

SCHOOL + STATE  
FINANCE PROJECT

[www.schoolstatefinance.org](http://www.schoolstatefinance.org)

# THE ECONOMY, STATE FINANCE, AND YOU

*UPDATED: May 12, 2020*

# About the School and State Finance Project

- Founded in 2015, the School and State Finance Project (formerly known as the Connecticut School Finance Project) is a nonpartisan, nonprofit policy organization, focused on education funding and state finance issues.
- Our organization is committed to providing independent analysis, building public knowledge, improving transparency, and developing fair, sustainable solutions for some of the toughest education funding and state finance challenges.
- Although not a member-based organization, we actively work with a diverse group of stakeholders and communities.
- We aim to serve as a trusted resource for policymakers, school district officials, community leaders, and all individuals looking for transparent, accessible, and approachable information about education funding and state finances.

# Our Goals & Objectives

- Serve as a trusted, independent source of accurate data, information, and research
- Increase awareness and build public knowledge about Connecticut's education finance system, state budget, and overall fiscal health
- Improve transparency around Connecticut's education and state finances
- Work collaboratively to develop thoughtful, data-driven solutions that address Connecticut's education funding and state finance challenges
- Provide technical assistance to partner organizations seeking to solve education finance-related challenges.

# What We Do

- **Accurate, Independent Data and Analysis**

Accurate data and analysis is the backbone of our organization. We provide up-to-date data with easy-to-understand analysis about 1) how CT funds its public schools and 2) CT's budget and financial state.

- **Reports and Policy Briefings**

We consistently produce in-depth reports and policy briefings about various topics related to education finance, the state budget, and other issues impacting CT's fiscal health.

- **Handouts, Education Materials, and Policy Toolkits**

We create customized, approachable handouts and materials that help communities and stakeholders better understand CT's education and state finances, and then effectively share that information with their neighbors, policymakers, and personal networks.

- **Support ALL Students and Public Schools**

As part of our education finance work, our organization is committed to developing, and raising awareness about the need for, an equitable, unified state education funding formula that treats ALL students fairly based on their learning needs and the needs of the districts and communities that serve them.

# What We Don't Do

- **Weigh In on Local Education Finance or Budget Issues & Policies**

While municipalities play an important role in the state's education finance system and have an obligation to appropriately (while considering the town's wealth and needs) contribute funds to the education of their school-age children, we do not work on local education finance or budget issues and policies.

- **Support and/or Endorse Local Initiatives**

As an organization focused on statewide issues and policies related to education funding and state finance, we do not support and/or endorse any local initiatives.

- **Endorse Elected Office Candidates & Referendums**

As a nonprofit, nonpartisan organization, we do not endorse elected officials, candidates for elected office, and/or referendums/ballot measures. Furthermore, we do not engage in and/or interfere in any election in any way.

- **Manipulate Data or Present Inaccurate Data Findings**

We never manipulate data, present inaccurate findings, or provide information without proper context. As an independent organization, we also do not change data to show a particular finding or support a policy position. We use official state and federal data as much as possible and all data used is for the most recent year available.

# We are talking about the economy and state finance because...

- Both the economy and state finance affect you every day!
- Both state taxes (sales, income, etc.) and local taxes (property taxes) are part of the economy.
- The economy impacts education, workforce development, and jobs.
- The cost of housing and groceries change with the economy.
- So many have had questions, and we want you to be able to add your voice to the conversation — in short, we want to empower you!

**The economy is about...**

# People



People choose to spend or save money  
due to the scarcity of resources



# Businesses



Businesses buy and produce goods and services. A growing economy may enable businesses to hire additional workers, make large capital purchases, borrow money, and/or purchase more services. The inverse is also true.

# Communities



Communities are impacted by the economic decisions made by the people and businesses residing there

**Ultimately, the economy  
is about...**

# Choices

Every choice we make, at home or at work, impacts the economy.

- Money being made, and by who, in what industries?
- Money being spent, and how or on what?
- What are people selling?

Examples:

- Are you putting money into savings? How much?
- Are you investing in retirement?
- Are you in the market for a car? New or used?
- Should a business expand and hire more people?

**Let's start at the beginning**

# The Economy as an Ecosystem

- A complex network
- An interconnected system
- Includes:
  - Living organisms
  - Their environment
  - Usually refers to a particular space or location



# Connecticut's Early Ecosystem

Early colonizers found a wealth of natural resources in Connecticut

- Moderate climate
- Great forests and woodlands
- Easy access to waterways
- All of the resources of the sea

The natural resources of this environment were used in a constrained way, primarily through subsistence farming, and Connecticut focused on labor and the conversion of natural resources to usable goods.

# Connecticut Town Nicknames

Connecticut's cities had nicknames based on their manufacturing specialty.

- The Copper City
  - Thread City
  - Clock City
  - Brass City
  - Hat City
  - Hardware City
  - Silk City
  - Silver City
- Ansonia  
Willimantic  
Bristol  
Waterbury  
Danbury  
New Britain  
Manchester  
Meriden



**That is old news.  
What about today?**

# Connecticut's Current Ecosystem

- Diverse people
- A service, rather than manufacturing, economy
- 169 unique communities
- Preservation of natural resources
- Skilled & educated labor force

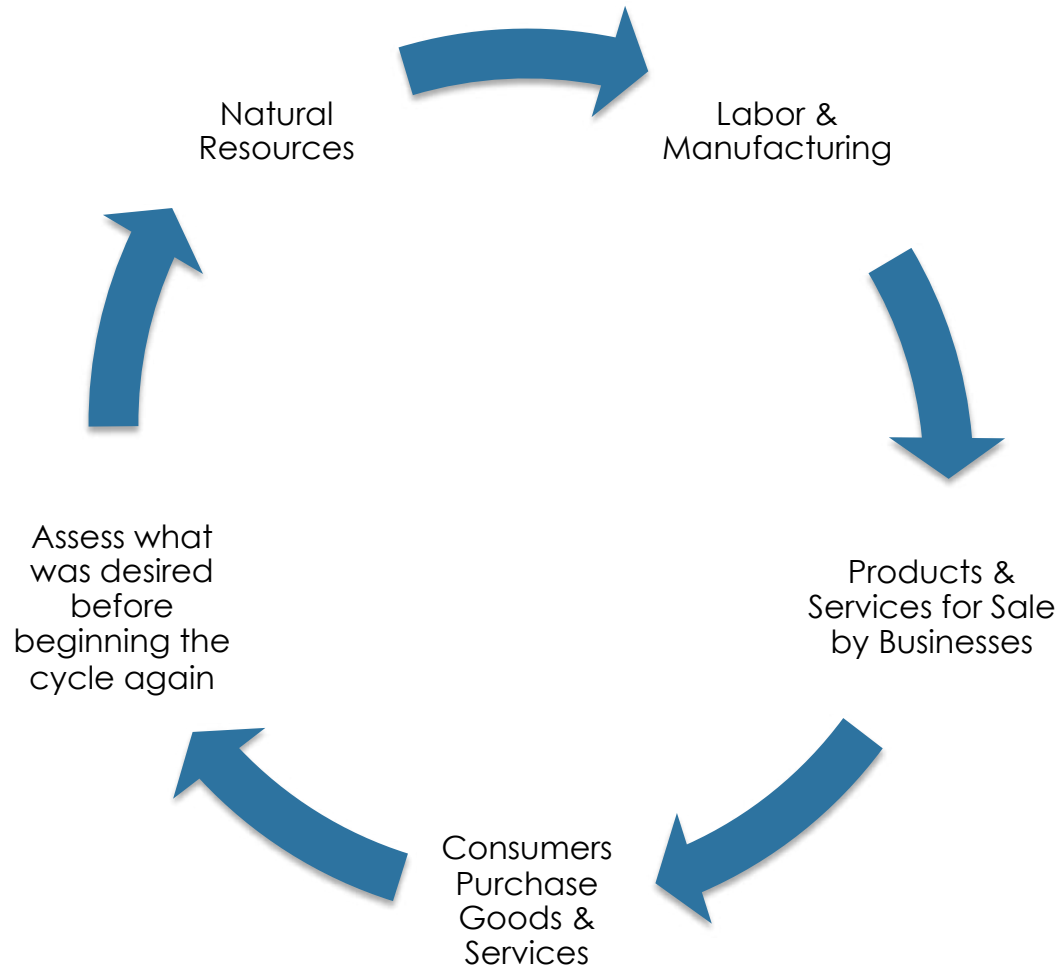


# You've heard of some these terms

Term	Definition
<b>Goods</b>	Physical products that can be bought or sold
<b>Services</b>	Non-physical or intangible products; typically related to skills (such as hairdressing or finance)
<b>Supply</b>	The amount of goods and services available
<b>Demand</b>	The amount of a good or service that people are willing and able to buy
<b>Producer</b>	An individual, firm, or government that <u>makes</u> goods or services
<b>Consumer</b>	An individual, firm, or government that <u>purchases</u> goods and services.

Source: The Economist. (n.d.). Economics A-Z Terms. Retrieved from <https://www.economist.com/economics-a-to-z>.

# The Economic Ecosystem Cycle



# IS IT JUST THAT EASY? RESOURCES AND LABOR?

HOW IT ALL COMES TOGETHER

# We have to measure it!

- Economists use GDP – Gross Domestic Product to measure the economy.
- We use GDP to measure economic **output**.
- GDP speaks to how productive we are, and how active consumers are.

GDP <u>Does</u> Include...	GDP <u>Does NOT</u> Include...
<ul style="list-style-type: none"><li>• All goods and services that businesses sell (both in the United States and internationally)</li></ul>	<ul style="list-style-type: none"><li>• Unpaid services, like volunteering, and other unpaid work, such as parenting and family elder care</li><li>• Unreported barter or trades</li></ul>

Source: The Economist. (n.d.). Economics A-Z Terms. Retrieved from <https://www.economist.com/economics-a-to-z>.

# Why are we measuring?

When we measure and monitor the GDP, it helps:

- **Policymakers:** who can look at the GDP to determine where we are in the business cycle, and what fiscal policies are needed
- **Business owners:** who look at GDP in part to make decisions about hiring and investing in their business.

In Connecticut, we can look at Gross State Product (GSP) to guide economic policy decisions such as:

- Public spending
- Bonding debt
- Tax policy

# Inflation and Deflation

**Inflation** – When demand is greater than supply, cost goes up.

- Once this happens, consumers expect ongoing price increases, so they buy more immediately, before prices go up. This increases demand even more.
- Another cause is an increase in the money supply.
- When the money supply increases, money becomes a little less valuable, and it takes more to buy goods and services, so prices go up.

**Deflation** happens when prices fall.

- This can be due to a decrease in the money supply, or something as simple as a decline in consumer confidence.
- Deflation is much harder to turn around than inflation.





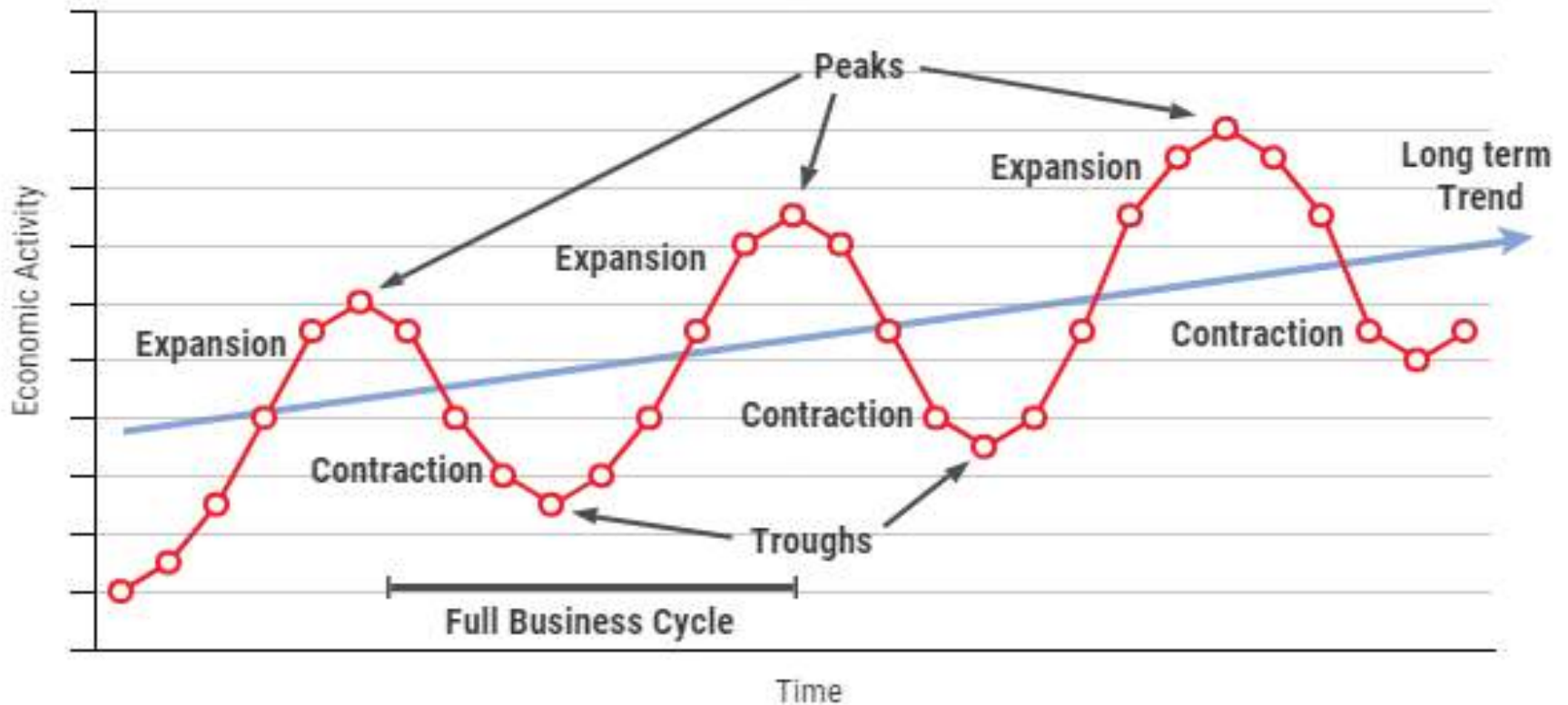
# Growth and the Business Cycle

The Business Cycle is not a regular cycle. Expansions and contractions occur at irregular intervals.

Period	What Happens?
<b>Expansion</b>	Increase in employment and the production of goods and services.
<b>Peak</b>	Growth reaches a maximum level as prices hit their highest level.
<b>Contraction</b>	Unemployment rises, production slows, sales decrease due to drop in demand, and income decreases. Negative economic growth leads to recessions.
<b>Trough</b>	The period of time that marks the end of a contraction and leads the economy back into expansion.

Source: Stupak, J.M. (2019). *Introduction to U.S. Economy: The Business Cycle and Growth* (CRS Report No. IF10411). Retrieved from Congressional Research Service website at <https://fas.org/sgp/crs/misc/IF10411.pdf>.

# Phases of the Business Cycle



# HOW DO WE TRY TO CONTROL THE ECONOMY?

WHAT CHOICES CAN WE MAKE?

# The policies that stabilize the economy

- **Fiscal** – The use of government spending and taxes to influence the economy.
- **Monetary** – The Federal Reserve influences the availability and cost of credit in the economy (U.S. only).
- **Trade** – The regulations and agreements that control imports and exports with foreign countries.

# What is fiscal policy?

- These are the budget choices the government makes about how to spend money.
- This is money that comes from your taxes.
- The choices on how we spend this money can:
  - Stimulate economic growth
  - Guide or manage the path of the economy
  - Depress the economy
- Only businesses can create economic growth.
  - Why?

Source: Weil, D.N. (n.d.). Fiscal Policy. *The Library of Economics and Liberty*. Retrieved from <https://www.econlib.org/library/Enc/FiscalPolicy.html>.

# What is monetary policy

- The U.S. Federal Reserve Banks control the nation's monetary policy
- The way they do this includes:
  - Controlling the money supply
  - Determining the use of credit through interest rates
- The primary goal of monetary policy is to control inflation.
- The secondary goal of monetary policy is to stimulate the economy.

Source: Board of Governors of the Federal Reserve System. (2019, September 4). Monetary Policy. Retrieved from <https://www.federalreserve.gov/monetarypolicy.htm>.

# What is trade policy?

- Trade occurs between countries on an international level
- U.S. states trade and do business with each other and foreign countries
- **Tariffs** – Taxes or duties paid on particular imports and exports that influence the gains from trade. (U.S. and China Trade Dispute)
- **Trade Agreements** – These agreements with other countries generally have the goal of improving the opportunities for Americans, and improving the economy.

Source: Irwin, D.A. (2001, November 26). A Brief History of International Trade Policy. *The Library of Economics and Liberty*. Retrieved from <https://www.econlib.org/library/Columns/Irwintrade.html>.

SO, WHAT DOES THIS  
ALL MEAN FOR US IN  
CONNECTICUT?



# Connecticut's Jobs

- In 2019, approximately 87% of Connecticut's labor force worked in service providing industries like transportation, information, finance, health, education, business, and government.
- In 2019, approximately 13% of Connecticut's labor force worked in goods producing industries like manufacturing, construction, or mining.
- Connecticut's total employment is approximately 1.7 million workers.
- Total employment has been slow to recover since the Great Recession.

Source: State of Connecticut, Department of Labor, Office of Research. (2019). Industry Sectors Employment (CES) – State of Connecticut. Retrieved from <https://www1.ctdol.state.ct.us/lmi/SecEmp.asp>.

# Manufacturing is Connecticut's largest goods producing industry sector

Industry Supersector	Estimated January 2020 Employment	Percent of Total
Mining, Natural Resources, and Construction	55,400	25.6%
Manufacturing	160,800	74.4%
<b>Total Goods Producing</b>	<b>216,200</b>	<b>100%</b>

Source: State of Connecticut, Department of Labor, Office of Research. (2020). Industry Sectors Employment (CES) – State of Connecticut. Retrieved from <https://www1.ctdol.state.ct.us/lmi/SecEmp.asp>.

## Education and Health Services, along with Trade, Transportation, and Utilities, are Connecticut's largest service producing industry sectors

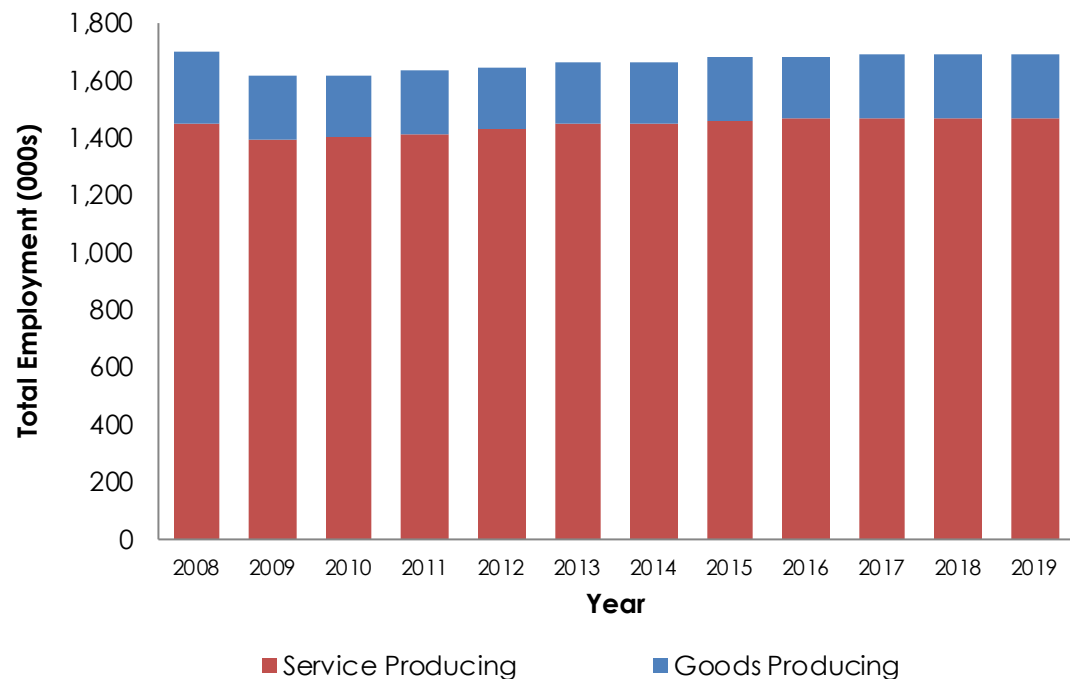
Industry Supersector	Estimated July 2020 Employment	Percent of Total
Educational and Health Services	339,800	23.4%
Financial Activities	123,200	8.5%
Government (Non-Military)	236,600	16.3%
Information	31,200	2.1%
Leisure and Hospitality	146,200	10.1%
Other Services	63,500	4.4%
Professional and Business Services	216,900	14.9%
Trade, Transportation, Utilities	295,000	20.3%
<b>Total Service Providing</b>	<b>1,453,300</b>	<b>100%</b>

Source: State of Connecticut, Department of Labor, Office of Research. (2020). Industry Sectors Employment (CES) – State of Connecticut. Retrieved from <https://www1.ctdol.state.ct.us/lmi/SecEmp.asp>.

# Connecticut's job growth has been steady since the Great Recession

- Connecticut had approximately the same number of non-farm employees in 2019 as it did in 2008.
- Since 2008, the number of residents employed in service producing industries has slightly increased.
- Since 2008, the number of residents employed in goods producing industries has slightly decreased.

Connecticut's Non-Farm Employment by Industry Type over Time (000s)



Source: State of Connecticut, Department of Labor, Office of Research. (2019). Industry Sectors Employment (CES) – State of Connecticut. Retrieved from <https://www1.ctdol.state.ct.us/lmi/SecEmp.asp>.

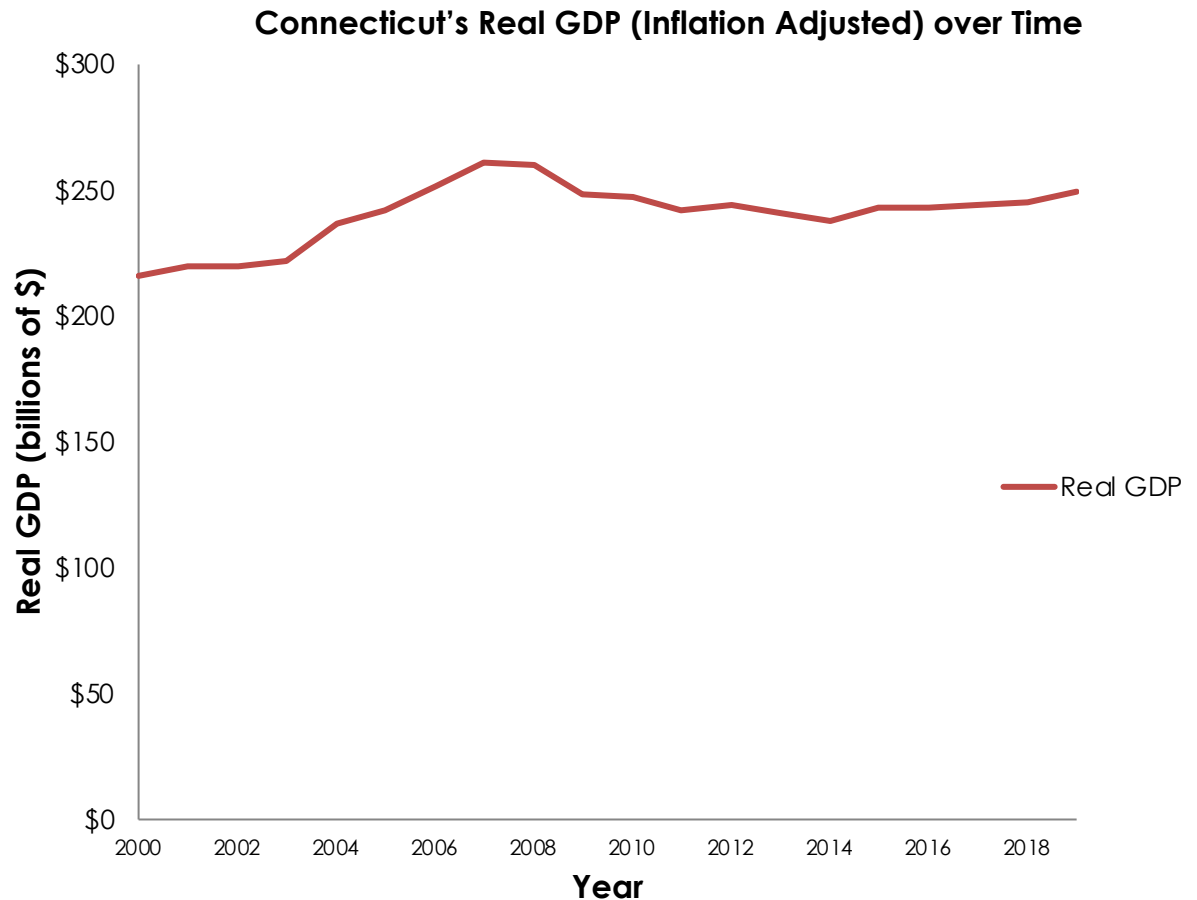
# Connecticut's Economic Growth

- Connecticut's GDP growth ranked 33<sup>rd</sup> in the nation in the 2019, but the state's total GDP was the 23<sup>rd</sup> highest in the nation at approximately \$286 billion.
- Connecticut's GDP remains relatively stagnant, and shows very slow economic growth.
- Connecticut's unemployment rate in 2019 ranked 33<sup>rd</sup> in the nation at 3.7%, tied with the national rate of 3.7%.
- Despite poor growth, Connecticut remains a relatively affluent state.
- Connecticut's median household income in 2019 was an estimated \$76,106, approximately \$15,800 higher than the national median household income.

Source: U.S. Bureau of Economic Analysis. (2020, April 8). *Gross Domestic Product by State: Fourth Quarter and Annual 2019* [Press release]. Retrieved from <https://www.bea.gov/news/2020/gross-domestic-product-state-4th-quarter-and-annual-2019>.

# Connecticut's Real GDP has remained stagnant

- From 2000 to 2008, Connecticut's real GDP increased by approximately 20%.
- From 2008 to 2019, Connecticut's real GDP decreased by approximately 4%.



Source: U.S. Bureau of Economic Analysis. (2020, April 8). *Gross Domestic Product by State: Fourth Quarter and Annual 2019* [Press release]. Retrieved from <https://www.bea.gov/news/2020/gross-domestic-product-state-4th-quarter-and-annual-2019>.

# What does this mean to me?

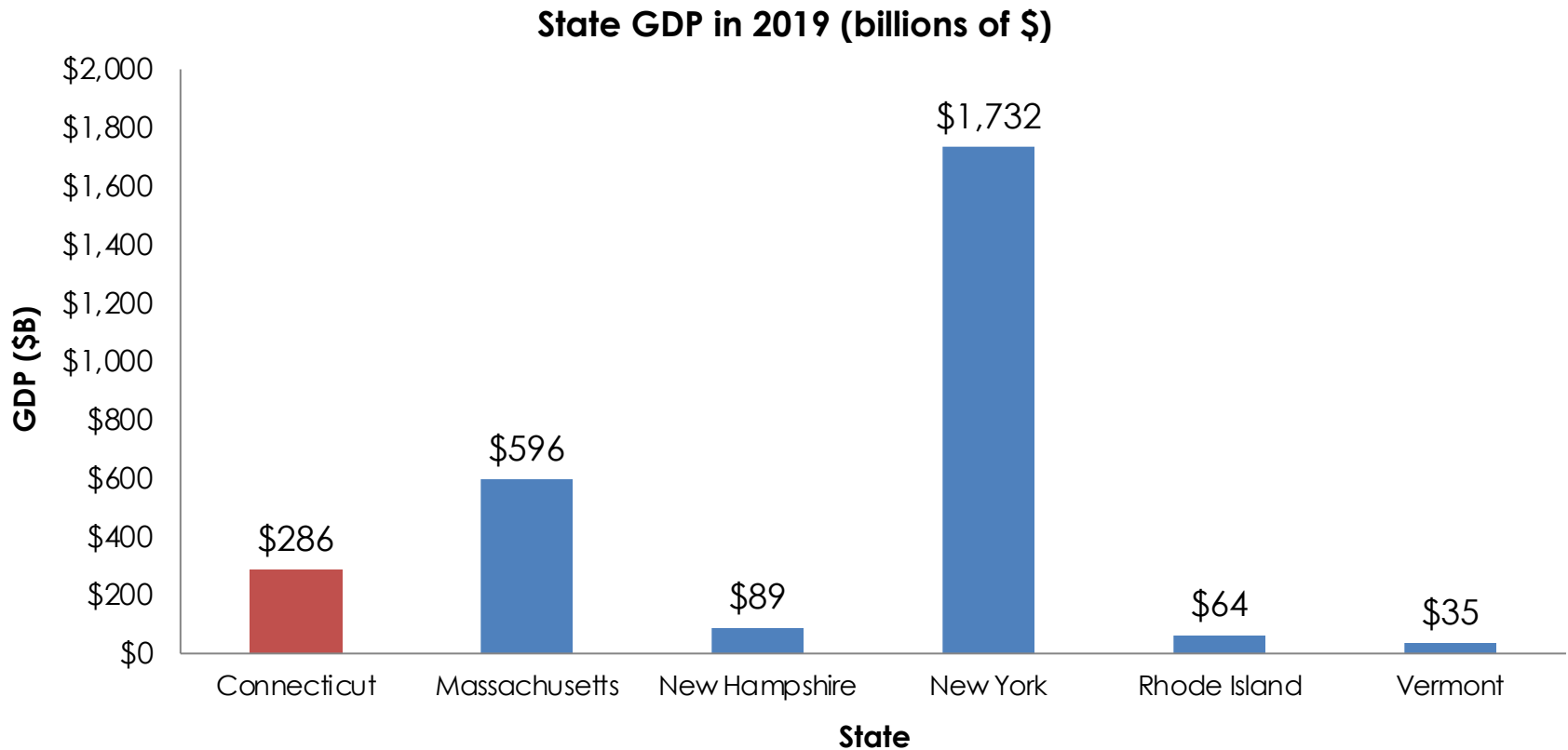
In a state economy with more rapid job growth and a stronger, more consistent, or robust GDP growth you will find:

- Higher consumer confidence – people buying from local businesses
- Policymakers able to make strategic, forward-guiding decisions rather than decisions responding to weak growth
- Business investments – more jobs, competitive pay

# HOW DO WE STACK UP TO OUR NEIGHBORS?



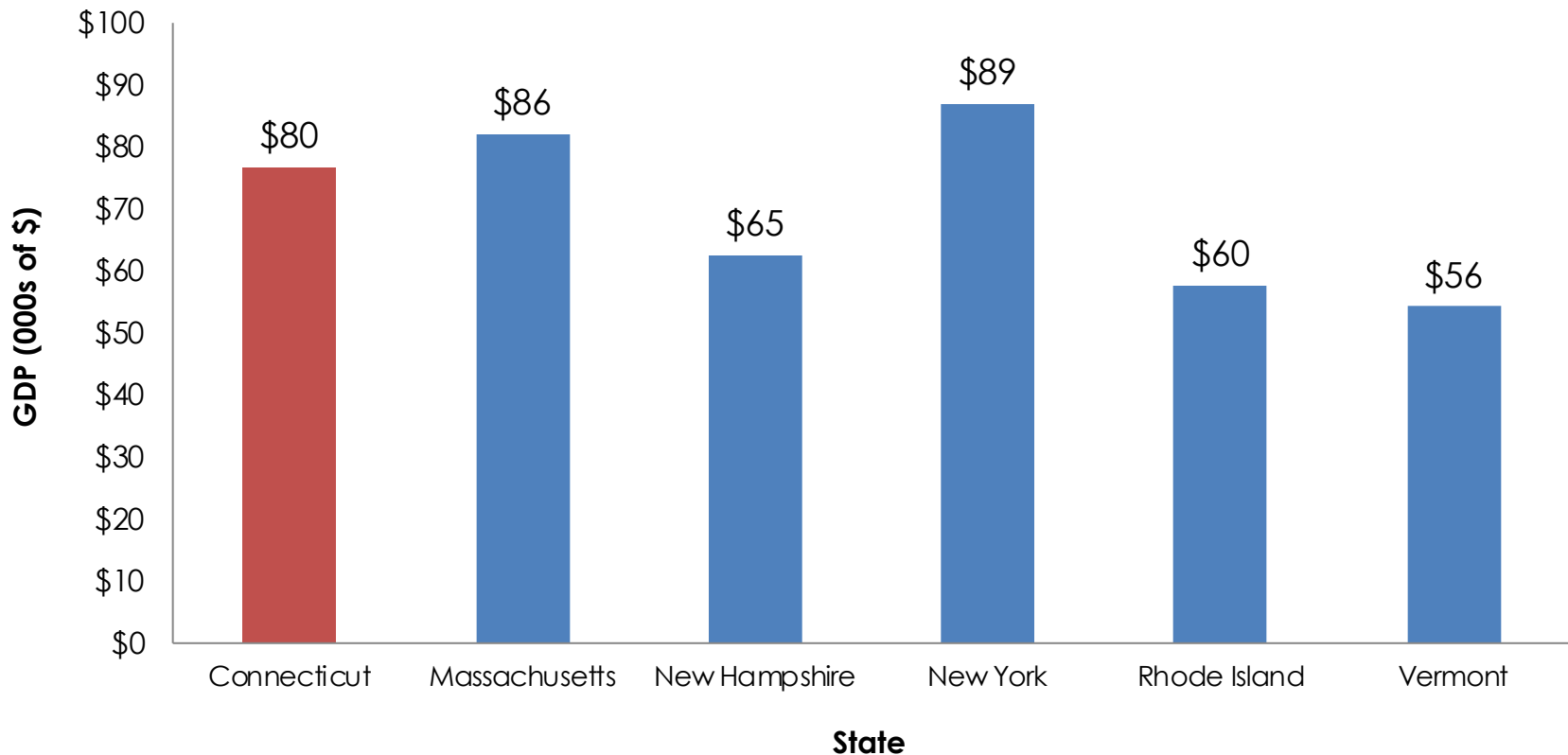
# Connecticut's GDP exceeds all New England states except Massachusetts



Source: U.S. Bureau of Economic Analysis. (2020, April 8). *Gross Domestic Product by State: Fourth Quarter and Annual 2019* [Press release]. Retrieved from <https://www.bea.gov/news/2020/gross-domestic-product-state-4th-quarter-and-annual-2019>.

# Connecticut's GDP per capita is the second highest in New England

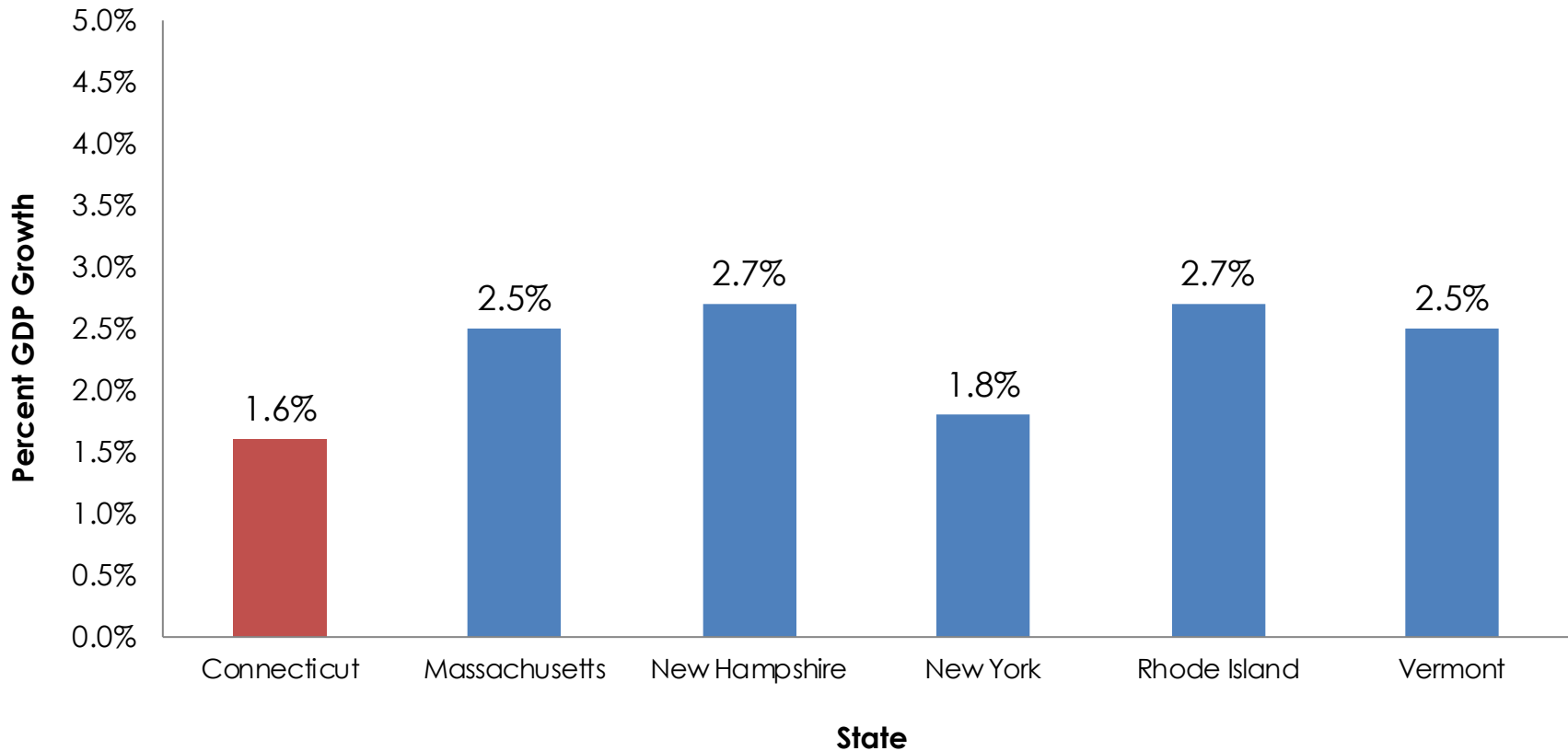
State GDP per capita in 2019 (000s of \$)



Source: U.S. Bureau of Economic Analysis. (2020, April 8). *Gross Domestic Product by State: Fourth Quarter and Annual 2019* [Press release]. Retrieved from <https://www.bea.gov/news/2020/gross-domestic-product-state-4th-quarter-and-annual-2019>.

# Real GDP Growth in Connecticut remains at the low end of New England states

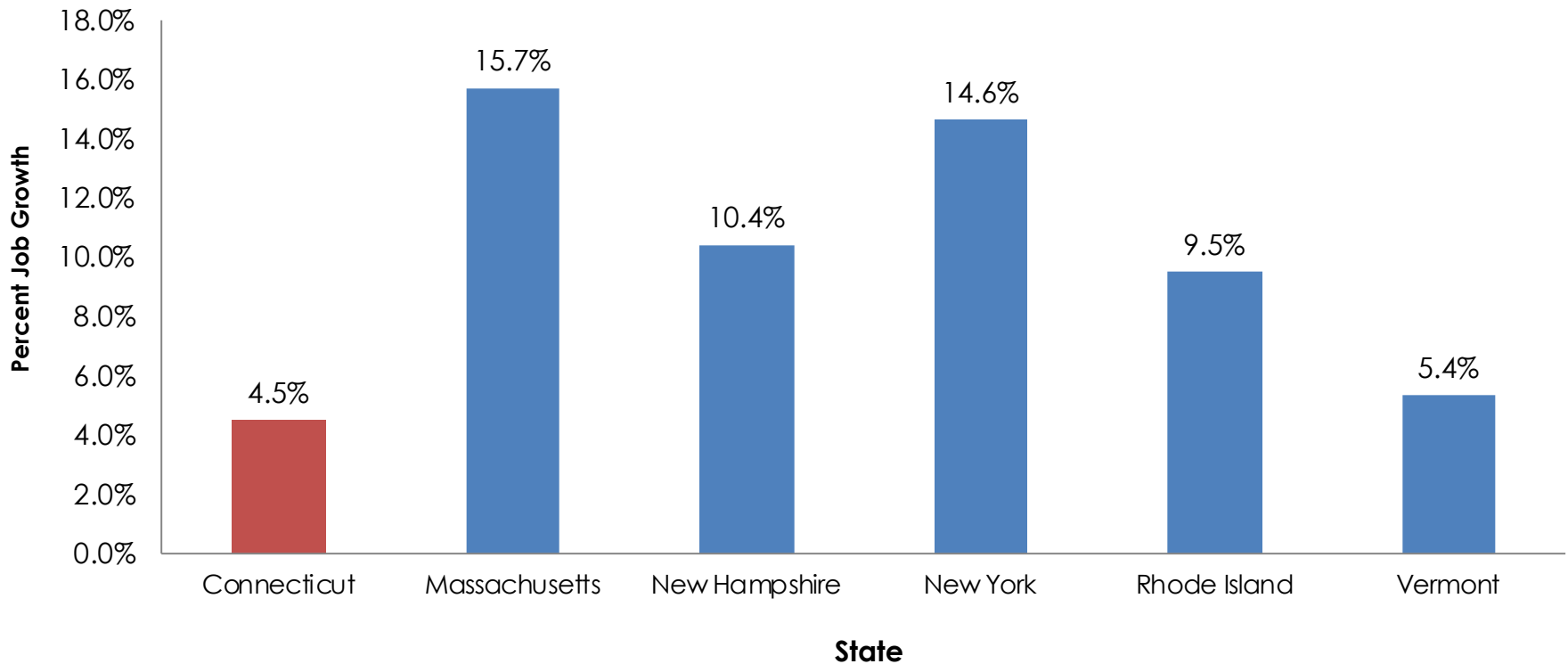
State GDP 2019 Percent Change (Year over year)



Source: U.S. Bureau of Economic Analysis. (2019, May 1). *Gross Domestic Product by State: Fourth Quarter and Annual 2018* [Press release]. Retrieved from <https://www.bea.gov/news/2019/gross-domestic-product-state-fourth-quarter-and-annual-2018>.

# Job growth in Connecticut remains low compared to neighboring states

Percent Change in Employees since the Great Recession  
(Total Nonfarm Payrolls)



Source: U.S. Bureau of Labor Statistics. (2020). All Employees, Total Nonfarm for Selected States. Available from <https://fred.stlouisfed.org/categories/27281>.

GROWTH IS GOOD,  
RIGHT?

# Not always. Economic growth can conflict with...

- **Environmental protection** – Natural resources are a key part of the economy, and they are finite.
- **Economic sustainability** – It is not possible for growth to continue indefinitely.
- **International stability** – Internationally, the dollar is used as a global currency measure.

# Evidence of the Conflict

- Pollution, depletion of resources, and other negative ecosystem impacts are the costs of economic growth.
- These negative impacts are observed through the loss of ocean fisheries and pollinators, deforestation, concentrations of toxic pollution, and climate change.
- These impacts are felt by individual countries and the international community as a whole.

**Uneconomic growth  
exists as well**



# Uneconomic growth

This occurs when we strive to grow the economy at a cost higher than the benefits realized.

Type of Growth	What Happens?
<b>Jobless Growth</b>	The economy grows but employment does not.
<b>Ruthless Growth</b>	Growth only benefits the wealthy.
<b>Voiceless Growth</b>	Economic growth is not partnered with democracy or empowerment.
<b>Rootless Growth</b>	Economic growth minimizes cultural identity.
<b>Futureless Growth</b>	The decisions made today squander the resources of the next generation.

Source: Center for the Advancement of the Steady State Economy. (n.d.). Downsides of Growth. Retrieved from <https://steadystate.org/discover/downsides-of-economic-growth/>.

# ECONOMIC POLICY IN CONNECTICUT

# We are talking about economic policy in Connecticut because...

- It is about the taxes you pay. Examples:
  - Income
  - Sales
  - Property
- It is about what we as a state choose to invest in. Examples:
  - Roads
  - Education
- Your voice helps to determine spending and policy priorities.

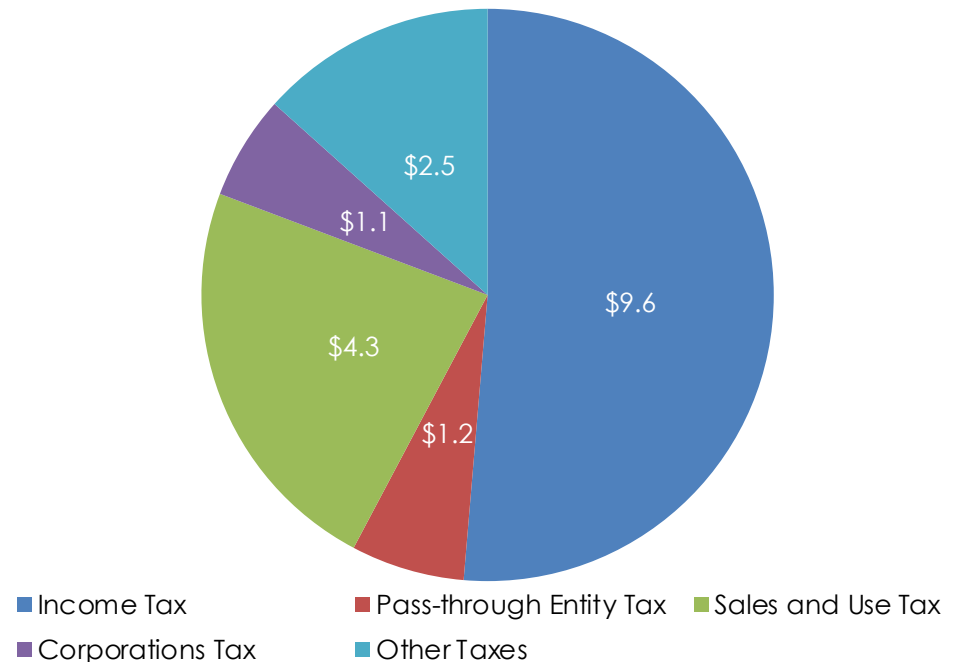
**Before the State spends  
money, it must raise revenue**

# Revenue – Taxes

## (Fiscal Policy)

- **Income Tax** – The state's largest source of revenue. In fiscal year 2019, the state income tax yielded over \$9.64 billion (52%) of the State's total gross tax revenues.
- **Sales and Use Tax** – In fiscal year 2019, the sales and use tax generated approximately \$4.3 billion (23%) of total gross tax revenues.
- Almost 75% of General Fund revenue comes from these two revenue streams.
- **Corporations Business Tax** – Yielded approximately \$1.1 billion (6%) of total gross tax revenues in fiscal year 2019.
- Together these three revenue sources accounted for approximately \$15.2 billion (81%) of Connecticut's \$18.6 billion in gross tax revenues for fiscal year 2019.

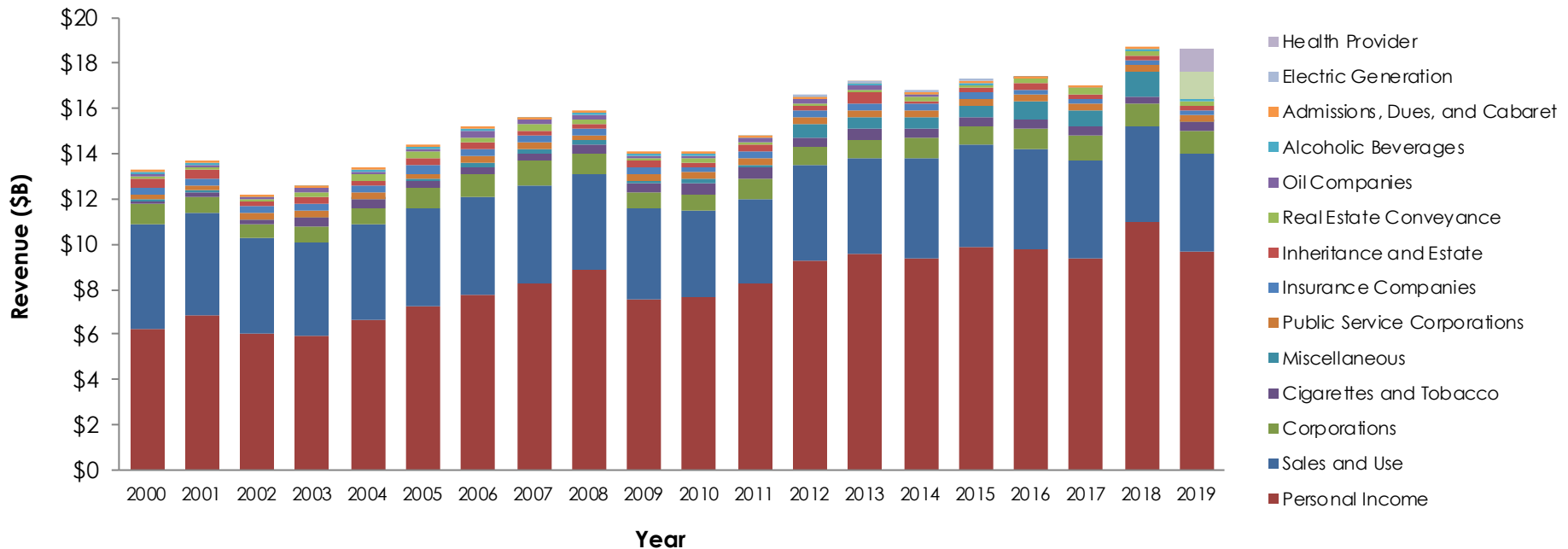
**Connecticut's Fiscal Year 2019 Tax Revenue**  
(Billions of \$)



Source: Lembo, K. (2019). *Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report, For the Fiscal Year Ended June 30, 2019*. Hartford, CT: State of Connecticut, Office of the State Comptroller. Retrieved from <https://www.osc.ct.gov/reports/annual/2019/Annual2019.pdf>.

# Revenue is not the same every year

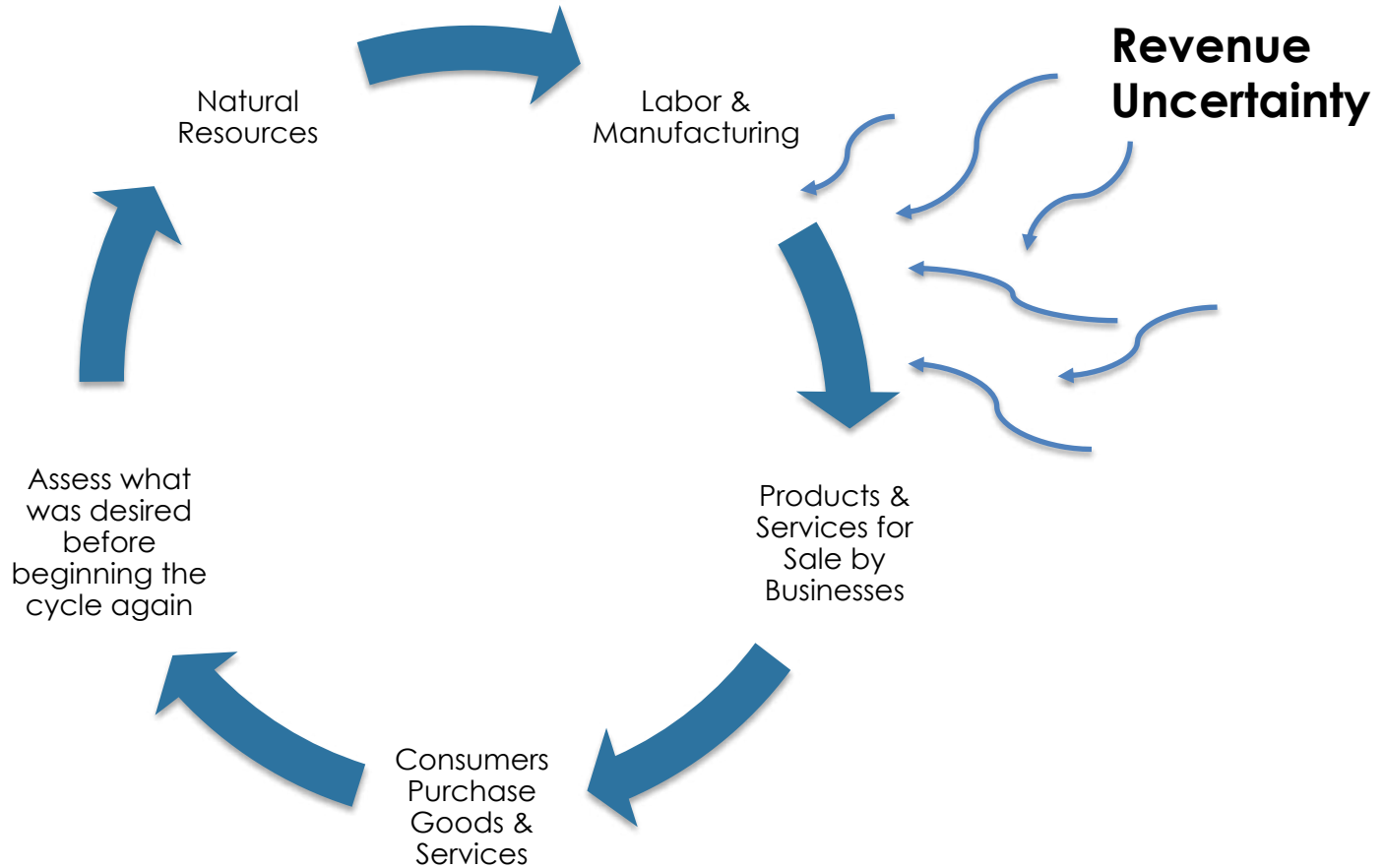
**General Fund Gross Tax Revenue by Source  
(in 2019-adjusted dollars, excluding refunds)**



The budget process requires predictions about the economy, including how stable it will be, what wages will do, stability of prices in goods and services, the relative stability of the U.S. economy, and unemployment levels.

Sources listed at <http://ctstatefinance.org/revenue>.

# Revenue uncertainty impacts the economic ecosystem cycle



**Once its estimated how much money will be raised, there needs to be a plan for how to use it**



# Choices

We have choices about how predicted revenue gets spent.

Spending can be categorized as either:

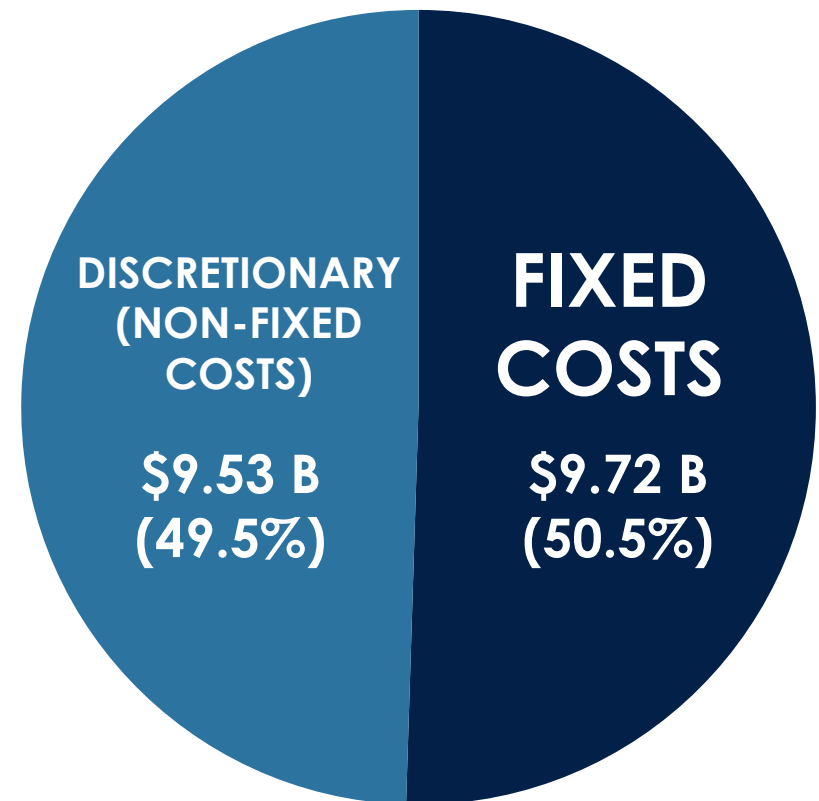
**Fixed costs** – Money the State is obligated to pay based on previous financial agreements. This is money the State has promised or borrowed and, in general, owes.

**Discretionary spending** – This is money not tied to a specific agreement or obligation. It is money the legislature has full control over in each budget cycle, and typically funds the ongoing work of the State and its agencies.

# There are two aspects of spending to discuss: Fixed and non-fixed, or “discretionary” spending

- In fiscal year 2019, the State of Connecticut’s total General Fund expenditures were approximately \$19.25 billion.
- Over half, or \$9.72 billion, of General Fund expenditures were categorized as “fixed” costs.
- Spending on fixed costs does not provide an immediate benefit to the economy like spending on education and infrastructure.

**General Fund Expenditures by  
Service, FY 2019**

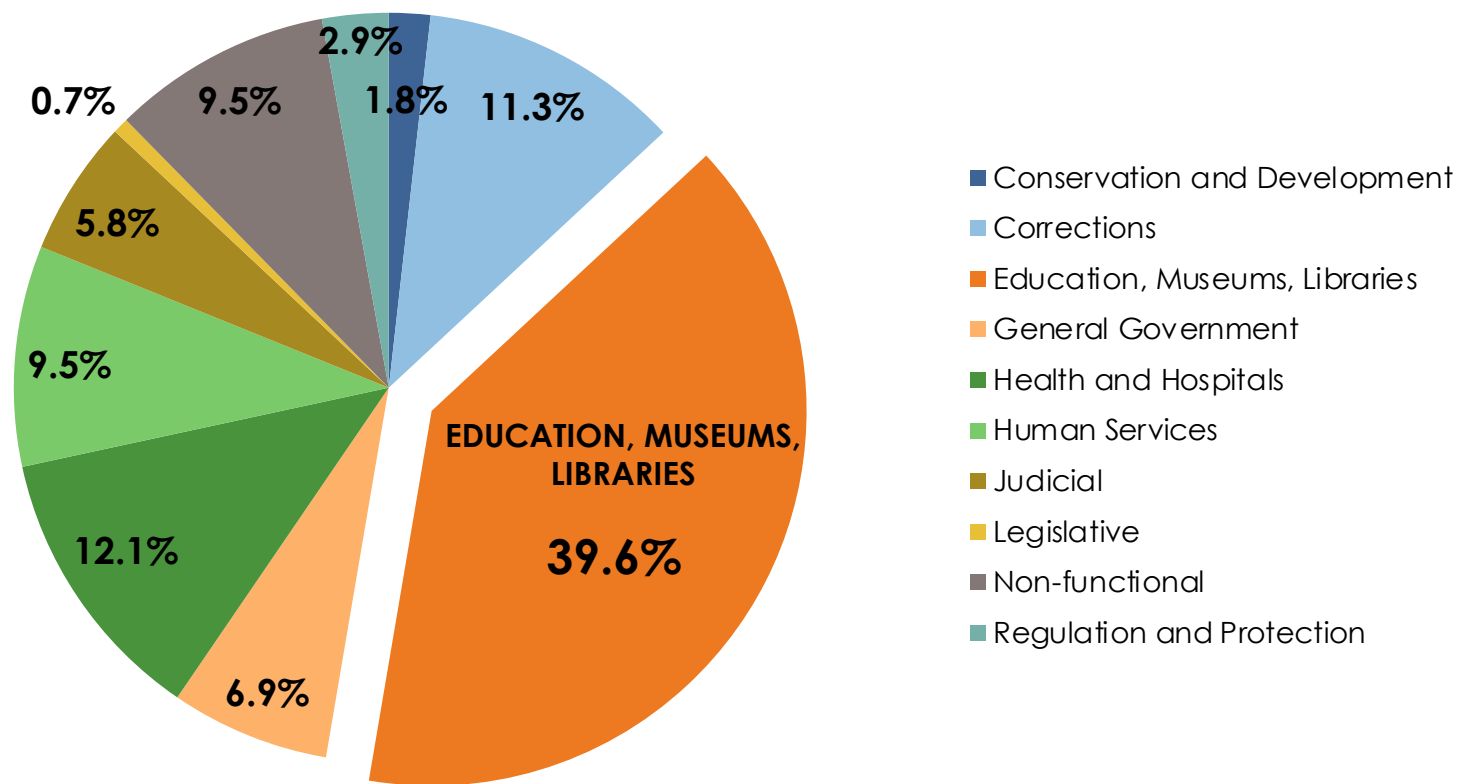


Sources listed at <http://ctstatefinance.org/spending>.

# Non-fixed, or “discretionary” spending

# Education funding makes up, by far, the largest portion of Connecticut's non-fixed costs (does NOT include pensions or capital expenses)

Non-fixed General Fund Expenditures by Service, FY 2019



Sources listed at <http://ctstatefinance.org/spending>.

# Surplus vs. Deficit

- **Surplus** – Government revenues exceed its spending.
- **Deficit** – Government spending exceeds its revenues.
- Certain kinds of fiscal policy impact the government's budget.
  - **Expansionary policy** – Tax cuts or government spending beyond its budgeted constraints. This reduces surpluses or increases deficits, but can increase economic growth.
  - **Contractionary policy** – Reducing spending or increasing taxes removes money from the economy. This increases surpluses or reduces deficits.

Source: Weil, D.N. (n.d.). Fiscal Policy. *The Library of Economics and Liberty*. Retrieved from <https://www.econlib.org/library/Enc/FiscalPolicy.html>.

# Connecticut Surpluses and Deficits

**General Fund Deficits and Surpluses Over Time  
(in 2019-adjusted dollars)**



\*Fiscal years with asterisks indicate at least one piece of deficit mitigation legislation was passed by the Connecticut General Assembly, and signed by the governor, during that fiscal year in an attempt to address the budget deficit for that fiscal year.

It is important to note that the deficits and surpluses shown above are not the actual annual differences between Connecticut's General Fund revenues and expenditures. Rather, the numbers displayed above are the deficit/surplus numbers reported by the Connecticut State Comptroller. Each fiscal year, the State of Connecticut typically makes adjustments (such as one-time fund transfers or deposits to the State's Budget Reserve Fund) to the resulting difference between General Fund revenues and expenditures. The annual reported deficits/surpluses account for these adjustments, therefore making a fiscal year's deficit/surplus different than simply the difference between the fiscal year's revenues and expenditures.

Sources listed at <http://ctstatefinance.org/budget>.

# Fixed Costs

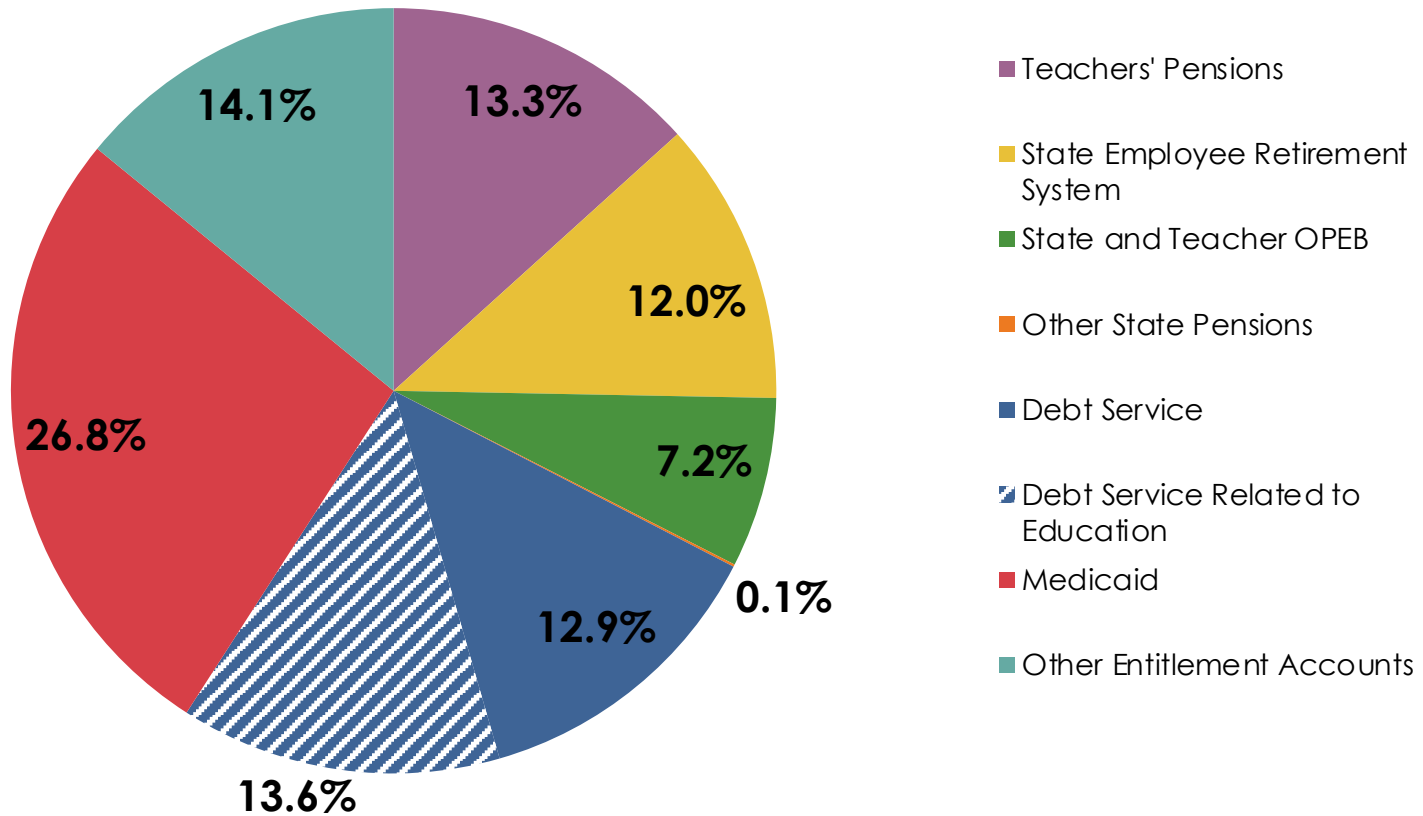
# Choices

- **Fixed costs** – Money the State is obligated to pay based on previous financial agreements. This is money the State has promised or borrowed and, in general, owes.
- Fixed costs are not simply the result of choices made now but choices made over time. These costs may represent decades of economic choices.
- Fixed costs represent long-term debt.
- Fixed costs also represent economic investment.



# Education-related expenditures, such as teacher pensions and bonding for school construction, make up over 25% of the state's fixed costs

Fixed Cost Categories and Percentages, FY 2019



Sources listed at <http://ctstatefinance.org/fixedcosts>.

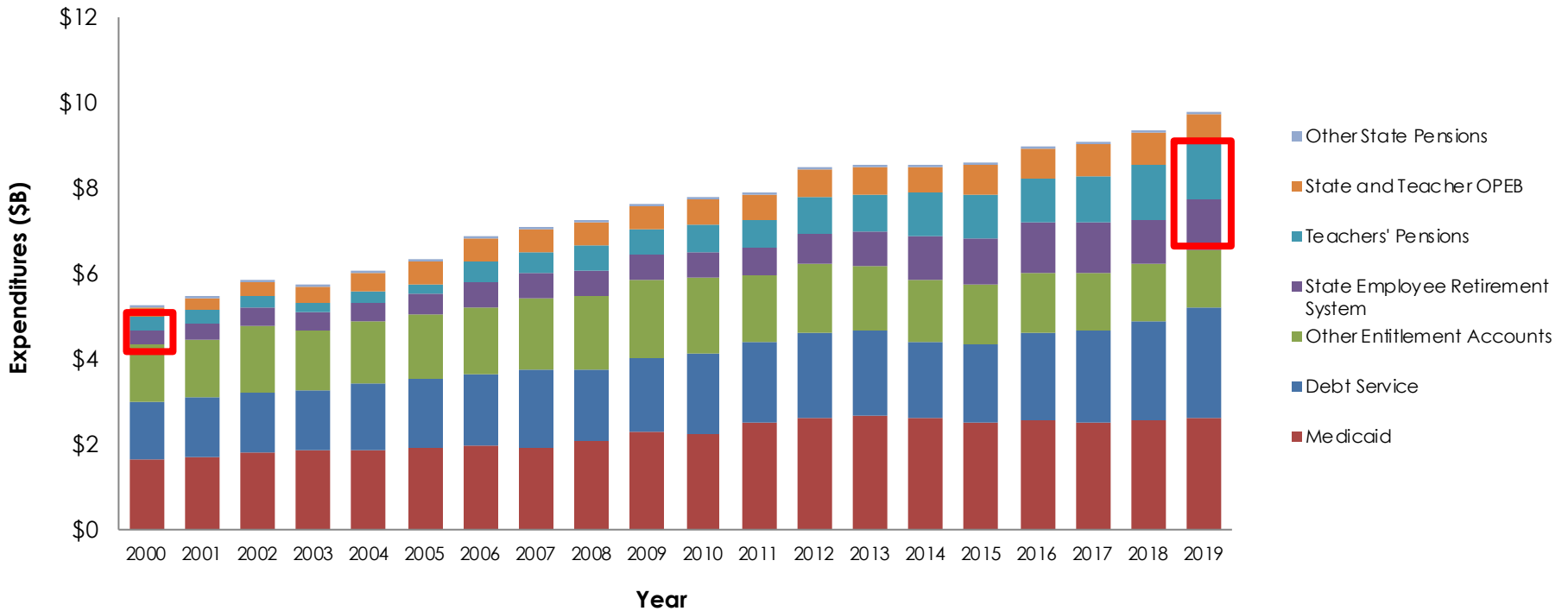
# Fixed Cost: Pensions

- Connecticut's State Employees Retirement System (SERS) and Teachers' Retirement System (TRS) accounted for approximately \$2.46 billion in General Fund spending in fiscal year 2019.
- These costs are projected to increase due to years of state underfunding, overly optimistic assumed rates of return, and poor actuarial experience.
- This reduces the amount of money in the budget that is available to be spent on other initiatives or programs.
- This removes additional money from the state economy, and places it into a long-term investment.

Source: Wooden, S.T. (2019). *2019 Annual Report of the Treasurer*. Hartford, CT: State of Connecticut, Office of the State Treasurer. Retrieved from <https://portal.ct.gov/-/media/OTT/Newsroom/Reports/2019AnnualCTTreasurer122919.pdf?la=en>.

# Pension costs continue to grow

Growth of Fixed Costs (in 2019-adjusted dollars)

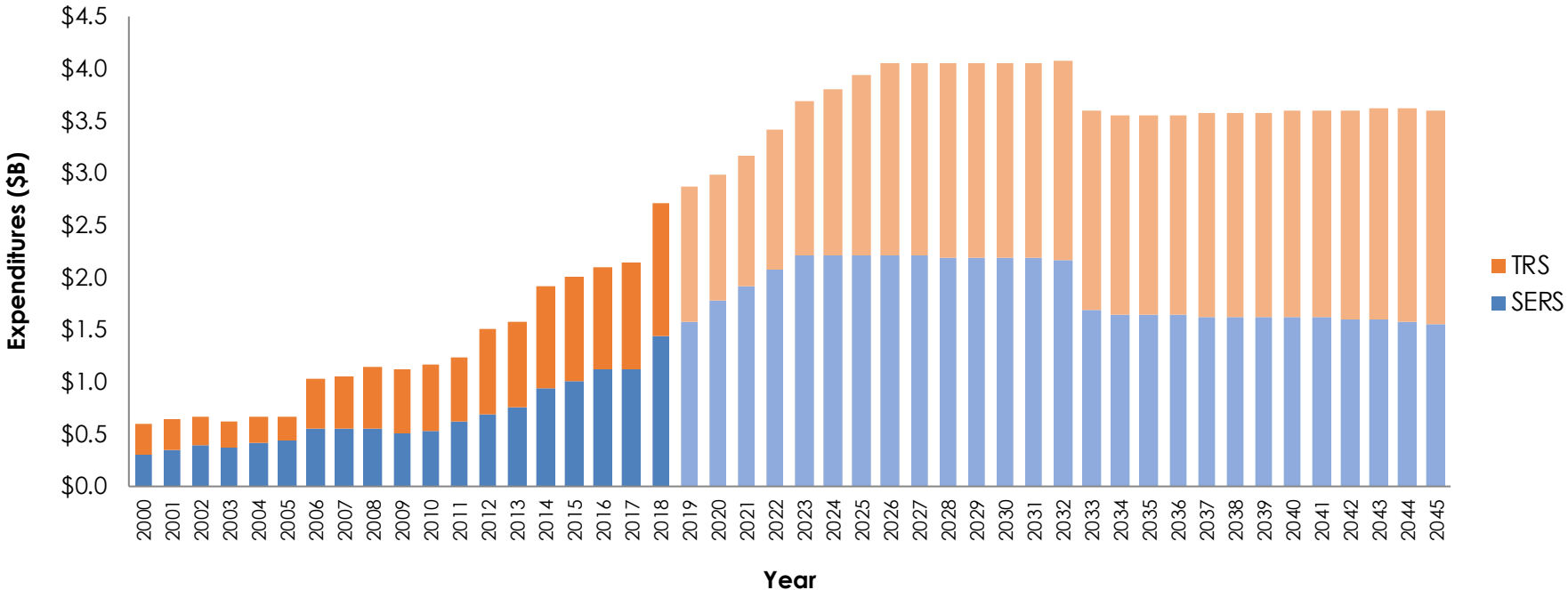


In FY 2014, the Office of Policy and Management began the practice of "net-budgeting" of Medicaid by eliminating matching federal Medicaid funds from the General Fund. In order to achieve an apples-to-apples comparison, only state Medicaid expenditures have been included in the above visualization and all federal matching Medicaid funds have been removed. Connecticut's total fixed costs have been calculated based on line-item details from the General Assembly's Office of Fiscal Analysis' Fiscal Accountability Report, FY 19-FY 22.

Sources listed at <http://ctstatefinance.org/fixedcosts>.

# These costs are projected to continue to grow

Projected State Contributions to SERS and TRS



In FY 2014, the Office of Policy and Management began the practice of "net-budgeting" of Medicaid by eliminating matching federal Medicaid funds from the General Fund. In order to achieve an apples-to-apples comparison, only state Medicaid expenditures have been included in the above visualization and all federal matching Medicaid funds have been removed. Connecticut's total fixed costs have been calculated based on line-item details from the General Assembly's Office of Fiscal Analysis' Fiscal Accountability Report, FY 19-FY 22.

Sources listed at <http://ctstatefinance.org/pensions/sers> and <http://ctstatefinance.org/pensions/trs>.

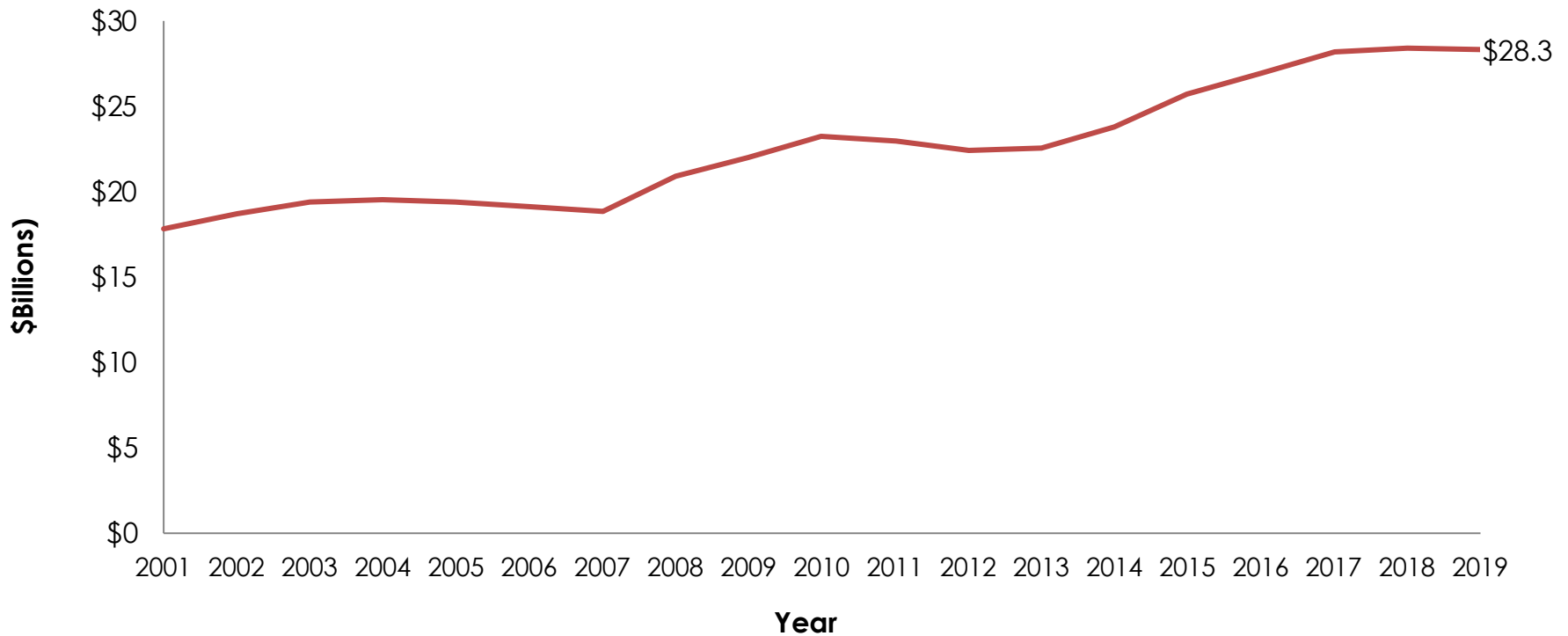
# Fixed Cost: Bonding

- The State of Connecticut, similar to all states, raises money to fund certain projects through bonds.
- Bonds are a form of debt that are sold to investors, and the State is obligated to pay back the principle and interest on the bond.
- In fiscal year 2019, Connecticut's new bond allocations totaled approximately \$3.01 billion and spending on debt service to pay back previous bonds was approximately \$3.22 billion.
- Bonded projects often provide economic benefit.
- In fiscal year 2019, nearly 58% of new bond allocations funded infrastructure projects.

Source: Lembo, K. (2019). *Budgetary/Statutory Basis (GAAP Based Budgeting) Annual Report, For the Fiscal Year Ended June 30, 2019*. Hartford, CT: State of Connecticut, Office of the State Comptroller. Retrieved from <https://www.osc.ct.gov/reports/annual/2019/Annual2019.pdf>.

# How much bonded debt does Connecticut have?

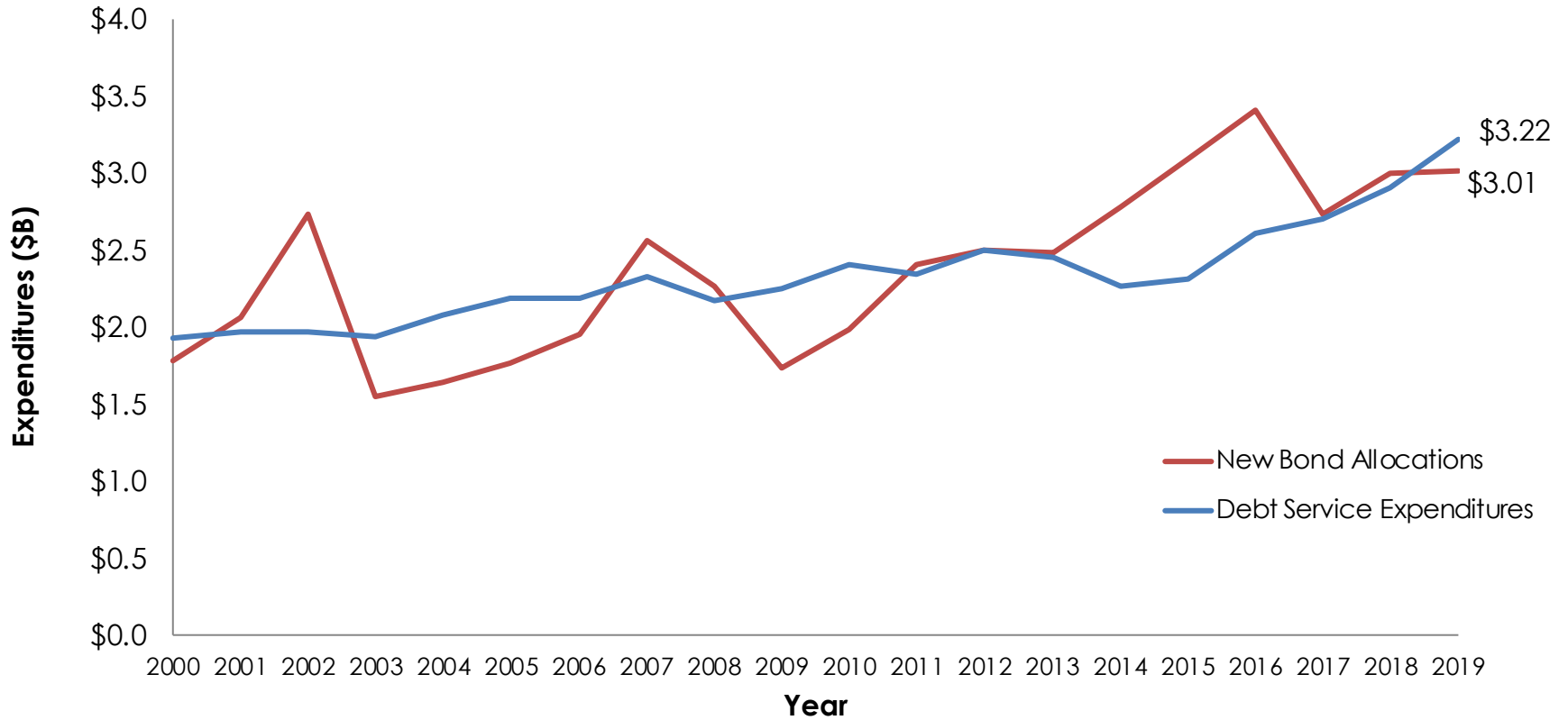
Bonded Debt (in 2019-adjusted dollars)



Sources: Comprehensive Annual Financial Reports from the Office of the State Comptroller from fiscal year 2001 to fiscal year 2019. Available from <https://www.osc.ct.gov/reports/indexarchive2.html> and <https://www.osc.ct.gov/reports/indexarchive.html>.

# What about a “debt diet”?

**Total New Bond Allocations vs. Debt Service Expenditures  
(in 2019-adjusted dollars)**



Sources listed at <http://ctstatefinance.org/bonding>.

# WHAT IS THE PROCESS TO CREATE A STATE BUDGET?



# Connecticut has a two-year budget cycle

- Year one of the budget cycle develops a full two-year budget
- Year two of the budget cycle allows for adjustments to be made to the original budget



Image Source: State of Connecticut, Office of the State Comptroller. (n.d.). State Budget. *OpenConnecticut*. Retrieved from <http://www.osc.ct.gov/openCT/statebudget.html>.

# Key Players

- The Governor (the Executive Branch)
  - Develops the first budget with the Office of Policy and Management (the governor's budget office)
- Finance, Revenue and Bonding Committee
  - Focuses primarily on money coming in
  - Adjusts the governor's revenue plan or crafts its own entirely
- Appropriations Committee
  - Focuses primarily on money being spent
  - Adjusts the governor's spending plan or crafts its own entirely

# The role of legislative committees

- Committees, such as the Education Committee, work on legislation related to the subject matter they are named for.
- While a committee can pass a proposed bill, it does not become a law until the full legislature has voted on it.
- Proposed bills with an associated cost must be incorporated into the Appropriations Committee's budget

# Your role in the budget process

# Working with your legislators

- Your legislators may not be members of one of the two budget committees, or may not be a member of a committee covering your issue area of interest (ex. education).
  - That's ok! Always let your legislators know your thoughts related to proposed legislation, or even things you would like them to address.
  - Let them know you plan on testifying. A lot of times this gives you an opportunity to connect with your legislator in person.
- Testifying, in person or in writing, allows for more legislators to see your opinion.

# Testify at the appropriate committee

- Always make sure that your comments are relevant to the proposed bill or subject matter at hand.
- The Appropriations Committee holds public hearings that are broad but always about the budget. You may default to speaking about policy (for instance, how important program X is to you), but remember to talk about the cost of the program too.
- Always submit testimony in writing, even if you are going to be there in person.

# Your action steps

# What you can do

- Stay up-to-date
  - Follow the budget process
  - Follow the bills you are passionate about
- Make a commitment to testify, in person or in writing, at least once this session.
- Introduce yourself, your priorities, and your commitment to testify, to your legislators (both your representative and senator).



# Find Your Five

- Create a small group – who do you usually talk to about all things school and state finance?
- Make civic participation a group and individual sport
  - Rotate who attends subcommittee meetings
  - Attend board of education and town council meetings as a group
  - Each person can focus on a single topic

**How can we help?**

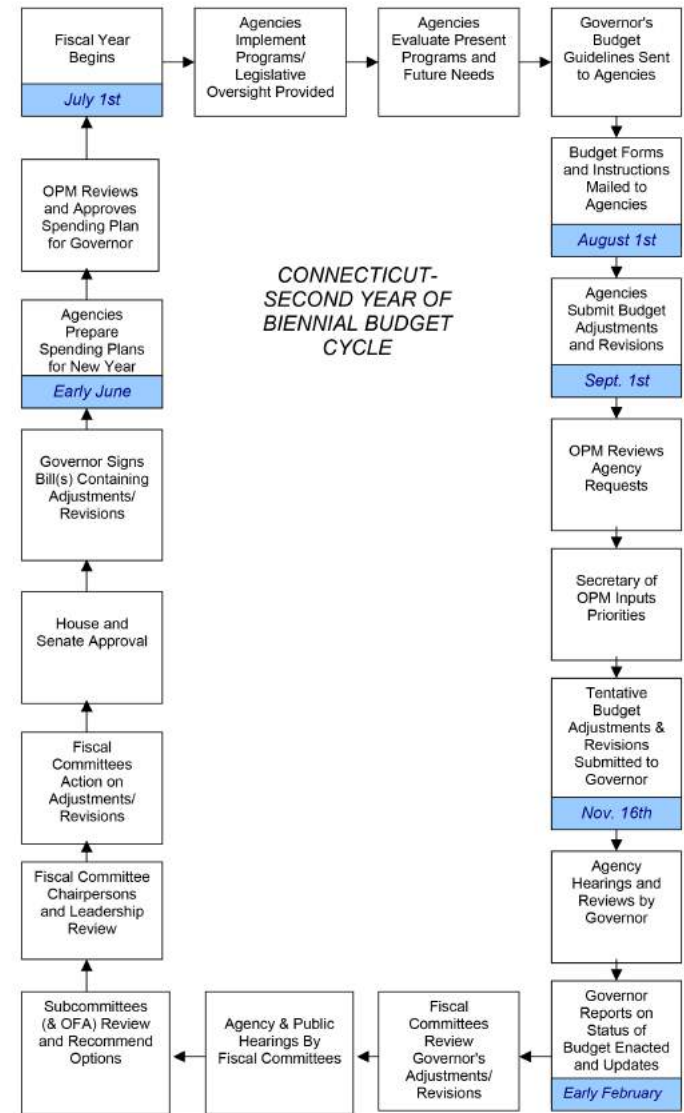
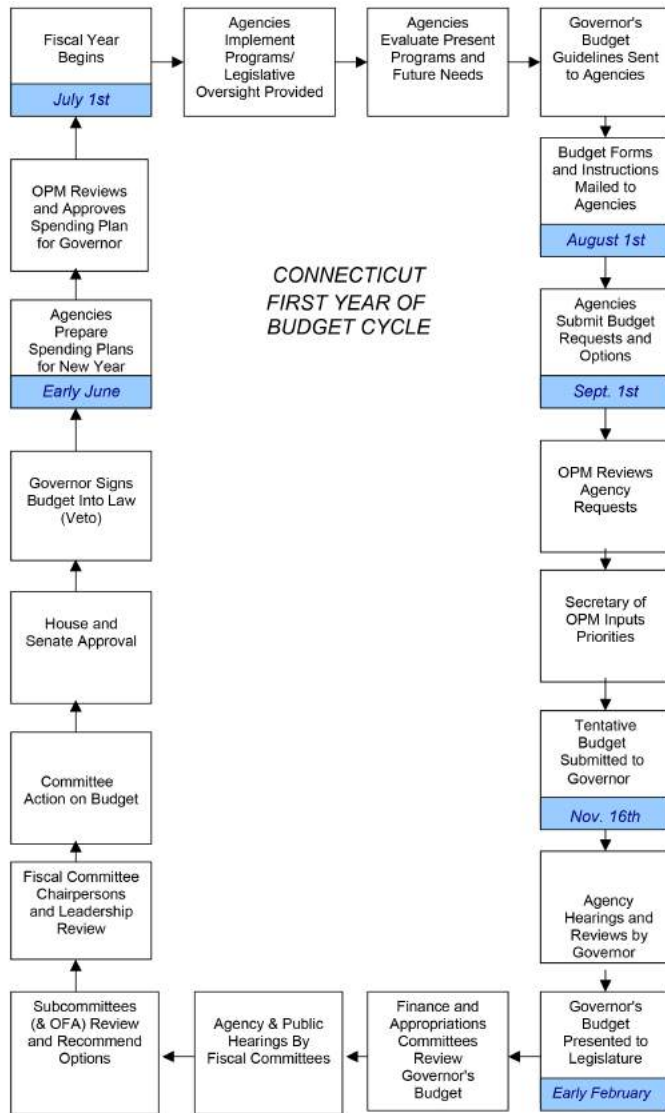
# APPENDIX

# Gas prices as an example of changes in the economy

What impacts the price of a gallon of gas?

Factor	Impact
<b>Crude Oil</b>	Gasoline is made from crude oil and changes in the price of crude oil substantially impact the price of gas.
<b>Changes in Supply/Demand</b>	Increases in demand increase price, and increases in supply decrease price.
<b>Taxes</b>	Connecticut taxes the retail sale of gas at 25 cents a gallon, which increases the price.
<b>Location</b>	The cost of wages, rent, insurance, and utilities impact the price of gas differently in different areas.
<b>Climate and Weather</b>	People tend to travel more in the summer, increasing demand. Severe weather events can reduce the supply of gas or crude oil.

Source: Bennett, Jeanette. (2015). *Behind the Signs: Factors that Affect Gasoline Prices*. Retrieved from: <https://www.stlouised.org/publications/inside-the-vault/spring-2015/behind-the-signs>



Sources: Connecticut General Assembly, Office of Fiscal Analysis. (2008). *The State Budget Process - First Year of the Connecticut Biennial Budget Cycle*. Hartford, CT: Author. Retrieved from [https://www.cga.ct.gov/ofa/documents/year/pres/2008PRES-20081201\\_The%20State%20Budget%20Process%20-%20First%20\(1st\)%20Year%20of%20the%20Connecticut%20Biennial%20Budget%20Cycle.pdf](https://www.cga.ct.gov/ofa/documents/year/pres/2008PRES-20081201_The%20State%20Budget%20Process%20-%20First%20(1st)%20Year%20of%20the%20Connecticut%20Biennial%20Budget%20Cycle.pdf).

Connecticut General Assembly, Office of Fiscal Analysis. (2008). *The State Budget Process - Second Year of the Connecticut Biennial Budget Cycle*. Hartford, CT: Author. Retrieved from [https://www.cga.ct.gov/ofa/documents/year/pres/2008PRES-20081201\\_The%20State%20Budget%20Process%20-%20Second%20\(2nd\)%20Year%20of%20the%20Connecticut%20Biennial%20Budget%20Cycle.pdf](https://www.cga.ct.gov/ofa/documents/year/pres/2008PRES-20081201_The%20State%20Budget%20Process%20-%20Second%20(2nd)%20Year%20of%20the%20Connecticut%20Biennial%20Budget%20Cycle.pdf).

# Budget Reserve Fund (aka The Rainy Day Fund)

- Connecticut's Budget Reserve Fund (BRF) is used to provide a cushion against budget shortfalls.
  - At the end of fiscal year 2019, the BRF contained an estimated \$2.3 billion, which is the largest the Fund has ever been.
  - This balance accounts for 12% of Connecticut's total annual net appropriations. The Office of the State Comptroller recommends a fund balance of 15% of annual net appropriations.
- The BRF covers any deficit at the end of a fiscal year, and can be used to finance a projected decline in revenues of 1% or more in the current or next fiscal year within a biennium.
- Money in the BRF, or funds that would otherwise be deposited into the BRF, may (or at times, must) be used when the balance of the BRF reaches certain limits.
- The BRF can receive money from three different sources:
  - **Budget Surplus:** Leftover funds that are not appropriated, transferred, or carried over into the next fiscal year
  - **Required Surplus:** Connecticut's "revenue cap" requires a percentage of anticipated revenues to be budgeted as surplus into the BRF rather than appropriated
  - **Revenue Volatility Adjustment:** Certain state income tax and pass-through entity tax revenues above a specific level (adjusted annually for personal income growth)

Source: Connecticut General Assembly, Office of Fiscal Analysis. (2019). *Budget Reserve Fund (BRF) Quick Facts*. Hartford, CT: Author. Retrieved from [https://www.cga.ct.gov/ofa/Documents/year/SMF/2020SMF-20190809\\_Budget%20Reserve%20Fund%20%E2%80%93%20Quick%20Facts%20\(August%202019\).pdf](https://www.cga.ct.gov/ofa/Documents/year/SMF/2020SMF-20190809_Budget%20Reserve%20Fund%20%E2%80%93%20Quick%20Facts%20(August%202019).pdf).

# Volatility Cap

- The volatility cap limits the General Assembly's ability to spend specific income tax revenue that exceeds a certain threshold, and diverts these funds into the state's Budget Reserve Fund (BRF).
- The volatility cap requires:
  - All revenue in excess of \$3.15 billion from estimated and final personal income tax revenue and revenue from Connecticut's pass-through entity tax, in each fiscal year, to be transferred by the state treasurer to the BRF.
  - The \$3.15 billion is adjusted annually by the compound annual growth rate over the preceding five calendar years.
  - The General Assembly may amend the \$3.15 billion threshold by a vote of at least 3/5 of the members of each chamber, in case of changes to state or federal tax law, or due to significant adjustments to economic growth or tax collections.

# Spending Cap

- Connecticut's constitutional spending cap bars the legislature from increasing general budget expenditures in an amount that exceeds the increase in personal income revenue or inflation, whichever is greater, unless the governor declares a state of emergency and 3/5 of each house of the General Assembly approves the additional expenditure.
- The General Assembly is also limited from increasing appropriations beyond a certain percentage of consensus revenue estimates.
  - This cap begins at 99.5% in FY 2020 and decreases 0.25% each year until it reaches 98% in FY 2026, where it will remain for each fiscal year after. The General Assembly may exceed this cap in certain instances.

Sources: Pinho, R., & McCluskey, C. (2016). *Spending Cap Definitions (2016-R-0137)*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2016/rpt/pdf/2016-R-0137.pdf>. Conn. Gen. Statutes ch. 16, § 2-33(a).



# Bonding Restrictions

- Connecticut's bonding process contains several restrictions.
- The General Assembly can authorize bonding up to 1.6 times the net General Fund tax revenue for the fiscal year of the authorization. This total calculation is called the aggregate indebtedness.
- If the authorized debt exceeds 90% of this aggregate indebtedness limit, the governor must review each bond act and recommend repealing authorizations to the Finance, Revenue and Bonding Committee.
- The Committee must review the recommendations of the governor and propose legislation deemed necessary with respect to the projects recommended by the governor.

# Bond Lock

- Bond covenants for bonds issued between May 15, 2018 and June 30, 2020 must include a pledge to bondholders that the State will comply with its volatility cap, statutory spending cap, and bond caps.
- From May 15, 2018 to June 30, 2023, Connecticut's state treasurer is required, for general obligation and credit revenue bonds issue during the above timeframe, to pledge to bondholders that the State will not enact any laws that alter the State's obligation to comply with the volatility cap, statutory spending cap, and bond cap until the bonds are fully paid off, or unless conditions are met.
  - This pledge must apply for 5 years from the bond's first issuance date but does not apply to refunding bonds issued to pay the original bonds that included the pledge.

# Additional Resources

- **Connecticut Budget Analysis Tool (Connecticut School Finance Project)**
  - <http://ctstatefinance.org/budgettool>
- **Extra Credit – Budget (WNPR and the Connecticut Mirror)**
  - [https://ctextracredit.org/episodes\\_category/budget/](https://ctextracredit.org/episodes_category/budget/)
- **State of Connecticut Budgeting (Office of Fiscal Analysis)**
  - <http://ctschoolfinance.org/resources/uploads/files/State-of-Connecticut-Budget-Process-Presentation.pdf>
- **The Connecticut Economic Digest (Connecticut Department of Labor and Department of Economic and Community Development)**
  - <http://www1.ctdol.state.ct.us/lmi/ctdigest.asp#issues>
- **FY 2020 – FY 2021 Biennium Economic Report of the Governor (Office of Policy and Management)**
  - [https://portal.ct.gov/-/media/OPM/Budget/2020\\_2021\\_Biennial\\_Budget/Economic-Report-of-the-Governor-FY-2020---FY-2021.pdf?la=en](https://portal.ct.gov/-/media/OPM/Budget/2020_2021_Biennial_Budget/Economic-Report-of-the-Governor-FY-2020---FY-2021.pdf?la=en)
- **Do-it-Yourself Revenue Calculator (Office of the State Comptroller)**
  - <https://www.osc.ct.gov/openCT/calculator.html>
- **Connecticut State Budget Books (Office of Fiscal Analysis)**
  - <https://www.cga.ct.gov/ofa/add-bb.asp>

# Glossary

- **Discretionary Spending** – Any line item that is not classified as a fixed cost, as defined by Connecticut's Office of Policy and Management and the General Assembly's Office of Fiscal Analysis, is considered to be discretionary spending. The General Assembly can modify appropriations to these line items, raising or reducing them as deemed necessary.
- **Expenditures** – Expenditures are the money the State spends on government services, programs, and other functions. When the General Assembly passes a budget, it appropriates, or devotes money, to certain expenses. Each of these expenses is assigned a line item number.
- **Fixed Costs** – Fixed costs are an increasing portion of the Connecticut state budget, and are expenditures the State is obligated to make. According to Connecticut's Office of Policy and Management and the General Assembly's Office of Fiscal Analysis, fixed costs include the State's contributions to its state employee and teacher pension systems, debt service payments on the State's prior years' bond allocations, Medicaid, and other post-employment benefits (OPEB) for retired state employees. Fixed costs are found throughout the budget and are assigned to different agencies and functions.
- **General Fund** – The largest piece of the state budget is the General Fund, which contains money used for expenditures authorized by the state budget and not otherwise restricted by state statute. The General Fund finances the bulk of the state government's operations.
- **Inflation-Adjusted Dollars** – Also called real dollars, inflation-adjusted dollars have been changed to match the purchasing power of dollars in the current year.
- **Line Item** – A line item is an element in a budget denoting funding or appropriations for a specific program, initiative, or service. Connecticut's state budget is composed of a series of line items grouped by government agency and function. These line items are also classified as fixed or non-fixed.
- **Revenues** – Revenue is the income or money the State receives from taxes, fees, and other sources.