

VOICES

ISSUE BRIEF

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CT'S BUDGET PROBLEM: SEEKING COMMON GROUND TO MEET KIDS' NEEDS

An Executive Summary

From a budget perspective, it would be nice if we could just make kids stop growing when *we* feel economically strapped. But we can't.

Children have this ornery habit expecting to be fed, clothed, educated and protected after they come into this world, and it's our job to do that.

It's their job to bound out of bed in the morning, eager to learn and ready to grow.

So, how do we tell them that they can't have good schools, safe playgrounds, really great child care and after school activities?

That's a task that no one in state government should have to do. *And nobody has to.*

Like most other states, Connecticut has a serious budget problem. And, although policy makers and advocates do not yet agree on a complete package of solutions, there is agreement on most of the facts.

Seven Years of Surplus And Below Average Spending

In the late 1990s, Connecticut, and many other states, experienced recurring budget surpluses. Between 1995 and 2001, Connecticut had a total budget surplus of *\$3.15 billion*.

Over most of this period, we enjoyed double-digit increases in non-wage income. From 1994 to 1999, CT residents' capital gains increased from \$2.5 billion to nearly \$12 billion.

Although there was money to spend on improved services for Connecticut residents, the average annual growth in state spending from 1995 to 2003 was only 4.5%, with about half of that due to an average annual inflation rate of 2.7%.

Connecticut's 4.5% rate of growth is below that of the nation, which averaged 5% to 6% over the same period of time, and less than growth in the late 1990s (11% per year).

Though We Were Frugal in Spending, Connecticut's Service Needs Grew

1. While the Connecticut population grew by just 3.6% from the early 1990s to early 2002, the number of low-income children, pregnant women and parents receiving Medicaid-funded health services grew by 21%.

2. The number of students in Connecticut's public K-12 system increased by about 100,000 students, an increase of just over 20%.

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3. The number of children and adults receiving services from the CT Department of Mental Retardation, including very young children with significant disabilities, grew by 60%.

4. Children in the protection of the State of Connecticut's foster care system grew by 70% while the daily child abuse/neglect open caseload increased by 93%.

5. The number of incarcerated inmates in Connecticut's correctional system increased by 97%.

Together, these trends account for much of the state's budget growth over the decade.

Temporary Revenue Gains But Permanent Revenue Losses

Faced with "extra" money, 43

states, including Connecticut, cut taxes. In Connecticut, a total of \$2 billion was spent in preferential tax breaks for individual taxpayers and businesses over the period 1995 through 2002.

With this year's current revenue decline, Connecticut faced a deficit of some \$1.5 billion, of which about \$500 million is still outstanding.

For the next state fiscal which begins in July 2003, Connecticut faces a deficit of another \$1.5 billion.

Looking ahead, Moody's Investor Services wrote in October of 2002: *"Given the one-time measures used to balance fiscal 2003, the state will face an increasing structural budget gap in the 2004-2005 biennium, even with a natural economic recovery."*

The Rush to Cuts

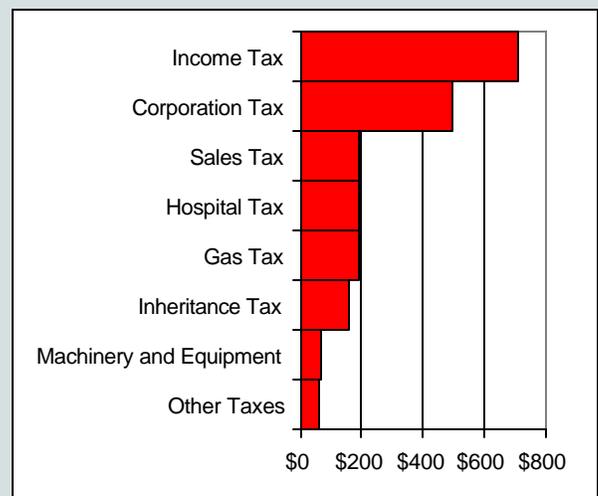
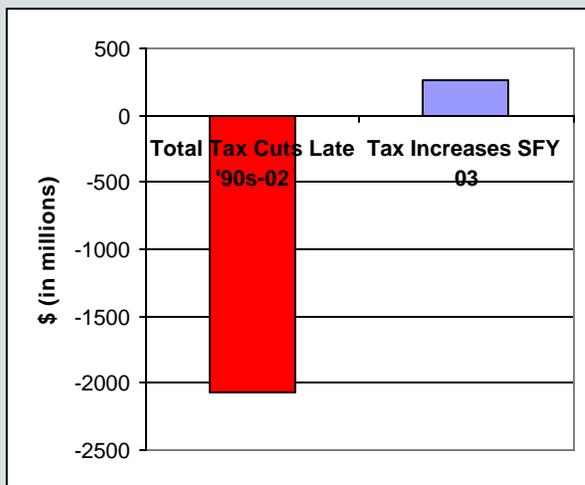
A first response of state policy makers has been to make spending cuts. Over this year and last year, spending cuts of more than \$800 million have already been taken.

An additional \$200 million in spending cuts have just been proposed by the Governor, including the complete elimination of programs for children and families that have proven effective in reducing the need for later expensive services.

Specific programs targeted for elimination include the CT Children's Health Council, the LEAP youth development program in our cities, HUSKY health services for parents, the Drugs Don't Work and the Food Stamp

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Connecticut's Tax Cutting Patterns



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Supplement programs.

Reductions included in the latest gubernatorial proposal include reducing children's health programs and freezing HUSKY enrollment, reducing subsidies, cutting child care assistance funding in half, and limiting prescription services for elderly state residents.

Matching the Solution to the Problem

Cuts of this magnitude are based on the view that Connecticut's budget hole results exclusively from a spending problem.

But the facts simply do not support this view.

Despite dramatic increases in certain of Connecticut's populations requiring state services, including a near doubling of our child welfare and corrections populations, the state budget grew by only 2.0% per year over inflation.

A recent issue of *Connecticut Economy* ranks Connecticut as the 2nd most "lean" state in the nation based on how much we spend on state and local government. Only New Hampshire is more frugal.

The Impact of Cuts

According to Connecticut's

State Comptroller, the abrupt decline in revenues was the primary reason for the General Fund deficit last year. So, continued spending cuts are not the answer and may actually exacerbate demands on high-cost state services.

Even now, children who cannot access mental health services are being held in very expensive hospital emergency beds.

With the proposed additional cuts, more children and adults, including the elderly, will require high cost back-end services that neither state or local government can afford but will have to pay for.

Connecticut's employers will not escape the impact of the

cuts, either. As just one example, families with children under the age of six already have difficulty finding affordable child care so they can get to work and stay at work without worrying about the adequacy of early care for their young children.

A recent study has shown that 43% of parents did not take a job offered to them because of child care problems, and 52% said that child care worries affected their work performance.

Further cuts in child care subsidies for Connecticut's lower-wage families will exacerbate this problem, resulting in risks to children and recruitment, retention and productivity problems for employers.

Reductions in access to health care and housing supports will have a similarly predictable impact on employee retention and productivity.

Revenue Solutions for Today, and Tomorrow

Having already made substantial spending cuts and having already utilized such one-time budget measures as tapping their rainy day funds, state governments across the nation

"The current budget crisis could have a positive outcome if it focused attention on ways of stabilizing and strengthening state finance. ..On the other hand, large swings in state revenues, especially sharp drops in a weak economy, amply illustrated by the current situation, lead to short-sighted cuts in spending, are especially hard on low-income people at exactly the wrong time, and tend to increase the amplitude of cyclical swings in the economy as a whole."

Alice Rivlin,
Brookings Institution
October 15, 2002

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Connecticut Voices for Children is a statewide nonprofit committed to the vision that all Connecticut children and families need love and good health, to live in safety and economic security, grow as successful learners, and give back to their communities.

Seeking Common Ground...

are turning to taxes and fees to close what the National Governors' Association calls the worst budget crisis since World War II.

During last year's legislative session, a consortium of over 80 Connecticut state and local organizations called for adoption of a series of public policies to help Connecticut address its revenue problems. One CT, now 100 organizations strong, has again called for state policymakers to address the state's short-term crisis *and* set the stage for more strategic investments of state resources over the longer term.

Three Steps to Fiscal Health and Renewed Prosperity

There is good news for Connecticut, even in these challenging fiscal times. Compared to many other states, Connecticut has the economic means to address the real budget problem that we face and still keep current tax rates below neighboring states.

1. We can build on the governor's recent proposal to increase the state income tax on income over \$1 million by adding more modest rate increases for income over \$200,000 a year. This will affect the wealthiest 4.5% of all Connecticut taxpayers who have enjoyed significant income growth over the 1990s and will who also enjoy a substantial cut in their federal income taxes this year. The federal government would subsidize this income tax increase, as

taxpayers deduct the increase on their federal returns, reducing their out-of-pocket cost by about one-third.

2. We can also revitalize our sales and corporate taxes and make them fairer to small business. Repeal of tax loopholes and credits that preferentially help large, multinational corporations could even allow a modest reduction in tax rates. Business taxes fell by \$1.3 billion over the 1990s, from 19% of state revenues in 1991 to about 8% now. It's fair for corporations to contribute more to toward the state services and high quality of life that they also enjoy.

3. We can use this period of fiscal challenge to review our spending and investment strategies, developing a series of business plans to *increase* support for demonstrably effective preventive, early childhood, and higher education programs and *decrease* spending on incarceration and other high-cost, low return services.

There is a silver lining in this "perfect storm." We need only recognize it, act on it, and tell the kids that they can keep on growing!

Resources

Connecticut's Quiet Crisis: Resource Challenges in Early Care and Education (Gruendel et al, 2002)

Helping Connecticut Weather a Perfect Budget Storm (Geballe, 2002)

Spending is Not the Problem (Geballe, The Hartford Courant, 2002)

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