CONNECTICUT VOICES FOR CHILDREN
20 YEARS OF ADVANCING OPPORTUNITIES FOR CHILDREN AND FAMILIES

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The Governor's Budget – A Comparison to Current Year Appropriations

Children's Budget Drops to New Low, Tax Hikes for Low- to Middle-Income Families

(Please visit www.ctvoices.org for the full report)

February 2017

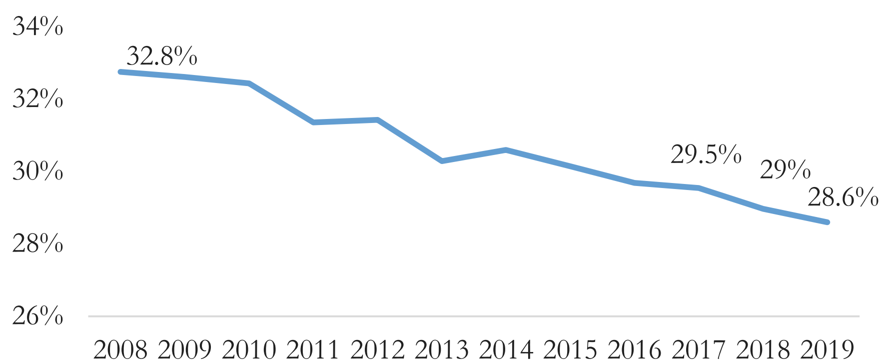
Introduction

This analysis of the Governor's budget proposal for fiscal years (FY) 2018 and 2019 addresses both the revenue and expense side of the budget, assessing the proposed investments in children and families as compared with the current fiscal year's (FY 2017) appropriated spending. Faced with a deficit of $3.6 billion over the next two fiscal years, the Governor has proposed balancing the budget by relying on $1.36 billion in cuts, generating more than $600 million in new revenue largely by eliminating tax credits for low- to middle-income families and raising cigarette taxes, calling for $1.56 billion in public sector pay and benefit concessions, and shifting one-third of teachers' pension costs to municipalities.[1]

Children's Budget – Declining Share, Increased Spending

To assess changes in state support over time, our Children's Budget tracks state investments in programs and services that directly impact children.[2] Following a cuts-only approach to the FY 2016 budget deficit, the Children's Budget fell to a record low 29.5 percent of General Fund spending. The Governor's biennium budget proposal would further reduce the Children's Budget to 29 percent of General Fund spending in FY 2018 and 28.6 percent of General Fund spending in FY 2019. Although the share of total General Fund spending dropped, spending increased by $90.1 million as a result of increased Medicaid spending (described in greater details on page three).

Governor's Budget Would Reduce Children's Budget to New Low



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[1] The proposal gives the Governor unilateral authority to cut an additional $40 million from executive branch agencies in each of the two fiscal years of the biennial budget: https://www.cga.ct.gov/2017/TOB/h/2017HB-07027-R00-HB.htm

[2] Visit our online visualization to assess appropriations over time, and to compare spending on children to other parts of the budget: https://public.tableau.com/profile/connecticut.voices.for.children#!/

The following table illustrates the Governor's top 15 proposed dollar-for-dollar cuts to the Children's Budget from FY 2017 to FY 2019. We provide a more detailed analysis of each Children's' Budget component and discuss the impacts of line item cuts in the Appendix.

Top 15 Dollar-for-Dollar Cuts to the Children's Budget—FY 2017 to 2019

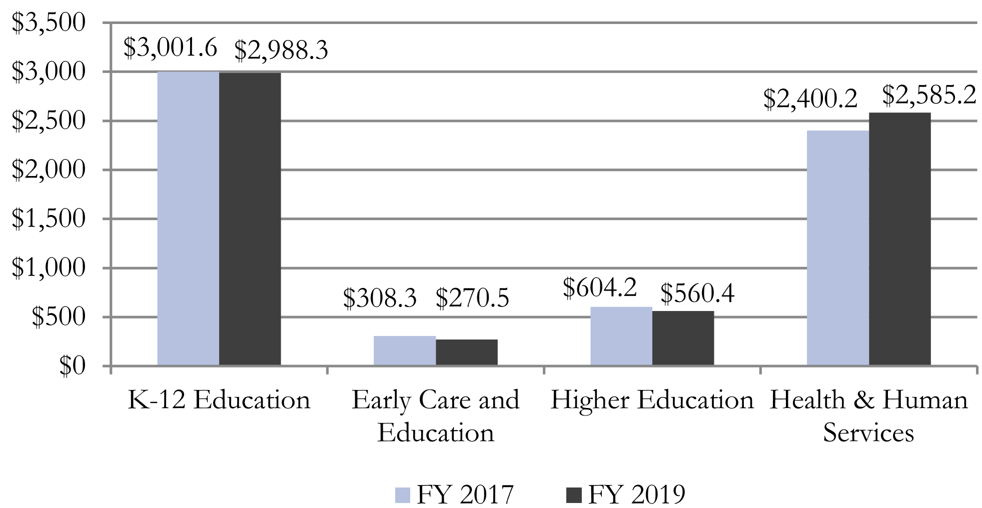
Line Item	Agency	Children's Budget Component	Amount Cut	Percentage Change
Connecticut State Colleges and Universities	CSCU	Higher Education	-$22,638,689	-6.8%
Operating Expenses (UCONN)	UCONN	Higher Education	-$14,859,702	-7.2%
Care4Kids TANF/CCDF	OEC	Early Care and Education	-$14,500,000	-11.7%
Birth to Three	OEC	Early Care and Education	-$10,813,196	-27.6%
Temporary Family Assistance	DSS	Health & Human Services	-$10,328,710	-11.5%
Young Adult Services	DMHAS	Health & Human Services	-$6,026,782	-7.4%
Board and Care for Children – Short-term and Residential	DCF	Health & Human Services	-$5,676,148	-5.5%
Regional Vocational-Technical School System	SDE	K-12 Education	-$5,587,421	-3.4%
Juvenile Alternative Incarceration	Judicial	Health & Human Services	-$5,104,851	-19.8%
Governor's Scholarship	OHE	Higher Education	-$4,440,118	-11.9%
Priority School Districts	SDE	K-12 Education	-$4,233,717	-10.0%
Behavioral Services Program	DDS	Health & Human Services	-$4,176,765	-16.5%
Family Resource Centers	SDE	K-12 Education	-$3,947,422	-50.0%
Talent Development	SDE	K-12 Education	-$3,445,115	-56.5%
Personal Services	SDE	K-12 Education	-$3,350,782	-17.7%

CT Voices Analysis of the Governor's Biennial Budget. Education Equalization Grants line item was cut by $437,583,167, but that money, along with the Excess Cost Grant, was combined into the Special Education line item.

The graph below reflects the FY 2017 to FY 2019 change in each of the four Children's Budget components. Over the next two fiscal years, the Governor's budget would reduce funding for early care and education by 12.3 percent, K-12 by 0.44 percent, higher education by 7.3 percent, and increase health and human services by 7.7 percent.

Changes in Children's Budget Components

Current Fiscal Year Appropriations (FY 2017) compared to Governor's FY 2019 Budget (in Millions)



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A Note on our Methodology

To ensure comparability with prior years, this analysis includes federal Medicaid dollars in total General Fund spending. Beginning in 2014, the state adopted a practice known as "net funding", removing the federal Medicaid share from total General Fund spending, allowing funding for the state budget to remain under the spending cap. Starting in 2014 the federal government significantly increased its share of Medicaid spending by providing 100 percent reimbursement for low-income adults on Medicaid (HUSKY D).

For example, in the current fiscal year (FY 2017), total Medicaid spending is $5.964 billion, $2.447 billion of which represents state investments, while $3.517 billion comes from the federal government. This means that, in FY 2017, while the state defines total General Fund spending as $17.864 billion, our baseline for comparison is $21.381 billion ($17.864 + $3.517 billion). We add back in the federal share because we estimate what share of *total* Medicaid spending is devoted to children to calculate the health and human services component of our Children's Budget. In FY 2017, we estimate that of the $5.964 billion in total Medicaid spending, $1.260 billion is spent on children.

Significantly, the Governor's proposal includes an increase of $896 million in total Medicaid spending from FY 2017 to FY 2019. The result is that while other components of the Children's Budget see declines, the amount we calculate that is spent on children's health and human services increases by $190 million, ultimately translating to an increase in the total amount spent on children from FY 2017 to FY 2019. Absent this substantial increase, the Children's Budget would see a decrease of approximately $100 million.

Some of the increase in Medicaid spending is the result of increased "supplemental Medicaid payments to hospitals."[a] Typically, states provide supplemental payments to hospitals that serve a disproportionate share of uninsured or under-insured patients and to enable the state to draw down additional federal funds. It should also be noted that these are estimates, and are subject to revisions (for example, the previous biennial budget estimated $6.2 billion in total Medicaid spending in FY 2017, which was later revised downward by approximately $300 million to the current $5.964 billion).

New Revenue – Asking More from Those with Less[3]

The Governor's budget proposal would generate $320 million and $287.4 million in expected new revenue for each of the next two fiscal years.[b] More than 40 percent (approximately $130 million) of new revenue in each of the following two fiscal years is generated by raising taxes on low- to middle-income households. Of that $130 million, the Governor proposes raising approximately $25 million each year by cutting the Earned Income Tax Credit (EITC), a credit that helps Connecticut's low-income working families afford basic necessities. This proposal follows a 2011 cut which reduced the EITC from 30 percent to 27.5 percent of the federal EITC, resulting in a 20 percent decrease in the average credit. The Governor's proposed cuts to the EITC would hurt nearly 200,000 working families by making it harder to put food on the table and meet the needs of their children.[4]

The Governor's proposed elimination of the property tax credit, which helps offset Connecticut's regressive property tax system for nearly 800,000 taxpayers, would further hurt low- to middle-income taxpayers. As with the EITC, the proposed cuts to the property tax credit build upon prior reductions. Nearly ten years ago, the credit was worth a maximum of $500, before being reduced to $300 in 2011 and $200 in 2016.[5]

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[3] See our latest revenue options brief for a dozen options to modernize the sales tax, strengthen the corporate income tax, and reform wealth and income taxes: http://www.ctvoices.org/sites/default/files/Revenue%20Options%202017_0.pdf

[4] See our EITC brief and data on the average credit, number of credits, and sum of credits in all 169 towns here: http://www.ctvoices.org/publications/restoring-connecticuts-earned-income-tax-credit-makes-sense

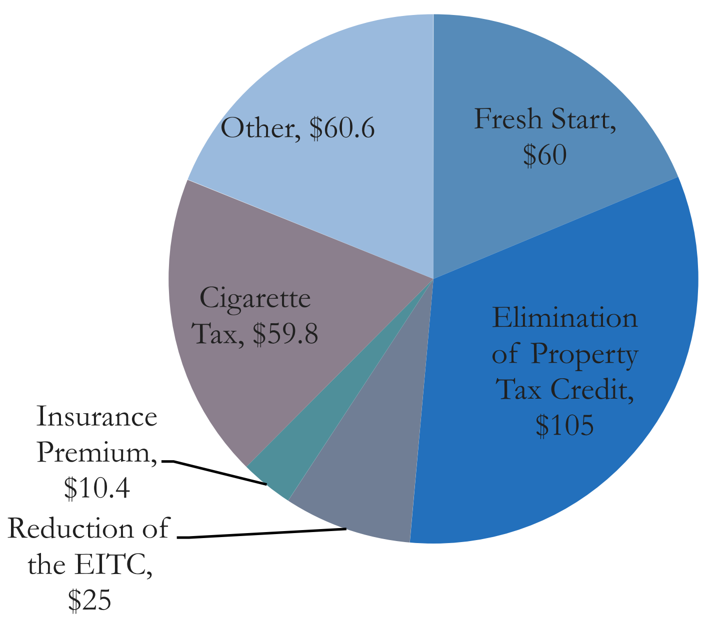
[5] Our proposal for a statewide property tax would reduce taxes for 1.7 million residents in 117 towns, strengthen the tax base of our largest cities,

At the same time that the Governor has proposed tax changes that burden low- and moderate-income families, he has proposed giving residents with estates worth more than $2 million (but less than $5.25 million) a *tax cut,* by increasing the estate tax exemption to the federal threshold of $5.25 million. This change would exempt approximately 75 percent of estates subjected to the estate tax in FY 2015, costing the state an estimated $20 million in FY 2019.[c] While the Governor justifies the proposal as necessary to maintain Connecticut's competitiveness with surrounding states, both Massachusetts and Rhode Island have thresholds below Connecticut, and New York's threshold will increase to $5.25M starting this year.[6,d] Weakening the estate tax would undermine efforts towards addressing wealth inequality.[e]

Other revenue proposals include:

- Increasing the cigarette tax by $0.45 per pack would generate approximately $60 million in each of the next two fiscal years. Although this change would disproportionately impact low-income residents, research has found that cigarette taxes reduce smoking rates and thus decrease health costs.[f]
- A tax amnesty program – known as "Fresh Start" – that waives penalties and interest for unpaid personal and corporate income and sales taxes is expected to spur an additional $60 million in collections in FY 2018 and $25 million in FY 2019.
- "Other" proposals generate revenue through $35 million in expected increased federal grants in FY 2019 and by increasing the cost of obtaining a gun permit ($9 million) and criminal records ($2.6 million).
- The elimination of the property tax exemption for nonprofit hospitals could raise more than $200 million collectively for communities such as New Haven and Hartford whose tax bases are disproportionately eroded by the exemption.

Low- to Middle-Income Taxpayers Shoulder 40% of the Governor's FY 2018 Revenue Proposals (in Millions)



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and level the playing field so that all communities can attract jobs: http://www.ctvoices.org/publications/equal-funding-equal-effort-proposal-reform-property-tax-funding-local-education-connect

[6] Although, New York City Mayor Bill de Blasio is calling for a citywide 2.5% mansion tax on property valued at $2 million or more.

Low- to Middle-Income Residents Would Experience Tax Hikes Under Governor's Budget Proposal

2016 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than $22,000	$22,000-$44,000	$44,000-$75,000	$75,000-$128,000	$128,000-$331,000	$331,000-$987,000	Over $987,00
Average Income in Group	$14,000	$ 34,000	$ 58,000	$ 98,000	$ 188,000	$495,000	$3,523,000
Average Tax Increase From:							
Property Tax Credit Elimination	$1	$60	$143	$104	$15	$1	$0
EITC Reduction	$20	$34	$14	$0	$0	$0	$0
Average Household Tax Increase	**$21**	**$93**	**$157**	**$104**	**$15**	**$1**	**$0**

Institute for Taxation and Economic Policy

Recommendations

The Governor's budget takes on significant structural imbalances in the state budget and is balanced in its approach in that this year's budget includes cuts and revenue, unlike last year's cuts-only approach. New revenue in the Governor's budget, however, is generated largely by raising taxes on those who can least afford it: low- to middle-income families. Lawmakers should instead capitalize on the opportunities the current challenges present by enacting bold reforms to our tax system that calls on all residents in the state to contribute. In so doing, the state can raise critically needed revenue *and* ensure stability to the revenue system to support future investments.

Adopt a Truly Balanced Approach: Our Revenue Options brief lays out more than a dozen opportunities to invest in Connecticut's future by modernizing an outdated sales tax system, strengthening taxes on corporations, and reforming wealth and income taxes. Applying the sales tax to services and collecting taxes on internet sales is a an example of a proposal that raises significant revenue, asks all taxpayers to contribute, adds fairness, and tackles the erosion of the sales tax base.

Revenue Options

Modernize Outdated Sales Tax	Apply sales tax to services*	$730 million to $1.5 billion
	Collect a larger share of taxes due on internet sales*	$65 to $75 million
	Apply the sales tax to digital downloads*	$7 to $11 million
Reform Wealth and Income Taxes	Increase income tax by a half percentage point for top earners	$217.3 million
	Higher rates on dividends and capital gains	$141.8 million
	Repatriation of deferred management fees	To be determined
	Join regional compact to close carried interest loophole	$535 million
	Improve enforcement of existing tax laws	$40 million
Strengthen Corporate Income Tax	Adopt throwback rule to eliminate "nowhere income"*	$12 to $25 million
	Eliminate the corporate income tax capital base system and replace with a value-added tax as an alternative minimum tax*	To be determined
	Renew efforts to regularly review business tax breaks*	To be determined
Support Critical Programs	Enact sweetened beverage tax	$85 to $141 million
	Institute a low-wage employer fee	$305 million

Revenue Options: http://www.ctvoices.org/revenue2017. Asterisk denotes policies discussed and/or recommended by State Tax Panel

Appendix – Children's Budget for Health and Human Services

The following examines the health and human services component of the Children's Budget. (Visit our website at www.ctvoices.org for an examination of the early care and education, K-12, higher education, and, and child welfare and juvenile justice components.) Over the next two fiscal years (from FY 2017 to FY 2019) the Governor's budget reduces health and human services by 7.7 percent.

Health and Human Services

Health

Connecticut's HUSKY Program (Medicaid and the Children's Health Insurance Program) provides health insurance for about 300,000 children and over 150,000 low-income parents and pregnant women.[g] Until 2015, entire families - children and their parents or relative caregivers – were eligible in households with income under 201 percent of the federal poverty level (FPL), or $40,750 annually for a family of three.[h] Research has demonstrated that when whole families are insured, children are more likely to maintain insurance coverage and access to health care, while children in low-income families are three times more likely to be uninsured if their parents are uninsured.[i]

As a way to reduce state spending, beginning in FY 2016 the Governor and the General Assembly cut eligibility for parents and relative caregivers to 155 percent FPL ($31,248 for a family of three). Of those parents affected by the 2015 eligibility reduction, 42 percent or almost 8,000 were no longer covered by HUSKY or a health plan offered by Access Health CT (the state's health insurance exchange), and are likely to have gone without health insurance coverage.[j]

Significantly, the Governor's proposed budget for FY 2018 and FY 2019 would further reduce income eligibility for parents of children on HUSKY A from 155 percent FPL to 138 percent FPL ($27,821 for a family of three), affecting approximately 9,500 low-income parents.[k]

The budget projects state savings from the HUSKY parent eligibility cut of $500,000 in FY 2018 and $11.3 million in FY 2019.[7] When federal Medicaid matching funds are added, the loss in funding is $1 million and $22.6 million, respectively, for each of the next two fiscal years. The Governor's budget would maintain eligibility for pregnant women at 263 percent FPL.[l] The current income level for children on Medicaid would be maintained at 201 percent FPL as required by federal law until 2019.[8]

It should be noted that reductions in health services funded by Medicaid means a cut in state dollars and a sizeable loss of federal revenue. Currently, the state receives approximately 60 cents on the dollar for expenditures in the entire HUSKY program, which includes services and supports for individuals with disabilities and seniors (HUSKY C), low-income adults (HUSKY D), as well as children and families in HUSKY A and HUSKY B. All together HUSKY provides essential health care for over 750,000 individuals from cradle to grave. HUSKY members reside in every town and city in the state.

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[7] There is far less savings in the first year of the biennium budget due to "Transitional Medical Assistance." Transitional Medical Assistance enables working families to remain eligible for an additional year of Medicaid coverage when their income goes over the Medicaid income limit for family coverage. 42 U.S.C. §1396r-6(a)(1), (b)(1). These families remain eligible for TMA when state law reduces the Medicaid eligibility limit, which would otherwise cause the family to lose eligibility. See Rabin v. Wilson-Coker, 362 F.3d 190 (2nd Cir., 2004).

[8] Id. Also, the Affordable Care Act requires states to keep their child income eligibility level for Medicaid in place until 2019 as a condition for receiving federal funding. P.L. 111-148, as amended.

Reductions to other health programs that primarily serve children, families and young adults include:

- The Young Adult Services program would be reduced by 5 percent or $4 million in FY 2018 and by an additional $2 million in FY 2019. Provided by the Department of Mental Health and Addiction Services (DMHAS) to young adults between the ages of 18 and 25 who age out of the care of the Department of Children and Families, the program provides a variety of supports including mental health treatment and housing in order to help these young adults make a successful transition to adulthood.[m]
- School Based Health Centers (SBHCs) would be reduced by 10 percent or $1.13 million. According to the Connecticut Association of School Based Health Centers, since 2015 the Centers have been subjected to cuts totaling $2.5 million, resulting in the closure of centers and cutbacks in services.[n] SBHCs provide primary care, including mental health (41 percent of all visits) and oral health services to tens of thousands of school-age children and it is likely that additional reductions will lead to fewer children receiving early intervention and cost-effective services. Although some services are reimbursed by HUSKY or private insurance, there are a multitude of barriers that prevent the Centers from receiving third-party reimbursement, including high deductibles under private plans, non-coverage for prevention and care coordination, and denial of mental health visits.[o]
- Grants for mental health, substance abuse services, and employment services would be reduced by $9.3 million. The grants – provided by DMHAS – help offset costs of local programs to serve uninsured and under-insured individuals, many of whom live with serious and persistent mental illness.[p]
- Teen pregnancy prevention programs would be consolidated with a variety of other programs into the Human Services Infrastructure Account and that account would be cut by 20 percent.[q] The Department of Social Services contracts with a variety of local and regional social and health services programs to provide pregnancy prevention education and services to children and youth.[r] The teen pregnancy prevention programs' estimated funding for FY 17 is $1.5 million. Under the Governor's budget proposal the Department would have discretion to determine to what extent the teen pregnancy programs are cut or eliminated.

The state could be faced with difficulty maintaining health coverage and access to medical, dental, and behavioral health services for children and families if the federal government undoes much of the Affordable Care Act, including withdrawing subsidies for families to purchase coverage through Access Health CT, and also reduced federal funding for Medicaid and the Children's Health Insurance Program. Not only do such changes put at risk the health coverage gains for children and families,[s] but they are likely to negatively impact the bottom lines of hospitals and a multitude of health providers, including those serving individuals suffering from the ravages of opioid addiction.

Citations

[a] Connecticut Office of Fiscal Analysis. *Synopsis of Governor's Plan.* https://www.cga.ct.gov/ofa/Documents/year/SYNG/2017SYNG-20170210_Synopsis%20of%20the%20Governor%27s%20FY%2018%20and%20FY%2019%20Budget%20and%20Revenue%20Plan.pdf

[b] Connecticut Office of Fiscal Analysis. *Synopsis of Governor's Budget Plan FY 18 – FY 19*. February 2017: https://www.cga.ct.gov/ofa/Documents/year/SYNG/2017SYNG-20170210_Synopsis%20of%20the%20Governor's%20FY%2018%20and%20FY%2019%20Budget%20and%20Revenue%20Plan.pdf

[c] Connecticut Department of Revenue Services. *Fiscal Year 2015 – 2016 Annual Report.* January 2017*:* http://www.ct.gov/drs/lib/drs/research/annualreport/drs_fy16_annual_report.pdf

[d] Poole, Heather. Pinho, Rute. Connecticut Office of Legislative Research. *Comparison of Tax Rates in Connecticut, Massachusetts, New York, and Rhode Island*. October 2016: https://www.cga.ct.gov/2016/rpt/pdf/2016-R-0252.pdf

[e] Kochhar, Rakesh. Fry, Richard. Pew research. *Wealth inequality has widened along racial, ethnic lines since end of Great Recession.* December 2014: http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/

[f] Marr, Chuck. Huang, Chye-Ching. Center on Budget and Policy Priorities. *Higher Tobacco Taxes Can Improve Health and Raise Revenue.* March 2014: http://www.cbpp.org/research/higher-tobacco-taxes-can-improve-health-and-raise-revenue

[g] Medicaid Overview, Connecticut General Assembly Office of Legislative Research and Office of Fiscal Analysis, February 6, 2017. Available at: https://www.cga.ct.gov/med/council/2017/0206/20170206ATTACH_OLR%20and%20OFA%20-%20Medicaid%20Presentation.pdf

[h] Public Act 15-5, Section 370, June Sp. Sess. 2015.

[i] Schwartz K. *Spotlight on uninsured parents: How a lack of coverage affects parents and their families. Washington DC: Kaiser Commission on Medicaid and the Uninsured*. June 2007. See also: DeVoe JE, Krois L, Edlund C, Smith J, Carlson NE. *Uninsured but eligible children: are their parents insured? Recent findings from Oregon*. Medical Care, 2008 Jan; 46(1): 3-8.

[j] HUSKY A Transition, Department of Social Services presentation to the Council on Medical Assistance Program Oversight, (Dec. 9, 2016): https://www.cga.ct.gov/med/council/2016/1209/20161209ATTACH_HUSKY%20A%20Transitions%20Presentation.pdf

[k] http://www.ct.gov/opm/lib/opm/budget/2018_2019_biennial_budget/budgetdocs/021.sec.b.pdf

[l] http://www.ct.gov/opm/lib/opm/budget/2018_2019_biennial_budget/budgetdocs/021.sec.b.pdf

[m] Young Adult Services Division within DMHAS: http://ct.gov/dmhas/cwp/view.asp?a=2900&q=334784

[n] http://www.ct.gov/opm/lib/opm/budget/2018_2019_biennial_budget/budgetdocs/021.sec.b.pdf

[o] Communication with Jesse White-Frese, Executive Director, Connecticut Association of School Based Health Centers, February 8, 2017.See also, Malcarney, MB, Horton, K and White-Frese, J. School-Based Health Centers: Critical to Health Reform and Student Outcomes, Connecticut Health Foundation (January 2017).

[p] http://www.ct.gov/opm/lib/opm/budget/2018_2019_biennial_budget/budgetdocs/021.sec.b.pdf

[q] http://www.ct.gov/opm/lib/opm/budget/2018_2019_biennial_budget/budgetdocs/021.sec.b.pdf

[r] Teen Pregnancy Prevention contracts. Available at: http://www.ct.gov/dss/cwp/view.asp?a=2345&q=539096

[s] Thomas, D. and Noonan, R., Poverty, Income, and Health Insurance in Connecticut: Summary of 2015 American Community Survey Census Data (September 2016). Available at: http://www.ct.gov/opm/lib/opm/budget/2018_2019_biennial_budget/budgetdocs/021.sec.b.pdf (Connecticut has one of the lowest uninsured rates in the nation (6%;); for children the uninsured rate is only 3.3%.