

Introduction

As the 2021 state legislative session swings into full gear, Connecticut faces several economic and fiscal challenges that make budget balancing difficult. From increasing fixed costs to revenue uncertainty and responding to the economic hardship felt by thousands due to the COVID-19 pandemic, each of these challenges have and will likely continue to impact Connecticut's budget and the ability of the State to provide the level of governmental services that residents expect.

Overcoming these fiscal challenges to produce a balanced budget that maintains service levels and fulfills policy objectives requires creative solutions. Examining the state's non-appropriated accounts for possible resource reallocation opportunities is one potential solution.

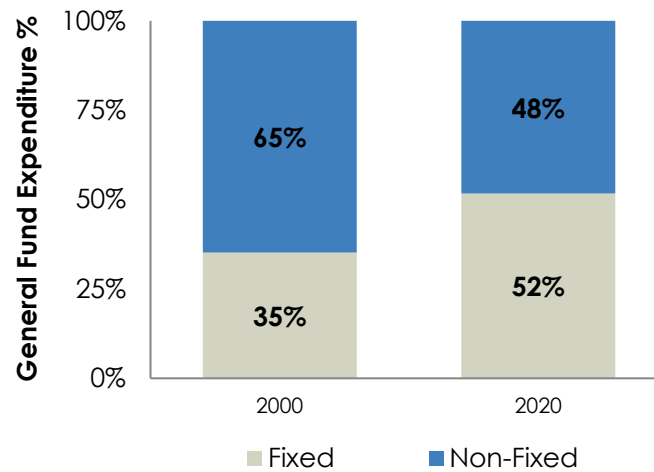
Examining the funds present in the State of Connecticut's approximately 1,400 non-appropriated accounts, which total over \$500 million combined, could help alleviate some of fiscal pressure on the state's General Fund.¹ Many of these accounts were created to provide continuous and stable funding to important items and programs, but incorporating these accounts into the budget development process could help the legislature address some of Connecticut's fiscal challenges. The purpose of this policy briefing is to provide insight on what non-appropriated accounts are, how these accounts fit into the state's budgeting process, and how including non-appropriated accounts in the budget development process can have the potential to help address Connecticut's fiscal challenges.

Connecticut's Current Fiscal Position

The State of Connecticut currently faces a number of significant issues that will require tough choices and creative solutions in governance. Prior to fiscal year 2019, Connecticut's General Fund ran a deficit for four straight fiscal years.² Additionally, Connecticut's budgeted revenues fell below actual revenues in six of the fiscal years between fiscal years 2010 and 2020.³ Revenue volatility and lower than expected revenues will likely continue to constrain discretionary expenditures from the General Fund in the near future.

Connecticut's increasing fixed costs will also constrain the amount of funding available in the General Fund to provide services through discretionary expenditures. The State's fixed costs have risen from 35.2 percent of General Fund expenditures in fiscal year 2000 to 51.7 percent of General Fund expenditures in fiscal year 2020, an increase of approximately 16.5 percentage points (see Figure 1 below).⁴ Additionally, fixed costs are projected to continue to increase over the next few fiscal years and beyond.⁵ As fixed costs increase, less money is available in the General Fund to pay for discretionary expenditures absent revenue adjustments including tax increases.

Figure 1: General Fund Fixed vs. Non-Fixed Costs Over Time



Like states across the country, the COVID-19 pandemic negatively impacted Connecticut's economy in 2020 and will likely continue to do so in the short term.⁶ In FY 2020, several General Fund revenue categories under-performed their budgeted targets, and this performance is largely attributed to the COVID-19 pandemic's impact on the state economy.⁷ These decreases in revenue are expected to further limit the amount of funds available for discretionary expenditures. Examples of some of the state's underperforming revenues compared to budgeted revenues can be found in Table 1 below.

Table 1: Examples of Revenue Underperformance (FY 2021)⁸

Revenue Category	Dollar Underperformance	Percent Underperformance
Personal Income Tax	\$551.1 million	5.5%
Sales and Use Tax	\$55.7 million	1.3%
Corporation Tax	\$122.5 million	11.4%

One potential solution for alleviating some of Connecticut's fiscal challenges is for the legislature to examine and potentially reallocate the money present in some of the State's numerous non-appropriated accounts. The purpose of this recommendation is not to bring specific attention to any particular account, but to call for a general examination, and increase in transparency, of the funds present in the State's non-appropriated accounts.

What are Non-Appropriated Accounts?

Non-appropriated accounts contain funds that are not appropriated by the state legislature during the budget process. They are funded by other revenue sources including — but not limited to — fees, premiums, and court settlements, and are used by state agencies to support specified expenditures. The fact that these accounts are not appropriated by the General Assembly means there is no discussion and annual approval of the expenditures made from the accounts during the state's budget process.

Non-appropriated accounts are created and funded through a variety of means, all of which leave them removed from the typical appropriations process. Non-appropriated accounts may be created by legislation, court order, charitable contributions/gifts, federal requirements, or other mechanisms.^{9,A} Funding for non-appropriated accounts can come from taxes levied on certain items or services; fees associated with permits, purchases, or services; court settlements; charitable donations or foundations; or federal funding.^{10,B}

Non-appropriated accounts are classified by the Office of the State Comptroller as either federal or other restricted accounts because they are required by statute, court order, or other mechanism to fund a specific item.¹¹ Intentionally shielding certain accounts from the typical appropriations process can guarantee funding for certain operations and activities that serve important functions to the state. However, these accounts need to be at least periodically examined to ensure the use of funds is still a priority of the state and the General Assembly.

Table 2 below contains examples of non-appropriated accounts with details about how they were created, how they are funded, and the function they serve. The purpose of this section is not to bring specific attention to the accounts presented, but rather to demonstrate how non-appropriated accounts function and the exclusion of these accounts from the current state budget process.

Table 2: Select Examples of Non-Appropriated Accounts

Account Name	Account Type	2019 Account Balance	Description
Building Permit Application-Education Fees	Other Grant: Created by legislation in 1999 ¹²	\$4,611,419.78	<ul style="list-style-type: none"> This account is overseen by the Department of Administrative Services. The account serves as the operating fund for the Office of Education and Data Management (OEDM), which performs the

^A This may not be an exhaustive list, and there may be other mechanisms by which non-appropriated accounts are created.

^B This may not be an exhaustive list, and there may be other funding sources for non-appropriated accounts.

Account Name	Account Type	2019 Account Balance	Description
			<p>credentialing responsibilities of training, testing, and records maintenance for the Office of the State Building Inspector and the Office of the State Fire Marshall.¹³</p> <ul style="list-style-type: none"> The Building Permit Application-Education Fees account is funded by a fee assessed on each municipal building permit, which are sent to the OEDM on a quarterly basis.¹⁴
Consumer Protection Cases	Other Grant: Created by a 1990 court order from U.S. District Court for the Eastern District of Missouri ¹⁵	\$4,693,147.82	<ul style="list-style-type: none"> This account is overseen by Connecticut's Office of the Attorney General (OAG). The terms of the court order stated that the monies received from Chrysler Corp. were to be used in programs relating to consumer education, consumer complaint resolution, and consumer protection funds.¹⁶ According to the OAG, the funds in this account are replenished by monies received from large consumer settlements and the money is spent to support consumer related issues.¹⁷
Commercial Driver License State Program	Federal Grant: Created through the annual federal	\$5,778,290.10	<ul style="list-style-type: none"> According to the Connecticut Department of Motor Vehicles (DMV), expenditures from this account are used to support mandated programs administered by

Account Name	Account Type	2019 Account Balance	Description
	budget process ¹⁸		the DMV on behalf of the Federal Motor Carrier Safety Administration. ¹⁹
CT-N ^c	Other Grant: Created by legislation in 2003 ²⁰	\$1,172,503.19	<ul style="list-style-type: none"> • This account is overseen by the General Assembly's Office of Legislative Management. • Expenditures from this account offset costs and expenses related to television production equipment, hardware/software, fiber access, data storage, and the contractual obligation to the Connecticut Public Affairs Network for providing management and administrative oversight of CT-N.²¹ • The revenue supporting this account is received by the State from a tax imposed on public service companies providing community antenna television service in the state.²²
NASDDDS (National Association of State Directors of Developmental Disabilities Services)	Other Grant: Created by legislation in 2013 ²³	\$1,974.50	<ul style="list-style-type: none"> • This account is overseen by the Department of Developmental Services (DDS) and contains donated funds from an agreement between DDS and the National Association of State Directors of Developmental Disabilities Services.²⁴

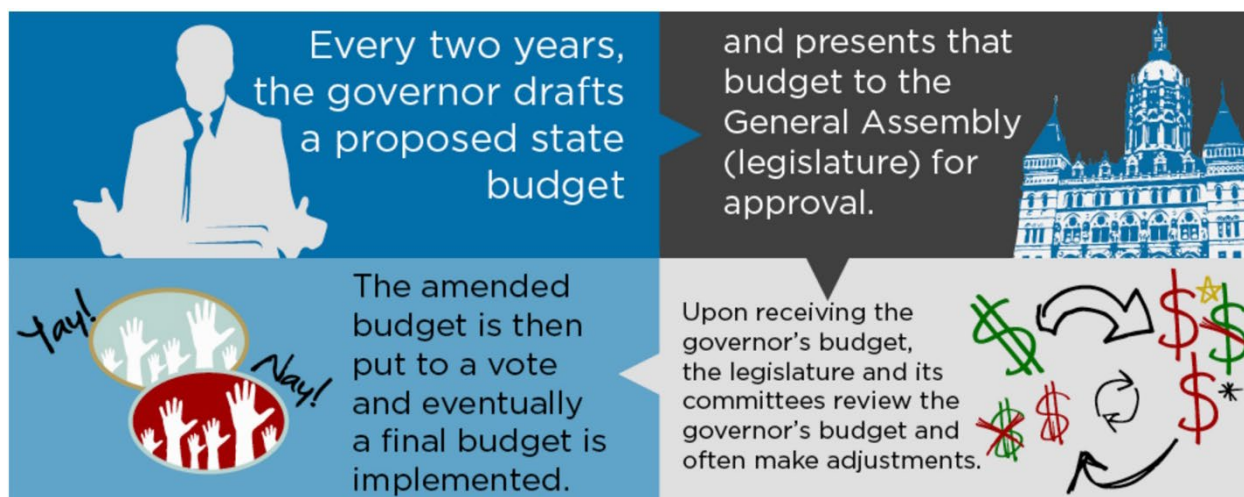
^c CT-N stands for the Connecticut Network. CT-N uses noncommercial television coverage and other platforms to provide the public with an understanding of the political process and the development of public policy.

Source: Connecticut Network. (n.d.). Our Mission. Retrieved from https://ct-n.com/about_mission.asp

Overview of Connecticut's Budget Process

In Connecticut's budget process, state agencies send budget requests to the Office of Policy and Management (OPM) prior to the start of the legislative session.²⁵ The OPM then considers agency needs and statewide budget constraints before creating a complete budget proposal and sending this proposal to the governor.²⁶ The governor then adjusts the budget for policy priorities before introducing it to the legislature, where it is reviewed by the Appropriations Committee and Finance, Revenue and Bonding Committee, where various subcommittees work to produce a state budget that is then passed by the legislature.²⁷

Figure 2: General Overview of Connecticut's Budget Process²⁸



However, the appropriations discussed during the budget process do not include the funds residing in non-appropriated accounts because those funds are not appropriated by the legislature.²⁹ This means the funds supporting a non-appropriated account are pre-allocated and separate from most revenue that is available for discretionary expenditures in the General Fund. Many of the funds that are present in the State's non-appropriated accounts are available for reallocation, but doing so would require specific action by the legislature that is not present during the typical budget process.

Conclusion

The General Assembly should consider examining Connecticut's non-appropriated accounts during the state budget process, which could help address Connecticut's fiscal challenges and the pressure they place on discretionary expenditures and policy priorities. The intention of this recommendation is not to call attention to any specific account, because many non-appropriated accounts guarantee consistent funding for important government functions and programs.

Rather, in the approximately 1,400 non-appropriated accounts containing a combined more than \$500 million dollars, there exists an opportunity for the legislature to redirect financial resources toward new policy priorities to deliver the quality of government Connecticut residents expect. In addition to potentially finding additional resources for the State, requiring state agencies to report on these accounts will increase transparency and provide the General Assembly with a clearer picture of the State's financial resources.

Endnotes

- ¹ Non-appropriated accounts data and information provided by Connecticut's Office of the State Comptroller.
- ² Lembo, K. (2019). *Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report, For the Fiscal Year Ended June 30, 2019*. Hartford, CT: State of Connecticut, Office of the State Comptroller. Retrieved from <https://www.osc.ct.gov/reports/annual/2019/Annual2019.pdf>.
- ³ Ibid.
- ⁴ Ibid.
- ⁵ Connecticut General Assembly, Office of Fiscal Analysis. (2020). *Fiscal Accountability Report, FY 21 – FY 24*. Hartford, CT: Author. Retrieved from https://www.cga.ct.gov/ofa/Documents/year/FF/2021FF-20201120_Fiscal%20Accountability%20Report%20FY%2021%20-%20FY%2024.pdf.
- ⁶ Lembo, K. (2020). *Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report, For the Fiscal Year Ended June 30, 2020*. Hartford, CT: State of Connecticut, Office of the State Comptroller. Retrieved from <https://www.osc.ct.gov/reports/annual/2020/Annual%202020.pdf>.
- ⁷ Ibid.
- ⁸ McCaw, M., & Ayers, N. (2021). *Consensus Revenue - January 15, 2021*. Hartford, CT: State of Connecticut, Office of Policy and Management. Retrieved from https://portal.ct.gov/-/media/OPM/Bud-Other-Projects/Reports/Consensus_Revenue/FINAL_CONSENSUS_JAN15_2021.pdf.
- ⁹ Non-appropriated accounts data and information provided by Connecticut's Office of the State Comptroller.
- ¹⁰ Ibid.
- ¹¹ Non-appropriated account SIDs provided by Connecticut's Office of the State Comptroller.
- ¹² Conn. Gen. Statutes ch. 541, §§ 29-252a, 29-263.
- ¹³ State of Connecticut, Department of Administrative Services. (n.d.). Office of Education and Data Management. Retrieved from <https://portal.ct.gov/DAS/OEDM/Office-of-Education-and-Data-Management-OEDM>.
- ¹⁴ Conn. Gen. Statutes ch. 541, §§ 29-252a, 29-263.
- ¹⁵ Non-appropriated account SIDs and details managed by the Connecticut Attorney General provided by Connecticut's Office of the State Comptroller.
- ¹⁶ Ibid.
- ¹⁷ Ibid.
- ¹⁸ Non-appropriated account SIDs and details managed by the Connecticut Department of Motor Vehicles provided by Connecticut's Office of the State Comptroller.
- ¹⁹ Ibid.
- ²⁰ Non-appropriated account SIDs and details managed by the Connecticut General Assembly's Office of Legislative Management provided by Connecticut's Office of the State Comptroller.
- ²¹ Ibid.
- ²² Conn. Gen. Statutes ch. 211, § 12-256.
- ²³ Non-appropriated account SIDs and details managed by the Connecticut Department of Developmental Services provided by Connecticut's Office of the State Comptroller.
- ²⁴ Conn. Gen. Statutes ch. 319, § 17a-214.
- ²⁵ Connecticut General Assembly, Office of Fiscal Analysis. (2019). *State of Connecticut Budgeting* [PowerPoint slides]. Hartford, CT: Author. Retrieved from https://www.cga.ct.gov/ofa/Documents/year/PRES/2019PRES-20190206_State%20of%20Connecticut%20Budget%20Process%20Presentation.pdf.
- ²⁶ Ibid.
- ²⁷ Ibid.
- ²⁸ State of Connecticut, Office of the State Comptroller. (n.d.). State Budget. *OpenConnecticut*. Retrieved from <http://www.osc.ct.gov/openCT/statebudget.html>.
- ²⁹ Conn. Gen. Statutes ch. 47, §§ 4-31a, 4-31c.