The State Economy, the State Budget, and the State of Our Children

Presentation to the Commission on Fiscal Stability and Economic Growth

January 24, 2018
The State Economy and The State Budget
STATE GDP HAS NOT RECOVERED

Revenue Growth is Slowing
Source: Office of Policy and Management
Rising Nonfunctional Costs

Source: Connecticut Voices for Children analysis

Non-Functional

Share of General Fund

Fiscal Year


Non-Functional includes:
• PENSIONS
• RETIRED HEALTH COSTS
• TEACHERS' RETIREMENT
• DEBT SERVICE

29.5%
Projected Fiscal Imbalance

Absent changes to current taxes and tax rates, the rapid growth of non-functional costs will result in a $2.9 billion annual fiscal imbalance by 2030 resulting in heavy cuts to current services.

Source: Yale Law School Legislative Clinic, Jesse Marks
The State of Our Children

Disparate Impact    Shifting Priorities
Shift in Our Economy
The Recovery Has Left Too Many Families Behind

Connecticut, % Change in Number of Jobs, 2011-2016

- 9.2% increase in share of low-wage work

Source: Economic Policy Institute and CT Voices analysis of Current Population Survey
Disparate Impact of Recovery

Wages: Gaps between black and white wages have increased since the Great Recession.

Disparities in Child Poverty
Higher than national average

Connecticut’s Racial Disparities in Child Poverty Greater than National Average

Disparities in Child Poverty Rates by Race and Geography, 2016

Source: CT Voices analysis of American Community Survey. Ratio of Black/Latino child poverty rate to white child poverty rate.
Racial Disparities Matter: We Are Truly *In It Together*

Connecticut's 3 and 4-year olds by Race and Ethnicity

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent White</th>
<th>Percent Non-White</th>
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<tbody>
<tr>
<td>2000</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>2005</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td>2010</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>2015</td>
<td>52%</td>
<td>48%</td>
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The Devastating Effects of Poverty

Living in or near poverty increases the chance a child suffers toxic stress. Studies have shown toxic stress in children can lead to lifelong problems in learning, behavior, and both physical and mental health.

What’s more, toxic stress has a direct effect on the workforce of tomorrow. Researchers found a $3,000/year lower family income in childhood was associated with 17% lower productivity in adulthood.

Duncan et al (2010), Harvard Center on Developing Child
Shifting Priorities:
We Spend More on Non-Functional Costs Than on Children

Source: Connecticut Voices for Children analysis

NON-FUNCTIONAL INCLUDES:
- PENSIONS
- RETIRED HEALTH COSTS
- TEACHERS' RETIREMENT
- DEBT SERVICE

Children's Budget  Non-Functional

Fiscal Year


Share of General Fund

20% 22% 24% 26% 28% 30% 32% 34%
The Impact of Austerity

Austerity Mindset    Federal Overlay    Fiscal Restraints
## Austerity Mindset

### Tax Increase on Low to Middle Income
- Reduce EITC: $35M/year

### Fear of Millionaire Migration
- Restrict property tax credit: $55.3M/year
- Estate tax cuts of $15.6 million in FY 2019

### More Spending Cuts on the Way
- Budget directed cuts of $881.6 million
- Additional cuts possible if revenue projections not met

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CT Voices analysis of the budget proposals
Private-Sector Job Growth: Kansas Lagged Most Neighbors and U.S. After Cutting Taxes

Austerity Hasn’t Worked Elsewhere
Source: Center on Budget and Policy Priorities. Data cover December 2012 (month before tax cuts took effect) to May 2017 (month before they were scaled back).
Changes at Federal Level Threaten to Widen Opportunity Gap

<table>
<thead>
<tr>
<th>FY 2016 FEDERAL FUNDING TO CT (IN MILLIONS)</th>
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<tbody>
<tr>
<td>Medicaid</td>
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<tr>
<td>Supplemental Nutrition Assistance Program (SNAP)</td>
</tr>
<tr>
<td>Children’s Health Insurance Program (CHIP)</td>
</tr>
<tr>
<td>Temporary Assistance to Needy Families (TANF)</td>
</tr>
<tr>
<td>Child Care and Development Block Grant</td>
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<tr>
<td>Social Services Block Grant</td>
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<tr>
<td>21st Century Community Center Learning Centers</td>
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</tbody>
</table>
Fiscal Restraints

- Spending Cap
- Volatility Cap
- Bond Cap
- Bond Lock
Spending Cap: Caution Ahead

- For FY 2019 budget, we can only spend 1% ($200 million) more than present appropriations
- This restriction comes on top of years of austerity budgeting. Consider a few of the FY 2016 budget cuts:
  - Reduced Medicaid eligibility, affecting 18,900 parents
  - Reduced property tax credit from $300 to $200
  - Cut more than $130 million from K-12 education
- Part of 1991 income tax compromise
- 2017 Changes limits support to distressed municipalities and bring pensions back under cap
- Returning to FY 2016 levels would take up almost all of the room under cap.
Volatility Cap

1/3 of Personal Income Taxes are from Estimates & Finals

New bonding restrictions may jeopardize critical investments essential to Connecticut’s ability to attract business.

Beginning in May 2018, Bond Lock requires the state to promise as part of its bonds not to change the spending cap or volatility cap for the next 10 years.

Even a unanimous legislature could not repeal the bond or volatility caps or redefine the constitutional spending cap.

Would also tie hands of future legislators, preventing much-needed investment in infrastructure or economic development.
Toward Solutions

Equity Opportunity
Pathways to Opportunity

Inclusive Economic Growth

Thriving Children and Families

Equity and Excellence in Education

• We cannot cut our way out of current situation
• We need to make strategic investments to grow our way out of structural deficit
• We need to prioritize inclusive economic growth that opens doors of opportunity
Inclusive Economic Growth
- Fix fiscal restrictions to preserve state’s ability to invest in children and families
- Modernize our tax code to adapt to service economy
- Examine and evaluate business tax breaks just as we evaluate other spending
- An equitable, adequate, transparent and sustainable revenue system

Thriving Children & Families
- Focus on prevention rather than intervention
- Protect the remarkable progress of our Medicaid and CHIP programs
- Ensure children and families have the community based supports they need to succeed reducing entry into and improving outcomes for state involved children.

Equitable Education
- Ensure that educational environments are equitable and represent the needs of the communities they serve
- Prepare all of Connecticut’s youth for success in college and career

An Opportunity Agenda
Fix Fiscal Restraints

to preserve state’s ability to invest in children, families and communities

Repeal the Bond Lock

Federal tax plan shows how structural changes outside of Connecticut’s control can affect state. Bond Lock would weaken state’s ability to respond to these changes

Reform the Spending Cap

Encourage investment in cities by exempting grants to distressed municipalities and requiring rebasing for pensions.

Reform the Volatility Cap

Exempt increases in revenue due to rate adjustments to preserve ability to invest in schools, infrastructure, etc.
Modernize Tax Code

Support Investments in Economic Growth, Equity and Opportunity

Expand sales tax to include services and eliminate exemptions

Reform property taxes

Adjust EITC in response to federal tax changes

Study business value tax
**Sales Tax Declining as Source of Revenue**

Sales Tax Is Eroding

Including Services in Sales
Tax Would Generate up to $1.5 billion

<table>
<thead>
<tr>
<th>Rate</th>
<th>Additional Annual Revenue</th>
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<tbody>
<tr>
<td>6.35%</td>
<td>$1.5 billion</td>
</tr>
<tr>
<td>6.00%</td>
<td>$1.18 billion</td>
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<tr>
<td>5.50%</td>
<td>$730 million</td>
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Example services taxed: intrastate courier service, travel agent services, winter boat storage, diaper service, bowling alleys

Institute for Taxation and Economic Policy. Analysis does not include business to business transactions and exemptions education, health, and shelter.
Our Tax System is Upside-Down
Our Property Tax System is Upside-Down

Our Property Tax System Furthers Racial Disparities

Source: Connecticut Data Collaborative and OPM, Municipal Fiscal Indicators.
Our Property Tax System Stifles Economic Development

Source: Office of Fiscal Analysis FY 16-17 Budget Book. FY 16 values.
Statewide property tax

- Rough approximation: $373.8 million per mill (Net Grand List 2016)
- Cost to fully fund PILOT: ~$470.3 million (OFA Budget Book FY 16)
- Mills needed to fully fund PILOT: 1.26
- Should be paired with circuit breaker to ensure that tax does not disproportionately burden low-income families.
An Opportunity Agenda

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- Prepare all of Connecticut’s youth for success in college and career
Invest in Opportunity
Invest in Care 4 Kids
Support Wrap Around Services
The Economic ROI of Quality Early Care

Fully Meeting Child Care Need Would Contribute $13 Billion to State

Source: Connecticut Voices for Children analysis
Invest in Equity
Funding equity in resources to support equity in opportunity
Thank You

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January 30, 2018 at the Statehouse