

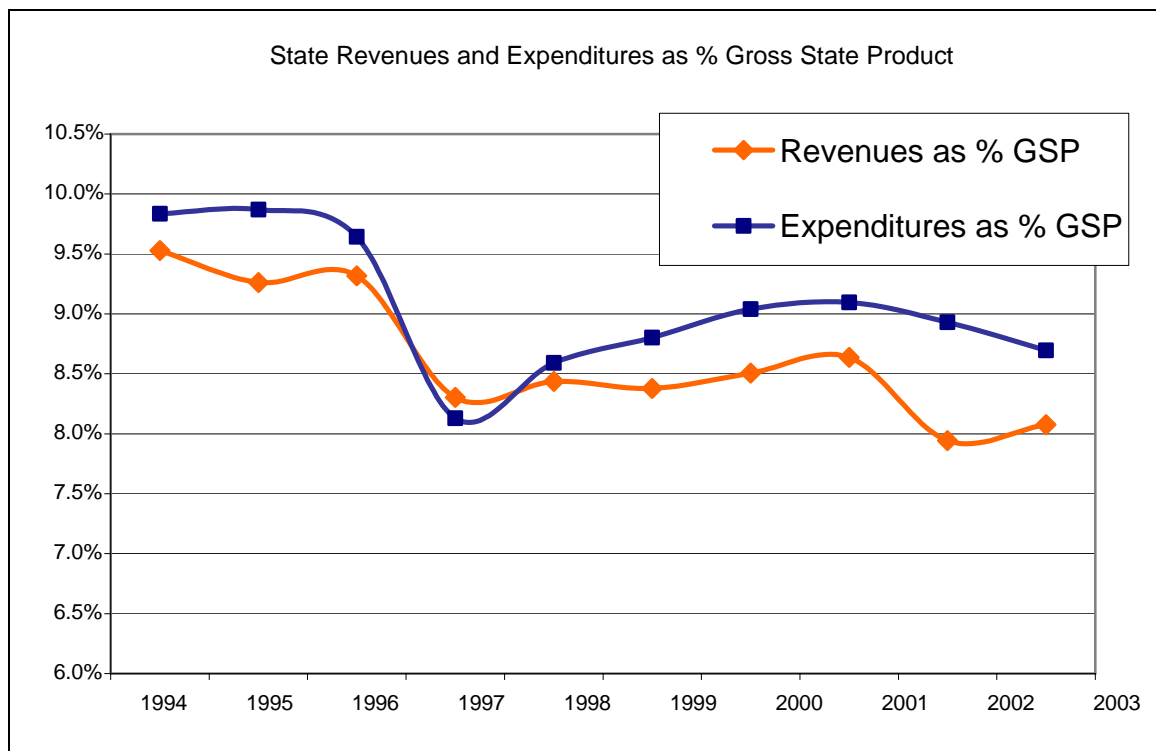
Where Does Connecticut Really Stand On State Spending, State Revenues, and Government Performance?

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April 2005

I. On State Spending

On Revenues and Expenditures as % Gross State Product (GSP) Since 1994, Connecticut's revenues and expenditures have declined as a percentage of Gross State Product (GSP), a measure of the size of government on which economists routinely rely.



On the size of state and local government CT is quite frugal In 2002, The Connecticut Economy ranked CT the 2nd most frugal state in the nation (second only to NH). Updating several of the indicators on which this ranking was based, we see that Connecticut ranks:

¹ D. Heffley, "My Big Fat State Government" *The Connecticut Economy* (Fall 2002), pp. 4-5.

- 47th (i.e. 4th lowest) in state and local spending as a percentage of personal income²
- 46th in state and local government employment as a percentage of total non-farm employment³
- 42nd in the number of state and local full-time employees per 10,000 residents.⁴

On state spending as a share of personal income – CT is among the lowest of all states. United States Census Bureau data on government spending⁵ finds CT to be 47th (4th lowest) in spending on direct general expenditures⁶ as a share of personal income, at 16.4%, compared to a national average of 19.5%. In addition, compared to other states as of FY2002, CT is:

- 49th (i.e. second lowest) in total state and local spending on education as a share of total personal income (with CT 44th in primary and secondary education spending⁷ and 49th on higher education spending)
- 50th in spending on transportation and on total wages and salaries for state and local government employees
- 49th in spending on housing and the environment (i.e., conservation and development of natural resources, parks and recreation, housing and community development, sewers and solid waste management)
- 45th in capital spending
- 42nd in public safety spending (i.e., police and fire protection and corrections facilities)
- 44th in public welfare spending (e.g., cash assistance).

Even on the measure on which CT ranks highest – state and local hospital spending as a share of total personal income – CT ranks 22th and is still below the national average.

On spending growth -- Since the mid-1990s, Connecticut's growth in state spending has been less than the 50-state average, and far less than in prior years. CT's budget has grown about 4.3%/year since 1995 - less than the average rate of growth across the 50 states (5%-6%/year) and far less than CT's budget growth in the late 1980s (10.8%/year

² These calculations are based on expenditure data from the US Census Bureau, *State and Local Government Finances by Level of Government and by State: 2001-02*, and on 2002 personal income data from the US Bureau of Economic Analysis (<http://www.bea.doc.gov/bea/regional/sqpi/default.cfm>). When The Connecticut Economy ranked CT 2nd "most frugal", CT was 48th in state and local spending as a percentage of personal income, 43rd in state and local government employment as a percentage of total non-farm employment, and 39th in the number of state and local full-time employees per 10,000 residents.

³ These calculations based on government employment data from the US Census Bureau, *State and Local Government Employment and Payroll Data by State and By Function, March 2003* (<http://ftp2.census.gov/govs/apcs/03stlall.xls>), and March 2003 total non-farm employment data from the US Bureau of Labor Statistics data provided by the Economic Policy Institute.

⁴ Population data from US Census Bureau, American Community Survey, 2002.

⁵ United States Census Bureau, *State and Local Government Finances by Level of Government and by State: 2001 – 02*. Comparing states based on spending as a "share of personal income" (rather than spending "per capita") removes from the comparisons the influence of variation among states in population size, income, and the cost of living and so is a better basis for comparison.

⁶ Direct general expenditures are defined by the Census Bureau as total state and local spending, including programmatic, operational, and capital spending.

⁷ Newly-released 2003 data show Connecticut ranking 28th in state and local funding of K-12 education as a percent of personal income. In state-only revenues, Connecticut ranks 47th. US Census Bureau, *Public Education Finances, 2003*, (US Census Bureau, March 2005).

between 1987-1991) and early 1990s (6.4%/year between 1991-1995). CT's recent budget growth barely keeps up with inflation. From FY 02 to FY 03, state spending grew just 1.7% -- less than the rate of inflation over this period (2.1%). From FY 04 to projected FY 05, spending growth was just 3.29%, or 0.6% if adjusted for inflation.

On the relationship between spending growth and population growth - Some of CT's spending growth was necessary simply to accommodate growth in the CT populations who rely on state services. From the early 1990s to the early 2000s, growth in many of the populations who rely on state services has exceeded the 3.6% growth in CT's overall state population:

- Incarcerated inmates (97% growth)
- Open child abuse and neglect cases/day (93% growth)
- Children in foster care/day (72% growth)
- Children receiving DMR services, including Birth-to-Three (60% growth)
- K-12 students (23% growth)
- Children, pregnant women and parents in Medicaid (21% growth)

On Medicaid spending – CT's Medicaid spending is relatively high primarily because CT's spending on the elderly, blind and disabled far exceeds national averages. Medicaid is CT's *largest* budget account. Of the \$2.9 billion appropriated in SFY 05 for Medicaid, about half represents state funds and the balance are federal reimbursements.

- CT's per enrollee spending on Medicaid (\$6,769) is second highest in the nation and far above the national average (\$4,123)⁸.
- More than half (52%) of CT's Medicaid spending is for long-term care (including nursing home care). This is far more than the national average (36%), and is the **4th highest in the country**. The corollary is that Connecticut's expenditures on acute care are comparatively low (42% compared to 58% nationally, or **3rd lowest** in the nation).⁹
- Although Connecticut's Medicaid spending is high, its **rate of growth is very low** compared to other states. Connecticut's average annual growth rate between FFY 2000 and FFY 2004 was **3rd lowest** in the country, at 5.5%, ahead of only Oregon (4.3%) and North Dakota (3.8%). This compares to a **national average growth rate of 10.1%**.¹⁰

⁸ Center on Budget and Policy Priorities analysis of FFY 2002 MSIS data, as reported by CMS as of December 29, 2004.

⁹ Kaiser Family Foundation, statehealthfacts.org, *Distribution of Medicaid Spending by Service, FFY 2003*.

¹⁰ Center on Budget and Policy Priorities analysis of FFY 2002 MSIS data, as reported by CMS as of December 29, 2004.

Distribution of Connecticut's \$3.7B of Medicaid Spending		
Type of Care	US	CT
Acute Care	58%	42%
Long-Term Care	36%	52%
Disproportionate Share Hospital Payments	5%	6%

Source: Kaiser Family Foundation, statehealthfacts.org, *Distribution of Medicaid Spending by Service, FY 2003*.

Although children constitute more than half (56%) of CT's Medicaid population, only 13% of CT's Medicaid spending is for their health care costs. By comparison, the elderly, blind and disabled constitute 81% of CT's Medicaid spending, but only 26% of all enrollees.¹² Because such a small portion of Medicaid spending is on children, *very deep* cuts are necessary to achieve any significant savings if cuts are made in care for children.

Distribution of Medicaid Spending by Enrollment Group, FY2000			
Spending Category	CT (\$)	CT (%)	US (%)
Children	382,071,744	13	16
Adults	134,385,057	5	10
Elderly	1,224,647,836	43	30
Blind and Disabled	1,088,222,419	38	41
Total ¹¹	2,839,457,121	100	100

Source: Kaiser Family Foundation, statehealthfacts.org, based on data from Medicaid Statistical Information System reports from the Centers for Medicare and Medicaid Services, 2004

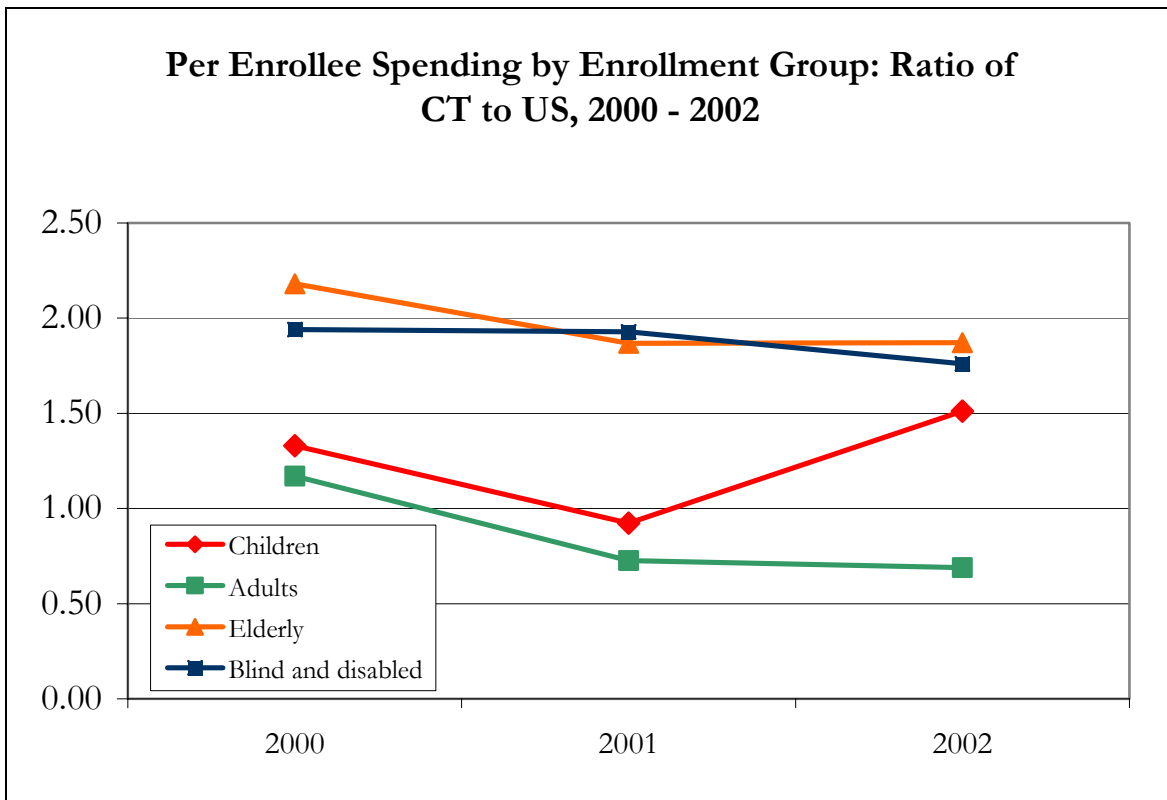
CT's per enrollee spending on Medicaid is significantly higher than the national average (\$6,769 vs. \$4,123), a ratio of 1.64. In recent years, Connecticut's per capita spending on children has increased relative to the national average, while per enrollee spending on adults has declined relative to the national average, evident in the figure below. Though per enrollee spending on the elderly and blind and disabled has declined modestly in relation to federal per enrollee spending, it remains almost double the national level.

¹¹ Total includes \$10.1million in expenditures classified as 'unknown'.

¹² The remaining enrollment group, adults, constitute 5% of CT's Medicaid enrollees but account for 17% of CT's Medicaid spending. Kaiser Family Foundation, statehealthfacts.org, *Connecticut: Distribution of State Medicaid Enrollees by Enrollment Group, FY2000* and *Connecticut: Distribution of Medicaid Spending by Enrollment Group, FY 2000*.

Per Enrollee Medicaid Spending, CT vs. US (FFY 2002)			
Spending Category	CT Spending per enrollee	US Medicaid Spending per US enrollee	Ratio of CT Medicaid Spending/Enrollee to US Medicaid Spending/enrollee
	Children	\$2,201	\$1,456
Adults	\$1,235	\$1,793	0.69
Elderly	\$21,344	\$11,406	1.87
Blind and disabled	\$21,072	\$11,975	1.76
Total	\$6,769	\$4,123	1.64

Source: Center on Budget and Policy Priorities analysis of FFY 2002 MSIS data, as reported by CMS as of December 29, 2004. The accuracy of these data is impeded by large unallocated expenditures for Connecticut.



On state education spending – CT’s public education system relies more heavily on local property taxes any other state. CT ranks second to last (49th) in the share of its primary and secondary education revenues coming from the federal government (just 4.4%, compared to the national average of 7.8%). Similarly, CT ranks very low – 44th in the nation – in *state* funding for primary and secondary education (38.1% compared to a national

average of 49.4%). By comparison, CT ranks highest in the nation in reliance on *local* funding (57.4% v. the national average of 42.8%).¹³

State funding for K-12 education in CT has declined significantly in recent years, from 46% of all K-12 public education spending in FY 90 to 38% in FY 2003-04.¹⁴ Property taxes have soared during this period as a result. The Connecticut Conference of Municipalities (CCM) notes that property taxes in Connecticut rose by \$610 million due to tax rate increases between 1998 and 2003, leaving Connecticut with an average per capita property tax burden that is third highest in the nation and nearly 80% higher than the US average (\$1,588 vs. \$885). Expressed as a percentage of personal income, Connecticut's property tax burden is 8th highest in the nation, at 4.2%, compared to a US average of 3.2%¹⁵

On borrowing to make ends meet – CT's indebtedness has grown significantly since 1990. Debt service has increased from 5.4% of state spending in FY 90 and 7.2% in FY 94 (\$793 million) to 10.1% of state spending in FY 03 (\$1.52 billion), 11.5% in FY 04 (\$1.59 billion), and 12.0% in FY05 (\$1.7 billion). As debt service increases as a share of the state budget, funds available for other purposes necessarily decline.

On the consequence of failing to make smart budget choices – By failing to spend money to prevent problems, CT spends more and more trying to fix them. For example, over the last decade there has been less growth (until *very* recently) in CT Department of Children and Families' budget for programs and services that keep children and families together than in spending at the "back-end" – on residential treatment and foster care. As shown on the chart on the next page, DCF spending on residential treatment grew fastest over the last decade.

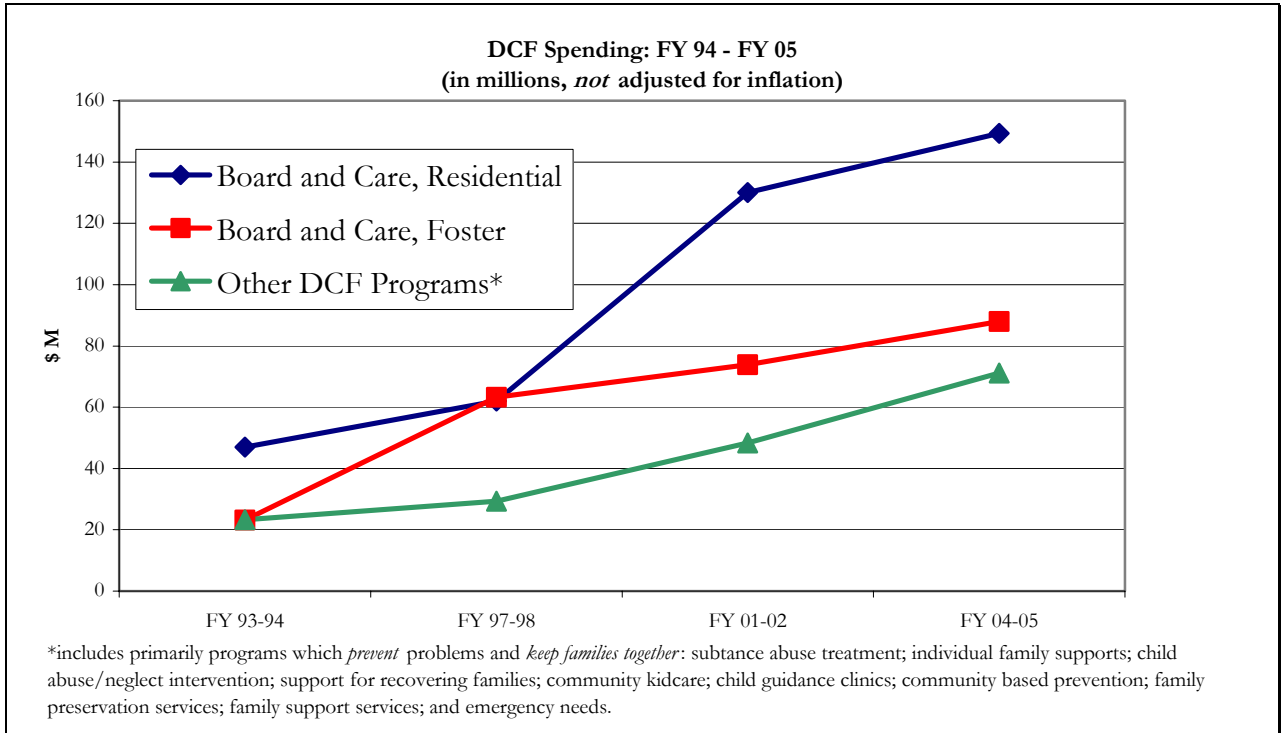
Similarly, the number of inmates in the CT Department of Correction's care and custody (incarcerated inmates as well as those in community programs) has increased – from 15,968 in FY 90 to 22,493 as of January 1, 2005.¹⁶ The DOC budget has almost tripled -- from \$186.9 million in FY 90 to \$552.5 million in FY 05.

¹³ U.S. Census Bureau, *Public Education Finances: 2002* (September 2004), <http://ftp2.census.gov/govs/school/02f33pub.pdf>.

¹⁴ Connecticut, State Department of Education, *2003-2004 Connecticut Public School Expenditures*, "Local, State and Federal/Other Expenditures for Elementary and Secondary Education", <http://www.state.ct.us/sde/dgm/report1/cpse2004/lsf.pdf>.

¹⁵ Connecticut Conference of Municipalities, *Local Property Taxes and Connecticut's State Government: What Residents and Businesses Should Know* (2003).

¹⁶ Connecticut, The Prison and Jail Overcrowding Commission, *A Report to the Governor and Legislature* (January 15, 2005); Connecticut Department of Correction, *January 1, 2005 Statistics*.



On CT's spending choices - By investing early, before problems become severe, CT can reduce state spending long-term. As the following table illustrates, it is far more costly to intervene *late* than it is to prevent problems in the first instance, or prevent them from growing more severe:

A Sampling of State-Funded Programs and Services	
	Annual Cost¹⁷
DCF-Riverview Hospital¹⁸	\$492,020/year/child
DMHAS – CT Mental Health Ctr (in-patient)	\$476,690/year/patient
DCF-High Meadows	\$456,615/year/child
DCF-CT Children's Place	\$339,450/year/child
DCF-CT Juvenile Training School	\$325,215/year/child
DMR- Southbury Training School (in-patient)	\$228,490/year/client
DCF-Funded Residential Treatment	
High: Wellspring	\$123,560/year/child
Stonington Institute	\$112,610/year/child
Low: APT Foundation/Alpha House	\$40,898/year/child
New Hope Manor	\$38,504/year/child
Judicial-Juvenile Detention	\$100,000/year/child
DOC- Garner Correctional Institution	\$52,195/inmate (2002)
DOC- Manson Youth Institution	\$47,815/inmate (2002)
DOC- York Correctional Institution	\$44,895/inmate (2002)

¹⁷ NOTE: There may be some federal reimbursement for certain of the health-related and foster care-related costs shown on this table, including through Medicaid and Title IV-E of the Social Security Act. Costs shown are for FY 03 unless otherwise noted.

¹⁸ DCF per capita costs as of July, 2003. *Letter from Office of the State Comptroller to Commissioner of Department of Administrative Services* (July 17, 2003). This table will be revised upon receipt of 2004 data from the Office of the State Comptroller.

A Sampling of State-Funded Programs and Services	
Tuition, room & board at U-Conn	\$28,264/student (out of state); \$15,760 in-state)(2005) ¹⁹
Tuition, room & board at CT State University	\$13,251/year/student(in-state); \$20,908/year/student (out of state) (2005) ²⁰
Tuition at CT Community-Technical Colleges	\$2,406/year/student (in-state) \$7,178/year/student (out of state) (2005)
CT K-12 education (state/local/federal)	\$10,166/year/child (2003/04) ²¹
DCF-Home based services	\$6,065/client for 4-5 mo. of service
Child care costs for CT infant/toddler	\$7,000-\$15,000/year/child (2004)
Child care costs for CT pre-school child	\$6,800-\$10,000/year/child (2004)
Average Grant for CT Temporary Family Assistance for a family of 3	\$6,500/year/family of 3 (2004)
HUSKY health care coverage (health, mental health, dental, etc.)	\$2,134/year/participant ²²

II. On State Revenues

On state and local²³ government revenues as a percentage of total state personal income – CT is 5th to last among states. According to United States Census Bureau data on state and local government revenues (for FY 2002), when states are ranked on various measures of revenues as a percentage of total state personal income, Connecticut ranks:

- 45th (6th lowest) in **total revenue** (at 16.8% of total state personal income).
- 46th in **federal revenue** (2.7%)
- 48th in **own-source revenue** (12.7%)

On the share of taxes coming from various sources – CT relies more on the personal income tax and less on the corporate income tax than the 50-state average.

¹⁹ Both in-state and out-of-state expenses include an estimated \$725 annually for ‘books and supplies.’ See <http://www.uconn.edu/about/tuition.php>. These costs reflect cost to the students, not state expenditure.

²⁰ Average of Southern Connecticut State University, Eastern Connecticut State University, and Western Connecticut State University.

²¹ Connecticut State Department of Education, *2003-2004 Connecticut Public School Expenditures*, “Net Current Expenditures (NCE) per Pupil, 2003-2004 Data” (www.state.ct.us/sde/dgm/report1/cpse2004/nceadm.xls).

²² The capitation rate varies by age, gender, and county. These amounts are prior to any federal reimbursement. In the case of Medicaid/HUSKY A coverage, this reimbursement would be 50% of the total.

²³ Because many states have county governments with significant responsibilities, comparisons among states that include only state revenues will be deceptive. A better metric of comparison is state *and local* revenues as a percentage of personal income. Looking *only* at state tax collections as a percentage of personal income, CT ranks 28th – that is, in 27 other states, a greater percentage of personal income is spent on state taxes than in CT. U.S. Department of Commerce, *State Government Finances, 2002*.

Proportion of Total State Tax Revenues from Various Taxes (2003)²⁴		
<i>Tax Source</i>	<i>% of CT state taxes</i>	<i>% of all state taxes, US average</i>
Sales Tax	50.3%	49.8%
Personal Income Tax	38.3%	33.3%
Corporate Income Taxes	3.6%	5.2%
State Property Tax	0.0%	1.8%
Other Taxes	7.7%	10.0%

On the proportion of state tax revenues from corporation business taxes – CT ranks 28th among the 46 states with a corporation tax.²⁵ In 2003, 3.6% of Connecticut’s total state tax revenues came from its various corporation business taxes. This was less than in New Hampshire (20%), New Jersey (12%), Massachusetts (7.6%), and New York (5.2%).

On the trend in total state and local business tax burden – CT is one of just 3 states where total business taxes have declined recently. A January 2004 report prepared by Ernst & Young for The Council on State Taxation (a non-profit trade organization with a membership of 550 major corporations engaged in interstate and international business) reports that CT was one of only three states to reduce total business taxes²⁶ between FY 2000 and FY 2003. COST reports that, nationally, total state and local business taxes increased by 8.3% over this period. By comparison, CT’s total state and local business taxes fell by 1%.

On overall state and local business tax burden – CT ranks in the bottom 10 of all states on 3 of 4 measures of business tax burden. According to the COST report, CT ranks 43rd (8th lowest) in the share of all taxes paid by business, 40th in business taxes per dollar of private sector economic activity, and 40th in business taxes per dollar of capital income. COST ranks CT 12th highest in business taxes per private sector employee. However, this reflects – in part – the decline in the number of private sector employees in CT’s longest recession since 1939.²⁷

Robert Tannenwald, Assistant Vice President and Economist at the Federal Reserve Bank of Boston, notes that Connecticut has an average business tax burden (28th, in FY2000), but a low BSH (business share of overall taxes). In drawing multi-state comparisons, Tannenwald also introduces the notion of business taxes as a percent of business profits. On this measure, Connecticut ranked very low – 40th among states.²⁸

²⁴ U.S. Bureau of the Census, *2003 State Tax Collections by Source (Percentage of Total)*, available at www.taxadmin.org/fta/rate/03taxdis.html

²⁵ U.S. Bureau of the Census, *2003 State Tax Collections by Source (Percentage of Total)*.

²⁶ COST’s 50-state comparisons are of “total state and local business taxes” defined to include: property tax (on real, personal, and utility property), sales and use taxes, excise taxes, gross receipts taxes, corporate income taxes, employer payroll tax contributions (including unemployment insurance, workers’ compensation and disability insurance taxes), and license and other business taxes. The other two states where business taxes fell were Oregon (a less than 1% decline) and Alaska (10% decline).

²⁷ The second longest recession, from 1989-1992 was more severe, however. During that period, 141,000 jobs, or nearly 10% of the workforce, were lost. Between July 2000, and September 2003, Connecticut employment declined by 61,400 jobs, or 3.6%. CT Department of Labor, “Employment declines for the third year,” *The Connecticut Economic Digest*, 9(3) (March 2004), p. 1.

²⁸ Robert Tannenwald, *Massachusetts Business Taxes: Unfair? Inadequate? Uncompetitive?* (Federal Reserve Bank of Boston, 2004). Tannenwald notes that Connecticut is alone among New England States, the only state whose ‘business taxes to profits’ rank (40th) differs considerably from its tax burden rank (28th). This he attributes to

On tax rates²⁹ - Connecticut's tax rates are competitive with and in some cases markedly below those of other states, including states in our region:

- **Corporate tax.**³⁰ CT's 7.5% corporate tax rate³¹ is equal to the national average, and is now equal to or less than neighboring states (New York 7.5%, New Jersey 9.0%, Massachusetts 9.5% + surtax, Rhode Island 9.0%). CT totally exempts many types of corporations from paying the corporation business tax.
- **Sales tax.**³² CT's 6% sales tax rate is one percentage point over the United States median (5%). It is less than Rhode Island's rate (7%), equal to New Jersey and Vermont, and more than Massachusetts (5%) and New York (4.25%), though local sales taxes are also imposed in some states (e.g., New York City's local sales tax is 4.5%, for a total sales tax of 8.75%; VT's local sales tax is 1%, for a total sales tax rate equal to CT). CT ranks 38th among the 46 states that have a sales tax on state and local general sales tax collections as a percentage of personal income.³³
- **Income tax.**³⁴ CT's 5.0% top bracket personal income tax rate is relatively low compared to neighboring states (New York 7.7%, New Jersey 8.97%, Massachusetts 5.3%, Maine 8.5%, Vermont 9.5%). In addition, New York City imposes a separate 4.45% personal income tax, resulting in a combined top-bracket rate of 12.15%. Among states with a broad-based personal income tax, Connecticut's top bracket rate is sixth lowest (tied with Alabama and Mississippi). CT ranks 20th among the 46 states with an income tax on state and local income tax collections as a percentage of personal income.³⁵

On economic competitiveness – CT is ranked among the nation's most competitive states economically. CT is ranked in the top 5 of all states on multiple measures of economic competitiveness. On the MAC 2003 index, CT is ranked 3rd in overall technology, 3rd in foreign direct investment, 4th in industry mix, 4th in highway density, 1st in small business investment company financing, 3rd in high-tech employment, 5th in educational attainment, 1st in the ratio of non-production to production worker, 5th in productivity, 4th for health professionals, and 4th for poverty rate.³⁶

both high incomes of proprietorships and partnerships relative to personal income, and high concentrations of payroll and receipts in highly profitable financial service industries.

²⁹ The tax rate is but one factor to consider in evaluating overall tax burden. Differences in exclusions, exemptions, deductions, credits and apportionment formulas result in differences in the amount of taxes actually paid – the “effective” tax rate. For a comparison of CT to its neighboring states (MA, NJ, and NY), see OLR, *Comparison of Tax Structures; Economic Development Tax Incentives; and Unemployment Insurance, Workers Compensation, and Utility Rates in Connecticut and Neighboring States* (2003-R-0906)(December 24, 2003).

³⁰ Federation of Tax Administrators, *Range of Corporate Income Tax Rates, (TY2004)*, http://www.taxadmin.org/fta/rate/corp_inc.html.

³¹ CT also has a temporary surtax on the corporation business tax for income years 2003 (20%) and 2004 (25%).

³² Federation of Tax Administrators, *Comparison of State and Local Retail Sales Taxes, January 2004*, http://www.taxadmin.org/fta/rate/sl_sales.html.

³³ US Census Bureau, *State and Local Government Finances by Level of Government and By State, 2001-2002*.

³⁴ Federation of Tax Administrators, *State Individual Income Taxes, (TY2004)*, www.taxadmin.org/fta/rate/ind_inc.html. These figures are based on data effective January 1, 2004, with the exception of New Jersey's income tax, the top rate of which was increased from 6.37% to 8.97% during the 2004 legislative session.

³⁵ US Census Bureau, *State and Local Government Finances by Level of Government and By State, 2001-2002*.

³⁶ The Manufacturing Alliance of CT, *The MAC Index 2004-05* (<http://www.mact.org/macindex.pdf>). The Index also ranks CT 17th best on economic structure (down from 12 best in 2003), but only 27th in physical infrastructure (e.g. highways, bridges, railroads, up from 31st in 2003), and 50th on cost (down from 35th in

In CFED’s 2004 *Development Report Card for the States*, Connecticut earned “A” grades for Earnings and Job Quality, Equity, Resource Efficiency, Competitiveness of Existing Businesses, Human Resources, Financial Resources, and Innovation Assets. At the other end of the performance spectrum, Connecticut earned “D” grades for Employment and for Amenity Resources.³⁷

In the Milken Knowledge-Based Economy Index (2001), Connecticut ranked 4th overall, and in the top ten on eight of twelve measures: educational attainment (two separate measures), Doctoral Scientists, Industry R&D, Academic R&D, SBIR Awards, Patents Issued, and VC Investment. Connecticut’s only rank outside of the top half of states was in Exports, with a ranking of 29th.³⁸ In a more recent Milken ranking, the 2004 *State Technology and Science Index*, Connecticut ranked 10th overall, down two ranks from its 2002 ranking. Connecticut scored in the top ten on two of five composite measures – Human Capital Investment, and Technology and Science Workforce.³⁹

On the shift in state tax burden from businesses to families – CT families contribute a greater share of the General Fund revenues than they did a decade ago, and businesses a smaller share. As illustrated in the table below, the share of General Fund revenues contributed by families (e.g., personal income tax, , gambling, inheritance tax, cigarette and alcohol taxes, etc.) has increased over the last decade, while the share of General Fund revenues contributed by businesses has declined:

Share of General Fund Revenues	FY 95	FY 00	FY 05
Personal income tax	28.7%	34.4%	36.6%
Sales & use tax ⁴⁰	26.2%	26.2%	23.7%
Federal funds	17.7%	17.2%	17.6%
Various business taxes (corp, insur co., pub.serv. co, hospital, petro.)	15.1%	9.0%	7.2%
Gambling (inc. Indian gaming, lottery)	4.4%	4.8%	3.1%
Other taxes (Inher., cigarette, real estate, alcohol, etc.)	5.3%	5.5%	4.9%
Other revenues (fees, permits, tobacco fund, fund transfers)	2.7%	2.9%	6.9%

Source: OFA, *Connecticut State Budget 1995-97 Revisions*, *Connecticut State Budget 1999-2001*, *Connecticut State Budget 2003-2005*.

On families’ state and local tax burdens, and how this varies by family income – In 2002, CT’s middle and lower-income families paid more than twice as large a share of their personal income in state and local taxes than did the wealthiest 1% of CT taxpayers. The poorest 40% of CT taxpayers paid about 10% of their income in total state

2003). Notably, Connecticut fell out of the top five ranking for overall quality of life, ranking 7th in the 2004-05 ranking.

³⁷ See www.cfed.org. In 2004, CT led the honor roll, ahead of DE, MA, MN, NH, OR, and VA. CT ranked in the top 5 of all states on 13 of the 68 measures and in the top 10 of 31 of the measures, and in the bottom 10 on just eight of the measures.

³⁸ See, www.milkeninstitute.org/research/research.ta?cat=indexes. CT ranked fourth in this 2001 index designed to measure which states are in the best position to take advantage of growth opportunities in the information age. CT was ranked behind only MA, CA, and CO.

³⁹ Ross DeVol and Rob Koepp, *State Technology and Science Index: Enduring Lessons for the Intangible Economy*, (Milken Institute, 2004). On the other three composite measures, Connecticut ranked 13th highest for Research and Development Inputs, 12th for Risk Capital and Infrastructure, and 14th for Technology Concentration.

⁴⁰ Both families and businesses pay CT’s sales and use tax. These percentages are the *combined* payment by both.

and local sales, excise, property and income taxes, while the top 1% of CT taxpayers paid just 4.4% of their income in these taxes (net of the federal deduction for state income and property taxes paid):⁴¹

CT Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
CT Income Range	Less than \$21,000	\$21,000 to \$37,000	\$37,000 to \$60,000	\$60,000 to \$97,000	\$97,000 to \$220,000	\$220,000 to \$471,000	\$471,000 or more
Average Income in Group	\$13,800	\$28,300	\$47,800	\$75,300	\$131,500	\$285,800	\$2,405,500
TOTAL % (AFTER FEDERAL DEDUCTION FOR STATE INCOME/PROPERTY TAXES PAID)	10.2%	10.1%	9.5%	9.2%	7.8%	6.5%	4.4%

On changes in CT state and local taxes as a share of family income between 1989 and 2002 – The poorest 20% and the wealthiest 1% of CT taxpayers had the smallest increase in state and local taxes as a share of their personal income, while middle income taxpayers had the largest increase. As shown in the table below,⁴² over the 1990s tax changes were enacted that resulted in middle-income taxpayers paying about 3% more of their income in state and local taxes in 2002 than they did in 1989. By comparison, our poorest and wealthiest taxpayers paid less than 1% more. The adoption of the broad-based personal income tax and repeal of the higher-rate dividends, interest, and capital gains tax contributed to this change.

Changes in CT State & Local Taxes as a Share of Personal Income, 1989-2002							
CT Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Overall Change	+0.6%	+2.8%	+2.8%	+2.7%	+2.1%	+1.7%	+0.8%

On “fiscal comfort” - CT is ranked 4th highest in its capacity to meet its fiscal needs.

The good news: Connecticut has ample fiscal capacity to address its budget challenges without further eroding an already very lean governmental sector or jeopardizing its economic competitiveness. Research by Robert Tannenwald of the Federal Reserve Bank of Boston⁴³ ranks CT the fourth most able among states to meet its fiscal needs given its tax capacity – its “fiscal comfort.” On this measure, Connecticut fell behind only Hawaii, Nevada, and Delaware. Other states in the region were ranked as follows (in order of descending “fiscal comfort”): New Hampshire (#6), Massachusetts (#9), New Jersey (#10), Vermont (#11), Maine (#17), New York (#24) and Rhode Island (#25).

⁴¹ Institute on Taxation & Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* (2d ed., January 2003).

⁴² Id.

⁴³ R. Tannenwald, *Interstate Fiscal Disparity in 1997*, *New England Economic Review* (2002), pp. 17-33.

III: On Government Performance

On Government Performance - Connecticut earns average grades for management of money, infrastructure, and information, and above average grades for management of people.⁴⁴

Governing Magazine annually ranks states on a variety of measures of government management processes. In their 2005 rankings, weaknesses in Connecticut's money management were noted in 'long-term outlook' and 'contracting/purchasing.' Connecticut's reliance on one-time revenue measures to balance the budget, troublesome issues with contracting and purchasing brought to light by the Rowland scandals, and state pensions that are 'woefully under-funded compared to other states', merited special mention.⁴⁵

In the area of management of people, Connecticut's weaknesses in managing employee performance were offset by high grades in both hiring and retaining employees. Overall, Connecticut is deemed to be competitive with the private sector.⁴⁶ In the area of infrastructure management, Connecticut's failure to accurately estimate the state's capital spending for any given year contributes to the state's less than stellar rating for infrastructure management.

Finally, in the area of information management, Connecticut earns weak grades for strategic direction, budgeting for performance, and program evaluation. While positive work in strategic planning and the use of outcome measures occurs at the agency levels, the lack of consistency and uniformity in these efforts, and the poor synthesis of such information at the state level leaves Connecticut with a long way to go before deserving top grades in these areas.⁴⁷

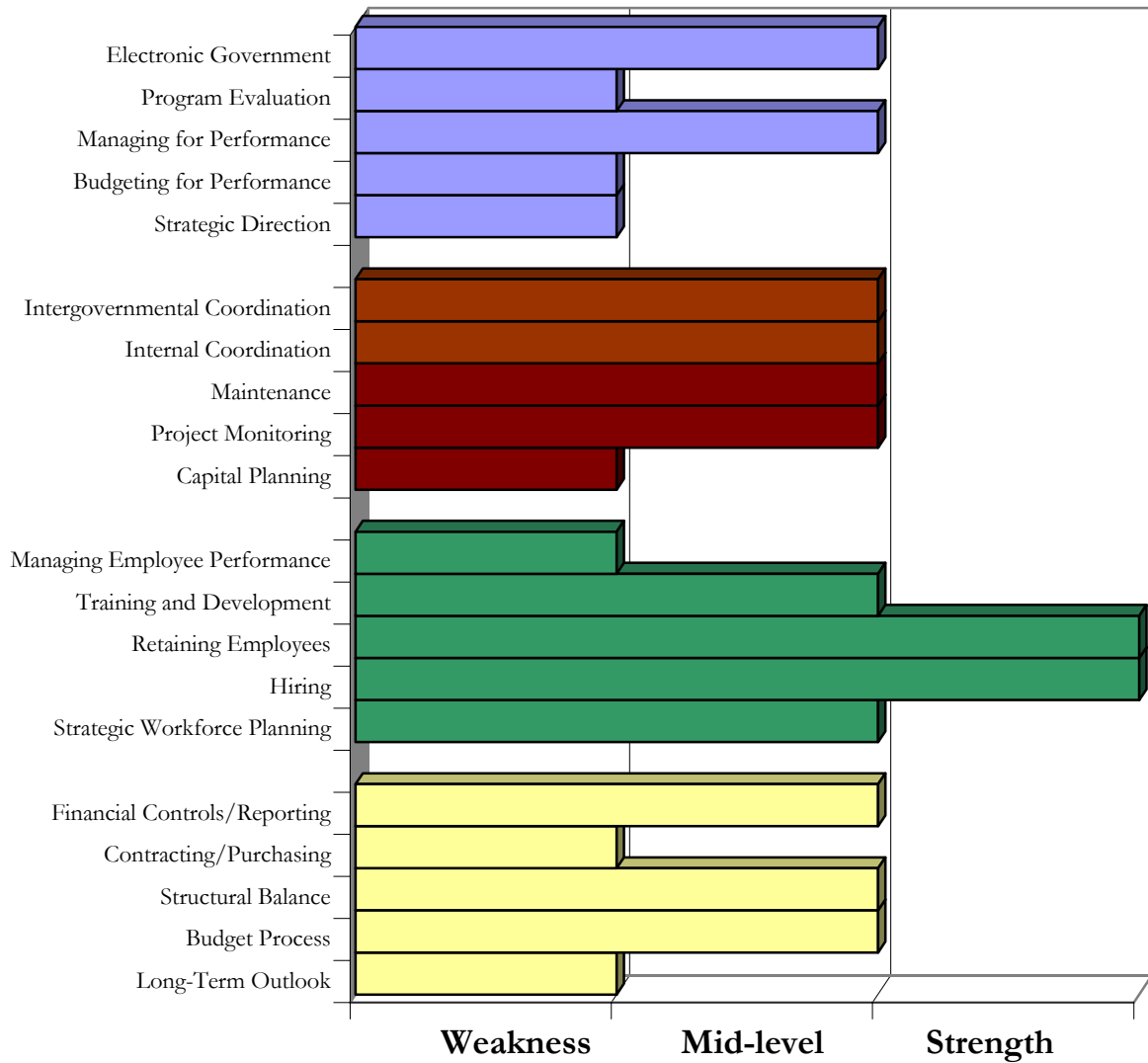
⁴⁴ Governing Magazine, *The Government Performance Project*, (www.governing.com/gpp/2005).

⁴⁵ Governing Magazine, "Connecticut: Money", *The Government Performance Project*, (www.governing.com/gpp/2005).

⁴⁶ Governing Magazine, "Connecticut: People", *The Government Performance Project*, (www.governing.com/gpp/2005).

⁴⁷ Governing Magazine, "Connecticut: Information", *The Government Performance Project*, (www.governing.com/gpp/2005).

Grading Connecticut Government Performance, 2005



Source: Governing Magazine, *Government Performance Project, 2005*,
results.gponline.org