

# STABILIZING CONNECTICUT'S REVENUE STREAM WITH THE BUDGET RESERVE FUND

## THE PROBLEM

Connecticut's high concentrations of individual wealth and significant number of corporate headquarters result in large fluctuations in revenue as economic conditions change. Revenue fluctuations result in significant revenue shortfalls when the economy is under-performing, requiring cuts in programs, reductions in aid to cities and towns, tax increases or all of the above.

## A SOLUTION

The Budget Reserve Fund (also known as the Rainy Day Fund) can be used as an important tool for stabilizing the state's revenue stream to protect against large fluctuations in revenue.

Currently, the state only makes deposits into the Budget Reserve Fund when there is a surplus not set aside for another purpose.

The fund could better manage revenue fluctuations if excess revenue from the state's most volatile revenue sources were automatically deposited into the fund during periods of strong economic growth and used to offset revenue shortfalls during economic downturns.

## HOW TO DO IT

One way Connecticut can increase its reserves and reduce revenue volatility is by adjusting its Budget Reserve Fund deposit formula to require automatic deposits whenever the most volatile tax revenue streams produce one-time excess revenues.

Two tax revenue streams that are particularly volatile due to the demographic and economic makeup of Connecticut are the estimated and final payments portion of the income tax and the corporation business tax.

A new Budget Reserve Fund formula tied to these tax streams should meet the following goals:

- lower General Fund revenue volatility;
- retain the long-term revenue growth potential of revenue streams to which it is applied;
- require zero or minimal deposits immediately following a recession; and
- increase the BRF balance available to offset revenue declines during recessions.

## A PICTURE OF POSSIBILITY

In the past two recessions, reserves have been inadequate to fill revenue shortfalls:

FY	ACTUAL Accessible \$\$ in BRF in millions	Revenue Shortfall* in millions
2002 - 2004	\$595	-\$1,715
2009 - 2011	\$1,382	-\$2,416

\*Revenue shortfall assumes the expected revenue growth in the next year to be the average annual income growth of 4.8% from 1991 to 2013.

However, had Connecticut had a budget reserve fund deposit formula that targeted excess revenue from the two identified tax revenue streams, reserves may have looked more like this:

FY	PROPOSAL PROJECTION Accessible \$\$ in BRF in millions	Revenue Shortfall* in millions
2002 - 2004	\$1,726	-\$1,715
2009 - 2011	\$2,790	-\$2,416

## MOVING FORWARD

The Office of the State Comptroller welcomes your input and ideas on this proposal. If you would like more information, please contact the office by phone at 860.702.3301 or by email at [comptroller.lembo@ct.gov](mailto:comptroller.lembo@ct.gov).