

CONNECTICUT
VOICES
FOR CHILDREN

20
YEARS
OF ADVANCING OPPORTUNITIES
FOR CHILDREN AND FAMILIES

16th Annual Budget Forum

Building a Budget for Connecticut's Future

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Fiscal Overview



- State of the economy as it relates to children and families
- Investments in children
- General fund and revenue trends
- Looking forward

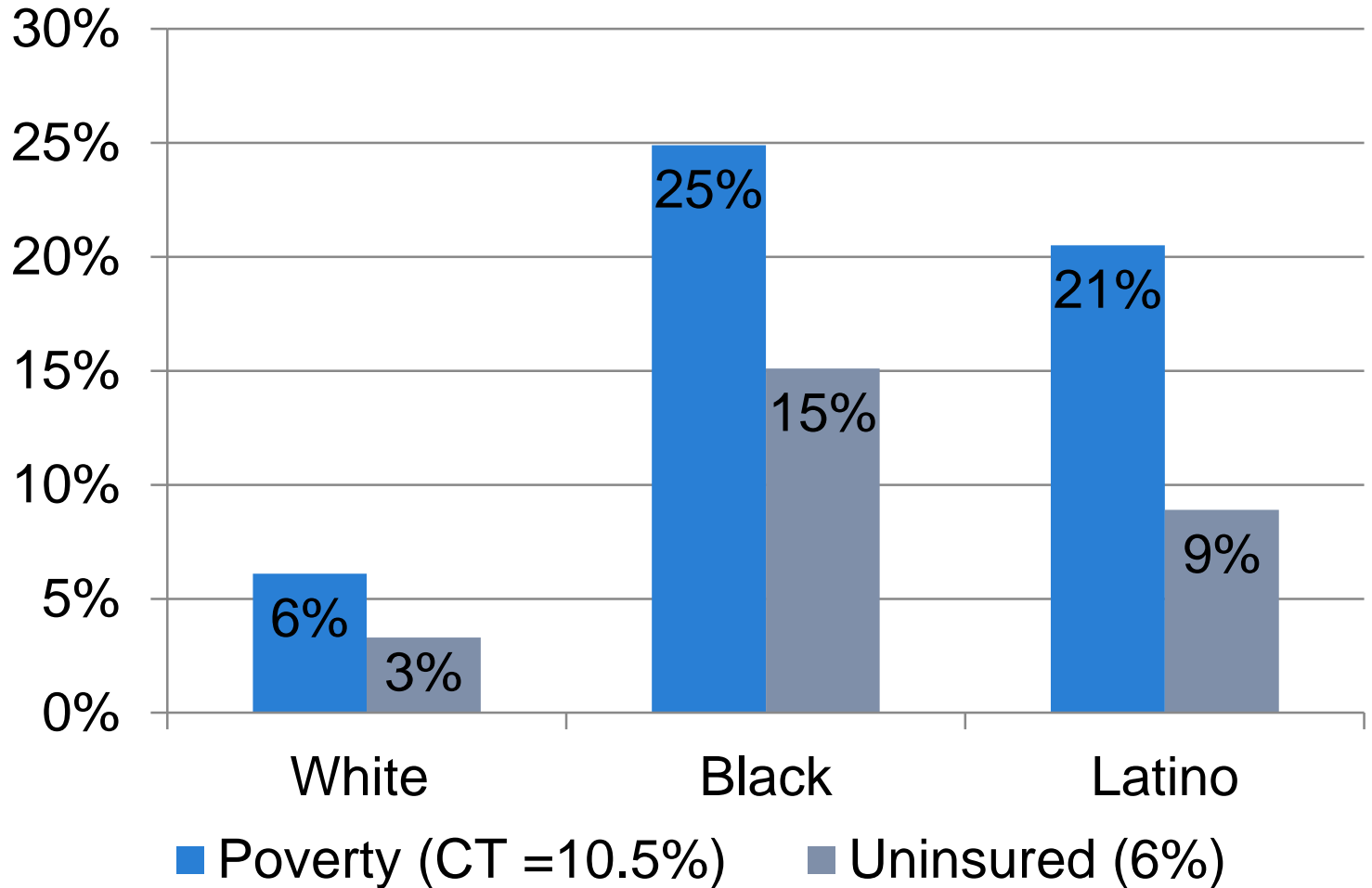
Investments Contribute to Quality of Life

- ✓ **9th** lowest child poverty rate
- ✓ **6th** lowest poverty rate
- ✓ **6th** highest median household income
- ✓ **5th** highest share of individuals with bachelor's degrees
- ✓ **3rd** most productive workforce
- ✓ **#1** rated human development index

Disparities Remain – By Race

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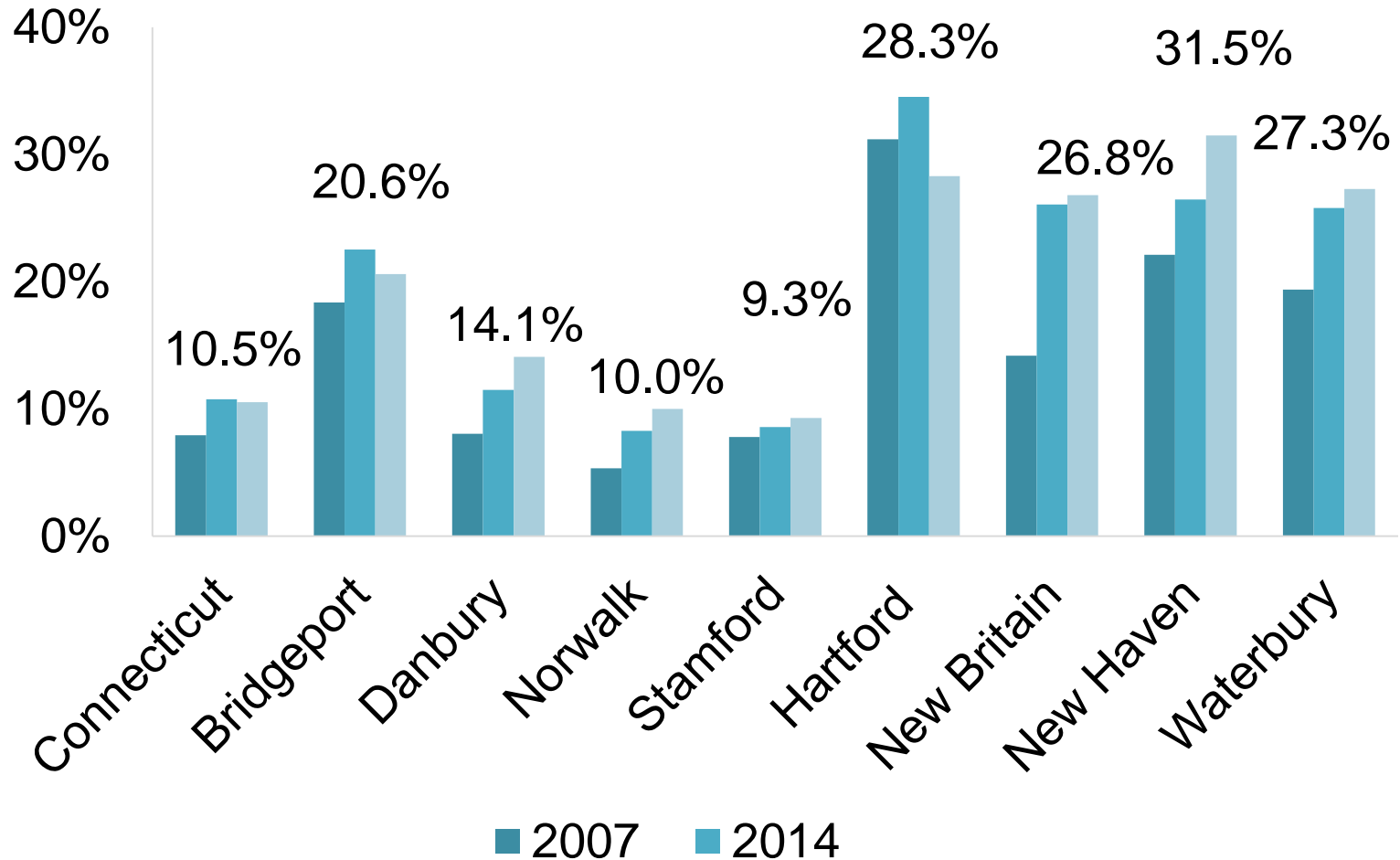


CT Voices analysis of census data

Disparities Remain – By Place

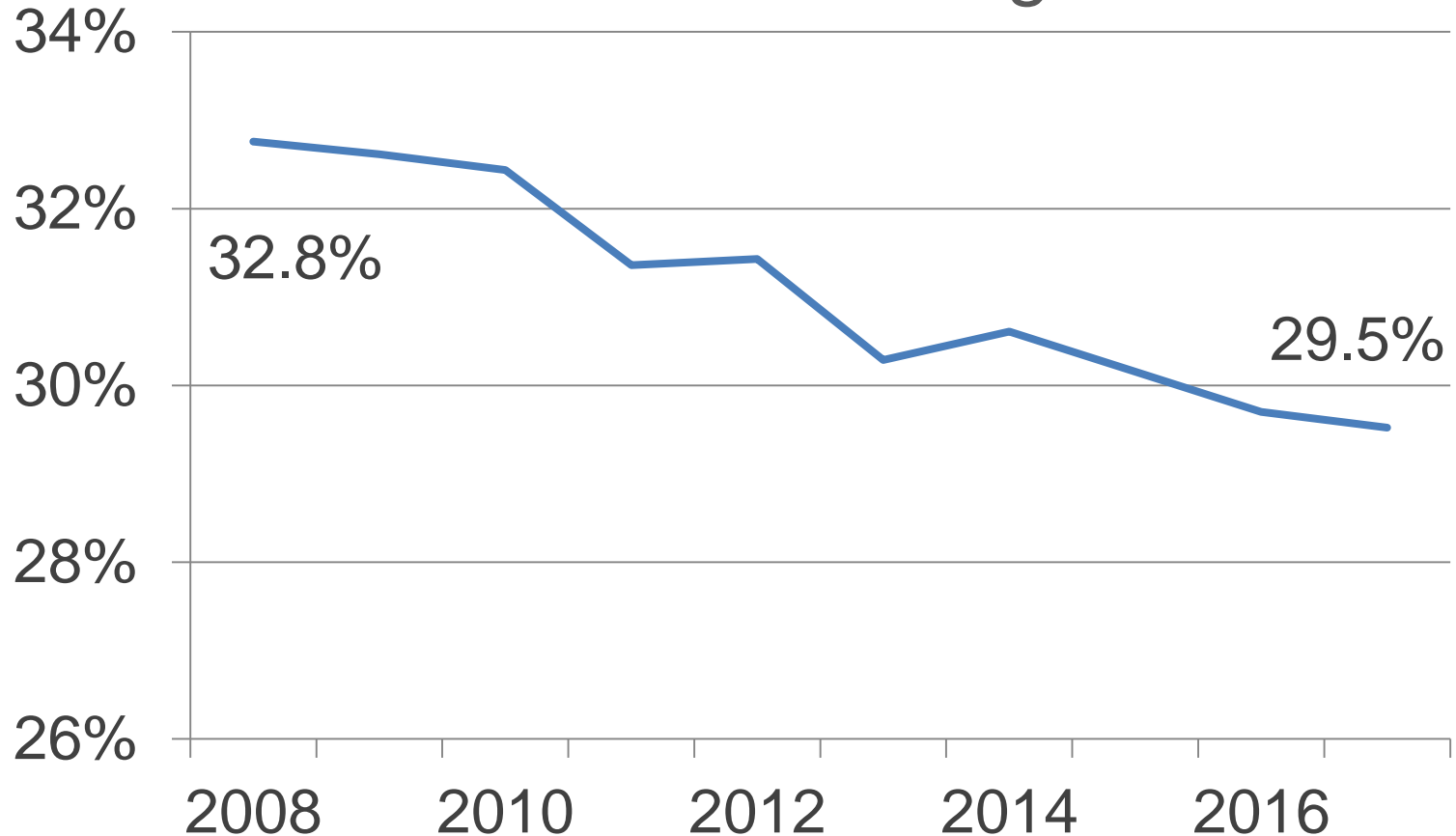
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Share of General Fund Spent on Children Reaches New Low

Children's Budget



CT Voices budget analysis

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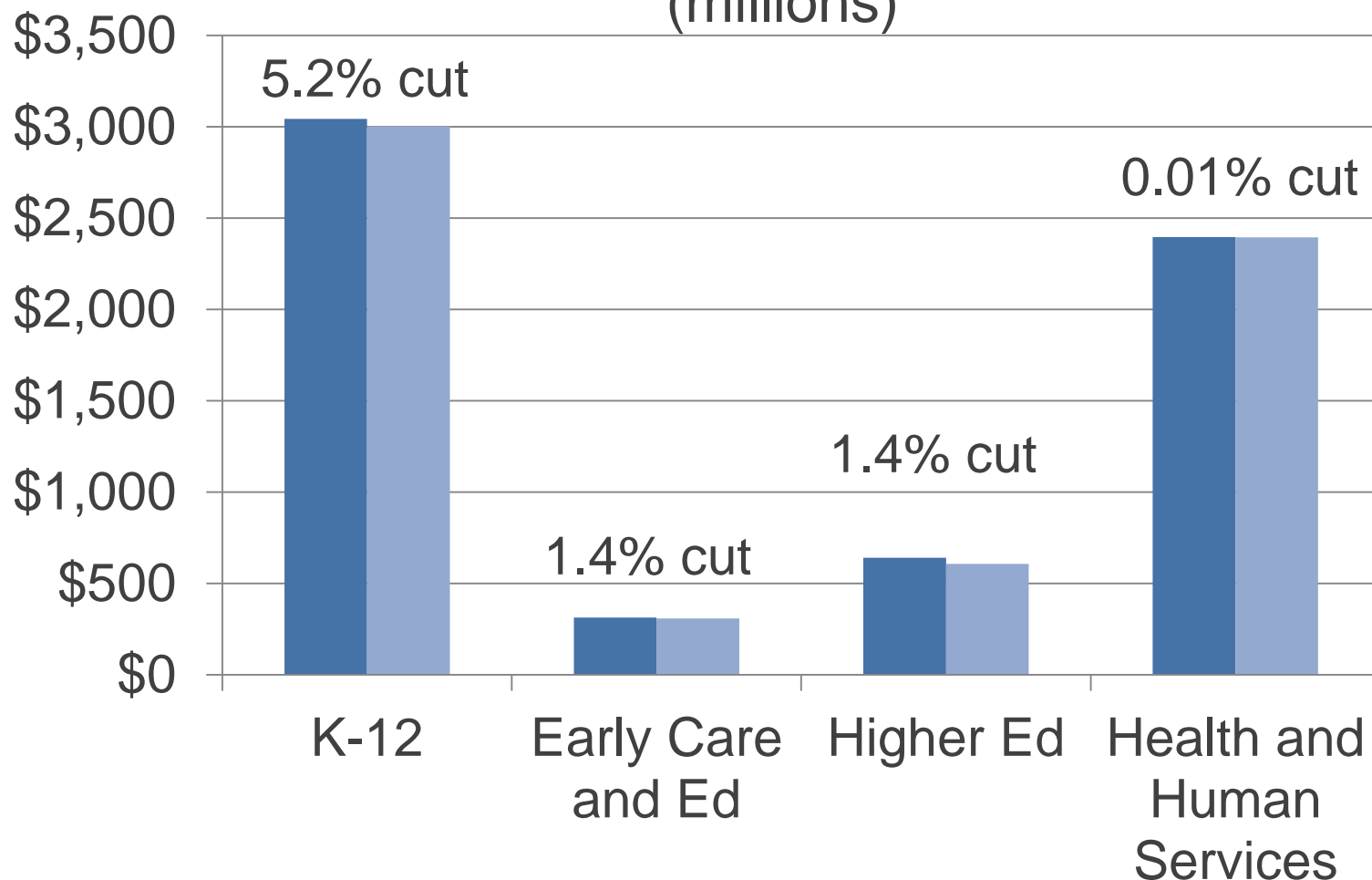
Children's Budget Cut by \$82.1 Million

Spending on children, FY16 and FY17
(millions)

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■ FY16
■ FY17



Top 10 Cuts to the Children's Budget, FY16 – FY17



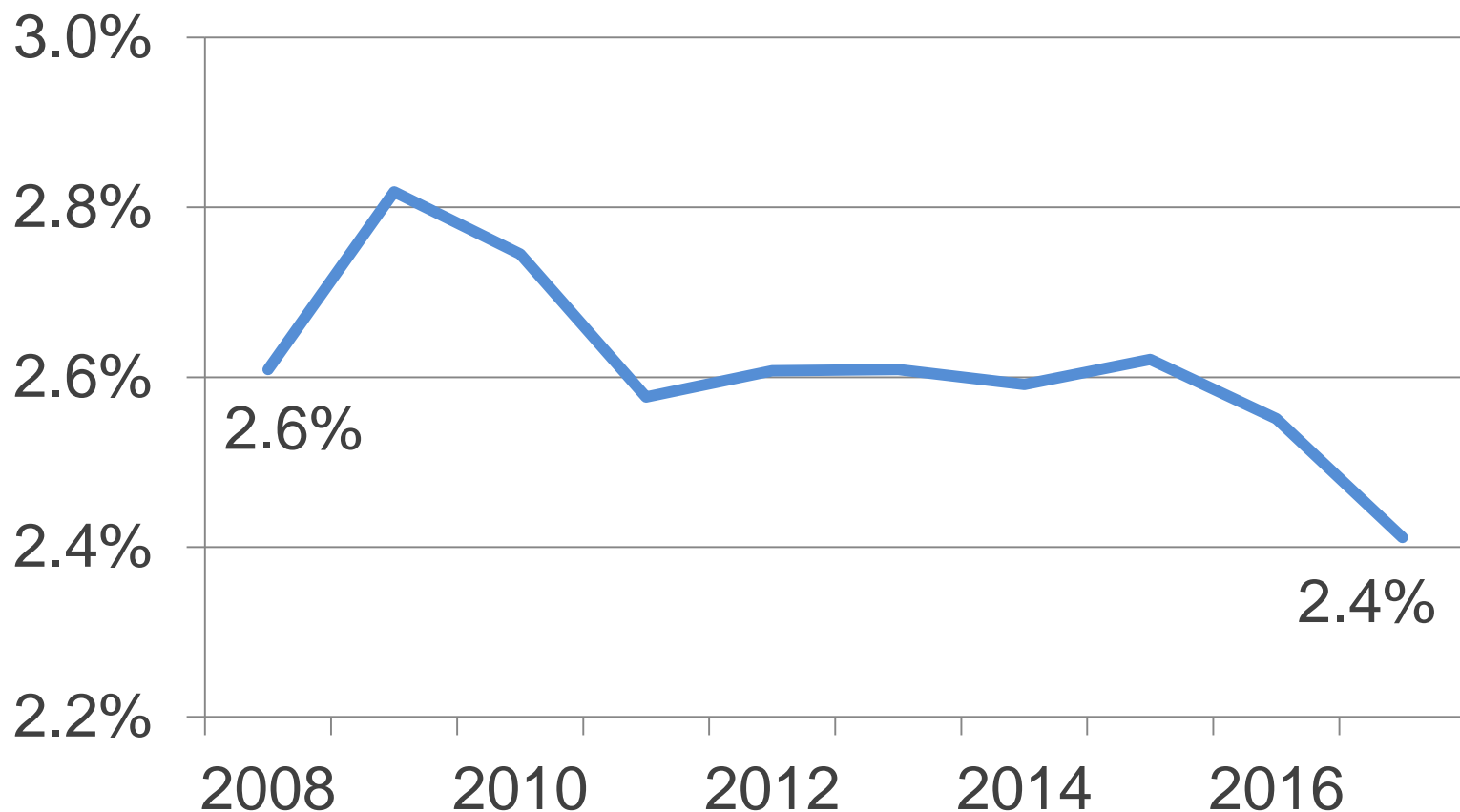
Category	Program	Amount Cut
K-12	Transportation of School Children	-\$22,336,353
K-12	Education Equalization Grants	-\$15,666,899
Higher-Ed	Connecticut State University	-\$13,454,053
Higher-Ed	University of Connecticut	-\$9,747,484
Human Services	Juvenile Alternative Incarceration	-\$7,125,349
ECE	Birth to Three/Early Intervention	-\$6,984,070
K-12	Magnet Schools	-\$5,665,134
Higher-Ed	Office of Higher Education	-\$5,508,226
Human Services	Personal Services (DCF)	-\$4,762,828
K-12	Excess Cost - Student Based	-\$4,287,828

Spending on Children Shrinking as a Share of the Economy

Spending on children as a share of personal income

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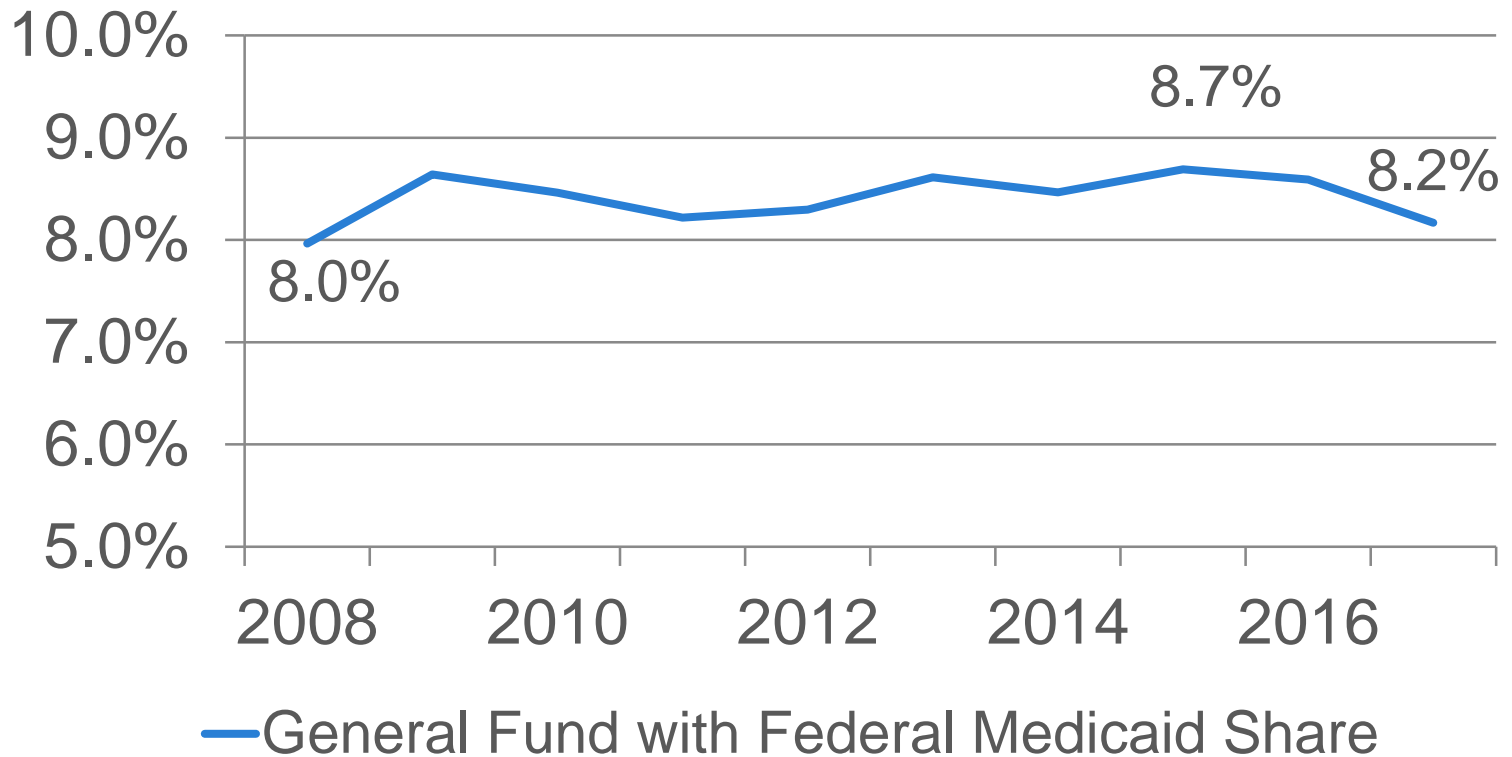
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CT Voices budget analysis. BEA Total Personal Income, 2008 – 2016. 2017 based on OPM estimates.

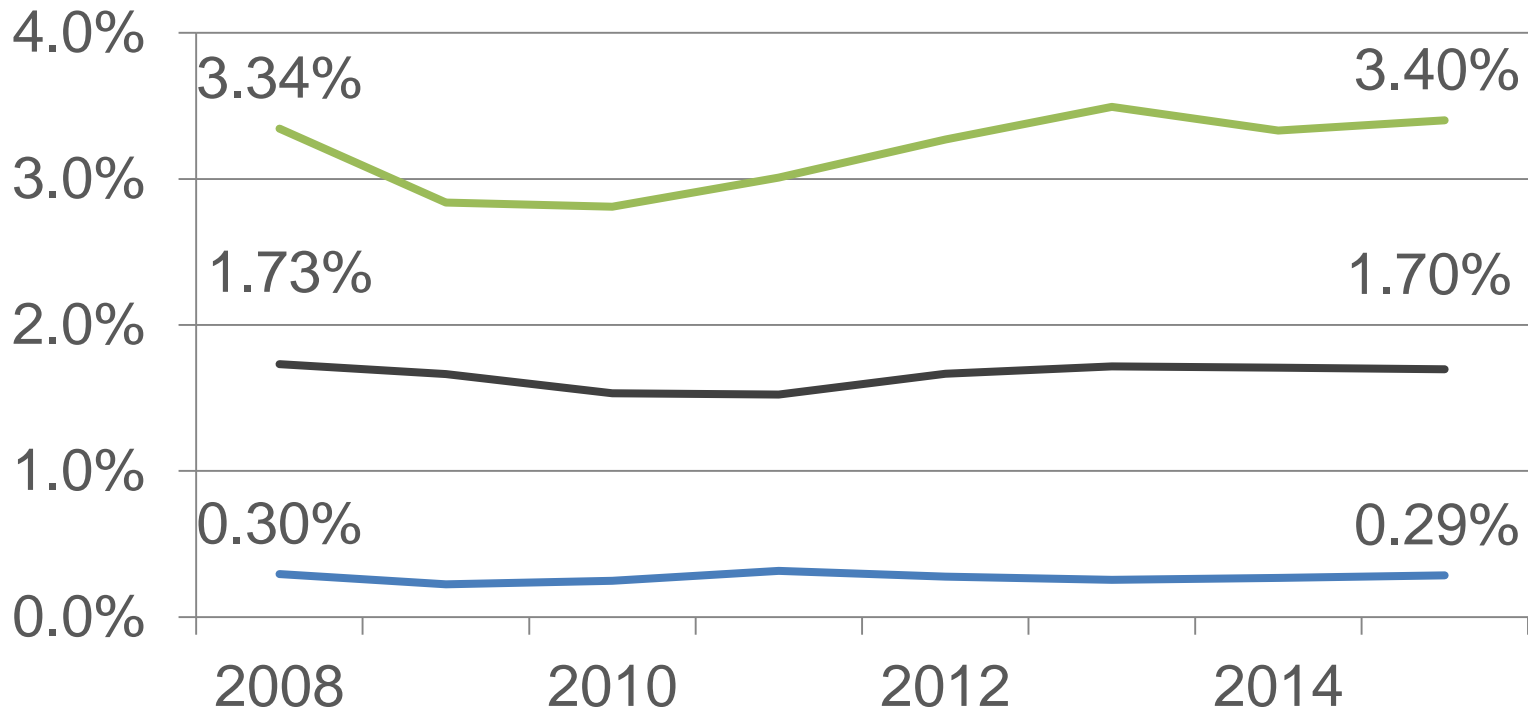
Modest General Fund Spending as a Share of the Economy

General Fund spending as a share of personal income



Major Revenue Sources Stagnant as a Share of the Economy

Taxes as a share of personal income, 2008 - 2015



— Personal Income Tax — Corporate Income Tax — Sales Tax



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Fiscal Challenges Ahead

\$3 billion biennial budget deficit

\$1.4 billion in 2017-18

\$1.6 billion in 2018-19

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A Balanced Approach

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Address Budget Shortfalls and Build a Stable Revenue System

- **Modernize Outdated Sales Tax**
 - Could lower rate and *still* raise \$1.18 billion
- **Strengthen Corporate Income Tax**
 - Address growth in business tax breaks and sophisticated avoidance strategies
- **Reform Wealth and Income Taxes**
 - A half-percentage point increase on top one percent could raise \$238 million

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Equal Funding for Equal Effort

A Model Reforming Property Tax Funding for Local Education in Connecticut

Ray Noonan
Connecticut Voices for Children

Education Finance System

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Education Finance

How you
RAISE
the money

How you
determine if
there's
ADEQUATE
money

How you
DISTRIBUTE
the money

Education Finance System

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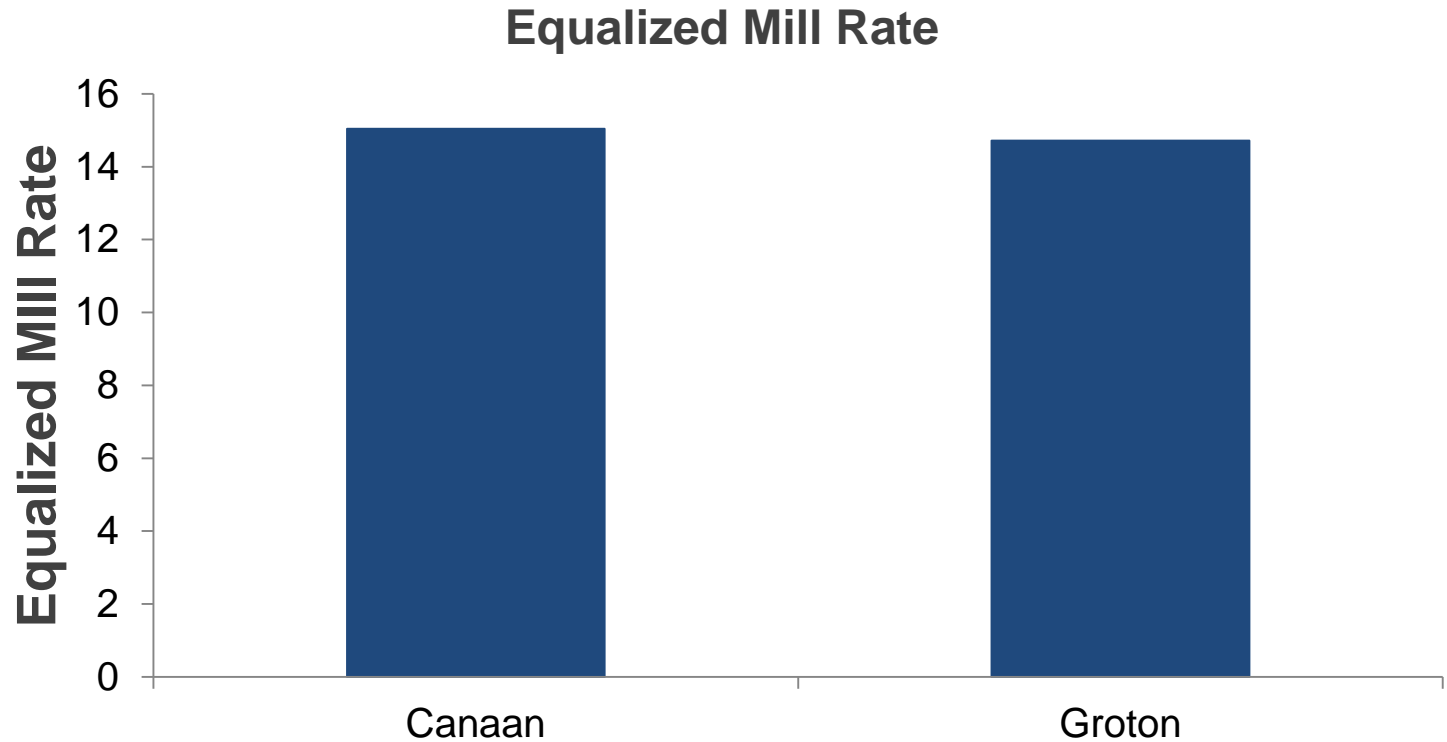
How you
DISTRIBUTE
the money

Raising Education Funds in CT

- Majority of CT education funding comes from property taxes
- This has four major flaws...

1. Contributes to Educational Inequities

Towns that have the same tax rate...

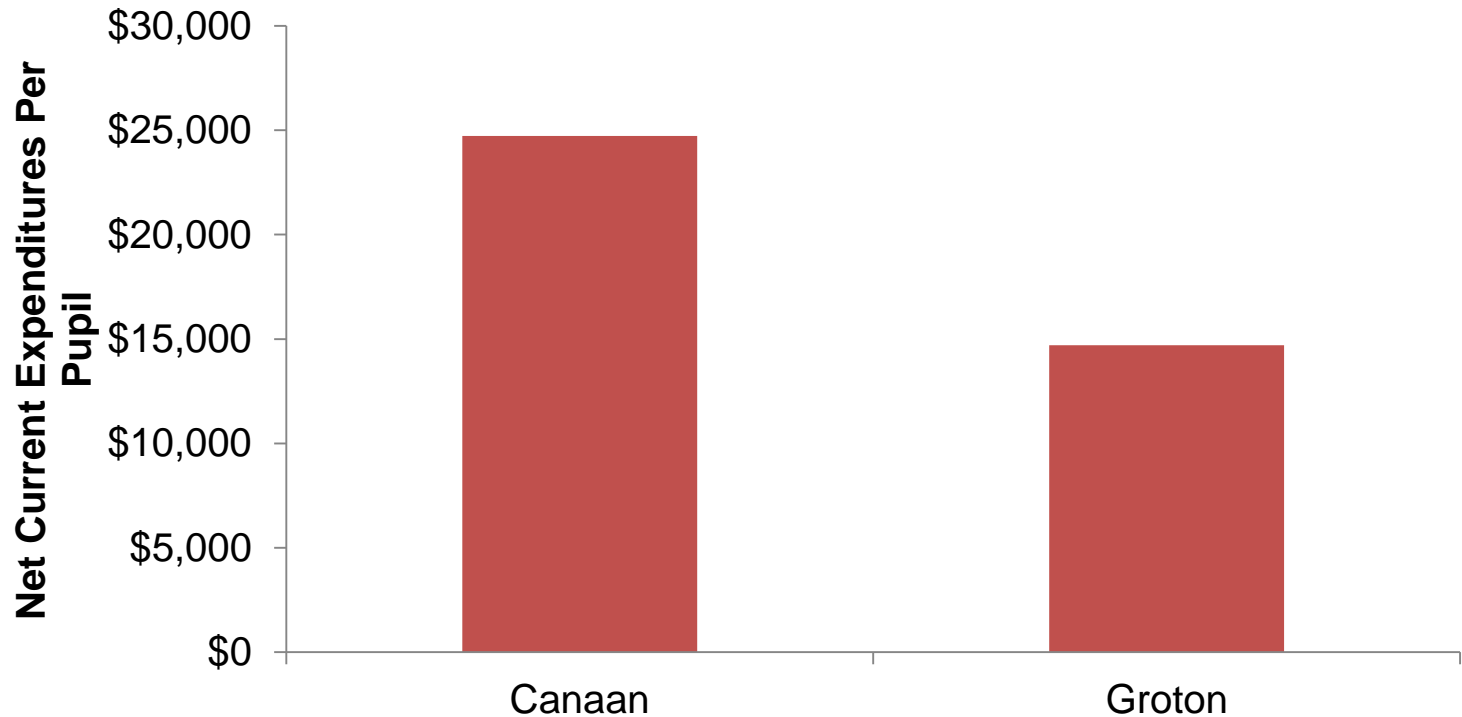


Source: OPM, Municipal Fiscal Indicators. FY 2014 data.

1. Contributes to Educational Inequities

...can't always raise the same amount of money for education.

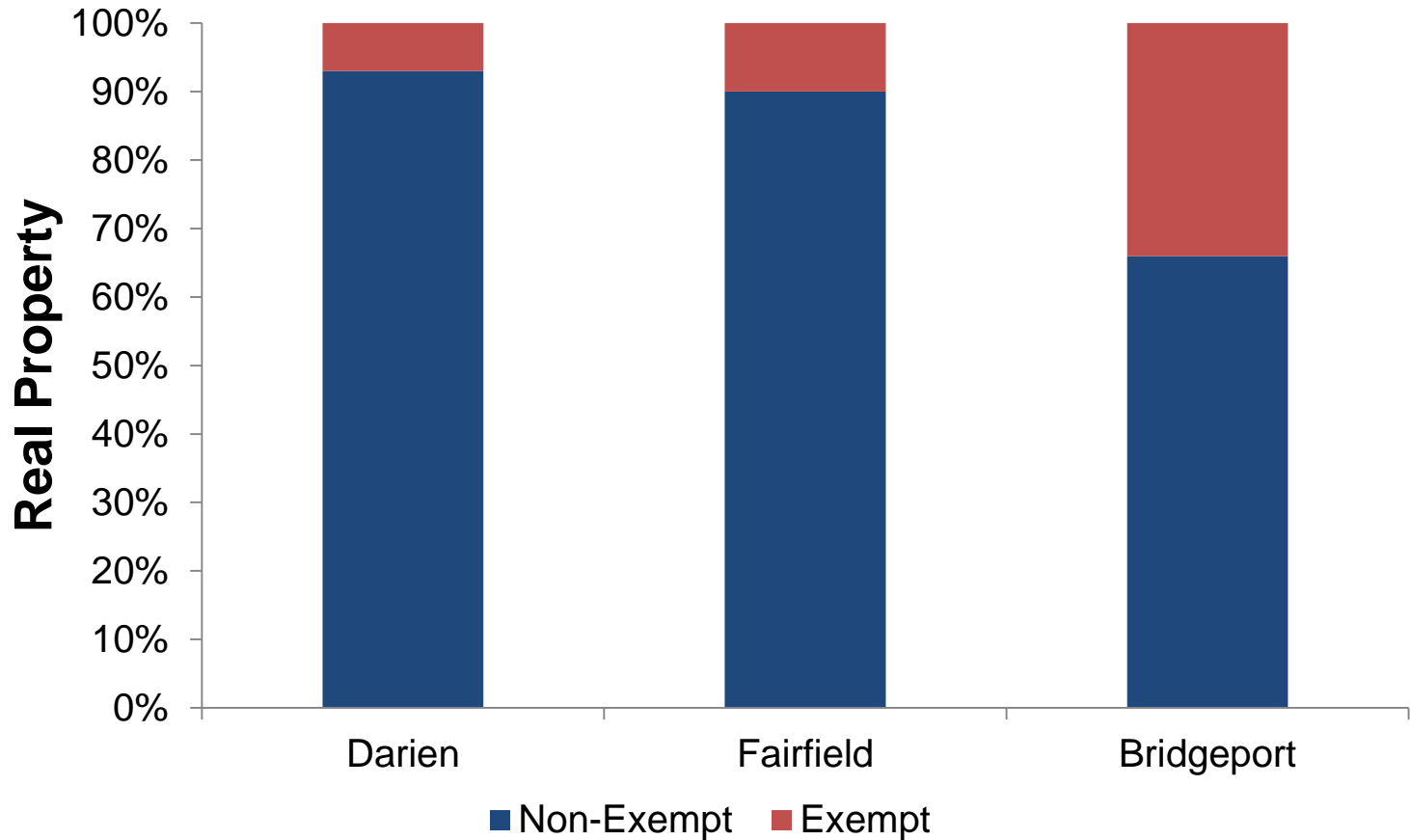
Net Current Expenditures Per Pupil



Source: State Department of Education. 2013-2014 school year.

2. Stifles Economic Development

Share of Exempt Property by Town

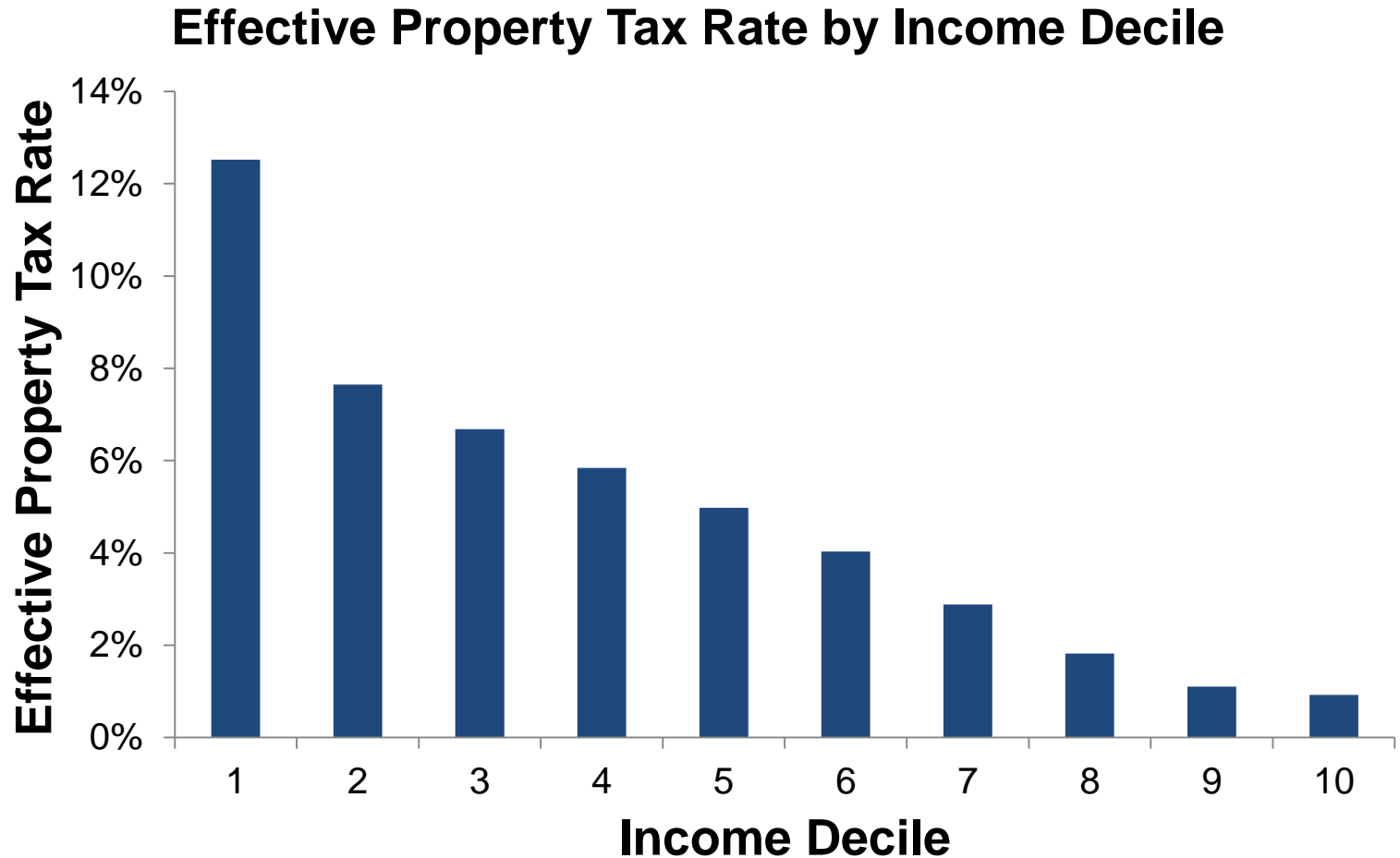


Source: Office of Fiscal Analysis FY 15-16 Budget Book.

3. Penalizes Poor Families

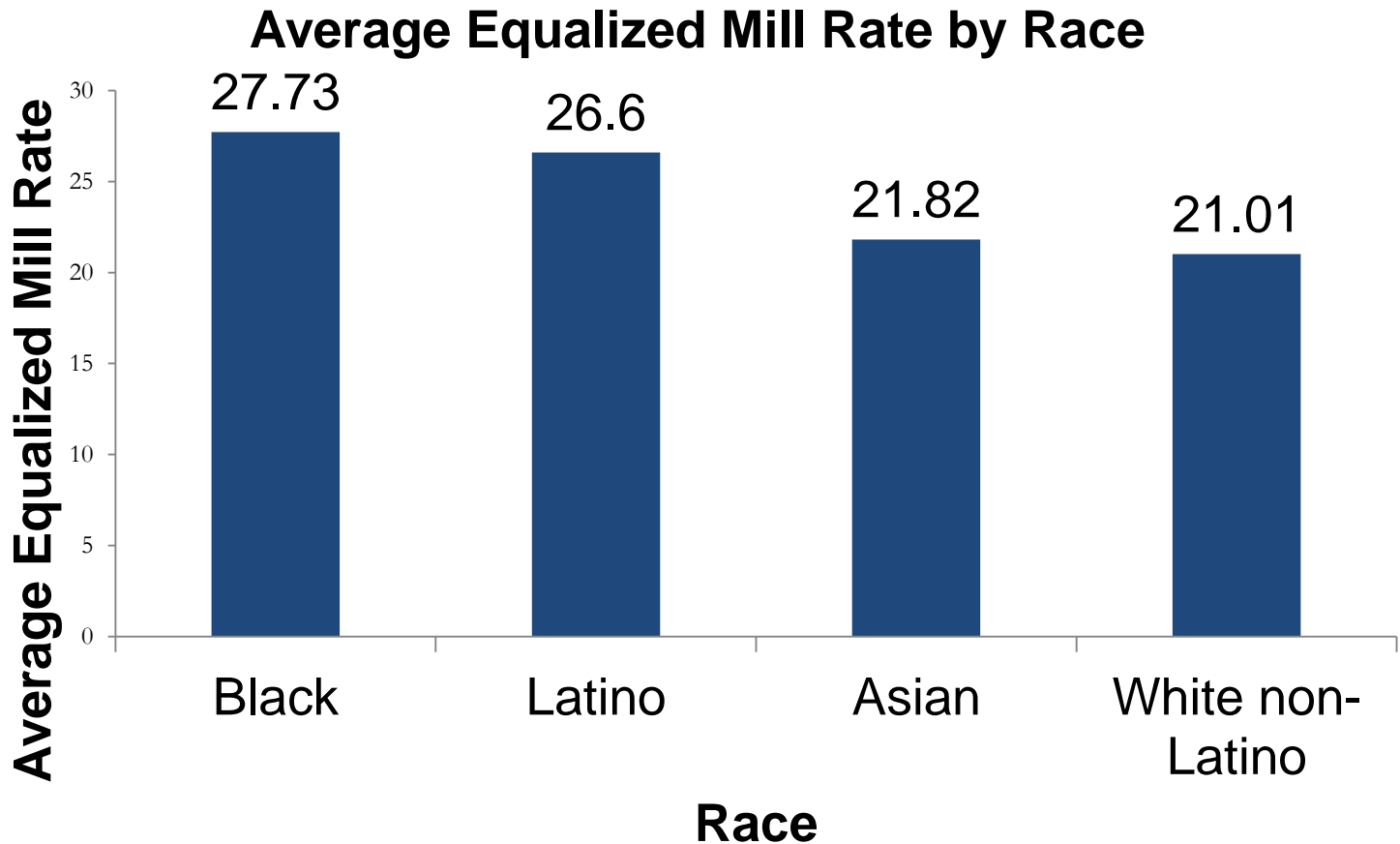
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Source: DRS Tax Incidence Report. 2011 tax year.

4. Exacerbates Racial Inequalities



Source: Connecticut Data Collaborative and OPM, Municipal Fiscal Indicators. FY 2014 data.

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**What can we do about
this?**

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The Vermont Model

Equal effort means equal spending

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Why This Approach?

1. Learn from lessons of neighboring state
2. Honor tradition of local control
3. Honor property-tax-based education funding paradigm
4. Introduce equity into property-tax-based education funding paradigm

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How it Works

Let's follow Wolcott through this
process...

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How it Works

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1. Wolcott decides to spend \$18 million on education from local property taxes (~\$7,000 per pupil after adjusting for need)

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How it Works

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2. General Assembly sets three rates:
- Nonresidential tax rate (15.35 mills)
 - Residential tax rate (14.03 mills)

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How it Works



3. State calculates Wolcott's residential tax rate based on its per-pupil spending
 - More it spends per pupil, the higher its tax rate
 - Base per-pupil spending amount = \$11,525 per pupil

Wolcott's residential tax rate would be $14.03 \times (\$6,981 / \$11,525) = \underline{8.50 \text{ mills}}$.

How it Works

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4. Wolcott collects the residential tax + nonresidential tax and remits it to the state

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Wolcott would collect and remit
\$12.4 million in state education taxes.



How it Works

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5. The General Assembly gives Wolcott its \$18 million in education funding plus its \$2,000 in statutory PILOT funds owed

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How it Works



6. Wolcott cuts its local property tax levy by \$5.6M.

State ed. funds received	\$18M
State ed. taxes paid	- \$12.4M
<hr/>	
Net money received	+ \$5.6M



The Result

Equal effort means equal spending

Towns that spend the same per-pupil
are taxed at the same rate

What are the Benefits?



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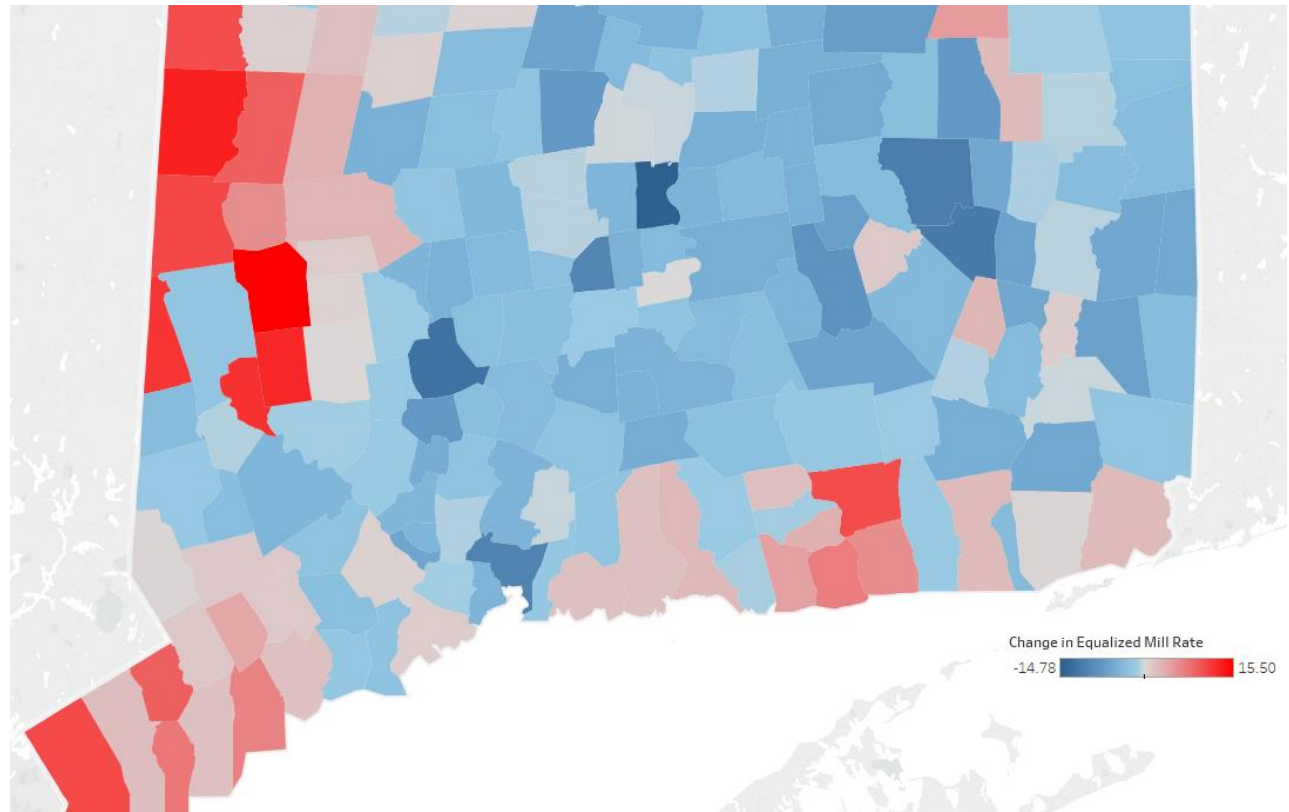
	PILOT at Current Levels	PILOT at Statutory Levels	PILOT at 100%
Number of people receiving tax cut	2.79 million	2.73 million	2.70 million
Average tax cut	\$403 per person	\$400 per person	\$395 per person

Who Would Benefit?

Predicted Property Tax Changes by Town

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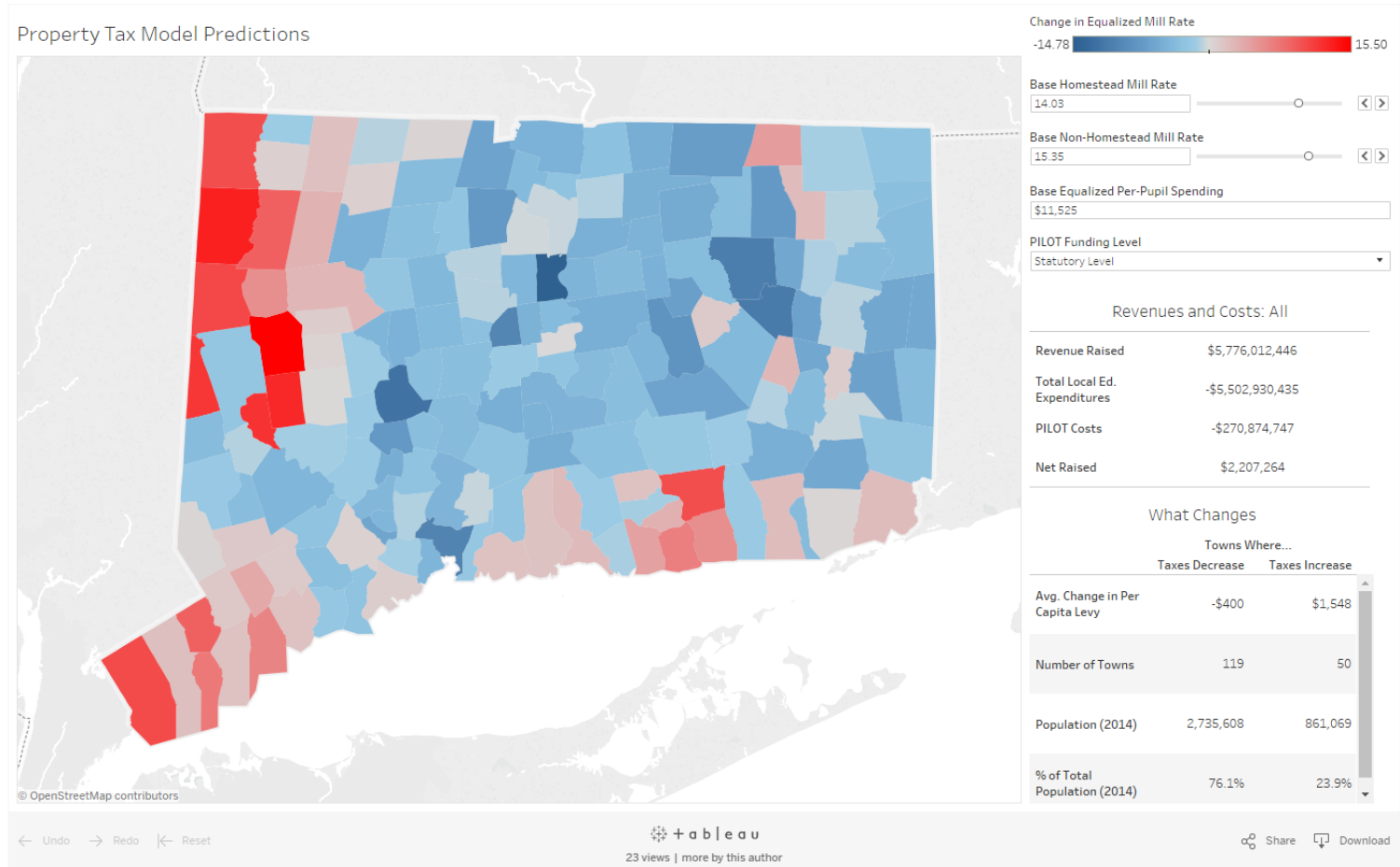


Source: Connecticut Voices for Children analysis.

Create Your Own Model

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Source: Connecticut Voices for Children [Tableau page](#).

What are the downsides?

- Town-based mill rate not responsive to individual finances
- Must pair with an income-based “circuit breaker”

Takeaway



- A Vermont-like model would reduce disparities and cut taxes

Need Further Research

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Education Finance

How you
RAISE
the money

How you
DISTRIBUTE
the money

Whether there's
ADEQUATE
Money

Need Further Research

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Education Finance

How you
RAISE
the money

How you
DISTRIBUTE
the money

- Funding
formula

Whether there's
ADEQUATE
Money

- Adequacy
studies

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A Fair Approach at Developing Connecticut's Economy

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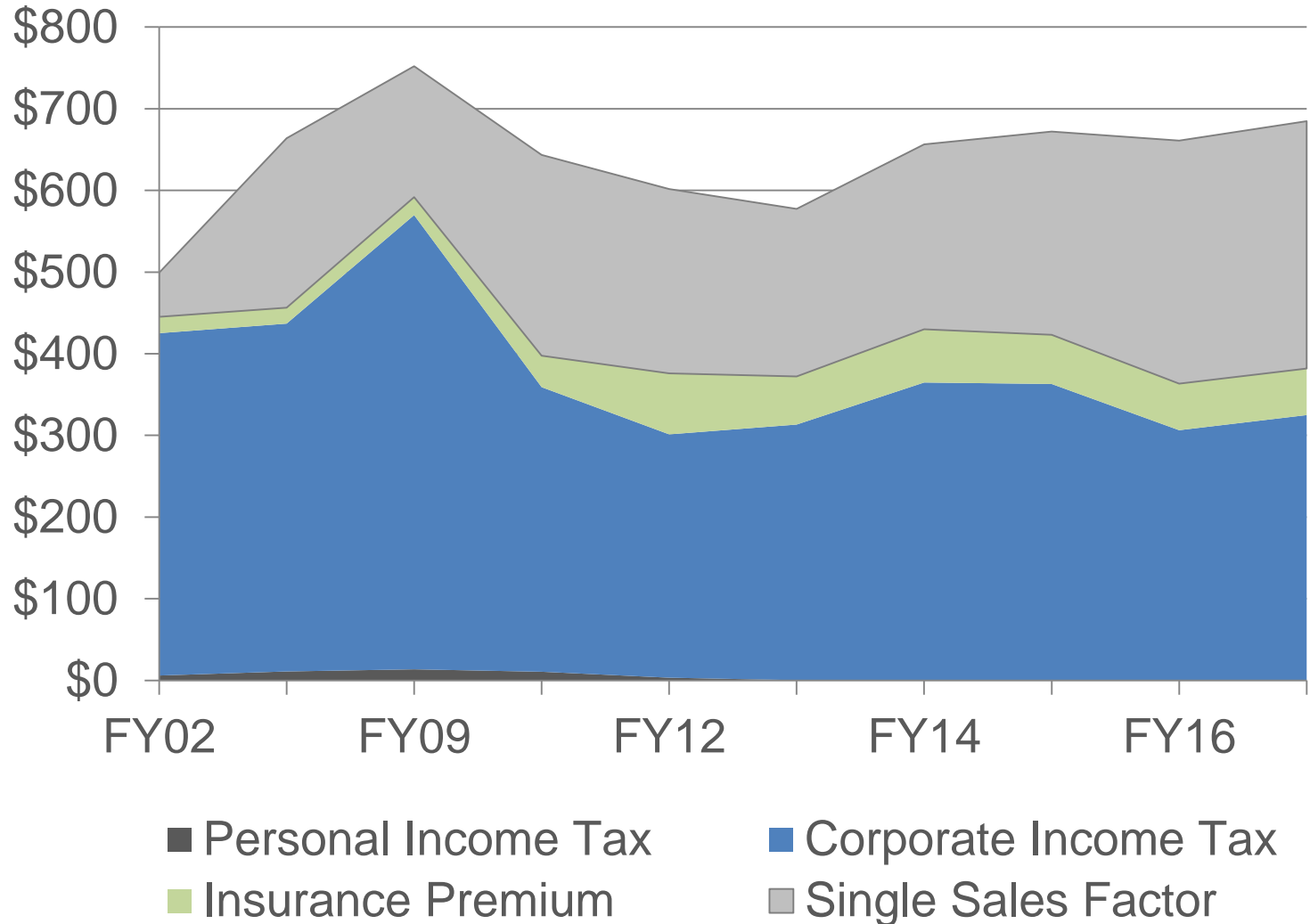
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Growth in Business Tax Breaks, FY02 - FY17 (millions)

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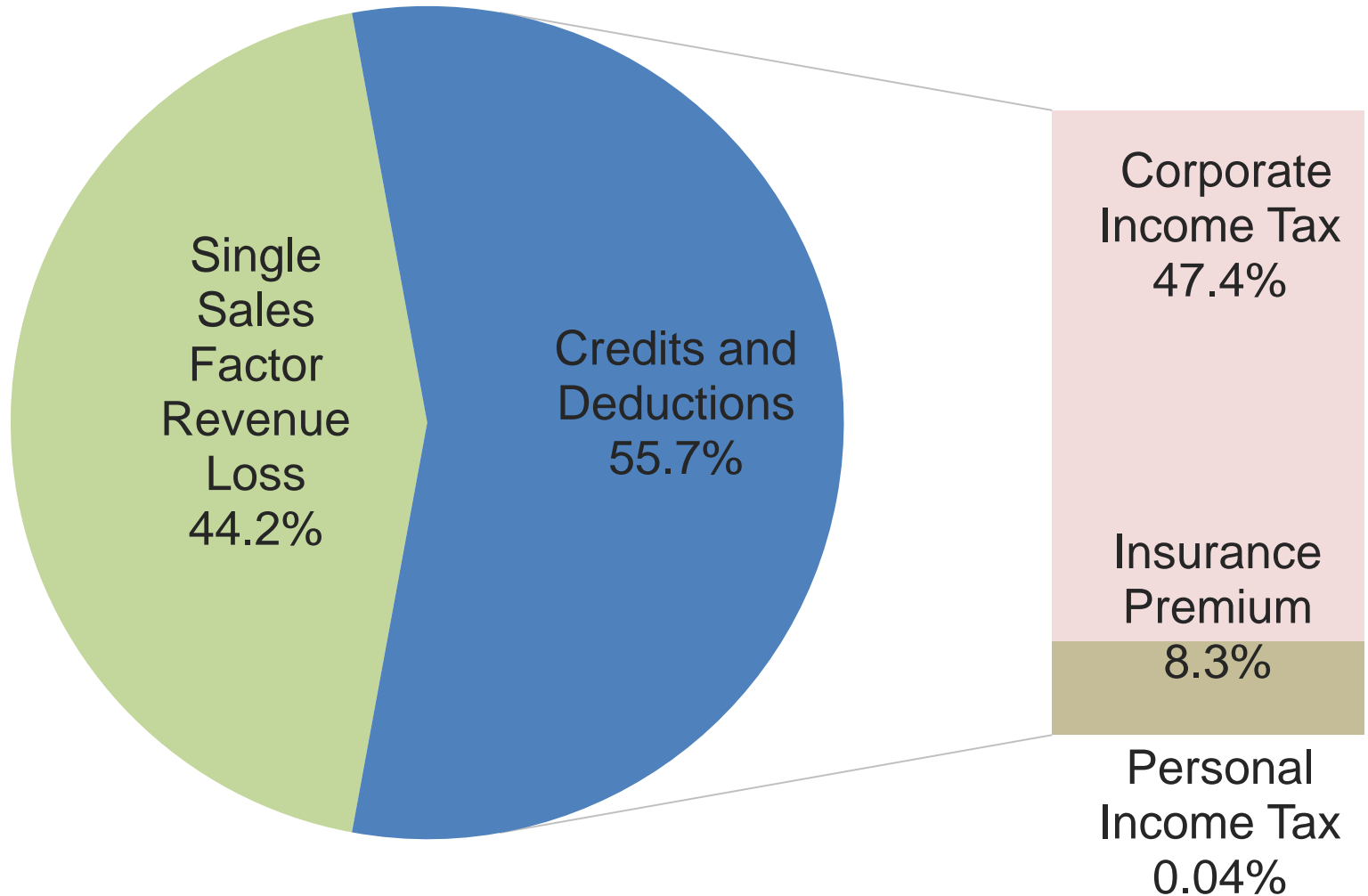


CT Voices analysis of state budget trends and OFA tax expenditure reports.

All Business Tax Breaks, FY 2017

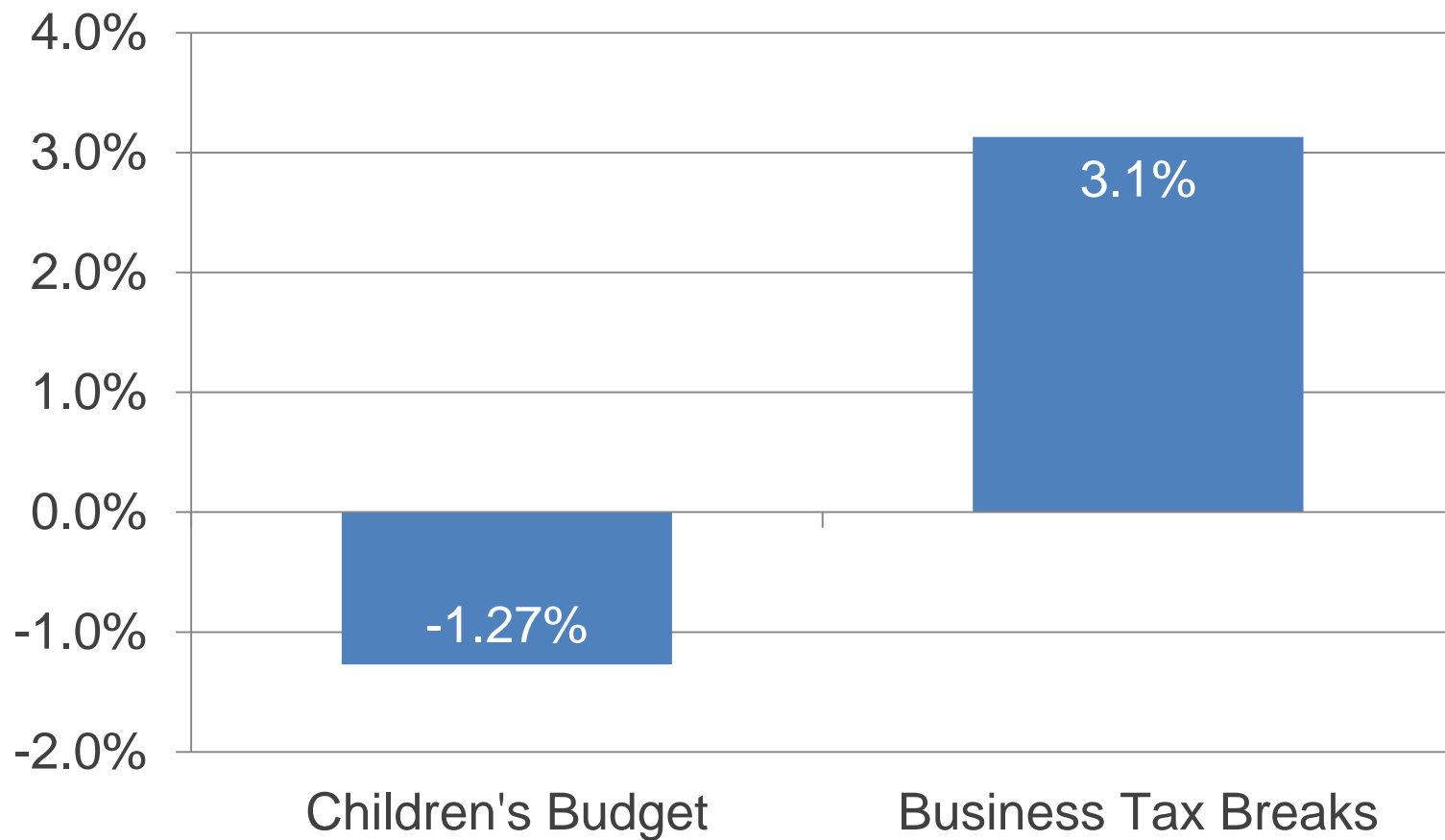
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Business Tax Breaks Have Grown Faster Than Spending On Children

Change in Spending, 2016 to 2017



CT Voices analysis of state budget trends and OFA tax expenditure reports

Among the Most Costly Business Tax Breaks

- Research and Development Tax Credit
 - Est. cost of \$26.1 million in FY 2017
 - \$2.2 billion in carryforward credits
- Single Sales Factor
 - Est. cost of \$302.9 million in FY 2017
 - Reduced corporate income tax revenue by a third

Building on Connecticut's Commitment to Transparency

- **Require Regular Review of Business Tax Breaks**
 - Just like spending on education, roads, and other spending
- **Require Corporate Tax Disclosure**
 - To determine how much state and local taxes large corporations are paying
- **Prepare for GASB 77**
 - Forthcoming treasure trove of data on business tax breaks

Contact Information



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