



News from:
COMPTROLLER KEVIN LEMBO

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**COMPTROLLER LEMBO TESTIFIES IN SUPPORT OF
INCREASING RAINY DAY FUND CAP**

Comptroller Kevin Lembo testified before the state legislature's Appropriations Committee at a public hearing today in support of legislation that would increase the cap on the state's Budget Reserve Fund – otherwise known as the "Rainy Day Fund" – to better protect the state budget during economic downturns.

State law currently prevents the state's Rainy Day Fund from exceeding 10 percent of net General Fund appropriations. Senate Bill 294, An Act Increasing the Cap on the Budget Reserve Fund, would increase the existing limit on the Budget Reserve Fund balance – allowing the state to build a stronger "recessionary seawall" to minimize the need for crisis-driven tax increases and program cuts during economic recessions.

"The pain of the most recent recession has made it exceedingly clear that past practices have not served us well," Lembo said. "In order for the Budget Reserve Fund to act as a stopgap while tax revenues are depressed from an economic downturn, the 10-percent cap should be raised to at least 15 percent of net General Fund appropriations as recommended by the Governmental Accounting Standards Board (GASB) and supported by my office for many years."

On a related matter, Lembo has proposed legislation that would reform how the state makes deposits to the Rainy Day Fund – using it to stabilize Connecticut's future budgets, manage revenue volatility, reduce unfunded liabilities and put downward pressure on spending.

Rather than treat the Rainy Day Fund as an afterthought – depositing occasional unexpected "budget scraps" into the fund at the end of a fiscal year – Lembo said deposits should be

made strategically and automatically whenever the most volatile tax revenue streams – the estimated and final payments portion of the income tax, and the corporations tax – produce revenue above historic norms.

Since 1992, Connecticut has realized a total of \$8.7 billion more in General Fund revenue than originally budgeted in years in which revenue outperformed expectations, Lembo said. However, of this excess revenue, less than one third -- \$2.5 billion – has been deposited into the Budget Reserve Fund, with the remainder used for other purposes.

“Deposits into the fund must become a higher budgetary priority during good economic times and the cap on the Budget Reserve Fund balance must be increased,” Lembo said. “The Budget Reserve Fund has the potential to enable the state to better manage the swings in revenue collections by storing money away in good economic times so that it is available when the economy slumps.

“This will hasten the state’s rebound from the next recession and avoid a slower recovery. It will also help prevent cuts in programs and services at a time when they are most needed and tax increases when least affordable.”

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