

Connecticut's Volatile Future: Short-Term Up, but Long- Term Down

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The American Rescue Plan and Connecticut's Economic Future Stimulus or Under the Mattress?

1) CCEA Base Case:

- Adjust for 25% jump in death rates from Covid-19

2) CCEA impact cases adjust employment relative to REMI base case for actual differences from the CCEA base case:

- 2020 adjustments use actual shortfalls relative to REMI's base case.
- 2021 estimates are based on levels during the first quarter growing at constant monthly rates to year-end as Covid-19 vaccinations reduce infections and deaths.

2a) CCEA's first scenario assesses consequences of preserving ARP funds flowing through the state in its rainy-day fund RDF. (Under the mattress)

2b) CCEA's second scenario projects impacts when \$3 billion in the ARP funding is spent 2021-2024 to accelerate Connecticut's recovery, with net state and local government surpluses accruing to the RDF.

- The difference between the two cases is that the second, consistent with Federal ARP terms, precludes the state cutting back planned recovery activities by substituting federal funding for their own expenditures.

Reduced Connecticut Economic Performance from Covid-19 Deaths 2020-2025

	Units	2020	2021	2022	2023	2024
Total Employment	Thousands (Jobs)	-2.555	-4.993	-4.701	-4.079	-3.334
Private Non-Farm Employment	Thousands (Jobs)	-2.232	-4.409	-4.186	-3.623	-2.937
Residence Adjusted Employment	Thousands	-2.459	-4.749	-4.43	-3.861	-3.173
Population	Thousands	-5.72	-10.998	-10.219	-9.415	-8.561
Labor Force	Thousands	-1.416	-2.817	-2.672	-2.501	-2.258
Gross Domestic Product	Billions of Fixed (2012) \$	-0.223	-0.448	-0.422	-0.37	-0.305
Output	Billions of Fixed (2012) \$	-0.381	-0.766	-0.722	-0.631	-0.517
Value-Added	Billions of Fixed (2012) \$	-0.223	-0.448	-0.422	-0.37	-0.305
Personal Income	Billions of Current \$	-0.551	-1.044	-1.005	-0.945	-0.871
Disposable Personal Income	Billions of Current \$	-0.484	-0.931	-0.898	-0.844	-0.778
Real Disposable Personal Income	Billions of Fixed (2012)\$	-0.434	-0.8	-0.728	-0.666	-0.599
Real Disposable Personal Income per Capita	Thousands of Fixed (2012) \$	-0.022	-0.031	-0.022	-0.017	-0.011
PCE-Price Index	2012=100 (Nation)	-0.002	-0.015	-0.027	-0.028	-0.026
Personal Income Taxes	Billions of Current Dollar	-0.067	-0.113	-0.107	-0.101	-0.093

Comments on Extended Dynamics from Covid-19

- The economy only slowly recovers going out to 2024, end of ARP
- Covid-19 deaths and policies are responsible for gross personal income taxes declining \$574 million of which 23.5% would be foregone by the State
- Given the economic contraction, population emigrates further compounding impacts on Connecticut demand and undermining growth.
- These impacts only cover deaths, not time lost from illness, nor permanent damage to patients' health, especially, long-haulers and are therefore a conservative measure of adverse health effects from Covid-19.

ARP Direct Expenditures in Connecticut

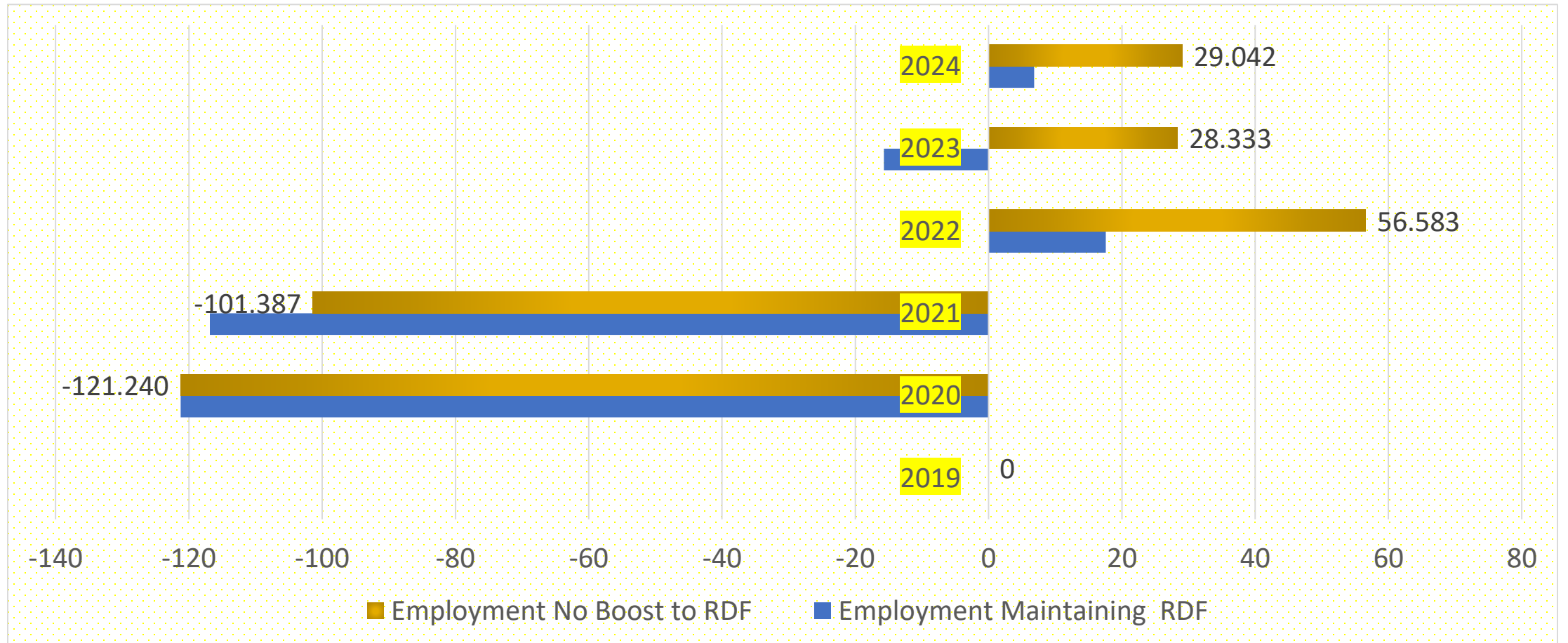
ARP provides resources to:

- 1) State of Connecticut \$4.77 billion with \$1.09 billion earmarked for local governments
- 2) Connecticut cities and towns, with populations in excess of 50,000 another \$1.56 billion
- 3) Independent agencies \$1.67 billion, and
- 4) Connecticut residents \$3.93 billion.

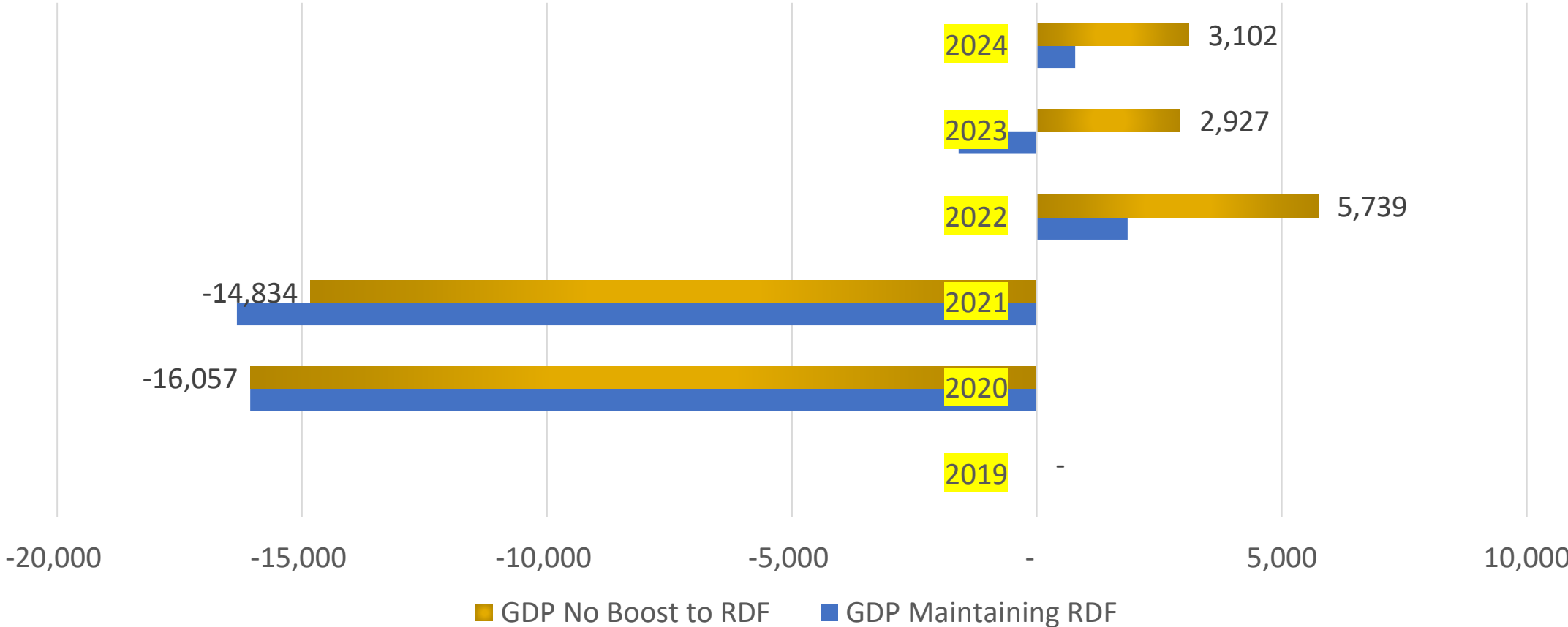
More Detail on ARP Based Expenditures

- A) Industry, state and local government employment is adjusted for 2020 and 2021
- B) Unlike most state-level simulations, because ARP was spread among all states, Connecticut shares of ARP outlays in the state are financed by increased personal income taxes covering 5% 20-year mortgages beginning at the expected time of Federal transfers
- C) ARP payments to individuals treated as increased transfers to households
- D) ARP project funds ear-marked for construction, including half the funds accruing to state and local governments, were allocated to that industry
- E) The remaining half to ARP funds designated for state and local governments allocated by I/O tables.

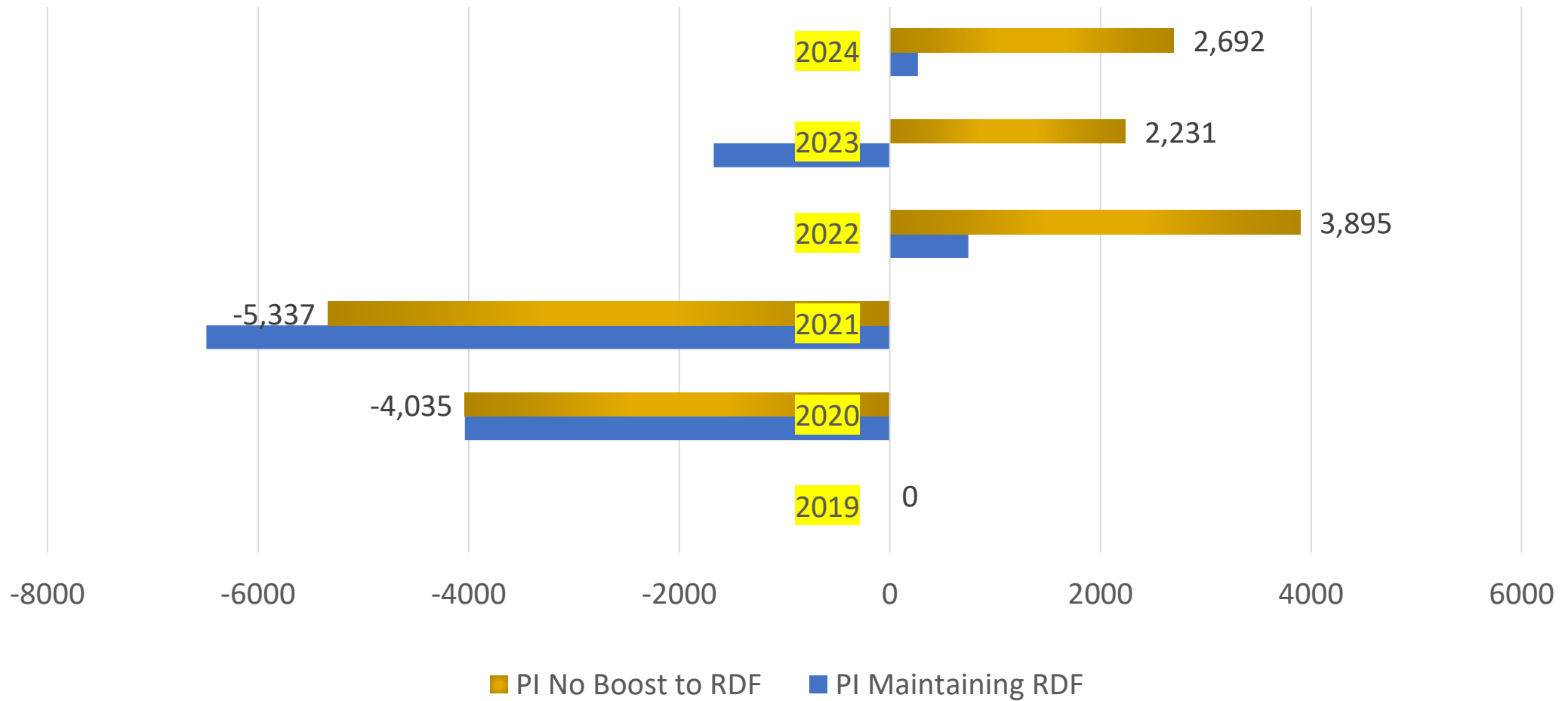
ARP Etc. Connecticut Employment Impacts Relative to CCEA Base with and without Preserving RDF (1,000s Jobs)



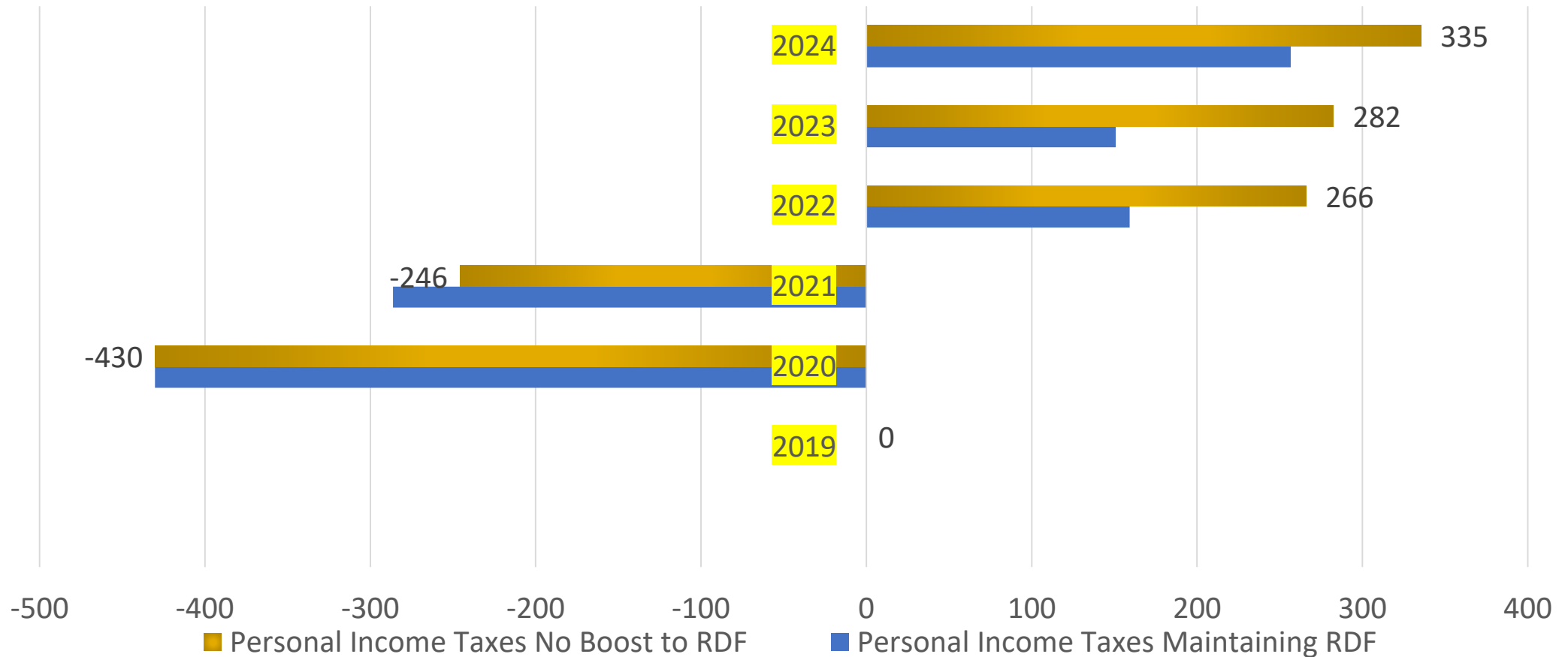
Covid-19 and ARP Connecticut Current GDP Impacts Relative to CCEA Base Case with and without Preserving RDF (Millions Current \$)



Covid-19 and ARP Connecticut Current PI Impacts Relative to CCEA Base Case with and without Preserving the RDF (Millions Current \$)



Covid-19 and ARP Connecticut Current Personal Income Tax Impacts Relative to CCEA Base Case with and without Preserving the RDF (Millions Current \$)



Conclusions

- Diverting ARP funds to offset deficits and preserve the RDF generates surpluses but comes at a cost:
 - Annual average of 30,189 fewer jobs 2021-2024,
 - Reduced average annual current dollar GDP of \$3,059 million
 - Lower average annual DPI of \$2,279 million
 - It limits employment opportunities and incomes while perpetuating the population exodus from Connecticut.
- Used to complement planned spending and to stimulate growth, all indicators that by 2024 Connecticut economic performance can exceed Pre-Covid-19 expectations.
- Complementary spending delivers billions more than preserving the rainy-day fund, no matter how you measure it.

