



## Connecticut Fiscal Facts

*While pride in Connecticut's past is justified, action on behalf of its future is imperative.<sup>1</sup>*

**February 8, 2006**

### Sufficient Revenues are Essential to Connecticut's Economic Future

*Connecticut has a structural budget deficit.* Although Connecticut now has a *temporary operational surplus* projected for the current fiscal year, both OFA and OPM agree that Connecticut has a *structural deficit* that will reappear starting in FY 08 when state revenues are projected to be less than the spending that will be necessary simply to maintain current services. What's more, insufficient resources to meet current services requirements are just one part of the state's far larger "public investment deficit."

*Connecticut also has an increasingly evident public investment deficit.* Connecticut's state and local public investment, particularly in areas key to its continued prosperity, seriously lags other states as a share of personal income. According to U.S. Census Bureau data, in 2002, as a share of personal income, Connecticut spending ranked:

- *Lowest* among states in state and local spending on transportation and on state and local government employees' wages and salaries;<sup>2</sup>
- *Second lowest* among states in total state and local spending on education and in spending on housing and the environment;<sup>3</sup> and
- *Ninth lowest* in total state and local spending on social services (including health care).<sup>4</sup>

In addition, Connecticut is *fourth lowest* in total government spending as a percent of gross state product.<sup>5</sup>

*Connecticut's lack of investment is beginning to show.* Multiple studies and reports have documented the need for increased public investment in various programs and services integral to Connecticut's economic competitiveness and high quality of life, including enhancing our *transportation* system, narrowing our *educational achievement gap*, increasing the supply of *affordable housing*, and providing *health care* to uninsured residents.<sup>6</sup>

### By Accepted Measures, Connecticut's Revenues are Low to Average and Have Room to Grow

- According to Census Bureau data for 2002, Connecticut ranks:
  - *Third lowest* among states in total state and local revenues as a share of personal income; and
  - *At the national average* for total state and local *tax* revenues as a share of personal income.
- According to Census Bureau data for 2004, Connecticut's state revenue as a share of Gross State Product was *5<sup>th</sup> lowest* in the country.
- *Connecticut has the lowest top personal income tax rate in the region.<sup>7</sup>*
- According to a 2004 report prepared by Ernst & Young for The Council on State Taxation (a business trade organization), *Connecticut was one of only three* states to reduce *total* business taxes between FY 00 and FY 03.
- Connecticut's corporate income tax rate is at the national average, although *of the largest 100 businesses headquartered in the state (measured by 2003 sales), thirty six paid \$300 or less* (18 paid the minimum corporation tax of \$300, and eighteen paid the business entity tax of \$250).<sup>8</sup>
- *Connecticut ranks 40<sup>th</sup>* in business taxes as a percentage of business profits and in business share of state and local taxes.<sup>9</sup>
- *Connecticut has a high level of fiscal comfort*, meaning relative to other states, it has high revenue capacity and low fiscal need.<sup>10</sup>

## **To Avoid Mistakes of the Past and to Promote Sound Fiscal Policy, Tax Cuts Funded by a Temporary Surplus Should Be Rejected**

In the late 1990s, when Connecticut last enjoyed large state budget operational surpluses, the General Assembly enacted about \$2 billion in permanent revenue reductions. When the temporary surpluses ended, we found ourselves in a fiscal crisis from which we are still struggling to recover, despite increasing net permanent taxes by slightly more than \$1 billion. Also, Connecticut's debt service has increased from 5.4% of the total state budget in FY90, to 11% in FY 06. Connecticut's net tax supported debt as a percentage of its personal income in 2004 (8.4%) was *three and one half times greater* than the 50-state median (2.4%).<sup>11</sup>

Prudent use of the "surplus" funds would include paying for one-time expenses, replenishing the Budget Reserve Fund, shoring up pension plan reserves, and reducing state debt.

## **Tax Changes Should be Evaluated in Accordance with NCSL Principles for a High Quality Revenue System**

These criteria include balance among taxes, reliability, neutrality, and fairness.<sup>12</sup>

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<sup>1</sup> CT Economic Resource Center, *Benchmarking Connecticut's Economy: Technology, Finance, Entrepreneurial & Business Vitality, Human Capital, Global Links* (September 2005).

<sup>2</sup> *Where Does CT Really Stand on State Spending, State Revenues and Government Performance?* (CT Voices for Children, April 2005) p. 2.

<sup>3</sup> Ibid.

<sup>4</sup> J. McLynch, *Measuring Up: Taxes and Spending in Massachusetts, FY 2002*, (Massachusetts Budget and Policy Center, 2005).

<sup>5</sup> CT General Assembly, Legislative Program Review and Investigations Committee, *Connecticut's Tax System: Findings and Recommendations*, Adopted January 19, 2006, p. 42. (Hereafter *PRI Report*)

<sup>6</sup> *Report of the Interagency Council on Supportive Housing and Homelessness* (2005); Office of Policy and Management, *Child Poverty Council Initial Plan* (2005); *Child Poverty Council Progress Report* (2006); CT Economic Resource Center, *Benchmarking Connecticut's Economy: Technology, Finance, Entrepreneurial & Business Vitality, Human Capital, Global Links* (September 2005); Transportation Strategy Board, *Transportation: A Strategic Investment* (2003); The State Prevention Council, *Statewide Comprehensive Prevention Plan for Connecticut* (2003); *Report of the Governor's Blue Ribbon Commission on Mental Health* (2000).

<sup>7</sup> *PRI Report*, p. 41.

<sup>8</sup> *PRI Report*, p. 51.

<sup>9</sup> *PRI Report*, p. 40.

<sup>10</sup> *PRI Report*, p. 17.

<sup>11</sup> The Government Performance Project, *Grading the States '05: Connecticut* (Governing Magazine, 2005).

<sup>12</sup> *PRI Report*, p. 3.