



Connecticut 2020: Fiscal Implications of Economic & Demographic Change



2008 Research & Policy Conference

November 21, 2008



INSIDE THIS WEEK: A 14-PAGE SPECIAL REPORT ON GLOBALISATION

The Economist

SEPTEMBER 20TH - 26TH 2008

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Who killed New Labour?

The war in Pakistan's tribal areas

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How to save fish

The last typewriter-repair man

What next?



US copper futures end off on dim economic outlook

Housing Starts Hit Record Low; Drop 4.5% in October

Expert paints bleak outlook for America's economy

Fed sees economy shrinking through mid-2009 -- at least

Carney says economy getting worse

Survey: Few CFOs upbeat about economy

Gaming gets hit by the economic downturn

Recession slices \$850 million from Oregon budget

LPGA trims schedule amid economic downturn

Fed: Economy Stalling, Rate Cut Possible

Fund managers see recession lasting longer

'Hard decisions' needed during economic crisis: throne speech

Housing starts, permits at record lows

U.S. Regional Outlook: An 8-Lane Recession Highway

Baseline Scenario

- Assumptions
 - “stay the course”
 - “business as usual”
 - tinkering on the margins
 - modest recovery

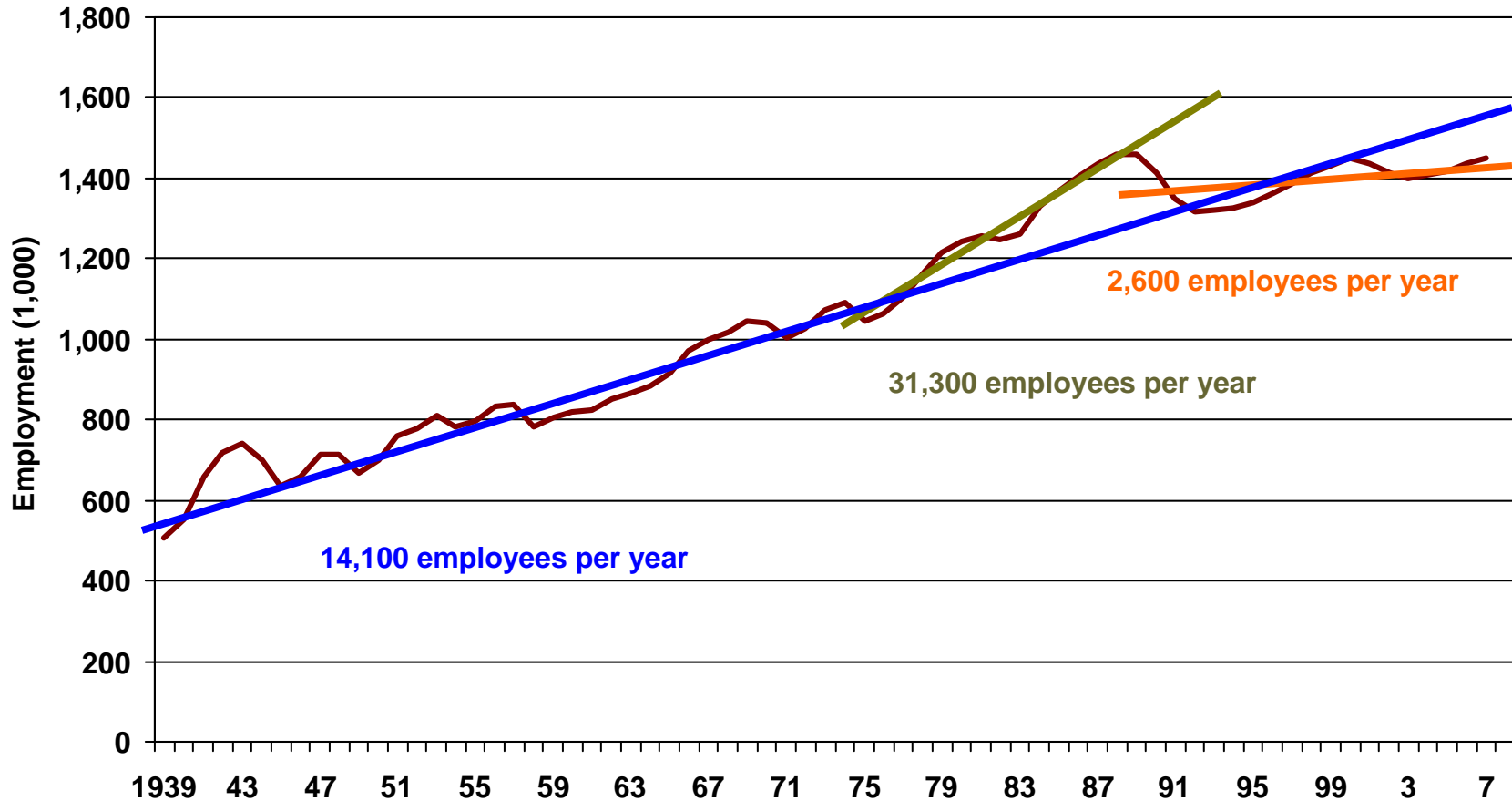
Overview

- Economic & business growth
- Human capital & demographics
- Transportation
- Housing
- Urban centers
- State & local fiscal conditions

Economic & Business Change

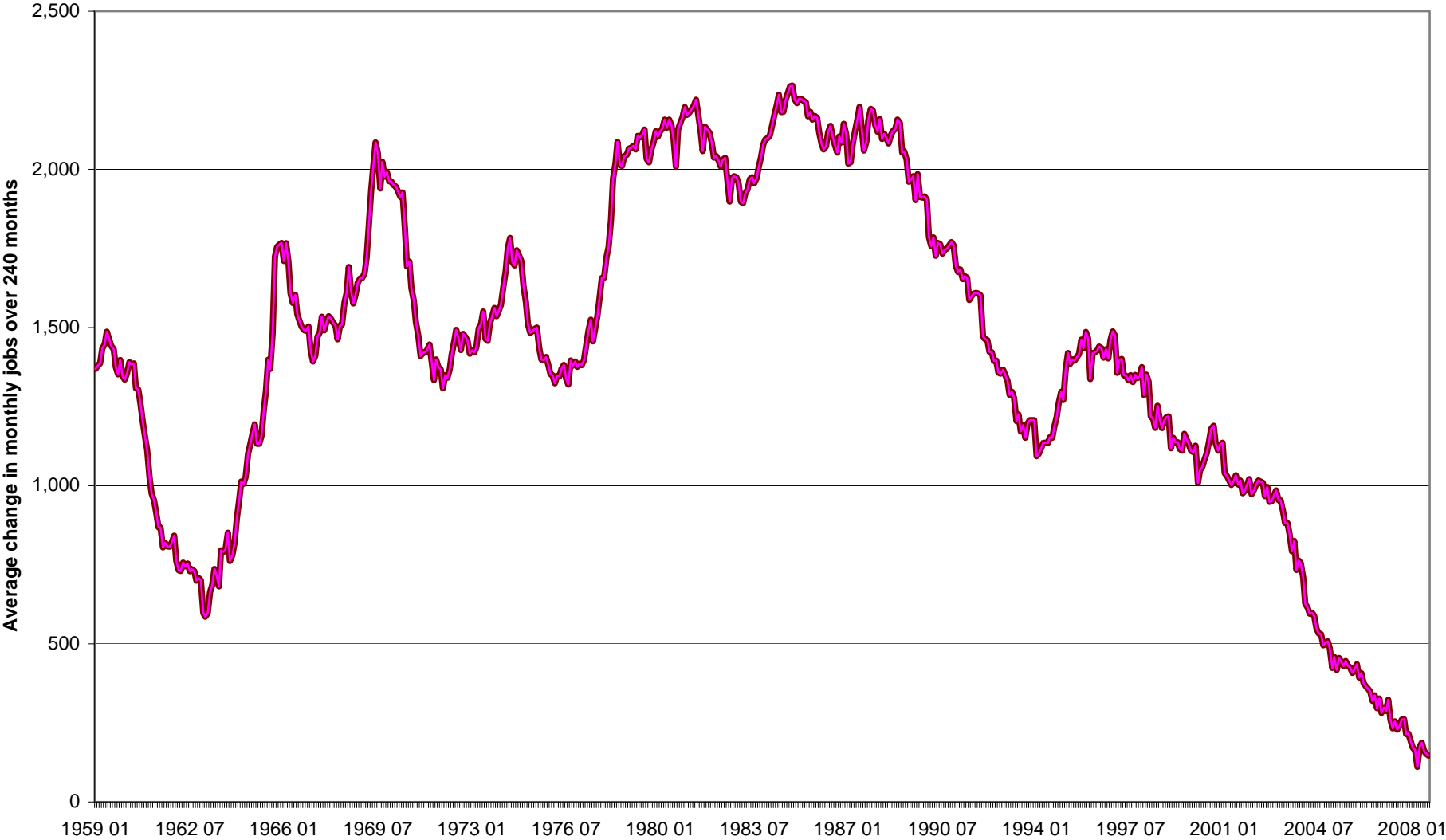
- Job change
- Business change
- Income change

Annual Private Employment Trends



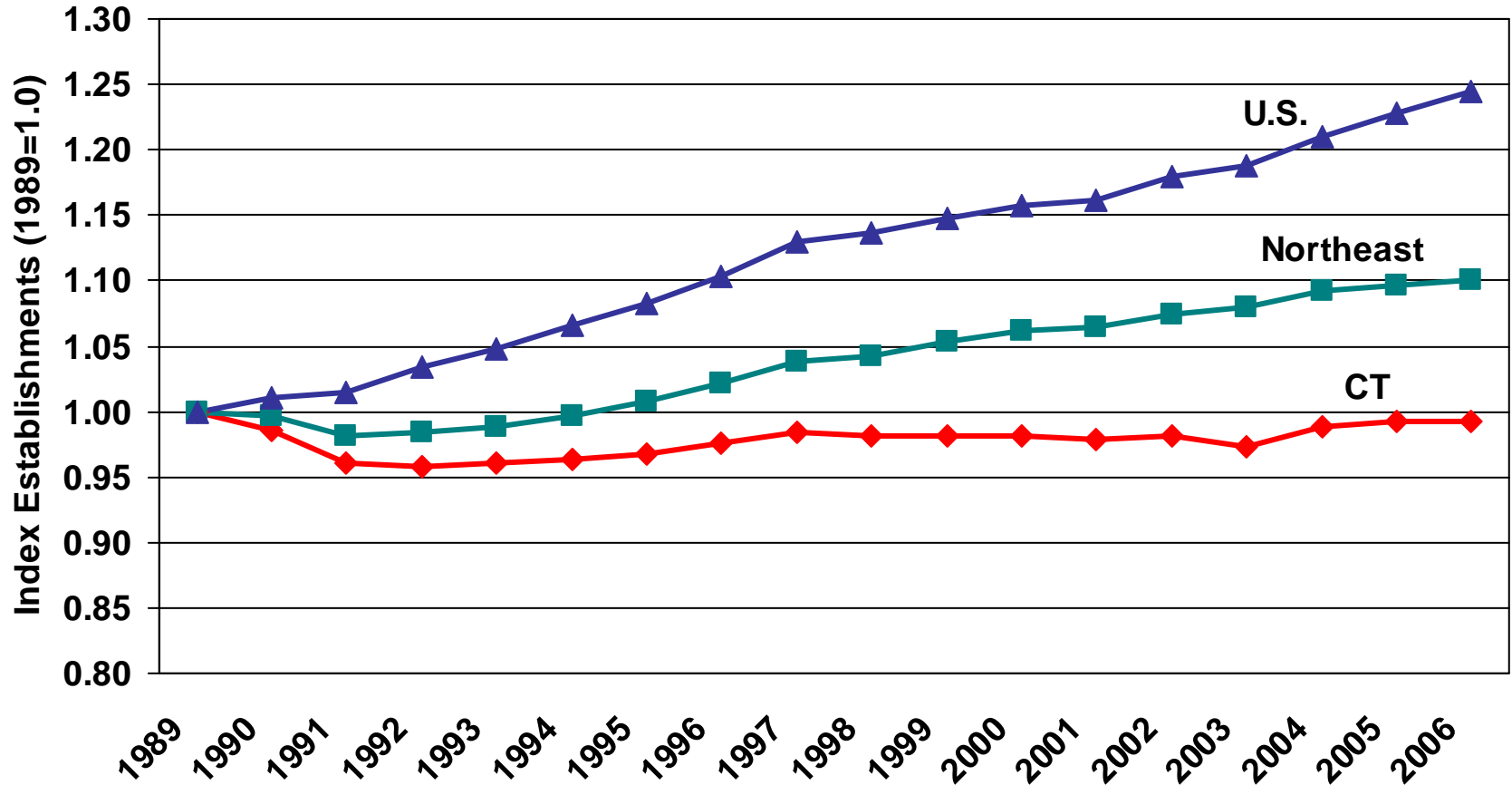
Source: US. Bureau of Labor Statistics

Connecticut's ability to create jobs has eroded over time



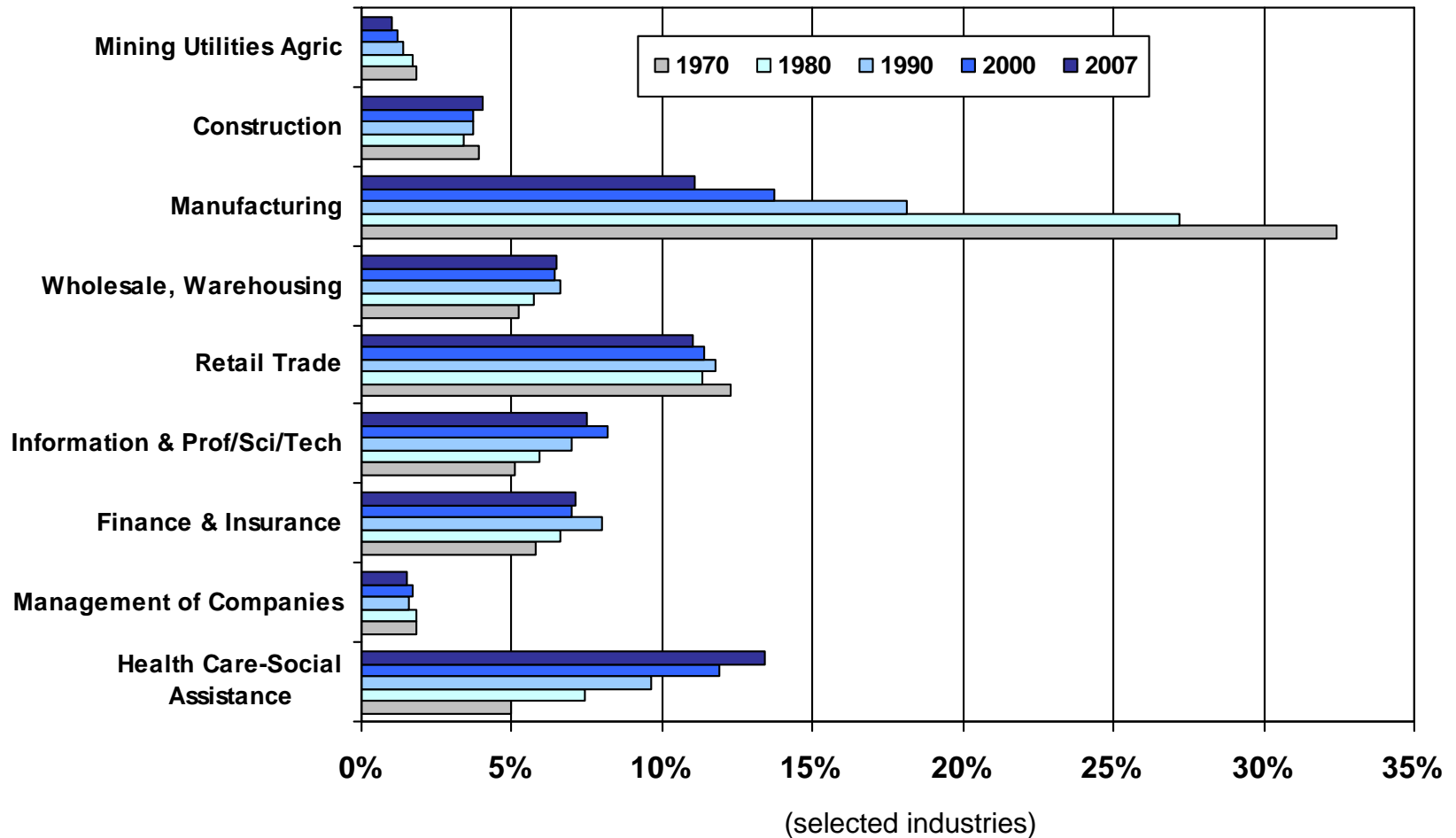
Source: U.S. BLS

Flat Business Growth in Connecticut



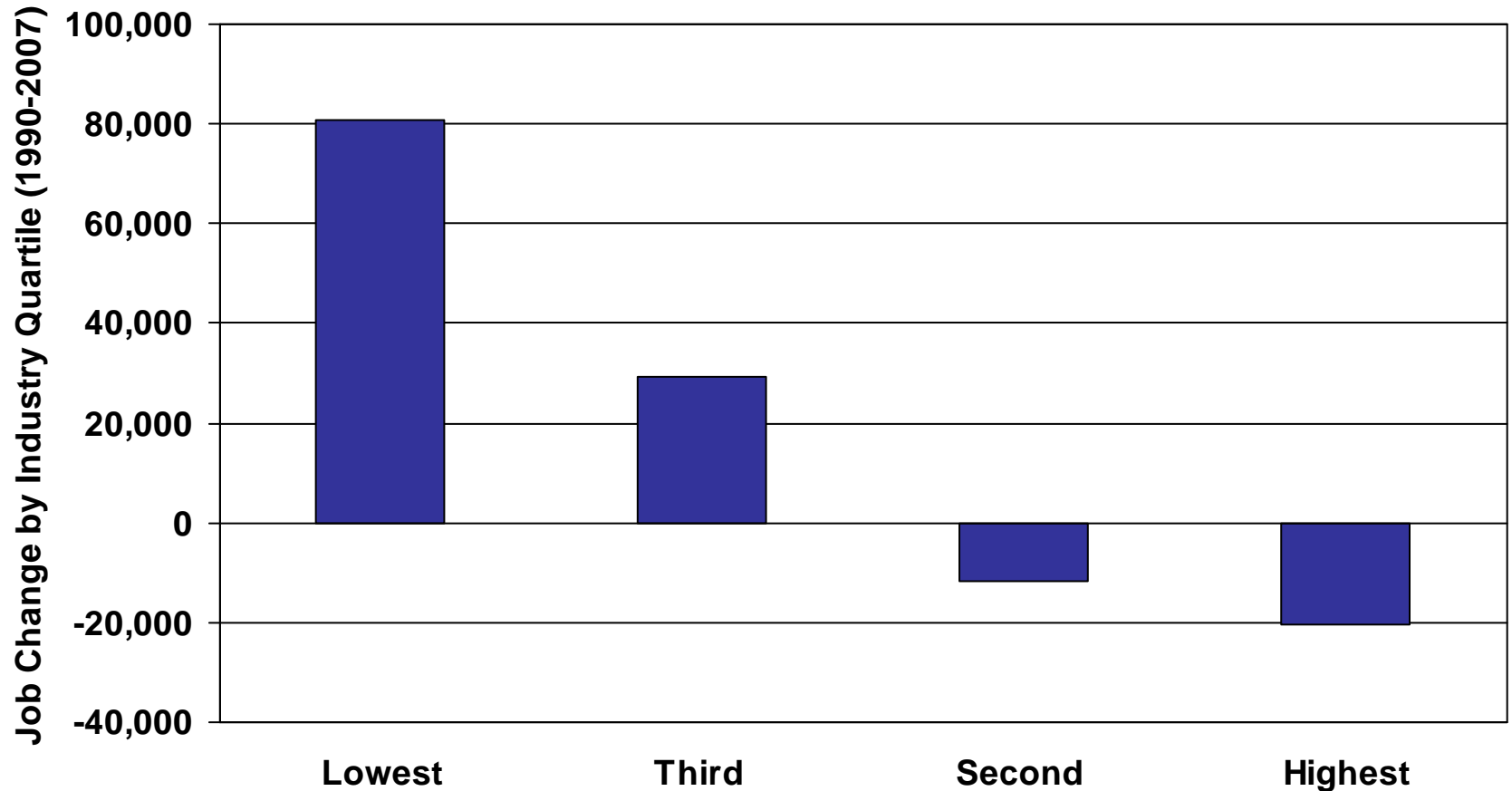
Source: U.S. Census, County Business Patterns

Health Services Up, Manufacturing Down



Source: Moody's Economy.com

Connecticut's Job Growth is Primarily in Lower-Paying Industries

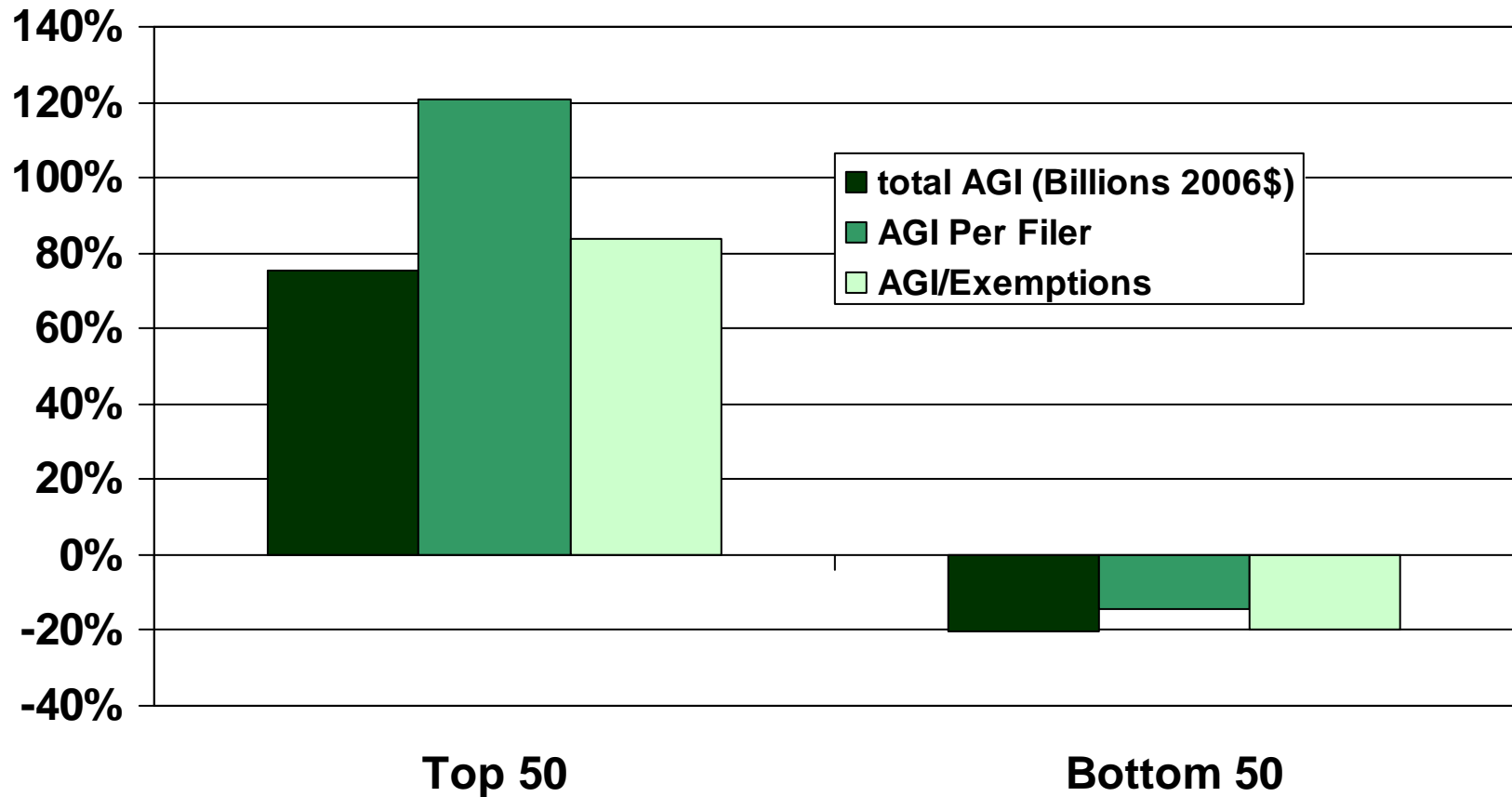


Source: Moody's Economy.com; Calculations by CERC

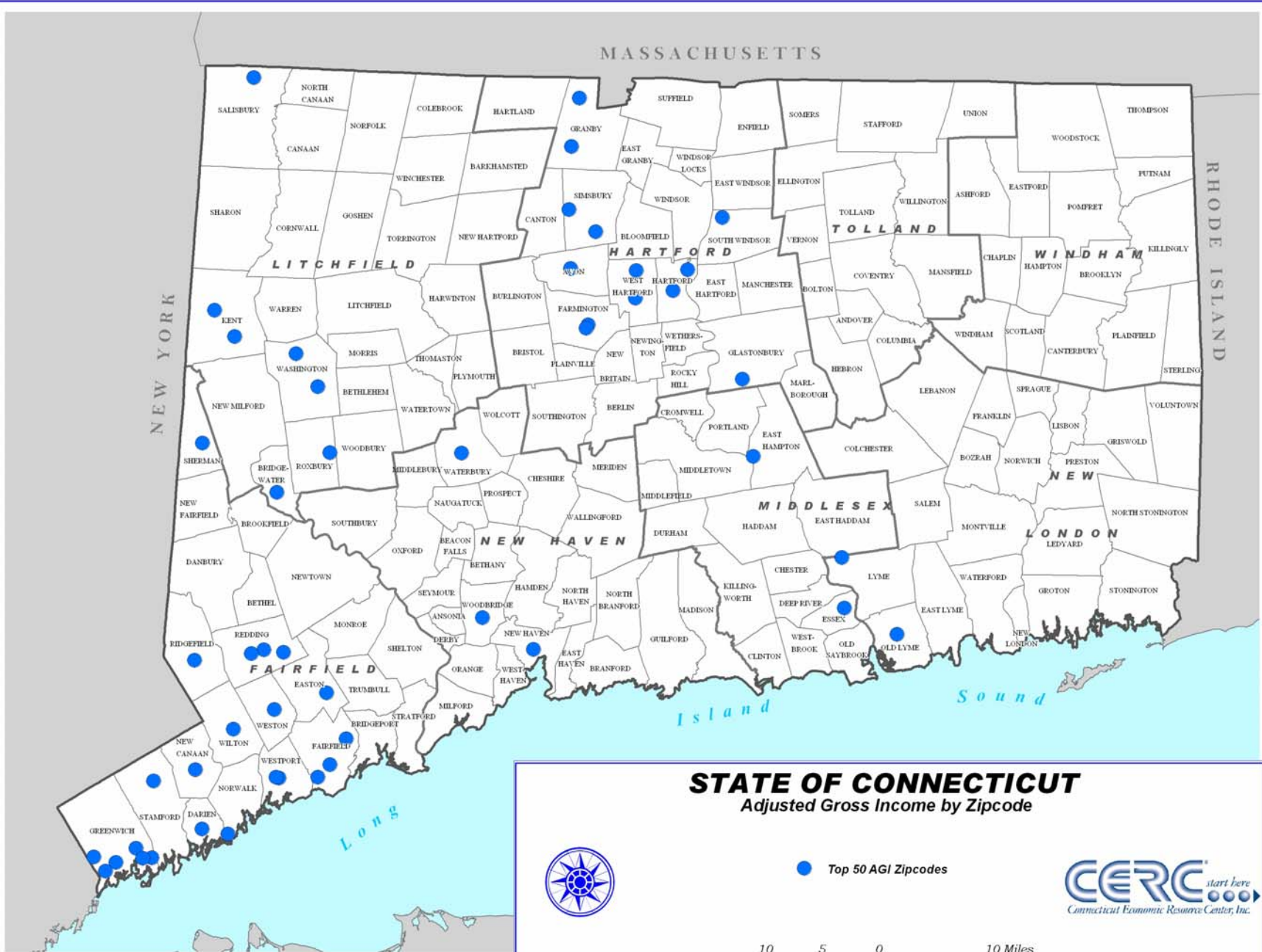
Selected Industries by Wage Quartile

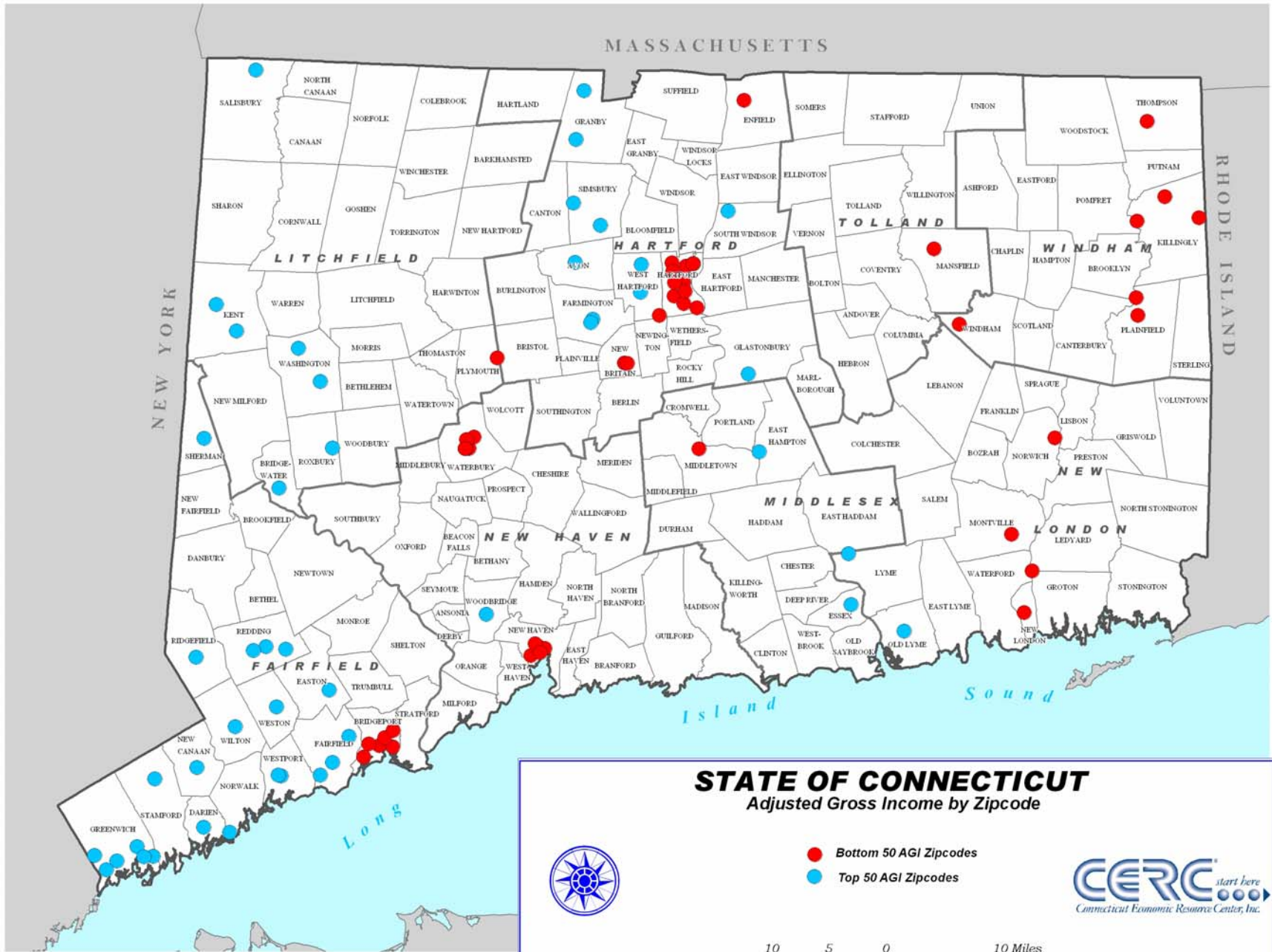
- Highest Wages
 - Transportation Equipment Mfg
 - Insurance Carriers
 - Machinery Mfg
- Second
 - Computer and Electronic Product Mfg
 - Fabricated Metal Product Mfg
 - Credit Intermediation
- Third
 - Nursing and Residential Care Facilities
 - Educational Services
 - Building Material & Garden Equipment Dealers
- Lowest
 - Amusement, Gambling, & Recreation (Casinos)
 - Social Assistance
 - Food Services & Drinking Places

Real Change in Adjusted Gross Income, 1991 to 2005, Connecticut Zip Codes



Source: U.S. IRS Statistics of Income





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NEW YORK

Island

Sound

Long

LITCHFIELD

HARTFORD

TOLLAND

WINDHAM

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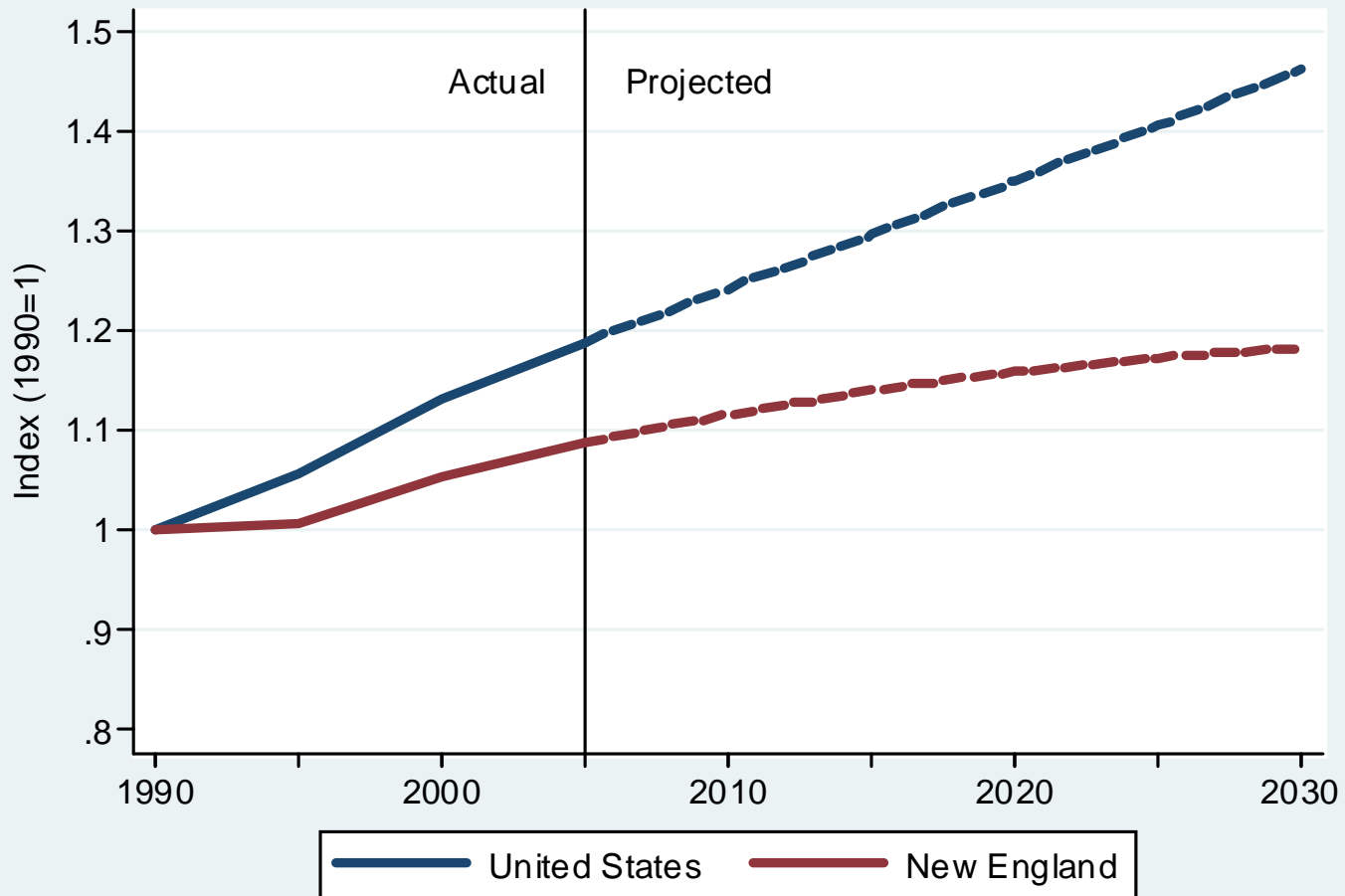
FAIRFIELD

NEW HAVEN

Human Capital & Demographics

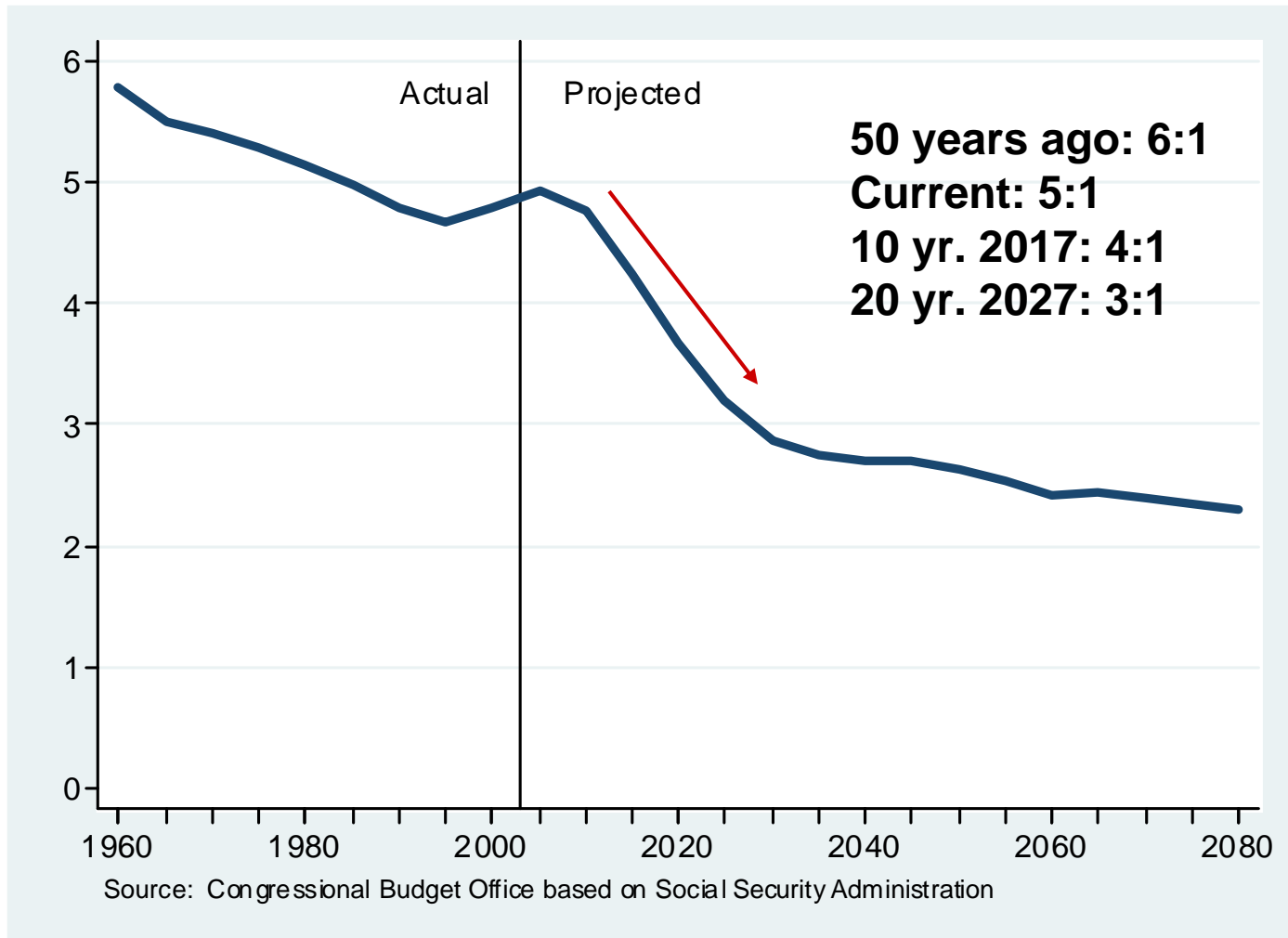
- Slow population growth
- Aging population
- Urban decentralization
 - Population
 - Businesses
 - Jobs
- Out-migration from state

Total Population Growth

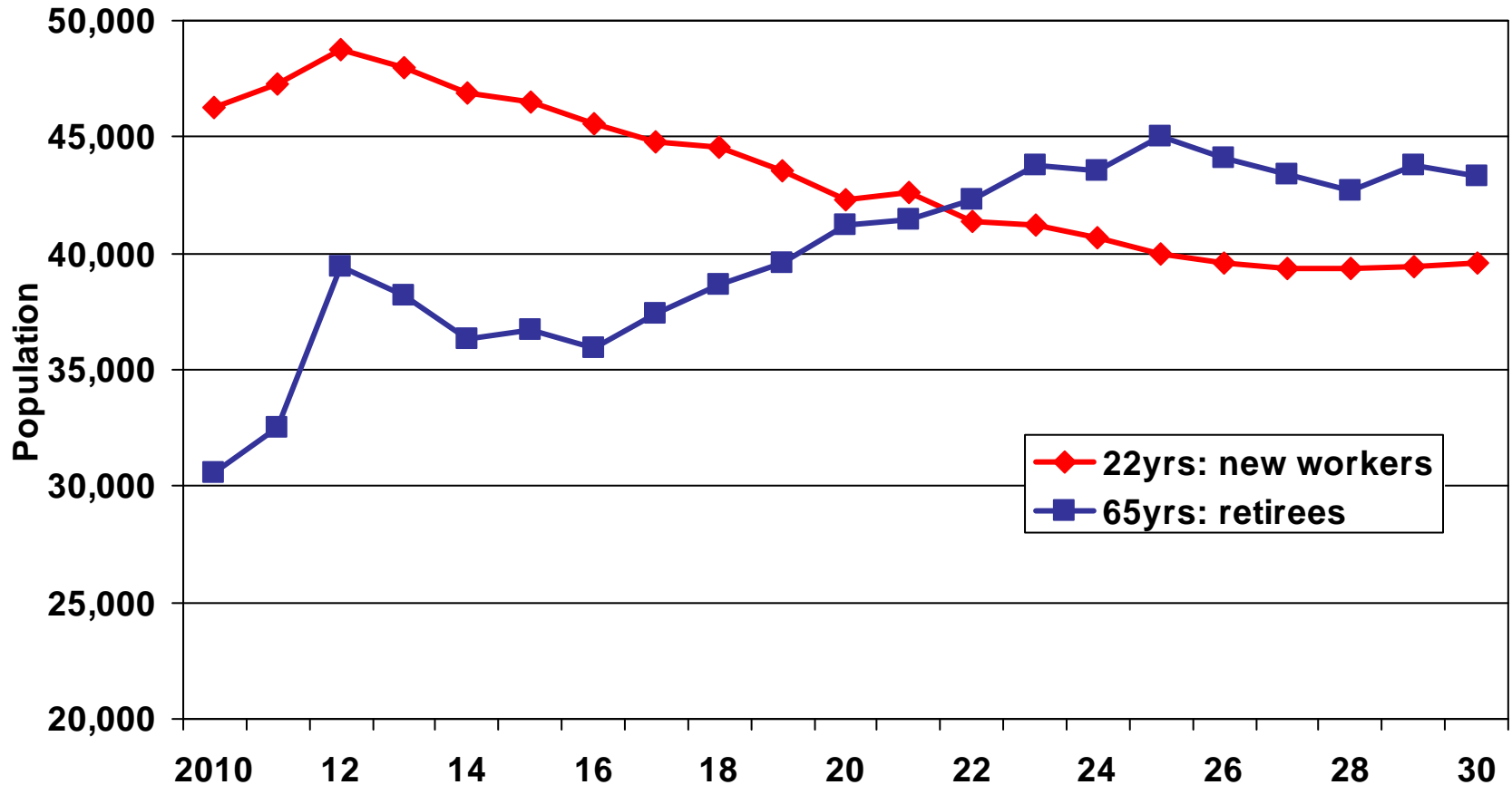


Source: US Census Population Estimates and Projections

Dependency Ratio: Ages 20-64 to Ages 65+

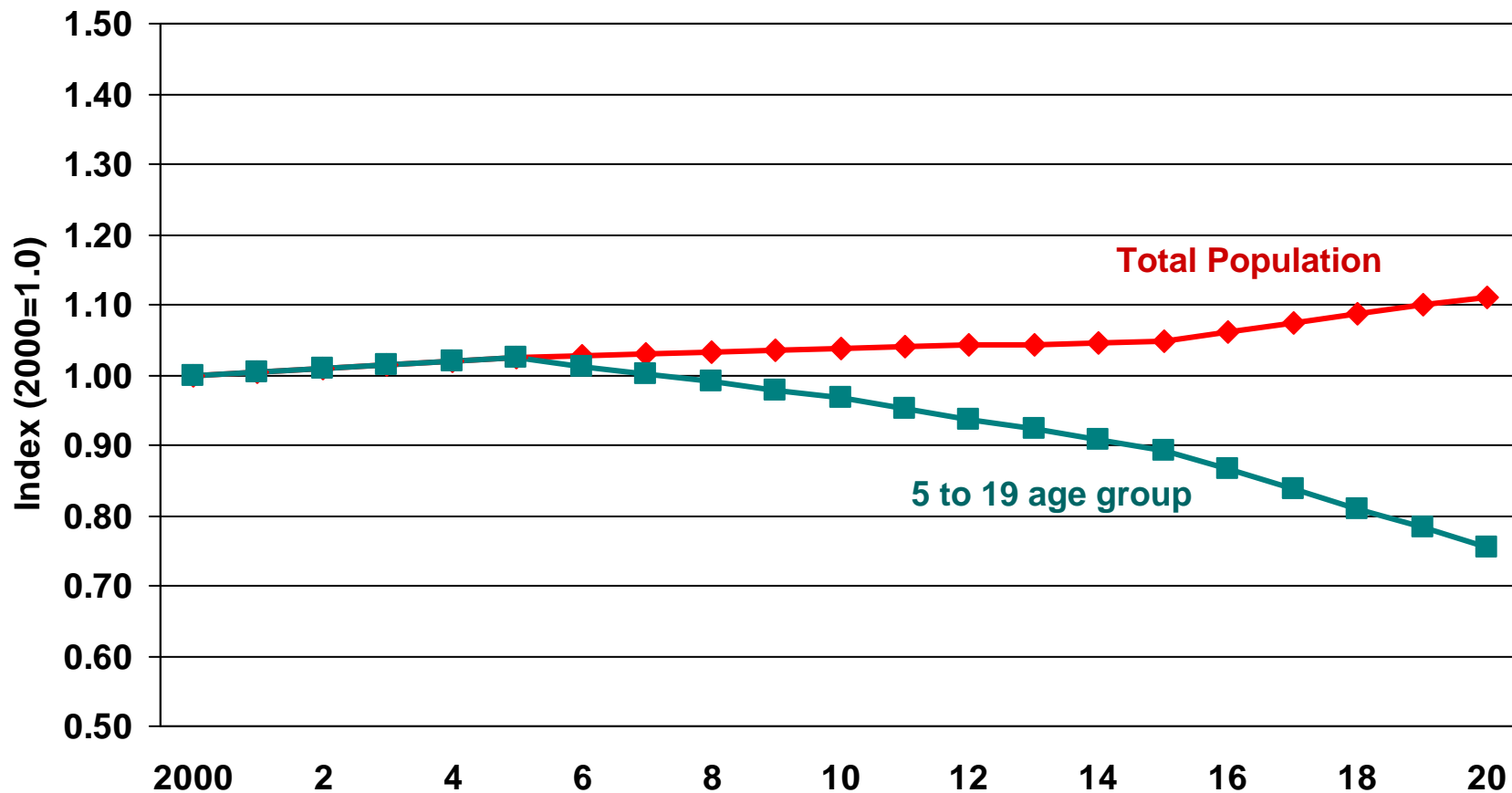


Trends in New and Retiring Workers in Connecticut



Source: CT State Data Center

Declining Workforce Pipeline in Connecticut

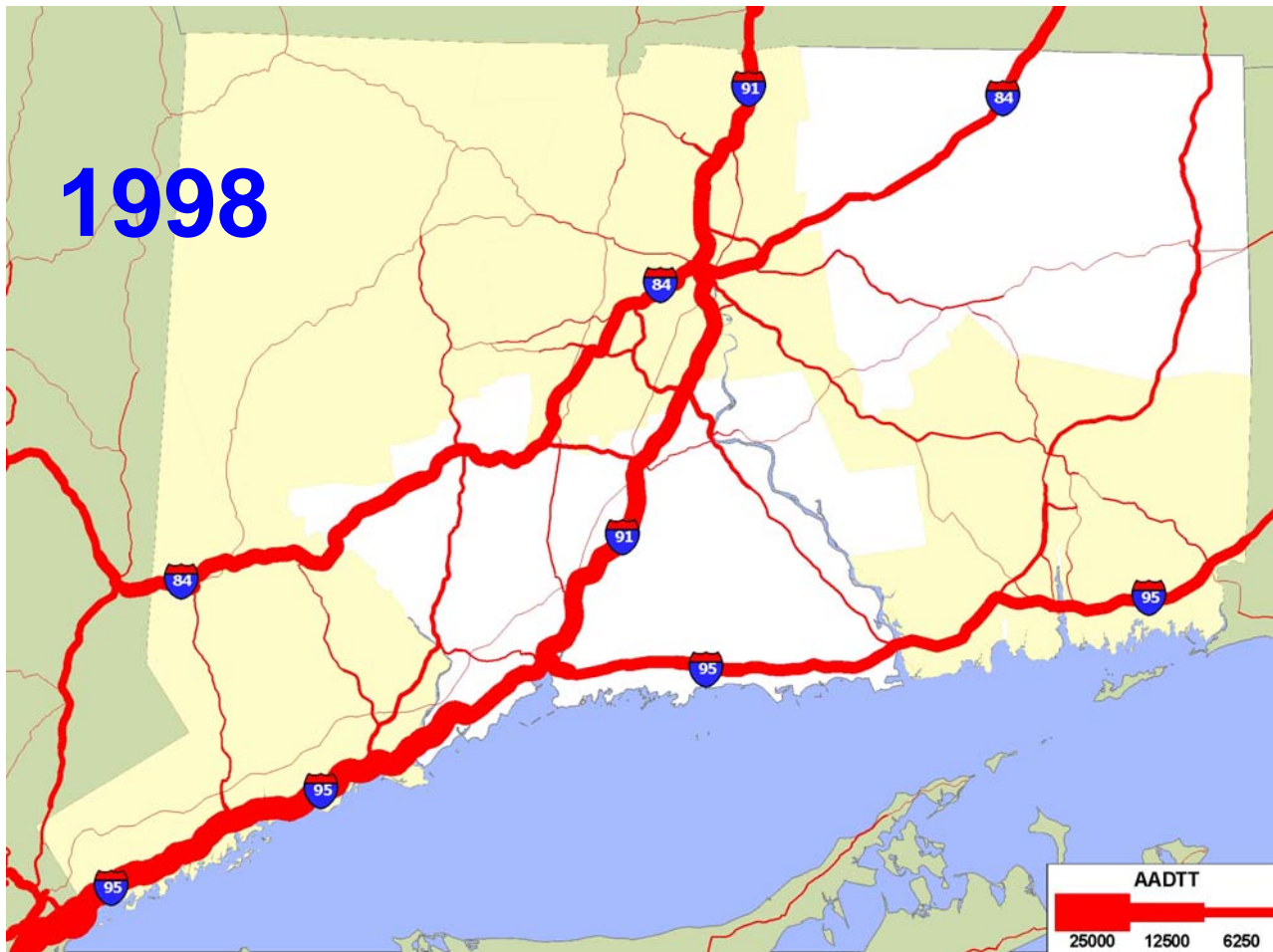


Source: Connecticut State Data Center

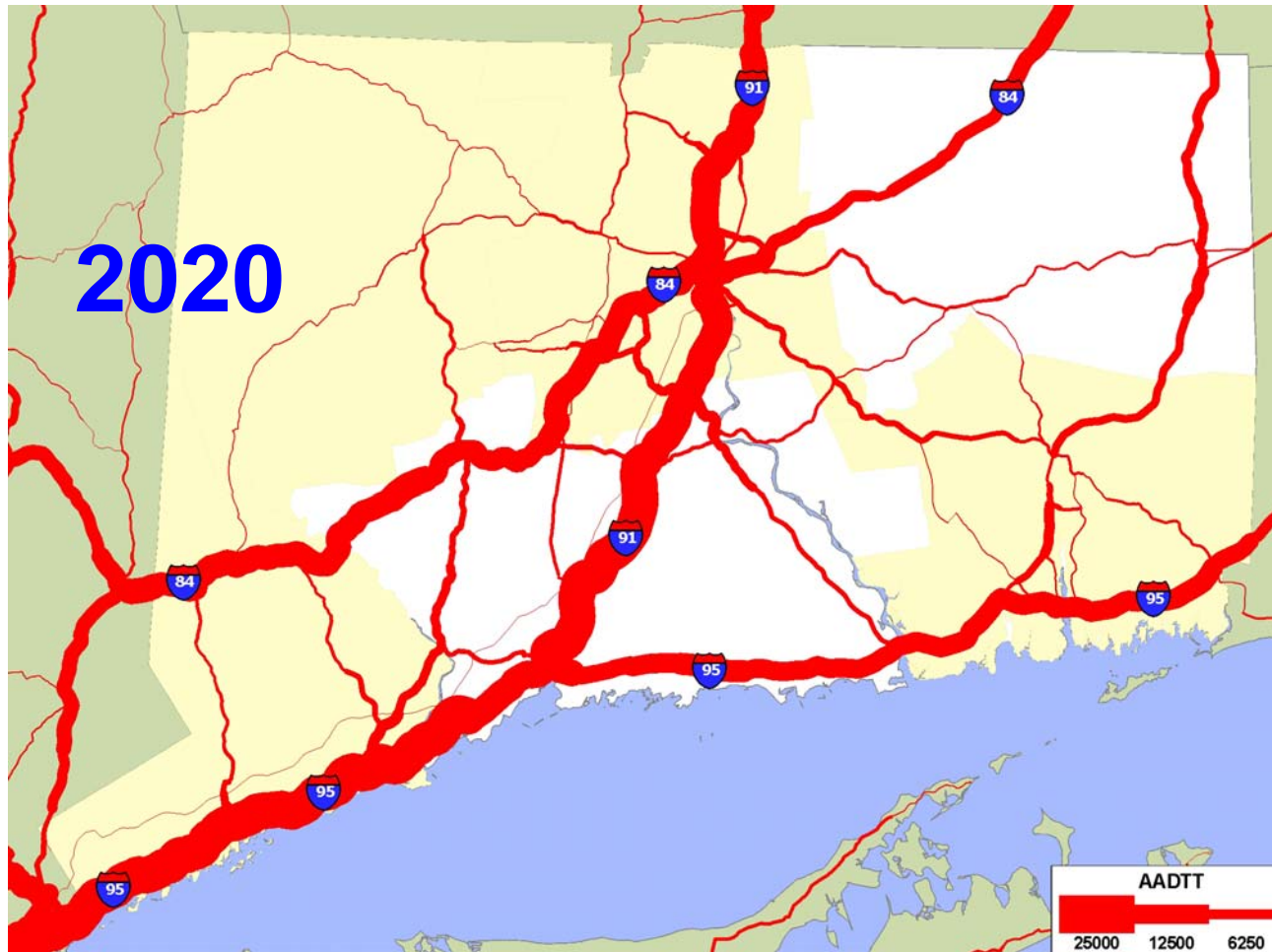
Transportation

- \$3.1 billion shortfall through 2017
- 48% of CT roads in poor or mediocre condition
- 9% of bridges are structurally deficient
- 21% of bridges are functionally obsolete
- Trucking to increase 48% by 2020

Freight Traffic on Connecticut Highways



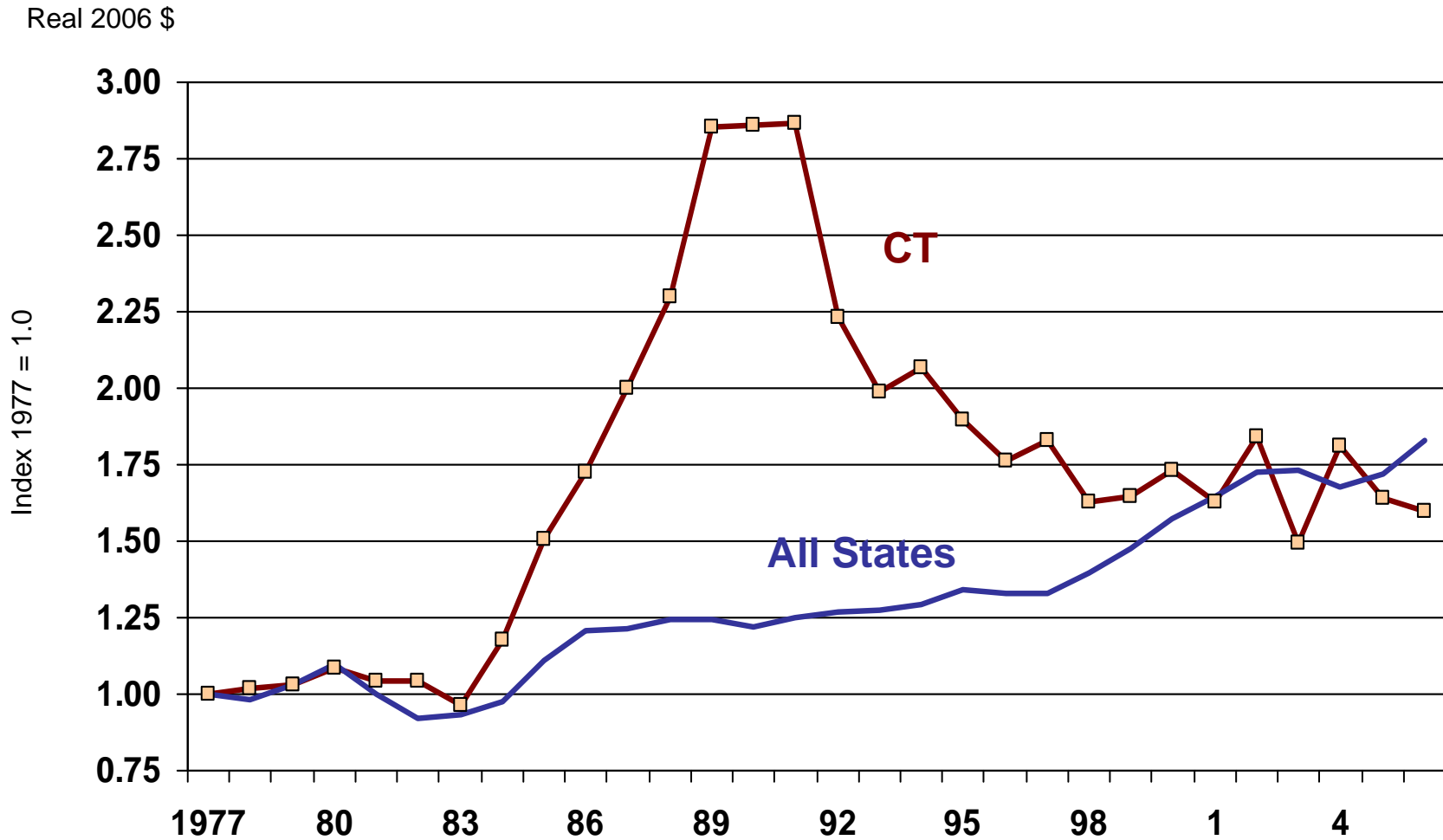
Freight Traffic On Connecticut Highways



Mianus Bridge, 1983



Spending Ramps Up After Bridge Falls; Now Lower Than 50-State Average

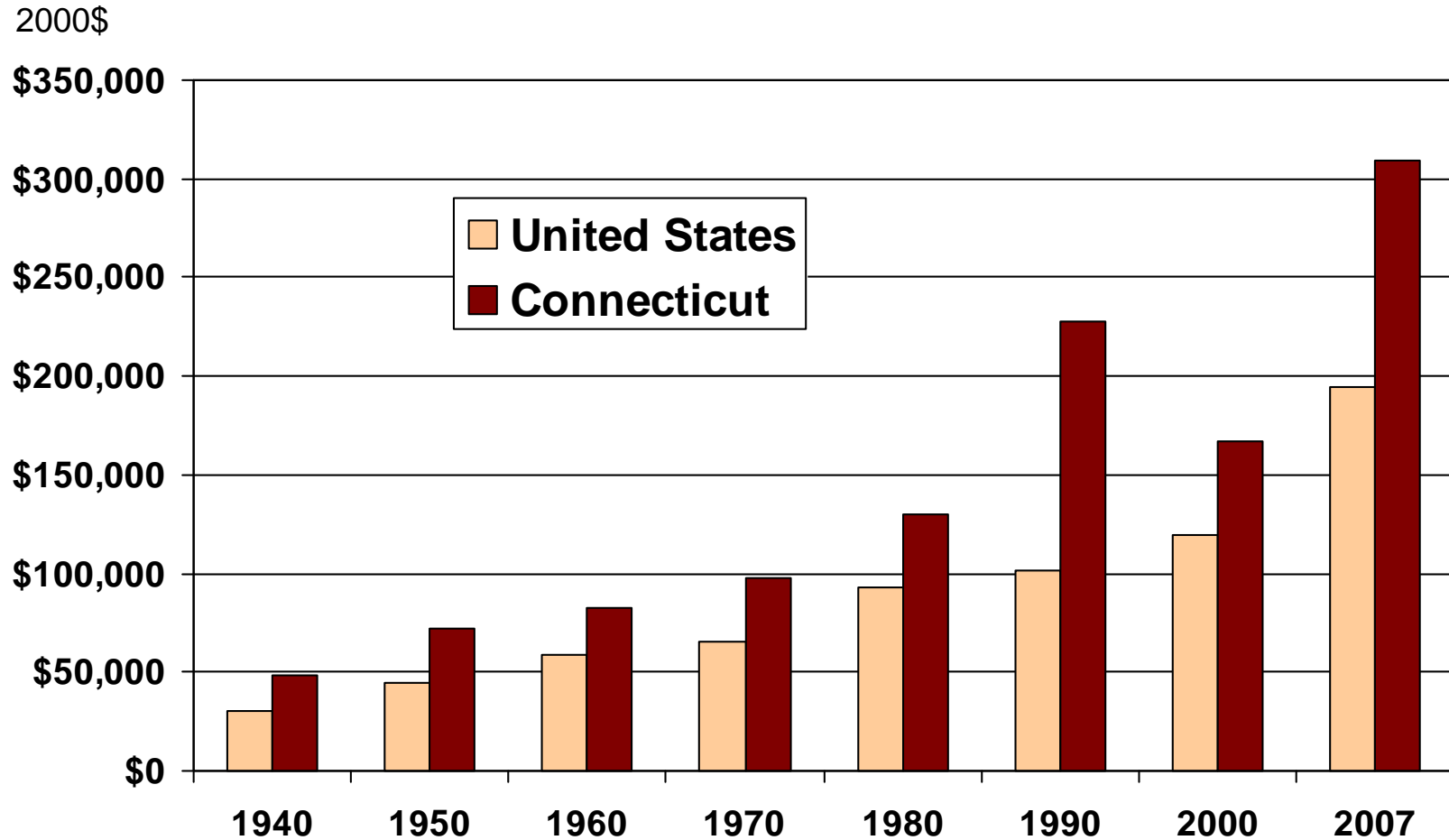


Source: Tax Policy Center

Public Transit Systems

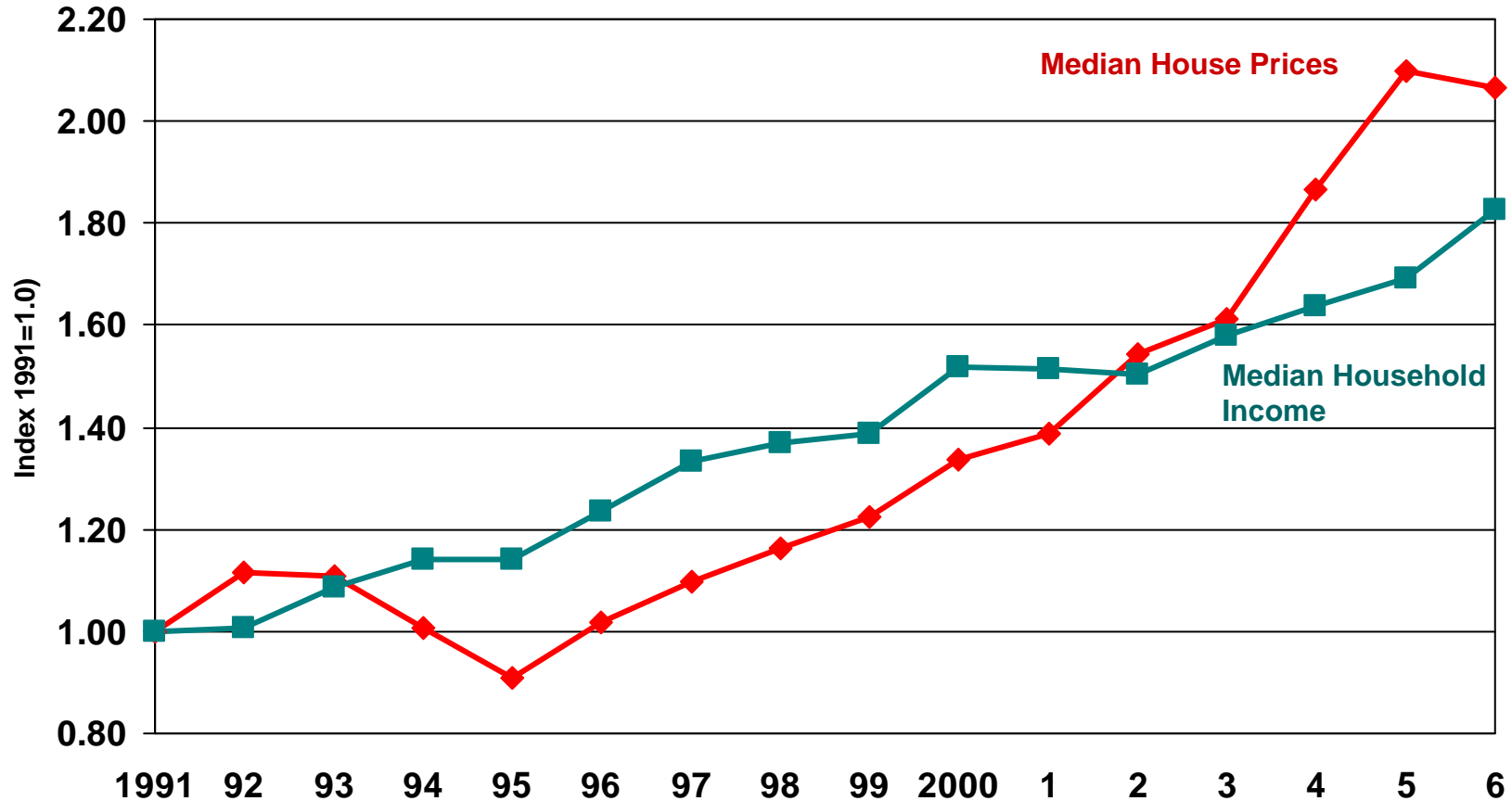
- 4% of Connecticut's Residents use Public Transit (1990, 2000, 2006)
 - Bus routes
 - Ferry
 - Rail service
- Declining federal support for transportation initiatives

Median Housing Values in U.S. and Connecticut



Source: U.S Census, American Community Survey

Housing Affordability in Connecticut



Sources: U.S. Census; Federal Finance Housing Board

Urban Centers

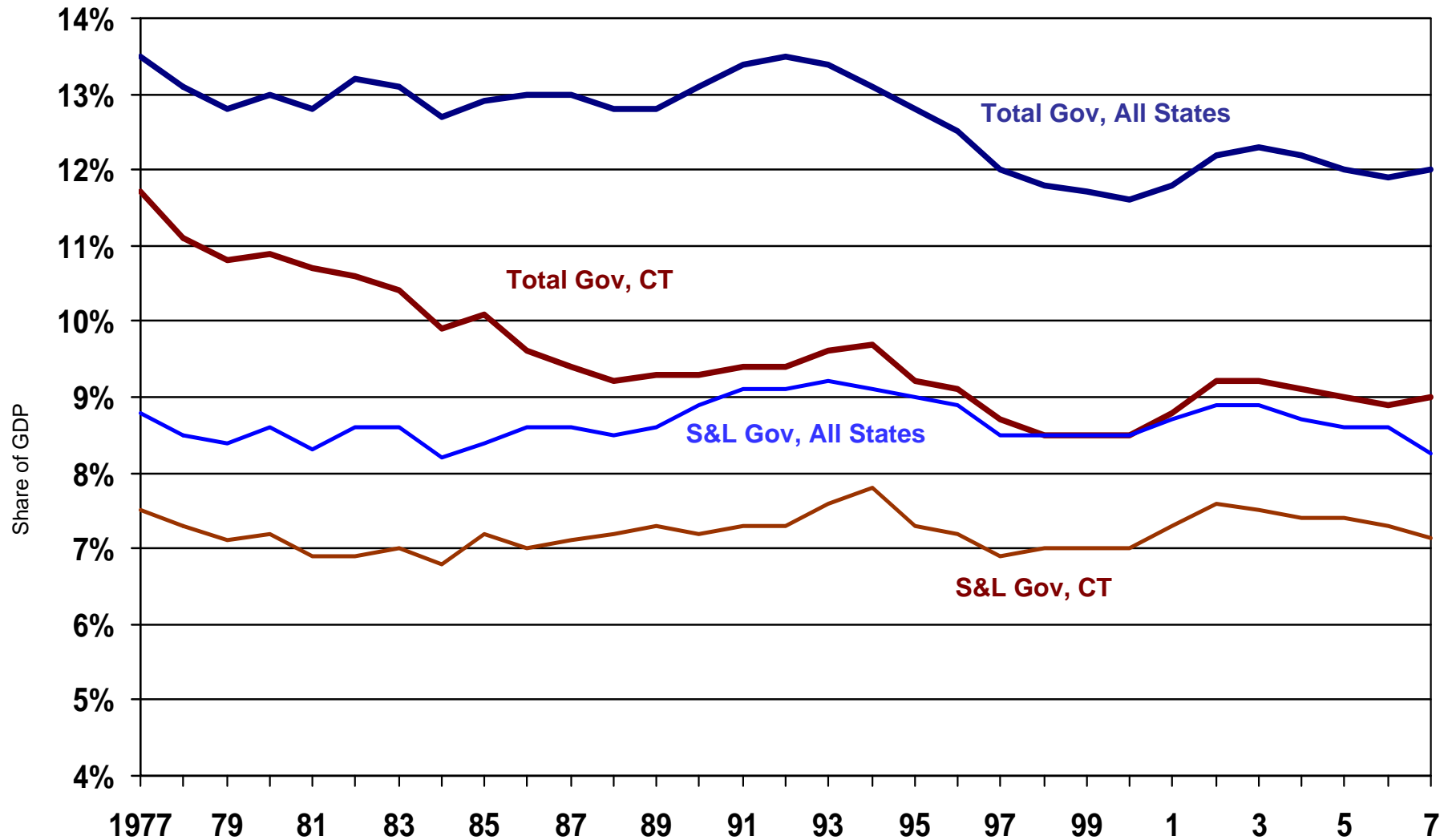
- Declining
 - Population: flat since 1970
 - Jobs: declining since 1989
 - Real Wages: 15% of CT growth
 - Businesses: down 5% since 1989
- Fiscal challenges: taxable assets per capita are half the state average
- Education achievement gap: 6% urban sophomores pass all 4 CAPT tests

State & Local Government

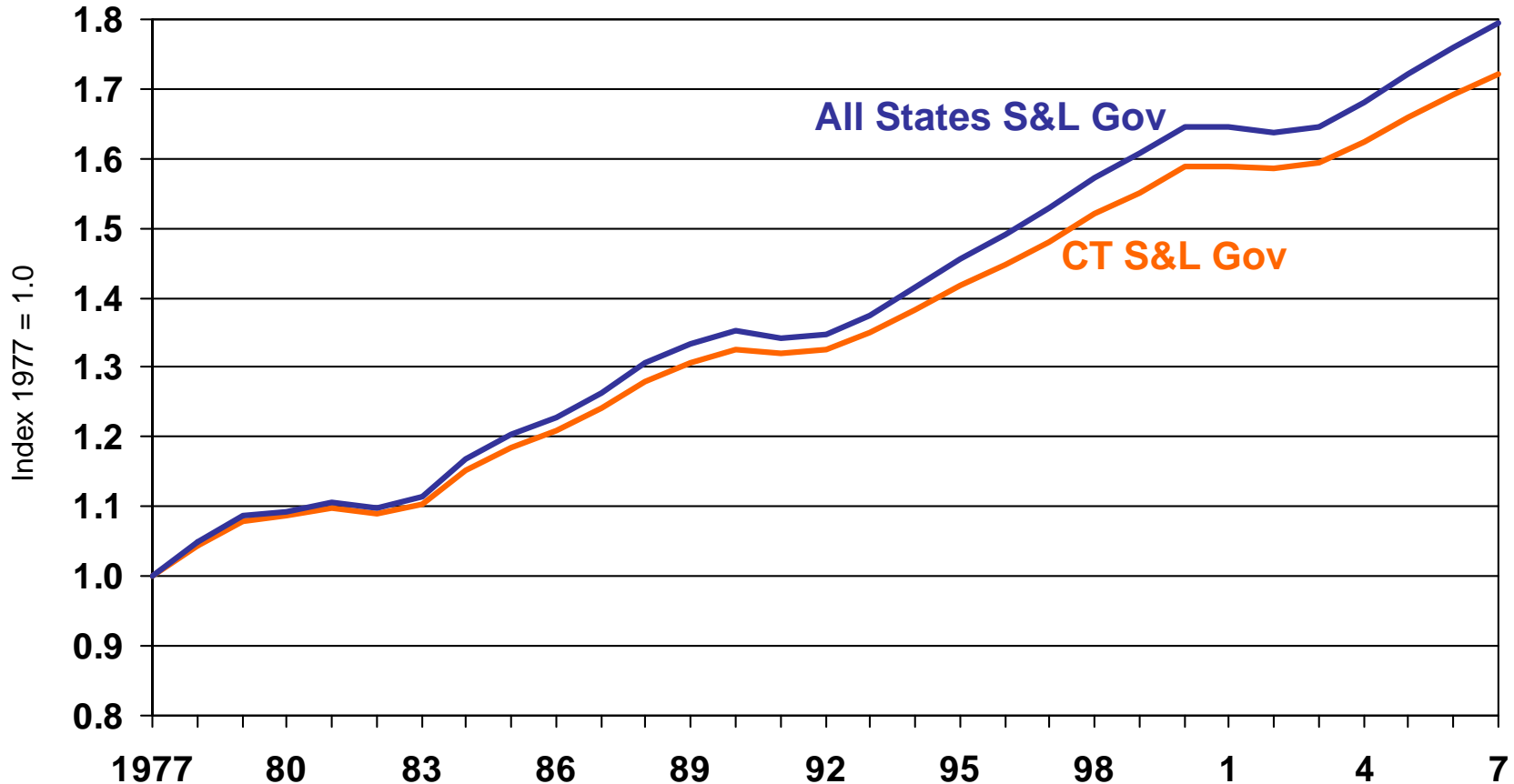
- Employment and GDP
- Expenditures
- Revenues

Government share of GDP

(nominal GDP)

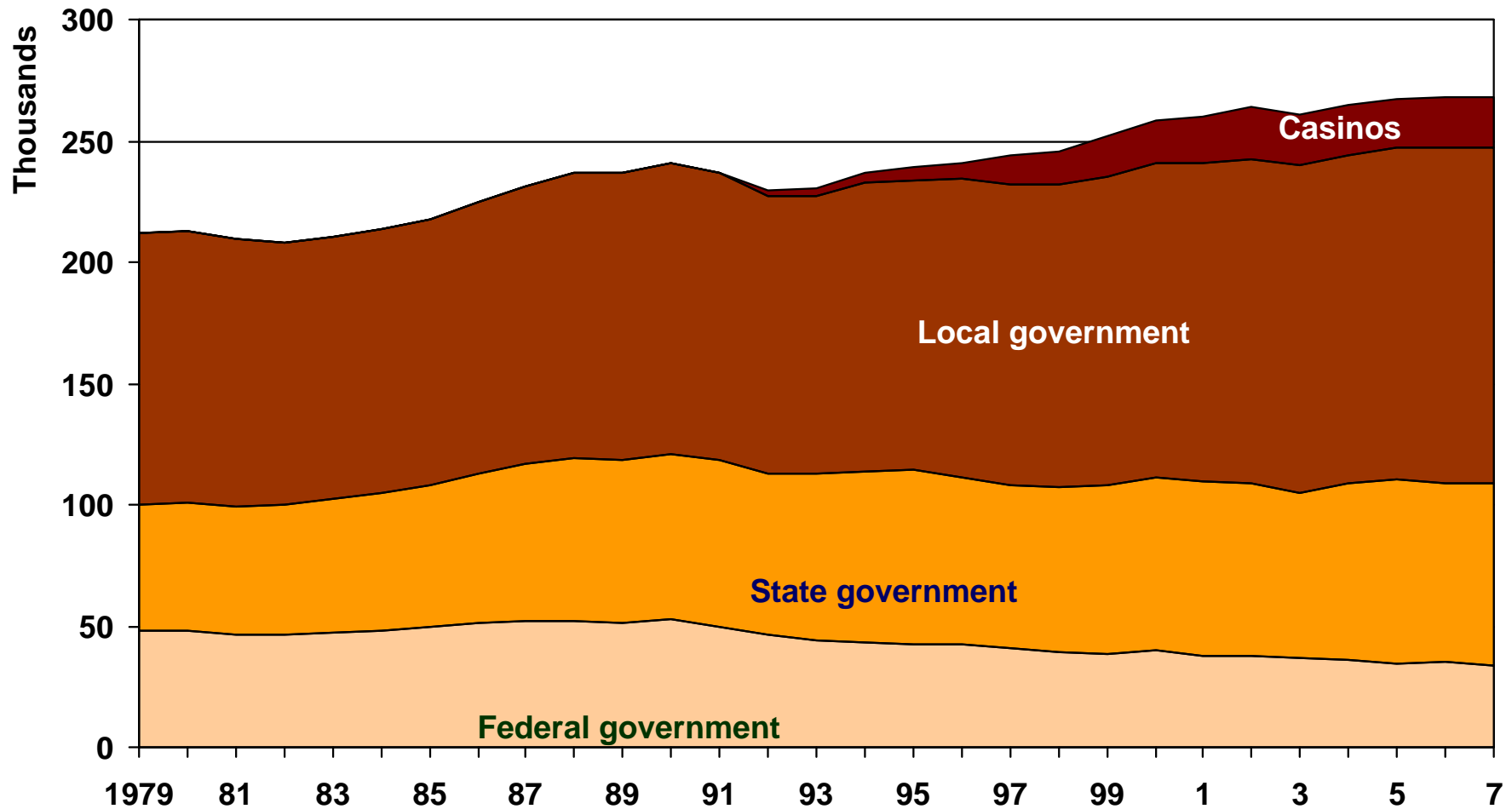


Indices of State and Local Government Employment in Connecticut and All States



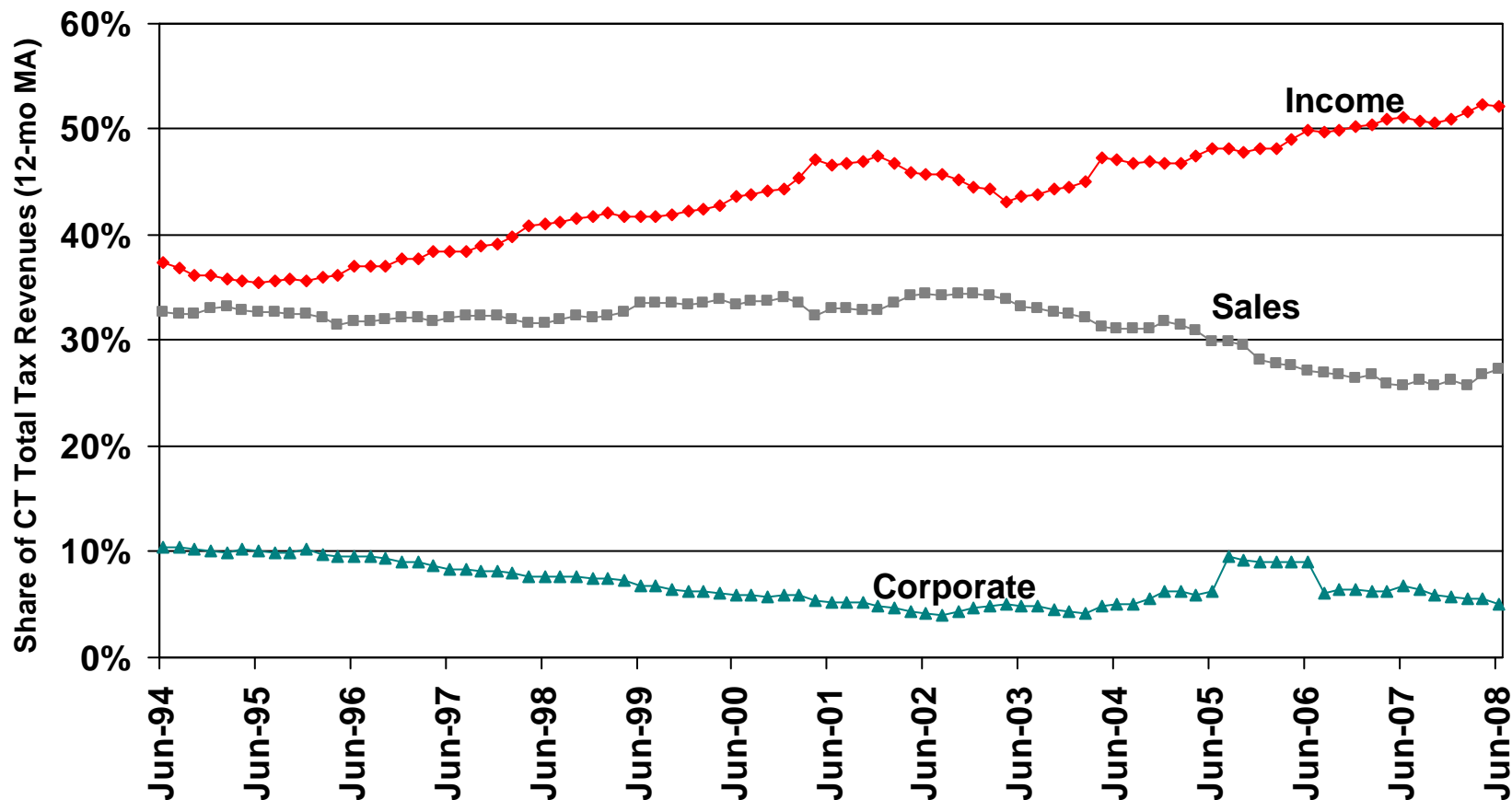
Source: U.S. Bureau of Economic Analysis

Government Employment in Connecticut



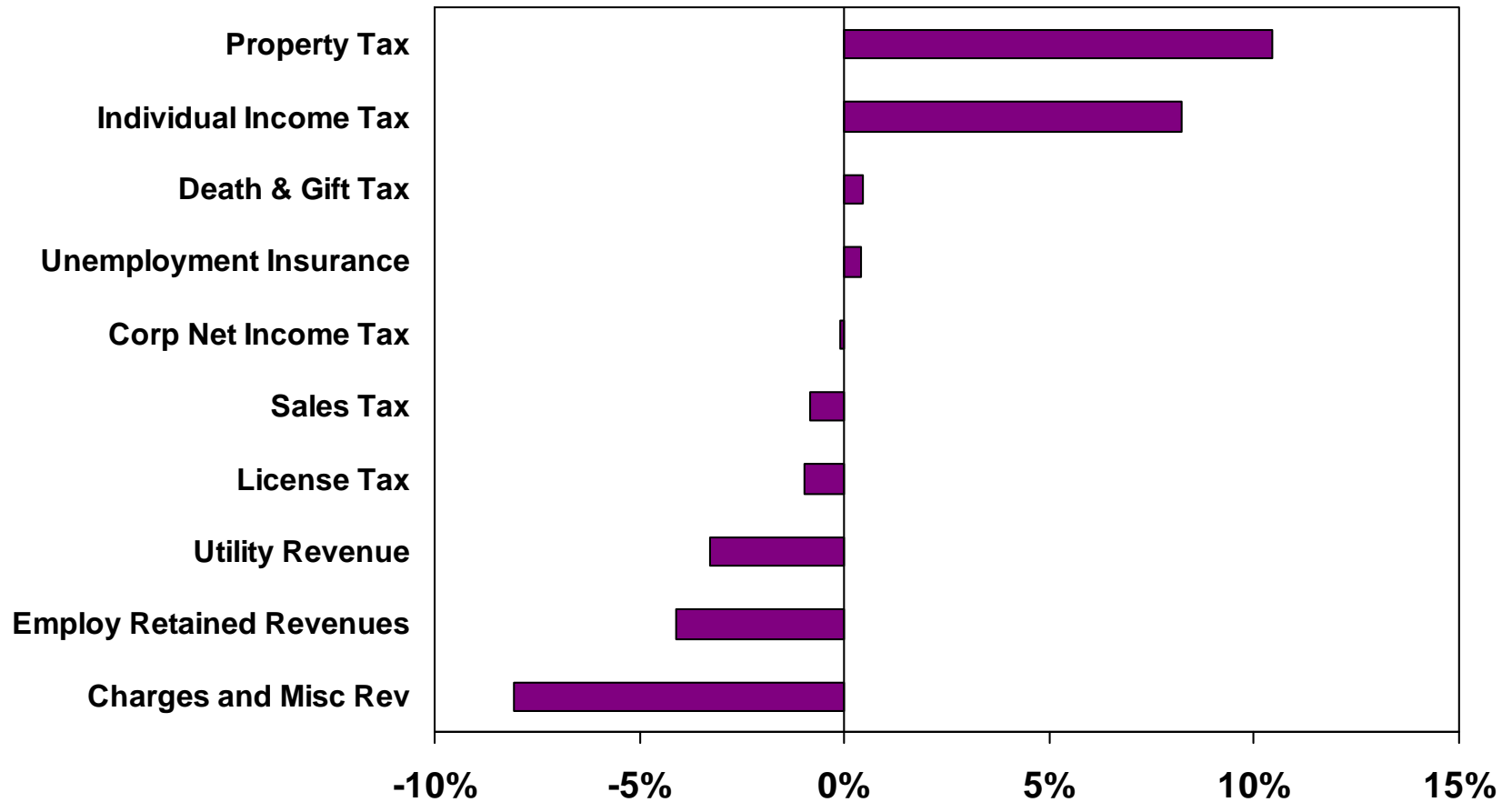
Source: US Bureau of Economic Analysis

More than Half of Connecticut's Tax Revenues are Derived from Income Taxes



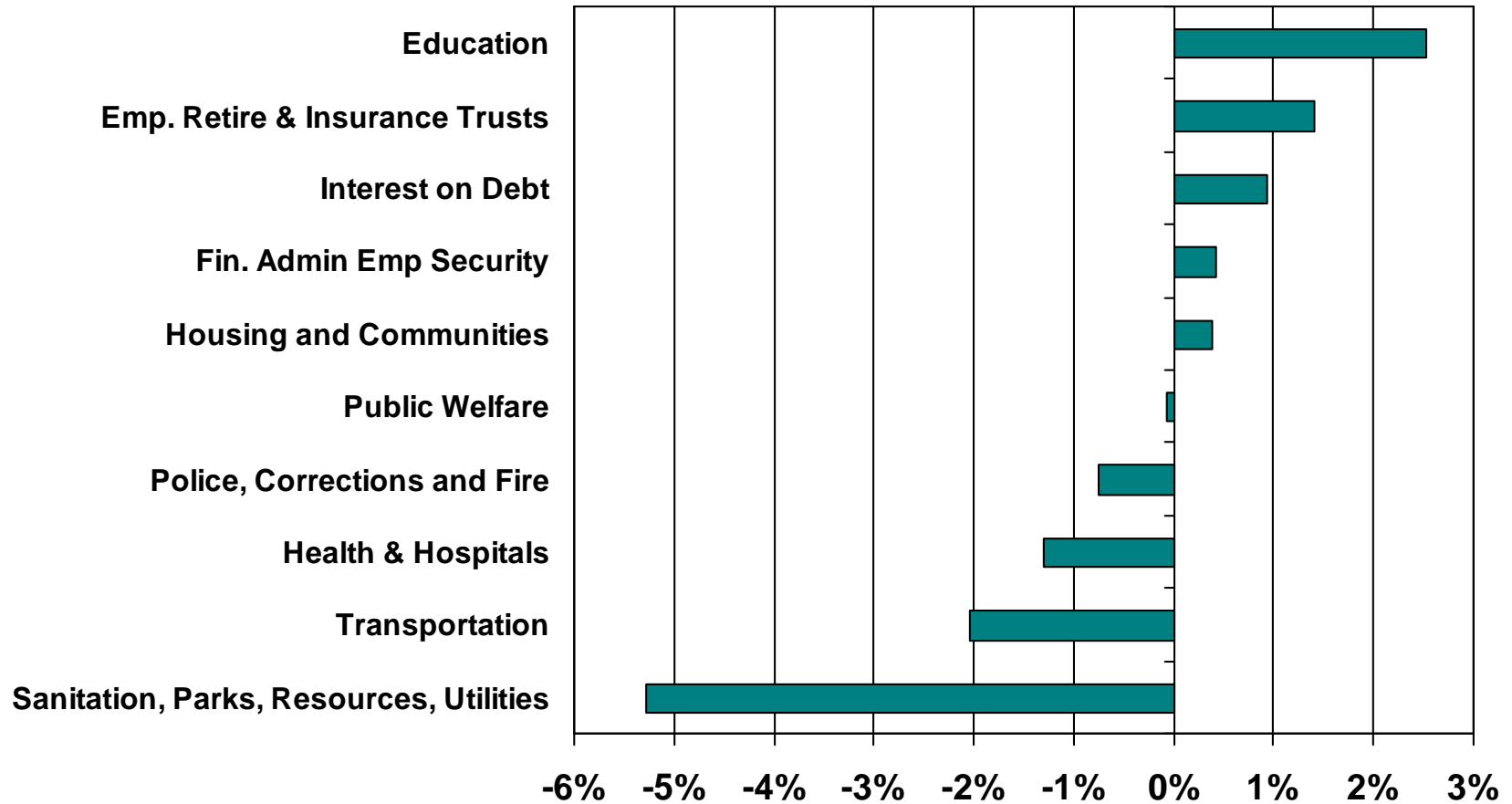
Source: CT Department of Revenue Services

Percentage Point Difference from All States for Connecticut Revenue Sources, 2006



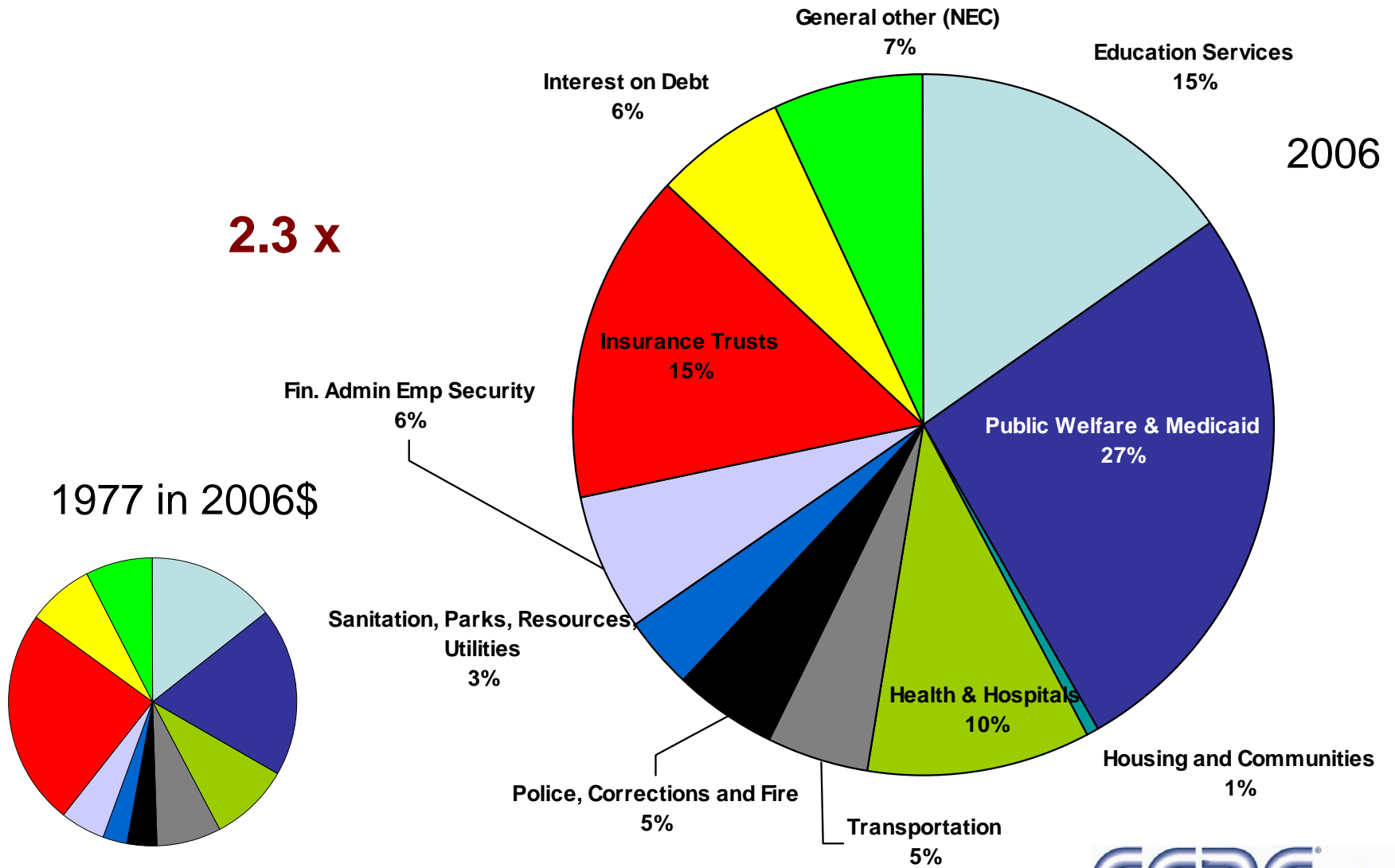
Source: Tax Policy Center

Difference from All Other States in Connecticut's State & Local Government Expenditures



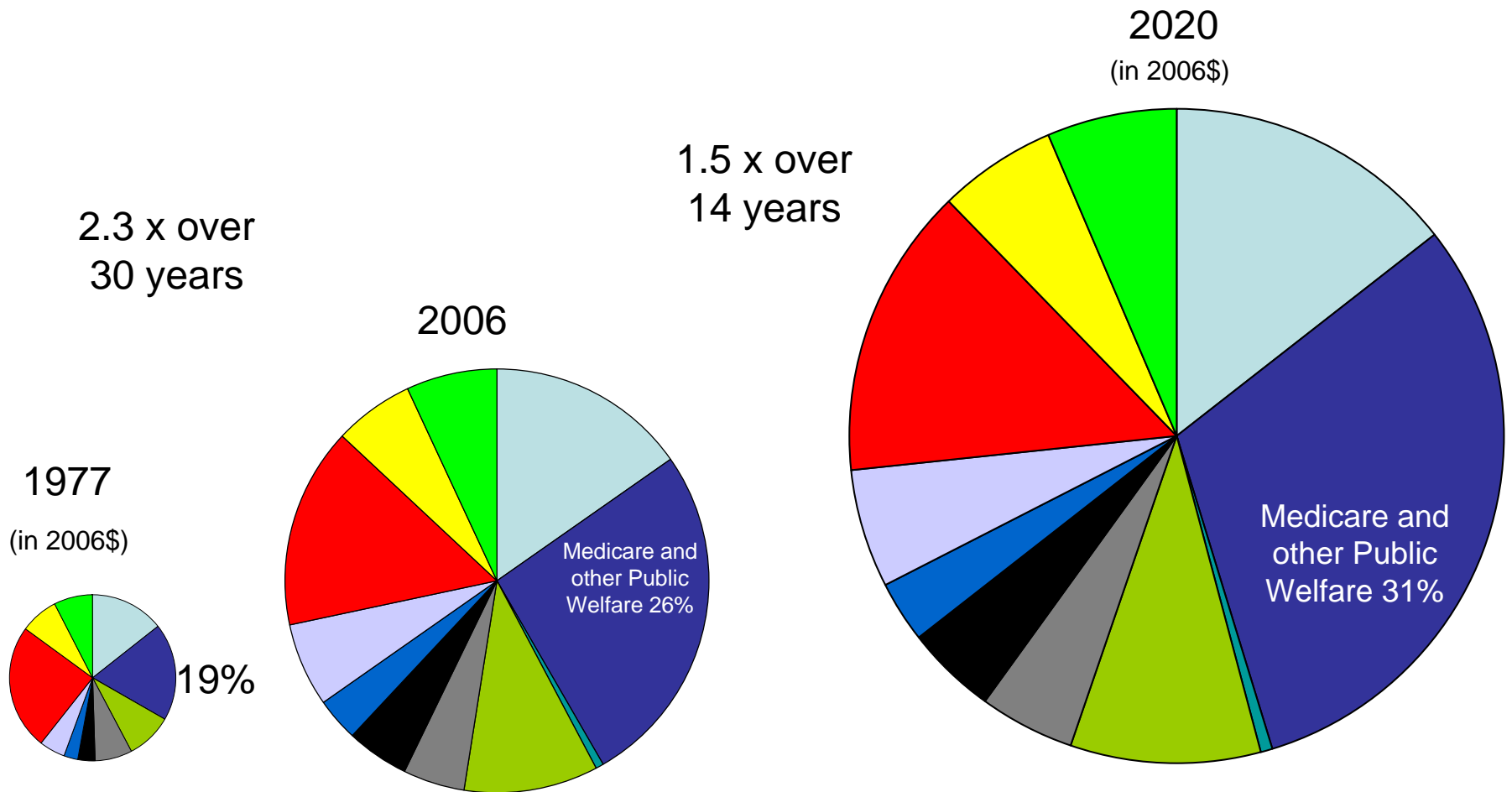
Source: Tax Policy Center

Growth and Distribution of State Expenditures



Source: Tax Policy Center

Growth and Distribution of State Expenditures



Source: Tax Policy Center, projection by CERC

If These Baseline Trends Continue, by 2020 We Could See... (1 of 5)

- 150,000 baby boomers retiring
- Decline in college attainment (34% to 31%)
- No improvement in K-12 education achievement gap between urban and suburban
- Largest decline in young worker cohort
- Almost 50% of all jobs in low-wage industries
- Up to 100,000 fewer manufacturing jobs

If These Baseline Trends Continue, by 2020 We Could See... (2 of 5)

- No positive changes in urban conditions
- Inflation-adjusted personal income down by 4%
- Continued flat to negative job growth
- Several billion dollars in unmet transportation infrastructure

If These Baseline Trends Continue, by 2020 We Could See... (3 of 5)

- Current, or slightly improved, levels of income inequality
- Decline of real income in poorer neighborhoods
- High levels of economic and racial disparity
- Productivity growth but slight income growth

If These Baseline Trends Continue, by 2020 We Could See... (4 of 5)

- Population growth rate among slowest in U.S.
- Drop-out rates in inner-city schools increase as ethnic minorities comprise a growing share of population
 - If high school dropout rates by race and ethnicity remain constant, the number of high school dropouts in the state will increase by more than 10,000 per year

If These Baseline Trends Continue, by 2020 We Could See... (5 of 5)

- Increasing reliance on personal income tax revenue, currently 52 percent of all revenues
- Educational costs will continue to consume one-third of public sector budgets
- Ever growing internet commerce will continue to erode states' sales tax base

Fiscal Implications (1 of 4)

- As economic opportunity continues to weaken, residents and businesses will continue to migrate to other parts of the country for careers and profits
- Dependency ratio drops from 5:1 to 3:1...greater pressure on workers to pay for senior services and entitlement

Fiscal Implications (2 of 4)

- As the current financial crisis plays out, defined benefit and 401k plans will take huge hits
- Under-funding of state pension plan is third worst in nation

Fiscal Implications (3 of 4)

- Increasing number of HS dropouts will increase demand for social, police and correctional services
- HS dropouts will earn lower lifetime earnings and will contribute less to public coffers through income taxes, sales taxes, etc.
- The urban situation has not improved....local taxes continue to rise as state support dries up

Fiscal Implications (4 of 4)

- Increasing reliance on personal income tax revenues will be exacerbated by projected 4% decline in real wages
- Declining home prices will put downward pressure on home values and grand lists
- Negative business growth adversely impacts local grand list growth and state corporate income tax growth

Terra Incognita

- Global recession
- Financial meltdown & bailout
- Credit freeze
- Declining consumer & business confidence
- Foreclosures & loss of equity in homes
- Loss of value in pensions
- Job losses

Effects in Connecticut

- Job losses
- Possible declining GDP
- State and local budget deficits
 - Structural
 - Cyclical
- Declining consumer & business confidence
- Foreclosures & loss of equity in homes
- Loss of value in pensions

Baseline Scenario

Do we stay the course with business as usual while tinkering on the margins and achieving a modest recovery at some point?

Or...

Do we use this crisis as an opportunity to make significant changes in public spending, revenues, organization and scale of public programs in order to build a more sustainable future?

Conference materials available online at
www.cerc.com



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