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CONNECTICUT
VOICES
FOR CHILDREN

Testimony Regarding Governor's November 24, 2009 Deficit Mitigation Plan
Jamey Bell, Executive Director
Appropriations Committee
December 9, 2009

Greetings, Senator Harp, Representative Geragosian and Distinguished Members of the Appropriations Committee. I am testifying today on behalf of Connecticut Voices for Children, a research-based policy advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families.

1. The Governor's 11/24/09 Deficit Mitigation Plan disproportionately targets vulnerable children: $121.84 million of the $337.1 million plan reflects cuts to education, health, child care and other services children need

The Governor's current deficit mitigation plan proposes $73.96 M in cuts to children's services[1], and an additional $47.88 M in cuts to municipalities' K-12 education funding[2]. The total is **$121.84 M** in cuts that directly affect children—who are not only the most vulnerable among us but also our future workforce and taxpayers.

All of the cuts impact children's development in some way, but some of the most significant cuts also directly affect families' abilities to seek or retain employment. A total of over $15 M ($10.7 for Care4Kids and $4.5 for State Funded Child Development Centers) is cut from child care programs needed by low-income working families.

Another large cut-- $4.5 million-- targets School Based Health Centers, which serve children with limited or inadequate access to outside medical care. The $910,000 cut to state funding for the HUSKY B program is even more egregious than first appears: in order to cut $910,000, Connecticut must cut $2.6 M from the program and forego almost $1.7 M in federal funds. Experience has shown that imposing or increasing premiums on these families leads to children losing their coverage when their families cannot afford to pay the premiums.

Education takes a very significant hit in this package. The original budget for the state grant-funded After School Program was $5,000,000. The Governor has proposed cutting funding by $4,920,000 – to $80,000.

But by far the largest hit to children arises from the Governor's proposed **reduced municipality funding.** The Governor has proposed cutting aid to municipalities by $84 million, or 3%. Data from 2004-2005 indicates that 57% of municipal budgets are spent on K-12 education. If

[1] Totals of cuts impacting children in SDE, DHE, DSS, DOL, DPH, DOC, and DDS budgets, plus miscellaneous other cuts to agencies or programs to benefit children. See spreadsheet attached as Appendix A.
[2] 3% cut in municipal aid equals $84 M. 57% of municipal aid in 2005 was spent on K-12 education. 57% of $84 M equals $47.88 M.

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municipalities cut 57% of total proposed losses from education, K-12 schools might lose $47.88 million in funding.

2. **Connecticut needs a more balanced approach to resolving the budget deficit, including raising revenues and extending budget cuts and reviews to tax expenditures (the "hidden budget")**

During a recession, vulnerable children and families need support from state-sponsored programs and services more than ever. Further, cutting state services undermines economic recovery by reducing jobs, child care for working families, and health programs and other supports that are necessary for the state's short- and long-term growth. Instead of further endangering our present communities and our future, a better choice is to strategically raise the revenues necessary to support the kind of state that nurtures and supports its children, and makes the prosperity of *everyone* a shared commitment.

Before harmful cuts to children's services are imposed, options to increase revenue that should be explored include:

Delay or Cancel Reductions in Gift & Estate Tax

Confronted by budget cuts that will harm the state's children and families, Connecticut cannot afford a tax reduction for the state's wealthiest individuals. The Office of Fiscal Analysis projects that **over $75 million**[3] will be lost from the Connecticut budget in FY10 – FY11 due to scheduled changes in the unified gift and estate tax.

Evaluate and Reduce Tax Expenditures

Connecticut's state tax code contains billions of dollars of credits, deductions, and exemptions that favor some business and individual activities over others and diminish state revenue. Yet there is no on-going evaluation of whether these tax expenditures are effective or are an efficient use of resources. In a fiscal climate where services essential to the health and well-being of children and families are being threatened, a full evaluation of Connecticut's business credits should be conducted to determine the cost effectiveness of each expenditure.

Make the State Income Tax More Progressive

In 2008, Connecticut had the second highest median family income ($85,300) and the second highest degree of income inequality of any state in the U.S. Last year's marginal rate increase on families earning over $1 million fell short of what was necessary to close the gap, and leaves Connecticut with an income tax that is lower and less progressive than several nearby states. Even after Connecticut's recent, modest income tax increase for high-income households, Connecticut's state and local tax system remains highly regressive. After federal tax deductions, Connecticut's wealthiest families pay less than half the proportion of their income in state and local taxes (4.5%) than middle-income families (9.9%) and low-income families (12.0%).[4] By expanding the progressive income tax, Connecticut could potentially close the projected FY10 deficit entirely, raising between **$200 and $600 million**.

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[3] Since the estate tax affects only a handful of the state wealthiest residents, the amount of tax collected can vary widely from year to year.

[4] Institute on Taxation and Economic Policy. "Who Pays? A Distributional Analysis of the Tax System in All 50 States." November 2009.

Additional revenue could also be raised by creating new tax brackets between the 5% rate paid by individuals who earn less than $500K and the 6.5% top rate. (E.g., 5.2% on income between $100K - $200K, 5.5% on income between $200K - $300K, 5.75% on income between $350K - $500K.) This change in the income tax would very modestly increase the tax burden on those who earn well over the state median income and would reduce cliffs in the current tax rate structure.

Increase and Offset Sales Tax

A one percent increase in the Connecticut sales tax to 7% could generate over **600 million dollars** in new revenue and would bring it in line with the sales tax rates of nearby regions like Rhode Island (7%), New York City (8.25%), and New Jersey (7%). The regressive effects of a higher sales tax rate, if enacted, should be offset by creating a state Earned Income Tax Credit and a Small Business Property Tax Credit.

Close Corporate Tax Loopholes Through Combined Reporting

Because of flaws in Connecticut's tax system, large, multi-state corporations are currently able to shift profits to subsidiaries in other states like Nevada, which has no corporate income tax. By implementing combined reporting—as a majority of states already do—Connecticut could substantially reduce the FY 2010 deficit. Most states that have prepared estimates on how much revenue combined reporting would generate have found that it would increase corporate income tax revenue by 10% to 25%. In Connecticut, this would mean anywhere from **$95 to 230 million.**

Restructure Corporate Taxes

Business taxes in Connecticut have not been comprehensively evaluated since the early 1990s using principles of good government such as fairness, accountability, and cohesion. To determine how Connecticut's business taxes should be structured to adequately support the public structures that ensure a healthy business environment, Connecticut should convene a Business Tax Commission—similar to the Commission convened in Massachusetts in the past couple years—to recommend changes to business taxes so that the tax bears a fairer relationship to the company's profitability and its footprint in the state. To begin to rectify this incongruity and also raise needed revenue for the state, Connecticut could:

- *Apply the corporation business to all corporations doing business in Connecticut regardless of their legal form.* ***or***
- *Tie the business entity tax and the corporation minimum tax to a corporations' Connecticut-source income;* ***and***
- *Increase the corporation tax surcharge.* Increase the current 10% corporation tax surcharge for income years 2009-2011 for businesses with over $100 million in adjusted federal gross income to a 15% surcharge, and impose a 10% corporation tax surcharge on companies with over $75 million in adjusted federal gross income. Connecticut's most profitable corporations rely on state-funded services for their growth and development – our courts, our transportation system, our schools and colleges and universities. These corporations can be asked to contribute more, short-term, to preserve essential public investment in these areas during this difficult fiscal time.

Raise "Sin" Taxes

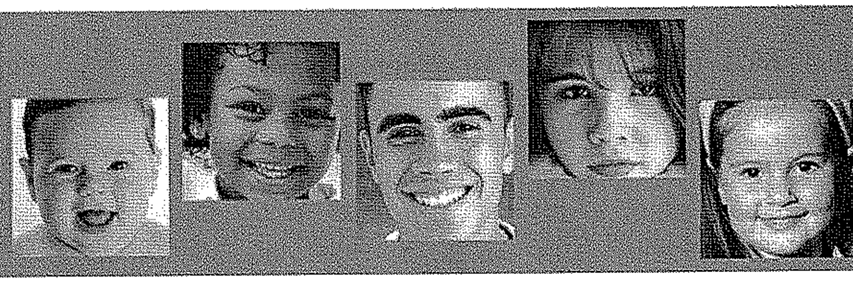
Raising taxes on items with negative health consequences can raise revenue as well as discourage unhealthy behavior, helping to reduce health care spending. The excise tax on cigarettes was raised in FY09 from $2.00 a pack to $3.00 a pack and is projected to raise 100 million dollars in revenue for FY10. Similar increases in taxes could be considered for alcohol and imposed on other unhealthy products like soft drinks or fast-food. These taxes, which are a type of consumption tax, are regressive; adoption of a state EITC could help address this.

Restore the Petroleum Gross Earnings Tax rate from 7.0% to 7.5%

PA 08-2 eliminated the 0.5% increase in the Petroleum Gross Earnings Tax (from 7.0% to 7.5%) that was scheduled to occur on July 1, 2008, resulting in an estimated 30.8 million revenue loss in FY 09. This rate, under current law, is scheduled to increase to 8.1% on July 1, 2013. Restoring the rate to 7.5%, as had been intended by PA 05-4, would restore these lost revenues.

Thank you for the opportunity to testify today.

CONNECTICUT VOICES FOR CHILDREN



Governor's Proposed Budget Cuts Target Services for Children

December 2009

The Governor's proposed deficit mitigation plan for Fiscal Year 2010 (released 11/24/09) targets children: $73.96 million of the proposed cuts are to education, child care, health care and other basic state services children need. The plan proposes an additional $47.88 million in cuts to municipalities' K-12 education funding. A total of $121.84 million in cuts would negatively affect children—who are not only the most vulnerable among us, but also our future workforce and taxpayers. Thus, 36% of the $337.1 million in cuts proposed by the Governor directly target services for children.

The attached table shows these cuts by various categories, including child care, health, education, and family supports. Some of the most significant cuts may not only adversely affect children, but also have ripple effects of increasing unemployment, poor health and instability amongst Connecticut's already struggling families.

Child Care

The Governor's deficit mitigation package recommends very large reductions in child care programs. **State Funded Child Development Centers** provide comprehensive early childhood services for families and children. In Fiscal Year 2007, the centers served over 1,000 infants and toddlers, close to 3,000 preschool aged children, and over 350 school-aged children in municipalities across the state. Enrollment is targeted to families earning less than 75% of the State Median Income (SMI). Centers are required to maintain the same level of quality as School Readiness programs (and often serve children funded with that grant as well). The Governor's deficit mitigation package calls for reducing funding to State Funded Child Development Centers by $4.5 million (a reduction of about 15% of their total state and federal funding). This proposed cut will most likely lead to the decline in the number of children served, staff layoffs, and the closing of some programs.

Funding for the **Care4Kids Program** also takes a significant hit. Care4Kids is an essential component of child care in Connecticut, helping to subsidize child care costs for low- to moderate- income families, many of whom would be unable to obtain safe and affordable child care for their children without assistance. DSS is planning to spend only $93 million on Care4Kids, though $103.87 million has been budgeted. With the loss of this funding, fewer families will receive subsidized child care. As a result, they `may be unable to work or may leave children at home without proper care and supervision. The loss of funding will also result in layoffs at child care centers, increasing Connecticut's already skyrocketing unemployment rate. This cut of $10.7 million to the Care4Kids budget harms Connecticut's children, families, and economy as a whole. Combined with the cuts to State-Funded Child Development Centers, funding for child care for working families is reduced by over $15 million.

Health

Health-related cuts affecting children are also significant. **School based health centers** (SBHCs) provide health services to children in grades preK-12, often serving those children who have limited access to outside medical care. In 2006-2007, over 20,000 students were served by 68 state-funded school based health clinics in 19 communities. The Governor's deficit mitigation plan includes an immediate rescission of $522,032 to school-based health clinics. The Governor has also proposed further reducing the SBHC account by 25%, or $2,610,162.

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The **HUSKY B** program, which provides health insurance coverage to nearly 16,000 uninsured children, is targeted for a $910,000 cut in state funding, through increased premiums for low-income families . The federal government reimburses Connecticut for 65% of HUSKY B expenses, so in order to "save" $910,000 in state funds, Connecticut must cut a total of $2.6 million and forego almost $1.7 M in federal funds. Experience has shown that imposing or increasing premiums on these families leads to children losing their coverage when their families cannot afford to pay the premiums.

And while the proposal to suspend intake of the **Department of Children and Families' Voluntary Services Program** results in the relatively smaller cut of $162,500, the costs of *not providing* these services could be catastrophic. Children denied access to essential mental and behavioral health services through the suspension of VSP intake are – by definition – children who cannot access services elsewhere. If denied voluntary services, these children and families will not cure themselves, and treatment costs after delay and exacerbation of their illnesses will only cost more, in hospitals, classrooms and the community.

Education

K-12 education faces serious reductions in funding. Connecticut's state grant-funded **After School Program** serves 6,084 students in 29 towns. Typical program offerings include academic support, arts and creative enrichment, and recreation. The original budget for the After School Program was $5 million for 2009-2010. The Governor has proposed cutting funding by 98.4%.

But by far the largest hit to children arises from the Governor's proposed **reduced municipal funding.** The Governor has proposed cutting aid to municipalities by $84 million, or 3%. In 2004-2005, 57% of municipal budgets were spent on K-12 education. If municipalities cut 57% of total proposed losses from education, K-12 schools might lose $47.88 million in funding.

Other areas

Other major cuts proposed include $4.5 M taken from the **Children's Trust Fund**, including the Nurturing Families Network, which is a preventive program to promote parenting skills and reduce child maltreatment.

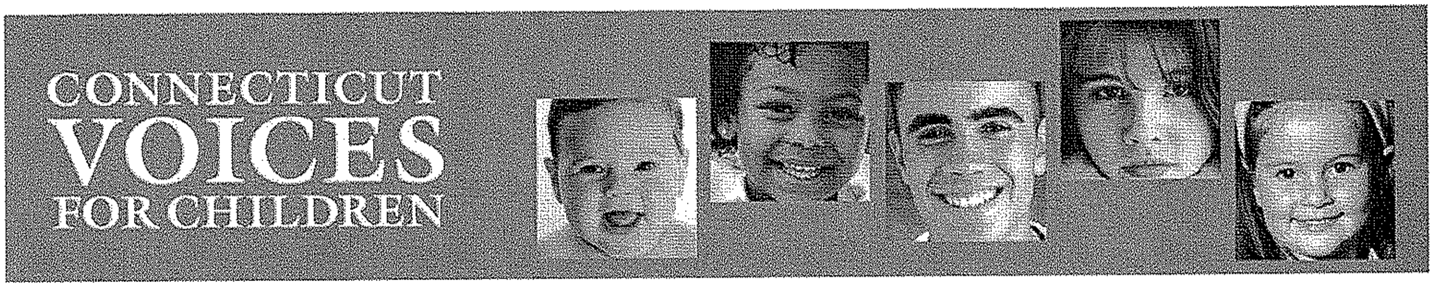
The Governor's budget mitigation package proposes $121.84 million in cuts to child care, education, health and other services that children need in order to be healthy, educated and safe.

GOVERNOR'S RESCISSIONS AND PROPOSED CUTS FOR FISCAL YEAR 2010: Summary of cuts to children's services

	Item (Agency)	Rescissions and Proposed Cuts: Loss of State Dollars
Cuts to K-12 Education and Early Childhood Education		
	Eliminate Non-Formula Charter School Increase (SDE)	$70,000
	Eliminate Non-Formula ECS Increase (SDE)	$426,769
	Reduce Interdistrict Cooperative Funding (SDE)	$3,000,000
	Suspend After School Program (SDE)	$4,920,000
	Reduce Funding for Primary Mental Health (SDE)	$25,015
	Reduce Funding for Vocational Technical School Textbooks (SDE)	$25,000
	Reduce Funding for Regional Education Services (SDE)	$76,500
	Reduce Funding for Magnet Schools (SDE)	$55,000
	Suspend Special Magnet School Subsidies for Two Schools (SDE)	$1,500,000
	Reduce Funding for Youth Service Bureaus by 25% (SDE)	$892,854
	Suspend Connecticut Pre-Engineering Subsidy (SDE)	$350,000
	Suspend Connecticut Writing Project (SDE)	$50,000
	Suspend Funding for Readers as Leaders Program (SDE)	$60,000
	Suspend Funding for Young Parents Program (SDE)	$229,330
	Reduce Funding for Best Practices (SDE)	$23,750
	Reduce Funding for School Accountability (SDE)	$51,778
	Reduce Funding for Family Resource Centers (SDE)	$302,074
	Reduce Funding for State Head Start ("Head Start Services") (SDE)	$137,408
	Reduce Funding for Head Start Enhancement (SDE)	$88,650
	Reduce Funding for Bridgeport's ABCD Program (This cut is found under "Head Start Early Childhood Link" and "Remove Non-Head Start Program.") (SDE)	$655,000
	Reduce Funding for Community Plans for Early Childhood (This cut is found under "Delay New Early Childhood Learning Funding.") (SDE	$450,000
	Reduce Funding for Improving Early Literacy (This cut is found under "Delay New Early Childhood Learning Funding.") (SDE	$150,000
	Reduce Funding for Early Childhood Advisory Cabinet (SDE)	$11,131
	Suspend Funding for New Early Childhood Planning, Outreach, and Coordination (SDE)	$400,000
	Reduce Funding for CommPACT Schools (This cut is the sum of one rescission and one proposed program reduction.) (DHE)	$356,250
	Reduce Funding for Care4Kids (This cut is not in the deficit mitigation plan but is a forced lapse characterized as a "surplus" in DSS testimony 11/18/09.) (DSS	$10,700,000
	Reduce Funding for State-funded Centers (This cut is found under "Child Day Care"; Part of this cut is also located under "Reduce Non-Entitlement Grant Accounts by 25%.") (DSS)	$4,501,145
	Reduce Funding for Day Care Projects (Part of this cut is located under "Reduce Non-Entitlement Grants by 25%.") (DSS)	$143,646
Cuts to Children's Health Programs		
	Increase Co-Pays in HUSKY B (This cut results in higher costs to families. This cut is found under "Align HUSKY B Co-Pay Requirements with Co-Pays Charged in the State Employee Health Plans.") (DSS)	$70,000
	Increase HUSKY B Premiums (This cut results in higher costs to families. This cut is found under "Impose HUSKY B Premiums Under Band 1 and Impose HUSKY B Premiums Under Band 2.") (DSS)	$840,000
	Eliminate Funding for Teen Pregnancy Prevention Added During FY08/FY09 Biennium (DSS)	$100,000
	Suspend Supplemental Payments to FQHCs and Hospitals for Costs Related to Prenatal Care for Undocumented Pregnant Women (DSS)	$2,000,000
	Reduce Funding to Healthy Start (Part of this cut is located under "Reduce Non-Entitlement Grants by 25%.") (DSS)	$372,555
	Reduce Funding to Teen Pregnancy Prevention (Part of this cut is located under "Reduce Non-Entitlement Grants by 25%." Two accounts under Teen Pregnancy Prevention are cut.) (DSS	$675,797
	Reduce Funding for HUSKY Outreach (DSS)	$35,323
	Reduce Funding for Childhood Lead Poisoning (This cut is the sum of one rescission and one proposed program reduction.) (DPH)	$275,081
	Reduce Funding for Children with Special Health Care Needs (This cut is the sum of one rescission and one proposed program reduction.) (DPH)	$381,488
	Reduce Funding for Children's Health Initiatives (This cut is the sum of one rescission and one proposed program reduction.) (DPH)	$444,530
	Reduce Funding for School Based Health Clinics (This cut is the sum of one rescission and one proposed program reduction.) (DPH)	$3,132,194
	Reduce Funding for Services for Children Affected by AIDS (This cut is the sum of one rescission and one proposed program reduction.) (DPH)	$73,508
	Anticipated Lapse of Funding for Fetal and Infant Mortality Review (DPH)	$315,000

	Item (Agency)	Rescissions and Proposed Cuts: Loss of State Dollars
Cuts to Connecticut's Youth Employment Program		
	Reduce Funding for Connecticut's Youth Employment Program (This cut is the sum of one rescission and one proposed program reduction.) (DOL)	$825,000
Cuts to Juvenile Justice, Child Welfare, and Children's Mental Health		
	Eliminate State Funding for Diaper Bank (DCF)	$75,000
	Suspend Intake for the Voluntary Services Program (DCF)	$162,000
	Suspend Funding for Neighborhood Center (DCF)	$104,404
	Suspend New Funding for Enhanced Care Coordination (DCF)	$120,000
	Postpone "Raise The Age" (Change in Age of Juvenile Justice Jurisdiction) until FY 11 (DCF/Judicial)	$10,885,770
	Reduce Funding for Board and Care for Children -- Foster Care (DCF)	$3,500,000
	Reduce Funding for Board & Care - Residential (DCF)	$2,500,000
	Total of all November 24 Rescissions under the "Department of Children and Families" (DCF)	$3,114,821
	Reduce Funding for Voluntary Services (This cut is the sum of one rescission and one program reduction within gubernatorial authority.) (DDS)	$3,153,848
Cuts to Children of Incarcerated Parents		
	Anticipated Lapse of Funding for Children of Incarcerated Parents (This cut is the sum of one rescission and an anticipated lapse.) (DOC)	$700,000
Other Cuts That Affect Children		
	Reduce Funding for Children's Trust Fund (Nurturing Families, Legal Srvcs for Children, Parent Trust Fund; Part of this cut is located under "Reduce Non-Entitlement Grant Accounts by 25%") (DSS)	$4,594,317
	Reduce Funding for Child Protection Commission (Child Protection Commission)	$535,728
	Reduce Funding for Office of the Child Advocate (Part of this cut is located under "OCA- Reduce Staffing by 50%.") (OCA)	$204,996
	Eliminate Funding for Neighborhood Youth Centers (This cut is the sum of one rescission and one proposed program reduction.) (OPM)	$1,213,741
	Reduce Funding for Leadership, Education, Athletics in Partnership (This cut is the sum of one rescission and one proposed program reduction.) (OPM)	$193,139
	Suspend HUSKY Performance Monitoring (This cut is found under "Children's Health Council.") (DSS)	$218,317
	Suspend the Child Care Facilities Loan Fund Program for New Projects (OTT)	$3,500,000
TOTAL CUTS TO CHILDREN'S SERVICES:		***$73,967,857***

Source: State of Connecticut Office of the Governor, Deficit Mitigation Plan for Fiscal Year 2010, issued November 24, 2009; with clarification from the Office of Fiscal Analysis.

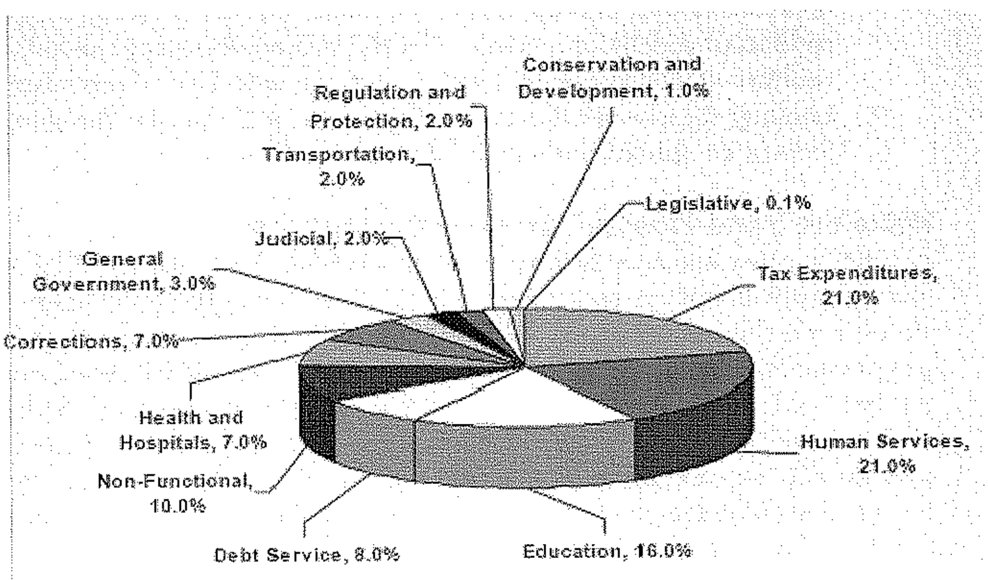


Connecticut Needs a More Balanced Approach to Resolving the Budget Deficit

December 2009

Connecticut's state revenue shortfall has been a direct result of the worst economic recession since the Great Depression. As credit markets collapsed, the Connecticut economy's close relationship to the financial services sector has posed particular problems for the fiscal health of the state. Steep decreases in aggregate personal income and economic activity lead to large decreases in state revenues. At the same time, mounting job losses have increased the demand for public services, and some expenditures have grown to meet these demands. In this way, the roots of the state deficit are in a revenue structure that has failed to sustain public services through the economic downturn and an increased need for public services.

The deficit mitigation plans for Fiscal Year 2010 proposed by Governor Rell and Republicans in the General Assembly would seek to close a projected budget deficit by relying entirely on spending cuts, without consideration for the growing need for services, fairness, or the state's economic future. Connecticut Voices for Children has estimated that the mitigation package includes $122 million in cuts that would directly harm services and municipal education for children in the state. These proposals have been presented as actions of necessity, when in fact a wide range of more balanced alternatives exist that would save jobs, preserve public investment, and protect the state's families at a time when they need protection and support the most. If we do not maintain our support for child care, education, health care, job training, and other supports for families, our state will be poorly positioned when better economic conditions return.



The Governor's deficit mitigation plan only considers one side of the problem, and ignores more balanced alternatives that would reduce reliance on damaging cuts:

- Raising revenue to compensate for the recession-related revenue losses and to meet increased need to support families struggling through the recession.
- Extending budget cuts and reviews to tax expenditures – the huge array of tax credits and exemptions that reduce available state revenues by around 5 billion dollars. The figure below demonstrates how this "hidden budget" accounts for a larger portion of total state expenditures than any other major government function, aside from human services.

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Delay or Cancel Reductions in Gift & Estate Tax

Confronted by budget cuts that will harm the state's children and families, Connecticut cannot afford a tax reduction for the state's wealthiest individuals. If Connecticut cannot afford a sales tax rate reduction, which would confer significant benefits on low- and middle-income families, it surely cannot afford an estate tax reduction that would benefit only the very wealthiest. The Office of Fiscal Analysis projects that **over $75 million**[1] will be lost from the Connecticut budget in FY10 – FY11 due to scheduled changes in the unified gift and estate tax.

Evaluate and Reduce Tax Expenditures

Connecticut's state tax code contains billions of dollars of credits, deductions, and exemptions that favor some business and individual activities over others and diminish state revenue. Yet there is no ongoing evaluation of whether these tax expenditures are effective or are an efficient use of resources. The General Assembly has embraced such evaluation with regard to direct expenditures through its RBA (Results-Based Accountability) process. Tax expenditures merit comparable review.

In a fiscal climate where services essential to the health and well-being of children and families are being threatened, a full evaluation of Connecticut's business credits should be conducted to determine the cost effectiveness of each expenditure. Each tax expenditure should then be prioritized alongside spending for services. Expenditures that help business should not be protected in the deficit mitigation process while so many critical services to vulnerable families are on the chopping block. Connecticut could reform questionable tax expenditures and increase state revenues by:

- Capping the total amount of film and digital media production-related tax credits that can be claimed in 2009-2011 at a fixed annual sum. Companies that earn but then cannot claim credits in a particular year could carry forward their credits and would not lose them. Even by adopting the most generous cap set by other states with film tax credits (65 million dollars in New York) Connecticut could add back **tens of million of dollars** in revenue. If a $65 million dollar cap existed in Connecticut in 2007, at least **$15 million** would have been saved to stem the reduction of early care and education services for children.[2]
- Limiting the amount that tax credits can be used to offset business/insurance tax liability to no more than 50% of tax liability, rather than the current 70%.

Make the State Income Tax More Progressive

In 2008, Connecticut had the second highest median family income ($85,300) and the second highest degree of income inequality of any state in the U.S. Last year's marginal rate increase on families earning over $1 million fell short of what was necessary to close the gap, and leaves Connecticut with an income tax that is lower and less progressive than several nearby states. Even after Connecticut's recent, modest income tax increase for high-income households, Connecticut's state and local tax system remains highly regressive. After federal tax deductions, Connecticut's wealthiest families pay less than half the proportion of their income in state and local taxes (4.5%) than middle-income families (9.9%) and low-income families (12.0%).[3] By expanding the progressive income tax to what had been proposed by the Better Choices coalition, Connecticut could potentially close the projected FY10 deficit entirely, raising between **$200 and $600 million.**

Additional revenue could also be raised by creating new tax brackets between the 5% rate paid by individuals who earn less than $500K and the 6.5% top rate (e.g., 5.2% on income between $100K - $200K, 5.5% on income between $200K - $300K, 5.75% on income between $350K - $500K). This change in the income tax would very modestly increase taxes on those who earn well over the state median income and would reduce cliffs in the current tax rate structure.

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[1] Since the estate tax affects only a handful of the state wealthiest residents, the amount of tax collected can vary widely from year to year.

[2] This uses the 80 million in authorized credits reported by the Legislative Program Review & Investigations Committee in October 2009. The actual credit amount claimed against taxes in 2007 has not yet been made available by the Department of Revenue Services.

[3] Institute on Taxation and Economic Policy. "Who Pays? A Distributional Analysis of the Tax System in All 50 States." November 2009.

Increase and Offset Sales Tax

A one percent increase in the Connecticut sales tax to 7% could generate over **600 million dollars** in new revenue and would bring it in line with the sales tax rates of nearby regions like Rhode Island (7%), New York City (8.25%), and New Jersey (7%). The substantial revenue-generating potential of the sales tax, however, must be weighed against the higher burden placed on low- and middle-income families. While many of the programs and services that could be saved through generation of new revenue would benefit the poor, those same people would be paying the largest proportion of their income in new taxes. The regressive effects of a higher sales tax rate, if enacted, should be offset by creating a state Earned Income Tax Credit and a Small Business Property Tax Credit.

Close Corporate Tax Loopholes Through Combined Reporting

Because of flaws in Connecticut's tax system, large, multi-state corporations are currently able to shift profits to subsidiaries in other states like Nevada, which has no corporate income tax. This "Las Vegas Loophole," enables corporations to avoid paying their fare share of taxes, costing the state millions of dollars and shifting responsibility for taxes onto local businesses and individuals. By implementing combined reporting—as a majority of states already do—Connecticut could substantially reduce the FY 2010 deficit. Most states that have prepared estimates on how much revenue combined reporting would generate have found that it would increase corporate income tax revenue by 10% to 25%. In Connecticut, this would mean anywhere from **$95 to 230 million.**

Restructure Corporate Taxes

Business taxes in Connecticut have not been comprehensively evaluated since the early 1990s using principles of good government such as fairness, accountability, and cohesion. To determine how Connecticut's business taxes should be structured to adequately support the public structures that ensure a healthy business environment, Connecticut should convene a Business Tax Commission—similar to the Commission convened in Massachusetts in the past couple years—to recommend changes to business taxes so that the tax bears a fairer relationship to the company's profitability and its footprint in the state. To begin to rectify this incongruity and also raise needed revenue for the state, Connecticut could:

- *Apply the corporation business to all corporations doing business in Connecticut regardless of their legal form.* This tax would reapply the corporation business tax to S-corporations (which were exempted from the tax in the late 1990s) and impose it on Limited Liability Corporations (LLCs) and establish a graduated rate schedule that would protect small businesses regardless of legal form, but require larger LLCs to pay more than a $250 businesses entity tax for the privilege of doing business in the state and using state-funded services. Applying the corporation business tax to all corporations would broaden the tax base, and allow the maximum rate to be reduced while concurrently generating additional revenues and making business taxes fairer to smaller Connecticut companies.

or

- *Tie the business entity tax and the corporation minimum tax to a corporations' Connecticut-source income.* Rather than imposing a flat $250 business entity tax on LLCs and S-corporations regardless of their size and revenues, the business entity tax could vary based on a graduated rate schedule so larger corporation pay their fair share. Similarly, the corporation minimum tax could be increased for Connecticut's larger corporations, assuring greater equity with Connecticut's smaller businesses.

- *Increase the corporation tax surcharge.* Increase the current 10% corporation tax surcharge for income years 2009-2011 for businesses with over $100 million in adjusted federal gross income to a 15% surcharge, and impose a 10% corporation tax surcharge on companies with over $75 million in adjusted federal gross income. Connecticut's most profitable corporations rely on state-funded services for their growth and development – our courts, our transportation system, our schools and colleges and universities. These corporations can be asked to contribute more, short-term, to preserve essential public investment in these areas during this difficult fiscal time.

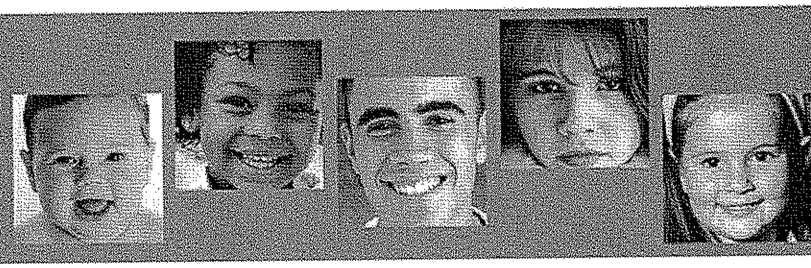
Raise "Sin" Taxes

Raising taxes on items with negative health consequences can raise revenue as well as discourage unhealthy behavior, helping to reduce health care spending. The excise tax on cigarettes was raised in FY09 from $2.00 a pack to $3.00 a pack and is projected to raise **100 million dollars in revenue for FY10**. Similar increases in taxes could be considered for alcohol and imposed on other unhealthy products like soft drinks or fast-food. These taxes, which are a type of consumption tax, are regressive; adoption of a state EITC could help address this.

Restore the Petroleum Gross Earnings Tax Rate from 7.0% to 7.5%

Public Act 08-2 eliminated the 0.5% increase in the Petroleum Gross Earnings Tax (from 7.0% to 7.5%) that was scheduled to occur on July 1, 2008, resulting in an estimated **30.8 million revenue loss in FY 09**. This rate, under current law, is scheduled to increase to 8.1% on July 1, 2013. Restoring the rate to 7.5%, as had been intended by PA 05-4, would restore these lost revenues.

CONNECTICUT VOICES FOR CHILDREN



Governor's Proposed Budget Cuts Would Shift Costs onto HUSKY Families and Providers and Result in Thousands of Children Losing Health Coverage

December 2009

Just as the economic recession has increased unemployment and increased the risk of families losing employer-based health coverage, Governor Rell has proposed balancing the budget with substantial cuts to children's health care coverage in the HUSKY Program. The Fiscal Year 2010 budget cuts she proposes would make coverage less affordable for nearly 16,000 children in Connecticut's successful HUSKY B Program by:

- Imposing premiums in HUSKY B Band 1 (coverage for children under 19; for example, families of 3 with annual income between $33,873 to $43,028);
- Increasing premiums in HUSKY B Band 2 (coverage for children under 19; for example, families of 3 with annual income between $43,028 and $54,930);
- Increasing co-payment requirements in HUSKY B (currently there are no co-pays for preventive services and nominal co-pays for other services).

New and increased premiums would result in thousands of children losing HUSKY coverage. When HUSKY B premiums were raised in 2004 and again in 2005, thousands of children would have lost coverage had the premium increases gone into effect. Recognizing the harmful impact, policymakers repealed the premiums—***twice.*** Connecticut should avoid repeating mistakes of the past. If families lose their HUSKY coverage, the costs for children's health care will shift elsewhere in the health care system in the form of increased use of emergency rooms and uncompensated care in clinics, provider's offices, and hospitals.

Co-payments would discourage use of needed health care. Families that have difficulties paying co-payments for care are likely to forego needed care or be turned away by providers who have been unable to collect for previous visits. The burden for increased co-payments will fall on families and on the providers and hospitals that must collect the new fees.

In order to "save" $1 in state funds for HUSKY B, the Governor must cut over $3 in spending and forego federal matching dollars. For every dollar Connecticut spends on HUSKY B, the federal government reimburses 65 percent. In order to save a projected $840,000 by increasing premiums, Connecticut must cut $2.4 million from HUSKY B and forego $1.56 million in federal matching funds. In order to save a projected $70,000 by increasing co-payments, Connecticut must cut $200,000 from HUSKY B and forego $130,000 in federal matching funds.

These cuts would mean that thousands of children would lose health coverage and access to health care, though the state would save relatively little money.

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If adopted, the effect of these cuts to coverage for children in the HUSKY Program will be felt in every town in Connecticut!

Children Enrolled in HUSKY B by Town (12/1/09)

Andover	17
Ansonia	128
Ashford	33
Avon	40
Barkhamstead	17
Beacon Falls	29
Berlin	101
Bethany	21
Bethel	131
Bethlehem	22
Bloomfield	65
Bolton	11
Bozrah	10
Branford	118
Bridgeport	815
Bridgewater	7
Bristol	333
Brookfield	93
Brooklyn	38
Burlington	18
Canaan	35
Canterbury	30
Canton	32
Chaplin	13
Cheshire	75
Chester	10
Clinton	73
Colchester	81
Colebrook	5
Columbia	32
Cornwall	12
Coventry	50
Cromwell	57
Danbury	573
Darien	32
Deep River	27
Derby	71
Durham	12
East Granby	11
East Haddam	31
East Hampton	59
East Hartford	356
East Haven	185
East Lyme	70

East Windsor	44
Eastford	6
Easton	6
Ellington	65
Enfield	200
Essex	35
Fairfield	155
Farmington	92
Franklin	5
Glastonbury	112
Goshen	17
Granby	19
Greenwich	113
Griswold	77
Groton	97
Guilford	103
Haddam	27
Hamden	208
Hampton	23
Hartford	532
Hartland	9
Harwinton	37
Hebron	32
Kent	23
Killingly	85
Killingsworth	20
Lebanon	48
Ledyard	63
Lisbon	7
Litchfield	61
Lyme	5
Madison	66
Manchester	333
Mansfield	47
Marlborough	29
Meriden	374
Middlebury	25
Middlefield	9
Middletown	205
Milford	193
Monroe	48
Montville	81
Morris	24
Naugatuck	202

New Britain	422
New Canaan	18
New Fairfield	69
New Hartford	29
New Haven	393
New London	86
New Milford	195
Newington	167
Newtown	157
Norfolk	11
North Branford	62
North Canaan	*
North Haven	110
North Stonington	26
Norwalk	390
Norwich	140
Old Lyme	32
Old Saybrook	39
Orange	45
Oxford	37
Plainfield	111
Plainville	116
Plymouth	88
Pomfret	13
Portland	39
Preston	14
Prospect	31
Putnam	49
Redding	45
Ridgefield	39
Rocky Hill	54
Roxbury	13
Salem	14
Salisbury	22
Scotland	*
Seymour	90
Sharon	17
Shelton	138
Sherman	21
Simsbury	90
Somers	31
South Windsor	92
Southbury	57

Southington	205
Sprague	13
Stafford	67
Stamford	612
Sterling	16
Stonington	79
Stratford	305
Suffield	28
Thomaston	78
Thompson	22
Tolland	61
Torrington	274
Trumbull	142
Union	*
Vernon	135
Voluntown	18
Wallingford	186
Warren	6
Washington	24
Waterbury	570
Waterford	45
Watertown	92
West Hartford	206
West Haven	297
Westbrook	30
Weston	17
Westport	34
Wethersfield	116
Willington	27
Wilton	25
Winchester	86
Windham	100
Windsor	113
Windsor Locks	56
Wolcott	104
Woodbridge	11
Woodbury	29
Woodstock	22

***enrollment less than 5**

Source: ACS, Inc.