Impact of the Governor's Proposed FY 2017 Budget on Children and Families

February 2016

I. Introduction

The Governor released his Fiscal Year (FY) 2017 Midterm Budget Adjustments on February 3, 2016, starting the process of determining our state's priorities and how we will pay for them. This proposal comes at a challenging fiscal time for Connecticut: long-term shifts in our economy have contributed to lower revenue, backlogged payments on fringe benefits and debt threaten to crowd out other spending, and an estimated 114,000 Connecticut children live in poverty — a record high.[1] Investing now in schools, health care, and human services that support the next generation is critical to ensuring our children grow up healthy, educated, and ready to meet their full potential. While a third of Connecticut's General Fund spending supports programs that benefit children and families, it is these programs that suffer most when projected budget deficits mandate cuts. Indeed, the Governor's budget proposal would cut funding that affects children and families by almost $200 million.

To track trends in public spending, starting in 2014 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 education, and family health. Analyzing changes in 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. In FY 1992, Connecticut spent nearly 40 percent of its General Fund on the Children's Budget; now, that share has decreased to barely 30 percent.

For FY 2017, the budget proposal cuts funding that will impact the wellbeing of Connecticut's children, with an estimated reduction of $198.7 million (3.3 percent of the Children's Budget) compared to an overall decrease of 2.9 percent in the rest of General Fund spending. Significant cuts include:

- $69.4 million to the State Department of Education, in part by flat-funding Education Cost Sharing grants to towns;
- $48.6 million to higher education through reductions to the Board of Regents, University of Connecticut, and the Office of Higher Education;
- $41.2 million to the Department of Children and Families; and
- Many as yet unspecified reductions to smaller programs that are important to the wellbeing of our next generation.

The Governor's budget proposal makes two significant changes to the way we budget. First, as it has in the past, the proposal no longer includes the "current services" estimate. Current services reflect the cost of providing the same level of services for each line item given routine changes such as inflation and caseload growth. In other words, a program could be expected to cost more each year to provide the same degree of services, and the current services estimate is meant to reflect that change. The Governor argues that using current services as a baseline for appropriations *overestimates* the cost of providing services by failing to account for efficiency savings and assuming unchecked spending growth; it may very well be the case that the cuts described in this brief are an *underestimate* since they do not take into account annual changes like inflation. To illustrate, while the Governor's budget recommends $569.5 million in cuts from the budget that was enacted last year, this actually represents a cut of $722.1 million from the current services budget.

The second important change was made to appropriations within each agency. In order to provide agency commissioners with a greater degree of flexibility, many of the line items within each agency were consolidated into a fund called "Agency Operations," which was then cut by 5.75 percent in most agencies. This decision reduces transparency and accountability in the budget by masking the impact on individual line items. Under this change, an agency head could cut a program entirely without any legislative oversight, a worrisome precedent to set. While it may make sense to evaluate whether particular programs and services as currently configured are meeting the needs of state residents, without knowing how that assessment will take place, lawmakers and the public are shut-out of the process.

In summary, the budget falls short of the investments necessary to support children and families and asks working families to shoulder much of the burden to address the state's long-term challenges. A fairer, more balanced approach would rely on fundamental reforms to not just preserve but expand important investments in children.

II. The Children's Budget

The Governor's budget proposal cuts investments in children and families below both their FY 2016 amount as well as below the amount appropriated for FY 2017 in the biennial budget produced last year. The proposal cuts funding to programs supporting children and families in FY 2017 by $198.7 million, representing a cut of 3.3 percent to the Children's Budget, in contrast to the overall cut in funding for non-Children's Budget programs of 2.9 percent. Reductions in the Children's Budget include $69.4 million from the State Department of Education, $48.6 million from higher education (the Board of Regents, University of Connecticut, and the Office of Higher Education), and $41.2 million from the Department of Children and Families.

The table below depicts the largest parts of the Children's Budget, their original appropriation for FY 2017, and how they fared in the Governor's proposed budget. The table is by no means comprehensive, and does not take into account current services estimates, meaning it may underestimate the effect of cuts on public services. Note that the table depicts estimates of certain appropriations due to the uncertainty posed by the "Agency Operations" consolidation — all line items included in Agency Operations were presumed to face a 5.75 percent cut, and are noted as such with an asterisk.

Table 1: Largest Cuts to the Children's Budget in the Governor's FY 2017 Budget Reductions Proposal

	FY 2017 Appropriated	FY 2017 Recommended	FY 2017 Proposed Cuts	Percent Change
Young Children				
State Department of Education	$3,100,190,364	$3,030,786,963	$69,403,401	-2.2%
Office of Early Childhood	$297,352,885	$292,875,687	$4,477,198	-1.5%
Department of Children and Families	$833,527,745	$792,355,458	$41,172,287	-4.9%
DSS Medicaid (HUSKY A)[2]	$813,692,160	$800,740,000	$12,952,160	-1.6%
DSS TANF	$98,858,030	$90,831,330	$8,026,700	-8.1%
DSS HUSKY B (CHIP)	$36,250,000	$36,250,000	$0	0.0%
DSS CT Children's Medical Center	$14,800,240	$14,074,833	$725,407	-4.9%
DDS Behavioral Services	$30,818,643	$29,046,571	$1,772,072	-5.8%
DOL Jobs First*	$18,039,903	$17,002,609	$1,037,294	-5.8%
DPH School-Based Health Clinics*	$11,898,107	$10,653,268	$1,244,839	-10.5%
Youth				
Board of Regents	$358,002,116	$331,836,214	$26,165,902	-7.3%
University of Connecticut	$248,969,082	$229,424,862	$19,544,220	-7.9%
Office of Higher Education	$45,958,259	$43,065,636	$2,892,623	-6.3%
DOL Workforce Investment Act	$32,104,008	$32,104,008	$0	0.0%
DMHAS Young Adult Services*	$85,961,827	$81,019,022	$4,942,805	-5.8%
JUD Juvenile Alternative Incarceration*	$56,504,295	$53,255,298	$3,248,997	-5.8%
JUD Youthful Offender Services*	$18,177,084	$17,131,902	$1,045,182	-5.8%
Total Children's Budget	**$6,101,104,748**	**$5,902,453,660**	$198,651,088	-3.3%
Non-Children's Budget	**$12,610,053,927**	**$12,239,230,670**	$370,823,257	-2.9%
Total General Fund	**$18,711,158,675**	**$18,141,684,330**	$569,474,345	-3.0%

Source: Connecticut Voices for Children analysis of Governor's FY 2017 Midterm Budget Adjustments. Note that the table depicts estimates of certain appropriations due to the uncertainty posed by the Agency Operations consolidation — all line items included in Agency Operations were presumed to face a 5.75 percent cut, and are noted as such with an asterisk.

III. Revenue

The proposed FY 2017 budget makes no significant changes on the revenue side of the balance sheet, with just a few small changes to General Fund revenue:

- Eliminating minimum bottle pricing on liquor, gaining $2.1 million;
- Eliminating support for the Asthma Awareness Program and Easy Breathing Program, saving $0.7 million;
- Reducing the Mashantucket Pequot-Mohegan Fund Transfer by $6.7 million; and
- Increasing the Department of Labor's grievance filing fee from $25 to $200, raising $0.2 million.

In total, the FY 2017 budget proposal includes $6.5 million in net new revenue. It also includes a few revenue changes not in the General Fund, including a $6.5 million revenue loss in the Probate Court Administration Fund from capping estate fees, and a revenue loss to municipalities of $6.0 million due to a proposed tax exemption on the first $10,000 of personal property for businesses.

Overall, Connecticut's tax structure remains highly regressive, asking more from families with the least. As the following chart from the Institute on Taxation and Economic Policy (ITEP) shows, households with incomes under $25,000 pay an average of 11.0 percent of their income in total state taxes, compared to the top earning households with incomes over $1.331 million who pay just 5.5 percent of their income in overall state taxes.

Table 2: Tax Incidence of Connecticut's Tax System

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Income Range	Under $25,000	$25,000 – $46,000	$46,000 – $76,000	$76,000 – $121,000	$121,000 – $294,000	$294,000 – $1,331,000	$1,331,000 or more
Sales & Excise Taxes	6.8%	4.9%	3.8%	3.2%	2.2%	1.4%	0.8%
Property Taxes	5.3%	3.5%	4.8%	5.0%	4.2%	2.6%	1.2%
Income Taxes	–1.1%	1.1%	3.2%	4.0%	4.6%	5.4%	5.8%
Total Taxes	11.0%	9.5%	11.8%	12.1%	11.1%	9.5%	7.7%
Federal Deduction Offset	*–0.0%*	*–0.3%*	*–0.9%*	*–1.4%*	*–1.8%*	*–1.7%*	*–2.2%*
Overall Total	**11.0%**	**9.2%**	**10.9%**	**10.7%**	**9.3%**	**7.8%**	**5.5%**

Source: Institute on Taxation and Economic Policy

IV. Fringe Benefits, Debt Service, and Rainy Day Fund

Unlike reductions to the Children's Budget, the proposal maintains commitments to addressing the state's contractual obligations, including making increased payments to employee pensions, health care, and debt service. The final budget maintains the state's contribution to the State Employee Retirement System (SERS) at $1.13 billion in FY 2017, an increase of $28 million from FY 16. It also funds the healthcare costs of current and retired employees for a total of $1.45 billion in the upcoming fiscal year, representing growth of $98 million from the previous year. Payments owed on Connecticut's debt are set to grow $302 million to $2.48 billion, or 13.6 percent of General Fund spending. Altogether, these three items account for a total cost of $5.1 billion, or 27.8 percent of the General Fund.

With respect to the state's Budget Reserve Fund, commonly known as the Rainy Day Fund, the Governor's proposal projects a deposit of $10.6 million into the Fund, bringing the total up to $416.6 million. A Rainy Day Fund that is fully funded, and thus ready to weather future fiscal challenges, would be at 15 percent of General Fund Revenue, or about $2.7 billion.

V. Health

The Governor's proposed budget maintains income eligibility for families on HUSKY A (children, parents and pregnant women).[3] However, the budget makes deep cuts to specific health services and consolidates many other line items into Agency Operations, which are cut by 5.75 percent. Many of these programs and services, specified or consolidated, have been slated in the past for reductions or elimination.

It should be noted that reductions in certain health services funded by Medicaid means a cut in state dollars and a sizeable loss of federal revenue. Depending on the population served and the services, loss of federal reimbursement to the state is 50 cents on the dollar or higher, up to full reimbursement. For example, the proposed budget carries forward the $30 million reduction in FY 2016 in hospital funding. With the loss of federal matching funds, the reduction to the hospital totals $90.9 million.

Reductions to other health programs that primarily serve children and families are:

- Limiting orthodontia coverage for children in Medicaid (HUSKY A), saving $3.2 million. The budget assumes that requiring a higher score on the Salzmann Index for determining the extent of misaligned teeth will eliminate coverage for non-medically necessary orthodontia. However, under Medicaid law and rules, the state is supposed to use a broad standard of medical necessity in determining whether a child needs a particular service – including orthodontia;
- Reducing funding for Federally Qualified Health Centers ($775,000 state share, for a total reduction of $1.9 million with the loss of federal revenue) and eliminates an additional $422,327 in the DPH line item;
- Reducing funding to School Based Health Centers by $1,244,839;
- Reducing funding to Connecticut Children's Medical Center by $725,407;
- Eliminating $700,000 for asthma programs that would otherwise have been funded out of the Tobacco and Health Trust Fund. Instead the money will be included in the General Fund as "revenue"; and
- Eliminating HUSKY Independent Performance Monitoring ($178,143), a small but important and longstanding effort to ensure that scarce public dollars spent on the HUSKY program are actually providing needed care to children and families. Contrary to the rationale provided by the budget narrative the reporting done by Connecticut Voices for Children under this project complements and supplements the work of the state and its contracted administrative services organizations in the HUSKY program.

Virtually all of the Department of Mental Health and Addiction Services, including young adult services, are consolidated into Agency Operations and subject to the 5.75 percent reduction. In addition, grants for mental health and substance abuse services would be cut $15.8 million, and funding for community care teams, an innovative approach to reducing costly hospitalizations is eliminated ($3 million). In the Department of Social Services budget, the Connecticut Children's Medical Center and teen pregnancy prevention are consolidated with many other programs and the overall 5.75 percent cut leads to a reduction of $18.6 million. Consolidation of Department of Public Health programs includes Children's Health Initiatives, Childhood Lead Poisoning, Children with Special Health Care Needs and results in an overall cut of $3.8 million (5.75 percent).

VI. K-12 and Higher Education

The Governor's budget reduces State Department of Education (SDE) spending by over $69 million (approximately 2.2 percent of all state K-12 spending). The total cut is the result of a 5.75 percent reduction in several line items, as well as the elimination of nine other programs. In accordance with the Governor's budgeting strategy, over thirty programs are combined into one line item, Agency Operations, to grant greater discretion to the SDE. Several components of the Agency Operations line item were subject to an additional reduction above the 5.75 percent cut.

As is the case in other agencies, combining these line items together may grant the SDE greater discretion but it harms transparency in spending. The Agency Operations line item totals over $360 million and includes funding for all of the Connecticut Technical High School System, the Vocational Agriculture program, and the Commissioner's Network, among other accounts. Future budget adjustments to these accounts will be difficult to discern.

The Governor's budget makes a 0.5 percent cut ($11.5 million) to the Education Equalization Grant line item that funds Education Cost Sharing (ECS) to towns. While small, this cut will leave several districts that receive less than 50 percent of their ECS allotment with holes in their budget.

Several program not consolidated into the Agency Operations line item were cut by more than 5.75 percent, including Adult Education in Action and the Open Choice program. Also notable among the line item cuts is an $8 million reduction to the Excess Cost Grant, which reimburses school districts for exceptionally high special education costs. Last year, the Governor capped these grants, essentially passing budget cuts on to local taxpayers. Under his proposal this year, the funding for Excess Cost Grants is slated for a further cut by 5.75 percent.

In addition to these cuts, the Governor's Budget eliminates funding for several local programs that increase opportunity for high achieving, low-income students including the Connecticut Pre-Engineering Program, Wraparound Services, Neighborhood Youth Centers, and Bridges to Success.

The Governor's proposed budget reduces spending on higher education by $48.6 million (7.4 percent). As with every agency budget, the Governor has consolidated several line items so it is difficult to discern specific cuts. In addition to broad cuts to the Board of Regents, the University of Connecticut, and the Office of Higher Education, among the notable reductions are cuts to the Governor's Scholarship and the elimination of a scholarship program for Connecticut residents pursuing veterinary medicine out of state.

VII. Early Care and Education

The Governor's proposed FY 2017 budget adjustment maintains funding for early care and education programs at the levels passed at the end of last session. The Governor proposes to maintain support for School Readiness in Priority ($83.4 million) and Competitive School Districts ($10.8 million). In addition, the proposal upholds funding for Care 4 Kids ($122.1 million), Connecticut's largest childcare subsidy program.[4] Funding for state-funded centers ($19.1 million) would also be held harmless. The Governor's budget proposes to consolidate these programs into one "Early Care and Education" line item, allowing the Office of Early Childhood more discretion in allocating funds.

The proposal would also consolidate and cut a number of programs that ensure quality improvements and a two-generational approach across the state's early care and education network, making across-the-board reductions of 5.75 percent, totaling $3.6 million. Programs subject to reduction include Community Plans for Early Childhood, Child Care Quality Enhancements, School Readiness Quality Enhancements, Head Start Services, and the Children's Trust Fund.[5] By consolidating these line items, the Governor's proposal obscures funding amounts for individual programs, making it difficult for providers to budget and children to benefit from these services. In addition, the Governor proposes to eliminate two early childhood programs: Even Start ($451,250) and Improving Early Literacy ($142,500), and transfer the Healthy Start Program to the Office of Early Childhood from the Department of Social Services ($1.2 million).

Finally, because of under-budgeting of the Birth to Three entitlement program[6] in FY 16, and anticipated growth in utilization of services in FY 2017, programs in the Office of Early Childhood may be subject to additional reductions to cover Birth to Three expenditures.

VIII. Child Welfare and Juvenile Justice

The Governor's proposed budget includes a $41.2 million cut (4.9 percent) from what was appropriated for FY 2017 to the state's Department of Children and Families (DCF).[7] This decline results primarily from a 5.75 percent across-the-board cuts to programs consolidated into the Agency Operations line items ($27.8 million) and making permanent the budget lapses of the June 2015 special session ($7.7 million).

The proposed budget consolidates preexisting line items into two accounts: Agency Operations (which includes staff costs, family preservation and support services, juvenile justice outreach services, family violence outreach and counseling, substance abuse treatment, support for homeless youth, and other preventive programs and services) and "Care and Support for Children" (which includes board and care for children across placement types, funding for no nexus special education students, and individualized family supports). The Agency Operations account is then subject to a 5.75 percent across-the-board reduction in funds, accounting for the vast majority of the DCF budget decrease.

This budget proposal also includes reductions in congregate care capacity to reflect decreased projections of the cost of out-of-home care ($3.7 million) and eliminating funding for one Short-Term Assessment and Response (STAR) home ($1.3 million). Over the past several years, DCF has shifted toward placing children in families whenever possible, leading to the projected excess capacity and ensuing downsizing of congregate care facilities, including group homes and short-term STAR homes, across the state.

The DCF budget has been cut steadily over the past eight years. Continued budget reductions simply compound ongoing challenges; the Department has been under court supervision for over 20 years for not meeting the needs of the children in its care. In a recent report, the Court Monitor attributes much of DCF's failure to successfully exit court supervision to continuous budget cuts:

> The straightforward translation of these troubling fiscal actions is that at-risk children and families are not being seen often enough, service provision is not uniform or sufficient, siblings don't visit with one another regularly, proper assessments do not occur consistently, appropriate planning efforts are hampered, coordination with service providers and community stakeholders is not routine, many of the Quality Assurance efforts, including the essential Provider Information Exchange (PIE) results accountability data collection system for community based services cannot be enhanced, and the Department's laudable efforts to engage families via teaming efforts are severely minimized.[8]

While the Governor's budget does not cut direct funding for the board and care of children, the 5.75 percent across-the-board cut to Agency Operations is likely to hurt DCF's ability to sustain the efforts outlined above. Home visits, service provision, sibling visitation, assessments, planning, and coordination efforts all depend on DCF staff; cuts to staff-related expenses, included in the Agency Operations fund, will limit these efforts. Cuts to community-based prevention and therapeutic services, including family violence counseling, juvenile justice outreach services, and substance abuse treatment, will further impact DCF's ability to reunite children with their families when appropriate.

Due to the consolidated structure of the Governor's proposed budget, we cannot be sure how particular programs that are now part of Agency Operations will be affected by the proposed cut. Based on the budget options presented by the DCF Commissioner in October 2015, however, several items are likely to be reduced or eliminated, including staff overtime, certain therapeutic and psychiatric services for youth[9], and the Parent Project program for juvenile criminal diversion. Although cuts to particular programs have yet to be specified, these changes will inevitably be disruptive to ongoing efforts to ensure normalcy and permanency for youth in DCF care. Through its continued reduction of the DCF budget, the state jeopardizes the Department's work to ensure the wellbeing of all youth in state care, who remain among our most vulnerable young people.

IX. Conclusion

The state has an obligation to close its deficit and pay down its debts, but Connecticut also has an obligation to its children and families – an obligation to ensure that every child has their basic needs met, can access comprehensive healthcare, and receives a high-quality education. If we do not fulfill this promise to our children, we put them at risk for a lifetime of poverty, illness, and economic hardship, endangering our state's long-term prosperity.

While the state determines how to solve challenges that have built up over decades, Connecticut cannot afford to continue burdening those families with the least – the very families raising our state's future workforce. When we allow public investments in children's healthcare and education to erode, we run the risk that more children will be shut out of economic opportunity simply because of the circumstances of their birth.

In order to address our state's long-term challenges while maintaining our investment in the next generation, we must pursue fundamental reforms to our state that include:

- **Pursuing transparency and accountability in budgeting.** The consolidation of many programs into one line item will make it more difficult to track how our state is investing in children and families, while the lack of current services estimates may underestimate the true cost of cuts to public services. Reversing both of these changes – while still working towards the goal of more accurate spending growth estimates and budget flexibility – is important to understanding how our next generation fares in the budget.
- **Maintaining and expanding proven state investments.** Research has shown that programs such as high-quality early education, the Earned Income Tax Credit, and health coverage for young children result in positive outcomes later in life. Investing in these programs now will save Connecticut money later.[10]
- **Reforming our state's property tax system.** The property tax is one of the largest – and most regressive – state taxes paid by families and businesses alike. Reforming the system will allow Connecticut to address disparities across towns, redress differences in basic education funding, and alleviate the unfair burden that hurts many of our state's most vulnerable residents.[11]

Acknowledgements
This brief was prepared by Associate Fiscal Policy Fellow Nicholas Defiesta, Associate Policy Fellows Sarah Iverson and Bianca Rey, Fiscal Policy Fellow Derek Thomas M.P.A., Education Policy Fellow Rachel Leventhal-Weiner Ph.D., Senior Policy Fellow Cyd Oppenheimer J.D., Senior Policy Fellow Mary Alice Lee, Ph.D., and Acting Executive Director Sharon Langer M.Ed., J.D. with support from the Stoneman Family Foundation and Melville Charitable Trust.

---

[1] *See* Defiesta, Nicholas et al, "Trends in Poverty and Median Income in Connecticut: Summary of 2014 American Community Survey Census Data," (September 2015), available at: http://www.ctvoices.org/sites/default/files/bud16childrenfuture.pdf

[2] The final FY 16 budget does not delineate the portion of Medicaid funding spent on children and families, so this amount represents the best estimate given the most recent data available. It assumes all funds cut from HUSKY A will harm kids and families, as well as an estimated 32 percent of the remainder of the funding. The 32 percent figure, which represents the most recent data available, does not apply to cuts that would not fall on children.

[3] Roughly 18,000 parents will lose HUSKY coverage at the start of FY 2017 due to prior budgetary decisions.

4 While the Governor proposes to maintain funding for Care 4 Kids, Connecticut's draft Child Care Development Fund plan would require an expanded Care 4 Kids eligibility timeline and increased regulations for providers, reducing the net amount of money available to support child care slots. *See* Office of Early Childhood, "Child Care Development Fund Reauthorization" (January 2016), available at http://www.ct.gov/oec/cwp/view.asp?a=4547&q=574712.

5 The Children's Trust Fund is made up of the components Help Me Grow, Family School Connection, Family Empowerment Programs, and the Nurturing Families Network.

6 The portion of Birth to Three that funds infants and toddlers not eligible for Medicaid was transferred to the Office of Early Childhood from the Department of Developmental Services in Fiscal Year 16. The portion of Birth to Three that funds Medicaid was transferred to the Department of Social Services. This change is to "reflect a chance in the rate structure (bundled rates to fee for service) and the transition of birth to three providers from performing providers who deliver Medicaid reimbursable services to providers who directly bill Medicaid."

[7] The Governor's proposed budget also includes a $107.9 million transfer of fringe benefit costs from the Comptroller's fringe benefits account to DCF's Agency Operations fund. Because of this transfer, the DCF budget appears to grow from $834 million to $900 million on paper.

[8] *See* Court Monitor, "*Juan F* v. Malloy Exit Plan Quarterly Report," (January 2016), available at: http://www.ct.gov/dcf/lib/dcf/positive_outcomes/pdf/status_report_2015_final.pdf

[9] Specifically, the Juveniles Opting for Treatment to Learn Appropriate Behaviors (JOTLAB) program and Intensive In-Home Child and Adolescent Psychiatric Services (IICAPS).

[10] *See* Connecticut Voices for Children, "2016 Advocacy Priorities," (January 2016), available at: http://www.ctvoices.org/advocacy/policy-agenda16

[11] *See*: Thomas, Derek, "Policy Primer: Reforming Our Property Tax System," (February 2016), available at: http://www.ctvoices.org/sites/default/files/bud16policyprimerproptxreform.pdf