local spending as a percentage of state personal income from 2018 to 2022.[49] For the same period, **Table 14** compares Connecticut to the averages for all 50 states and New England states using the three broadest measures of spending—total expenditure, direct expenditure, direct general expenditure—as well as the components of the three measures.[50] The Census Bureau defines the spending classifications as follows:[51]

- Total expenditure includes:

    - Intergovernmental expenditure: "amounts paid to other governments for performance of specific functions or for general financial support"

    - Direct expenditure: "all final expenditures paid to current employees, former employees (retirees) and to private sector entities outside of the government itself (e.g. all expenditure other than intergovernmental expenditure)"

- Direct expenditure includes:
    - Direct general expenditure: "all expenditure except that classified as utility, liquor store, or social insurance trust expenditure"
    - Utility expenditure: "outlays for the purchase or construction of utility facilities, interest on utility debt (including utility debt held by other funds of the same government), and production or acquisition and distribution of utility commodities and services for sale to the general public or to other governments by the four types of state and local government utilities recognized by the Census Bureau: water supply, electric power, gas supply, and public mass transit systems"
    - Liquor store expenditure: "restricted to outlays for the establishment and operation of retail liquor stores or wholesale liquor monopolies owned and operated by state and local governments"
    - Insurance trust expenditure: "social insurance payments to beneficiaries, public employee retirement annuities and other benefits, and withdrawals of insurance or employee retirement contributions"
- Direct general expenditure includes:
    - Education services: education and libraries
    - Social services and income maintenance: public welfare, hospitals, health, employment security administration, and veterans' services
    - Transportation: highways, air transportation, parking facilities, and sea and inland port facilities
    - Public safety: police protection, fire protection, correction, and protective inspection and regulation
    - Environment and housing: natural resources, parks and recreation, housing and community development, sewerage, and solid waste management
    - Governmental administration: financial administration, judicial and legal, general public buildings, other governmental administration
    - Interest on general debt: "interest on both short- and long-term debt for non-utility purposes, whether general obligation or nonguaranteed, including public debt for private purposes and debt to cover deficits of unemployment compensation or other insurance trust funds"

- Other general expenditures: miscellaneous commercial activities and other unallocable

Based on all three broad measures, Connecticut's state and local spending as a percentage of state personal income is below the average for all 50 states as well as New England states:

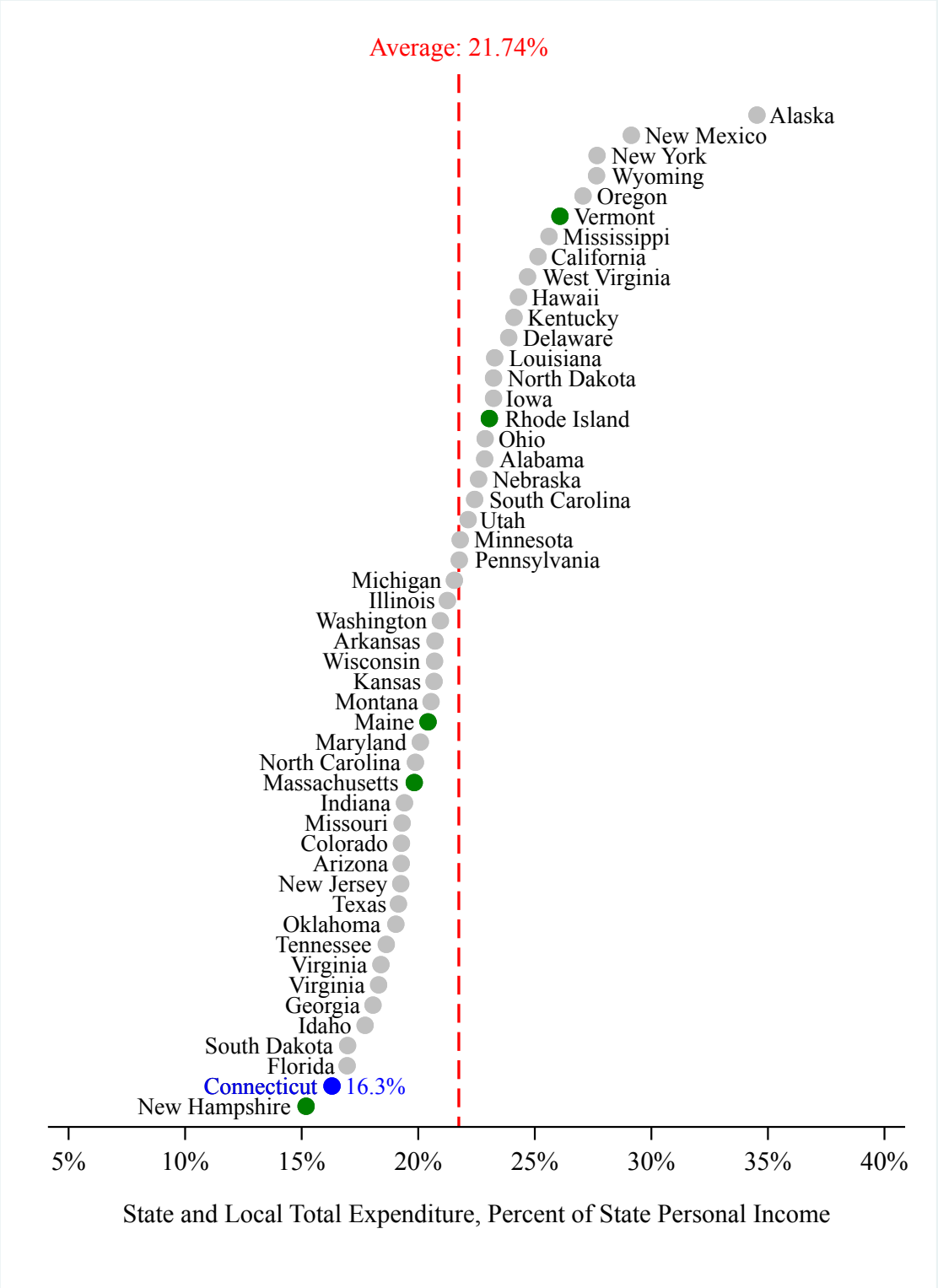
- For total expenditure (the broadest measure), Connecticut averages 16.3 percent of state personal income, 5.44 percentage points below the average for all 50 states and 3.84 percentage points below the average for New England states. Connecticut's average expenditure is also lower for both components of this measure.

- For direct expenditure (the second broadest measure), Connecticut averages 16.3 percent of state personal income, 5.43 percentage points below the average for all 50 states and 3.84 percentage points below the average for New England states. Connecticut's average expenditure is also lower for three of the four components, with insurance trust expenditure being the one exception.

- For direct general expenditure (the third broadest measure), Connecticut averages 13.41 percent of state personal income, 4.93 percentage points below the average for all 50 states and 3.69 percentage points below the average for New England states. Connecticut's average expenditure is also lower for six of the eight components of this measure, with the two exceptions being interest on general debt and other general expenditure.

This comprehensive comparison shows that Connecticut has the capacity to increase spending to better address current needs and make public investments, all while maintaining fiscal responsibility.

Figure 10. State and Local Total Expenditure
as a Percent of State Personal Income, Annual Average 2018–2022



Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, and author's calculations.

Table 14. State and Local Expenditure as a Percent of State Personal Income
Annual Average, 2018–2022

Expenditure Categories	Connecticut	All 50 States		New England States	
		Average	Difference from CT	Average	Difference from CT
Total Expenditure	**16.30%**	**21.74%**	**5.44**	**20.14%**	**3.84**
Intergovernmental Expenditure	0.00%	0.01%	0.01	0.01%	0.01
Direct Expenditure	16.30%	21.73%	5.43	20.14%	3.84
Direct Expenditure	**16.30%**	**21.73%**	**5.43**	**20.14%**	**3.84**
Direct General Expenditure	13.41%	18.49%	5.08	17.10%	3.69
Utility Expenditure	0.54%	1.07%	0.53	0.60%	0.06
Liquor Store Expenditure	0.00%	0.08%	0.08	0.17%	0.17
Insurance Trust Expenditure	2.36%	2.09%	-0.27	2.27%	-0.09
Direct General Expenditure	**13.41%**	**18.34%**	**4.93**	**17.10%**	**3.69**
Education Services	**5.19%**	**5.97%**	**0.78**	**5.75%**	**0.56**
Social Services and Income Maintenance	**2.41%**	**5.88%**	**3.47**	**5.07%**	**2.66**
Public Welfare	1.41%	4.14%	2.73	4.23%	2.82
Hospitals	0.57%	1.12%	0.55	0.24%	-0.33
Health	0.41%	0.58%	0.17	0.56%	0.15
Other	0.02%	0.04%	0.02	0.04%	0.02
Transportation	**0.80%**	**1.45%**	**0.65**	**1.20%**	**0.40**
Highways	0.76%	1.24%	0.48	1.10%	0.34
Air Transportation	0.01%	0.17%	0.16	0.08%	0.07
Parking Facilities	0.02%	0.01%	-0.01	0.01%	-0.01
Sea and Inland Port Facilities	0.00%	0.03%	0.03	0.01%	0.01
Public Safety	**0.98%**	**1.39%**	**0.41**	**1.24%**	**0.26**
Police Protection	0.46%	0.61%	0.15	0.55%	0.09
Fire Protection	0.22%	0.28%	0.06	0.30%	0.08
Correction	0.25%	0.42%	0.17	0.32%	0.07
Protective Inspection and Reg.	0.04%	0.08%	0.04	0.07%	0.03
Environment and Housing	**0.77%**	**1.26%**	**0.49**	**1.11%**	**0.34**
Natural Resources	0.07%	0.23%	0.16	0.15%	0.08
Parks and Recreation	0.10%	0.26%	0.16	0.13%	0.03
Housing and Community Dev.	0.28%	0.30%	0.02	0.44%	0.16
Sewerage	0.22%	0.32%	0.10	0.27%	0.05
Solid Waste Management	0.10%	0.15%	0.05	0.13%	0.03
Governmental Administration	**0.77%**	**0.96%**	**0.19**	**1.01%**	**0.24**
Financial Administration	0.23%	0.35%	0.12	0.39%	0.16
Judicial and Legal	0.24%	0.26%	0.02	0.23%	-0.01
General Public Buildings	0.05%	0.11%	0.06	0.12%	0.07
Other	0.25%	0.25%	0.00	0.27%	0.02
Interest on General Debt	**0.76%**	**0.49%**	**-0.27**	**0.55%**	**-0.21**
Other General Expenditure	**1.74%**	**0.95%**	**-0.79**	**1.18%**	**-0.56**

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, and author's calculations.

Options to Adjust Connecticut's Fiscal Controls

This section provides options for a more balanced, pro-economic growth approach that retains all the major revenue and spending controls but makes responsible adjustments to their design to address key flaws identified in practice. The first part reviews procedural options to end or work around the bond lock securing the revenue and spending controls. The second part provides policy and procedural options to adjust the revenue and spending controls.

Procedural Options for the Bond Lock

Connecticut's major revenue and spending controls are secured by the 2023 bond lock set to remain in effect until 2033, but policymakers can adopt a resolution to end it in 2028 or provide adequate protection for bondholders to work around it before 2028.

To secure Connecticut's sweeping fiscal controls, policymakers established a bond lock in 2017 and another bond lock in 2023.[52] The 2023 bond lock, currently in effect, operates as follows:

- Covered fiscal controls: Connecticut pledges to comply with the major fiscal controls: Sec. 4-30a (the volatility cap and Budget Reserve Fund), Sec. 2-33a (the spending cap), Sec. 2-33c (the revenue cap), Sec. 3-20 (the bonding caps), and Sec. 3-21 (the debt limit and bonding caps).

- Enforcement mechanism: The state of Connecticut pledges not to "alter the obligation to comply with the provisions" of the fiscal controls, and the Treasurer includes the pledge in bonds issued on or after July 1, 2023, and prior to July 1, 2025. Violating the bond contract opens the state to litigation by bondholders and significant penalties.

- Effective period: Absent any intervening action, the pledge is effective from July 1, 2023, to June 30, 2033.[53]

There are several procedural options to end the bond lock early or work around it:[54]

- General Assembly resolution: The statute allows the General Assembly to "[adopt] a resolution on or after January 1, 2028, but prior to July 1, 2028, not to continue such pledge and undertaking beyond June 30, 2028."

- Provide adequate protection: The statute allows the fiscal controls to be altered "if and when adequate provision shall be made by law for the protection of the holders of such bonds."

- Emergency or extraordinary circumstances: The statute allows the fiscal controls to be altered "(I) if and when the Governor declares an emergency or the existence of extraordinary circumstances, in which the provisions of section 4-85 are invoked, (II) at least three-fifths of

the members of each chamber of the General Assembly vote to alter such required compliance during the fiscal year for which the emergency or existence of extraordinary circumstances are determined, and (III) any such alteration is for the fiscal year in progress only."

- Refunding of bonds: The statute states that the pledge "shall not apply to refunding bonds issued for bonds issued under this subdivision."

- Constitutional challenge: A legal case could be made that the bond lock unconstitutionally restricts the ability of future legislatures to manage fiscal policy effectively.[55]

Recommended Procedural Options

Of the several procedural options to end the bond lock before July 2033 or work around it, two options are the most practical and recommended here.

- Pass a resolution to end the bond lock in 2028. This is the most straightforward option, as it only requires a majority vote by the General Assembly and does not require the governor's approval. However, this option requires keeping the bond lock in place until 2028.

- Provide adequate protection for bondholders to work around the bond lock before 2028. The statute does not define what constitutes adequate protection for bondholders, but there is a recent operational precedent. In 2019, to restructure payments for the Teachers' Retirement System, Connecticut broke a bond covenant tied to the pension obligation bonds (POBs) issued in 2008. To protect bondholders, the state created the Teachers' Retirement Fund Special Capital Reserve Fund, initially funded with $381 million in surplus dollars, an amount calculated based on the maximum annual debt service on the POBs. The state also committed to using lottery revenue to replenish the fund if it fell below the required reserve amount. The statute then explicitly stated, "The purpose of the fund shall be to provide, and it is determined that such fund does provide, adequate provision for the protection of the holders of bonds of the state issued pursuant to section 10-183qq and any bonds refunding such bonds."[56]

  Similarly, the state could establish a reserve fund specifically designed to protect bondholders under the 2023 bond lock. This fund could be structured around the maximum annual debt service for bonds issued under the lock and initially funded with surplus revenue or other identified sources. To ensure its sustainability, a dedicated revenue stream could be allocated to maintain the fund at the required level. By explicitly defining the fund's purpose as meeting bondholder protections, Connecticut could adhere to legal precedent while creating flexibility to adjust the revenue and spending controls without violating the bond lock.

Policy and Procedural Options for the Revenue and Spending Controls

Policymakers can develop a more balanced, pro-economic growth approach that retains all of Connecticut's major revenue and spending controls but incorporates responsible adjustments to their design to address key flaws identified in practice.

This section provides policy and procedural options for responsibly adjusting Connecticut's revenue and spending controls. The policy options address key design flaws in the current fiscal controls that, though intended to stabilize the budget and long-term finances, have proven to be excessively restrictive in practice. Importantly, none of the proposed policy options eliminates the major revenue and spending controls. Rather, they focus on making the controls more flexible while preserving their primary purpose of stabilizing the budget and long-term finances.

The procedural options for adjusting each control are grouped into two categories: with and without the bond lock in place. With the bond lock in place, adjustments are generally more limited and complicated. However, their complexity stems from the intricate design of the fiscal controls themselves. Without the bond lock in place, adjustments are generally more straightforward, though the spending cap remains an exception due to its additional constitutional restrictions.

The Volatility Cap

The purpose of the volatility cap is to stabilize the budget and long-term finances by directing revenue from volatile sources into the Budget Reserve Fund and toward paying down unfunded retirement liabilities. As reviewed, a well-designed volatility cap is essential because two of the state's taxes are highly volatile and substantial in size. The existing volatility cap, however, has two major design flaws: its initial threshold was set too low, and it is indexed to a variable that has no meaningful correlation to the volatile taxes. As a result, the current volatility cap often restricts an excessive amount of revenue.

To improve the volatility cap, the following policy and procedural options are recommended:

<u>Recommended Policy Option</u>

- Adjust the volatility cap using an inflation-adjusted moving average of the covered volatile revenue. Set the threshold to a 5-year or 10-year moving average of included volatile taxes, adjusted annually for inflation. This change is straightforward to calculate each year and will align the threshold with actual revenue levels and trends while smoothing out fluctuations.

  The redesigned volatility cap should continue to include the personal income tax estimated and final payments and the pass-through entity tax, as these are currently both highly volatile and substantial in size. However, in the future, if other taxes need to be added or removed, it would be easy to recalculate the cap using the inflation-adjusted moving average of the new set of covered taxes.

To further ensure accuracy and stability, calculate the redesigned volatility cap using the consumer price index for all urban consumers (CPI-U), not seasonally adjusted. Adjusting for inflation ensures prior tax revenue reflects real trends rather than nominal figures, preventing the threshold from being eroded over time. Using non-seasonally adjusted data minimizes issues with revisions.

Recommended Procedural Options

- With the bond lock in place: The current statute allows a three-fifths supermajority in the General Assembly to amend the initial threshold of $3.15 billion, but the statute does not address how to change the annual adjustment based on personal income growth.

  A broad interpretation is that the threshold and method of adjustment are both subject to amendment under the same supermajority requirement, making it possible for a supermajority to change the existing volatility cap to an inflation-adjusted moving average cap.

  A strict interpretation is that only the initial threshold, but not the adjustment mechanism, is subject to amendment without addressing the bond lock securing the statute. The bond lock itself allows the governor and a three-fifths supermajority to amend the covered statutes, but such changes are limited to one fiscal year. Under this interpretation, the bond lock could pose a significant procedural hurdle to permanently changing the volatility cap threshold to an inflation-indexed moving average of covered revenue.

- Without the bond lock in place: The volatility cap can be adjusted with a simple majority because the three-fifths vote requirement is not constitutionally mandated and would no longer be supported by the bond lock.

The Revenue Cap

The purpose of the revenue cap is to stabilize the budget and long-term finances by limiting the amount of revenue available for appropriations, preventing or reducing deficits in some years and directing surpluses into the Budget Reserve Fund (BRF) in other years. However, as reviewed, the existing revenue cap is often more restrictive than necessary because it applies to all revenue in the General Fund and Special Transportation Fund, not just volatile revenue. Additionally, the cap does not adjust based on the size of the BRF, which has increased substantially in recent years and was originally created as the primary mechanism for addressing revenue shortfalls.

To improve the revenue cap, the following policy and procedural options are recommended:

Recommended Policy Options

- Adjust the revenue cap for the General Fund based on the balance of the BRF. When the BRF is at its maximum of 18 percent, set the revenue cap at 100 percent of estimated revenue,

effectively removing the revenue restriction. When the BRF falls below 18 percent, set the revenue cap at the following levels:

  - 99.75 percent if the BRF is between 15 and 17.99 percent
  - 99.50 percent if the BRF is between 12 and 14.99 percent
  - 99.25 percent if the BRF is between 9 and 11.99 percent
  - 99.00 percent if the BRF is between 6 and 8.99 percent
  - 98.75 percent if the BRF is between 3 and 5.99 percent
  - 98.50 percent if the BRF is below 3 percent.

  This change is straightforward to calculate each year and ensures that the revenue cap provides additional support only when necessary to increase the BRF while allowing greater flexibility when the BRF is fully funded.

- Adjust the revenue cap for the Special Transportation Fund (STF) based on the balance of the STF. When the balance of the STF is at or above 18 percent, set the revenue cap at 100 percent of estimated revenue, effectively removing the revenue restriction. When the STF falls below 18 percent, lower the revenue cap in the same increments detailed above for the General Fund.

Recommended Procedural Options

- With the bond lock in place: The revenue cap statute includes two amendment provisions: the governor and a three-fifths supermajority can adjust the revenue cap for a single year; or a simple majority can adjust the revenue cap "for purposes of an adjusted appropriation and revenue plan." The first amendment provision is straightforward but difficult to use. The second amendment provision is easier to use and more open to interpretation.

  A narrow interpretation is that a simple majority can adjust the revenue cap only when adjusting the budget for the second year of a biennial budget. Based on this interpretation, it is difficult to adjust the revenue cap for the first year of a budget when the bond lock is in place because it requires a supermajority under the first amendment provision.

  A broad interpretation is that a simple majority can adjust the revenue cap any time after the passage of the biennial budget. Based on this interpretation, even when the bond lock is in place, a simple majority can adjust the revenue cap for the first year of a budget if it is revised.

- Without the bond lock in place: The revenue cap can be adjusted with a simple majority because the three-fifths vote requirement is not constitutionally mandated and no longer supported by the bond lock.

The Budget Reserve Fund

The purpose of the Budget Reserve Fund (BRF) is to collect surplus revenue during high-revenue years to offset shortfalls in low-revenue years, especially during economic downturns. However, as reviewed, nearly 70 percent of surplus funds have been used to make additional payments for unfunded retirement liabilities, largely benefiting future taxpayers into the 2040s, while regular appropriations that support current taxpayers are decreasing in inflation-adjusted dollars.

To improve the use of surplus funds directed to the BRF, the following policy and procedural options are recommended:

Recommended Policy Options

- Adjust the restrictions on surplus funds to allow for uses beyond debt reduction. When the BRF is at capacity, allow remaining surplus funds to be used for public services or investments that primarily benefit current taxpayers and that will increase economic growth.

- Adjust the restrictions on surplus funds to limit the amount used for debt reduction. When the BRF is at capacity, limit the use of surplus funds for reducing retirement system liabilities or other state indebtedness to 50 percent of the surplus.

Recommended Procedural Options

- With the bond lock in place: When the BRF is at capacity, current law requires the Treasurer to use any remaining surplus funds to further pay down unfunded retirement liabilities or other state indebtedness. The Connecticut Constitution also mandates that unappropriated surplus funds must be used to fill the BRF or reduce bonded indebtedness unless a three-fifths supermajority of the General Assembly authorizes their use for other purposes. However, the statute governing the spending cap—passed with a supermajority to ensure constitutional enforcement—explicitly acknowledges the existence of a "revenue intercept" without defining its limitations. This provision offers procedural flexibility. For example, before surplus funds are directed to the BRF, a revenue intercept could be used to transfer funds in excess of the BRF's capacity to a non-capped account that funds public services or investments that primarily benefit current taxpayers. Such an approach would comply with the bond lock, the Connecticut Constitution, and the spending cap statute.

- Without the bond lock in place: The Connecticut Constitution's supermajority provision governing surplus funds remains in place even if the bond lock is removed. However, as noted above, a revenue intercept could be used to transfer surplus funds exceeding the BRF's maximum capacity to a non-capped account that funds public services or investments that primarily benefit current taxpayers.

The Spending Cap

The purpose of the spending cap is to stabilize the budget and long-term finances by limiting the growth in spending. However, as reviewed, the existing spending cap excessively restricts the growth in spending largely due to both the state's historically slow personal income growth relative to other states and the use of a narrow inflation index.

To improve the spending cap, the following policy and procedural options are recommended:

Recommended Policy Options

- Adjust the spending cap's definition of increase in personal income to account for the state's historically slow growth and below-average spending levels. Continue to measure the increase in personal income as the compound annual growth rate over the preceding five calendar years but add a provision allowing the growth measure to equal the greater of Connecticut's growth rate or the U.S. growth rate if Connecticut's state and local spending as a percentage of personal income is below the average for all states. Use the most recent five years of data from the U.S. Census Bureau and U.S. Bureau of Economic Analysis to calculate Connecticut's relative state and local spending levels. This change would allow Connecticut's spending to gradually increase and align with other states while retaining limits on spending growth.

- Adjust the spending cap's definition of increase in inflation to more accurately reflect changes in the cost of living. Change the inflation measure from the consumer price index for all urban consumers, all items, less food and energy (core CPI-U) to the consumer price index for all urban consumers (CPI-U), during the preceding calendar year, calculated on a December over December basis, not seasonally adjusted. This change will allow the budget to adjust based on a broader measure of inflation that more accurately reflects the changing needs of the state's residents.

- Adjust the spending cap's definition of general budget expenditures to use allowable appropriations. Change the calculation of the spending cap from the increase in the amount of general budget expenditures "authorized" for the previous fiscal year to the amount "allowable" for the previous fiscal year. This change will ensure that future budgets are not penalized for underutilizing available appropriations in prior years.[57]

- Adjust prior calculations of the spending cap based on upward data revisions in personal income growth. Each year, if Connecticut's state and local spending as a percentage of personal income is below the average for all states, recalculate the spending cap for all prior relevant years to include upward data revisions in personal income growth from the U.S. Bureau of Economic Analysis. This change would further allow Connecticut's spending to gradually increase and align with other states while retaining limits on spending growth. Importantly, this change requires using allowable appropriations to calculate the spending cap rather than authorized appropriations, as recommended above.

- Adjust the spending cap's base to exclude regular retirement system payments. The Connecticut Constitution exempts "expenditures for the payment of bonds, notes, or other evidences of indebtedness" from the spending cap, reflecting the principle that long-term obligations stemming from past decisions should not overly constrain the current budget. Similarly, the 2017 spending cap statute initially excluded regular retirement system payments, acknowledging their unique nature as long-term commitments tied predominantly to unfunded liabilities accumulated over decades. However, the SERS payments were added back under the cap in FY 2023 and the TRS payments will be added back under the cap in FY 2027, despite being largely driven by factors beyond the state's immediate control, such as investment returns and actuarial adjustments. Including these payments under the cap treats them as though they are discretionary operating expenses, unfairly tying the current budget to historical obligations. This approach restricts the state's ability to allocate funds to essential public services and investments that directly benefit current taxpayers and promote economic growth.

The proposed changes to the revenue controls are designed to help to fund the increased spending resulting from adjustments to the spending cap. For additional revenue options to fund increased spending, refer to past reports from Connecticut Voices for Children.[58]

Recommended Procedural Options

- With the bond lock in place: The bond lock prevents statutory changes to implement the above policy options without the support of a supermajority. However, a revenue intercept and base adjustment can be used with only a simple majority to achieve the same spending cap increase that would result from redefining the increase in personal income and inflation, adjusting the spending cap base, and removing regular retirement system payments from the spending cap. For example, policymakers could calculate the increase in the spending cap under both the existing system and the proposed system. If the existing system allows for $400 million in additional spending but the proposed system allows for $500 million, policymakers could create a $100 million revenue intercept to bridge the difference and fund the additional spending. The following year, this $100 million in non-capped spending from the revenue intercept could be folded into the regular budget through a base adjustment. Policymakers could then restart the process by creating a new revenue intercept based on the difference in the spending cap under the existing system and the proposed system.

- Without the bond lock in place: Even without the bond lock as an obstacle, the Connecticut Constitution still requires a three-fifths supermajority in the General Assembly to change the statutes defining the operations of the spending cap. The policy options outlined here could be enacted with the support of such a supermajority. However, as detailed above, a simple majority could achieve similar results by using a revenue intercept and base adjustment to incrementally increase the spending cap each year by the amount that would result from the proposed changes to the spending cap.

The Debt Limit and Bonding Caps

The purpose of the debt limit and bonding caps is to stabilize the budget and long-term finances by limiting the growth in borrowing and, in turn, spending on debt service. Although debt service is excluded from the spending cap, it remains one of the largest components of the budget and is connected to the spending cap because borrowing for public investments can stimulate economic growth and, in turn, increase the spending cap. Additionally, bonded indebtedness, totaling $26 billion, is the single largest component of Connecticut's $78.9 billion in long-term obligations, making it central to efforts to improve the state's budget and long-term finances.[59]

To increase spending cap growth and decrease long-term obligations as a percentage of state personal income by maximizing the economic impact of bonding, the following policy and procedural options are recommended:

Recommended Policy Options

- Adjust the bonding process to require economic impact estimates for proposed expenditures. This analysis should evaluate factors such as job creation, long-term improvements to public infrastructure and services, and projected increases in economic growth, including personal income growth. The data would enable policymakers to prioritize investments that deliver the most significant economic benefits.

- Adjust the bonding process to require economic impact estimates for actual expenditures. This analysis should compare the actual economic impact—such as job creation, infrastructure improvements, and economic growth—with initial projections. The data would enhance transparency, hold projects accountable for outcomes, and provide valuable insights to guide future borrowing decisions.

Recommended Procedural Options

- With the bond lock in place: Both proposals can be implemented with a simple majority because they do not change the amount of bonding allowed.

- Without the bond lock in place: Both proposals can be implemented with a simple majority.

Conclusion

Connecticut's fiscal controls have helped to stabilize the budget and long-term finances, but they have also proven to be excessively restrictive in practice. This report outlines a more balanced, pro-economic growth approach that retains all the major revenue and spending controls while recommending responsible adjustments to better address current needs and prioritize public investments essential for increasing economic growth, which would improve the state's finances by decreasing long-term liabilities relative to the size of the state's economy.

Acknowledgments

This report was made possible with the support of the Stoneman Family Foundation. The author also thanks Eli Sabin, legislative coordinator at Connecticut Voices for Children, for research assistance.

References and Notes

[1] Connecticut Office of Policy and Management, Monthly Forecasts, November 2024. The $1.6 billion projected surplus includes the $190.3 million operating surplus and the $1.4035 billion volatility adjustment.

[2] Connecticut General Assembly, Public Act No. 17-2, Sec. 704, June 2017 Special Session; Connecticut General Assembly, Public Act No. 18-49, Sec. 7; Connecticut General Assembly, Public Act No. 18-81, Sec. 20.

[3] Connecticut General Statutes, Sec. 4-30a(a)(1).

[4] Connecticut General Statutes, Sec. 4-30a(a)(1).

[5] Connecticut General Statutes, Sec. 4-30a(a)(2).

[6] Connecticut General Assembly, Public Act No. 17-2, Sec. 705, June 2017 Special Session.

[7] Connecticut General Statutes, Sec. 2-33c(a).

[8] Connecticut General Assembly, Public Act. No. 23-1, Sec. 16.

[9] Connecticut General Assembly, Public Act. No. 23-1, Sec. 16.

[10] Connecticut General Assembly, Public Act No. 17-2, Sec. 704, June 2017 Special Session.

[11] Connecticut General Assembly, Public Act. No. 23-1, Sec. 15.

[12] Connecticut General Assembly, Public Act. No. 23-1, Sec. 15.

[13] Connecticut General Assembly, Public Act. No. 23-1, Sec. 15.

[14] Connecticut Office of Fiscal Analysis, Budget Books, FY 18 and FY 19 Connecticut Budget, FY 19 Connecticut Budget Revisions, FY 20 and FY 21 Connecticut Budget, FY 22 and FY 23 Connecticut Budget, FY 23 Connecticut Budget Revisions, FY 24 and FY 25 Connecticut Budget.

[15] Connecticut Office of Fiscal Analysis, Budget Books, FY 18 and FY 19 Connecticut Budget, FY 19 Connecticut Budget Revisions, FY 20 and FY 21 Connecticut Budget, FY 22 and FY 23 Connecticut Budget, FY 23 Connecticut Budget Revisions, FY 24 and FY 25 Connecticut Budget; Connecticut Office of the State Comptroller, Annual Report, Budgetary Basis, FY 2018, FY 2019, FY 2020, FY 2021, FY 2022, FY 2023; Connecticut Office of the State Comptroller, Reporting on Fiscal Year-End, FY 2024; Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2025–2018, November 2024.

[16] Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2025–2018, November 2024.

[17] Connecticut Office of the State Comptroller, Annual Report, Budgetary Basis, FY 2018, FY 2019, FY 2020, FY 2021, FY 2022, FY 2023; Connecticut Office of the State Comptroller, Reporting on Fiscal Year-End, FY 2024.

[18] U.S. Bureau of Economic Analysis, "Why do the NIPAs exclude capital gains from income and saving?" (December 2005); U.S. Bureau of Economic Analysis, State Personal Income and Employment: Concepts and Methods, November 2024.

[19] Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2017–2020, November 2016; Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2025–2018, November 2024; U.S. Bureau of Economic Analysis, SAINC1 State Annual Personal Income Summary, Updated September 27, 2024.

[20] Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2017–2020, November 2016; Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2025–2018, November 2024; U.S. Bureau of Economic Analysis, SAINC1 State Annual Personal Income Summary, Updated September 2024.

[21] Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2017–2020, November 2016; Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2025–2018 (2024); U.S. Bureau of Labor Statistics, All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0, November 2024.

The inflation-adjusted 5-year moving average is calculated as follows: For FY 2024, the actual volatile revenue each year for FYs 2018 to 2023 is converted to July 2022 dollars (the start of FY 2023) and the average is then calculated. The 10-year moving average is calculated the same way but includes the volatile revenue each year for FYs 2014 to 2023.

[22] Connecticut Department of Revenue Services, 2023 Connecticut Tax Incidence Study: Tax Years 2011 – 2020, February 2024.

[23] Connecticut Department of Revenue Services, 2023 Connecticut Tax Incidence Study: Tax Years 2011 – 2020, February 2024.

[24] Connecticut Department of Revenue Services, Connecticut Personal Income Tax Summary, Tax Year 2022.

[25] U.S. Census Bureau, Annual Survey of State and Local Government Finances, 2018, 2019, 2020, 2021, 2022, November 2024; U.S. Bureau of Economic Analysis, SAINC1 State Annual Personal Income Summary, Updated September 2024. Starting with the 2022 data, the U.S. Census Bureau removed insurance trust revenue from the measure of total revenue. To ensure consistency with prior years used in calculating the 5-year average, this analysis includes insurance trust revenue in total revenue calculations. See U.S. Census Bureau, Summary of Content Changes for 2022 State and Local Government Finance Surveys.

Supplementing the most recent 5-year analysis based on the above government data sources, the Urban Institute provides state and local finance data from 1977 to 2021 using data from the U.S. Census Bureau and U.S. Bureau of Economic Analysis, and the data show that Connecticut's state and local total revenue as a percentage of state personal income is below the level for the U.S. as a

whole during the entire period (with the exception of 2001 and 2003, when no data are available for Connecticut). See Urban Institute, State and Local Finance Data, Exploring the Census of Governments.

[26] U.S. Census Bureau, Annual Survey of State and Local Government Finances, 2018, 2019, 2020, 2021, 2022, November 2024; U.S. Bureau of Economic Analysis, SAINC1 State Annual Personal Income Summary, Updated September 2024. Starting with the 2022 data, the U.S. Census Bureau removed insurance trust revenue from the measure of total revenue. To ensure consistency with prior years used in calculating the 5-year average, this analysis includes insurance trust revenue in total revenue calculations. See U.S. Census Bureau, Summary of Content Changes for 2022 State and Local Government Finance Surveys.

Supplementing the most recent 5-year analysis based on the above government data sources, the Urban Institute provides state and local finance data from 1977 to 2021 using data from the U.S. Census Bureau and U.S. Bureau of Economic Analysis, and the data show that Connecticut's state and local revenue—measured as either total revenue, general revenue, or general revenue from own sources—as a percentage of state personal income is below the level for the U.S. as a whole during the entire period (with the exception of 2001 and 2003, when no data are available for Connecticut). See Urban Institute, State and Local Finance Data, Exploring the Census of Governments.

[27] U.S. Census Bureau, Government Finance and Employment Classification Manual, October 2006. Starting with the 2022 data, the U.S. Census Bureau removed insurance trust revenue from the measure of total revenue. To ensure consistency with prior years used in calculating the 5-year average, this analysis includes insurance trust revenue in total revenue calculations. See U.S. Census Bureau, Summary of Content Changes for 2022 State and Local Government Finance Surveys.

[28] Patrick R. O'Brien, "The Case and Policy Options for Improving Connecticut's FY 2024 – FY 2025 Budget," Connecticut Voices for Children, December 2022; Patrick R. O'Brien, "Steps to a Fairer Tax System," Connecticut Voices for Children, January 2022; Patrick R. O'Brien and Daniel Curtis, "Advancing Economic Justice Through Tax Reform," Connecticut Voices for Children, December 2020; Patrick R. O'Brien, "Reforming Connecticut's Tax System," Connecticut Voices for Children, January 2020.

[29] Connecticut General Assembly, Public Act. No. 91-3, Sec. 30, June 1991 Special Session.

[30] Connecticut General Assembly, Public Act. No. 91-3, Sec. 30, June 1991 Special Session.

[31] Constitution of the State of Connecticut, Article III, Sec. 18.

[32] Connecticut General Assembly, Public Act No. 17-2, Sec. 709, June 2017 Special Session; Connecticut General Statutes, Sec. 2-33a.

[33] Connecticut General Assembly, Public Act No. 17-2, Sec. 709, June 2017 Special Session; Connecticut General Statutes, Sec. 2-33a.

[34] Connecticut General Assembly, Public Act No. 17-2, Sec. 709, June 2017 Special Session; Connecticut General Statutes, Sec. 2-33a.

[35] Connecticut General Assembly, Public Act. No. 91-3, Sec. 30, June 1991 Special Session; Connecticut General Assembly, Public Act No. 17-2, Sec. 709, June 2017 Special Session.

[36] Connecticut General Assembly, Public Act. No. 23-1, Sec. 18.

[37] Connecticut General Assembly, Public Act. No. 23-1, Sec. 17.

[38] Connecticut General Assembly, Public Act. No. 23-1, Sec. 18.

[39] Connecticut General Assembly, Public Act. No. 23-1, Sec. 18.

[40] U.S. Bureau of Economic Analysis, SQINC1 State Quarterly Personal Income Summary, Updated September 27, 2024; National Bureau of Economic Research, U.S. Business Cycle Expansions and Contractions, March 2023. Personal income growth is compared from peak to peak using quarterly data. For example, for the 1948 recession and recovery, the comparison of personal income growth is for 1948 quarter 4 to 1953 quarter 2. For the pandemic-induced recession, the comparison is for 2019 quarter 4 to 2024 quarter 2, the latest data available at the time of the analysis.

[41] CT Office of Fiscal Analysis, Budget Books; CT Office of Policy and Management, Budget Documents; U.S. Bureau of Economic Analysis, SAINC1 State Annual Personal Income Summary, September 27, 2024; U.S. Bureau of Labor Statistics, All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0, November 2024; U.S. Bureau of Labor Statistics, All Items Less Food and Energy in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0L1E, November 2024.

To replicate the original spending cap calculations and total appropriations, the analysis primarily uses the budget books published by the Connecticut Office of Fiscal Analysis (CT OFA). However, for some years, it is necessary to use the governor's budget from the Connecticut Office of Policy and Management (CT OPM). To connect each budget, the analysis adds an additional budget adjustment, accounting for the difference between the total appropriated funds listed in the final spending cap calculation for a given year and the total appropriated funds for the prior year in the next year's calculations. When these figures align, no additional budget adjustment is necessary.

The following specific CT OFA and CT OPM sources are used for the replication of the spending cap calculations and total appropriations for each fiscal year: FY 1993, pg. xliii; FY 1994, pg. xliii; FY 1995, pg. 33; FY 1996, pg. 38; FY 1997, pg. 42; FY 1998, pg. 47; FY 1999, pg. 47; FY 2000, pg. 33; FY 2001, pg. 46; FY 2002, pg. 46; FY 2003, pg. 6; FY 2004, pg. 6; FY 2005, pg. 6; FY 2006, pg. A-4; FY 2007, pg. A-4; FY 2008, pg. A-4; FY 2009, pg. A-4; FY 2010, pg. A-4; FY 2011, pg. 13; FY 2012, pg. 45; FY 2013, pg. 489; FY 2014, pg. 489; FY 2015, pg. 10; FY 2016, pg. 7; FY 2017, pg. 7; FY 2018, pg. 225; FY 2019, pg. 340; FY 2020, pg. 340; FY 2021, pg. 363; FY 2022, pg. 304; FY 2023, pg. 393; FY 2024, pg. 393; FY 2025, pg. 393.

To calculate the updated and potential total appropriated funds, most components of the model are held constant, including the base adjustment, non-capped expenditures, the amount over or under the spending cap, and the additional budget adjustment. The only factors adjusted are the capped growth percentage and dollar amount, which, in turn, affect the capped expenditures and appropriations.

Increase in inflation is measured for FY 1993 to FY 2017 as the December over December change for the preceding calendar year using the consumer price index for all items, all urban consumers

(CPI-U), not seasonally adjusted, and for FY 2018 to FY 2025 as the December over December change for the preceding calendar year using the consumer price index for all items, less food and energy, all urban consumers (core CPI-U), not seasonally adjusted.

Increase in personal income growth is measured for FY 1993 to FY 2017 as the average in annual growth for the preceding five calendar years using annual estimates, and for FY 2018 to FY 2025 as the compound annual growth rate for the preceding five calendar years using annual estimates.

[42] U.S. Bureau of Labor Statistics, All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0, November 2024; U.S. Bureau of Labor Statistics, All Items Less Food and Energy in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0L1E, November 2024.

[43] CT Office of Fiscal Analysis, Budget Books, FY 2018–FY 2025; U.S. Bureau of Labor Statistics, All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0, November 2024; U.S. Bureau of Labor Statistics, All Items Less Food and Energy in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0L1E, November 2024.

[44] CT Office of Fiscal Analysis, Budget Books, FY 2018, FY 2025; U.S. Bureau of Labor Statistics, All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted, Series ID CUUR0000SA0, November 2024. Inflation adjustment to 2024 dollars for FY 2018 budget is based on July 2017 (start of FY 2018 budget) to July 2024 (start of FY 2025 budget). Budget categories for FY 2018 and FY 2025 are based on OFA's FY 2025 budget book.

[45] Center for Retirement Research at Boston College, Legacy Pension Debt Report: Connecticut State Employees Retirement System, June 2022; Center for Retirement Research at Boston College, Legacy Pension Debt Report: Connecticut Teachers' Retirement System, June 2022.

[46] Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2023–2026, November 2022.

[47] Cavanaugh Macdonald Consulting, Connecticut State Employees Retirement System Actuarial Reports, June 2017, June 2019, January 2021, June 2021, June 2022, June 2023; Cavanaugh Macdonald Consulting, Connecticut Teachers' Retirement System Actuarial Reports, June 2018, June 2020, June 2022; Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2025–2018, November 2024.

[48] U.S. Bureau of Economic Analysis, SQINC1 State Quarterly Personal Income Summary, Updated September 27, 2024; Cavanaugh Macdonald Consulting, Connecticut State Employees Retirement System Actuarial Reports, June 2019, June 2021, June 2022, June 2023; June 2024; Cavanaugh Macdonald Consulting, Connecticut Teachers' Retirement System Actuarial Reports, June 2018, June 2020, June 2022, June 2024. For each fiscal year, personal income is based on quarter 2 for the corresponding calendar year. For example, personal income for FY 2018 is based on quarter 2 for calendar year 2018. Due to the lack of annual TRS debt estimates for all relevant years, the unfunded liability estimate for FY 2019 is based on the average for FY 2018 and FY 2020, and the estimate for FY 2021 is based on the average for FY 2020 and FY 2022.

[49] U.S. Census Bureau, Annual Survey of State and Local Government Finances, 2018, 2019, 2020, 2021, 2022, November 2024; U.S. Bureau of Economic Analysis, SAINC1 State Annual Personal Income Summary, Updated September 2024. Starting with the 2022 data, the U.S. Census Bureau removed insurance trust expenditure from the measure of total expenditure and direct expenditure. To ensure consistency with prior years used in calculating the 5-year average, this analysis includes insurance trust expenditure in total expenditure and direct expenditure calculations. See U.S. Census Bureau, Summary of Content Changes for 2022 State and Local Government Finance Surveys.

Supplementing the most recent 5-year analysis based on the above government data sources, the Urban Institute provides state and local finance data from 1977 to 2021 using data from the U.S. Census Bureau and U.S. Bureau of Economic Analysis, and the data show that Connecticut's state and local total expenditure as a percentage of state personal income is below the level for the U.S. as a whole during the entire period (with the exception of 2001 and 2003, when no data are available for Connecticut). See Urban Institute, State and Local Finance Data, Exploring the Census of Governments.

[50] U.S. Census Bureau, Annual Survey of State and Local Government Finances, 2018, 2019, 2020, 2021, 2022, November 2024; U.S. Bureau of Economic Analysis, SAINC1 State Annual Personal Income Summary, Updated September 2024. Starting with the 2022 data, the U.S. Census Bureau removed insurance trust expenditure from the measure of total expenditure and direct expenditure. To ensure consistency with prior years used in calculating the 5-year average, this analysis includes insurance trust expenditure in total expenditure and direct expenditure calculations. See U.S. Census Bureau, Summary of Content Changes for 2022 State and Local Government Finance Surveys.

Supplementing the most recent 5-year analysis based on the above government data sources, the Urban Institute provides state and local finance data from 1977 to 2021 using data from the U.S. Census Bureau and U.S. Bureau of Economic Analysis, and the data show that Connecticut's state and local expenditure—measured as total expenditure, direct expenditure, or direct general expenditure—as a percentage of state personal income is below the level for the U.S. as a whole during the entire period (with the exception of 2001 and 2003, when no data are available for Connecticut). See Urban Institute, State and Local Finance Data, Exploring the Census of Governments.

[51] U.S. Census Bureau, Government Finance and Employment Classification Manual, October 2006. Starting with the 2022 data, the U.S. Census Bureau removed insurance trust expenditure from the measure of total expenditure and direct expenditure. To ensure consistency with prior years used in calculating the 5-year average, this analysis includes insurance trust expenditure in total expenditure and direct expenditure calculations. See U.S. Census Bureau, Summary of Content Changes for 2022 State and Local Government Finance Surveys.

[52] Connecticut General Assembly, Public Act No. 17-2, Sec. 706, June 2017 Special Session; Connecticut General Assembly, Public Act. No. 23-1, Sec. 14.

[53] Connecticut General Assembly, Public Act. No. 23-1, Sec. 14.

[54] Connecticut General Assembly, Public Act. No. 23-1, Sec. 14.

[55] See Rachel Silbermann, Sam Whipple, and Jamie Mills, "Connecticut's Radical New Budget Rules: Locking Decreased Investment in our State for the Next Decade," Connecticut Voices for Children, March 2019.

[56] Connecticut General Statutes, Sec. 10-183qq; Connecticut General Statutes, Sec. 10-183vv; Rachel Silbermann et al., "Impact of the Governor's FY 2020-2021 Budget on Children and Families," Connecticut Voices for Children, March 2019.

[57] Shelley Geballe, "Coping with the Cap: A Primer on Connecticut's State Spending Cap and Its Impacts," Connecticut Voices for Children, April 2007.

[58] Patrick R. O'Brien, "The Case and Policy Options for Improving Connecticut's FY 2024 – FY 2025 Budget," Connecticut Voices for Children, December 2022; Patrick R. O'Brien, "Steps to a Fairer Tax System," Connecticut Voices for Children, January 2022; Patrick R. O'Brien and Daniel Curtis, "Advancing Economic Justice Through Tax Reform," Connecticut Voices for Children, December 2020; Patrick R. O'Brien, "Reforming Connecticut's Tax System," Connecticut Voices for Children, January 2020.

[59] Connecticut Office of Policy and Management, Fiscal Accountability Report, Fiscal Years 2025–2018, November 2024.