CT BUDGET CHOICES

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THE GOVERNOR'S PROPOSED FY 2001-2003 BUDGET
A Brief Overview

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On February 7, 2001, Gov. John Rowland presented his recommended budget for FY 2001-FY 2003 to the General Assembly. His Budget Address [http://www.state.ct.us/governor/news/budget2001.htm] eloquently highlighted proposed program expansions. Receiving far less attention were the reductions he also proposed that were necessary to make room for these expansions – given the restrictions of the state spending cap on budget growth. Close reading of the Budget Summary [http://www.opm.state.ct.us/budget/2001-2003Budget/GovBudget.htm] and the full Budget [http://www.opm.state.ct.us/budget/2001-2003Budget/BigBookHome.htm] identifies these reductions.

This *Budget Brief* first summarizes the Governor's proposed FY 02 budget overall. Subsequent *Budget Briefs* will focus on the Governor's proposed FY 02 agency budgets that most directly affect the state's children and youth. They will identify key programs and services that the Governor proposes to cut so that his proposed expansions are possible while staying below the state spending cap.

The Proposed FY02 Budget In Brief

The Governor's proposed budget for FY02 (July 1, 2001 through June 30, 2002) is $12.889 billion. Of this, $11.858 billion is the General Fund budget, $841 million is the Special Transportation Fund budget, and the balance is all remaining appropriated Funds.

Expenditures. While the total recommended budget for FY02 is an increase of $529.3 million over the FY 01 budget (adjusted upward to reflect $55.6 million in deficiency appropriations in FY 01), the proposed FY 02 budget is actually *less than* the FY 02 Current Services budget. That is, according to agency projections, a budget of $13.359 billion is necessary in FY 02 to maintain "current services." "Current services" are defined as the same services as were provided in FY 01 plus any scheduled or required changes, as well as updating estimated expenditures for inflation, annualization of partial year costs and deficiencies[1], projected increases or declines in caseloads, contract agreements, scheduled opening of new buildings and the like. The Governor's proposed budget for FY 02 actually requires cuts of about $469 million from current services.[2]

The Impact of the Spending Cap[3]. The state spending cap limits the growth of approximately 80% of all appropriated expenditures to the greater of inflation or a five-year average of personal income. Certain expenditures (for debt service, for aid to distressed municipalities, and for the first year of federal mandates) are outside the cap; their growth is not so constrained. For FY 02, the capped portion of expenditures is allowed to grow at 5.33%, or $519 million. This would allow FY 02 appropriations to be as high as $12.981 billion. The Governor's proposed budget – at $12.889 billion – is therefore $91.5 million under the cap for FY02.

Revenues. In addition, Governor Rowland proposes $156.5 million in new tax cuts over the biennium. This is *in addition to* the $146 million of previously enacted tax cuts that will take effect over these two years, nearly all of which benefit business and wealthier state residents.

All told, there have been about $2 billion in revenue reductions since the Governor took office. Benefiting disproportionately from these tax cuts have been Connecticut businesses. Indeed, between FY 95 and FY 00, the proportion of General Fund tax revenue that comes from the personal income tax increased from 36.3% to 45.6% while the proportion of General Fund tax revenue that comes from taxes on corporations, public utilities and insurance companies (combined) fell from 15.1% to 9.3%. The General Assembly's non-partisan Office of Fiscal Analysis has recently estimated that the various base and rate reductions, exemptions and deductions, and tax credits enacted since 1991 that are benefiting Connecticut businesses will result in a loss of $1.288 billion in General Fund revenue in FY 02.

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[1] For a summary of FY 01 deficiencies, and how they are to be addressed, see *Deficiency Bill: On Cutting Spending in a Time of Surplus* (March 2001). http://info.med.yale.edu/chldstdy/CTvoices/kidslink/kidslink2/finance/tax%20and%20budget/code/DeficiencyBill.short.pdf

[2] Agencies' budget requests for FY 02 totaled $13.706 billion. Thus, the proposed budget cuts $816 million in FY 02 from what the agencies thought was necessary to meet their mandates. For a summary of agency budget options pertaining to children, youth and families, see *Update of SFY 2001-2003 Budget Options* (January 2001). http://info.med.yale.edu/chldstdy/CTvoices/kidslink/kidslink2/advocate/pages/agencybudgetoptions.htm

[3] For more background on the spending cap, see *Connecticut's Spending Cap* (June, 2001). http://info.med.yale.edu/chldstdy/CTvoices/kidslink/kidslink2/finance/tax%20and%20budget/code/shortspendingcap.pdf

Bonding[4]. Governor Rowland recommends total net new General Obligation bonding authorizations of $1.17 billion in FY 02 and $196 million in transportation bonds – a type of expenditure not constrained by the state spending cap. He also proposes to use about 60% of the projected $501 million state surplus in FY 01 to retire debt and pay cash (rather than bond) for certain projects (including $120 million for school construction projects, $50 million for transportation infrastructure, and $20 million for education technology).

State Comptroller Nancy Wyman has warned against use of bonding for on-going programs that could be considered part of normal government operating expenses and estimates that of the $1.126 billion in new debt incurred by Connecticut in FY 00, only $489 million was for infrastructure or other assets benefiting future generations of taxpayers while the remaining $637 million was used to "fund on-going state operating expenses."

Use of the state's "credit card" – in part to avoid the constraints of the state spending cap—has resulted in bonded debt per capita in Connecticut *more than doubling* over the past decade, growing to $2,863 for every man, woman and child in the state by the end of FY 00. Connecticut continues to lead the nation in state tax-supported debt per capita.

Importantly, high debt requires high annual debt service (principal and interest payments). Increasing debt service limits funds available for other purposes. It also can cripple our ability to respond effectively when fiscal challenges present themselves, since debt service is a fixed cost that cannot be quickly adjusted when state revenue growth slows and budget deficits are projected.

Debt service expenditures as a percentage of total general fund and transportation fund expenditures have increased from 7.1% in FY 91 to a projected 11.4% in FY 02. Total General Fund and Special Transportation Fund debt service is projected to be $1.45 billion in FY 02.

The Bottom Line. Why the Governor's continued revenue reductions and increased borrowing matter is that current budget projections show a *deficit* in the state budget beginning in FY 04.[5] In addition, if one presents the state's budget in accordance with Generally Accepted Accounting Principles (GAAP)[6] -- the

[4] For some background on past bonding, see *Connecticut's "Credit Card": State Bonding for SFY 01* (May 2001). http://info.med.yale.edu/chldstdy/CTvoices/kidslink/kidslink2/finance/tax%20and%20budget/code/budgetbriefs/bonding51500.pdf

[5] FY 2001-FY2003 Biennium Connecticut Three-Year Budget Report: 2003-2004, 2004-2005,2005-2006.

[6] GAAP requires liabilities to be counted when incurred, rather than when actually paid, and income to be counted only when received. On a GAAP basis, only revenues actually earned during the year can be used to finance that year's spending; surplus revenues from prior years cannot be brought forward to finance current spending. State implementation of GAAP continues to be delayed.

standard for financial reporting but *not* current state practice -- the General Fund had a *deficit* in FY 00 (rather than the $300.4 million surplus reported by the state using its modified cash accounting system). The State Comptroller reports a cumulative GAAP deficit in the General Fund at the end of FY 00 of $675 million, a 12% increase over the prior year.[7]

Importantly, Connecticut has the economic capacity not only to enhance infrastructure (through bonding) and grow jobs (through business tax benefits), but also to meet the pressing human needs of its residents – for education, health and mental health care, safety, and economic security. With the nation's highest per capita income and highest median income for a family of four, record-low unemployment, and more jobs than there are trained employees to fill them, these investments *also* are essential to the state's continued prosperity. Review of the Governor's proposed changes for the FY 02 budget presents important questions of how wisely we are choosing to invest in Connecticut's future.

[7] Office of the State Comptroller, 2001, *The Comptroller's Report.*