

Addressing Misperceptions Regarding S.B. 1162, A Bill to Implement Consensus Revenue Forecasting in Connecticut Jeffrey M. Tebbs*

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1. The consensus revenue forecasting bill authorizes Connecticut's Comptroller to issue the revenue forecast if the Governor's budget office and the General Assembly's Office of Fiscal Analysis fail to reach agreement. Since the Comptroller is currently a Democrat, isn't this bill a partisan attempt to manipulate the revenue forecast?

To the contrary, the forecasting bill restricts the Comptroller's options in adopting a revenue estimate to the range of possibilities raised by the Governor's budget office and the legislature's non-partisan fiscal office.

Specifically, the bill transmitted to the Governor requires the Secretary of the Office of Policy and Management (OPM) and the Director of the Office of Fiscal Analysis (OFA) to reach consensus on the revenue forecast at several points during the year. If these parties cannot reach agreement before specific deadlines, the Comptroller is authorized to issue the revenue forecast that will govern both the Governor's budget submissions and the General Assembly's appropriations and finance bills.

The Comptroller's estimate, however, must either equal one of the estimates issued by OPM or OFA or fall between the two.¹ OPM is the Governor's budget office and is led by a political appointee. OFA is the budget-analysis arm of the General Assembly, but it is a non-partisan agency staffed with career civil servants. Thus, the Comptroller's estimate would be circumscribed by the estimates from by a Republican Governor's budget office and the General Assembly's non-partisan fiscal office. Viewed in this light, it is challenging to discern the partisan advantage to be gleaned from this legislation.

It is worth noting that the bill transmitted to the Governor is structured in the same manner as New York's proven consensus forecasting mechanism. In 2007, New York authorized its Comptroller to act as a neutral arbiter if the Director of the Budget, the Secretary of the Senate Finance Committee, and the Secretary of the Assembly Ways and Means Committee fail to reach agreement regarding the revenue estimate.² By all accounts, this enforcement mechanism has proven a success. To date, the Comptroller's intervention has never been required to obtain consensus.³

Ideally, S.B. 1162 would have contained a requirement mandating a joint legislative-executive hearing where the various economic assumptions and models for projecting revenue were debated publicly. Massachusetts, New York, and Rhode Island each feature public hearings regarding the

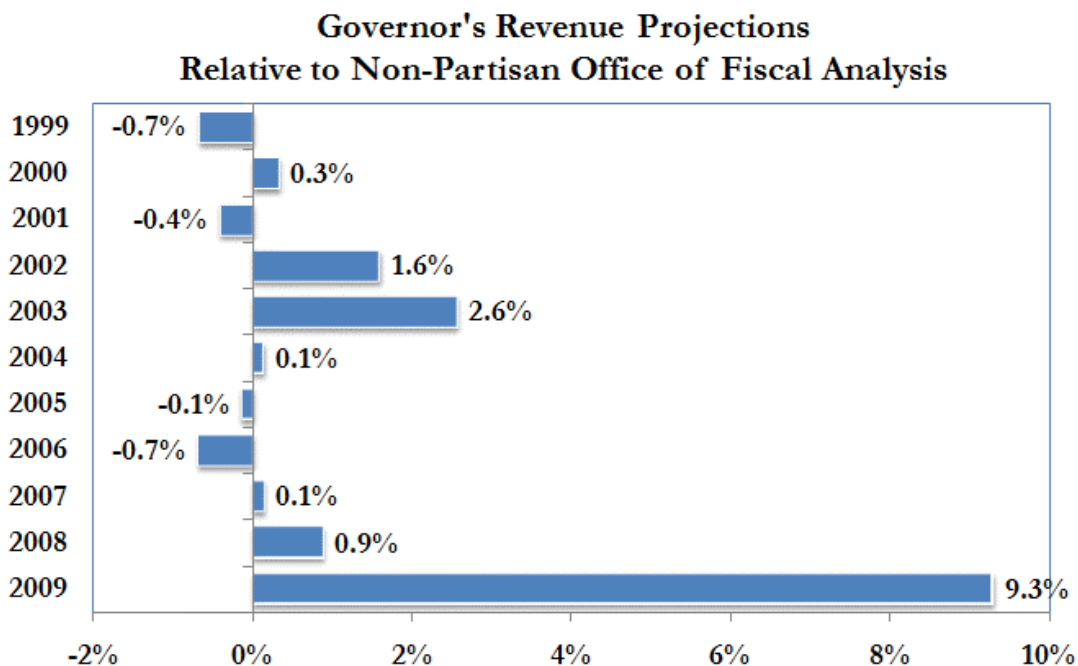
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revenue forecast. In Massachusetts, outside experts are routinely invited to testify, and past experts have included professionals from the Massachusetts Taxpayers Foundation, the Beacon Hill Institute, the Federal Reserve Bank of Boston, and the University of Massachusetts - Boston.⁴

2. Projections are inherently unreliable. Isn't it reasonable for the legislative and executive branches to disagree regarding the forecast?

While reasonable professionals acting in good faith can disagree on a revenue forecast, allowing the General Assembly and the Governor to proceed with two different projections is untenable. Since the two branches must ultimately reconcile their forecasts in order to adopt a state budget, it is only logical to have this agreement occur at the beginning of the process. As this legislative session has aptly demonstrated, significant differences in the revenue outlook have the potential to derail the entire budget process.

As the chart below reveals, OPM and OFA's projections are ordinarily quite close. From 1999 to 2008, the Governor's revenue projections were an average of 0.37% higher than the projections issued in the same month by the non-partisan OFA. In the budget the Governor released in February 2009, OPM projected revenues that were an astonishing 9.29% higher than OFA's estimates. The two offices were further apart than any time in the past decade.⁵ Regardless of one's judgment about the source of the divergence—either increased uncertainty during a deep recession or intentional manipulation—the fact remains that the two branches of government disagreed about the scope of the problem to the tune of \$2.7 billion. The magnitude of this disagreement has precluded a meaningful political debate on the distribution of sacrifices required to close this deficit.



3. Since Governor Rell has released a supplemental budget, why is consensus revenue forecasting still required?

Although Governor Rell has released a supplemental list of spending cuts, one-time revenue increases, and borrowing, her overall budget proposal is apparently still designed to close a deficit of \$7.95 billion, which is over \$700 million less than the deficit OFA has projected since February.⁶ The partial resolution of this year's problem after 115 days of disagreement only highlights the need to institute consensus revenue forecasting to prevent this dilemma in the future.

¹ See S.B. 1162, as amended by LCO No. 8361; See also Office of Legis. Research, Bill Analysis, An Act Concerning Expenditures of Appropriated Funds Other than the General Fund, SB 1162 (as amended by Senate "A"), <http://www.cga.ct.gov/2009/BA/2009SB-01162-R01-BA.htm>.

² N.Y. STATE FIN., § 23 (McKinney 2009).

³ See New York Consensus Forecasting Conference, Economic and Revenue Consensus Report 07-08, March 1, 2007, <http://www.budget.state.ny.us/pubs/supporting/Consensus0708.pdf>; New York Consensus Forecasting Conference, Economic and Revenue Consensus Report 2008-09, March 1, 2008, <http://www.budget.state.ny.us/pubs/press/2008/revenues08.pdf>; New York Consensus Forecasting Conference, Economic and Revenue Consensus Report 2009-10, February 24, 2009; <http://www.budget.state.ny.us/pubs/press/2009/econRevForecastConf/revenueconsensus09.pdf>.

⁴ YALE SHAVIT, FEDERAL RESERVE BANK OF BOSTON, REVENUE FORECASTING PROCESSES IN NEW ENGLAND (2009), <http://www.bos.frb.org/economic/neppc/briefs/2009/briefs904.pdf>

⁵ Author's calculations from CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, ANALYSIS OF THE GOVERNOR'S 1999-2001 BIENNIAL BUDGET 7 (Mar. 15, 1999), <http://www.cga.ct.gov/OFA/Documents/GovBud/GovBud3-15-99.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, ANALYSIS OF THE GOVERNOR'S PROPOSED REVISIONS FOR THE FY 01 BUDGET 46 (Mar. 3, 2000), <http://www.cga.ct.gov/OFA/Documents/GovBud/GovBud3-00.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, ANALYSIS OF THE GOVERNOR'S 2001-2003 BIENNIAL BUDGET 6, 8 (Mar. 1, 2001), <http://www.cga.ct.gov/OFA/Documents/GovBud/GovBud3-1-01.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, ANALYSIS OF THE GOVERNOR'S 2001-2003 MIDTERM BUDGET ADJUSTMENTS 5 (Feb. 8, 2002), <http://www.cga.ct.gov/OFA/Documents/GovBud/GovBud2-8-02.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, SUPPLEMENTAL ANALYSIS OF THE GOVERNOR'S 2003-2005 BIENNIAL BUDGET 7 (Mar. 28, 2003), <http://www.cga.ct.gov/OFA/Documents/GovBud/GovBud3-28-03.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, SUPPLEMENTAL ANALYSIS OF THE GOVERNOR'S 2003-2005 MIDTERM BUDGET ADJUSTMENTS 6 (Feb. 27, 2004), <http://www.cga.ct.gov/OFA/Documents/GovBud/SuppAnalysis-2-27-04.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, SUPPLEMENTAL ANALYSIS OF THE GOVERNOR'S 2005-2007 BIENNIAL BUDGET 6 (Feb. 25, 2005), <http://www.cga.ct.gov/OFA/Documents/GovBud/SuppAnalysis-2-25-05.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, SUPPLEMENTAL ANALYSIS OF THE GOVERNOR'S 2005-2007 MIDTERM BUDGET ADJUSTMENTS 8 (Feb. 27, 2006), <http://www.cga.ct.gov/OFA/Documents/GovBud/SuppAnalysis-2-27-06.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, SUPPLEMENTAL ANALYSIS OF THE GOVERNOR'S 2007-2009 BIENNIAL BUDGET 5 (Feb. 28, 2007), <http://www.cga.ct.gov/OFA/Documents/GovBud/AnalysisofGovBud2007.pdf>; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, SUPPLEMENTAL ANALYSIS OF THE GOVERNOR'S 2007-2009 MIDTERM BUDGET ADJUSTMENTS 8 (Feb. 26, 2008), http://www.cga.ct.gov/OFA/Documents/GovBud/Supplemental_Analysis_Feb_26_2008.pdf; CONN. GEN. ASSEMBLY, OFFICE OF FISCAL ANALYSIS, SUPPLEMENTAL ANALYSIS OF THE GOVERNOR'S 2009-2011 BIENNIAL BUDGET 8 (Mar. 20, 2009), <http://www.cga.ct.gov/OFA/Documents/GovBud/AnalysisofGovBud2009.pdf>.

⁶ The term "apparently" is used here because neither the Governor's press release, nor the associated document entitled "Budget Negotiations - Yes Options - Fund Totals" specify the deficit projections on which the Governor is currently relying. See Gov. M Jodi Rell, Press Release, Governor Rell Delivers Second 'No-Tax' Budget of Legislative Session, May 28, 2009, <http://www.ct.gov/governorrell/cwp/view.asp?A=3675&Q=440800>; Budget Negotiations -Yes Options-Fund Totals, May 28, 2009, http://www.ct.gov/governorrell/lib/governorrell/budgetnegotiationsreport_may28_02.16pm_rev.pdf. However, the Governor has not formally announced an adjustment in her deficit projection since April 20. Gov. M. Jodi Rell, Press Release, Governor Rell: Deficit Estimate Tops \$1 Billion for '09; New Estimates Put 2010-11 Shortfall at \$7.95 Billion, April 20, 2009, <http://www.ct.gov/governorrell/cwp/view.asp?A=3675&Q=438816>.