



Testimony Regarding the Connecticut Spending Cap

Jesse Marks

Spending Cap Commission

April 18, 2016

Co-Chair Cibes, Co-Chair Widlitz, and distinguished members of the Commission:

Thank you for the opportunity to testify.

I am a member of the Legislative Advocacy Clinic of the Jerome Frank Legal Services Organization at Yale Law School. I speak today on behalf of Connecticut Voices for Children, a research-based public education and advocacy organization that works statewide to promote the well-being of Connecticut's children, youth, and families.

As part of my work with Voices, I have co-authored a policy brief on Connecticut's structural fiscal and economic challenges and some potential approaches to addressing them, which I've attached to today's testimony. I am here today because this discussion about the spending cap has major implications for our state's ability to address these fiscal challenges constructively and to help Connecticut transition to a newfound era of economic prosperity.

Earlier, my colleague, Mr. Defiesta, outlined Voices' positions on the definitions of "general budget expenditures," "inflation," and "personal income." I now want to speak about the economic and fiscal rationale underlying our preference for a spending cap that provides lawmakers with the flexibility they need to set and fund public policy.

In particular, I want to share our concerns about the possible implications of an overly-restrictive or unnecessarily vague definitions. Such policies could have the following consequences:

I. Lawmakers finding "creative" solutions to fit their funding needs within the spending cap

Lawmakers often face difficult decisions when determining how to pay for the programs that they support, particularly when spending is limited by legal constraints. This may lead them to look for creative ways to keep desired funding levels, while shifting some costs "off the books." In fact, Connecticut lawmakers have done this several times over the past few decades. For instance, lawmakers have delayed funding our long-term pension and health liabilities in favor of more immediate fiscal needs, resulting in significant increases in unfunded liabilities.¹ Other "creative"

¹ Unfunded state employee pension liabilities have grown rapidly from \$3.2 billion in 1992 to \$14.9 billion in 2014, while unfunded teachers' pension liabilities grew from \$2.6 billion to \$10.8 billion during the same period. According to a recent report from the Center for Retirement Research at Boston College that was commissioned by the Connecticut Office of Policy and Management, inadequate contributions represent more than \$4.5 billion of the \$14.9 billion gap in state employee pension funding. Aubry, Jean-Pierre and Munnell, Alicia. Center for Retirement Research at Boston College. *Final Report on Connecticut's State Employees Retirement*

tactics, such as using bond premiums to pay off the state debt, have further added to the state's financial liabilities.² In these ways, laws initially passed to ensure the state's fiscal sustainability have in some instances led to the opposite.

II. Policies that exacerbate Connecticut's deep-seated economic, social, racial, and geographic inequalities

State funding has long acted as a way to address some of Connecticut's rampant inequality. This cannot be done solely through local governments, which are reliant on property taxes and therefore have significantly different abilities to meet residents' needs.

Connecticut has a long way to become a truly fair society. For example, 30.5 percent of black children and 33.5 percent of Hispanic children live in poverty, as compared to 5.6 percent of white children.³ Connecticut's disparities stretch beyond just income, as they also affect residents' health and education. The state's poor-non-poor K-12 education achievement gaps are among the nation's worst, levels of educational attainment differ significantly by race,⁴ and student performance varies by school and school district.⁵ Health outcomes also vary significantly by race, ethnicity, income, place of birth, and place of residence.⁶ These disparities represent more than lost opportunities for individual low-income parents and children. They also create an overall drag on the economy by limiting the productive potential of swaths of the population.⁷

An overly-restrictive constraint on state-level spending could force even more services to be provided at the local level, a level that is too narrowly-focused to address these long-standing inequities.

III. Under-investment in areas critical for Connecticut's long-term prosperity

Connecticut is already under-investing in both its people and its physical infrastructure, something which could be worsened with an overly-restrictive cap.

For example, two decades ago, nearly 40 percent of the General Fund went to young people. Today, that is down to 30 percent.⁸ Connecticut's higher education system has suffered from a similar de-

System and Teachers' Retirement System. November, 2015. Retrieved from: http://crr.bc.edu/wp-content/uploads/2015/11/Final-Report-on-CT-SERS-and-TRS_November-2015.pdf

² See, e.g., Phaneuf, Keith. CT Mirror. *Is Malloy Poised to put Much of the Budget Deficit on CT's Credit Card?* November 2014. Retrieved from: <http://ctmirror.org/2014/11/26/is-malloy-poised-to-put-part-of-budget-deficit-on-cts-credit-card/>

³ See our *Mapping Disparities by Race and Place Maps*: <http://www.ctvoices.org/publications/mapping-disparities-race-and-place>

⁴ United States Department of Education, National Center for Education Statistics, NAEP (National Assessment of Educational Progress) Data Explorer. Retrieved from: <http://nces.ed.gov/nationsreportcard/naepdata/>

⁵ Connecticut Department of Education. *Data Interaction for Connecticut Mastery Test (4th Generation)*. Retrieved from: <http://solutions1.emetric.net/cmtpublic/Index.aspx>; Connecticut Council for Education Reform. *Gap in Your District*. Retrieved from: <http://ctedreform.org/gap-in-your-district/>

⁶ Connecticut Department of Public Health. *Healthy Connecticut 2020: State Health Assessment*. March 2014. www.ct.gov/dph/lib/dph/state_health_planning/sha-ship/hct2020/hct2020_state_hlth_assmt_032514.pdf

⁷ The Economist. *The Economist Explains: How Inequality Affects Growth*. June 2015. Retrieved from: <http://www.economist.com/blogs/economist-explains/2015/06/economist-explains-11>; Poulin, Stephanie. Connecticut Department of Public Health. *Cost of Disparity Analysis*. April, 2014. Retrieved from: www.ct.gov/dph/lib/dph/hems/health_equity/ct_costdisparity_apr2014_web.pdf

LaVeist et al. *International Journal of Health Services*. *Estimating the economic burden of racial health inequalities in the United States*. 2011, 41(2): 231-238; Woolf et al. *American Journal of Public Health*. *The health impact of resolving racial disparities: An analysis of US mortality data*. 2004, 94(12): 2078-2081

⁸ See our issue brief, "The Children's Budget: Investing in Our Future": <http://www.ctvoices.org/publications/childrens-budget-investing-our-future>

prioritization. In 1998, the state funded almost 45 percent of the UConn system's operating costs, a number that dropped to 30 percent by 2015.⁹ This has required students to foot more and more of the bill, with in-state tuition currently at almost \$14,000 per year, roughly double what it was in 1998, after adjusting for inflation.¹⁰ Out of state students, meanwhile, now pay almost \$35 thousand per year in tuition, 75 percent more than they did in 1998. The rest of the state's higher education system has faced similar financial challenges, though with less ability to relieve some of that burden through charging out-of-state students more.¹¹

Connecticut has also consistently under-invested in other forms of capital, particularly its physical infrastructure. This spending decline has contrasted with the state's growing need for infrastructure investments. According to the American Society of Civil Engineers' (ASCE) 2013 Report Card, 41 percent of Connecticut's roads are in poor condition (costing motorists \$1.6 billion a year).^{12,13} In addition, the ASCE's report card identifies \$2.6 billion in school infrastructure funding needs, \$3.6 billion in wastewater infrastructure, and \$84 million in park system improvements. National research shows that neglected infrastructure can have a disproportionate impact on the state's poorest residents, exacerbating existing geographic inequalities.^{14,15}

CONCLUSION

As Connecticut continues to recover from the depths of the Great Recession, state lawmakers must be afforded the policy tools to stimulate long-term economic growth. An overly restrictive interpretation of the spending cap could instead lead to distortions in government spending which make the state's fiscal sustainability worse, a solidification of the state's rampant inequality, and under-investment in those areas required for a better future. We therefore urge you to support our proposals on the spending cap presented to you today.

Thank you for your time. I would be happy to answer any questions.

⁹ Thomas, Jacqueline. CT Mirror. *Higher Education Cut, Local School Aid Flat in Malloy Budget*. February 2015. Retrieved from: <http://ctmirror.org/2015/02/18/higher-education-cut-local-school-aid-flat-in-malloy-budget/>

¹⁰ Thomas, Jacqueline and Chang, Alvin. CT Mirror. *The State of UConn in 15 Charts*. June, 2015. Retrieved from: <http://ctmirror.org/2015/06/29/the-state-of-uconn-in-15-charts/>

¹¹ See, e.g.: Megan, Kathleen. Hartford Courant. *Plan Would Hike Tuition Again at Connecticut State Universities, Community Colleges*. March 28, 2016. Retrieved from: <http://www.courant.com/education/hc-state-universities-tuition-increase-0324-20160323-story.html>

¹² American Society of Civil Engineers. *2013 Report Card*: <http://www.infrastructurereportcard.org/connecticut/connecticut-overview/>
¹³ Additionally, the Federal Highway Administration estimates that 34 percent of Connecticut's bridges are either "structurally deficient" or "functionally obsolete." (see <http://ctbythenumbers.info/2016/03/23/ct-ranks-10th-in-percentage-of-structurally-deficient-functionally-obsolete-bridges/>)

¹⁴ Nationally, in areas where 75% or more of students are eligible for free and reduced lunch, 60% of schools are in need of repair. Low-income neighborhoods often also have a higher share of potentially poisonous lead pipes. In most cases, these disparities are best addressed at the state level, since the municipalities themselves are usually poorer. This is particularly true where municipalities are reliant on property taxes to fund infrastructure investment and upkeep. Center on Budget and Policy Priorities. *It's Time for States to Invest in Infrastructure*. February 2016. Retrieved from: <http://www.cbpp.org/research/state-budget-and-tax/its-time-for-states-to-invest-in-infrastructure>

¹⁵ Connecticut has started to make progress in addressing its infrastructure needs. The Governor's "Let's Go CT!" plan sets a long-term vision for infrastructure improvements, including a new rail connection between New Haven and Hartford, expansion of bus systems, highway improvements, and enhancements to municipal transportation infrastructure. This program has yet to attain full funding, however, and only addresses the state's needs within transportation – not other critical infrastructure areas, such as schools, housing, water, and energy.