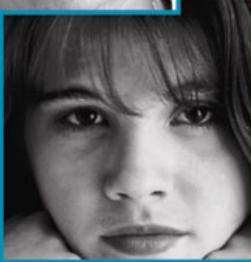


**CONNECTICUT
VOICES
FOR CHILDREN**



New Haven Office
33 Whitney Ave.
New Haven CT 06510
Phone: 203.498.4240
Fax: 203.498.4242

Hartford Office
60 Gillett St. Suite 204
Hartford CT 06105
Phone: 860.548.1661
Fax: 860.548.1783

Web Site: www.ctkidslink.org
E-mail: voices@ctkidslink.org

Connecticut's Reliance on Federal Funds

What's at Stake in the Upcoming Federal Budget Debate

January 2005

Background. Deep cuts in federal spending are being discussed in Congress to reduce the ballooning federal deficit.¹ Such cuts would have a profound impact on Connecticut. This report gives a sense of what is at stake. It provides key background on the significant amounts of federal funds that come to Connecticut and its residents.

In Sum. Federal funds currently constitute about one in every six dollars of revenues in Connecticut's budget. In SFY 05, there were about \$2.47 billion in federal funds in Connecticut's budget (17.5% of all General Fund revenues and 16.3% of total revenues).

This sum, while very significant, *greatly understates* Connecticut's reliance on federal funds.

In FFY 2003 (the most recent year for which there are complete data),² a total of \$28.6 *billion* in federal funds came into Connecticut through direct payments to residents, grants and other payments to the State, procurement contracts, and salaries and wages.

This sum was more than *twice* Connecticut's *total* own-source FY 03 budget of \$10.85 billion (i.e., *excluding* its federal funds)³.

Additionally, in FFY 03, Connecticut benefited from \$130 million in direct federal loans, \$2.278 billion in federally-guaranteed/insured loans, and \$5.017 billion in various types of federal insurance.

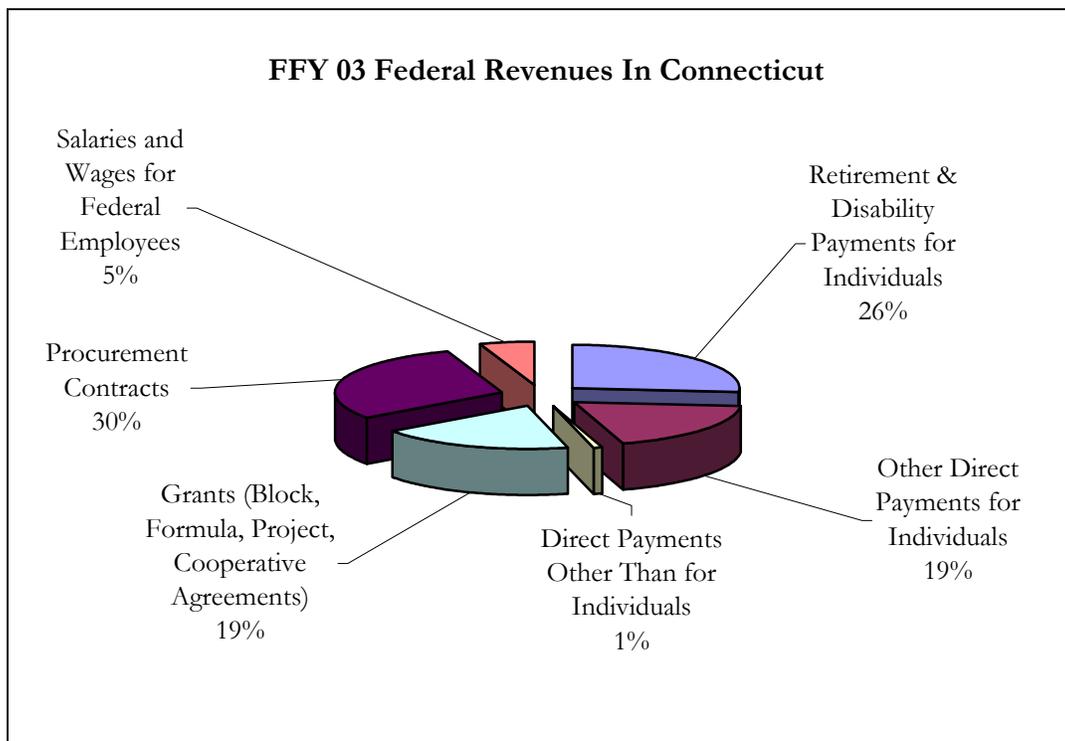
Connecticut's federal direct expenditure funds were distributed as follows:

¹ New Congressional Budget Office budget projections indicate that changes in federal law enacted since January 2001 will increase the federal deficit by \$504 billion in 2005, the fourth consecutive year of substantial federal budget deficits. Had these changes in federal law *not* been enacted, the nation would have a budget *surplus* this year. Federal tax cuts are responsible for nearly half this deficit (49%), while increases in spending on defense, homeland security, and international affairs and increases in domestic spending (on discretionary and entitlement programs) contribute the balance (37% and 14%, respectively). In 2005, federal revenues will amount to just 16.8% of the Gross Domestic Product; a smaller share of the national economy than in all the years of the 1960s, 1970s, 1980s, and 1990s. See R. Carlitz, *CBO Data Show Tax Cuts Have Played Much Larger Role Than Domestic Spending Increases in Fueling the Deficit* (Center on Budget and Policy Priorities, January 25, 2005), available at www.cbpp.org.

² This report is based on data from the *Consolidated Federal Funds Report: Fiscal Year 2003* for Connecticut, produced by the United States Census Bureau. The report for FFY 2003 is the most current report available. As a general guide, the grants and procurement data in this report represent obligated funds, while direct payments and salaries and wages represent actual expenditures (outlays). Data on loan and insurance programs generally represent the contingent liability of the federal government for such sums.

³ The total for *all* Connecticut's appropriated Funds in SFY 03 was \$13.185 billion (of which \$12.12 billion was for the General Fund). This total budget, however, *not* include \$1.242 billion of federal funds and some private funds that also are included in state agency operating budgets. The total budget *does* include \$2.332 billion in federal funds that were counted as revenues. These revenues are primarily federal reimbursements for funds spent on the Medicaid and Title IV-E programs and the share of the TANF block grant administered by the Department of Social Services; because Connecticut "gross budgets" these programs (appropriating the anticipated federal reimbursements as well as the state funds) it counts the reimbursements when received as revenues. By excluding these federal funds that are counted as revenues, what remains is the total budget that is supported by *state only* (non-federal) funds --- an own-source budget of about \$10.85 billion.

FFY 2003 Federal Funds: Connecticut	
	\$M
Retirement/Disability Payments for Individuals	7,549.27
Other Direct Payments for Individuals	5,364.12
Direct Payments Other Than for Individuals	305.12
Grants (Block, Formula, Project, Cooperative Agreements)	5,376.06
Procurement Contracts	8,484.31
Salaries and Wages for Federal Employees	1,516.30
TOTAL	28,595.18
United States Census Bureau, <i>Consolidated Federal Funds Report: Fiscal Year 2003, Detailed Federal Expenditure Data –CONNECTICUT</i>	



A Bit More Detail on Federal Direct Expenditures. As shown in the chart above, federal direct expenditures are of varying types:

a. ***Procurement contracts.*** The largest share of Connecticut's direct federal expenditures comes through procurement contracts (30%). Of the \$8.484 billion in Connecticut's procurement contracts in FFY 03, \$7.895 billion was for defense contracts, \$0.4 billion for non-defense contracts, and \$0.2 billion for the United States Postal Service.

b. ***Retirement and disability payments.*** The next largest share of federal direct expenditures in Connecticut comes through retirement and disability payments to Connecticut residents (26% of total). Three-quarters of the \$7.549 billion that came into

Connecticut for these purposes in FFY 03 was for Social Security Retirement benefits (\$4.581 billion) or Social Security Survivors benefits (\$1.098 billion). Other payments to residents were for Social Security Disability Insurance (\$0.835 billion) and for Supplemental Security Income benefits (\$0.262 billion). The balance was payments to residents through various federal retirement and disability programs (e.g., for veterans, military, civilian, foreign service officers, public health service, railroad workers).

c. **Other direct payments to individuals** totaled \$5.364 billion (19% of all direct federal expenditures) in FFY 2003. Nearly three-quarters of these direct payments in FFY 03 were for Medicare (for hospital insurance, \$2.208 billion and for supplementary medical insurance, \$1.738 billion). Unemployment compensation benefit payments constituted another \$0.9 billion, the refundable federal earned income tax credit \$0.221 billion, and food stamps \$0.165 billion. Other programs included in this category are vocational rehabilitation for disabled veterans, veterans' educational assistance payments, the federal work-study program, and federal education grant (Pell) and loan (Perkins) programs.

d. **Federal grants** coming into Connecticut in FFY 03 totaled \$5.376 billion and included about 550 *different* types of grants, ranging from the largest (by far) --\$1.973 billion for medical assistance (Medicaid) – to the smallest – just over \$1,000 for a visual arts cultural exchange program. In addition to medical assistance, four other grant types each brought more than \$100 million of federal funds into the state: Highway Planning and Construction (\$449.9 million), Section 8 Housing Choice vouchers (\$439.9 million), Temporary Assistance for Needy Families (\$278.5 million), and special education grants to states (\$103.9 million).

In total, 58 of the 550 federal grants brought more than \$10 million *each* into Connecticut. Combined, these 58 grant categories accounted for 86% of the total Connecticut received in federal grants in FFY 03.

As shown in Appendix A, 23 of the 58 “over \$10 million” grants were health-related, contributing a combined total of \$2,382.776 *billion* of federal funds. In addition to medical assistance (Medicaid), they included \$0.361 billion in grants for various types of medical research, funding for community health centers, and funding for the treatment and prevention of HIV/AIDS and substance abuse. Nearly \$316 million related to education (with about one third of this for special education). Other grants in the “top 58” were in the areas of transportation, housing and community development, military and emergency preparedness, criminal justice, workforce development, seniors, child welfare and family economic security, as shown in Appendix A.

e. **Salaries and wages** totaled \$1.516 billion in FFY 03. The largest share (\$691 million) was for United States Postal Service workers, followed by civilian federal employees who were not in the Defense Department or postal service (\$334 million), active military employees (\$268 million), civilian employees who were in the Defense Department (\$114 million), inactive military employees (\$59 million), and United States Coast Guard employees (\$50 million).

f. **Direct payments other than for individuals** totaled \$305 million in FFY 03. The largest payments in this category were for federal employee life and health insurance

premium payments (the employer share) for \$129.8 million. The next largest payments were for public and Indian housing (\$64.7 million), temporary state fiscal relief funds (\$57.9 million), non-salary United States Postal Service expenditures (\$11.1 million), federal family education loans (\$11.1 million), crop insurance (\$5.6 million), supportive housing for the elderly (\$4.8 million), and the farmland protection program (\$4.1 million).

A Bit More Detail on Other Federal Assistance. In addition to the \$28.6 billion in *direct federal expenditures* in FFY 03, Connecticut benefited from \$7.425 billion in other federal assistance of three types:⁴

a. ***Insurance.*** Connecticut benefited from \$5 billion in federal insurance, of which \$4.9 billion was for flood insurance. The balance was for crop insurance (\$71.8 million), life insurance for veterans (\$30.3 million) and bond guarantees for surety companies (\$3 million).

b. ***Guaranteed or insured loans.*** Connecticut also benefited from \$2.278 billion in federally guaranteed or insured loans. The largest category was home mortgage insurance (\$1.326 billion), followed in amount by federal family education loans (\$342.4 million), condominium mortgage insurance (\$224.4 million), and small business investment companies (\$158.0 million) and small business loans (\$91.5 million).

c. ***Direct loans.*** Slightly more than \$130 million of direct loans were also provided by the federal government in FFY 03. Federal direct student loans were \$100.5 million of this total. Other direct loans were for water and waste disposal systems for rural communities, very low to moderate income housing loans, community facilities loans and grants, physical disaster loans, and a micro-loan demonstration project.

Conclusion. Connecticut benefits greatly from the infusion of federal direct expenditures and other federal assistance into the state – a total of more than \$36 *billion* of financial benefits in FFY 05. While it is true that Connecticut is a “creditor” state – receiving about \$0.65 in federal funding for each dollar of federal taxes paid⁵ – its share of federal funds is remains significant, particularly when compared to Connecticut’s own-source budget.

In addition, and very importantly, the *economic* impact of this infusion of federal funds into the Connecticut economy far exceeds the sum total of these federal funds. For example, the \$5.7 *billion* in Social Security checks delivered to Connecticut residents is quickly spent in Connecticut, helping to boost its economy. Similarly, the \$3.9 billion in Medicare and nearly \$2 billion in Medicaid benefits that come to Connecticut provide essential funding to Connecticut’s hospitals, nursing homes, and other health care institutions, as well as help to keep Connecticut residents healthy. The tens of millions of dollars of federal funds that come to Connecticut for scientific, biomedical, and other research are critical to Connecticut’s public and private universities and the industries that benefit from their

⁴ Note: These data on loan and insurance programs generally represent the *contingent* liability of the federal government, rather than actual outlays of federal funds in FFY 03.

⁵ Tax Foundation, *Federal Taxes paid vs. Federal Spending Received, Connecticut 1981-2003*, available at www.taxfoundation.org/connecticut/taxingspending.html.

discoveries. Federal education funding – from Head Start through college grants and loans – help assure a well-educated workforce.

Given the importance of federal funds to Connecticut, it is clear that federal deficit mitigation must adopt a *balanced* approach or Connecticut and its residents and businesses will suffer significant harm. This *balanced* approach not only must cut federal spending in a *prudent* way, but also must increase federal revenues, including by rolling back some of the 2001 and 2003 tax cuts that contributed so significantly to the emergence of the federal deficit.

*CT Voices for Children's state and federal budget work is supported by the Melville Charitable Trust, the Stoneman Family Foundation, & the CT Health Foundation.
Contents of this report are the sole responsibility of Connecticut Voices for Children.*

APPENDIX A

Federal Grants of \$10 Million or More Each Connecticut, FFY 2003	
	\$M
Education	
Title 1 Grants to Local Education Agencies	81.976
Special Education grants to states	103.861
Vocational Rehabilitation grants to states	18.039
Fund for the Improvement of Education	10.227
21st Century Community Learning Centers	10.938
Reading First state grants	14.413
Improving Teacher Quality state grants	26.821
Head Start	49.345
Health	
Medical Assistance program	1,973.287
Community Health Centers	16.332
HIV Emergency Relief Project grants	12.225
HIV Care Formula grants	14.916
Block grants for prevention & treatment of substance abuse	17.280
Research	
Biological Sciences	12.245
Office of Science Financial Assistance program	16.957
Fossil Energy Research and Development	11.849
Research related to Deafness & Communicative Disorders	13.165
Mental Health research grants	29.868
Drug abuse research programs	32.324
Clinical research	11.798
Cancer biology research	10.065
Cell biology and biophysics research	24.872
Heart and vascular diseases research	27.822
Arthritis, musculoskeletal and skin disorders research	16.525
Diabetes, endocrinology and metabolism research	15.851
Kidney disease, urology and hematology research	17.068
Neuroscience and neurological disorders research	34.528
Allergy, immunology and transplantation research	13.254
Microbiology and infectious disease research	27.845
Genetics and developmental biology research and training	12.578
Research for mothers and children	22.218
Aging research	10.060
Housing and Community Development	
Community Development Block Grants-entitlement grants	33.968
Community Development Block Grants-state's program	13.388
HOME Investment Partnerships program	17.165
Section 8 Housing Choice vouchers	439.923
Public Housing Capital funds	47.164
Transportation	
Highway Planning and Construction	449.885

Federal Transit-Capital Investment grants	54.671
Federal Transit Formula grants	88.945
Workforce	
Unemployment Insurance	59.672
Workforce Investment Act (adult, youth, dislocated workers)	22.572
Family Economic Security	
School Breakfast	11.145
School Lunch	59.854
Food Stamp Administration	22.144
WIC (supplemental food for women, infants, children)	33.313
Temporary Assistance for Needy Families	278.533
Low-Income Energy Assistance	44.513
Community Services Block Grants (discretionary awards)	10.810
Child Care and Development Block Grants	15.263
Child Care Mandatory & Matching Funds of Child Care & Development Fund	36.594
Social Services Block Grant	20.331
Seniors	
Special Program for the Aging (inc. nutrition, supportive services)	16.640
Child Welfare	
Foster Care Assistance (Title IV-E)	31.592
Adoption Assistance	18.871
Military	
National Guard Operations & Maintenance projects	15.482
Public Safety	
State & Local Domestic Preparedness Training Program	21.893
Criminal Justice	
Juvenile Justice & Delinquency Prevention state grants	26.833
United States Census Bureau, <i>Consolidated Federal Funds Report: Fiscal Year 2003, Detailed Federal Expenditure Data –CONNECTICUT</i>	