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Report: Quick-fix state budget solutions widen long-term deficits and put children at risk

Fiscal Policy Center calls for long-term revenue reforms

A report on the two-year state budget approved by state lawmakers and the Governor in June warns that the “quick-fix” budget solutions adopted in the budget will deepen the state’s long-term budget deficit and could ultimately endanger funding for child and family services. The analysis highlights the use of borrowing, one-time revenues, and fund transfers to close budget deficits and cover operating expenses. By relying on these measures, rather than recurring revenues to close the state’s budget gap, the report by the Fiscal Policy Center at Connecticut Voices for Children concludes that state policymakers have opened up a larger revenue hole in future budget years.

“In the short term, this budget protects many important investments in early education, health coverage, and other supports for hard-working families,” said Wade Gibson, Senior Policy Fellow at the Fiscal Policy Center. “But by relying on borrowing and one-time fixes, we’re undermining the long-term stability of the budget and gambling with these investments in our children’s future.”

The report, which examines the two-year budget plan for Fiscal Years 2014 and 2015, finds:

- **Over the two-year period, the budget plan relies on almost \$600 million in borrowing, over \$400 million in temporary fund transfers, and \$500 million in one-time revenues to pay for operating expenses.** Because these funding sources will dry up at the end of the two-year budget, there is currently a projected state deficit of \$712 million in Fiscal Year 2016 and comparable holes in 2017 to 2018. If state policy makers had instead used recurring revenues rather than one-shot revenues and borrowing, the long-term budget would be nearly balanced in these years.
- **Reliance on debt and one-time revenues will further increase budget risks for the state if economic growth does not return quickly.** The state’s budget projections assume that robust economic growth will result in increased state tax revenues. With a nearly empty Rainy Day reserve fund, if this growth does not emerge, Connecticut would have little choice but to turn immediately to deep cuts, steep tax increases, and more borrowing.

- **The state government has transformed over \$1 billion in debt it owed itself and its employees into debt it now owes to bondholders, resulting in less flexibility and control of the repayment of that debt.** While the state budget plan pays down funds owed to the state employee and teacher pension systems, it does so by borrowing money from private bondholders. In addition, the state has borrowed money from the private market to meet stricter accounting requirements under the rules of Generally Accepted Accounting Principles (GAAP). While in an emergency, state policymakers could ask employees and retirees for concessions to preserve vital public services, the state can expect less flexibility from the private bond market.

“We’ve exchanged debt we owe ourselves for debt we now owe to banks,” said Wade Gibson, “When added to the impact of reliance on one-time revenues, these choices about our debt will further tie our hands in protecting vital services when difficult budget times inevitably arise.”

To protect public investments, the report called on policy makers to engage in more systematic and long-term revenue reforms, including:

- Broadening and modernizing the state sales tax to reflect the shift from a goods-based, bricks-and-mortar economy to a service-based, increasingly digital one;
- Reversing erosion in business taxes by identifying and eliminating ineffective tax breaks and loopholes; and
- Bolstering the state’s Rainy Day Fund to ensure a buffer during economic downturns.

The report, “A Gambler’s Budget: the Fiscal Year 2014-15 State Budget,” is available at www.ctvoices.org. The Fiscal Policy Center at Connecticut Voices for Children, launched in October 2012, provides research, analysis, and recommendations on state and federal budget and tax policies (ctvoices.org/fiscal).

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