



CT Needs A Balanced Approach to the State Budget

#CTBudget



Agenda

Who We Are

The State Budget Story – 1,000 Foot View

- Uneven Recovery
- Less Spending, Less Revenue
- Spiraling Fixed Costs
- Shrinking Children’s Budget
- Threats to Federal Funding

Austerity in Practice

- Current Budget Proposals

Better Story: Toward Solutions

- Strategic Investments
- Smart Revenue Choices



Who We Are



Connecticut Voices for Children works to ensure that all of the children in our state have a meaningful **opportunity** to develop to their full potential, regardless of **race, family income or life circumstance**. We advance this mission by advocating for wise public policies and strategic public investments.

Working across issue areas, from early childhood development to state fiscal policy, we advocate for **system-level changes** that boost family economic success, nurture child health and development, advance equity in educational opportunity and prepare children for success.

Children do well when
their families do well;

Life outcomes should
not be limited by color,
ethnicity, or zip code;

Public policies that
invest strategically in
children and families
benefit the entire state.



Beliefs

The State Budget Story

A 1,000 Foot View



Uneven
Recovery

Less Spending,
Less Revenue

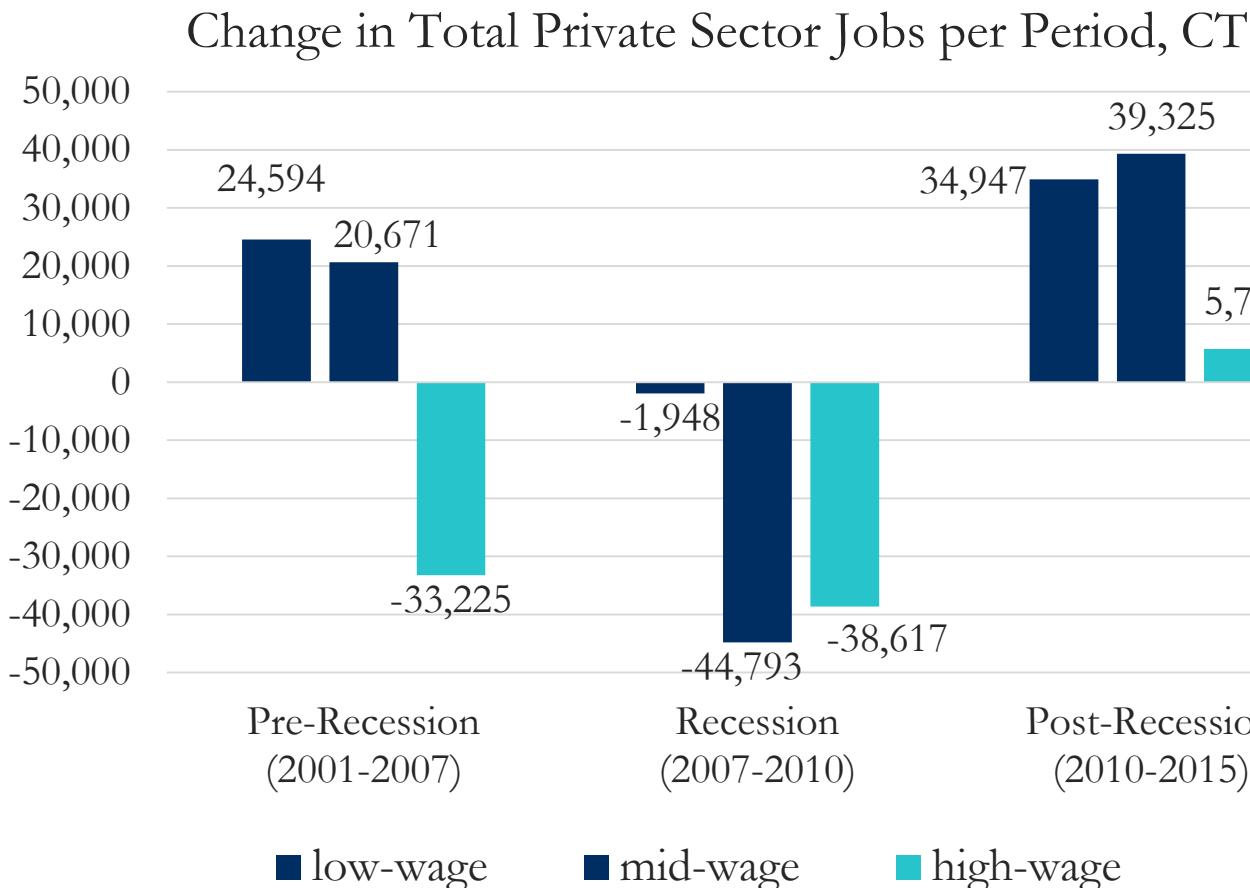
Spiraling Fixed
Costs

Shrinking
Children's Budget

Threats to
Federal Funding
(think block grants)



The Recovery Has Left Too Many Families Behind



Jobs Swap: 20% increase in share of low-wage work v. 13% decrease in share of high-wage work

Wages: 11.4% increase in highest wage earners (top 10%) v. 2% cut for low and median wage earners.

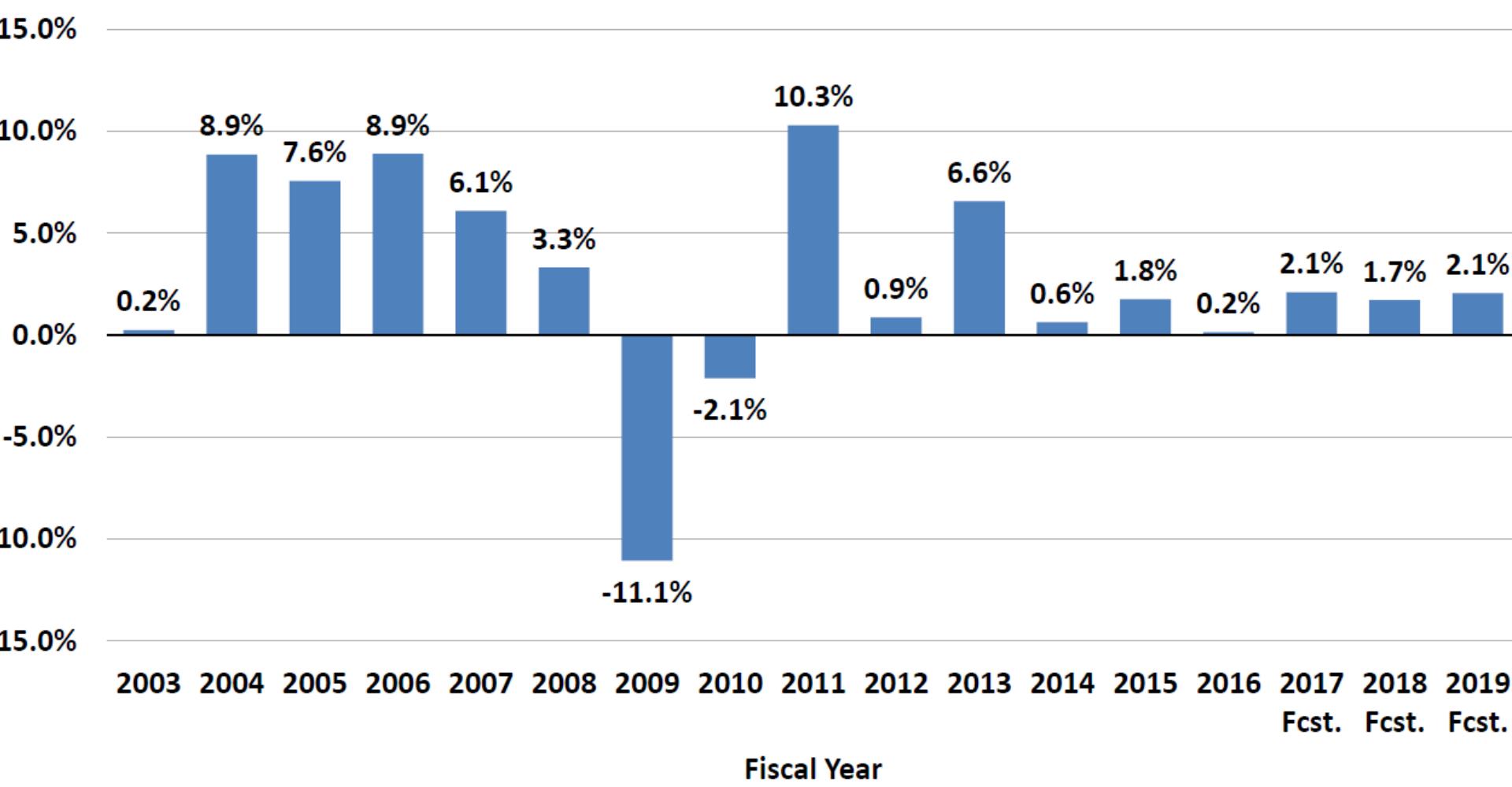


Average represents the compound annual growth rate of each shaded section

*2013 to 2014 growth has been adjusted to reflect the net budgeting of Medicaid.

It's Not a Spending Problem

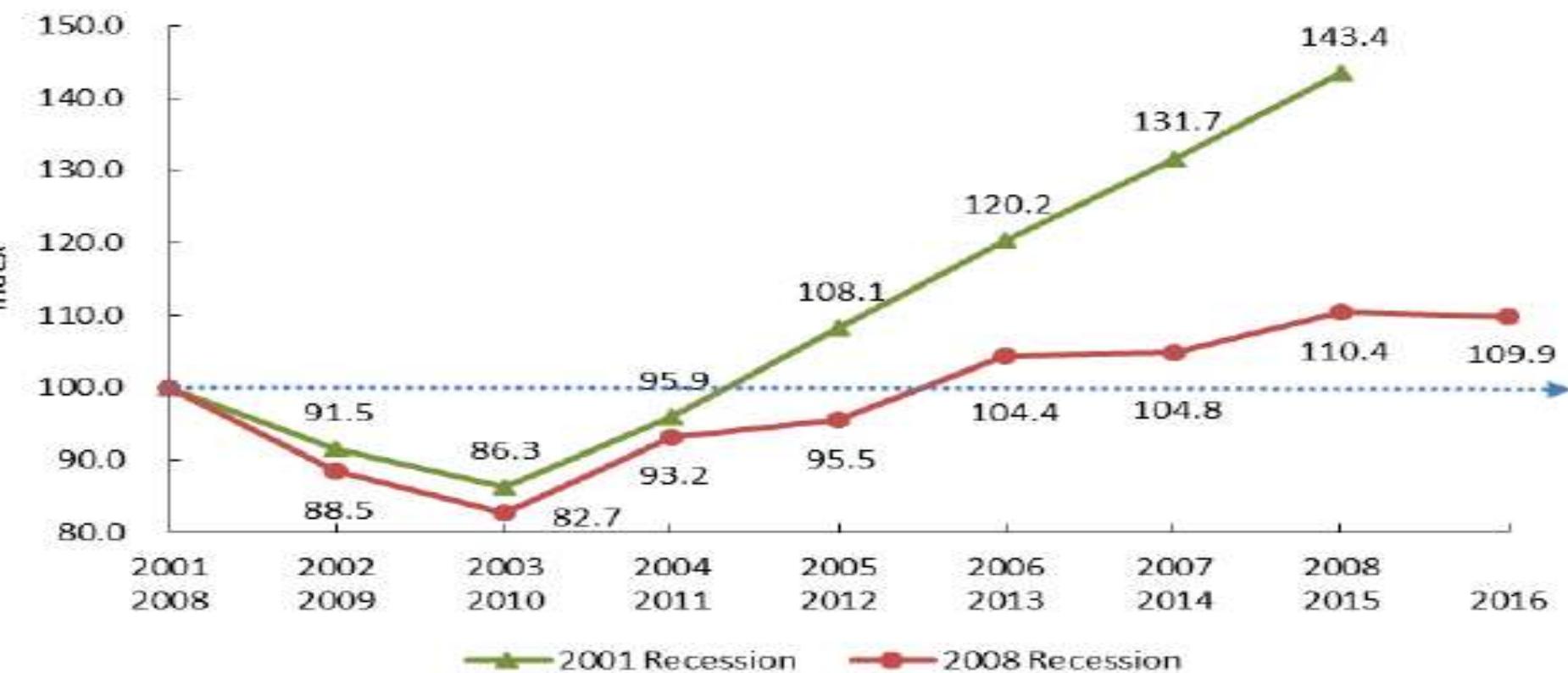
Expenditure Growth, General Fund – OFA



Slowing General Fund Revenue

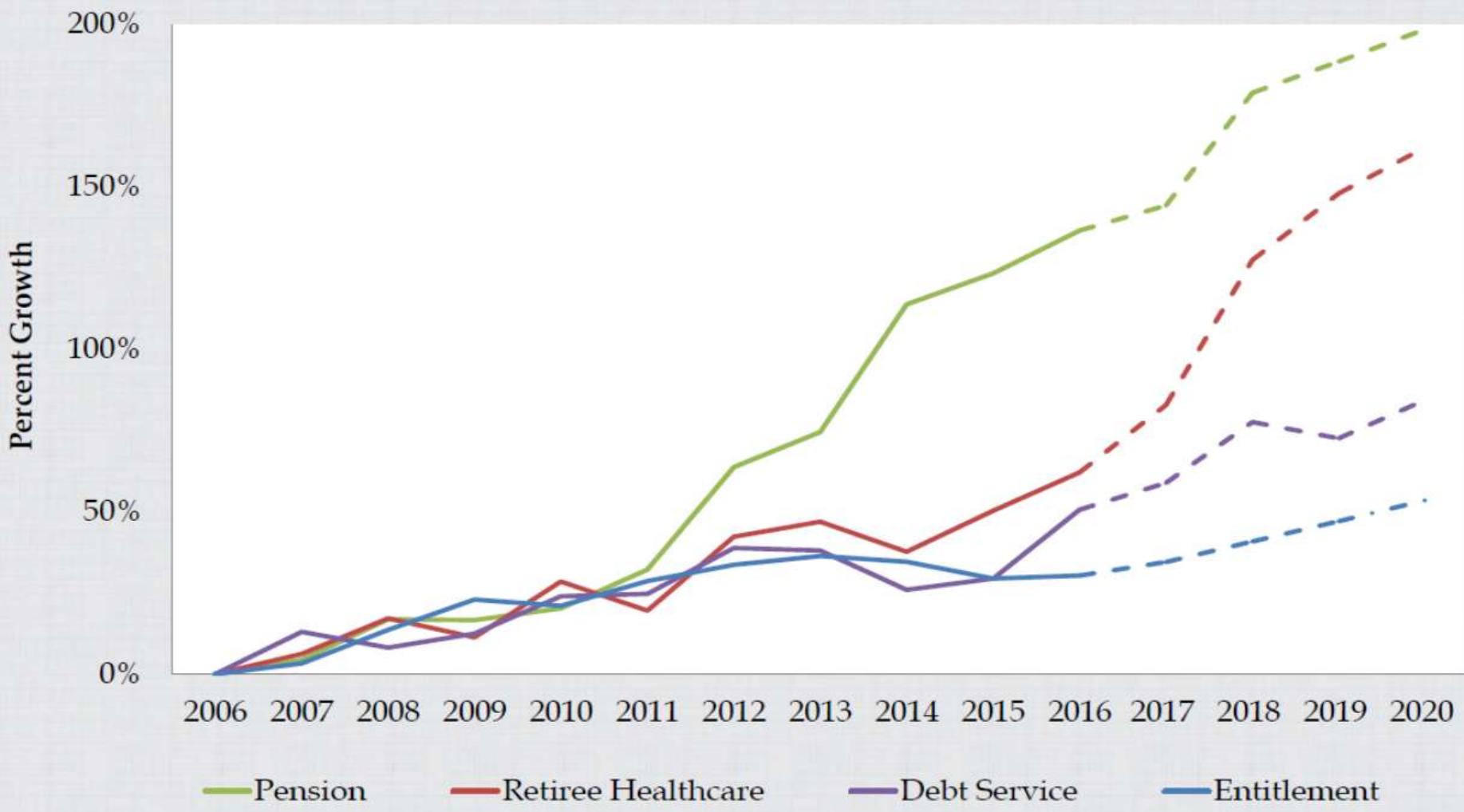
Revenue Growth, General Fund Source – OPM

Personal Income Tax Impact of Recessions on Baseline Revenue



The Cost of Anemic Growth

Personal Income Tax Growth – OFA



Crowding Out

Growth in Fixed Costs – OFA

FY 2016 Federal Funding to Connecticut (in millions)

| | | |
|--|-------|---------|
| Medicaid | _____ | \$4,582 |
| SNAP (Supplemental Nutrition Assistance Program) | | 788 |
| CHIP (Children's Health Insurance Program) | | 62 |
| TANF (Temporary Assistance to Needy Families) | | 267 |
| CCDBG (Child Care and Development Block Grant) | | 53 |
| SSBG (Social Services Block Grant) | | 18 |
| 21 st Century Community Center Learning Centers | | 7 |

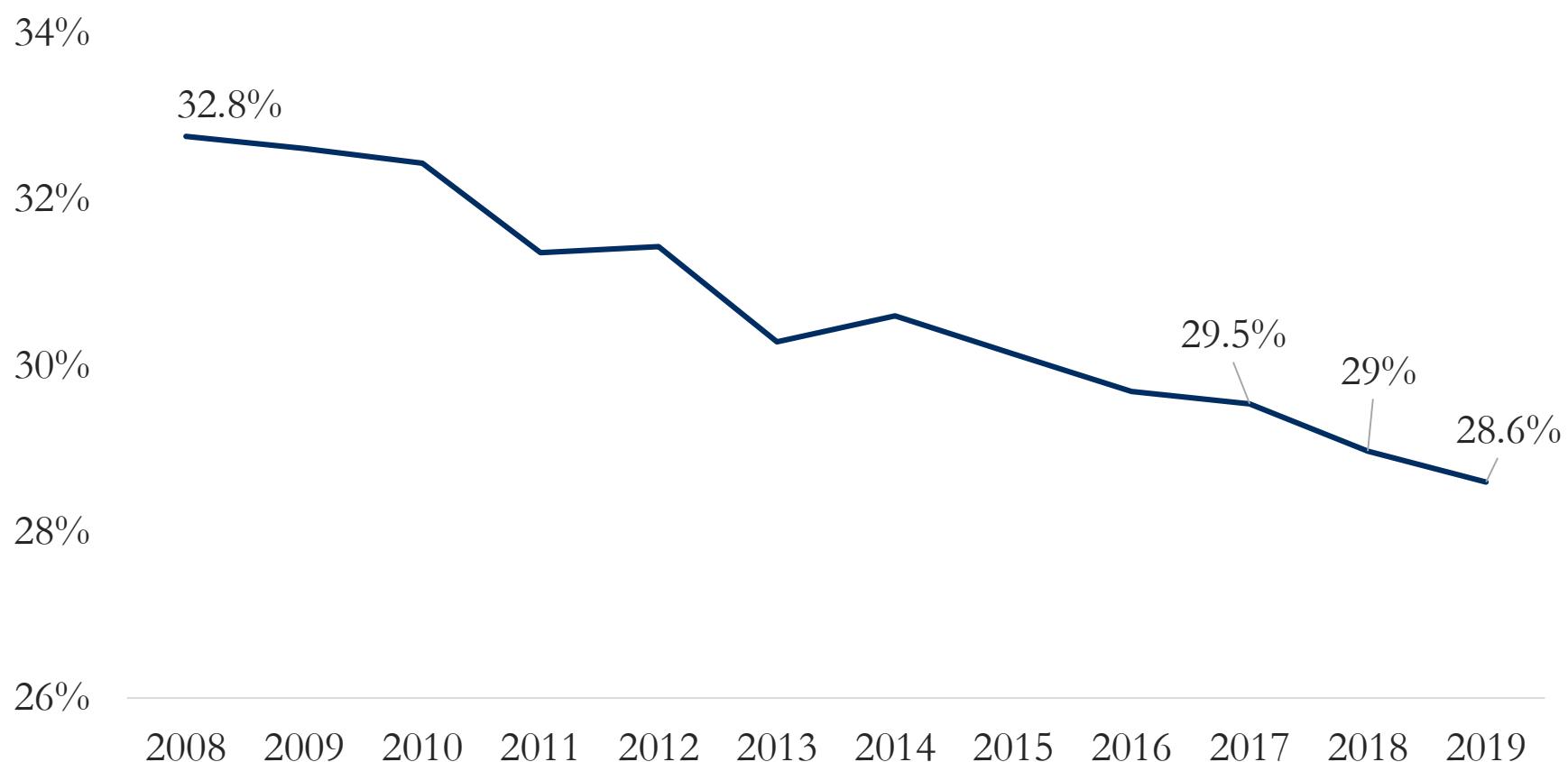
Connecticut Must Protect Against Federal Threats CT Voices Budget Analysis

See our blog post, *Budget Updates: the Impact of Federal Grants on Connecticut's Budget*: <http://www.ctvoices.org/FedgrantsCT>

Austerity Budgeting in Practice



Governor's Budget Reduces Children's Budget to New Low



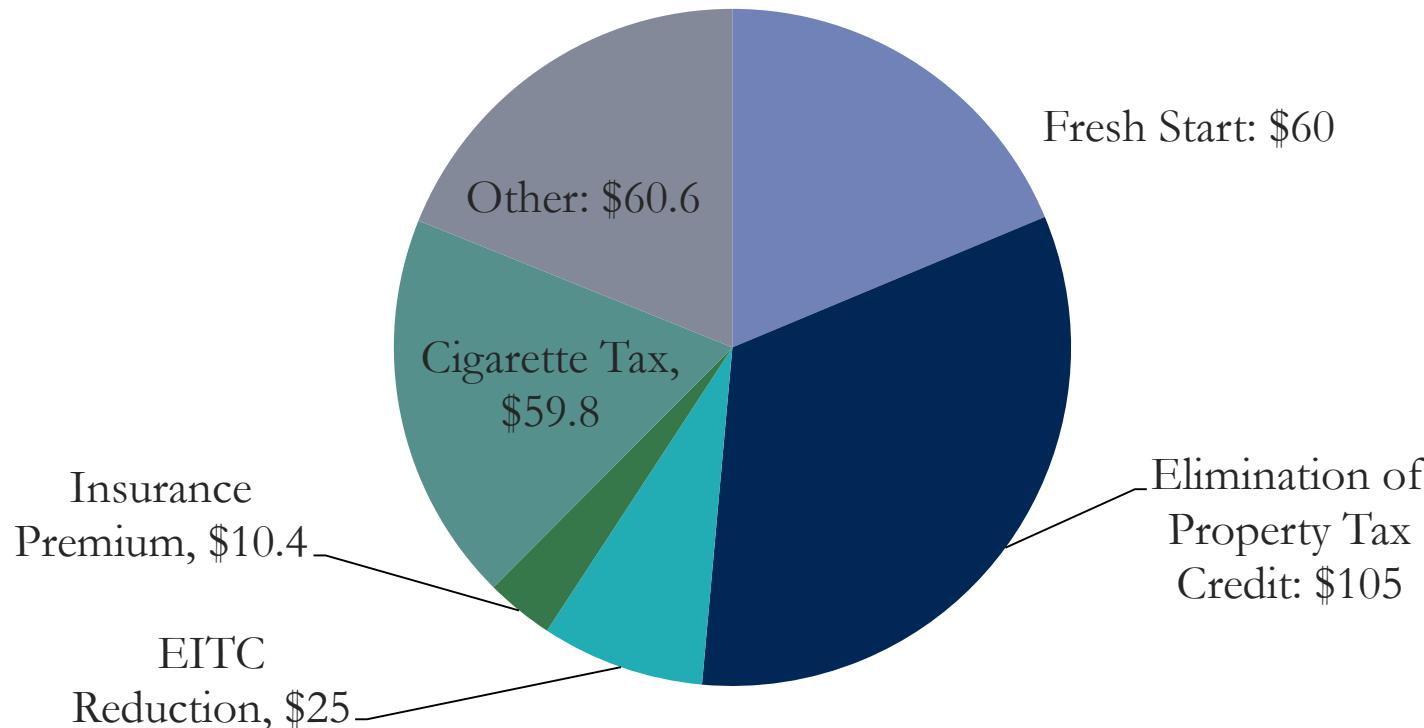
Top Ten Cuts to Children in Governor's Budget

| Line Item | Agency | Children's Budget Component | Amount Cut | Percentage Change |
|--|----------|-----------------------------|---------------|-------------------|
| Connecticut State Colleges and Universities | CSCU | Higher Education | -\$22,638,689 | -6.8% |
| Operating Expenses (UCONN) | UCONN | Higher Education | -\$14,859,702 | -7.2% |
| Care4Kids TANF/CCDF | OEC | Early Care and Education | -\$14,500,000 | -11.7% |
| Birth to Three | OEC | Early Care and Education | -\$10,813,196 | -27.6% |
| Temporary Family Assistance | DSS | Health & Human Services | -\$10,328,710 | -11.5% |
| Young Adult Services | DMHAS | Health & Human Services | -\$6,026,782 | -7.4% |
| Board and Care for Children – Short-term and Residential | DCF | Health & Human Services | -\$5,676,148 | -5.5% |
| Regional Vocational-Technical School System | SDE | K-12 Education | -\$5,587,421 | -3.4% |
| Juvenile Alternative Incarceration | Judicial | Health & Human Services | -\$5,104,851 | -19.8% |
| Governor's Scholarship | OHE | Higher Education | -\$4,440,118 | -11.9% |

CT Voices Analysis of the Governor's Biennial Budget. Education Equalization Grants line item was cut by \$437,583,167, but that money, along with the Excess Cost Grant, was combined into the Special Education line item.

Asking for More from Those with Less

Low- to Middle-Income Taxpayers Shoulder 40% of the Governor's FY 2018 Revenue Proposals (in Millions)



While at the Same Time...

The Governor's proposal to increase the estate tax exemption to the federal threshold would amount to **an average tax break of \$100,000 for some 600 taxpayers** when fully phased in.

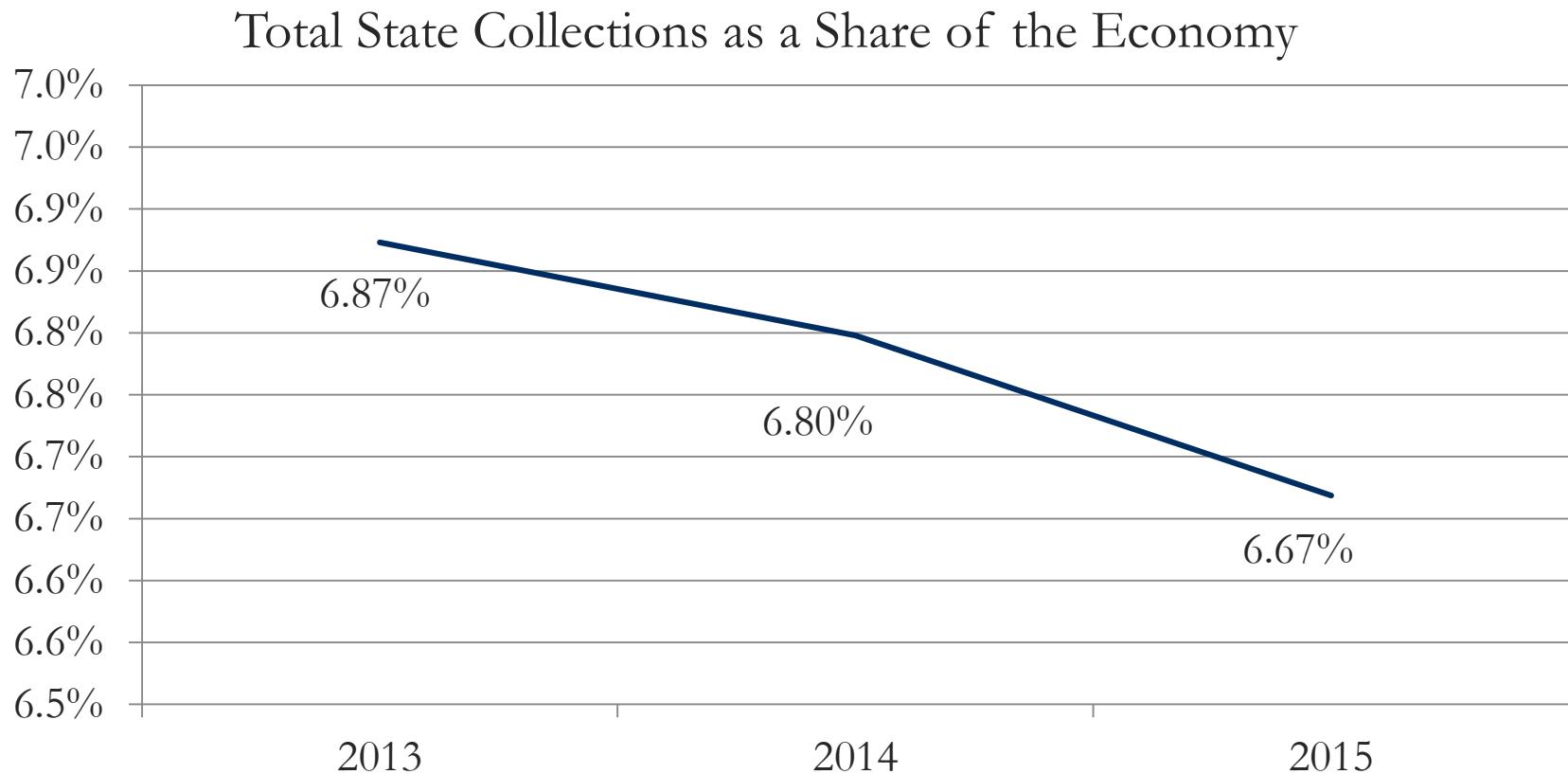
A Different Path Forward

Reform Revenue System

Invest in Cities,
Infrastructure, Workforce



CT Must Address Structural Weakness of Revenue System





Address Budget Shortfalls *and* Build a Stable Revenue System

1040 Department of the Treasury

Modernize Outdated Sales Tax

- Broaden base and lower rate and still raise \$730 million

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

Modernizing the Sales Tax

A Bold Reform to Address CT's Financial Challenges

Ensure Revenue Adequacy

- Taxable sales as a share of total household income in CT have declined from 32.6% in 2002 to 26.4% in 2015.

Reduce Revenue Volatility

- Even when the economy grows slowly, people still consume services

Create More Equitable Tax System

- Helps ensure that households with similar incomes and spending levels pay similar amounts of sales tax

Generate Significant New Revenue (next slide)

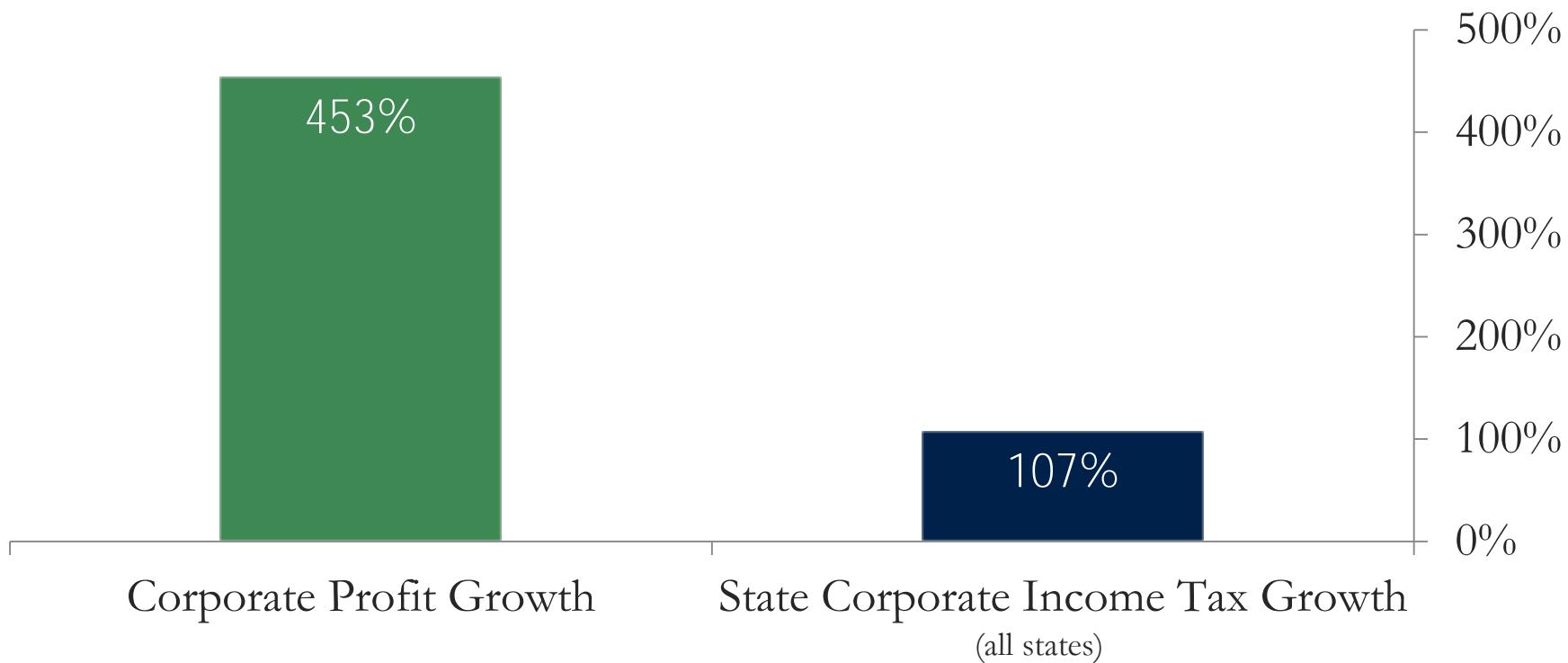
Broadening the Sales Tax Base to Include Services and Lowering the Rate Could Generate up to \$730 Million



| Rate | Additional Annual Revenue |
|-------|---------------------------|
| 6.35% | \$1.5 billion |
| 6.00% | \$1.18 billion |
| 5.50% | \$730 million |

Strengthen Connecticut's Corporate Income Tax

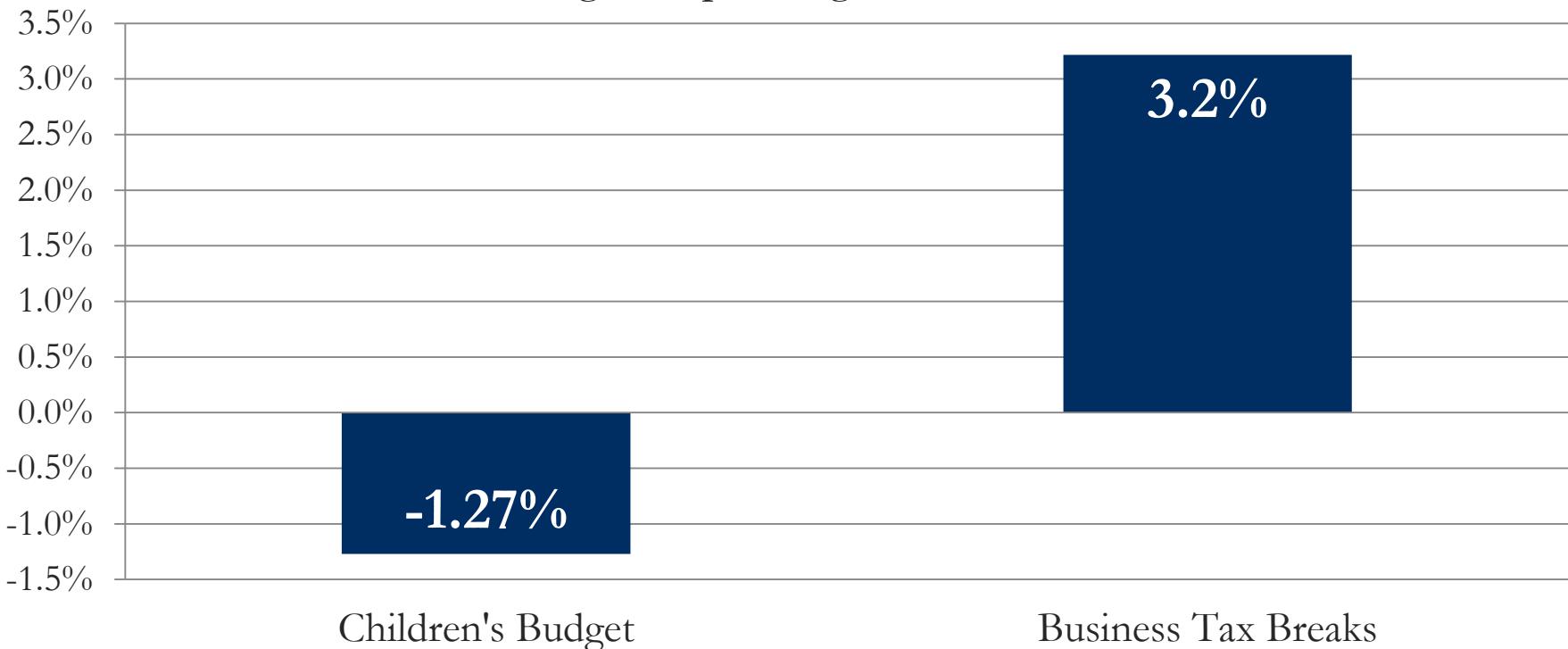
State Corporate Tax Collections Lag National Corporate Profits
Growth in Nominal Dollars Since 1991



Counting Business Tax Breaks

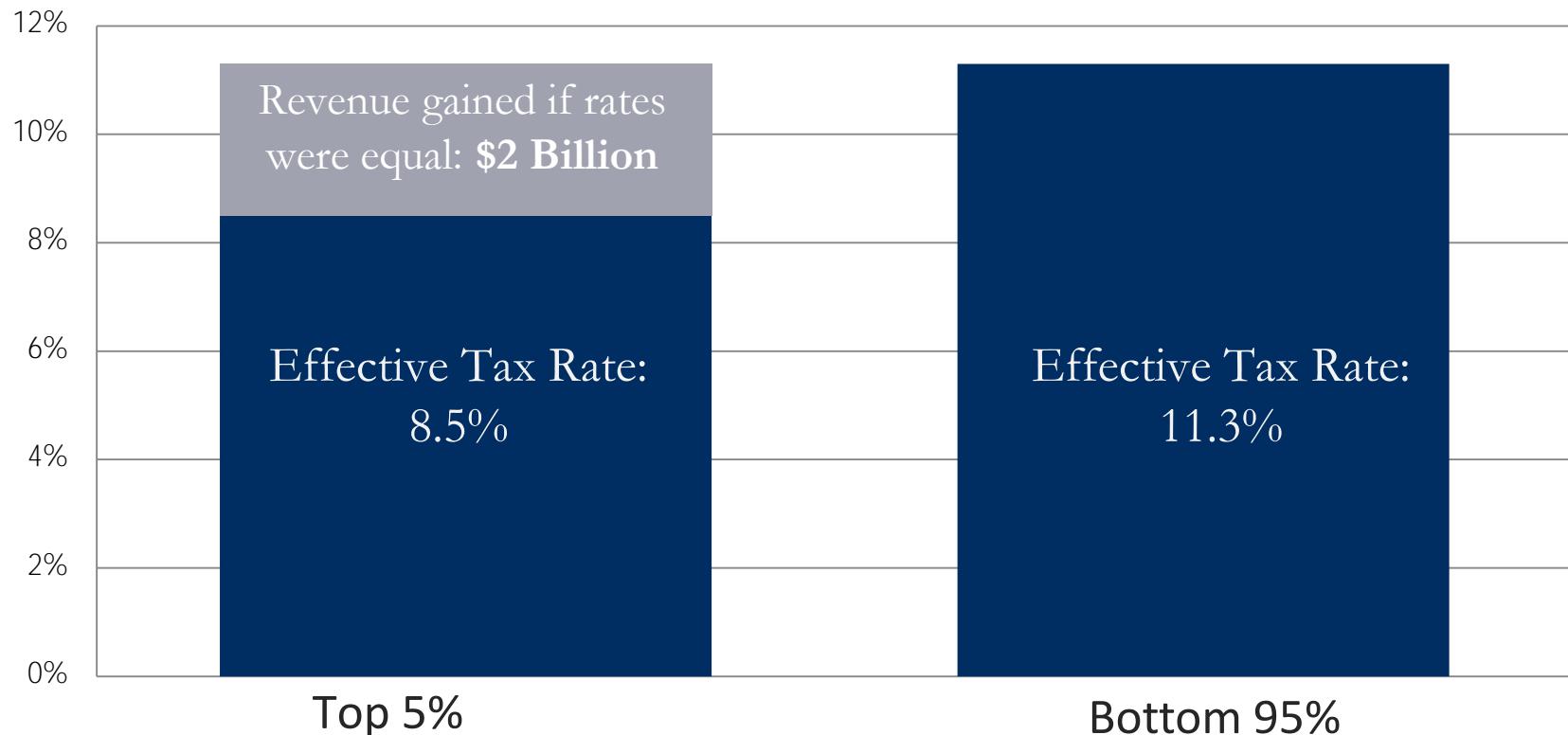
An estimated \$730 million in FY 2017

Business Tax Breaks Grew While Spending On Children Declined
Change in Spending, 2016 to 2017



Reform Wealth & Income Taxes

Revenue Foregone As A Result Of Unequal Effective Tax Rates (State And Local Taxes)



Fix the Upside-Down Tax System

Could Raise a Half Billion in Revenue

1. Higher Capital Gains and Dividends Rate on Top 3 Income Groups: 6.5% to 7%; 6.9% to 7.5%; 6.99% to 8%

| | Top 5% | | State Tax Change | Federal Offset % | Federal Tax Change | Net Tax Change |
|-----------------------|---------|---------|------------------|------------------|--------------------|----------------|
| | Next 4% | Top 1% | | | | |
| Average Tax Change | \$247 | \$8,524 | | | | |
| Share of Total Change | 13% | 87% | \$134.6 million | 33% | -\$44.4 million | \$90.2 million |
| % Facing Tax Increase | 47% | 97% | | | | |

2. Higher Personal Income (PIT) Tax Rate on Top 2 Income Groups: 6.9% to 7.4%; 6.99% to 7.49%

| | Top 5% | | State Tax Change | Federal Offset % | Federal Tax Change | Net Tax Change |
|-----------------------|---------|---------|------------------|------------------|--------------------|-----------------|
| | Next 4% | Top 1% | | | | |
| Average Tax Change | +610 | +14,221 | | | | |
| Share of Total Change | 18% | 82% | \$238 million | 37% | -\$87.6 million | \$150.4 million |
| % Facing Tax Increase | 33% | 100% | | | | |

1 + 2: Higher PIT Rate on Top 2 Income Groups + Higher Capital Gains and Dividends Rate on Top 3 Groups

| | Top 5% | | State Tax Change | Federal Offset % | Federal Tax Change | Net Tax Change |
|-----------------------|---------|---------|------------------|------------------|--------------------|-----------------|
| | Next 4% | Top 1% | | | | |
| Average Tax Change | +1,367 | +32,700 | | | | |
| Share of Total Change | 18% | 82% | | | | |
| % Facing Tax Increase | 51% | 100% | \$545 million | 36% | -\$196.7 million | \$348.4 million |

Millionaire Migration Myth

| | Number of Returns | | | | | 2010-2014 | | 2013-2014 | |
|---------------------------------|-------------------|-----------|-----------|-----------|-----------|-----------|----------|-----------|----------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | % Change | # Change | % Change | # Change |
| <i>Total</i> | 1,727,551 | 1,747,468 | 1,741,480 | 1,749,600 | 1,749,470 | 1% | 21,919 | 0% | 130 |
| Under \$1 | 27,400 | 27,704 | 24,240 | 22,670 | 21,370 | -22% | 6,030 | -6% | 1,300 |
| \$1 under \$10,000 ¹ | 575,749 | 589,732 | 581,730 | 582,360 | 567,570 | -1% | 8,179 | -3% | 14,790 |
| \$10,000 under \$25,000 | 381,130 | 373,936 | 368,160 | 365,450 | 363,210 | -5% | 17,920 | -1% | 2,240 |
| \$25,000 under \$50,000 | 243,285 | 241,764 | 241,970 | 239,770 | 238,770 | -2% | 4,515 | 0% | 1,000 |
| \$50,000 under \$75,000 | 164,139 | 164,851 | 163,710 | 164,460 | 165,950 | 1% | 1,811 | 1% | 1,490 |
| \$75,000 under \$100,000 | 241,566 | 248,184 | 253,620 | 262,410 | 271,190 | 12% | 29,624 | 3% | 8,780 |
| \$100,000 under \$200,000 | 71,138 | 76,698 | 80,700 | 86,190 | 92,570 | 30% | 21,432 | 7% | 6,380 |
| \$200,000 under \$500,000 | 14,114 | 15,106 | 16,450 | 16,410 | 17,900 | 27% | 3,786 | 9% | 1,490 |
| \$500,000 under \$1,000,000 | 9,030 | 9,493 | 10,900 | 9,890 | 10,940 | 21% | 1,910 | 11% | 1,050 |
| \$1,000,000 or more | | | | | | | | | |

Entire Menu of Revenue Options

| | | |
|---------------------------------|--|--------------------------------|
| Modernize Outdated Sales Tax | Apply sales tax to services* | \$730 million to \$1.5 billion |
| | Collect a larger share of taxes due on internet sales* | \$65 to \$75 million |
| | Apply the sales tax to digital downloads* | \$7 to \$11 million |
| Reform Wealth and Income Taxes | Increase personal income tax by half a percentage point for top earners | \$238 million |
| | Higher rates on dividends and capital gains | \$134.6 million |
| | Repatriation of deferred management fees | To be determined |
| | Join regional compact to close carried interest loophole | \$535 million |
| | Improve enforcement of existing tax laws | \$40 million |
| Strengthen Corporate Income Tax | Adopt throwback rule to eliminate “nowhere income”* | \$12 to \$25 million |
| | Eliminate the corporate income tax capital base system and replace with a value-added tax as an alternative minimum tax* | To be determined |
| | Renew efforts to regularly review business tax breaks* | To be determined |
| Support Critical Programs | Enact sweetened beverage tax | \$85 to \$141 million |
| | Institute a low-wage employer fee | \$305 million |

Toward Strategic Solutions: A Balanced Approach

Smart Investments

Early Childhood Education

College/Career Readiness

Core Cities

Infrastructure



CT Voices 2017 Legislative Agenda

- **Thriving Families**
 - Protect key policies – HUSKY, two-gen, Care4Kids
- **Quality Education**
 - Fully fund public education
 - Access to vocational education
 - Behavioral health Services
- **Disconnected Youth**
 - Support foster youth aging out of the system
 - Juvenile Justice – School Diversion plan
- **State Fiscal Health**
 - Balanced budget approach
 - Review business tax breaks
 - Property tax reform

Selected Advocacy Tools

A one-page document explaining how many of the Governor's cost-savings proposals target the same groups of low- to middle-income families.

- For example, a **single mother with two children making \$30,000 per year would lose her health insurance, be unable to enroll her children in Care4Kids, and could see a tax increase of \$93.**

An interactive map showing the town-by-town impact of these proposed cuts.

Individual fact sheets for each House and Senate district so you can use the information in your conversations with your legislators

Find Us

Website: <http://www.ctvoices.org/>

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

Facebook: <https://www.facebook.com/CTVoicesforChildren/>

Tableau: <https://public.tableau.com/profile/connecticut.voices.for.children>

SING UP FOR EMAIL ALERTS!

Our Reports

The Cost of Business Tax Breaks in Connecticut:

<http://www.ctvoices.org/TaxBreaks>

Revenue Options: <http://www.ctvoices.org/sites/default/files/Revenue>

The Governor's Budget – A Comparison to Current Year Appropriations:

<http://www.ctvoices.org/ChildrenFY18Governor>

Carried Interest Testimony:

http://www.ctvoices.org/sites/default/files/041117_finance_sb7316_sb7313_businvestmgmt.pdf

Estate Tax and Social Security Exemption Testimony:

http://www.ctvoices.org/sites/default/files/030317_fin_sb5_58_62_6_272_sb6358_sb6558_estategifttaxes.pdf

Governor's Budget Testimony:

http://www.ctvoices.org/sites/default/files/030917_fin_sb787_revenueitemsgovbudget.pdf

Finance Revenue Options Testimony:

<http://www.ctvoices.org/sites/default/files/Voices%204.25%20Finance%20Testimony.pdf>

Contact Us



- Ellen Shemitz, Executive Director
 - eshemitz@ctvoices.org
 - 203-498-4240 (x108)
- Daniel Long, Research Director
 - dlong@ctvoices.org
 - 203-498-4240 (x104)
- Sharon Langer, Advocacy Director
 - slanger@ctvoices.org
 - 203-498-4240 (x121)
- Derek Thomas, Fiscal Policy Fellow
 - dthomas@ctvoices.org
 - 203-498-4240 (x114)