



**Public Investment for a Mediocre Future:  
Where Connecticut Stands On State and Local Revenues**  
Shelley Geballe, JD, MPH

**June 2008**

**Summary**

In announcing restrictions on FY 08 state spending, Governor Rell explained, "Connecticut's government will live within its means." But a comparison of Connecticut's revenues as a share of personal income (a standard measure in public finance that takes into account the fiscal capacity of the state to raise revenues) suggests that Connecticut is living well "below" its means, relative to other states.

Compared to other states, Connecticut's combined state and local revenue is a relatively small share of the state's personal income. Connecticut ranks third lowest (48th) among all states in its "own source" revenue (combined state and local taxes, fees, charges and other miscellaneous revenues) as a share of its total personal income. That is, only two states have a *smaller* share of their total personal income going to the taxes, fees and other charges needed to pay for publicly-funded services and programs -- from education to transportation.

Connecticut's relative frugality is not new. Over the past three decades, Connecticut consistently has ranked in the bottom ten among states in total state and local "own source" revenue as a share of total state personal income. If Connecticut's own source revenues as a share of its personal income were increased to the 50-state average, Connecticut would have had \$3.8 billion (close to 16%) more in state and local revenues in FY 2005-06. Rather than living "beyond" its means, Connecticut is living well "below" its means.

**Introduction**

In recently announcing restrictions on FY 08 state spending, Governor Rell explained, "Connecticut's government will live within its means. States across the nation are experiencing budget shortfalls and I will do everything in my power to keep Connecticut on firm financial footing."<sup>1</sup> Subsequently, Governor Rell ordered a freeze on spending and hiring. Her June 17, 2008 order directs all executive agency heads to "avoid any costs which are not absolutely and immediately essential to the operation of your agency" and explains, "I am stating to you in very strong terms that it is my intention to finish this year within the resources available."<sup>2</sup>

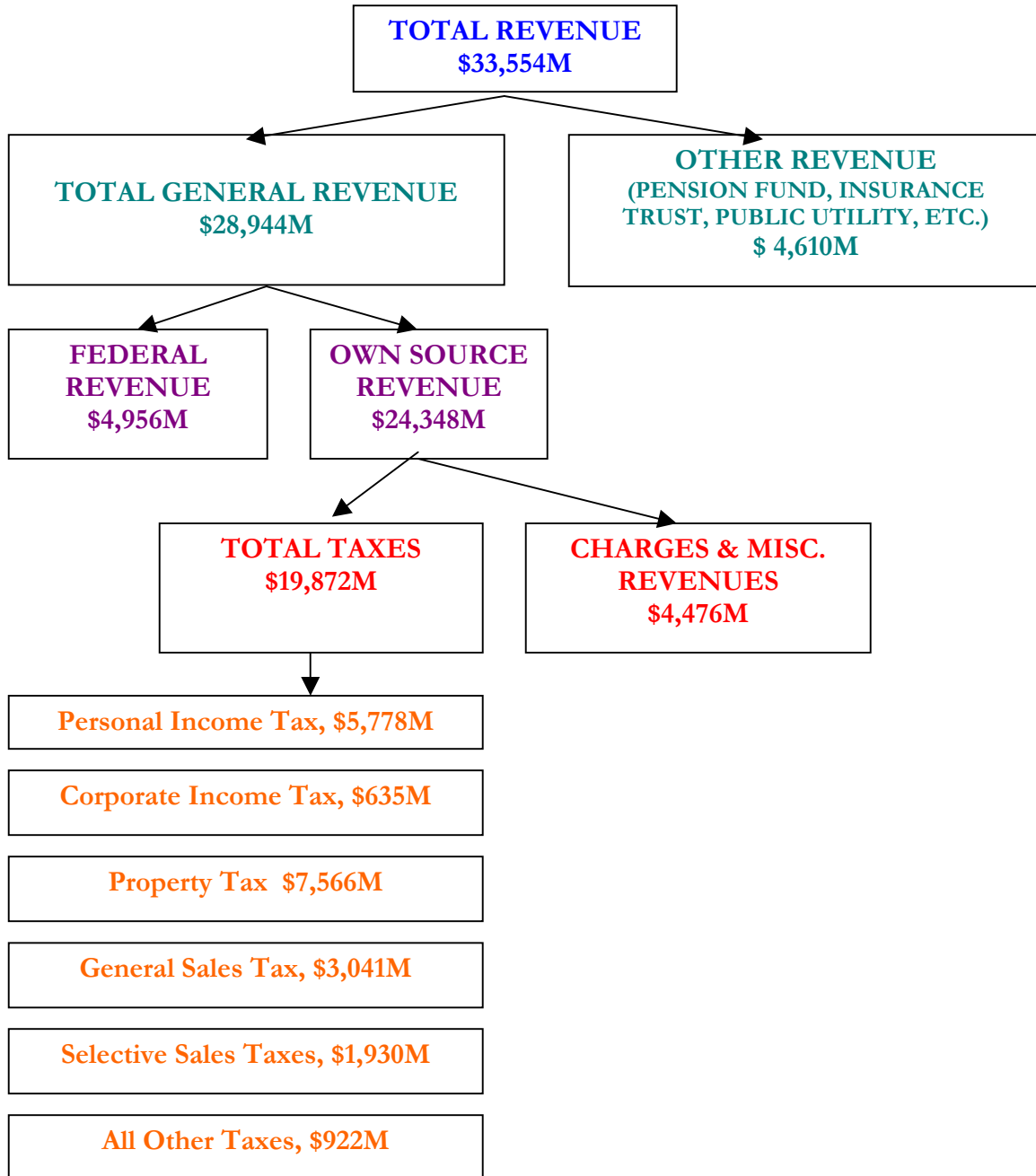
Left unanswered by these actions are some fundamental questions. Is Connecticut really at risk of living beyond its means? What resources *are* available to Connecticut to meet the essential needs of its residents? Understanding where Connecticut stands relative to other states in the amount of state and local revenues it collects to fund public services helps to answer these questions.

This issue brief reports on recently-released, state-specific data by the United States Census Bureau about state and local revenues.<sup>3</sup> In the past, the Census Bureau's Government Finance reports included tables that ranked states based on both revenues per capita and revenues as a share of personal income. Since the Census Bureau no longer produces these tables, CT Voices has created comparable tables using 2005-2006

revenue and population data from the Census Bureau and personal income data from the United States Commerce Department's Bureau of Economic Analysis.<sup>4</sup>

**Connecticut's State and Local Revenues in FY 2005-06.** The chart below shows Connecticut's state and local revenues in FY 2005-06 grouped in the categories used by the United States Census Bureau. Connecticut's "own source" revenue is the primary focus of this issue brief, as it is the category of revenues over which state and local government has the most control.

**CONNECTICUT'S FY 2005-2006 STATE AND LOCAL REVENUES**



**Connecticut Ranks Third Lowest Among States in Its State and Local Revenues as a Share of Its Personal Income.** Revenue as a share of a state’s personal income is a standard metric in public finance analysis. This measure is preferable to per capita rankings for making state-by-state comparisons because it takes into account the differing fiscal capacities among states to raise revenues, better captures the relative effort states are making to fund public services, and is a better measure of the relative burden of state and local taxes on state taxpayers. Further, since the cost of living and wage levels can be higher in states with above-average incomes, wealthier states may need to spend more per resident than poorer states to provide the same level of public services.

Although the Commerce Department’s measure of state personal income<sup>5</sup> is the best available measure of state residents’ total income, it has some shortcomings as a measure of state capacity to raise revenues to fund programs and services. Importantly, it *excludes* capital gains income. For this reason, in a wealthy state like Connecticut the burden of state and local taxes actually is *less than* is shown in the tables below; Connecticut’s total personal income would exceed the Commerce Department’s figure were capital gains income counted. Yet, despite the Commerce Department’s exclusion of capital gains income, Connecticut still ranks 1<sup>st</sup> in the nation in per capita income (\$49,459), 39% greater than the 50-state average (\$35,610).

As is evident from the table below, compared to other states, Connecticut’s combined state and local revenue is a relatively small share of the state’s personal income. In fact, Connecticut’s “own source”<sup>6</sup> revenue – its combined state and local taxes, fees, charges and other miscellaneous revenues – is just 14.1% of its total personal income. Connecticut ranks *third lowest* (48<sup>th</sup>) among all states on this measure. That is, only two states<sup>7</sup> have a smaller share of their total personal income going to the taxes, fees and other charges needed to pay for public services and programs -- from education to transportation.

Indeed, on all but three of the measures below, Connecticut’s state and local revenues as a share of personal income fall *below* the 50-state average. Only on the property tax and the personal income tax does Connecticut rank in the top ten among states, ranking 8<sup>th</sup> and 10<sup>th</sup> highest respectively. Importantly, both these taxes can be deducted when calculating federal income tax liability, reducing the *net* fiscal impact of these two taxes on a Connecticut taxpayer. By comparison, Connecticut relies less than many other states on non-deductible sales taxes and the corporate income tax, and is *lowest* among states in fees and charges (as a share of personal income).

<b>STATE AND LOCAL REVENUES AS A PERCENTAGE OF STATE PERSONAL INCOME: FY 2005-06</b>				
	<b>CT’s State Rank</b> (50 is lowest)	<b>CT’s Share of Personal Income</b>	<b>50-State Average</b>	<b>Percentage Point Difference Between CT and 50-State Average</b>
<b>Total revenue</b>	49	19.4%	25.8%	<b>(6.4)</b>
<b>Total general revenue</b>	49	16.7%	20.5%	<b>(3.8)</b>
Federal revenue	48	2.7%	4.3%	<b>(1.6)</b>
Own source revenue	48	14.1%	16.3%	<b>(2.2)</b>
Total taxes	19	11.5%	11.2%	0.3
Personal income tax	10	3.3%	2.5%	0.8
Corporate income tax	35	0.4%	0.5%	<b>(0.1)</b>
Property tax	8	4.4%	3.4%	1.0
General sales tax	40	1.8%	2.7%	<b>(0.9)</b>
Selective sales taxes	31	1.1%	1.2%	<b>(0.1)</b>
All other taxes	44	0.5%	1.1%	<b>(0.6)</b>
Charges & miscellaneous revenue	50	2.6%	5.1%	<b>(2.5)</b>

***Connecticut's State and Local Revenues Have Been A Relatively Small Share of Connecticut's Personal Income over the Past Three Decades.*** Connecticut's relative frugality is not new. Over the past three decades, Connecticut consistently has ranked in the bottom ten among states in total state and local "own source" revenues as a share of total state personal income, as shown in the chart below. Connecticut's ranking for the period 2000-2006 (46<sup>th</sup>, or 5<sup>th</sup> lowest) about the same as its ranking in the 1980s (4<sup>th</sup> lowest) and a bit lower than its ranking in the 1990s (8<sup>th</sup> lowest). That is, over the 1990s, the share of Connecticut's total income that was invested in public goods and services provided by the state and our local governments was greater than the decade before, or now.

<b>State and Local Own-Source Revenues as a Percentage of Personal Income: Decade Averages</b>			
	CT Rank	CT %	50-State Average
1980-1989	47	12.2%	14.3%
1990-1999	43	14.1%	15.4%
2000-2006	46	13.9%	15.6%

***Connecticut's State and Local Taxes Are a Relatively Larger Share of Connecticut's Personal Income over the Past Three Decades Than its Total Own Source Revenues.*** Connecticut's relative rank on state and local *taxes* as a share of personal income consistently has been higher over these three decades than its ranking on *own source* revenues, reflecting Connecticut's strong preference for taxes over fees, charges, and other revenue sources to fund public services.

While Connecticut ranked 10<sup>th</sup> highest in state and local taxes as a share of total personal income in the 1990s, it now ranks 15<sup>th</sup>, as shown in the table below. Connecticut's relatively low ranking in the 1980s on total state and local taxes as a share of personal income (32<sup>nd</sup>) can be explained in large part by the fact that Connecticut had not yet adopted its broad-based personal income tax (imposing only a tax on dividends, interest and capital gains income).

<b>Total State and Local Taxes as a Percentage of Personal Income: Decade Averages</b>			
	CT Rank	CT %	50-State Average
1980-1989	32	9.7%	10.3%
1990-1999	10	11.5%	10.8%
2000-2006	15	11.2%	10.8%

## **Conclusion**

One comparison is particularly helpful in assessing what resources *could be* available to Connecticut's state and local governments to meet the needs of their residents, i.e., whether or not Connecticut is living within its "means." How much *more* state and local revenue there would be if Connecticut's *own source* revenues were the same percentage of its total personal income as the 50-state average (rather than 2.2 percentage points below it). Since the amount of *own source* revenue generated is within the control of Connecticut's state and local government, this is a fair measure of Connecticut's true "means."

If Connecticut's own source revenues were 16.3% of its total personal income – the 50-state average – Connecticut would have had \$3.8 *billion* (close to 16%) more in state and local revenues in FY 2005-06 (i.e., \$27.1 billion in combined state and local revenues rather than \$24.3 billion). Rather than living "beyond" its means, Connecticut is living well "below" its means, relative to other states.

Connecticut's excessive frugality has clear short- and long-term costs. Report after report has documented the need for Connecticut to invest *more* to enhance the public services needed to keep our economy and

families strong – to enhance its transportation system, expand educational opportunity, assure an adequate supply of affordable housing, improve access to health care for all, and enhance our economic and community development efforts. Connecticut clearly has the capacity to bring its revenues in line with at least the national average, allowing it to make these essential investments. If it fails to do so *now*, it risks losing precious economic ground to other states and nations. Indeed, Connecticut’s failure to invest *now* in much needed public goods and services, when the state *has* the means to do so, will doom the state to a future when it will lack the economic means to change its course, even if it so desires.

---

<sup>1</sup> Governor M. Jodi Rell, May 12, 2008 Press Release, “Governor Rell Announces Further Restrictions on State Spending.” Available at: [www.ct.gov/governorrell/cwp/view.asp?A=3293&Q=414956&pp=12&n=1](http://www.ct.gov/governorrell/cwp/view.asp?A=3293&Q=414956&pp=12&n=1).

<sup>2</sup> Governor M. Jodi Rell, June 17, 2008 Press Release, “Governor Rell Orders Spending Freeze for All State Agencies.” Available at: [www.ct.gov/governorrell/cwp/view.asp?a=3293&Q=417340&PM=1](http://www.ct.gov/governorrell/cwp/view.asp?a=3293&Q=417340&PM=1).

<sup>3</sup> The Census Bureau, which gathers data from state and local budget documents and surveys of state and local officials, uses a uniform classification system for the budget data gathered, enabling cross-state comparisons not otherwise possible given states’ differing accounting procedures, programs, and budget time lines. For this reason, these Census Bureau data are recognized as *the* primary data source when making state-by-state comparisons of state and local revenues. Details about the Census Bureau’s definition of terms in its classification system can be found at: [www.Census.gov/govs/www/class.html](http://www.Census.gov/govs/www/class.html). Revenue data are available at: [www.census.gov/govs/www/estimate06.html](http://www.census.gov/govs/www/estimate06.html). Population estimates can be found at [www.census.gov/popest/states/](http://www.census.gov/popest/states/). Personal income data can be found at [www.bea.gov/region/sqpi](http://www.bea.gov/region/sqpi).

<sup>4</sup> This issue brief is based on CT Voices for Children’s analysis of state and local revenue and population data from the United States Census Bureau and personal income data from the Commerce Department’s Bureau of Economic Analysis. Importantly, this analysis reports on *combined* state and local revenues, comparing state and local revenues to personal income and population estimates for the same state fiscal year. This is the best way to compare taxes and other revenues across states, since there are many differences among states in how state and local government is structured and what level of government is responsible for what programs and services. Further, from the perspective of a taxpayer, it matters little whether it is the state or a town that imposes a tax or fee; what matters is that the taxpayer is liable to pay that tax or fee.

<sup>5</sup> “Personal income” is defined to include the current income received by residents of a state from all sources, less their contributions for social insurance. The term includes wages and salaries, interest income, dividend income, proprietors’ income, income from government transfer programs (like Social Security), and certain non-monetary types of income. The term, as the Commerce Department uses it, excludes capital gains income, but does include some other forms of income that are not subject to the personal income tax.

<sup>6</sup> “Own-source” revenue includes all state and local revenue except federal revenue, liquor store revenue, insurance trust revenue and utility revenue. It is composed of total taxes plus charges and miscellaneous revenues. “Charges and miscellaneous revenue” includes such things as tuition at public universities, payments by private insurers to public hospitals and facilities, highway tolls, interest earnings, fines, and net lottery revenue. “Other taxes” combines estate, inheritance and gift taxes, some corporate franchise taxes, license taxes (such as motor vehicle fees), hunting license fees, business license fees, and severance taxes on the removal of oil, gas, timber or other natural resources.

<sup>7</sup> New Hampshire ranks last, with state and local revenues just 12.8% of personal income. South Dakota ranks second last, at 13.9%. Notably, both of these states are far less urbanized and densely populated than Connecticut; their demand for public services accordingly would be less.