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Testimony Regarding
H.B. 6791: An Act Concerning Workers' Wages at Large Corporations
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Committee on Labor
March 5, 2015

Senator Gomes, Representative Tercyak, and distinguished members of the committee:

We are testifying today on behalf of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families.

Connecticut Voices for Children supports H.B. 6791, which would charge large employers a fee for employees who earn less than $15 per hour. We urge the Committee to earmark all funds collected for a new, non-lapsing account within the General Fund, and that statute specify that funds from this new account be distributed in perpetuity to a) HUSKY health insurance for children, pregnant women, and families, b) public early education and child care (for the purpose of raising childcare workers' wages), and c) the Earned Income Tax Credit.[1] These programs help keep labor costs down for large employers by supporting, at public expense, the health insurance, childcare, and wage costs of hundreds of thousands of their employees; logically, these programs should be supported in some way by the proposed low-wage worker fee.

Publicly funded health and childcare, and targeted tax cuts such as the Earned Income Tax Credit EITC, support the employment of hundreds of thousands of working Connecticut families:

- In 2013, 413,000 Connecticut residents had health insurance coverage through the State HUSKY program while they or a member of their household were working full or part time. *This means more than 75% of non-elderly HUSKY enrollees lived in a household where someone was employed.*[2]
- In 2013, more than 19,000 thousand Connecticut children had access to childcare through the Care4Kids program.[3] *The vast majority of Care4Kids recipients are working.* (Others, who are eligible because they receive Temporary Family Assistance, must be engaged in approved programming that removes barriers to employment).
- In 2014, 190,000 Connecticut filers claimed the State EITC, for an average credit of $426. By definition, *all of these families worked* to earn their credits, since the EITC supplements only earned income.

Simply put, these and other public programs are essential to ensuring the robustness of Connecticut's labor force. Without insurance coverage, families may miss work because of preventable or treatable illness. Without access to childcare, time spent working may be replaced with time spent caring for children. A robust body of research demonstrates that the establishment of the federal EITC led to increases in employment and work hours (particularly among single mothers), suggesting that the EITC boosts work amongst its recipients.[4]

Therefore, these public programs not only support the well-being of Connecticut children and their families, they also keep labor costs down for large employers. Just as taxes imposed on one party may be passed to another (e.g., wage taxes on employers may be passed from employers to employees through reduced wages),[5] so too can the benefits of public programs be passed from one party to another. Some research shows that for every dollar of EITC spending, workers receive only a $0.73 effective wage increase; the remaining benefit is passed to their employers through the lower market wage these employers can now pay to attract employees.[6] Similarly, when their childcare and healthcare is provided at public expense, workers need not demand these benefits from their employers, nor must they demand higher wages necessary to purchase these essential services on the open market. **Simply put, much of the benefit of public programs is passed to Connecticut employers in the form of reduced labor costs and an improved bottom line.**

Absent additional revenue, obligations to pay down unfunded liabilities jeopardize the ability of the State to make critical investments in children's healthcare, early education, and wellbeing. To close the State's budget deficit, the Governor's budget proposes:

- Eliminating HUSKY coverage for pregnant women and parents with income over 138% of the Federal Poverty Line.
- Eliminating various programs totaling over $6 million (2.3% of the Agency Budget) from the Office of Early Childhood.
- Abolishing a scheduled restoration of the State EITC to 30% of a recipient's federal credit amount (currently, recipients claim 27.5% of their federal credit amount).

These cuts are part of a broader trend in the proposed budget whereby the State would close its deficit by imposing disproportionate pain on children and their families: while all proposed current service reductions total 3.2% of General Fund spending, proposed cuts to children's programs total 5.1% of General Fund spending. (For a detailed analysis of the proposed cuts to children's programs, see Appendix A: The Children's Budget.)

Rather than asking our children to bear the burden of the State's budget woes, it is appropriate that Connecticut instead ask large employers to pay their fair share and reimburse the State for providing essential public programs which benefit these employers through reduced labor costs and higher profits. Connecticut's median hourly wage has been stagnant since 2000.[7] Connecticut's child poverty rate remains at nearly 15%, a rate nearly 1.35 times higher than a decade ago.[8] Only 56% of children have health insurance coverage through a parent's employer, down from over 62% just five years ago.[9] Now more than ever, we must maintain our public investments in our children's health, education, and well-being, so that children's future life-outcomes are not diminished by the circumstances of their birth. Asking large employers to pay for part of the cost of these important investments in children – investments from which these employers already benefit through reduced labor costs – is clearly preferable to asking pregnant women to give up healthcare, asking parents to give up on public childcare, and asking working families to forgo a promised and much needed tax cut.

We also offer the following additional comments and recommendations regarding the proposed bill:

1. The proposed low-wage worker fee is not a substitute for continuing to increase Connecticut's minimum wage. While the bill may provide an important new source of revenue, there is no evidence that employers will raise wages in response to the proposed fee, and many workers will continue to earn less than a living wage. Many low-income workers also likely work for employers with fewer than 250 employees, who are not impacted by the proposed bill. As we have recommended in the past, we urge the General Assembly to index Connecticut's minimum wage to inflation, so that working families across Connecticut can earn a living wage regardless of the size of their employer.

2. As with the minimum wage, the proposed low-wage threshold *and* the proposed fee should be indexed to inflation. Unless the $15 threshold is indexed to inflation, it will erode over time, and companies will be able to employ many workers at low wages without paying their fair share. Similarly, the proposed $1 per hour worked penalty must be indexed to inflation to ensure real revenues generated from the fees do not decline year after year.

3. Logically, investments in early care made with the proposed fee should be used to raise the wages of early care and childcare workers. As a report by the National Institute for Early Education Research explains, "inadequate teacher compensation lowers preschool program quality and leads to poorer cognitive, social, and emotional outcomes for children."[10] Current compensation for prekindergarten teachers is not competitive with professionals with similar qualifications: the average starting salary for an elementary school teacher in Connecticut is $42,450; the average salary for a prekindergarten teacher, in contrast, is $29,500.[11] Poor compensation can not only make it harder to attract highly qualified and effective teachers, it can make it difficult to retain them. Annual turnover for preschool teachers can be as high as 25% to 50% per year, in contrast to less than 7% for public school teachers.[12] This high teacher turnover negatively impacts children's learning and development.[13] By using the low-wage worker fee to support early childhood worker's wages, the General Assembly would be furthering both aims of the proposed bill – increasing the quality of State supports to low-income working families while also raising low-income workers' wages.

4. To prevent the proposed fee crowding out other important discretionary spending covered by the State Spending Cap, the Committee should intercept revenues from the proposed low-wage worker fee into a new, non-lapsing account in the General Fund, and specify their distribution in statute prior to the appropriations process. If new funds raised from the proposed fee are allocated through the traditional appropriations process, they could "crowd out" space under Connecticut's statutory spending cap needed for other important discretionary investments. [14] The "revenue intercept" we are proposing here is similar to the one used to create the "Land Protection, Affordable Housing and Historic Preservation Account" established by PA 05-228. [15] Because these intercepts are not appropriations, they are not subject to the Spending Cap. This will prevent the crowding out problem described above. A report should be sent annually to the General Assembly about how much revenue is raised in this new account, and how these revenues were spent.[16]

Public investments in HUSKY health insurance, early care and childcare, and the EITC support the wellbeing of hundreds of thousands of Connecticut children and families, and also keep labor costs down for employers. We urge the Committee to support H.B. 6791 and earmark its revenues for these essential investments, so large employers pay their fair share of public investment in children.

Thank you for your time, and I welcome your questions.

Appendix A: The Children's Budget

	FY 2016 Current Services	FY 2016 Proposed[17]	Change from Current Services	Percent Change
Young Children				
State Department of Education	$3,209,426,866	$3,051,406,083	-$158,020,783	-4.9%
Office of Early Childhood	$277,262,440	$270,766,769	-$6,495,671	-2.3%
Department of Children and Families	$828,498,662	$812,820,810	-$15,677,852	-1.9%
DSS Medicaid (HUSKY A)[18]	$805,459,200	$748,914,800	-$49,294,400	-6.1%
DSS TANF	$104,370,000	$102,625,380	-$1,744,620	-1.7%
DSS HUSKY B (CHIP)	$33,690,000	$33,690,000	$0	0.0%
DSS CT Children's Medical Center	$15,579,200	$15,579,200	$0	0.0%
DDS Early Intervention	$39,186,804	$39,186,804	$0	0.0%
DDS Voluntary Services	$33,017,277	$12,986,713	-$20,030,564	-60.7%
DOL Jobs First	$18,051,623	$18,040,423	-$11,200	-0.1%
DPH School-Based Health Clinics	$12,048,716	$11,024,576	-$1,024,140	-8.5%
Youth				
Board of Regents	$353,813,840	$336,774,676	-$17,039,164	-4.8%
University of Connecticut	$258,812,447	$219,377,020	-$39,435,427	-15.2%
Office of Higher Education	$47,178,537	$42,276,326	-$4,902,211	-10.3%
DOL Workforce Investment Act	$31,284,295	$31,284,295	$0	0.0%
DMHAS Young Adult Services	$82,898,847	$80,206,667	-$2,692,180	-3.3%
JUD Juvenile Alternative	$28,442,478	$28,442,478	$0	0.0%
JUD Youthful Offender Services	$18,177,084	$18,177,084	$0	0.0%
Total Children's Budget	**$6,197,198,316**	**$5,873,580,104**	**-$316,368,212**	**-5.1%**
Non-Children's Budget	**$12,394,901,684**	**$12,128,219,896**	**-$266,681,788**	**-2.2%**
General Fund	**$18,592,100,000**	**$18,001,800,000**	**-$590,300,000**	**-3.2%**

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[1] This is similar to the "land protection, affordable housing and historic preservation account" created by PA 05-228: AAC Farm Land Preservation, Land Protection, Affordable Housing, and Historic Preservation. Available at http://www.cga.ct.gov/2005/ACT/PA/2005PA-00228-R00SB-00410-PA.htm. Non-lapsing accounts that allocate funding in perpetuity prior to the appropriations process avoid new revenues crowding out space under the State Spending cap.

[2] See, "Distribution of the Non-Elderly with Medicaid by Family Work Status." Kaiser Family Foundation estimates based on the Census Bureau's March 2014 Current Population Survey (CPS: Annual Social and Economic Supplements). Available at http://kff.org/medicaid/state-indicator/distribution-by-employment-status-4/.

[3] See, "Number of Children Paid by Age Category and Service Setting," *Care4Kids.* December 2014. Available at http://www.ctcare4kids.com/files/2012/07/December-2014.pdf.

[4] See, Bruce D. Meyer, "The Effects of the Earned Income Tax Credit and Recent Reforms," *University of Chicago and National Bureau of Economic Research.* August 2010. Available at http://www.nber.org/chapters/c11973.pdf.

[5] See e.g., "Historical Effective Tax Rates 1979 to 2004," *Congressional Budget Office.* December, 2006. Available at http://www.cbo.gov/sites/default/files/EffectiveTaxRates2006.pdf.

[6] This effect occurs because the EITC has the effect of growing the labor supply, driving down the price of hiring any individual worker. See Jesse Rothstein, Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence." *American Economic Journal: Economic Policy*, 2(1): 177-208. 2010. Available at https://www.aeaweb.org/articles.php?doi=10.1257/pol.2.1.177.

[7] See, Nicholas Defiesta and Wade Gibson, "The State of Working Connecticut 2014," *Connecticut Voices for Children.* September 2014. Available at http://www.ctvoices.org/publications/state-working-connecticut-2014

[8] See, "Poverty, Median Income, and Health Insurance in Connecticut: Summary of 2013 American Community Survey Census Data," *Connecticut Voices for Children.* October 2014. Available at http://www.ctvoices.org/sites/default/files/econ14acscensus.pdf.

[9] *Ibid.*

[10] See W. Steven Barnett, "Low Wages = Low Quality: Solving the Real Preschool Teacher Crisis," National Institute for Early Education Research, (March 2003), available at: http://nieer.org/resources/policybriefs/3.pdf.

[11] See "2011-2012 Average Starting Teacher Salaries by State," National Education Association, available at: http://www.nea.org/home/2011-2012-average-starting-teacher-salary.html ; see "Day Care Center Teacher Salaries in New Haven, CT, available at: http://www1.salary.com/CT/New-Haven/Day-Care-Center-Teacher-salary.html .

[12] See W. Steven Barnett, "Low Wages = Low Quality: Solving the Real Preschool Teacher Crisis," National Institute for Early Education Research, (March 2003), available at: http://nieer.org/resources/policybriefs/3.pdf.

[13] See Marisa Bueno, Linda Darling-Hammond, and Danielle Gonzales, "A Matter of Degrees: Preparing teachers for the Pre-K Classroom," The Pew Center on the States, (March 2010), available at: http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Prek_education/PkN_Education_Reform_Series_FINAL.pdf

[14] Connecticut's statutory spending cap limits increases in all appropriated State spending, exempting only very limited expenditures, including payments to reduce indebtedness. Unfortunately, "indebtedness" has not, in the past, been interpreted to include payments to reduce the State's unfunded pension obligation to retired employees and teachers. As a result, as Connecticut wisely makes efforts to catch up on these unfunded retirement obligations, these payments are not treated as "reducing indebtedness," and are inadvertently crowding out spending on all other programs. In short, the Spending Cap is forcing the State to make an impossible choice between paying down debts and maintaining basic support for existing discretionary programs.

The EITC is a tax cut, not an appropriated expenditure, and is therefore not subject to the Spending Cap. However, unless the definition of the State's statutory spending cap is amended to include all forms of State debt, new revenues appropriated from the proposed low-wage worker fee to fund healthcare and early care programs could simply crowd out other human services spending. To prevent efforts to reduce unfunded liabilities from crowding out this and other new investments under the spending cap, the General Assembly should treat unfunded employee and teacher retirement obligations as evidences of indebtedness, exempt from the cap. This treats all State debts equally, regardless of whether they are owed to private investors or current and former employees. However, until such time as the General Assembly can make this and other needed reforms to the cap, the use of a non-lapsing account prevents the "crowding out" problem described above.

[15] See, PA 05-228: AAC Farm Land Preservation, Land Protection, Affordable Housing, and Historic Preservation. Available at http://www.cga.ct.gov/2005/ACT/PA/2005PA-00228-R00SB-00410-PA.htm. Non-lapsing accounts that

allocate funding in perpetuity prior to the appropriations process avoid new revenues crowding out space under the State Spending cap.

[16] These intercepts are generally not good practice, because they hide State spending off budget; in the long term, a more systemic Spending Cap reform is needed. However, given the challenges created by the Spending Cap, this solution is preferable to simply eliminating essential State supports to children and families. To keep revenues from the proposed fee transparent, we urge the Committee to require that the Treasury report annually to the Finance and Appropriations Committees on how much revenue is raised from the fees, and how these revenues have been spent.

[17] To ensure accurate comparisons to current services levels, some of the proposed appropriations for FY 2016 were adjusted to reflect transfers from one agency to another. For example, the Early Intervention program, previously housed in the Department of Developmental Services, was split between the Department of Social Services and the Office of Early Childhood in the Governor's budget proposal. This appropriation was subtracted from the line items for both DSS and OEC to maintain accurate year-over-year comparisons.

[18] The Governor's FY 2016-17 proposed budget does not delineate the portion of Medicaid funding spent on children and families, so this amount represents the best estimate given the most recent data available. It assumes all funds cut from HUSKY A will affect children and families, as well as an estimated 32% of the remainder of the funding. The 32% figure, which represents the most recent data available, does not apply to $11.5 million of cuts that would not fall on children or parents whatsoever because they impact only HUSKY C.