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Impact of the Proposed Appropriations Committee and Republican FY 2019 Budget Adjustments on Children and Families

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Introduction

On April 20, the Appropriations Committee and legislative Republicans put forward their proposals to modify the Fiscal Year (FY) 2019 budget adopted last October.[1] These plans respond to the Governor's proposals released in February and suggest alternate paths forward for the year ahead.

We examine these proposals grounded in our belief that Connecticut's long-term well-being depends on social and fiscal policies that support opportunity for all children and families. All three budget proposals struggle to promote these policies without increasing revenues significantly. The Appropriations Committee and Republican proposals restore some key funding for programs, particularly in the area of municipal aid, education, and health care. However, both budget proposals put forth short-term solutions, failing to address the underlying issues that have resulted in the state's long-term fiscal problems.

Below, we describe the two latest proposals' effects on children and families. Both proposals fail to modernize our revenue system, jeopardize Connecticut's behavioral health infrastructure, and allow the Bond Lock to limit the state's ability to address existing and unanticipated challenges beginning this May. We urge legislators to promote a better future for Connecticut by delaying the Bond Lock's implementation and embracing strategic investments in shared prosperity and equitable opportunity.

The Budgets and the Bond Lock

Key Takeaways:

- Had the novel and untested Bond Lock been in effect, both the Appropriations Committee and Republican budgets would have violated it.
- We urge the legislature to delay implementation of the full Bond Lock to allow for further study.

While the Appropriations Committee's and Republicans' 2019 spending plans differ in significant ways, they share a common problem: both call for changes to some of the fiscal constraints enacted last year in the bipartisan budget bill, and, as such, both would run afoul of the Bond Lock created in that same budget bill were it in effect today.

Last fall, Connecticut enacted a novel, untested method of restraining state government spending: the Bond Lock. State law now says that whenever Connecticut issues a bond for a two-year period beginning in May 2018, it must vow not to change four new spending and revenue restrictions -- the spending, volatility, bond, and appropriations caps -- for the life of the bond (typically 10 years) except in extraordinary circumstances. Because bonds are contracts, this "Bond Lock" would prevent the legislature from amending the newly created or redefined caps, despite what future Governors or legislatures might find to be in the best interests of the state. Any effort to break the covenants would invite litigation and risk significant penalties.

If Connecticut had already issued these Bond Lock covenants, both the Appropriations Committee and the Republican budgets would face significant hurdles to passage because both change aspects of the laws covered by the Bond Lock. The Senate Republican budget would alter the volatility cap; the Appropriations Committee budget would alter the volatility cap and exceed the spending cap.

With respect to the volatility cap, changes to the law passed last year require that any tax revenue from "estimates and finals"- the investment-related portion of the personal income tax - above $3.15 billion be deposited into the Budget Reserve Fund (BRF, colloquially known as the "Rainy Day Fund"). A surge in estimates and finals tax revenue at the end of last year and into this spring means that adherence to the volatility cap would require $1 billion of this revenue surge be deposited into the BRF.[2] Yet, less than six months after the legislature adopted the revised language of the volatility cap by an overwhelming majority in a bipartisan budget, both of the two new spending plans seek to violate that cap. The Appropriations Committee would spend some of the unexpected revenue to pay for increased services; the Senate Republican plan would use two-thirds of it to pay down the state's pension obligations, depositing the rest into the BRF.

The constitutional spending cap requires that "general budget expenditures" not grow at a rate greater than the "increase in personal income" or "increase in inflation," whichever is greater. The new definitions of these three terms that the General Assembly adopted last fall prohibit Connecticut spending enough to support system-level investments in its future.[3] This spring's Appropriation Committee proposal exceeds the spending cap by $31 million.[4]

There is nothing in current law that would prevent the legislature from reversing course in this way right now. The legislature could vote to ignore the volatility cap by simple majority vote. It could follow specific procedures laid out in the law to exceed the spending cap. But, were the legislature to try such workarounds at a later date this year, after the Bond Lock has gone into effect and once even one bond has been issued, the situation would be very different. First, the Governor would have to declare a state of emergency. Second, three-fifths of each legislative chamber would have to vote to support the change. Finally, the change could only be for the year in progress - meaning that if policymakers wanted to implement a permanent legislative change, or even a multi-year change, they would need the Governor to declare a state of emergency and earn the votes of three-fifths of each legislative chamber *every year* as long as bonds with the Bond Lock covenant were outstanding (for up to twelve years).

Getting around the volatility and spending caps this year may not be too heavy a lift, but the fact that both parties seek relief from the fiscal restraints they enacted just a few months ago should give pause to those who want to lock in the restraints through the use of broad bond covenants. While fiscal restraint is advisable, some amount of agility is necessary for unexpected circumstances. In the coming years, federal laws may decrease or delay Connecticut's Medicaid funding. Natural disasters may bring evacuees to Connecticut, as did Hurricane Maria. The Bond Lock would make responding to these or other unforeseeable challenges much more difficult, if not impossible. Even bond rating agencies have expressed uncertainty regarding the consequences of the Bond Lock.[5] [6]

It does not need to be this way. **The legislature is currently considering H.B. 5590, which would delay the Bond Lock's implementation date by one year to allow for further study. We urge passage of this bill, as amended to ensure delay of the effective date of the Bond Lock as it applies to all of the new fiscal constraints and to establish a commission to study its implications in depth** with a report back to the legislature by March 1, 2019.

Child Welfare and Juvenile Justice

Key Takeaways:

- The Committee Budget does not provide funding for Juan F. services and numerous behavioral health and prevention services in DCF, but it provides critical funding to the Judicial Department to support the implementation of last year's juvenile justice reforms.
- The Republican Budget restores funds to the Judicial Department that the Governor proposed cutting, but cuts funds to DCF as the Committee Budget does.
- Together, these budgets better support juvenile justice reform policies than the Governor's budget proposal but at the expense of services needed to support children and families touched by the child welfare system. Without funding both intervention *and* prevention, Connecticut risks losing progress made in protecting children from abuse and neglect and reducing juvenile incarceration.

The behavioral health, child welfare, and juvenile justice systems in Connecticut exist to ensure the safety and well-being of all children. Their services are provided largely through the Department of Children and Families (DCF), partnered with the Court Support Services Division (CSSD) of the Judicial Department. The Governor's budget proposals included additional funding for DCF but made significant cuts to CSSD. The Appropriations Committee reduces the DCF budget more than the Governor proposes but provides significantly more money to CSSD. The Republican proposal is the least generous to DCF of the three proposals. The Republicans fund CSSD at a higher level than does the Governor but a lower level than the Appropriations Committee.

The Appropriations Committee's proposed budget adjustments would reduce DCF's total budget by $24.2 million (a 3.1 percent decrease), and the Republicans would reduce DCF's total budget by $30.2 million (a 3.9 percent decrease). Overall, the Appropriations Committee proposed appropriating $19.6 million more to the Judicial Department and $6 million more to DCF than did the Republicans.

The legislative cuts fall primarily on DCF but, in many cases, will affect children served by CSSD. All too often, the child welfare system and the juvenile justice system serve the same families. Many of the children touched by these systems come from impoverished homes, have a history of multiple traumas, and overwhelmingly experience educational and behavioral health challenges.[7]

Proposed changes to the FY 2019 budgets for DCF and the Judicial Department are best understood in the context of four major policies: **the closing of the Connecticut Juvenile Training School (CJTS) and the related transfer of juvenile justice services from DCF to CSSD, the Juan F. consent decree, and DCF's statutory mandates to advance children's behavioral health the prevention of risks to children**.

Closing the Connecticut Juvenile Training School (CJTS) and transferring juvenile justice services from DCF to CSSD

As part of the Connecticut General Assembly's bipartisan FY 2018-2019 budget, the legislature closed CJTS and transferred responsibility for juvenile justice services from DCF to CSSD starting in July 2018. In implementing this policy change, the legislature moved funding from DCF's Juvenile Justice Outreach Services line item and DCF's Board and Care for Children - Short-term and Residential line item to CSSD. This new funding was intended to enable CSSD to establish new community-based, small, secure facilities that differ in their level and form of security and to establish a more robust continuum of services so that youth are served effectively in the least restrictive setting appropriate.

According to Julie Revaz, Manager of CSSD Programs and Services, CSSD planned to use all of these new funds to establish, staff, and provide services in these three new facilities in addition to continuing the services provided at the Journey House facility for girls. In his proposed budget adjustments, however, the Governor recommended transferring $7.6 million from CSSD back to DCF to fund behavioral health services to prevent youth from entering the juvenile justice system.[8] After this transfer, CSSD would not have the funds to establish the new facilities and would be unable to expand their current continuum of services to provide children with highly complex needs. Both the Appropriations Committee budget adjustments and the Republican budget adjustments leave the original FY 2019 appropriations at CSSD rather than transferring money back to DCF.

The Appropriations Committee budget increases the Juvenile Justice Outreach Services line item by $3.6 million above the amount appropriated in FY 2019 (minus lapsed funds) to enable to expand their continuum of care. Additionally, the Committee rejects the Governor's proposal to reduce the Youth Services Prevention line item by $1.7 million, instead only carrying forward an October lapse of $0.2 million. This line item provides grants to nonprofit and government agencies that serve at-risk youths in Connecticut's cities. The proposed budget also funds the Justice Education Center, Inc at $250,000, down from the budgeted amount of $466,217. The Governor had zeroed out funding for the Center in his proposed budget revisions. The Center provides training, program evaluation, and policy development research to the Judicial Department.

The Republicans' proposed budget adjustments do not transfer funding back to DCF as proposed by the Governor. Unlike the Appropriations Committee, however, they did not provide additional funding to CSSD to expand their continuum of care. Like the Governor, the Republicans cut all funding to the Juvenile Education Center, Inc. They also proposed cutting the Juvenile Alternative Incarceration line that provides an array of services to youth and young adult offenders within their communities. The Governor had proposed a $1.6 million reduction (5 percent);[9] the Senate Republicans cut an additional $1.5 million (an additional 5 percent).

The Juan F. consent decree

The legislative budget proposals do not provide funding to DCF to support exiting the Juan F. consent decree nor do they provide funding for a number of behavioral health services that help to prevent at-risk youth from becoming involved in the juvenile justice system.

The Juan F. consent decree is the result of a 1989 federal class action lawsuit filed against the state of Connecticut. The suit calls for reforms to Connecticut's child welfare system to better protect abused and neglected children. In 2002, the court approved a plan to allow DCF to exit from the consent decree by meeting and sustaining compliance with 22 performance and outcome measures pertaining to the wellbeing of children in state care and children at risk of being taken into state custody. The plan also mandates that the state must provide the funding and other resources necessary to achieve the goals laid out in the consent decree exit plan.[10] In 2017, Connecticut negotiated a revised exit plan that reduces the outcome measures to six that remain to be met and eight that must be sustained. Additionally, the revised exit plan reduces the number of children and families a social worker may serve at one time.[11]

To implement the 2017 Juan F. Consent Decree Revised Exit Plan, the Governor's proposed adjustments to DCF's FY 2019 budget include increasing DCF's budget for services by almost $11.4 million in FY 2019 and providing $5 million to add an additional 132 social workers as backpay for authorizing the hiring of an additional 132 social workers in FY 2018.[12] Neither the Appropriations Committee budget revisions nor the Republican budget revisions include the $11.4 million for Juan F.-related services suggested by Governor Malloy. The Republican budget revisions also did not include the $5 million suggested by Governor Malloy to add social workers, and the Appropriations Committee proposed budget revisions only included $2.5 million in additional funding to add a total of 66 social workers.

The Governor also proposed adding $1.7 million to the Board and Care for Children—Adoption and $1.9 million to the Board and Care for Children—Short-term and Residential to reflect anticipated changes in DCF's caseload requirements. The Appropriations Committee budget revisions did not include this proposed funding. The Republican budget revisions did include these proposed funds but cut an additional $7.1 million from DCF's personal services line item - reflecting a number of policy changes regarding consolidation of executive-level staffing - and $2 million from DCF's other expenditures line item.

By not providing the recommended funding for services and for the number of case workers determined necessary by the Revised Juan F. Consent Decree Exit Plan, both these budgets undermine the goal of exiting Juan F. and the effectiveness of additional Juan F. funding.

DCF Statutory Mandates to Support Children's Behavioral Health and Prevent Risks to Children

Additionally, if the legislature does move the entire Juvenile Justice Outreach Services line item from DCF to CSSD, DCF may no longer have funding to provide behavioral health services that, in part, help to divert youth from entering the justice system. Within that line item, DCF provides funding for a broad range of behavioral health and diversion services, including evidence-based cognitive behavioral therapy programs such as Multidimensional Family Therapy and Functional Family Therapy, Local Interagency Service Teams that facilitate coordination between state agencies and community-level agencies, and Juvenile Review Boards that connect children who have committed status offenses or a number of first-time offenses with community-based services.

On April 13, 2018, DCF sent a letter to the Juvenile Review Boards saying that they would no longer fund these services after June 30, 2018. The JRBs provide diversionary services to over 130 communities, and a third of them are currently funded by DCF. Failure to provide robust behavioral health and diversionary services may contribute to a greater number of youth entering the juvenile justice system and overwhelming the services that CSSD is preparing to provide, ultimately undermining almost a decade of juvenile justice reforms. The legislature, DCF, and CSSD must communicate further to facilitate DCF and CSSD collaborating in how they provide behavioral health and diversion services without duplicating services.

Early Care and Education

Key Takeaways:

- The Republican budget enacts $2.1 million in new cuts, including to programs that serve our most vulnerable residents, such as the Even Start family literacy program and the Nurturing Families Network.
    - These programs have faced repeated cuts over recent years, eroding their ability to serve families.
- The committee budget invests $5 million in new state funds for Care 4 Kids.
    - New funds for our vital child care subsidy help ensure that families can access the child care they need, especially given the damage to our early childhood infrastructure due to last year's closure.

Early care, preschool, and wrap-around programs that support young children and families are critical drivers of child well-being, kindergarten readiness, and family economic security. Although many of the benefits of early childhood are long-term, including increased earning potentials and decreased need for social services, early childhood investments have immediate pay-off in the form of increased workforce participation and support for local business.[13]

The Governor's 2019 budget adjustments proposed annualizing small but meaningful cuts. The governor's proposed budget annualizes lapses from FY 2018, including $0.14 million (32 percent of appropriated funding) from Even Start, $0.34 million (45 percent) from the 2Gen-TANF program, and $0.10 million (2 percent) from Head Start. Although these programs are small, Even Start and the 2Gen-TANF programs provide critical wrap-around supports for the whole family.[14]

The committee budget maintains these cuts from the Governor's proposal but invests $5 million in new state funds into Care 4 Kids, the state child care subsidy. These funds are critical to helping rebuild our state's early childhood infrastructure after the fifteen-month subsidy closure: enrollment in the subsidy program plummeted, leaving seats in child care centers and homes empty while thousands of families in need could not afford care. While the smaller Care 4 Kids caseload lowered program costs in FY 17 and 18 as intended, costs will rise again as program enrollment reaches a steady state. Increased funds for Care 4 Kids not only ensure that more children and families can obtain the high-quality, affordable care that they need without a waitlist, but support the child care industry and workforce participation as a whole as parents are able to work.

In contrast, the Republicans' budget institutes *new* cuts on top of the Governor's annualized lapses. The Republicans restore $0.1 million to Head Start, but cut $2.1 million further from early care and education in the form of agency staff, Even Start, the 2Gen-TANF program, the Nurturing Families Network, child care quality enhancements, and the Early Head Start-Child Care Partnership. The gradual erosion of these programs year after year hurts our early childhood system as a whole, as wrap-around supports help families support child well-being and learning both at home and at school.[15]

None of these budgets depict the estimated $15 million in new Child Care Development Block Grant (CCDBG) federal funds for Connecticut's Care 4 Kids program. While our state budget does not appropriate these federal funds, legislators must ensure that this funding is indeed used to increase access to affordable child care. By law, CCDBG funds must be used to supplement - not supplant - state funding.[16] Care 4 Kids critically needs these new funds both to increase access to care and to meet federal requirements pertaining to reimbursement rates and to graduated phase-out for families experiencing moderate increases in income. (Currently, Connecticut has a waiver for these requirements.)

K-12 and Higher Education

Key Takeaways:

- The Committee budget proposes a 0.5 percent reduction in funding for the State Department of Education. Most of this cut comes from annualized lapses. Unlike the Governor's proposed budget, the Committee budget does not make changes to the ECS formula and maintains Education Equalization funding for property-wealthy districts.
- The Republican budget proposed a 0.4 percent reduction to the SDE budget overall. Most of this comes either by annualizing lapses or by cutting programs like the School Based Diversion Initiative. Like the Governor's proposed budget, the Republican budget proposes a merge of SDE and OHE. The $36 million addition to the SDE budget from this consolidation masks the true impact of the Republican budget cuts from SDE. When the consolidation is factored out, the Republican budget would actually cut 1.7 percent of the funding for the current services and programs that SDE provides.

Connecticut's long-term success depends on ensuring that all students, regardless of what they look like or where they come from, have access to a robust education that allows them to pursue their chosen dreams and goals. Ensuring that funding for schools and education programming are targeted at the students who need it most is an essential step in system-wide educational success.

The Governor's budget proposal suggested a two percent overall cut to the State Department of Education (SDE) for FY 2019. The two most recent budget proposals cut overall funds for SDE significantly less. The Appropriations Committee budget cuts 0.5 percent from the amount proposed in the biennium budget while the Republican budget cuts only around 0.4 percent. Although the proposed Committee and Republican budgets maintain many of the annualized lapses proposed by the Governor, the three proposals vary in the level of funding for Education Equalization Grants, the consolidation of the Office of Higher Education (OHE) into the Department of Education, and the funding for certain programs and line items important to ensuring the success of all of Connecticut's students.

Education Equalization Grants

The Governor's proposed budget annualizes $58 million worth of lapses for Education Equalization Grants and eliminated these grants for towns whose Equalized Net Grand List per capita was above $200,000, resulting in a further reduction of nearly $8.6 million.

Both the Committee and Republican budget proposals agree that the proposed lapses should not be carried over into FY 2019, but rather, that the funding for ECS grants be maintained at the levels agreed upon in the 2018-19 biennium budget agreed upon in late 2017. This would mean that, if adopted, instead of seeing a $66.6 million dollar reduction in the funding for ECS grants, that SDE would experience a $3.3 million reduction in funding for this line item.

Consolidation of Office of Higher Education into the Department of Education

One of the biggest changes to the SDE budget proposed by the Governor was a consolidation of the OHE into SDE. The consolidation would result in a transfer of $36 million into SDE and achieve a savings of around $150,000 by the elimination of two positions. The Republican budget also maintains the consolidation but cuts an additional $173,526 from the new "Division of Post-Secondary Education." This consolidation masks some of the fiscal impacts of the other cuts done to SDE line items. When the $36 million of additional funds the consolidation brings to SDE are subtracted, the impact of other cuts become much larger. Instead of a two percent reduction in the Governor's budget and a 0.4 percent reduction from the Republican proposal, the Governor's budget reduces funding for SDE by 3.34 percent and the Republican budget reduces funding by 1.7 percent.

The Committee budget, on the other hand, maintains OHE and SDE as separate agencies. All three budgets annualize $247,271 worth of lapses.

Changes to SDE Initiatives and Programming

The Governor's budget annualized $6.8 million dollars in lapses of funding for initiatives supported or funded by SDE. While both the Republican and Committee budgets implement many of the same annualized lapses as the proposed Governor's budget, several differences should be noted.

First, while the Governor maintains the biennial budget's reduction of SDE's Talent Office from $4,879,410 to $650,000, the Republican budget takes even more money away from the office, reducing their funding to $611,831. This will further reduce SDE's ability to ensure that Connecticut's teacher workforce is diverse and well-prepared. In contrast, the Committee budget proposes increasing the Talent Office's funding from $650,000 to $2,150,000 to support implementation of the Teacher Education and Mentoring (TEAM) program, which is intended to help spur new teachers' professional growth.[17]

Second, the Governor proposed to eliminate funding for Bridge to Success (an organization that supports college and career readiness, social and emotional learning in early grades, and early literacy in Waterbury) and Connecticut Writing Project. The Republican budget proposal maintains these cuts (ending funding for several other programs, as discussed below) while the Committee budget funds both of these programs at their 2018 levels.

Finally, the Republican budget also proposes removing several additional programs and line items that both the Governor's budget and the Committee budget do not, including Longitudinal Data Systems, K-8 Reading Assessment Pilot, Regional Education Services, and the School-Based Diversion Initiative (SBDI). Although eliminating these four programs saves $4.4 million, less than 1 percent of SDE's budget, doing so could have a negative impact on the lives of youth.

This is especially true for the funding towards the School-Based Diversion Initiative and the Regional Education Services. The School-Based Diversion Initiative coordinates efforts from SDE, DCF, CSSD, and DMHAS to ensure that youth who have behavioral or mental health challenges in school are not placed in the juvenile justice system but rather are treated by mental health professionals. This is essential in a state where 20 percent of the juvenile referrals to court were from school-based incidents in the 2014-2015 school year.[18] To that end, SBDI has been an extremely successful program: in the 37 schools that are involved, referrals to law enforcement have decreased by 45 percent and referrals to mental health services have increased by 94 percent,[19] suggesting an important shift on the part of school and law enforcement officials regarding the responses to youth who act out. Cutting this program would dismantle a critical behavioral health service available to children *before* they become involved in the juvenile justice system and risks increasing referrals to the judicial branch at the same time as the state seeks to reduce juvenile incarceration.

Health and Human Services

Key Takeaways:

- None of the proposed budgets restore health insurance eligibility for the 13,000 parents slated to lose coverage in January 2019.
- Recognizing the need to invest in behavioral health services in particular, the Committee and Republican budgets restore some of the funding for health systems and services that had been cut in the Governor's budget.
- Yet, none of the proposed budgets goes far enough to ensure a robust and sustainable behavioral health system for all of Connecticut's children.

The state's HUSKY health programs provide a vital set of supports that enable parents to stay healthy enough to parent well and work consistently. Research shows that having insured parents makes children more likely to be insured and receive care.[20] Robust health systems and services are a key part of a Connecticut that offers equitable opportunity to all its residents.

Connecticut's public health insurance programs have endured a number of cuts in recent years, including a series of cuts to HUSKY A (Medicaid for children, parents, and pregnant women) since 2015 and a reduction to the primary care provider reimbursement rate in the state budget passed in 2017.

Unfortunately, none of the proposed budgets restores coverage for the over 13,000 parents slated to lose their HUSKY A coverage in January of 2019, though both party proposals restore partial funding for the Medicare Savings Program (Medicaid assistance for elderly or disabled individuals enrolled in Medicare). Connecticut was a national leader in expanding access to Medicaid for parents so that whole families could be covered by health insurance, which improves outcomes and reduces the stress of choosing when to seek care. The ongoing budget deficit led legislators to reduce parent eligibility in 2015, and over 11,000 parents lost HUSKY A coverage by 2016 as a result of these decisions.[21]

The trend of increasing uninsurance rates in our state is a short-term decision with long-term consequences. Overlooking the needs of low-income parents who cannot afford insurance once they lose their HUSKY A coverage is likely to increase spending on uncompensated care and leave parents exposed to catastrophic medical costs and unable to treat chronic conditions.

Democrats and Republicans agreed on the need to retain some critical supports eroded in the Governor's budget. These include: (1) maintaining primary care provider payment rates for Medicaid;[22] (2) maintaining funding for grants for mental health and substance abuse services; and (3) maintaining funding for School-Based Health Centers including the plan to open one new center in 2019. Each of these decisions makes care more accessible to children and families with low incomes.

The urgency of addressing the needs of youth in emergency departments is expressed in all three draft budgets, which each allocate new funding for emergency placements through the Department of Developmental Services. The Republican budget includes $2 million in new funding, while the others include $5 million for emergency placements. This funding would go, in part, towards addressing the needs of youth in emergency rooms and to divert individuals from emergency rooms to more appropriate services.

The budget passed in October appropriated $76,859,968 for services provided through the Department of Mental Health and Addiction Services for young adults previously involved in the child welfare system. While the Governor's and Republican budgets reduce these services by $3,778,686, the Appropriations Committee budget reduces the appropriation by just $1,734,225. All three proposals assume savings through privatization.

Nonfunctional Costs

Key Takeaways:

- The Republican budget addresses non-functional costs by applying funds that would otherwise go to the Rainy Day Fund to pension costs and by relying on changes to employee benefits in 2027.
- Connecticut's increasing nonfunctional may costs limit the funds available for meeting the needs of the state's children.

Nonfunctional costs, including debt service, retiree health care, and contributions to state employee and teacher pension systems, constitute a major portion of the state budget. In all three budget proposals, debt service is budgeted at about $2.2 billion out of the roughly $20.5 billion budgets. With retiree health care and pension contributions, nonfunctional costs rise to between $6.3 billion (Republican proposal) and $6.4 billion (Appropriations Committee and Governor's proposals). This continuing burden on the state budget is noted by Moody's Investment as a "credit challenge:" "Fixed costs for debt, pension and other post-employment benefits (OPEB) relative to budget are among the highest in the nation and restrict budgetary flexibility."[23]

Republicans achieve some of their savings in nonfunctional costs through two methods:

- Using $650 - $700 million of tax collections that are scheduled to be deposited in the state's Rainy Day Fund to pay off pension obligations. They would then take $40 million out of the pension contribution lines in the current budget to spend on other programs.
- Restricting state employee pension benefits after the current SEBAC deal expires in 2027 and claiming $61.7 million in savings now.

Municipal Aid

Key Takeaways:

- Both budgets restore funding to municipalities and limit the Governor's ability to cut municipal aid in the future.
- The Republican budget limits certain aid to the City of Hartford to offset the aid package for Hartford adopted by the Administration.
- Both budgets maintain the commitment to Educational Cost Sharing funding made in the budget adopted in October.

Both the Appropriations Committee and Republican budget plans protect funding for municipalities and often reject the Governor's cost-cutting proposals. The state makes a major contribution to municipal finances and to education through Educational Cost Sharing (ECS) grants. In the FY 2019 budget, $2,017,131,405 was scheduled to be distributed to municipalities in ECS payments. The Governor proposed changing the distribution formula and decreasing ECS aid to

$1,950,511,348. Both Republicans and Democrats essentially keep ECS funding flat, reducing the total amount distributed by only $3,302,723 (0.16 percent). This reduction reflects updated student and town data.

In other grants to municipalities, the Governor had proposed cutting $18.7 million from various municipal grant programs (including PILOT payments for state-owned and private tax-exempt property, municipal revenue sharing, and municipal stabilization) by cancelling scheduled increases in those grants. In addition, the Governor saved another $5.8 million by eliminating certain grants (PILOT grants, Municipal Stabilization grants, and Grants to Towns funded by the Mashantucket Pequot and Mohegan Fund) to 33 wealthy municipalities. The Appropriations Committee proposal restores the $18.7 million in municipal grant programs but adopts the Governor's proposal to eliminate grants to 33 wealthy municipalities. The Republicans adopt almost all of the Governor's $18.7 million in grant reductions but do not cut grants to the 33 wealthy municipalities. Republicans reduce the Municipal Revenue Sharing grant to Hartford by $8 million to limit certain grant funding going to Hartford to $40 million and move $20 million in Municipal Restructuring funds, also going to Hartford, to debt service. They propose reducing Hartford's statutory grants after FY 2020 by the value of debt services assistance the city receives.

Both Democrats and Republicans propose to bar the Governor from making cuts to municipal aid when identifying cuts mandated by the budget.

Revenue and Tax Policy

In his adjustments to the FY 2019 budget, the Governor proposed to raise $234.6 million in new revenue. Republican leadership rejects most of the Governor's revenue proposals, instead putting forth an essentially flat revenue plan. The full Republican proposal actually reduces state revenue by $27.3 million, largely because of losing revenue resulting from partially restoring eligibility for the Medicare Savings Program.[24] [25] [26] Legislative Democrats have not yet released a comprehensive revenue proposal.

Both Republicans and the Governor agree to extend an 8 percent surcharge on large corporations, raising $18 million in FY 2019. However, the Republican budget's revenue policies differ from the Governor's proposal and from the original FY 2019 budget in several ways:

- <u>Tax expenditures</u>: the original FY 2019 budget required the legislature to eliminate $10 million in tax expenditures for FY 2019. Governor Malloy would go further, not only maintaining this policy but also greatly restricting a $2.5 million cap on taxes paid by multistate corporations under the mandatory combined reporting system. This change is projected to raise $25 million in new revenue.[27] [28]

  Republicans would reverse course by removing the mandate to eliminate $10 million in tax expenditures. They partially offset this revenue loss by restricting the cap on taxes related to multistate non-manufacturing corporations to $3.5 million. This change is estimated to raise $5.6 million.

- <u>Property taxes</u>: Currently, the state offers a maximum of $200 to families with dependents and the elderly to credit against their state income tax for property taxes paid.[29] The Governor would eliminate this program, amounting to a $49.7 million tax increase for middle-income families and building upon prior reductions.[30] [31] Republicans would maintain this program, protecting middle-class families from the upside-down nature of the property tax.[32] [33]

- **Transportation funding**: Connecticut's transportation system is teetering on the brink of insolvency; a report last December by the Office of Policy and Management projected that Connecticut's Special Transportation Fund, which finances the state's transportation system, will have no resources by 2020.[34] [35] While the Governor would ameliorate this by increasing the gas tax and instituting statewide tolling, the Republican budget does not adopt these measures. The Republican budget does reduce Special Transportation Fund spending and accelerate, to FY 20, transferring sales tax revenue from car sales from the General Fund to the Special Transportation Fund.[36] Republicans say that this will create a positive balance in the Special Transportation Fund over the next five years.[37] We would urge any final budget proposal ensure that Connecticut's transportation system has the resources necessary to facilitate inclusive economic growth.

Conclusion

Building economic growth, shared prosperity, and equitable opportunities for every child requires that Connecticut adopt a new direction in its fiscal and social policies. As legislators and the Governor come together to finalize the FY 2019 budget, we urge them to:

1. Invest in Connecticut's future through increased commitments to child care, health care, education, and child welfare;

2. Restore funding for the robust continuum of behavioral health services necessary to ensure strong families and a strong workforce;

3. Modernize Connecticut's revenue system by expanding the base of the sales tax, reforming corporate taxes to recognize the growth of multi-state corporations and pass-through entities, and addressing inequities in property, income, and wealth taxes; and

4. Restore flexibility to Connecticut's fiscal system by repealing the recently enacted Bond Lock or delaying its implementation until its effects on state fiscal policy can be fully studied.

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[1] On April 20, 2018, the House Democratic Chair of the Appropriations Committee introduced a budget proposal as substitute language (LCO 3924) to House Bill 5588. The Appropriations Committee voted on this proposal using a Splitting Committee procedure. Under this procedure, the House and Senate members of the Appropriations Committee had an opportunity to vote on the budget proposal separately. The House half of the Committee passed the proposal along party lines by a vote of 21-19, while the Senate half elected not to vote on the proposal. The proposal will now go to the House Floor for consideration.

Additionally, Republicans on the Appropriations Committee offered their own budget proposal to the entire Committee as an amendment to H.B. 5588. This amendment failed to pass by a vote of 27-25.

For consistency with language used on the Connecticut General Assembly website, in this analysis we refer to the proposal passed by the House members of the Appropriations Committee as the "Appropriations Committee budget" and the amendment proposed by the Republican members of the Appropriations Committee as the "Republican budget."

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