

Current Budget Forecast

Without adding a single program or new service to the budget, our budget would grow next year by 7.2%, simply because prices for energy, employee benefits, salaries, rents, and everything else inflate each year. This is called the current services budget. In addition, in a poor economy we expect a growth in certain "safety net" costs, such as unemployment benefits, Medicaid, fuel assistance, etc. Our projected revenue for the next two fiscal years is \$2.5 and \$3.2 billion lower than our \$18.4 and \$19.4 billion current services budgets for those years. This means we have a 14% to 17% gap to fill.

There are two main factors causing this gap:

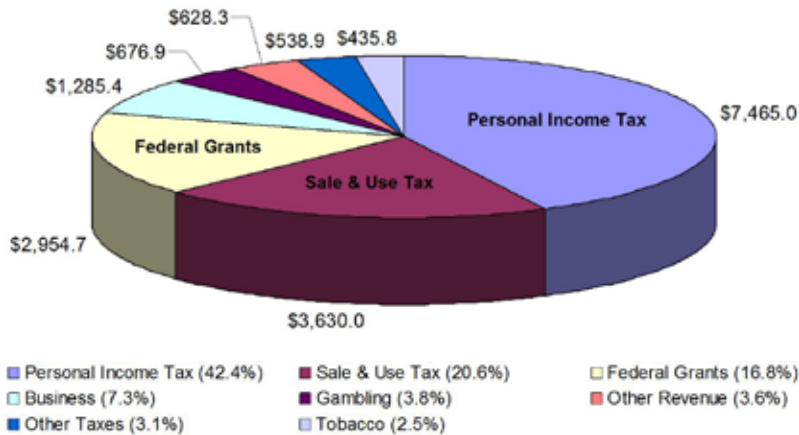
1. State revenues are falling.

- As people are laid off and as incomes decline, income tax revenue falls. In addition, since 40% of Connecticut's income taxes are from taxes on capital gains, the decline in the stock market also cuts our income tax revenues enormously.
- Business profits are down, so corporate taxes are down.
- As people buy less, sales tax revenues fall.
- Gasoline consumption and prices are down, so gas tax revenues are down.

2. We have structural deficits.

- The state paid some ongoing operating expenses in past years with one-time revenue sources and surpluses that have now dried up, but the operating expenses continue without a funding source.

Revenue to the General Fund (in millions)
Total Revenue: \$17.62 Billion



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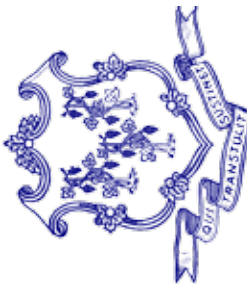
Linda Schofield
 State Representative

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State Representative Linda Schofield

Dear Neighbor,

Thank you for giving me the honor of serving you, our town, and our state for a second term. The challenges facing us this legislative session are enormous, but I have faith that we will make the necessary adjustments, work together to ease the suffering of those hardest hit by the economic downturn, and develop strategies to get back on our collective feet with renewed strength and prosperity.

In talking with many of you about the economic situation, I was often asked questions about both where the state's revenue comes from and how the state spends your money. So this mailer gives you some basic facts about Connecticut's budget and our current economic forecast. **Additional detailed information is available on my website:** www.housedems.ct.gov/schofield, click on e-newsletters and look at the January 2008 e-newsletter. In addition, my January episode of Policy and People on SCTV is a discussion of the budget and economy. You can view it on SCTV, or on my website or on SCTV's website (www.simsburytv.org) starting in January.

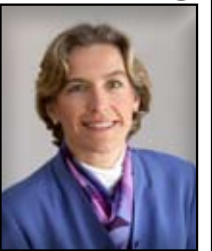
At its core, policymaking is about the allocation of scarce resources, the pooling of citizens' funds to invest in infrastructure and services for the common good, and the redistribution of resources to those whom society wishes to protect and support. In the current economy, we will have to sharpen our focus on our highest priorities and all expect to make some sacrifices.

As we in the legislature grapple with the impact of a deep economic downturn on our state budget, I want to keep you informed and to solicit your ideas and input as well. I welcome your thoughts about budget priorities, places and programs to cut, and ways to raise revenues. Please feel free to e-mail me at Linda.Schofield@cga.ct.gov.

Sincerely,

Linda Schofield

Linda Schofield
 Winter 2008-2009



State Budget Update

The Budget Process

The budget is an enormous document that lays out, in fairly general terms, how the state's money will be spent. It is the topic of extensive negotiation with the leadership of the House, Senate, and Governor's office. The final product of those negotiations is then presented to the full House and Senate for an "up or down" vote. Certainly amendments are introduced to change certain line items, but any increase in expenditures in one area must be balanced with a decrease (or a revenue increase) in another. A legislator ultimately must decide how to vote on the entire package. This means that we all vote for components we do not like or against components we do like.

Historical Budget Trends in CT

Connecticut's state budget health has tracked the national economy over the years. In the last 20 years we had budget deficits in the early 1990s when the economy slowed, and we had deficits again in the 2 years after the 9-11 terrorist attacks threw our economy into a tail spin. The most recent 5 years have seen the budget grow on average about 5.8% per year. Natural growth in revenues were sufficient to cover the budget, as taxable incomes, sales, and business profits grew. During that time we had annual budget surpluses as well.

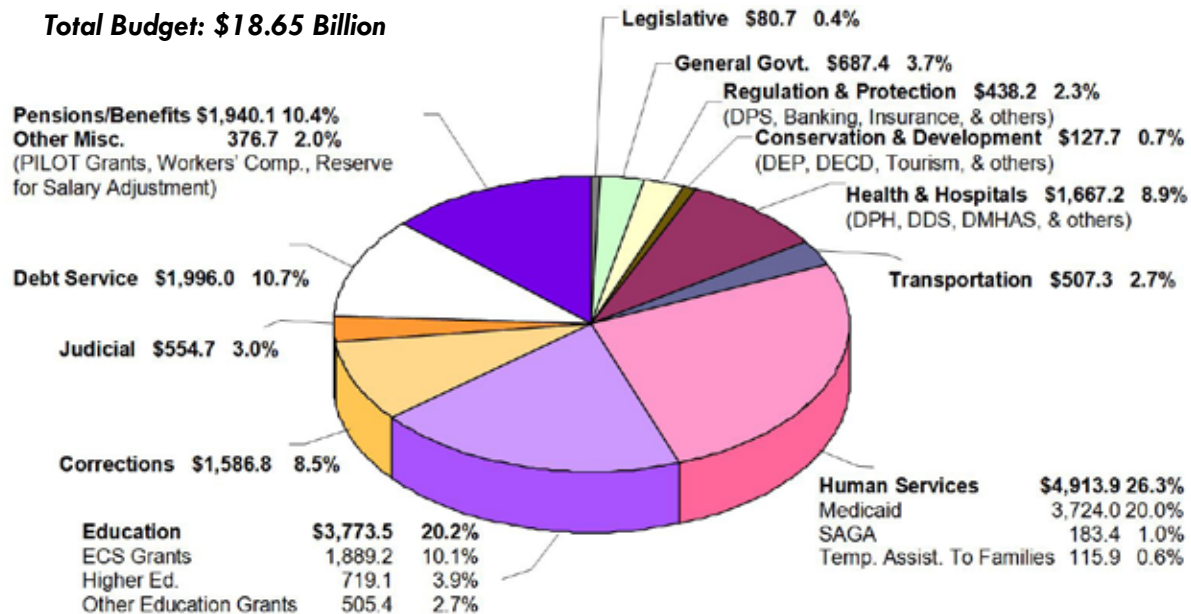
Options for Filling the Gap

There are no easy options. We must consider a combination of multiple options, given the magnitude of our problem. The options include:

- **Cutting spending:** It will be an enormous challenge to cut 17% of the budget without hurting vulnerable citizens such as the elderly, mentally ill, or developmentally disabled; without jeopardizing public safety through cuts in corrections, public health enforcement, or environmental protection; without shifting costs to towns by cutting funds for education and local roads – which will translate into higher property taxes; or without hurting the business climate and jobs by cutting infrastructure investments in roads and energy. As an example, we would have to close every prison and shut down all services to the mentally ill and mentally retarded to achieve a 17% cut in the budget.
- **Raising taxes:** At a time when many families and businesses are already struggling to make ends meet, increasing taxes would also have negative consequences. As an example, we would have to raise taxes from the current 5% to about 12.5% on families with income over \$250,000 to close the gap.
- **Seeking federal funds:** There is some talk in Washington of increasing matching funds to states. Medicaid matching funds were enhanced by 2 percentage points in 2003 to help states. But a 2% increase in federal Medicaid funds translates to only \$120 million, which again falls far short of closing the gap.

- **Renegotiate the state employee payroll:** The payroll can be reduced through lay-offs (this will commensurately reduce services, reduce income tax revenue, and increase unemployment costs.) It can also be reduced through cuts in salaries and/or benefits. Early retirement programs have been offered in the past but were found not to be effective in cutting costs because of the increased pension and other costs. In order to cut 17% of the budget we would have to lay-off 74% of state employees or completely eliminate all benefits for employees and retirees (pensions, health, etc) or cut all salaries by 74%.
- **Increase efficiency:** This concept is always valid, but policymakers must rely on the management, employees and consumers to identify exactly where those inefficiencies are and to target solutions to those areas. I welcome your ideas.
- **Stimulate business growth** to create taxable jobs, profits, and sales: While reduction of some regulatory requirements may help stimulate business at no cost, any investment in infrastructure will create a cost long before any tax revenue increase is collected.
- **The Rainy Day Fund:** This fund currently has \$1.4 billion. Expectations are that the budget will be in deficit for 2-4 years, and this fund can't fill the gap even for one year.

Total Budget: \$18.65 Billion



Expenditures

This pie chart shows our expenditures by major category.

Categorizing the expenditures another way, the 6 largest budget items account for over 70% of the budget:

- Medicaid expenditures, excluding employee costs: 20% (40% of this is for nursing home care)
- Aid to towns, including education, & roads: 16%
- Services to the mentally ill and mentally retarded, and children in DCF: 13%
- Debt service: 11%
- Law enforcement, courts, and prisons/corrections: 8%
- Transportation infrastructure: 3%

The remaining part of the budget covers such things as environmental protection, motor vehicle licensing, public health protection, banking & insurance regulation, UConn, and veterans' services.

State employees and retirees who are or were engaged in providing all state services receive salaries, pensions and benefits equaling 29% of the budget.

Cash assistance "welfare" to needy families and adults constitutes only .7% of the budget.