CONNECTICUT VOICES FOR CHILDREN

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The Children's Budget: Investing in Our Future

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Our children are Connecticut's most valuable resource. Young people today will be the workers and leaders who power our state's economy tomorrow, so it is important that all children have a fair chance to succeed. In reality many do not: educational opportunity is greatly affected by a child's race and zip code, families are struggling with an economic recovery that has left many behind[1], and an estimated 114,000 Connecticut children live in poverty – a record high.[2] The children facing these challenges are critical to the future of Connecticut, and helping them to grow up healthy, safe, and educated must be a top priority for the state.

Public investments in education, health care, and human services that support our children now are vital to a brighter future for all Connecticut residents. To track trends in such investments, Connecticut Voices for Children created the "Children's Budget," a compilation of all major state investments in children and families, including K-12 education, child welfare, early care, and family health. The Children's Budget allows us to assess appropriations over time to determine if the state has met its responsibility for investments in children and families, and compare changes in the Children's Budget to those in other areas.[3]

Over the past 25 years, the Children's Budget shows that the resources Connecticut devotes to young people has fallen to roughly 30 percent of the state's General Fund from 40 percent in the early 1990s. Were Connecticut still spending the same portion of the General Fund on the Children's Budget as it did two decades ago, support for children and families would be nearly $2 billion higher than today. That would be enough to nearly double the state's investment in K-12 education.

This brief examines both short- and long-term trends in the Children's Budget. All budget figures are from the Office of Fiscal Analysis, and are not adjusted for inflation – meaning that, in most cases, the figures below actually understate some of the changes to the Children's Budget. For more information, and to examine these trends in depth with an interactive graph, visit the Connecticut Voices for Children website.

Changes to the Children's Budget Since 2010

Between Fiscal Year (FY) 2010 and FY 2016, the state General Fund grew to $21.8 billion from $17.4 billion.[4] Over the same period, the Children's Budget increased to $6.7 billion from $5.6 billion. But the growth in the Children's Budget was disproportionately smaller than overall budget growth, resulting in the Children's Budget shrinking from 32.4 percent to 30.6 percent of the General Fund – a picture of shifting priorities in state budgeting.

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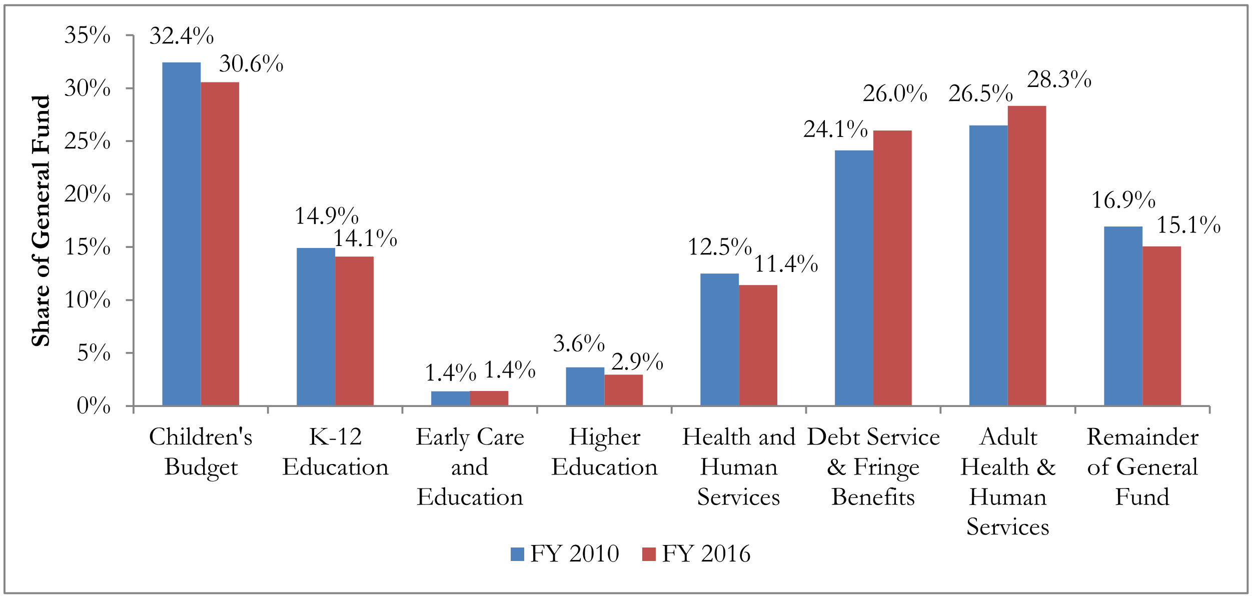
[1] See: Defiesta, Nicholas and Thomas, Derek "The State of Working Connecticut 2015," Connecticut Voices for Children, November 2015.
[2] See: Defiesta, Nicholas et al, "Trends in Poverty and Median Income in Connecticut: Summary of 2014 American Community Survey Census Data," Connecticut Voices for Children, September 2015.
[3] The Children's Budget uses *appropriations*, or the dollar amount approved by the Legislature and signed into law by the Governor, instead of *expenditures*, or the dollar amount actually spent on each line item. This was done for multiple reasons: to track legislative/gubernatorial *intent*, as well as for data access issues, as historical changes to appropriations are not readily available.
[4] These figures take into account federal Medicaid spending, removed from state budget books, in order to provide accurate comparisons over time.

Figure 1: Short-Term Changes in General Fund Categories, FY 2010 – FY 2016



Source: Connecticut Voices analysis of Office of Fiscal Analysis budget books

K-12 and Higher Education

Total state investment in K-12 education has increased to $3.1 billion from $2.6 billion in FY 2010. This increase, however, did not keep up with other areas of budget growth, representing a decline to 14.1 percent of the General Fund in FY 2016 from 14.9 percent in FY 2010. Over this period, Connecticut has invested nearly $200 million in two ways: expanding school choice for families and students — specifically the Open Choice program, Magnet Schools, and the Vocational Agriculture program — and supporting the state's lowest performing schools, including the Commissioner's Network.[5] These investments represent a commitment to providing more options in public schooling and a movement to reducing racial isolation in the state's public schools.

At the same time, Connecticut has invested less in each of the grant programs that towns depend on for K-12 school funding. While Education Cost Sharing grant allocations have grown 14.1 percent over this time, such investments follow three years of flat-funding from 2010 to 2012. Although state investments in the Excess Cost grant[6], which municipalities use to cover the cost of special education services, has increased by 16 percent, it has seen no increase since 2011. While state investments in public education have been increasing, they have not kept pace with rising need among low-income students, English Language Learners, and students living in communities of concentrated poverty. Even as the state has committed resources to the expansion of schooling choices and to the support of low-performing districts, it is crucial that we see a recommitment to fully-funding and supporting our existing public schools.

[5] The Open Choice program allows public school students from Hartford, New London, New Haven or Bridgeport to attend school in another school district in the region. The Interdistrict Magnet Schools grant is designed to support racial, ethnic and economic diversity through a high-quality curriculum. The Vocational-Agriculture schools provide training for students planning a career in agriculture fields, including aquaculture and marine related employment.

[6] The Excess Cost grant reimburses districts for high cost special education students. The Excess Cost Grant is supposed to reimburse districts for: 1) The portion of a student's special education costs that exceed a threshold of 4.5 times the average per-pupil expenditure in the school district; 2) The portion of a student's special education costs that exceed a threshold of 1 times the average per-pupil expenditure in the school district if that district became responsible for a student's special education costs because of a Department of Children and Families (DCF) placement.

Meanwhile, public investment in higher education has not increased significantly since 2010, growing just 1.5 percent ($9.5 million) to $641.4 million in 2016. As a share of the General Fund, higher education spending declined to 2.9 percent from 3.6 percent. This is a result of continued reductions in the Office of Higher Education (including some student tuition assistance), unsteady funding for the Board of Regents, and appropriations for the University of Connecticut that have not kept pace with rising need and inflation, increasingly placing the burden of paying for higher education onto students.

Early Care and Education

In contrast reductions in most areas of the Children's Budget, investment in early care and education has stayed flat as a share of the General Fund at 1.4 percent. This represents an increase in appropriated funds, to $309.5 million from $240.1 million, in large part due to the establishment of the Office of Early Childhood in 2014 to streamline early childhood services and the expansion of the School Readiness program with the creation of over 2,000 state-subsidized, high-quality preschool slots. Since then, Connecticut has reduced funding for many of the programs that promote quality improvements across the early care and education network, resulting in stagnation in the availability of child care and preschool slots.

Health and Human Services

Investment in health and human services – which includes HUSKY A, the Department of Children and Families, and programs in the Department of Developmental Services – increased from FY 2010 to FY 2016, growing to $2.5 billion from $2.2 billion. As a share of the General Fund, this represented a decrease to 11.4 percent from 12.5 percent.

HUSKY A provides Medicaid coverage for almost 280,000 children and about 165,000 parents and pregnant women. It is the largest maternal and child health program in the state, representing 61 percent of all Medicaid enrollees and 29 percent of the program costs. HUSKY B provides Children's Health Insurance Program (CHIP) coverage to 14,000 children whose families have income above the Medicaid limit. Over the past five years enrollment for children and parents in HUSKY A has increased. Most of the enrollment increase may have occurred as a result of the 2014 Affordable Care Act mandate that individuals have health insurance coverage or pay a penalty. Other reasons for increased enrollment may include the lack of access that low-income working families have to affordable employer sponsored health insurance as a result of the Great Recession. As a result the increase in expenditures in HUSKY A to over $1 billion in FY 2016 from more than $962 million in FY 2010 is consistent with the increase in enrollment.

HUSKY B enrollment has changed little since FY 2010 — covering about 15,000 children. Appropriations for FY 2016 are slightly less than in FY 2010, $33.6 million in 2016 compared to just over $34 million in 2010. It is important to note that the federal government reimburses the state for at least 50 percent of the costs for HUSKY A parents and between 50 and 88 cents on the dollar for children in HUSKY A and B.

Within child welfare, funding for the Department of Children and Families (DCF) has declined by 5.8 percent to $821.4 million in FY 2016 from $872.2 million in 2010. This decline has largely been driven by a series of reforms, including diverting low-risk cases from foster care using a differential response system, relying on relatives to be foster parents whenever possible, placing fewer children in congregate care settings, and placing fewer children out of state.[7] Motivated by best practices and not cost savings, these reforms have had the additional effect of reducing child welfare spending. Within DCF, spending on the line item "Board and Care for Children — Residential" has fallen by $84.1 million, more than the decrease

[7] See: *Juan F.* v. Malloy exit Plan, Quarterly Report, January 1, 2014 – March 31, 2014, Civil Action No. 2:89 CV 859 SRU.

for the agency as a whole, reflecting the fact that the share of children in foster care living in a congregate setting has dropped.

And finally, most other human services have seen a decline over this time. This includes Temporary Assistance to Needy Families (TANF), which has seen a 15.3 percent decrease to $99.4 million from $117.4 million, and Voluntary Services (renamed Behavioral Services) in the Department of Developmental Services which provides support to families of children with developmental challenges, which has fallen 9.1 percent to $29.7 million from $32.7 million despite no reduction in need.

Other Changes

While investment in most areas of the Children's Budget has noticeably decreased since 2010, other areas of public spending have grown significantly over that time. In particular, as contributions to state employee pensions have increased to address decades of underfunding and debt payments from recent borrowing continues to grow, these budget areas take up an increasingly large piece of the state budget. In total, public spending on debt service and fringe benefits has grown 35.4 percent, to $5.7 billion in FY 2016 from $4.2 billion in FY 2010 — or to 26.0 percent of the General Fund from 24.1 percent.

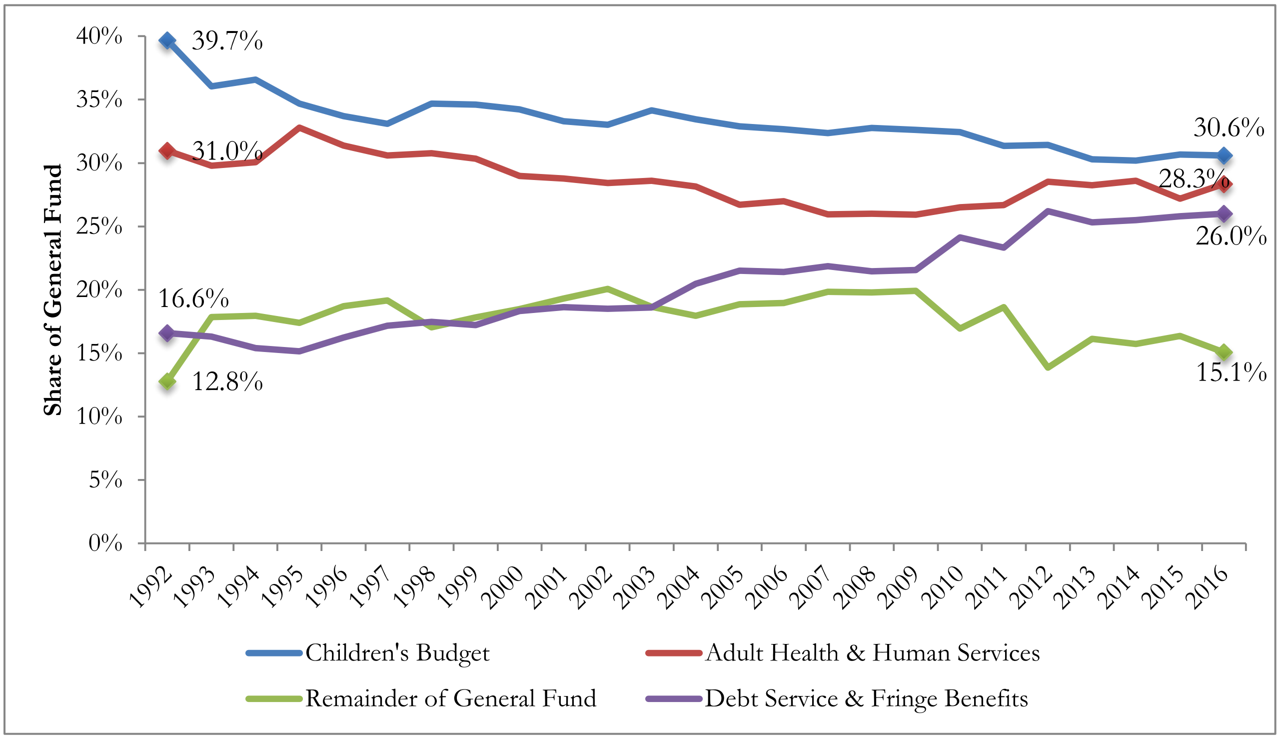
Long-Term Changes

Many of the changes to the Children's Budget since 2010 are the product of declining revenue due to the Great Recession that have persisted along with stagnating personal incomes, declining corporate tax revenue, and a sales tax that has not adapted to the modern economy.

Examining changes to the Children's Budget over 25 years, however, lends insight to how priorities in public budgeting have changed over a longer timeframe. In FY 1992[8] the Children's Budget represented 39.7 percent of the General Fund; it is 30.6 percent in this year's budget. Driving reductions in the Children's Budget (as well as the reduction in adult health and human services) is the growth in debt service and fringe benefits, up 9.4 percentage points, to 26.0 percent in the current budget from 16.6 percent in 1992. The remainder of the General Fund, including administrative costs, transportation spending, and other public spending, increased slightly, to 15.1 percent from 12.8 percent.

[8] This year chosen to provide 25 years of data, and is the first year with reliable historical budget data.

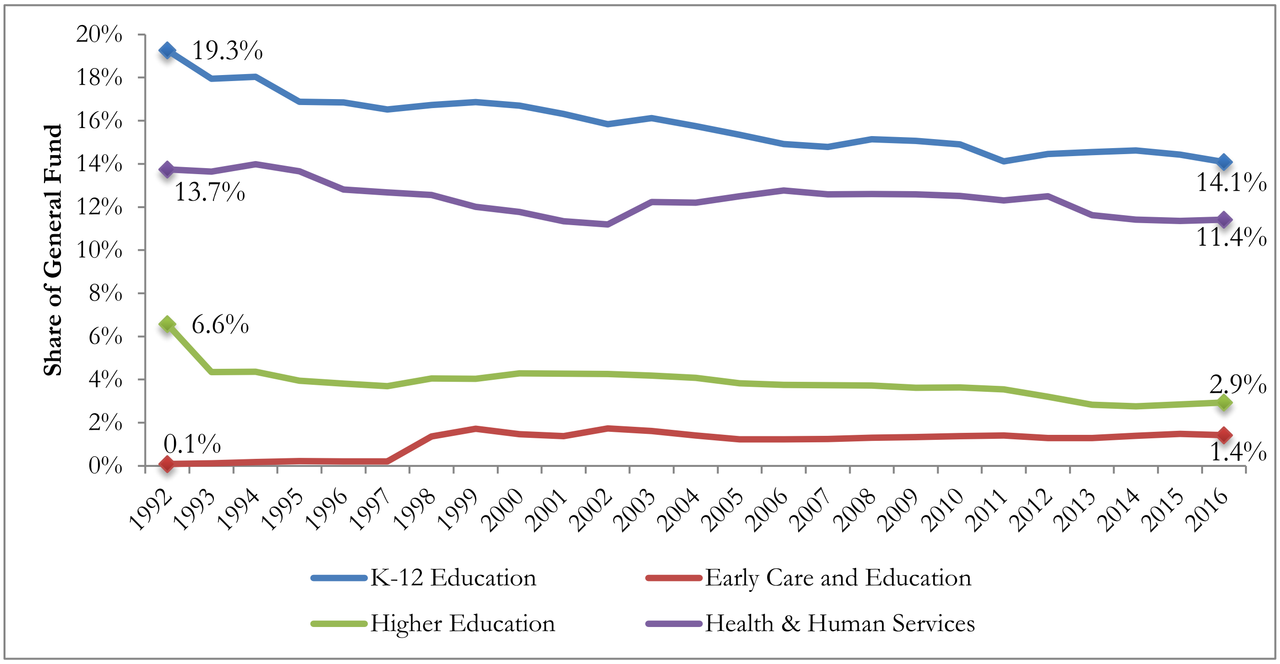
Figure 2: Long-Term Changes in General Fund Categories, FY 1992 – FY 2016



Source: Connecticut Voices analysis of Office of Fiscal Analysis budget books

A closer look at how the categories within the Children's Budget have changed provides even more specificity into the extent of the shift in the past two decades. Most categories have seen a decrease from 1992 to this year's budget as a share of the General Fund: K-12 education (14.1 percent from 19.3 percent), health and human services (11.4 percent from 13.7 percent), and higher education (2.9 percent from 6.6 percent) have all fallen significantly. Only investment in early care and education has grown, to 1.4 percent this year from a negligible 0.1 percent in 1992.

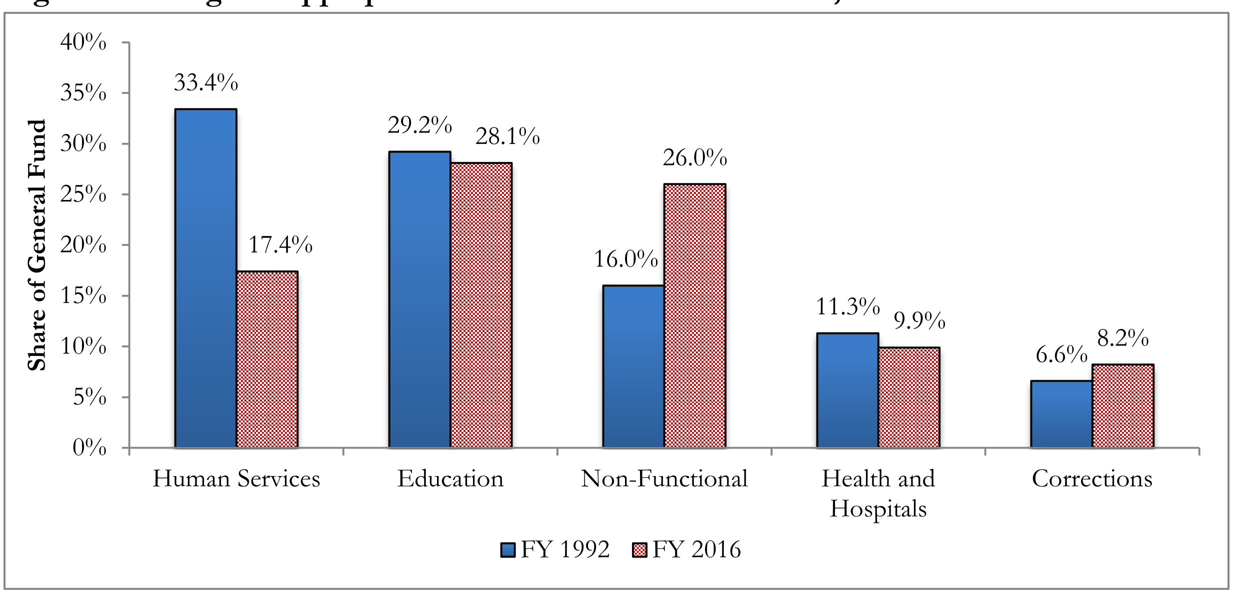
Figure 3: Long-Term Changes in Children's Budget Categories, FY 1992 – FY 2016



Source: Connecticut Voices analysis of Office of Fiscal Analysis budget books

Breaking such categories out by General Fund categories offers similar results.

Figure 4: Change in Appropriations as Share of General Fund, FY 1992 – 2016



Source: Connecticut Voices analysis of Office of Fiscal Analysis budget books

Taken together, these data demonstrate how public investments are changing. Just as the state reduces support for child and family health, education, early care, and other public services that support the next generation, it spends an increasingly large share of its budget on non-functional line items like debt service and fringe benefits. To help children grow up healthy, educated, and ready to power Connecticut's future economy, the state must re-invest in programs and services that provide for their well-being.

Recommendations

The disproportionate budget growth in non-functional line items is because many of those expenditures are mandated by court order or contractual agreements. But just as we must keep our promises to contractors, pensioners, and lenders, so too must we maintain our promise to the next generation: that every child will be able to grow up healthy, safe, and with the opportunity to reach his or her full potential. To work toward this goal, several steps are needed:

Restore the earned income tax credit (EITC) to give working families a boost. The EITC helps low-wage workers by offsetting some of the taxes they pay. It raises more children out of poverty than any other vehicle and boosts parents' employment by making work pay. Reduced in 2013 when the state had a budget shortfall, it was due to return to its full value last year but was instead held flat at 27.5 percent of the federal credit. Restoring the EITC to 30 percent of the federal EITC would benefit nearly 200,000 families, living in every one of the state's 169 towns.[9]

Expand early childhood education so more children can benefit. High-quality early education enjoys bipartisan support and offers a high return on state investment of $3 to $6 for every dollar spent.[10] It improves children's education and provides a lifelong boost.[11] Connecticut must build on recent progress and help every child get a great early education.

Reform property taxes to promote equal access to quality K-12 education. Excellent K-12 schools are the essential next step after high-quality preschool, yet too many low-income children and children of color live in towns that lack the ability to raise revenue to support well-resourced K-12 schools, hurting their chances of future success.[12] Pursuing fundamental property tax reform that equalizes school funding across communities would allow the state to redress the existing opportunity gap and prepare all students for the workplace of tomorrow.

Pursue other tax reforms that improve fairness in the state's tax structure. In Connecticut, the families that make the least money pay more than three times the share of their income in state and local taxes as the wealthiest.[13] Commonsense reforms such as creating a property tax "circuit breaker" that prevents families from paying more than a certain percentage of their income in property taxes; fully funding the Payment in Lieu of Taxes (PILOT) grant program that offsets towns' lost property tax revenue that results from state property, hospital, and colleges; and pursuing other reforms will help communities, and the families that live within them, avoid disproportionately large tax burdens.

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[9] Gibson, Wade; Santacroce, Matt. "Pro-Family Tax Reform in Connecticut: A Roadmap for Improvement." CT Voices for Children. April 2014.

[10] Duncan, Greg J., and Katherine Magnuson. 2013. "Investing in Preschool Programs." Journal of Economic Perspectives, 27(2): 109- 32.

[11] Heckman, James et al. "A New Cost-Benefit and Rate of Return Analysis for the Perry Preschool Program: A Summary." National Bureau of Economic Research, 2010.

[12] See: Feder, Kenny et al. "Unequal Schools," Connecticut Voices for Children, March 2015.

[13] Department of Revenue Service, "Connecticut Tax Incidence," (December 2014), http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf.