

The Comptroller's Report

NANCY WYMAN
STATE COMPTROLLER
January 1999

The Comptroller's Report
Connecticut's
Economic
Health

January 1999

Nancy Wyman
State Comptroller

January 25, 1999

Dear Fellow Citizens:

As the state's chief fiscal guardian, I am proud to present this issue of **The Comptroller's Report: Connecticut's Economic Health**. In this annual report we attempt to take a common sense look at the fiscal health of our state and explain our findings in a way that is easily understandable. Many thanks go to the staff of my office for their hard work and dedication on behalf of the people of the State of Connecticut.



This report helps to document a fact of which we are aware — Connecticut's economy continues to grow at a rate consistent with national economic expansion. Thanks in large part to another strong year on Wall Street, our annual revenues came in well above budget expectations, leading to the largest operating surplus in over a decade.

Unfortunately, in spite of our positive fiscal position Connecticut added an additional \$70 million in debt for a total indebtedness of \$9.3 billion — a scenario akin to using a credit card to purchase groceries when you have a pocket full of cash. As I have said before ... *We must get control of our borrowing if we are to protect our state against any future economic downturns.* Let's not forget that one of the factors that inhibited growth after the last national recession was our state debt. Since that time, it has only grown.

This report also highlights the need for action and proposes solutions to address the following issues:

- Under the current provisions of state law, Generally Accepted Accounting Principles (GAAP) budgeting is scheduled to commence in Fiscal Year 2000. No further delay in implementing an honest state budgeting system is acceptable.
- More permanent budget surplus rebate legislation should be enacted to make rebates a continuing part of Connecticut's fiscal landscape.
- Expanding health coverage for the uninsured through a partnership with the Federal Government and offering tax incentives for individuals and their employers to purchase Long Term Care Insurance would enhance the economic security of Connecticut's families.

I hope that this document provides helpful information to you and our state's policymakers as we plan together for the 21st Century.

Sincerely,

A handwritten signature in dark ink that reads "Nancy Wyman". The signature is written in a cursive, flowing style.

Nancy Wyman
State Comptroller



Priorities for Connecticut's Future

Truth in Budgeting: Preparing Annual Budgets Using Generally Accepted Accounting Principles (GAAP)

Under the current provisions of state law, GAAP budgeting is scheduled to commence in Fiscal Year 2000. Originally GAAP legislation was passed in 1993, with an implementation date of Fiscal Year 1996. Unfortunately, GAAP budgeting has been postponed twice and the potential exists for another delay. In order to make sound fiscal decisions, state policymakers need accurate financial data. GAAP budgeting will provide that accuracy.

At the present time, statutory provisions require annual state budgets to be prepared using what is best described as modified cash accounting. Under this system, certain tax revenues are counted before they are actually earned, but expenditures are not recorded until months after the liability arises. This system distorts the state's true fiscal position. Furthermore, it is a system that is susceptible to manipulation. By simply rolling the payment of bills into the next fiscal year, total state spending can be lowered in the current year, and a deficit can be turned into a surplus.

The net impact of these annual payment delays and revenue overcounting is a cumulative GAAP negative General Fund balance of \$694.3 million for the year ending June 30, 1998.

Implementation of GAAP will help eliminate budget distortions. GAAP requires revenues to be recorded when they are actually earned, and expenditures to be posted when the liability is incurred. In addition, GAAP is the standard for accurate financial reporting in both the public and private sectors. GAAP budgeting will improve the quality of financial data on which key fiscal decisions are based. In this way GAAP will improve the overall efficiency of state government.

State Comptroller Nancy Wyman is working to ensure that GAAP is implemented in Fiscal Year 2000 without further delay. She is working to demonstrate the benefits of GAAP to state policymakers and to smooth the transition to GAAP budgeting. Honest state budgeting should be a top fiscal priority.

Responsible Borrowing: Reducing the State's Bloated Debt Burden

By any measure, Connecticut's present debt load is too high and it continues to grow. The state has the highest per capita debt burden in the nation at \$2,820. Per capita debt indicates the amount that would have to be paid by every man, woman, and child living in Connecticut to retire outstanding state bonds. In Fiscal Year 1998, the state added another \$70 million in outstanding debt, bringing the total to \$9.3 billion. As a result of this high debt total, 10.7 percent of total state spending (\$1.3

billion) went to paying principal and interest costs on debt in Fiscal Year 1998. The interest payments *alone* totaled \$507 million. This high level of annual fixed debt service payments could cripple the state's efforts to respond effectively to fiscal challenges faced in times of economic downturn.

A certain level of debt is fully justifiable – to the extent that the debt is incurred for infrastructure projects or the purchase of assets that will benefit

current and future generations of taxpayers. However, about half of the new state bonding in Fiscal Year 1998 was used to cover ongoing governmental operating costs. This questionable fiscal practice is both costly (interest must be paid) and unfair to future generations of taxpayers. Individuals not yet of voting age will be asked to shoulder much of the debt cost for current programs that will provide them with no long-term benefits.

In addition to bonded debt and notes, Connecticut carries other long-term payment obligations. These other obligations consist of the following: unpaid pension liabilities (\$6.8 billion); workers' compensation claims (\$280 million); employee compensated absences (\$260 million); and capital leases (\$48 million). When these additional long-term obligations are added to net bonded debt and notes, Connecticut's total debt load reaches a staggering \$16.7 billion.

In 1999, Connecticut must resolve to reform its debt policy. Real debt reform does not simply mean applying surplus dollars to the payment of debt. Committing relatively marginal sums of money to early debt retirement does little good if, at the same time, large new debt burdens are created. In Fiscal Year 1998, \$151.2 million of the General Fund surplus was used for debt retirement. However, for Fiscal Year 1999, new bond authorizations of \$1.4 billion were approved.

Comptroller Wyman offers the following debt reform proposals for consideration. These proposals are not intended to be limiting; rather, they are provided as a catalyst for discussion on this vital policy issue.

▶ *Link the Capital Budget to the Operating Budget*
Create a process that directly links the capital budget with the annual operating budget. Currently there is no formal link between debt spending decisions and the operating budget's policy objectives, performance measurements, and oversight review. In setting annual state fiscal priorities, the totality of spending commitments for programs and initiatives should be available to state policymakers. Therefore, it would be clear what percentage of total state spending is going to various programs and constituencies. In addition, it would be easier to determine which debt-financed items should be moved to the annual operating budget.

▶ *Institute Stricter Guidelines for Bond Funding*
Institute stricter statutory guidelines on items that are eligible for bond funding. For example, some states require that an item cost at least \$25,000 and have a useful life of at least three years in order to qualify for debt financing.

▶ *Establish a Debt Affordability Committee*
Establish a debt affordability committee comprised of debt management experts from both the public and private sectors. This committee would review the state's total outstanding bonded debt and make recommendations concerning the maximum amounts of new annual debt authorizations and allocations that the state can reasonably manage. The committee would also review present state debt policy and make recommendations for improvement. In 1990, the State of Vermont instituted such a committee and its legislature has complied with the committee's subsequent recommendations relating to the creation of state debt.

▶ *Enhance Flexibility on Debt Retirement*
In directing any surplus dollars that may become available for debt retirement, the State Treasurer should be given the authority to either retire bonded debt or pay down the state's outstanding pension liability. The Treasurer would be instructed to make this decision based on prevailing market rates and investment earnings. Currently, the Treasurer is required to direct surplus dollars to retire bonds. It is not sound fiscal policy to pay off debt borrowed at 5 percent with dollars that could be earning double-digit returns in the pension fund.

Tax Rebates: Creating Revenue Stabilization with Taxpayer Equity

State Comptroller Nancy Wyman was the first Connecticut State official to recommend dedicating a large portion of state surplus dollars to tax rebates. In addition, Comptroller Wyman called for the rebating of surpluses to be permanent within state law. Although a version of the Comptroller's rebate program was implemented in 1998, it was not designed to be ongoing. The Comptroller's proposal to make rebates a continuing part of Connecticut's fiscal landscape is especially timely as the state approaches a new century.

In the past, tax bases and rates have been reduced in response to positive, but temporary economic conditions. Over the past six years, Connecticut has enacted tax reductions that, when fully phased-in, will lower state revenues by over one billion dollars. While this is a positive development for state taxpayers, it is important to ensure that these tax reductions can be sustained when the economy slows. Historically, economic downturns have resulted in tax increases for the state's residents.

Connecticut taxpayers know all too well the erratic history of tax relief in this state – years of tax reductions have been followed by years of large tax increases. The Comptroller's plan would help break the cycle. The reason is simple: rebates do not rely on future good fortune. They are paid with existing excess cash. Like a successful corporation declaring dividend payments to shareholders after a good financial year, the state would acknowledge taxpayer contributions to the surplus with rebate checks. The Comptroller's rebate program would allow the state to maintain a stable revenue base while providing meaningful tax relief. It also ensures that today's tax cuts do not become tomorrow's tax increases.

In the past seven fiscal years state General Fund surpluses have totaled \$1.2 billion. If the Comptroller's permanent rebate plan had been in place during those years, the average Connecticut taxpayer would have received checks of about \$150 annually.

Expanding Health Insurance Coverage: Improving Economic Security for Connecticut's Families

Health insurance coverage is an important indicator of social and economic well-being, both for individual families and the state as a whole. Unfortunately, despite an improving economy in recent years, the problem of the uninsured appears to be growing worse in Connecticut. State Comptroller Nancy Wyman has highlighted the importance of this issue for years and has consistently supported efforts to expand health insurance coverage to Connecticut's uninsured residents.

Two recent developments offer Connecticut an opportunity to expand health coverage to uninsured families in a cost-effective way. First, changes to federal law have separated eligibility for the Medicaid program from eligibility for cash assistance.

These federal changes offer the state flexibility to expand Medicaid to new groups previously not eligible for coverage. Second, the recent settlement with tobacco companies holds the potential to bring a significant new revenue stream to states, including Connecticut. State Comptroller Wyman believes a portion of this revenue should be used to fund a cost-effective expansion of coverage to the state's uninsured population.

A number of state legislators and advocates for the uninsured have highlighted a provision of the Social Security Act – Section 1931 of Title XIX – which allows states to disregard certain levels of income and assets for the purposes of determining Medicaid eligibility. In short, these changes will permit

Connecticut to simplify the complex array of eligibility requirements that are now used for families seeking coverage. One option would be to use the more flexible eligibility guidelines that now exist for Connecticut's children and apply them to uninsured families. For example, an uninsured family of three that makes under \$25,253 (185 percent of the Federal Poverty Level) could be eligible for Medicaid, without a restrictive asset test. Furthermore, since the health coverage would be provided under the Medicaid program, the state would be reimbursed for 50 percent of the cost. Rhode Island has already adopted this approach and will provide Medicaid coverage for families –

children and adults – up to 185 percent of the Federal Poverty Level.

Connecticut has an excellent opportunity to enhance the economic security of Connecticut's working families by expanding health coverage to the uninsured in partnership with the federal government. State Comptroller Nancy Wyman supports the efforts of the legislators and advocates who have brought this opportunity to the attention of Connecticut policymakers. She recommends that Connecticut explore this approach as an equitable and cost-effective way to expand coverage for the uninsured.

Long-term Care: Exploring Ways to Control Costs and Enhance Choice

Problems in the area of long-term care have been well documented and demographic trends will make the situation even worse in the years to come. Most of those requiring long-term care services are over the age of 65. Not only is this population growing in numbers, but people are also living longer. According to the Census Bureau, those age 85 and above are the fastest growing segment of the population. As the baby-boom generation ages, enormous demands will be placed on the long-term care system. To avoid a crisis, planning must begin now.

Long-term care is expensive and the costs continue to grow. In Fiscal Year 1998, long-term care services accounted for almost half of the \$2 billion spent on Medicaid in Connecticut. Medicaid is one of the largest single items in the state budget and has the greatest potential for rapid growth, primarily due to public funding for long-term care.

The current long-term care system is fragmented and has a heavy bias toward institutional care. At the same time, national estimates indicate that about two-thirds of those who need long-term care could be cared for at

home or in the community with proper support. Nursing home care is expensive in Connecticut – about \$73,000 per year for private pay patients – and potentially inappropriate for many seniors. Home and community-based services can offer cost-effective alternatives that could be expanded to meet



growing demand. Not only would this save money, but it would also help to enhance quality of life. Seniors and others served by the long-term care system value their independence and most would prefer to remain in their homes and communities for as long as possible.

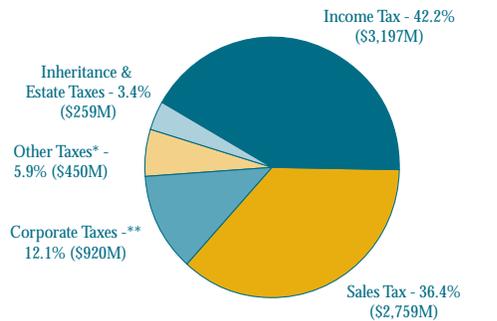
In response to these growing problems, State Comptroller Nancy Wyman is proposing to form a task force to explore some possible solutions. The task force would be a public and private partnership, consisting of policymakers with expertise in the field of long-term care. Task force members could include state legislators, officials from relevant state agencies, advocates, consumers and providers, including representatives of nursing homes, as well as home and community-based service agencies.

The State Comptroller's proposed task force would explore ways to:

- Control the growing costs of long-term care.
- Encourage more individuals to purchase private long-term care insurance.
- Expand cost-effective home and community-based services.
- Integrate funding sources and improve coordination of care.
- Enhance choice and quality of life for those served by the long-term care system.

The State's Financial Position

General Fund Tax Revenues By Source, FY 1998
(Dollars Expressed in Millions)



****Corporate Taxes include:**

Corporation Tax	6.7%
Insurance Companies	2.4%
Public Service Corp.	2.2%
Oil Companies	0.8%

***Other Taxes include:**

Hospital Taxes	1.8%
Tobacco Taxes	1.7%
Real Estate Taxes	1.2%
Miscellaneous	1.2%

Source: Office of the State Comptroller

- ▶ Remarkably, the enormous growth in state tax receipts came at a time of continued reductions in tax rates and bases. In 1993, Connecticut began to take a serious look at its revenue structure in light of the exceptional performance of the income tax. At that time, a trend toward phased-in tax reductions began, and each year has seen more tax cuts implemented. The major tax reductions include: a cut in the corporate tax rate from 11.5 percent to 7.5 percent by the year 2000; a cut from 4.5 percent to 3 percent in the income tax rate at various income levels based on filing status; a property tax credit of up to \$350 on the income tax; elimination of the inheritance tax by 2005; exemption of various items and services from the sales tax; and, a reduction in the gasoline tax from 39 cents to 32 cents per gallon. By Fiscal Year 2002, these tax cuts will reduce state revenues by over \$1 billion.

Reporting Format

The financial data presented below was developed in accordance with Generally Accepted Accounting Principles (GAAP). GAAP is the standard for financial reporting in both the public and private sectors. To date, however, the State of Connecticut has not yet adopted GAAP as its legal form of budgetary accounting. Therefore, the financial information below varies from much of the budget reporting that is familiar to the general public. In short, the financial information that follows is more accurate from an accounting perspective than the information normally reported on the state budget.

Fiscal Year 1998 Performance – Results for a Single Year of Governmental Operations General Fund Revenues

- ▶ The General Fund is the state's largest operating fund, accounting for about 85 percent of Connecticut's total governmental spending.
- ▶ In Fiscal Year 1998, the state recorded a General Fund operating surplus of \$389 million, the largest surplus posted to the General Fund in more than a decade.
- ▶ The General Fund surplus is primarily the result of exceptionally strong revenue growth.
- ▶ In Fiscal Year 1998, General Fund revenues increased 6.2 percent over the prior year. This trend was led by double-digit (14 percent) growth in state income tax receipts.
- ▶ Income tax revenue increased from \$2.8 billion in Fiscal Year 1997 to \$3.2 billion in Fiscal Year 1998.
- ▶ Overall, tax collections and federal payments to the state account for over 90 percent of all General Fund revenue.

STATE OF CONNECTICUT

General Fund Revenues by Source

Last Five Fiscal Years

(Expressed in Millions)

<u>SOURCE (1)</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>
Taxes	\$ 5,995	\$ 6,350	\$ 6,831	\$ 7,054	\$ 7,585
Licenses, Permits, and Fees	118	107	112	125	123
Federal & Other Receipts	2,480	2,562	2,644	2,585	2,646
Charges for Services	154	175	188	244	287
Fines, Forfeits, and Rents	31	35	24	30	34
Investment Earnings	25	28	26	37	53
Miscellaneous	<u>188</u>	<u>116</u>	<u>129</u>	<u>128</u>	<u>117</u>
Subtotal	<u>8,991</u>	<u>9,373</u>	<u>9,954</u>	<u>10,203</u>	<u>10,845</u>
Transfers in:					
Lottery	218	250	262	252	267
Other	<u>2</u>	<u>21</u>	<u>3</u>	<u>10</u>	<u>-</u>
Subtotal	<u>220</u>	<u>271</u>	<u>265</u>	<u>262</u>	<u>267</u>
Total	<u>\$ 9,211</u>	<u>\$ 9,644</u>	<u>\$ 10,219</u>	<u>\$ 10,465</u>	<u>\$ 11,112</u>

SOURCE: Office of the State Comptroller.

General Fund Expenditures

- ▶ In Fiscal Year 1998, General Fund spending grew by 4 percent – about twice the rate of inflation – and exceeded the state's constitutional cap on expenditures by \$194.1 million on a legal accounting basis.
- ▶ Fixed costs (entitlement programs, grant commitments, court mandates, and debt service) continue to consume the largest share of state spending.
- ▶ Medicaid expenditures showed modest growth in Fiscal Year 1998, rising to \$2 billion, which represents about 20 percent of General Fund spending.



State of Connecticut

General Governmental Expenditures By Function

Last Five Fiscal Years

(Expressed in Millions)

SOURCE (1)	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
Legislative	\$ 46	\$ 47	\$ 47	\$ 52	\$ 55
General Government	1,034	1,110	1,183	716	784
Regulation and Protection	396	397	415	415	417
Conservation and Development	227	264	221	265	263
Health and Hospitals	758	793	827	896	956
Transportation	350	352	358	360	343
Human Services	2,917	3,395	3,450	3,512	3,554
Education, Libraries, and Museums(2)	2,258	2,339	2,421	2,446	2,581
Corrections	738	801	846	948	935
Judicial	229	242	272	304	321
Federal and Other Grants	1,009	922	876	679	780
Debt Service	972	1,262	1,305	1,158	1,318
Total Expenditures	\$ 10,934	\$ 11,924	\$ 12,221	\$ 11,751	\$ 12,307

(1) Includes General, Special Revenue, and Debt Service Funds.

(2) Includes Higher Education Expenditures Treated as Operating Transfers from the State's General Fund.

Source: Office of the State Comptroller.

Beyond the General Fund –

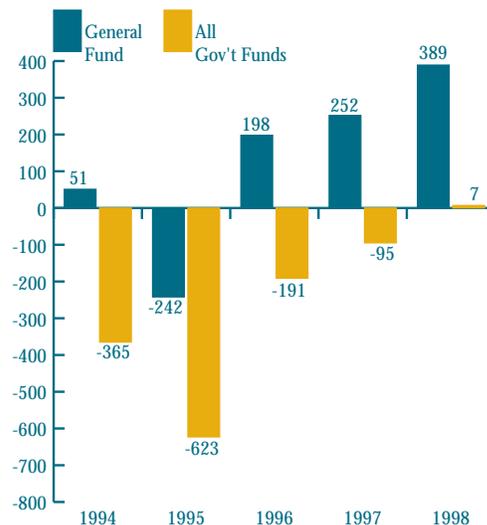
TOTAL GOVERNMENTAL OPERATIONS

The state undertakes various activities that do not appear in the General Fund. These activities include transportation and housing programs, grants to municipalities, loan programs and other services. When these activities are combined with those of the General Fund, a true picture of governmental operations emerges.

Combined governmental operating results for Fiscal Year 1998 show a surplus of \$7 million. This surplus, although small, follows nine consecutive years of governmental operating deficits.

Traditionally, the state borrows money in order to cover its annual operating expenses. This is the first year in a decade that current resources were at a level sufficient to cover all operating outlays.

Operating Results for the General Fund and All Governmental Funds (In Millions of Dollars)



Source: Office of the State Comptroller

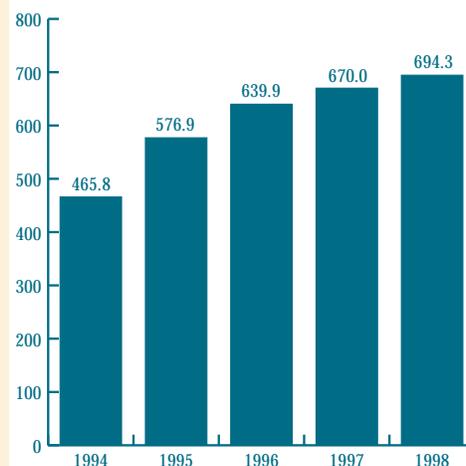
Overall Financial Position of the State

The Balance Sheet

In evaluating the state's financial performance, there is a tendency to focus exclusively on a single year of state operations. This approach does not provide an overall, long-term view of the state's financial health. To better evaluate the overall fiscal position of the state, it is necessary to look at the balance sheet. The balance sheet shows state assets, liabilities and fund balances at the close of each fiscal year.

- ▶ At the end of Fiscal Year 1998, the General Fund balance sheet displayed a cumulative GAAP deficit of \$694.3 million. Although the rate of growth in the deficit is slowing, it is now almost 50 percent higher than it was five years ago.
- ▶ The main reason for the cumulative deficit is the state's continued reliance on a flawed system of budgeting, which distorts the state's true fiscal picture.
- ▶ For legal budgeting purposes, the state uses what is best described as modified cash accounting. Under this system, certain tax revenues are counted before they are actually earned, but expenditures are not recorded until months after the liability arises.
- ▶ The cumulative result of these accounting manipulations to the annual budget is the state's GAAP balance sheet deficit.
- ▶ Those who invest in Connecticut by buying state bonds or notes, or by relocating their businesses to the state, analyze their decisions, in part, on state government's overall health as reflected on the balance sheet.
- ▶ The way to stop the gradual worsening of the state's balance sheet position is clear: adopt GAAP as the legal basis for state budgeting.

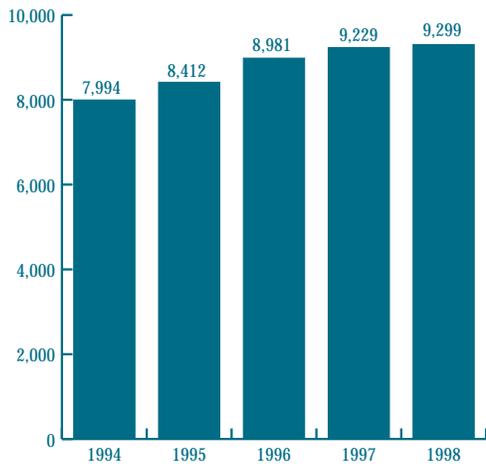
Cumulative General Fund GAAP Deficit
(In Millions of Dollars)



Source: Office of the State Comptroller

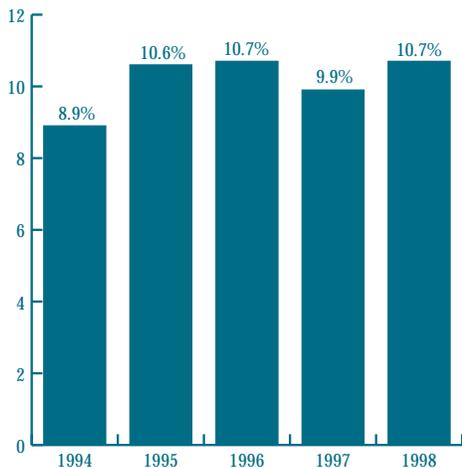


Net State Debt (In Millions of Dollars)



Source: Office of the State Comptroller

Debt Service as a Percent of Governmental Operating Expenditures



Source: Office of the State Comptroller

*Debt service includes Economic Recovery Note payments.

Debt Position

- ▶ Connecticut ranks first in the nation in state tax supported debt per capita. Bonded debt per capita has more than doubled since 1990, growing to \$2,820 by the end of Fiscal Year 1998.
- ▶ Many argue that high-income states can afford to take on higher debt levels than lower income states. However, even when the state's high resident income is considered, Connecticut's debt burden ranks second in the nation.
- ▶ The state's debt to income ratio is 19.7 percent, more than three times the national average of 5.9 percent.
- ▶ Connecticut's debt position is not improving, and there are no signs that debt reform initiatives will be undertaken in the near future.
- ▶ In Fiscal Year 1998, Connecticut added another \$70 million to its outstanding debt load, bringing its net debt to \$9.3 billion.
- ▶ Large amounts of debt require high annual debt service (principal and interest) payments. In Fiscal Year 1998, debt service payments consumed almost eleven cents of every dollar spent by state government.
- ▶ Debt service is a fixed cost that cannot be quickly adjusted when state revenue growth slows and budget deficits are projected. In difficult economic times, a high debt load can cripple a state's ability to respond effectively to the fiscal challenges it faces.
- ▶ Bonded debt tends to be the central focus of most analyses of state debt. In Connecticut, however, bonded debt represents only about half of state government's long-term obligations.

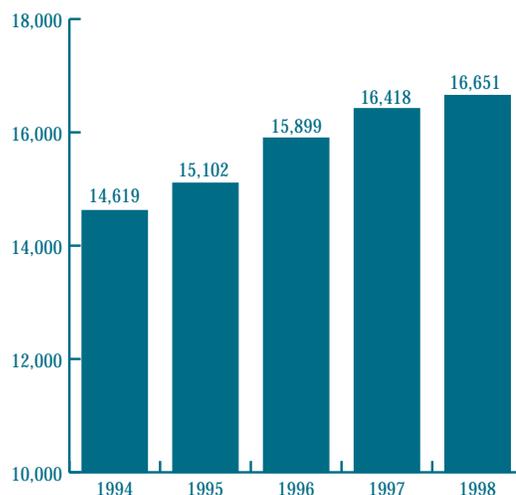
State of Connecticut Trends in Long Term Debt Last Five Fiscal Years (Expressed in Millions)

<u>DEBT CATEGORY</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>
Bonded Debt	\$ 7,994	\$ 8,412	\$ 8,981	\$ 9,229	\$ 9,299
Pension Debt	6,008	6,090	6,334	6,597	6,761
Workers' Compensation	295	287	268	283	279
Employee Leave Accumulations	267	257	262	260	264
Capital Leases	55	56	54	49	48
Total	<u>\$ 14,619</u>	<u>\$ 15,102</u>	<u>\$ 15,899</u>	<u>\$ 16,418</u>	<u>\$ 16,651</u>

Source: Office of the State Comptroller.

- ▶ In addition to bonded debt, the state has unpaid pension debt, workers' compensation claims, employee compensation accumulations, and capital leases. These obligations added to bonded debt bring the state's Fiscal Year 1998 long-term debt total to \$16.7 billion.
- ▶ Long-term debt will become the shared obligation of current and future generations of taxpayers. Individuals not yet of voting age will shoulder much of the financial burden for Connecticut's current debt practices.

Connecticut's Total Long-Term Debt
(In Millions of Dollars)

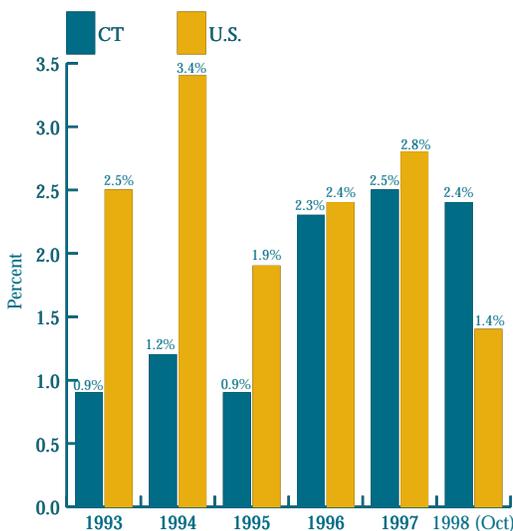


Source: Office of the State Comptroller

Connecticut's Economic Condition and Outlook

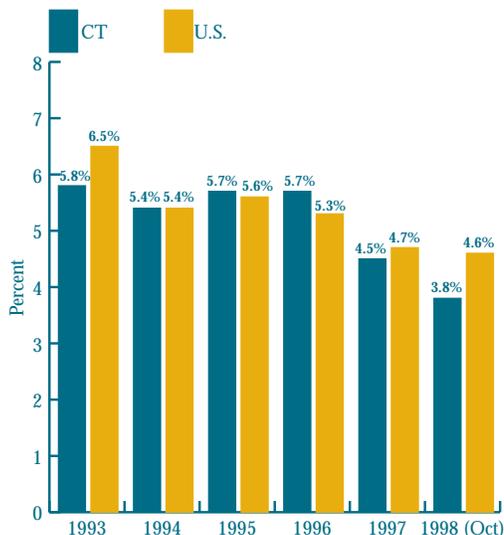
Overview

Nonfarm Payroll Employment: Annual Growth for Connecticut and the United States (Seasonally Adjusted)



Source: Bureau of Labor Statistics.

Percent of Labor Force Unemployed for Connecticut and the United States (Seasonally Adjusted)



Source: Bureau of Labor Statistics.

- ▶ Connecticut entered into a long period of recession during the winter of 1989. The recession claimed a total of 158,200 jobs before officially ending in December 1992.
- ▶ The state's recovery began slowly, with little employment growth between 1993 and 1995. During this period, Connecticut's economy performed at a level well below that of the national economy.
- ▶ By 1996, Connecticut's economy was showing signs of expansion, as the state became a full participant in the strong national recovery. Today, Connecticut has reclaimed over 80 percent of the jobs lost to recession, and has posted the strongest income gains in the country.
- ▶ During the course of the recovery, the state economy has continued to diversify with much of its employment growth coming from small and medium sized businesses in the service sector rather than from large manufacturing concerns and the insurance industry.
- ▶ The export sector is also playing a larger role in the state's economy. In 1997, exports increased 14 percent from the prior year to \$7.8 billion. Over the past ten years, state exports have almost tripled.

Employment Outlook

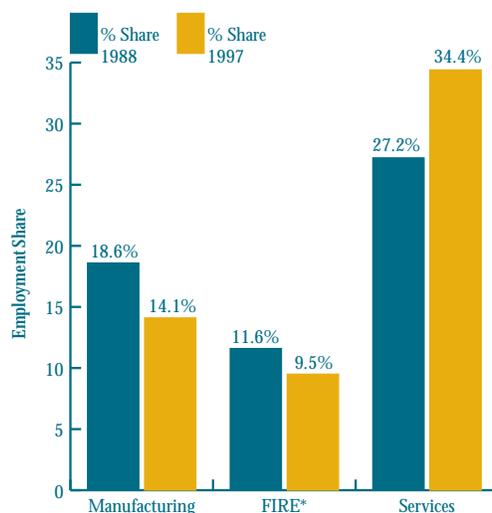
- ▶ Connecticut has experienced strong employment gains since 1996. Although employment growth has slowed somewhat during 1998, job additions are expected to continue at a moderate rate over the next year.
- ▶ The state's unemployment rate dipped to a ten-year low of 3.8 percent in October 1998. However, the unemployment rate in urban areas is well above the state average.
- ▶ Future state job growth will rely heavily on gains in Connecticut's urban centers.

- ▶ Over the past ten years, Connecticut experienced a shift in employment from the manufacturing and finance, insurance, and real estate (FIRE) sectors to the service sector (which includes business and personal services, health care, legal services, private education, technical and data processing).
- ▶ Manufacturing's share of total state employment slipped from 18.6 percent in 1988 to 14.1 percent in 1997.
- ▶ The employment share of the FIRE sector dropped from 11.6 percent to 9.5 percent between 1988 and 1997.
- ▶ By contrast, manufacturing and FIRE declines have been offset by growth in the service sector, which increased from 27.2 percent of total state employment in 1988 to 34.4 percent in 1997.
- ▶ The fastest growing occupations in the state are computer engineer; systems analyst; sales agent (securities and financial); physical therapist; human services worker; and home health aide.
- ▶ The fastest growing industries in the state are securities services; amusement and recreational services; hotel and lodging; social services; business services; and, general building contracting.

State Income

- ▶ Connecticut continues to lead the nation in per capita income with a 1997 level of \$35,954. In 1997, the state also experienced the strongest per capita income growth in the nation at 6.3 percent.
- ▶ In 1997, Connecticut's per capita income level was 42.1 percent above that of the nation and 18.1 percent ahead of the New England region, representing a ten-year high.
- ▶ Despite the strong total growth in state income, inflation adjusted median household income is 25 percent lower than its peak 1989 level. In part, this trend is explained by the replacement of high paying manufacturing jobs with lower paying jobs in the service sector.

Major Shifts in Connecticut Total State Employment, By Industry (1988 and 1997)



* Finance, Insurance, and Real Estate

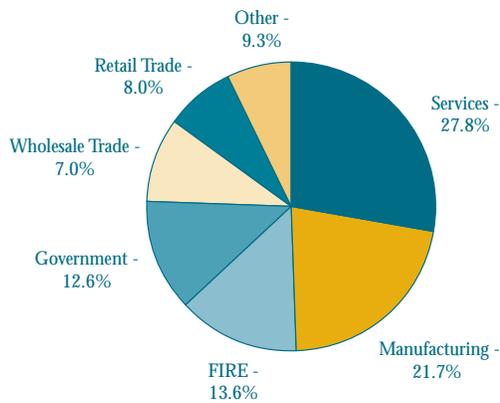
Source: Bureau of Economic Analysis.

Per Capita Income and Adjusted Median Household Income for Connecticut (1993-1997)



Sources: Bureau of Economic Analysis and U.S. Bureau of the Census.

Industrial Share of Total State Earnings in Connecticut (1997)



Source: Bureau of Economic Analysis.

- ▶ On a positive note, the state's inflation adjusted median household income had its strongest growth rate in five years, growing 2.1 percent in 1997.
- ▶ About half of the state's total earnings come from the services and manufacturing sectors.
- ▶ Although the FIRE sector declined in its share of total state employment over the past ten years, the share of total earnings that it contributes increased over the period from 11.5 percent in 1987 to 13.6 percent in 1997. This places the FIRE sector as the third largest contributor to state earnings.

Income Inequality and Child Poverty

- ▶ One persistent threat to balanced and sustained economic growth is the unbalanced distribution of state income. Connecticut ranks as one of the top five states in income inequality.
- ▶ One of the most serious outgrowths of income inequality is a high rate of child poverty, especially in the state's urban areas.
- ▶ While Connecticut's overall poverty rate is relatively low at 10 percent, its child poverty rate is almost double the total rate. Although many states continue to see declines in child poverty, Connecticut is seeing alarming increases in this measure.

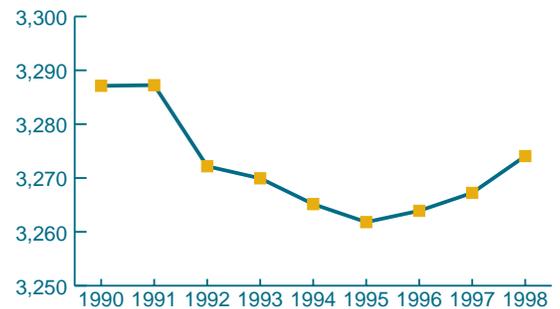
Other Indicators

- ▶ The export sector of the state economy surged in 1997; it grew to \$7.8 billion and comprised over 6 percent of 1997 estimated Gross State Product of \$120 billion.
- ▶ Little growth is projected for the export sector in 1998, due to the problems with exports to Asia. About a quarter of state exports go to thirteen Asian countries plus Singapore and Hong Kong.
- ▶ New housing permits have grown in recent years. In 1997, permits increased 5.6 percent over 1996. In October 1998, the increase was 20.3 percent higher than the same month the previous year.
- ▶ New auto registrations expanded 21.5 percent between 1996 and 1997. Solid growth continued during the first half of 1998.

Population Trends

- ▶ For the year ending June 30, 1998, Connecticut's population grew by 6,800.
- ▶ During the economic downturn early in the decade the state population declined from 3.287 to 3.262 million.
- ▶ Although there has been a slow, steady increase in population since 1995, so far this decade Connecticut's population has declined a total of 13,000 residents, or four-tenths of a percent, the second largest rate of population loss among the 50 states.
- ▶ Last year, almost 6,500 more people left Connecticut than moved into the state. Since 1990, this net out-migration is 149,000.
- ▶ Connecticut's population is increasingly diverse. The decline in white population has been mirrored by an increase in all other racial categories. The Hispanic population, which can be of any race, has also increased.

Connecticut's Total Population (1990-1997)
(In Thousands)



Source: U.S. Bureau of the Census.

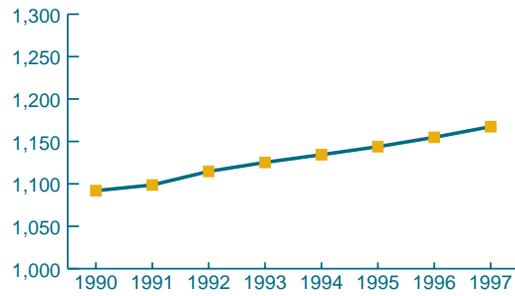


Year	White	Black	American Indian	Asian and Pacific Islander	Total Hispanic
1990	2,946,216	282,103	6,990	51,807	213,116
1997	2,885,863	299,760	7,940	76,295	259,159

Source: U.S. Bureau of the Census.

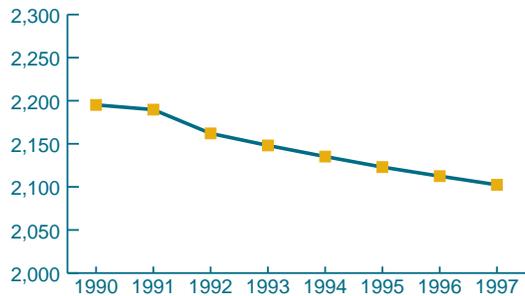
- ▶ Connecticut's population is aging. The most recent U.S. Census figures for 1997 show the nation's median age at 34.9. The median age for Connecticut's residents is 36.6.
- ▶ As the elderly population increases, there has been a decline in the number of residents under 45. Young families represent a significant share of the state's out-migration.
- ▶ With the exception of Stamford, Connecticut's largest cities (those with over 100,000 residents) have experienced a population loss in the nineties. In contrast, none of the state's fastest growing towns had over 15,000 residents

Changes in Connecticut's Population Age 45 and Over (1990-1997)
(In Thousands)



Source: U.S. Bureau of the Census.

Changes in Connecticut's Population Under Age 45 (1990-1997)
(In Thousands)

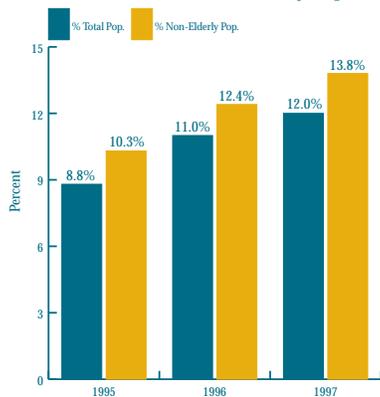


Source: U.S. Bureau of the Census.



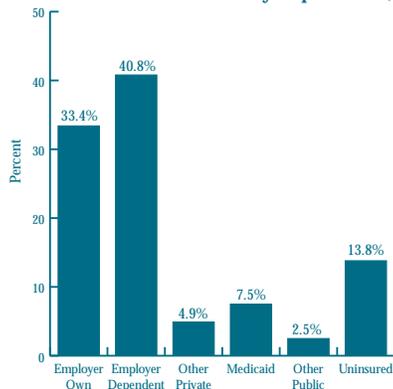
Health Insurance Coverage in Connecticut

Connecticut's Uninsured as a Percent of Total Population and as a Percent of Non-Elderly Population



Source: U.S. Bureau of the Census.

Sources of Health Insurance Coverage for Connecticut's Non-Elderly Population (1997)



Source: Employee Benefit Research Institute.

Note: The totals add to more than 100 percent because individuals may receive coverage from more than one source.

Recent Trends

Despite low levels of unemployment, solid job growth and an improving state economy in recent years, the problem of the uninsured appears to be growing worse in Connecticut.

- ▶ According to the Census Bureau, Connecticut's uninsured population grew from 289,000 in 1995 to 396,000 in 1997.
- ▶ In 1995, the uninsured represented 8.8 percent of Connecticut's entire population and 10.3 percent of the non-elderly population (i.e., those under age 65). By 1997, those figures rose to 12.0 percent and 13.8 percent, respectively.
- ▶ While Connecticut's non-elderly uninsured population was smaller than the national average of 18.3 percent, it was still unacceptably high for the wealthiest state in the nation.

Sources of Coverage for the Non-Elderly

- ▶ In 1997, nearly three-quarters of non-elderly Connecticut residents obtained health insurance through an employer, either their own or through a family member's employer.
- ▶ Another 4.9 percent purchased coverage for themselves directly from an insurance company and 10 percent received coverage through Medicaid or another public program.
- ▶ A total of 13.8 percent of Connecticut's non-elderly population was uninsured in 1997. By this measure, Connecticut ranked 16th in the nation, down from 12th the previous year.

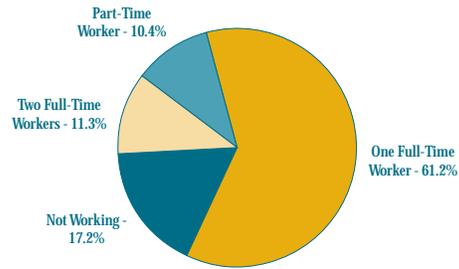
The Uninsured by Work Status

- ▶ One of the most striking characteristics of the uninsured population is the prevalence of working families. In 1994-95, 82.8 percent of uninsured Connecticut residents lived in families where the adults had some connection to the work force.
- ▶ About 72 percent of the state's uninsured lived in families where one or both of the adults worked full-time.
- ▶ Only 17.2 percent of the uninsured lived in families where the adults were not working.

The Uninsured by Firm Size

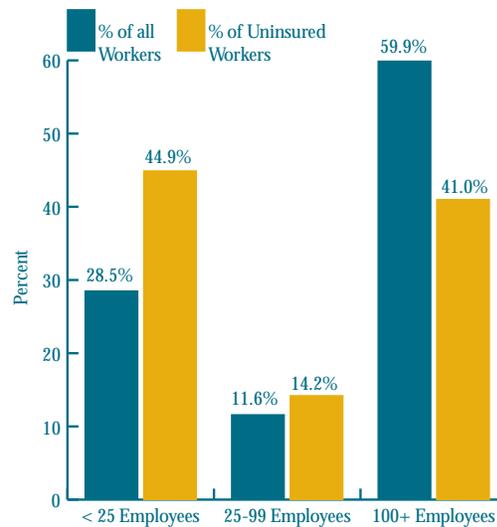
- ▶ In 1994-95, only 28.5 percent of Connecticut's workers were employed by small firms (i.e., those with fewer than 25 employees); yet, 44.9 percent of Connecticut's uninsured workers were employed by small firms.
- ▶ Medium-sized firms (25-99 workers) employed 11.6 percent of Connecticut's workers, while 14.2 percent of uninsured workers were employed by medium-sized firms.
- ▶ Larger firms (100 or more workers) employed nearly 60 percent of Connecticut's workers; yet, 41 percent of uninsured workers were employed by large firms.

Connecticut's Non-Elderly Uninsured Population By Work Status of Adults in Families (1994-95)



Source: The Urban Institute.

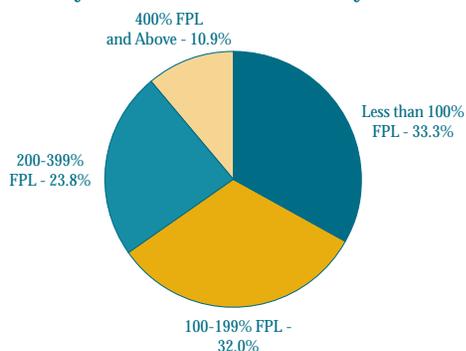
Uninsured Workers Versus All Workers in Connecticut, By Firm Size (1994-95)



Source: The Urban Institute.



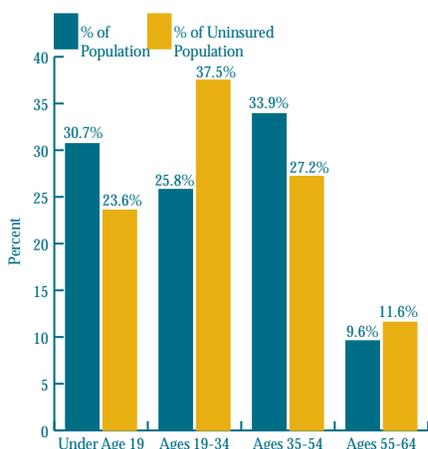
Connecticut's Non-Elderly Uninsured Population By Family Income Relative to Poverty (1994-95)



Source: The Urban Institute.

Note: The Federal Poverty Level (FPL) changes each year and is adjusted for the number of people in the family. In 1995, for example, the FPL was \$12,590 for a family of three and \$15,150 for a family of four.

Uninsured Population Versus General Population in Connecticut, By Age Group (1994-95)



Source: The Urban Institute.

The Uninsured by Family Income

- ▶ In 1994-95, 14.1 percent of Connecticut families had incomes below 100 percent of the Federal Poverty Level (FPL); however, 33.3 percent of uninsured families had incomes below the FPL.
- ▶ A total of 13.5 percent of the state's families had incomes between 100-199 percent of the FPL; yet 32 percent of uninsured families had incomes within that range.
- ▶ Families between 200-399 percent of FPL made up 23.8 percent of the uninsured in Connecticut, while those with incomes of 400 percent or more of the FPL made up the remaining 10.9 percent.

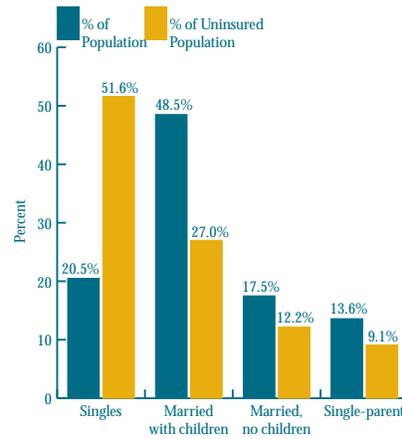
The Uninsured by Age

- ▶ In 1994-95, those ages 19-34 were the most likely to be without health coverage in Connecticut. While this age group made up 25.8 percent of Connecticut's non-elderly population, they represented 37.5 percent of the state's uninsured population.
- ▶ Those between the ages of 55-64 were somewhat overrepresented among the uninsured. This group made up 9.6 percent of the state's non-elderly population, yet represented 11.6 percent of Connecticut's uninsured population.
- ▶ Those between the ages 35-54 make up 27.2 percent of the uninsured population and children under age 19 made up 23.6 percent of Connecticut's uninsured population.
- ▶ Significantly, the majority of uninsured Connecticut children lived in families with incomes below 185 percent of the Federal Poverty Level; this means they were eligible for health coverage under the Medicaid program.

The Uninsured by Family Type

- ▶ In 1994-95, single individuals (as a family type) made up 20.5 percent of the population in Connecticut; yet, singles represented 51.6 percent of the uninsured population.
- ▶ By contrast, those in families categorized as “married with children” made up 48.5 percent of the state’s population; however, these families represented only 27 percent of the uninsured population.
- ▶ Families classified as married without children made up 17.5 percent of Connecticut’s population and represented 12.2 percent of the uninsured population.
- ▶ Single-parent families made up 13.6 percent of Connecticut’s population, but only 9.1 percent of the uninsured population. If not for the Medicaid program, which largely serves single-parent families, this population would make up an even larger percentage of the uninsured.

Uninsured Population Versus General Population in Connecticut, By Family Type (1994-95)



Source: The Urban Institute.



Data Sources

State of Connecticut,
Office of the State Comptroller

Employee Benefit Research Institute

National Conference of State Legislatures

The Children's Health Council

The Urban Institute

U.S. Department of Commerce,
Bureau of Economic Analysis

U.S. Department of Commerce,
Bureau of the Census

U.S. Department of Labor,
Bureau of Labor Statistics