CONNECTICUT VOICES FOR CHILDREN

20 years of advancing opportunities for children and families

# Impact of the Final FY 2017 Budget on Children and Families

**May 2016**

## Introduction

Following hundreds of millions of dollars in budget cuts in Fiscal Year 2016, Connecticut policymakers tackled the nearly $1 billion budget deficit in Fiscal Year 2017 (FY 17) by adopting a two-pronged austerity approach. First, policymakers refused to consider any new revenues, taking a cuts-only method that struck **$233.6 million** from programs that support children and families — a massive reduction that follows decades of disinvestment from schools, family health, child welfare, and other public services. Second, they abandoned current services budgeting, which sets the budget baseline at what the state would need to spend to maintain current programs and services, and replaced it with zero-based budgeting, a tool that masks proposed changes in policy and makes it harder to hold elected officials responsible for the real impact of budget choices. Taken together, these two changes have set up the state for an ongoing and increasing disinvestment in children and families.

The final FY 2017 budget includes the following cuts:

- $81.8 million (2.6 percent) from K-12 education;
- $48.7 million (8.1 percent) from higher education;
- $38.7 million (4.6 percent) from the Department of Children and Families; and
- $5.5 million (17.9 percent) from Behavioral Services in the Department of Developmental Services.

While sizeable, these figures understate the true depth of the new budget cuts, as they are calculated based on 2016 funding, without any adjustment to reflect year-to-year increases in the costs of maintaining programs. Moreover, these figures do not take into account the effect that over 2,000 public sector layoffs will have on Connecticut families, the cancellation of roughly $1 billion in bonding projects and the reduction of municipal property tax relief that was enacted in 2015.

## The Children's Budget

To track trends in public spending, 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.

The following table (Table 1) depicts the largest programs and agencies of the Children's Budget, their original appropriation for FY 17, and how they fared in the final budget. As illustrated, funding is largely cut across the board, with a total cut of 3.8 percent ($233.6 million) to the Children's Budget. While deep, this compares favorably with overall cuts of 5.4 percent (approximately $1 billion) to the total FY 17 budget, and with cuts of 6.2 percent (nearly $800 million) to spending not included in the Children's Budget. As noted earlier, this table does not take into account current services estimates, meaning the figures *underestimate* the effect of cuts on public services.

**Table 1: Largest Cuts to the Children's Budget in Final FY 17 Budget**

| | Original FY 17 Appropriations | Final FY 17 Appropriations | Total Change | Percent Change |
|---|---|---|---|---|
| **State Department of Education** | $3,100,190,364 | $3,018,381,393 | $81,808,971 | 2.6% |
| **Office of Early Childhood** | $297,352,885 | $293,800,629 | $3,552,256 | -1.2% |
| **Department of Children and Families** | $833,527,745 | $794,842,146 | $38,685,599 | -4.6% |
| **DSS Medicaid (HUSKY A)** | $813,692,160 | $783,117,204 | $30,574,956 | -3.8% |
| **DSS TANF** | $98,858,030 | $89,936,233 | $8,921,797 | -9.0% |
| **DSS HUSKY B (CHIP)** | $36,250,000 | $36,250,000 | $0 | 0.0% |
| **DSS CT Children's Medical Center** | $14,800,240 | $13,048,630 | $1,751,610 | -11.8% |
| **DDS Behavioral Services** | $30,818,643 | $25,303,421 | $5,515,222 | -17.9% |
| **DOL Jobs First** | $18,039,903 | $15,169,606 | $2,870,297 | -15.9% |
| **DPH School-Based Health Clinics** | $11,898,107 | $11,280,633 | $617,474 | -5.2% |
| **Board of Regents** | $358,002,116 | $332,662,476 | $25,339,640 | -7.1% |
| **University of Connecticut** | $248,969,082 | $229,917,913 | $19,051,169 | -7.7% |
| **Office of Higher Education** | $45,958,259 | $41,604,805 | $4,353,454 | -9.5% |
| **DOL Workforce Investment Act** | $32,104,008 | $34,149,177 | $2,045,169 | 6.4% |
| **DMHAS Young Adult Services** | $85,961,827 | $80,902,861 | $5,058,966 | -5.9% |
| **JUD Juvenile Alternative Incarceration** | $28,442,478 | $25,788,309 | $2,654,169 | -9.3% |
| **JUD Youthful Offender Services** | $18,177,084 | $13,311,287 | $4,865,797 | -26.8% |
| **Total Children's Budget** | **$6,073,042,931** | **$5,839,466,723** | **$233,576,208** | **-3.8%** |
| **Non-Children's Budget** | **$12,843,837,458** | **$12,046,684,040** | **$797,153,418** | **-6.2%** |
| **General Fund** | **$18,916,880,389** | **$17,886,150,763** | **$1,030,729,626** | **-5.4%** |

**Source**: Connecticut Voices for Children analysis of FY 16-17 Biennial Budget and FY 17 Budget Revisions. Note that the figure for HUSKY A represents an estimate of the portion of Medicaid that is spent in children and families, which latest data show is approximately 32 percent.

## Revenue

The final budget does not make any significant changes to revenue in FY 17. Instead, the final budget relies on significant cuts to health and human services and to education to close the deficit. While such cuts may offer a short-term solution to the budget gap, they do so at a significant cost to the long-term economic and social structure of the state. Instead, lawmakers can preserve critical investments by closing tax loopholes, modernizing outdated tax laws, and calling upon the wealthiest to pay their fair share.[1] Increasing the top rate of the personal income tax, for example, would fall on the top 1 percent of taxpayers[2] and would result in an estimated $283.1 million in new state revenue: an amount more than the cuts to programs that affect children and families. If the top 5 percent of earners (who pay an effective tax rate of 8.5 percent) paid a rate equal to the bottom 95 percent of households (11.3 percent), the state would be able to raise more than $2 billion annually. Likewise, improving accountability and transparency in our public budgeting system could yield significant revenue. Tax expenditures – which do not face the same public scrutiny as spending on education, health and human services – now exceed $7 billion, an amount that's grown by more than 70 percent since 2000. Even just a 10 percent reduction in outdated tax expenditures would bring in over $700 million to state coffers annually.[3]

[1] See our brief, *Revenue Options are Crucial to Maintaining Public Investments that Promote Prosperity:* http://www.ctvoices.org/publications/revenue-options-are-crucial-maintaining-public-investments-promote-prosperity

[2] Eighty-four percent of an increase in the top rate of the personal income tax would fall on the top 1 percent of taxpayers. One third of the total revenue from such an increase would be redirected back to these same taxpayers by larger deductions on federal income taxes.

[3] See our issue brief, *Reviewing Tax Expenditures: Improving Transparency and Accountability in Over $7 Billion of Off-the-Books Public Spending:* http://www.ctvoices.org/publications/reviewing-tax-expenditures-improving-transparency-and-accountability-over-7-billion-boo

## Current Services Budgeting, Fringe Benefits, Debt Service, and Rainy Day Fund

Current services budgeting measures how much it will cost the State to deliver the same quality and quantity of services in the current year as in the year past. Accepted as best practice [4], current services budgeting assures transparency and accountability, allowing the public to gauge the true cost of doing business and the true impact of changes in funding levels. Current services budgeting does not commit the state to any particular action; instead, it offers a neutral baseline from which to assess proposed changes.

Rolling back the clock more than two decades, the state has now rejected current services budgeting in favor of so called "zero-based budgeting," a methodology that only accounts for real costs in paying down contract obligations while allowing the state to ignore the reality of rising cost for any non-contractual obligation. The only cost increases that will be accounted for under the new methodology are in debt service, retirement benefits, and federal entitlement programs. The final budget, for example, includes an increase of $28 million over FY 16 for state contributions to the State Employee Retirement System (SERS, for a total cost of $1.1 billion in FY 17. It also funds the healthcare costs of current and retired employees for a total of $1.4 billion in the upcoming fiscal year, representing growth of $53 million from the previous year. Payments owed on Connecticut's debt are set to grow $312 million to a total of $2.63 billion. Altogether, fringe benefits and debt service account for a total cost of $5.2 billion, or 28.9 percent of projected General Fund revenue.

The final budget makes no changes to the Rainy Day Fund, which currently sits at $406 million. A Rainy Day Fund that is fully funded, and thus ready to weather future fiscal challenges, should equal 15 percent of General Fund Revenue, or about $2.7 billion.

## Conclusion

Connecticut is a state with dramatic disparities in opportunity, broken down by place, by race and by family income. By taking a cuts only approach, and by rejecting a current services calculation, Connecticut has failed to meet the challenge of providing every child an equal chance to meet their full potential. A truly balanced approach to guarantee Connecticut's long-term prosperity would offset deep cuts with new revenue in order to meet the needs of our children and families. Reinstating current services in our budgeting is another critical step to ensuring the needs of children and families are front and center. To meet the needs of the next generation, while addressing the state's long-term challenges, we recommend the following priorities in future budget setting:

- **Adopt a balanced and transparent approach.** In confronting the fiscal crisis looming over state budget decisions, the commonsense choice for Connecticut should include revenue, rather than a cuts-only approach that threatens an already fragile economic recovery. Moreover, Connecticut should revert to current services budgeting, a best practice that assures transparency and accountability.
- **Protect investment in children and families.** State investment in health care, human services and education to support the next generation are critical to ensuring our children grow up ready to meet their full potential. Already, less than one-third of Connecticut's General Fund spending supports programs that benefit children and families – down from 40 percent in the early 1990s.

[4] See Center on Budget and Policy Priorities for more information on 'current services' and other financial planning tools that have contributed to Connecticut's number one rank among states for its long-term budget planning: http://www.cbpp.org/research/state-budget-and-tax/budgeting-for-the-future-fiscal-planning-tools-can-show-the-way

## APPENDIX – Detailed Analysis of Children's Budget Issue Areas

### Health

The final FY 17 budget would reduce support for health services, including reductions in Medicaid funding, community and school-based health centers, mental health and substance abuse services, although the reductions are not uniformly distributed. Taken together these proposed reductions in funding seriously jeopardize the progress Connecticut has made in ensuring that racial and ethnic minorities and other underserved populations have equitable access to health care and addressing the gaps in the service array for children and adults with mental health and substance abuse challenges.

Overall Medicaid funding is reduced by about $100 million, from $2.5 billion to $2.4 billion, although no explanation or policy changes are given for the sizeable cut. When the state reduces funding for any HUSKY services (Medicaid and Children's Health Insurance Program) it translates into a loss of federal revenue to the state. The federal government reimburses the state between 50 cents and 100 cents on the dollar in the HUSKY program, depending on the population served and the type of services. The budget does reduce pediatric Medicaid dental fees by five percent (total projected savings: $2.7 million), which could lead to a reduction in access to dental care for children on the HUSKY Program. As a result of a federal lawsuit settlement a decade ago and important administrative changes to the Medicaid dental program,[5] Connecticut has improved access to the basic dental care for children and families and reduced more costly care in emergency rooms and dental offices. Connecticut now leads the nation in providing dental care for children in the HUSKY Program.[6] This cut, although less severe than the Governor's earlier proposal to reduce fees by ten percent, risks reversal of that progress.

The budget reduces funding for independent HUSKY performance monitoring from $187,245 to $158,145, down 24 percent from the FY 14-15 appropriation.[7] This reduction in funding will seriously limit Connecticut's ability to monitor HUSKY enrollment trends, maternal health and birth outcomes, and the impact of major program changes on health services utilization. Finally, the budget restores $775,000 in supplemental funding for the Federally Qualified Health Centers (FQHC), for a reduction from $4 million to $2 million overall when federal funds to the FQHCs are taken into account.

### K-12 and Higher Education

*K-12 Spending*

The final FY17 budget cuts significant aid to towns and also reduces funding for programs designed to wraparound the school day in high-need communities. Years of flat funding and incremental budget cuts to

---

[5] The changes came about as part of the settlement agreement in the case of Carr v. Wilson –Coker , No. 3; 00CV1050 (D.Conn., Aug. 26, 2008). This case was brought in 1999 by Greater Hartford Legal Assistance on behalf of children in the Medicaid program who were unable to obtain the preventive dental services and treatment guaranteed to them under federal law in Medicaid's Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) program [42 U.S.C. §§ 1396D(r)(3)]. The settlement agreement expired in August 2012, but the program changes are still in effect. In addition, in 2012, Connecticut ended its risk -based HUSKY Program and entered into a contract with Benecare Dental Plans to run the Connecticut Dental Health Partnership.

[6] Vujicic M, Nasseh K. Gap in dental care utilization between Medicaid and privately insured children narrows, remains large for adults. Health Policy Institute Research Brief. American Dental Association, December 2015 (revised). Available from: http://www.ada.org/~/media/ADA/Science%20and%20Research/HPI/Files/HPIBrief_0915_1.ashx. "In 2013, 64.3 percent of Medicaid-enrolled children in Connecticut had a dental visit in the past year, up significantly from 31.9 percent in 2005. Dental care use among Medicaid-enrolled children in 2013 was higher in Connecticut than any other state in the U.S." (p.3)

[7] Connecticut Voices for Children. See for example, Behavioral Health Care in HUSKY A Before and After Implementation of the Behavioral Health Partnership: Children and Adults with Diagnosed Mental Conditions, (February 2016), available at http://www.ctvoices.org/sites/default/files/h16behavioralhealthcarefull.pdf

our state's public education system are slowly eroding the quality of educational experiences at the same time they are increasing the burden on municipalities to fill gaps in funding.

The final FY 17 Department of Education budget cuts over $80 million: 3 percent of the agency's budget. While the budget preserves several wraparound services and community based programs that faced full cuts in earlier budget proposals, line items funding state aid to towns for education spending and for special education services have been cut. This final budget creates a challenging path for local educational leaders who have for years been asked to do more with less. The imposition of these cuts will undoubtedly lead to an increase in local property taxes as local districts scramble to plug holes in their operating budgets beginning in a few short weeks.

The final budget cuts funding for the Regional Vocational-Technical School System by 5 percent ($7 million), the Education Equalization line item that funds the ECS Cost Sharing grant by 2 percent (over $30 million), and the Excess Cost Grant line item that funds exceptional special education costs by 3 percent ($4.3 million). Because these line items represent a significant portion of the State Department of Education's budget, the cuts will impact local boards of education as well as the strength of the vocational-technical school system. The FY17 budget preserves earlier proposed budgeting strategies for the SDE budget, specifically the transfer of transportation costs (both Transportation of School Children and Non-Public School Transportation) to the Special Transportation Fund and the establishment of a separate line item for Charter School Funding to increase transparency regarding the state spending on charter schools. While the final FY17 budget restores many of the deep rescissions proposed by the Appropriations Committee, the Governor or the Republicans earlier this session, the programs that have survived in this budget proposal are funded at lower levels than previous years.

*Higher Education*

The final FY 17 budget cuts state spending on higher education (Office of Higher Education, the Board of Regents and the University of Connecticut) by over $48 million. The FY17 budget achieves these cuts through rescissions of University of Connecticut Operating Expenses, the Minority Advancement Program (a college preparatory program for low-income youth), and the Minority Teacher Incentive Program (a scholarship program for undergraduates of color pursuing careers in education). The budget also cuts funding to scholarship opportunities for students studying in state and out of state.

## Early Care and Education

The final FY 17 budget protects critical investments in early care and education, importantly recognizing that the first few years of a child's life are the most critical for brain development and future life outcomes. Connecticut has made strides in building a high-quality and comprehensive early childhood system in the past few years, and the FY 17 final budget prioritizes our commitment to our youngest citizens in a difficult budget year, only cutting the Office of Early Childhood by 1.2 percent.

The final budget maintains funding for early care and education slots. Care 4 Kids, Connecticut's largest child subsidy program, remains funded at the original appropriation level ($122.1 million), and while many programs were consolidated, Care 4 Kids remains as a standalone line item. However, School Readiness in Priority School Districts, School Readiness in Competitive School Districts, and state-funded centers were consolidated into one line item called Early Care and Education. Consolidation may allow for greater flexibility in appropriating funding across programs in order to maximize the number of early childhood program slots. The final budget maintains funding for all three programs, albeit by maintaining the $1.5 million lapse in funding for state-funded centers in FY 17. The FY 17 budget implementer increases the per child reimbursement rate for state-funded centers, from $8,670 to $8,927, establishing rate reimbursement parity between School Readiness in public schools and state-funded centers.

While the final budget maintains funding for early childhood slots, programs that work to improve quality were cut. Without the promise of quality, simply maintaining funding for slots will not enable our youngest children to fully reap the long-term benefits of early care and education. The final budget cuts funding for School Readiness Quality Enhancement by $503,151 (10.8 percent) and Child Care Quality Enhancements by $254,098 (8.1 percent). The final budget also reduces funding for Community Plans for Early Childhood by $52,766 (7.4 percent) and the Early Head Start – Child Care Partnership by $134,279 (10.3 percent). The final budget eliminates funding for the ABCD Total Learning Initiative and state-funded enhancements to the Head Start program in five communities ($720,000).

The final budget importantly recognizes the positive impact of programs that promote a two-generation, holistic approach to early care and education. The final budget maintains funding for Even Start ($451,250) and Improving Early Literacy ($142,500), and establishes a separate, non-lapsing "two-generation poverty reduction account" in the Department of Social Services. The budget implementer also eliminates the tax on diapers and feminine hygiene products, effective July 1, 2018.

## Child Welfare and Juvenile Justice

The final FY 17 budget will significantly impact DCF's efforts to meet the placement and service needs of vulnerable youth and families across the state families across the state. Due to the varying depth of the cuts to each agency account, it is difficult to estimate the impact these cuts will have on supports and services for DCF-involved families--some programs may not survive the reductions in funding allocated to the grants which support them. The budget includes cuts to both preventive and rehabilitative services for youth and their families, which will challenge the Department's efforts to keep struggling families together, reunite families whenever possible, and adequately serve the increasingly complex needs of the youth who must remain in its care.

The final budget includes a $38.9 million reduction from what was appropriated to the Department of Children and Families (DCF) for FY 2017, which represents a 4.6 percent cut to the existing budget. The majority of this budget reduction is due to a $22.2 million cut to the Personal Services account and a $4.5 million reduction in funding for residential and congregate care placements for foster children. This reduction is at least partly driven by decreased need for beds in these placements as DCF has moved toward placing children in home-based placements whenever possible.

Without additional funding and personnel, it is unlikely that DCF will meet the outcome measures required for the state to exit federal *Juan F.* monitoring in the near future. As of 2016, this federal oversight has continued for 25 years. Though DCF has undergone significant policy and practice reforms in the past two decades, and the agency increasingly reflects national best practices in child welfare and healthy child development, the agency cannot effectively implement these reforms without the increased funding necessary to do so. The final FY17 budget, which cuts 7.5 percent of appropriated funding for Personal Services (largely staffing-related costs), will impact staff caseloads, affecting home visits, sibling visitation, assessments, case planning, and staff ability to build meaningful connections with the children in their caseload. This budget also reduces funding for the Individualized Family Supports agency account, which funds preventive and emergency services for at-risk families, by 13 percent. These cuts will limit the agency's ability to keep families together and meet the needs of children who need to be removed from their homes. Continued budget reductions will impact the wellbeing of vulnerable children and families, and risk affecting the state's significant progress in child welfare over the past 25 years.

**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 Mary Alice Lee, Ph.D., Advocacy Director Sharon Langer, M.Ed., J.D. and Executive Director Ellen Shemitz, J.D., with support from the Stoneman Family Foundation and Melville Charitable Trust.