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TESTIMONY REGARDING S.B. 946, AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR´S BUDGET

Good Afternoon Senator Fonfara, Representative Berger and Members of the Finance, Revenue and Bonding Committee. I am Roger Senserrich, Policy Director at the Connecticut Association for Human Services (CAHS). CAHS is a statewide, nonprofit agency that works to reduce poverty and promote economic success through both policy work at the Capitol and program work in low-income communities statewide.

I am here to comment on the provisions on S.B. 946 implementing the Governor's budget proposal. Our position is that this proposal, as written, does not raise enough revenue to pay for services and programs that are vital for low-income families in Connecticut, resulting in major cuts to the budget that fall disproportionately on low-income children and families and other disadvantaged people. This committee and the General Assembly should consider including new funding streams, eliminating tax expenditures and closing tax loopholes in order to fund these programs and avoid deep cuts that will cause much pain to people who can least afford it. This new revenue will require a change in Connecticut´s spending cap, something that CAHS supports. In addition, we would like to ask this committee to reconsider some of the included revenues in the budget proposal, as they disproportionately affect low-families.

The Governor´s budge proposal, as it stands, includes $590 million in spending cuts to cover about half of the predicted deficit. More than fifty per cent of these cuts come from children´s programs[i]. These cuts include a 4.9% cut to spending for K-12 education, eliminating health insurance coverage for more than 30,000 parents and pregnant women (turning Connecticut´s Medicaid program into one of the most stringent in the country[ii]), a 9.3% cut in higher education funding, the elimination of several very successful workforce programs (STRIVE, Youth Employment) and significant cuts to a whole slew of other initiatives. In a challenging budget year, most of the cuts are falling in those that cannot challenge them and on those who are the most vulnerable.

Some of the news sources of revenue included in the Governor´s proposal also fall the hardest in low-income families. The budget delays a scheduled increased in Connecticut´s

Earned Income Tax Credit[iii], and a large portion of included new revenue comes from not restoring the clothing sales tax exemption. A recent study by the state Department of Revenue Services[iv] indicates that Connecticut tax system as a whole is very regressive, with households in the lower 10% of the income distribution paying close to 24% of their income in state and local taxes, compared to the 6.4% effective tax rate faced by the top 20%. These changes would make this imbalance worse.

To avoid damaging cuts and restore the progressivity of our tax system we believe we need to look at other sources of revenue. Connecticut Voices for Children, in a report published today[v], has shared several new revenue options, including:

- **Raising the top marginal income tax rates for households making more than $500,000 a year:** the income tax is the most progressive form of taxation in the state´s tax code. Currently Connecticut´s top marginal rates are well below the states in our region; a modest increase (to 7% for incomes $500,000-1,000,000 and 7.5% for incomes above $1,000,000) would only affect 2% of Connecticut households and potentially raise $300 million in new revenue. This increase will not lead to wealthy residents leaving the state; studies have repeatedly showed that tax rates are not a factor in this regard[vi].
- **Eliminating outdated tax expenditures:** the Office of Fiscal Analysis produces an annual report on Connecticut tax expenditures[vii]. These are tax breaks and incentives included in the tax code to support nascent industries or promote economic activity. Many of the exemptions and deductions, however, are outdated, and have a strong financial impact on the budget. We support eliminating many of these expenditures, as well as adding an automatic sunset clause to all provisions.
  The computer and data processing exemption, for instance, costs the state more than $140 million a year. Eliminating it would raise $137.7 million, enough to reverse all the Medicaid cuts. The health and athletic club services exemption would raise close to $11 million, enough to fully offset the restoration of the EITC.
- **Broaden the base on the sales tax:** the sales tax currently does not cover many services, including accountants or attorneys. Broadening the base to cover currently exempt services could potentially raise enough revenue to lower the overall rate, or preserve exemptions for low-income families.
- **Taxes on soda and sugar sweetened beverages:** a tax on sugary drinks would improve health; depending on how it is structured it could raise $160 million.

We understand that any revenue increases would require revising Connecticut´s constitutional spending cap. The current cap is calculated using the increase in personal income for residents for the past five years (2008-2013, as the reference is the FY13 budget). As a result, the current spending increase is calculated using the worst years of the great recession as reference, creating an exceptionally low spending cap. CAHS believes that this circumstance is enough to warrant a revision of the spending cap for this fiscal year. We are open to working with the members of the committee to evaluate possible options, and we will support the changes. In addition, a more flexible spending cap would also reduce the use of tax expenditures as a public policy tool. The legislature has often resorted to tax breaks or deductions instead of direct spending to promote economic activity to stay under the cap, a less transparent a more inefficient policy instrument.

CAHS believes that Connecticut needs to have a fiscally responsible state government. In order to accomplish that, however, balancing the budget is not enough: we need a state government that is able to invest in its infrastructure, in education, in giving a second chance to those that fall on hard times. It is for this reason that we encourage this committee to seek new revenue streams to make these investments possible. Thanks for your time today.

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[i] http://www.ctvoices.org/publications/impact-governors-fy-2016-budget-children

[ii] Only three states (Idaho, South Dakota and Oklahoma), for instance, limit health coverage eligibility for pregnant women at the same level as the proposed budget.

[iii] It was scheduled to be restored to 30% of the Federal tax credit; it this budget it would remain at 27.5%.

[iv] http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf

[v] Defiesta, N. and Shemitz, E. (2015) "Funding Our Future: Child and Family Friendly Revenue Options" CT Voices for Children. Available here: http://www.ctvoices.org/publications/funding-our-future-child-and-family-friendly-revenue-options

[vi] See http://www.cbpp.org/cms/?fa=view&id=3556 for a literature review. The main driver for migration outflows in Connecticut and the Northeast, incidentally, is housing prices – and middle class families are more likely to leave than the wealthy.

[vii] See http://www.cga.ct.gov/ofa/Documents/year/TER/2014TER-20140102_Tax%20Expenditure%20Report%20FY%2014.pdf for 2014´s version.