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CONTACT: Wade Gibson, Senior Policy Fellow, (203) 498-4240, x113, wgibson@ctvoices.org

Report: State Funding Mix Has Shifted from Education and Human Services to State Employee Health Care and Debt

Consequence of aging population, rising health costs, and past policy choices

Over the past 20 years, several factors have resulted in a shift in the mix of state funding away from education and human services to healthcare for state employees and debt payments, according to a new report from the Fiscal Policy Center at Connecticut Voices for Children. The recently-launched Fiscal Policy Center provides research, analysis, and recommendations on state and federal budget and tax policies.

The report, the first in a series, attributes this funding shift to a variety of factors, including an aging population and workforce, the rapidly rising cost of health care, the ripple effects of policy choices from previous decades, and three recessions that have resulted in tighter budgets. Rising healthcare and debt costs are threatening Connecticut’s ability to make investments in the future like education, according to the report.

“The state budget is an expression of our values and priorities,” said Wade Gibson, co-author of the report and Senior Policy Fellow at the Fiscal Policy Center. “In the face of these trends and continued budget deficits, we need to make sure that we make forward-looking budget decisions that maintain investments in the future while fulfilling our obligations to our most vulnerable populations – young and old alike.”

The report examines how funding for several categories of programs in the state budget has shifted over the past two decades as a share of the overall state budget. Among the findings of the study, which analyzed budget data on General Fund spending from the Office of Fiscal Analysis:

- Education has experienced the largest decline, falling from 29.2% of the state budget in Fiscal Year 1992 to 23.1% in 2012. This reduction has been borne most heavily by state colleges and universities. As a result, costs have shifted to students and families. In-state tuition and fees have increased by nearly 90 percent in inflation-adjusted dollars over this period.

- As a share of the budget, funds have shifted toward the “Non-Functional” budget category. Spending in this area has grown fastest as a share of the budget, from 16 to 22.4 percent of each state budget dollar over the last two decades. The increases in this
category have been primarily for healthcare for current and former state employees, as well as debt service.

- Funding has also shifted away from Human Services, the largest section of the budget, which dropped from 33.4% of the state General Fund spending to 30.9% between Fiscal Years 1992 and 2012. This has been driven by declines in TANF welfare payments, payments to hospitals that serve a disproportionate share of low-income people, and personnel costs in the Department of Social Services.

- As a consequence of fiscal pressures, the state’s debt has more than doubled in real dollars, increasing by 142 percent over the last two decades.

To begin to reverse these trends, the Fiscal Policy Center recommends that state policymakers enact several reforms such as:

- Reform and stabilize Connecticut's K-12 education finance system, reducing the heavy burden on towns and property taxpayers caused by low state support and an obsolete funding formula;
- Build on recent healthcare cost containment efforts both to improve the health of the state workforce and reduce the cost of coverage; and
- Avoid borrowing to cover state operating expenses.

“These trends mean that Connecticut will likely face similar budget pressures into the future,” said Matthew Santacroce, co-author of the report and Policy Fellow at the Fiscal Policy Center. “Policymakers will need to confront the long-term factors producing these budget trends if we hope to maintain the schools, health care, transportation, and other public services we need for a healthy economy.”


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