MetroHartford Alliance Statement on Proposed H.B. No. 5086 - AN ACT CONCERNING THE CONSTITUTIONAL SPENDING CAP

Connecticut General Assembly
Appropriations Committee
March 4, 2016

The MetroHartford Alliance serves as the region's economic development leader and the City of Hartford's Chamber of Commerce. Our investors include businesses of all sizes, health care providers, arts and higher education institutions as well as the municipalities of North Central Connecticut. Our mission is to ensure that the region competes aggressively and successfully for jobs, capital, and talent so that it thrives as one of the country's premier places for all people to live, play, work, start and grow a business, and raise a family.

We appreciate the opportunity to submit this testimony and to share our serious concerns that Connecticut's slow economic recovery since 2008 has failed to generate the revenues needed to support our ever expanding operating budgets and related fiscal commitments. We now face a budget shortfall of more than $260 million in the current fiscal year, an estimated $900 million deficit in FY'17, and projected deficits in excess of $2 billion in both FY '18 and FY'19.

The fiscal crisis that we face today and for the next several budget cycles is the result of a series of actions and neglect embedded in past budgets that have produced our major structural problems. Even more damaging, the absence of a collaborative and sustained political will to address the problems have significantly undermined the private sector confidence that is the foundation of robust employment growth and capital investment. It has also accelerated the relocation of residents with means to other states and has pitted one sector of our economy against another as illustrated by the financial actions impacting the ability of our hospitals and community providers to provide comprehensive services to those unable to pay for those services with the shortfall shifted to those who can.

We all understand that robust employment and investment growth generates the tax revenues, and philanthropy, needed to fund the education, health, infrastructure, and social services that are fundamental to a governable society. Private sector leaders clearly recognize that we need several budget cycles to right the fiscal ship of state and thereby reignite meaningful increases in employment, per capita income, and capital investment. At the same time, we are also confident that actions can be taken this session that will clearly demonstrate an emerging bipartisan consensus around the scope of the challenge and around the breadth and depth of the actions needed to overcome it for the benefit of current and future residents.

In that spirit, we joined seven other Metro Chambers and CBIA to submit a letter to the Governor and all Legislators on February 1st that sets forth three recommendations to begin to restore that critical private sector confidence. That letter first emphasizes the need to address the underleveraged collaboration of political and private sector expertise to address our fiscal challenges and to exploit our still significant inventory of economic assets. It also emphasizes initiatives focused on economic growth and the intertwined issue of spending discipline. With respect to the latter, we urge in the letter that the Legislature adopt a bill this session to place a Constitutional amendment on the November 8th ballot that, upon passage, will restore the credibility and effectiveness of the Constitutional spending cap adopted in 1992.

The passage of the 1992 amendment by more than 80% of the voters was critical to the subsequent enactment of Connecticut's personal income tax since the amendment was promoted as a control over the growth in annual state spending. Since 1992, however, failure to adopt the definitions of "general budget expenditures" as required by the amendment has resulted in the squandering of billions of dollars of state surpluses and the movement of millions of dollars out from under the cap. Most recently, the Attorney General issued an opinion that renders the 1992 amendment null and void due to that failure.

We recognize that the Legislature has formed a committee to report back next January with recommendations to address the definitional deficiencies identified by the Attorney General. Our concern is that such action will do nothing this year or next to restore private sector confidence. To do so, we must provide the voters the opportunity in November to ensure that the intent of the 1992 action is fully implemented in all future budgets. We have included the proposed amendment that we attached to the February 1st letter and note its key goals to:

- define the parameters around the calculation of the cap;
- establish a deadline by which the legislature must define: increase in personal income; increase in inflation; and general budget expenditures;
- clarify that state retiree pension and health care benefits fall under the spending cap;
- maintain current exclusions to the cap found in Sec. 2-33a (e.g. bond payments; federal funds for which the State meets entitlement and eligibility criteria);
- clarify that surpluses must be used only to fund a budget reserve fund or to repay debt unless authorized by a 60% supermajority vote of each chamber; and
- establish original jurisdiction to ensure judicial enforceability.

We clearly acknowledge that a well-crafted amendment will demand greater focus on the State's immediate and long term needs and on prioritizing the funding of both, a reality that always confronts individuals and entities. Given the seriousness of our fiscal challenge, we submit that the Legislature has no more critical task this session than to take the time to define, debate, and enact an amendment that will be on the November 8th ballot. Such enactment will clearly demonstrate to our fellow residents and private sector employers that we have the political will to be fiscally disciplined. As importantly, it will restore the private sector confidence needed to reinvigorate sustained growth in employment, per capita income, capital investment, and tax revenues.

We applaud the Appropriations Committee for holding a public hearing on H.B. No. 5086 and appreciate the opportunity to submit this testimony.

Spending Cap Amendment - DISCUSSION DRAFT

ARTICLE XXVIII.

Article third of the constitution is amended by adding section 18 as follows:

Sec. 18 a. The amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year.

b. On or before July 15th, annually, the Secretary of the Office of Policy and Management and the director of the legislative Office of Fiscal Analysis shall each submit to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies and finance, revenue and bonding a consensus calculation of the percentage increase in personal income and the percentage increase in inflation for the previous fiscal year.

c. 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 consensus calculation of the percentage increase in personal income or the consensus calculation of the percentage increase in inflation, unless 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.

d. No later than April 15, 2017 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 include expenditures to fund state retiree pension and health care benefits and 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.

e. As used in this section, “general budget expenditures” means expenditures from appropriated funds authorized by public or special act of the General Assembly, provided general budget expenditures shall not include (1) expenditures for payment of the principal of and interest on bonds, notes or other evidences of indebtedness, expenditures pursuant to section 4-30a, or current or increased expenditures for statutory grants to distressed municipalities, provided such grants are in effect on July 1, 1991, and (2) 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. As used in this section, “federal mandates” means those programs or services in which the state must participate, or in which the state participated on July 1, 1991, and in which the state must meet federal entitlement and eligibility criteria in order to receive federal reimbursement, provide expenditures for program or service components which are optional under federal law or regulation shall be considered general budget expenditures.

f. 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. Any use of the budget reserve fund other than the reduction of bonded indebtedness shall require the vote of three-fifths of the members of each house of the general assembly.

g. Original jurisdiction is vested in the supreme court to be exercised on the petition of any registered voter of Connecticut whereby said court may compel the general assembly, by mandamus or otherwise, to perform its duty to define "increase in personal income", "increase in inflation" and "general budget expenditures" for the purposes of this section. Said court may take such other action to effectuate the purposes of this article, including the establishing of definitions of "increase in personal income", "increase in inflation" and "general budget expenditures" if the general assembly fails to define "increase in personal income", "increase in inflation" and "general budget expenditures" by the fifteenth day of April 2017. Any such petition shall be filed within thirty days of the date specified. The Supreme Court shall render its decision not later than thirty days following the filing of such petition. Upon receiving such decision the secretary shall publish the same forthwith, and, upon publication, such definitions of "increase in personal income", "increase in inflation" and "general budget expenditures" shall have the full force of law.

Patrick McGloin
Vice President for Government Relations and Public Policy
MetroHartford Alliance
pmcgloin@metrohartford.com
(860) 728-2263 (office)