OFFICE OF LEGISLATIVE RESEARCH
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ResearchReport

OLR Backgrounder: Connecticut's Fiscal Guardrails

By: Rute Pinho, Chief Legislative Analyst
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Issue

What are the state's fiscal guardrails?

Summary

Connecticut has several laws commonly referred to as "fiscal guardrails" because they are designed to guard against economic downturns and fiscal emergencies. These policies are generally intended to do so by keeping the state budget in balance, building up reserves, and paying down debt. They include the following fiscal controls on state spending, borrowing, and saving:

- **Spending Cap:** limits the annual growth in state spending by restricting the legislature's authority to make appropriations.
- **Revenue Cap:** limits the percentage of estimated revenues that may be used to balance the budget at 98.75%, effectively creating a buffer to cover deficiencies or economic downturns within the year.
- **Volatility Cap:** diverts a portion of specified, historically volatile tax revenue to the Budget Reserve Fund (BRF), effectively limiting the amount of this revenue that the legislature may use to balance the budget and directing any upswings to the BRF.
- **BRF:** provides funds in the event of a budget deficit. Generally, it may hold up to 18% of net General Fund appropriations for the current fiscal year.

- **Bond Caps:** impose (1) an overall limit on the amount of General Fund-supported debt the legislature may authorize and (2) fiscal year caps on bond allocations by the State Bond Commission, bond spending by the governor, and bond issuances by the state treasurer.

- **Bond Lock:** effectively promises state bondholders that the state will adhere to the fiscal guardrails except under limited circumstances. The bond lock applies until FY 33 unless the legislature affirmatively decides not to continue it beyond FY 28.

This report provides a detailed discussion of each of these laws as well as a brief summary of them in Attachment 1.

Spending Cap

The spending cap is established in the state constitution and statutes (Conn. Const., art. III, § 18(b) & CGS § 2-33a). It limits the annual growth in state spending by generally barring the legislature from authorizing an increase in "general budget expenditures" for any fiscal year that exceeds the greater of the (1) five-year compound growth in personal income or (2) 12-month increase in inflation. The legislature may only exceed the cap if (1) the governor declares an emergency or extraordinary circumstance and (2) at least three-fifths of each house of the legislature approves the extra expenditure.

General Budget Expenditures

The spending cap applies to the state's "general budget expenditures," which are the expenditures from the state's appropriated funds, with certain exclusions. By law, general budget expenditures exclude the following:

- payment of principal and interest on bonds, notes, or other evidences of indebtedness;

- transfers to and from the Budget Reserve Fund and, once the fund reaches the maximum, to fund the State Employees Retirement Fund's or Teachers' Retirement System's (TRS) unfunded liability and other outstanding state debt;

- expenditures of federal funds granted to the state or state agencies;

- payments to implement federal mandates or court orders for the first fiscal year in which the spending is authorized; and

- expenditures for federal programs in which the state begins participating after October 31, 2017, and for which the state receives federal matching funds, for the first fiscal year in which the spending is authorized.

For FYs 18 through 26, general budget expenditures also exclude payments made for the portion of the actuarially determined employer contribution (ADEC) representing the unfunded liability for that fiscal year for TRS. (For FYs 18 through 22, they also excluded payments made for the portion of the ADEC representing the unfunded liability for that fiscal year for any retirement system or alternative retirement program administered by the State Employees Retirement Commission, other than TRS.)

Allowable Growth Rate

In the absence of emergency or extraordinary circumstances, the spending cap restricts the annual growth in general budget expenditures by the greater of the percentage increase in personal income or inflation.

The "increase in personal income" is the state's compound annual growth rate in personal income over the preceding five calendar years, based on U.S. Bureau of Economic Analysis data. The "increase in inflation" is the increase in the consumer price index for all urban consumers during the preceding calendar year (all items, except food and energy), calculated on a December over December basis using U.S. Bureau of Labor Statistics data (CGS § 2-33a(b)(1) & (2)).

Table 1: Spending Cap Growth Rates and Limiting Factors, FYs 17-27

FY	Allowable Spending Growth (%)	Limiting Factor
17	3.3	Personal income
18	2.2	Inflation
19	1.8	Inflation
20	3.1	Personal income
21	2.8	Personal income
22	3.1	Personal income
23	5.5	Inflation
24	5.7	Inflation
25	4.0	Personal income
26	5.1	Personal income
27	5.9 (projected)	Personal income

Sources: Office of Policy and Management (OPM), *Fiscal Accountability Report Fiscal Years 2026-2030* and Office of Fiscal Analysis, *Connecticut State Budget FY 26 – FY 27*, Appendix D

Table 1 above shows the allowable growth rates for FYs 17 to 27 and indicates, for each year, whether the limiting factor was personal income or inflation.

Base Adjustment

The spending cap base for a given fiscal year is generally calculated by taking the prior year's appropriated funds and subtracting the total "non-capped" spending. The base is then multiplied by the allowable growth rate (personal income or inflation), resulting in the total dollar amount by which capped spending may grow in the fiscal year.

However, if any spending is shifted from one fiscal year to the next from an off-budget expenditure to a budgeted expenditure, or vice versa, the base must be adjusted accordingly. Specifically, the law requires a base adjustment in any fiscal year in which an expenditure's funding source is converted from (1) an appropriation to state bonding, a revenue intercept, or a non-appropriated source; or (2) any of these three funding sources to an appropriation (CGS § 2-33a(c)).

Revenue Cap

The revenue cap works by limiting the amount of projected revenue that can be used to build the state budget (CGS § 2-33c). It applies to both the General Fund and Special Transportation Fund (STF) and effectively requires that the legislature build a small buffer into these funds that could be used to cover deficiencies at the end of the fiscal year or, if there are none, be directed to the Budget Reserve Fund.

Table 2: Revenue Cap

FY	Cap %
20	99.50
21	99.25
22	99.00
23+	98.75

Source: CGS § 2-33c

The cap is set at 98.75%, meaning that the legislature generally may not authorize General Fund or STF appropriations for any fiscal year that exceed 98.75% of the respective fund's estimated revenues that are included in the budget act. The cap's percentage has decreased in steps since it was first imposed in FY 20, as shown in Table 2 (left).

By law, the legislature may authorize appropriations that exceed the revenue cap under two provisions. The first applies only if the (1) governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house vote to exceed the cap for such purposes and (2) appropriation is for the fiscal year in progress only (CGS § 2-33c(b)(1)). The second applies if the legislature approves the appropriation, by majority vote, for an adjusted appropriation and revenue plan (CGS § 2-33c(b)(2)).

Volatility Cap

The volatility cap is a mechanism for diverting a portion of specified tax revenue that exceeds a threshold amount to the BRF (CGS § 4-30a(a), as amended by PA 25-168, § 386). It is tied to two historically volatile state revenue sources: estimated and final income tax payment revenue and pass-through entity (PE) tax revenue. Estimated and final income tax payments are the most volatile component of personal income tax collections. They generally come from investments, such as capital gains realized in the stock market, and thus fluctuate with economic booms and busts. The PE tax is an entity-level income tax on most pass-through businesses (e.g., limited liability companies) and is similarly volatile due to these fluctuations.

The volatility cap functions as a limit on the amount of this revenue that the legislature may use to balance the budget. It does so by requiring the state treasurer to transfer to the BRF revenue the state receives from these volatile sources each fiscal year in excess of the volatility cap threshold. As Table 3 (right) shows, the volatility threshold was originally set at $3.15 billion for FY 18. For FYs 19-25, the law required that the threshold be annually adjusted for the five-year average growth in personal income. As part of the FY 26-27 budget act, the legislature reset the threshold for FY 25 at roughly $4.08 billion ($150 million more than the prior adjusted amount of $3.93 billion) and for FY 26 at roughly $4.73 billion ($600 million more than the prior adjusted amount of $4.13 billion).

For FY 27 and after, the law requires the $4.73 billion threshold to be annually adjusted for inflation as under prior law (i.e. based on the compound annual growth rate of state personal income over the preceding five calendar years, using U.S. Bureau of Economic Analysis data).

By law, the legislature may amend the threshold amount, by a vote of three-fifths of the members of each house, due to changes in state or federal tax law or policy or significant adjustments to economic growth or tax collections (CGS § 4-30a(a)(2), as amended by PA 25-168, § 386).

Table 3: Volatility Threshold

FY	Amount (in billions)
18	$3.15
19	3.20
20	3.30
21	3.40
22	3.51
23	3.63
24	3.78
25	4.08
26	4.73

Source: OPM, *Fiscal Accountability Report Fiscal Years 2026-2030*; CGS § 4-30a(a), as amended by PA 25-168, § 386

BRF

Required Transfers and Maximum Balance

The BRF is Connecticut's "rainy day fund." State law establishes the BRF and sets its maximum balance at 18% of net general fund appropriations for the current fiscal year. (The BRF's maximum balance was previously 15% but increased to 18% under a 2023 law (PA 23-1, § 15).)

By law, the BRF receives two sources of funds:

1. unappropriated General Fund surplus remaining after the accounts have closed at the end of each fiscal year and
2. revenue the state realizes in excess of the volatility cap threshold, as described above (CGS § 4-30a, as amended by PA 25-168, § 386).

Surpluses in Excess of the BRF's Maximum

Once the BRF reaches the 18% maximum, transfers to the BRF end and any remaining surplus is automatically appropriated for reducing the State Employee Retirement System's (SERS) or TRS's unfunded liability by up to 5%, as the state treasurer determines to be in the state's best interests (except as described below for FY 26). In addition, when the BRF's balance is at least 15% but less than the 18% maximum, half of any surplus must also be automatically appropriated to SERS and TRS in this way. The other half must be transferred to the BRF, up to the 18% maximum.

Any amount remaining after the maximum appropriation to SERS and TRS may be used to make additional payments to either retirement system, as the treasurer determines to be in the state's best interests, or to pay off other specified forms of outstanding state debt (CGS § 4-30a(c) & (d)).

Transfer of Estimated Surplus to the Early Childhood Education Endowment

A 2025 law created the Early Childhood Education Endowment, a state endowment to help fund early childhood education, and requires the state treasurer to capitalize the endowment with up to $300 million of the projected budget surplus for FY 25. The state treasurer transferred $300 million to the fund on June 30, 2025.

Starting in FY 26, the law generally requires the state treasurer to transfer to the endowment the entire amount of the estimated budget surplus for each fiscal year, unless the BRF is estimated to be below its maximum threshold. If so, the endowment transfer must be reduced by the lesser of the (1) amount needed to reach the BRF maximum or (2) maximum amount of the projected surplus. An amount equal to this reduction must then be transferred to the BRF.

The law also requires the endowment transfer to be reduced in the event that the comptroller determines that there is a deficit for that fiscal year. Specifically, the amount necessary to fund the deficit must be deducted from the amount transferred and then credited to the General Fund effective June 30 of the respective fiscal year. If the deficit exceeds the amount transferred, no additional funds from the endowment may be used to cover the deficit (PA 25-93, §§ 1 & 2).

Allowable Uses of the BRF

The law specifies three allowable uses of the BRF: (1) to close a certified deficit for the preceding fiscal year, (2) to fund a projected revenue shortfall for a current or future fiscal year, and (3) to make additional payments towards unfunded pension liabilities.

Certified Deficits. By law, BRF funds are automatically appropriated in any fiscal year in which the comptroller has certified a deficit for the immediately preceding fiscal year (CGS § 4-30a(f)(1)). The comptroller announces preliminary deficit (or surplus) estimates in late September after the close of the fiscal year and releases final audited figures at the end of December (CGS § 3-115(b)).

Projected Deficits. The legislature may also transfer funds from the BRF to the General Fund when a deficit is projected. By law, if any consensus revenue estimate for the current biennium projects a decline in General Fund revenue for the current biennium of at least 1% from the total amount of General Fund estimated revenue on which the budget act (or any adjusted appropriation and revenue plan) was based, the legislature may transfer funds from the BRF to the General Fund at any time during the remainder of the current biennium. In addition, if any April 30 consensus revenue estimate projects a decline in General Fund revenue in either year or both years of the subsequent biennium of at least 1% from the total General Fund appropriations for the current year, the legislature may transfer funds from the BRF to the General Fund in the fiscal year for which the deficit is projected (CGS § 4-30a(f)(2) & (3)).

Unfunded Pension Liability Payments. The law also gives the legislature statutory authority to transfer funds from the BRF to pay unfunded pension liabilities when the fund's balance equals 5% or more of net General Fund appropriations for the current fiscal year. It authorizes the legislature to transfer funds above the 5% threshold amount to either SERS or TRS, as it determines to be in the state's best interests, in consultation with the treasurer. Any amounts transferred to either retirement system must be in addition to statutorily required contributions or payments (CGS § 4-30a(e)).

Exception for FY 26

A recently enacted law requires a portion of the surplus that was automatically appropriated for paying down unfunded pension liabilities to be transferred to the BRF for FY 26, in excess of the fund's 18% cap, and appropriates the same amount from the BRF to OPM for certain programs and services (SA 25-1, November Special Session).

Specifically, the act requires the state treasurer to transfer $500 million to the BRF for FY 26, in excess of the fund's 18% cap, from funds that were automatically appropriated for paying down debt but had not been spent for these purposes as of November 18, 2025. Under the act, the state treasurer must make this transfer once the BRF's balance is at the 18% cap and, once he does so, no further transfers to the BRF may be made to the BRF until the fund's balance is below the cap.

The act appropriates this same amount from the BRF to OPM for responding to and mitigating funding reductions for specified programs and services in Connecticut resulting from any action or inaction by the federal government, subject to legislative notice and approval requirements. It requires any (1) unspent portion of this appropriation to lapse on February 4, 2026, and be returned to the BRF and (2) amount in the BRF on June 30, 2026, that exceeds the fund's 18% cap for FY 27 to be used for unfunded pension liabilities. The full OLR analysis of these provisions is available here.

Bond Caps

Debt Limit

The debt limit generally prohibits the legislature from authorizing General Fund-supported debt that exceeds 1.6 times the estimated net General Fund tax receipts for the fiscal year of the authorization. It is a cumulative cap that the treasurer calculates twice a year based on the revenue estimates for the General Fund adopted by the Finance, Revenue and Bonding Committee and included in the state budget act. Before the legislature may pass any bond authorization bill, the state treasurer must certify that the authorization will not cause the state to exceed the debt limit. A similar certification is required before the State Bond Commission can authorize issuing any new general obligation (GO) bonds (CGS § 3-21).

The debt limit calculation excludes certain kinds of debt, including debt (1) issued to finance state budget deficits and (2) authorized and issued under an emergency or extraordinary circumstances declaration issued by the governor if at least three-fifths of the members of each legislative chamber vote to authorize the debt (CGS § 3-21(a)). It also excludes certain debt specifically excluded by statute, such as TRS pension obligation bonds (CGS § 10-183qq(g)).

The debt limit law does not apply to the issuance of any debt used to meet cash flow needs, cover emergency needs during natural disasters, or fund state budget deficits for any fiscal year (CGS § 3-21(g)).

Cap on Bond Allocations, Allotments, and Issuances

In addition to the debt limit, state law also caps the amount of bonds that may be allocated, spent (allotted), and issued in any given fiscal year. These three caps are tied to a threshold amount that is annually adjusted for inflation. The cap was set at $2.4 billion for FY 24 and is annually adjusted for inflation (based on the change in the Bureau of Labor Statistics' consumer price index for all urban consumers for the preceding calendar year, less food and energy). The cap is $2.6 billion for FY 26 (State Bond Commission, *August 1, 2025, Agenda*).

Specifically, the law caps at this threshold the amount of GO or credit revenue bonds for each fiscal year that the (1) State Bond Commission may allocate (CGS § 3-20(d)(2)(B)), (2) governor may approve in bond allotment requisitions (CGS § 3-21(f)(3)), and (3) state treasurer may issue (CGS § 3-21(f)(1)(B)). Certain debt is excluded from the allotment and issuance cap: (1) bonds issued as part of the Connecticut State University 2020 or UConn 2000 infrastructure programs; (2) refunding bonds; (3) certain revenue anticipation bonds; and (4) any debt issued to meet cash flow needs, cover emergency needs during natural disasters, or fund state budget deficits for any fiscal year (CGS § 3-21(f)(2)).

Bond Lock

The "bond lock" is a state law that effectively promises certain state bondholders that the state will adhere to the fiscal guardrails described above. In 2023, the legislature enacted a bond lock requirement for bonds issued in FYs 24 and 25 (PA 23-1, § 14; codified as CGS § 3-20(bb)). (A similar requirement enacted in 2017 previously applied to bonds issued from May 15, 2018, to June 30, 2020. It applied for five years from the bonds' first issuance date and so is no longer in effect (CGS § 3-20(aa)).)

Specifically, the bond lock required the state treasurer to include a pledge to bondholders in GO and credit revenue bonds issued during FYs 24 and 25 that the state will comply with the following laws, except under limited circumstances, during each fiscal year to which the pledge applies:

1. BRF law, including the volatility cap;
2. state spending cap;
3. revenue cap; and
4. debt limit and caps on bond allocations, issuances, and allotments, including specified procedural requirements under the GO bond act.

Declaration of the Existence of Extraordinary Circumstances for FY 26

On November 12, 2025, the Governor declared the existence of extraordinary circumstances to allow the state to (1) alter the BRF law to temporarily increase the fund by $500 million in excess of the 18% cap and (2) spend these funds, in excess of the state spending cap, to address the funding reductions noted above. The declaration was submitted to the General Assembly in accordance with the state spending cap and bond lock laws.

The pledge to bondholders is that the state will not enact any laws taking effect in FYs 24-28 and FYs 29-33, except as described below, that change the state's obligation to comply with the laws listed above during the years to which the pledge applies, unless the following conditions are met:

1. bondholders are protected in another way or
2. (a) the governor declares an emergency or the existence of extraordinary circumstances in which he invokes his statutory authority to reduce appropriated accounts (CGS § 4-85), (b) at least three-fifths of the members of each house of the General Assembly approve the change, and (c) the change is limited to the fiscal year in progress.

This pledge applies through FY 33 unless the General Assembly adopts, between January 1 and June 30, 2028, a resolution not to continue it beyond FY 28. It does not apply to refunding bonds issued to pay the original bonds.

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Attachment 1: Overview of Connecticut's Fiscal Guardrails

Fiscal Guardrail	Description
Spending Cap Conn. Const., art. III, § 18(b) and CGS § 2-33a	Prohibits the legislature from authorizing an increase in "general budget expenditures" for any fiscal year that exceeds the greater of the percentage increase in (1) personal income over the preceding five calendar years or (2) inflation over the previous calendar year, unless the governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house approve the extra expenditure for those purposes "General budget expenditures" excludes certain specified expenditures, as described above
Revenue Cap CGS § 2-33c	Prohibits the legislature from authorizing General Fund and Special Transportation Fund appropriations in any fiscal year that exceed 98.75% of the estimated revenues included in the budget act unless the (1) governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house vote to exceed the percentage for such purposes and (2) appropriation is for the fiscal year in progress only; the General Assembly may also approve the appropriation, by majority vote, for an adjusted appropriation and revenue plan
Volatility Cap CGS § 4-30a(a), as amended by PA 25-168, § 386	Requires the state treasurer to transfer to the budget reserve fund (BRF) any revenue the state receives each fiscal year in excess of the volatility threshold from personal income tax estimated and final payments and the pass-through entity tax For FY 25, the threshold is $4.08 billion and for FY 26 it is $4.73 billion; for FY 27 and after, the law requires the threshold to be annually adjusted for inflation based on the compound annual growth rate of state personal income over the preceding five calendar years, using U.S. Bureau of Economic Analysis data Threshold amount may be amended, by a vote of three-fifths of the members of each house, due to changes in state or federal tax law or policy or significant adjustments to economic growth or tax collections
Budget Reserve Fund CGS § 4-30a(a), as amended by PA 25-168, § 386; SA 25-1, NSS	Also known as the "rainy day" fund, the BRF may only be used to (1) close a certified deficit for the preceding fiscal year, (2) fund a projected revenue shortfall for a current or future fiscal year, and (3) make additional payments for unfunded pension liabilities Receives (1) unappropriated General Fund surplus remaining after the accounts have closed at the end of each fiscal year and (2) revenue the state realizes in excess of the volatility threshold Generally, the BRF's balance cannot exceed 18% of net general fund appropriations for the current fiscal year; once it reaches the 18% maximum, surplus is automatically appropriated to reduce unfunded pension liabilities by up to 5% and then for additional payments towards these and other forms of state debt; when the BRF's balance is at least 15% but less than 18% of the maximum, half of any surplus is automatically appropriated in this way and the other half is transferred to the BRF, up to the 18% cap; exception for FY 26 allows the BRF to temporarily exceed this cap
Debt Limit CGS § 3-21(a)	Prohibits the legislature from authorizing General Fund-supported debt that exceeds 1.6 times the estimated net General Fund tax receipts for the fiscal year of the authorization, excluding certain kinds of debt (e.g., any debt authorized and issued to fund any state budget deficits for any fiscal year); cap is cumulative and is calculated twice a year based on these tax receipts

Attachment 1 (continued)

Fiscal Guardrail	Description
Bond Allocation Cap CGS § 3-20(d)(2)	Caps at an inflation-adjusted amount ($2.6 billion for FY 26) the amount of general obligation (GO) or credit revenue bonds the Bond Commission may allocate in each fiscal year
Bond Issuance Cap CGS § 3-21(f)(1)	Caps at an inflation-adjusted amount ($2.6 billion for FY 26) the amount of GO or credit revenue bonds the state treasurer may issue each fiscal year, except for (1) bonds issued as part of the Connecticut State University 2020 or UConn 2000 infrastructure programs; (2) refunding bonds; (3) certain revenue anticipation bonds; and (4) any debt issued to meet cash flow needs, cover emergency needs during natural disasters, or fund state budget deficits for any fiscal year
Bond Allotment Cap CGS § 3-21(f)(3)	Caps at an inflation-adjusted amount ($2.6 billion for FY 26) the amount of GO and credit revenue bond allotment requisitions the governor may approve each fiscal year, with the same exclusions as the issuance cap
Bond Lock CGS § 3-20(bb)	For each fiscal year during which state GO or credit revenue bonds issued during FYs 24 and 25 are outstanding, the state must comply with the (1) BRF law, including the volatility cap; (2) revenue cap; (3) state spending cap; (4) caps on GO and credit revenue bond authorizations (i.e., debt limit), allocations, issuances, and allotments; and (5) specified procedural requirements under the GO bond act For bonds issued during FYs 24 and 25, the treasurer had to include a pledge to bondholders that the state will not enact any laws taking effect in FYs 24-28 and FYs 29-33, except as described below, that change the state's obligation to comply with the laws listed above unless (1) bondholders are protected in another way or (2) the governor declares an emergency or the existence of extraordinary circumstances, at least three-fifths of the members of each house approve the change, and the change is limited to the fiscal year in progress; for the second five-year period described above (i.e. FYs 29-33), the pledge applies to laws taking effect during this timeframe unless the General Assembly adopts by June 30, 2028, a resolution not to continue the pledge beyond that date; the pledge does not apply to refunding bonds issued to pay the original bonds A similar pledge applied to bonds issued from May 15, 2018, to June 30, 2020