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Written Testimony
Comptroller Kevin Lembo
April 3, 2017

Concerning
S.B. 785: An Act Concerning the Expenditure Cap

Good afternoon Senator Osten, Representative Walker, Senator Formica, Representative Ziobron, and Members of the Appropriations Committee.

Thank you for the opportunity to submit this written testimony in support of responsibly updating and codifying the state spending cap.

I have consistently advocated for reducing volatility and improving predictability in state spending. My proposal to strengthen the budget reserve fund, also known as the rainy day fund, was passed in 2015. My pension funding reform proposal included several components that were in the final agreement reached between the parties earlier this year that will smooth out future payments.

The goals of both initiatives are the same. We must ensure that the state has sufficient savings to cushion us during the down years in order to sustain our services and prevent last minute cuts, tax increases, and broken promises. At the same time, we must make responsible payments toward our debt in the form of unfunded pension liabilities that have been increasingly crowding out other state budget priorities.

The ways in which we define the state's spending cap will either support this movement toward reduced volatility and improved predictability, or will create perverse incentives to make more irresponsible decisions in the future.

Fortunately, the current definition of the expenditure cap in statute already exempts deposits made to the budget reserve fund, allowing the state to responsibly save for a rainy day. In this way, the strengthened budget reserve fund policy works complementary to the spending cap policy to reduce volatility in state budget expenditures year over year, which creates the predictability and confidence in state government that Connecticut so often lacks.

Although many of the spending cap bills before you today are quite similar, the Governor's bill S.B. 785 stands out with a very important distinction. The bill would exempt payments toward the unfunded pension liability. This is the necessary next step to a responsible spending cap.

The normal cost of the annual pension payments, essentially the cost of paying for benefits earned in the budget year, amounted to slightly under $300 million in Fiscal Year 2016. When combined with the cost of decades of deferred payments and other shortfalls, however, the total amount owed to the pension fund in that year was more than $1.5 billion. The normal cost should remain a part of the expenditures under the spending cap. That amount represents the actual cost of providing the pension benefits to state employees. However, any payments over that amount to pay down the unfunded pension liability should be treated as responsible debt payments.

Including payments toward unfunded liabilities under the spending cap will incent bad behavior – encouraging future legislatures to underfund the annual pension contribution payment in order to fully fund ongoing programs and services when appropriations are pushing up against the cap.

The proposed legislation prevents future legislatures from using the spending cap as an excuse for not making the full pension contribution payment. The more that is paid toward the unfunded liability, the lower the future costs to the state will be, achieving reduced volatility and further predictability in state spending.

I urge your support.

Thank you for your time.