



News from:
COMPTROLLER KEVIN LEMBO

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**COMPTROLLER LEMBO: PLAN TO STABILIZE FUTURE
BUDGETS AND END CYCLES OF CRISIS-DRIVEN CUTS AND
TAX INCREASES BECOMES LAW**

Comptroller Kevin Lembo announced that Gov. Dannel P. Malloy, as part of the larger budget document, has signed his proposal into law to reform the state's Budget Reserve Fund and stabilize Connecticut's future budgets.

Earlier this year, Lembo presented a detailed "white paper" – a roadmap for 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.

"This law will eventually put an end to crisis-driven tax increases, program cuts and decreases in aid to municipalities," Lembo said. "The Governor's signature today will make smarter budgeting the law of the land. After a difficult budget process, this bi-partisan initiative leaves a legacy of financial stability and discipline.

"I am so grateful to those who helped navigate this law into reality – especially legislative leaders in the House and Senate, as well as state Sen. John Fonfara, D-Hartford, and state Rep. Jeff Berger, D-Waterbury (Finance Committee co-chairs) for their leadership on this effort."

As Lembo first proposed, this law will eventually adjust Connecticut's Budget Reserve Fund 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. It also raises the Budget Reserve Fund cap from 10 to 15 percent of net General Fund appropriations, allowing the state to build a more meaningful reserve.

Lembo said his plan will establish budget stability by:

- Lowering General Fund revenue volatility;
- Retaining the long-term revenue growth potential of revenue streams to which it is applied;
- Requiring zero or minimal deposits immediately following a recession; and
- Increasing the Budget Reserve Fund balance available to offset revenue declines during recessions.

Lembo said this law can now potentially deliver the additional benefit of reducing unfunded liabilities and improving the state's credit rating. Pointing to what other states, such as Virginia, have experienced, Lembo 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 said, "This 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.

"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 crisis-driven cuts in programs, reductions in aid to cities and towns, tax increases or all of the above. The Budget Reserve Fund will now be used as an important tool for stabilizing the state's revenue stream and protect against its large fluctuations.

"Had such a deposit formula been in place since the inception of the income tax, Connecticut would have more easily weathered the most recent recession. This law takes left, right and center-thinking and creates a new solid, sound policy that forces our state to plan for long-term financial stability."

Lembo also thanked representatives from The Pew Charitable Trusts, Connecticut Voices for Children and Yankee Institute for Public Policy who provided diverse support for this initiative, particularly at a legislative forum and public hearing.

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