



News from:  
**COMPTROLLER KEVIN LEMBO**

FOR IMMEDIATE RELEASE

MONDAY, JANUARY 5, 2015

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**COMPTROLLER LEMBO ANNOUNCES PROPOSAL TO  
STABILIZE FUTURE BUDGETS**

***EFFORT WOULD MINIMIZE NEED FOR FUTURE TAX INCREASES AND PROGRAM CUTS  
DURING ECONOMIC DOWNTURNS***

Comptroller Kevin Lembo today announced a strategic legislative proposal to reform the state's Budget Reserve Fund formula – building a “recessionary seawall” to protect against the need for crisis-driven tax increases and program cuts during economic downturns, while putting downward pressure on spending during economic surges.

“Connecticut’s high concentration of individual wealth and corporate headquarters – and the related impact of ups and downs on Wall Street – contribute to large fluctuations in revenue as economic conditions change,” Lembo said. “These revenue fluctuations create significant revenue shortfalls when the economy is under-performing, resulting in tax increases, program cuts or both.

“The Budget Reserve Fund – or ‘Rainy Day Fund’ – should be more than a simple savings account. It can also be an important tool for building predictability into the state’s General Fund revenue stream to protect against large fluctuations.

“I am proposing a recessionary seawall that will limit the need for crisis-driven tax increases and program cuts during economic downturns. Connecticut has an opportunity to carve out a new era of fiscal stability and responsibility – by strategically managing revenue volatility and building a sound Budget Reserve Fund.”

Lembo -- who will release a detailed policy white paper early next week on the topic -- proposes strategically building Connecticut’s reserves and managing volatility by adjusting its

Budget Reserve Fund deposit formula. His proposal will establish automatic deposits whenever the most volatile tax revenue streams produce one-time excess revenues.

Lembo said three tax revenue streams are particularly volatile due to the demographic and economic makeup of Connecticut: the estimated and final payments portion of the income tax, the corporation business tax, and the inheritance and estate tax.

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

- Manage revenue volatility;
- Retain long-term revenue growth potential;
- Require no or minimal deposits immediately following a recession; and
- Increase budget reserve fund deposits

Under this formula, Lembo said the Budget Reserve Fund could 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; reducing the need for program cuts and tax increases.

“Connecticut currently has no established policy for maintaining its Budget Reserve Fund – relying mostly on good fortune over the decades to set aside, or not set aside, unanticipated windfalls,” Lembo said. “In the past two recessions, reserves have been inadequate to fill revenue shortfalls – despite several missed opportunities to harness unexpected windfalls prior to those recessions.”

The box below shows the revenue shortfalls during each of the past two recessions – compared to the inadequate amounts available in the Budget Reserve Fund.

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.

Had Connecticut had a Budget Reserve Fund deposit formula, as Lembo proposes, that targeted excess revenue from the three 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	\$1,710	-\$1,715
2009 - 2011	\$3,426	-\$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.

Lembo said he looks forward to continuing his work with legislative leadership to advance this proposal.

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