



News from:
COMPTROLLER KEVIN LEMBO

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Contact: Tara Downes
860-702-3308
Tara.Downes@ct.gov

**COMPTROLLER LEMBO ISSUES POLICY BRIEF: STABILIZE
BUDGETS, MANAGE REVENUE VOLATILITY, REDUCE
LIABILITIES AND PUT DOWNWARD PRESSURE ON SPENDING**

Comptroller Kevin Lembo today released a detailed “white paper” – a policy brief and roadmap that proposes using the state’s Budget Reserve Fund to stabilize Connecticut’s future budgets, manage revenue volatility, reduce unfunded liabilities and put downward pressure on spending.

“Not everyone gets excited when we talk about state finances, revenue volatility and Budget Reserve Funds – but maybe we should,” Lembo said. “What it takes to achieve financial strength and stability is complicated, and it’s boring – and exactly the wheelhouse where we should be operating now.

“This policy proposal – making changes to the Budget Reserve Fund formula now – will put the State of Connecticut in a better position leading into any future economic downturn, reducing the need for future tax increases and requiring fewer crisis-driven budget cuts.”

In his policy brief, Lembo proposes that Connecticut use a new formula to make deposits into its Budget Reserve Fund, also known as the Rainy Day Fund, in a way that will help the state better manage revenue volatility and insulate against the impact of future economic downturns – all while retaining the state’s long-term revenue growth potential.

“Connecticut’s high concentrations of individual wealth and significant number of corporate headquarters result in large fluctuations in revenue as economic conditions change,” Lembo said. “Revenue fluctuations result in significant revenue shortfalls when the economy is under-performing, requiring crisis-driven cuts in programs, reductions in aid to cities and towns, tax increases or all of the above. The Budget Reserve Fund can be used as an important tool for stabilizing the state’s revenue stream and protect against large fluctuations.”

In order to accomplish these policy goals, Lembo recommends that Connecticut adjust its Budget Reserve Fund deposit formula to require automatic deposits 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. He also recommends increasing the cap on the Budget Reserve Fund balance to 15 percent of net General Fund appropriations, and considering directing excess revenues of other one-time and highly volatile revenue sources to the fund.

Several other states have formulas that have successfully sought to achieve the same benefits. Lembo, noting the additional potential benefits of improving the state's credit rating and reducing unfunded liabilities, highlighted a quote by Moody's Investors Service just last year that stated, "Virginia's reserve rebuilding mechanism is a strong feature of its Aaa rating and will help to prepare it for future downturns."

Lembo's policy brief details what other states have done, but he said Connecticut's formula should be specifically tailored to our own needs and should:

- 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 Budget Reserve Fund balance available to offset revenue declines during recessions.

"Had such a deposit formula been in place since the inception of the income tax, Connecticut would have more easily weathered the most recent recessions," Lembo said. "Making changes to the Budget Reserve Fund deposit formula now will put the state in a better position leading into the next recession, requiring fewer crisis-driven budget cuts and reducing the need for future tax increases.

"My goal is to take left, right and center-thinking and try to move ahead with the best, most sound policy I can," Lembo said. "I look forward to continuing the conversation with legislators, the administration and other policy makers – and encourage any and all input from the public.

"I am hopeful that state residents will take the time to read this proposal and really consider what this might accomplish, not just now, but in the future."

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