

BUDGET CONNECTIONS

A Connecticut Voices for Children
Research Brief

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SFY 03 BUDGET REVISED: TEN FAST FACTS

Part 1: Addressing the SFY 02 Deficit and Adjusting SFY 03 Revenues

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On August 12, 2002, the Connecticut General Assembly, meeting in special session, finished its work revising the SFY 03 budget. CT Voices' analysis of these budget revisions will have three parts. The first reviews how the General Assembly decided to close the SFY 02 deficit and generate additional revenues to close the projected SFY 03 deficit. The second will examine changes in SFY 03 spending, while the third will assess changes in bonding.

The following *ten fast facts* summarize key findings from Part 1 of this budget summary:

1. Over the past year, the General Fund's "bottom line" has shifted by nearly \$1.7 billion –from a surplus of nearly \$600 million in the state fiscal year that ended June 30, 2001 (SFY 01) to a \$1.1 billion deficit in SFY 02. The SFY 02 deficit was caused in large part by General Fund revenues that were 9.5% (\$1.13 billion) less than the prior year's revenues. Half the revenue decline was attributable to the personal income tax. Declining revenues from capital gains, and the loss of 11,300 jobs in the fiscal year explain this drop in income tax. The poor economy also resulted in sharp declines in sales tax and corporate tax revenues, which were down 4.1% and 31.9% from the previous fiscal year.
2. To address the SFY 02 deficit, the Governor and General Assembly took \$294.8 million of deficit-reducing actions (spending cuts, fund re-allocations to cover agency deficiencies, mandated "lapses," and the cigarette tax increase). Despite these "belt-tightening" measures, Connecticut still had a SFY 02 deficit of \$812 million. To "balance" the SFY 02 books, Connecticut will use *all* of its Rainy Day Fund (\$595 million) and then BORROW nearly \$220 million to cover the remaining deficit.
3. Projected revenue shortfalls in SFY 03 (which began July 1, 2002) meant that the SFY 03 budget as originally passed also was going to have a significant deficit. Through a variety of revenue and spending bills, the Governor and General Assembly, in the 2002 regular and special sessions, sought to address this deficit. Despite these tough state budget times, however, the revised SFY 03 budget also includes some *new* business tax breaks and the continued phase-in of some business tax breaks enacted in the prosperous late 1990s
4. The revised General Fund budget for SFY 03, at \$12.1 billion, is about \$340 million less than the \$12.4 billion budget originally adopted. The projected SFY 03 deficit was closed in part through

spending cuts, tax increases (nearly \$230 million, more than half of which is from the increased cigarette tax), a tax amnesty program (\$22 million), and in large part by the use of “one-time” revenue sources (\$341 million). In addition, the state is under-funding its annual contribution to the teachers' retirement fund, thereby “saving” \$32 million in SFY 03 (but actually just passing this obligation on to future generations).

5. The one-time SFY 03 "revenue" enhancers include transfers of money to the General Fund from various other funds (e.g., \$67 million from the tobacco settlement funds) and from the cash reserves of various quasi-public agencies (e.g. \$85 million from the CT Housing Finance Authority), and the selling of Anthem stock (\$127 million).

6. Because so many one-time revenues are used to balance the revised SFY 03 budget, it is a boomerang budget. That is, it does not provide sufficient revenues on an on-going basis after SFY 03 to keep current programs and services funded. This creates a revenue gap that necessarily will come back around next year and need to be addressed.

7. Without a very significant improvement in state revenues, and some very fundamental structural changes to Connecticut's tax code, the budget challenges next year will be even greater than this year's challenges have been.

8. Connecticut's state and local tax structures must be revised to assure adequate, predictable, and stable revenues and to generate those revenues in an equitable manner.

9. Even without the down-turn in Connecticut's economy, Connecticut's state budget was facing deficits in the near future. Preferential tax breaks (exemptions, deductions, credits, and rate reductions), many of which were enacted over the prosperous 1990s, have eroded nearly \$4 billion/year from Connecticut's revenue base. In addition, Connecticut's mounting indebtedness has increased the state's debt service payments from about \$0.50 on every \$10 spent by the state (in 1988) to more than \$1 of every \$10 spent.

10. Connecticut's failure to face up to the realities of its budget crisis is not without consequence. For example, Moody's Investors Service recently put a "negative" credit outlook on Connecticut. Moody's cited as factors: a) that the revised SFY 03 budget was balanced using a total of about \$600 million in one-shot revenue sources that will leave the state with a budget gap even if the economy recovers; b) the Rainy Day Fund was depleted to cover the SFY 02 deficit; c) Connecticut is the most indebted state per capita; and d) Connecticut has large unfunded pension liabilities.