Fact #1: For a wealthy state, we have low taxes
12 States, DC, & NYC Have Higher Income Tax Rates Than Connecticut
Top personal income tax rate, tax year 2017

9 States, DC, & NYC Have Top Corporate Income Tax Rates Higher Than Connecticut’s
Top corporate income tax rate, tax year 2018


11 States Have Higher Sales Tax Rates Than Connecticut – and 8 of the 11 Have Additional Local Sales Tax Rates
General sales tax rate, tax year 2018

The Number of High-Income Taxpayers in Connecticut is Growing
Number of Federal tax returns filed by Connecticut residents

Source: IRS statistics of income database. All years for which data are available are shown.
Low own-source revenue in CT

Own Source Revenue: Charges and Misc. revenue paid to state and local govt, from fees and other charges

Source: Minnesota Dept. of Revenue
Fact #2:
Tight budget getting tighter
Cuts to education and early childhood
Cuts to health care in FY 19 budget

- **Reduced Medicaid budget by nearly $8 million**

- **Reduced School Based Health Centers (SBHCs) by $295,780 (about 2%).** Already underfunded, SBHCs provide vital and low-stigma health care for children and youth, particularly youth of color.

- **Reduced Young Adult Services in Dept. of Mental Health and Addiction Services by over $1.7 million,** which will harm young adults with severe mental health needs leaving the care of the Department of Children and Families.
OPM: “It is not a spending problem.”

Fact #3: We have structural challenges
Revenue Growth is Slowing
Source: Office of Policy and Management
Low revenue growth projected through 2022

<table>
<thead>
<tr>
<th>Taxes</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withholding</td>
<td>$8,085.8</td>
<td>$6,147.7</td>
<td>$6,237.9</td>
<td>$6,367.2</td>
<td>$6,500.4</td>
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<tr>
<td>Estimates and Finals</td>
<td>4,440.0</td>
<td>3,059.9</td>
<td>3,363.1</td>
<td>3,438.1</td>
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<tr>
<td>Sales &amp; Use</td>
<td>4,150.9</td>
<td>4,182.6</td>
<td>3,927.8</td>
<td>3,946.8</td>
<td>3,969.0</td>
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<tr>
<td>Corporation</td>
<td>866.2</td>
<td>920.2</td>
<td>879.4</td>
<td>941.0</td>
<td>919.7</td>
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<tr>
<td>Public Service</td>
<td>266.9</td>
<td>244.8</td>
<td>253.2</td>
<td>261.7</td>
<td>270.6</td>
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<tr>
<td>Inheritance &amp; Estate</td>
<td>230.1</td>
<td>176.2</td>
<td>156.8</td>
<td>105.9</td>
<td>110.9</td>
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<td>Insurance Companies</td>
<td>230.6</td>
<td>234.3</td>
<td>237.4</td>
<td>239.6</td>
<td>241.8</td>
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<tr>
<td>Cigarettes</td>
<td>384.2</td>
<td>381.0</td>
<td>362.4</td>
<td>344.6</td>
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<td>Real Estate Conveyance</td>
<td>203.1</td>
<td>209.4</td>
<td>217.5</td>
<td>224.4</td>
<td>232.7</td>
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<tr>
<td>Alcoholic Beverages</td>
<td>62.6</td>
<td>63.0</td>
<td>63.4</td>
<td>63.8</td>
<td>64.1</td>
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<tr>
<td>Admissions &amp; Dues</td>
<td>40.6</td>
<td>41.8</td>
<td>42.1</td>
<td>42.4</td>
<td>42.7</td>
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<tr>
<td>Health Provider Tax</td>
<td>1,047.8</td>
<td>1,049.2</td>
<td>534.5</td>
<td>536.0</td>
<td>537.4</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Taxes</td>
<td>$18,031.4</td>
<td>$17,232.1</td>
<td>$16,296.5</td>
<td>$16,534.0</td>
<td>$16,755.0</td>
</tr>
<tr>
<td>Refund of Taxes</td>
<td>(1,181.5)</td>
<td>(1,215.1)</td>
<td>(1,332.4)</td>
<td>(1,398.9)</td>
<td>(1,467.1)</td>
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<tr>
<td>Earned Income Tax Credit</td>
<td>(115.0)</td>
<td>(118.3)</td>
<td>(121.8)</td>
<td>(125.5)</td>
<td>(129.3)</td>
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<tr>
<td>R&amp;D Credit exchange</td>
<td>(6.2)</td>
<td>(6.4)</td>
<td>(6.7)</td>
<td>(6.8)</td>
<td>(7.7)</td>
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<tr>
<td>Total Taxes Less Refunds</td>
<td>$16,728.7</td>
<td>$15,892.3</td>
<td>$14,835.6</td>
<td>$15,002.8</td>
<td>$15,150.9</td>
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</table>

Other Revenue

<table>
<thead>
<tr>
<th>Taxes</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers-Special Revenue</td>
<td>$345.3</td>
<td>$352.7</td>
<td>$360.2</td>
<td>$368.2</td>
<td>$373.8</td>
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<tr>
<td>Indian Gaming Payments</td>
<td>273.6</td>
<td>203.6</td>
<td>201.2</td>
<td>200.3</td>
<td>199.3</td>
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<tr>
<td>Licenses, Permits, Fees</td>
<td>311.3</td>
<td>322.6</td>
<td>322.7</td>
<td>300.6</td>
<td>331.4</td>
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<tr>
<td>Sales of Commodities</td>
<td>36.8</td>
<td>37.7</td>
<td>38.7</td>
<td>39.7</td>
<td>40.6</td>
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<tr>
<td>Rents, Fines, Escheats</td>
<td>160.1</td>
<td>147.2</td>
<td>149.4</td>
<td>151.7</td>
<td>154.0</td>
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<tr>
<td>Investment Income</td>
<td>12.5</td>
<td>14.5</td>
<td>16.1</td>
<td>16.6</td>
<td>17.0</td>
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<tr>
<td>Miscellaneous</td>
<td>193.3</td>
<td>188.1</td>
<td>193.4</td>
<td>197.3</td>
<td>201.3</td>
</tr>
<tr>
<td>Refund of Payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Other Revenue</td>
<td>$1,275.4</td>
<td>$1,208.6</td>
<td>$1,221.7</td>
<td>$1,213.1</td>
<td>$1,254.9</td>
</tr>
</tbody>
</table>

Other Sources

<table>
<thead>
<tr>
<th>Taxes</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Grants</td>
<td>$1,144.3</td>
<td>$2,167.1</td>
<td>$1,635.5</td>
<td>$1,645.2</td>
<td>$1,666.8</td>
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<tr>
<td>Transfer From Tobacco Fund</td>
<td>109.7</td>
<td>110.2</td>
<td>94.0</td>
<td>92.6</td>
<td>91.6</td>
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<tr>
<td>Transfers From/ (To) Other Funds</td>
<td>83.5</td>
<td>88.3</td>
<td>(130.8)</td>
<td>(130.8)</td>
<td>(130.8)</td>
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<tr>
<td>Transfers to BRF - Volatility Adjustment</td>
<td>(1,290.0)</td>
<td>(409.9)</td>
<td>(213.1)</td>
<td>(288.1)</td>
<td>(365.0)</td>
</tr>
<tr>
<td>Total Other Sources</td>
<td>$47.5</td>
<td>1,955.7</td>
<td>1,385.6</td>
<td>1,318.9</td>
<td>1,262.6</td>
</tr>
</tbody>
</table>

Total General Fund Revenues | $18,051.6 | $19,056.6 | $17,442.9 | $17,534.8 | $17,668.4 |
Projected Deficits in 2020 and 2021

Source: Gov. Lamont’s transition budget:

<table>
<thead>
<tr>
<th>General Fund</th>
<th>Estimated FY 2019</th>
<th>Current Services FY 2020</th>
<th>Current Services FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$19,269.4</td>
<td>$17,823.2</td>
<td>$18,038.0</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$19,014.5</td>
<td>$19,556.9</td>
<td>$20,410.0</td>
</tr>
<tr>
<td><strong>Projected Surplus/(Deficit) 6/30</strong></td>
<td><strong>$254.9</strong></td>
<td><strong>$(1,733.7)</strong></td>
<td><strong>$(2,372.0)</strong></td>
</tr>
</tbody>
</table>
Growing Fixed Costs

Source: OFA’s Fiscal Accountability Report FY19-FY22
Growing fixed costs

Annual GF debt service is expected to grow by approximately $452 million from FY 19 to FY 22, from $2.2 billion to $2.7 billion.

This represents an annual growth rate of about 6%.

Source: OFA’s Fiscal Accountability Report FY19-FY22
Fact #4: Absent reform, new fiscal restrictions will force even more cuts
What is the spending cap?

- Part of 1991 income tax compromise
- 2017 budget included new definitions to further limit budget growth
- Limits support to distressed municipalities
- Brings pensions back under cap
Spending Cap based on actual spending ratchets down spending after recession (hypothetical).

- **Revenue**: Our capacity to spend in a given year.

Note: Assumes 3% allowed growth rate
Spending Cap based on actual spending ratchets down spending after recession (hypothetical).

- **Revenue**: Our capacity to spend in a given year.
- **SC– Allowed**: Spending cap, where “Base” is previous year’s allowed spending.

Note: Assumes 3% allowed growth rate.
Spending Cap based on actual spending ratchets down spending after recession (hypothetical).

- **Revenue**: Our capacity to spend in a given year.
- **SC– Allowed**: Spending cap, where “Base” is previous year’s allowed spending.
- **SC – Actual**: Spending cap, where “Base” is previous year’s appropriated spending.
  - Limits spending after recession – even when we’ve recovered.

Note: Assumes 3% allowed growth rate
Ratcheting down: badly timed, long lasting

- After recessions, the worst time to cut public investment.
- One bad revenue year could diminish public investment for years.
Volatility Cap

- All revenues from Estimates and Finals portion of income tax above a threshold are deposited in Budget Reserve Fund and excluded from budget making.
- Indexed to average income growth over the past 5 years.
Volatility Cap

Most Revenue is from Income Tax

Over 1/3 of Personal Income Taxes are from Estimates & Finals

Consensus Revenue 2018

General Fund Revenue Sources in 2018

- **Personal Income Tax – Withholding**
  - $6.1 billion
  - 31%

- **Personal Income Tax – Estimates and Finals**
  - $4.4 billion
  - 23%

- **Everything Else**
  - $8.8 billion
  - 46%
Volatility cap forces transfers to Rainy Day Fund, even in deficit years

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Volatility Transfer to Budget Reserve Fund</td>
<td>$(648,000,000)</td>
<td>$(278,100,000)</td>
<td>$(263,300,000)</td>
</tr>
<tr>
<td>Projected General Fund Surplus/(Deficit)</td>
<td>$330,200,000</td>
<td>$(1,661,800,000)</td>
<td>$(2,310,200,000)</td>
</tr>
</tbody>
</table>

Sources: November Consensus Revenue Projections, Transition Budget
Bond Cap

Bonding is capped at $1.9 billion
Indexed to CPI
Early Defects in the Bond Cap

Legislature realized shortcomings in the bond cap and passed amendments to exempt some categories of borrowing

- Refinancing bonds
- Transportation bonds, up to $250 million per year

Exemptions ensure that these bonds won't "crowd out" other general borrowing (e.g. for school construction and economic development)

However, the Bond Lock might stop those changes from taking effect
THE BOND LOCK AND THE BOND CAP “DRAFTING ERROR” EXPLAINED.

Locking in restrictive caps
Bond Lock

*Connecticut has handcuffed itself to the spending cap, bond cap, and two other fiscal restrictions and given the key to Wall Street bondholders*

For each bond issuance between 2018 and 2020, the Treasurer must write a promise into the bond covenant stating that the caps will remain in effect, without amendment, through 2023.

Only exit options are:
- (1) Governor’s emergency declaration, with a 3/5 vote in both houses; or
- (2) Adequate protection for bondholders

Otherwise amending the caps would place the state in technical default, and at risk of a lawsuit.
Bond Lock Already Imperiled Key Changes to Bond Cap

Due to a “drafting error,” the bond cap amendments took effect too late, after the Treasurer had inadvertently locked into the overly restrictive bond cap
Where things stand

• Low revenue growth

• Growing fixed costs

• A tight budget that fiscal restrictions may tighten further

• The bond lock has locked in flawed versions of the volatility cap and the bond cap. Left unchanged, this will force completely unnecessary cuts to programs, school construction, municipal aid, and other spending.
Bond Lock

We need to fix this NOW.
What can we do about it?

- **Free ourselves from damaging fiscal restrictions:**
  - Repeal implementation of the Bond Lock to allow us to fix the flawed caps.
  - Reform the current volatility cap to ensure the predictability, adequacy, and responsivity of Connecticut’s overall revenue and appropriations systems.

- **Make revenue system more efficient and more equitable:**
  - Modernize the state’s taxing and grant making formulas to raise and distribute revenue in ways that are more equitable, efficient, and adequate to support the needs of children and families across Connecticut.

- **Ensure that working parents have the financial means to meet the needs of their families:**
  - Restore Earned Income Tax Credit to 30% of a filer’s federal credit.
  - Raise minimum wage to $15/hr.
  - Create statewide Paid Family Medical Leave insurance system.
Thank you.
Contact us

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Fairfield County Community Foundation
Community Foundation for Eastern CT