

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

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Presentation to the Commission on  
Fiscal Stability and Economic Growth

January 24, 2018



# Today's Road Map

## The State Economy and The State Budget

Long-Term  
Economic Trends

Slowing Revenue

Increasing  
Liabilities

Future  
Implications



## The State of Our Children

Disparate Impact

Upside Down Taxes

Shifting Priorities



## The Impact of Austerity

Austerity Mindset

Federal Overlay

Fiscal Restraints



## Toward Solutions

Pathways to  
Opportunity

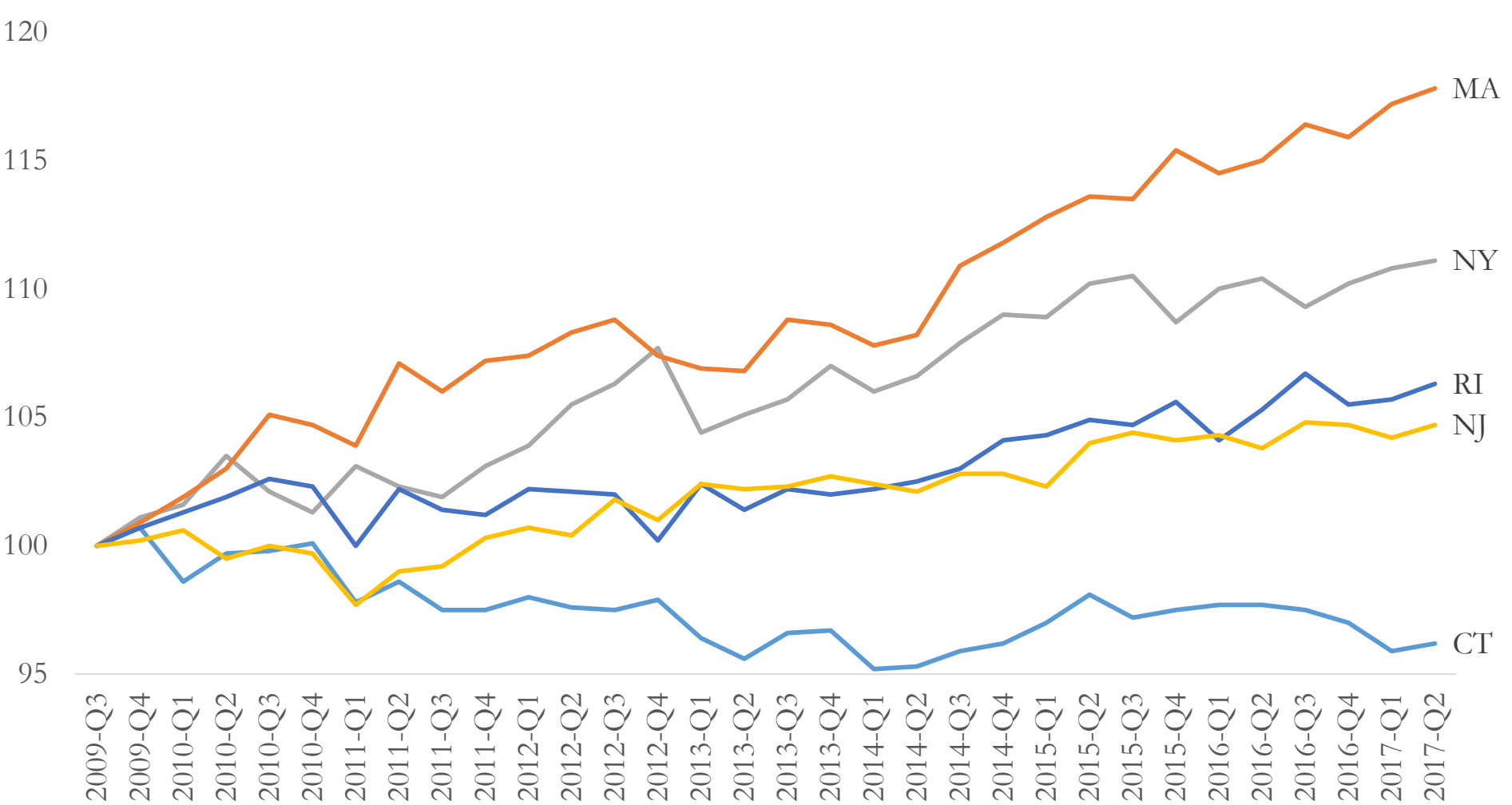
Repeal

Modernize

Inclusive Growth

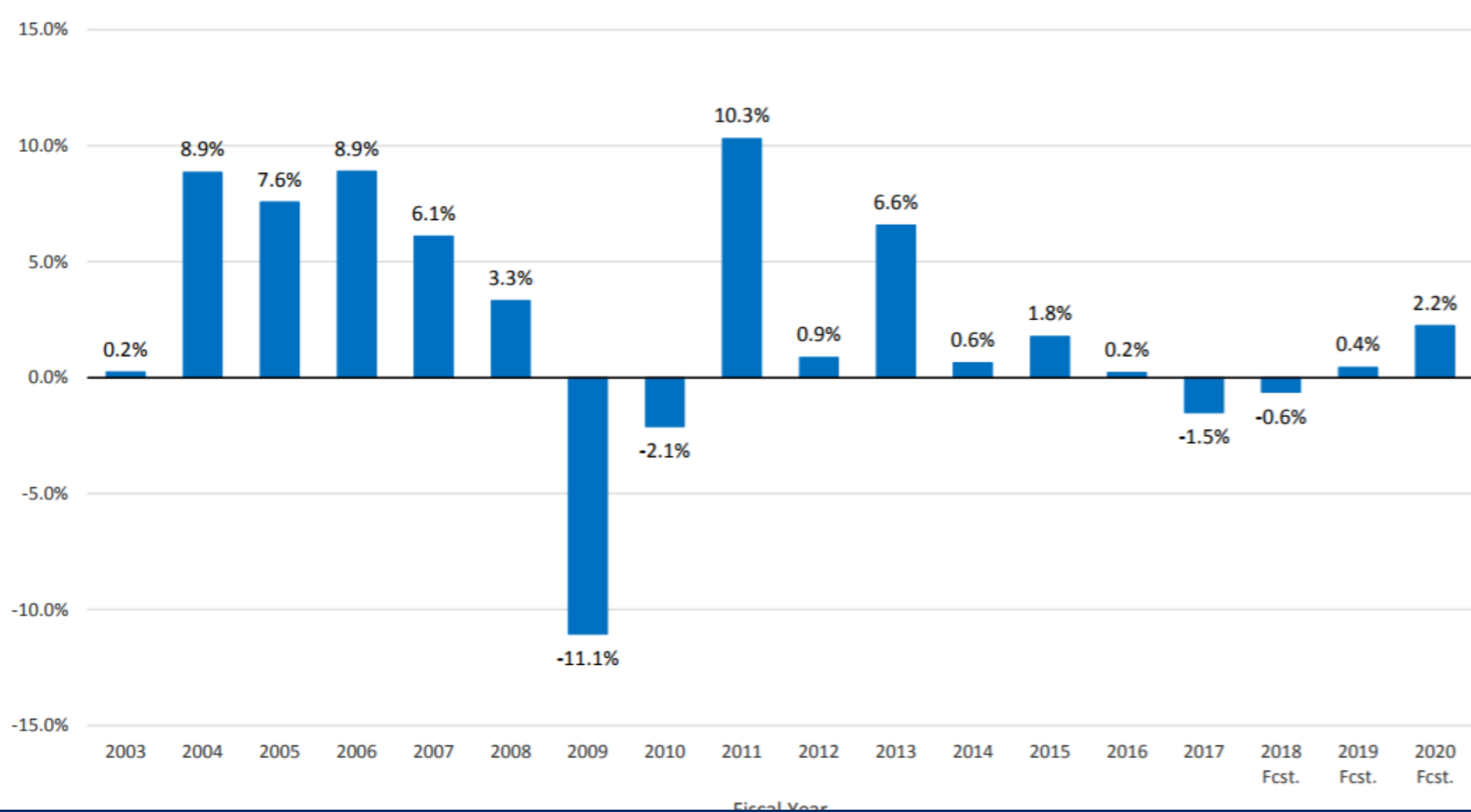
# The State Economy and The State Budget





# STATE GDP HAS NOT RECOVERED

Real Total Gross Domestic Product for Connecticut, All Industries. Millions of Chained 2009 Dollars, Quarterly, Seasonally Adjusted. 2009 Q3 = 100. Federal Reserve Economic Data:  
<https://fred.stlouisfed.org/series/CTRQGSP>

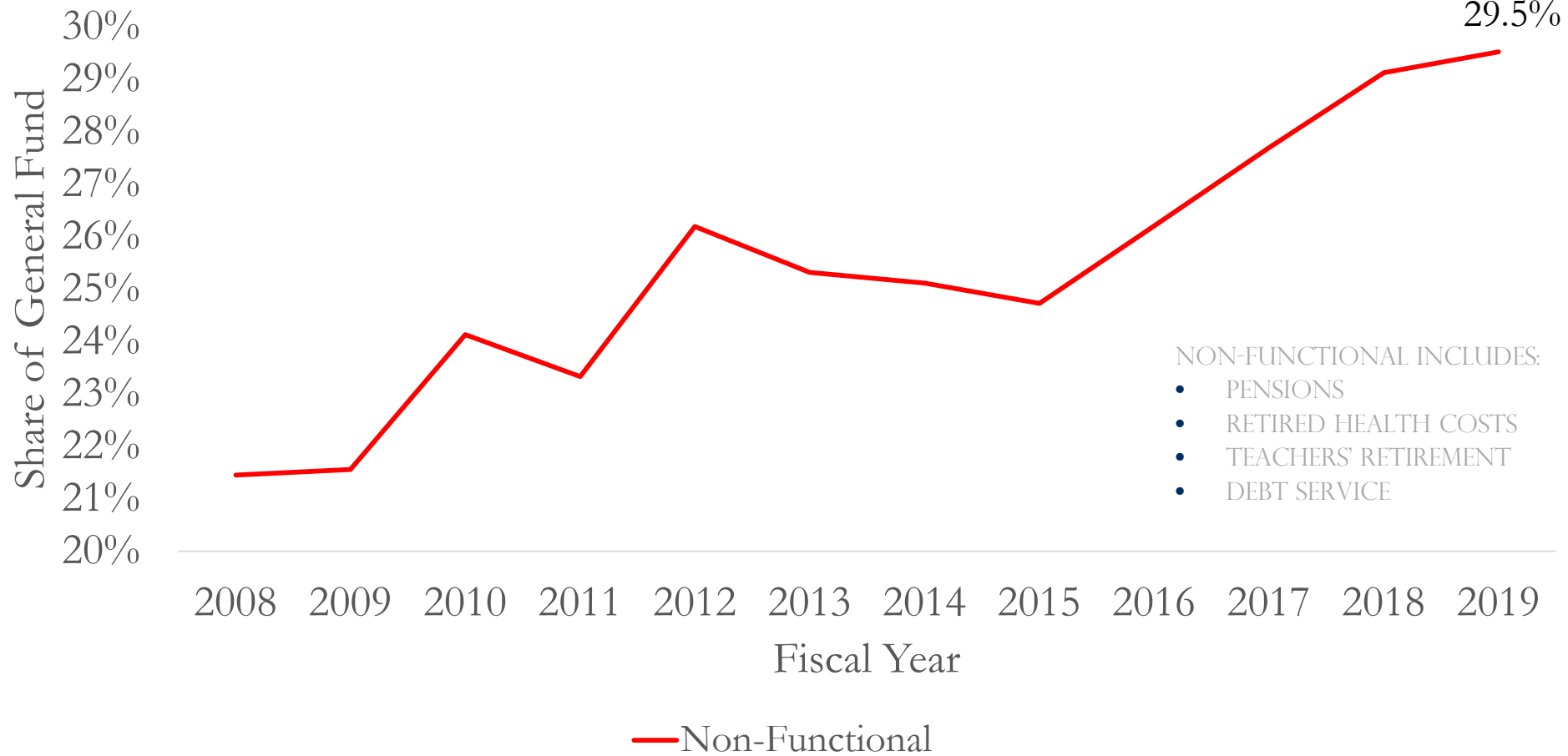


# Revenue Growth is Slowing

General Fund Revenue, Annual Rate of Growth, 2003-2019.

Source: Office of Policy and Management

## Non-Functional

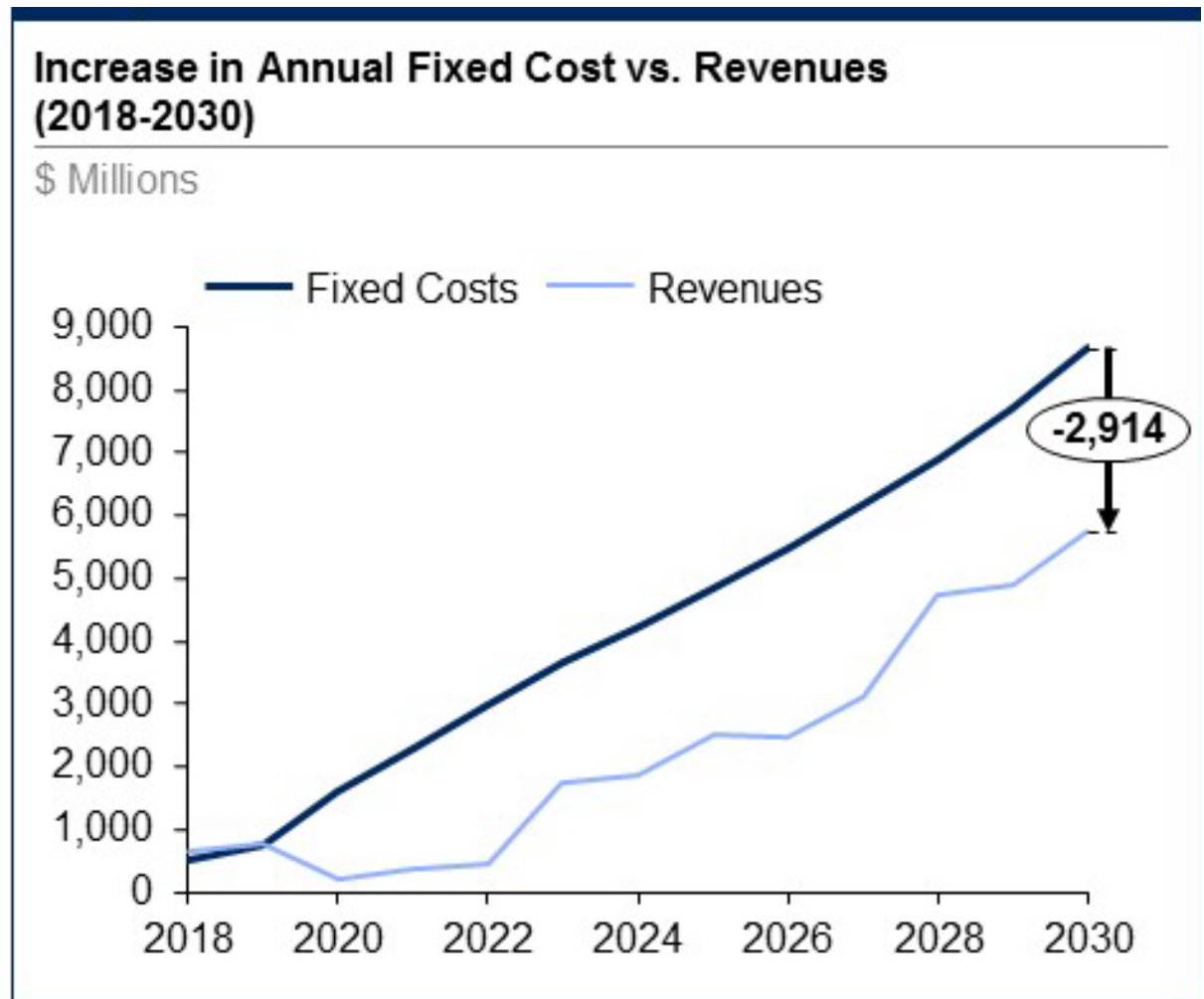


# Rising Nonfunctional Costs

Source: Connecticut Voices for Children analysis

# 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

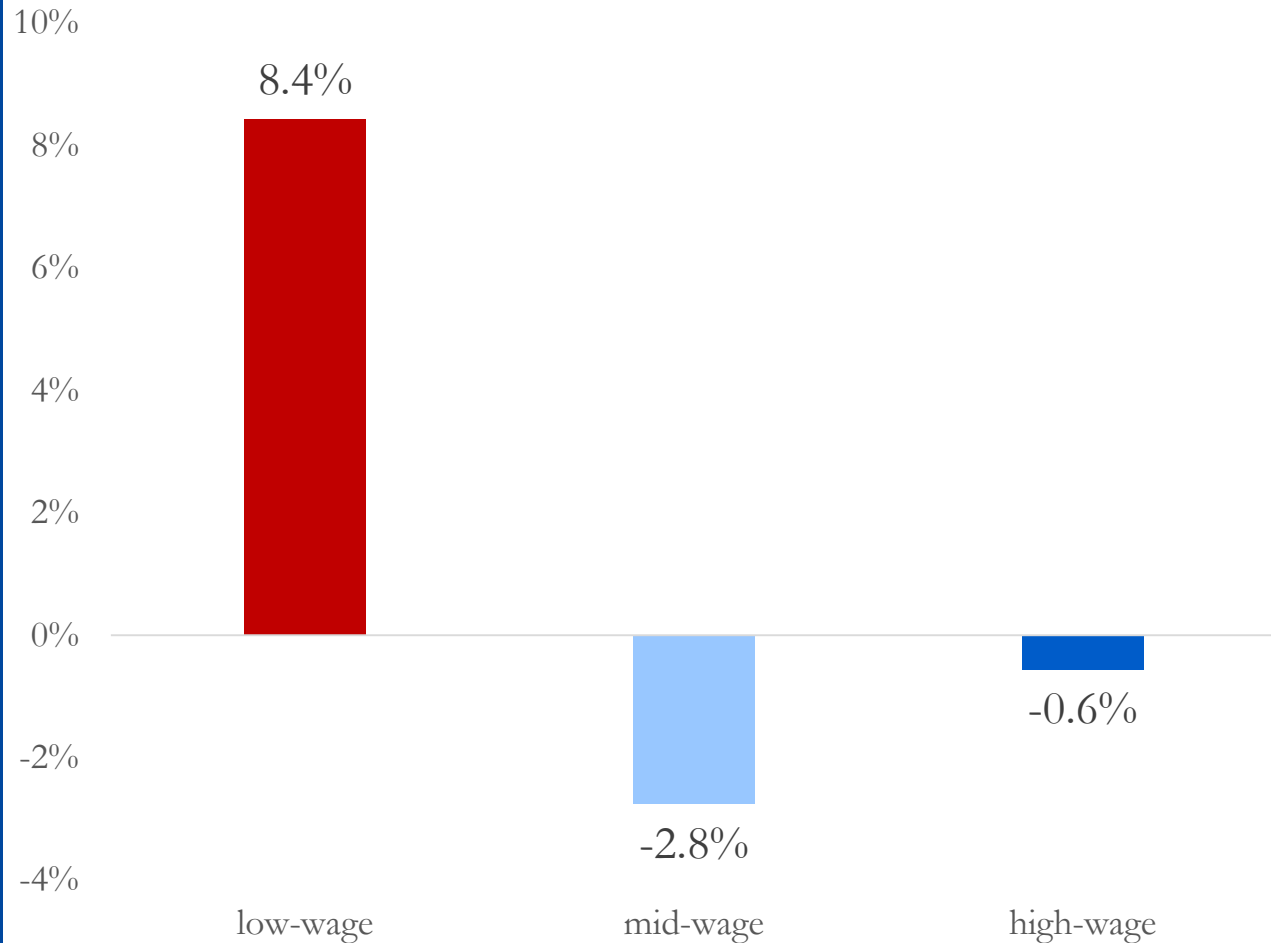
Shifting Priorities



# Shift in Our Economy

The Recovery Has Left Too Many Families Behind

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



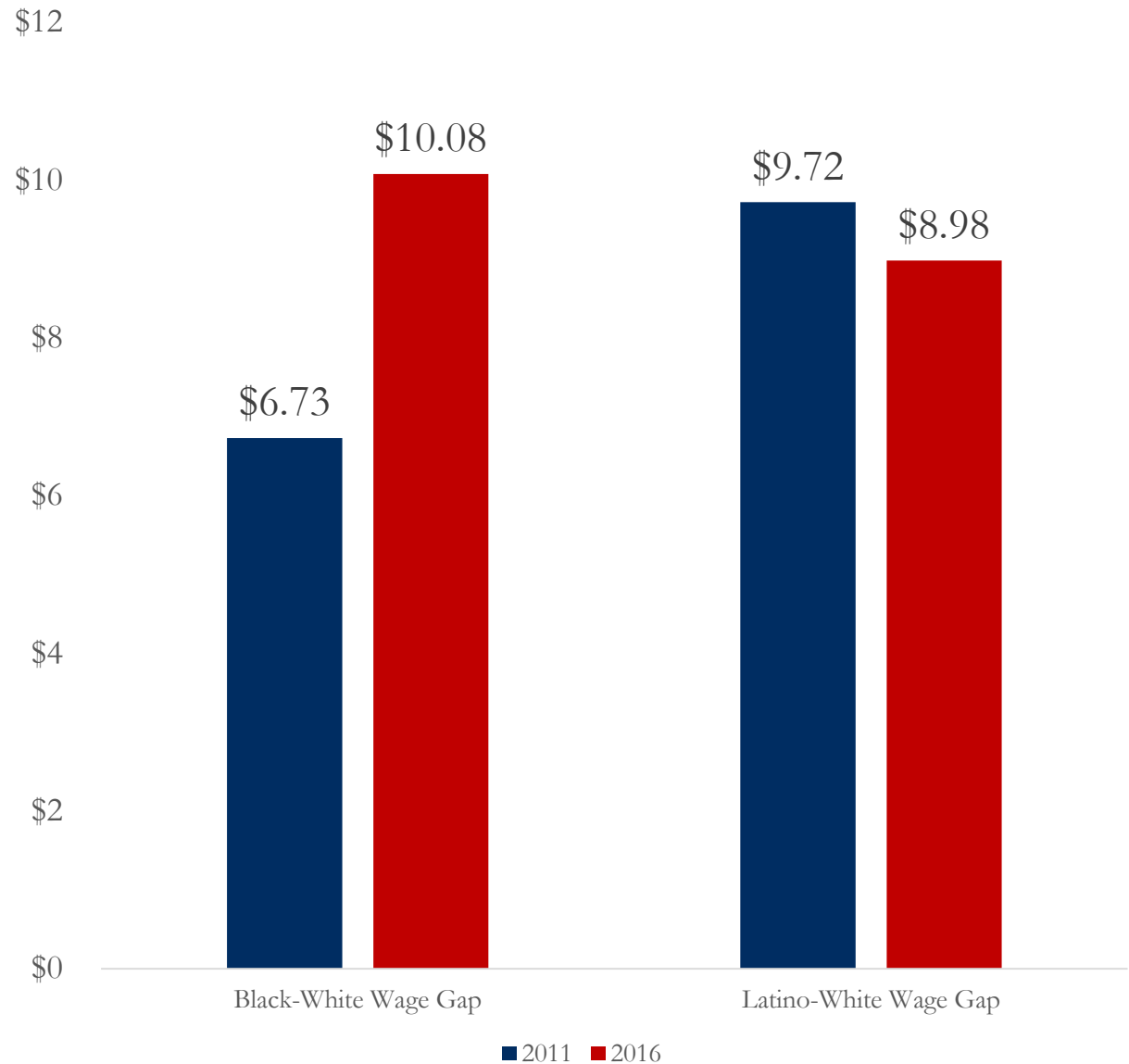
Source: Economic Policy Institute and CT Voices analysis of Current Population Survey

- 9.2% increase in share of low-wage work

# Disparate Impact of Recovery

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

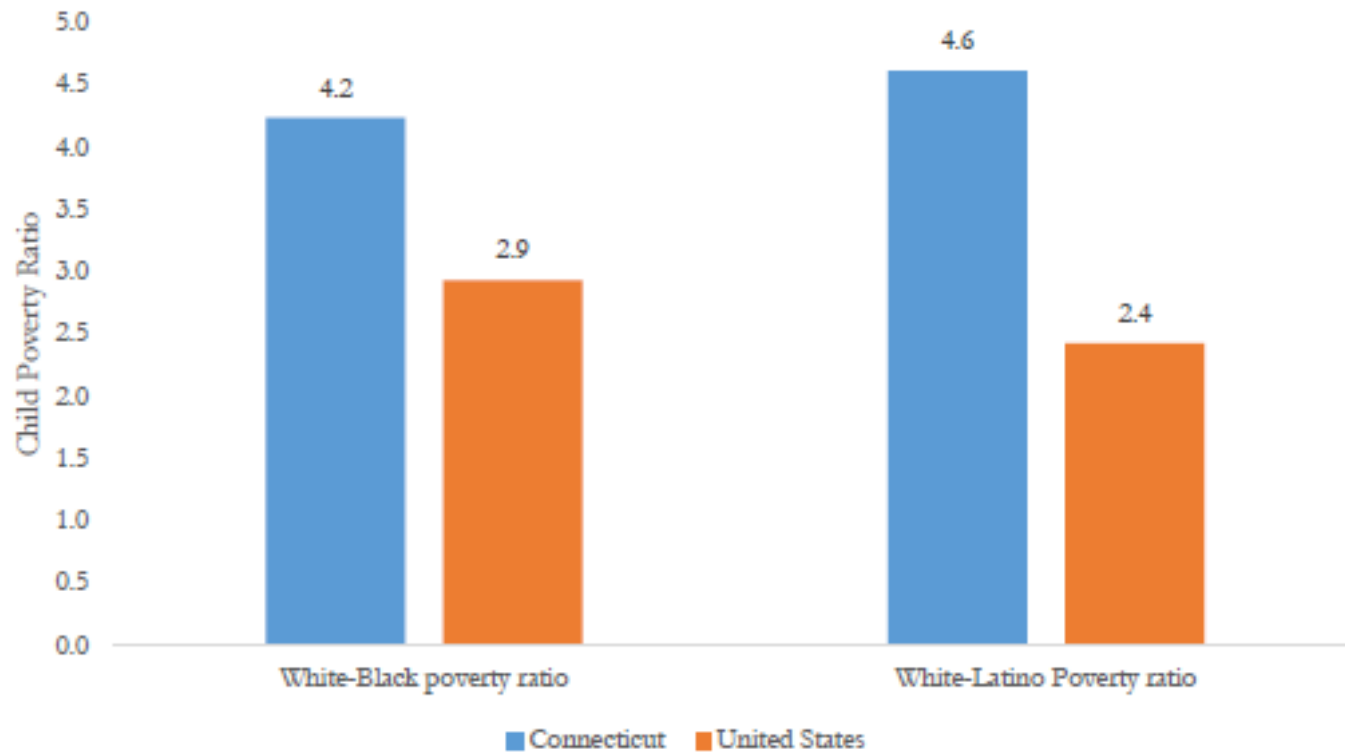
Black-White Disparities in Median Wages Have Increased Since 2011



Source: Economic Policy Institute analysis of Current Population Survey data. 2016 dollars.

## Connecticut's Racial Disparities in Child Poverty Greater than National Average

### Disparities in Child Poverty Rates by Race and Geography, 2016



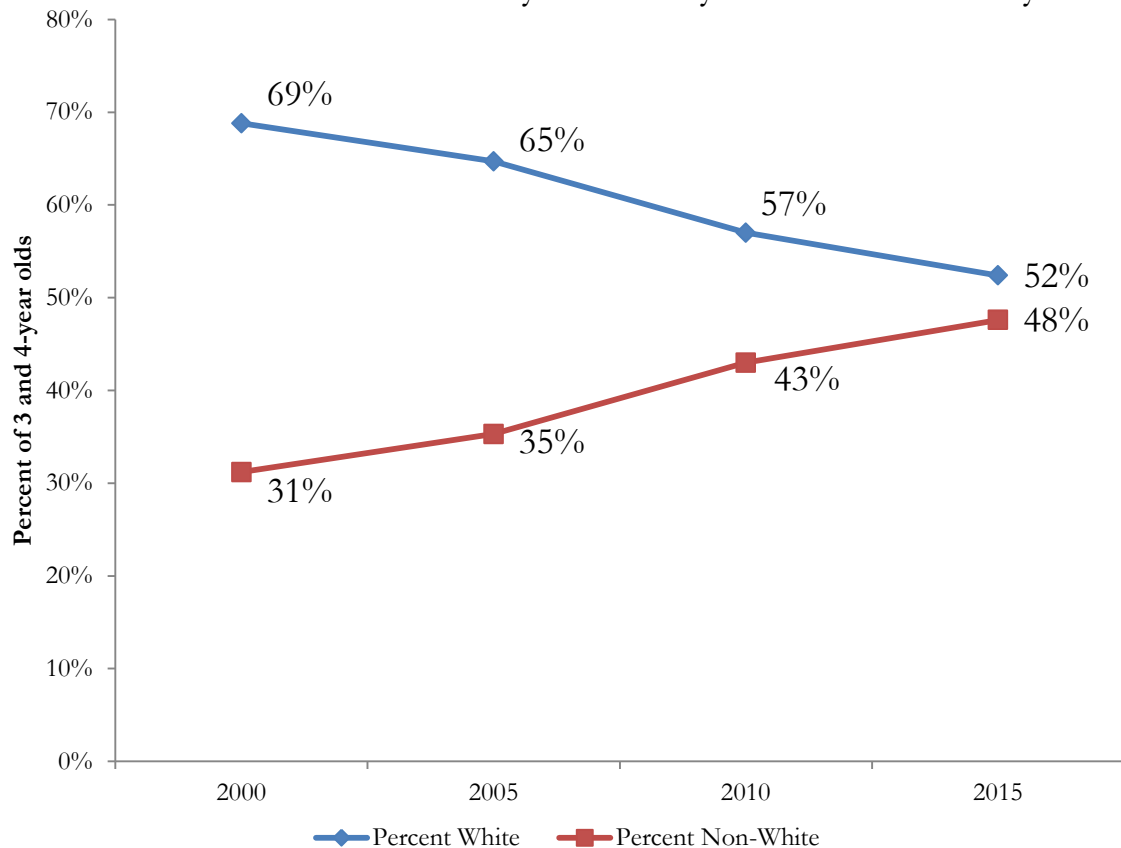
Source: CT Voices analysis of American Community Survey. Ratio of Black/Latino child poverty rate to white child poverty rate.

# Disparities in Child Poverty

Higher than national average

# Racial Disparities Matter: We Are Truly *In It Together*

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



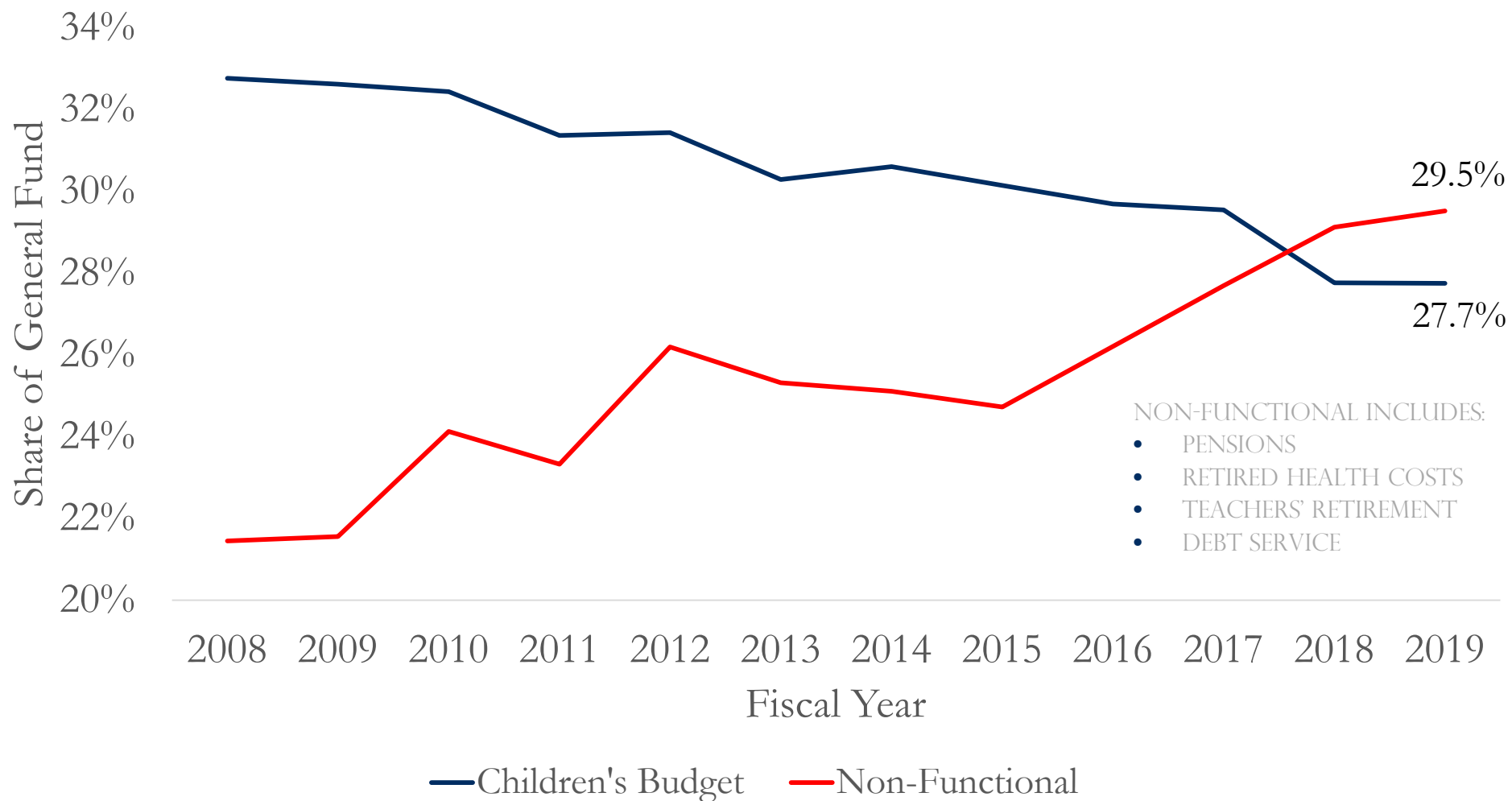
American Community Survey one-year estimates

## 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.**

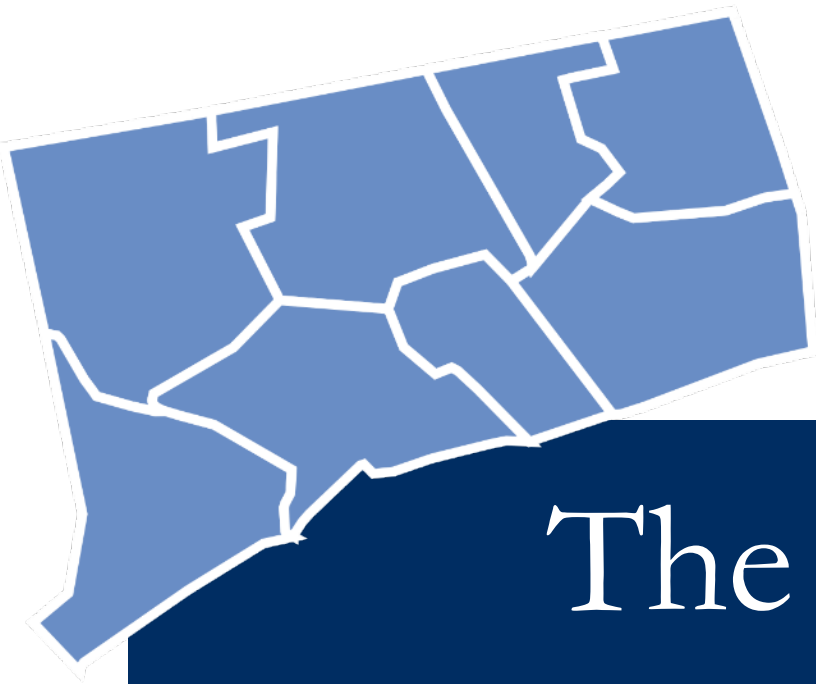
Duncan et al (2010), Harvard Center on Developing Child



# Shifting Priorities:

## We Spend More on Non-Functional Costs Than on Children

Source: Connecticut Voices for Children analysis



# The Impact of Austerity

Austerity Mindset   Federal Overlay   Fiscal Restraints

# Austerity Mindset

Tax Increase on Low to  
Middle Income

Fear of  
Millionaire  
Migration

More Spending Cuts on  
the Way

Reduce  
ETC:  
\$35M/year

Restrict  
property tax  
credit:  
\$55.3M/year

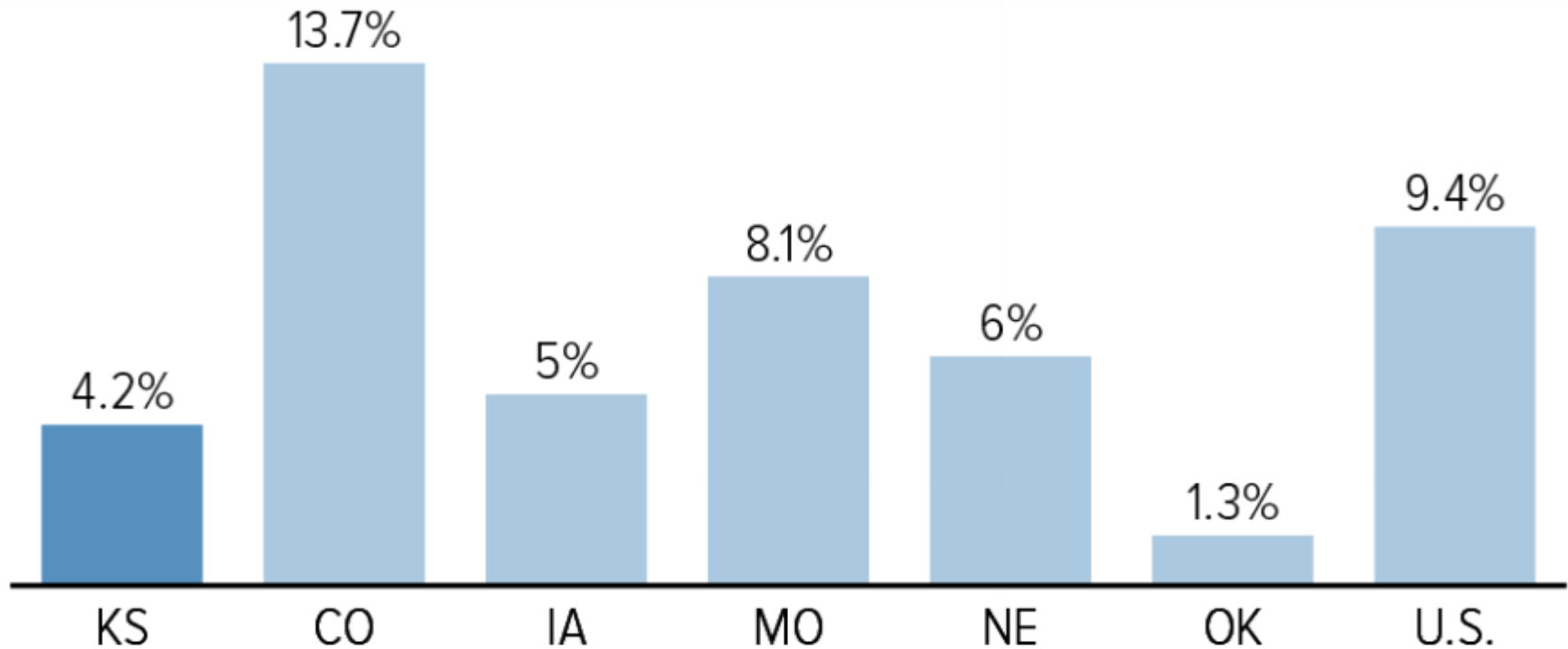
Estate tax  
cuts of \$15.6  
in FY 2019

Budget  
directed cuts  
of \$881.6  
million

Additional  
cuts possible  
if revenue  
projections  
not met



# 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

Final GOP-Trump Tax Bill Gives Larger Tax Cuts to Upper-Income Connecticut Residents in 2019, Raises Taxes on Low- and Middle-Income Residents in 2027

*Tax Change as a Share of Income in 2019 and 2027, Includes Impact of ACA Individual Mandate Repeal*



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## FY 2016 FEDERAL FUNDING TO CT (IN MILLIONS)

Medicaid	4,582
Supplemental Nutrition Assistance Program (SNAP)	788
Children's Health Insurance Program (CHIP)	62
Temporary Assistance to Needy Families (TANF)	267
Child Care and Development Block Grant	53
Social Services Block Grant	18
21 <sup>st</sup> Century Community Center Learning Centers	7

# Fiscal Restraints

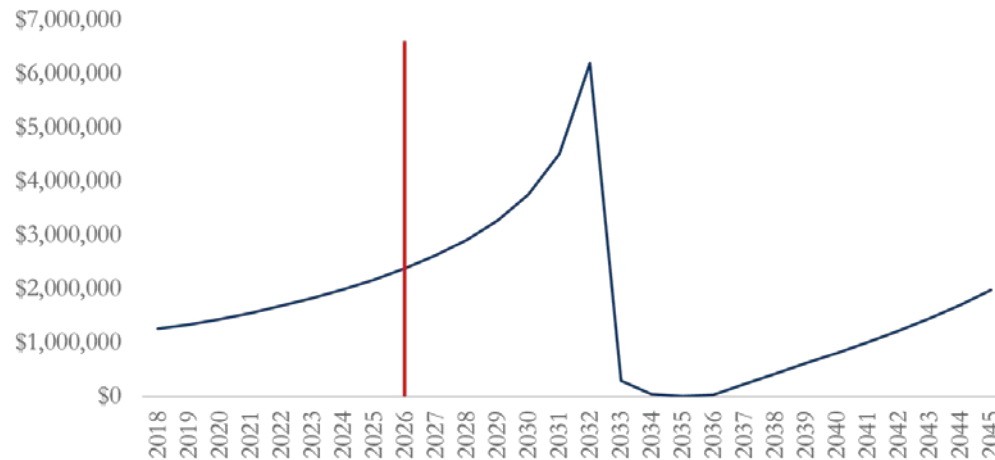
- Spending Cap
- Volatility Cap
- Bond Cap
- Bond Lock



# Spending Cap: Caution Ahead



Projected TRS Contributions  
(in Thousands)



- Part of 1991 income tax compromise
- 2017 Changes limits support to distressed municipalities and bring pensions back under cap

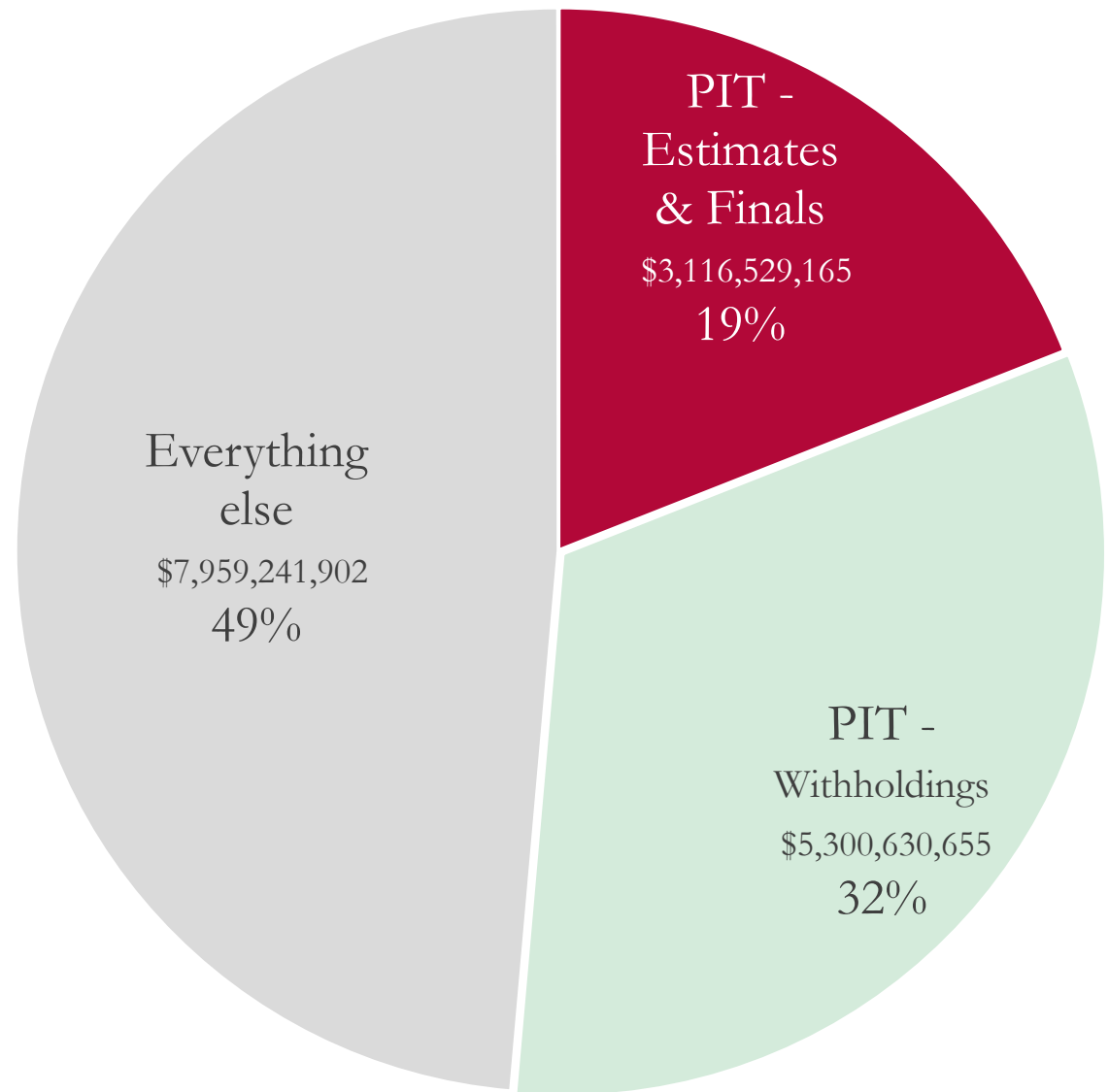
- For FY 2019 budget, we can only spend 1% (\$200 million) more than present appropriations
- This restriction comes on top of years of austerity budgeting. Consider a few of the FY 2016 budget cuts:
  - Reduced Medicaid eligibility, affecting 18,900 parents
  - Reduced property tax credit from \$300 to \$200
  - Cut more than \$130 million from K-12 education
- **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

Net General Fund Revenue,  
2017.

Source: Office of State  
Comptroller.





- 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.

## BOND CAP & BOND LOCK



# Toward Solutions

Equity Opportunity

~~PROBLEM~~

SOLUTION



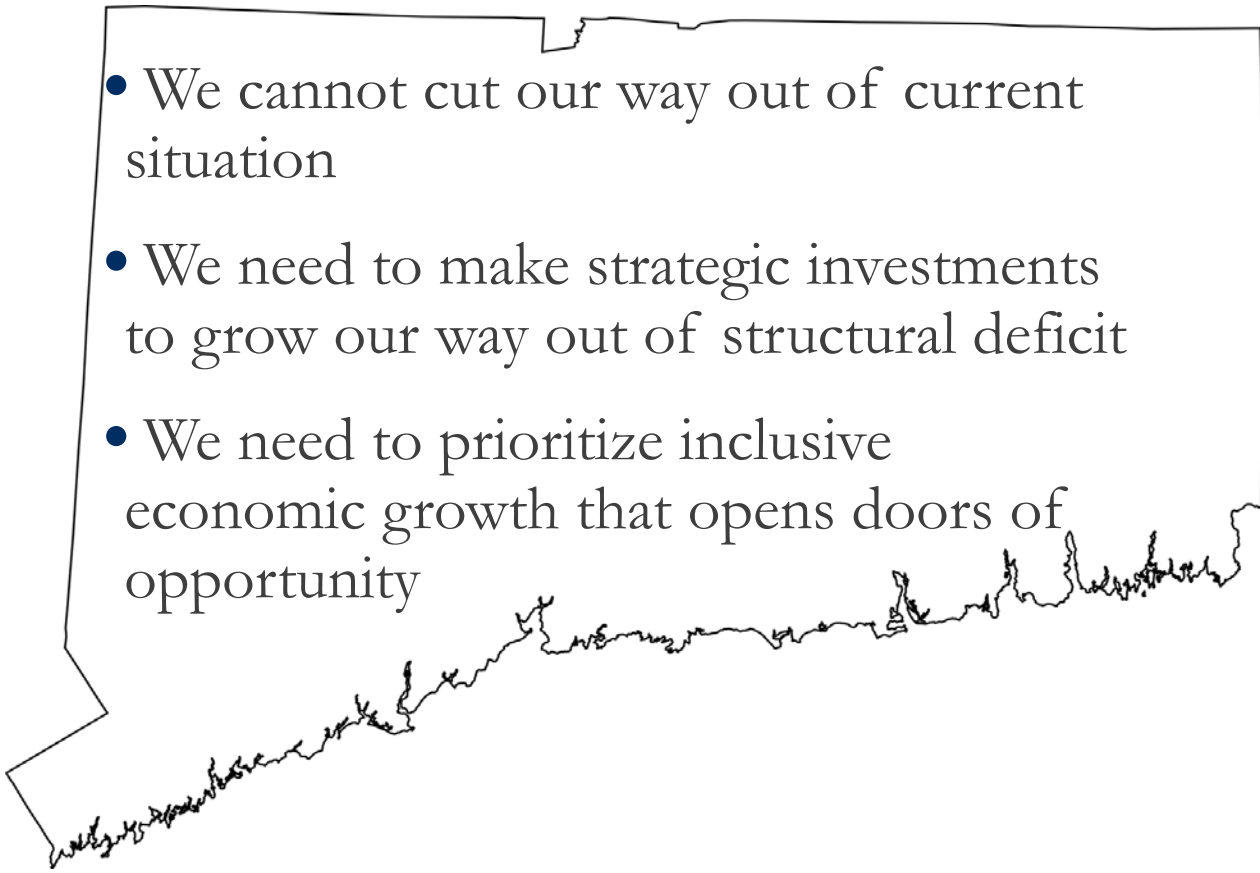


# Pathways to Opportunity

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

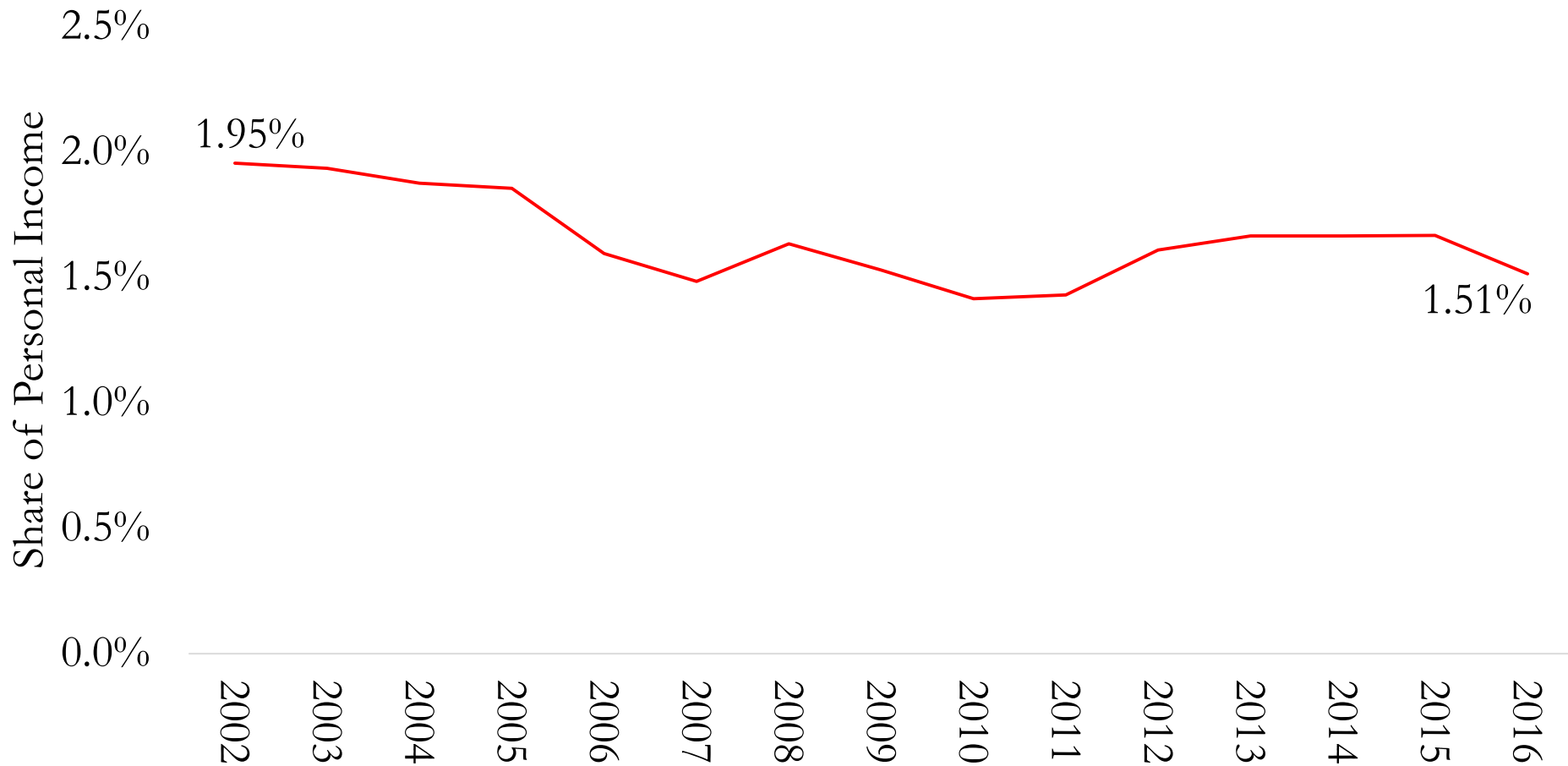
**Expand sales tax to include services  
and eliminate exemptions**

**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

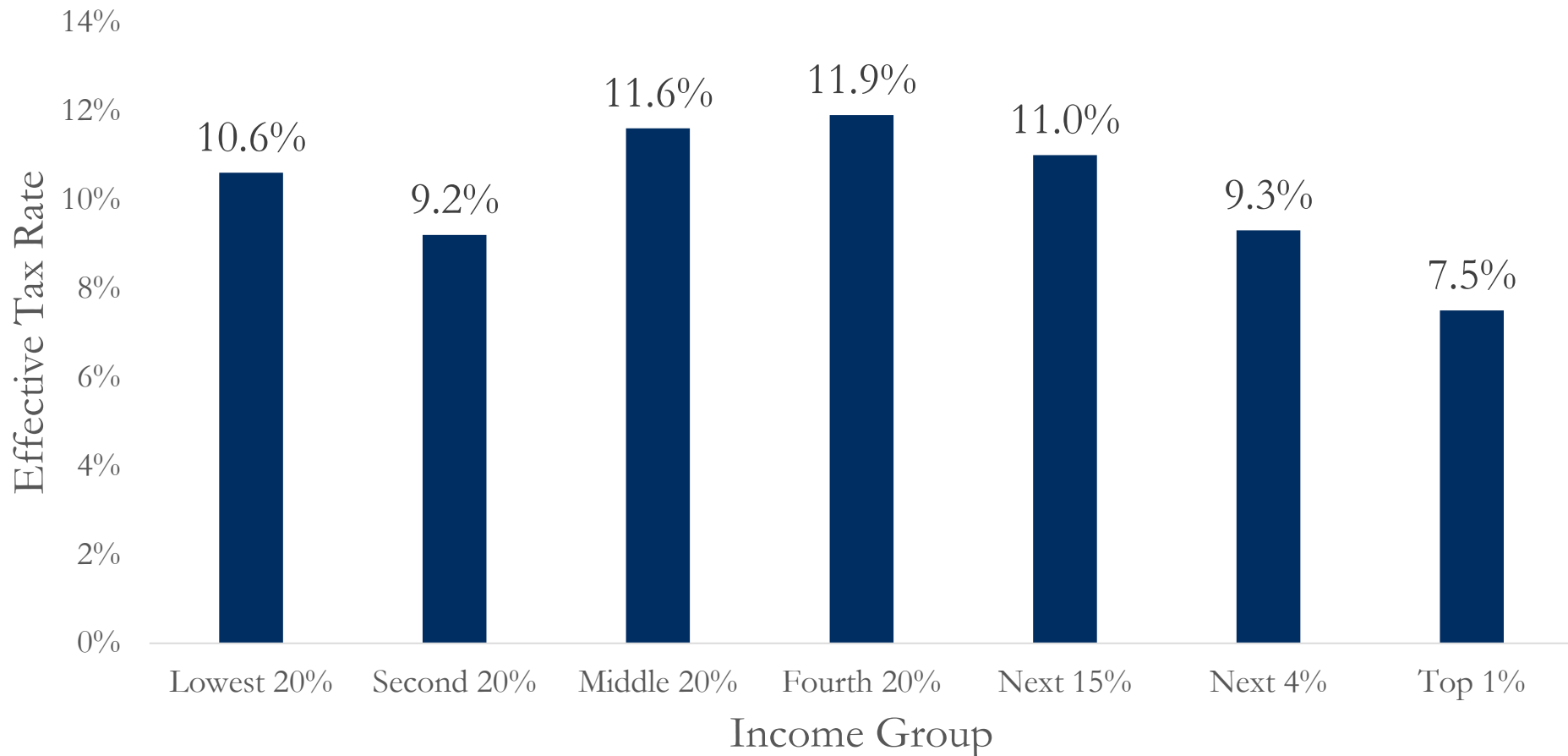
Personal income from Bureau of Economic Analysis Table SA1 – Personal Income Summary. Sales tax from Annual Survey of State Government Tax Collections. Inflation-adjusted using CPI-AUCSL seasonally adjusted, annual averages 2001-2016.

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

Rate	Additional Annual Revenue
6.35%	\$1.5 billion
6.00%	\$1.18 billion
5.50%	\$730 million

Example services taxed: intrastate courier service, travel agent services, winter boat storage, diaper service, bowling alleys

## State and Local Taxes as Share of Family Income, 2015

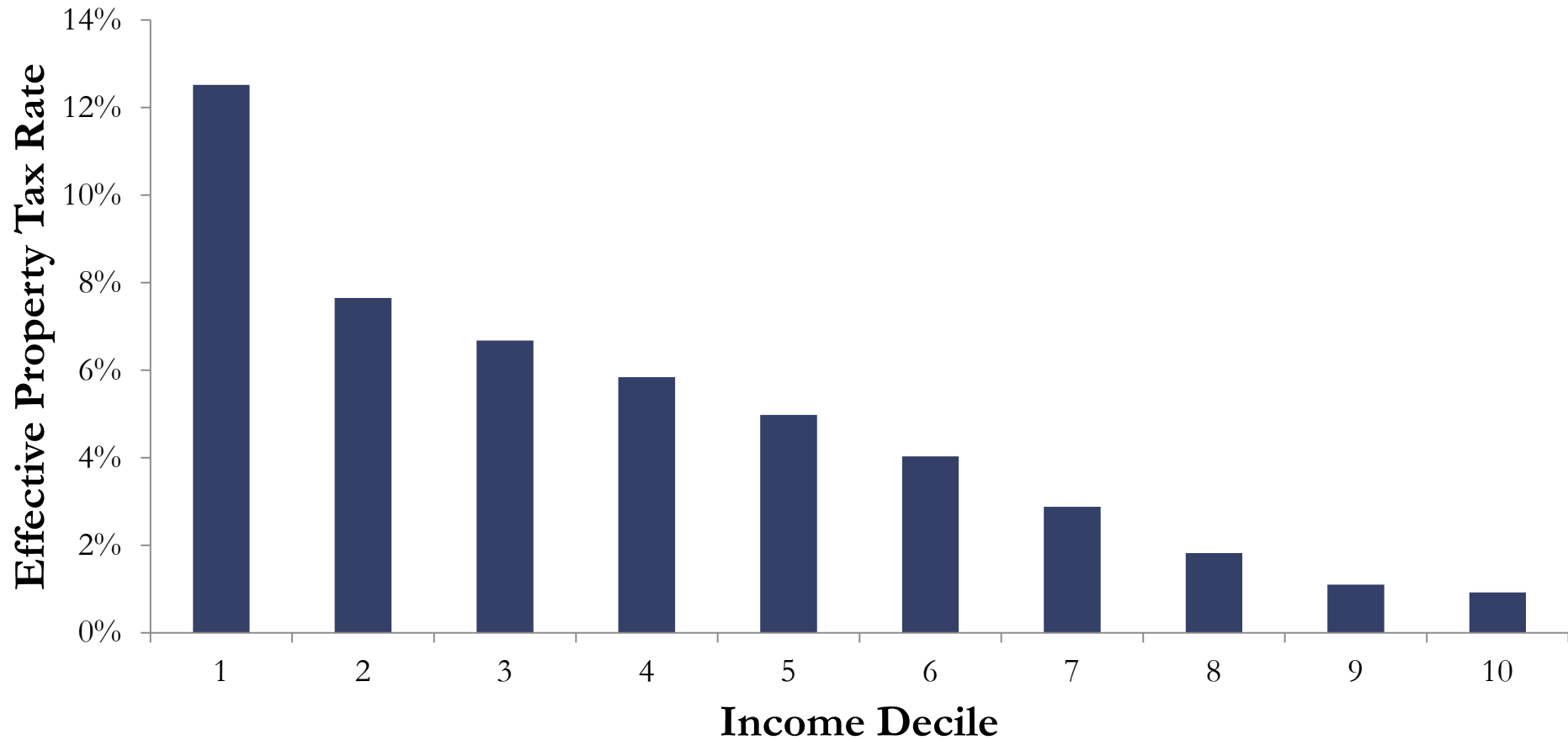


# Our Tax System is Upside-Down

Source: Institute for Taxation and Economic Policy. Pre-federal offset. Excludes elderly taxpayers.

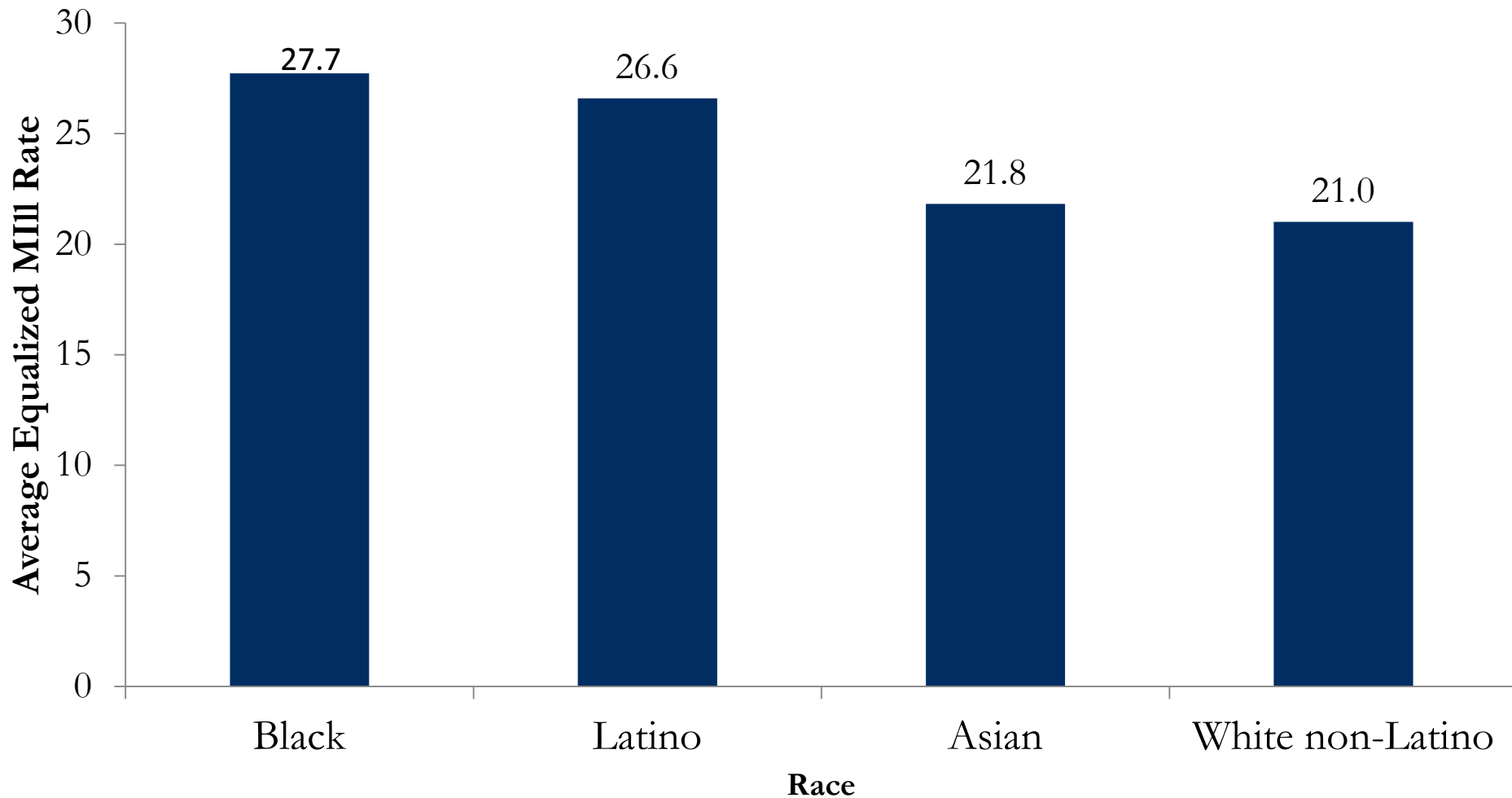


# Effective Property Tax Rate by Income Decile



## Our Property Tax System is Upside-Down

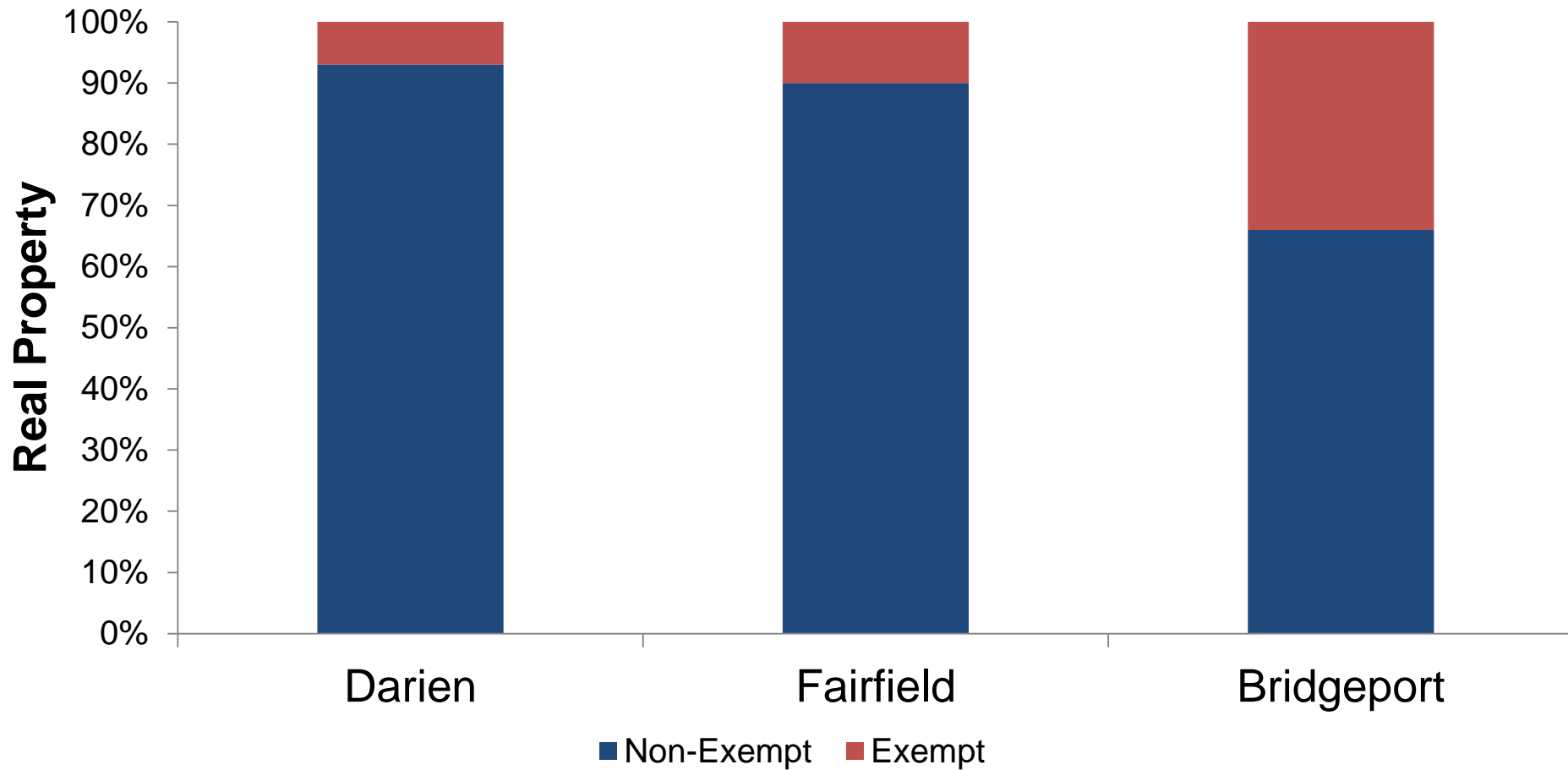
Source: Department of Revenue Services. Tax Incidence Report. 2011 tax year.



# Our Property Tax System Furthers Racial Disparities

Source: Connecticut Data Collaborative and OPM, Municipal Fiscal Indicators.

**Share of Exempt Property by Town**



# 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.

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# An Opportunity Agenda

# Invest in Opportunity

Invest in Care 4 Kids

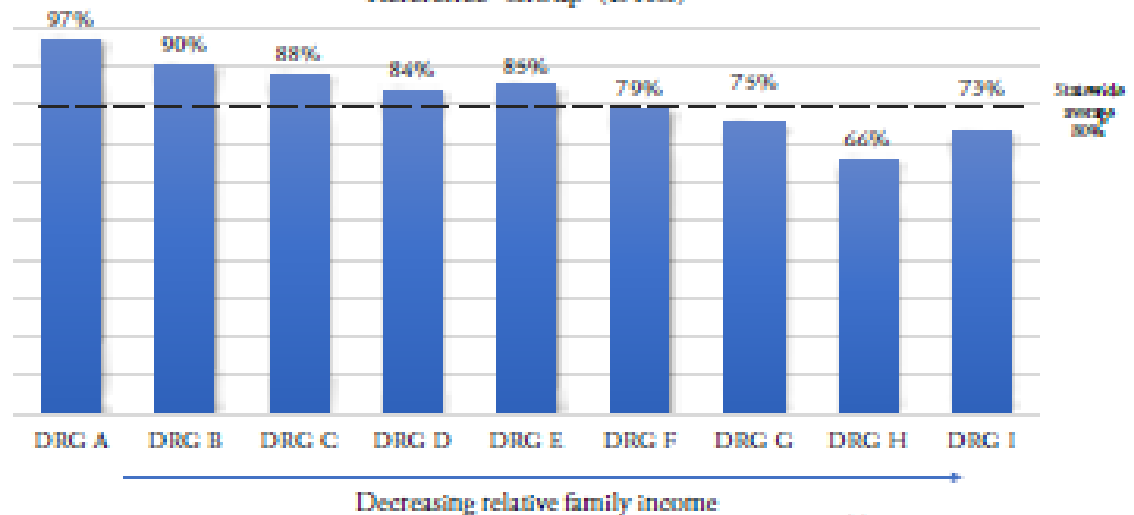
Support Wrap Around Services

## Average Costs of Child Care and Households' Ability to Pay For 2016

	Average Cost of Center-Based Care	Households with children under 5 for whom cost of care met affordability threshold
One Infant	\$14,079	25.8%
One Preschooler	\$11,669	35.3%
One Infant & One Preschooler	\$25,748	6.9%

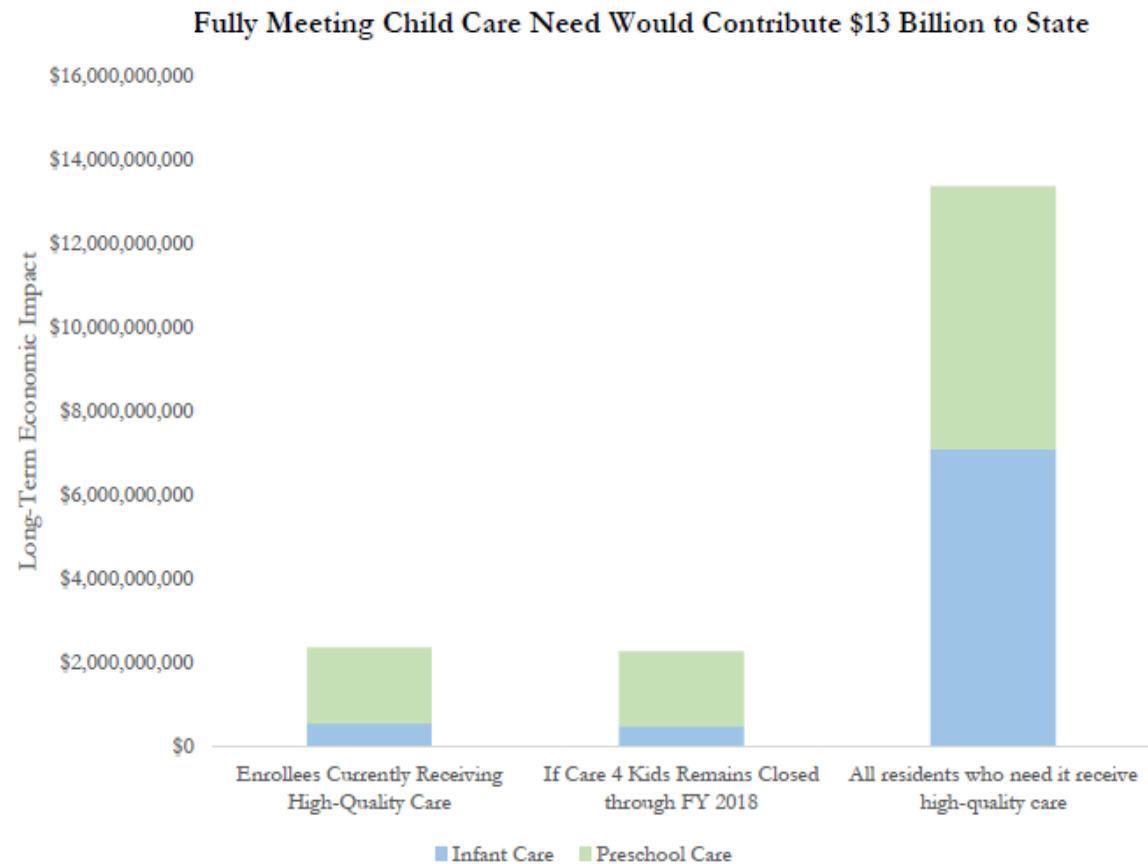
Source: CT Voices analysis of Child Care Aware reports of the average cost of center-based care per year and of Census micro-data. Affordability threshold based on DHHS and OEC definition, which states that to be affordable, child care must cost no more than 10% of household income.

## 2015-2016 Preschool Experience Rates by School District Reference Group (DRG)



Source: CT Voices analysis of SDE data

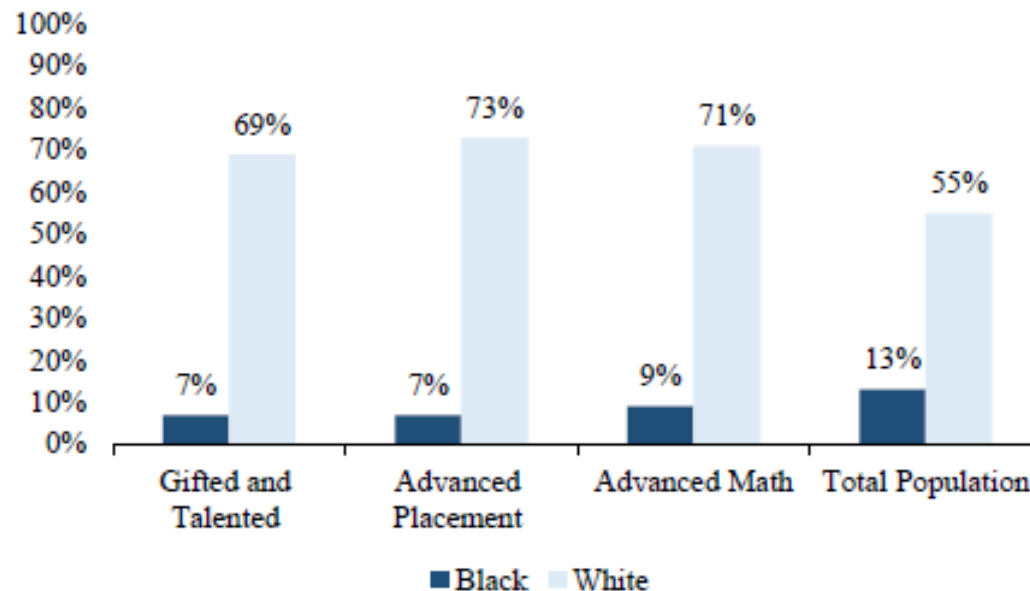
# The Economic ROI of Quality Early Care



Source: Connecticut Voices for Children analysis



Percentage of Students across all grades Enrolled in Gifted and Talented, Advanced Mathematics and at Least One Advanced Placement Course by Race



Source: United States Department of Education – Civil Rights Data Reporting 2016

# Invest in Equity

Funding equity in resources to support equity in opportunity

# Thank You

- Ellen Shemitz,  
Executive Director  
[eshemitz@ctvoices.org](mailto:eshemitz@ctvoices.org)  
203.498.4240 (x108)
- Ray Noonan,  
Associate Fiscal  
Policy Fellow  
[rnoonan@ctvoices.org](mailto:rnoonan@ctvoices.org)  
203.498.4240 (x113)

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