MetroHartford Alliance Statement on Proposed Spending Cap Definitions

State Spending Cap Commission
October 5, 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 offer this testimony to the State Spending Cap Commission and salute the sustained, thoughtful effort of the Commission's members to address this pressing issue. In regards to Connecticut's constitutional spending cap, the Alliance has long advocated for:

- Establishing parameters around the calculation of the cap
- Establishing a deadline by which the legislature must define: increase in personal income; increase in inflation; and general budget expenditures
- Clarifying that state retiree pension and health care benefits fall under the spending cap
- Maintaining 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)
- Clarifying that surpluses must be used only to fund a budget reserve fund or to repay debt unless authorized by a 60% super majority vote of each chamber
- Establishing original jurisdiction to ensure enforceability in court.

We are supportive of the definitions for (1) "increase in personal income" and (2) "increase in inflation" as recently adopted by the Commission. In terms of the remaining item to be defined (3) "general budget expenditures," the Alliance believes that this definition should reflect all government spending except debt service, as is explicitly named in the constitutional amendment. In our view, one of the most substantial issues to be considered is that of including or excluding pension liabilities. Our concern about moving pension liabilities out from under the cap are threefold:

- It will create more room under the cap, which will allow lawmakers to increase spending under the cap, and to increase taxes to pay for the increased spending;
- Items outside the cap have historically grown faster than items under the cap;
- Excluding pension liabilities from the cap creates an incentive for pension liabilities to grow, and a disincentive for policymakers to seriously addresses Connecticut's unfunded liability crisis.

Connecticut's slow economic recovery has failed to generate the revenues needed to support our ever-expanding state budgets. As a result, we have witnessed repeated deficits followed by tax increases, and anticipate significant budget shortfalls in both 2017-18 ($1.3 billion) and 2018-19 ($1.4 billion).

Adoption by the legislature of well-crafted spending cap definitions 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 as a result, tax revenues.

As in 1992, when more than 80% of the state's voters approved the spending cap amendment to Connecticut's constitution, an engaged citizenry is vital to successful public policy. We applaud the State Spending Cap Commission for holding these public hearings in a timely fashion to ensure that voters across the state have the opportunity to make their voice heard.

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