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ABSTRACT

The Commission made an in depth study of the entire tax structure of Connecticut and developed a model for tax reform for the State that would allow for lessening of inequities for many classes of taxpayers and create a more favorable climate for industry to increase employment for Connecticut people. This volume (the first of three) consists of four parts. The first two parts include, respectively, a statement of overall objectives of the tax structure and a fiscal and economic profile of the State. The third part examines the existing revenue structure and forecasts tax yields through Fiscal Year 1977. Also considered are present expenditure trends and forecasts of expenditure levels through the same period. Accordingly, a schedule of excess revenue resulting from deducting expenditures from the yield of the revenue system is developed. The final part describes the summary dollar impact of the Commission's program and shows how it is financed by the generation of excess revenue. Revenue sharing and a full narrative description of the existing tax structure are reviewed in appendixes. (Parts of charts on pages 51-58 may reproduce poorly.) (Author/JF)

State of Connecticut

THE REPORT OF THE GOVERNOR'S COMMISSION ON TAX REFORM

Submitted to Governor Thomas J. Meskill
Pursuant to Executive Order 13 of 1972

VOLUME I – STATE FINANCE

Revenues and Expenditures

PART A — PUBLIC FINANCE OBJECTIVES FOR STATE AND LOCAL GOVERNMENT

PART B — ECONOMIC AND FISCAL PROFILE OF CONNECTICUT

PART C — REVENUES AND EXPENDITURES

PART D — FISCAL IMPACT OF COMMISSION PROGRAM

HARTFORD, CONNECTICUT

December 18, 1972

This Report Consists of the Following:

SUMMARY OF COMMISSION REPORT

VOLUME I STATE FINANCE
Revenues and Expenditures

VOLUME II LOCAL GOVERNMENT
Schools and Property

VOLUME III TAXPAYERS
People and Business

Copies of the Summary available without charge.

Copies of the Report — $1.00 per volume; $3.00 per set

from

STATE TAX DEPARTMENT
92 Farmington Avenue, Hartford, Connecticut 06105

The Bond Press, Inc.
Hartford, Connecticut

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(appointed by the Governor pursuant to Executive Order No. 13 of 1972)

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LETTER OF TRANSMITTAL

Bloomfield, Connecticut
December 1, 1972

The Honorable Governor Thomas J. Meskill
State of Connecticut
Hartford, Connecticut

My dear Governor Meskill:

Your Commission On Tax Reform is privileged to submit its report in accordance with Executive Order Number 13 of June 15, 1972.

The report, consisting of three separate volumes and a summary, represents the results of the Commission's in-depth study of the entire tax structure of the State of Connecticut, including both State and local government. We believe it covers every significant aspect of the State-local revenue system. We are confident it will provide a model for tax reform in Connecticut, allowing us to lessen inequities for many classes of taxpayers and create a more favorable economic climate for industry to increase employment for Connecticut people. Its recommendations cover the fiscal needs of State and local government for the next five years. We believe it provides for the equitable distribution of the costs of State and local government.

The Commission believes the present opportunity to be almost without parallel in other states or this State in recent times. Although new program needs may eventually require a State income tax — and this Commission does not hesitate to recognize and debate the sound reasons for such an innovation — information and analysis of anticipated expenditure requirements indicate that the existing State tax structure will be sufficient to meet Connecticut's needs in the foreseeable future. Revenue increases of 6.7% per year can be expected from existing sources, and expenditure needs have been projected at approximately 5% per annum. This is the essence of the good news for our fellow taxpayers, and that conclusion allowed us to go beyond immediate crises. The Commission sought, therefore, to reform the tax structure according to fundamental objectives of maximum tax equity and minimum interference with economic decision-making, keeping in mind all taxpayers and social goals but captive of no predetermined interest. The control of expenditures which you have pioneered allowed us to formulate a sound program for Connecticut and, very possibly, a model for many other states to follow.

On the other hand, Connecticut residents must recognize that a continuation of the past rate of annual expenditure increase caused by demands for new programs and increased level of State services may not only take away the present opportunity for tax reform, but will in a few years require a personal income tax. In essence, this is a continuing choice for Connecticut voters — tax reductions and reform coupled with moderate increases in existing spending, or a personal income tax to support major new programs and increased Government participation in many areas.

With the annual surplus of revenue growth, enough new revenues were found to be available to make substantial and fundamental improvements including reductions where appropriate, in the local property tax and the existing State tax structure. Without drastic tax increases, hard-hit individual taxpayers can expect appropriate relief; taxes that deter business investment and slow our job growth can be eased; onerous property tax bills in our cities and some of our towns can be reduced, and the remaining property tax structure administered and levied more fairly; and great progress can be made over time to eliminate our substantial school finance inequities.

The Commission's charge did not include a complete analysis of State and local expenditures. It was, however, necessary for the Commission to estimate expenditure levels in order to design an adequate revenue system. We have designed according to the premise that annual growth in State expenditures can be held to approximately 5%. We concur in this expenditure objective and made such tests of recent trends in spending as we considered necessary to substantiate the achievability of this expenditure limit. The Commission has refrained from any effort to pass judgment on the present or future service needs of State or local government in the conviction that these are matters of policy determination by the Governor and the Legislature. The Commission has therefore concerned itself primarily with reform of the revenue system and compensatory programs designed to replace foregone tax revenues or provide a basis for tax reduction at the local level.

It is important to emphasize that the programs offered are part of a total system. The various recommendations are not offered by the Commission as a selection from which parts can be chosen. Most of the recommendations are interrelated and support each other and they would not be supported by the Commission as separate enactments.

The Commission organized for its work on June 28, 1972. Approximately ten weeks were devoted to basic research and analysis of the fundamental problems in the revenue structure. An additional five weeks were devoted to development of the Commission's program and preparation of the papers covering each element. Individual members of the Commission, in each case, took specific responsibility for the preparation of working drafts and in carrying forward the recommendations into a final report which was in turn reviewed by the entire Commission.

During the first ten weeks, the Commission made a major effort to seek out the views of many authorities, and specifically knowledgeable people. The Commission also attempted to obtain the views and interest of the public at large, an essential background to the considerations of tax policy problems. To this end, the Commission held four public hearings throughout the State and many witnesses were heard. Additionally, the

Commission received correspondence from many taxpayers expressing their opinions. As a result of the public participation and extensive meetings with authorities. the Commission amassed an outstandng data base and received many useful views and suggestions on its program.

The Commission's research was provided by coordinating departmental resources of the State and a carefully selected group of consultants and small part-time staff. As suggested by your Executive Order, the Commission has freely called upon various State departments for analyses, reports, and statistical data. The cooperation from all State agencies was outstanding and greatly assisted the Commission in its work. Various members of the Commission themselves contributed working papers from their own expertise in the fields of appraisal, property taxation, school finance, and legal work.

It should be noted that many members of the Commission have devoted virtually their full time to the problems of Connecticut's tax reform for the last several months. These services were rendered without compensation of any type and constitute a great example of individual concern for the public welfare.

The Commission is very pleased to acknowledge the excellent assistance provided by its consultants, many of whom contributed extensively to the final report. In particular, the Commission wishes to thank President A. M. Woodruff of the University of Hartford and Professor Dick Netzer of New York University for their contribution to the property tax. We are also indebted to Professor Theodore Smith for his work on the assessing program. The Commission wishes to express its thanks and appreciation to Mr. Robert Patricelli, of Greater Hartford Process, for his contribution to the school equalization program and to Mr. Robert Weller, formerly of Hartford Process, for the development and organization of their original school finance program. The Commission is also grateful to Professor Charles Benson for his views of the school finance program. The Commission availed itself extensively of the data base and statistical information which is prepared and maintained by the Connecticut Public Expenditure Council. It also received the personal assistance of Mr. Robert Franklin, their Executive Director. Lastly, the Commission is indebted to Professor James Papke for review of its economic analyses and for his assistance in organization of the Commission Report.

The Commission also wishes to note especially the wholehearted support and complete independence which you, as Governor, have provided for it.

By endorsing this letter of transmittal, the Commission members have individually indicated their concurrence and approval of the report as a whole. Some members disagreed in part with some of the findings and recommendations of the Commission and have in some cases indicated the extent of their disagreement through dissents, copies of which are attached as appendices in the Parts to which they refer. Further, not all members of the Commission necessarily agreed with every detail and all of the phraseology of the report. They do, however, agree with its objectives and all of the substantive aspects.

It is the Commission's hope that acceptance of its recommendations will produce a dramatically improved fiscal program in the State of Connecticut.

Respectfully submitted,

FRANCIS E. BAKER, JR., *Chairman*
Governor's Commission on Tax Reform

STATE OF CONNECTICUT

BY HIS EXCELLENCY

THOMAS J. MESKILL

GOVERNOR

EXECUTIVE ORDER NO. THIRTEEN

WHEREAS, despite the most stringent austerity measures, the revenue needs of the State will continue to increase in the future; and

WHEREAS, there is an evident need to stimulate business investment and thereby to create more employment opportunities in the State; and

WHEREAS, there is a correlation between such a stimulus, the overall competitiveness of Connecticut's business and industry, and the tax policy pursued by the State; and

WHEREAS, recent judicial decisions have raised fundamental questions regarding the existing means, the property tax, of obtaining revenue for the needs of town and city government; and

WHEREAS, potentially imminent Federal action in the area of revenue sharing will profoundly affect and be affected by the revenue structure and potential of the various States; and

WHEREAS, it is essential, within this context, to review the totality of Connecticut's tax effort, whether State or local in nature, in order to arrive at the most equitable distribution of the tax burden; and

WHEREAS, it is important, therefore, in view of these considerations to immediately begin a comprehensive review of the available revenue options with the view toward the complete reform of Connecticut's existing tax structure;

NOW, THEREFORE, I, Thomas J. Meskill, Governor of the State of Connecticut, acting by virtue of the authority vested in me by the Constitution and by the statutes of this State, do hereby ORDER and DIRECT:

1. There shall be established a special Commission, hereafter to be known as the Governor's Commission on Tax Reform.

2. The Commission shall have as its Chairman, Francis E. Baker, Jr., Farmington, and will consist of such other members as shall be appointed by the Governor.

3. The Commission shall be charged with the following functions and responsibilities, which, however, shall not be deemed to be exclusive:

a. To undertake an analysis of all existing and potential sources of revenue to the State, which analysis shall include, but not be limited to, anticipated revenue from Federal programs, and particularly from the Federal Revenue Sharing Program, as well as from sources of revenue existing at or potentially available to all levels of government in the State.

b. To review, within this analysis, the advisability, in view of the benefits to be derived, of "tailoring" Connecticut's tax structure in such a way as to maximize the potential availability of Federal revenue.

c. To thoroughly examine the state of our existing property tax system in Connecticut, in light of the recent Constitutional issues which have been raised by the Courts, in view of its apparent inelasticity as a revenue source in terms of the increasing and excessive demands being placed upon it, and especially in view of the enormous burden it is now placing on property owners in many of our communities, and to make the appropriate recommendations for the reform of this system.

d. To examine our current State revenue structure in terms of its impact on the various segments of our society, with a view toward isolating unjustifiable inequities in the tax burden now being borne by identifiable classes of citizens.

e. To review the impact of Connecticut's tax structure on the climate for business and industry in the State, particularly with regard to its competitiveness with our neighbors and other industrial states and nations, and to recommend the appropriate changes in that structure, within the context of the other aforementioned considerations, needed to stimulate business growth and investment in this State, and, thereby, to create additional jobs for our citizens.

4. The Governor's Commission on Tax Reform is authorized to call upon any office, department, commission, council or other agency of the State for any information or assistance which the Commission deems necessary in order to discharge its functions and responsibilities under this Order.

5. Each office, department, commission, council or other agency of the State and each officer or employee of the State is authorized and directed, to the extent not inconsistent with law, to cooperate with the Governor's Commission on Tax Reform and to furnish such information and assistance to it as it may find necessary or appropriate in the discharge of its functions and responsibilities under this Order.

6. The Commission on Tax Reform shall render to the Governor a full report of its findings and recommendations for such reform by December 1, 1972.

7. This Order shall take effect immediately.

/s/ Thomas J. Meskill
GOVERNOR

Filed this 15th day of June 1972

/s/ Gloria Schaffer
SECRETARY OF THE STATE

Preface to Volumes I, II, and III

Mission of the Commission

The Governor's Commission on Tax Reform was established by Governor Thomas J. Meskill's Executive Order 18 dated June 15, 1972, a copy of which is reproduced along with the letter of transmittal contained at the beginning of this report.

The tasks assigned to the Commission included the examination of all sources of revenue available to State and local government, including Federal programs. The Commission was required to evaluate a wide variety of alternative tax sources, as well as to examine the existing structure in Connecticut in detail. The Commission was specifically charged with evaluating inequities resulting from Connecticut taxes as they affect various classes of citizens. The Commission was also asked to examine the impact of the Connecticut tax structure on business with a view to encouraging economic expansion in order to create new jobs, and to evaluate the competition with other states in the search for industry. Lastly, the Commission was charged with a thorough review of the property tax, including the burden on homeowners and investment property and the use of the property tax in financing schools.

As finally developed, the overall objective of the Commission can be stated briefly as follows:

1. To study, through current research reports, the reports and recommendations of prior Connecticut commissions and committees, similar efforts and documents from other states and Federal agencies, and public hearings, Connecticut's economy and the impact of its public finance system on various kinds of economic activity and on Connecticut's competitive position in various economic areas; the degree to which the fiscal structure achieves an optimal distribution of its costs and benefits among the citizens and businesses of the State; and the possibilities for improving Connecticut's fiscal structure, operations, and administrative procedures.

2. To provide the Governor, Legislators, and voters of Connecticut with an objective, factual, and analytical survey of their fiscal system in order to promote a clearer understanding of that system and to facilitate its revision and improvement.

3. To make such findings, conclusions, and recommendations for adjustments in the present fiscal system as it may agree are necessary and desirable to minimize adverse effects on economic growth and development, remove inequities and inequalities in the distribution of the tax burden, and provide adequate revenue to meet the estimated needs of Connecticut's State and local governments in the future.

Areas Covered By Commission Proposals

A review of the summary of the Commission's recommendations shows how the Commission's guiding principles and objectives have been embodied in specific proposals.

Economic growth. The area of greatest concern in this regard is the taxes which impose direct penalties upon the expansion and improvement of job-creating industrial and commercial facilities, primarily the sales tax on manufacturers' machinery and equipment and the personal property tax. The proposed elimination of these levies would be a major step toward providing a fair and competitive tax environment by shifting the major burden of business taxes from costs to profits, that is, from taxes that impede progress and expansion to those that reflect business success achieved in a climate conducive to growth. The recommendations regarding the structure and administration of the real property tax would further improve the environment for economic growth in Connecticut.

Equity. Considerations of equity and equality, both within the framework of particular taxes and among different taxpaying groups in Connecticut's economy, has dominated much of the Commission's study and policy deliberations, and is apparent throughout the Commission's specific recommendations. Removal of the personal property tax and improvement in the assessment practices would eliminate the most discriminatory and unequal portions of the property tax. The elderly renter/owner property tax relief measure removes a particularly onerous and burdensome element of the real property tax. Finally, the proposed program for achieving school equalization would work toward the goal of equality in educational opportunity.

Administration and compliance. The property tax assessment reform program, the recommendations for procedural changes in the various tax fields, and the uniform municipal practices program will make an important contribution toward more complete, equal, and even-handed enforcement of Connecticut's State and local tax laws.

Strength of State and local governments. In total, the Commission's program would provide greater financial strength for both the State and local governmental units by improving the economic impact, equity, and administrative and compliance integrity of Connecticut's State and local taxes.

Organization of the Report

The Commission's programs are set forth in three separate volumes and a summary.

Volume I, *State Finance*, consists of four major parts. Parts A and B include a statement of the overall objectives of the tax structure and a fiscal and economic profile of the State. Part C examines the existing revenue structure and forecasts tax yields through Fiscal Year 1977. This part also considers present expenditure trends and forecasts expenditure levels through the same period. Accordingly, a schedule of excess revenue resulting from deducting expenditures from the yield of the revenue system is developed. Part D describes the summary dollar impact of the Commission's program, and shows how it is financed by the generation of excess revenue. The Commission's program is, therefore, essentially self-financing. Revenue sharing and a full narrative description of the existing tax structure are reviewed in Appendices to Part C.

Volume II, *Local Government*, contains four parts, all related to local level problems. A complete review and recommendations with respect to the property tax are contained in Part A. School finance and a detailed proposal for local option equalization with projections for each town through 1985 are contained in Part B. Proposals for reform of the assessment system including an estimate of revenues presently being lost through improper (and unlawful) underassessments are set forth in Part C. A recommendation for a Uniform Municipal Practices Act dealing with referendum requirements, town budgets, and town financial reporting is contained in Part D.

Volume III, *Taxpayers*, is in three parts. The first part reviews State-level taxation on individuals. It evaluates the impact of the sales tax, compares it to other states, and offers an alternative to the present 7% rate. A review of the need for a personal income tax is contained in this section, and recommendations are presented against its adoption. Part A also contains the Commission program for elimination of the tax on dividends, while increasing the tax on net long-term capital gains. Part B describes the need for business tax reform and offers programs designed to stimulate business expansion, retooling, modernization of equipment, etc.—all designed to create more jobs for Connecticut workers. Part C sets forth a variety of procedural reforms designed to simplify the revenue code and appeals procedures.

The *Summary* contains the high points of the programs and some limited analytical material.

Conclusion

The scope of the Commission Report is broad and many-faceted with a small probability that any issue of real significance had been overlooked. But no pretense is made that this Commission's work has been completely exhaustive either in scope or depth. The subjects covered by the Commission and the depth of its study have been as broad and intensive as the available time and resources would permit.

The Commission hopes that this work will be carefully reviewed by the Legislature and Administration and public at large, and that the programs advocated can serve as a basis for new legislation in 1973 and beyond.

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PART A

Public Finance Objectives For State and Local Government

Introduction

State and local finance is concerned with taxation. expenditures. debt issue and management. and intergovernmental financial relations in the context of a multiplicity of open economies. While national economies are characterized by varying degrees of openness. international barriers to trade and capital and labor mobility are sufficient, particularly in the United States, to allow most fiscal policy to proceed on the assumption of a closed economy. **In the case of State-local governments, however, explicit recognition must be taken of the fact that each taxing, spending, and borrowing jurisdiction by its actions affects its neighbors and is, in turn, directly affected by them.** Not only do goods and services, money, capital, and people move freely across jurisdictional boundaries, but the activities of households and business enterprises commonly transcend these boundaries. People live in one taxing jurisdiction and are employed in another; and, business activity is carried on simultaneously in several states, counties, cities, and school districts.

In taxation, the multiplicity of jurisdictions introduces a major limitation on the purpose and scope of State-local tax policy. For example. income redistribution and counter-cyclical tax policy objectives may properly play a significant role in the development of national fiscal policies. But at the sub-national level. income redistribution is severely restricted by taxpayer mobility, interjurisdictional competition and. in the case of local units. restricted taxing powers. Similarly. subnational governments are constrained in their ability and capacity to regulate the aggregate level of economic activity in their jurisdictions. Their lack of monetary controls and debt authority requires a virtually passive role in income stabilization.

On the other side of the fiscal coin, namely expenditures, the problem for sub-national governments arises from the fact that expenditure benefits are not fully contained within the spending jurisdiction. Benefit spillovers give rise to issues of defining the optimum size of an administrative organization for the provision of public services. Problems of efficiency because of economies of scale are also involved.

Taxation Philosophy

Progress toward the achievement of a rational tax structure for the State of Connecticut can only be developed within a framework of general agreement on the goals or objectives of State-local taxation. Once such agreement has been obtained, an analytical appraisal of the present tax structure and its components against the background of these objectives will determine the need for, and scope of tax reform and/or reconstruction *and* indicate the route or routes to the attainment of the specified objectives of fiscal planning with the various components of the tax structure.

Tax policy objectives must be meaningful, substantive, and operational (i.e., based on empirical data) if they are to serve any useful purpose. Thus, **for example, the meaning of the expression "equitable" or "fair" as it is used to describe a desirable feature of a tax or tax structure is too nebulous and abstract for purposes of formulating tax policy.** Reasonable men may legitimately disagree on its specific meaning and application and its importance in relation to other desired goals. The same applies to phrases such as "attractive business climate" and the concept of "adequacy" of the tax structure. The purpose of this statement is to define, in an operational sense, basic objectives of Connecticut tax policy.

Adequacy—Automatic Response Principle

If the State of Connecticut and its political subdivisions are to meet the present and foreseeable public service requirements of Connecticut's people and businesses, it is obvious that their revenue systems must be adequate for the task. Adequacy however, can be **achieved with varying degrees of equity or inequity, and with a tax system that imposes minimum restraints on economic growth or a system that is widely regarded as impeding such growth.** Moreover, adequacy must mean something other than repeated increases in tax rates under the existing tax structure simply to meet recurrent fiscal crises.

As suggested, the goal of adequacy is achieved when the tax structure **generates sufficient revenue to meet the inevitably rising costs of providing public services for a growing population in an expanding economy without frequent changes in tax rates and the adoption of new tax bases.** In other words, it should be possible to finance without tax changes the so-called "horizontal" growth in the provision of public services, due to population increases and economic growth, or increases in expenditures made necessary by rising prices. Only the introduction of new services, substantial improvement in the quality of present services, or the unexpected loss of an existing revenue source should occasion the introduction of new taxes or adjustments in tax rates. **Tax adjustments under these circumstances become part of the normal budget decision-making process.**

Technically, tax adequacy requires that the yields of the individual components of the Connecticut tax structure respond "automatically" to the State's economic growth. **That is to say the normal annual growth in tax revenue from gain in personal income throughout the State must equal or exceed the normal annual growth in the budget.**

Equity of Taxation—Neutrality Principle

Equity in State-local taxation should be constructively defined to mean neutrality, that is, the **avoidance to the fullest extent possible of unnecessary interference with the normal operations and functions of the market economy.** State and local taxes should not unintentionally interfere with personal consumption patterns, personal activities, business investment decisions, and the like. Unintended interference with the market mechanism frequently results in burdens that can be avoided. As it relates to specific tax measures, neutrality or equity implies the equal treatment of equally situated individuals or business units. Thus, the test of neutrality or equity can meaningfully and quantitatively be applied to each major component of the Connecticut State-local tax structure. In most cases, an adjustment in the direction of improved neutrality will be accompanied by an enhancement of the adequacy of the overall revenue structure.

Equity or neutrality in the tax structure as a whole is concerned with the matter of distributing or allocating the cost of State-local public services among income groups in such a pattern so as to leave the distribution of income (after Federal income taxes) by size brackets unchanged. In short, neutrality suggests an overall State-local tax liability distribution which is proportional to income. For example, if 10% of the total income (after Federal taxes) received in Connecticut were required to finance the necessary level of public services, then, in line with the proposed objective of distributional neutrality, 10% of the income of families in each income category would be absorbed in taxes. This does not mean, of course, that every single State-local tax measure need be proportional. Rather, it implies that regressive measures are more or less offset by progressive levies, thereby achieving approximate proportionality in the overall distribution. For policy deliberations, the acceptance of the guideline of distributional neutrality requires that each adjustment in the tax structure be examined in terms of its impact on the present overall distribution of tax burdens.

It seems important to clarify the use of post-

Federal tax income in the above context. Basically, the reason for its use in the measurement of tax burdens stems from the fact that no state can reasonably expect to counter a national (Federal) policy which is aimed at altering the existing distribution of income among families and individuals. Because economic resources (i.e., capital and labor) are free to move among the states, it would, for example, be impractical and virtually impossible for any single state to pursue an active policy of reinforcing the overall progressivity of Federal income taxes. In short, neutral tax policies attempt neither to reinforce nor to offset the distributional consequences of Federal fiscal policy.

Taxation on Business—Benefit Principle

Business activity is everywhere a popular base for taxation, but the forms of State-local business taxes differ widely. These include levies on business profits, on business receipts, on purchases by business, and on real and/or personal property employed by the business enterprise. The reason for the widespread use of the business sector as a source of tax revenue is obvious: it is an efficient instrument for tax collections. **It is, however, only an instrument—an intermediary—because the real economic burden of business taxes (and for that matter all other taxes) is borne by individuals either as consumers, income recipients, or wealth holders.** As intermediaries in the tax collection process, the popular notion of "ability to pay" as a rationale for business taxation has little relevance independent of the ability to pay of business' customers, owners, employees, and landowners.

Business is, however, an important consumer and beneficiary (directly and indirectly) of State-local services. **Moreover, economic resources are suboptimally allocated unless business costs and prices reflect the contribution of the public sector to the production of goods and services for private consumption.** It is necessary, therefore, to identify a form (or combination of forms) of business taxation which approximates the extent to which individual businesses make use of and benefit from services provided by Connecticut State-local governments. In short, if State-local business taxation is to be justified on the basis of some generally acceptable principle, and if "ability to pay" has little meaningful application in the field of State-local business taxation, **then the benefit principle is the appropriate one.**

To the extent that public services enhance the advantages of carrying on business in a particular location (e.g., the location of the capital to the service industry), business taxes measured by property values may be reasonable. The extent to which business engages in the market (i.e., the volume of business activity) may also bear some relationship to the volume of public services utilized. In this case, each dollar's worth of an individual business's net output would include a tax component, regardless of the nature of the product (good or service), of the form of business organization (corporate or unincorporated), or the composition of productive inputs (labor, land, capital, etc.).

Acceptance of the benefit principle for business taxation necessarily rejects net income or profits taxes as the *only* form of State-local taxation. To tax net income or profits exclusively would be to imply that firms with low profits—or no profits—receive few or no benefits from public services. This is not meant to exclude business net income taxes, if they are used in combination with another levy or levies. It may well be that a net income tax alternative is the only way to assess particular types of business activity for the general services provided by the State.

The benefit principle of taxation as applied to business also suggests that the business sector should not be the principal non-voting source of tax funds whenever additional public revenues are required. Further, it suggests that engaging in interstate competition for industry through tax inducements to location is self-defeating. The benefit principle asserts that the structure of business taxation is as important as the *level* of business taxation. To enhance a positive business climate is to determine business tax liabilities by application of clear cut rules, not by negotiation, and to minimize the need for frequent adjustments in the tax structure. **Continual uncertainty as to future budget policy is perhaps more damaging to business decision in matters of location and expansion within a particular state than any other single factor.** For this reason, it is absolutely imperative to develop a tax structure which achieves adequacy (as defined earlier) and equity, and which creates an environment conducive to economic growth. Finally, the level of business taxes should be consistent with those in other states, when the value and volume of public services provided are taken into account.

Balance of Objectives

Tax policy is concerned with alternative methods of financing a given expenditure program within a framework of agreement on the goals or objectives of taxation. Simultaneous achievement of the three basic objectives proposed here is not easily accomplished. In some cases, the objectives are in conflict, in the sense that movement in the direction of one goal means that other goals will be achieved less adequately. The tax structure that generates maximum encouragement to economic expansion will differ in general from the tax structure that maximizes adequacy or equity. Ultimately, a tax program will reflect appropriate compromises and trade-offs on the assignments of priorities or weights to each of the objectives. In the formulation of a rational tax program, however, components of the Connecticut tax structure which are growth-inhibiting and inadequate and inequitable should be identified and minimized or replaced with superior available alternatives.

PART B

Economic and Fiscal Profile of Connecticut

Introduction

Study of the fiscal problems of the State of Connecticut and of its capacity for solving them properly begins with an analysis of the State's economic base. This section deals with the characteristics of Connecticut's economy that are most important in determining the magnitude of demands for public services and the ultimate source of public revenues — in other words, with population, employment, and income. This economic analysis lays the groundwork for projections of Connecticut's revenues and expenditures by examining the present structure of Connecticut's economy, and by identifying the major factors underlying the State's economic activity in recent years.

Since much of the argument about the fairness or equity of the tax structure deals with questions of regressivity or progressivity, a study of the incidence of Connecticut's taxes has been made. This study reviews the entire structure, both State and Federal, at various income levels. It identifies the progressive and regressive components of the structure and concludes that the overall impact of tax and expenditure benefit policies is progressive. This incidence study is referenced in other volumes of the Commission Report when considering arguments as to regressivity. A thorough understanding of the character of Connecticut's economy and the classical economic definition of its tax structure will assist the reader in evaluating the Commission's entire program.

Commission Findings

1. *Connecticut's under 18 age group is declining, presenting a potential problem of over-capacity in educational institutions.*
2. *The 18-44 year old segment of the working age population will increase by over 400,000 by 1985, presenting a continuing need for new jobs.*
3. *Manufacturing employment shows a pronounced decrease since 1968, dropping from 482,940 to 394,700 in 1972. Connecticut's employment data make it unmistakable that the State's economy is moving away from the manufacturing oriented base on which it has historically relied.*
4. *Government and service oriented industries registered the biggest growth as a proportion of the total employment picture.*
5. *Personal income growth in Connecticut in the decade 1960-1970 averaged 4.5% above the national average. In the preceding 20 years, Connecticut's growth ranked third among selected industrial states.*
6. *However, Connecticut's 4.7% growth for 1970-71 is last among the selected states, well below the national growth rate of 6.9%, and third from last nationally.*
7. *Retail sales have shown a steady increase in dollar volume since 1961 and as a percentage of the national retail sales, volume has been stable. In 6 Northeastern states, only Connecticut has been able to maintain or improve its retail sales position since 1961.*
8. *In 1960, Connecticut's per capita value-added by manufacturing was $1,493—62% above the national average. By 1970, Connecticut's $2,170 per capita value-added was only 32% above the national average. Connecticut has been unable to keep pace with the national growth in manufacturing, and other competing industrial states are moving ahead.*
9. *The scope of Connecticut's export industries showed virtually no change in the 20-year period 1950-70. (Manufacturing and financing services are still the only two industries with any substantial export orientation.)*
10. *For Connecticut manufacturing as a whole and its various components, there has oc-*

curred a gradual decline in the degree of export orientation in the 20-year period 1950-70.

11. *The service industry has supplanted manufacturing as the most important export business in the State.*

12. *Expansion of export industries is at the core of Connecticut's economic growth, and Connecticut's capacity to encourage expansion and attract export industry will depend on its ability to compete with other states. Critical competitive elements will be wages, freight charges, electric power, and state taxes.*

13. *Connecticut cannot realistically look to manufacturing to assume the relative economic importance which it enjoyed in the past.*

14. *The elasticity of Connecticut's General Fund tax structure is calculated to be .9, which indicates that for every 1% growth of Connecticut's personal income, revenues will grow 9/10 of 1%.*

15. *Connecticut is classed as having a tax structure with medium elasticity.*

16. *An incidence study shows the State tax structure to be generally proportional and slightly regressive at either end of the income scale. The total State and local tax structure is regressive.*

17. *However, when expenditure incidence is considered, the total Connecticut fiscal structure becomes progressive. Also, when the impact of Federal taxation is considered, the total structure for Connecticut taxpayers is strongly progressive.*

18. *Tentative conclusions from ACIR's study of state and local government taxes show that Connecticut's total tax effort relative to other states is below the national average. The tax effort of local government is almost exactly at the national average.*

Key Elements in Connecticut's Economy

Population Trends

The trend in Connecticut's population by age groups, released by the U.S. Bureau of the Census, is shown in Tables B-1 and B-2. Figures showing the trend of total population growth by age for the United States and the total growth for 12 selected industrial states accompany the Connecticut data. It is estimated that by 1985 Connecticut's total population will be 3,601,000—an 18.8% increase over 1970. **A slowing population growth is evident when one compares the projected 15-year growth of 18.8% with the actual growth rates of 19.6% from 1960 to 1970, and 26.3% from 1950 to 1960.** It is evident that the 5-year growth patterns for the 12 selected industrial states are also moderating compared to prior growth patterns. For every state except Rhode Island, smaller percentage increases than those of 1970-75 are projected for 1980-85. Where and what type of jobs will be available for the increase in the working age group population? This question is of prime importance in light of Connecticut's unemployment of almost 150,000 workers last year.

The strongest projected growth for Connecticut occurs in the 18-44 age group; this follows the national pattern. **As projected, the growth of this segment of the working age population group alone will increase the working age group by over 400,000 by 1985.**

Figures for the under-18 group for Connecticut, which show a decrease through 1980, follow the national pattern of declining birth rates. The more rapid growth of Connecticut's largest working age population group, those aged 18 to 44, is also evident in the national trend.

Connecticut's under-18 age group is declining for the first time since the 1930's. Local officials, especially school board officials, must plan carefully to avoid overbuilding. The job market for school teachers has already been shrinking as a lower growth occurs in the school age population. Connecticut's educational system including higher education programs must be geared towards the new growth in the working age group.

TABLE B-1: Projected Population for Connecticut and 12 Other Industrial States, through 1985
(In Thousands)

	Actual			Projected		
	1950	1960	1970	1975	1980	1985
United States—Total	150,697	179,323	203,213	214,883	226,934	239,329
Under 18	46,748	64,203	69,644	68,923	69,177	71,882
18 - 44	61,043	62,503	71,693	80,474	91,043	99,563
45 - 64	30,636	36,057	41,810	43,329	43,145	42,907
65 and over	12,270	16,560	20,066	21,159	23,063	24,977
Connecticut—Total	2,007	2,535	3,032	3,220	3,409	3,601
Under 18	546	861	1,021	987	960	983
18 - 44	839	896	1,057	1,208	1,386	1,522
45 - 64	445	535	665	714	712	700
65 and over	177	243	289	312	350	395
California	10,586	15,717	19,953	21,426	22,917	24,446
Illinois	8,712	10,081	11,114	11,766	12,427	13,108
Indiana	3,943	4,662	5,194	5,483	5,778	6,081
Maryland	2,343	3,101	3,922	4,154	4,386	4,618
Massachusetts	4,691	5,149	5,689	6,019	6,395	6,716
Michigan	6,372	7,823	8,875	9,455	10,045	10,649
New Jersey	4,835	6,067	7,168	7,558	7,949	8,342
New York	14,830	16,782	18,237	19,431	20,675	21,951
Ohio	7,947	9,706	10,652	11,210	11,772	12,341
Pennsylvania	10,498	11,319	11,794	12,173	12,555	12,931
Rhode Island	792	859	947	998	1,054	1,113
Wisconsin	3,435	3,952	4,418	4,673	4,938	5,220

Source: Decennial Census 1950, 1960, 1970, U. S. Bureau of the Census; *Population Estimates*, P-25, No. 375.

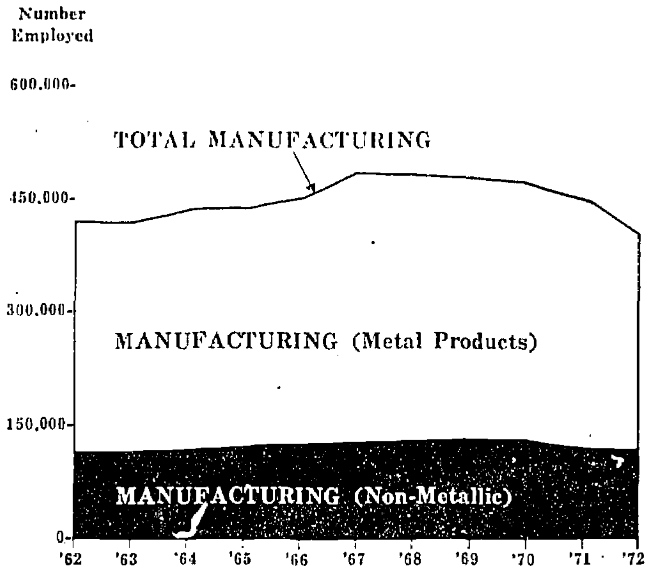
TABLE B-2: Projected Population Change in Percentages for Connecticut and 12 Other Industrial States, through 1985

	Actual		Projected		
	1950-60	1960-70	1970-75	1975-80	1980-85
United States—Total	19.0	13.3	5.7	5.6	5.5
Under 18	37.3	8.5	(1.0)	.4	3.9
18 -44	2.4	14.7	12.2	13.1	9.4
45 - 64	17.7	16.0	3.6	(.4)	(.6)
65 and over	35.0	21.2	5.4	9.0	8.3
Connecticut—Total	26.3	19.6	6.2	5.9	5.6
Under 18	57.7	18.6	(3.3)	(2.7)	2.4
18 - 44	6.8	18.0	14.3	14.7	9.8
45 - 64	20.2	24.3	7.4	(.3)	(1.7)
65 and over	37.3	18.9	8.0	12.2	12.9
California	48.5	27.0	7.4	7.0	6.7
Illinois	15.7	10.2	5.9	5.6	5.5
Indiana	18.5	11.4	5.6	5.4	5.2
Maryland	32.4	26.5	5.9	5.6	5.3
Massachusetts	9.8	10.5	5.8	6.2	5.0
Michigan	22.8	13.4	6.5	6.2	6.0
New Jersey	25.5	18.1	5.4	5.2	4.9
New York	13.2	8.7	6.5	6.4	6.2
Ohio	22.1	9.7	5.2	5.0	4.8
Pennsylvania	7.8	4.2	3.2	3.1	3.0
Rhode Island	8.5	10.2	5.4	5.6	5.6
Wisconsin	15.1	11.8	5.8	5.7	5.7

Source: Decennial Census 1950, 1960, 1970, U. S. Bureau of the Census; *Population Estimates*, P-25, No. 375.

CHART B-1

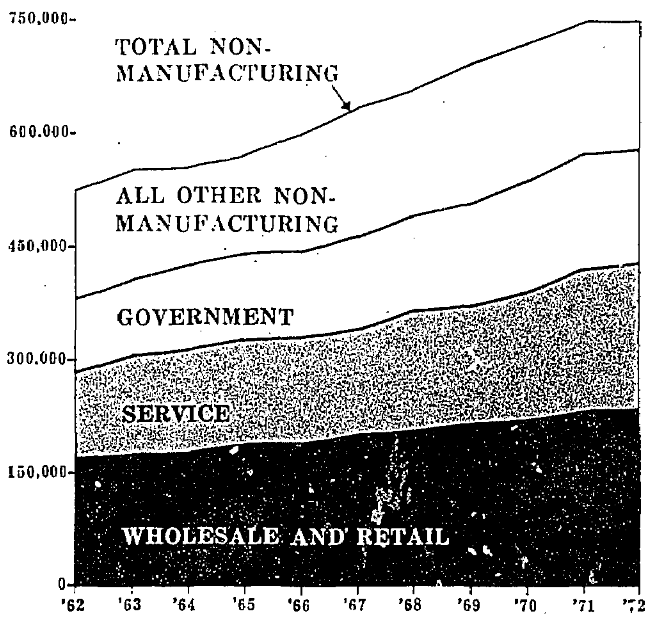
Manufacturing Employment in Connecticut, 1962-72



Source: Data taken from Table B-3.

CHART B-2

Non-Manufacturing Employment in Connecticut, 1962-1972



Source: Data taken from Table B-3.

Employment

The trend for employment in Connecticut over the past 10 years indicates that the State's economic base is shifting away from manufacturing to nonmanufacturing enterprises. Although this trend has been occurring for some time, the transformation has become more evident in the past 5 years.

In absolute numbers, manufacturing employment has shown a pronounced decrease since 1968 (Chart B-1) dropping from 482,940 in 1968 to 394,700 in 1972 (Table B-3). Proportionally manufacturing employment has also registered a general decrease from 1962 to 1972 (Table B-4). The 1972 total of 397,420 for manufacturing employment falls more than 20,000 below the 1962 total of 418,300. **This transition away from a manufacturing economic base has been consistent enough over the past decade to conclude that the trend will probably continue for some time in the future.**

Even though manufacturing continued to grow during part of 1962 to 1972, it was not growing nearly as fast as the nonmanufacturing oriented segment of Connecticut's economy which grew by 10% (Chart B-2 & Table B-4). Government and service-oriented industry registered the biggest growth as a proportion of the total employment picture as well as in absolute numbers. This growth in the nonmanufacturing sector could lend an element of stability to employment in Connecticut because nonmanufacturing employment tends to be inelastic to fluctuation in the economy, i.e., relatively unaffected by periods of recession in the economy.

In summary, Connecticut's employment data make it unmistakable that the State's economy is moving away from a manufacturing oriented economy on which it has historically relied. The sustained decline of manufacturing employment over the past decade gives strong indication that this decreased importance of manufacturing will continue for some time in the future.

Personal Income

One measure of economic growth used by economists is personal income growth. While not the only reliable measure, personal income is a widely reported economic series for the United States and has comparability between each individual state.

The pattern of economic growth is examined

TABLE B-3: Trends in Connecticut Employment, 1962-72

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Manufacturing	418,300	420,800	421,000	452,350	469,380	477,660	482,940	475,830	453,440	408,070	394,720
a) Metal Products	298,700	302,200	301,200	328,300	342,590	356,500	356,310	349,590	327,730	285,080	275,900
b) Nonmetal Products	119,600	118,700	119,800	124,050	126,790	121,160	126,630	126,240	125,710	122,990	118,820
Finance, Real Estate, Insurance	55,800	57,000	57,900	59,710	60,670	62,020	65,580	68,480	72,490	77,470	77,920
Service	120,800	126,300	132,300	136,150	146,130	152,490	162,090	168,050	179,490	193,770	194,100
Government	98,700	103,300	109,000	119,900	120,880	127,470	136,300	148,270	152,970	161,890	162,750
Construction	44,900	45,700	47,500	48,400	53,620	45,390	55,400	56,160	61,380	58,160	51,660
Trade	166,700	171,000	176,900	199,060	193,430	202,710	212,400	214,620	227,910	234,930	225,190
All Non-manufacturing	531,530	548,300	569,300	610,170	622,020	640,670	682,980	707,610	749,260	781,160	764,920
Total Employment	944,800	969,100	990,300	1,062,520	1,091,400	1,118,330	1,165,920	1,183,440	1,202,700	1,189,230	1,159,640*

*January 1972—(All years 1965-71, June) (1962-64, Monthly average)

Source: Data from U.S. Dept. of Labor and Connecticut State Labor Dept.

TABLE B-4: Connecticut Employment—Relative Importance Sectors of Employment 1962-72

(Employment in Each Sector as a Percent of Total Employment)

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Manufacturing	44 %	43.4%	42.5%	42.5%	43.0%	42.7%	41.4%	40.2%	37.7%	34.3%	34.0%
a) Metal Products	31.4	31.2	30.4	30.9	31.4	31.6	30.5	29.5	27.2	23.9	23.7
b) Nonmetal Products	12.6	12.2	12.1	11.6	11.6	11.1	10.9	10.7	10.5	10.4	10.3
Finance, Real Estate, Insurance	5.8	5.9	5.8	5.6	5.6	5.5	5.6	5.8	6.0	6.5	6.7
Service	12.7	13.0	13.3	12.8	13.4	13.6	13.9	14.2	14.9	16.3	16.7
Government	10.4	10.6	11.0	11.3	11.0	11.4	11.7	12.5	12.7	13.6	14.0
Construction	4.7	4.7	4.8	4.6	4.9	4.1	4.7	4.7	5.1	4.9	4.4
Trade	17.5	17.6	17.8	18.7	17.7	18.1	18.2	18.1	18.9	19.7	19.4
All Non-manufacturing	56.0	56.6	57.5	57.5	57.0	57.3	58.6	59.8	62.3	65.7	66.0
Total Employment	949,800	964,100	990,300	1,062,520	1,091,400	1,118,330	1,165,920	1,183,440	1,202,700	1,189,230	1,159,640*

*January 1972 — (All years 1965-71, June) — (1962-64 — Monthly average)

Note: Salient factor demonstrated is that long before the current economic downturn, manufacturing was declining in economic importance as a source of employment.

Source: Data from U.S. Dept. of Labor and Connecticut State Labor Dept.

here over the past 2 decades 1950-1960 and 1960-1970. In addition, the actual 1971 personal income data is presented as published by the U.S. Commerce Department in final form last August. Personal income data is presented for the United States, Connecticut, and 12 other industrial states. The U.S. data makes possible a comparison with the national trend and the selected state data gives a comparison of economic growth patterns in other industrial states with which Connecticut competes.

The tabular data for personal income show Connecticut's substantial growth through the 1950's and 1960's, but 1971 data marks a definite break in prior growth patterns. Most of the New England states included in the 12 selected industrial states also follow this pattern, although their past growth does not equal Connecticut's, nor does their low growth rate for 1971 sink as low as Connecticut's.

Personal income growth in Connecticut for 1950-60 was 88.9%, over 10% above the national average (Table B-5), and growth for 1960-70 was 105.1%, 4.1% above the national average. Connecticut's growth for these 2 decades ranked third among the selected industrial states for 1950-60

TABLE B-5: Personal Income for the United States, Connecticut, and 12 Selected Industrial States
(Dollars in Millions)

		1950	1960	1970	1971
United States	(Total)	226,214	398,726	801,493	857,085
	(Percent Growth)		76.3	101.0	6.9
	Per Capita	1,496	2.216	3,933	4,156
CONNECTICUT	(Total)	3,779	7,122	14,638	15,322
	(Percent Growth)		88.5	105.5	4.7
	Per Capita	1,875	2,800	4,817	4,995
California	(Total)	19,774	42,913	88,863	94,118
	(Percent Growth)		117.0	107.0	5.9
	Per Capita	1,852	2,704	4.444	4.640
Illinois	(Total)	15,948	26,689	49,961	53,400
	(Percent Growth)		67.4	87.2	6.9
	Per Capita	1,825	2,646	4,486	4,775
Indiana	(Total)	5.998	10,271	19,721	21,120
	(Percent Growth)		71.2	92.0	7.1
	Per Capita	1,512	2,198	3,787	4,027
Maryland	(Total)	3,772	7,285	16,887	18,119
	(Percent Growth)		93.1	131.8	7.4
	Per Capita	1,602	2,340	4,287	4,522
Massachusetts	(Total)	7,654	12,657	24,750	26,285
	(Percent Growth)		65.3	95.5	6.2
	Per Capita	1,633	2,453	4,343	4,562
Michigan	(Total)	10,895	18,318	36,785	39,850
	(Percent Growth)		68.1	100.8	8.3
	Per Capita	1,701	2,338	4,133	4,430
New Jersey	(Total)	8,934	16,526	32,930	35,146
	(Percent Growth)		84.9	99.2	6.7
	Per Capita	1,834	2,708	4,577	4,811
New York	(Total)	27,841	46,178	86,391	91,742
	(Percent Growth)		65.8	87.1	6.2
	Per Capita	1,873	2,742	4,731	5,000
Ohio	(Total)	12,930	22,762	42,501	44,833
	(Percent Growth)		76.0	86.7	5.5
	Per Capita	1,620	2,358	3,977	4,175
Pennsylvania	(Total)	16,189	25,451	46,579	49,349
	(Percent Growth)		57.2	83.0	5.9
	Per Capita	1,541	2,247	3,942	4,147
Rhode Island	(Total)	1,262	1,895	3,726	3,957
	(Percent Growth)		50.2	96.6	6.2
	Per Capita	1,605	2,216	3,918	4,126
Wisconsin	(Total)	5,078	8,319	16,457	17,496
	(Percent Growth)		69.7	90.9	6.3
	Per Capita	1,477	2,175	3,712	3,912

Source: Survey of Current Business, U.S. Dept. of Commerce (August, 1972).

(Table B-6 and Table B-7), behind only California and Maryland both times. However, Connecticut's 4.7% growth for 1970-71 falls to last among the selected states (Table B-8) and falls even below the national growth rate of 6.9% (Table B-5). Connecticut also ranked the third lowest among all states, Iowa and Washington being lower for 1970-71 personal income growth which demonstrates that its poor showing is not just peculiar to the selected states.

TABLE B-6: Growth Rate in Total Personal Income, 1950-60, for Connecticut and 12 Other Industrial States

Rank		Percent
1	California	117.0%
2	Maryland	93.1
3	CONNECTICUT	88.5
4	New Jersey	84.9
5	Ohio	76.0
6	Indiana	71.2
7	Wisconsin	69.7
8	Michigan	68.1
9	Illinois	67.4
10	New York	65.8
11	Massachusetts	65.3
12	Pennsylvania	57.2
13	Rhode Island	50.2

Source: Based on Table B-5.

TABLE B-7: Growth Rate in Total Personal Income, 1960-70, for Connecticut and 12 Other Industrial States

Rank		Percent
1	Maryland	131.8%
2	California	107.0
3	CONNECTICUT	105.5
4	Michigan	100.8
5	New Jersey	99.2
6	Rhode Island	96.6
7	Massachusetts	95.5
8	Indiana	92.0
9	Wisconsin	90.9
10	Illinois	87.2
11	New York	87.1
12	Ohio	86.7
13	Pennsylvania	83.0

Source: Based on Table B-5.

TABLE B-8: Growth Rate in Total Personal Income, 1970-71, for Connecticut and 12 Other Industrial States

Rank		Percent
1	Michigan	8.3%
2	Maryland	7.4
3	Indiana	7.1
4	Illinois	6.9
5	New Jersey	6.7
6	Wisconsin	6.3
7	New York	6.2
8	Rhode Island	6.2
9	Massachusetts	6.2
10	Pennsylvania	5.9
11	California	5.9
12	Ohio	5.5
13	CONNECTICUT	4.7

Source: Based on Table B-5.

Connecticut's growth from 1950 to 1970 is reflected in its personal income as a proportion of the U.S. total (Table B-9). Personal income in Connecticut grew consistently in 1950, 1960, and 1970 as a percent of the U.S. total going from 1.67%, 1.79% and 1.82%, respectively. Connecticut's 1971 low economic growth reflected

TABLE B-9: Total Personal Income as Percent of U.S. Total Personal Income, for Connecticut and 12 Other Industrial States

(Figures in Percent)

	1950	1960	1970	1971
United States (Total)	100.00	100.00	100.00	100.00
CONNECTICUT	1.67	1.79	1.82	1.78
California	8.74	10.76	11.10	11.00
Illinois	7.04	6.69	6.23	6.23
Indiana	2.65	2.57	2.46	2.46
Maryland	1.66	1.82	2.10	2.11
Massachusetts	3.38	3.17	3.08	3.06
Michigan	4.81	4.59	4.58	4.64
New Jersey	3.94	4.14	4.10	4.10
New York	12.30	11.58	10.77	10.70
Ohio	5.71	5.70	5.30	5.23
Pennsylvania	7.15	6.38	5.81	5.75
Rhode Island	.55	.47	.46	.46
Wisconsin	2.24	2.16	2.05	2.04

Source: Based on Table B-5.

TABLE B-10. Sources of Personal Income in Connecticut in Relation to U.S. Total

	1950		1960		1970		1971	
	$ millions	% of U. S.	$ millions	% of U. S.	$ millions	% of U. S.	$ millions	% of U. S.
Wage and Salary	2,572	1.77	4,939	1.84	9,940	1.85	10,178	1.79
Property	606	2.21	1,098	2.08	2,463	2.16	2,583	2.16
Proprietor's Income	385	1.03	590	1.28	973	1.45	1,022	1.46
Other	72	1.88	245	2.04	603	1.87	651	1.78
Transfer Payments	186	1.23	418	1.47	1,176	1.47	1,467	1.56
Less: Personal Contributions for Social Insurance	42	1.47	151	1.63	517	1.85	579	1.86
TOTAL	3,860		7,295		14,638		15,322	

Source: Survey of Current Business, U.S. Department of Commerce, August, 1972;
Personal Income by States, Regional Economics Information System, Dept. of Commerce, (1969).

in Tables B-5 and B-8, also shows up in Table B-9 where Connecticut's 1971 personal income as a percent of U.S. total 1971 personal income falls below the 1960 level of 1.79%. Most of the selected states show no change in their 1970 and 1971 personal income proportion as a percent of the U.S. total. Only 5 states showed a significant change below the 1970 personal income proportion: Connecticut, California, New York, Ohio, and Pennsylvania.

The components of Connecticut's personal income also reflect these growth trends (Table B-10). Wage and salary dispersements have a strong effect on the direction of growth since these usually constitute over two-thirds (67%) of Connecticut's personal income. In 1971 the wages and salaries dropped almost to the 1950 level of Connecticut's wages and salaries percent of the U.S. total which is partial explanation for the 1971 drop-off. "Property" and "other" labor income also fall below their 1950 levels.

Since wages and salaries are such a large proportion of personal income, a breakdown of the wage and salary components provides additional insight into the growth pattern for Connecticut's economy (Table B-11). Manufacturing is the largest component of personal income, although its proportion has declined since 1950. In 1950 manufacturing constituted 50% of wages and salaries, but by 1971 this proportion dropped to 38%. This drop-off is consistent with the declining proportion of manufacturing employees in Connecticut discussed in this section. The decline in growth for manufacturing wages and salaries explains the overall drop-off for wages and salaries as a proportion of Connecticut's total personal income. Connecticut manufacturing wages and salaries as a percent of the U.S. total for this same component also registers a consistent decline from 1950 to 1971 (Table B-12).

"Wholesale and Retail Trade," "Services," and "Government" are the three next largest components, in that order, of Connecticut's wages and salaries. While "Wholesale and Retail Trade" has remained a constant of 15% from 1950 to 1971, "Services" and "Government" as a percent of wages and salaries have grown by about 40% in their respective proportions. "Services" grew from 8.9% in 1950 to 14% in 1971, and "Government" grew from 8.1% in 1950 to 14% in 1971. This growth for "Services" and "Government" between 1950 and 1971 is also evident in their growing proportions of the U.S. total amounts for these same categories (Table B-12).

"Transportation, Communication and Public Utilities," "Finance, Insurance and Real Estate," and "Contract Construction," in that order, are the next largest components of wages and salaries. Between 1950 and 1971, "Finance, Insurance and Real Estate" grew from 5.1% to 6.8%, as did "Contract Construction," 5.2% to 6.5%. "Transportation, Communications and Public Utilities" generally remained constant at about 6% of all wages and salaries. Each of these compo-

TABLE B-11: Components of Wage and Salary Dispersements in Connecticut

(Millions of Dollars)

	1950	1960	1970	1971
Connecticut Wages & Salaries.	$2,572	$4,939	$9,940	$10,178
Farms	28	25	25	24
Mining	2	6	10	10
Contract Construction	134	275	634	669
Manufacturing	1,318	2,339	4,040	3,832
Wholesale & Retail Trade	372	715	1,497	1,571
Finance, Insurance, Real Estate	130	283	633	695
Transportation, Communications, & Public Utilities	143	273	522	558
Services	229	502	1,277	1,407
Government	209	511	1,281	1,389
Other Industries	6	10	22	23

Source: Survey of Current Business, U.S. Department of Commerce (August, 1972); *Personal Income by States*, Regional Economics Information System, Dept. of Commerce (1969).

TABLE B-12: Connecticut Wage and Salary Components as a Percent of U.S. Total

(Figures in Percent)

	1950	1960	1970	1971
Connecticut Wages & Salaries	1.77	1.84	1.85	1.79
Farms	1.01	.93	.73	.67
Mining	.01	.02	.17	.17
Contract Construction	1.68	1.76	1.96	1.91
Manufacturing	2.62	2.61	2.55	2.34
Wholesale & Retail Trade	1.44	1.58	1.68	1.65
Finance, Insurance, Real Estate	2.23	2.28	2.34	2.35
Transportation, Communications, & Public Utilities	1.02	1.20	1.30	1.29
Services	1.63	1.73	1.83	1.87
Government	1.00	1.10	1.16	1.17
Other Industries	1.65	1.87	2.00	1.89

Source: Survey of Current Business, U.S. Department of Commerce (August, 1972); *Personal Income by States*, Regional Economics Information System, Dept. of Commerce (1969).

nents' proportion of the U.S. totals for the same category supports these growth patterns (Table B-12).

The largest component of wage and salary dispersements, "Manufacturing," has registered a substantial decline since 1950 both as a proportion of Connecticut's wage and salaries, and of the U.S. total for manufacturing wages and salaries. All other significant components of Connecticut's wage and salary dispersements show consistent growth from 1950 to 1971, except for "Transportation, Communications and Public Utilities," which registered growth only as a percent of the U.S. total for the same category.

The personal income data shows that despite Connecticut's prior growth, past growth patterns

have been slowed in 1971. While other Northeastern states follow this trend, Connecticut's personal income registers the lowest growth rate among the selected industrial states for 1971. Just how sustained Connecticut's economic slowdown will be is impossible to tell from the data. The Commission's program addresses this issue and makes recommendations to allow the State to resume its growth.

Retail Sales

Another measure of Connecticut's economy is the volume and trend of retail sales. Estimates presented in Table B-13 show a steady increase in the dollar volume since 1961. Connecticut's percentage of the national retail sales volume is also shown and in recent years has stabilized at close to 1.6%.

TABLE B-13: Estimated Retail Sales in Connecticut, 1960-71

(Millions of Dollars)

	Total	Percent of U.S.
1960	3,361	1.53
1961	3,338	1.52
1962	3,501	1.49
1963	3,682	1.49
1964	4,156	1.60
1965	4,441	1.58
1966	4,822	1.60
1967	5,050	1.62
1968	5,412	1.60
1969	5,580	1.60
1970	5,683	1.57
1971	6,252	1.59

Source: Sales Management, Survey of Buying Power.

The retail sales trends in nearby Northeastern states are summarized in Table B-14. **Of the 6 states shown, only Connecticut has been able to maintain or improve its retail sales position since 1961.** In 1971 the other 5 states are estimated to have a smaller portion of national retail sales. Connecticut has shown a much more stable retail sales pattern despite a slowdown in manufacturing employment and production, indicating a basic strength in the Connecticut economy.

Table B-14: Estimated Retail Sales of 6 Northeastern States as Percent of U.S. Total

	1961	1966	1971
Connecticut	1.52	1.60	1.59
Massachusetts	3.08	2.92	2.80
Rhode Island	0.45	0.46	0.43
New York	10.31	9.40	8.97
New Jersey	3.62	3.66	3.55
Pennsylvania	6.02	5.54	5.42

Source: Sales Management, Survey of Buying Power.

Value Added by Manufacturing

Historically, Connecticut's substantial manufacturing activities have dominated the State's economy. Estimates of the "value added" by manufacturing operations give another viewpoint to the profile and trends of Connecticut's economy.

The recent trend in "value added" by Connecticut manufacturing activities is summarized in Table B-15. Between 1958 and 1970 the value doubled, although 1970 shows a decrease from the peak year of 1969.

During the economic expansion in the mid-1960's Connecticut's percentage of the nation's total rose to a peak in 1966 of 2.46%. However,

TABLE B-15: Value Added by Manufacturing in Connecticut, 1958-70

Calendar Year	Value (Millions of Dollars)	Percent of U.S. Total
1958	3,200.3	2.26
1959	3,803.4	2.36
1960	3,784.6	2.31
1961	3,885.8	2.37
1962	4,210.0	2.35
1963	4,495.9	2.34
1964	4,754.4	2.31
1965	5,308.6	2.34
1966	6,185.0	2.46
1967	6,389.8	2.44
1968	6,620.0	2.32
1969	7,172.2	2.36
1970	6,580.0	2.21

Source: U.S. Bureau of Census, *Annual Survey of Manufacturers*, 1969, 1970.

Connecticut's share has declined in more recent years and hit a low point in 1970 of 2.21%.

When "value added" data for Connecticut is compared to the national picture on a per capita basis—Connecticut's decline is even more striking. In 1960 Connecticut's per capita value added by manufacturing $1,493, 62% above the national average. By 1970 Connecticut's $2,170 per capita was only 32% above the national average.

Manufacturing trends in Connecticut are compared with nearby and similar industrialized states using value added data in Table B-16. All the nearby Northeastern states show declines in 1970 compared to 1960, except for Pennsylvania. States contributing a larger portion of the value added by manufacturing to the nation's economy in 1970 compared to 1960 are Pennsylvania, Ohio, Indiana, Wisconsin, North Carolina, Texas, and California.

These analyses indicate that not only has Connecticut not been able to keep pace with the national growth in manufacturing but is falling behind substantially, while other competing industrial states move ahead.

TABLE B-16: Value Added by Manufacturing, Percent of U.S. Total, Connecticut and Selected Industrial States

	1960	1965	1970
Connecticut	2.31	2.34	2.21
Massachusetts	3.68	3.28	3.21
Rhode Island	0.55	0.53	0.47
New York	9.69	10.00	9.53
New Jersey	5.26	4.96	4.79
Pennsylvania	6.96	7.54	7.18
Ohio	7.00	8.09	7.76
Indiana	3.82	4.10	3.84
Illinois	7.71	7.82	7.43
Michigan	6.62	7.44	5.87
Wisconsin	2.41	2.72	2.62
Maryland	1.64	1.49	1.36
North Carolina	1.88	2.44	3.01
Texas	3.08	3.83	4.35
California	8.64	8.35	8.81

Source: U.S. Bureau of Census, *Annual Survey of Manufacturers.*

Economic Growth for Connecticut[1]

The anatomy of a State's economic growth can be expressed in terms of its attractiveness for **export industries—those industries whose products are intended primarily for markets outside the state.** A state's growth rate and pattern are promoted by its ability to produce export goods and services at a competitive advantage with respect to other states. Exports induce a flow of income into the state which, in turn, expands its local markets for both national and state-produced goods and services. The extent of this so-called multiplier effect is related to the economic and industrial structure of the state and to competitive factors. Thus, any comparative advantage a state may have vis-à-vis other states is necessarily relative. **Whether the concern focuses on past growth or potential expansion, the context must necessarily be a competitive one. State economic and industrial development is a highly competitive matter in an open economy where production inputs and outputs are highly mobile and transferrable.**

Export Industries

The most direct method of evaluating the attractiveness to industry of a state is to examine the employment structure of its labor force and calculate the relationship between the corresponding state and national patterns. These calculations, expressed as the ratio of an industry's share of state employment to that industry's share of national employment, are contained in Table B-17. If the state specializes in a product or service, it will have a greater proportion of its labor force employed in that particular industry than for the nation as a whole. Thus, a ratio greater than one designates an export industry.

A comparison of the Connecticut economic base for the years 1950, 1960, and 1970 affords a number of striking insights. **First, the scope of the export industries shows virtually no change over the 20-year period.** Manufacturing and financial services (particularly insurance) are still the only two industries with any substantial export orientation. Moreover, **the degree of export orientation**

TABLE B-17: Index of Connecticut Industrial Specialization, 1950, 1960, and 1970

Industry	1970	1960	1950
Contract Construction and Mining	0.85	0.73	0.69
Manufacturing	1.35	1.44	1.47
Ordinance and Accessories	2.46	2.16	17.59
Primary Metal Industries	1.14	1.38	1.58
Fabricated Metal Products	2.53	2.51	3.28
Machinery Except Electrical	1.83	2.50	2.82
Electrical Equipment and Suppliers	1.39	1.55	2.27
Transportation Equipment	2.86	2.77	1.12
Instruments and Related Products	2.72	2.88	3.22
Jewelry, Silverware, and Plated Ware	4.45	5.86	8.29
Food and Kindred Products	0.48	0.45	0.41
Textile Mill Products	0.78	0.99	1.58
Apparel and Other Textile Products	0.57	0.89	1.35
Lumber and Furniture	0.38	0.33	0.22
Paper and Allied Products	0.76	0.79	0.85
Printing and Publishing	1.04	1.01	0.92
Chemicals and Allied Products	0.86	0.97	0.78
Rubber and Plastic Products	1.69	2.58	2.94
Transportation	0.59	0.54	0.52
Communication	0.88	0.85	0.80
Wholesale Trade	0.77	0.67	0.62
Retail Trade	0.94	0.89	0.86
Finance, Insurance, and Real Estate	1.18	1.18	1.14
All Insurance (Carriers, Agents, etc.)	1.89	1.84	1.89
Insurance Carriers Only	2.07	1.99	2.08

Note: An index greater than one denotes an export industry; an index less than one, an importer.

The index is computed as follows: $\frac{e_c}{E_c} \div \frac{e_n}{E_n}$, where

e_c = State employment in industry

E_c = Total State employment

e_n = National employment in industry

E_n = Total National employment

Source: Computed from data provided by U.S. Department of Labor, Bureau of Labor Statistics.

of the Connecticut economy displayed considerable overall stability during this period.

Second, the conclusion is apparent that as measured by the specialization index[2] **the service industry has supplanted manufacturing as the most important export business in the economy of the State of Connecticut.** Third, while there was overall relative stability in the manufacturing sector, different types of manufacturing experienced significant shifts in the degree of export orientation. For example, in 1950 textile manufacturing was a major source of Connecticut exports. By 1970, however, Connecticut was importing textile products. In contrast, manufacturing firms engaged in printing and publishing were importing in 1950 and exporting in 1970. Finally, **for Connecticut manufacturing as a whole and for most of its various components, there has occurred a gradual decline in the degree of export orientation over the 1950-70 period.** Only printing and publishing and transportation equipment registered consistent increases in their contributions to the export markets.

An alternative method of identifying the State's "breadwinners" is to relate State and national data on population and value added or gross product originating (GPO) by industry type. The rationale of this procedure is that if the State produces a greater percentage of the total GPO of an industry than corresponds to its proportion of the total population, it is a net exporter of the products or services; and, if its percentage of GPO is smaller than that of its population, it is a net importer of the output of the industry. An approximate one-to-one relationship implies that the State consumes an amount equal to its output.

The GPO/population data in Table B-18 present essentially the same general pattern as in Table B-17. Connecticut exports largely durable manufactured goods and insurance products and services. The importance of manufacturing generally and of both subcategories of manufacturing—durable and non-durable—has, however, been declining over time. This alternative calculation also suggests that the service industries (e.g., business and professional services) and contract construction are generating output for domestic and export markets.

TABLE B-18: Index of Connecticut Specialization: Percent GPO* to Percent of Population, 1970, 1968, 1967, 1963, 1959

Industry	1970	1968	1967	1963	1959
Contract Construction	1.34	1.24	1.30	1.24	1.21
Manufacturing	1.66	1.73	1.30	1.83	1.79
Nondurable	.98	1.00	1.01	1.09	1.12
Durable	2.14	2.21	2.33	2.36	2.29
Wholesale and Retail Trade	1.10	1.08	1.10	1.08	1.05
Finance, Insurance, Real Estate (except Insurance Carriers)	1.46	1.47	1.53	1.51	1.56
Insurance Carriers	2.60	2.30	2.02	2.08	1.91
Transportation	.70	.69	.69	.63	.64
Communications and Public Utilities	1.15	1.18	1.15	1.34	1.18
Services	1.26	1.24	1.27	1.24	1.24
Connecticut Population as Percent of U.S.	1.49	1.49	1.47	1.44	1.41
GPO as Percent of U.S.	1.81	1.81	1.85	1.79	1.74

Note: Index greater than 1.00 denotes export orientation. *Gross product originating in Connecticut.

Computation of index is as follows: $\dfrac{GPO_c}{GPO_n} \div \dfrac{Pop_c}{Pop_n}$, where

GPO_c = Gross Product Originating in Connecticut Industry

GPO_n = Gross Product Originating in Nation for Same Industry

Pop_c = Connecticut Population

Pop_n = U.S. Population

Source: U.S. Department of Commerce, Bureau of the Census and Office of Business Economics.

To sum up, expansion of the export industries is at the core of Connecticut's future economic growth. Connecticut's capacity to encourage expansion and attract national industries—industries that produce for export to other states—will depend on their ability to compete in other states. The crucial competitive element establishes definite limits on the costs which these industries can support in Connecticut, whether they be for wages, freight charges, electric power, or State taxes.

Growth Industries

So-called "growth" industries — those that are expanding in employment at a rate exceeding the national average—also favorably influence expansion in the volume of economic activities within a state. A state grows by attracting an increasingly larger proportion of the faster growing industries. Table B-19 compares the growth of Connecticut employment relative to national rates of employment growth by major industry groups for the decade 1960-70. It also contains data on the changing relative employment importance of the various industry groups.

The most noteworthy impression created by the array of industries by growth rate relative to the national average is the relatively slow growth of the manufacturing sector, both nationally and more importantly and more pronounced

TABLE B-19: Growth of Connecticut Employment relative to National Norms, by Industry, 1960-70

Industry	Ratio of Employment* 1970 to 1960		Relative Change	Percent of Total Employment**				Index of Specialization	
				Connecticut		United States			
	Conn.	U.S.	Conn./U.S.	1970	1960	1970	1960	Conn./U.S. 1970	Conn./U.S. 1960
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total Employment	1.27	1.27	1.01	100.00	100.00	100.00	100.00	....	....
Contract Construction and Mining	1.28	1.10	1.16	5.48	543	6.83	7.84	.80	.69
Manufacturing	1.09	1.15	.95	42.72	49.56	33.34	36.61	1.28	1.35
Transportation	1.18	1.05	1.12	2.61	2.81	4.62	5.56	.56	.51
Communications and Public Utilities	1.28	1.25	1.02	2.62	2.60	3.13	3.17	.84	.82
Wholesale Trade	1.45	1.27	1.14	4.77	4.15	6.58	6.55	.72	.63
Retail Trade	1.41	1.32	1.07	17.01	15.32	19.11	18.28	.89	.84
Finance, Insurance, Real Estate	1.40	1.38	1.01	7.09	6.45	6.35	5.82	1.12	1.11
All Insurance	1.33	1.29	1.03	4.06	3.88	2.27	2.24	1.79	1.73
Insurance Carriers	1.31	1.26	1.04	3.52	3.41	1.80	1.81	1.96	1.88
Services	1.64	1.57	1.04	17.68	13.68	20.02	16.18	.88	.85

*Excludes public employment.

**These ratios differ from those in Table B-17 due to the exclusion of public employment.

Source: U.S. Department of Labor, Bureau of Labor Statistics, U.S. Department of Commerce, Office of Business Economics; and Connecticut Department of Labor, Employment Security Division.

in Connecticut (columns 1-3). **While total private employment in Connecticut and the nation increased 27% between 1960 and 1970, employment in manufacturing rose by only 9% in Connecticut and by 15% for the nation as a whole. In other words, Connecticut is growing slowest, relative to the country as a whole, in that industry in which the State has historically specialized most.** Recall also from Tables B-17 and B-18 that Connecticut manufacturing is still a significant exporter, though of declining importance. Probably **the most important inference to be drawn from Table B-19 is that Connecticut cannot realistically look to manufacturing in general for future expansion of employment opportunities and for the base of economic growth.**

All other major industrial categories in Connecticut exhibited a 10 year growth rate above the corresponding national average. The **industries that recorded a growth rate of 10% or more than their pro rata share of employment growth — contract construction, transportation, and wholesale trade — are, however, distinctly oriented toward domestic or local markets** (columns 8 and 9). **That is, they are the beneficiaries of economic growth (i.e., increased population and per capita incomes) but not prime contributors to economic growth.** Of all the industries with above-average growth rates, only financial services generally and insurance in particular are consistently major exporters of products and services (i.e., the industrial core of Connecticut economic growth). It follows that these areas, which are both national market oriented *and* growth industries as here defined, will have the capacity to provide both the base for economic growth and the opportunities for expanding employment *provided* they develop in Connecticut to their fullest potential. This in-State development depends on competitive factors.

Columns 4-7 of Table B-19 give the percentage composition of private employment by industry group for Connecticut and the U. S. for 1960 and 1970. In 1960, almost 50% of Connecticut employment was engaged in manufacturing of various types. Ten years later, this proportion had declined to approximately 43% of the total. Financial services, on the other hand, increased in relative importance over the same period. The largest gains were posted by retailing and services (personal, business, and professional).

Trends

This section has underscored how important for the economic growth of the State of Connecticut is its capability to attract and encourage the expansion of national or export-oriented industries. Export industries are the core of State economic development. It has also stressed the inter-state competitive framework within which the economic development process operates. Further, the direct and indirect impact on Connecticut resident income and employment of its export industries extends throughout the economy. Similarly, "growth" industries positively affect the variety and volume of economic activities and employment opportunities within the State.

By any measure of economic importance, the service industry is a major stimulus to the growth, stability, and continued development of the Connecticut economy. It is the prime export and growth industry in the State, and its importance is likely to increase over time as the industrial structure of the State and the nation shifts away from durable goods manufacturing to the service sectors. The rate of increase in Connecticut, however, as with any industry competing in the national market, will be determined ultimately by differential locational costs.

Tax Impact in Connecticut

Analysis—Techniques Used

This analysis of the impact of taxation will describe: (1) the behavior of the existing tax structure in terms of revenue raising capability, how that capability might be affected through a change in tax structure, and how tax revenues are affected by the economic climate in which they function; (2) who actually bears the burden of taxation, entailing a description not of who pays taxes, but rather the actual place where the final burden of payment rests (incidence); (3) what similarities and differences there might be in State and local government compared to the rest of the nation. A discussion along these lines is not intended to be encyclopedic but to provide some reference as to what impact taxes do have in Connecticut.

The first element in describing the revenue raising capability of Connecticut's taxes is what economists call "elasticity." Elasticity is a term describing the annual percentage growth of state tax revenues for every 1% growth of the state's economy. This technique enables one to measure the performance of taxes, collectively or individually, in comparison with the growth rate of a state's economy. The Commission's findings show that Connecticut's elasticity is .90 which means that for every 1% growth in the State's economy, taxes will grow, on the average, 9/10 of 1%. More simply, if Connecticut's economy grew 6%

in one year, tax revenues would grow 5.4% in that same year—90% of the 6% economic growth.

The elasticity analysis of the existing Connecticut tax structure enabled the Commission to project revenue growth in Connecticut for the coming 5 years. This was possible by examining the personal income growth for Connecticut (used here to measure economic growth) over the next 5 years and then applying the elasticity to the annual economic growth.

The second element under review is *who actually bears* the burden of taxes (tax incidence). The study of incidence provides a useful review of not only the burden of taxation by income level, but just as importantly, how each income level benefits through governmental expenditure of tax moneys (expenditure incidence). The total effect of tax burden and expenditure benefit can be combined to give a measure of the net effect, technically termed "net fiscal incidence." The thrust of the analysis of incidence is that Connecticut's State and local governments have tax and spending policies which greatly benefit lower income groups. This means that as family income decreases, the benefit derived from governmental tax and spending policies increases. Further, the incidence study shows that the Connecticut tax structure when taken as a whole and with the Federal tax structure superimposed can be classed as proportional to mildly progressive.

The third element of this section is taken from the Advisory Commission on Intergovernmental Relations' study of each state's tax structure.[3] The ACIR approach was to average each individual tax rate for all 50 states and then levy this average tax in each state to determine the revenue produced so that interstate comparisons could be made. While ACIR admits an element of artificiality in this approach, there is an advantage of bringing together for convenient summary reference various tax items broadly resembling one another in the extent to which they must be locally borne or may allow more geographic shifting of burdens.

Elasticity Concept

The elasticity of a state tax structure is a valuable tool for (1) describing the year-to-year responsiveness of taxes to economic growth, and (2) estimating the future growth of taxes. This latter use is of great importance to the Commission in its effort to project as accurately as possible the future growth of Connecticut's revenue from existing taxes.

The elasticity concept is designed to measure the response of a tax or all taxes of a state to economic growth in that state. Elasticity is usually defined as the percentage change in tax yield per 1% change in income. Naturally, tax yields can change as a result of (1) adding new taxes, (2) rate and base adjustments, and (3) automatic growth regardless of discretionary adjustments mentioned in numbers 1 and 2. Elasticity measures this latter element of taxes which is only the automatic component of a state's revenue growth as separated from changes enacted by legislatures. More accurately, then, elasticity measures the sensitivity of tax collections from some constant rate and base structure to increases in some measure of income. This means that all taxes are based on the rate structures of one given year and adjusted as if no tax rate increases ever took place.

Personal income is the economic series most commonly relied upon by economists for elasticity studies, although Gross State Product has been used. (The presentation in Volume I, Part C, uses personal income.)

The derived elasticity permits interpretation of the State's revenue capacity. Elasticity shows the growth of taxes for every 1% growth in the State's personal income. An elasticity of more than 1.0 indicates growth greater than personal income; and less than 1.0 indicates growth less than that of personal income.[4] If the coefficient exceeds 1.0, the tax is considered responsive or elastic; a coefficient of less than 1.0 designates an unresponsive or inelastic tax, and a 1.0 coefficient describes a proportional or unit elastic source.

Depending upon the composition of taxes, state tax structures respond quite differently to the process of economic growth. While not an absolute, it can be generally stated that state tax structures *which rely primarily on income taxes* (personal or business) can expect to have an overall elasticity of 1.2 or greater; those relying on a sales tax or on a balance between income and sales taxes, close to 1.0; and those relying on sales and commodity taxes, less than 1.0. Not every state has a tax structure that neatly approximates these three classifications; however, the overall trend is quite discernible from the ACIR 1967[5] elasticity study of each state's tax structure

(Table B-20). At the time of this study, most of the states' tax systems in column 1 and at the beginning of column 2 were dominated by sales and commodity taxes, whereas those states in column 3 generally had broad based income taxes. Most other states in column 2 had both sales and income taxes and a corresponding elasticity of about 1.0.

The elasticity of Connecticut's General Fund tax structure is calculated to be .90 (See Vol. I, Part C, "Elasticity of General Fund") which indicates that for every 1% growth of Connecticut's personal income, tax revenue will grow 9/10 of 1%. Using as a guide the latest ACIR elasticity study in Table B-20, Connecticut can be classified as having a medium elasticity, which is how Connecticut was defined by ACIR in 1967.

Elasticity studies by economists on this relationship of constant tax growth and some economic measure of income identified income taxes as being highly sensitive (high elasticity); general sales taxes as usually proportional to income growth (proportional elasticity); and selective commodity taxes on such items as cigarettes, motor fuels, and alcoholic beverages as relatively unresponsive to income change (inelastic).[6]

The elasticity of Connecticut's taxes conforms to these other works and to established theoretical

TABLE B-20: Response of State Tax Structures[1] to One Percent Change in Personal Income, 1967

State	Low to medium elasticity (0.70 to 0.89) Weighted elasticity	Percent of tax collections included	State	Medium to high elasticity (0.90 to 1.19) Weighted elasticity	Percent of tax collections included	State	High Elasticity (1.20 and above) Weighted elasticity	Percent of tax collections included
Nebraska	0.70	56.0	Tennessee	0.90[2]	71.4[2]	Hawaii	1.21	93.0
Ohio	0.77	75.2	N.H.	0.90[2]	61.8[2]	Iowa	1.21	77.9
Texas	0.80	61.4	New Mex.	0.91	63.6	Utah	1.21	76.7
Maine	0.81	79.8	Wyoming	0.91	61.9	Wisconsin	1.21	73.0
New Jersey	0.81[2]	67.8[2]	Illinois	0.92[3]	84.4[3]	Arkansas	1.25	76.3
Florida	0.84	75.0	Mississippi	0.93	81.2	Montana	1.25	66.7
South Dakota	0.84	81.1	Washington	0.93	81.8	Minnesota	1.27	66.9
Connecticut	0.85	65.7	Maryland	0.95	81.0	Virginia	1.27	77.1
Penn.	0.86	67.4	Rhode I.	0.95	72.6	New York	1.29	74.6
Michigan	0.89	69.2	Delaware	0.97	62.4	Idaho	1.39[3]	74.4[3]
W. Virginia	0.89	87.3	Louisiana	0.98	52.3	Oregon	1.40	71.4
			Arizona	1.00	71.4			
			Kansas	1.00	77.8			
			Nevada	1.00[3]	80.4[3]			
			N. Dak.	1.02	67.5			
			Oklahoma	1.04[3]	63.7			
			Alabama	1.05	82.1			
			Georgia	1.06	83.8			
			S.C.	1.06	80.8			
			Calif.	1.07	70.3			
			Colorado	1.08	78.3			
			Missouri	1.09	51.9			
			Alaska	1.10[2,3]	27.8[2,3]			
			Indiana	1.11	85.9			
			Kentucky	1.14	77.9			
			N.C.	1.14	74.6			
			Vermont	1.15	73.6			
			Mass.	1.19	71.6			

[1]Includes individual income, general sales and selected sales taxes.

[2]Excludes individual income tax receipts due to lack of elasticity estimate.

[3]Elasticity may be slightly overstated since rate increases were not totally excluded from selected sales tax elasticity estimate.

Source: ACIR, *Fiscal Balance in the American Federal System* (Washington, D.C., 1967).

views. Connecticut's taxes on business incomes generally demonstrate an elasticity close to 1.0 or higher: corporation business tax, .96[7]; gas, water, and electric companies, 1.06; telephone companies, 1.25; and insurance companies, 1.26. Connecticut's sales tax has an elasticity of .94. The various commodity taxes are inelastic, generally having an elasticity well below 1.0; cigarettes, .22; alcohol, .30; and gasoline, .73.[8]

In total, Connecticut's revenue growth responds .90 for every 1% growth in the State's economy which is measured by personal income.

Incidence of Taxation

A vital element in an analysis of the impact of taxation is who actually pays the tax levy and who benefits by governmental expenditures. This is essentially a question of the effects of income-redistribution and is vital to any analysis of tax impact. The principal reason behind any income redistribution analysis is to ascertain net fiscal incidence which can be defined as the burden of taxes on each income group subtracted from the benefit enjoyed by these same income groups from governmental expenditures.

A study of net fiscal incidence in Connecticut was made in 1970 by Thomas and Navarro Eapen acting as consultants to the Connecticut State Revenue Task Force.[9] This study will be used as the principal reference on Connecticut's State and local tax incidence. For a more complete description of the impact of taxes in Connecticut, the incidence of Federal taxes is also presented.

Two Tax Foundation studies are the primary reference sources for the Federal data.[10] Both the Eapen and Tax Foundation studies were adapted to 1967 Connecticut IRS adjusted gross income so that the tax incidence of each level of government (Federal, State, and local) could be represented for Connecticut.

Derivation of net fiscal incidence is accomplished by apportioning the total amount of some measure of income received into each income bracket in which Connecticut families and unrelated individuals are classified. Following this, tax receipts from Connecticut residents to government are allocated by income group. Here it is important to determine exactly where the incidence of taxation occurs, and not simply the place of collection. For example, although a tax can be paid by a business or person, the actual burden may not really lie with the party who formally paid the tax. The burden can be "shifted," in whole or in part, forward to the final consumer, or "backward" to owners or stockholders, or absorbed within the operation by the manufacturer, or shifted to some other intermediate party who processed the article or service. **Generally, most economists assume that taxes are shifted forward to the consumer.** (The incidence study by Eapen prepared for Connecticut's State Revenue Task Force also adopts this approach.)

Also necessary for determining net fiscal incidence is to distribute benefits accruing from governmental expenditures to Connecticut residents by income group. The main objective is to ascertain who really benefits from such expenditures, or in other words, "expenditure incidence." The value of the goods and services to recipients is generally assumed to be the cost to government of providing such services. With this information, it is possible to estimate for families of each income group in Connecticut, (a) **the total taxes paid by them as a percent of their total income, (tax incidence)**, (b) **total benefits from governmental expenditures as a percent of income in each income group (expenditure incidence), and** (c) **the net benefit of taxes and expenditures as a percent of income by each income category (net fiscal incidence).**

The thrust of studying tax incidence is ultimately to determine the progressive, proportional, or regressive nature of a tax system. Incidence of taxes is defined as progressive when the percent of income for taxes increases as income also increases. In this fashion, a larger percentage of taxpayers' income goes toward taxes as their income rises. Incidence of taxes is proportional when taxes take the same percentage of income from all income levels. Incidence of taxes become regressive when taxes take a greater percentage of income as income declines. The 1967 State and local expenditure incidence for Connecticut by income level appears in Table B-21. Column 3 shows the total State and local tax system to be regressive in Connecticut. **A separate breakdown for the State taxes indicates the State tax structure in 1967 is generally proportional and slightly regressive at either end of the income scale.** The incidence of the local property tax, however, is regressive (column 7), and since the local tax constituted more than half of all State and local

TABLE B-21: Fiscal Year 1967 Tax Receipts* of Connecticut State and Local Governments and Their Incidence on Income
(in $ thousands)

Income Class	(1) Income Amount*	(2) Distribution of State & Local Tax Receipts	(3) State & Local Incidence	(4) Distribution of State Tax Receipts	(5) State Incidence	(6) Distribution of Local Tax Receipts	(7) Local Incidence
Under $2,000	$ 120,000	$ 19,634	16.4	$ 6,020	5.0	$ 13,614	11.3
2,000 - 2,999	130,000	19,157	14.7	5,471	4.2	13,686	10.5
3,000 - 3,999	180,000	18,255	10.1	7,422	4.1	10,833	6.0
4,000 - 4,999	240,000	26,605	11.1	9,760	4.1	16,845	7.0
5,000 - 5,999	350,000	31,937	9.1	15,560	4.4	16,377	4.7
6,000 - 7,499	780,000	68,292	8.8	31,298	4.0	36,994	4.7
7,500 - 9,999	1,640,000	138,721	8.5	64,588	3.9	74,133	4.5
10,000 - 14,999	2,640,000	245,208	9.3	115,450	4.4	129,758	4.9
15,000 and over	3,920,000	267,837	6.8	136,634	3.5	131,203	3.3
	$10,000,000	$835,646	8.4	$392,203	3.9	$443,443	4.4

*Includes Taxes, Licenses & Fees.

**Author uses family money income as defined by the U. S. Bureau of the Census.

Source: A. T. Eapen and A. N. Eapen, *Incidence of Taxes and Expenditure of Connecticut State and Local Government, Fiscal Year 1967*, A paper prepared for the Connecticut State Revenue Task Force, 1970.

TABLE B-22: Allocation of Connecticut Sales Tax by Income Level, Fiscal Year 1967

Income Class	(1) Distribution of Sales Tax Receipts (000's of Dollars)	(2) Sales Tax Incidence
Under $2,000	$ 1,533	1.3
2,000 - 2,999	1,361	1.0
3,000 - 3,999	1,949	1.1
4,000 - 4,999	2,623	1.1
5,000 - 5,999	4,167	1.2
6,000 - 7,499	8,341	1.1
7,500 - 9,999	18,003	1.1
10,000 - 14,999	31,971	1.2
15,000 and Over	39,149	1.0
	$109,097	1.0

Source: A. T. Eapen and A. N. Eapen, *Incidence of Taxes and Expenditure of Connecticut State and Local Government, Fiscal Year 1967*, A paper prepared for the Connecticut State Revenue Task Force, 1970.

TABLE B-23: Distribution of Benefits from Expenditures of Connecticut State and Local Governments, Fiscal Year 1967

Income Class	(1) Distribution of State & Local Expenditures	(2) State and Local Benefit Incidence
Under $2,000	$ 77,845	64.9
2,000 - 2,999	50,644	39.0
3,000 - 3,999	45,992	25.6
4,000 - 4,999	51,183	21.3
5,000 - 5,999	64,658	18.5
6,000 - 7,499	120,831	15.5
7,500 - 9,999	189,340	11.5
10,000 - 14,999	230,707	8.7
15,000 and Over	191,992	4.9
	$1,023,192*	10.2

*Higher level of expenditures over tax receipts is due to deficit spending.

Source: A. T. Eapen and A. N. Eapen, *Incidence of Taxes and Expenditures of Connecticut State and Local Government, Fiscal Year 1967*, A paper prepared for the Connecticut State Revenue Task Force, 1970.

TABLE B-24: Net Fiscal Incidence

Income Groups	(1) Tax Incidence*	(2) Expenditure Incidence**	(3) Net Incidence (2 - 1)
Under - $2,000	16.4	64.9	48.5
2,000 - 2,999	14.7	39.0	24.3
3,000 - 3,999	10.1	25.6	15.5
4,000 - 4,999	11.1	21.3	10.2
5,000 - 5,999	9.1	18.5	9.4
6,000 - 7,499	8.8	15.5	6.7
7,500 - 9,999	8.5	11.5	3.0
10,000 - 14,999	9.3	8.7	–0.6
15,000 and Over	6.8	4.9	–1.9

*Table B-21, column 3.

**Table B-23, column 2.

Source: A. T. Eapen and A. N. Eapen, *Incidence of Taxes and Expenditure of Connecticut State and Local Government, Fiscal Year 1967*, A paper prepared for the Connecticut State Revenue Task Force, 1970.

taxes in 1967, it influenced the entire State-local structure to be regressive.

A major influence on the proportionality of the State tax structure is the sales tax. The sales tax constitutes such a large portion of State tax collections[11] that its proportional incidence (Table B-22, column 2) has a strong influence on the incidence of the total system.

Up to this point, only the tax incidence half of net fiscal incidence has been discussed. Expenditure incidence comprises the other half of net fiscal incidence and is defined as the benefit from governmental expenditures received by families as a percent of their income. The combined 1967 expenditure incidence for Connecticut State and local government by income category is heavily progressive (Table B-23, column 2) and more than offsets the regressive tax incidence (Table B-24, column 3).

From these two tables net fiscal incidence of the taxes and expenditures of Connecticut State and local government can be found. Tax incidence (Table B-21, column 3) involved computing the ratio of taxes allocated to each income group to the total income of that group. Expenditure incidence (Table B-23, column 2) was derived by taking the ratio of benefits from expenditures allocated to each group to total income of that group. Net fiscal incidence is derived by taking the ratio of the net effect of the allocation of taxes and expenditures on each income group to the total income of that group. This is done by simply subtracting tax incidence from expenditure to arrive at net fiscal incidence (Table B-24).

A positive net fiscal incidence means that a particular income group experienced an increase in its income due to government tax and expenditure (income redistribution) programs which means positive numbers in column 3, Table B-24; a negative net fiscal incidence shows a loss of income for the income group which means negative numbers in column 3, Table B-24. This means that government takes a portion of income in the form of taxes, but can expend this tax money so that (1) taxpayers receive in return from government more benefit in the form of goods and services than they paid for through taxes (positive) or, (2) taxpayers receive in return from government less benefit in the form of goods and services than they paid for through taxes (negative). Net fiscal incidence is defined as progressive if the rates in column 3, Table B-24 are positive and decreasing from the lower to the upper income categories. This means that government is giving back to lower income groups, more so than to higher income groups, more goods and services in excess of what they paid for through taxes. Net fiscal incidence can be negative but still progressive as long as the absolute values in column 3, Table B-24 increase as income increases. In this case, government takes money from family income in the form of taxes, in excess of the benefit returned to taxpayers in goods and services, but upper income groups experience a greater loss than lower income groups. It follows that if the absolute values are positive and increase as the income scale increases the net fiscal incidence is positive but regressive. This means that government is returning to higher income groups, more so than to lower income groups, more goods and services in excess of what they paid for through taxes.

A progressive net fiscal incidence also could be said to mean that lower income groups experience a greater increase or a lesser decrease in their income than do higher income groups as a result of government tax and expenditure policies (income redistribution). Conversely, regressive net fiscal incidence could be said to mean that higher income families benefit more or are burdened less than lower income families because of government tax and expenditure policies. In short, a progressive system of net fiscal incidence assists in narrowing the gap between high income and low income families, while a regressive pattern intensifies income inequities.

Table B-24 shows that Connecticut has a strong positive-progressive net fiscal incidence up to the $10,000 category. After reaching the $10,000 level, net fiscal incidence becomes negative, but remains progressive.

While the foregoing material provides a description of State and local tax and expenditure patterns in Connecticut, **the impact of Federal taxation in Connecticut is needed to round out the picture.** Net fiscal incidence of the Federal tax and expenditure policies has been studied by the Tax Foundation.[12] But because of different income distribution assumptions and time periods of that study, the data cannot be tied in directly with the Eapen data. The problem of different time periods between the two studies can be overcome by simply updating the Tax Foundation tax collection data to 1967. The different income distribution assumptions used by each study present a different problem. Consistency of the absolute dollar amounts for the two studies requires a common income base. Here, the actual 1967 IRS returns for adjusted gross income provides an acceptable alternative for comparing tax incidence of both the Federal and State-local systems.

Incidence of Federal taxes is heavily progressive as Table B-25, column 2, shows the percent of income going for Federal taxes increasing as income increases. In fact, the progressivity of the Federal system is pronounced enough and the amount of Federal taxes so large, that when they are added to Connecticut's State and local taxes, a proportional tax structure results with progressivity at the lower and upper income levels. (Table B-25, column 8 and Chart B-3).

Expenditure incidence of Federal taxes for each state and by income level cannot be presented primarily because the Commission could find no study that analyzed Federal expenditure incidence at the individual state level. Federal expenditure incidence is available only on a national scale. The Tax Foundation study of 1965 Federal expenditures showed the expenditure incidence to be very progressive, i.e., government expenditures contributed a larger portion of benefits to family income as income declined.[13]

TABLE B-25: 1967 Connecticut Federal-State-Local Tax Burden by Income Group

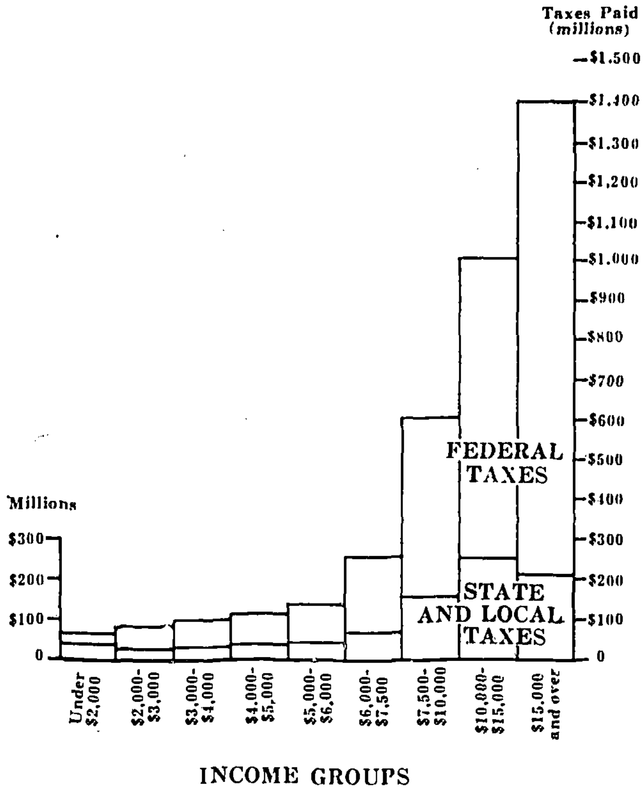
Salary Group	(1) 1967 Federal Taxes Paid By Connecticut Taxpayers[1]	(2) Federal Taxes as Percent of Income Spent By Each Income Group	(3) 1967 State Taxes Paid By Connecticut Taxpayers[2]	(4) State Tax as Percent of Income By Income Group	(5) 1967 Local Taxes Paid By Connecticut Taxpayers[2]	(6) Local Tax as Percent of Income By Income Group	(7) Total of ALL Taxes Paid By Connecticut Taxpayers[3]	(8) ALL Taxes as Percent of Income Spent By Each Income Group
			(Thousands)		(Thousands)		(Thousands)	
Under - 2,000	$ 34,141	14.3	$ 12,638	5.30	$ 25,911	10.90	$ 72,770	30.5
2,000 - 3,000	47,262	20.4	10,770	4.65	23,351	10.10	81,383	35.1
3,000 - 4,000	68,931	24.4	11,968	4.30	15,596	5.60	95,595	34.4
4,000 - 5,000	78,760	24.6	14,412	4.50	21,131	6.60	114,303	35.7
5,000 - 6,000	100,038	25.8	17,564	4.54	16,841	4.36	134,443	34.7
6,000 - 7,500	194,304	25.7	31,218	4.14	32,813	4.36	258,335	34.2
7,500 - 10,000	457,069	24.5	70,705	3.80	78,146	4.20	605,920	32.5
10,000 - 15,000	773,938	27.9	120,967	4.36	127,472	4.60	1,022,377	36.9
15,000 and Over	1,218,479	35.8	101,958	3.00	101,957	3.00	1,422,394	41.9
	$2,972,022	29.02	$392,200	3.83	$443,298	4.33	$3,807,520	37.18

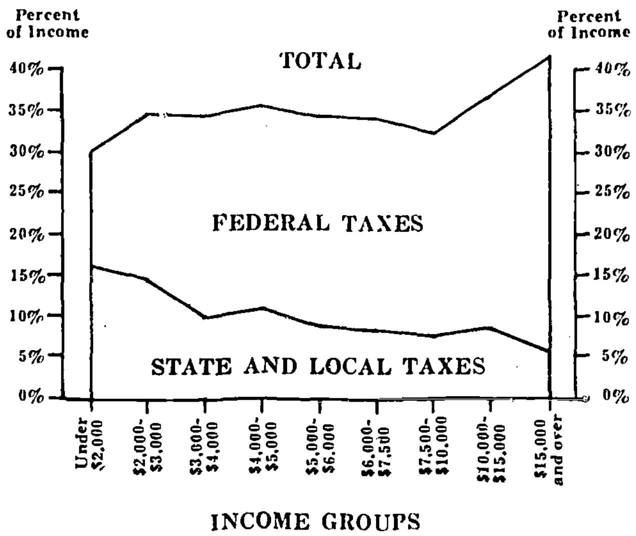
[1] Estimated from George Bishop, *Tax Burdens and Benefits of Government Expenditures by Income Class, 1961 & 1965*, Tax Foundation, Inc., 1967. Tax Foundation, *Allocating the Federal Tax Burden by State*, 1967.

[2] Adapted from A. E. Eapen, *Incidence of Taxes and Expenditures of Connecticut State and Local Governments, Fiscal Year 1967*, 1970.

[3] *Statistics of Income 1967*, IRS; Estimates made from George Bishop, *Tax Burdens and Benefits of Government Expenditures by Income Class, 1961 & 1965*, A. T. Eapen, *Incidence of Taxes and Expenditures of Connecticut State and Local Governments, Fiscal Year 1967, 1970*, and Tax Foundation, *Allocating the Federal Tax Burden by State*, 1967.

CHART B-3
Federal, State, and Local
Taxes in Connecticut by Income Group





(Based on 1967 Data)

Source: Connecticut Public Expenditure Council.

The derivation of net fiscal incidence for the Federal level produces a heavy positive-progressive net fiscal incidence.[14] Assuming that the Federal income redistribution policies have not altered drastically since 1965, it is reasonable to assume that positive-progressive net fiscal incidence at the Federal level, when tied in with the positive-progressive State-local net fiscal incidence produces a strong overall net fiscal incidence system.

The results of the studies cited indicate clearly that the incidence of the Connecticut tax structure is regressive while that of the benefits from public expenditures is progressive. The net result as indicated by the combined net fiscal incidence is progressive.

Regressivity of the incidence of the tax structure is manifestly due to the regressivity of the property tax. It is evident that increased reliance on this tax would lead to a further accentuation of the regressivity of the tax structure. **Since the sales tax, with essential items[15] excluded from the tax base, has a proportional incidence, increased reliance on it presumably would not promote the regressivity of the tax structure.**

Although the State-local tax structure is regressive, the net fiscal incidence is progressive. This is because of the progressivity of the incidence of expenditures, which more than compensates for the regressivity of the tax structure.

Net fiscal incidence nationally shows the Federal system to be heavily progressive, reinforcing the same progressive Connecticut State-local system.

Comparative State and Local Measures

In this section on tax impact comparisons of all 50 states are presented. The emphasis here is to broaden perspective by comparing Connecticut State and local taxation with other states from U.S. Census Bureau publications.

A comparative measure useful for comparing tax burden is taxes per capita for each of the 50 states. Table B-26 shows per capita tax burden by state for the 11-year period 1960-61, 1965-66 as the midpoint, and 1970-71. The per capita State and local tax burden for Connecticut in 1960-61 was $222.72, ranking Connecticut 16th among all other 50 states. In 1965-66, Connecticut ranked 13th nationally, and by 1970-71 per capita taxes grew to $533.19, ranking Connecticut 7th among all other states.

TABLE B-26: U.S. Taxes Per Capita by State

	Rank	1970-71	Rank	1965-66	Rank	1960-61
Alabama	49	275.72	49	181.73	50	120.71
Alaska	18	466.37	25	286.84	28	192.74
Arizona	20	462.46	18	296.19	21	211.93
Arkansas	50	268.98	47	187.30	47	131.94
California	3	603.22	2	395.27	1	298.15
Colorado	22	447.48	8	334.66	6	249.07
CONNECTICUT	7	533.19	13	315.72	16	222.72
Delaware	10	499.49	10	322.09	20	212.66
Florida	37	374.63	33	250.90	30	189.47
Georgia	43	332.04	44	205.95	41	149.29
Hawaii	2	613.69	3	365.32	5	250.53
Idaho	32	398.79	24	286.98	31	189.32
Illinois	8	513.48	19	296.15	18	220.46
Indiana	31	401.70	26	284.68	32	188.69
Iowa	21	450.76	12	316.60	14	227.35
Kansas	28	416.34	15	302.90	7	245.31
Kentucky	45	316.30	45	193.19	43	146.29
Louisiana	35	379.38	35	245.24	33	188.23
Maine	30	411.07	32	253.12	35	183.67
Maryland	9	508.17	23	287.72	25	203.83
Massachusetts	5	548.54	6	335.13	4	250.97
Michigan	14	491.33	14	309.91	11	231.41
Minnesota	12	497.70	9	331.75	10	236.86
Mississippi	46	315.18	48	184.18	48	131.78
Missouri	39	360.61	36	245.15	39	169.94
Montana	26	422.71	21	289.91	12	231.09
Nebraska	25	431.71	34	247.86	34	184.56
Nevada	4	579.30	4	343.72	3	281.27
New Hampshire	36	375.20	39	239.74	36	181.80
New Jersey	11	498.55	22	287.86	9	238.45
New Mexico	33	391.17	29	261.35	38	176.60
New York	1	688.60	1	409.94	2	292.90
North Carolina	41	336.27	43	207.28	45	144.04
North Dakota	27	419.58	30	259.32	26	199.53
Ohio	38	363.87	37	242.87	27	194.04
Oklahoma	44	322.99	38	240.09	37	181.69
Oregon	29	416.13	16	299.07	17	221.46
Pennsylvania	23	444.37	31	260.83	29	191.45
Rhode Island	19	465.96	20	290.39	22	211.53
South Carolina	48	297.53	50	180.84	49	131.53
South Dakota	24	435.32	28	275.62	19	215.94
Tennessee	47	301.94	46	193.19	46	136.27
Texas	40	342.66	40	219,52	40	164.11
Utah	34	387.50	27	281.68	24	207.86
Vermont	13	495.10	17	296.92	23	210.13
Virginia	37	372.29	41	211.22	44	144.94
Washington	15	486.90	7	334.89	8	239.77
West Virginia	42	333.96	42	208.98	42	149.03
Wisconsin	6	534.90	5	342.56	13	230.16
Wyoming	17	482.83	11	319.65	15	223.96

Source: Governmental Finances in 1970-71, U. S. Bureau of the Census.

TABLE B-27: Summary Measures of Relative Revenue Effort in Individual States, by Level of Government: 1966-67

States	All revenue sources			Taxes			Nontax sources		
	Total	State government	Local governments	Total	State government	Local governments	Total	State government	Local governments
Alabama	97	114	80	89	115	56	124	110	131
Alaska	106	118	88	104	132	72	108	101	127
Arizona	108	118	99	109	118	100	104	118	96
Arkansas	89	109	68	83	112	49	114	87	132
California	105	96	113	108	96	120	95	95	95
Colorado	107	101	114	106	98	115	113	115	111
CONNECTICUT	93	87	99	93	84	103	92	105	81
Delaware	102	139	62	90	136	40	152	153	151
Dist. of Columbia	85	101*	70*	90	101*	74*	62	XXX	62
Florida	92	88	96	84	88	81	124	88	137
Georgia	98	106	90	92	107	73	117	94	127
Hawaii	124	181	70	135	208	68	93	109	74
Idaho	108	121	94	105	123	84	121	115	124
Illinois	85	73	96	84	73	97	86	76	91
Indiana	98	96	100	95	92	99	109	117	103
Iowa	104	104	104	104	104	103	106	106	106
Kansas	97	94	100	96	94	98	101	95	105
Kentucky	93	113	72	85	110	57	126	130	123
Louisiana	91	107	70	90	111	60	96	93	102
Maine	102	101	103	105	101	110	88	102	68
Maryland	102	106	99	103	105	100	99	107	95
Massachusetts	112	104	121	121	106	139	77	87	72
Michigan	101	108	94	100	107	92	106	115	101
Minnesota	116	114	118	119	113	127	104	116	98
Mississippi	102	120	84	98	120	71	116	121	114
Missouri	90	84	96	86	82	91	106	97	111
Montana	95	86	103	93	81	106	100	109	92
Nebraska	85	64	100	78	56	101	102	117	98
Nevada	77	67	88	71	65	80	101	85	107
New Hampshire	84	69	103	81	61	104	104	115	92
New Jersey	94	71	117	97	68	129	82	88	78
New Mexico	95	114	68	92	122	52	103	97	115
New York	126	127	124	138	133	143	86	99	80
North Carolina	97	122	70	94	127	55	110	93	124
North Dakota	99	98	100	97	90	104	102	109	89
Ohio	87	76	97	82	71	94	108	113	107
Oklahoma	88	98	76	80	96	61	118	103	137
Oregon	101	104	98	101	102	100	102	114	95
Pennsylvania	99	100	98	99	102	96	98	86	105
Rhode Island	99	97	103	105	101	110	77	79	75
South Carolina	100	118	75	97	124	55	109	91	127
South Dakota	105	92	118	107	87	126	100	108	92
Tennessee	90	99	81	87	99	72	98	97	98
Texas	84	75	93	75	71	80	118	99	131
Utah	110	124	95	111	127	95	106	116	96
Vermont	116	123	108	119	120	118	103	136	68
Virginia	95	105	84	90	103	76	119	121	118
Washington	102	135	74	106	150	62	92	81	98
West Virginia	100	123	73	96	127	61	114	104	124
Wisconsin	116	139	95	124	142	102	90	119	76
Wyoming	85	78	94	79	72	87	105	97	115

*Treating all nonproperty taxes as "State" and all property taxes as "local".

Source: ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (Washington, D. C., March, 1971). For further explanation, see below, p. 37.

TABLE B-28: Percent of Estimated Total Revenue Capacity of State and Local Governments Represented by Selected Types of Taxes, by States: 1966-67

States	General sales and gross receipts	Selective sales and gross receipts: Motor fuel	Tobacco products	Alcoholic beverages	Public utility	Amusements	Other	Local property taxes: Nonfarm residential property	Commercial and industrial property	Farm property	Motor vehicle	Severance	Death and gift
United States, Total	13.0	6.3	2.1	1.9	0.8	0.6	2.4	15.3	12.8	2.6	4.2	0.7	1.0
Alabama	13.0	8.6	2.2	1.4	0.9	0.2	2.3	14.0	11.5	2.4	6.1	0.2	0.5
Alaska	9.7	3.3	1.7	2.6	0.5	0.2	2.2	8.8	12.8	0.9	3.3	1.6	0.1
Arizona	13.1	7.0	2.0	1.6	0.9	0.4	2.1	13.4	11.1	3.9	5.1	0.5	0.8
Arkansas	14.6	9.2	2.3	1.3	1.0	0.3	2.3	13.6	10.2	6.7	7.0	0.7	0.4
California	12.0	5.4	1.8	2.0	0.8	1.4	2.3	18.4	11.6	2.2	3.9	0.5	1.2
Colorado	13.6	6.5	2.0	1.9	0.8	0.5	2.2	13.4	11.7	4.3	5.6	0.8	0.8
CONNECTICUT	12.5	5.4	2.2	2.5	0.7	0.5	2.7	19.8	13.1	0.4	3.8	—	2.1
Delaware	12.5	5.9	2.2	2.5	0.8	0.5	2.3	16.1	15.3	1.1	3.6	—	2.2
Dist. of Columbia	14.7	4.2	4.0	7.7	1.6	0.4	1.8	17.9	14.4	—	1.9	—	1.8
Florida	14.4	6.6	2.2	2.8	0.8	0.7	2.1	18.7	10.3	2.1	4.5	0.1	1.1
Georgia	14.1	8.5	2.2	1.9	0.8	0.4	2.4	13.2	12.2	2.3	5.4	0.1	0.7
Hawaii	12.8	4.0	1.1	2.0	0.7	0.6	2.4	18.0	11.4	2.0	3.5	—	0.6
Idaho	14.9	8.1	1.8	1.3	1.0	0.3	2.2	8.5	10.6	10.4	7.3	0.2	0.5
Illinois	13.7	5.4	2.2	2.2	0.9	0.5	2.6	15.9	14.4	3.0	3.3	0.2	1.2
Indiana	14.0	7.3	2.4	1.2	0.9	0.3	2.5	12.2	14.1	3.8	4.8	0.1	0.7
Iowa	13.5	6.9	1.8	1.1	0.8	0.2	2.4	12.0	9.5	12.0	5.3	0.1	0.8
Kansas	11.7	6.8	1.6	1.0	0.8	0.3	2.2	13.8	10.5	8.4	6.0	2.1	1.0
Kentucky	13.2	7.9	3.0	1.8	0.9	0.3	2.4	15.2	12.0	3.9	6.0	0.6	0.7
Louisiana	11.0	5.6	2.0	1.6	0.8	0.3	1.8	9.8	13.7	2.2	4.0	9.4	0.6
Maine	14.5	8.4	2.9	2.3	0.8	0.2	2.6	15.8	11.7	1.1	5.2	—	1.7
Maryland	13.2	5.9	2.1	2.3	0.8	0.6	2.6	18.7	11.8	1.1	3.7	—	1.0
Massachusetts	13.8	5.6	2.2	2.5	0.9	0.5	2.7	16.5	12.7	0.2	3.2	—	1.3
Michigan	13.0	6.3	2.1	1.6	0.8	0.4	2.5	15.7	13.3	1.1	3.8	0.1	0.8
Minnesota	14.0	6.7	1.9	2.0	0.8	0.4	2.4	10.3	12.4	4.9	5.0	0.2	0.7
Mississippi	13.1	9.2	2.1	1.3	0.9	0.1	2.2	13.1	9.6	5.7	6.3	1.2	0.5

TABLE B-28: Percent of Estimated Total Revenue Capacity of State and Local Governments Represented by Selected Types of Taxes, by States: 1966-67 (Continued)

		Selective sales and gross receipts						Local property taxes					
States	General sales and gross receipts	Motor fuel	Tobacco products	Alcoholic beverages	Public utility	Amusements	Other	Nonfarm residential property	Commercial and industrial property	Farm property	Motor vehicle	Severance	Death and gift
Missouri	14.6	7.5	2.5	1.9	0.9	0.4	2.5	14.1	13.6	4.1	4.8	0.1	1.1
Montana	13.3	7.3	1.9	1.5	0.8	0.2	2.1	8.9	10.7	12.8	6.5	1.6	0.6
Nebraska	12.5	6.3	1.6	1.4	0.7	0.2	2.1	12.3	8.3	11.2	5.2	0.3	0.9
Nevada	14.8	5.6	1.8	3.1	0.6	8.0	1.6	14.2	11.7	1.9	3.6	0.2	0.8
New Hampshire	14.3	6.3	4.8	4.1	0.7	0.5	2.3	18.5	9.9	0.6	4.2	—	1.1
New Jersey	13.0	5.6	2.1	2.4	0.8	0.6	2.7	17.4	13.9	0.3	3.5	—	1.3
New Mexico	10.9	7.8	1.6	1.3	0.7	0.3	1.8	9.1	9.9	4.9	5.2	5.6	0.4
New York	11.8	3.8	1.8	2.1	0.8	1.0	2.5	17.6	14.0	0.4	2.3	—	1.6
North Carolina	14.1	8.6	2.5	1.9	0.7	0.3	2.5	14.7	12.5	3.0	5.7	—	0.7
North Dakota	11.9	5.6	1.5	1.4	0.6	0.1	1.8	5.6	6.1	13.3	6.1	1.2	0.4
Ohio	13.4	6.4	2.3	1.6	1.0	0.4	2.5	16.1	14.5	1.6	4.1	0.1	1.0
Oklahoma	11.8	7.6	1.9	1.3	0.8	0.2	2.0	13.0	12.7	5.5	6.1	3.9	0.7
Oregon	13.1	6.7	2.5	1.5	0.7	0.3	2.2	15.0	11.6	3.3	4.7	0.1	0.6
Pennsylvania	14.0	6.2	2.4	1.7	0.9	0.4	2.8	14.9	16.1	0.8	4.3	0.2	1.2
Rhode Island	13.5	6.0	2.7	2.3	0.8	0.6	2.8	15.7	12.4	0.2	4.3	—	1.9
South Carolina	14.7	9.4	2.5	2.9	0.9	0.2	2.6	9.0	12.1	2.6	6.0	—	0.7
South Dakota	13.0	7.5	1.8	1.6	0.7	0.3	2.2	8.3	6.7	16.7	6.4	0.1	0.5
Tennessee	13.7	8.0	2.3	1.3	0.8	0.2	2.2	13.4	11.8	2.7	5.2	0.1	0.6
Texas	13.5	7.9	2.0	1.3	0.9	0.3	2.2	9.7	14.1	4.5	5.3	4.7	0.9
Utah	13.0	7.5	1.2	1.1	0.8	0.5	2.3	14.1	12.9	3.3	5.4	1.4	0.5
Vermont	16.2	8.0	2.5	3.3	0.8	0.8	2.6	12.2	11.6	3.0	4.8	0.1	1.2
Virginia	13.9	7.5	2.6	2.2	0.8	0.3	2.6	18.7	12.1	1.9	4.4	0.1	0.8
Washington	11.6	5.5	1.3	1.6	0.7	0.3	2.1	16.2	11.4	2.4	4.5	—	0.7
West Virginia	13.4	7.6	2.6	1.5	1.0	0.4	2.5	13.2	16.9	1.1	5.2	1.4	0.7
Wisconsin	13.0	6.3	1.9	2.1	0.8	0.3	2.5	14.9	12.1	3.0	4.1	—	0.9
Wyoming	10.1	7.2	1.5	1.2	0.7	0.3	1.5	9.2	12.1	7.8	5.1	9.1	0.5

Source: ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (Washington, D. C., March, 1971).

TABLE B-29: Measures of Relative State-Local Tax Effort in Individual States, by Type of Tax: 1966-67

States	Sales and gross receipts taxes: All	Sales and gross receipts taxes: General	Sales and gross receipts taxes: Selective	Property Taxes: All property taxes[1]	Property Taxes: Local taxes on — Nonfarm residential property	Property Taxes: Local taxes on — Commercial and industrial property	Property Taxes: Local taxes on — Farm property	Individual income taxes[2]	Motor vehicle taxes[3]	Corporation taxes[4]	Severance taxes[4]	Death and gift taxes[4]	All other taxes
Alabama	140	156	127	37	28	35	23	96	39**	117	66	42	186
Alaska	61	39	120	63	93	46	20	238	119*	178	195	108	159
Arizona	122	152	95	114	107	120	37	73	113**	78	—	33	61
Arkansas	106	106	107	48	39	58	55	104	101**	131	110	26	90
California	99	126	76	122	106	151	137	74	110**	131	2	106	73
Colorado	93	106	80	122	126	134	95	147	53*	99	18	152	73
CONNECTICUT	95	93	97	110	119	100	144	—	147**	126	—	146	15
Delaware	52	—	98	42	62	24	41	271	99	338	—	124	64
Dist. of Columbia	76	80	73	74	72	78	—	194	111	136	—	102	253
Florida	104	87	120	79	72	89	94	—	99	79	12	42	162
Georgia	111	121	101	68	60	81	55	105	82**	114	—	33	121
Hawaii	215	277	141	60	62	54	63	280	89	128	—	88	36
Idaho	93	87	100	99	44	154	89	216	71	142	37	138	102
Illinois	106	124	88	94	101	82	131	—	158*	8	—	87	73
Indiana	93	112	75	107	104	109	119	106	117**	20	14	102	53
Iowa	85	74	97	116	105	125	125	147	112	35	—	127	94
Kansas	90	106	75	104	77	130	109	128	105**	85	3	70	47
Kentucky	99	105	94	50	51	44	50	196	52**	120	4	124	131
Louisiana	119	129	110	48	17	68	23	48	29	140	158	60	160
Maine	119	123	116	129	112	141	214	—	109*	24	—	96	61
Maryland	91	74	108	105	101	104	80	151	72	66	—	128	105
Massachusetts	73	44	101	141	166	114	230	149	267**	166	—	140	29
Michigan	118	148	89	103	97	104	145	20	81	67	20	76	273
Minnesota	53	—	106	155	169	132	141	270	81	128	807	138	53
Mississippi	143	177	115	59	27	114	33	34	98**	126	140	52	103
Missouri	87	105	70	82	85	79	85	110	131**	37	1	54	89
Montana	53	—	105	113	87	165	79	158	89**	104	75	158	134
Nebraska	47	—	95	118	94	88	112	—	87**	16	39	59	181
Nevada	70	54	81	74	60	98	61	—	108*	24	9	—	407
New Hampshire	59	—	104	122	139	131	179	14	98*	15	—	116	87

TABLE B-29: Measures of Relative State-Local Tax Effort in Individual States, by Type of Tax: 1966-67 (Continued)

States	Sales and gross receipts taxes			Property Taxes				Individual income taxes[2]	Motor vehicle taxes[3]	Corporation taxes[4]	Severance taxes[4]	Death and gift taxes[4]	All other taxes
					Local taxes on —								
	All	General	Selective	All property taxes[1]	Nonfarm residential property	Commercial and industrial property	Farm property						
New Jersey	86	56	113	137	176	91	176	4	100	67	—	150	58
New Mexico	131	171	98	54	35	60	23	57	81	80	132	60	145
New York	117	114	120	125	127	125	160	274	115	169	—	92	43
North Carolina	100	95	104	55	52	60	59	196	81*	191	—	128	92
North Dakota	78	69	87	123	132	138	110	96	67	82	100	52	84
Ohio	85	69	101	94	85	107	106	36	78	36	—	44	157
Oklahoma	94	74	111	63	52	77	62	62	87	91	117	190	65
Oregon	47	—	90	113	99	121	158	273	88	114	—	166	79
Pennsylvania	111	114	108	82	121	47	109	66	69	174	—	130	196
Rhode Island	115	114	115	116	130	102	154	—	173**	133	—	98	52
South Carolina	115	115	116	57	30	79	52	142	71**	168	—	62	69
South Dakota	102	93	111	138	181	157	111	—	88	27	73	134	73
Tennessee	118	132	105	67	75	65	50	11	75	146	—	146	71
Texas	74	47	99	89	89	94	55	—	88*	44	116	72	58
Utah	116	137	95	104	75	124	72	189	86**	89	68	142	82
Vermont	71	—	135	140	142	130	177	279	156	85	—	124	135
Virginia	90	66	112	59	57	59	72	165	143*	109	—	70	158
Washington	203	247	160	66	52	67	95	—	111**	21	—	200	85
West Virginia	154	183	129	55	53	58	57	77	113*	15	—	118	214
Wisconsin	71	47	93	128	121	109	175	315	92	148	—	164	58
Wyoming	85	103	71	104	42	147	56	—	106*	9	1	46	221

[1] Including property tax components not shown separately.

[2] Including local payroll and earnings taxes.

[3] In states where motor vehicles are subject to property taxation, estimated amounts of such revenue have been included in calculating "motor vehicle taxes" effort. A double asterisk denotes states where at least one-third of all motor vehicle tax revenue is of this nature, and a single asterisk denotes some lesser proportion of such revenue.

[4] These categories pertain to state-imposed taxes only.

Source: ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (Washington, D.M., March, 1971).

However, Connecticut ranks among the lowest taxing states when State and local taxes are considered in relation to personal income. Connecticut State and local revenue per $1,000 of personal income is $124.26 as compared to the U. S. average of $146.26. Only Ohio, New Hampshire, and Wisconsin have a lower figure than Connecticut's.[16] Another measure of general tax burden is to analyze and compare it to other states on both a state and local level. The U. S. Advisory Commission on Intergovernmental Relations (ACIR) compiled revenue data from the 1966-67 *Census of Governments* to ascertain each state's relative revenue effort by level of government (Table B-27).[17] Tax collections for each state and the local governments are computed at the national average rate. National average is defined by ACIR as the total amounts of revenue that would result by applying, within the tax areas, the national average rate of each of the numerous kinds of state-local revenue sources. Also, "relative effort" as used in the tables is meant to express, on a percentage basis, the relation between the potential yield of various revenue sources at national average rates, and revenue amounts actually received by state and local governments from corresponding sources in 1966-67.[18]

Connecticut's 1966-67 total revenue effort relative to other states was 93, or 7 points below the national norm for all revenue sources. The picture changes for the separate levels of government and by tax and nontax sources.[19] Connecticut State government revenue was 87% of the national average, while local government came within 1 point of the national average. State revenue was below the national average for tax sources and alone for nontax sources. Local government reversed this pattern, showing a property tax burden above the national average.

Using this same method of comparison, data for all 50 states for selected taxes are shown in Table B-28 and Table B-29. Caution should be used when interpreting these broad groupings of revenue sources. On the other hand, the ACIR compilation of *Census of Governments* for 1966-67 does bring together for convenient reference various tax items which at least broadly resemble one another in the extent to which they must be borne (recognizing of course, that taxes can be shifted). Also, within each group are particular tax sources which are close competitors, at least from a public policy standpoint: general sales tax vs. individual income; corporation taxes vs. property taxation of business property.

In conclusion, the foregoing tables are useful for very broad and general comparisons. However, before any specific conclusions are drawn between interstate comparisons, the socio-economic profile of each state is required.

Footnotes to Part B

1 Excerpted in part from James A. Papke, *Study of the Impact of Insurance Company Taxation in Connecticut: An Update 1972* (Hartford: Insurance Association of Connecticut, 1972).

2 For an explanation of this term, see the note to Table B-17.

3 ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (Washington, D.C., 1971).

4 This procedure is represented by:

$$e = \frac{T_i - T_o}{T_o} \div \frac{Y_i - Y_o}{Y_o}$$

where e = elasticity or percent change in yield per 1% change in income; T = tax yield; Y = personal income, and the subscripts indicate given year (i) and base year (o) which is a moving base.

5 The .90 elasticity does not precisely match the ACIR 1967 elasticity of .85 for Connecticut, but there is no reason that it should. Elasticity studies seldom derive the exact same results because the different time frame used by each study picks up the year-to-year disparities characteristic only to that time period selected. These disparities cause elasticity estimates to differ slightly and in no way invalidate the methodology nor the end result. Note also that the Commission's analysis of Connecticut's elasticity used all General Fund taxes whereas the 1967 ACIR study used only 66R of Connecticut's taxes. The taxes excluded by ACIR tend to have an elasticity above 1.0 which would also explain the slightly higher elasticity in our analysis.

6 *A Fiscal Program for a Balanced Federalism* (Committee for Economic Development, 1967), pp. 60-61; Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System* (Washington, D.C., 1967), p. 114; *Fiscal Outlook for State and Local Government to 1975* (Tax Foundation, Inc., New York, 1966), p. 106; Advisory Commission on Intergovernmental Relations, *Federal-State Coordination of Personal Income Taxes* (Washington, D.C., 1965), p. 42; David George Davies, "The Sensitivity of Consumption Taxes to Fluctuations in Income," *National Tax Journal*, Vol. 15 (September, 1962), pp. 281-290; James S. Duesenberry, Otto Eckstein, and Gary Fromm, "A Simulation of the United States Economy in Recession," *Econometrica*, Vol. 28 (October, 1960), pp. 749-809; Harold M. Groves and C. Harry Kahn, "The Stability of State and Local Tax Yields," *American Economic Review*, Vol. 42, (March, 1952), pp. 87-102; Robert Harris and Selma Mushkin, "The Revenue Outlook in 1970; A Further Report on Project '70," unpublished paper prepared for the National Association of Tax Administrators, 1964 Conference on Revenue Estimating, October, 1964, p. 16; Dick Netzer, "Financial Needs and Resources Over the Next Decade: State and Local Governments," in *Public Finances: Needs, Sources and Utilization*, a Report of the National Bureau of Economic Research (Princeton University Press, Princeton, 1961), pp. 23-65; Robert W. Rafuse, Jr., "The Cyclical Behavior of State-Local Finances," in Richard A. Musgrave, *Essays in Multi-Level Finance, Studies of Government Finance*, The Brookings Institution (Washington, D.C., 1965); Lee Soltow, "The Historic Rise in the Number of Taxpayers in a State with a Constant Tax Law," *National Tax Journal*, Vol. 8 (December, 1955), pp. 379-81.

7 The Corporation Business Tax has been reported in other states to have uncertain behavior, which seems to be the case here in Connecticut. An elasticity of 1.0 or better is more characteristic of Corporation Business taxes, but the deviation for Connecticut from this range is not surprising. For example, Tax Foundation reported in their *Fiscal Outlook for State and Local Government to 1975*, that the elasticities they "obtained were similar to those reported by others. One exception, however, was the extremely volatile response of the corporation income tax . . ."

8 Connecticut's tax on individual income, dividends, and capital gains is too recent for analysis here.

9 Thomas and A. Navarro Eapen, *Incidence of Taxes and Expenditures of Connecticut State and Local Governments, Fiscal Year 1967* (Hartford, 1970).

10 Tax Foundation, Inc., *Allocating the Federal Tax Burden by State* (New York, 1967) provided the formula necessary for apportioning the State tax burden. The second Tax Foundation study is: *Tax Burden and Benefits of Government Expenditures by Income Class, 1961 and 1965* (New York, 1967).

11 About 30% of all State taxes and 50% of General Fund taxes.

12 See above, note 9.

13 Tax Foundation, *Tax Burden*, p. 21, Table 8.

14 *Ibid.*, p. 33, Table 14.

15 Meals under $1.00, clothing for children under 10 years of age. Since 1971 a sales tax on utility bills has been added which could make the proportionality of the sales tax somewhat regressive.

16 ACIR, *State-Local Finances: Significant Features and Suggested Legislation* (Washington, D.C., 1972).

17 ACIR, *Measuring the Fiscal Capacity.*

18 The ACIR warns that "The comparative data shown for these revenue sources need to be interpreted cautiously, and with due recognition of their limitations." For example, the data relate to a national norm and do not give any information relative to the peculiarities of an individual state. Also, the tax sources are not weighted for their importance within a state.

19 Non-tax revenues are fees for licenses, permits; user charges for highways, bridges, and service charges at institutions.

PART C

Revenues and Expenditures

Introduction

The objective of Part C, Revenues and Expenditures, is to project accurately Connecticut's total revenue and expenditures through Fiscal Year 1977 and determine the extent of any revenue deficiency or excess in each of the forecasted years. Revenue estimates are based on the forecasted yields of the present tax structures. Expenditure estimates are based on an analysis of existing needs and are in line with the spending philosophy of the Administration.

The Commission determined to develop an economic model of the State for the 5 year period ending June 30, 1977 (FY '77). Levels of inflation, population growth, and the demand for State services were evaluated. Personal income was projected through the period. Each existing tax in the present State tax structure was analyzed and its annual revenue yield estimated.

One approach to estimating the yield is an elasticity calculation, which is the measurement of the responsiveness of the yields to economic growth. Each of the several State taxes were analyzed to obtain a precise measure of income elasticity, and these individual elasticities were weighted by their relative revenue importance in Connecticut's tax structure.

The Commission estimated the level of personal income which would prevail in the projected period by taking an average of the percentage gain in personal income over the 10-year period 1962-1971. Using this estimate of personal income, the individual elasticity factors of each tax were applied and a projection of revenue under the existing tax structure was developed. The present tax structure is predicted to grow at an annual rate of 6.7%.

An alternative revenue estimate was developed where each tax was studied and its yield under various economic conditions was analyzed. From this study a quantitative estimated increase was obtained and total tax revenue predicted. This estimate compared very closely with that obtained in the elasticity analysis. Additionally, receipts from non-tax sources were analyzed and receipts predicted through FY '77. The total revenue structure including taxes, Federal revenue sharing, gaming income, and other elements is predicted to increase at an annual rate from 5 to 7% per year.

The Commission solicited budgetary goals for the next several years from the Administration in order to establish appropriation and expenditure patterns for the years 1973-77. It has relied on these goals in designing the revenue model. Although the Commission feels that this concept will require a further imposition of controls in some areas, on balance the Commission is convinced that a continued reduction in the rate of increase of State expenditures is achievable. As a result it has accepted a maximum increase of 5% per year through fiscal year 1977.

In considering the achievability of the goal, the budget was analyzed by dividing types of expenditures into two categories. The first are fixed expenditures resulting from programs already required by existing legislation or built into the salary structure through annual increments. The other category was deemed to be general expenditures which could be reduced or maintained depending upon the wishes of the Legislature and Administration. The fixed expenditures were taken as specified, and the general expenditures were increased by 3½% per year. **The combination of the fixed elements plus the growth factor adds to a total of 5% increase per year. The Commission has accepted this expenditure level as reasonable and attainable and has designed a revenue plan compatible with this maximum increase.**

Comparing the total forecasted revenues with the anticipated expenditures results in an excess of revenue in each fiscal period. The tax base growth of 6.7% per year allows the entire revenue system to be sufficiently responsive to accommodate expenditure increases of 5% per year and allows the reforms proposed by the Commission. **The Commission's program of tax reform allocates part of that excess revenue to tax reduction over the next several years and part to a number of new programs designed to relieve inequities and encourage economic growth.**

Commission Findings

1. The average coefficient of elasticity for all Connecticut taxes is .9.

2. The estimate for growth in personal income in the period 1973-77 is 7.49%, the average of the prior 10 years.

3. The existing State taxes are estimated to yield an annual increase in revenue of 6.7%.

4. Total General Fund revenue, including revenue from outside sources, is projected to grow between 5 and 7%, over the forecasted period FY '73-77.

5. Recurring State expenditures are forecasted to grow at a 3.5% annual rate.

6. Special items (fixed expenditures) will raise the total State expenditure growth to 5% per year—the expenditure constraint on which the Commission revenue plan is based.

7. Trends of major agencies and departments already indicate a sharp leveling off in expenditures. Predicted FY '73 expenditures for 63% of the State budget will only increase 6.6% over FY '72.

8. Excess revenues based on the present tax structure (and from other sources) will be realized in every year of the forecasted period.

Predicted Revenues FY '73-77

In order to make an intelligent fiscal plan for the future it is necessary to predict the revenues which will be raised by the existing State tax structure. Out of total General Fund Revenues of $1.0 billion received in FY '72 the tax structure raised approximately $800 million. How should a prediction be made for future revenues? The Commission has used two approaches in making their estimate. The first is the elasticity approach where the coefficient of elasticity is derived and applied to an estimate of personal income in order to predict future tax yields.

The second procedure is to estimate each tax yield individually based on trends in leading economic indicators. For most non-tax sources, revenue estimates were based on growth increments established in recent years. The elasticity approach is first described and each tax data analyzed.

Elasticity of General Fund Taxes

Elasticity was introduced in Part B[1] as a technique for measuring the response of a tax or all taxes of a state to economic growth in that state. Elasticity is usually defined by economists as the percentage change in tax yield per 1% change in income. Naturally, taxes can change as a result of (1) adding new taxes, (2) rate and base adjustments, and (3) automatic change regardless of discretionary adjustments mentioned in numbers 1 and 2. Elasticity measures this latter element of tax change which is only the automatic component of a state's revenue growth divorced from changes enacted by the legislatures. More accurately, then, elasticity measures the sensitivity of tax collections from some *constant* rate and base structure to increases in some measure of income. This means that all taxes are based on the rate structures of one given year and adjusted as if no tax rate increases ever took place. In this fashion, adjusted revenues shown in Table C-1, column 2, are what would have been the year-to-year changes only as a result of natural growth.

TABLE C-1: Elasticity Derivation, General Fund Taxes, 1961-71

ALCOHOLIC BEVERAGE TAX

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	7,406,970	18,517,425	—	—
1962	14,829,565	18,536,956	.10	.01
1963	14,788,692	18,485,865	(.28)	(.05)
1964	15,324,390	19,155,488	3.62	.55
1965	15,931,483	19,914,354	3.96	.4
1966	16,863,309	21,079,136	5.85	.64
1967	17,502,912	21,878,640	3.79	.39
1968	18,290,143	22,862,679	4.50	.54
1969	18,960,910	23,701,138	3.67	.41
1970	23,730,315	23,730,315	.12	.02
1971	23,696,586	23,696,586	(.14)	(.03)
			Average Elasticity —	.30

TABLE C-1 (Cont.)

GAS, ELECTRIC & WATER

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	3,487,782	9,301,915	—	—
1962	10,160,000	10,160,000	9.22	1.25
1963	11,275,943	11,275,943	10.98	1.96
1964	11,842,348	11,842,348	5.02	.76
1965	12,276,906	12,276,906	3.67	.43
1966	12,900,406	12,900,406	5.08	.56
1967	13,823,891	13,823,891	7.16	.73
1968	14,647,278	14,647,278	5.96	.72
1969	15,583,649	15,583,649	6.39	.71
1970	16,882,654	16,882,654	8.34	1.41
1971	18,488,237	18,488,237	9.51	2.02
			Average Elasticity —	1.06

INSURANCE COMPANIES — DOMESTIC & FOREIGN PREMIUMS

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	10,975,694	12,550,854	—	—
1962	12,681,721	12,681,721	1.04	.14
1963	13,151,845	13,151,845	3.71	.66
1964	14,332,995	14,332,995	8.98	1.36
1965	14,696,533	14,696,533	2.54	.30
1966	15,908,666	15,908,666	8.25	.91
1967	17,308,412	17,308,412	8.80	.90
1968	18,591,638	18,591,638	7.41	.89
1969	20,425,514	20,425,514	9.86	1.10
1970	24,731,899	24,731,899	21.08	3.57
1971	27,987,160	27,987,160	13.16	2.80
			Average Elasticity —	1.26

TELEPHONE COMPANIES

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	3,973,507	5,960,260	—	—
1962	7,934,000	7,934,000	NA	NA*
1963	9,770,903	[illegible],903	NA	NA
1964	10,362,903	[illegible]903	6.06	.92
1965	11,159,486	11,159,486	7.69	.90
1966	11,759,870	11,759,870	5.38	.59
1967	12,835,860	12,835,860	9.15	.93
1968	13,750,106	13,750,106	7.12	.86
1969	14,933,880	14,933,880	8.61	.96
1970	17,293,241	17,293,241	15.80	2.68
1971	19,056,897	19,056,897	10.20	2.17
			Average Elasticity —	1.25

*Because of Statutory change in payment dates from July to April, 2 years' receipts are shown which cannot be used.

TABLE C-1 (Cont.)

CIGARETTE TAX

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	11,922,075	63,580,426	—	—
1962	18,812,779	60,200,893	(5.31)	(.72)
1963	19,475,640	62,322,048	3.52	.53
1964	22,103,566	58,928,107	(5.44)	(.82)
1965	24,155,126	64,397,566	9.28	1.09
1966	31,827,408	63,654,816	(1.15)	(.13)
1967	32,391,568	64,783,136	1.77	.18
1968	32,535,891	65,071,782	.44	.05
1969	34,065,732	68,131,464	4.70	.52
1970	56,117,023	56,117,023	(17.63)	(2.99)
1971	56,266,919	56,266,919	.26	.06
			Average Elasticity —	(.22)

INHERITANCE AND ESTATE TAX

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	17,459,715	17,459,715	—	—
1962	22,984,442	22,984,442	31.64	4.28
1963	25,983,587	25,983,587	13.05	2.33
1964	25,796,690	25,796,690	(.72)	(.11)
1965	31,014,438	31,014,438	20.23	2.38
1966	39,994,279	39,994,279	28.95	3.18
1967	37,918,934	37,918,934	(5.19)	(.53)
1968	38,347,633	38,347,633	1.13	.14
1969	43,776,539	43,776,539	13.80	1.53
1970	42,590,145	42,590,145	(2.71)	(.46)
1971	46,587,582	46,587,582	9.39	2.00
			Average Elasticity —	1.47

INSURANCE COMPANIES DOMESTIC — INTEREST & DIVIDENDS

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	3,969,793	5,557,710	—	—
1962	4,163,435	6,135,654	10.40	1.41
1963	4,440,243	6,926,779	12.89	2.30
1964	4,355,647	7,622,382	10.04	1.52
1965	4,211,056	8,422,112	11.97	1.41
1966	4,047,325	9,430,267	12.02	1.32
1967	3,772,738	10,563,666	12.40	1.27
1968	3,392,431	11,873,508	17.70	2.13
1969	2,992,510	13,975,022	11.66	1.30
1970	15,604,071	15,604,071	6.79	1.15
1971	16,663,081	16,663,081	13.44	2.86
			Average Elasticity —	1.67

TABLE C-1 (Cont.)

CORPORATION BUSINESS TAX

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	30,791,587	65.687,693		
1962	38,532,882	61,652,611	(6.14)	(.83)
1963	47,063,982	75,302,371	22.14	3.95
1964	51,081,096	81,729,754	8.54	1.29
1965	57,339,055	91,742,488	12.25	1.44
1966	67,958,859	103,555,709	12.88	1.42
1967	80,070,523	122,011,463	17.82	1.82
1968	79,846,070	121,669,441	(.28)	(.03)
1969	86,228,313	131.394,703	7.99	.89
1970	119,537,796	119,537,796	(9.02)	(1.53)
1971	126,795,806	126,795,806	6.07	1.29
			Average Elasticity —	.97

GASOLINE AND SPECIAL FUELS

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	47,590,282	63,437,848		
1962	50,028,850	66,688,457	5.12	.69
1963	53,095,454	70,776,240	6.13	1.09
1964	55,690,281	74,235,145	4.89	.74
1965	58,539,181	77,857,111	4.88	.57
1966	61,881,906	82,488,581	5.95	.65
1967	64,670,049	86,011,165	4.27	.44
1968	78,337,324	89,531,728	4.09	.49
1969	83,460,614	95,387,136	6.54	.73
1970	99,890,286	99,890,286	4.72	.80
1971	105,040,714	105,040,714	5.16	1.10
			Average Elasticity —	.73

SALES & USE TAX

Year	(1) Actual Revenue	(2) Adjusted Revenue	(3) % Increase of Adjusted Total	(4) Elasticity
1961	79,489,800	132,747,966		
1962	97,839,839	139,910,970	5.40	.73
1963	102,943,766	147,209,585	5.22	.93
1964	111,917,026	160,041,347	8.72	1.32
1965	123,298,884	176,317,404	10.17	1.20
1966	136,398,307	195,049,579	10.62	1.17
1967	145,635,510	208,258,779	6.77	.69
1968	158,835,103	227,134,197	9.06	1.09
1969	174,152,877	249,038,614	9.64	1.07
1970	258,496,790	258,496,790	3.80	.64
1971	265,216,533	265,216,533	2.60	.55
			Average Elasticity —	.94

Source: Connecticut State Tax Dept.

Personal income or gross state product are the economic indices frequently used by economists in elasticity analyses. This presentation uses personal income. Table C-2 provides the 10-year average for personal income growth in Connecticut. The average for the 10-year period is 7.49%. The Commission believes the 10-year period between 1962 and 1971 is a good period in which to base an estimate for the next 5 years because it encompasses both good and recessionary years of economic activity. It includes both the build-up and the decline of military activity in Viet Nam, and it has experienced the beginning of the transition of the Connecticut State economy from manufacturing to service industry.

TABLE C-2: Annual Increase, Connecticut Total Personal Income, 1962-71

	Connecticut Personal Income (Millions)	Annual Percent Increase
1962	$ 7,999	7.4
1963	8,449	5.6
1964	9,004	6.6
1965	9,765	8.5
1966	10,657	9.1
1967	11,704	9.8
1968	12,674	8.3
1969	13,819	9.0
1970	14,638	5.9
1971	15,322	4.7
	Average	7.49

Source: Survey of Current Business, U.S. Dept. of Commerce

The future growth of Connecticut's personal income is then assumed to be the average of the past 10 years. Assuming the projected 5-year growth rate for Connecticut's income will be 7.49% annually, we can then apply the elasticity factors derived for each individual tax.

The method of computing elasticity is to adjust each General Fund tax over a 10-year period to the 1971 rates. The percentage increase each year over a base year, Table C-1, column 3, is computed for each tax and divided by a similar percentage increase for personal income over the base year 1962, Table C-1, column 4.

The elasticity of Connecticut's General Fund tax structure is calculated to be .90 (Table C-3), which indicates that for every 1% growth of Connecticut's personal income, taxes will grow 9/10 of 1%. Connecticut's tax structure can be classified as having a medium elasticity.[2]

TABLE C-3: Elasticity, Total Tax Structure, and General Fund Taxes, 1970-71

Tax	1970 - 1971 Taxes Actual	1970 - 1971 Taxes Adjusted	Percent of Total Adjusted Taxes	Average Elasticity	Weighted Elasticity
Beverage, Alcohol	23,696,586	23,696,586	3.8	.30	1.1
Cigarette	56,266,919	56,266,919	9.1	(.22)	(2.0)
Conn. Estate & Inheritance	46,587,582	46,587,582	7.5	1.47	11.0
Corporation Business	126,795,806	126,795,806	20.4	.97	19.8
Gas, Electric & Water	18,488,237	18,488,237	3.0	1.06	3.2
Gasoline & Special Fuel	21,008,143	21,008,143	3.4	.73	2.5
Insurance Cos., Dom. & Foreign — Premium	27,987,160	27,987,160	4.5	1.26	5.7
Insurance Cos., Dom. — Int. & Div.	16,663,081	16,663,081	2.7	1.67	4.5
Sales & Use	265,216,533	265,216,533	42.7	.94	40.1
Telephone Cos.	19,056,897	19,056,897	3.1	1.25	3.9
Total	621,766,944	621,766,944			89.8 = .90 Elasticity

Note: Adjusted revenue reflects June 30, 1971 rates for each of the taxes included but no attempt has been made to adjust the tax base due to legislative changes.

Source: Table C-1.

By applying the .90 elasticity to projected personal income growth of 7.49%, it is estimated that State taxes will grow 6.7% annually over the next 5 years. This growth rate is used for comparison to another approach used by the Commission to project revenue in Connecticut.

Alternative Revenue Estimate

The Commission also estimated revenue through 1977 based on a separate projection of taxes and other revenue sources. The summary of this estimate is shown in Table C-4. This table indicates the annual percentage change expected for each of Connecticut's major taxes, after graphically reviewing monthly data from 1960. Leading economic indicators including manufacturers' orders for durable goods, corporate profits after taxes and the price index for 500 common stocks provided valuable background for updating the tax estimates through Fiscal 1973. The present economic upturn shows recovery from the 1971 recession, and warranted increasing several revenue estimates above the level originally forecast for Fiscal 1973. However, more moderate growth rates are expected in most cases for the years FY '74-77, as is usually the pattern following recovery from an economic recession.

Table C-4 projects non-tax revenues excluding Federal aid) which account for about 9% of the total $1.185 million expected in Fiscal '73. It was noted that many of the non-tax revenue sources do not have the growth potential of most taxes. As a result, the growth increment applied for the years 1974-77 are those found reasonably consistent with amounts registered since 1968.

Federal aid, chiefly reimbursement for welfare expenditures, is the largest single non-tax revenue source $140 million expected in Fiscal 1973), and is expected to grow by 7% annually after Fiscal 1973. At present, State welfare payments are increasing by about 14% annually, but program changes outlined in the expenditure analysis are expected to reduce this growth significantly.

In other areas, higher education tuitions show little growth from $18.5 million estimated in Fiscal 1973, since a leveling off of enrollments is forecast. Also, transfers from the Commission on Special Revenue (from the Lottery and other gaming activities) show little change from the $16.4 million estimated for 1973, because of the difficulty in gauging the success of the State's venture into this area.

Comparison of Alternative Revenue Estimate With Derived Elasticity

Table C-5 shows the total General Fund revenue adapted from Table C-4 for the years 1973 through 1977. Table C-5 reflects adjustments

TABLE C-4: Connecticut State General Revenues Estimated for 1973 and Projected Through 1977 Without New or Increased Taxes (General Fund and Public Service Tax Fund)
(In thousands of Dollars)

Revenue Source	Est. 1973	Projected 1974	1975	1976	1977	Annual Percent Growth
Total General Current Revenue	$1,185,346	$1,263,055	$1,345,541	$1,433,658	$1,527,770	
Taxes:						
Sales Tax	444,800	480,384	518,815	560,320	605,146	+ 8%
Corporation Bus. Tax	140,000	150,000	161,788	173,922	186,966	+ 7½%
Cigarette Tax	67,500	67,000	68,000	68,000	68,000	†
Inheritance Taxes	50,000	53,000	56,000	58,000	60,000	†
Domestic Insurance Cos.	33,294	26,750*	10,628*	11,585*	12,628*	+ 9%
Out-of-State Insur. Cos.	17,339	20,000	22,200	24,642	27,353	+11%
Hosp. & Med. Serv. Cos.	4,191	4,610	5,071	5,578	6,136	+10%
Alcoholic Bev. Taxes	25,073	26,076	27,119	28,204	29,332	+ 4%
Dividends & Capital Gains	45,600	48,792	52,207	55,861	59,772	+ 7%
Admissions, Club Dues, and Cabarets	7,742	8,516	9,368	10,304	11,334	+10%
Public Service Utility Taxes (Gross Amount)	57,107	61,677	66,611	71,940	77,695	+ 8%
Gasoline, Special Fuels, Motor Carriers	27,000	28,080	29,203	30,371	31,586	+ 4%
Miscellaneous Taxes	200	200	200	200	200	†
Non-Tax Revenues:						
Licenses, Permits, Fees	26,000	28,000	32,000	33,000	34,000	†
Tuitions — Higher Education	18,500	18,600	19,000	19,000	19,000	†
Sales — Commodities and Services	19,500	20,500	23,800	25,000	27,000	†
Investment Income	2,300	4,000	6,000	7,000	7,800	†
Fines, Penalties, Forfeitures, Escheats	700	800	1,000	1,000	1,000	†
Rents	1,000	1,000	2,000	2,000	2,000	†
Miscellaneous Receipts	17,000	18,000	22,000	24,000	24,000	†
Transfer — Comm. on Special Revenue	16,000	17,000	19,000	19,000	19,000	†
Transfer From Other Funds	3,000	4,000	6,000	6,000	6,000	†
Federal Aid:						
Welfare and Other Programs	140,000	150,870	161,531	172,731	184,822	+ 7%
Revenue Sharing	22,000	24,700	26,000	26,000	27,000	†

*Decrease due to partial repeal of taxes on domestic insurance companies, already scheduled by law.
†Estimates after 1973 are not based strictly on a percent growth factor.
Source: Commission estimates.

made to C-4 so that only revenues from State sources are used to compute the Annual Growth Rate for revenues. Table C-5 shows revenues from State sources only to increase by 6.3 to 6.6%. Revenues from State sources only is arrived at by deducting Federal revenue sharing[3] and Federal aid for welfare.

The "Annual Growth Rate" data in Table C-5 now gives the Commission two separate measures of revenue yield over the next five years. The analysis of the elasticity of the State tax structure revealed that an elasticity of .90 and personal income growth at 7.49% annually would yield an average annual revenue growth of 6.7%. This percentage revenue growth taken from the elasticity study is entered as the last line item on Table C-5 for comparison with the actual estimated data. It is quite clear that each approach gives similar results. The close approximation between the "Annual Growth Rate" derived from projected revenues and from the elasticity coefficient gives the Commission sufficient justification for projecting revenues at an average annual increase of 6.6%.

TABLE C-5: Annual Growth Rate Projected for General Current Revenues From State Sources Only

(In Thousands of Dollars)

	Est. 1973	Projected 1974	1975	1976	1977
Projected General Revenues (Table C-4):	$1,185,346	$1,263,055	$1,345,541	$1,433,658	$1,527,770
Deduct: Federal Aid	(162,000)	(175,570)	(187,531)	(198,731)	(211,822)
Total—from State sources only	$1,023,346	$1,087,485	$1,158,010	$1,234,927	$1,315,948
Annual Growth Rate		+6.3%	+6.5%	+6.6%	+6.6%
Annual Growth Rate based on (1) an elasticity of .90 for the State revenue structure, and (2) an annual growth rate for Connecticut Personal Income of 7.49%		+6.7%	+6.7%	+6.7%	+6.7%

Source: Based on Tables C-3 and C-4.

Predicted Expenditures FY '73-77

In recent years Connecticut's State budget and accumulated deficit of $244 million have stemmed largely from expenditure increases—varying from 12 to 25% annually—which are far larger than the normal growth of revenues—averaging 5 to 7% annually. As a result, tax increases are continually needed in order for revenues just to catch up with the runaway pace of State spending. Table C-7 and Chart C-1 show the growth of State general spending since 1960, and note those years when major tax increases were needed to boost revenue growth up to the level of expenditures. Obviously, if expenditures were to continue to grow rapidly in the future, then even further tax hikes will be necessary.

Individual taxpayers and the business community have become alarmed about these continued sharp expenditure increases and have put increasing encouragement as well as pressure on the Administration and Legislature to keep spending in line with revenues.

The retirement of the accumulated deficit of

$244 million has concerned many people since continued deficit spending is not possible for State and local governments without serious impairment of credit or unacceptably high tax burdens. The occasionally used procedure of treating operating elements of expense as capital items and raising money through bonding has alarmed financially oriented people and confused funding of the deficit with funding of capital obligations.

The Commission has projected expenditures to rise at an annual rate of 5% from FY '73-77 before putting into effect the Commission's program. The Commission is fully aware of the fact that in the past decade State government expenditures have never been held to such a low level. **However, the Commission believes the philosophy of the Administration and the fiscal controls which have been developed to analyze expenditures and prevent budget overruns are capable of producing this result. The Commission believes that the productivity of the State organization is improving and can continue to improve thereby reducing operating costs further.** The annual budget increase maximum limit of 5% is not a totally austere "no growth in programs" budget. With allocation of priorities and good fiscal controls it should be possible to fund a variety of worthwhile programs in addition to those being proposed by the Commission.

Expenditure Trend Compared with that of State Revenue Task Force

The Commission's 5% guideline for expenditure growth through 1977 contrasts sharply with the 12.75% annual increase forecast in 1970 by the State Revenue Task Force. The Task Force report did not make any recommendations with respect to economies in State spending, and instead recommended that a separate State expenditure task force be set up to deal with problems of achieving greater efficiency and effectiveness in spending. Its expenditure projection for each function was based on an overall 4.13% annual increase in workload (due to cases, patients, pupils, etc.), 5.02% for "quality," and 3.6% for increased cost due to inflation—for a total of 12.75% annually.

By comparison the Commission feels that a 3% inflation factor plus 2% for increased workload is adequate. The Revenue Task Force actually forecasted a 1.93% workload increase for most functions; the 4.13% overall is due largely to increases forecast in just two areas: welfare and higher education, where workload increases of 9.0 and 8.9% were projected. However, since both the number of welfare families and pupils enrolled in higher education are now expected to level off or grow only moderately in the years ahead, the Commission feels that these higher workload estimates are no longer valid.

It should be noted that the Revenue Task Force derived its "quality" factor for each function by deducting the year-to-year increases from 1960 through 1970 attributable to inflation and workload from the actual total increases. What was left over was defined as "quality." In effect, the "quality" factor represents the higher level of spending which could not be accounted for by increased workload or inflation. This Commission makes no assumptions as to improved "quality" of services. Rather it is believed that through the reestablishment of priorities and program evaluation, many areas will be uncovered which will provide funds for new programs in the future, thereby allowing the quality of services to improve on a selected basis.

Expenditure Constraints/Analysis

To evaluate reasonability of attainment of a 5% expenditure growth, the Commission has divided expenditures into two broad categories: "fixed expenditures" and "general expenditures" (as shown in Table C-6). The fixed expenditures are those programs which are the result of existing legislation and which require additional funding over the forecasted period or elements of cost which are inherent in administering State government and consequently are highly resistant to change.

The other category of general expenditures is the balance of the elements of cost which elements are felt to be proceeding according to well-developed plans and consequently are more predictable and controllable.

A. Fixed Expenditures

1. The State compensation plan has programmed annual salary increments for about 26,000 State employees paid from the General Fund. These increments will cost an estimated $5.1 million 1974, rising to a cumulative total of $26.5 million by 1977.
2. State law provides that future budgets, starting in FY '74, pay an increasing percentage of the 40-year amortization of

TABLE C-6: Projection of Connecticut State General Expenditures Through 1977
(In Thousands of Dollars)

	Est. 1973	Projected 1974	1975	1976	1977
Fixed Elements of Cost:					
(1) Annual salary increments for State employees	....	$ 5,100	12,100	19,300	26,500
(2) Funding State employees' retirement	....	5,000	8,500	12,000	16,000
(3) UConn Health Center — expansion	....	4,000	7,000	8,000	9,000
(4) Tax relief grants to towns for elderly and mfg. and merch. inventory tax losses	....	4,200	9,900	14,600	18,000
(5) Debt Service—current liabilities	....	13,000	9,400	5,100	900
(6) Debt Service—for new projects	....	3,500	8,300	13,100	19,000
Variable Elements of Cost:					
Annual growth averaging 3½% from 1973 base year	$1,144,000	$1,170,200	$1,214,800	$1,260,900	$1,310,600
Total General Fund Budget	$1,144,000	$1,205,000	$1,270,000	$1,333,000	$1,400,000
Percent Growth From Previous Year	....	+5.3%	+5.4%	+5.0%	+5.0%

Source: Commission estimates.

unfunded liabilities in the State Employees' Retirement Fund. This statutory commitment will increase State general spending by $4-5 million annually.

3. As the University of Connecticut's Health Center nears completion, additional facilities will be opened during the next few years, and operating costs will rise.
4. The State will be paying increased amounts to towns as reimbursements for the gradual repeal of taxes on inventories of manufacturers and merchants. The local tax exemption on manufacturers' inventories will rise from 70% in 1973 to 100% in 1977. Merchants' inventories are being phased out at a rate of one-twelfth per year beginning in 1971. Also, additional homeowners over age 65 are expected to seek a property tax freeze, requiring the State to reimburse towns for the revenue loss. Rough estimates for all of these payments to towns indicate the need of $4 million more in the 1974 budget, with 1977 payments being $18 million or 100% above the 1973 budgeted level of $18 million.
5. The present State General Fund Debt Retirement Schedule reflects debt service payments that will rise about $13 million in FY '74 but in subsequent years there will be a reduction as existing bonds mature and are paid off. In FY '72 the Legislature adopted a program to pay off the deficit which, as of June 30, 1971, totalled $244 million. The funding is to take place over a 10-year period at the rate of $24.4 million per year. The FY '73 period includes the first payment, which payment is included in the projected expenditure levels of Table C-7 and Chart C-1. This debt payment is also routinely included in the expenditure estimates for each of the years through 1977.
6. Additional bonds may be issued to finance new capital projects. There is presently a large backlog of projects which have been authorized by the Legislature but for which bonds have not been issued. Over $750,000,000 of approved projects are in this category. The Administration has adopted a philosophy of not allowing debt service to increase dis-

proportionately and consequently is holding these projects until repayments on existing maturities have been made or until revenues are available. This category of "fixed expenditures" assumed a portion of the new projects will become funded in the forecasted period.

B. General Expenditures

Other expenditures aside from the "fixed expenditures" are defined as "general expenditures." The Commission understands the Administration philosophy is to control this category to a maximum increase of 3.5% annually. Budget requests for FY '74 are presently being submitted by agency heads according to this format. The Commission believes from its own analysis of departmental budgets that this level of general increase is attainable. (Further support for the position is contained in the next section entitled "Trends of Major Agencies.") The total of fixed expenditures and the prescribed increase in general expenditures amounting to approximately 5% are shown in Table C-6. This forecasted level has been applied to an early estimate of Fiscal Year 1973 spending levels, based on Administration objectives in controlling overall expenditures for that fiscal year. The resulting expenditure projection is shown on Table C-7 and Chart C-1. The projection of excess revenue in Fiscal Years 1973-1977 as shown in Table C-7 is the result of the tax base expanding at approximately 6.7% plus other non-tax revenues.

To further evaluate the achievability of this level of spending it is necessary to examine the trends of major agencies.

TABLE C-7: Growth of Connecticut State General Revenues and Expenditures: From 1960

(General Fund, Public Service Tax Fund, and Bond Retirement Fund)

	General Revenues		General Expenditures	
	Amount (millions)	Percent Increase	Amount (millions)	Percent Increase
1960	$ 227		$ 224	
1961	234	3%	240	7%
1962	284*	21	282	18
1963	313	10	299	6
1964	340	9	327	9
1965	380	12	350	7
1966	419*	10	413	18
1967	444	6	448	8
1968	490	10	558	25
1969	539	10	662	19
1970	734*	36	743	12
1971	813	11	896	21
1972	1,017**	25	1,001	12
1973	1,185 est.	17	1,144 est.	14
Projected:				
1974	1,263	7	1,205	5
1975	1,346	7	1,270	5
1976	1,434	7	1,333	5
1977	1,528	7	1,400	5

Projected Surplus Each Year:

	(millions)
1972	$ 12**
1973	41
1974	58
1975	76
1976	101
1977	128

*Revenue growth partly due to tax increases.

**After adjustment of $17 million for refunds of capital gains tax overpayments.

Source: Data Series, *Connecticut State Revenues, Expenditures, Employees*, Connecticut Public Expenditure Council (July, 1970); Projections by the Commission.

Trends of Major Agencies

Table C-8 and supporting Charts C-2 to C-15 show expenditure trends since 1967 in 14 major agencies and programs—comprising 63% of the State general budget. Expenditure data were extended to 1973, with estimates in many cases based strictly on a continuation of minimal percentage changes sustained through 1972. While final year-end data may differ for some agencies, the estimates for Fiscal 1973 allow for a better assessment of the changed budget guidelines that are already underway. Charts C-3 and C-4, for example, show that continued sharp increases are expected in Fiscal 1973 in special education and pupil transportation grants paid to towns. At present, the State reimburses towns for two-thirds of the excess cost for educating 10,000 children who are mentally, physically, or emotionally handicapped or who have exceptional learning abilities—costing an extra $2,000 annually per child. However, as this recently-expanded program covers a larger portion of eligible children, a more moderate growth trend is expected in the future. Similarly, the State pays up to $20 per pupil for transporting children to local public schools. The sharp leveling-off of enrollments is expected to moderate State grants in this program in future years.

CHART C-1: Growth of Connecticut State General Revenues & Expenditures from 1960, and Projected to 1977

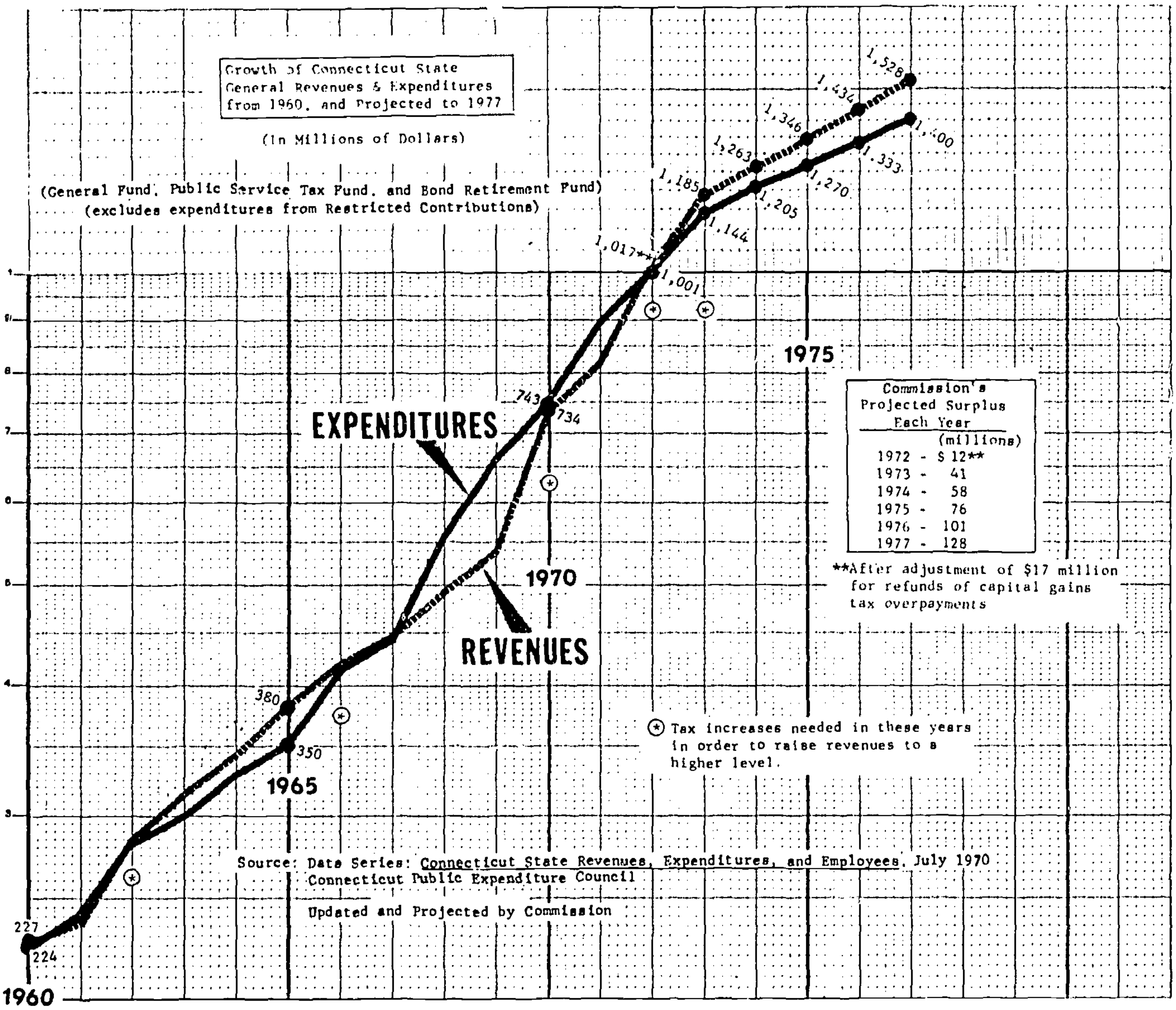


TABLE C-8: Recent Expenditure Trend of 14 Major Agencies and Programs

(Comprising 63% of State General Budget)

Chart No.		1967	1968	1969	1970	1971	1972	Est. 1973
C-2.	Ed. Dept.—Programs for Disadvantaged	$ 5,842	$ 6,238	$ 6,913	$ 8,491	$ 8,487	$ 6,500	$ 7,000
C-3.	Ed. Dept.—Public School Bldg. Grants	13,641	14,966	20,583	21,045*	22,174*	23,032	23,675
C-4.	Ed. Dept.—Special Education Grants	3,377	4,502	7,345	11,072	15,076	19,552	22,600
C-5.	Ed. Dept.—Transportation Grants	5,328	5,851	5,963	6,693	7,447	8,342	9,343
C-6.	Ed. Dept.—Assist. to Towns for Educ.	77,714	94,964	98,218	127,482	131,609	139,777	145,000
C-7.	Welfare Dept.—Current Expenses	11,707	14,040	16,658	18,820	21,856	20,795	20,795
C-8.	Welfare Payments—State Programs	11,987	14,328	17,122	19,666	22,434	26,247	30,099
C-9.	Welfare Payments—Federal Programs	75,677	97,475	129,828	158,071	195,460	222,619	247,000
C-10.	Correction Dept.—Current Expenses	9,682	11,338	13,298	15,337	17,347	17,785	18,100
C-11.	Mental Health Dept.—Current Expenses	32,058	37,427	41,959	43,973	49,150	46,557	47,000
C-12.	Mental Retardation—Current Expenses	14,749	17,207	20,069	22,527	26,702	26,329	26,400
C-13.	TB Control, Hosp. Care—Current Expenses	6,603	7,534	8,485	8,805	9,644	9,518	9,600
C-14.	Univ. of Conn.—Current Expenses	18,940	25,978	29,906	33,783	39,313	40,766	42,236
C-15.	State Colleges—Current Expenses	11,674	15,689	18,204	21,532	25,430	26,269	27,500
	TOTAL	$298,979	$367,537	$434,551	$517,297	$592,129	$634,088	$676,348
	Percent Change from Previous Year		+22.9%	+18.2%	+19.0%	+14.5%	+7.1%	+6.6%

*Includes payments from bond funds.

Source: State Expenditures Trend and Governor's Budget for 1973, Connecticut Public Expenditure Council. (March, 1972); updated by the Commission.

CHART C-2

EDUCATION DEPARTMENT -
PROGRAMS FOR DISADVANTAGED CHILDREN -
GRANTS TO TOWNS

Fiscal Year	Fixed Charges (Gen. Fund)
1960	--
1961	--
1962	--
1963	--
1964	--
1965	--
1966	$3,974,000
1967	5,842,000
1968	6,238,000
1969	6,913,000
1970	8,491,000
1971	8,487,000
1972	6,500,000
1973	7,000,000 est.

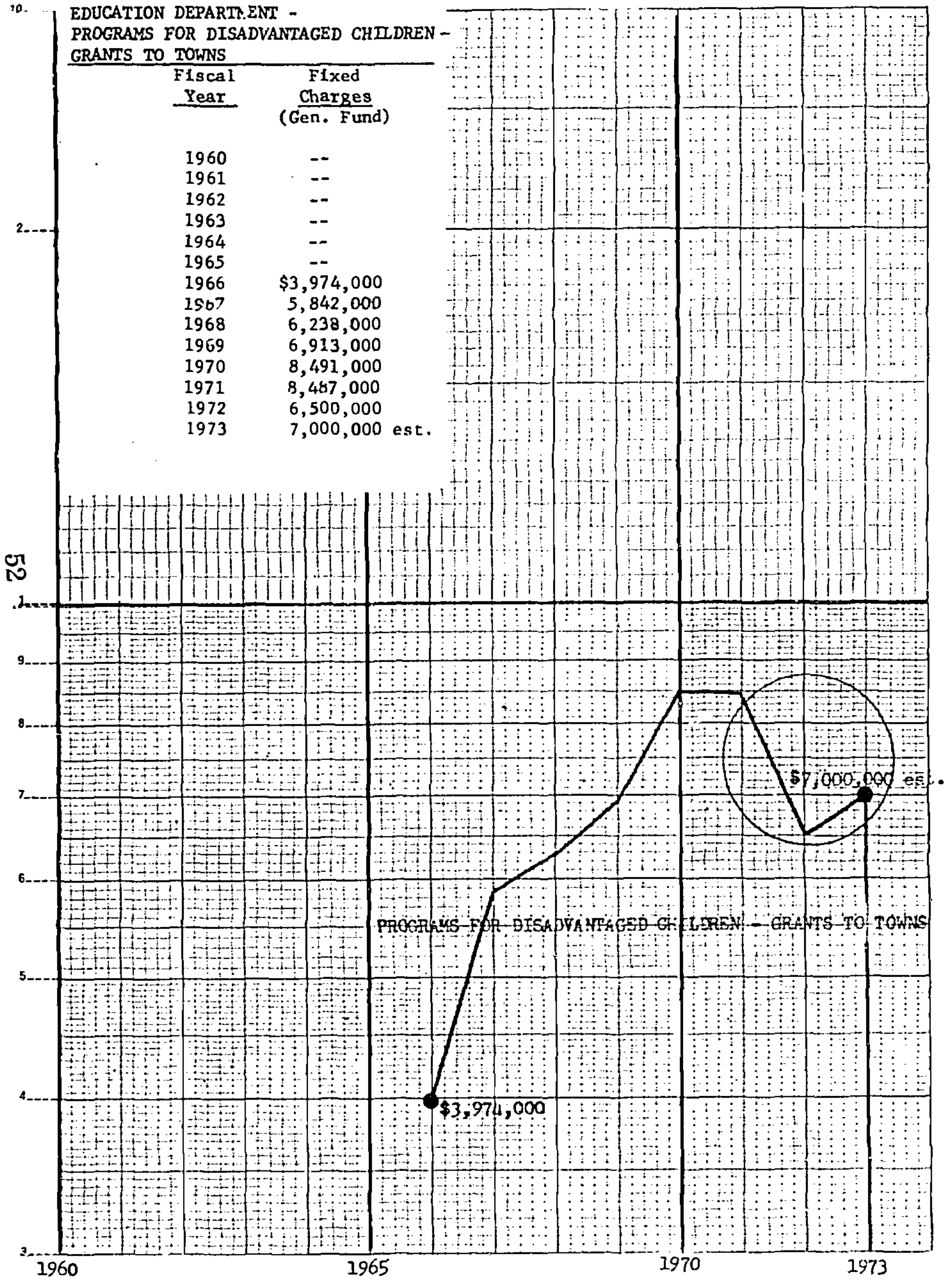


CHART C-3

EDUCATION DEPARTMENT -
PUBLIC SCHOOL BUILDING GRANTS TO TOWNS

Fiscal Year	Fixed Charges (Gen. Fund)
1960	(bonded)**
1961	$ 670,000**
1962	8,148,000
1963	8,720,000
1964	10,104,000
1965	11,095,000
1966	12,525,000
1967	13,641,000
1968	14,966,000
1969	20,583,000
1970	---**
1971	9,419,000**
1972	23,032,000
1973	23,675,000 est.

** Additional amounts were financed by borrowing: $5,802,000 in 1960, $6,399,000 in 1961, $21,045,000 in 1970, and $12,755,000 in 1971.

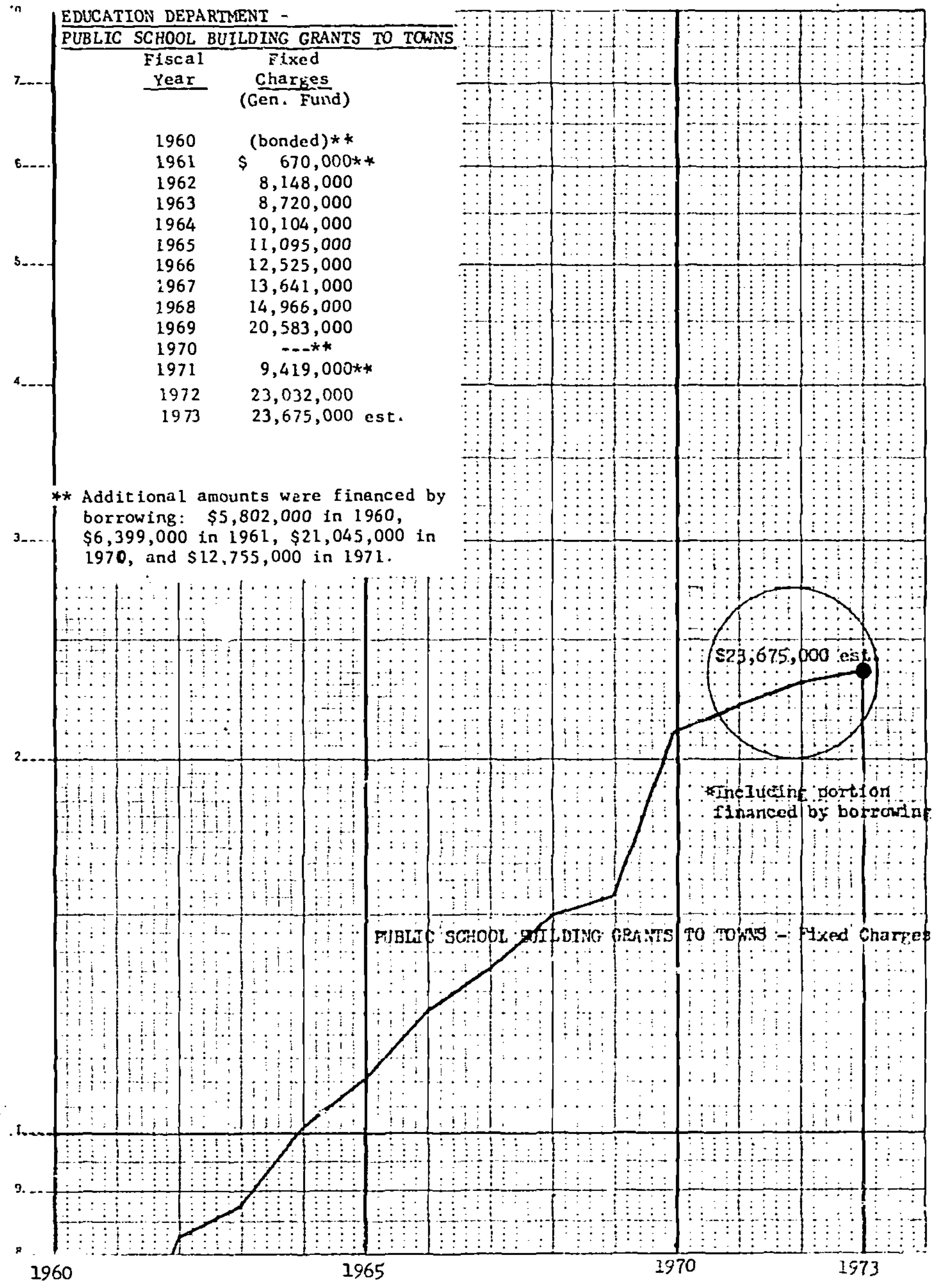


CHART C-4

EDUCATION DEPARTMENT -
SPECIAL EDUCATION GRANTS TO TOWNS

Fiscal Year	Fixed Charges (Gen. Fund)
1960	$ 996,000
1961	1,137,000
1962	1,379,000
1963	1,986,000
1964	2,121,000
1965	2,435,000
1966	2,908,000
1967	3,377,000
1968	4,502,000
1969	7,345,000
1970	11,072,000
1971	15,076,000
1972	19,552,000
1973*	22,600,000 est.

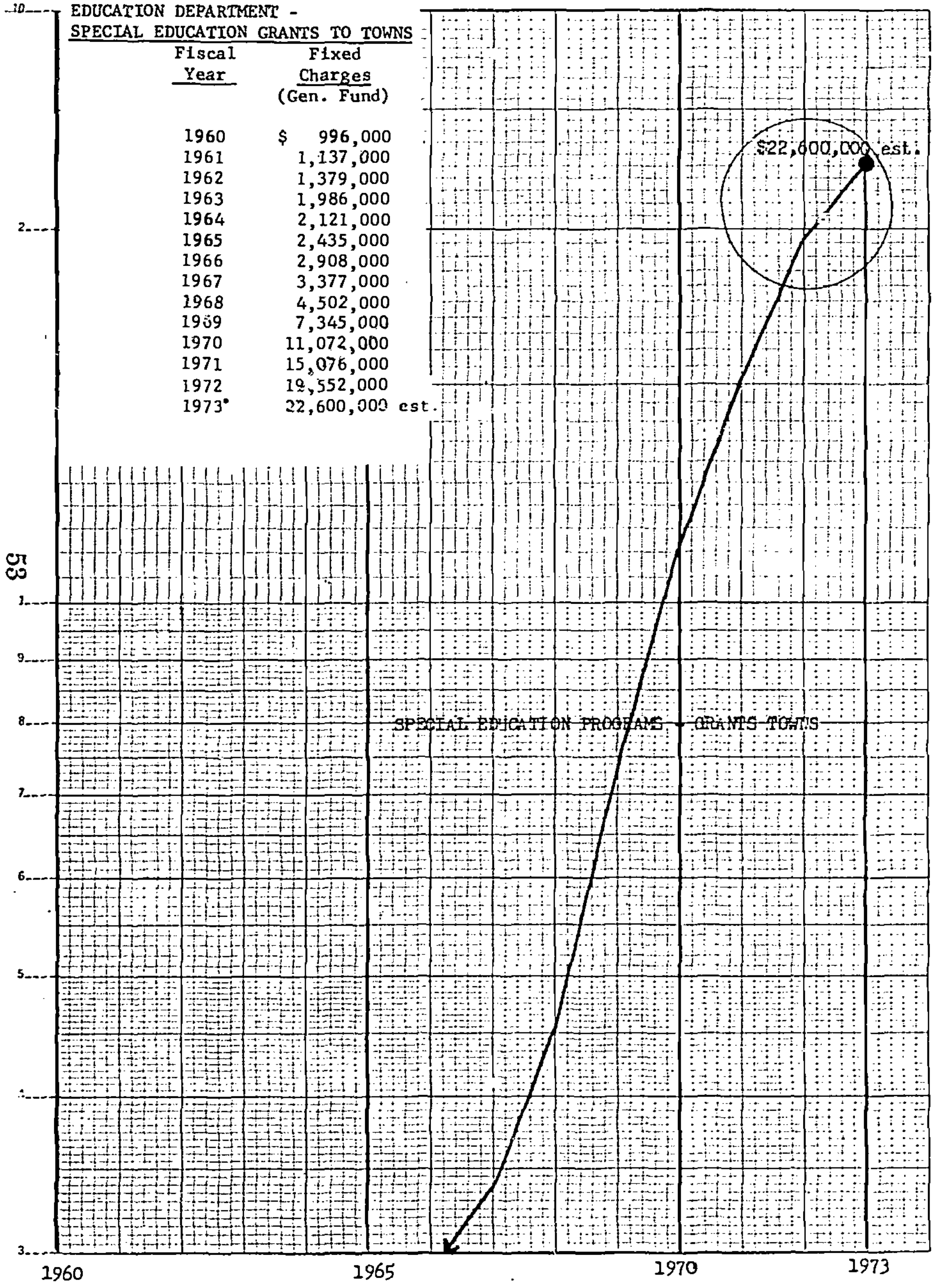


CHART C-5

EDUCATION DEPARTMENT -
TRANSPORTATION OF PUPILS - GRANTS TO TOWNS

Fiscal Year	Fixed Charges (Gen. Fund)
1960	$ 1,602,000
1961	1,749,000
1962	2,848,000
1963	3,110,000
1964	3,346,000
1965	3,786,000
1966	4,947,000
1967	5,328,000
1968	5,851,000
1969	5,963,000
1970	6,693,000
1971	7,447,000
1972	8,342,000
1973	9,343,000 est.

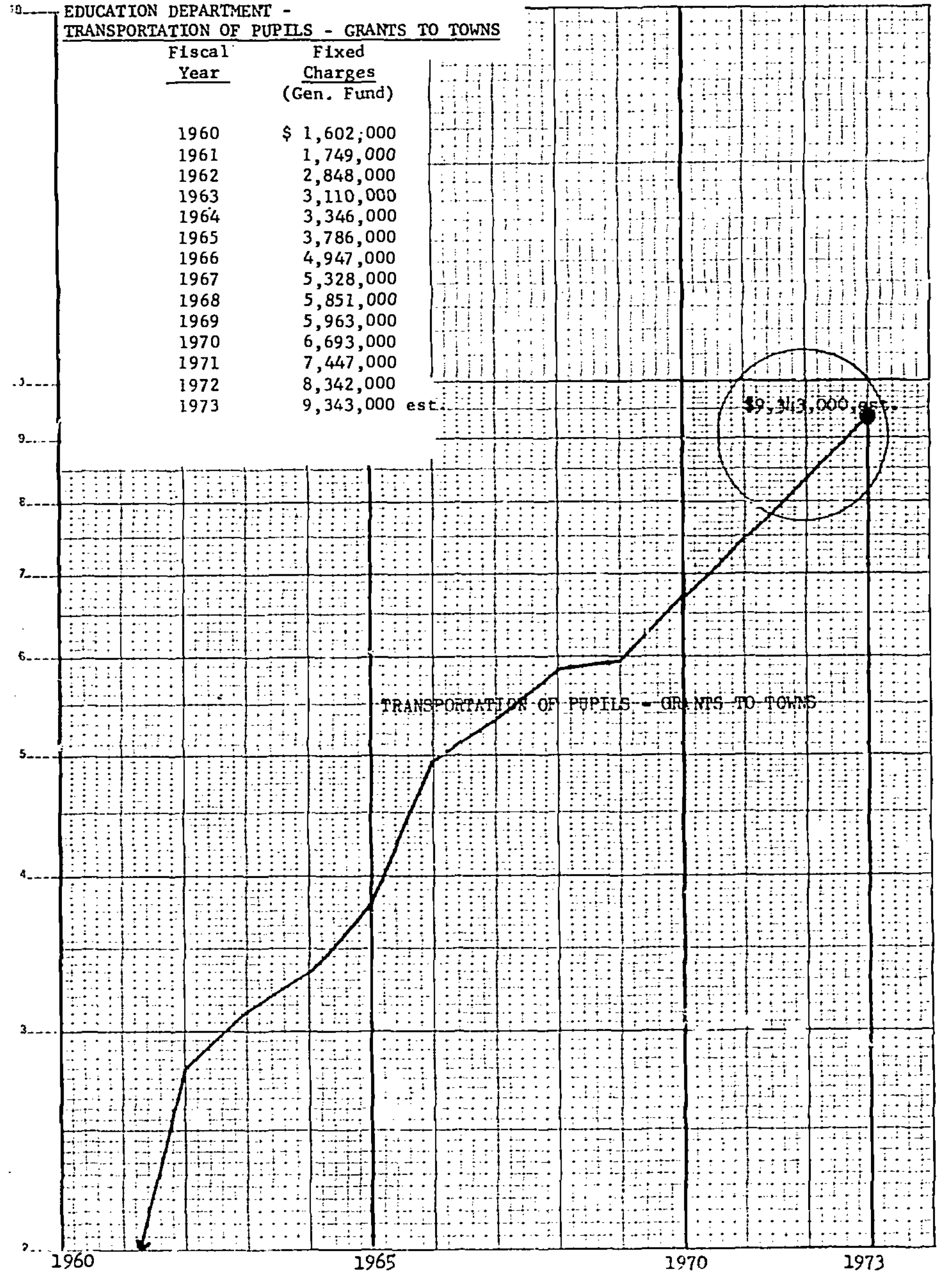
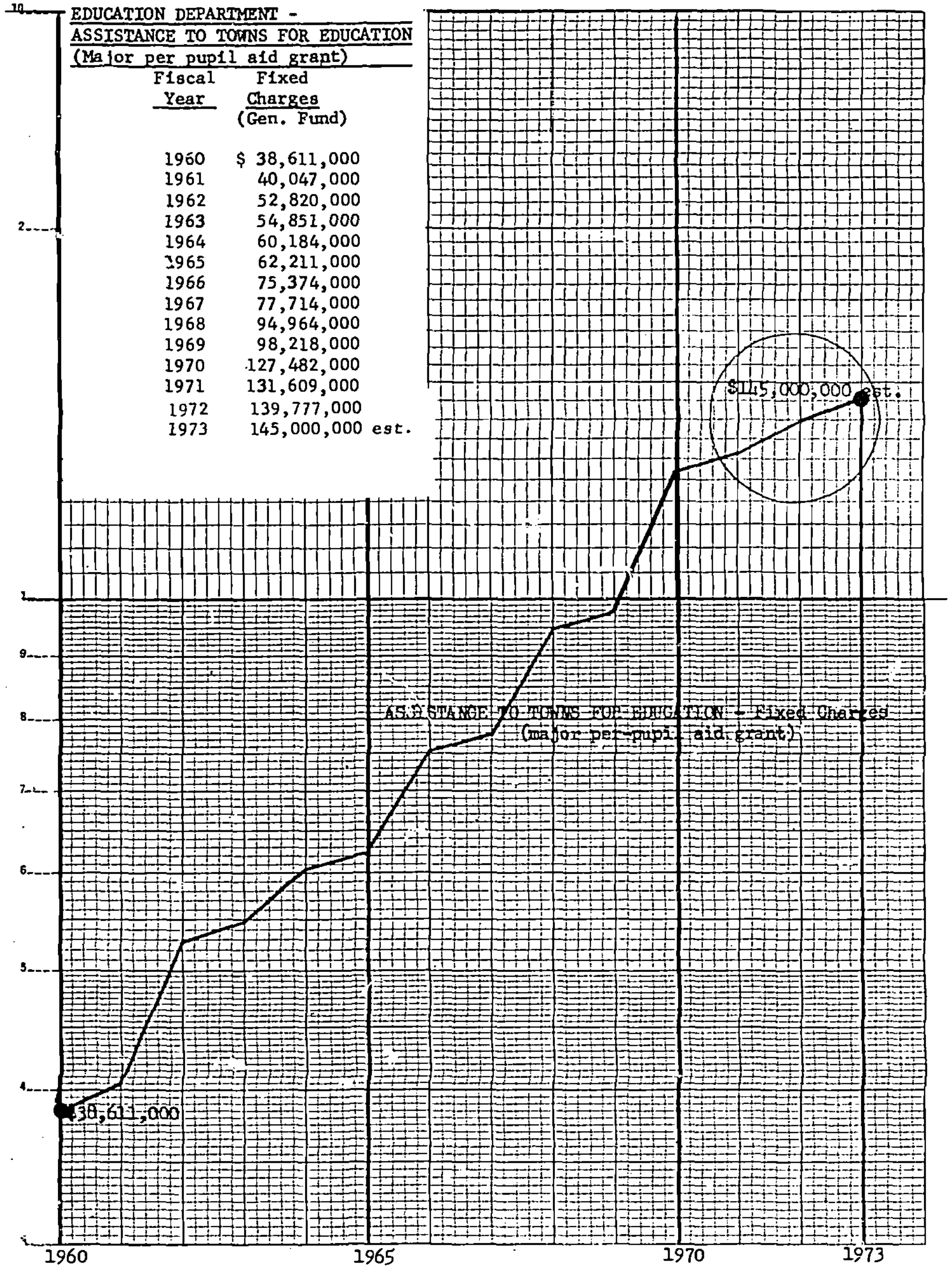


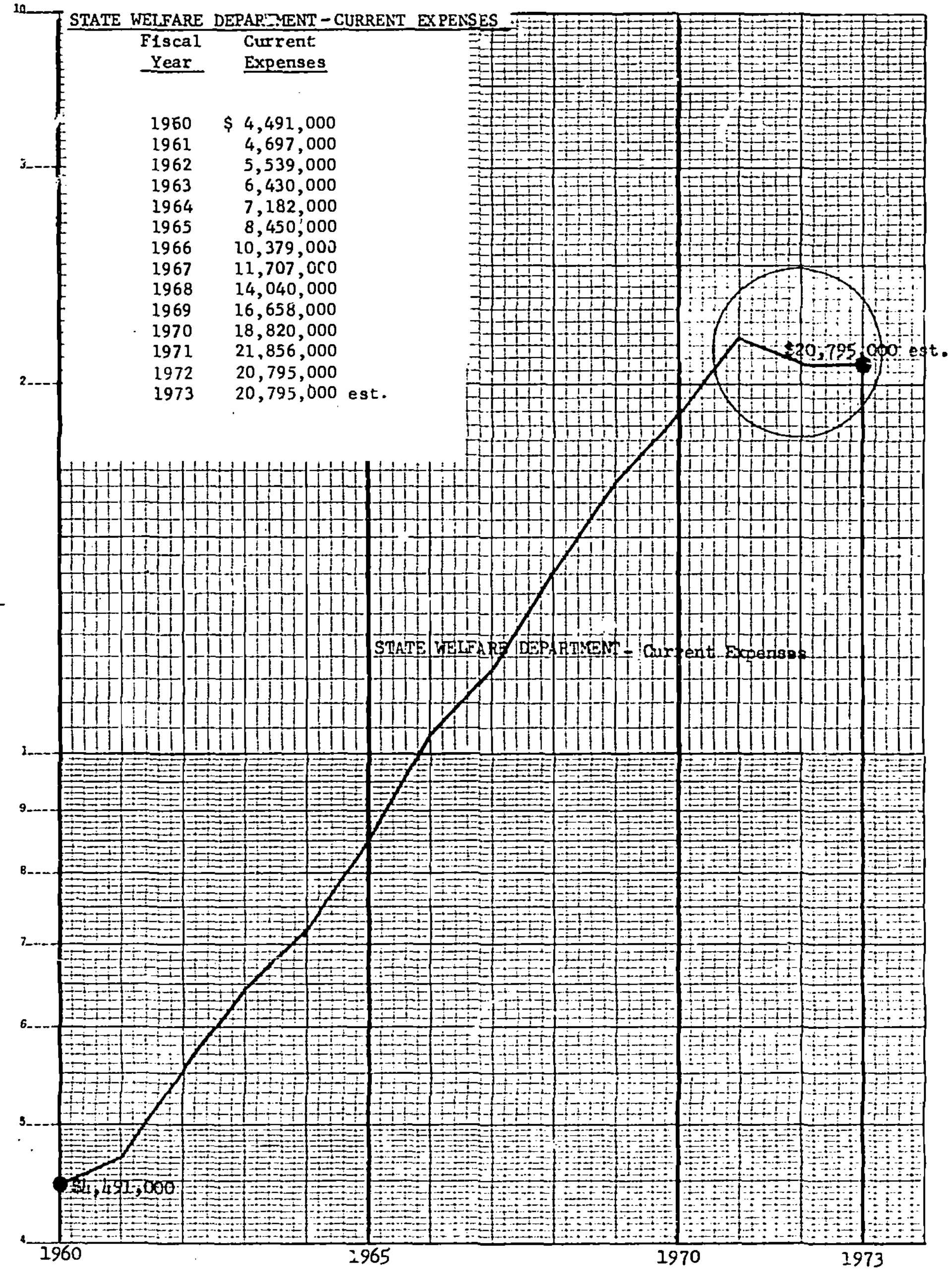
CHART C-6



EDUCATION DEPARTMENT -
ASSISTANCE TO TOWNS FOR EDUCATION
(Major per pupil aid grant)

Fiscal Year	Fixed Charges (Gen. Fund)
1960	$ 38,611,000
1961	40,047,000
1962	52,820,000
1963	54,851,000
1964	60,184,000
1965	62,211,000
1966	75,374,000
1967	77,714,000
1968	94,964,000
1969	98,218,000
1970	127,482,000
1971	131,609,000
1972	139,777,000
1973	145,000,000 est.

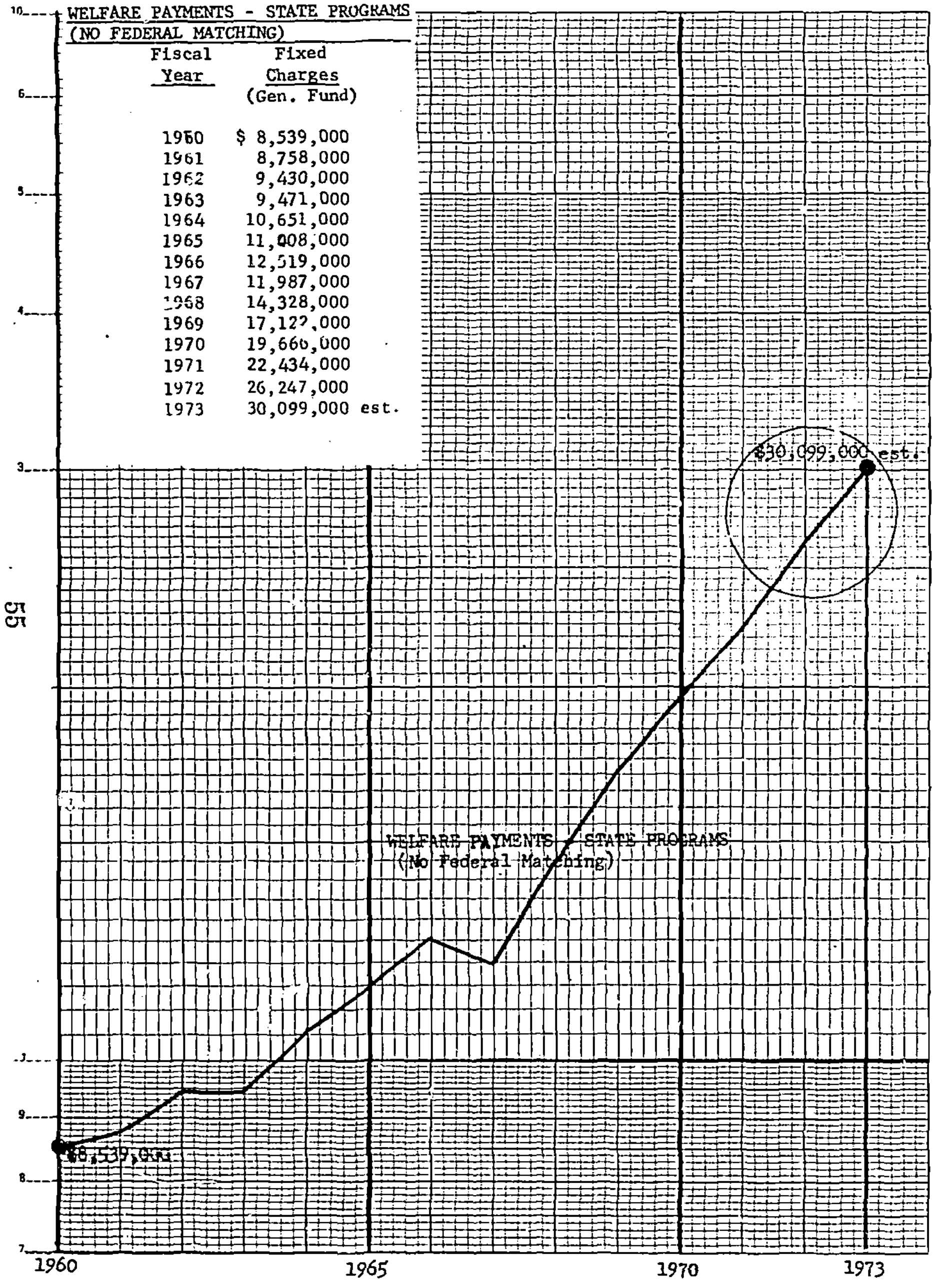
CHART C-7



STATE WELFARE DEPARTMENT - CURRENT EXPENSES

Fiscal Year	Current Expenses
1960	$ 4,491,000
1961	4,697,000
1962	5,539,000
1963	6,430,000
1964	7,182,000
1965	8,450,000
1966	10,379,000
1967	11,707,000
1968	14,040,000
1969	16,658,000
1970	18,820,000
1971	21,856,000
1972	20,795,000
1973	20,795,000 est.

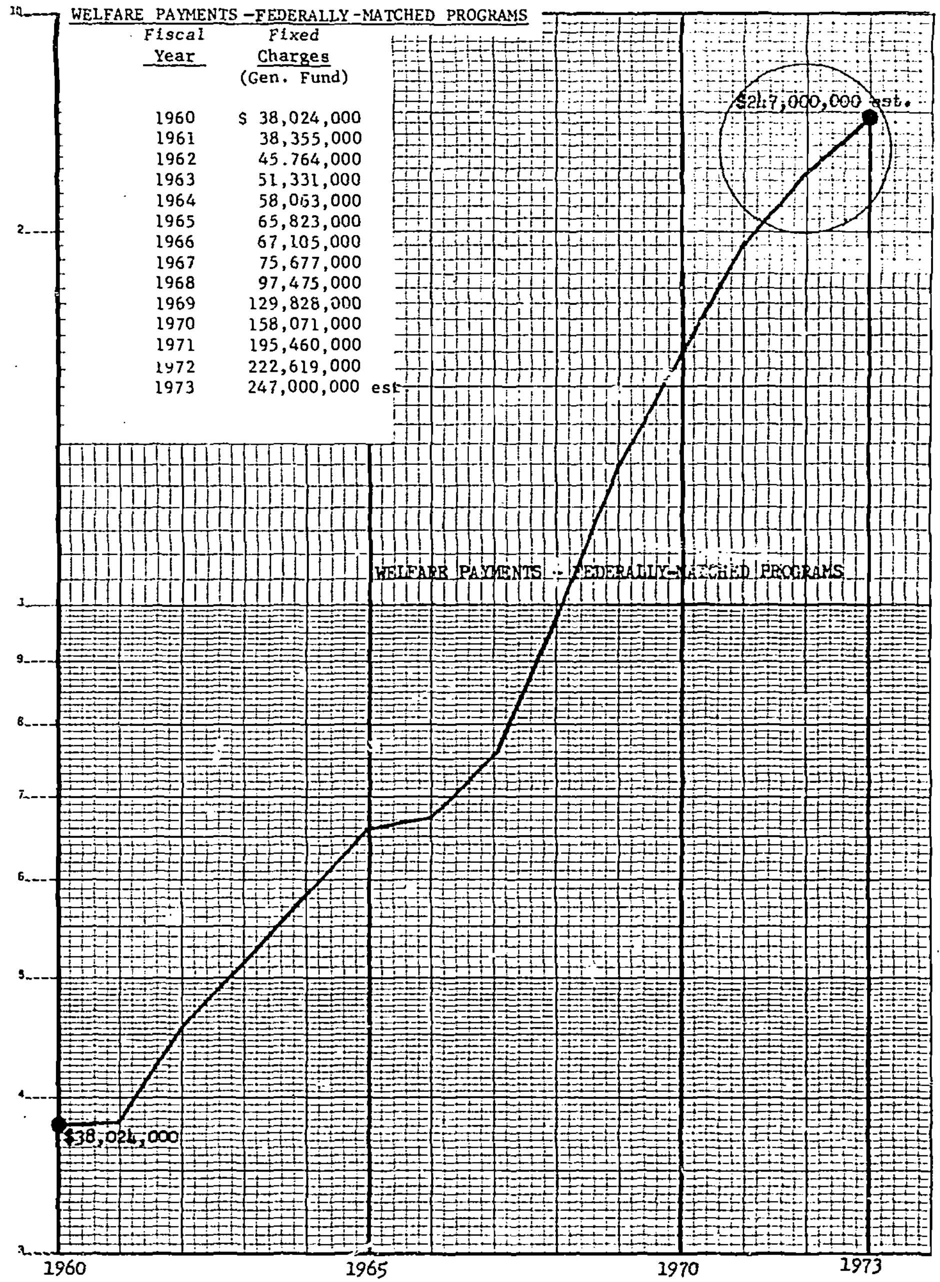
CHART C-8



WELFARE PAYMENTS - STATE PROGRAMS
(NO FEDERAL MATCHING)

Fiscal Year	Fixed Charges (Gen. Fund)
1960	$ 8,539,000
1961	8,758,000
1962	9,430,000
1963	9,471,000
1964	10,651,000
1965	11,408,000
1966	12,519,000
1967	11,987,000
1968	14,328,000
1969	17,122,000
1970	19,666,000
1971	22,434,000
1972	26,247,000
1973	30,099,000 est.

CHART C-9



WELFARE PAYMENTS - FEDERALLY-MATCHED PROGRAMS

Fiscal Year	Fixed Charges (Gen. Fund)
1960	$ 38,024,000
1961	38,355,000
1962	45,764,000
1963	51,331,000
1964	58,063,000
1965	65,823,000
1966	67,105,000
1967	75,677,000
1968	97,475,000
1969	129,828,000
1970	158,071,000
1971	195,460,000
1972	222,619,000
1973	247,000,000 est

CHART C-10

STATE CORRECTION DEPARTMENT

Fiscal Year	Current Expenses
1960	$ 4,059,000
1961	5,665,000
1962	6,440,000
1963	7,012,000
1964	7,621,000
1965	8,271,000
1966	9,110,000
1967	9,682,000
1968	11,338,000
1969	13,298,000
1970	15,337,000
1971	17,347,000
1972	17,785,000
1973	18,100,000 est.

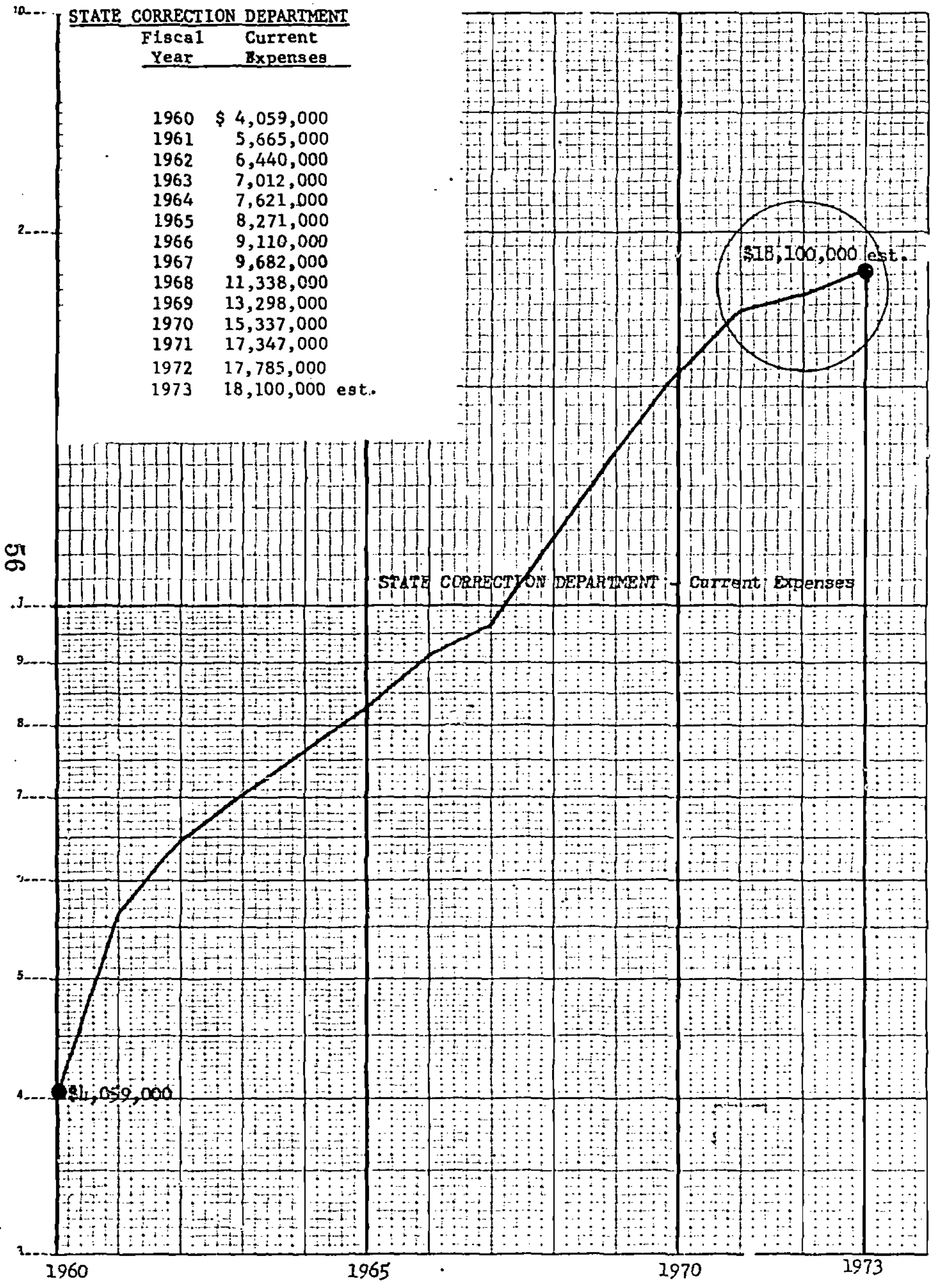


CHART C-11

MENTAL HEALTH - CENTRAL OFFICE & INSTITUTIONS

Fiscal Year	Current Expenses
1960	$20,996,000
1961	21,774,000
1962	22,897,000
1963	23,576,000
1964	24,488,000
1965	26,107,000
1966	29,592,000
1967	32,058,000
1968	37,427,000
1969	41,959,000
1970	43,973,000
1971	49,150,000
1972	46,557,000
1973	47,000,000 est.

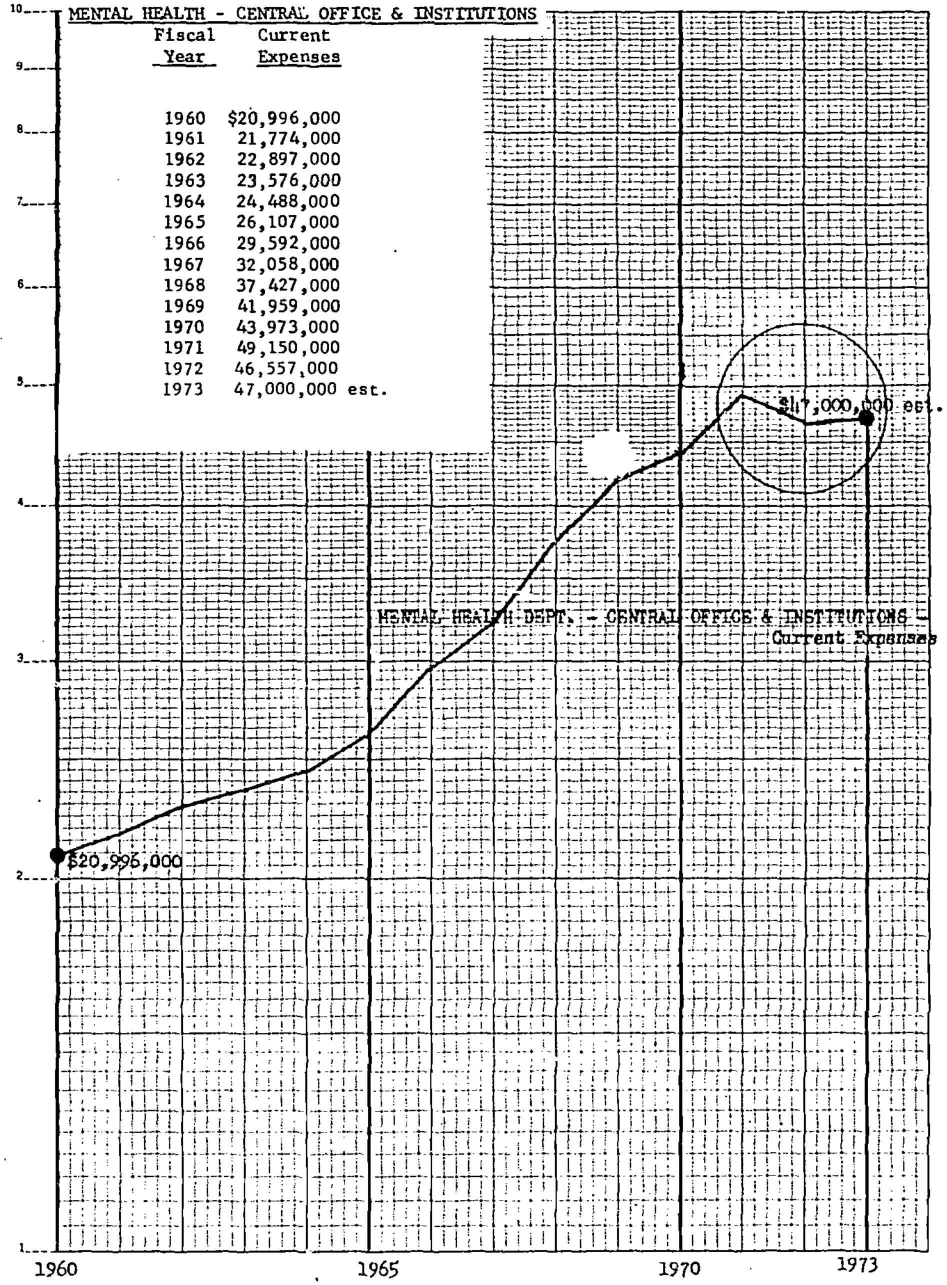
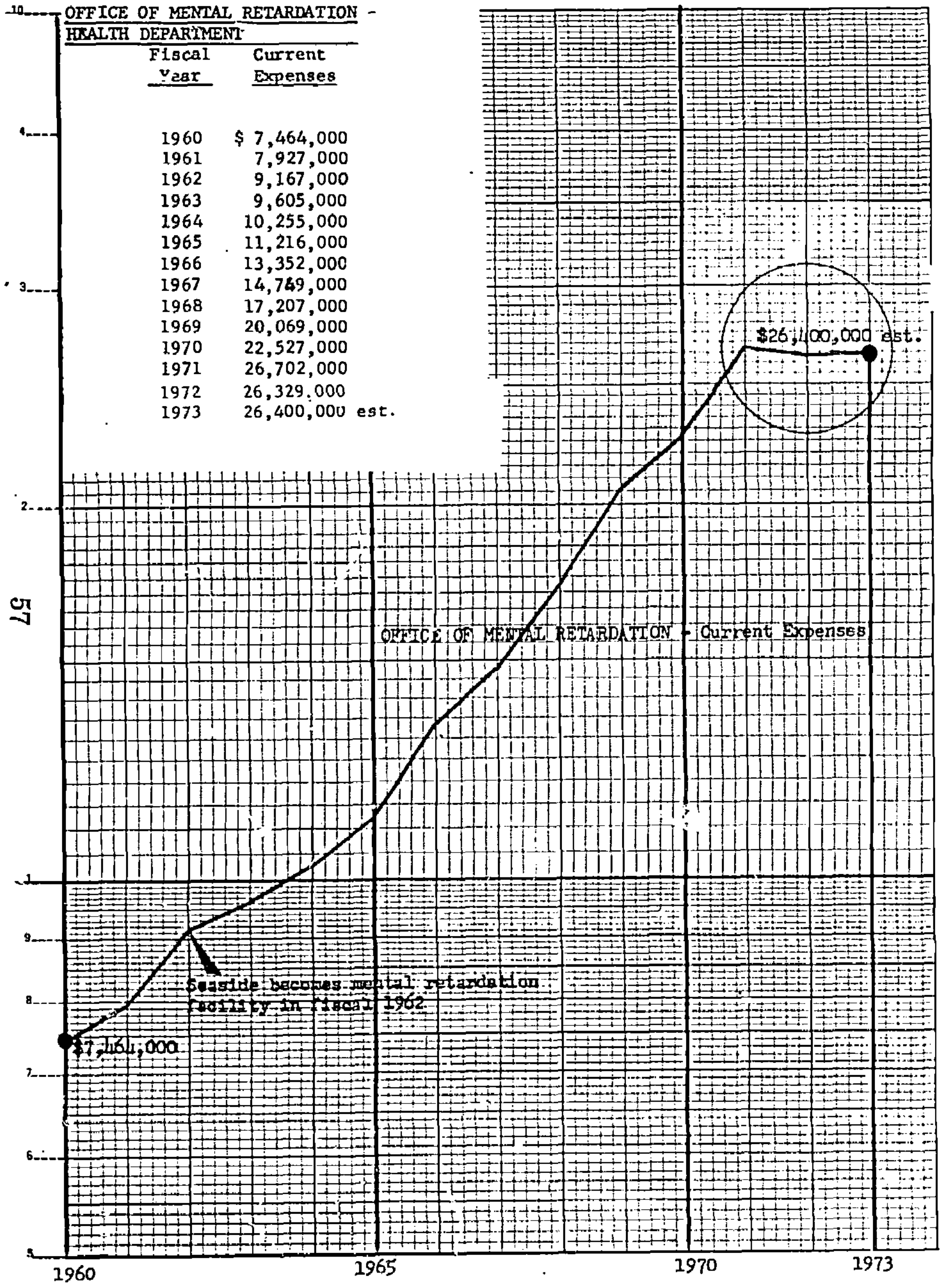


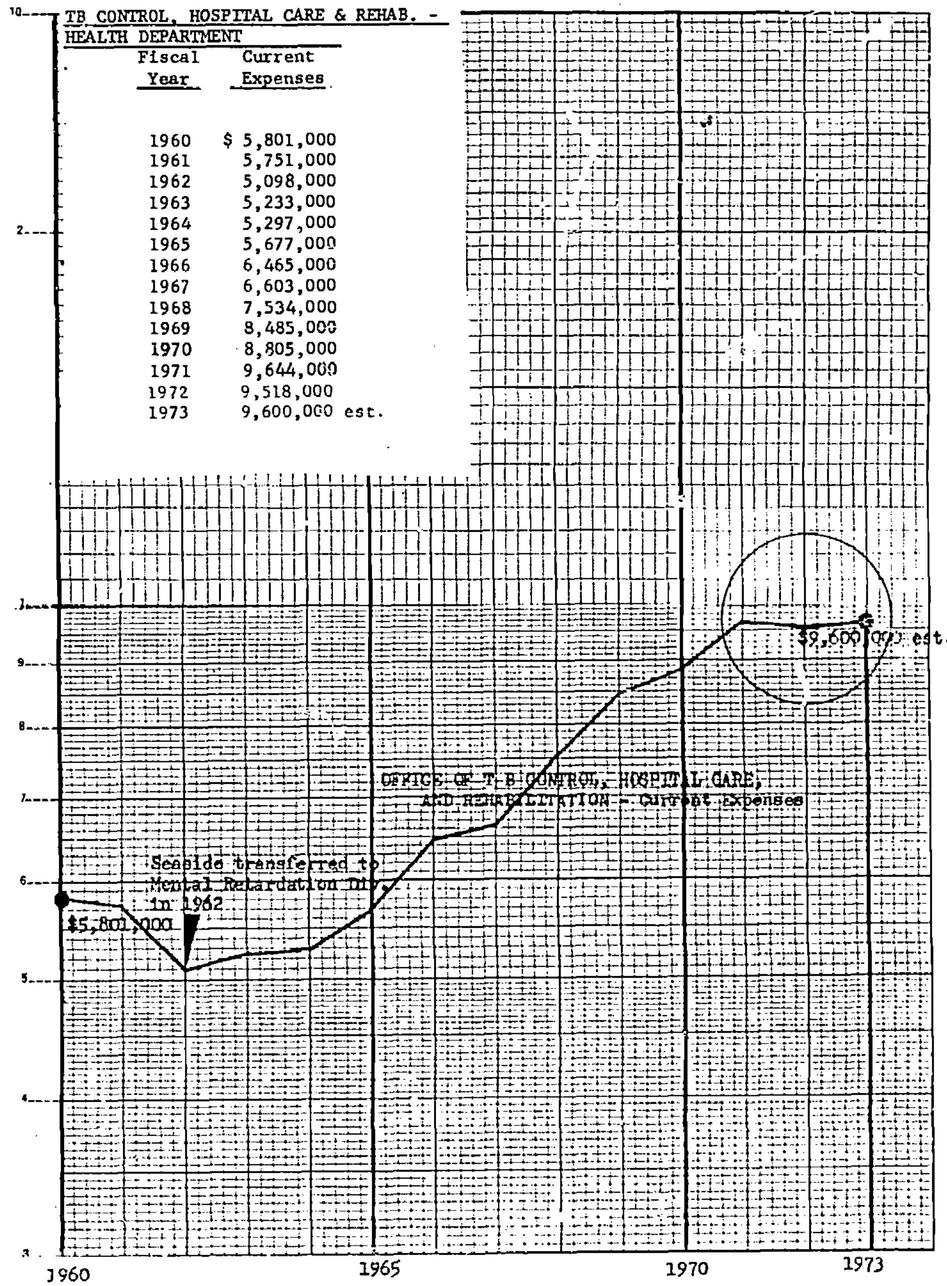
CHART C-12



OFFICE OF MENTAL RETARDATION - HEALTH DEPARTMENT

Fiscal Year	Current Expenses
1960	$ 7,464,000
1961	7,927,000
1962	9,167,000
1963	9,605,000
1964	10,255,000
1965	11,216,000
1966	13,352,000
1967	14,789,000
1968	17,207,000
1969	20,069,000
1970	22,527,000
1971	26,702,000
1972	26,329,000
1973	26,400,000 est.

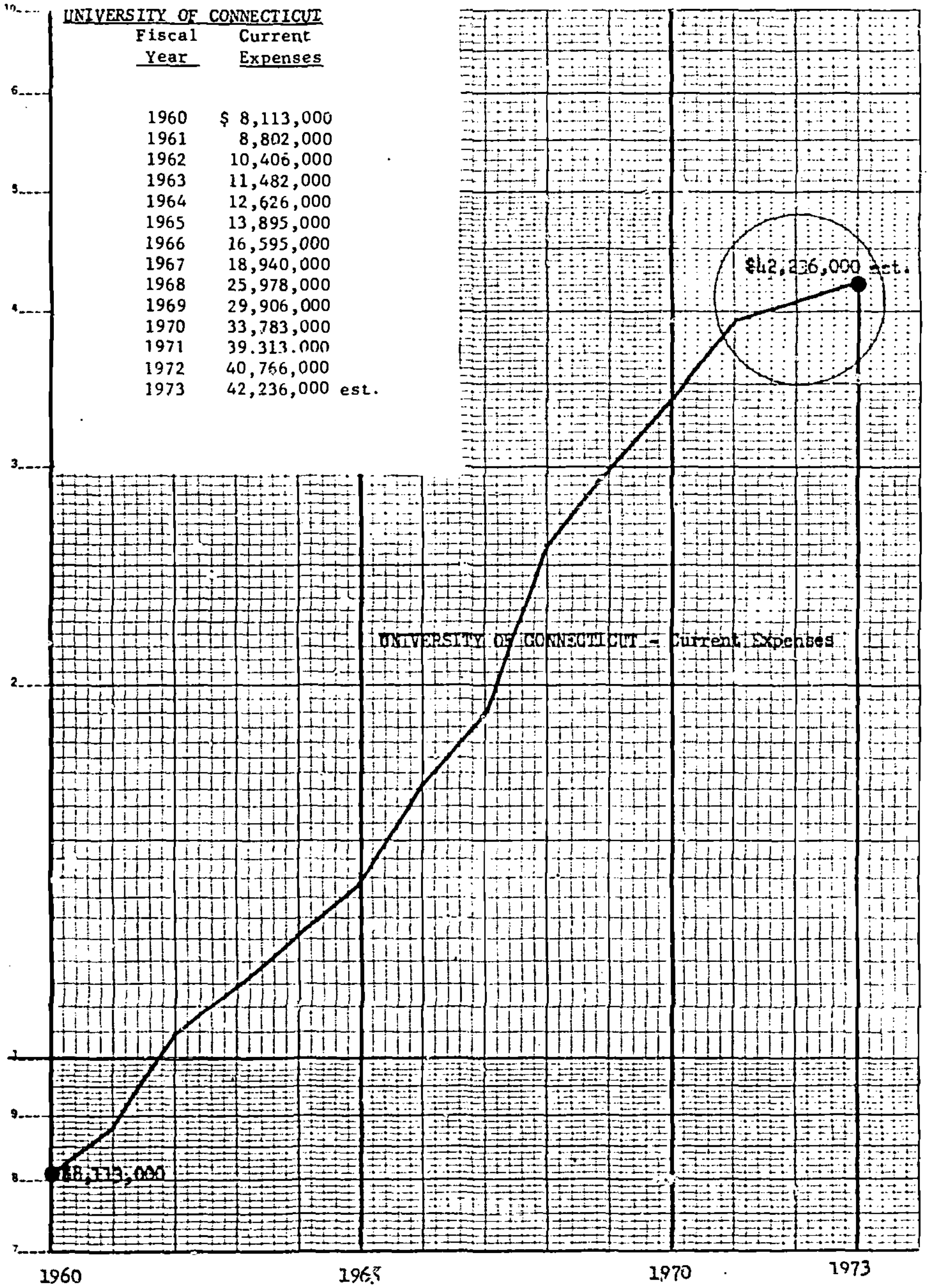
CHART C-13



TB CONTROL, HOSPITAL CARE & REHAB. - HEALTH DEPARTMENT

Fiscal Year	Current Expenses
1960	$ 5,801,000
1961	5,751,000
1962	5,098,000
1963	5,233,000
1964	5,297,000
1965	5,677,000
1966	6,465,000
1967	6,603,000
1968	7,534,000
1969	8,485,000
1970	8,805,000
1971	9,644,000
1972	9,518,000
1973	9,600,000 est.

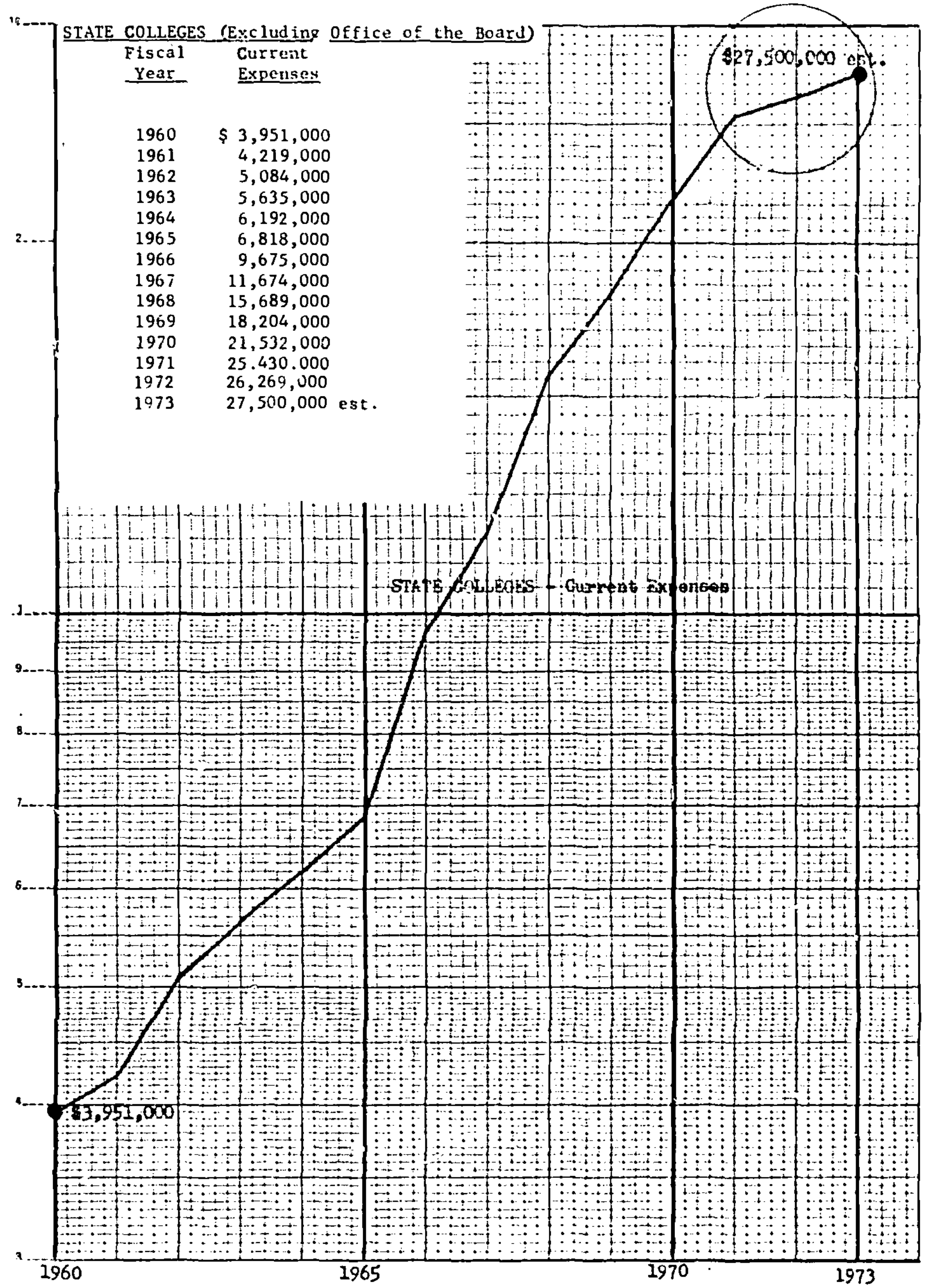
CHART C-14



UNIVERSITY OF CONNECTICUT

Fiscal Year	Current Expenses
1960	$ 8,113,000
1961	8,802,000
1962	10,406,000
1963	11,482,000
1964	12,626,000
1965	13,895,000
1966	16,595,000
1967	18,940,000
1968	25,978,000
1969	29,906,000
1970	33,783,000
1971	39.313.000
1972	40,766,000
1973	42,236,000 est.

CHART C-15



STATE COLLEGES (Excluding Office of the Board)

Fiscal Year	Current Expenses
1960	$ 3,951,000
1961	4,219,000
1962	5,084,000
1963	5,635,000
1964	6,192,000
1965	6,818,000
1966	9,675,000
1967	11,674,000
1968	15,689,000
1969	18,204,000
1970	21,532,000
1971	25.430.000
1972	26,269,000
1973	27,500,000 est.

Charts C-8 and C-9 also show sharp increases in 1973 for State welfare payments. The growth in State welfare programs (without Federal matching) is largely due to a higher level of reimbursement paid to foster parents and institutions for child care, and to towns for local General Assistance payments—increasing from 50 to 75% of costs in Fiscal 1968, and to 90% starting in Fiscal 1971. However, an improved employment situation is expected to lower the growth in local welfare spending (and State matching) in the near future. Meanwhile, the Federally-matched welfare programs are scheduled for even more dramatic changes. Specifically, welfare payments for the aged, blind, and disabled—about $29 million annually—are scheduled to terminate by January, 1974, **to be replaced by a wholly Federally-funded supplemental security income program for these persons.** In addition, work training programs for parents are expected to make major inroads in curbing the growth in the number of welfare families with dependent children.

The Commission believes the overall growth level in most departments and agencies can be reduced to 4 or 5% annually. Achieving this growth in the 1974 budget may necessitate selecting priorities and/or implementing the "zero budgeting concept" in certain areas.

A number of agencies have come into being in the last several years. The budget impact of staffing and funding these agencies has been reflected in the large percentages of growth in State expenditures. It is not necessary, however, to re-program these start-up costs. The agencies are now in existence and are providing the desired functions. For example, in FY '73, the Commission on Special Revenue was funded out of the General Fund at a $4.5 million level. Of course, normal increases can be expected for this agency in the future, but the one-time impact of its funding has been absorbed. Further major *commitments should not be necessary in the years* FY '74-77.

Additionally, further economies are possible from recommendations of the Governor's Commission on Services and Expenditures (Etherington Commission) which have not yet been fully implemented.

Table C-8 gives a good overview of the pattern of State spending in recent years, because it isolates from spending trends certain "one time" budget increases described in the next section. The charts show that while spending in certain agencies and programs may have continued to increase sharply in 1972 and 1973 (such as special education grants and welfare payments), other agencies are actually spending at lower levels. *Most important, the Commission is impressed by* the fact that the annual percent growth for the 14 areas listed in Table C-8 dropped sharply to 7.1% in 1972, and will be reduced down to 6.6% in 1973—clearly a dramatic change from the larger spending increases recorded for the years 1968-71.

FY '73 Budget

The estimated projection of Fiscal Year 1973 expenditures total $1,144 million, a 14% increase over Fiscal Year 1972 expenditures of $1,001 million (see Table C-7). The question obviously becomes — how can an annual increase of about 5% in Fiscal Year 1974 be possible in the face of a 14% increase in 1973? To understand the projection of 1973, it is necessary to deduct certain one-time, nonrecurring costs as follows:

1. The FY '72 expenditures did not include a deficit payment of $25 million which is included in the FY '73 projection.
2. The FY '72 expenditures did not include the payment of the full commitment to the Teachers Retirement Fund. The FY '73 projection includes an increased contribution of $37 million to the Teachers Retirement Fund.

To put FY '73 expenditures on a comparative basis with FY '72, it is necessary to deduct from the FY '73 expenditure level a total of $80 million of special items. After making this adjustment, the FY '73 budget will have increased by only 6.4% over FY '72—a figure closer to the Commission's estimate of 5% increase for FY '74. This overview can be seen from Table C-8 which *examines only recurring departmental increases* —not "one-time costs."

Functional Expenditures

Table C-9 shows a functional breakdown of State general spending since 1960, along with the year-to-year percentage changes. The data has been projected from FY '73 through FY '77, based on the growth factors outlined in Table C-6. Table C-9 is intended strictly as exhibit data, to compare the Commission's proposals with

TABLE C-9: Growth of State General Fund Expenditures, by Major Function, From 1960

(General Fund and Bond Retirement Fund — Excludes Expenditures from Restricted Contributions)

In Thousands of Dollars

MAJOR FUNCTION	1960	1961	1962	1963	1964	1965	1966	1967	1968
Total—State General Expenditures	223,632	239,597	282,452	299,326	326,763	350,390	413,344	448,491	558,223
		+7%	+18%	+6%	+9%	+7%	+18%	+8%	+24%
Legislative Branch	784	2,273	944	2,341	1,008	2,655	1,716	2,881	1,630
Judicial Branch	4,688	6,785	8,657	9,238	9,659	10,188	12,530	13,835	15,599
		+45%	+28%	+7%	+5%	+5%	+23%	+10%	+13%
General Government	6,885	7,702	8,273	8,349	8,521	8,968	10,689	12,066	15,092
		+12%	+7%	+1%	+2%	+5%	+19%	+13%	+25%
Regulation and Protection	12,544	13,854	9,717	9,926	10,133	10,797	12,371	13,571	16,177
		+10%	(44%)	+2%	+2%	+7%	+15%	+10%	+19%
Natural Resources and Recreation	4,850	5,101	5,420	5,798	5,955	6,611	7,519	8,294	9,184
		+5%	+6%	+7%	+3%	+11%	+14%	+10%	+11%
Health and Hospitals	40,971	42,439	44,239	45,926	48,227	51,824	59,642	64,786	75,205
		+4%	+4%	+4%	+5%	+7%	+15%	+9%	+16%
Transportation	811	839	1,066	1,156	1,089	1,154	2,904	3,352	4,329
		+3%	+27%	+8%	(6%)	+6%	+152%	+15%	+29%
Welfare	51,114	51,967	60,925	67,434	76,062	85,778	90,386	99,545	126,176
		+1%	+17%	+11%	+13%	+13%	+5%	+10%	+27%
Education	71,603	77,282	106,166	110,904	123,913	128,457	163,363	174,898	224,116
		+8%	+37%	+4%	+12%	+4%	+27%	+7%	+28%
Correctional Agencies	6,212	7,824	8,660	9,327	10,062	10,862	12,038	12,755	14,845
		+26%	+11%	+8%	+8%	+8%	+11%	+6%	+16%
Debt Service	17,837	17,385	20,151	20,282	20,399	20,552	25,591	24,932	31,935
		(3%)	+16%	+1%	+1%	+1%	+25%	(3%)	+28%
Non-Functional Purposes	5,334	6,143	8,233	8,644	11,734	12,544	14,595	17,576	23,934
		+15%	+34%	+5%	+36%	+7%	+16%	+20%	+36%

				Est.	Projected			
1969	1970	1971	1972	1973	1974	1975	1976	1977
662,462	742,885	895,623	1,000,739	1,144,000	1,205,000	1,270,000	1,333,000	1,400,000
+19%	+12%	+21%	+12%	+14%	+5%	+5%	+5%	+5%
3,490	2,167	4,856	3,873	5,746	5,904	6,163	6,430	6,716
			(20%)	+48%	+3%	+4%	+4%	+4%
17,747	19,263	21,449	21,959	22,790	23,552	24,769	26,024	27,353
+14%	+9%	+11%	+2%	+4%	+3%	+5%	+5%	+5%
18,896	20,408	23,753	34,870	35,933	37,103	38,979	40,914	42,964
+25%	+8%	+16%	+47%	+3%	+3%	+5%	+5%	+5%
18,054	19,553	21,998	12,084	16,777	17,329	18,214	19,127	20,094
+12%	+8%	+13%	(45%)	+39%	+3%	+5%	+5%	+5%
9,866	10,023	11,048	10,969	11,914	12,345	13,026	13,728	14,469
+7%	+2%	+10%	(1%)	+9%	+4%	+6%	+5%	+5%
85,717	91,118	104,282	100,703	103,731	107,835	114,251	120,779	127,720
+14%	+6%	+14%	(3%)	+3%	+4%	+6%	+6%	+6%
3,709	3,184	7,713	7,725	9,554	9,814	10,242	10,683	11,156
(14%)	(14%)	+142%	0%	+24%	+3%	+4%	+4%	+4%
163,878	196,745	239,897	269,769	299,065	306,297	318,477	331,053	344,579
+30%	+20%	+22%	+12%	+11%	+2%	+4%	+4%	+4%
259,941	263,488	311,181	329,808	395,034	409,717	430,359	449,568	470,034
+16%	+1%	+18%	+6%	+20%	+4%	+5%	+4%	+5%
17,302	19,728	22,577	23,035	23,854	24,771	26,212	27,699	29,257
+17%	+14%	+14%	+2%	+4%	+4%	+6%	+6%	+6%
34,042	52,167	78,055	106,743	142,213	161,970	168,824	175,052	182,932
+7%	+53%	+50%	+37%	+33%	+14%	+4%	+4%	+5%
29,820	45,042	48,813	79,203	77,389	88,362	100,484	111,954	122,726
+25%	+84%	+8%	+62%	(2%)	+14%	+14%	+11%	+10%

Source: Data Series *Connecticut State Revenues, Expenditures, Employees* (July, 1970), Connecticut Public Expenditure Council.

past expenditure increases. Each function was first increased by 3½% annually from 1973 through 1977, to distribute the variable element of cost. Then the amount for salary increments was distributed to each function according to its number of State employees. The projected increases for funding State employees' retirement and for reimbursement to towns for tax losses were added to the Non-Functional category. Increases for the University of Connecticut Health Center were added to the Education function.

Treatment of Surpluses Generated in FY '72 and '73

The surplus in FY '72 totaled $29 million. Because of the timing of new legislation[4] controlling the treatment of the accumulated deficit and handling of current surplus, the full deficit of $244 million was allowed to be funded. The accounting effect of this treatment of the FY '72 surplus is to have it flow through and be additive to the 1973 estimates surplus. However the required repayment of the capital gain tax refunds of $17 million will be charged against the FY '72 surplus and will, therefore, reduce the recorded surplus to $12 million. Since the Commission is anticipating excess revenue of $41 million in FY '73, the total surplus as recorded can be $53 million. The aggregate surplus for FY '72 and '73 will be held in a special fund to be applied according to statute to reduce the accumulated deficit in future years.

If State revenues, from all sources under present laws, grow at an annual rate of 5-7%, and expenditure growth can be limited to an annual growth of 5%, maximum excess revenue will continue to develop as outlined in Chart C-2 and Table C-7. Excess revenues are expected to range from the $12 million generated in 1972 (after repayment of $17 million in capital gains tax overpayments) to $128 million by FY '77. It is from these excess revenues that the Commission program can be financed.

APPENDIX A

Description of Connecticut's Present Tax Structure

Under present law, Connecticut imposes nearly 30 different taxes, most of which are collected by the State Tax Commissioner. Appendix A contains a brief description of the nature of each of these taxes and the rates at which they are imposed. The taxes are classified into several groups, including death taxes, capital gains and dividends taxes, excises, property taxes (levied by local governments), corporate business taxes, insurance company taxes, initial taxes on businesses, licensing, permit, unemployment insurance, and other miscellaneous taxes.

Death Taxes

Succession and Transfer (Inheritance) Tax

This tax is imposed on the right to inherit property passing by will, intestacy or by gift during life made under circumstances considered the equivalent of a transfer at death. This includes a gift made in contemplation of death (within 3 years of death under circumstances indicating that death motives predominated) or where the use of the property was retained for life or the gift was revokable or not intended to take effect until death.

Non-residents of Connecticut are taxed on all such transfers of real and tangible personal property situated within Connecticut, while residents are taxed on all this property as well as on all their intangible property wherever situated.

Property over which the decedent possessed a general power of appointment, whether or not he exercised it, is also included in his estate. However, life insurance is not taxable. Social security, railroad retirement, and employee death benefit payments from a plan qualified for exemption from Federal income taxes (other than the proportion representing the decedent's contribution), if paid to beneficiaries other than the decedent's estate, are exempt.

There is a $5,000 exemption for jointly held bank accounts and government bonds. The decedent's fractional share in excess of this exemption is taxed, whether or not he contributed anything to the joint property. The entire amount may be included if the transfer into joint tenancy was equivalent to a transfer at death.

Beneficiaries are taxed in four different categories, depending upon how closely they were related to the decedent. Exemptions and rates differ for each class. Class AA consists of the surviving husband or wife, receives a $50,000 exemption, and is taxed at rates ranging from 3% to 8% of fair market value. Class A consists of natural and adopted children, grandchildren and other descendents as well as parents and grandparents. There is a $10,000 exemption for the class. Rates on transfers exceeding this amount are 3% to 8%, the same as in Class AA.

Class B consists of brothers, sisters, sons-in-law, daughters-in-law and natural or adopted descendents of brothers or sisters, whether of the whole or half blood. There is a $3,000 exemption for the class. Rates range from 4% to 10%. Class C consists of all other beneficiaries. There is a $500 exemption for this class, whose rates run from 8% to 14%. However, transfers to a qualified charity are not taxed, although all charities are in Class C.

Deductions are allowed for debts, funeral and administration expenses, and reasonable family support for 12 months. A 30% surtax is added to the amount of the succession tax otherwise due.

The Connecticut succession tax return must be filed in duplicate with the Probate Court within 9 months after death. There are liberal provisions for granting extensions of time for filing. If at least 80% of the amount finally determined to be the correct tax is paid within 9 months of death, there will be no interest on the unpaid balance. The tax is computed by the State Tax Commissioner, based upon the information in the tax return. Interest at 9% per annum is charged after 9 months on unpaid tax.

The inheritance tax yielded $46,305,000 for the fiscal year ending June 30, 1971, representing 5.821% of State tax collections that year.

Estate Tax

The Federal tax laws allow a credit against the Federal estate tax for some of the death taxes paid to a state. In a few resident estates exceeding $100,000 the Connecticut inheritance tax is insufficient to absorb this credit. This may occur where there is a substantial amount of life insurance re ive to other assets, since insurance is not taxed by Connecticut but is subject to Federal estate tax.

The Connecticut estate tax is designed to absorb the amount by which the Federal credit exceeds the other death taxes payable to all states, including Connecticut. Since it is in lieu of Federal estate taxes, it is not an additional burden on the estate, but merely shifts tax revenue from the Federal government to Connecticut. Similar taxes exist in all states except Nevada.

The tax amounted to $283,000 in the June 30, 1971 fiscal year, or .036% of total collections.

Capital Gains and Dividend Tax

This tax is imposed on the dividends and net capital gains of resident individuals at a rate of 6% if the total capital gains and dividends exceed $100. There is a complex exemption formula, based upon a fraction relating taxable gain and dividends to revised Federal adjusted gross income figures for the entire family. This could exempt up to $2,000 of this income ($5,000 in the case of persons over 65).

The tax is imposed on 50% of net long term gain and on all net short term gain, as calculated for Federal income tax purposes. Federal nonrecognition provisions apply and returns are due at the same time as Federal income tax returns. The tax does not apply to the income of estates and trusts that is taxed to these entities for Federal purposes. Capital gains and dividends distributed from estates and trusts, on which the beneficiaries pay a Federal tax, are taxable by Connecticut. Dividends paid by domestic international sales corporations are excluded from the tax.

The tax produced $10,331,000 in the June 30, 1971 fiscal year (prior to the time it was imposed upon dividends), amounting to 1.299% of state tax collections.

Excise Taxes

Admissions, Dues and Cabaret Tax

There is a 10% tax on the admission charge to any place of amusement, entertainment or recreation. This tax is also imposed on amounts paid for refreshments, service, or merchandise at cabarets and similar places furnishing public performances (other than mechanical music alone or the music of a single instrumental performer) for profit. All dues, initiation fees, and membership fees paid to any social, athletic, and sporting club or organization, except those specifically exempted, also are taxed at 10%.

The exemptions include admission charges of less than one dollar, daily admission charges entitling a patron to participate in athletic or sporting activities, or admission charges by tax-exempt organizations. The membership fee tax does not apply to either annual or life dues or full initiation fees of $50 or less, dues of a charitable, religious, non-profit educational or governmental agency club, or organization or dues of any lodge or local fraternity organization, or charges for certain special assessments.

Monthly returns are due on or before the twentieth of each month, together with payment of the tax to the State Tax Commissioner.

Alcoholic Beverage Taxes

Excise taxes are imposed on distributors selling beer, liquor, or wine in Connecticut. They are payable monthly to the State Tax Commissioner at the rate of $2.50 per barrel of beer or gallon of liquor, 25 cents per gallon of still wines and 62½ cents per gallon of sparkling wines. The tax produced $28,005,000 for the June 30, 1971 fiscal year, amounting to 3.52% of total collections.

Gasoline and Special Fuel Taxes

This is a tax at the rate of 10 cents per gallon on all fuel sold by gasoline distributors and on the users of special fuel. Collection is made by the retail dealer. Fuel sold to any government at other than a retail outlet, sales between licensed distributors, and gasoline used in off-road vehicles, aircraft, and motor boats is also exempt. Returns must be filed monthly.

Motor Carrier Road Tax

This is a tax on every motor carrier (the operator of a passenger vehicle seating more than 9 passengers plus a driver, a road tractor, tractor truck or any truck with more than 2 axles) using Connecticut highways, except Connecticut motor bus companies, operators of no more than 3 trucks having more than 2 axles, government vehicles and school buses. It is based on the amount of motor fuel used by a carrier in its operations within Connecticut at 10 cents per gallon of fuel used, with a credit for the amount of taxes paid on motor fuel purchased by the carrier within Connecticut.

Quarterly reports are required to be filed. The purpose of the tax is to require heavy vehicle operators to purchase in Connecticut as much motor fuel as they use in this State.

Revenues, including those from gasoline and special fuel taxes, are $103,215,000 or 12.974% of total collections.

Cigarette Tax

This is a stamp tax of 10½ mills per cigarette (21 cents per pack of 20) on all cigarettes held for sale, storage, or use in the State. Cigarettes sold in State institutions, previously taxed imported cigarettes, and the storage or use of less than 201 cigarettes, brought into Connecticut by a person or in accompanying baggage, are exempt.

Payment is made by purchase of stamps from the State Tax Commissioner. The use of metering machines is allowed. Each cigarette distributor or dealer must obtain a license for $150 per year per distributor and $10 per year per permanent dealer.

Sales and Use Tax

The sales tax is imposed on retailers at the rate of 7% of gross receipts from the sale of tangible personal property or the total amount of rent received for room occupancy in hotels and lodging houses for the initial period of not over 30 consecutive days. A 7% use tax is imposed on the storage, use, or other consumption in the State of tangible personal property not subject to the sales tax.

Both taxes are imposed on all persons engaged in the businesses of selling, producing, fabricating, or processing tangible personal property at retail, transferring room occupancy, or storing or using for consumption any item or article of tangible personal property. The taxes apply to machinery and equipment used in business.

Exemptions exist for sales to various governments, nonprofit charitable hospitals, charitable or religious organizations, and educational institutions. Hospital and nursing institution meals, utility charges up to $10 per month, prescriptions, magazines and newspapers, cigarettes, clothing for children under 10 years of age, professional, insurance, or personal services, livestock and feed, food products, containers, motor vehicle fuel, domestic fuels, gas and electricity for domestic heating, meals under $1, materials used in the production of finished products to be sold, oxygen, blood, plasma, and physical aids, aircraft sold for use as interstate or foreign carriers, industrial waste treatment facilities, and air pollution control facilities are also exempt.

Use tax exemptions exist for property subject to the sales tax, property purchased for the United States, and purchases not exceeding $25. Exemptions from the tax on room occupancy include those in privately owned and operated convalescent homes, homes for the aged, infirm, indigent, or chronically ill, religious or charitable homes for these people, children's summer camps and educational institutions' lodging accommodations. Property on which a tax has been paid to another state is exempt, to the extent of the tax paid.

Permits must be obtained from the State Tax Commissioner at a fee of $1 and quarterly reports are required. $265,217,000 was produced in the fiscal year ending June 30, 1971 or 33.335% of the State's revenues.

Property Taxes

Real and Tangible Personal Property Taxes

Although imposed by State law, the real and tangible personal property taxes are collected by the local government of the area in which the property is situated. This means that property is subject to more than one local jurisdiction's taxing power, since at the very least the property will be taxed by the town and the fire district in which it is located.

All real and tangible personal property, unless specifically exempt (most tangible personal property of individuals is exempt) is taxable at a uniform percentage of its present true and actual valuation, not to exceed 100%. As a matter of practice, valuations are about 60% in most jurisdictions. Property tax rates are fixed by the local taxing authorities at a specified number of mills per thousand dollars of assessed valuation. These vary throughout the State each year.

Among the exemptions from the tax on tangible personal property are monthly average inventories of manufacturers, to the extent of 60% of their valuation in 1972, 70% in 1973, 80% in 1974, 90% in 1975 and their entire value in 1976 and thereafter. Inventories of mercantile establishments are exempt to the extent of one-sixth of assessed valuation in 1972, increasing by multiples of one-twelfth each year until they are completely exempt in 1982 and thereafter. The property of various governmental units and charitable type organizations is also exempt.

Most jurisdictions provide for an October 1 assessment date, although some of them use other dates, such as July 1 or September 1. Personal property is appraised annually and real estate is subject to reappraisal every 10 years. Appraisal is performed by town appraisers. Taxes are paid to the local tax collector.

Certain ships and public utility property are specially treated. Farm forest preserves and open space lands are assessed on the basis of use. There are various other complicated exceptions and exemptions in the law.

Individuals are chiefly affected by a tax on their homes, their motor vehicles (registration lists are furnished by the Motor Vehicle Department to the town assessors) and motorboats.

Real Estate Transfer Tax

This tax is imposed on every person conveying real estate at the rate of 55 cents per $500 of consideration paid for the real estate. It is payable upon recording of the conveyance by the Town Clerk of a town in which any part of the property is situated. No tax is imposed if the consideration is $100 or less.

There is an additional conveyance tax imposed on sales of farm, forest or open space land, sold within 10 years from initial acquisition or classification, at rates ranging from 1% to 10% of total sales price, depending upon when the property is sold.

Corporate Business Taxes

Corporate Franchise (Income) Tax

A corporation business tax, in the form of an annual franchise tax measured primarily by net income, is imposed on business and financial corporations, most utilities, and both incorporated and unincorporated air carriers. The tax is imposed on both domestic (Connecticut based) and foreign (out of state) companies doing business in Connecticut or with the right to do business in Connecticut. Insurance, railroad, and express companies are exempt. They pay other taxes in lieu of a franchise tax measured by net income.

Companies exempt from the Federal corporation income tax such as cooperative housing corporations, electric cooperatives, mutual trust investment companies, and investment companies owned by savings banks, are also exempt.

Corporations pay the higher of: a tax of 8% on net income measured by Federal corporate income definitions and adjusted for Connecticut tax purposes; or a tax on net worth and debt of 4 mills per dollar. (A special alternate tax formula applies to deposit financial institutions.)

Returns must be filed with the State Tax Commissioner within ninety days of the close of the corporation's taxable year, declarations of estimated tax are required where the preceding year's tax liability was over $10,000 or the current year's liability is estimated to exceed this amount.

Because the tax is in the form of a franchise tax, measured primarily by net income, Federal bond interest may be included although it is not subject to direct State income taxation.

The tax yielded $127,686 for the June 30, 1971 fiscal year, amounting to 16.049% of State tax collections.

Air Carrier Tax

This is an 8% annual tax on both incorporated and unincorporated air carriers receiving revenues for transporting persons or property by air and landing or taking off in Connecticut. The statutory formula used to determine the taxable base is different from that for the corporate franchise tax.

Public Utilities

Gross earnings taxes are imposed on substantially all utility companies, including railroad, express, telegraph, telephone, cable, community antenna television system, and car companies, as well as pipeline, sewage, water, gas, electric, and power companies. However, certain railway companies whose annual net railway operating income does not exceed 8% of gross income are exempt. Other railroad companies are taxed at rates between 2% and 3½%, depending upon the ratio of their net railway operating income to their gross income. Car companies are taxed at 3%, express companies at 2% (to the extent that their gross earnings are from the operation of railroad routes), telegraph and cable companies at 4½%, telephone and community antenna television system companies at 8%, while the gross earnings of water, gas, electric, and power companies are taxed at 5%.

These taxes are in lieu of franchise taxes based on income. To a limited extent they also replace property taxes. They are imposed on substantially all gross earnings or receipts, with few deductions, but only such receipts as are appropriately attributable to Connecticut, on a mileage or comparable basis, are taxed.

The revenue in the fiscal year ending June 30, 1971 from the public utilities taxes was $37,616,000 or 4.728% of total collections.

Insurance Company Taxes and Costs

Domestic Insurance Companies Premium Tax

Total net direct premium income of domestic insurance companies from policies written on property or risks located or resident in Connecticut are taxed. Net direct life insurance premiums are taxed at 2½% until June 30, 1973. All other net direct premiums are taxed at 2¾%. After June 30, 1973, all net direct insurance premiums will be taxed at 2%.

Domestic Insurers Interest and Dividends Tax

This is an annual tax on domestic insurance companies net receipts of interest and dividends at 3½% until the last 6 months of 1973 and 2⅝% for the balance of that year. The tax will not apply thereafter.

Excluded from the tax base are Federal and Connecticut (State and municipal) bond interest, dividends from other domestic insurance companies taxable under the law, and pro rata portions received from stock of domestic insurance holding companies. Life insurance companies and life insurance departments of other insurance companies are allowed an additional exclusion amounting to 81% of the interest and dividends remaining after subtracting the other exclusions.

Foreign Insurance Company Premium Taxes

Net direct life insurance premiums received by foreign insurance companies from Connecticut sources are taxed at 1¾%; all other net direct premiums are taxable at 2%. Starting in 1973, the rate will be 2% on all taxable net direct premiums.

Examination Costs

Costs of examining domestic insurance companies and the valuation costs of domestic life insurance companies are assessed against the companies.

Licenses and Miscellaneous

All insurance companies wishing to do business in Connecticut must obtain an annually renewable license at a fee of $20, insurance from unauthorized insurers is taxed, and retaliatory taxes are imposed on foreign insurance companies to equalize the tax and other burdens imposed on Connecticut companies by other states.

Self-Insured Employee Welfare Benefit Plans

There is an annual tax of 2¾% on health benefits from these plans. Death benefits are taxed at 2½%. The tax does not apply to benefits insured by an insurance company, a non-profit hospital or medical service corporation, plans covering less than 10 employees, or to certain other plans qualifying for special treatment under the Federal Internal Revenue Code.

Hospital and Medical Service Corporations

There is a 2% tax in 1972 and 1973 on total net subscriber charges received by each hospital and medical service corporation.

All insurance company taxes produced $61,094,000 or 7.679% of total taxes in Fiscal Year 1971.

Initial Taxes on Corporations and Required Reports

Domestic Corporations

Upon the formation or any increase in the authorized capital stock of a domestic corporation, a tax is imposed on its authorized shares, payable to the Secretary of State. This is at the rate of one cent per share for the first 10,000 shares, one-half cent on the next 90,000, one-quarter cent on the next 900,000 and one-fifth of a cent per share on all shares in excess of one million, with a minimum tax of $50.

Foreign Corporations

While there is no tax on the shares of a foreign corporation, at the time one applies for a certificate of authority to do business in Connecticut, a license fee of $100 and a filing fee are required.

Filing Fees

Various filing fees are required to accompany corporate documents that must be filed with the Secretary of the State's office at different times during life of a corporation.

Annual Corporate Reports

Domestic and foreign corporations pay a $16 filing fee for annual reports.

The revenues from corporate organizations and qualification fees, foreign corporation fees, and annual report fees amounted to $562,000 in fiscal year 1971, or .071% of total collections.

Business License Taxes and Permit Fees

Liquor Licenses

Manufacturers, wholesalers, retailers, restaurants, and all other similar vendors of alcoholic beverages must obtain permits, paying annual fees to the Liquor Control Commission varying from $80 to $2400.

Motor Fuel Distributors

The Tax Commissioner licenses motor fuel distributors at the rate of $7 for the first pump and $2 per additional pump. Users of and retail dealers in special fuels must obtain licenses. Fuel oil sellers need annual permits at a fee of $100.

Motor Vehicle Registration Fees

Annual fees must be paid to the Commissioner of Motor Vehicles at the rate of $15 per passenger car and from 50 cents to 75 cents per 100 pounds of gross weight for commercial vehicles. There is an $8 biannual fee for driver's licenses, with some variation for special vehicles and learner's permits.

Motor Carrier Road Permits

A fee of $3 per vehicle must be paid by each out-of-state motor carrier using Connecticut highways.

Motor vehicle registration and carrier fees amounted to $48,476,000 or 6.093% of State tax collections in the fiscal year ending June 30, 1971.

Aircraft Registration Fees

Aircraft registration fees are based on gross weight and range from $10 to $40. Transfer of registration is $2, a manufacturer's permit $50, and glider registration is $2.

Town License Fees

Nominal license fees are imposed by towns on various occupations, such as auctioneers, billiard rooms, bingo games, itinerant vendors, junk dealers, lodging houses, pawn brokers, and peddlers.

Prescribed Licenses and Taxes

Certain professions, occupations and other activities are required to pay license fees or occupational taxes to State authorities. They include accountants (State Board of Accountancy), persons engaged in outdoor advertising (must obtain both a license for doing business and a permit for each sign erected, costing $5 to $15 depending on the size of the sign, from the Commissioner of Transportation, formerly Commissioner of State Police), airports, restricted landing areas and other air navigation facilities (Commissioner of Transportation), ambulance services (Commissioner of Health), amusement parks, apple juice extraction plants, attorneys, auctioneers (Commissioner of State Police), automobile clubs (Commissioner of Motor Vehicles), bait dealers (Commissioner of Environmental Protection), bakeries, manufacturers and dealers in bedding and upholstered furniture (Commissioner of Labor and Factory Inspection), nonalcoholic beverages (Commissioner of Food and Drugs), boilers (State Boiler Inspector), boxing and wrestling exhibitions or bouts (Commissioner of Consumer Protection), cattle or swine dealers and brokers (Commissioner of Agriculture), child day-care centers (Commissioner of Health), manufacturers and distributors of chimney and flue chemicals (Commissioner of State Police), collection agencies (State Treasurer), trademarks and service marks (Secretary of State), commercial feed and commercial fertilizers (Director of Connecticut Agricultural Experiment Station), commercial fish hatcheries (Commissioner of Environmental Protection), commission sales stables (Commissioner of Agriculture), credit unions (Bank Commissioner), debt adjustors (Bank Commissioner), driving schools (Commissioner of Motor Vehicles), drug manufacturers and wholesalers (Commissioner of Food and Drugs), electrical workers (Examining Board for Electrical Workers), elevator craftsmen and elevator helpers (Applicable Board), owners and operators of elevators and escalators (Labor Department), employment agencies (Labor Commissioner), engineers and surveyors (State Board of Registration for Professional Engineers and Land Surveyors), manufacturers and handlers of explosives (Commissioner of State Police or Local Fire Marshall), manufacturers and dealers in fireworks (State Fire Marshall), commercial fishing operators (Commissioner of Environmental Protection), fraternal benefit societies and agents (Insurance Commissioner), frozen dessert manufacturers (Commissioner of Consumer Protection), fund raisers (Department of Welfare), funeral directors and embalmers (Board of Examiners of Funeral Directors and Embalmers), game and fur breeders (Commissioner of Environmental Protection and Livestock Division of Department of Agriculture), hairdressing and cosmetology schools (State Department of Health), persons distributing materials for industrial homework (Commissioner of Labor and Factory Inspection), casualty insurance adjustors, insurance agents, brokers, public adjustors, excess line insurance brokers, certified insurance consultants, insurance premium finance companies (Insurance Commissioner), investment counsel and investment counsel agents (Bank Commissioner), itinerant vendors (Commissioner of Consumer Protection), kennels, pet shops and grooming facilities for dogs (Commissioner of Agriculture), landscape architects (Connecticut State Board of Landscape Architects), live poultry dealers (Commissioner of Agriculture), lobster vessels (Commissioner of Environmental Protection), meat and poultry products' inspection (Commissioner of Consumer Protection), milk marketing (Commissioner of Agriculture), milk weighing, sampling, and testing (Commissioner of Agriculture), mobile home parks (Connecticut Real Estate Commission), money forwarders (Bank Commissioner), motion picture exhibitors (Commissioner of State Police), motor vehicle dealers, repairers, auctioneers, junk yard operators, leasing companies, and manufacturers (Commissioner of Motor Vehicles), motor vehicle physical damage appraiser (Insurance Commissioner), motor vehicle racers (Commissioner of State Police), motorboats (Town Clerk of owner's residence), nurserymen (State Entomologist), occupational schools (State Board of Education), oyster vessels (Commissioner of Agriculture), pesticides distributed, sold, or transported in Connecticut (Commissioner of Environmental Protection), pharmacies and pharmacists (Commission of Pharmacy), plumbers and pipe workers (Applicable Board), private detectives and security services (Commissioner of State Police), raw fur buyers (Commissioner of Environmental Protection) real estate brokers and salesmen (Connecticut Real Estate Commission), operators of refrigerated lockers (Commissioner of Consumer Protection), manufacturers and sellers of renovated butter (Commissioner of Consumer Protection), sales finance companies (Bank Commissioner), sanitarians (State Board of Registration for Sanitarians), securities brokers, dealers and salesmen (Bank Commissioner), persons and others engaged in a small loan business (Banking Commission), steam fitters (Applicable Board, swine growers (Commissioner of Agriculture), taxidermists (Commissioner of Environmental Protection), television, radio, stereo, and receiving equipment servicemen and repairmen (State Board of Television Service Examiners), trading stamp companies (Secretary of State), food and drink vending machine operators (Commissioner of Consumer Protection), public weighers (Commissioner of Weights and Measures), dealers and repairers of weighing and measuring devices (Commissioner of Consumer Protection), well drillers and pump installers (State Well Drilling Board), and youth camps (State Department of Health).

Certificate for Doing Business under an Assumed Name

Individuals, partnerships, and corporations doing business under an assumed name must file a certificate with the Town Clerk of the town in which the business is being conducted. The filing fee is $1.

Unemployment Compensation Tax

This tax provides a fund from which unemployment compensation benefits are paid. It is imposed at a maximum rate of 2.7% on the first $4,200 of wages paid in the calendar year to each employee. However, under certain circumstances, employers may have their rates reduced to as low as .25%, based upon the experience they have had with compensable separations. The tax is administered by the Administrator of the Employment Security Division.

The tax produced $64,051,000 in the fiscal year ending June 30, 1971.

Revenue Collections for Fiscal Year Ending June 30, 1971

Total State tax collections for the year ending June 30, 1971, were $795,589,000, not including $64,051,000 unemployment tax. The total includes taxes that were not listed in earlier parts of the report. These were the admissions and membership tax of $6,155,000, game and fish permits and license fees of $833,000, and boat registration fees of $230,000. Percentages of revenue do not total 100%, due to omission from the report of these tax items, which amounted to 1.321% of the total. Unemployment insurance contributions are not considered a tax for the purpose of these percentages.

APPENDIX B

Description of Revenue Sharing
(State and Local Assistance Act of 1972)

General

Revenue sharing became a reality in October. 1972, when the "State and Local Assistance Act of 1972" ("Act") was passed by Congress and approved by the President. Under the Act State and local governments in Connecticut will receive an estimated $66 million annually from the Federal government.

Revenue sharing is intended to alleviate the escalating need for tax revenues by state and local governments. Operating on a limited tax base, state and local governments have been forced to increase their tax rates to meet increased expenditures. Between 1946 and 1970 state and local government expenditures have tripled, and as a result state and local government tax revenues notwithstanding Federal aid have increased at an annual average rate of 9.7%. Revenue sharing is an attempt to limit such increases in the future.

The Federal government, recognizing the need of the state and local governments for supplementary revenues, has increased grants in aid from $6.7 billion in fiscal 1959 to an estimated $38.8 billion in fiscal 1973 not including revenue sharing aid. Grants in aid are distributed through "categorical grants" and finance specific projects like highways or sewers or pay for particular programs such as welfare and job training. Revenue sharing differs from categorical grant aid because it is not earmarked for particular projects or programs. State and local governments are given considerable discretion to spend revenue sharing funds as they determine. This is in contrast to grant programs which are limited by extensive Federal regulations requiring strict compliance by state and local governments in order to be eligible for such aid.

Limitations on Use of Funds

There are, however, certain limitations on the use of revenue sharing funds. Such funds cannot be used by the state or local governments as their share of matching contributions required to obtain Federal aid under any of the categorical grant programs. Rather, local governments must use the funds for "priority expenditures." These include all ordinary and necessary capital expenditures and eight types of ordinary and necessary non-capital expenditures: (1) public safety, such as law enforcement, fire protection, and building code enforcement; (2) environmental protection, such as sewage disposal, sanitation, and pollution abatement; (3) public transportation, such as transit systems and streets and roads; (4) health; (5) recreation; (6) libraries; (7) social services for the poor or aged; and (8) financial administration. The most obvious type of current expenditures excluded from this list is education expenditures. There are no similar substantive restrictions on how state governments may spend their revenue sharing funds, and nothing in the act prohibits states from distributing all or a portion of their funds to their local governments.

Nation-wide Allocations For Five-Year Period

The new law establishes a 5-year sharing program, beginning January 1, 1972 and terminating December 31, 1976. A total of $5.3 billion will be available to supplement the budgets of state and local governments throughout the United States for the 1972 calendar year, and this amount will increase to $6.5 billion by the 1976 calendar year. Although all the first year's funds will not be distributed until early in 1973, the revenue sharing program has a January 1, 1972 starting date because many state and local governments in making up their 1972 budgets counted on such funds.

The Secretary of the Treasury administers the revenue sharing program and allocates the funds for each entitlement period from the appropriations listed below.

Appropriation	Entitlement Period
$2,650,000,000	Jan. 1, 1972 — June 30, 1972
2,650,000,000	July 1, 1972 — Dec. 31, 1972
2,987,500,000	Jan. 1, 1973 — June 30, 1973
6,050,000,000	July 1, 1973 — June 30, 1974
6,200,000,000	July 1, 1974 — June 30, 1975
6,350,000,000	July 1, 1975 — June 30, 1976
3,325,000,000	July 1, 1976 — Dec. 31, 1976

Distribution of the appropriations for the first and second entitlement periods are scheduled for December, 1972 and January, 1973 respectively. Distributions covering subsequent entitlement periods are to be made in quarterly installments with the first installment due the beginning of April, 1973.

Allocation of Funds Between State and Local Governments

The Treasury Secretary will allocate and distribute funds among the states and the approximately 38,700 general purpose local governments according to formulas set forth in the law. In general, the total appropriation for each entitlement period will be allocated among all the states with one-third of the amount allocated to each state paid to the state government and the remaining two-thirds paid to the state's local governments. In Connecticut, two-thirds for local governments will first be allocated among Connecticut's 8 county areas and then allocated among each of the local governments in each county. The formulas are complex and require the use of substantial census data.

Preliminary estimates of amounts to be received for the first two entitlement periods, calendar year 1972, are based on a report of a Senate-House conference committee. These amounts are listed below in Table C-10. They are not based on final census data, however, and the amounts which the state and each local government in Connecticut receive may not be the exact amount shown. The amounts to be distributed in subsequent entitlement periods will also differ from those in the chart since the data used in the allocation formulas will change and the total appropriation will increase.

TABLE C-10: Revenue Sharing Funds Allocated to Connecticut for 1972

Total allocated to Connecticut	$66,200,000
Total grant to State of Connecticut	22,100,000
Total available to local governments	44,100,000

Fairfield County area	9,211,352
Fairfield County govt.	0
Total to all cities over 2,500	5,430,537
Total to all cities under 2,500	25,237
Total to all townships	3,755,578
Bridgeport City	2,619,709
City of Danbury	708,060
Norwalk City	830,356
Shelton City	210,200
Stamford City	1,061,121
Bethel Town	216,167
Brookfield Town	48,836
Darien Town	71,319
Easton Town	21,739
Fairfield Town	608,963
Greenwich Town	414,836
Monroe Town	182,374
New Canaan Town	76,778
New Fairfield Town	20,346
Newtown Town	204,481
Ridgefield Town	202,759
Stratford Town	1,003,579
Trumbull Town	394,153
Westport Town	153,382
Wilton Town	61,014
Redding Town	29,808
Weston Town	30,282
Hartford County area	13,626,839
Hartford County govt.	0
Total of all cities over 2,500	6,265,517
Total to all-cities under 2,500	0
Total to all townships	7,361,322
Bristol City	1,170,772
Hartford City	3,334,147
New Britain City	1,760,599
Avon Town	58,676
Berlin Town	208,919
Bloomfield Town	221,705
Burlington Town	29,518
Canton Town	66,148
East Granby Town	41,880

East Hartford Town	1,138,507
East Windsor Town	102,953
Enfield Town	829,071
Farmington Town	138,269
Glastonbury Town	262,793
Granby Town	65,164
Manchester Town	677,125
Marlborough Town	33,203
Newingtown Town	285,835
Plainville Town	338,753
Rocky Hill Town	139,954
Town of Simsbury	136,174
Southington Town	560,772
South Windsor Town	285,618
Suffield Town	104,730
West Hartford Town	728,957
Wethersfield Town	292,684
Windsor Town	322,895
Windsor Locks Town	272,567
Litchfield County area	1,768,424
Litchfield County Govt.	0
Total to all cities over 2,500	546,447
Total to all cities under 2,500	32,595
Total to all townships	1,189,383
Torrington City	484,893
Winsted City	61,553
Harwinton Town	12,567
Litchfield Town	63,925
New Hartford Town	20,394
New Milford Town	162,271
North Canaan Town	23,747
Plymouth Town	123,728
Salisbury Town	15,798
Thomaston Town	96,615
Washington Town	10,594
Watertown Town	209,406
Winchester Town	200,406
Woodbury Town	40,330
Middlesex County area	1,370,322
Middlesex County govt.	0
Total to all cities over 2,500	535,373
Total to all cities under 2,500	652
Total to all townships	834,297
Middletown City	535,373
Chester Town	27,593
Clinton Town	111,635
Cromwell Town	85,692
Deep River Town	29,200
Durham Town	35,427
East Haddam Town	37,646
East Hampton Town	149,345
Essex Town	21,206
Haddam Town	43,149
Middlefield Town	24,798
Old Saybrook Town	113,088
Portland Town	93,301
Westbrook Town	34,859
New Haven County area	12,800,500
New Haven County govt.	0
Total to all cities over 2,500	8,781,835
Total to all cities under 2,500	21,615
Total to all townships	3,997,050
Ansonia City	334,374
Derby City	200,872
Meriden City	885,850
Naugatuck Borough	374,960
New Haven City	2,905,607
Waterbury City	2,284,316
Milford City	1,073,100
West Haven City	742,755
Beacon Falls Town	45,683
Bethany Town	28,011
Branford Town	305,972
Cheshire Town	192,743
East Haven Town	530,030
Guilford Town	135,173
Hamden Town	874,484
Madison Town	39,652
Middlebury Town	40,447
North Branford Town	192,242
North Haven Town	303,305
Orange Town	108,331
Oxford Town	32,663
Prospect Town Hall	41,817
Seymour Town	206,814
Southbury Town	64,176
Wallingford Town	643,093
Wolcott Town	176,573
Woodbridge Town	35,842
New London County area	3,061,270
New London County govt.	0
Total to all cities over 2,500	1,294,418
Total to all cities under 2,500	20,341
Total to all townships	1,746,510
Colchester Borough	10,271
Groton Borough	48,947
Jewett City Borough	19,582
New London City	649,607
Norwich City	566,012
Colchester Town	76,772
East Lyme Town	[illegible]08,340
Griswold Town	163,799
Groton Town	520,148
Lebanon Town	44,236
Ledyard Town	145,211
Lisbon Town	17,579
Montville Town	131,388
North Stonington Town	51,189
Old Lyme Town	49,259
Preston Town	29,439
Sprague Town	49,383
Stonington Town	166,484
Waterford Town	114,987
Tolland County area	1,216,283
Tolland County govt.	0
Total to all cities over 2,500	26,962
Total to all cities under 2,500	0
Total to all townships	1,189,320
Stafford Springs Borough	26,962
Town of Bolton	26,071
Columbia Town	28,424
Coventry Town	114,572
Ellington Town	92,457
Hebron Town	15,656
Mansfield Town	267,431
Somers Town	39,123
Stafford Town	61,244
Tolland Town	89,173
Vernon Town	414,805
Willington Town	11,138
Windham County area	968,359
Windham County govt.	0
Total to all cities over 2,500	354,599
Total to all cities under 2,500	0
Total to all townships	513,759
Danielson Borough	42,108
Putnam City	89,353
Willimantic City	223,099
Brooklyn Town	47,285
Canterbury Town	7,779
Killingly Town	153,126
Plainfield Town	61,446
Pomfret Town	14,044
Putnam Town	114,072
Thompson Town	22,060
Windham Town	102,353
Woodstock Town	31,463

Source: Based on *Congressional Record,* October 5, 1972, Senate p. 17065.

Allocations to States

Allocations to states are made according to either a three-factor or five-factor formula, depending on which formula produces the greater amount. Under the three-factor formula, the total appropriation is allocated on the basis of a state's population, weighted by its "relative income" level (so that the lower the income of a state the greater will be the state's allocation). and further weighted by its "tax effort" (so that the greater the tax effort, the greater will be the state's allocation). Relative income is the total per capita income of the United States, determined on the basis of money income received from all sources, divided by the per capita income of the state. Tax effort is the total amount of state and local taxes collected in the state divided by the total personal income of individuals in the state. Thus, each state's population is multiplied by its relative income factor and its tax effort factor. The resulting product for a state is then added to the resulting product for each of the other states. The percentage of the total appropriation allocated to each state is equal to the resulting product of that state's three factors divided by the sum of the resulting products for all the states.

The five-factor formula includes two additional factors, urbanized population and income tax collections; the larger a state's urbanized population and income tax collections, the larger its allocation. States which have no income tax, or states like Connecticut with a minimal income tax are presumed to have collected an amount equal to 1% of the Federal individual income tax liabilities attributed to the state.

A state government's one-third share of the amount allocated to such state will be reduced on or after July 1, 1973 by the amount that the state reduces its aid to local governments below the amount of aid it distributed in fiscal 1971-1972. This reduction will be adjusted, however, to the extent (1) that the state government assumes responsibility for expenditures which were previously the responsibility of local governments and (2) that local governments collect taxes or a state loses revenues because of new taxing powers conferred by the state on the local governments. Any reduction in a state government's entitlement go to the Federal government's general fund and are not available to the local governments or to another state.

Allocations to Local Governments

To determine the amount to which each unit of local government is entitled, the two-third's portion going to a state's local governments is first allocated among the state's county areas on the ratio of each county area's population, tax effort, and relative income to the population, tax effort, and relative income of all counties in the state. The tax effort factor is computed without including any tax revenues used for education expenditures. Also, to prevent any extreme allocations, the per capita amount allocated to each county area cannot be less than 20%, nor more than 145%, of the per capita amount allocated to all the county areas in the state.

The procedure for allocating funds among local governments within a county is substantially the same as allocating funds among counties. Each local government will be entitled to a portion of the amount allocated to its county area based on the ratio that its population, tax effort and relative income bears to the population, tax effort, and relative income of all local governments in the county. The tax effort factor is computed without including any tax revenues used for education expenditures. The product of these three factors for a local government, divided by the sum of such products for all the local governments in the county area, equals that portion of revenue sharing funds allocated to the county area to which the local government is entitled. Again, there are certain limitations to prevent extreme results. First the per capita amount of any unit of local government for any entitlement period cannot be less than 20% nor more than 145%, of the per capita amount of all local governments in the state. Second, the amount allocated to a local government for any entitlement period cannot exceed 50% of the sum of (1) such government's tax revenues not counting revenues used for education expenditures, plus (2) state and Federal aid received by such local government for financing the performance of governmental functions. Third, no allocation will be paid to a local government if it amounts to less than $200 for a one-year period.

It is interesting to note that one of the results of revenue sharing could be a reduction in a state or local government's taxes. If, however, taxes are reduced the reduction will lower the tax effort factor and could result in a reduction in such government's allocation of funds.

Changing the Allocation Formula

A state may make a statutory change in the formulas for allocating revenue sharing funds among county areas or among local governments. The revised formula must be based either on the population multiplied by the general tax effort of the county areas or local governments, or on the population multiplied by the relative income of county areas or local governments, or on a combination of the two factors. Any revised formula would be required (1) to allocate all the amounts available for allocation among local governments; (2) to be applied uniformly throughout the state and (3) to be applied for all remaining entitlement periods through December 31, 1976. Also, the Secretary of the Treasury must be notified of the revised formula 30 days prior to the first entitlement period to which it is to apply. This means that the allocation formula cannot be changed in Connecticut prior to the entitlement period beginning July 1, 1973.

Administrative Provisions

There are miscellaneous administrative provisions which apply to the revenue sharing program. Certain auditing and reporting procedures are required. No revenue sharing funds may be used in any program or activity which discriminates against anyone on the basis of race, color, national origin, or sex. The wage standards of the Davis-Bacon Act apply to all laborers and mechanics employed by contractors and subcontractors on construction projects where 25% or more of the costs are financed with revenue sharing funds. The wages of employees paid in whole or in part from revenue sharing funds must be at least equivalent to the prevailing wages for employees of the same employer in similar public occupations if 25% or more of the wages of all employees in the same category are paid from revenue sharing funds. Each state and local government must deposit all its revenue sharing funds in a trust fund. Finally, local governments can use the funds only for priority expenditures as noted earlier. If a local government used revenue sharing funds for other than priority expenditures it may have to repay the Federal government an amount equal to 110% of the amount misused.

Footnotes to Part C

1 See Part B, Vol. 1, "Derivation of Elasticity for Existing Connecticut Tax Structure."

2 ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (Washington, D.C., March, 1971).

3 See Appendix B, Part C, Vol. 1, for a full description of revenue sharing.

4 Special Act 53, 1972 Session.

PART D

Fiscal Impact of Commission Program

Introduction

The Commission has adjusted its program of tax reform, city assistance measures, and school equalization costs to the excess revenues predicted from the present tax structure as these revenues are being generated. As shown in Table C-7 (Part C, Vol. I), if expenditure constraints are met, excess revenues will develop in each year from FY '73 to '77.

The Commission has based its program on the philosophy of maintaining taxation at the lowest possible level consistent with expenditure growth. Obviously, if major new programs are adopted in addition to the Commission recommendations, the revenue requirements will have to be determined and provisions made to develop the needed revenues through tax increases or other means, concurrently with the adoption of the new program. The cause and effect relationship of revenue and new programs will, therefore, need to be considered by the Legislature as a precondition to authorization of major spending.

The implementation of various elements of tax reform has been timed so as to provide revenue coverage in the appropriate years. Effectively, then, the Commission's program is designed to identify and reserve excess revenues presently being developed for both tax reform and necessary compensatory programs. The Commission program is, therefore, effectively self-financing.

Explanation of Tables D-1 - D-2

Table D-1 shows the net effect of the reforms the Commission is proposing beginning in year FY '74. All items are shown as a differential from the FY '73 base year. The cost of the program as a reduction from the present structure varies from $56 million to $96 million through FY '77. Table D-1 shows excess revenues from the present structure ranging from $58 million FY '74 to $128 million in FY '77. Deducting the cost of the Commission's program from excess revenues leaves an estimated surplus varying from $2 million in FY '74 to $32 million in FY '77.

The Commission's program as it affects local government is described in Table D-2. This table shows the net of two major thrusts, i.e., taxes foregone by local government through the personal property tax exemptions and increased revenues gained through improved assessment procedures and compensatory State grants. The improved assessment system is expected to identify properties which are currently underassessed according to existing statutes. The assessment reforms should become partially effective in FY '75 and fully effective in FY '76.

The Commission program for local government allows for a gradual phase-out of the personal property tax base through depreciation and exemption of new purchases. The Commission estimated the full depreciation cycle will take approximately 10 years on a linear basis. While Table D-2 only projects ahead through FY '77, it is felt the overall growth in the real property base, partially as a result of the Commission's program, will more than offset the subsequent effects of the personal property base depreciation. Additionally, the compensatory programs can be continued and adjusted to the changing circumstances of subsequent years.

As further defined in the section on property taxes, sufficient revenue will exist in FY '76 to enable a general roll-back of property tax rates up to 10%.

TABLE D-1: Summary of Commission's Recommendations Affecting State Governmental Revenues/Expenditures

Referenced to FY 1973 As Base Year
(in $ millions)

	FY 74	75	76	77
A. *Tax Reductions—Loss of Revenue*				
*1. Sales Tax Decrease to 6½%	–34	–37	–40	–43
2. Eliminate Tax on Dividends	–29	–31	–33	–35
3. Corporate Income Tax/Min. Base	– 8	– 8	– 8	– 8
4. Eliminate Sales Tax on Manufacturers' Machinery and Equipment	–20	–22	–24	–50
B. *Increases in Costs due to Commission Programs*				
1. Elderly Renter/Owner Circuit Breaker	–15	–18	–20	–22
2. Aid to Cities				
(a) Block Grants	–10	–10	–30	–30
(b) Funds Available to Cities Based on Tax-exempt Property Formula	–10	–10	–10	–10
(c) State Property Reimbursement	– 2	– 2	– 2	– 2
3. School Equalization	–	–	–20	–20
4. Assessment Services	– 2	– 3	– 3	– 3
C. *Tax Increases—Gain in Revenue*				
*1. Sales Tax Base Broadened	+36	+39	+42	+45
2. Long-Term Capital Gains @ 100% of Value	+20	+22	+24	+27
3. Real Estate Conveyance Tax Increase from $1.10 to $10/thousand	+18	+20	+22	+24
4. Bring Insurance Industry Under Corporate Income Tax	–	+ 7	+ 8	+ 9
D. *Reductions in Costs due to Commission Programs*				
1. Eliminate Grants in Lieu of Taxes on Manufacturers' and Merchants' Inventories	–	–	+20	+22
NET CHANGES/COST OF COMMISSION PROGRAM	–56	–53	–76	–96
ESTIMATED EXCESS REVENUES**	+58	+76	+101	+128
SURPLUS AFTER COMMISSION PROGRAM	+ 2	+23	+ 27	+32

*See recommendation A (Part A, Volume III). The revenue effect of continuing the sales tax @ 7% or reducing the tax to 6½% on a broadened base is negligible.

**Revenues in excess of expenditures based on current tax structure and projected spending level.

TABLE D-2: Summary of Commission's Recommendations Affecting Local Revenues/Expenditures

Referenced to FY 1973 As Base Year
(in $ millions)

	FY 74	75	76	77
A. *Tax Reductions*				
1. Personal Property Tax: eliminate all except motor vehicles, rolling stock of contractors, and personal property of public service companies	– 7	–14	–21	–28
2. Loss of Revenue from Over-assessments	– 5	– 5	– 5	– 5
B. *Tax Increases*				
1. Building Permits — $5 per $1,000 new construction	+2.5	+3.0	+3.5	+4.0
2. Service Charges Levied on Tax-exempt Institutions	+3.5	+4.0	+4.5	+5.0
3. Conveyance Tax P.A. 152—5% recapture	+1.0	+1.5	+2.0	+2.5
C. *Additional Revenues from State Sources*				
1. Increased Block Grant Programs	+10	+10	+30	+30
2. State Grants to Locals Sharing a Disproportionate Burden of the Cost of Tax-exempt Property	+10	+10	+10	+10
3. State Grants in Lieu of Taxes on State Property	+ 2	+ 2	+ 2	+ 2
4. School Equalization Funds	–	–	+20	+20
D. *Reduction in Revenue from State Sources*				
1. Inventory — Grants in Lieu of Taxes	–	–	–20	–22
E. *Additional Revenue Available from Local Sources*				
1. Underassessed Property	–	+50	+115	+120
2. Cost of Assessment Program	– 2	– 3	– 4	– 5
TOTAL GAINS FROM COMMISSION PROGRAM	+29.0	+80.5	+187.0	+193.5
TOTAL REDUCTIONS FROM COMMISSION PROGRAM	–14.0	–22.0	–50.0	–60.0
NET INCREASE AVAILABLE FOR PROPERTY TAX REDUCTION	+15.0	+58.5	+137.0	+133.5

Source of Estimates

All revenue estimates or program costs were developed in consultation with one or more of the following agencies: State Tax Department, Department of Finance and Control, Division of the Budget, Connecticut Public Expenditure Council, or material developed by the State Revenue Task Force.

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