



## Making Smarter Spending Choices in the State Budget

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**Connecticut's recent budget deficits: a revenue problem, not a spending problem.** In the late 1990s, our booming economy generated significant budget surpluses, particularly from income and capital gains taxes. Based on these temporarily inflated revenues, Connecticut enacted a total of \$2 billion in permanent tax cuts (about 20% of annual tax revenues at this time.) Then, when the economy turned sour and these revenues declined, the state faced significant deficits. To address the deficits, Connecticut turned first to one-time revenues, spending cuts, and borrowing. While net taxes also have been increased by about \$7 million, Connecticut taxpayers still pay approximately \$1.3 billion less in state taxes each year than they did in the mid 1990s.

**Connecticut was frugal in its state spending during the 1990s.** The state has been ranked:

- 2nd most frugal in the nation (according to the quarterly Connecticut Economy);
- 47th (i.e., 4th lowest) in state and local spending as a share of personal income;
- 50<sup>th</sup> (lowest) in spending on transportation and on total wages for state and local government employees;
- Below average in year-to-year state spending growth, just slightly more than inflation; and
- 49<sup>th</sup> (lowest) in the nation in state and local spending on education as a share of personal income (44<sup>th</sup> lowest in spending on primary and secondary education and 49<sup>th</sup> in higher education spending)

**Connecticut's budget cuts since the deficit began in FY 01 have hurt our children and families and will reduce our competitive edge in the future.**

Many programs remain severely cut from their FY01

levels. The FY 05 budget funds multiple programs at less than FY 01 funding levels:

- Need-based scholarships (15% cut) and Department of Higher Education (25% cut);
- OPM-funded youth development programs (86%); and
- Care 4 Kids child care assistance (36% cut).

A projected FY06 current services deficit, resulting from many one-time revenues in the FY 05 budget, highlights the importance of building a more stable revenue base to restore past cuts and permit needed investments.

**Our failure to fix Connecticut's fiscal boat and spend smarter will result in a Connecticut we won't like and can't afford.** CT's structural deficit will persist until CT has a revenue system that reliably meets its needs and grows with the economy. The alternative is short-term "savings" with serious long-term costs:

- Continued cuts to state aid to education result in a less-educated workforce and higher property taxes, making the state less desirable to businesses;
- Inadequate investments in our transportation system and housing stock deter families and businesses from locating here;
- Continued cuts to mental health and substance abuse services result in growing caseloads in foster care and our prisons (at a cost of \$35,000 to \$150,000 or more per person per year); and
- Continued reliance on bonding shifts today's fiscal problems onto future generations.

**Connecticut residents strongly oppose cutting programs that support children and youth as a means of balancing the state budget.** In a 2004 UCONN poll:

- 83% opposed cuts in funding to towns for public education;
- 82% opposed cutting programs for the poor;
- 82% opposed cutting public health programs; and
- 76% opposed cuts to Connecticut's state universities and colleges.

**We can make smarter choices for Connecticut's state budget by:**

- Requiring greater transparency and accountability in how state dollars are spent (including through tax expenditures);
- Spending smarter, by investing more in programs with proven returns;
- Enacting a more progressive income tax, preserving the estate tax, and reforming the corporation business tax;
- Collecting available federal funds; and
- Repairing the state spending cap.