

# Legal Assistance Resource Center

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### Testimony before the Appropriations Committee on the Department of Social Services Budget

by Jane McNichol, Executive Director  
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Good evening. I am Jane McNichol, Executive Director of the Legal Assistance Resource Center of Connecticut, the advocacy and support center for legal services programs in the state. We represent the interests of very-low income residents of the state. I am also the co-convenor of the Medicaid SAGA Strategy Group, a group of providers and advocates dedicated to preserving and improving Medicaid, SAGA and HUSKY.

I am here tonight to express dismay over the continued attack on **Medicaid, SAGA and HUSKY** contained in the Governor's budget proposals. These cuts continue to limit access to needed health care while pulling needed funds out of the Connecticut economy. Health care cuts hurt people who need health care; they also hurt people who have jobs providing health care.

Of particular concern are the proposals to **impose co-pays and increased premiums** in Medicaid and HUSKY. These ideas have been tried in the past. They were repealed soon after passage when the negative impact on health care consumers was demonstrated.

Even small co-pay requirements impose real burdens on people on limited incomes who need multiple medications or services. During this economic downturn, more people are turning to HUSKY and SAGA for their health care. We should not impose bigger burdens on people who have recently lost their jobs and their health care at the moment that they turn to state programs for assistance.

The proposed **limits on drug access** are ideas which were considered and rejected by this Committee last year. These cuts were bad ideas nine months ago. They are still bad ideas.

Limitations on **vision services** mean either substantial costs to adults receiving health care through Medicaid and HUSKY or going without glasses. Look around the room and see how many people rely on glasses – and recognize that many who are not wearing glasses are using contact lenses. Then think about trying to drive and do your job without your glasses or contact lenses.

As a Legal Services representative, I do want to express **qualified support for the idea of moving from our current managed care delivery system in HUSKY to an ASO model.** While the details of this proposal are very sketchy, the idea is one which we have supported for

some time. If we can provide good health care and save money, as the Governor proposes, we should do that.

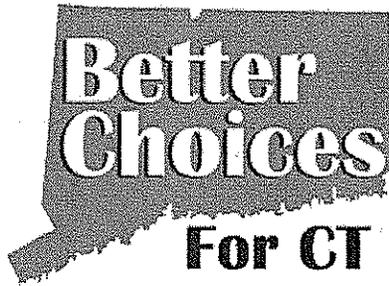
I want to take a moment to comment on the **fiscal impact of moving to an ASO model**. Our understanding is that this will have an impact on Connecticut's ability to collect the enhanced FMAP rate in Medicaid. The enhanced match rate in Medicaid is important to the state and we would not want to jeopardize that.

Our preliminary research indicates that **Connecticut would lose the enhanced match on the ADMINISTRATIVE COSTS only and not on money spent on health care services**. Our again preliminary estimates indicate that the lost match would be less than the savings the Governor projects by moving to an ASO model. **I urge you to take this proposal seriously and explore whether this is really an avenue to better health care at less expense.**

Finally, I want to acknowledge the difficult fiscal issues that the state is facing and to offer an alternative set of solutions. Rather than looking exclusively to cuts or increases in federal assistance, as the Governor does, we should **look at the revenue side of the budget**. We have the ability to bring in needed funds through thoughtful adjustments to our personal income tax and corporate tax structures.

Attached is a menu of revenue options prepared by the Better Choices for Connecticut coalition which I urge you and your colleagues to consider before adopting further cuts in health care.

Thank you for your time now and for dealing with these difficult issues in this session.



# Revenue Options

February 2010

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## Finding Needed Revenue

### **Delay Reductions in the Gift and Estate Tax - \$75 million over the biennium**

The continuing revenue shortfall has prompted a delay in a planned reduction in the sales tax. If we cannot afford an across-the-board tax reduction, surely we cannot implement estate tax cuts that would exclusively benefit Connecticut's wealthiest individuals. Delaying the estate tax reduction will preserve a vital revenue stream and promote fairness.

### **Make the Personal Income Tax More Progressive – up to \$600 million/year**

Even after Connecticut's recent income tax increase for very high-income households, Connecticut's wealthiest families still pay a much lower share of their income in state and local taxes (4.9%) than middle-income families (9.9%) and low-income families (12.0%). Adopting income tax rates of 6% on couples' income over \$200,000, 7% on couples' income over \$500,000, and 8% on couples' income over \$1 million would make our overall tax structure more balanced and preserve funding for crucial publicly funded programs. (The recently passed Oregon tax referendum raises rates to 10.8% on income over \$250,000 and to 11% on income over \$500,000.)

### **Increase Sales Tax Revenue and Equalize Contributions - \$210 million/year**

The sales tax is an important revenue generator but one that asks more from lower-income taxpayers than from higher-income residents. A half-percent increase in the sales tax (to 6.5%) would raise about \$260 million a year and still leave Connecticut's rate below neighbors such as Rhode Island (7%), New York City (8.25%), and New Jersey (7%).

To correct for the disproportionate burden the sales tax places on working- and middle-class families, the state should adopt a refundable **Earned Income Tax or Sales Tax Credit** targeted to middle- and low-income families at a cost of about \$50 million a year.

**Alternatively**, we could raise a similar amount of revenue without raising the rate by modernizing the state sales tax and applying the 6% tax rate to services in the same way that we apply it to goods. Rather than specifying which services are taxed, services should be taxed unless they are explicitly exempted by statute.

### **Restore the Scheduled Petroleum Gross Earnings Tax Rate Increase - \$20-25 million/year**

As gas prices soared in 2008, Connecticut eliminated a scheduled 0.5% increase in the Petroleum Gross Earnings Tax (from 7.0% to 7.5%). Since the rate reduction was enacted, crude oil prices have fallen nearly 40% and retail gasoline prices have fallen more than 30%. Since prices have plummeted, it is time to restore this scheduled rate increase. When the increase was halted, the Office of Fiscal Analysis estimated that Connecticut would lose \$30.8 million in General Fund revenue and \$3.9 million in Transportation Fund revenue per year between FY 09 and FY 13. Given that petroleum prices have fallen, a restoration of the scheduled increase is expected to generate somewhat less revenue.

### **Raise Taxes on Unhealthy Products – more than \$15 million a year**

Raising taxes on items with negative health consequences can raise revenue and encourage healthy behavior. Taxes on cigarettes were raised last year; this year we should consider increases in taxes on alcohol, soft drinks, and fast foods. According to the tax calculator designed by the Rudd Center for Food Policy and Obesity at Yale University, a tax of 1 cent on every 12 ounces of soda consumed in Connecticut would raise more than \$15 million a year.

## **Transparency, Accountability, and Fairness**

### **Evaluate and Reduce Unwarranted Tax Expenditures**

Connecticut's state tax code contains about \$5 billion dollars in credits, deductions, rate reductions, and exemptions that favor some business and individual activities over others and also diminish state revenue. Yet there is no system to evaluate whether these tax expenditures are an efficient use of resources and no way for the public to know who benefits from these tax reductions. The General Assembly has embraced the principles of Results-Based Accountability (RBA) in evaluating direct appropriations. Tax expenditures merit equally rigorous review.

### **Adopt Mandatory Combined Reporting to Close Corporate Income Tax Loopholes**

Connecticut's tax system allows large, multi-state corporations to shift profits to subsidiaries in states without corporate income taxes. This enables larger corporations to avoid their fair share of taxes, costing the state millions of dollars and shifting tax responsibility onto local businesses and individuals. Twenty-three states have already adopted mandatory combined reporting.

### **Review and Restructure Business 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. Connecticut's business taxes must be restructured to adequately support the public structures that enable a healthy business environment. Connecticut should convene a Business Tax Commission—similar to the commission recently convened in Massachusetts—to recommend changes to our business tax structure and ensure that these taxes bear a fairer relationship to a company's profitability and footprint in the state.

### **Position the State to Tax Internet Sales**

The inability of states to enforce taxation of sales over the Internet lowers state revenues and puts local businesses at an unfair competitive disadvantage. Connecticut should modernize the sales tax by positioning itself to effectively tax internet sales as these issues are addressed at the federal level and through interstate compacts.