CONNECTICUT VOICES FOR CHILDREN

# *Impact of the Governor's FY 2020-2021 Budget on Children and Families*

**Policy Report**
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## *I. Introduction*

Connecticut's long-term fiscal health and economic growth depend on policies that improve equity and support our most vulnerable families and children. Governor Lamont's proposed budget avoids additional major cuts to essential programs and services, though it is based on revenue proposals that fall most heavily on our lowest income taxpayers. It asks little of our highest income taxpayers who received a substantial tax cut in the 2017 federal tax bill. In fact, the Governor's proposal would cut state taxes further for the wealthy by eliminating the gift tax and continuing plans to reduce estate taxes.

The Governor would slightly increase spending on the Children's Budget—funding for programs that directly benefit children—a welcome change from recent austerity budgets. However, these increases fail to keep pace with inflation. Among the positive aspects of the budget are the preservation of HUSKY eligibility for parents and an increase in state funding for the Care 4 Kids child care subsidy program. Unfortunately, the proposal falls short of adequate funding for community-based services to youth involved in the juvenile justice system, which is likely to result in more children in detention, increasing the long-term harm to children and costs for the state.

Governor Lamont's proposed budget seeks to solve the projected FY 2020 and FY 2021 combined budget deficits of $3.7 billion through a combination of revenue increases and spending cuts. In order to comply with budget rules enacted in the 2017 and 2018 budget implementers – the revenue/appropriations cap, the volatility cap, and the spending cap – nearly $800 million of actual revenue is being swept into the Rainy Day Fund, as required by law, even though the state is facing a deficit. Simply put, due to current budget caps, revenue that could otherwise be invested in our children and most vulnerable families is instead barred from appropriation.

## *Revenues*

Connecticut's tax system is "upside down," causing the lowest income earners to pay a much larger share of their earnings in state and local taxes than our highest earners. In attempting to manage the state's finances within the confines of the Governor's campaign promises not to raise the personal income tax rate on high earners or raise the sales tax rate, the revenue proposals in the proposed budget, as a whole, ask low and moderate income families to bear tax increases while asking almost nothing of our wealthiest residents. The Governor's major proposed revenue changes in sales, beverage, and personal income taxes fall on the lowest 20 percent of income earners at 10 times the share asked from the top five percent of income earners.[1] This budget fails to address the inequities in our state's tax system and falls short of asking for shared sacrifices.

## *Expenditures*

The proposed total General Fund appropriations for FY 2020 are $19.3 billion and for FY 2021 are $19.9 billion. Growth in General Fund spending is 1.6 percent in FY 2020 and 3.2 percent in FY 2021. Spending is reduced primarily by proposed savings to the costs of the Teachers Retirement System, labor savings, and increased efficiencies in state government.

The Children's Budget—our measure of the share of state budget expenditures in programs and services that directly impact children—has, since the recession, grown slower than inflation. In 2017 and 2018, the Children's Budget shrank by about one percent per year. The Governor's budget increases the Children's Budget slightly, but this growth is slower than inflation and contains within it numerous cuts to small but important programs, as will be discussed below. The budget does increase funding for early care and education, K-12 education, and higher education, though they remain funded below 2016 levels.

Proposed spending for children and families in the budget relies on the legislature adopting the Governor's revenue package, including the taxation of services and elimination of some sales tax exemptions. Practitioners in the sectors that the budget proposes to start taxing (accounting services, legal services, and real estate services, for example) oppose the expansion, and whether the Governor's sales tax modernization will pass is an open question. Without sufficient revenue, discretionary spending—including education, municipal aid, and services—will be cut. It is therefore essential that other revenue options remain part of the budget discussions, including tax policies that begin to address Connecticut's regressive tax system.

# *II. The Children's Budget*

Connecticut Voices for Children tracks the Children's Budget, our approximation of how much the state spends to support equitable opportunity for all children and the removal of barriers to success for children of color and children in low-income families. The Children's Budget is divided into four broad categories with the following components:

- **K-12 Education**: Department of Education;
- **Early Care and Education**: The Office of Early Childhood;
- **Higher Education**, including the Office of Higher Education, University of Connecticut, and Connecticut State Colleges and Universities; and
- **Health and Human Services**, including:
    - The Department of Children and Families,
    - Judicial Department, following line items:
        - Board and Care for Children – Short-term and Residential
        - Juvenile Justice Outreach Services

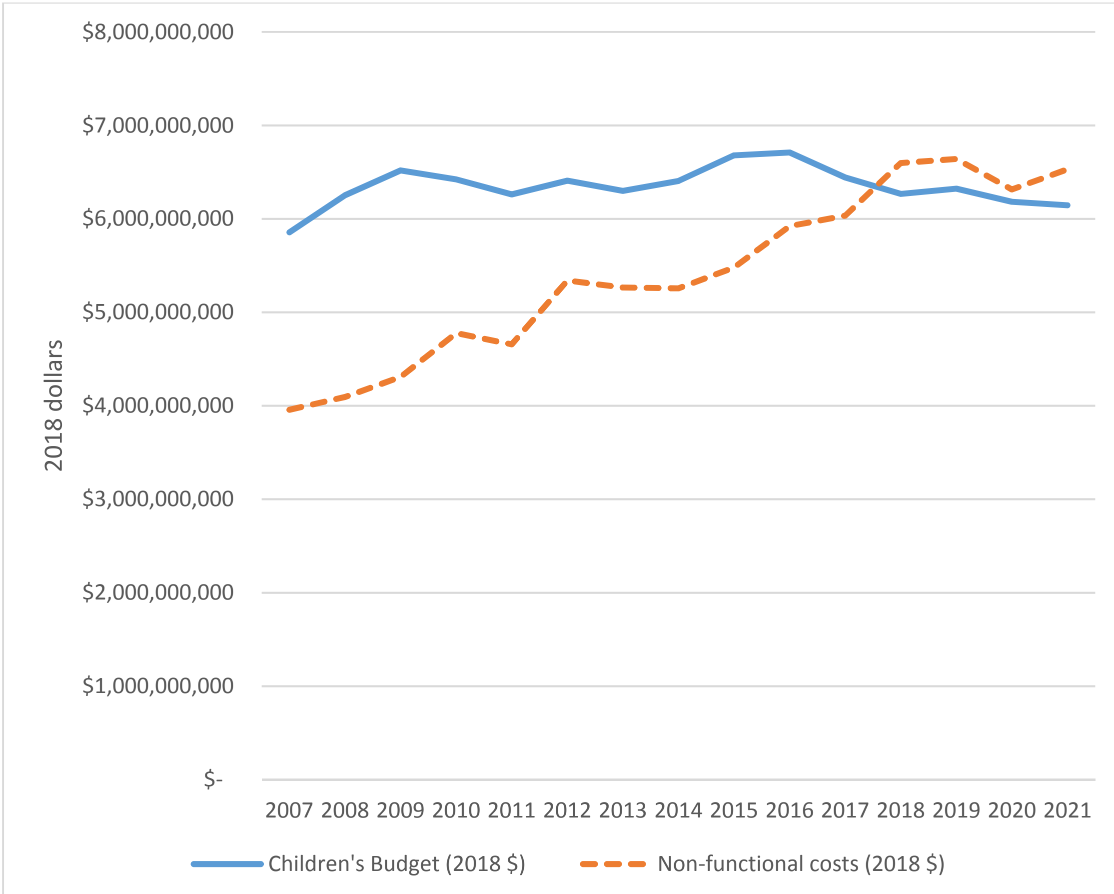
    - Juvenile Alternative Incarceration
    - Youthful Offender Services
  - Department of Housing, following line items:
    - Homeless Youth
  - Department of Social Services, following line items:
    - HUSKY B (Children’s Health Insurance Program) – State and Federal portions[2]
    - Connecticut Children's Medical Center
    - Temporary Assistance to Needy Families (TANF)
    - Medicaid expenses for children and families[3]
  - Department of Developmental Services
    - Behavioral Services Program
  - Labor Department
    - Jobs First Employment Services
    - Workforce Investment Act
  - Department of Public Health
    - School Based Health Clinics
  - Department of Mental Health and Addiction Services
    - Young Adult Services

Funding for these programs has become a smaller share of our budget over the years, as revenues have stagnated and our “non-functional” costs – which include Debt Services, Fringe Benefits (the largest portion of which is payment to fund the state employee pension program), and payments to fund the teachers’ pension system – have increased. The vast majority of these non-functional costs are bills we have to pay, regardless of any changes to current services. As of 2018, our non-functional costs have superseded spending on programs that educate our children, keep them safe, and allow them to see a doctor when they are sick.

The Governor’s budget includes small increases in the Children’s Budget, a 0.9 percent increase and a 1.5 percent in FY 2020 and FY 2021, respectively. However, when inflation is accounted for, as in the graph below, these small increases look more like small cuts.

The budget incorporates changes to the funding of the Teachers’ Retirement System that will lower non-functional costs spending in 2020, but our debts continue to grow, and non-functional costs are budgeted to increase again in 2021, further squeezing programs for children and families. Between 2019 and 2021, non-functional costs will grow by 3.6 percent, outpacing growth in the Children’s Budget, which will increase by 2.4 percent.

*Figure 1: Non-functional costs grow faster than the children's budget, and non-functional spending has superseded spending on children and families*

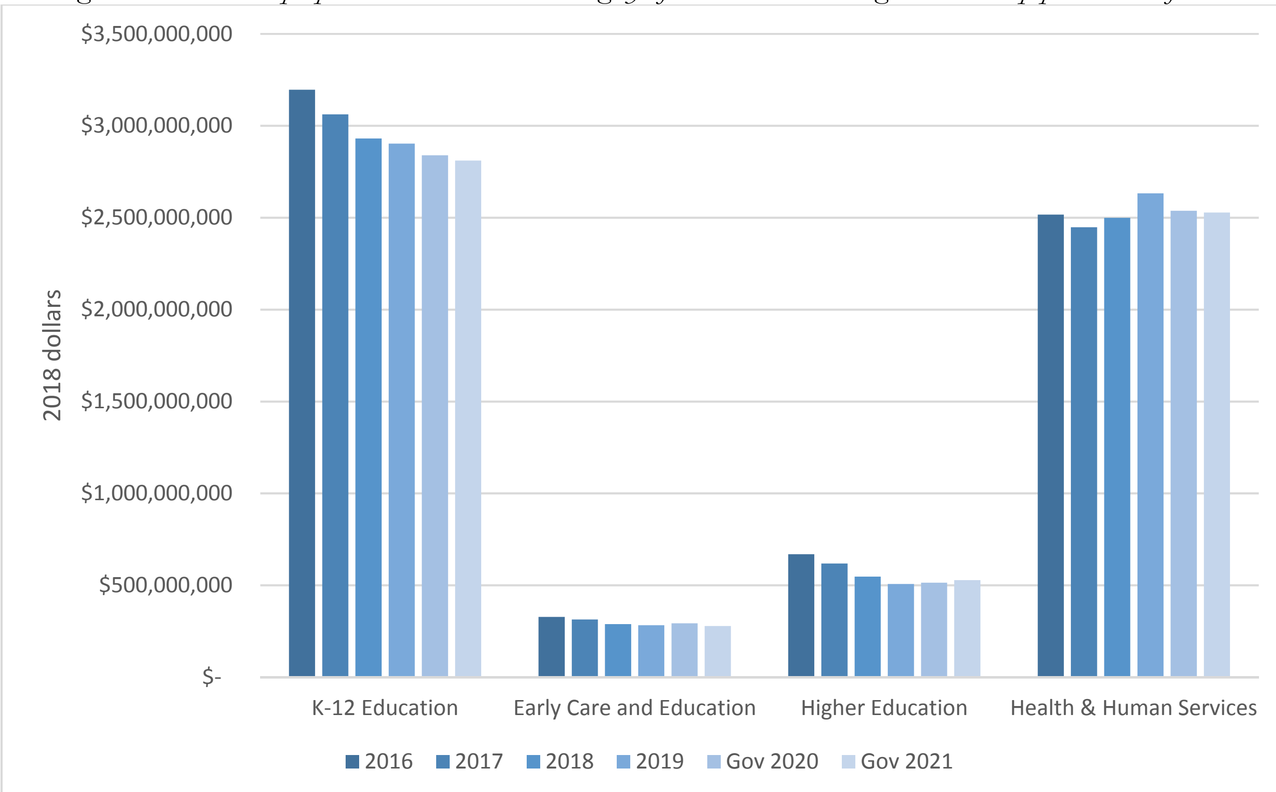



*Note*: Children's Budget and Non-Functional costs are in 2018 dollars to account for inflation.[4]

## *Children's Budget by Category*

The Governor's budget includes modest increases within each category of the Children's Budget, though not enough to keep pace with inflation. The Governor's budget increases funding slightly for Early Care and Education, K-12 Education, and Higher Education. However, when taking account of inflation, as the graph below does, these small increases should be viewed as real cuts. Overall, although there are no drastic cuts in the Governor's budget, spending on children and youth in the state remains squeezed.

*Figure 2: Governor's proposed increases in each category of the Children's Budget do not keep pace with inflation*




*Note*: Children's Budget is in 2018 dollars to account for inflation.

## *Child Welfare and Juvenile Justice*

*Key Takeaways*

- Increases the budget of the Department of Children and Families (DCF) to help DCF exit the Juan F. Consent Decree,[5] which mandates that the state meet certain goals in protecting abused and neglected children.
- Achieves reductions in the DCF budget through cuts to programs deemed not to be fully utilized or redundant as a result of responsibility for juvenile justice services moving from DCF to the Court Support Services Division (CSSD) of the Judicial Branch.
- Keeps CSSD at a baseline budget, with insufficient funding for community-based services that would provide appropriate rehabilitation to justice-involved youth. Although this saves money in the short-term, it will result in more children in detention, increasing the long-term harm done to the children as well as the financial cost to the state.

The impact of Governor Lamont's proposed budget for FY 2020 and 2021 should be measured in the context of two policy themes: the ability for the Department of Children and Families to meet the goals laid out within the Juan F. Consent Decree and the ability for Connecticut to implement and sustain its recent juvenile justice reforms.

*Meeting the Goals within the Juan F. Consent Decree*

The remaining five child welfare outcomes that DCF must meet in order to exit court oversight of its operations are fundamental goals of a child welfare agency: completing investigations in a timely manner; implementing case plans that are appropriate for the child and family and have been reviewed by a social worker supervisor; meeting the needs of children in care; documenting that social workers are visiting in-home cases at least twice per month; and maintaining and not exceeding a reasonable caseload for social workers.[6]

Governor Lamont's proposed budget for FY 2020 and 2021 increases DCF's overall budget by $20.3 million (2.6 percent) in FY 2020 and by $35.1 million (4.6 percent) in FY 2021. It will support DCF in three major ways: (1) it adjusts baseline funding so that DCF does not continue to run sizeable deficits, as they are projected to run in FY 2019; (2) it provides funding to help DCF meet the remaining Juan F. goals that require funds; and (3) it reduces programs that DCF has determined to be underutilized or redundant and adds programs that research indicates should both save money and improve outcomes.

The Office of Fiscal Analysis projects that DCF will run a net deficiency of $4.7 million in 2019[7] due, in part, to implementing measures necessary to meet the goals laid out within the the Juan F. Exit Plan, which required that DCF hire additional social workers (which the legislature failed to appropriate money for)[8] and contract with needed community-based services to meet the needs of children and families in care. Additionally, DCF spent approximately $3.1 million over budget for clinical interventions and other services for youth at risk of juvenile justice involvement.[9] Governor Lamont's budget adjusts baseline funding costs to account for these needed staff and services, which is reflected within a $6,253,430 (16.5 percent) increase over the FY 2019 appropriation in the Community Kidcare line item and a $1,198,806 (47 percent) increase over the FY 2019 appropriation in the Family Violence Outreach and Counseling line item.[10]

Governor Lamont's proposed budget additionally includes $9.1 million (1.2 percent of DCF's authorized spending in FY 2019) each year so that DCF can maintain community-based programming (including parenting education and supports, Multi-Systemic Therapy, Child Abuse and Neglect Intervention services, and Child First services, among others)[11] necessary to meet the needs of children under the Juan F. Consent Decree and to expand programming in geographical locations where services are lacking. The recent report by the Juan F. Court Monitor indicates that these services are likely to include dental screenings, substance abuse screenings, counseling for children, mental health screenings, and Area Resource Group consultations to provide clinical support to DCF staff.[12] This increase in funding is spread over many line items within DCF's budget.[13]

Finally, Governor Lamont's budget uses policy changes and budgetary efficiencies to achieve reductions in parts of DCF's budget.

- As the result of juvenile justice moving from DCF to the Court Support Services Division of the Judicial Branch (CSSD), DCF reported that some of their programs were not being fully utilized or were determined to be redundant with other programming, so Governor Lamont found $1.9 million in savings in DCF's budget by reducing those services. These reductions are seen through small reductions in the following line items: Child Abuse and Neglect Intervention, Community Based Prevention Programs, Substance Abuse Treatment, and Individualized Family Supports.[14]
- Additionally, DCF plans to add Intensive Care Coordination to their Differential Response System. Intensive Care Coordination is a wraparound approach to meeting the needs of children and

families with complex behavioral health needs that creates a team to support families, is rooted in family strengths, and is individualized to the needs of the family.[15] Intensive Care Coordination improves family outcomes and return on investment studies show that programs achieve between 35 and 57 percent savings due to diverting a greater proportion of high-needs families from involvement with foster care.[16] The Governor's proposed budget estimates that this practice change will result in $1,587,122 (0.2 percent) in savings in FY 2021 and beyond.

- The Governor also proposes achieving savings through creating a central transportation unit. Although this unit will necessitate that DCF to hire 66 employees, it should reduce overtime expenses and contract costs and achieve $1,641,450 (0.2 percent) in savings in FY 2020 and $3,432,901(0.4 percent) in savings in FY 2021.

### *Implementing and Sustaining Juvenile Justice Reforms*

In the early part of 2018, Connecticut closed its one remaining large youth prison, making it the first state in the country with no juvenile prisons.[17] The closing of the Connecticut Juvenile Training School (CJTS) was celebrated as the culmination of numerous policies targeted toward reducing juvenile incarceration through the decriminalization of youth behavior, increasing diversionary options, and increasing behavioral health supports. With CJTS closed, the Connecticut General Assembly transferred responsibility for juvenile justice services from DCF to CSSD starting in July of 2018. The boys and girls previously in the care of DCF and now in the care of CSSD have very high needs; in 2017, every single boy admitted to CJTS carried multiple psychiatric diagnoses and 66 percent of the boys had a special education IEP.[18] To better meet the needs of these children, the legislature mandated that CSSD should (1) establish new community-based, small, dormitory-like secure facilities that differ in their level and form of security and (2) establish a more robust continuum of services to serve more youth effectively in the least restrictive setting appropriate and meet the needs of the new youth being transferred from DCF.[19]

CSSD requested around $25 million from the legislature to implement these mandates.[20] The final FY 2019 Revised Budget appropriated $16.9 million to CSSD, only two-thirds of what was requested and over $3.5 million less than the cost of operating CJTS in 2017.[21] Additionally, in transferring juvenile justice services from DCF to CSSD, the legislature left a number of diversionary programs with unstable funding. Prior to the transfer, DCF used money from its Juvenile Justice Outreach Services line item to provide funding for a broad range of behavioral health and diversionary services, including Local Interagency Service Teams (LISTs) that facilitate coordination between state agencies and community-level agencies, and Juvenile Review Boards (JRBs) that connect children who have committed status offenses or a number of first-time offenses with community-based services.[22] At the May 2018 Juvenile Justice Policy and Oversight Committee (JJPOC) meeting, Office of Policy and Management Secretary Ben Barnes indicated that because JRBs and LISTs are not designated as services necessary to carry out the goals of the Juan F. Consent Decree, DCF would no longer provide funding to these programs.[23]

LISTs and JRBs are key components of the JJPOC's community-based diversion plan meant to increase diversion of youth from the juvenile justice system and provide youth with developmentally informed care within their communities.[24] For 2019, OPM was able to carry forward funding from a federal grant to fund a portion of JRBs that DCF previously funded, but this funding was one-time, and using the funding for JRBs stymied CSSD's ability to use the funding to expand their continuum of care.[25] CSSD also indicated that due to unexpectedly low funding, they delayed issuing a contract for a juvenile facility with secure hardware, such as bedroom doors locked from the outside. They instead used this funding to continue funding LISTs in 2019.[26] While establishing appropriate staff-secure facilities and deciding how best to create a hardware secure facility absent sufficient funding, CSSD has instead refit the Juvenile Detention Centers in Hartford and Bridgeport to provide secure care for pre-trial and adjudicated youth.[27] CSSD has done an admirable job providing continuous education and programming to children within these facilities, but the facilities are not designed with long-term living as a goal. CSSD is re-bidding for a hardware secure facility, which will once again put LIST funding at-risk.

A budget sufficient for implementing and sustaining last year's juvenile justice reforms needs to include an additional $8 million for CSSD to create a hardware secure facility and expand services *as well as* an additional $1.5 million for CSSD to sustain funding for JRBs and LISTs. An adequate budget to support the JJPOC's diversion work would also include $9 million to implement the JJPOC's community-based diversion system.[28] Governor Lamont's proposed FY 2020-2021 budget does none of these things. The budget provides baseline funding to all Judicial Department line items funding youth programs:

- $47,140 increase above the FY 2019 appropriation for short-term and residential board and care for children (a 0.75 percent increase),
- $79,251 increase above the FY 2019 appropriation for juvenile justice outreach services (a 0.75 percent increase),
- $620,402 decrease for alternatives to juvenile incarceration (a 3 percent decrease), and
- $719,878 decrease from FY 19 appropriations to youthful offender services (a 7 percent decrease).

The Juvenile Alternative Incarceration and Youthful Offender Services line items provide services and supports such as mediation, mentoring, career skill development, and substance abuse interventions for justice-involved youth and young adults within their communities.

While we acknowledge juvenile justice services did not undergo heavy cuts within Governor Lamont's proposed FY 2020-2021 budget, baseline funding ignores years of failure to fund juvenile justice reform efforts. Without appropriate community-based diversion services and a continuum of services that can provide appropriate rehabilitation to justice-involved youth with varying risk factors, the Judicial Branch may instead find themselves addressing delinquent behavior more and more through detention. Detention is both costly (in 2015, detention cost $653 per day;[29] today it is likely between $700 and $900 per day) and less effective for meeting the needs of youth with low to moderate levels of risk factors.[30]

All too often, the child welfare system and the juvenile justice system serve the same children and families.[31] These are children who often come from households experiencing poverty, have a history of multiple traumas, and overwhelmingly experience educational and behavioral health challenges.[32] Realities of life in the child welfare system, such as experiencing frequent placement changes, increase the risk that children will also become involved in the juvenile justice system. While Connecticut Voices for Children applauds the commitment to helping DCF fulfill its responsibilities to the children in its care, as reflected in the Governor's proposed increased appropriations to DCF, we caution against keeping the Judicial Department at a baseline budget. A baseline budget will result in the state losing diversionary community-based services and more children cycling into the costly system of detention.

## ***Early Care and Education***

*Key Takeaways*

- Increases funding to Care4Kids,[33] moving towards compliance with federal guidance for provider rate increases, increases to family income eligibility, and money for background checks.
- Modestly increases funding for Birth to Three[34] to expand its caseload, though funding still remains below 2017 levels.
- Modestly increases funding for wraparound services.

Investing in our children is an investment in our future. When Connecticut's youngest children have access to safe, warm, and nurturing relationships, it says a lot about our state's values and bodes well for our state's future. Young children who participate in high quality care and education are more ready for school and will require fewer social services. This budget demonstrates that funding for early childhood programs and initiatives that support children and the adults who take care of them is important. However, it does not go far enough. The budget does not describe how much money will be allocated to rate increases so that it is not clear if early childhood providers will receive the living wage they deserve.

The Governor's proposed budget provides increased funding for Connecticut's child care subsidy, Care4Kids. There will be increased overall funding of $4,900,000 in FY 2020, $9,800,000 in FY 2021, and $9,800,000 in FY 2022. These allocations will allow the state to address the gross underfunding of this essential support over the next three years. Child care providers will receive rate increases; there will be funding to support background checks; and more families will have access to the subsidy by increasing the income limits for program eligibility, as has been recommended by the federal government. However, it is still unclear exactly how these funds will be allocated towards each of these areas. We do not yet know how much the OEC will increase rates of child care provider reimbursement, allocate towards background checks, or increase the State Median Income (SMI) eligibility requirements.

While it may appear as though there have been cuts to Care4Kids, this is due to the separation of federal grants from the overall OEC budget for greater transparency. Federal funds are meant to supplement our states' fiscal efforts not supplant them. By separating the federal dollars from state-allocated dollars, there will be greater transparency and a more streamlined reporting process. Hopefully, this realignment will make it clearer in the future how federal and state dollars are allocated, and allow us to ensure that the money allocated is being used as intended to address the needs of young children and their families.

Birth to Three provides early intervention services to infants and toddlers with disabilities. Although it is a federal program, the state contributes funding. The budget provides a modest increase in funding ($375,319) from FY 2019 to FY2021 to expand the caseload. While this is a step in the right direction, funding still remains below FY 2017 levels.

After several years of cuts to OEC programs that support family well-being, both the Even Start[35] and 2 Generation-TANF programs remain in the budget without further cuts, and the Nurturing Families Network will receive a small ($48,519) cost of living increase. Wraparound services such as health, mental health and wellness, adult education and training, and workforce development ensure that families have the supports that they need to provide strong and stable homes for their children. The Governor should consider a plan to increase funding for these services in future budgets.

## ***K-12 Education***

*Key Takeaways*

- The Governor's budget will continue to fund the Education Equalization Grant line item at its statutory levels. This line item will see an increase of one percent in FY 2020 ($17,683,304).
- Despite initial plans to separate the Connecticut Technical Education and Career System (CTECS) from the State Department of Education (SDE) pursuant to Public Act 18-182, the Governor's budget delays the separation until FY 2021.
- The Governor's budget cuts grants for several small but important programs. In total, these programs amount to $775,782 per year.


Education is one of Connecticut's most important tools to reduce inequality in the state and ensure that there is future prosperity for all. However, wide disparities in quality and school funding often mean that the highest need students cannot access necessary services. Funding all schools such that every child is able to experience a high-quality education is essential to ensure the success of Connecticut's towns and cities.

Overall, the Governor's budget proposes an approximately $27 million (one percent) increase to the SDE budget in FY 2020. Our towns and cities fund schools primarily from local property taxes. Education Cost Sharing (ECS) grants are state dollars given to towns to address the disparities in funding available to schools, given the differences in property values from municipality to municipality. Based on a calculation that accounts for student need and the relative town wealth, ECS grants ensure that children in towns that are less wealthy are able to access some of the necessary programs and materials needed to succeed. In FY 2020, the Education Equalization line item (which funds the ECS grants) will see an increase of over $17 million dollars. This increase takes into account the changes to the ECS formula proposed in the Governor's budget. Notably, changes to the ECS formula include modification of the count of low-income students from students who are eligible for free and reduced-price lunch to students who are certified for free and reduced-price lunch.[36]

The Governor's budget proposes three new line items. The first reallocates nearly $45 million of funding from unidentified line items to fund a new line item to support transportation in the Sheff settlement region. The funding for the Longitudinal Data Systems line item, which amounted to $1.1 million in FY 2019, will be shifted over to a new line item called "EdSight," which is the state education data reporting tool. Finally, the K-3 Reading Assessment line item has been removed in FY 2020 and the funds were allocated to a Curriculum and Standards line item. Descriptions from the Governor's Budget summary suggest that this proposed shift in funds was to "more accurately reflect spending."

Public Act 18-182[37] requires that the Connecticut Technical Education and Career System (CTECS) separate from SDE to become its own agency. The CTECS oversees all of the state's vocational and technical high schools. The Governor's budget proposes delaying the move for one year. This is reflected in $165 million that is maintained in the SDE budget for the associated Vocational-Technical school line items in FY 2020. In FY 2021, $165 million will be transferred from SDE to a separate CTECS agency.

Just because a program is small or has a limited service area does not mean that it is not impactful in improving educational outcomes for target groups of students. The Governor's Budget cuts grants for several small programs: Leadership, Education, Athletics in Partnership (LEAP);[38] Connecticut Writing Project;[39] Bridge to Success;[40] Parent Trust Fund;[41] and Young Parents Program (YPP).[42] In total, these programs cost $775,782 per year, less than 0.026 percent of the SDE budget. This is particularly disappointing because SDE has worked hard over the last few years to support family/community engagement and to support students with community service needs. The YPP, for example, provides child care services for the infants/toddlers of students who are enrolled in and attending a comprehensive high school program leading to graduation from high school in six Connecticut towns. It is unclear whether the increased Care4Kids funding will make up the shortfall.

## *Higher Education*

*Key Takeaways*

- The Governor provides annualized funding for State Employee Wage Adjustments.
- There is very little additional funding for programs and services.

The higher education budget is made up of allocations to four agencies: Office of Higher Education, University of Connecticut, University of Connecticut Health Center, and the Connecticut State Colleges and Universities.

The Office of Higher Education remains a standalone agency with a modest budget increase of $61,594 in FY 2020 and $128,773 for FY 2020. These increases mostly fund State Employee Wage Adjustments with minor increases to the Minority Advancement Program ($4,005 in FY 2020 and $4,364 in FY 2021) and the National Service Act ($4,862 in FY 2020 and $5,244 in FY 2021). All other line items are flat funded, including funding for the Minority Teacher Incentive Program.

The FY 2019 budget adjustment reduced funding to the University of Connecticut by $4.5 million. The Governor's proposed budget provides a $9.7 million increase in FY 2020 and an additional $20.6 million in FY 2021 for the Operating Expenses line. These funds are to address annualized funding for State Employee Wage Adjustments.

The Connecticut State Colleges and University system consists of Charter Oak State College, the Community Technical College System, the Connecticut State Universities, and the Board of Regents. The system received increased funding in both FY 2020 ($14.4 million) and FY 2021 ($30.3 million).

## *Health and Human Services*

*Key Takeaways*

- The Governor's budget maintains income eligibility limits for HUSKY (Medicaid and CHIP) for parents and children.
- Cost-saving measures that encourage innovation and which should be implemented and evaluated carefully are recommended.
- The Governor's budget does not reverse eligibility cuts that left many low-income parents ineligible for HUSKY coverage.

A child's equitable opportunity to succeed is grounded in a family that has access to the social supports, preventive care, and behavioral, oral, and medical health services its members need when they need them. Such services mean that families do not have to choose between rent and treating chronic asthma, or between avoiding the doctor's office when a child is ill and risking medical debt.

The Governor's budget protects families' eligibility for HUSKY Health (Medicaid and CHIP) programs at current levels and recommends a series of strategic investments and cost-saving measures across health and social service agencies. For example, the Department of Social Services will see an increase in eligibility staff. This step may alleviate some of the concerns related to reports of difficulty in renewing and applying for services and issues with call center wait times that have been voiced at recent events, such as the Council on Medical Assistance Program Oversight (MAPOC) meetings. To evaluate whether or not increased staffing addresses these concerns, the Department of Social Services should report to MAPOC on Medicaid disenrollment by reason on a monthly basis.

The budget recommendations include applying several cost-saving measures to Medicaid. Innovative efforts such as supportive housing for high-cost, high-need individuals included in the proposed budget could offer a path to better addressing social determinants of health through the HUSKY Health programs. The supportive housing initiative is a collaboration between the Department of Social Services and the Department of Housing to provide support for individuals who experience homelessness and incur high medical costs, often due to co-occurring uncontrolled chronic disease and substance use disorders. This whole-person delivery model has the potential for dramatic improvements in health outcomes and savings in state spending across sectors.[43] We are optimistic that careful analysis of this project can inform potential future expansion to other populations for whom community-based supports would improve outcomes and reduce medical costs. For example, Connecticut's Medicaid program was included in an Early Childhood Innovation Lab[44] and could, but does not yet, apply new approaches to addressing social determinants of health for families with young children. Lessons from the supportive housing project may be relevant to families at risk of homelessness or in need of community-based supports. Further, implementing the Diabetes Prevention Program could both improve outcomes and save costs for Medicaid recipients over age 45.[45]

The impact of other measures intended to maximize efficiency depends heavily on how such measures are operationalized. For example, utilization management could limit use of a broad array of services or prescription drugs and result in reduction of unnecessary or sub-optimal utilization of specific interventions. However, utilization management can also serve as a barrier to care by adding administrative burden for interventions or medications that are both expensive and necessary.

Similarly, hospital readmission rates can be reduced by improving the health of patients and increasing coordination with community-based supports, but readmission rates also drop when mortality rates increase. Thus, any reward for such reductions must include quality measures and account for potential underservice for people with complex and chronic illnesses, particularly when they lack supports such as adequate food and housing. Without such supports, it can be nearly impossible to manage one's illness. Existing hospital readmission rate reduction programs have been criticized[46] for using inadequate quality controls and failing to account for variations in the socio-economic status of the populations served by different hospitals. Such efforts are more likely to improve outcomes and reduce costs when carefully implemented and coupled with innovations that address social determinants of health, such as the housing support initiative noted above. We recommend transparency in the design and evaluation of utilization management and hospital readmission rate reduction initiatives.

In the Department of Developmental Services, the Governor's budget annualizes funding appropriated in FY 2019 for emergency placements and to better connect families with behavioral health and developmental services in a time of crisis. Yet, after years of ongoing rescissions, lapses, and cuts, behavioral health services for children and families—including through School Based Health Centers—remain underfunded. In the Department of Public Health, School Based Health Centers face an additional cut this year.

Finally, the Governor's budget maintains current Medicaid eligibility limits, but does not reverse the cut in eligibility for parents and caregivers made in 2015. This cut resulted in over 11,000 parents/caregivers losing Medicaid coverage.  Restoring parent eligibility limits to 201 percent of the Federal Poverty Level (FPL) ($42,873 for a family of three) would align eligibility limits for parents and children and address the needs of families who are uninsured because they cannot afford the out-of-pocket costs associated with commercial health plans offered on the state health insurance exchange (even with full cost sharing subsidies). As the state considers raising the minimum wage, we must make certain that families can remain insured when their income increases. For parents in the 155 to 201 percent FPL range, restoring Medicaid to 201 percent FPL is the most immediate and feasible way to do so.

Aligning parent and child eligibility limits eliminates confusion about which members of a family are covered at any given time and as income fluctuates. Further, since children are both more likely to be insured and to see a doctor when their parents are covered, restoring parent eligibility likely would have a positive ripple effect on children.[47]

## *Efforts to Sustainably Pay Off Non-Functional Costs*

*Key Takeaways*

- Proposes funding methodology reforms to the Teachers' Retirement System that will stabilize the annual payments on our unfunded liabilities accrued over many decades and reduce the risk posed to our future state budgets.

We applaud the Governor's strategy to stabilize the funding of the Teacher's Retirement System (TRS), which is expected to save $189.4 million in the biennium.[48] The changes bring long-term sustainability to a situation that, left unchanged, would cause our actuarially determined employer contributions to more than double in the next decade.

Governor Lamont is proposing to make "adequate provision" to bond holders by using $380.9 million from the FY 2019 budget surplus to establish a Teachers' Retirement Fund Bonds Capital Reserve Fund. In 2008 the state issued Pension Obligation Bonds containing covenants that it would make its full annually required contributions to the fund.  The Governor's budget proposal appropriates the full amount of the maximum annual debt service for the pension obligation bonds — $380.9 million — and further backs the debt service by a direct transfer of lottery receipts, if needed to replenish the Capital Reserve Fund.

Further, the Governor's proposed budget seeks to change the fund's assumed rate of return (from 8.0 percent to 6.9 percent), re-amortizes the unfunded liability over a new 30-year period, and transitions from a level percent of payroll to level dollar amortization over five years.  These proposed reforms to the TRS mirror the changes adopted through collective bargaining and approved by the legislature to the State Employees Retirement System in 2017. Whereas without these changes, forecasted payments nearly tripled to reach $3.4 billion by 2032, with these policy reforms, payments would increase more gradually and level off, at almost $1.5 billion less annually.[49]

That is not to say that our General Fund will not continue to be squeezed even with these changes to funding the TRS. With the refusal to raise taxes on those earning high incomes, fixed costs that will continue to increase (if more slowly), and fiscal restrictions that lock in this level of spending, we are looking toward a future where services that support children and vulnerable families will continue to be at risk of painful cuts. Nonetheless, the changes to TRS are an improvement and will stabilize Connecticut's fiscal situation.

## *Fiscal Restrictions*

*Key Takeaways*

- Lawmakers have enacted a series of fiscal restrictions that require Connecticut to maintain an austerity budget.
- The Bond Lock, a promise in Connecticut general obligation bonds, requires that these fiscal restrictions stay in effect.

We have a spending cap (which limits how much we can spend in the budget), a volatility cap (which caps revenue from the Estimates and Finals portion of the personal income tax, diverting "excess" into our Rainy Day Fund), and a revenue cap (which is sometimes referred to as an "appropriations cap," because it limits the percent of revenue that lawmakers can appropriate – gradually decreasing this to 98 percent in 2026).

In the near future, these fiscal restrictions will leave lawmakers with few options but to cut crucial services, to use emergency procedures to exceed the restrictions, or to remove spending from budgetary appropriations, further discouraging transparency in the budget-making process. The budget rules ensure that Connecticut will be in a downward spiral of reduced spending on education, healthcare, transportation, and other important state service and programs.

In addition to the spending cap, the volatility cap and the revenue cap limit the amount of revenue available for budgeting. It is projected that in FY 20 and 21, we will force ourselves to transfer $549.3 million through the volatility cap and $247 million through the revenue cap into the Rainy Day Fund, for a total of over $796.3 million.[50] This budget cuts funding for school based health centers, a young parents program that helps with child care for those who cannot afford it, and other relatively low-cost programs that have an oversized impact on individual lives. Where budgets include cuts like these, and because lawmakers cannot predict changing economic circumstances, forcing these transfers to the Rainy Day Fund may be ill advised. Building a robust Rainy Day Fund to allow for increased spending during recessions is good fiscal policy, but these fiscal restrictions do not allow for sufficient flexibility.

Because of the Bond Lock, a covenant is required in all general obligation and revenue anticipation bonds issued by Connecticut that forbids us from amending these fiscal restrictions for at least five years (except through a declaration by the governor of extraordinary circumstances and a supermajority vote in both houses of the legislature, which only allows for one-year changes). These restrictions have a tighter hold than statutory requirements, since statutes typically can be changed by majority vote. We have locked ourselves into an austerity budget, despite changing needs or priorities, and despite budget cuts that will harm those who can least afford it. We encourage lawmakers to rethink and loosen these fiscal restrictions to the extent possible.

## *Revenue and Tax Policy*

*Key takeaways*

- Cuts taxes on the highest income earners by eliminating the gift tax and maintaining the estate tax's scheduled phase in of the federal exemption levels and $15 million cap, as well as proposing no increases to the personal income tax for those high earners.
- Fails to return the Earned Income Tax Credit to 30 percent of the federal level.
- Modernizes sales tax to include the taxing of services, a growing part of our economy.
- Eliminates business entity tax and partially offsets the revenue loss by increasing the annual filing fee for pass-through entities.

We all benefit from living in a society where children have the support they need to thrive, and that requires revenue. Although we applaud this budget's modernizing of our sales tax to fit with our 21$^{st}$ century economy and its continuation of corporate taxes, this budget fails to address and, in fact, exacerbates the regressiveness of our overall tax system that imposes a higher tax rate on lower income taxpayers. It does not ask the wealthy to pay their fair share and so falls short of asking for shared sacrifice. The broadening of the base of the sales tax is good tax policy, but only if paired with policy changes that together create a fairer system.

### *Modernizing Sales Tax*

The Governor's budget proposes to modernize the sales tax code to fit with our 21st century economy by expanding the sales tax to services, an increasing percentage of the economy.[51] This proposal is expected to lead to a total annualized revenue gain of $152.1 million in FY 2021.[52] While broadening the base is a necessary step to modernize our antiquated tax system, the impact of the Governor's proposal is a 0.5 percent increase in the share of income paid in taxes by the lowest 20 percent of income earners and a 0.1 percent increase to the top 5 percent of income earners. This one change, standing alone, falls disproportionately on our lowest income taxpayers.[53]

Professional services, including legal, accounting, and interior design; personal services, including salon services and sports/recreation; and general services, including janitorial, cleaning, and waste collection would be taxed. The budget also repeals sales tax exemptions, including those for renovation of residential property, trade-ins for vehicles, non-prescription drugs, and winter boat storage.[54]

Programs that benefit children and families in the budget rely on funding by these new sources of revenue, but whether this package will make it through the legislature is an open question.[55] It is important that alternative revenue options that would address our upside down revenue system remain part of the discussions in budget negotiations.

### *Earned Income Tax Credit*

Despite widespread policy benefits, the state legislature cut the EITC in 2017 to 23 percent of the federal credit. Connecticut's Earned Income Tax Credit (EITC) is one of the most potent tools for combating poverty, helping 194,000 Connecticut households make ends meet in 2018. The ill-considered cut, in effect, raises taxes for low-income workers—those who make on average less than $20,000 annually—by $35 million per year. Restoring the credit to its original level of 30 percent is consistent with our long-term goals of increasing equity in our tax system and creating an economy that supports shared prosperity.[56]

### *Business Taxes and Credits*

We support business growth and recognize that small businesses often struggle to make ends meet. Nonetheless, we believe that businesses, particularly those with large profits, must do their part to support the economy they benefit from.

The Governor proposes to replace the business entity tax with an annual filing fee that will produce less revenue. Specifically, the budget:

- Eliminates the $250 business entity tax, which will result in a revenue loss of $11 million in FY 2020 and $44 million in FY 2021.
- Increases the annual filing fee for pass-through entities from $20 to $100. This is ostensibly to offset the revenue loss from the business entity tax elimination, but it will only gain $16 million annually – not enough to make up the revenue loss in the biennium.[57]

We recognize that $250 can be a burden to some businesses, but it is a small charge to others. Rather than eliminating the business entity tax, we support a progressive business tax where businesses that can afford to pay more do so.

This budget also strengthens corporate taxes somewhat by making permanent the 10 percent surcharge on the tax liability of corporations with gross revenues over $100 million and by capping the use of all corporate tax credits at 50.01 percent of liability (for Research & Development and Urban & Industrial Sites Reinvestment Act this limit has been 70 percent), which will increase revenue by $34 million in FY 2020 and $21.5 million thereafter.

*Cutting Taxes on High Income Earners*

In his campaign, Governor Lamont promised not to raise income tax rates, including those on the highest earners. This budget goes further and proposes to cut taxes for the wealthy by eliminating the gift tax and maintaining the estate tax's scheduled phase in of the federal exemption levels and $15 million cap. Business owners earning high incomes also benefit from the elimination of the $250 business entity tax. Together, these changes will result in a revenue loss of just under $24 million in 2020.[58]

# *III. Conclusion*

Governor Lamont's proposed budget avoids significant cuts to essential programs and services based on revenue proposals that fall most heavily on our lowest income taxpayers, further exacerbating our upside down tax system. It asks little of our highest income taxpayers who received a substantial tax cut in the federal tax bill.

The solution to Connecticut's budget woes lies not with tax hikes for working families. As the General Assembly considers the Governor's proposal, we urge it to prioritize the following:

1. Restore the state's ability to build thriving communities. The spending cap, volatility cap, and bond cap all potentially limit the state's ability to create a more prosperous tomorrow. Most troubling of all, the Bond Lock is the law of the land through 2023 and requires that the other caps remain in place. The legislature must, at minimum, repeal the Bond Lock and repeal and replace the volatility cap.
2. Begin to address and correct Connecticut's upside down revenue system. Broadening the sales tax base, standing alone, exacerbates the regressiveness of our tax system and must be paired with other revenue options that move toward a fairer and more sustainable system.
3. Invest in Connecticut's future. Creating equitable pathways to opportunity will not only allow more of our children to reach their full potential, it will also grow the state's economy. Restoring the Earned Income Tax Credit, fully funding Care 4 Kids, and protecting HUSKY health coverage for working families, among other policies, help ensure that every child in our state receives a meaningful opportunity to succeed.

# *Appendix: Impact of Components of Governor Lamont's Tax Proposal*

The Institute for Taxation and Economic Policy (ITEP) conducted a study of how the Governor's tax proposals would fall on people living in Connecticut based on their income. Specifically, ITEP evaluated the impact of proposed changes to the sales tax, taxes on sugary beverages, the elimination of an increased personal income tax exemption for social security income, and the repeal of an exemption for pension and annuity income. The results are below.

**Impact of Components of Governor Lamont's Tax Proposal**

**All Connecticut Residents, 2019 income levels**

| 2019 Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Tax Change |
|---|---|---|---|---|---|---|---|---|
| Income Range | Less Than $25,000 | $25,000 – $47,000 | $47,000 – $79,000 | $79,000 – $136,000 | $136,000 – $343,000 | $343,000 – $949,000 | $949,000 – Or More | |
| Average Income in Group | $ 15,000 | $ 36,000 | $ 61,000 | $ 103,000 | $ 198,000 | $ 501,000 | $ 3,215,000 | |

**Combined impact**

**Combined impact of taxes on Social Security, pension and annuity income, sugary beverages, and sales tax base broadening**

| | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Tax Change |
|---|---|---|---|---|---|---|---|---|
| Tax Change as % of Income | 1.0% | 0.6% | 0.7% | 0.5% | 0.2% | 0.1% | 0.1% | +773,192,000 |
| Average Tax Change | +150 | +220 | +403 | +509 | +478 | +745 | +2,310 | |

**Individual Components**

**Retaining tax on Social Security and pension and annuity income (assuming full phase-in of the pension break)**

| | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Tax Change |
|---|---|---|---|---|---|---|---|---|
| Tax Change as a % of Income | — | 0.0% | 0.2% | 0.2% | 0.0% | — | — | +107,592,000 |
| Average Tax Change | — | +4 | +139 | +161 | +4 | — | — | |
| Share of Total Change | — | 1% | 21% | 17% | 1% | — | — | |
| Average Tax Hike for Those with Increase | — | +298 | +668 | +920 | +342 | — | — | |
| % Facing Tax Increase | — | 1% | 45% | 53% | 1% | — | — | |

| **Additional Detail** | |
|---|---|
| Total % with Tax Increase | 8% |

**Impact of sales tax base broadening**

| | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Revenue Impact (including taxes paid by non-residents) |
|---|---|---|---|---|---|---|---|---|
| Tax Change as % of Income | 0.5% | 0.4% | 0.3% | 0.3% | 0.2% | 0.1% | 0.1% | +507,400,000 |
| Average Tax Change | +79 | +147 | +191 | +271 | +373 | +627 | +2,138 | |
| Share of Total In-State Tax Change | 7% | 12% | 16% | 23% | 23% | 10% | 9% | |

**Impact of tax on sugary beverages**

| | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% | State Revenue Impact (including taxes paid by non-residents) |
|---|---|---|---|---|---|---|---|---|
| Tax Change as % of Income | 0.5% | 0.2% | 0.1% | 0.1% | 0.1% | 0.0% | 0.0% | +158,200,000 |
| Average Tax Change | +71 | +69 | +73 | +78 | +101 | +118 | +171 | |
| Share of Total In-State Tax Change | 18% | 17% | 18% | 19% | 19% | 6% | 2% | |

**SOURCE:** Institute on Taxation and Economic Policy, February 2019

[1] Combined impact of sales tax broadening, sugary beverage tax, the elimination of an increased personal income tax exemption for social security income, and the repeal of an exemption for pension and annuity income. Source: Institute on Taxation and Economic Policy, February 2019. See Appendix for details.
[2] Recent federal legislation renewed funding for the Children's Health Insurance Program (HUSKY B in Connecticut) and also changed federal match rates. The federal match rate for HUSKY B will be 76.5% in 2020 and 65% in 2021-2027.
[3] Medicaid figures are approximate and are based on estimates from the Department of Social Services that children and caregivers account for 29% of Medicaid spending overall and that the federal share of Medicaid will be roughly 58.5% in 2020 and 58% in 2021. These figures are the best available approximations as of publication, but are likely to change as a number of programmatic and financing changes are implemented in Connecticut's Medicaid programs.
[4] Source for inflation adjusted amounts: https://data.bls.gov/cgi-bin/cpicalc.pl. Conversion based on January-to-January inflation. For 2020 and 2021, assumed inflation was 2.5%.
[5] The Juan F. Consent Decree is the result of a 1989 class-action lawsuit filed against the state of Connecticut, calling for reforms to how the child welfare system protects and serves children who have been or are at-risk of becoming abused or neglected. For a summary and link to the case, see CLASS ACTIONS Connecticut CT - Juan F. v. Malloy. Children's Rights. Available at https://www.childrensrights.org/class_action/connecticut/.
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[39] Connecticut Writing Project aims to improve the teaching of writing in the state. For more information see https://cwp.uconn.edu/.

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