FOLLOW THE MONEY!

FY 2009
State Fiscal Challenges

Shelley Geballe, JD, MPH
Distinguished Senior Fellow
CT Voices for Children
33 Whitney Avenue, New Haven CT
203-530-8599, 203-498-4240
www.ctkidslink.org

CONNECTICUT VOICES FOR CHILDREN

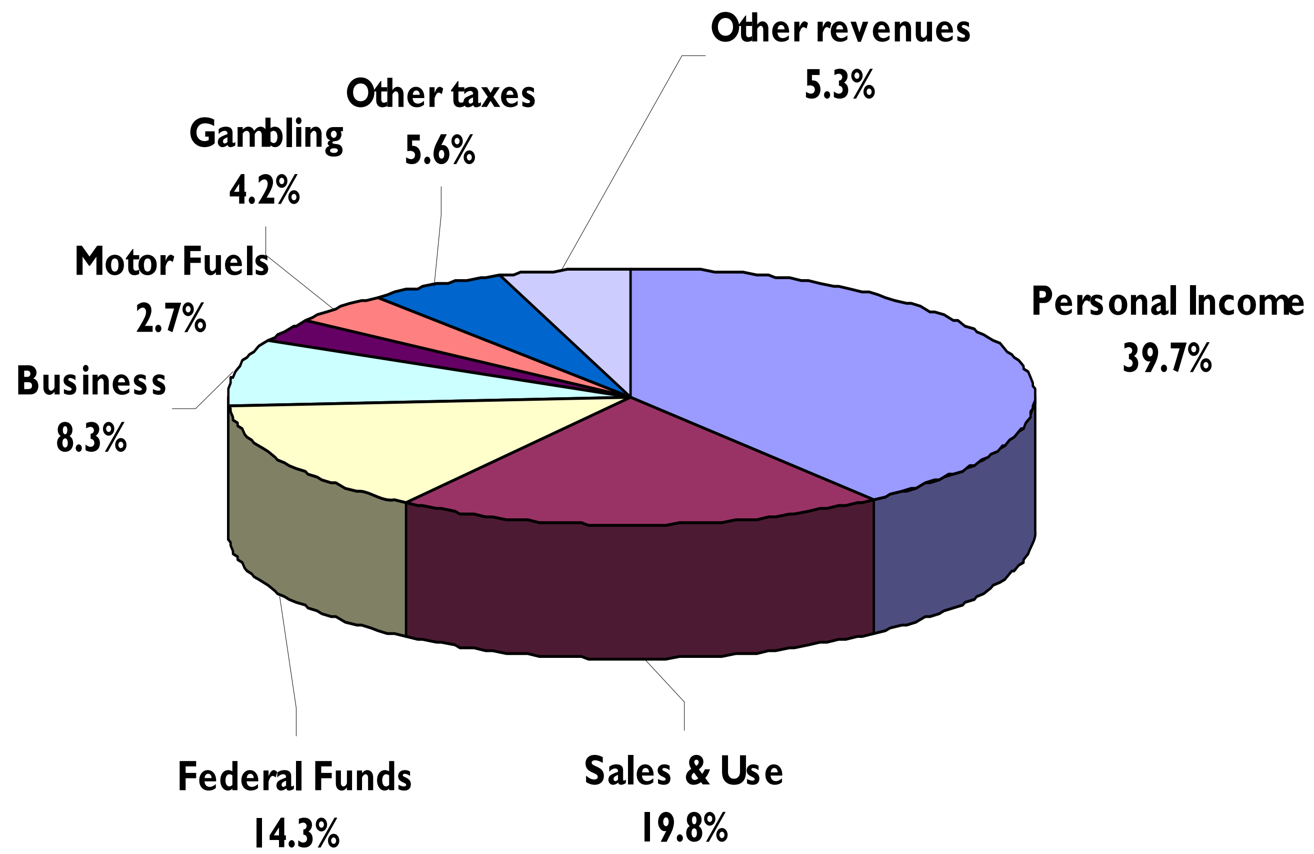
1. **Some State Budget Basics**
2. **The Current State Budget Crisis**
3. **A Quick Look at Early Care & Education Funding Trends**
4. **Budget Process: When to Make Your Voice Heard**

Connecticut's Constitution requires that our state budget be balanced. Unlike the federal government, Connecticut *cannot* run a deficit.

CT's fiscal year runs from July 1 to June 30. We are in now SFY 2009, the second year of our biennial budget.

The SFY 09 budget is $18.44 billion ($17.08 billion for the General Fund, by far the largest of the budget's Funds).

CT State Revenues, SFY 09



CT Revenues in Context

Only 15.9% of CT's total state and local general revenue comes from the federal government, the third lowest share among all states (behind Nevada and Virginia). On average, states receive 20.7% of their state/local revenues from the federal government.

As a share of total state personal income, compared to other states, CT in 2006 ranked:

- 49th (i.e.,second lowest to New Hampshire) in total state and local own source general revenues (13.5% in CT compared to 50-state average of 15.8%)
- If CT's combined state and local own source revenues had been the same % of personal income as the 50-state average, there would have been $3.8 billion *more* for public investment in 2004 ($32.7 billion, rather than $28.9 billion).

U.S.Census Bureau, FY 06; Federal Funds Information for States, *State Policy Reports* (September 2008)

CT Revenues in Context

Compared to other states, CT relies the most on taxes and the least on fees and other charges to raise state and local revenues.

- Taxes were 82% of CT's total own source revenues (compared to 50-state average of 69%)

- Charges and fees were 10% of CT total own-source revenues (compared to 50-state average of 19%).

CT is slightly above average in the share of its state and local taxes that are collected by the state (rather than by cities/towns). State taxes equal 61.1% of CT's total state/local taxes; the 50-state average is 59.5%.

U.S.Census Bureau, FY 06; Federal Funds Information for States, *State Policy Reports* (September 2008)

CT Revenues in Context

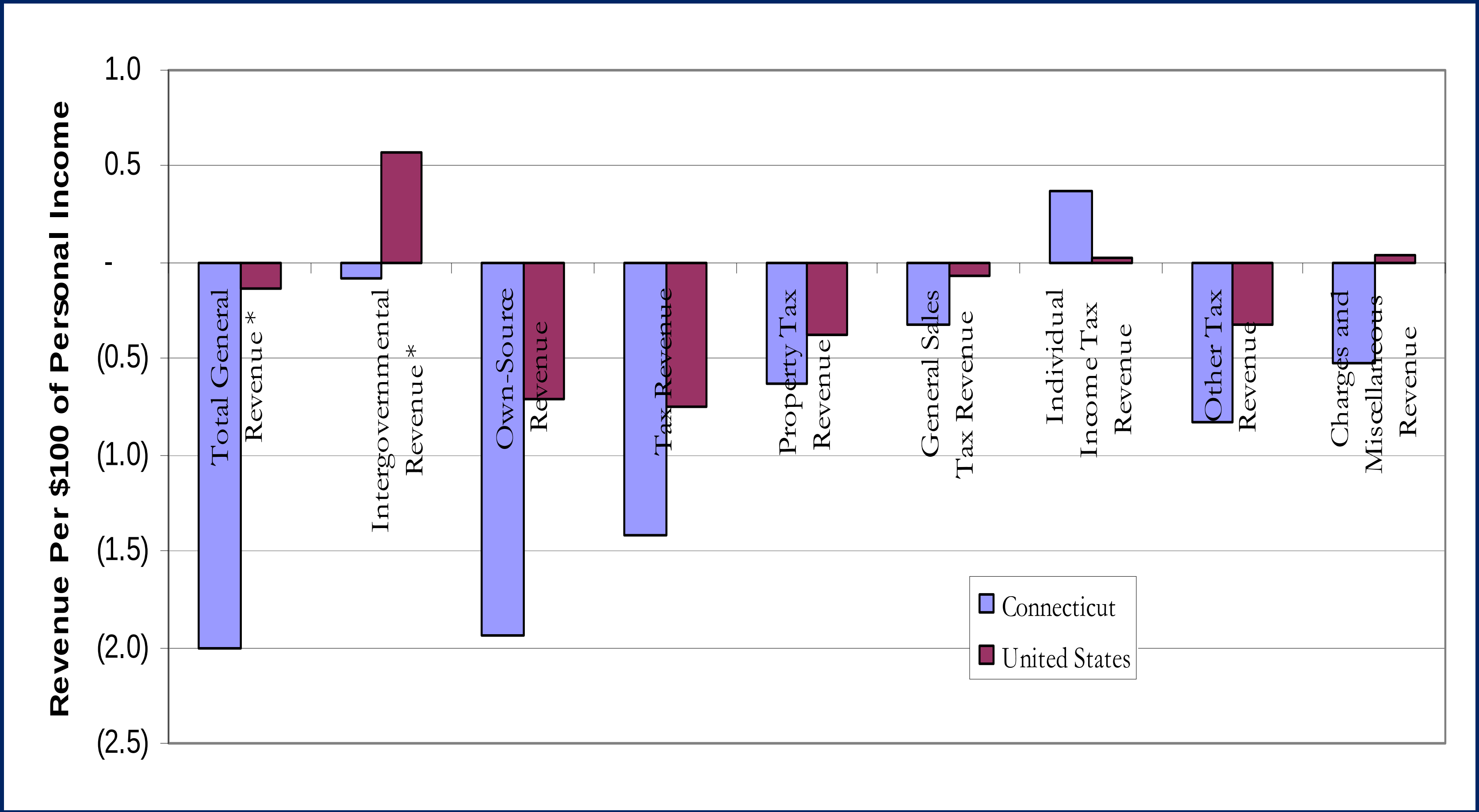
CT ranks 2nd highest among state (behind NH) in the share of its state and local own-source general revenues that come form the property tax (31.1% in 2006, compared to 50-state average of 20.7%)

CT ranks 4th highest (behind MD, OR, and MA) in the share of its state/local revenues that come from the personal income tax (23.7% compared to 50-state average of 15.5%).

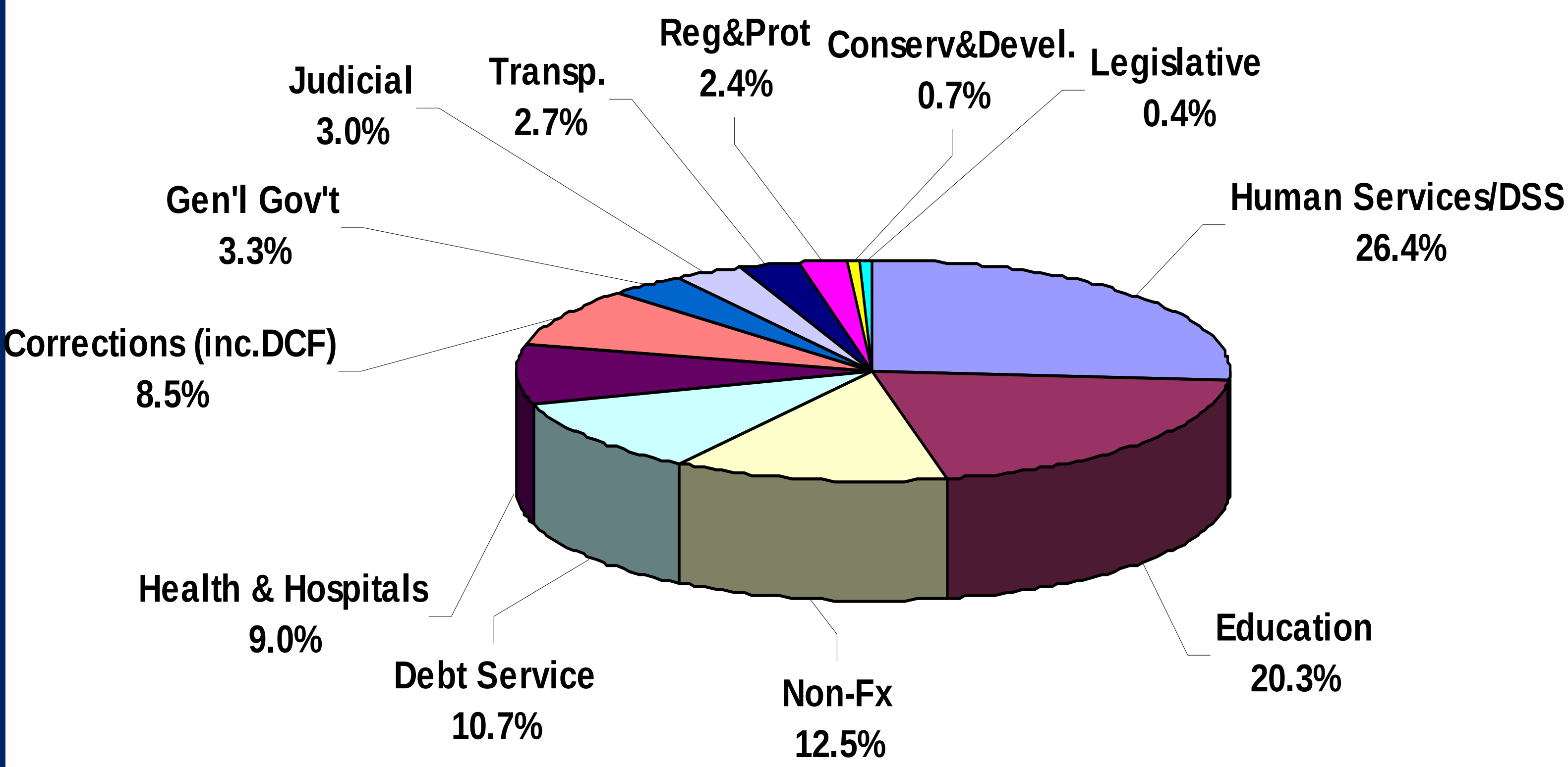
CT's share of total state and local revenues from corporation business taxes is below the 50-state average (2.6% in CT compared to 50-state average of 3.1%)

U.S.Census Bureau, FY 06; Federal Funds Information for States, *State Policy Reports* (September 2008)

CT's Change in State & Local Revenue (per $100 of Personal Income) v. US Average 1992-2002

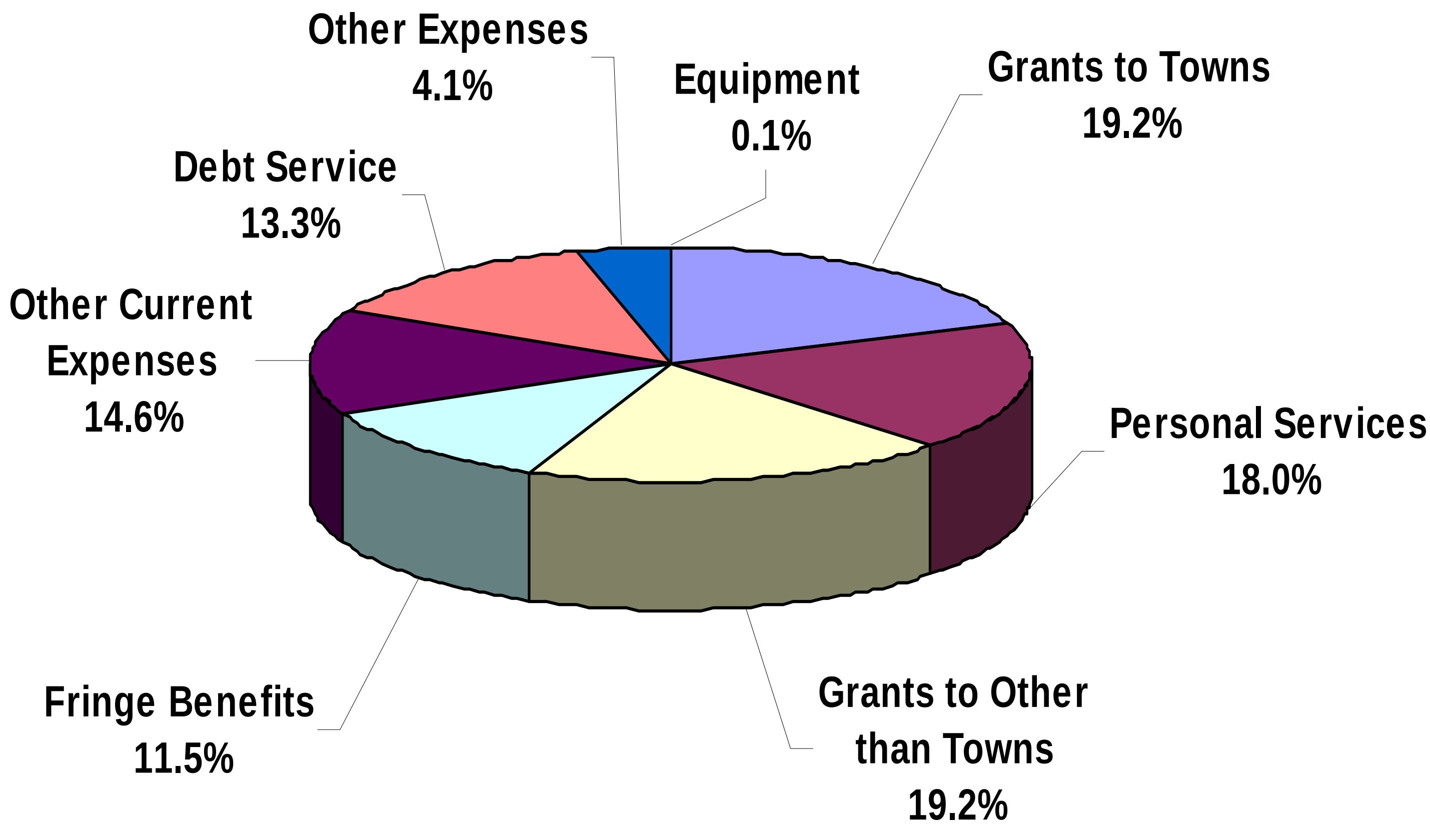


Where Does the Money Go?
CT State Spending, by Function of Government: SFY 09



Where Does the Money Go?

CT State Spending, By Character of Expenditure: SFY 09

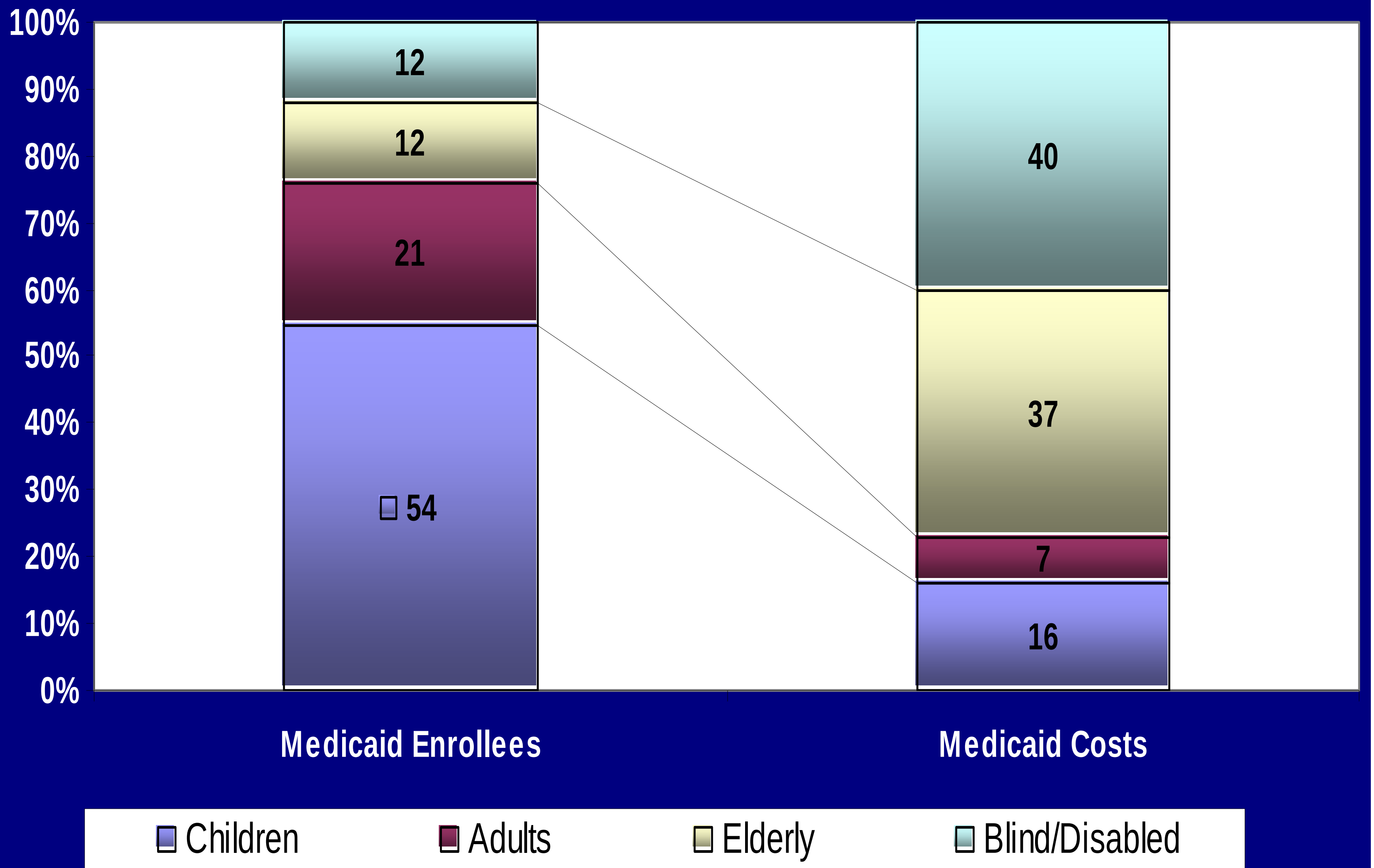


59% of All *General Fund* Spending is in 4 Budget Areas (SFY 09)

Medicaid *	**$3.72B (20.1%)**
Personal Services **(but not higher ed)**	**$2.45B (14.2%)**
Education Grants to Towns	**$2.39B (12.9%)**
Debt Service	**$1.54B (9.0%)**

* The Medicaid budget line includes both state and federal funds. When federal reimbursements are received, they are counted as General Fund revenues

CT's Medicaid Program Primarily Supports the Elderly & Disabled



Kaiser Family Foundation, *State Health Facts, FY 2005*

CT's Spending in Context

As a share of state personal income, compared to all other states, in 2004 CT ranked:

- **12th lowest** in spending on primary and secondary education
- **7th lowest** in social service spending
- **2nd lowest** in spending on higher education, on spending on housing and the environment, on capital spending, and of ***total*** direct spending
- **Lowest** in state and local transportation spending

If CT's state and local spending on education was equal to the 50-state average (7.0% of personal income rather than 5.7%), CT's education investment would have been \$1.99 *billion* greater (a 25% increase).

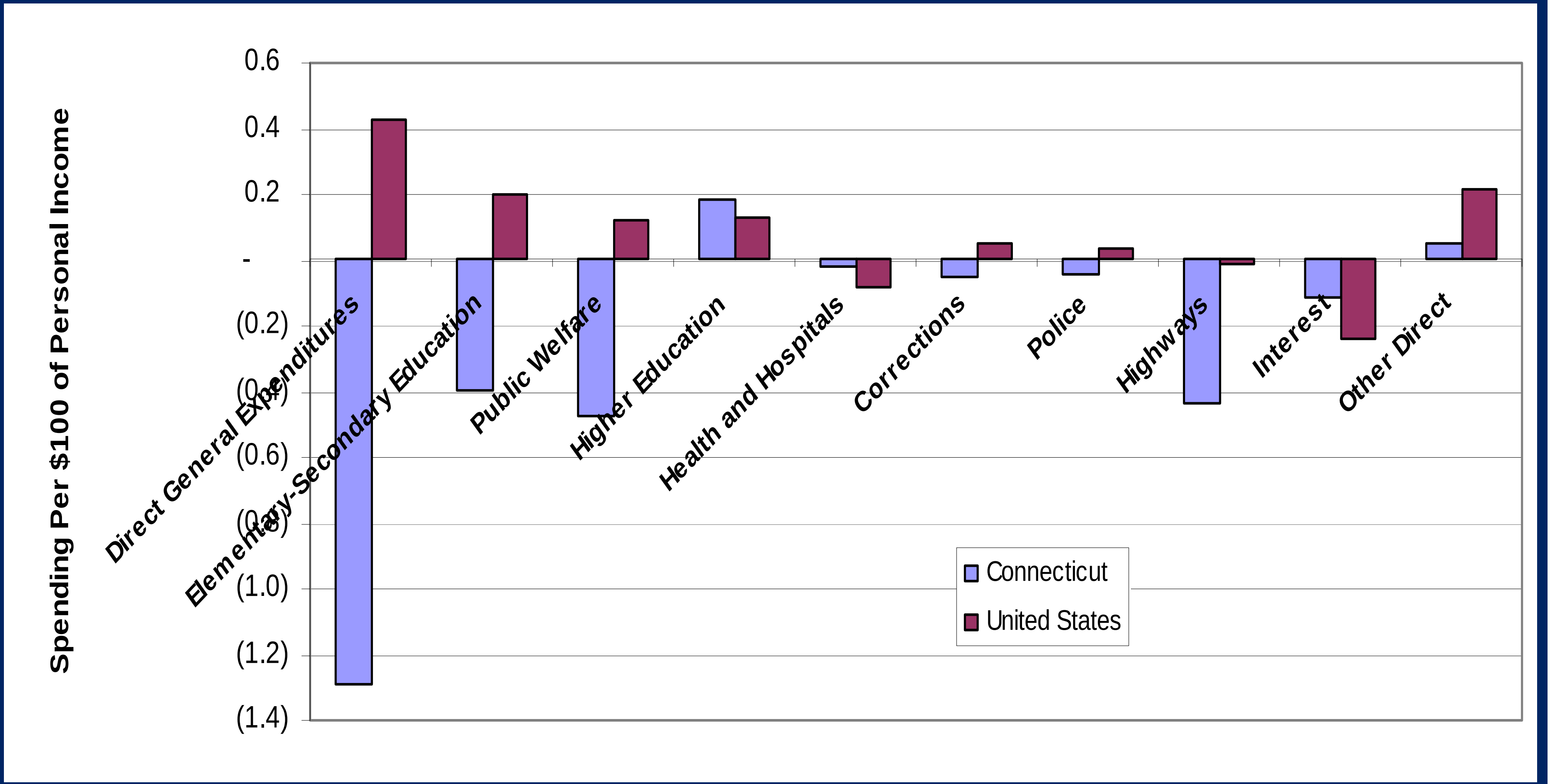
US Census Bureau, FY 2004; Rockefeller Institute, Fiscal Studies Program

CT's Spending in Context

CT's spending has grown out of balance in multiple ways:

- **In 1988, CT spent $6.60 on education for every dollar it spent on corrections. In 2008, CT spent just $2.40 on education for every dollar spent on "corrections"** (includes DOC and DCF)
- **In 1988, 5.3% of state spending was on debt service. In 2008, about 10.4% was. If the same share of the budget went to paying off debt now as in 1988, there would have been $897 million more in 2008 for other types of state spending.**

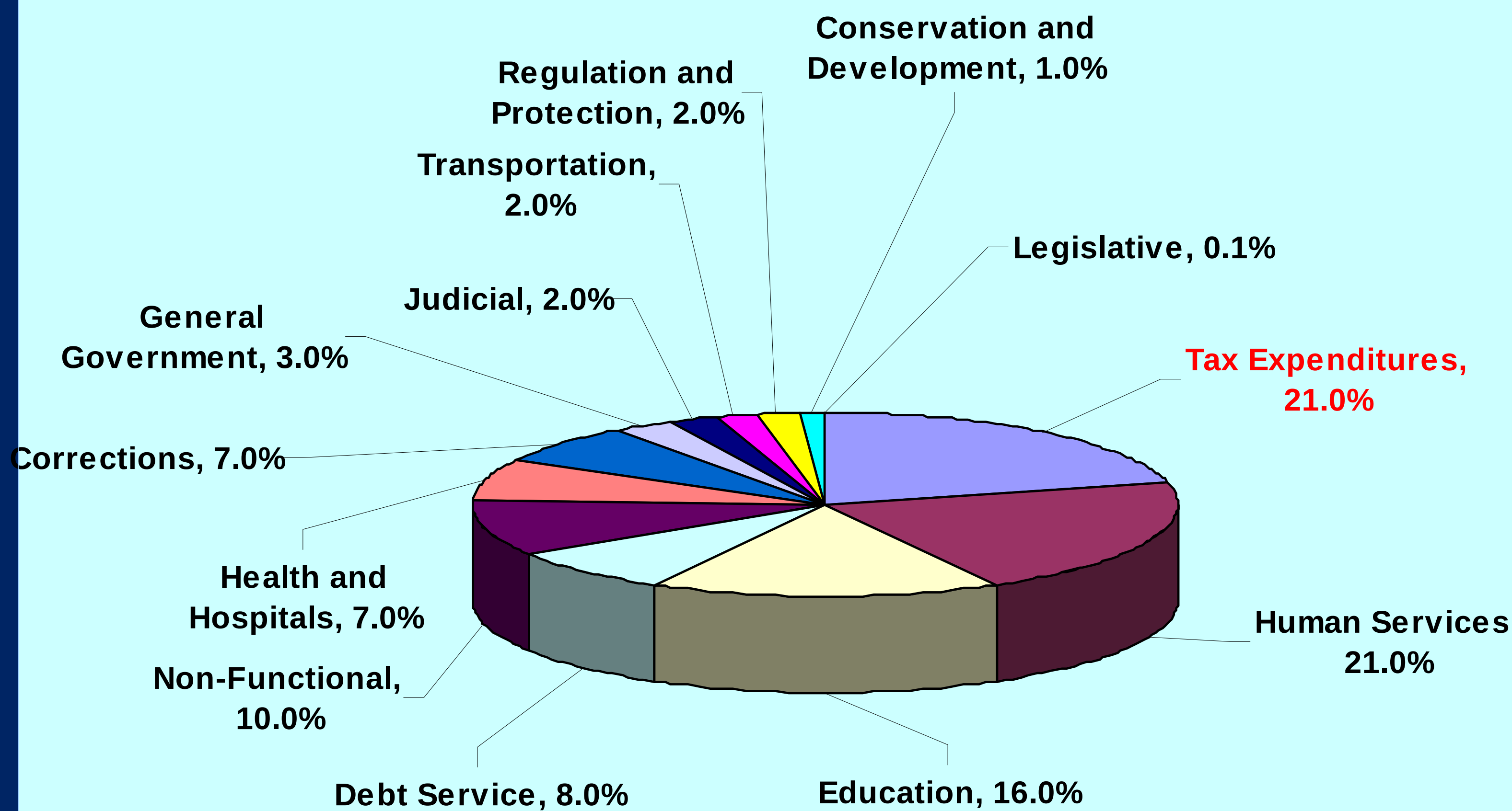
CT's Change in State & Local Spending (per $100 of Personal Income) v. US Average 1992-2002



Tax Expenditures: A Form of "Hidden Spending"

Tax expenditures (tax credits, exemptions, exclusions, deductions) provide preferential financial benefit to one or more taxpayers through the tax code.

Unlike appropriated expenditures, tax expenditures are rarely revisited & become permanent revenue losses, regardless of changed economic conditions or evolving public policy, and without an assessment of their continued value to the state.



Total "spending" through appropriations and through tax expenditures totals $23.6 billion in FY09. The financial benefits provided through the tax code roughly equal all funding for DSS, and are more than all spending on education.

THE CURRENT BUDGET CRISIS

I. Where Are We Now & How Can History Inform Us?

II. How Well-Positioned Are We?

III. What Principles Should Guide Budget Choices?

Where Are We Now?

Bubble in home prices, fueled by ready availability of credit, results in underestimate of risks in residential real estate

Lax lending standards, coupled with residential home prices peaking in 2006, result in high rate of delinquencies on sub-prime mortgages in 2007 and rising rate of delinquencies on prime mortgages

The Collateralized Debt Obligations (CDOs) that were backed by these mortgages suffer losses

The financial institutions (banks, investment banks, insurance companies & hedge funds) that issued "credit default swaps" contracts (CDS) that insured the CDOs have increased liabilities

The financial institutions that held CDOs and/or issued CDS's suffer huge losses

Cutbacks in credit are extended by the highly-levered lenders that suffered these losses

Baily and Litan, A Brief Guide to Fixing Finance (Brookings Institution, 9/22/2008)

In 2007, CT had 123,488 jobs in "finance & insurance" paying, on average, $146,288/year, a total of $18.1 *billion.* These included:

-22,096 jobs in securities, commodity contracts & investments ($353,655/year average)=$7.8 billion

-65,302 jobs in insurance and related activities ($106,523/year average)=$7.o billion

-31,175 jobs in credit intermediation and related activities ($82,521/year average)=$262 million.

Not included in these numbers is the earned income from the thousands of CT residents who commute to NY, nor the unearned income from stocks/bonds of the CT residents in this industry.

In 2006, $599 million of the state's $4.7 billion in personal income tax revenues were paid by Greenwich residents (12.7%).

CT DOL, *Covered Employment & Wages, by Industry;* C.Keating, "Tax Trauma" (Hartford Courant, 9/21/08)

ECONOMIC & FISCAL IMPACTS MAY INCLUDE:

Drop in investment bankers and others' year-end bonuses. Other stock-market related losses.

Tighter credit for smaller business, making operations & expansions harder.

Bankruptcies, mergers, and consolidations threaten jobs.

> To date, job *growth* holding. Jobs in 8/08 are 4,200 more than a year ago (8/07) though 1,600 fewer than at peak of the recovery (1,704,900, 12/07) . BUT, e.g., Bank of America has 4,500 employees in CT and Merrill-Lynch has 600 – how many will be eliminated with merger?

Tighter credit and falling housing values will deter consumers and businesses from continuing to spend even after their incomes fall (as they did in last recession). Can deepen recession.

Increasing unemployment ramps up demand for state services (Medicaid/HUSKY, child care assistance, energy assistance, homeless shelters, foster care, etc), unemployment insurance, etc.

Tight credit may impact municipal and state bond sales. Also possible investors may flock to these as “safer” investments.

Losses to $25 billion state pension fund & other state investment funds

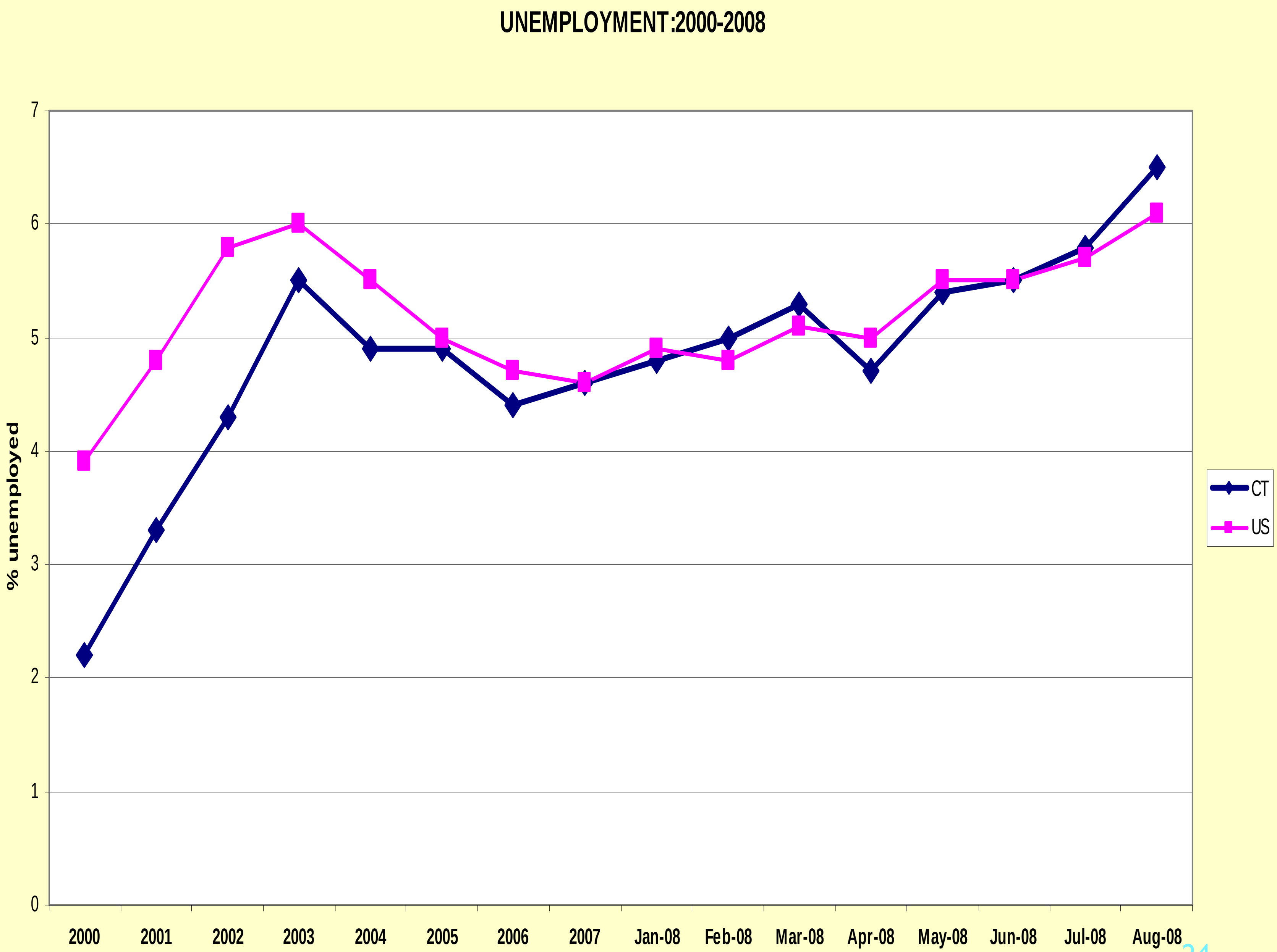
Declining tax revenues: e.g., layoffs reduce earned income, portfolio losses offset income taxes, sales taxes fall as consumers buy less, declining home values reduce property tax base

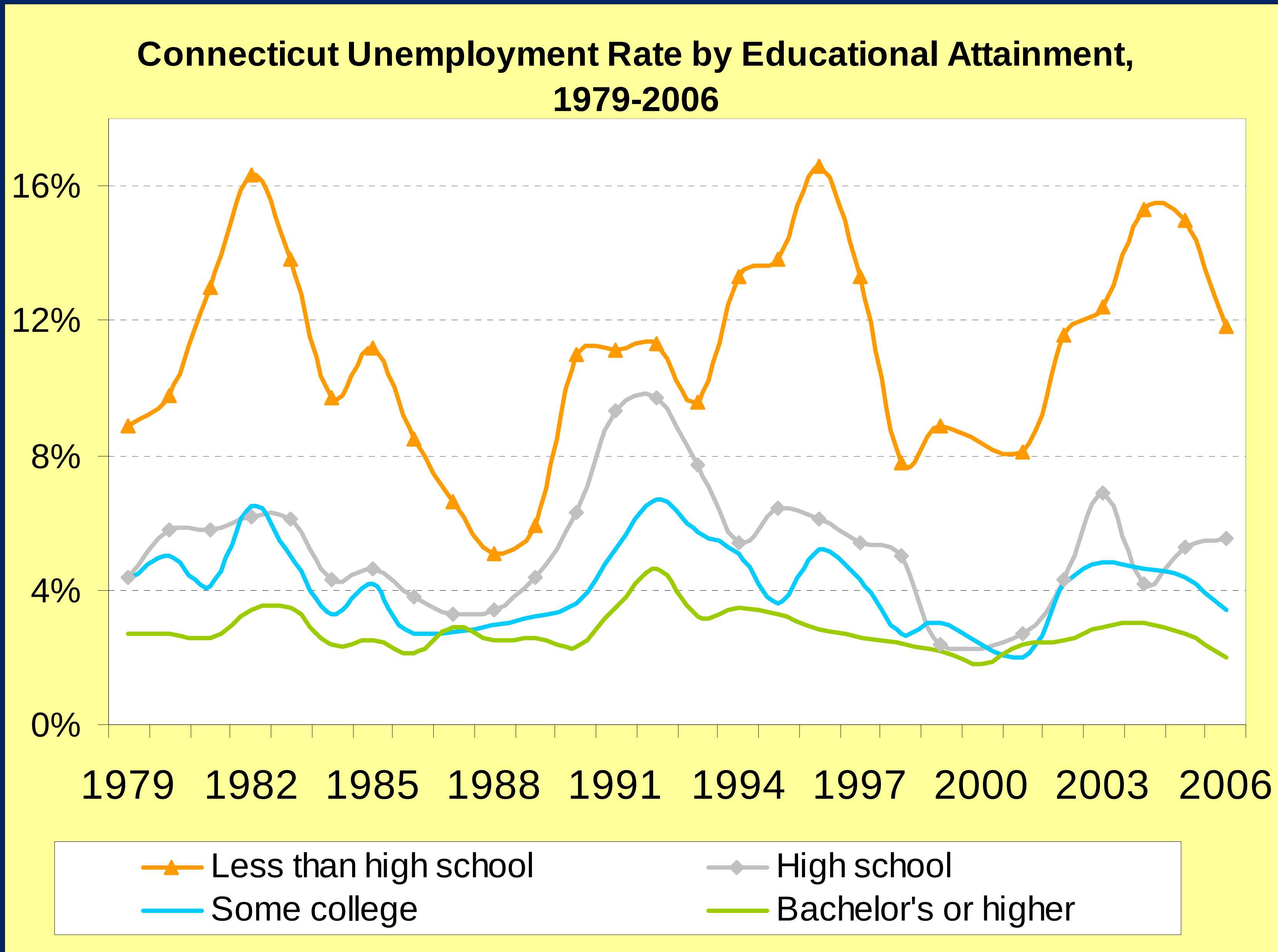
FY 09 revenues running $214.7M short of budget projections (declines in sales and corporation taxes offset by excess receipts in oil company taxes) [Comptroller, 9/2/08).

YTD revenues running $157.4M behind last year (8/07-8/08): e.g., income taxes down $61.8M, sales taxes down $94.2M, & real estate conveyance taxes down $16.0M, but gift/estate tax up $18.5M and total corporation taxes up $12M.

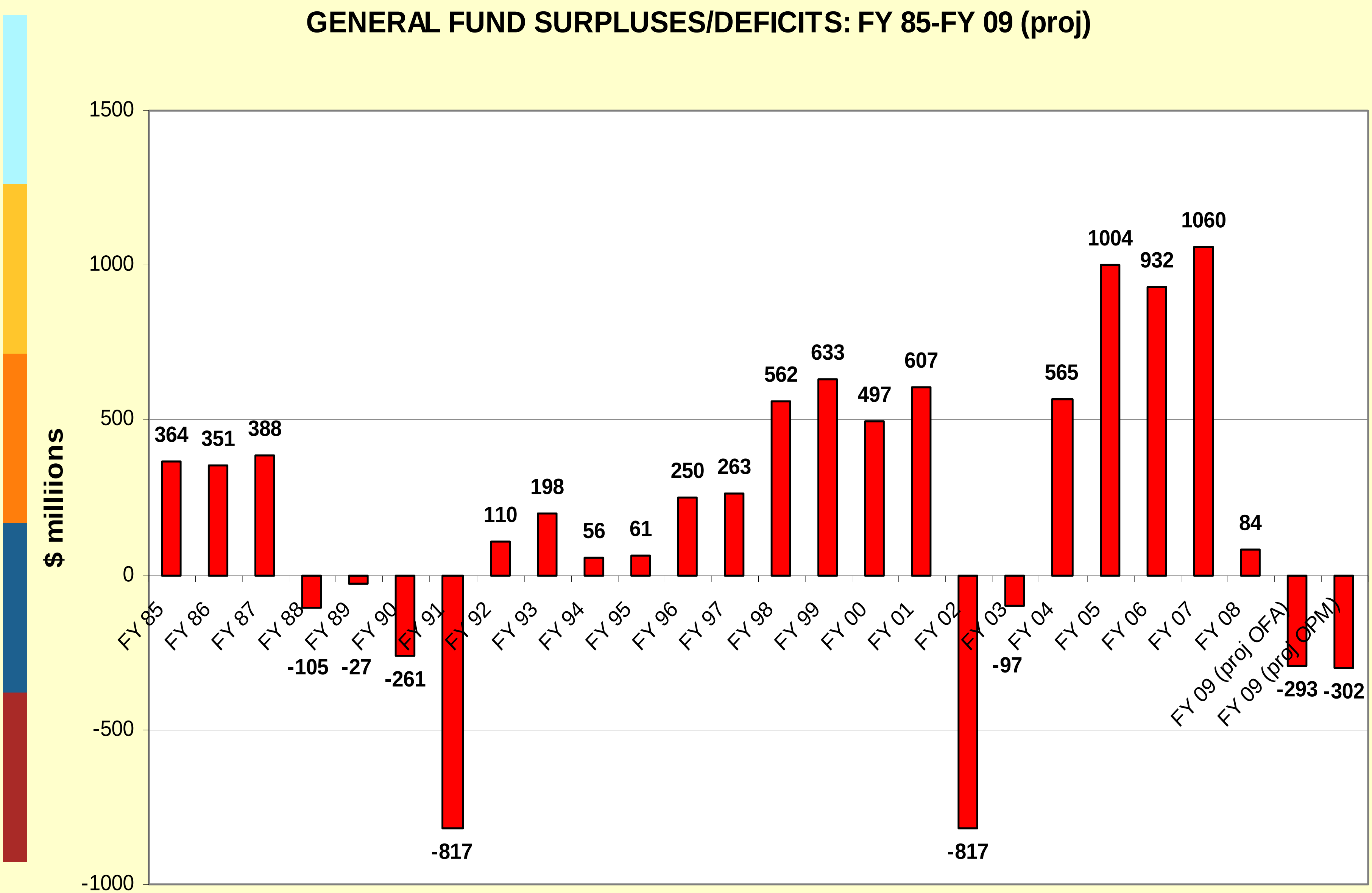
MUCH UNCERTAINTY ABOUT HOW ALL WILL PLAY OUT

“As far as state revenues are concerned, there’s no upside to this. This is something that is going to hurt.” Robert Genuario, OPM Secretary (Hartford Courant, 9/16).


UNEMPLOYMENT:2000-2008
% unemployed
0
1
2
3
4
5
6
7
2000
2001
2002
2003
2004
2005
2006
2007
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
CT
US



Connecticut Unemployment Rate by Educational Attainment, 1979-2006
16%
12%
8%
4%
0%
1979
1982
1985
1988
1991
1994
1997
2000
2003
2006
Less than high school
High school
Some college
Bachelor's or higher



OFA, *Surpluses and Deficits from General Fund Operations: FY 85 to FY 08* (PowerPoint, 9/25/2008)

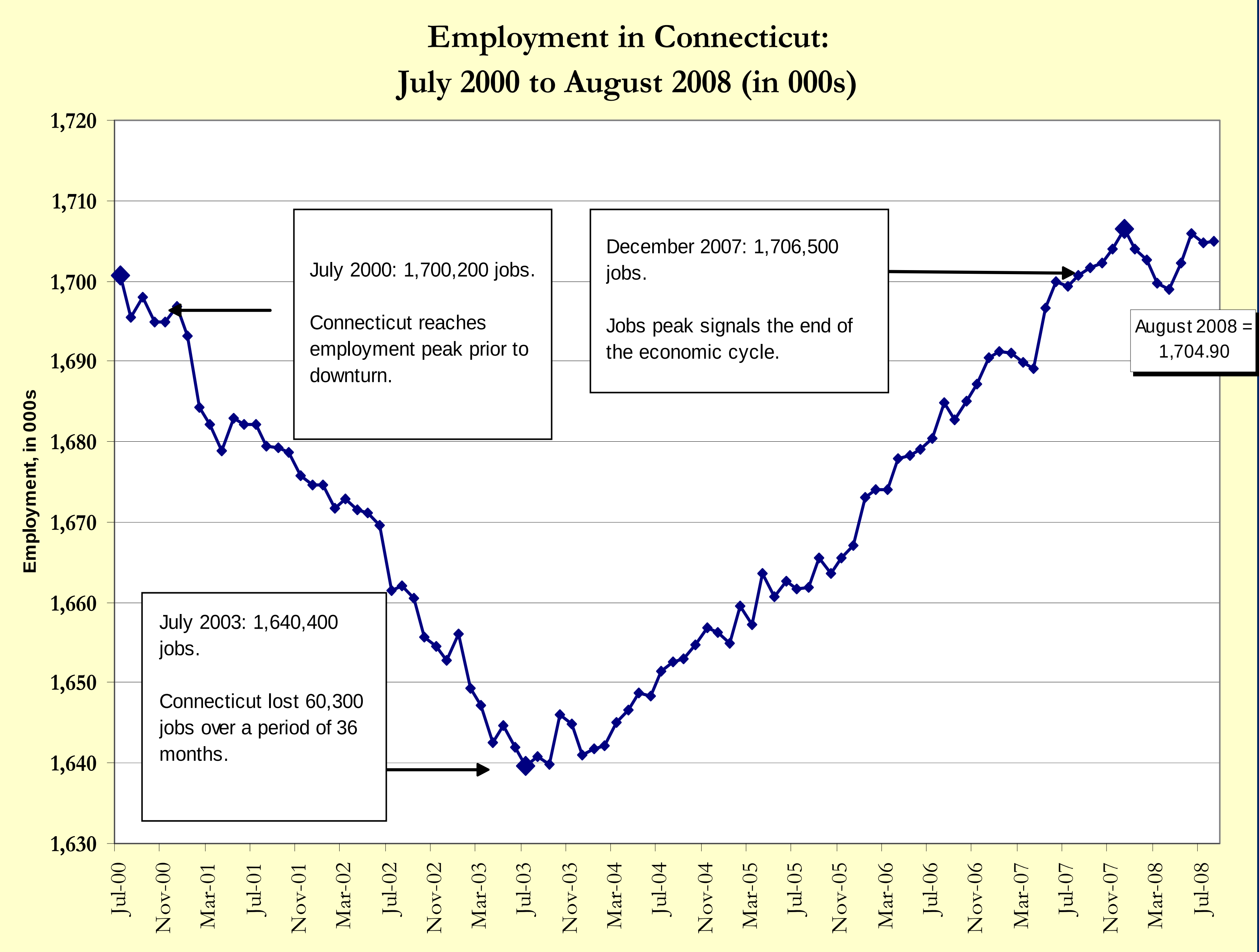
How Can History Inform Us?

In the last recession, CT lost jobs sooner, & took longer to recover them, than did the nation.

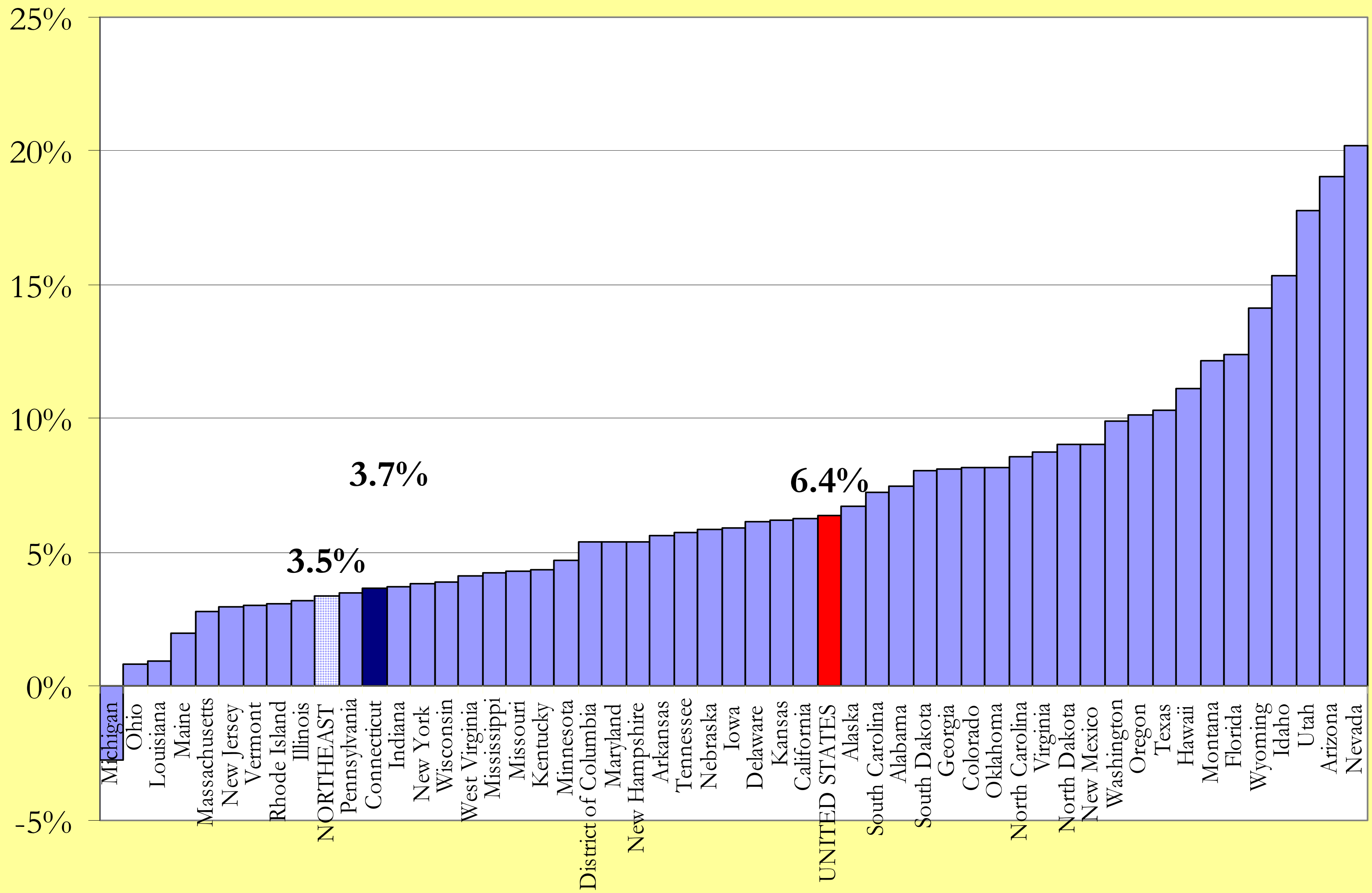
CT began shedding jobs in 7/00 and took until 7/07 to recover the jobs lost – 7 years.

The US started shedding jobs in 2/01 and took until 2/05 to recover the jobs lost – 4 years. By 7 years out, the US had recovered 3x the jobs lost.

CT Voices, State of Working CT 2007


Employment in Connecticut:
July 2000 to August 2008 (in 000s)
Employment, in 000s
1,720
1,710
1,700
1,690
1,680
1,670
1,660
1,650
1,640
1,630
July 2000: 1,700,200 jobs.
Connecticut reaches employment peak prior to downturn.
December 2007: 1,706,500 jobs.
Jobs peak signals the end of the economic cycle.
August 2008 = 1,704.90
July 2003: 1,640,400 jobs.
Connecticut lost 60,300 jobs over a period of 36 months.
Jul-00
Nov-00
Mar-01
Jul-01
Nov-01
Mar-02
Jul-02
Nov-02
Mar-03
Jul-03
Nov-03
Mar-04
Jul-04
Nov-04
Mar-05
Jul-05
Nov-05
Mar-06
Jul-06
Nov-06
Mar-07
Jul-07
Nov-07
Mar-08
Jul-08

% Change in Employment Since CT's Employment Trough (July 2003-July 2007)



Growth in CT's real median household income has slowed over the past 3 economic cycles.

1983-1989 expansion: CT real median household income grew 3.1%/yr. v. US 1.8% yr.

1992-2000 expansion: CT real median household income didn't start to rebound until 1996 & averaged growth of 0.94%/year v. US 1.95%/year.

2002-2006 "expansion": CT real median household income increased by 0.13%/year v. US 0.08%/year.

Lanza, "Connecticut at the Median: Are You Better Off?" *The Connecticut Economy* (Fall 2008)

IN LAST RECESSION….

Moved from $613 million FY 01 General Fund surplus to $817 million FY 02 deficit. Without Special Session that moved FY 01 surplus to cover FY 02 deficit and cut spending cuts, gross deficit in FY 02 would have been > $1.2 billion – a shift of close to $1.8 billion in bottom line of budget.

Year 1 (FY 02): Depleted $595 million Budget Reserve (Rainy Day) Fund, enacted cigarette tax increases, & issued just over $220M in Economic Recovery Notes to cover remaining deficit.

Year 2 (FY 03 GF deficit= $756M): Cut spending in GF & STF budgets and in programs funded w/ FY 01 surplus, adopted early retirement plan, made multiple fund transfers to GF, liquidated Anthem stock, limited use of tax credits to offset tax liability to 70%, adopted Business Entity Tax, took out more Economic Recovery Notes, etc. Got some additional federal assistance (e.g., increased FMAP)

Year 3 (FY 04). Adopted more than $500M in spending cuts, increased income tax rate from 4.5% to 5% and reduced property tax credit, imposed temporary surcharge on corporate tax, further increased cigarette tax, etc. Ended year with GF surplus.

IMPACTS OF LAST RECESSION INCLUDE:

1. **Took years for some state agencies to regain ground lost from spending cuts; others still have not recovered**

   Still less: DEP: FY 09 GF budget($40.6M) is less than FY 02 actual ($42.9M, or adjusted for inflation, $51.9M in 2008$)

   Less, adjusting for inflation:
   SDE: FY 09 GF budget ($2,668.5M) is less than FY 01 actual spending adjusted for inflation ($2,684.2M in 2008$). In nominal dollars, took SDE until FY 06 to catch up to its actual spending in FY 01.
   OPM: FY 09 GF budget ($233.4M) is less than FY 02 budget adjusted for inflation ($279.0M in 2008$)
   DOL: FY 09 GF budget ($71.1M) is less than FY 02 budget adjusted for inflation ($72.4M in 2008$)

2. **Fell further behind with payments toward unfunded liabilities (pension, health insurance)**

3. **Reduced aid to towns put upward pressure on property tax**

4. **Changed statute to increase Budget Reserve Fund maximum from 5% to 10% of net GF appropriations.**

How Well-Positioned Are We Now?
CT's Families

How Well-Positioned Are CT's Families?
Most CT Families are Worse Off than at the Start of the Last Recession

Less wage income. Nearly all CT workers had *no* real wage gain in most recent "recovery" though productivity increased. Real wages in 2007 were *less than* they were in 2002 for very low wage workers, less than in 2001 for low wage workers, and less than in 2003 for median, high, and very high wage workers. By comparison, in recovery of late 1990s, *all* wage groups enjoyed real wage increases.

Declining or stagnating family income for many. CT was only state in US where the real income of poorest 20% of families *fell* since late 1980s (by $4,437 v. gain of $1,814 nationally). CT's middle income families had the 2nd smallest gain in average income since late 1980s (and smallest % gain)($3,103, 5.1%). By comparison, CT's wealthiest 20% enjoyed 45% increase in average real income (2nd highest in dollar increase).

Higher unemployment. Before last recession, unemployment was between 2.1%-2.5% (in 2000). Unemployment now at 6.5%, *more than* last recession's peak (5.7% in March-April 2003).

How Well-Positioned Are CT's Families?
Worse than entering the last recession!

Housing collapse threatens primary source of wealth for CT's middle class.

Low cash reserves/high debt for many CT families. 1 in 5 CT families is "asset poor" and 1 in 8 has zero or negative net worth. Median net worth of CT white households in 2004 was 27 times that of CT minority households ($179,587 v. $6,700)

Increasing health care, food, energy costs. In 2008, CT had 2nd highest cost of living in nation. Though CT median wages are highest in nation, adjusted for cost of living fall to 36th highest.

Tightening of credit (business, housing, school loans) threatens upward mobility for families and new business starts.

Increasing share of state and local taxes being paid by CT families, rather than CT businesses.

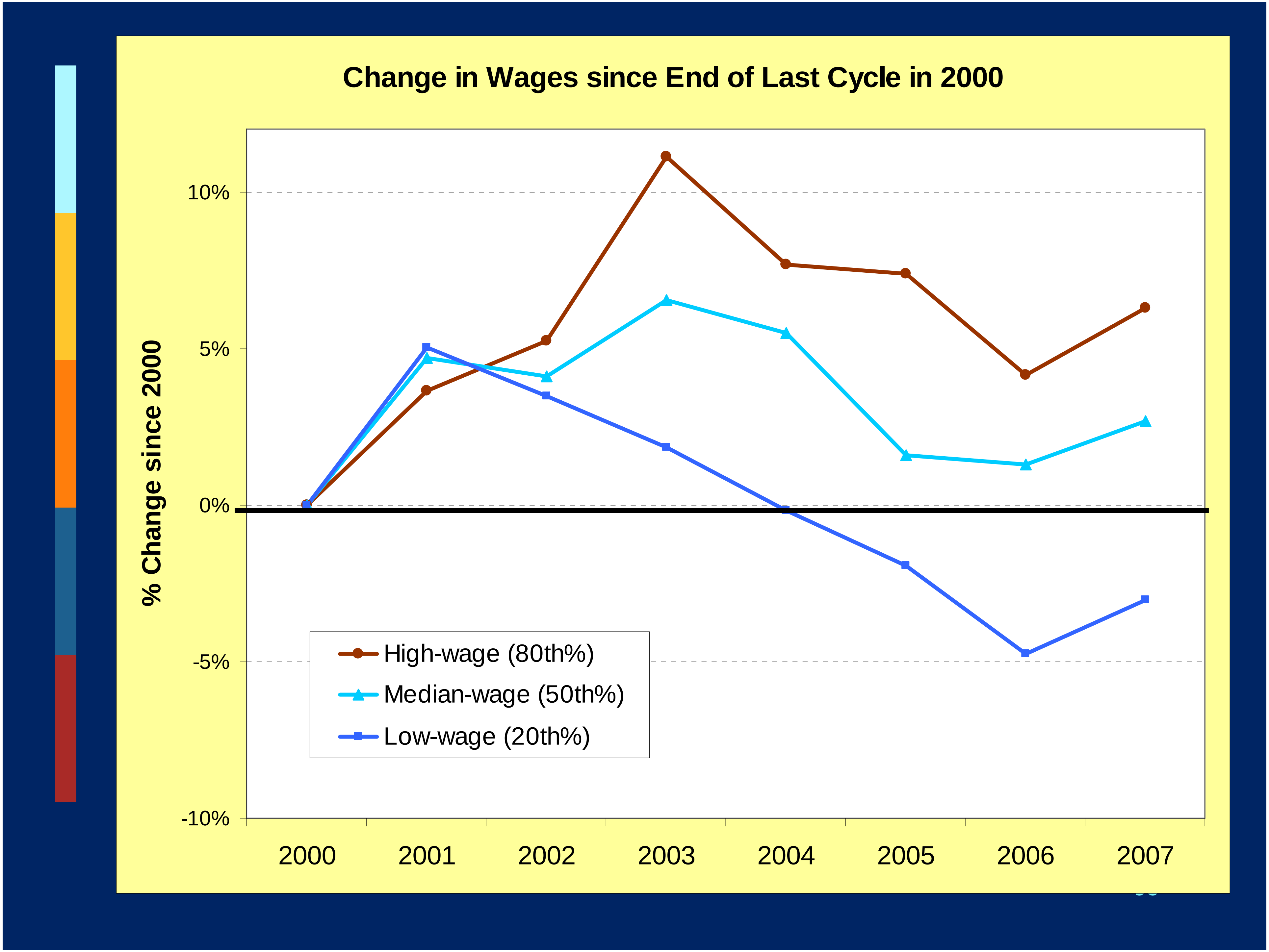
"We are looking today at a disconcerting mix of inflation and deflation. Inflation with respect to food and energy prices. Deflation with respect to the generators of consumer wealth."
Donald Klepper-Smith (Hartford Courant, 9/9/08)

HOUSING STARTS. Permits for new homes, condos, and apartment units are down 25% from a year ago, continuing a slide that started in 2005.
Gosselin, "Home-building slump continues in Connecticut" (Hartford Courant, 8/28/08)

HOME SALES AND PRICES: Median sales price of single family homes fell by 10.8% between 5/07-5/08, the steepest year-over-year drop since 1992 (from $305,000 to $272,000 statewide, from $627,000 to $545,000 in Fairfield County and from $302,000 to $250,000 in Litchfield County). The year-to-year decline in median sales price in 7/08 was *less* (8.2%) than earlier this year, but continued 9 straight months of decline. House sales fell by 24% from 7/07-7/08. **Gosselin, "Housing's Bad Spring" (Hartford Courant, 7/2/08); "CT Housing Market Continues Slowdown" (9/12/08)**

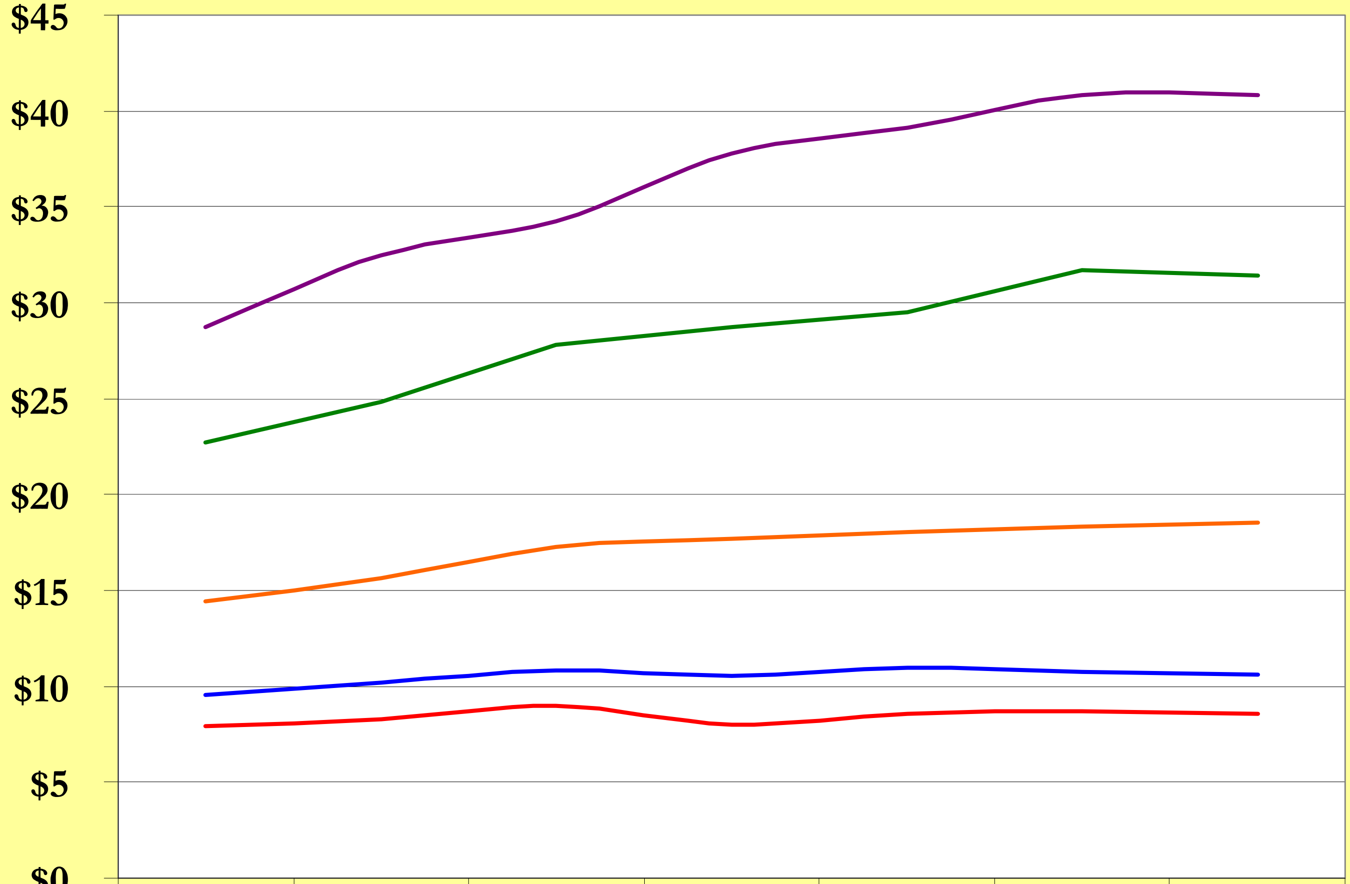
DELINQUENT MORTGAGES: As of 6/30/08, 16,560 (3.1%) of CT mortgages were "seriously delinquent" (in foreclosure or more than 90 days past due) – the highest level on record for CT. It is nearly double CT's % in spring 2007, but below the US average (4.5%). 7% of CT's mortgages are in foreclosure or at least *30* days delinquent (US=9%)
Gosselin, "Foreclosures in CT, Nation at Record Rate" (Hartford Courant, 9/6/08)

FOOD: Number of CT households receiving Food Stamps increased by 8% (between 4/07-4/08) to 112,616 households. **Abrahamson, "Surge for Food Stamps" (Hartford Courant, 7/8/08)**



Change in Wages since End of Last Cycle in 2000
% Change since 2000
10%
5%
0%
-5%
-10%
2000
2001
2002
2003
2004
2005
2006
2007
High-wage (80th%)
Median-wage (50th%)
Low-wage (20th%)

Connecticut Wages by Decile
(inflation adjusted to 2007 Dollars)



	1980	1985	1990	1995	2000	2005	2007
10th percentile	$7.90	$8.31	$8.98	$7.97	$8.55	$8.72	$8.59
20th percentile	$9.53	$10.17	$10.80	$10.53	$10.94	$10.73	$10.61
50th percentile (Median)	$14.43	$15.62	$17.26	$17.68	$18.03	$18.32	$18.51
80th percentile	$22.71	$24.84	$27.83	$28.72	$29.54	$31.72	$31.40
90th percentile	$28.70	$32.50	$34.21	$37.81	$39.12	$40.83	$40.85

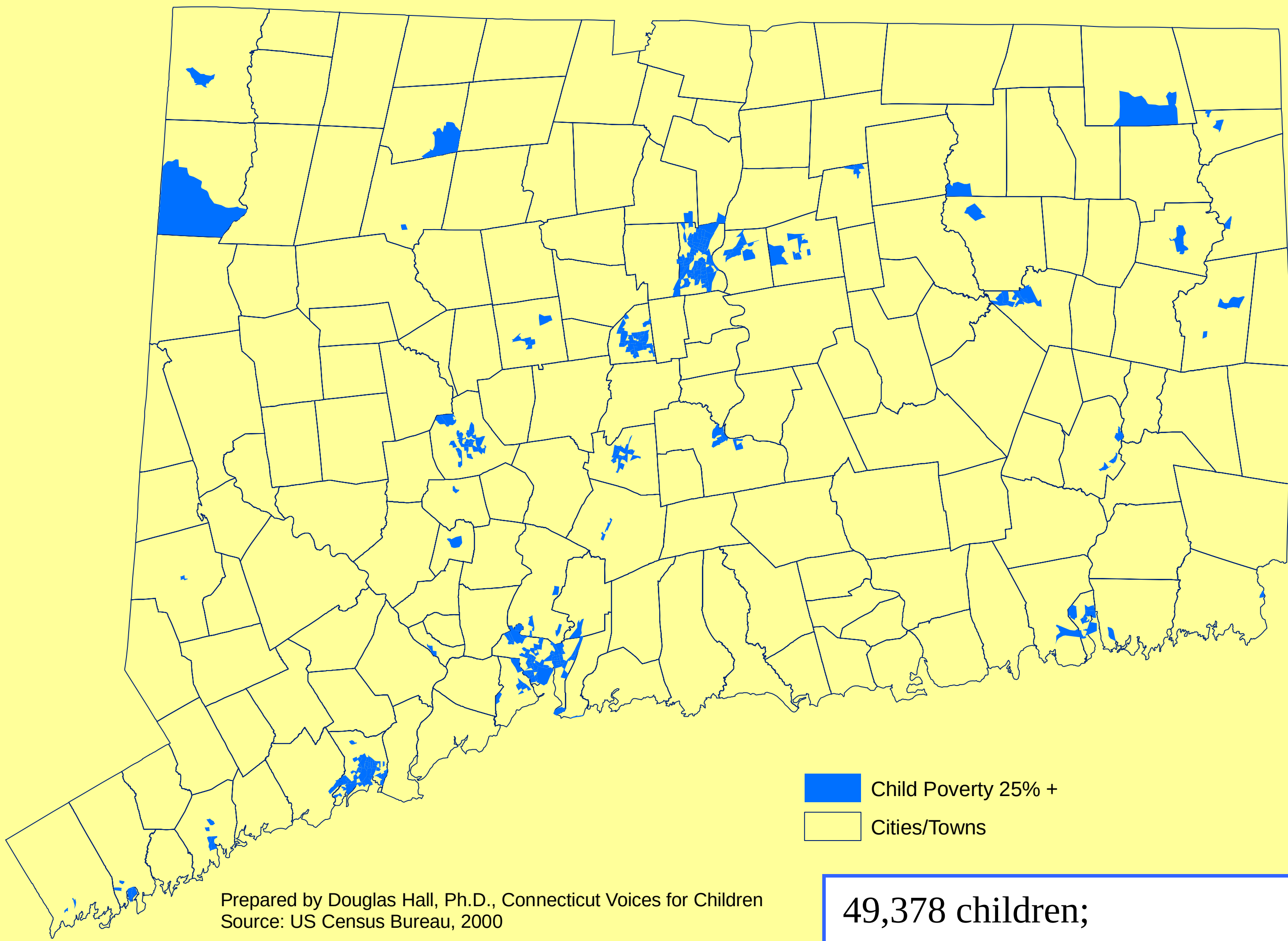
Child Poverty Rates, 2007: National Rank and Percent

1	Flint, MI	48.4%
2	Detroit, MI	48.2%
3	Syracuse, NY	48.1%
4	**Hartford, CT**	**47.0%**
5	Brownsville, TX	46.8%
46	Waterbury, CT	31.4%
56	New Haven, CT	28.7%
63	Bridgeport, CT	28.4%
236	Stamford, CT	8.0%
CT	Statewide Average	11.1%

Source: US Census Bureau, American Community Survey, 2006

Child Poverty by Census Blockgroup

Child Poverty > 25%

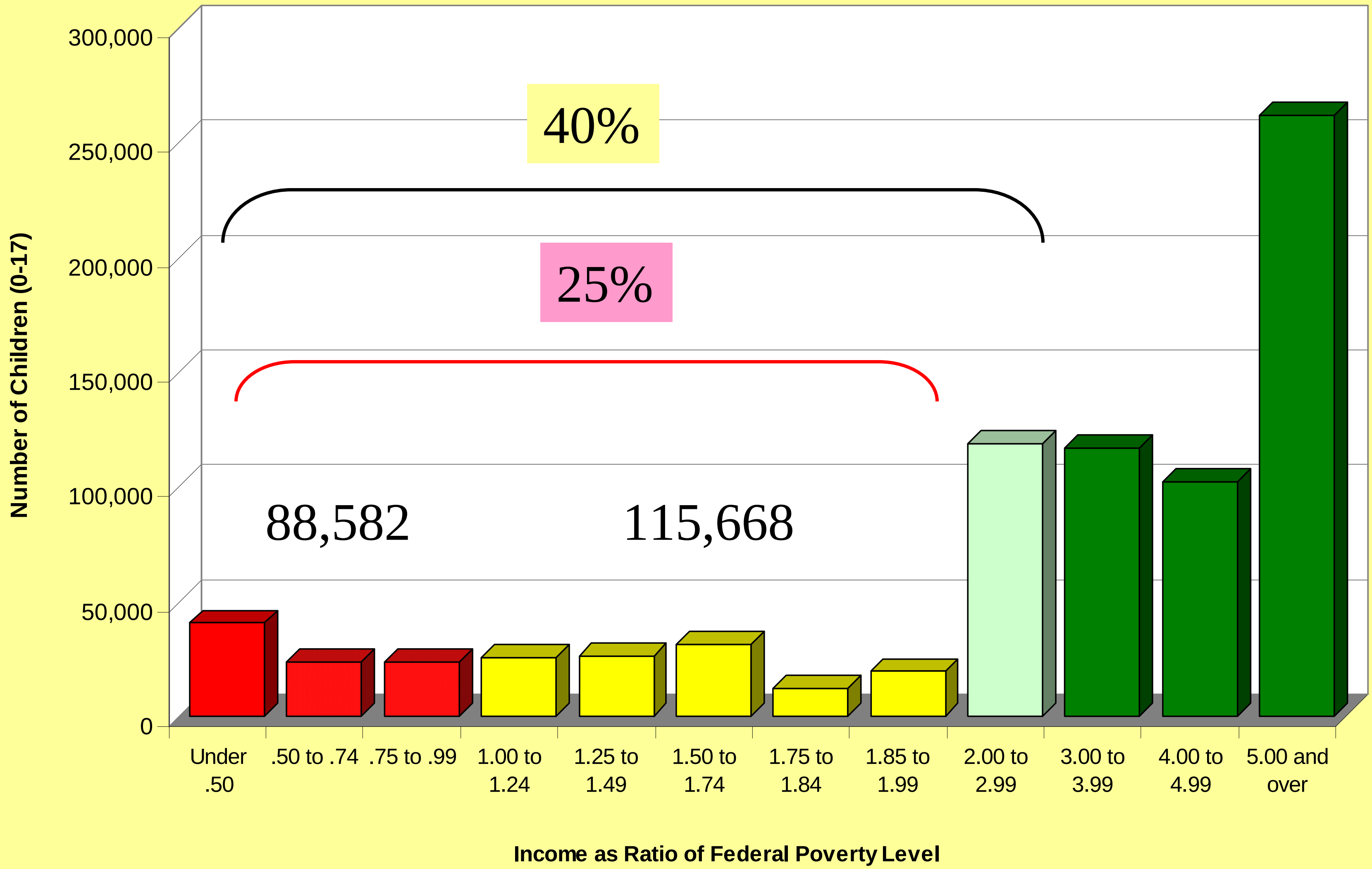


Prepared by Douglas Hall, Ph.D., Connecticut Voices for Children
Source: US Census Bureau, 2000

49,378 children;

57% of CT's Children in Poverty

Family Income of Connecticut's Children as Ratio of Federal Poverty Level, 2006



How Well-Positioned Are We Now?
CT's State Budget

CT's 0.9% GENERAL FUND DEFICIT WAS THE SMALLEST OF THE 31 STATES THAT PROJECTED FY 09 DEFICITS

Alabama:	9.5%	Minnesota	5.4%
Arizona:	18.9%	Nevada	16.0%
California:	22.0% ($22.2B)	New Hampshire	6.4%
Delaware:	6.0%	New Jersey	7.7% ($2.5B)
Florida:	19.9%	New York	9.8% ($5.5B)
Georgia	8.7%	Ohio	2.6%
Illinois	6.3%	Rhode Island	13.1%
Maine	4.1%	Vermont	6.8%
Maryland	5.4%	Virginia	7.1%
Massachusetts	4.3%	Wisconsin	10.3%
Michigan	4.8%	Total (n=31)	10.3%

Source: McNichol & Lav, State Budget Troubles Worsen (CBPP, 9/8/08), NCSL, *State Budget Update* (June, 2008).

CT's CURRENT 1.7% GENERAL FUND DEFICIT REMAINS AMONG THE SMALLEST OF THE DEFICITS IN STATES DEVELOPED NEW MID-YEAR FY 09 BUDGET GAPS

To adopt balanced budgets for FY 09, 29 states cut spending, raised revenues, or used reserves. New FY 09 shortfalls have emerged in about half these states and also in some new states:

Arizona:	4.5%	Nevada	3.8%
California	Not certain	New Hampshire	3.5%
Colorado	1.3%	New York	2.1% ($1.2B)
Connecticut:	1.8%	Ohio	1.9% ($540M)
Wash DC	2.1%	Pennsylvania	Not certain
Florida:	6.7% ($1.7B)	Rhode Island	0.8%
Georgia	7.5% ($1.6B)	South Carolina	8.1%
Hawaii	2.8%	Tennessee	0.9%
Illinois	Not certain	Utah	5.9%
Maryland	1.7% ($269M)	Vermont	2.0%
Massachusetts	**Not certain**	Virginia	5.7%
TOTAL	3.9%		

Source: McNichol & Lav, State Budget Troubles Worsen (CBPP, 10/10/08)(updated)

BUT CT's FY 2010-2012 GENERAL FUND DEFICITS ARE PROJECTED TO BE LARGER

In August 2008, OFA projected a GF deficit of $726.6M in FY 10, $1.040.4M in FY 11, and $830.9M in FY 12. These projections assumed a $23.6M deficit in FY 09. By September 25, however, the projected GF deficits had been increased – to $292.6M in FY 09, $955.5M in FY 10, $1,184M in FY 11, and $1,294M in FY 12.

Factors contributing to the structural operating deficits in the "out-years" include:

- **On-going spending in FY 09 funded with prior year' surpluses (w/out this $, FY 09 deficit would be $806.5M)**
- **New spending commitments (e.g., criminal justice reform, juvenile jurisdiction age change, debt service associated with new Teachers' Retirement Bonds, Charter Oak Plan, CHFA Emergency Mortgage Assistance, 27th payroll in FY 12)**
- **Increasing health care and energy costs**

Now, with the downturn in the economy, not only will revenues decline, but demand for state services will increase.

With mounting federal deficits, assistance to states (as during last recession with a temporarily increased Medicaid matching rate) is less likely.

Office of Fiscal Analysis, *Budget Briefing Informational Session* (September 25, 2008), p. 3.

OTHER PAST BUDGET CHOICES HAVE EXACERBATED

CURRENT BUDGET CHALLENGES

-Continued growth in long-term obligations (unfunded liabilities and bonded debt)

-New tax expenditures/revenue intercepts, eroding tax base and reducing transparency/accountability/control

-State/local revenue system with greater reliance on property tax and inequities among individual and business taxpayers

-Outmoded tax code (internet sales, multinational corporations able to dodge tax)

-Inadequate funding for needed investments in CT's infrastructure

YET CT'S BUDGET RESERVE FUND IS 10TH HIGHEST AMONG STATES AS % OF SPENDING

State law allows CT's Budget Reserve Fund to be up to 10% of net General Fund appropriations for current year. The current Fund balance is $1.36 billion - about 8.3%. Only nine states have larger Rainy Day Funds as percentage of their budgets (Alaska, Iowa, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, West Virginia, and Wyoming).

Our neighboring states, whose FY 09 deficits exceed ours as a percentage of their budgets, also have smaller Rainy Day Funds than we do (e.g., Maine, 3.7%; Massachusetts, 7.5%; New Hampshire, 5.8%;New Jersey, 1.5%; New York, 2.2%; Rhode Island, 3.1%; Vermont, 5.0%). Among them, CT is *best* positioned to weather this storm.

McNichol, Is It Raining Yet? (CBPP, 2/21/08)

AND CT HAS GREAT CAPACITY TO MEET ITS NEEDS

Highest per capita income (for last 22 years)($49,459 in 2006, 39% above the national average)

Highest in mean family income ($103,135 in 2006)

2nd highest median income per household member ($24,744 in 2006)

3rd highest median family income ($63,422 in 2006)

Ranked *highest in fiscal capacity*, i.e., ability to fund needed services from own state and local revenues.

United States Census Bureau, 2006 data; Y. Yilmaz et al, *Measuring Fiscal Disparities Across U.S. States* (Federal Reserve Bank of Boston, Working Paper 06-2)

THE CHALLENGE

CT, like other states, is increasingly a victim of mismanaged economic policies at the national level. The downturn in anticipated state revenues (creating the short-term budget challenge in FY 09) will exacerbate the structural state deficits already predicted for FY 10 and beyond.

Demand for state services will increase, while revenues will decline, with the requirement to have a balanced state budget the only factor remaining constant.

FIRST LINE OF DEFENSE: CT'S BUDGET RESERVE FUND

"In a recession, you want to raise (or not decrease) the level of total spending – by households, businesses, and government – in the economy."

Joseph Stiglitz (2001 Nobel Prize in Economics)

TAPPING THE BUDGET RESERVE FUND:

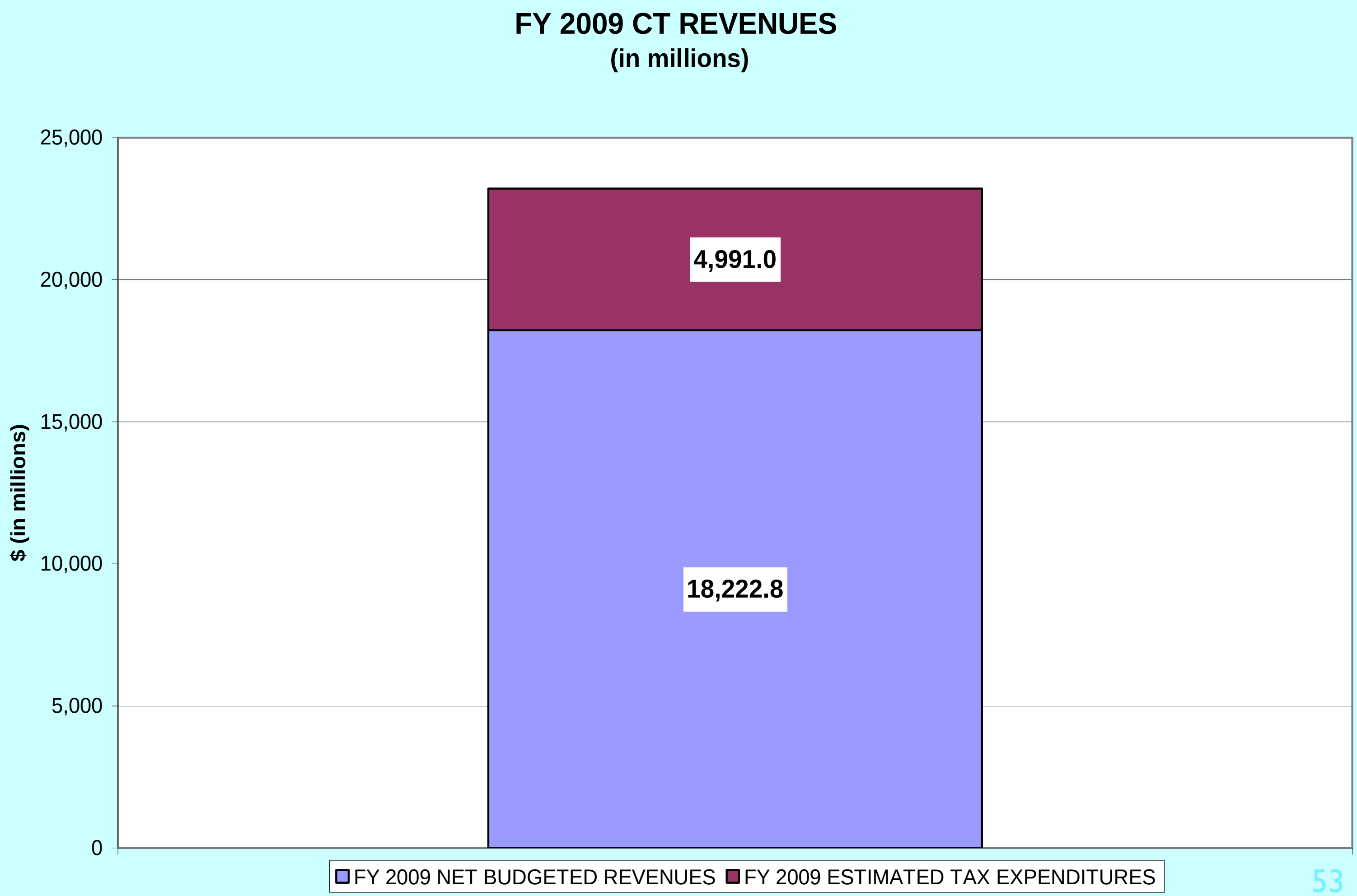
- **CAN HELP CT's ECONOMY. State spending goes directly into CT's economy; cutting state spending can exacerbate the downturn (increasing unemployment, reducing provision of goods/services). The BRF is precisely designed for times like this. It's the *<u>taxpayers'</u> savings* - socked aside to enable the state to maintain the status quo through a recession and thereby *help* the state, its families and its businesses get *through* the recession.**

- **PROTECTS THE STATE'S "AUTOMATIC ECONOMIC STABILIZERS." Demand for services for unemployed/low-wage families (e.g. Medicaid, TFA) increases in recession; such programs help the economy as the state funding that supports such families *immediately* is returned into the economy.**

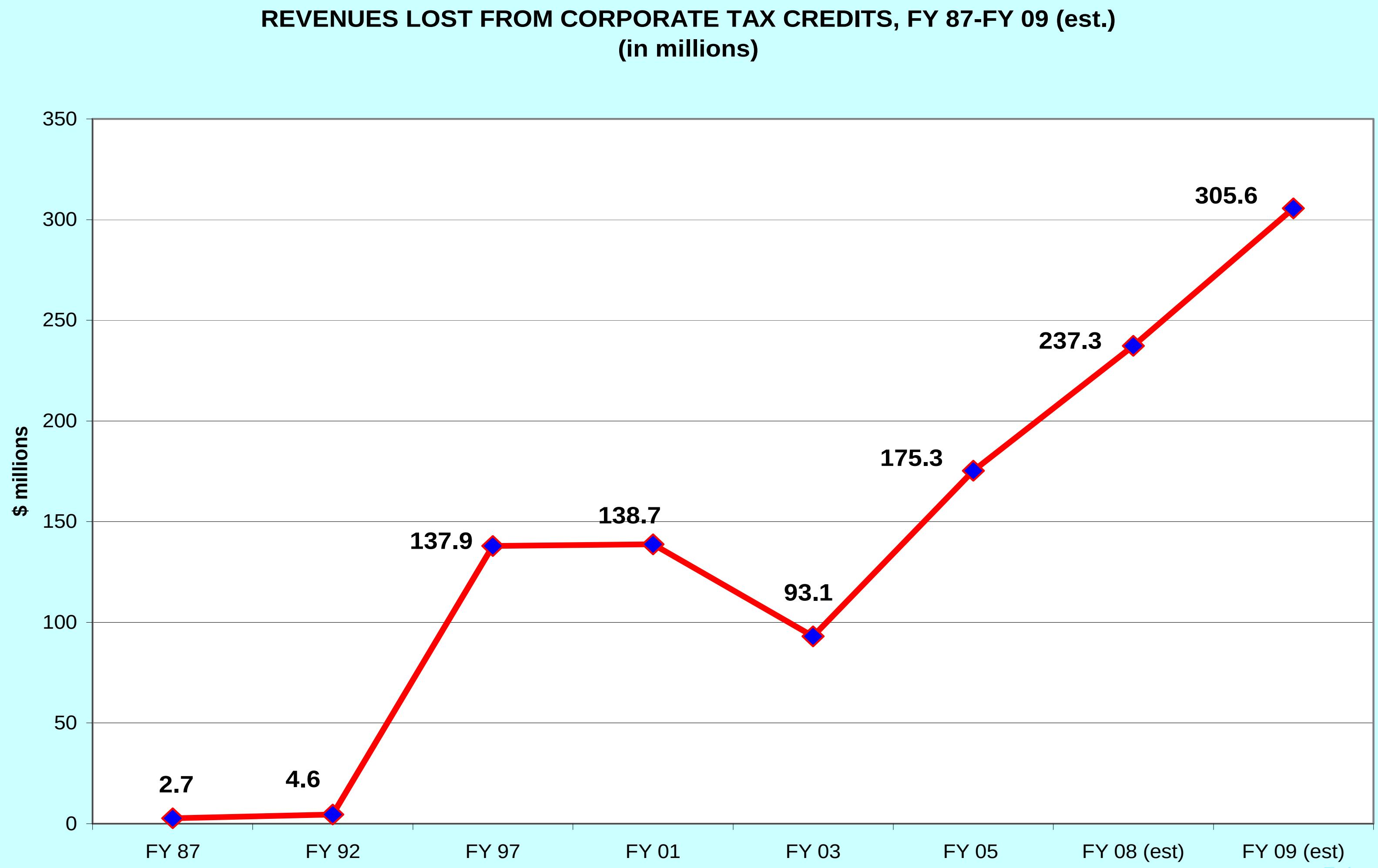
- **BUYS TIME. CT has long, as well as short, term budget challenges. Taking the time to identify the *most strategic* changes to our spending choices and tax policies is better than short-term "fixes" with potentially harmful & unforeseen consequences.**

WHEN IDENTIFYING SPENDING REDUCTIONS, *ALL* FORMS OF SPENDING SHOULD BE "ON THE TABLE"

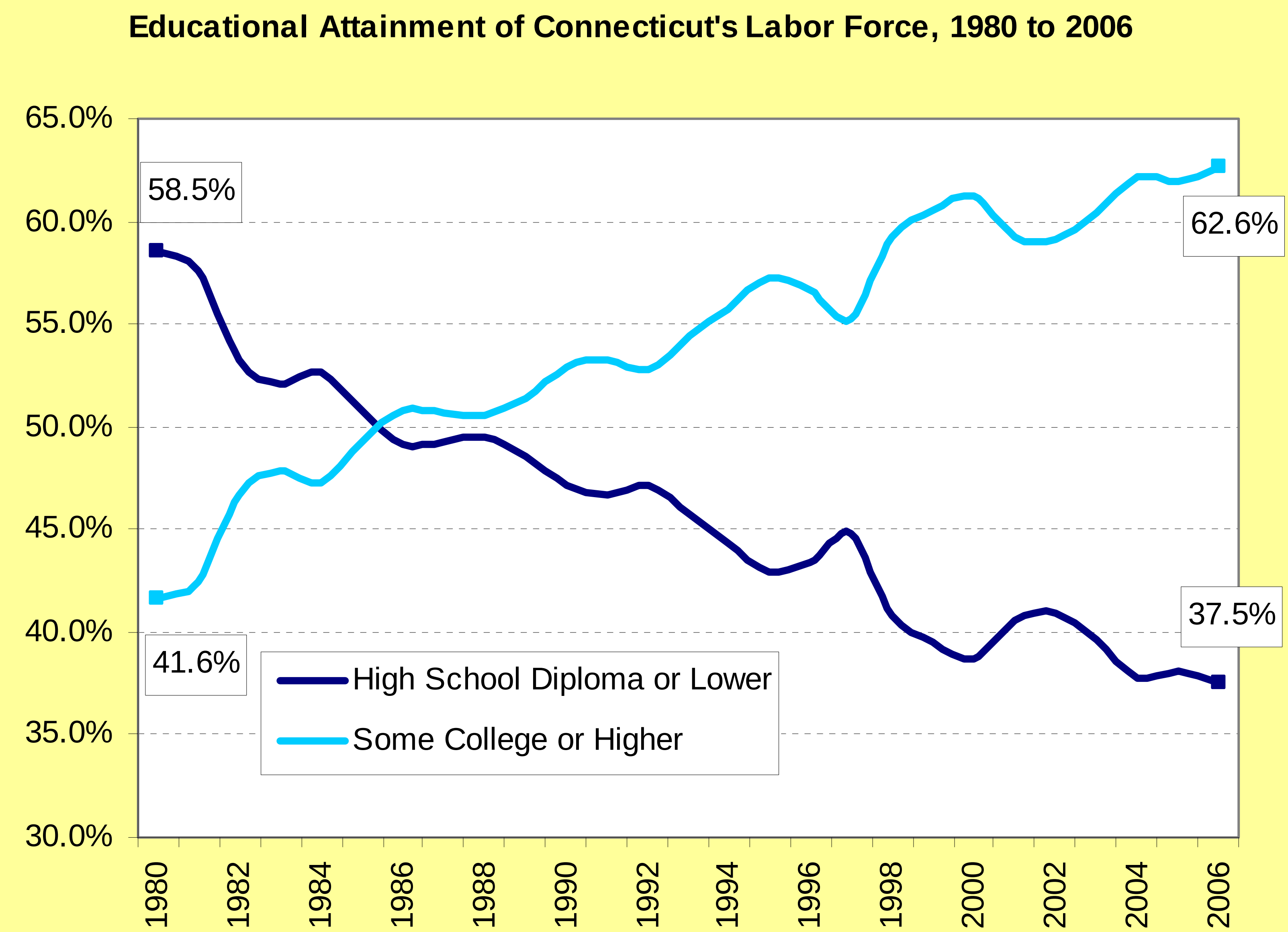
TAX EXPENDITURES ERODE REVENUES, IS CT GETTING ADEQUATE RETURN?



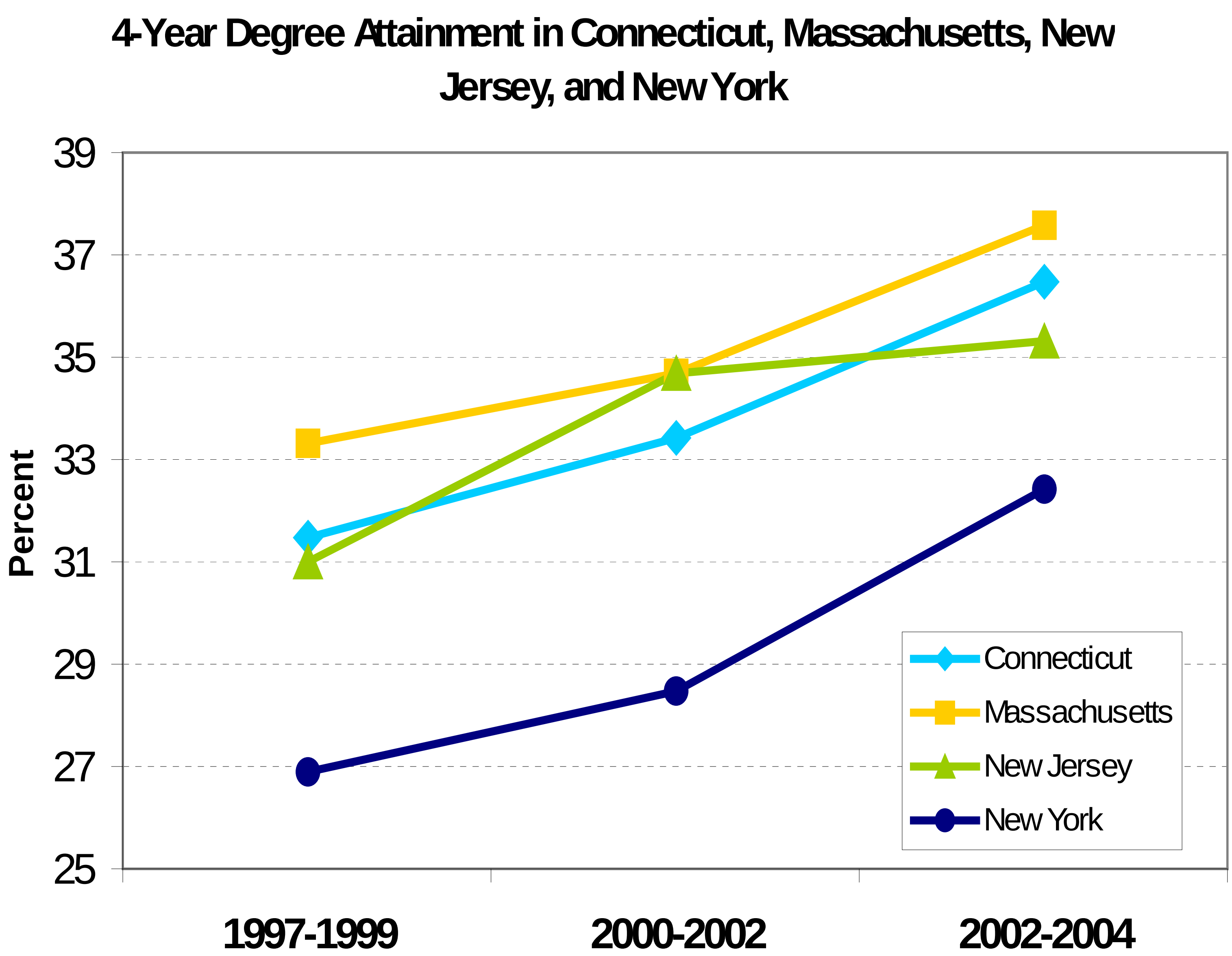
TAX CREDITS ERODE REVENUES, IS CT GETTING ADEQUATE RETURN?



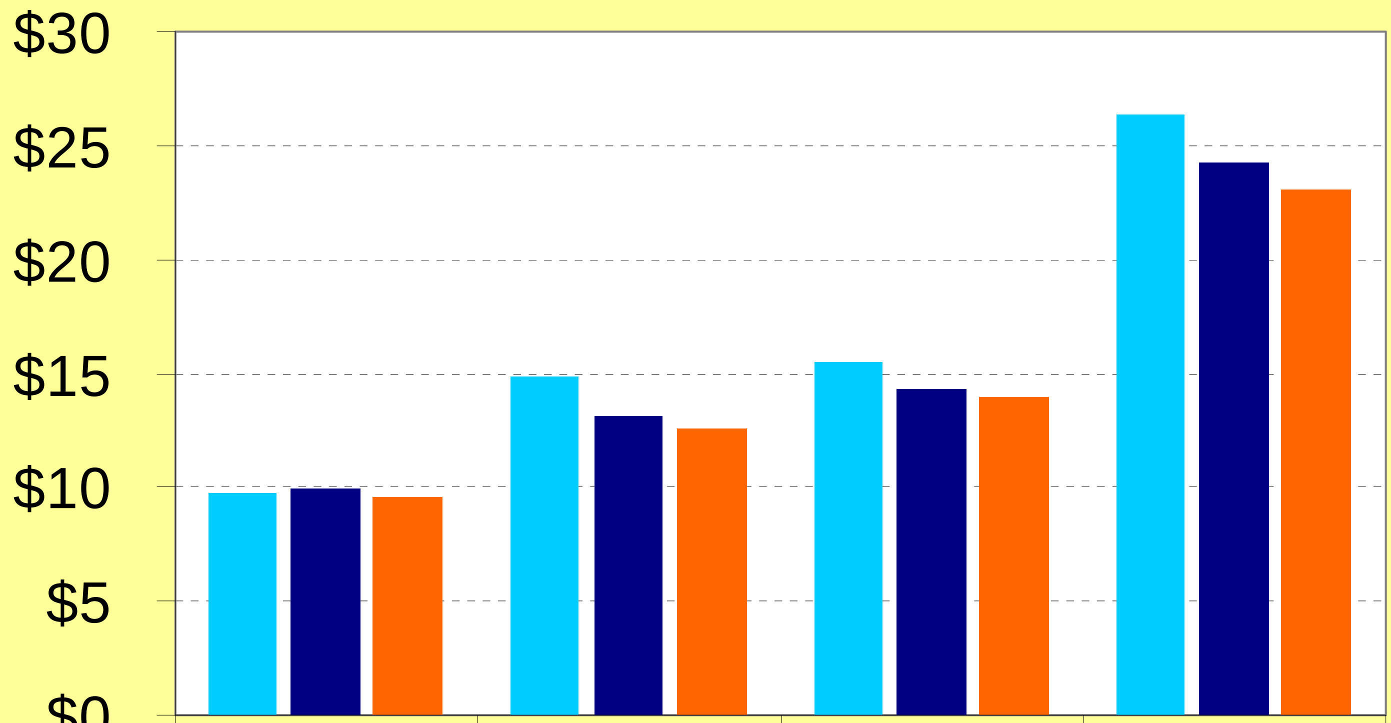
WHEN IDENTIFYING SPENDING REDUCTIONS, CUTTING FUNDING FOR EDUCATION AND "SAFETY NET" PROGRAMS SHOULD BE LOW ON THE LIST



Educational Attainment of Connecticut's Labor Force, 1980 to 2006
65.0%
60.0%
55.0%
50.0%
45.0%
40.0%
35.0%
30.0%
58.5%
41.6%
62.6%
37.5%
High School Diploma or Lower
Some College or Higher
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006


4-Year Degree Attainment in Connecticut, Massachusetts, New Jersey, and New York
Percent
39
37
35
33
31
29
27
25
1997-1999
2000-2002
2002-2004
Connecticut
Massachusetts
New Jersey
New York

Education Pays: Median Hourly Wages by Educational Attainment in Connecticut, Northeast, and United States, 2006



	Less than high school	High school	Some college	Bachelor's or higher
Connecticut	$9.79	$14.86	$15.54	$26.39
NORTHEAST	$9.92	$13.17	$14.32	$24.22
UNITED STATES	$9.61	$12.54	$13.94	$23.03

Connecticut's Educational Achievement Gaps Worst in the Nation

	Poor/Non-Poor **Reading** Gap	Poor/Non-Poor **Math** Gap
4th Grade	3.42 grade levels Rank = **50th**	2.95 grade levels Rank = **50th**
8th Grade	3.20 grade levels Rank = **50th**	3.61 grade levels Rank = **50th**

Source: NAEP, 2007

CT'S "SAFETY NET" IS FRAYED

FY 09 funding (before rescissions) for multiple "safety net" programs remains *less than* actual spending for these programs in FY 02 (the *last* recession). Adjusted for inflation, the loss is even greater:

	FY 02 (actual)	FY 02 (08$)	FY 09 (pre-resc.)
TFA	$137.7M	$167.7M	$115.9M
Care4Kids	$121.6M	$148.1M	$ 93.1M
Safety Net	$ 3.8M	$ 4.6M	$ 2.1M

Funding for housing/homeless services, by comparison, increased from $21.6M ($26.3M in $2008) to $43.1M.

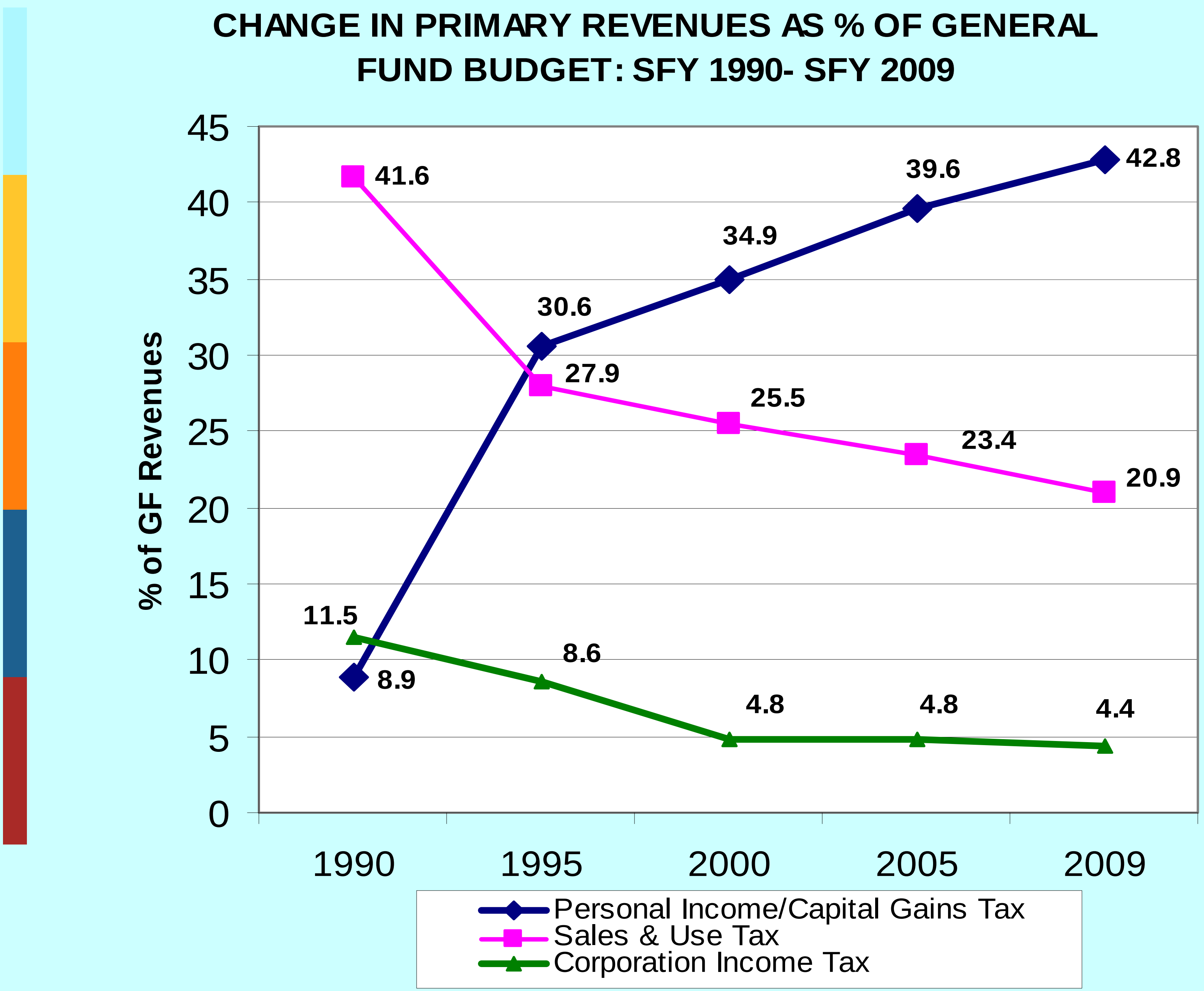
WHEN CONSIDERING REVENUE OPTIONS,

THE CURRENT BALANCE OF STATE/LOCAL REVENUES

&

THE SHIFT IN WHO NOW IS FINANCING,
AND WHO IS BEST ABLE TO FUND,
STATE AND LOCAL GOVERNMENT SERVICES

SHOULD BE CONSIDERED


CHANGE IN PRIMARY REVENUES AS % OF GENERAL FUND BUDGET: SFY 1990- SFY 2009
% of GF Revenues
45
40
35
30
25
20
15
10
5
0
1990
1995
2000
2005
2009
41.6
27.9
25.5
23.4
20.9
8.9
30.6
34.9
39.6
42.8
11.5
8.6
4.8
4.8
4.4
Personal Income/Capital Gains Tax
Sales & Use Tax
Corporation Income Tax

STATE/LOCAL REVENUE SYSTEM WITH GREATER RELIANCE ON PROPERTY TAX

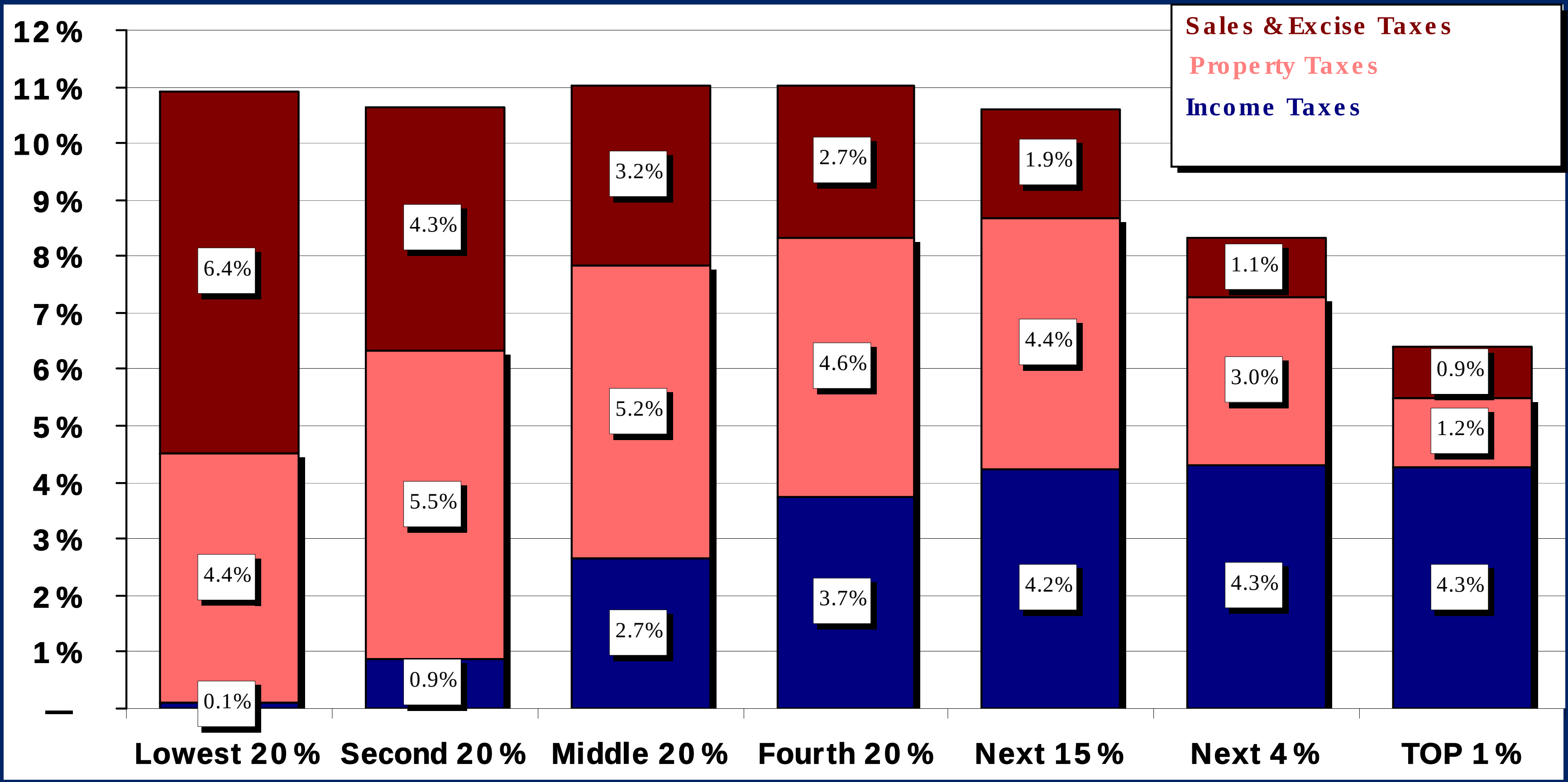
Taxes as % of Total State and Local Taxes: FY 05-06		
	CT	**US**
Property Tax	**38.1%**	**30.0%**
Corporate Income Tax	**3.2%**	**4.5%**
Personal income tax	**29.1%**	**22.5%**
Sales taxes	**25.0%**	**34.5%**
All other taxes	**4.6%**	**8.6%**

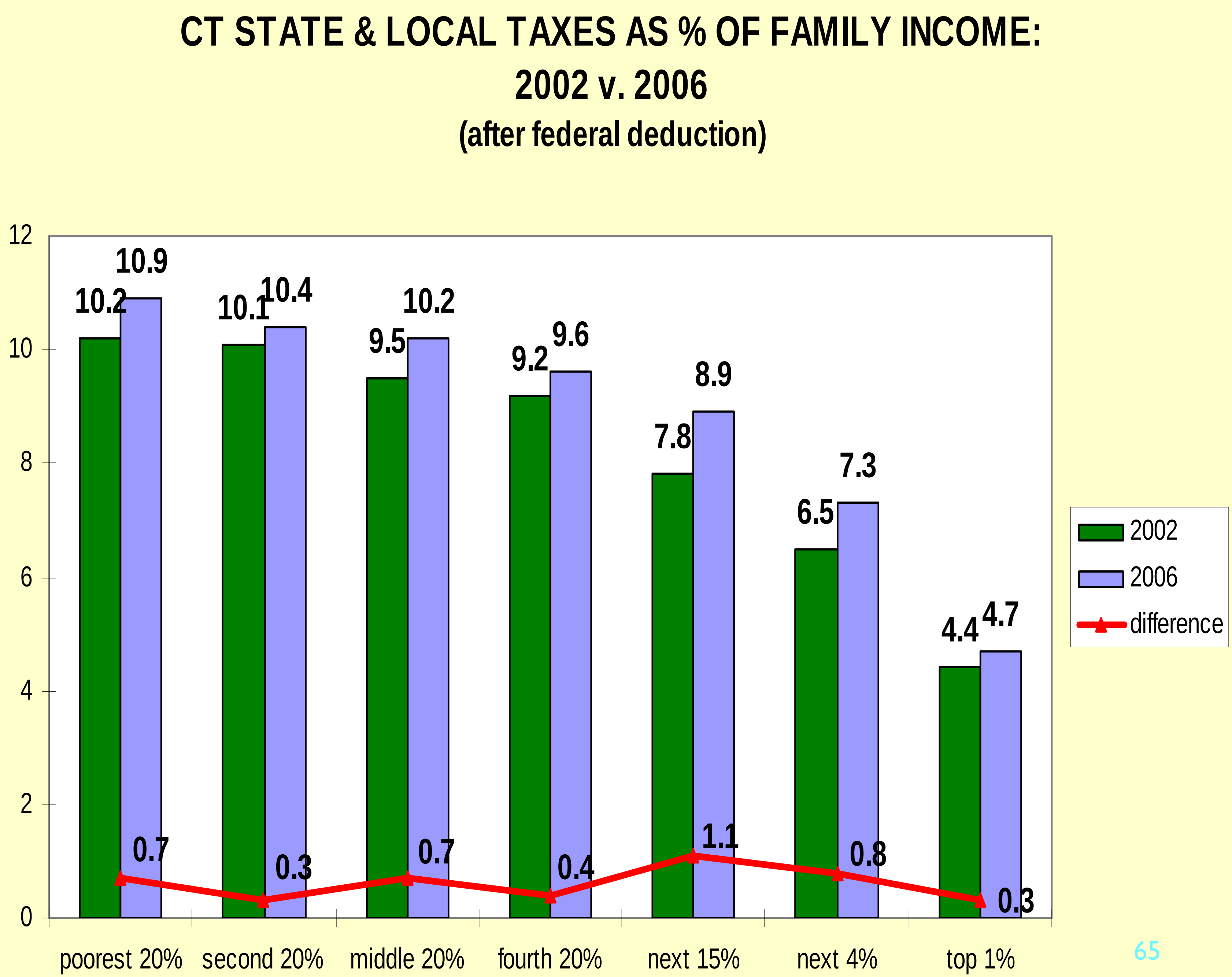
INEQUITABLE STATE/LOCAL REVENUE SYSTEM

Connecticut's tax system is *regressive* – the poorest residents pay a larger share of their incomes in taxes than most affluent

Incidence of CT State & Local Taxes, 2006

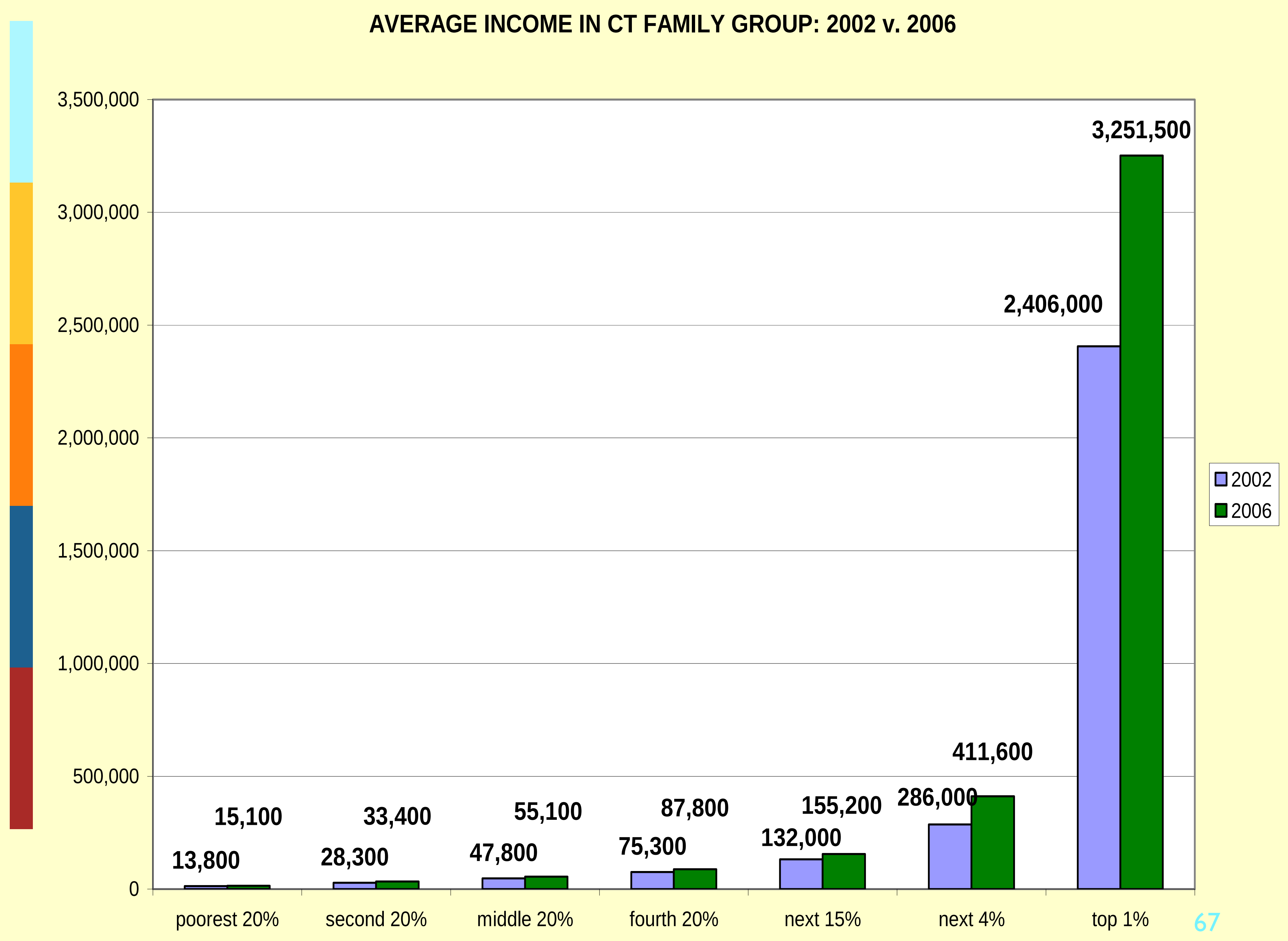
Shares of family income for non-elderly taxpayers



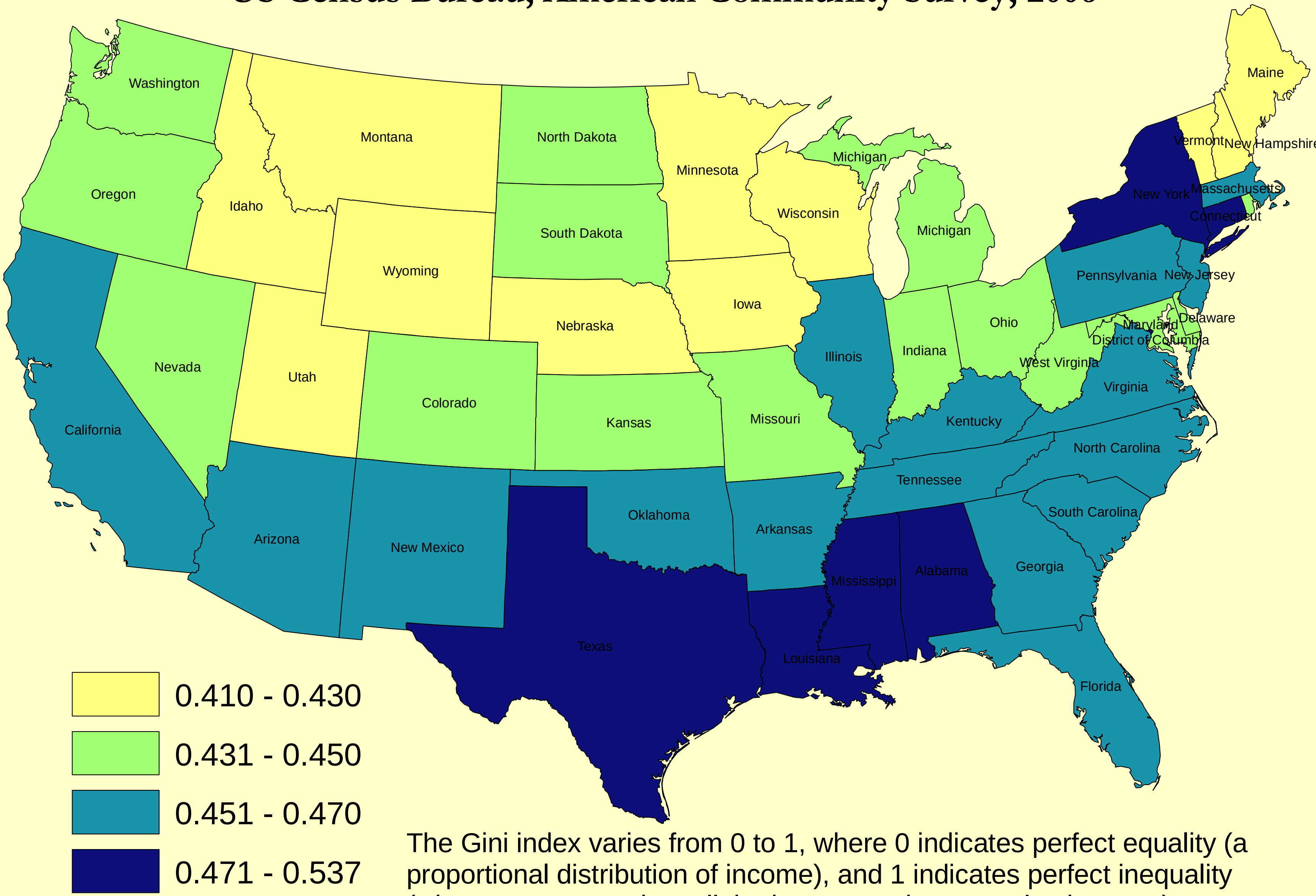

CT STATE & LOCAL TAXES AS % OF FAMILY INCOME:
2002 v. 2006
(after federal deduction)
12
10
8
6
4
2
0
10.2
10.9
10.1
10.4
9.5
10.2
9.2
9.6
7.8
8.9
6.5
7.3
4.4
4.7
0.7
0.3
0.7
0.4
1.1
0.8
0.3
poorest 20%
second 20%
middle 20%
fourth 20%
next 15%
next 4%
top 1%
2002
2006
difference

The gaps in real income between CT's wealthy and CT's poor families, *and also* between its wealthy and middle-income families, have grown more in Connecticut than in any other state in the country over the past two decades.

Out of the nation's 250 Metropolitan Statistical Areas (MSAs), Connecticut MSAs occupied four out of the top five spots for increased income inequality. Stamford-Norwalk, Bridgeport, Waterbury, and Danbury ranked 1st, 3rd, 4th, and 5th, respectively for the *fastest* growth in the income gap between their poorest 20% and their wealthiest 20% of families.


AVERAGE INCOME IN CT FAMILY GROUP: 2002 v. 2006
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
13,800
15,100
28,300
33,400
47,800
55,100
75,300
87,800
132,000
155,200
286,000
411,600
2,406,000
3,251,500
poorest 20%
second 20%
middle 20%
fourth 20%
next 15%
next 4%
top 1%
2002
2006

Gini Coefficients of Inequality, 2006
US Census Bureau, American Community Survey, 2006



The Gini index varies from 0 to 1, where 0 indicates perfect equality (a proportional distribution of income), and 1 indicates perfect inequality (where one person has all the income and no one else has any).

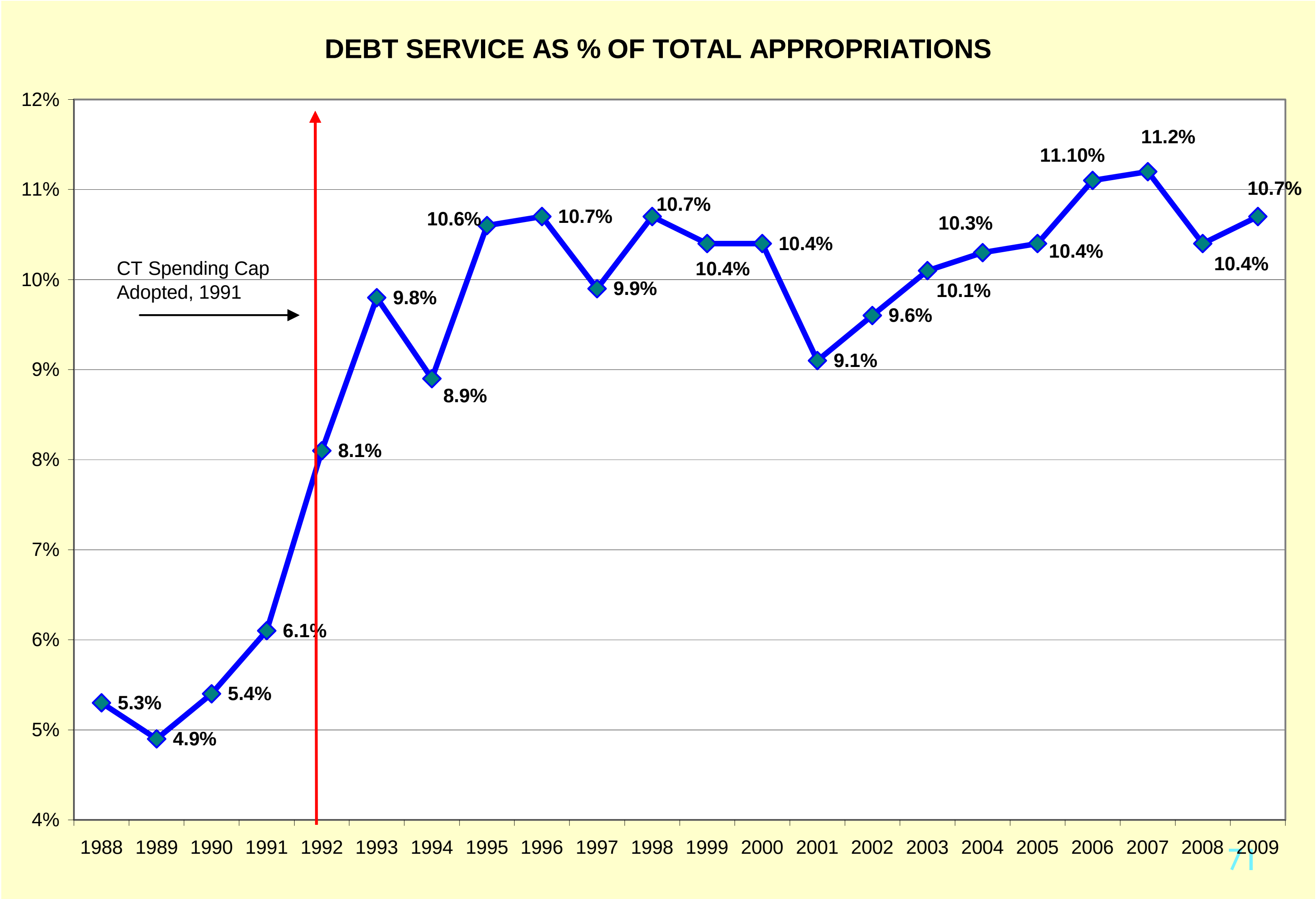
WHEN CONSIDERING BUDGET-BALANCING OPTIONS, THE FEDERAL GOVERNMENT SHOULD BE PART OF THE SOLUTION SINCE IT'S BEEN PART OF THE PROBLEM

In the last recession, increased federal aid (e.g., increased Medicaid reimbursements) reduced some of the need to increase state revenues/cut state spending.

Our Congressional delegation should be urged to have financial assistance to states be part of any federal "bailout"

WHEN CONSIDERING BUDGET-BALANCING OPTIONS,
TRANSFERRING EVEN MORE
OF OUR CURRENT FISCAL OBLIGATIONS
ONTO THE NEXT GENERATIONS
SHOULD *NOT* BE AN OPTION CONSIDERED

IF DEBT SERVICE *NOW* WERE THE SAME SHARE OF THE STATE BUDGET AS IT WAS IN FY 90, THERE WOULD BE $977 MILLION MORE THIS YEAR FOR OTHER PUBLIC INVESTMENT.



CT'S LONG-TERM OBLIGATIONS ARE AMONG THE GREATEST IN THE NATION

Taken together, Connecticut's long-term obligations now total about $54.2 *billion:*

- **$16.7 billion in bonded indebtedness (as of 6/30/08)**
- **$7.9 billion in unfunded state employee pensions (as of 6/30/06)**
- **$6.9 billion in unfunded teachers' pensions (as of 6/30/06)**
- **$21.7 billion in unfunded state employee post retirement health and life insurance benefits**
- **$2.2 billion in teachers' post retirement health and life insurance benefits**
- **$1.0 billion in the General Accepted Accounting Principles (GAAP) deficit.**

OFA, *Budget Briefing Informational Session* (September 25, 2008), p. 8

STRATEGIC, COMPREHENSIVE STATE PLANNING IS IMPERATIVE FOR MAKING WISE STATE BUDGET DECISIONS

"State planning occurs in Connecticut, but it is not the comprehensive or broad strategic planning that sets long-term goals to navigate Connecticut state government toward a preferred future for all Connecticut residents……

Connecticut continues to use the budget as the sole overall planning document, and review the budget and increases agency by agency. There is no link, analysis, or evaluation of how each agency's spending is tied to overall state policy or how well each agency is performing in reaching any statewide goals."

LPR&I, *State Long-Term Planning* (9/18/07)

Early Care & Education Budget Trends

CT's FY 09 ECE Budget

Funding approved for early care and education in the FY 09 DSS and SDE budgets, combined, is $226.8 million: $93.1 million for Care4Kids, $30.8 million for the state-funded centers, $82.3 million for School Readiness, $6.7 million for Head Start, $0.5 million for Even Start, $6.4 million for Family Resource Centers, $2.6 million for CT Charts A Course, and $3.7 million for the Early Childhood Cabinet.

This is $28 million more than was spent in FY 02, but $14.2 million *less* than was spent in FY 02, adjusted for inflation (2008 dollars)

Program	FY 02	FY 02 in 2008 dollars	FY 09	Diff FY 09-FY 02 actual
Care4Kids	121.6	147.9	93.1	(28.5)
State-funded centers	22.8	27.7	30.8	8.0
School Readiness[1]	39.1	47.6	82.3	43.2
Head Start[2]	4.8	5.9	6.7	1.9
Even Start	2.1	2.5	0.5	(1.6)
Family resource centers	6.1	7.4	6.4	0.3
CT Charts A Course	1.6	2.0	2.6	1.0
Early Childhood Cabinet[3]	0.0	0.0	3.7	3.7

[1] Includes Priority School Districts, Competitive School Districts, and quality enhancement.
[2] Includes Head Start Services, Head Start Enhancement, and Head Start Early Childhood Link. Does not include federal Head Start funds.
[3] Includes Early Childhood Cabinet line item, Preschool Quality Rating System line item, and carry-forward from 2008.

Per Child Spending: FY 05, FY 07, FY09

	School Readiness[1]	State Funded Centers[2]	Difference
2005	$7,500	$5,565	$1,935
2007	$8,025	$6,344	$1,681
2009	$8,346	$8,025	$321

1 Includes Priority School Districts only.

2 Rates for preschoolers only. Note that per child spending on infants and toddlers has remained at $5,000, a difference of $3,346 from the School Readiness per child spending.

The Infant/Toddler Challenge

State reimbursement rates for infants/toddlers in state-funded centers are 38% less than pre-schooler rates, though it costs more to serve infants/toddlers. Also, reimbursement rates for Care4Kids, which served approximately 24,000 children in 2008 (a third infants/toddlers) have not been increased since 2001.

As a result, state-funded centers are struggling to keep their infant/toddler programs afloat and children receiving Care4Kids have access mainly to lower-cost programs.

The School Readiness Challenge

As of 2007, the School Readiness program still lacked capacity to serve nearly 13,000 program-eligible children.

Though the FY 09 budget includes an $18.4 million increase in school readiness funding ($82.3 million in FY 09 compared to $63.9 million in FY 08), SDE is holding back some of the new funds, creating fewer slots than the current budget would allow, in anticipation of budget deficits in this and future years.

The Quality Challenge

In December 2008, the Early Childhood Cabinet will present a plan for a Quality Rating Improvement System for early care and education providers.

Currently, however, there are no new funds available for quality *improvement* – the technical training and professional development that can help all programs provide quality care.

Without these funds, poorly-rated programs won't be able to improve; young children will pay the price.

SFY 10-11 EC Cabinet Preliminary Proposals

Proposal would provide total of:

- $6.63M in FY 10 and $8.13M in FY 11 for initiatives in the Cabinet's "fiduciary authority," targeted at infrastructure, accountability, strategic communications, community co-investment & parent engagement (Cabinet-controlled funds now about $3.7M).
- Additional $18.67M in FY 10 and $31.63M in FY 11 for state agency use, mostly directed at pre-school initiative.
- $0.15M/year in Care4Kids funds, and $2.2M/year in School Readiness funds to be re-allocated for uses specified in proposals.

"Based on the neuroscience findings, we are probably under-investing at the B-3 level."

SFY 10-11 EC Cabinet Preliminary Proposals

I. Infrastructure/Accountability

- CT Early Childhood Information System (Cabinet, $0.4M/year)
- Agency-specific data work (SDE, $0.15M/year re absences, DPH, $0.15M/year re datalinking, SDE/DPH, $0.2M and $0.25M for school health database)
- Data partnerships/mining (Cabinet, $0.2M/year)
- PreK Regression study (Cabinet, $0.3M/year)
- Research Network (Cabinet, $0.3M/year)
- QRIS System plan (Cabinet, $0.1M/year)
- Interim Preschool Quality Project (Cabinet, $0.85M, $1.2M)
- Accountability (Cabinet, $0.1M/year)

Total: Cabinet, $2.85M, $3.40M; Agencies, $0.4M, $0.65M

SFY 10-11 EC Cabinet Preliminary Proposals

II. Strategic Communications

- Child development info to parents/providers (Cabinet, $0.1M/year)
- Early childhood investment information to policymakers (Cabinet, $0.1M)
- Ages & Stages training for medical practitioners (Children's Trust Fund, $0.1M/year)
- K-3 School Expectations Materials (SDE, $0.1M/year)

Total: Cabinet, $0.2M/year; Agency, $0.2M/year

SFY 10-11 EC Cabinet Preliminary Proposals

III. Community Co-Investment and Parent Engagement

- Implementing Community Comprehensive Plans (Cabinet, $1.68M, $3.36M; Matching, $0.72M, $1.44M)
- Expand local strategic plan development (Cabinet, $0.42M; Matching, $0.18M)
- Support community infrastructure and TA (Cabinet, $1.2M in FY 10 only)
- Support for statewide TA and consultation to communities (Cabinet, $0.45M, $0.6M)
- Parent civic engagement (Cabinet, $0.15M, with 1:1 match; SERC, $0.1M with 1:1 match)

Total: Cabinet, $3.48M, $4.53M; Agency, $0.1M/year: Match, $1.33M, $1.87M

SFY 10-11 EC Cabinet Preliminary Proposals

IV. Investing in First Three Years

- Cover $6.2M FY 09 DDS Birth to Three deficit
- Develop in 2010 in-hospital birth risk screening protocol, review existing screening/referral programs, review home visiting models, develop home visiting continuum, develop plan to expand Early Head Start and develop B-9 literacy continuum plan
- In FY 10-11, fund contractor to recruit and support additional licensed family day care providers and increase # of kith and kin providers who become licensed (taking $$ from Care4Kids for this)
- In FY 11, implement birth risk assessment and expand Nurturing Families Network
- In FY 11, bring Child First to scale in Bridgeport and replicate in two additional communities with multi-risk children/families

Total: Cabinet, $0.1M in FY 10; Agency, $0.35M, $2.7M (with re-allocation of $0.15M and $0.22M from Care4Kids)

SFY 10-11 EC Cabinet Preliminary Proposals

V. Investing in Preschool

- ECE workforce development (wage bonus for certain teachers)($2.5M, $3.5M)
- Preschool rate parity ($1.7M, $2.0M)(doesn't address infant-toddler rate parity, just SRP PSD v. SRP competitive municipalities & DSS centers)
- Competitive districts admin/startup ($3M/year)
- Preschool slot expansion: ~900 new slots in CM ($8M/year), 1,500 new PD and other slots ($9M in FY 11, partial year funding)
- Preschool consultation network (SDE, $0.15M, $0.2M)
- Preschool participation in federal food program
- Preschool facility expansion (CHEFA, $0.275M/year + $2M/year bond funds)

Total: Agency, $17.624M, $27.975M (with re-allocation of $2.2M from School Readiness program funds in each year)

CT's Biennial Budget Timeline

~ 9/1:	Agencies send "current services" budgets to OPM
~ 10/1:	Agencies send "program options" to OPM
~ 11/16:	OPM sends tentative budget to Governor
Early Feb:	Governor presents proposed budget to GA
March-April:	Appropriations Committee reviews spending side
	Finance Committee reviews revenue side
April-May:	Appropriations Committee passes spending bills
	Finance Committee passes tax/bonding bills
Early June:	GA approves budget & implementers;
	Governor signs & agencies begin to implement

* Governor may rescind up to 5% of any budget line and up to 3% of any Fund without General Assembly approval; "holdbacks" *should be,* but are not, counted toward this cap.

IN SUM

1. There's much uncertainty about how the current economic crisis will impact CT.
2. State governments are counter-cyclic. Demand for state services increases when revenues are falling. Actions states take can aggravate, or mitigate, impacts of economic downturns.
3. CT had a state budget problem even *before* the most recent recession began. Action must address our long-term, as well as short-term, challenges.
4. All but CT's wealthiest families enter this recession more vulnerable economically than they did the last.
5. Compared to other states, CT is well positioned to withstand the current crisis: it has a smaller deficit, a larger reserve fund, and great wealth.
6. Relying on our Budget Reserve Fund *first* does the least damage to the economy and buys time for the more comprehensive budget "fix" that will be needed, especially if the economy further deteriorates.
7. Spending cuts, whenever made, should be strategic and avoid areas with high return on the state's investment (e.g., education, improving infrastructure) and services that meet essential needs. *All* types of "spending," including subsidies through our tax system, should be scrutinized. The "opportunity costs" of each public investment should be assessed to maximize return on every tax dollar.

IN SUM

8. Revenue changes, whenever made, should bring our state and local tax system in closer conformity with NCSL principles – e.g., broadening the base of our taxes so rates can remain lower, improving equity in taxes paid among individual taxpayers and among businesses, improving balance across our revenue streams. Should also be consistent with other state goals (e.g., smart growth, increasing high quality jobs).
9. Comprehensive, long-range strategic planning for the state – across all aspects of state government (including education, health and human services, economic development) – must begin. It is *essential* that our vision for CT's future be clear and our strategies for achieving that vision identified, so our course cannot be diverted by headlines and short-term economic downturns. Keep to our state's long-term investment plan; no panic selling.
10. Think of CT as "megacap" firm. How can we take advantage of our competitive position to gain competitive ground during this tumultuous time?

For more information:

Shelley Geballe, JD, MPH, Distinguished Senior Fellow
Cyd Oppenheimer, JD, Senior Policy Fellow
CT Voices for Children
33 Whitney Avenue, New Haven CT
203-530-8599 (Shelley, on state budget issues)
203-498-4240 (Cyd, on early care and education issues)
www.ctkidslink.org

To sign up for state budget alerts, e-mail msullivan@ctkidslink.org

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http://www.ctkidslink.org/announcement_83.html