



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



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.

Who We Are

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

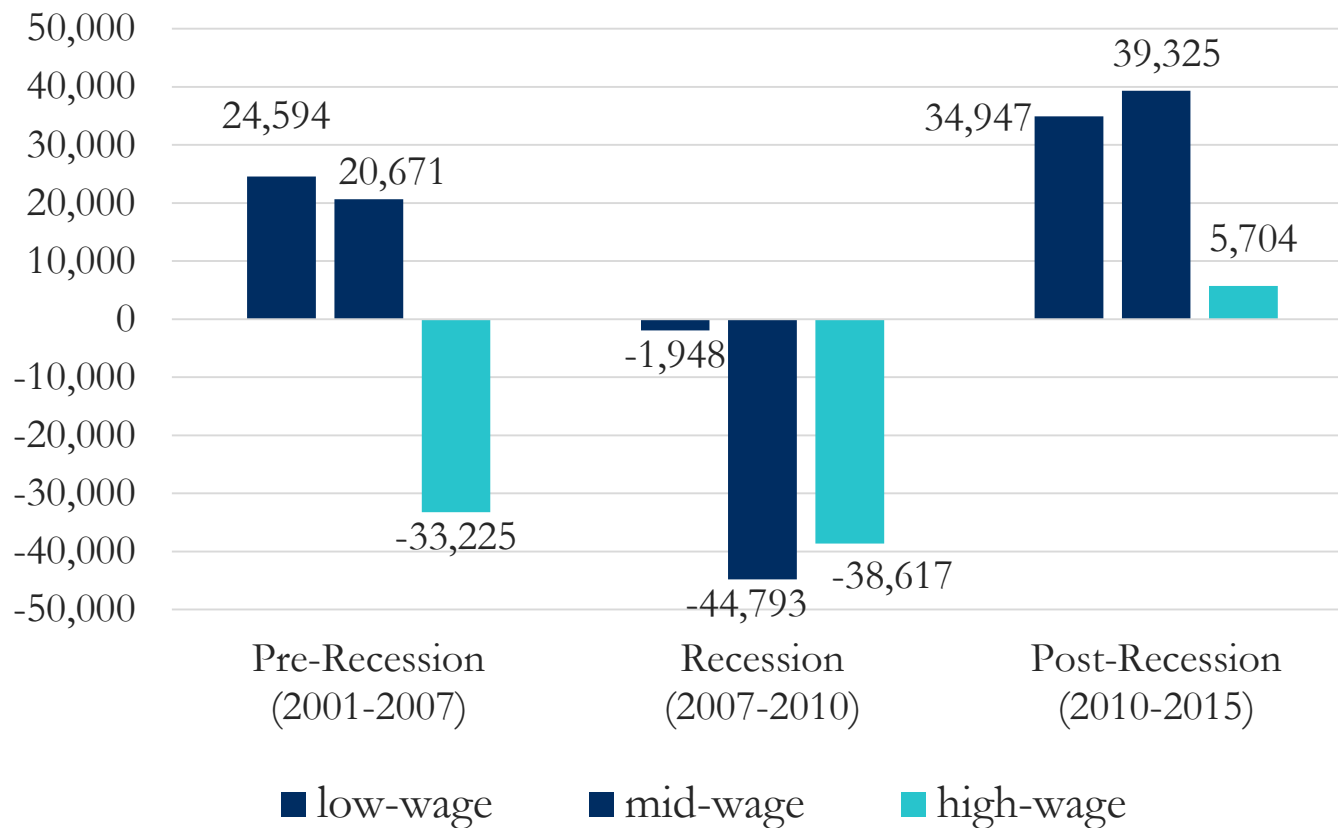
Shrinking
Children's Budget

Threats to
Federal Funding
(think block grants)



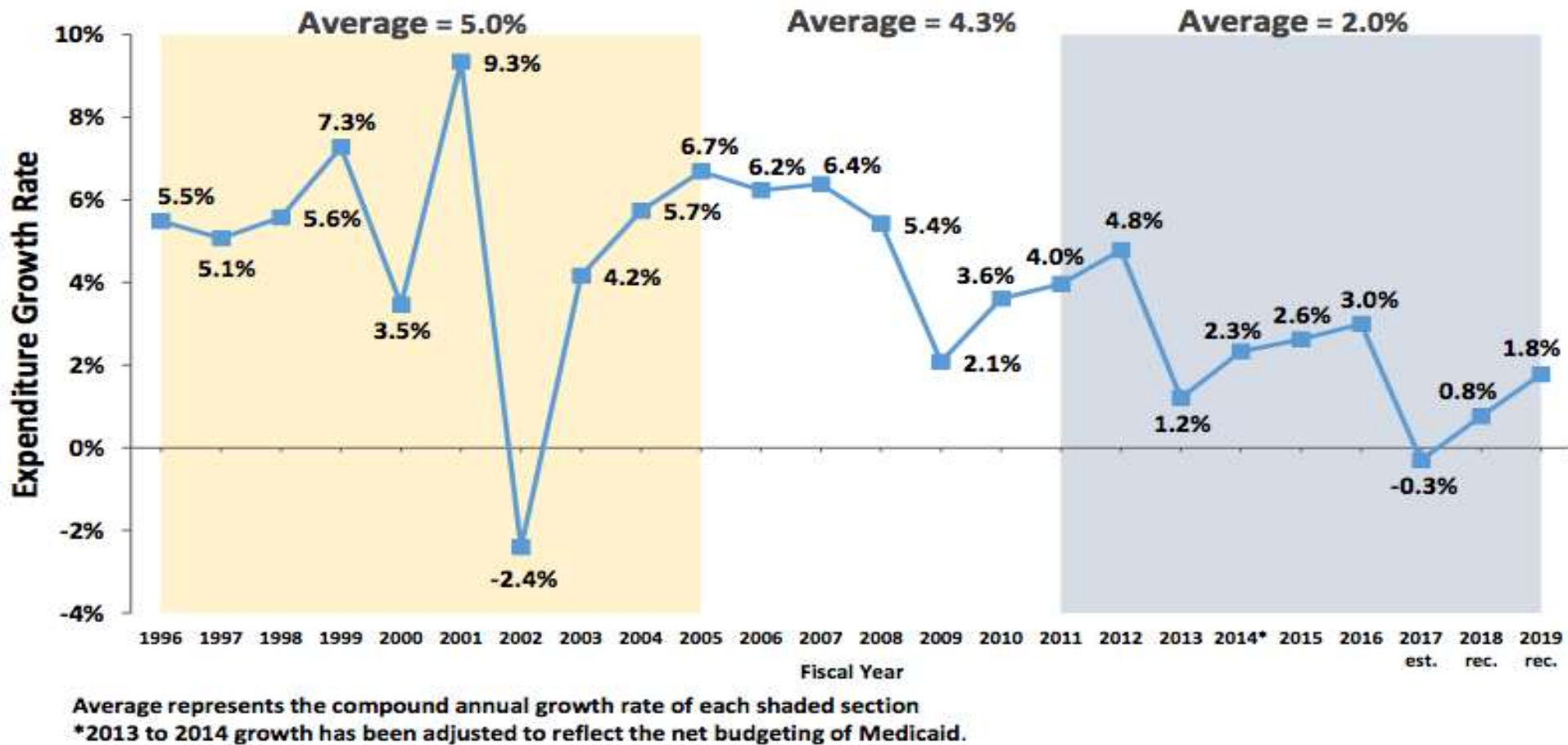
The Recovery Has Left Too Many Families Behind

Change in Total Private Sector Jobs per Period, CT



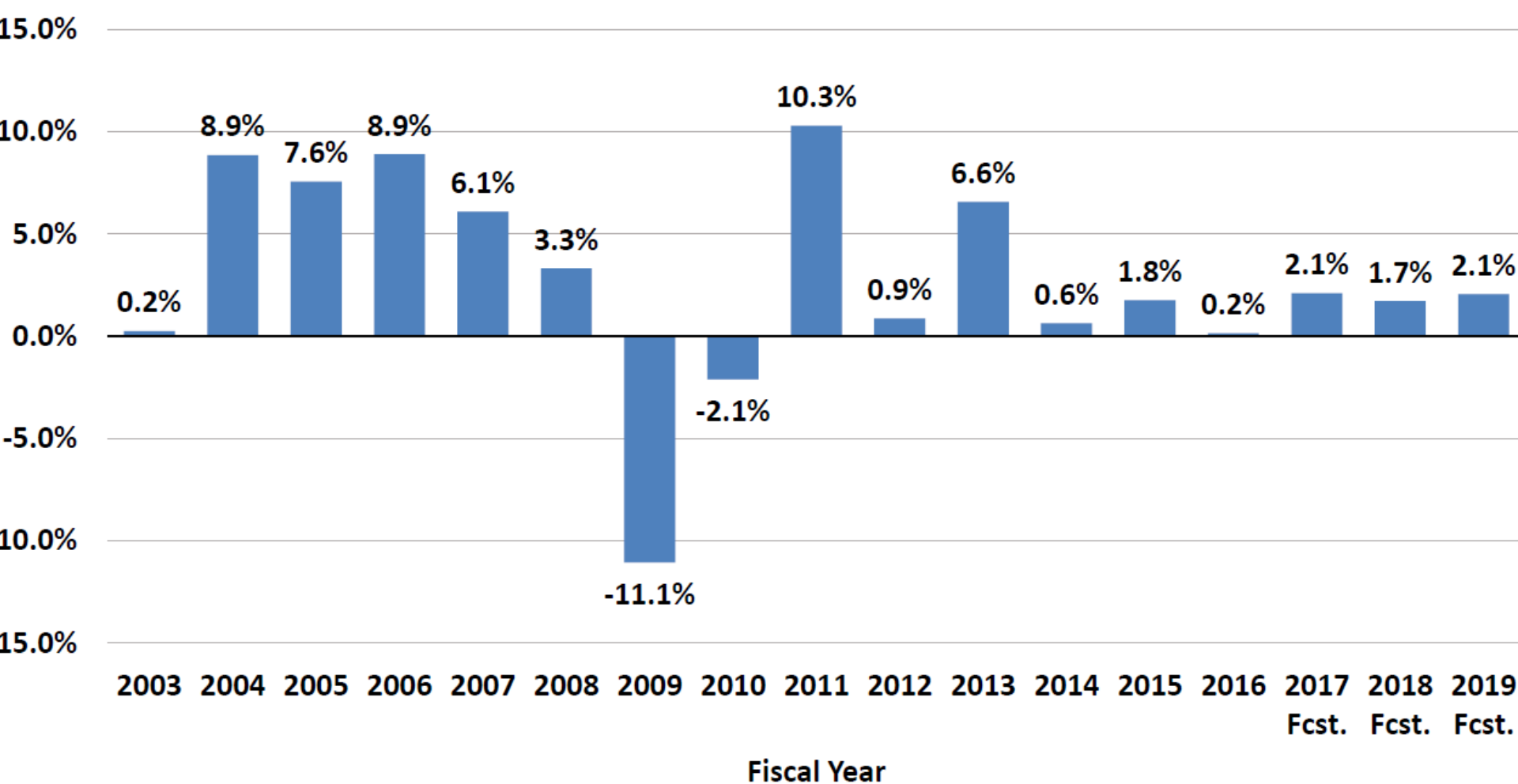
Jobs Swap: 20% increase in share of low-wage work v. 13% decrease in share of high-wage work

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



It's Not a Spending Problem

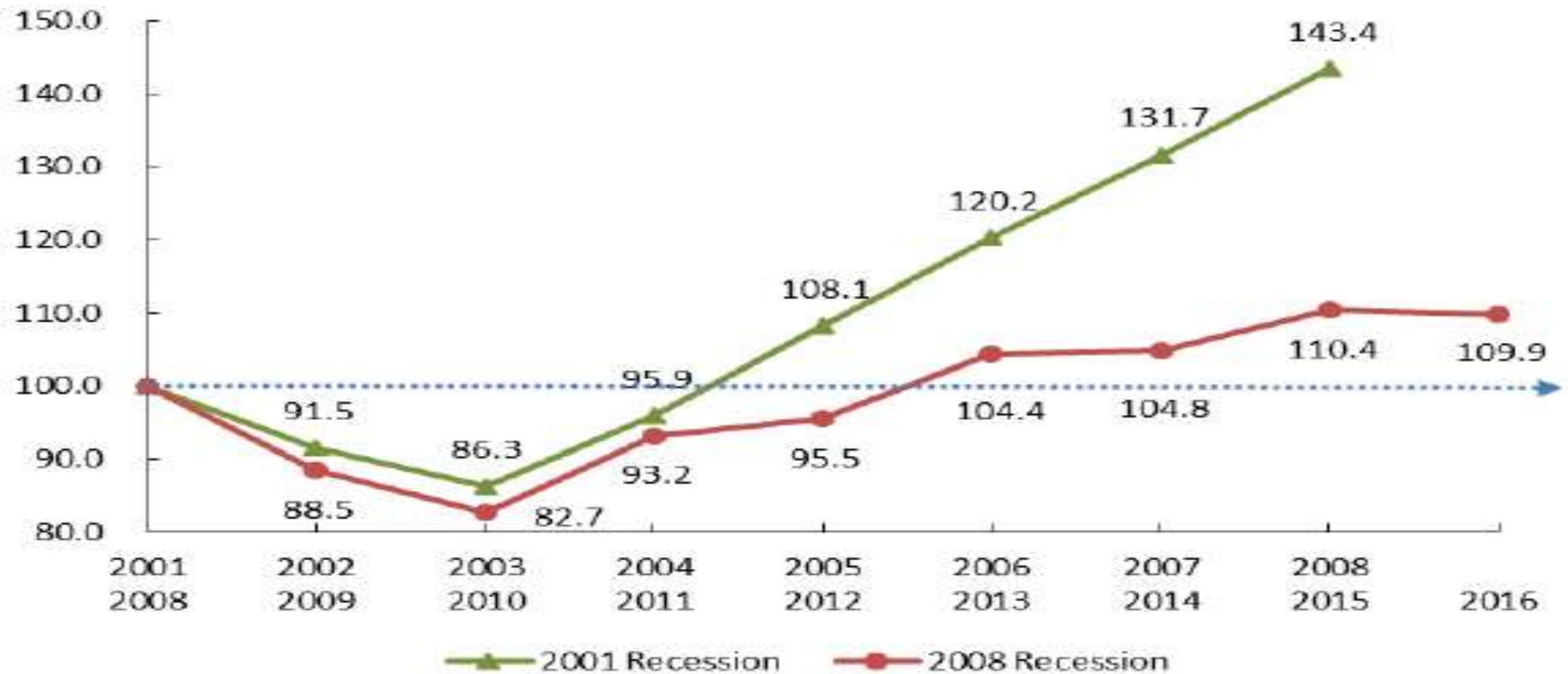
Expenditure Growth, General Fund – OFA



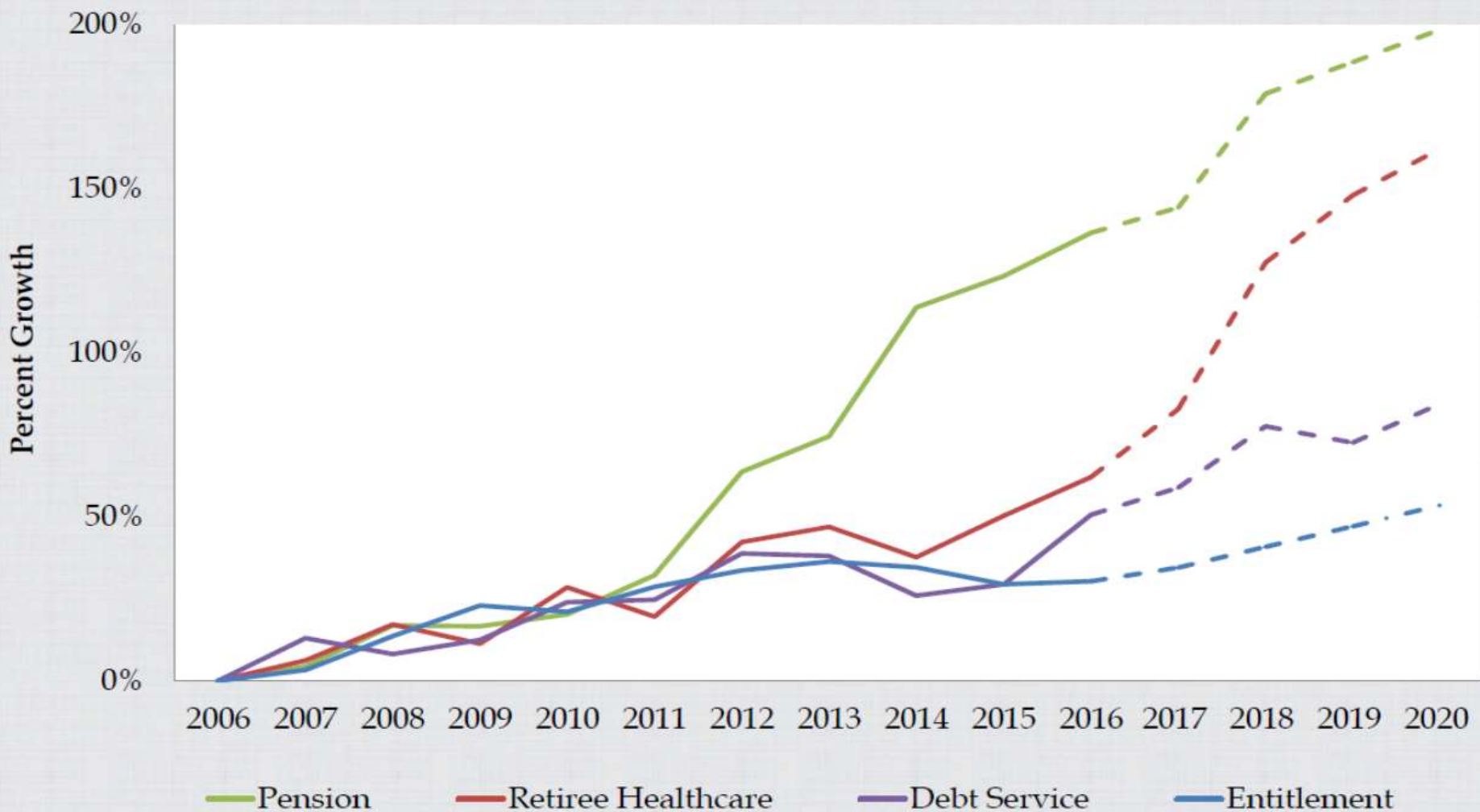
Slowing General Fund Revenue

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

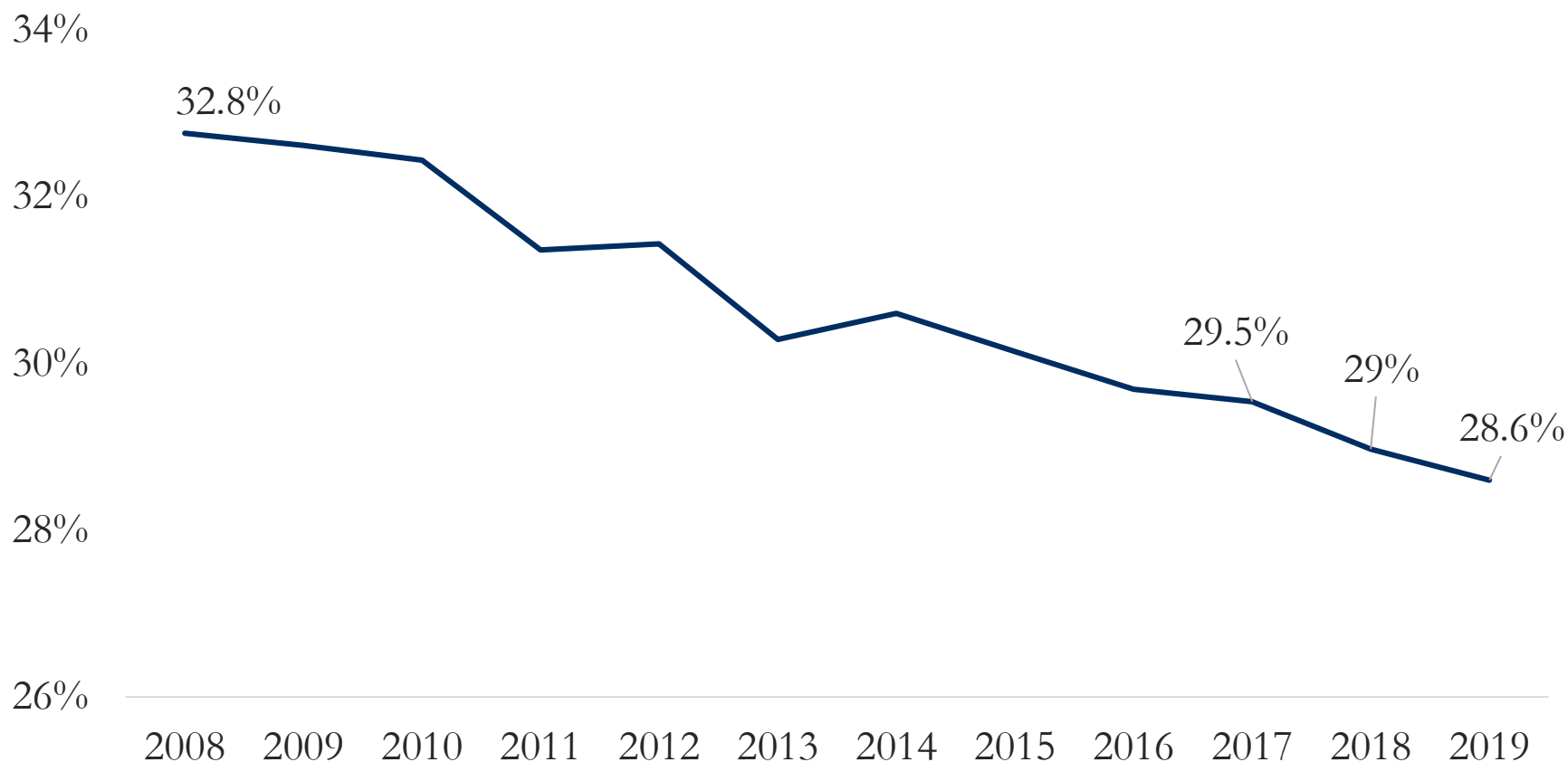
Connecticut Must Protect Against Federal Threats CT Voices Budget Analysis

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

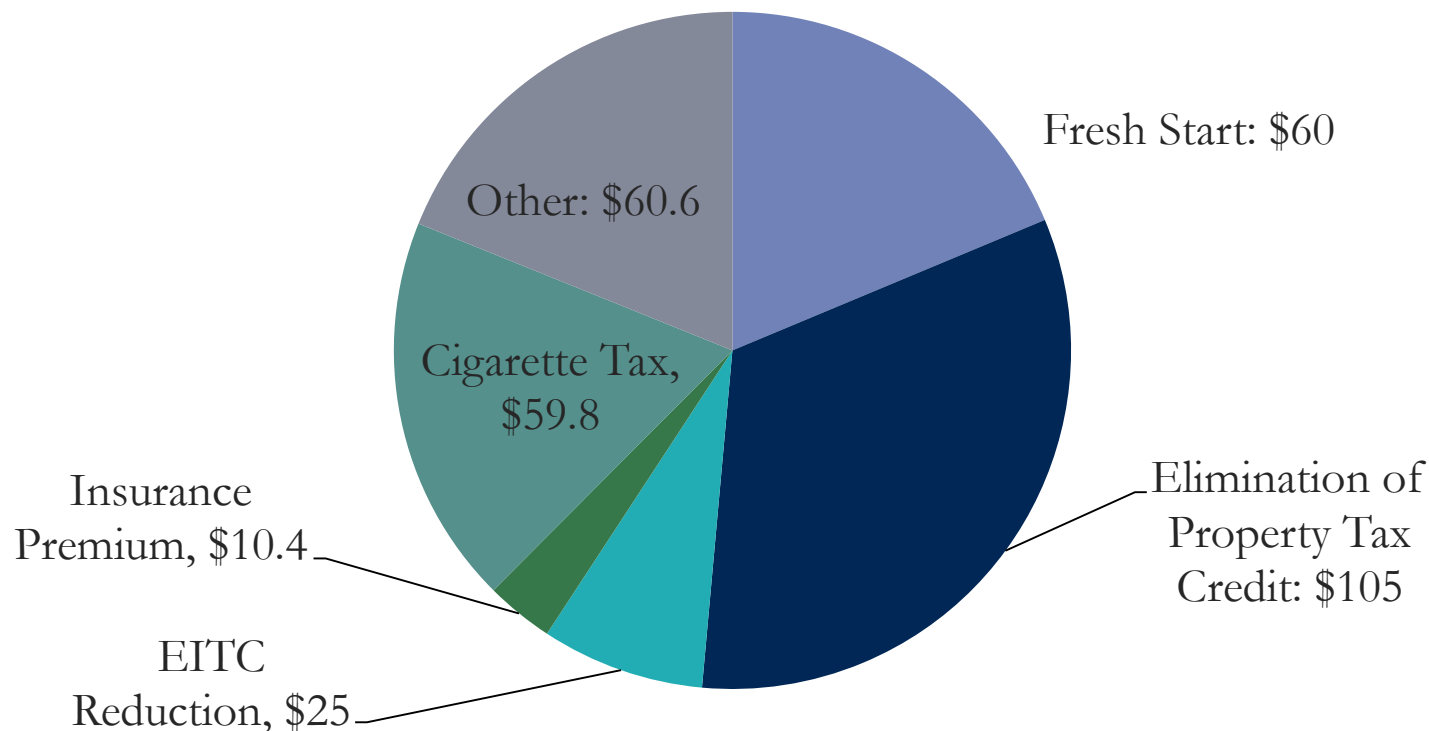


Line Item	Agency	Children's Budget Component	Amount Cut	Percentage Change
Connecticut State Colleges and Universities	CSCU	Higher Education	-\$22,638,689	-6.8%
Operating Expenses (UConn)	UConn	Higher Education	-\$14,859,702	-7.2%
Care4Kids TANF/CCDF	OEC	Early Care and Education	-\$14,500,000	-11.7%
Birth 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.

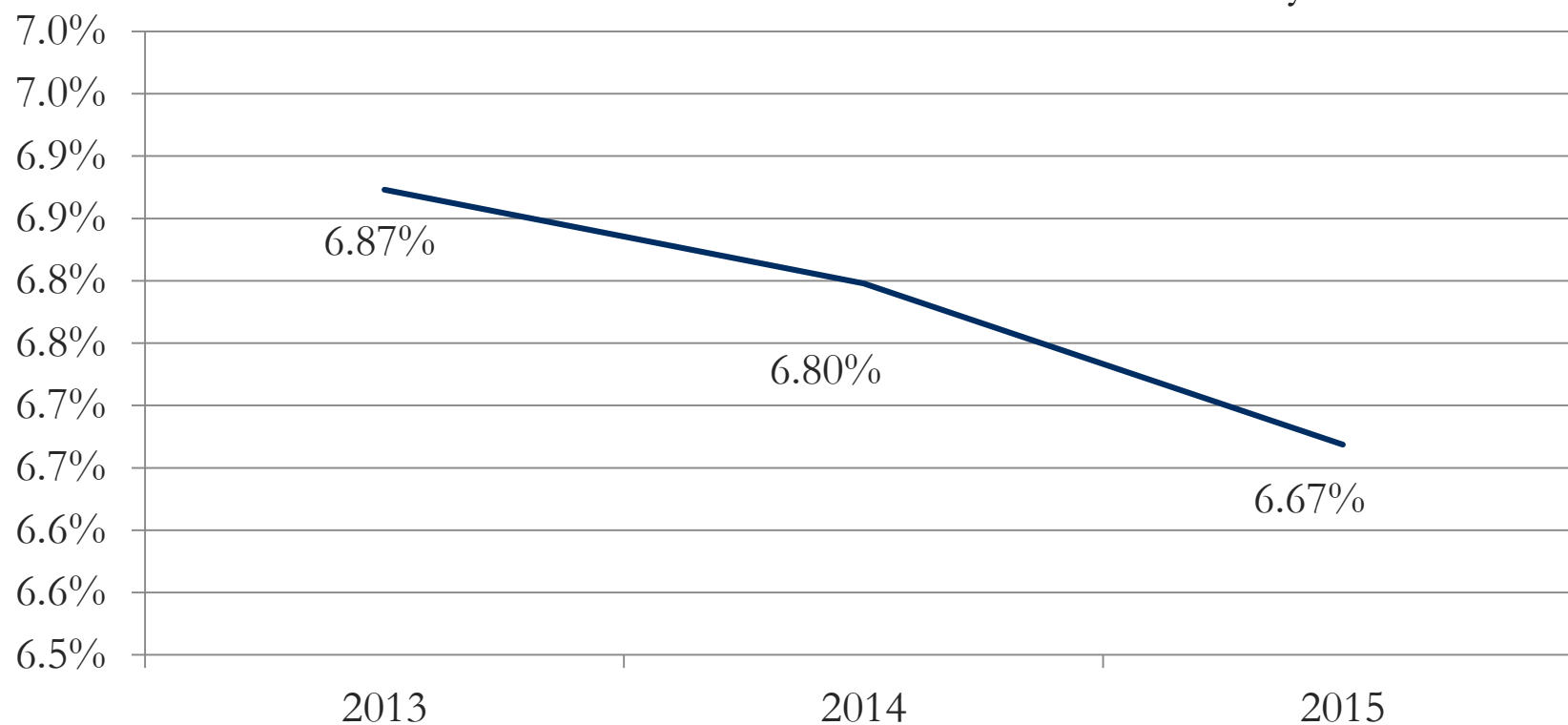
A Different Path Forward

Reform Revenue System

Invest in Cities,
Infrastructure, Workforce

CT Must Address Structural Weakness of Revenue System

Total State Collections as a Share of the Economy





Address Budget Shortfalls *and* Build a Stable Revenue System



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)

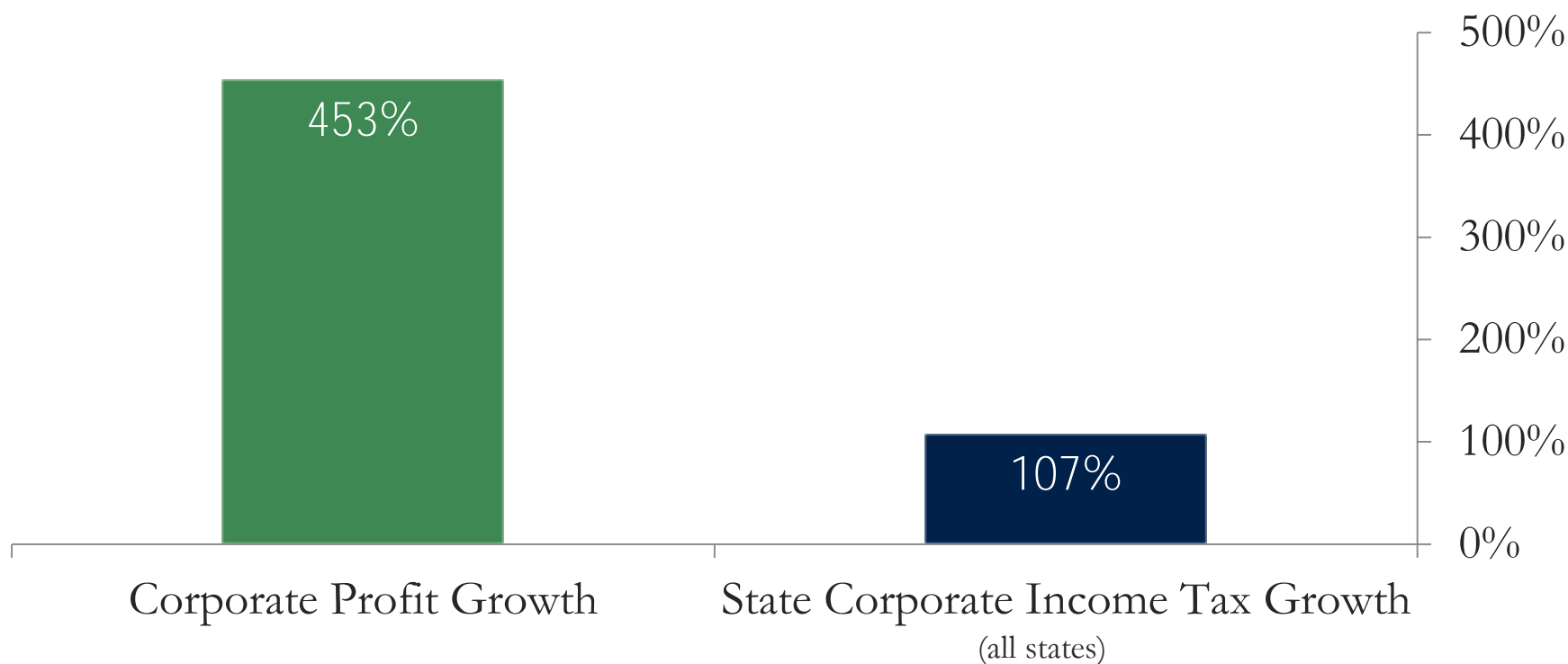
Broadening the Sales Tax Base to Include Services and Lowering the Rate Could Generate up to \$730 Million



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

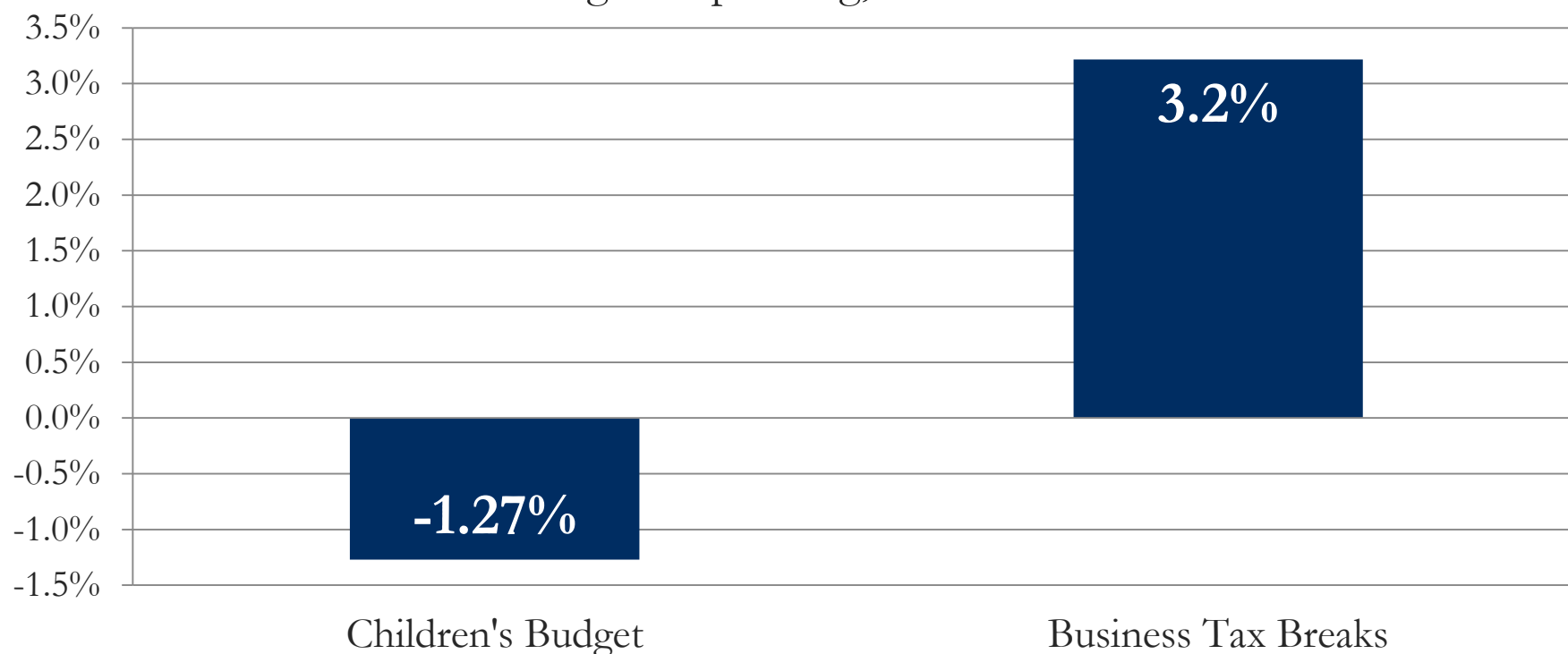


Counting Business Tax Breaks

An estimated \$730 million in FY 2017

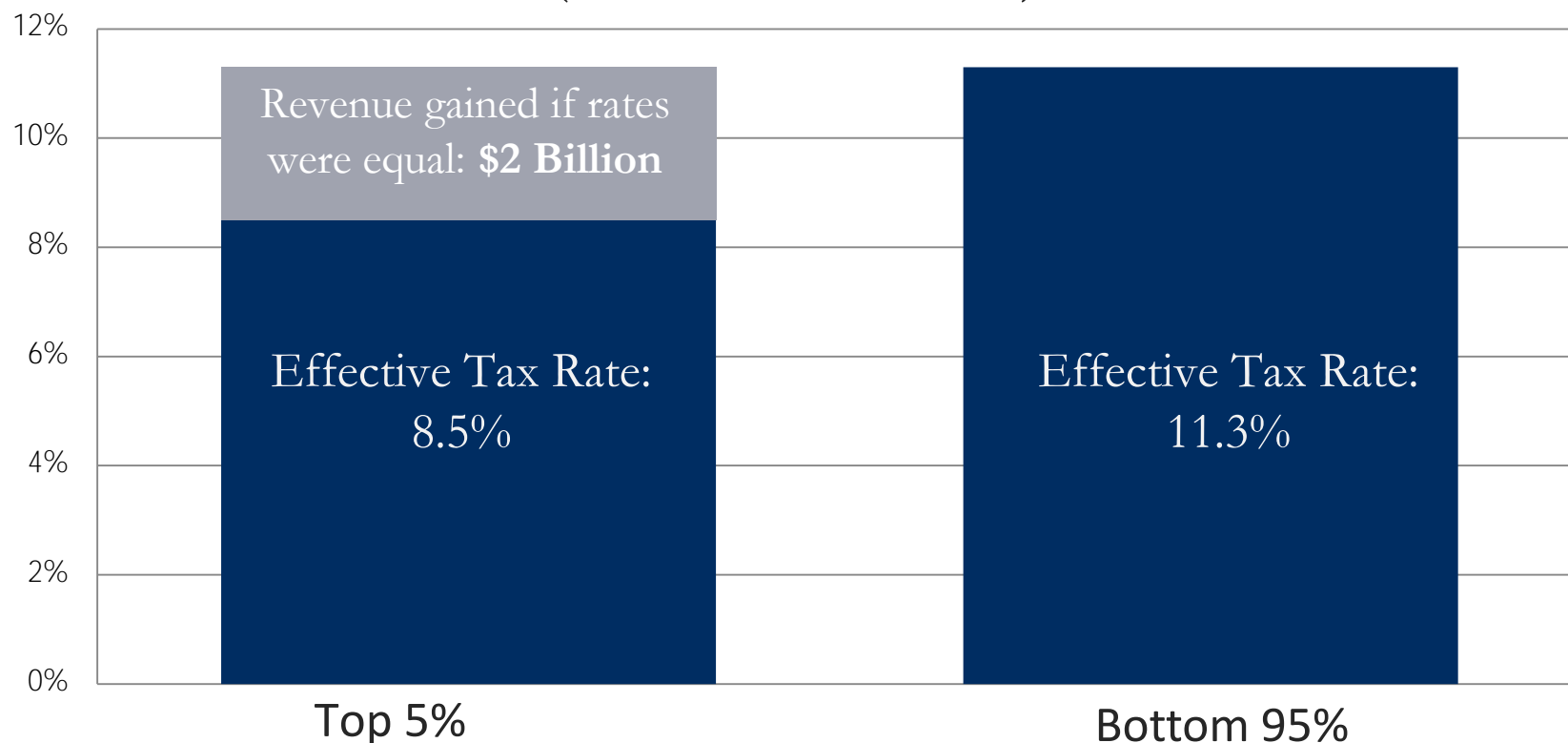
Business Tax Breaks Grew While Spending On Children Declined

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	\$134.6 million	33%	-\$44.4 million	\$90.2 million
Share of Total Change	13%	87%				
% 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	\$238 million	37%	-\$87.6 million	\$150.4 million
Share of Total Change	18%	82%				
% 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	\$545 million	36%	-\$196.7 million	\$348.4 million
Share of Total Change	18%	82%				
% Facing Tax Increase	51%	100%				

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'	575,749	589,732	581,730	582,360	567,570	-1%	8,179	-3%	14,790
\$10,000 under \$25,000									
\$25,000 under \$50,000	381,130	373,936	368,160	365,450	363,210	-5%	17,920	-1%	2,240
\$50,000 under \$75,000	243,285	241,764	241,970	239,770	238,770	-2%	4,515	0%	1,000
\$75,000 under \$100,000	164,139	164,851	163,710	164,460	165,950	1%	1,811	1%	1,490
\$100,000 under \$200,000	241,566	248,184	253,620	262,410	271,190	12%	29,624	3%	8,780
\$200,000 under \$500,000	71,138	76,698	80,700	86,190	92,570	30%	21,432	7%	6,380
\$500,000 under \$1,000,000	14,114	15,106	16,450	16,410	17,900	27%	3,786	9%	1,490
\$1,000,000 or more	9,030	9,493	10,900	9,890	10,940	21%	1,910	11%	1,050

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

See our revenue options brief here:: www.ctvoices.org/Revenue2017

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

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

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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_hb7316_hb7313_businvestmngmt.pdf

Estate Tax and Social Security Exemption Testimony:

http://www.ctvoices.org/sites/default/files/030317_fin_sb5_58_62_6_27_2_hb6358_6558_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)