

# BUDGET CONNECTIONS

A Connecticut Voices for Children  
Research Brief

March 2004

## Where *Really* Does Connecticut Stand On State Spending and State Revenues?

### I. On State Spending

**On the size of state and local government– CT is quite frugal.** The Connecticut Economy<sup>1</sup> ranked CT the 2<sup>nd</sup> most frugal state in the nation (second only to NH) and:

- 48<sup>th</sup> (i.e. 3<sup>rd</sup> lowest) in state and local spending as a percentage of personal income
- 43<sup>rd</sup> in state and local government employment as a percentage of total non-farm employment
- 39<sup>th</sup> in the number of state and local full-time employees per 10,000 residents.

**On state spending as a share of personal income – CT is among the lowest of all states.**

United States Census Bureau data on government spending<sup>2</sup> finds CT to be 48<sup>th</sup> (3<sup>rd</sup> lowest) in spending on direct general expenditures<sup>3</sup> as a share of personal income. In addition, compared to other states, CT is:

- 50<sup>th</sup> (i.e. lowest) in total state and local spending on education as a share of total personal income (with CT 47<sup>th</sup> in primary and secondary education spending and 50<sup>th</sup> on higher education spending)
- 49<sup>th</sup> in spending on transportation and on total wages and salaries for state and local government employees
- 48<sup>th</sup> in spending on housing and the environment (i.e., conservation and development of natural resources, parks and recreation, housing and community development, sewers and solid waste management)
- 46<sup>th</sup> in capital spending
- 41<sup>st</sup> in public safety spending (i.e., police and fire protection and corrections facilities)
- 40<sup>th</sup> in public welfare spending (e.g., cash assistance).

Even on the measure on which CT ranks highest – state and local hospital spending as a share of total personal income – CT ranks 26<sup>th</sup> and is still below the national average.

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<sup>1</sup> D. Heffley, “My Big Fat State Government?” *The Connecticut Economy* (Fall 2002), pp. 4-5.

<sup>2</sup> United States Census Bureau, *Government Finances, 1999-2000* (for fiscal year 2000). For 50 state comparisons of these measures, see Massachusetts Budget and Policy Center, *Measuring Up: Taxes and Spending in Massachusetts FY 2000*. Comparing states based on spending as a “share of personal income” (rather than spending “per capita”) removes from the comparisons the influence of variation among states in population size, income, and the cost of living and so is a better basis for comparison..

<sup>3</sup> Direct general expenditures are defined by the Census Bureau as total state and local spending, including programmatic, operational, and capital spending.

**On spending growth** -- *Since the mid-1990s, Connecticut's growth in state spending has been less than the 50-state average, and far less than in prior years.* CT's budget has grown about 4.3%/year since 1995 - less than the average rate of growth across the 50 states (5%-6%/year) and far less than CT's budget growth in the late 1980s (10.8%/year between 1987-1991) and early 1990s (6.4%/year between 1991-1995). CT's recent budget growth barely keeps up with inflation. From FY 02 to FY 03, state spending grew just 1.7% -- less than the rate of inflation over this period (2.1%). From FY 03 to FY 04, spending growth was just 2.68%, or 0.8% if adjusted for inflation.

**On the relationship between spending growth and population growth** - *Some of CT's spending growth was necessary simply to accommodate growth in the CT populations who rely on state services.* From the early 1990s to the early 2000s, growth in many of the populations who rely on state services has exceeded the 3.6% growth in CT's overall state population:

- Incarcerated inmates (97% growth)
- Open child abuse and neglect cases/day (93% growth)
- Children in foster care/day (72% growth)
- Children receiving DMR services, including Birth-to-Three (60% growth)
- K-12 students (23% growth)
- Children, pregnant women and parents in Medicaid (21% growth)

**On Medicaid spending** – *CT is relatively high largely because CT's spending on the elderly, blind and disabled far exceeds national averages.* Medicaid is CT's *largest* budget account. Of the \$2.8 billion appropriated in SFY 04 for Medicaid, about half comes from state funds and the balance from federal reimbursements.

- CT's per capita spending on Medicaid (\$6,273) is third highest in the nation and far above the national average (\$3,822).
- More than half (52%) of CT's Medicaid spending is on long-term care (e.g. nursing homes). This is far more than the national average (38%).

Although children constitute more than half of CT's Medicaid population, only 11% of Medicaid spending is for their health care costs. By comparison, the elderly, blind and disabled constitute about 28% of CT's Medicaid enrollees but 70% of CT's Medicaid spending. Because such a small portion of Medicaid spending is on children *very deep* cuts would be necessary to achieve any significant savings:

	# enrolled in Medicaid	% of CT Medicaid enrollees	% of CT Medicaid spending
Children	207,306	51%	11%
Adults	83,395	21%	6%
Elderly	55,244	14%	38%
Blind & Disabled	54,602	14%	32%
Disproportionate share hospitals	NA	NA	13%
TOTAL	402,547	100%	100%

CT's per capita spending on Medicaid for children is *roughly at* the national average, if one adjusts for CT's higher than average cost of living, but far exceeds national averages for spending on the elderly and for the blind and disabled.

Per Capita Medicaid Spending, CT v. US (FFY 98)			
	CT Medicaid Spending per CT Medicaid enrollee	US Medicaid Spending per US Medicaid enrollee	Ratio of CT Medicaid Spending/Enrollee to US Medicaid Spending/Enrollee
Children	\$1,516	\$1,225	1.24
Adults	\$2,046	\$1,892	1.08
Elderly	\$20,160	\$11,235	1.79
Blind & Disabled	\$16,898	\$9,558	1.77

Source: Calculations by CT Voices for Children, based on Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates from HCFA-2082 and HCFA-64 reports filed by CT

***On state education spending – CT's public education system relies more heavily on local property taxes than all but one other state.*** CT ranks second to last (49<sup>th</sup>) in the share of its primary and secondary education revenues coming from the federal government (just 4.1%, compared to the national average of 7.1%). Similarly, CT ranks very low – 45<sup>th</sup> in the nation – in *state* funding for primary and secondary education (38.4% compared to a national average of 49.9%). By comparison, CT ranks second highest in the nation (second to Nebraska) in reliance on *local* funding (57.5% v. the national average of 43%).<sup>4</sup>

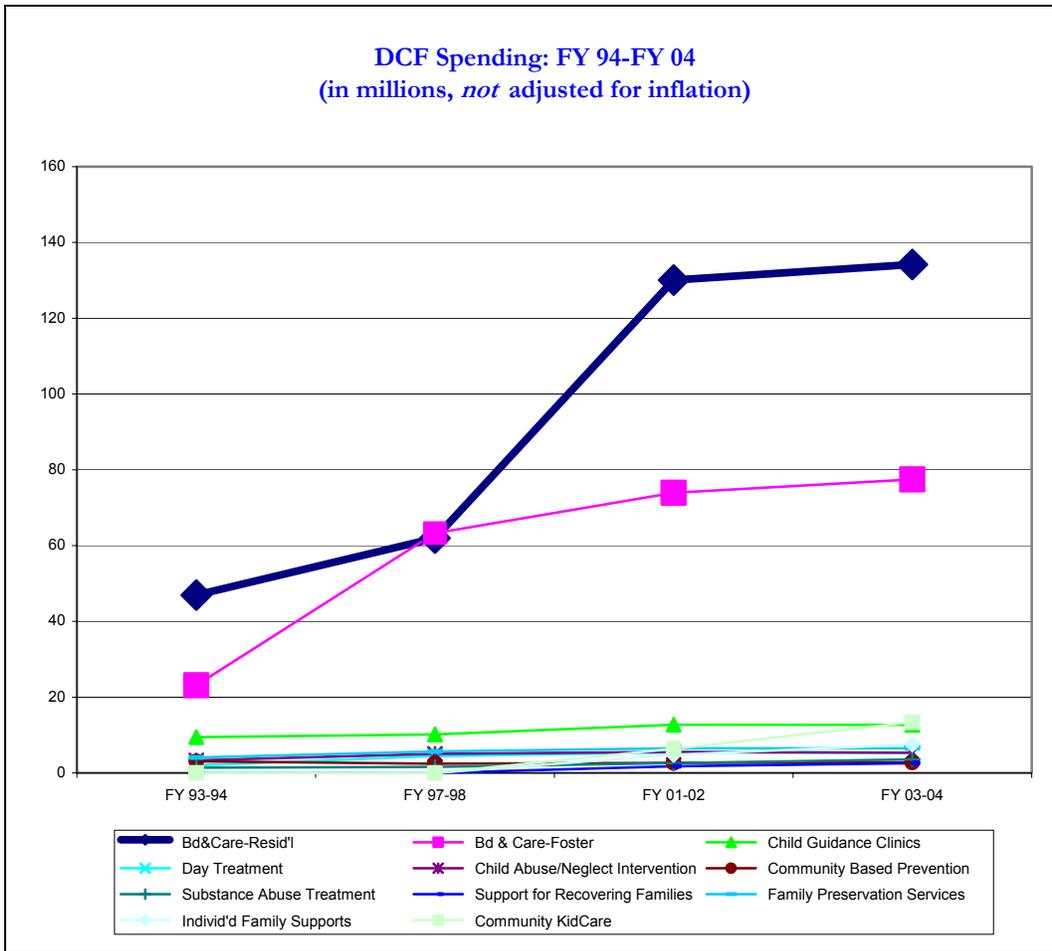
As state funding for K-12 education in CT has declined (from 46% of all K-12 public education spending in FY 90), CT's average effective property tax (based on market, rather than appraised, value to allow cross-town comparisons) has increased by 41% (since 1991).

***On borrowing to make ends meet – CT's indebtedness has grown significantly since 1990.*** Debt service has increased from 5.4% of state spending in FY 90 and 7.2% in FY 94 (\$793 million) to 10.1% of state spending in FY 03 (\$1.52 billion) and 11.5% in FY 04 (\$1.59 billion). As debt service increases as a share of the state budget, funds available for other purposes necessarily decline.

***On the consequence of failing to make smart budget choices – By failing to spend money to prevent problems, CT spends more and more trying to fix them.*** For example, over the last decade there has been little growth in CT Department of Children and Families' budget for programs and services that keep children and families together. Yet spending at the "back-end" – on residential treatment and foster care – has soared. As shown on the chart on the next page, DCF spending on residential treatment grew fastest over the last decade, while spending on foster care placements grew next most quickly.

Similarly, the number of inmates in the CT Department of Correction's care and custody (incarcerated inmates as well as those in community programs) has increased – from 15,968 in FY 90 to 22,653 as of January 1, 2004. The DOC budget has more than tripled -- from \$186.9 million in FY 90 to \$575.2 million in FY 04.

<sup>4</sup> U.S. Census Bureau, *Public Education Finances: 2001* (March 2003).



***On CT's spending choices*** - By investing early, before problems become severe, CT can reduce state spending long-term. As the following table illustrates, it is far more costly to intervene *late* than it is to prevent problems in the first instance, or prevent them from growing more severe:

<b>A Sampling of State-Funded Programs and Services</b>	
	<b>Annual Cost<sup>5</sup></b>
<b>DCF-Riverview Hospital<sup>6</sup></b>	\$492,020/year/child
<b>DMHAS – CT Mental Health Ctr (in-patient)</b>	\$476,690/year/patient
<b>DCF-High Meadows</b>	\$456,615/year/child
<b>DCF-CT Children's Place</b>	\$339,450/year/child
<b>DCF-CT Juvenile Training School</b>	\$325,215/year/child
<b>DMR- Southbury Training School (in-patient)</b>	\$228,490/year/client
<b>DCF-Funded Residential Treatment</b>	

<sup>5</sup> NOTE: There may be some federal reimbursement for certain of the health-related and foster care-related costs shown on this table, including through Medicaid and Title IV-E of the Social Security Act. Costs shown are for FY 03 unless otherwise noted.

<sup>6</sup> DCF per capita costs as of July, 2003. *Letter from Office of the State Comptroller to Commissioner of Department of Administrative Services* (July 17, 2003).

<b>High:</b> Wellspring	\$123,560/year/child
Stonington Institute	\$112,610/year/child
<b>Low:</b> APT Foundation/Alpha House	\$40,898/year/child
New Hope Manor	\$38,504/year/child
<b>Judicial-Juvenile Detention</b>	\$100,000/year/child
<b>DOC- Garner Correctional Institution</b>	\$52,195/inmate (2002)
<b>DOC- Manson Youth Institution</b>	\$47,815/inmate (2002)
<b>DOC- York Correctional Institution</b>	\$44,895/inmate (2002)
<b>Tuition, room &amp; board at U-Conn</b>	\$23,220/student
<b>Tuition, room &amp; board at CT State University</b>	\$14,653/year/student
<b>Tuition, room &amp; board at CT Community-Technical Colleges</b>	\$11,721/year/student
<b>CT K-12 education (state/local)</b>	\$10,7227/year/child
<b>DCF-Home based services</b>	\$6,065/client for 4-5 mo. of service
<b>Child care costs for CT infant/toddler</b>	\$7,000-\$15,000/year/child (2004)
<b>Child care costs for CT pre-school child</b>	\$6,800-\$10,000/year/child (2004)
<b>Average Grant for CT Temporary Family Assistance for a family of 3</b>	\$6,500/year/family of 3 (2004)
<b>HUSKY health care coverage (health, mental health, dental, etc.)</b>	\$2,134/year/participant (but less for children)(with 50% of this cost federally reimbursed)(2004)

## II. On State Revenues

***On state and local<sup>7</sup> government revenues as a percentage of total state personal income – CT is 2<sup>nd</sup> to last among states.*** According to United States Census Bureau data on state and local government revenues (for FY 1999-2000), when states are ranked on various measures of revenues as a percentage of total state personal income, Connecticut ranks:

- Second to last (49<sup>th</sup>) in *total* revenue (at 19.0% of total state personal income)
- 44<sup>th</sup> in federal revenue (2.7%)
- 41<sup>st</sup> in own-source revenue (14.3%)

***On the share of taxes coming from various sources – CT relies more on the personal income tax and less on the corporate income tax than the 50-state average.***

<b><i>Tax Source</i></b>	<b><i>% of CT state taxes</i></b>	<b><i>% of all state taxes, US average</i></b>
Sales Tax	50.0%	48.9%
Personal Income Tax	40.8%	34.7%
Corporate Income Taxes	1.7%	4.9%
State Property Tax	0.0%	1.8%
Other Taxes	7.5%	9.8%

<sup>7</sup> Because many states have county governments with significant responsibilities, comparisons among states that include only state revenues will be deceptive. A better metric of comparison is state *and local* revenues as a percentage of personal income. Looking *only* at state tax collections as a percentage of personal income, CT ranks 28<sup>th</sup> – that is, in 27 other states, a greater percentage of personal income is spent on state taxes than in CT. U.S. Department of Commerce, *State Government Finances, 2002*.

***On the proportion of state tax revenues from corporation business taxes – CT ranks 3<sup>d</sup> lowest among the 46 states with a corporation tax.***<sup>8</sup> In 2002, 1.7% of Connecticut’s total state tax revenues came from its various corporation business taxes. This was less than in New York (5.2%), Massachusetts (5.5%), New Jersey (6.0%), New Hampshire (20%), Maine (2.9%) and Vermont (2.4%). It was slightly more than Rhode Island (1.3%).

***On the trend in total state and local business tax burden – CT is one of just 3 states where total business taxes declined over the last three years.*** A January 2004 report prepared by Ernst & Young for The Council on State Taxation (a non-profit trade organization with a membership of 550 major corporations engaged in interstate and international business) reports that CT was one of only three states to reduce total business taxes<sup>9</sup> between FY 2000 and FY 2003. COST reports that, nationally, total state and local business taxes increased by 8.3% over this period. By comparison, CT’s total state and local business taxes fell by 1%.

***On overall state and local business tax burden – CT ranks in the bottom 10 of all states on 3 of 4 measures of business tax burden.*** According to the COST report, CT ranks 43<sup>rd</sup> (8<sup>th</sup> lowest) in the share of all taxes paid by business, 40<sup>th</sup> in business taxes per dollar of private sector economic activity, and 40<sup>th</sup> in business taxes per dollar of capital income. While CT ranks 12<sup>th</sup> highest in business taxes per private sector employee, this reflects – in part – the continuing decline in the number of private sector employees in what has become CT’s second longest recession since 1939.<sup>10</sup>

***On tax rates<sup>11</sup> - Connecticut’s tax rates are competitive with and in some cases markedly below those of other states, including states in our region:***

- ***Corporate tax.*** CT’s 7.5% corporate tax rate is equal to the national average, and is now equal to or less than neighboring states (New York 7.5%, New Jersey 9.0%, Massachusetts 9.5% + surtax, Rhode Island 9.0%). CT totally exempts many types of corporations from paying the corporation business tax.
- ***Sales tax.*** CT’s 6% sales tax rate is 1% over the United States median (5%). It is less than Rhode Island’s rate (7%), equal to New Jersey and Vermont, and more than Massachusetts (5%) and New York (4.25%), though local sales taxes are also imposed in some states (e.g., New York City’s local sales tax is 4.5%, for a total sales tax of 8.75%; VT’s local sales tax is 1%, for a total sales tax rate equal to CT). CT ranks 29th among the 45 states that have a sales tax on sales tax collections as a percentage of personal income.

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<sup>8</sup> U.S. Bureau of the Census, *2002 State Tax Collections by Source (Percentage of Total)*, available at [www.taxadmin.org/fta/rate/02taxdis.html](http://www.taxadmin.org/fta/rate/02taxdis.html)

<sup>9</sup> COST’s 50-state comparisons are of “total state and local business taxes” defined to include: property tax (on real, personal, and utility property), sales and use taxes, excise taxes, gross receipts taxes, corporate income taxes, employer payroll tax contributions (including unemployment insurance, workers’ compensation and disability insurance taxes), and license and other business taxes. The other two states where business taxes fell were Oregon (a less than 1% decline) and Alaska (10% decline).

<sup>10</sup> CT Department of Labor, “Employment declines for the third year,” *The Connecticut Economic Digest*, 9(3) (March 2004), p. 1.

<sup>11</sup> The tax rate is but one factor to consider in evaluating overall tax burden. Differences in exclusions, exemptions, deductions, credits and apportionment formulas result in differences in the amount of taxes actually paid – the “effective” tax rate. For a comparison of CT to its neighboring states (MA, NJ, and NY), see OLR, *Comparison of Tax Structures; Economic Development Tax Incentives; and Unemployment Insurance, Workers Compensation, and Utility Rates in Connecticut and Neighboring States* (2003-R-0906), December 24, 2003.

- **Income tax.** CT's 5.0% top bracket personal income tax rate is relatively low compared to neighboring states (New York 7.7%, New Jersey 6.37%, Massachusetts 5.3%, Maine 8.5%, Vermont 9.5%). In addition, New York City imposes a separate 4.45% personal income tax, resulting in a combined top-bracket rate of 12.15%. Among states with a broad-based personal income tax, Connecticut's top bracket rate is sixth lowest (tied with Alabama and Mississippi).<sup>12</sup> CT ranks 19<sup>th</sup> among the 43 states with an income tax on state income tax collections as a percentage of personal income.

***On economic competitiveness – CT is ranked among the nation's most competitive states.***

CT is ranked in the top 5 of all states on multiple measures of economic competitiveness, including quality of life, technology and workforce productivity in the MAC 2003 Index,<sup>13</sup> the Corporation for Enterprise 2003 Development Report Card for the States,<sup>14</sup> and the Milken Knowledge-Based Economy Index (2001).<sup>15</sup>

***On the shift in state tax burden from businesses to families – CT families contribute a greater share of the General Fund revenues than they did a decade ago, and businesses a smaller share.***

As illustrated in the table below, the share of General Fund revenues contributed by families (e.g., personal income tax, gambling, inheritance tax, cigarette and alcohol taxes, etc.) has increased over the last decade, while the share of General Fund revenues contributed by businesses has declined:

Share of General Fund Revenues	FY 95	FY 00	FY 04
Personal income tax	28.7%	34.4%	33.7%
Sales & use tax <sup>16</sup>	26.2%	26.2%	23.3%
Federal funds	17.7%	17.2%	19.0%
Various business taxes (corp, insur co., pub.serv. co, hospital, petro.)	15.1%	9.0%	8.5%
Gambling (inc. Indian gaming, lottery)	4.4%	4.8%	5.1%
Other taxes (Inher., cigarette, real estate, alcohol, etc.)	5.3%	5.5%	5.1%
Other revenues (fees, permits, tobacco fund, fund transfers)	2.7%	2.9%	5.3%

Source: OFA, *Connecticut State Budget 1995-97 Revisions, Connecticut State Budget 1999-2001, Connecticut State Budget 2003-2005.*

***On families' state and local tax burdens, and how this varies by family income – In 2002, CT's middle and lower-income families paid more than twice as large a share of their personal income in state and local taxes as did the wealthiest 1% of CT taxpayers.*** The poorest 40% of CT taxpayers paid about 10% of their income in total state and local sales, excise,

<sup>12</sup> [www.taxadmin.org/fta/rate/ind\\_inc.html](http://www.taxadmin.org/fta/rate/ind_inc.html).

<sup>13</sup> The Manufacturing Alliance of CT, *The MAC Index 2003* (<http://www.mact.org/macindex.pdf>). The Index also ranks CT 12<sup>th</sup> best on economic structure, but only 31<sup>st</sup> in physical infrastructure (e.g. highways, bridges, railroads), and 35<sup>th</sup> on cost (a marked improvement from the 47<sup>th</sup> ranking in 1992).

<sup>14</sup> See [www.cfed.org](http://www.cfed.org). CT was on the honor roll, behind only MA, MN, and VA in performance, and tied with CO, NJ, PA, and UT. CT ranked in the top 5 of all states on 18 of the 68 measures and in the top 10 of half the measures, and in the bottom 10 on just six of the measures..

<sup>15</sup> See, [www.milkeninstitute.org/research/research.ta?cat=indexes](http://www.milkeninstitute.org/research/research.ta?cat=indexes). CT ranked fourth in this 2001 index designed to measure which states are in the best position to take advantage of growth opportunities in the information age. CT was ranked behind only MA, CA, and CO.

<sup>16</sup> Both families and businesses pay CT's sales and use tax. These percentages are the *combined* payment by both.

property and income taxes; the top 1% of CT taxpayers paid just 4.4% of their income in these taxes (net of the federal deduction for state income and property taxes paid):<sup>17</sup>

CT Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
CT Income Range	Less than \$21,000	\$21,000 – \$37,000	\$37,000 – \$60,000	\$60,000 – \$97,000	\$97,000 – \$220,000	\$220,000 – \$471,000	\$471,000 or more
Average Income in Group	\$13,800	\$28,300	\$47,800	\$75,300	\$131,500	\$285,800	\$2,405,500
Total % (after federal deduction for state income/property taxes paid)	10.2%	10.1%	9.5%	9.2%	7.8%	6.5%	4.4%

***On changes in CT state and local taxes as a share of family income between 1989 and 2002 – The poorest 20% and the wealthiest 1% of CT taxpayers had the smallest increase in state and local taxes as a share of their personal income, while middle income taxpayers had the largest increase.*** As shown in the table below,<sup>18</sup> over the 1990s, tax changes were enacted that resulted in middle-income taxpayers paying about 3% more of their income in state and local taxes in 2002 than they did in 1989. By comparison, our poorest and wealthiest taxpayers paid less than 1% more. The adoption of the broad-based personal income tax and repeal of the higher-rate dividends, interest, and capital gains tax contributed to this change.

Changes in CT State & Local Taxes as a Share of Personal Income, 1989-2002							
CT Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Overall Change	+0.6%	+2.8%	+2.8%	+2.7%	+2.1%	+1.7%	+0.8%

***On “fiscal comfort” - CT is ranked 4<sup>th</sup> highest in its capacity to meet its fiscal needs.*** The good news: Connecticut has ample fiscal capacity to address its budget challenges without further eroding an already very lean governmental sector or jeopardizing its economic competitiveness. Research by Robert Tannenwald of the Federal Reserve Bank of Boston<sup>19</sup> ranks CT the fourth most able among states to meet its fiscal needs given its tax capacity – its “fiscal comfort.” On this measure, Connecticut fell behind only Hawaii, Nevada, and Delaware. Other states in the region were ranked as follows (in order of descending “fiscal comfort”): New Hampshire (#6), Massachusetts (#9), New Jersey (#10), Vermont (#11), Maine (#17), New York (#24) and Rhode Island (#25).

<sup>17</sup> Institute on Taxation & Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* (2d ed., January 2003).

<sup>18</sup> Id.

<sup>19</sup> R. Tannenwald, *Interstate Fiscal Disparity in 1997*, *New England Economic Review* (2002), pp. 17-33.