CONNECTICUT VOICES FOR CHILDREN

# *Impact of the FY 2020-2021 Appropriations and Finance Committee Budget and Revenue Proposals on Children and Families*

**Policy Report**
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## *I. The Governor's and Legislature's Budget Proposals*

Connecticut's long-term economic prosperity requires investments in children and families. Everyone in America — regardless of where they were born, the state where they live, the color of their skin, or the size of their bank account — should have the opportunity to reach their full potential. To achieve fiscal stability and broad-based economic prosperity, we need to modernize our revenue system and invest in our human and physical infrastructures.

The Appropriations and Finance Committees separately released their proposed spending and revenue packages for Fiscal Years 2020 and 2021. Similar to the Governor's budget proposal, the Appropriations Committee did not make major cuts to services and programs for children and families. The Appropriations Committee, however, did restore about $12 million for juvenile justice services that had been cut from the FY 2019 budget. It also added new dollars for start-up costs for a public option to expand health insurance coverage, and a paid Family and Medical Leave program. Overall, the Appropriations Committee's spending proposal, like the Governor's, does not make the bold investments we need, for example, to expand early childhood education and improve the quality of K-12 education.

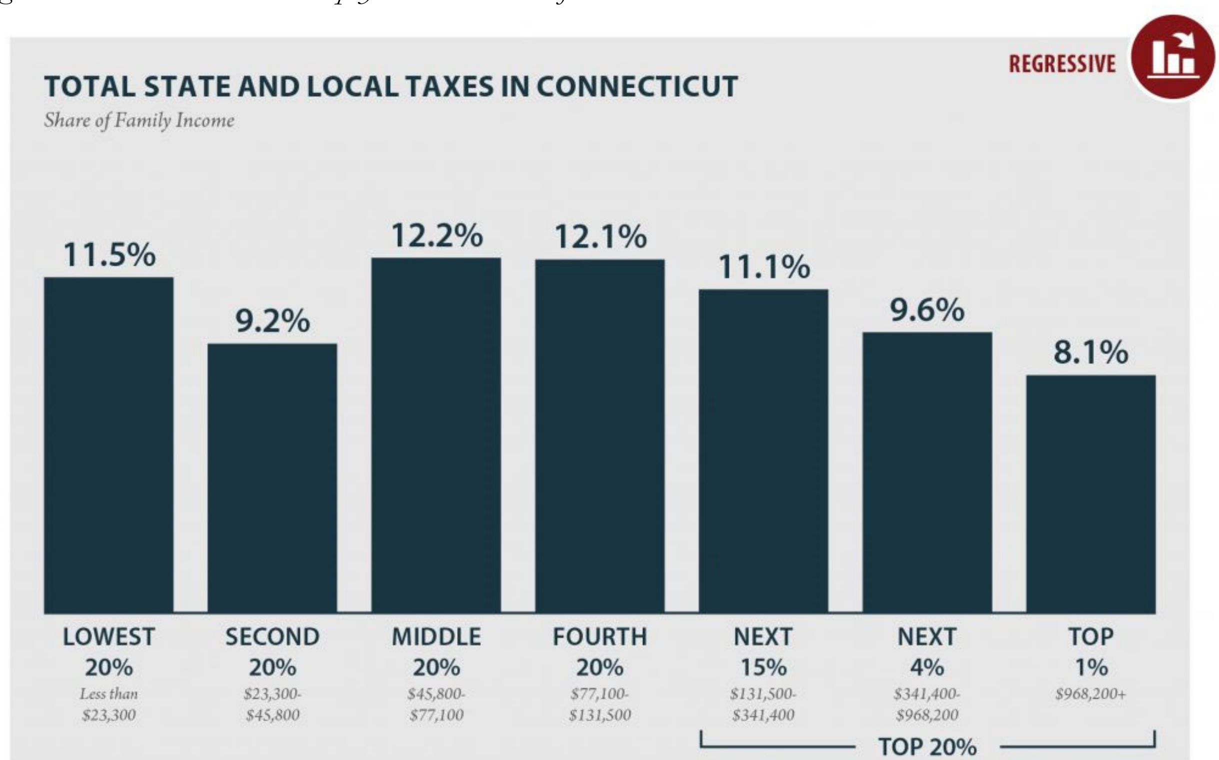
While there are significant differences between the revenue and spending policies of the Governor and lawmakers, each is constrained by rigid fiscal restrictions that are, as predicted, damaging to our state's economic growth and competitiveness. The recently redefined spending cap, the volatility cap and the revenue cap are imposing austerity on our budgets and are ensuring that Connecticut remains in a permanent state of fiscal deprivation, starving our schools, infrastructure, and health systems of critical investments.

In FY 2019 alone, these rigid budget rules have resulted in $1.47 billion being transferred from the General Fund to the Budget Reserve Fund. Well-designed volatility policies that help to build healthy budget reserve funds are good fiscal policy. But the poorly designed volatility cap adopted in 2017 is depriving the General Fund of normal revenues, not volatile ones. In the face of projected deficits in FY 2020 and 2021, the volatility cap is projected to sweep $630 million from the General Fund. The revenue cap is also depleting the General Fund of an additional $22 million in the biennium. And the spending cap is preventing our state from making wise investments in affordable, high quality early childhood care and preschool, expanding healthcare access, and infrastructure necessary for economic prosperity. That is, even with the funds available to make these investments, rules adopted by past legislatures prohibit the current legislature from doing so and encourage gimmickry.

The revenue package put forward by the Finance, Revenue and Bonding Committee adopts several welcome progressive tax proposals that would, in a small way, begin to address our upside down tax system — a system that asks more from households at the bottom of the income ladder and less from those at the very top, even though they are best able to pay more. (See Figure 1.)

First, the Finance proposal includes a highly progressive two percent surcharge on capital gains realized by taxpayers in the highest income tax bracket and non-residents with gains derived from Connecticut sources. Second, a policy change to reduce the cap on taxes paid by multistate corporations under the mandatory combined reporting system will raise an additional $45 million in the biennium. Both proposals raise significant revenue without further exacerbating growing income inequality.

*Figure 1: Connecticut's wealthiest pay a smaller share of their income in state and local taxes.*




Source: Institute on Taxation and Economic Policy.[1]

However, the Finance Committee's proposal provides $134.8 million less revenue in FY 2020 and $204.4 million less revenue in FY 2021 than proposed by Governor Lamont and less than contained in the Appropriations Committee's spending plan. *A $340 million gap will need to be closed through revenue changes, spending cuts, or a combination of both.*

The committee rejects significant portions of Governor Lamont's revenue proposals, including about half of the Governor's sales tax expansion proposals, worth $180 million in FY 2020 and $298.6 million in FY 2021. It rejects the Governor's proposal to require that towns reimburse the state for a portion of the normal costs of the teachers' retirement system worth $73 million over the biennium, and declines to adopt the delay in estate tax filings that would have cost $33.6 million in FY 2020. The Committee rejects Governor Lamont's sugary beverages tax and replaces it with a one percentage point sales tax increase for restaurant food and prepared meals.

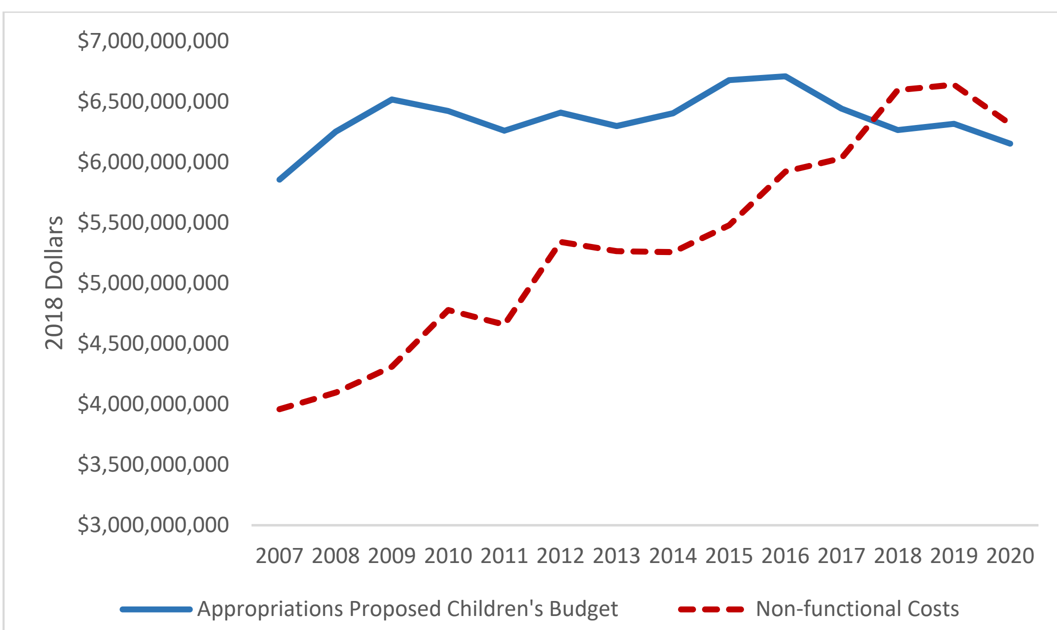
The committee supports pieces of the Governor's budget, including repealing the gift tax and business entity tax, taxing vaping products (although at a lower rate), charging fees for plastic bags, and continuing the hospital tax.

In addition, the revenue package transfers $50 million of the FY 2019 budget surplus, suspends amortization payments to the Historical GAAP Deficit of $75.7 million in both years, and maintains eligibility limits on property tax credits worth $53 million. A sales and excise tax on cannabis, if legalized in Connecticut, would raise an estimated $57 million in FY 2021.

## *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 families. For a detailed explanation of what we include and how we calculate this approximation, please see our analysis of the Governor's proposed budget for FY 2020-2021.[2] The biennial budget proposed by the Appropriations Committee provides a level of support for child-serving systems that is close to that proposed by the Governor. When adjusting for inflation, our calculations indicate that spending increases do not keep pace with cost of living in Connecticut.

*Figure 2: Non-functional costs grow faster than the Children's Budget, and non-functional spending has superseded spending on children.*




Note: Children's Budget and Non-Functional costs are in 2018 dollars to account for inflation.[3]

## *Child Welfare and Juvenile Justice*

- The Appropriations Committee spending plan restores $1,315,147 per year of funding for Juvenile Review Boards that was cut in the FY 2019 budget. Juvenile Review Boards are community-based programs that connect youth serving agencies, police departments, and juvenile courts as they work to meet the needs of children who commit low-level offenses by diverting them from the court system. The Governor's budget did not provide funding for Juvenile Review Boards or Local Interagency Service Teams (see last bullet).
- The legislature adopts the Governor's proposed $9,072,583 per year additional funding to help DCF meet the Juan F. Consent Decree goals of completing investigations in a timely manner; implementing appropriate case plans; meeting the physical, behavioral, emotional, and educational needs of children in care; visiting in-home cases at least twice per month; and maintaining a reasonable caseload for social workers.
- The Appropriations Committee increases funding for Juvenile Justice Outreach Services and Board and Care for Children- Short Term and Residential line items in the Judicial Branch budget by $10,781,096 in FY 2020 (63.5 percent increase) and $10,209,096 in FY 2021 (60 percent increase) over the Governor's proposal. The Court Support Services Division (CSSD) of the Judicial Branch plans to use this money to create hardware secure facilities for youth with high levels of need who would have been committed to the Connecticut Juvenile Training School in the past. They also intend to expand their array of services to include Functional Family Therapy and Vocational Services.
- The Appropriations Committee supports the Governor's recommended baseline funding of the Juvenile Alternative Incarceration and Youthful Offender Services line items that provide services and supports for justice-involved youth and young adults within their communities. These line items have been underfunded for a number of years, and many communities find that they cannot provide an adequate array of services to meet the needs of their youth.
- Both the Governor and the Appropriations Committee fail to restore a needed $0.3 million in funding for Local Interagency Service Teams (LISTs) whose funding was eliminated in the FY 2019 budget when the legislature transferred responsibility for juvenile justice from DCF to the Judicial Branch. LISTs help to integrate the planning, implementation, and evaluation of juvenile justice service delivery across the state and coordinate community-level services with services provided by state agencies. Currently, LISTs are funded until the end of FY 2019 using funds unspent by CSSD as the result of delaying contracts for hardware-secure facilities.

## *Early Care and Education*

- Maintains the Governor's proposed increases in funding for the Care4Kids child care subsidy program. This allows Connecticut to move towards compliance with federal guidelines relating to provider rates, family income eligibility, and employee background checks. Policymakers should ensure that there is adequate funding to meet current needs as they increase funding to increase rates to providers and expand eligibility to include families up to 75 percent of the state median income, and to those parents who need to attend school or job training to better support their children.
- Maintains the moderate increases in funding for the Nurturing Families Network that the Governor proposed. The Nurturing Families Network provides home visiting and support services for families.
- Increases funding for Birth to Three to levels that are respectively more than three and 2.5 times larger than in the Governor's budget for FY 2020 and FY 2021. Birth to Three is a federally funded entitlement program with financial support from the state. It has been traditionally under-funded at

the state level and the increased funding more accurately reflects growth in the program's caseload. It provides services for infants and toddlers with developmental and health needs.

### *Health*

- The Appropriations Committee maintains HUSKY eligibility limits for parents of children enrolled in the HUSKY A (Medicaid) health insurance program, as does the Governor’s budget proposal. Protecting HUSKY eligibility alleviates stress for families and continues access to life-saving and life-changing health care. However, as policymakers consider raising the minimum wage and other measures to reduce poverty, they should consider restoring previously reduced income eligibility levels for parents to ensure that modest income increases do not make parents ineligible for HUSKY.
- Provides initial funding to launch a public health insurance option, which would likely provide an alternative source of health coverage for employees of small businesses and potentially for individuals in the longer term. It is unclear if this public option plan will be an affordable option for parents who are ineligible for Medicaid and currently cannot afford to access health care through Access Health CT, the state health insurance exchange. Even with the federal subsidies, the out-of-pocket costs on the exchange can be unaffordable. This proposal was not included in the Governor’s budget.
- Adopts the Governor’s proposed cut that eliminates the creation of two new school-based health centers. These centers improve health equity by making access to medical, dental, and behavioral health care available to children and teens without the need for them or their families to overcome barriers such as logistics or stigma associated with mental health care.
- Includes most of the cost-saving measures for Medicaid proposed in the Governor’s budget. The state should monitor the impact of these measures on health outcomes and specifically on racial equity, as some measures (like utilization management) can affect groups differently and have the potential to cause unintended harm if not implemented with equity in mind.

### *K-12 Education*

- Increases the total budget of the State Department of Education compared to the Governor's budget. In FY 2020 the Committee budget allocates $28.1 million more (just under 1 percent) than the Governor's budget and $48.1 million more (approximately 1.6 percent) in FY 2021.
- Maintains the Governor’s cuts that eliminate programs such as LEAP, Bridges to Success, the Young Parents Program, and Parent Academy. Together, these programs cost less than $700,000 in the state budget, but provide important services to target populations.
- Provides level funding in FY 2020 for the school-based diversion initiative, funding for which almost doubled between Fiscal Years 2018 and 2019. The proposal also level funds bilingual education, which saw an increase in funding by more than 1.5 times in the FY 2019 budget.
- Level funds the Education Cost Sharing (ECS) grants and maintains the adjustments to funding amounts under current law. Under current law, adjustments are required for towns considered over- or under-funded under the formula. These towns are scheduled to have respective decreases or increases to their ECS formula through FY 2028. The Governor’s proposal would have reduced ECS funding and changed how low-income students were counted in the ECS formula, thereby reducing the number of low-income students counted in many districts. The Governor also proposed a more aggressive approach to adjusting the funding amounts. Currently, reductions were scheduled at 8.33 percent annually through FY 2028, but the Governor proposed a 25 percent grant reduction. The Committee’s proposal keeps the current metric, preserves the bipartisan ECS formula enacted last year, and protects towns from cuts in state aid after their budgets are approved.

- Increases funding for magnet schools by $6 million for FY 2020 and FY 2021 over the Governor's budget. However, it does not return funding to the FY 2019 appropriation.
- Increases funding to charter schools by $1.83 million for FY 2020 and $3.58 million for FY 2021 over the Governor's budget. The Governor's budget provided increased funding over the FY 2019 appropriation by $1.9 million for FY 2020 and $4.2 million for FY 2021. If the committee's appropriations remain as proposed, effectively, charter schools will see a $3.7 million increase in FY 2020 and $7.7 million increase in 2021 over FY 2019 allocations.
- Adds $1 million over the Governor's budget for afterschool programs, but restricts 10 percent of total afterschool funding to districts with fewer than 5,000 students.
- Delays the transition of the Connecticut Technical Education and Career School out of SDE and into its own department.
- Allocates funding for services through the Department of Developmental Services for individuals with intellectual/developmental disabilities including employment and day services for new high school graduates at Governor's proposed allocation. The state receives 50 percent federal reimbursement for this Medicaid waiver program.

## *III. Conclusion*

The Finance Committee's tax proposals contain much needed revenue from progressive tax proposals—a welcome, although small, move to address our upside down tax system. The Governor's budget avoids significant cuts to essential programs and services only by relying on revenue proposals that fall most heavily on our lowest income taxpayers, further exacerbating our upside down tax system. It asks little to nothing 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 and the Governor seek agreement on a two-year budget, we urge both sides to prioritize the following:

1. Restore the state's ability to build thriving communities. The spending cap, volatility cap, and revenue cap are together constraining the state's ability to create a more prosperous tomorrow. We urge that, at minimum, the Governor and Legislature repeal the Bond Lock, repeal and replace the volatility cap with a thoughtful well designed volatility policy, and address the impact on existing bondholders whose bonds contain a covenant promising not to alter the caps. We simply cannot afford to permit Wall Street to control our taxing and spending policies for the next five years.
2. Begin to address and correct Connecticut's upside down revenue system by adopting an increase in the personal income tax, and/or a surcharge on capital gains, dividends and interest on those taxpayers in the highest two personal income tax brackets.
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. 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.

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[1] Institute on Taxation and Economic Policy, https://itep.org/whopays/connecticut/

[2] Silbermann, Rachel, Mills, Jamie, Ruth, Lauren, Siegel, Karen, Waithe Simmons, Wendy, Stokes Hudson, Camara, Nelson, Jessica, and Langer, Sharon, "Impact of the Governor's FY 2020-2021 Budget on Children and Families," Connecticut Voices for Children, March 2019, http://www.ctvoices.org/publications/balanced-approach-revenues-ensuring-fairness-and-adequacy

[3] 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%.