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# 16th Annual Budget Forum

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Building a Budget  
for Connecticut's  
Future

# Fiscal Overview

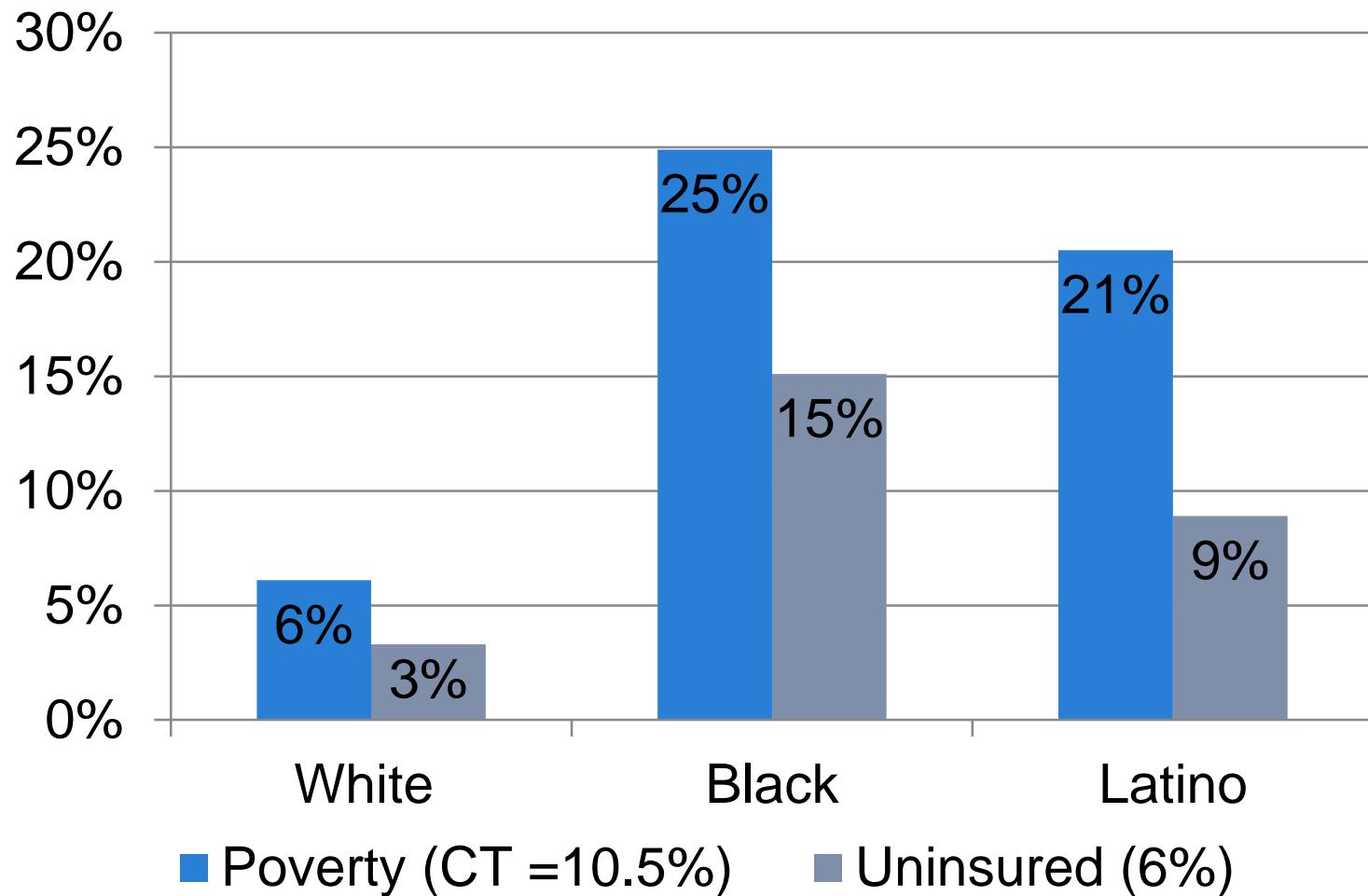
- State of the economy as it relates to children and families
- Investments in children
- General fund and revenue trends
- Looking forward

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# Investments Contribute to Quality of Life

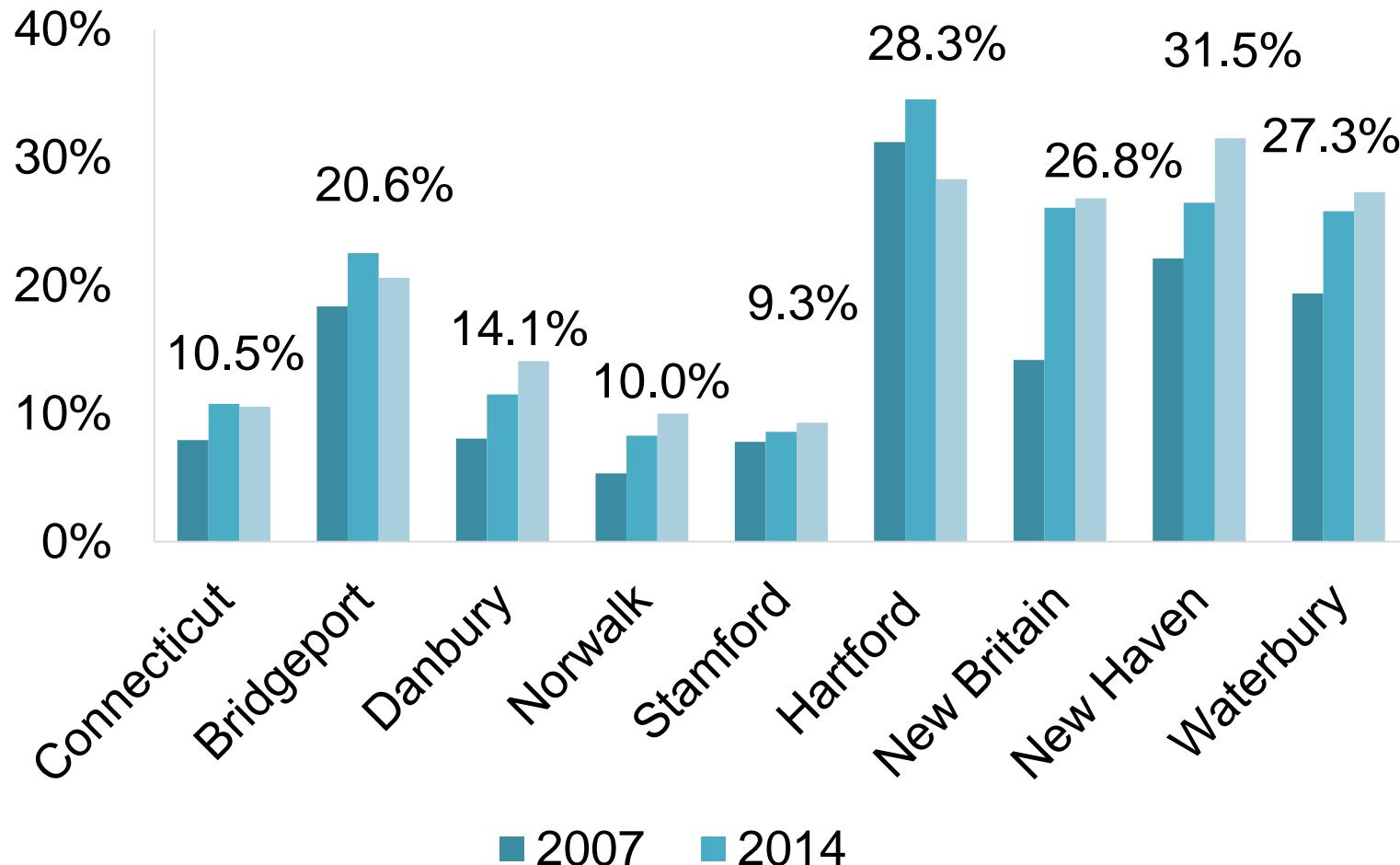
- ✓ **9<sup>th</sup>** lowest child poverty rate
- ✓ **6<sup>th</sup>** lowest poverty rate
- ✓ **6<sup>th</sup>** highest median household income
- ✓ **5<sup>th</sup>** highest share of individuals with bachelor's degrees
- ✓ **3<sup>rd</sup>** most productive workforce
- ✓ **#1** rated human development index

# Disparities Remain – By Race



CT Voices analysis of census data

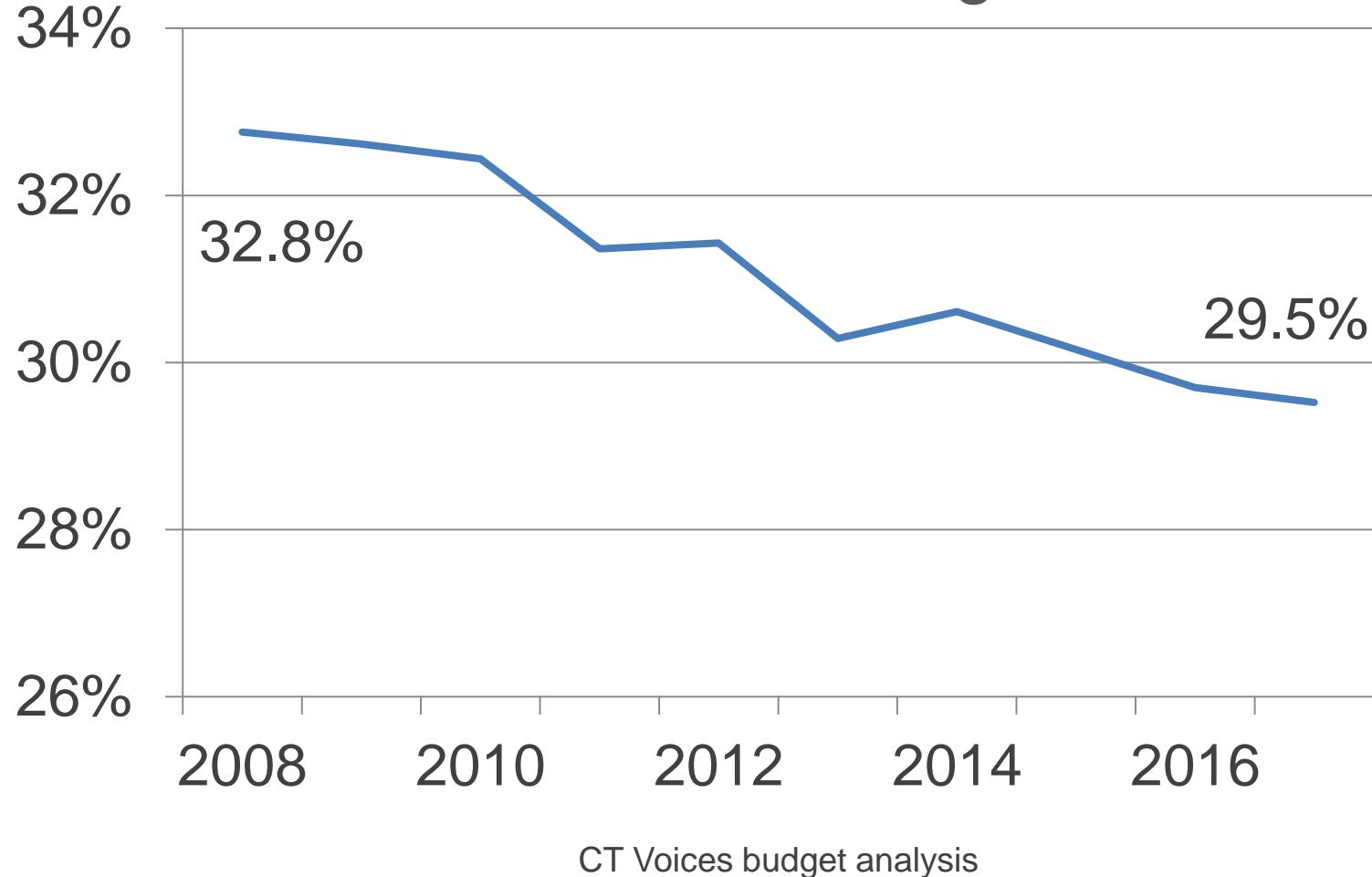
# Disparities Remain – By Place



CT Voices analysis of census data

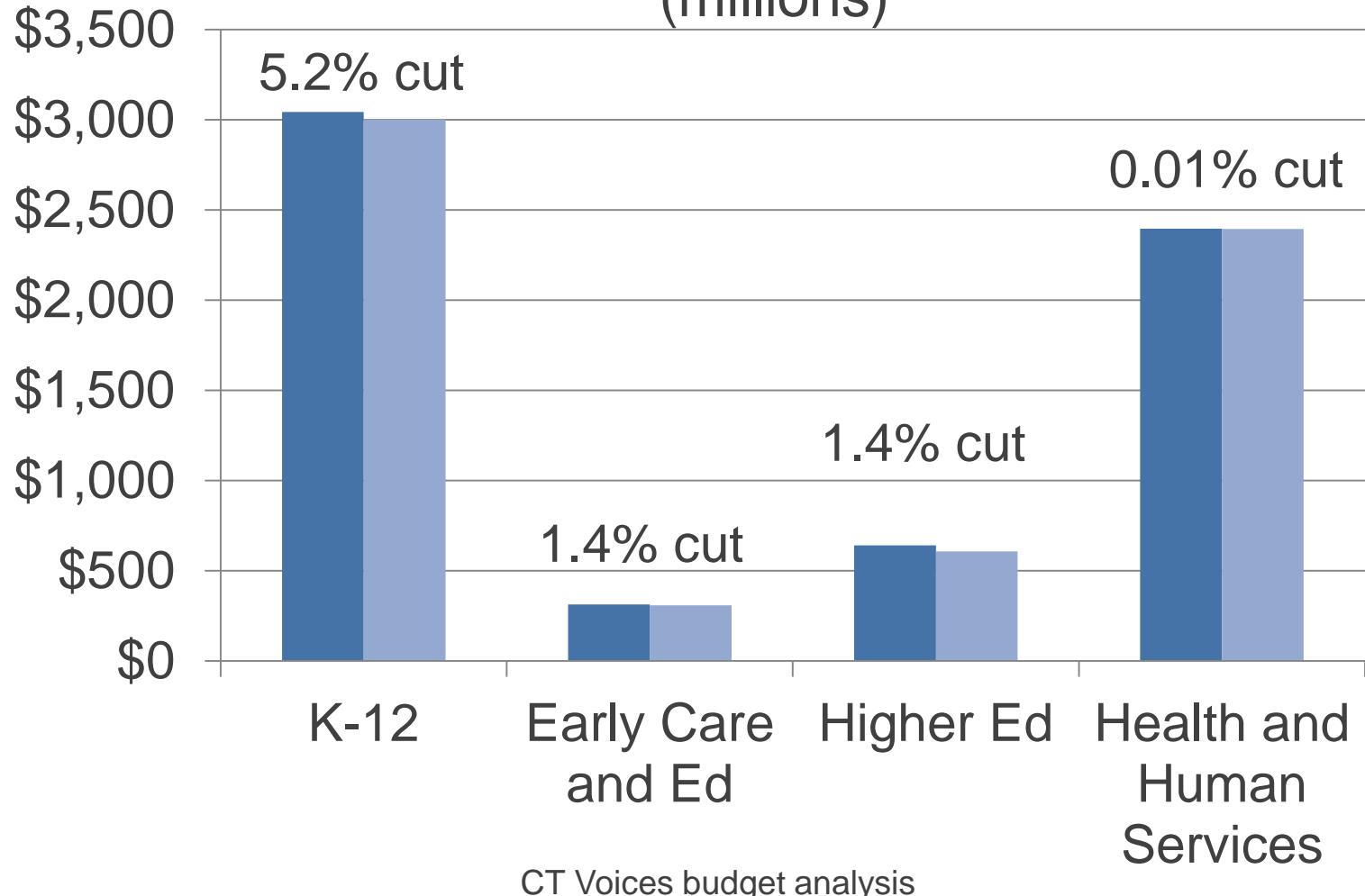
# Share of General Fund Spent on Children Reaches New Low

## Children's Budget



# Children's Budget Cut by \$82.1 Million

Spending on children, FY16 and FY17  
(millions)

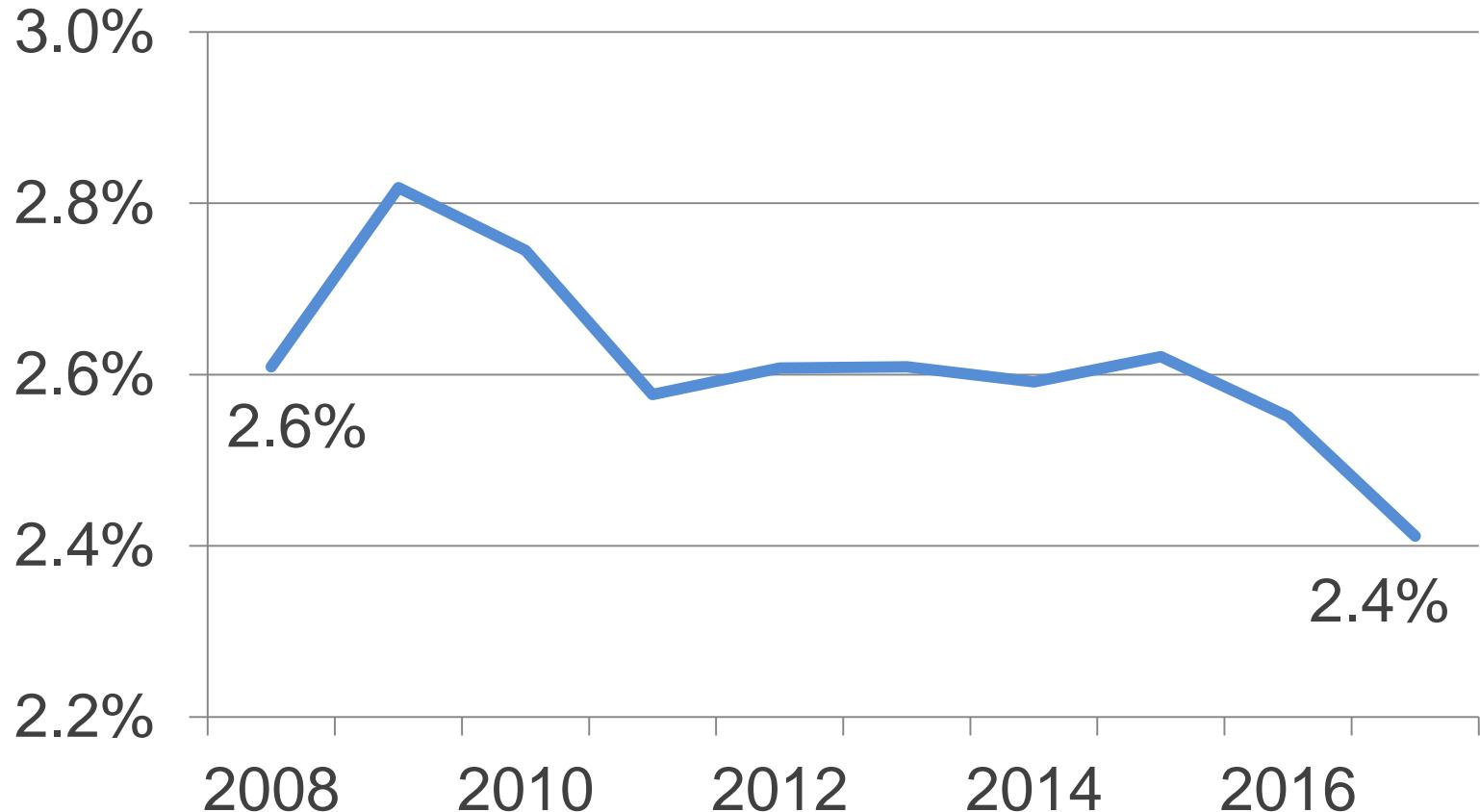


# Top 10 Cuts to the Children's Budget, FY16 – FY17

Category	Program	Amount Cut
K-12	Transportation of School Children	-\$22,336,353
K-12	Education Equalization Grants	-\$15,666,899
Higher-Ed	Connecticut State University	-\$13,454,053
Higher-Ed	University of Connecticut	-\$9,747,484
Human Services	Juvenile Alternative Incarceration	-\$7,125,349
ECE	Birth to Three/Early Intervention	-\$6,984,070
K-12	Magnet Schools	-\$5,665,134
Higher-Ed	Office of Higher Education	-\$5,508,226
Human Services	Personal Services (DCF)	-\$4,762,828
K-12	Excess Cost - Student Based	-\$4,287,828

# Spending on Children Shrinking as a Share of the Economy

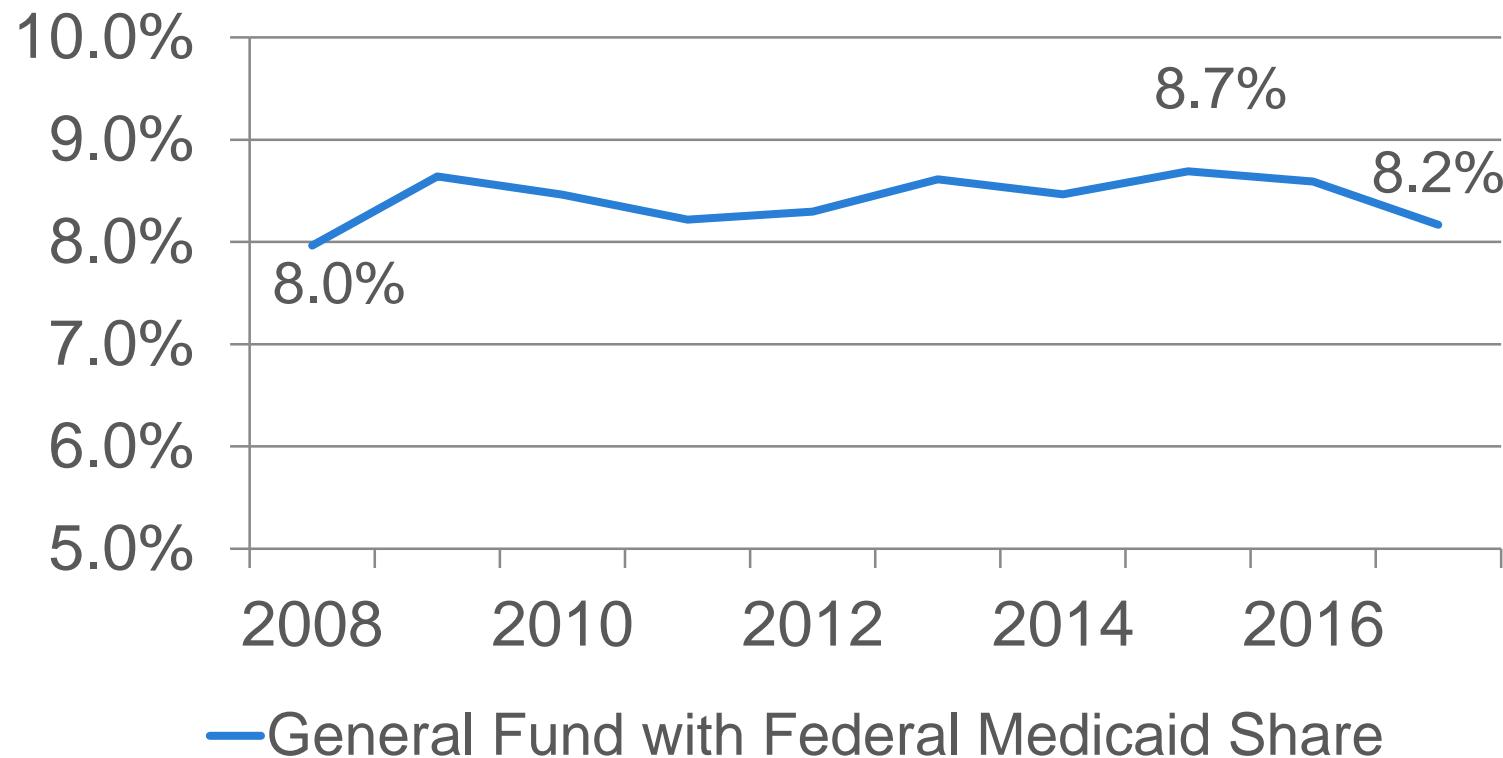
Spending on children as a share of personal income



CT Voices budget analysis. BEA Total Personal Income, 2008 – 2016. 2017 based on OPM estimates.

# Modest General Fund Spending as a Share of the Economy

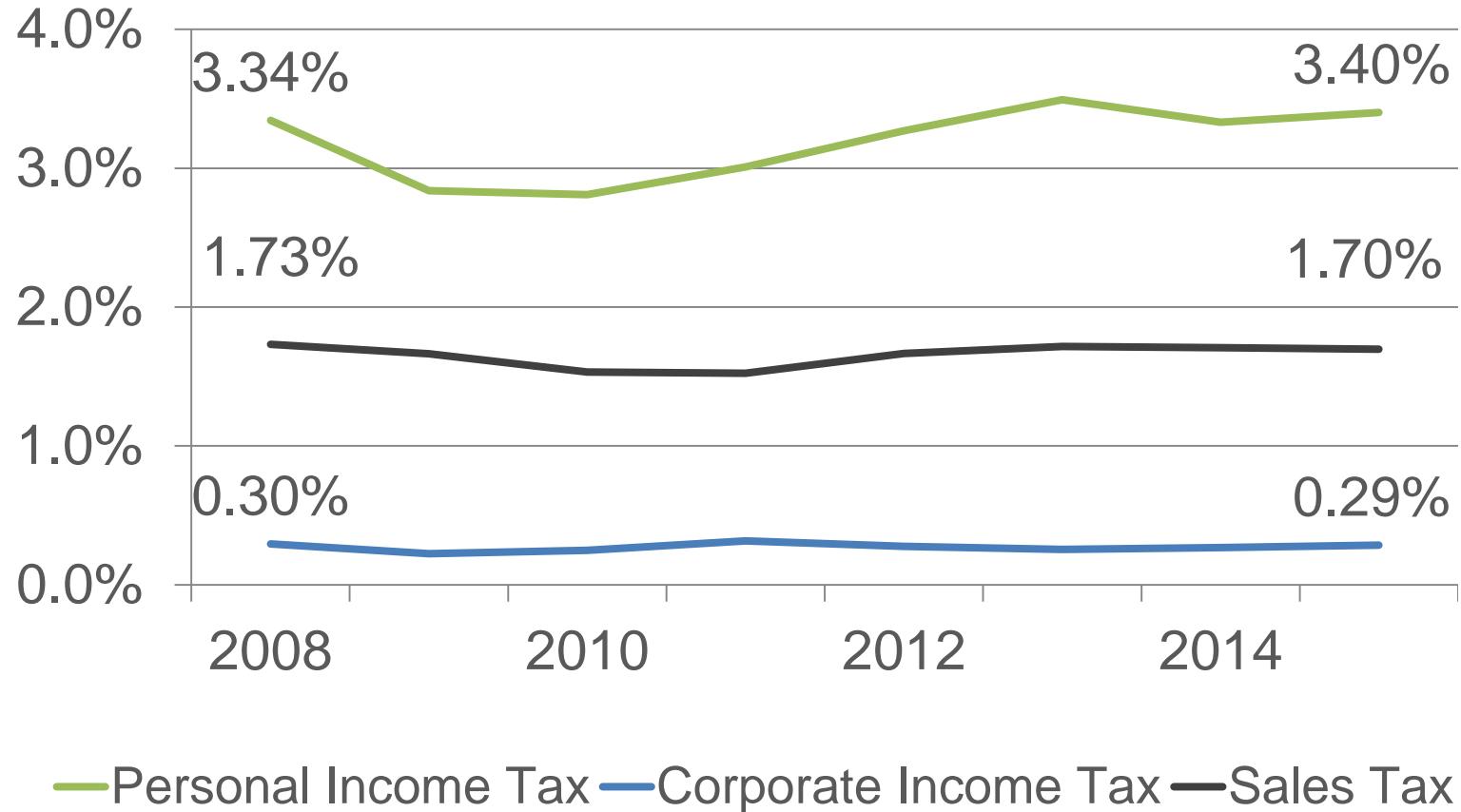
General Fund spending as a share of personal income



CT Voices budget analysis. BEA Total Personal Income, 2008 – 2016. 2017 based on OPM

# Major Revenue Sources Stagnant as a Share of the Economy

Taxes as a share of personal income, 2008 - 2015



CT Voices budget analysis. BEA Total Personal Income, 2008 – 2016. 2017 based on OPM estimates



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# Fiscal Challenges Ahead

**\$3 billion biennial budget deficit**

**\$1.4 billion in 2017-18**

**\$1.6 billion in 2018-19**

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# A Balanced Approach



# Address Budget Shortfalls and Build a Stable Revenue System

- **Modernize Outdated Sales Tax**
  - Could lower rate and *still* raise \$1.18 billion
- **Strengthen Corporate Income Tax**
  - Address growth in business tax breaks and sophisticated avoidance strategies
- **Reform Wealth and Income Taxes**
  - A half-percentage point increase on top one percent could raise \$238 million



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# Equal Funding for Equal Effort

## A Model Reforming Property Tax Funding for Local Education in Connecticut

Ray Noonan  
Connecticut Voices for Children

# Education Finance System

## Education Finance

How you  
RAISE  
the money

How you  
determine if  
there's  
ADEQUATE  
money

How you  
DISTRIBUTE  
the money

# Education Finance System

## Education Finance

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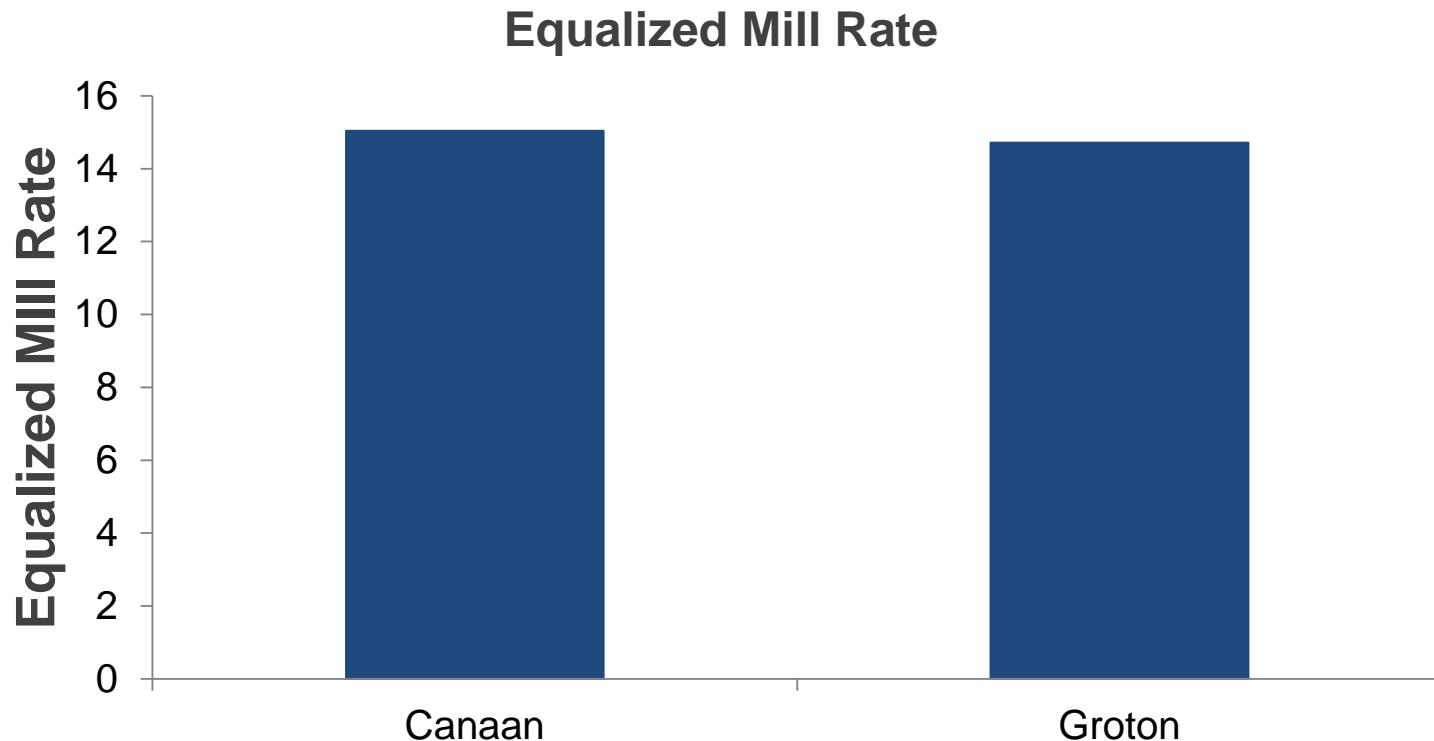
How you  
DISTRIBUTE  
the money

# Raising Education Funds in CT

- Majority of CT education funding comes from property taxes
- This has four major flaws...

# 1. Contributes to Educational Inequities

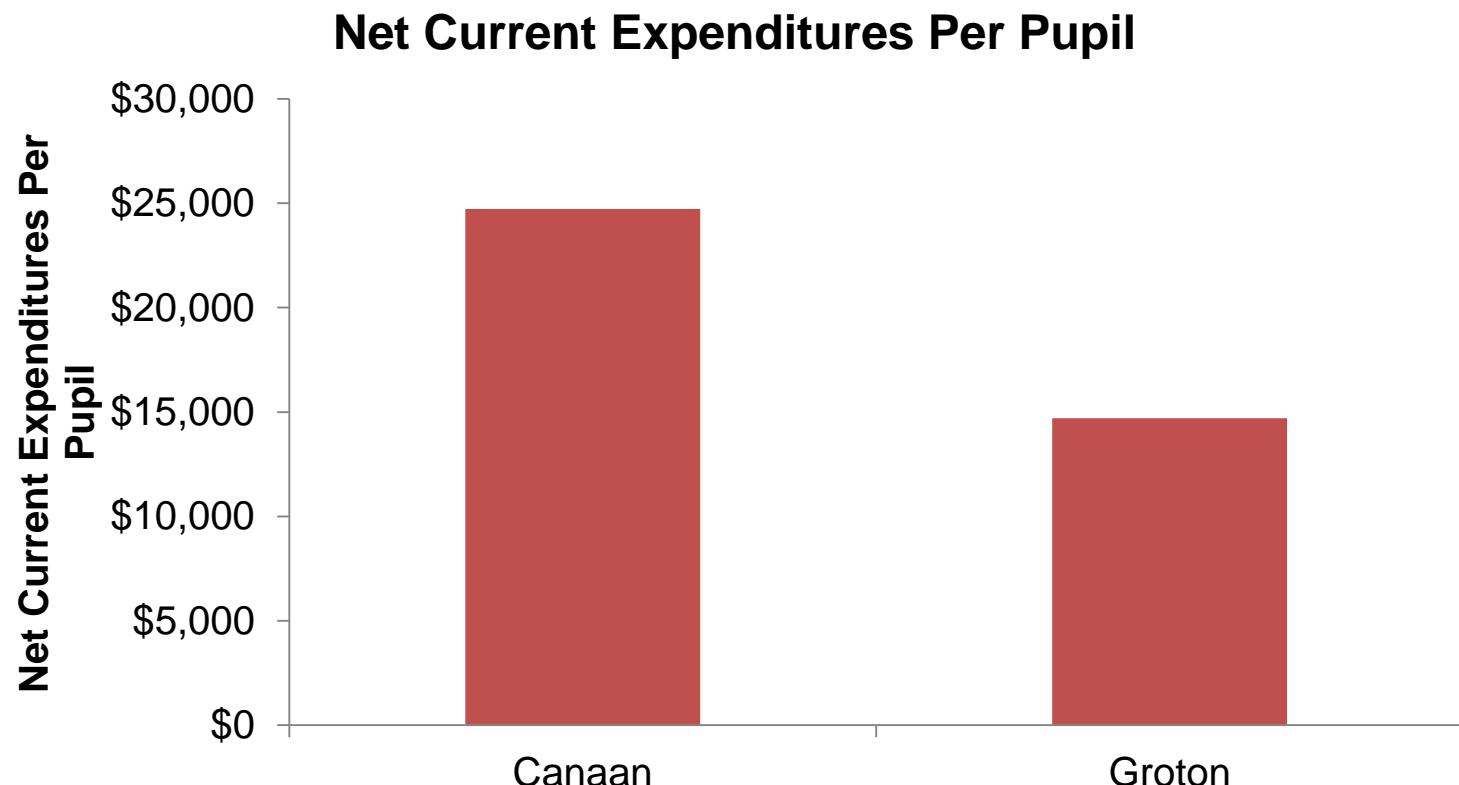
Towns that have the same tax rate...



Source: OPM, Municipal Fiscal Indicators. FY 2014 data.

# 1. Contributes to Educational Inequities

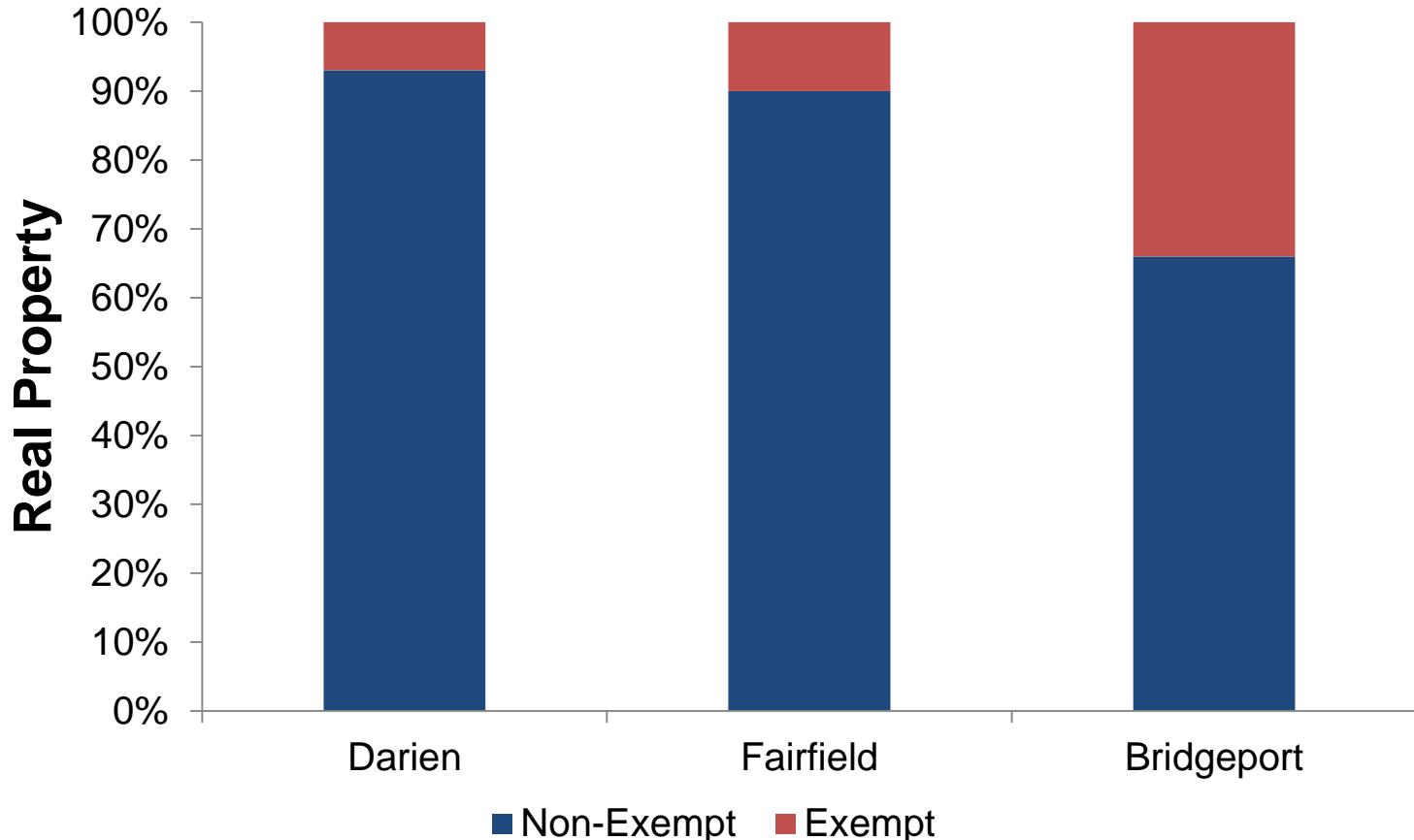
...can't always raise the same amount of money for education.



Source: State Department of Education. 2013-2014 school year.

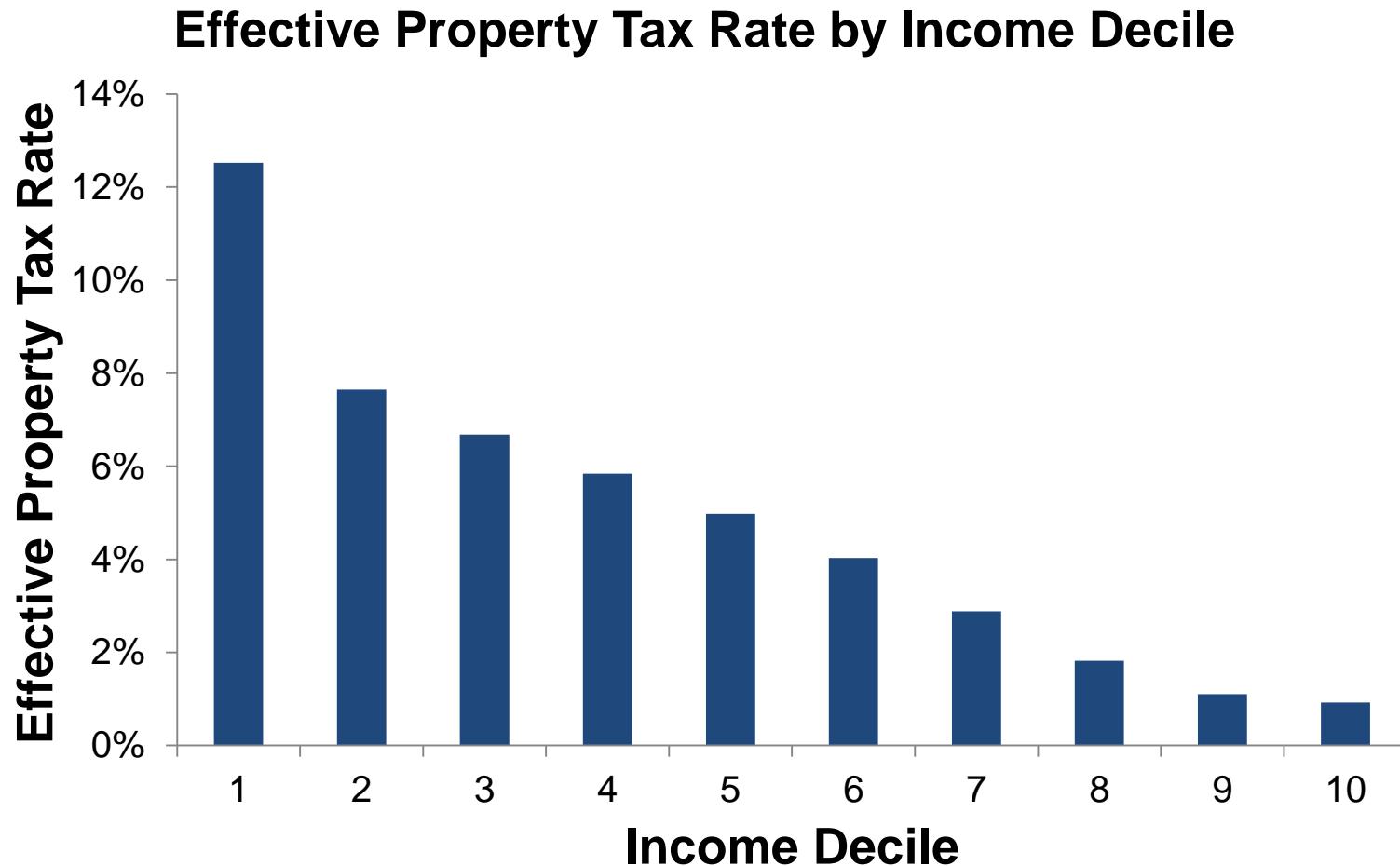
## 2. Stifles Economic Development

Share of Exempt Property by Town



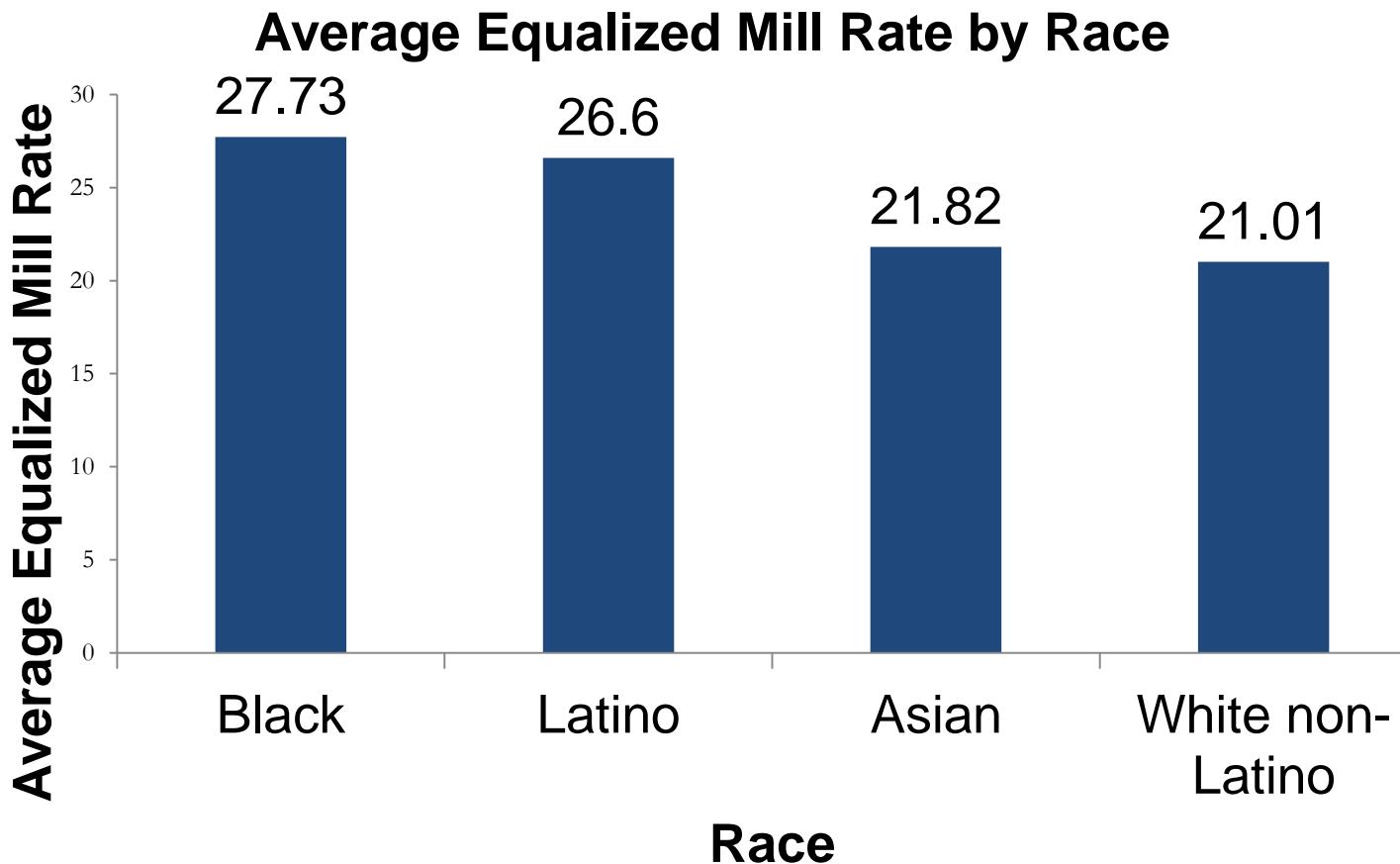
Source: Office of Fiscal Analysis FY 15-16 Budget Book.

### 3. Penalizes Poor Families



Source: DRS Tax Incidence Report. 2011 tax year.

## 4. Exacerbates Racial Inequalities



Source: Connecticut Data Collaborative and OPM, Municipal Fiscal Indicators. FY 2014 data.

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**What can we do about  
this?**



# The Vermont Model

Equal effort means equal spending

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# Why This Approach?

1. Learn from lessons of neighboring state
2. Honor tradition of local control
3. Honor property-tax-based education funding paradigm
4. Introduce equity into property-tax-based education funding paradigm

# How it Works

Let's follow Wolcott through this process...



# How it Works

1. Wolcott decides to spend \$18 million on education from local property taxes (~\$7,000 per pupil after adjusting for need)



# How it Works

2. General Assembly sets three rates:
  - Nonresidential tax rate (15.35 mills)
  - Residential tax rate (14.03 mills)



# How it Works

3. State calculates Wolcott's residential tax rate based on its per-pupil spending
  - More it spends per pupil, the higher its tax rate
  - Base per-pupil spending amount = \$11,525 per pupil

Wolcott's residential tax rate would be  $14.03 \times (\$6,981/\$11,525) = \underline{8.50 \text{ mills.}}$

# How it Works

4. Wolcott collects the residential tax + nonresidential tax and remits it to the state

Wolcott would collect and remit  
\$12.4 million in state education taxes.



# How it Works

5. The General Assembly gives Wolcott its \$18 million in education funding plus its \$2,000 in statutory PILOT funds owed



## 6. Wolcott cuts its local property tax levy by \$5.6M.

State ed. funds received \$18M

State ed. taxes paid - \$12.4M

Net money received + \$5.6M





# The Result

Equal effort means equal spending

Towns that spend the same per-pupil  
are taxed at the same rate

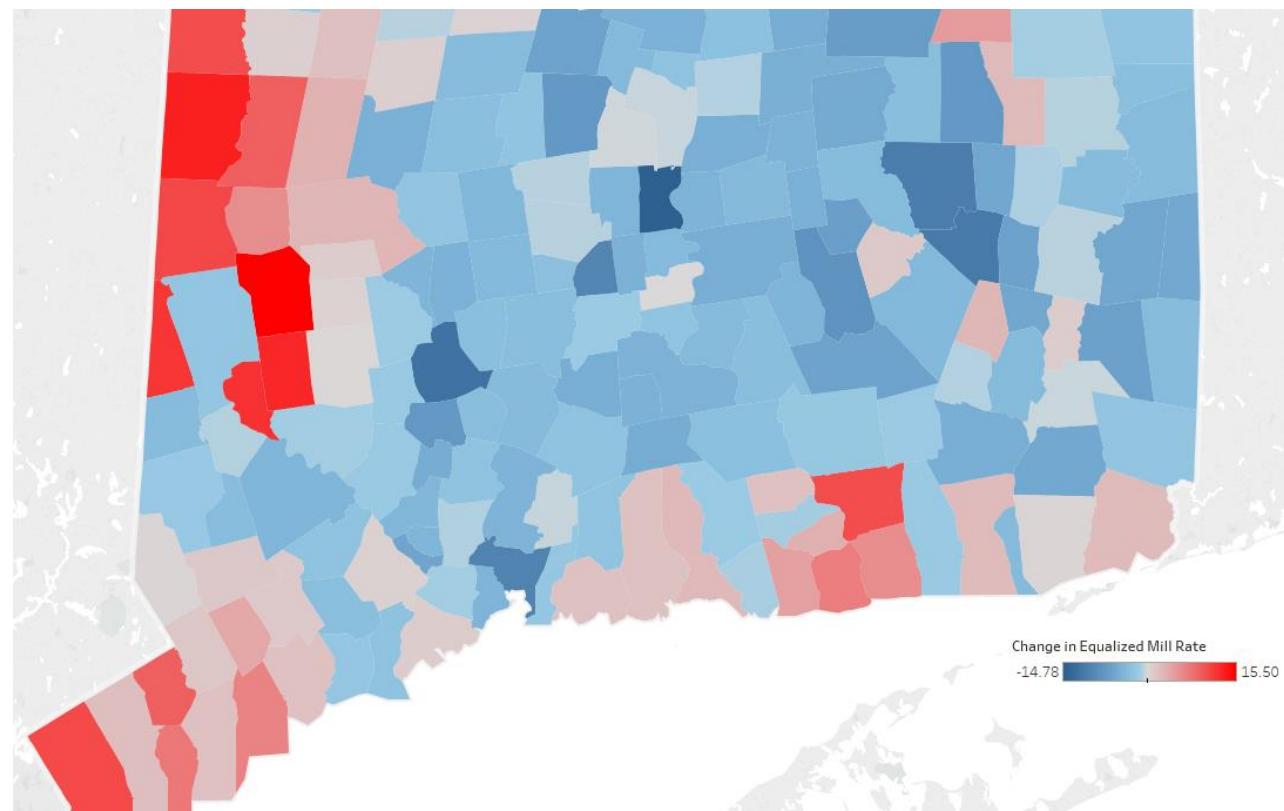
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# What are the Benefits?

	PILOT at Current Levels	PILOT at Statutory Levels	PILOT at 100%
Number of people receiving tax cut	2.79 million	2.73 million	2.70 million
Average tax cut	\$403 per person	\$400 per person	\$395 per person

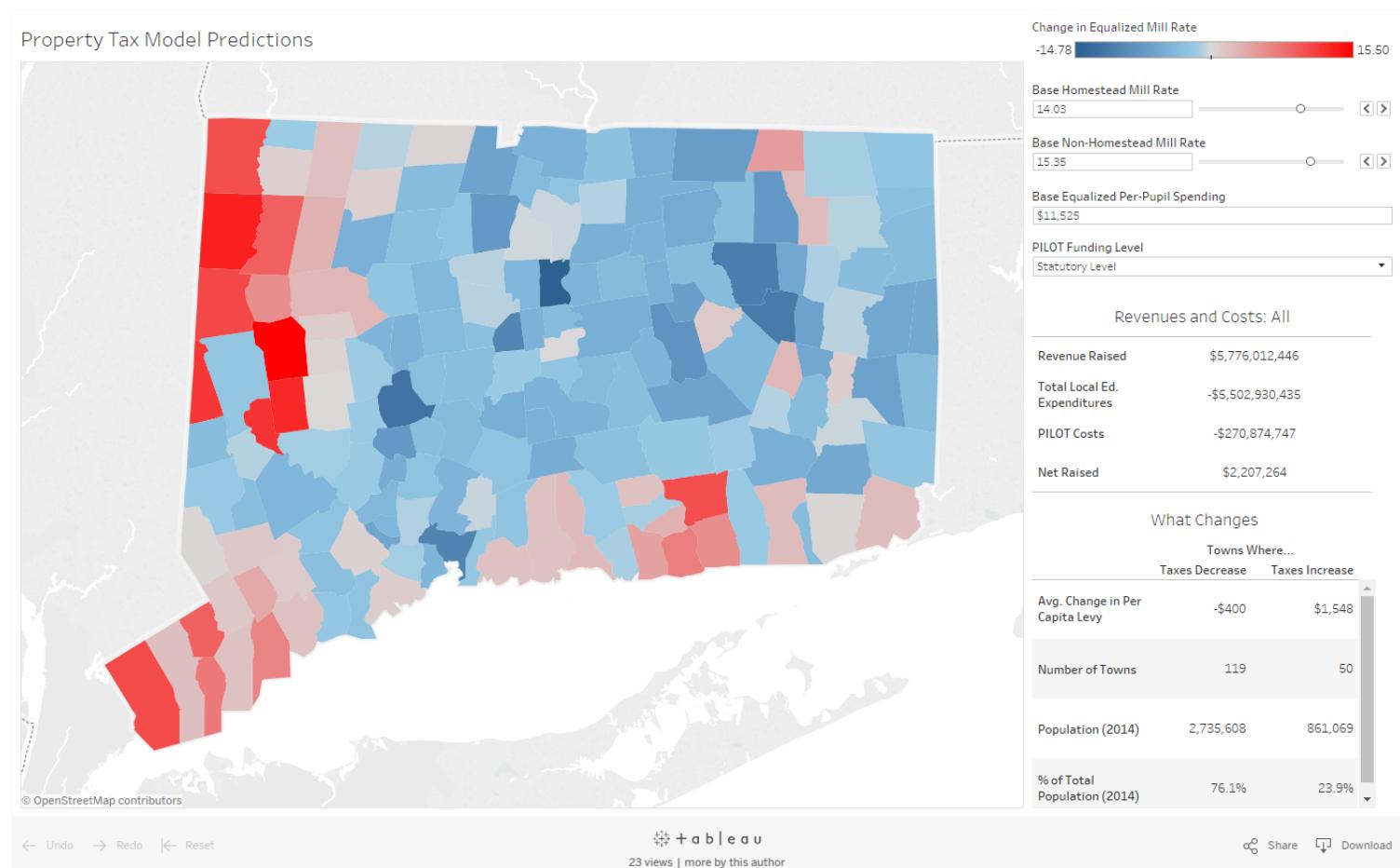
# Who Would Benefit?

## Predicted Property Tax Changes by Town



Source: Connecticut Voices for Children analysis.

# Create Your Own Model



Source: Connecticut Voices for Children [Tableau page](#).

# What are the downsides?

- Town-based mill rate not responsive to individual finances
- Must pair with an income-based “circuit breaker”



# Takeaway

- A Vermont-like model would reduce disparities and cut taxes

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# Need Further Research

## Education Finance

How you  
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Whether there's  
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Money

# Need Further Research

## Education Finance

How you  
RAISE  
the money

How you  
DISTRIBUTE  
the money

- Funding formula

Whether there's  
ADEQUATE  
Money

- Adequacy studies



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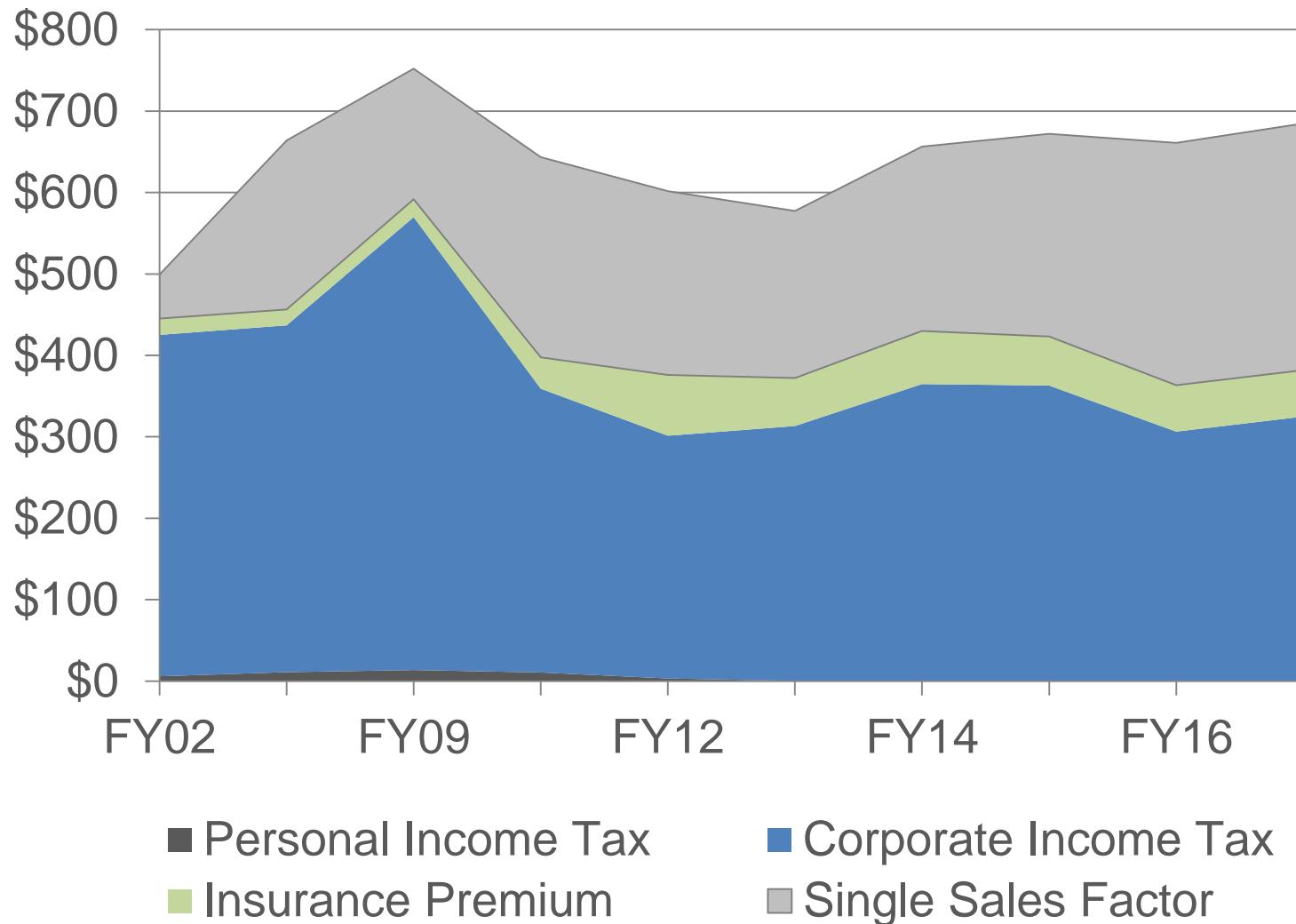
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# A Fair Approach at Developing Connecticut's Economy



# Growth in Business Tax Breaks, FY02 - FY17 (millions)

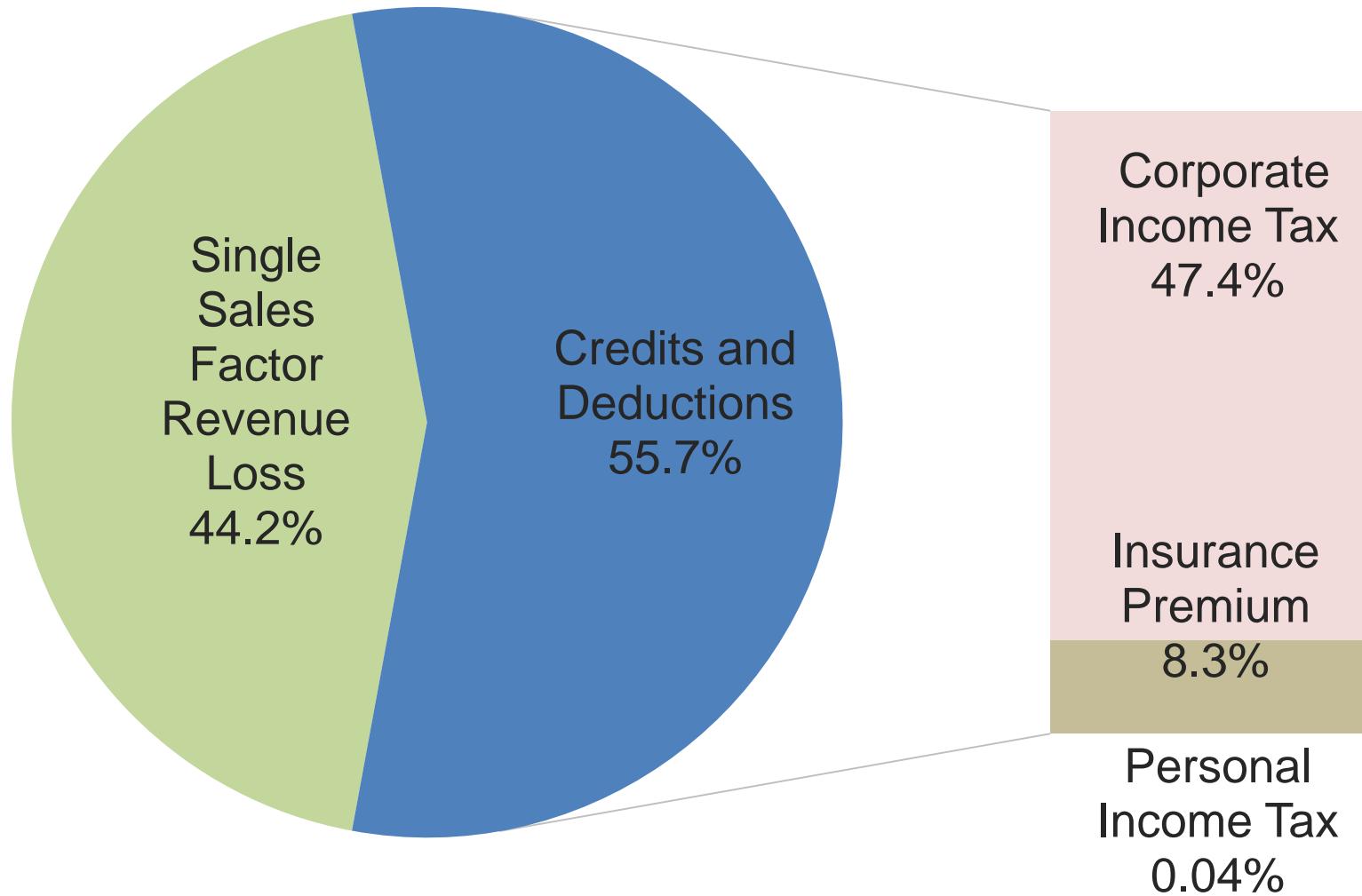


CT Voices analysis of state budget trends and OFA tax expenditure reports.

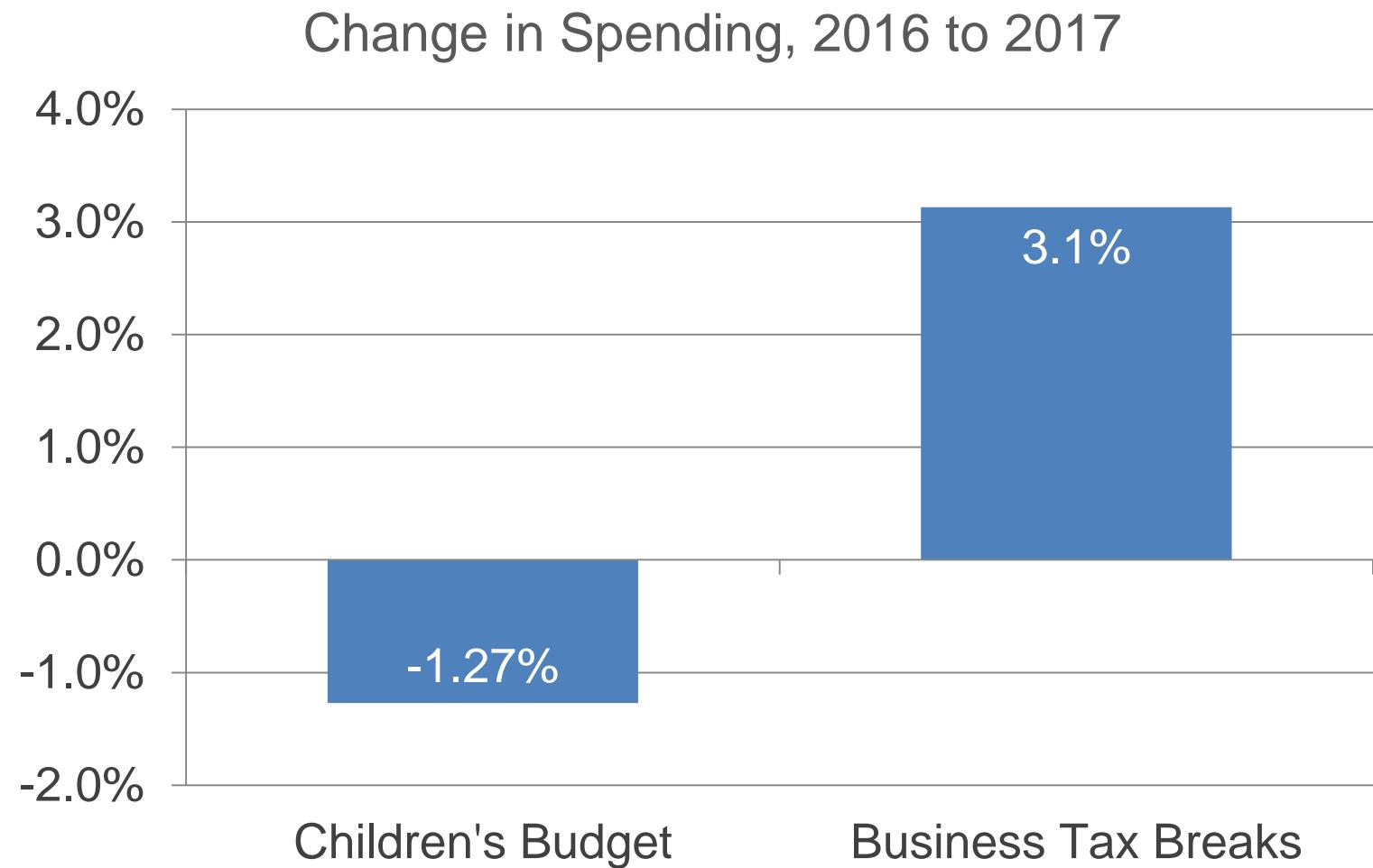
# All Business Tax Breaks, FY 2017

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# Business Tax Breaks Have Grown Faster Than Spending On Children



# Among the Most Costly Business Tax Breaks

- Research and Development Tax Credit
  - Est. cost of \$26.1 million in FY 2017
  - \$2.2 billion in carryforward credits
- Single Sales Factor
  - Est. cost of \$302.9 million in FY 2017
  - Reduced corporate income tax revenue by a third

# Building on Connecticut's Commitment to Transparency

- **Require Regular Review of Business Tax Breaks**
  - Just like spending on education, roads, and other spending
- **Require Corporate Tax Disclosure**
  - To determine how much state and local taxes large corporations are paying
- **Prepare for GASB 77**
  - Forthcoming treasure trove of data on business tax breaks

# Contact Information

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- Twitter (@CTVoices): <https://twitter.com/CTVoices>
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