



Connecticut Association for Human Services
110 Bartholomew Avenue · Suite 4030
Hartford, Connecticut 06106
www.cahs.org

Casey McGuane, President
James P. Horan, Executive Director
860.951.2212
860.951.6511 fax

Testimony on S.B. 946 – An Act Concerning Revenue Items Protecting crucial services with new revenue and necessary tax reform

5/11/15 – Testimony by Roger Senserrich

Good morning Senator Frantz, Representative Davis and members of the Finance, Revenue and Bonding Committee. My name is Roger Senserrich, and I am the Policy Director at the Connecticut Association for Human Services (CAHS). CAHS is a statewide non-profit agency that works to reduce poverty and promote economic success through both policy and program work.

Thanks for the opportunity to testify today on behalf of CAHS about the revenue adjustments approved by the Finance Committee on April 29 for the 2016-2017 budget. This proposal includes a variety of new sources of revenue that we believe are necessary to protect and sustain crucial programs for low-income families. In addition, when combined with S.B.1, this budget includes significant tax relief for both poor and middle class families, as the changes in the sales and property taxes will bring considerable tax cuts for most Connecticut residents.

As we have mentioned in previous testimony, the Governor's budget proposal included nearly \$600 million in cuts. Most of these cuts affected programs and services that are vital to Connecticut families, and can hamper family economic success, social mobility and state's long-term economic growth:

- **\$158 million from the State Department of Education.** These cuts were mostly from capping funding to municipalities, reducing their grant funding for services like transportation or special education.
- **\$65.9 million from higher education.** The cuts included a severe reduction on grant funding for remedial education programs aimed at ensuring access to college to many low-income students.
- **\$11.3 million from the Office of Early Childhood.** Cuts included performance evaluation programs, as well as cuts to Smart Start.
- The budget also eliminated several very successful workforce development programs, like Strive and Youth Employment, as well as several community education programs, including grants for community early care planning groups.

In addition, the Governor's proposal included significant cuts to the safety net, mainly centered on health insurance for low-income parents and pregnant women.

These budget cuts were unfair, and had a disproportionate impact on low-income families and children. Although spending in children and families makes up only a third of the budget, more than half of the cuts were falling directly on them. In the long term, these cuts would have been investments we did not make for these children and families. Lower education spending can and will reduce school achievement in the future, leaving the state with a less productive workforce. Lower healthcare spending will reduce access to prenatal care for thousands of mothers, bringing worse health outcomes down the road. Underinvestment in higher education will widen the gap between employers' needs and the state workforce in the coming years.

Connecticut could simply not afford these cuts, so it fell on the legislature to seek ways to fund these key investments. The Finance Committee proved up to the challenge, finding new revenue sources paired with significant tax reform. The result is a budget that protects services to those in need while providing relief to low-income and middle class families.

The Finance Committee proposal raises income taxes on less than two percent of Connecticut residents (individuals making more than \$500,000 a year or households making more than \$1,000,000). The top marginal tax rate is increased to 6.99%, still significantly below New York (8.82%), New Jersey (8.97%) or Rhode Island (9.9%). This increase will not lead to wealthy residents leaving the state; studies have repeatedly shown that tax rates are not a factor in this regardⁱ. The increase generates enough revenue (\$102 million) to reverse all the cuts on higher education and early childhood programs. We believe that these investments are key to ensure that Connecticut's economy remains vibrant in the long term, while keeping the state competitive with our neighbors in the region.

In addition to the modest income tax increase, the Finance proposal also raises the capital gains tax for higher earners (individuals making more than \$500,000 a year, households making more than \$1,000,000), adding a 2% supplement to their income tax. The new top marginal rate for capital gains (8.7%) will still be below New York (8.8%) and New Jersey (9%)ⁱⁱ. The revenue raised from this change (\$167 million) is enough to offset all the cuts in K-12 education.

The most significant changes in the Finance Committee proposal relate to the sales tax. To provide tax relief to low-income and middle class families the committee cuts the sales tax rate from the current 6.35% to 5.85% this year and 5.35% in 2016. To offset the revenue loss, the budget proposal broadens the base of the tax, making many services that were not included in the statute taxable.

This change is positive for three main reasons. First, it reflects Connecticut's shift from a goods economy to a service economy. As our state transforms from one based on producing goods to one based on producing ideas and services, the tax code must reflect these changes. Second, the proposal eliminates exemptions for consolidated industries (computer and data processing, web services) that benefited from an outdated tax break that amounted to a \$162 million state subsidy. We share the opinion of many legislators on this panel that giveaways to business are wasteful and

inefficient, and we support this change. Third, the vast majority of services that would be taxed under this plan would affect business, not families. In a context of soaring corporate profits and increasing inequality, we believe that exempting business services while penalizing consumers does not make sense.

Finally, the Finance Committee paired its tax proposal with S.B.1, a comprehensive property tax reform package that would provide significant tax relief to low income and middle class families while providing significant new resources to municipalities. S.B. 1 caps the motor vehicle tax to 29.36 mills, compensating the towns with higher rates with additional funds, and significantly increases Payment in Lieu of Taxes (PILOT) grants to municipalities. In order to cover these new funding streams to local governments S.B.1 includes a .5% increase in the sales tax. Even with this surtax, the combined sales tax rate would be 5.85%, or half a point below its current level in FY2017.

The changes introduced in S.B.1 are welcome, as they would lower motor vehicle property taxes for more than half of Connecticut residents while holding municipal budgets harmless. Hartford residents alone would save more than \$15 million in taxes, while the city would receive an additional \$12 million in PILOT payments and \$19 million in sales taxes – a combined injection of more than \$31 million to the local economyⁱⁱⁱ. The impact is similar in many other communities: Waterbury would see \$23 million in combined tax relief and new revenue; New Britain \$12 million and New Haven \$21 million. Property taxes are amongst the most regressive levies in our system, with low income and middle class families shouldering most of the burden; S.B.1 is an important first step on lessening its impact and making municipalities less dependent of this tax.

CAHS believes that Connecticut needs to have a fiscally responsible state government. In order to accomplish a healthy budget, however, we need a state government that is able to invest in infrastructure, in education, in giving a second chance to those that fall on hard times.

It is for this reason that we support the proposal approved by the Finance Committee. We need to protect investments in our children and our future. Closing loopholes for corporations and raising taxes on those that can afford to pay a bit more is the right thing to do. Thanks for your time today.

ⁱ 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.

ⁱⁱ <http://taxfoundation.org/article/high-burden-state-and-federal-capital-gains-tax-rates-united-states>

ⁱⁱⁱ http://www.cga.ct.gov/ofa/Documents/year/PFNFIN/2015PFNFIN-20150501_Estimated%20Impact%20of%20sSB%201,%20April%2030,%202015.pdf