CONNECTICUT VOICES FOR CHILDREN

Impact of the Final FY 2020-2021 Budget on Children and Families[i]

Policy Report
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I. Overview

On June 5, 2019, the Connecticut General Assembly passed the State's biennial budget for Fiscal Years 2020 and 2021 (HB 7424). Overall this could be characterized as a status quo budget; it avoids drastic changes in state spending and raises some new revenues but does not address the overall regressive nature of Connecticut's state and local tax structure or make the kind of bold, new investments in the future of children and families that our state needs.

The budget does address issues that had long created uncertainty for Connecticut's budget and economic future. These include the use of FY 2019 surplus dollars to help address the ongoing controversy over the hospital tax and the unfunded liability of the Teachers' Retirement System. The budget also addresses the $3.7 billion shortfall that had been projected for the biennium through a combination of enhancing revenues, cutting projected expenses, and using surplus dollars and carry-forwards from FY 2019.

For many of the programs important to Connecticut's children and families, the generally flat funding in this budget is disappointing, though still an improvement over the cuts of the last few years. Important areas of programs and services that have been preserved include early childhood education, K-12 education, higher education, behavioral health, and juvenile justice. Also noteworthy is the partial restoration of Medicaid income eligibility levels for parents that were reduced in 2015.

Budget Rules Prevent Investments We Can Afford
Connecticut Voices for Children has done extensive writing and educating about the anticipated negative impacts of the spending cap, the volatility cap, and other fiscal restraints that will unduly restrict our investments in the well-being and future contributions of the children and families of our state.[1] The FY 2020/2021 budget demonstrates this impact.

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General Fund spending levels in FY 2020 and FY 2021 are below projected revenues by $141 million and $166 million respectively, amounts that cannot be appropriated due to the spending cap.[2]

The volatility cap also limits state spending by requiring certain revenues above a statutory amount to be deposited in the Budget Reserve fund (BRF or Rainy Day Fund), even when we face projected deficits and investment needs. For FY 2019, approximately $800 million will be deposited in the BRF;[3] for FY 2020 and FY 2021, the projected BRF deposits are $278.1 million and 263.3 million, respectively.[4]

The transfers to the Budget Reserve Fund required by the current version of the volatility cap, regardless of projected budget deficits and investment needs, mean that the state must implement tax and other revenue increases and/or spending cuts that would otherwise be unnecessary.

II. Revenues

The adopted budget, unlike the revenue bill passed by the Finance, Revenue and Bonding Committee, does not address Connecticut's overall regressive tax structure. Connecticut Voices for Children worked closely with legislative leaders to craft a highly progressive provision: to impose a two percentage point surcharge on capital gains realized by taxpayers in the highest income bracket. Although passed by the Finance, Revenue and Bonding Committee, the Governor rejected this proposal and it was not included in the final budget bill. At the same time, proposals to repeal the estate tax that Connecticut Voices for Children strongly opposed and that would have made the tax system more regressive were defeated. Following are highlights of some key revenue changes in the biennial budget.

Sales and Use Tax Changes, But No Real Reform

The state's failure to keep our laws up to date with the 21st century economy has weakened the sales tax as a stable source of revenue. Connecticut Voices for Children supports broadening the sales tax base to include more services in order to strengthen the state's revenue system and provide needed funding for our investments in education, healthcare, transportation, and other critical services. To balance the regressive impact of increased sales and use taxes, Voices also advocates for progressive tax changes.[5] However, this budget failed to strike that balance.

Sales and use taxes are nearly always regressive and in this budget include:

- Digital goods and certain electronically delivered software will now be taxed at the standard rate of 6.35 percent rather than the 1 percent that had been in effect ($27.5M; $37.1M).[ii]
- Meals and drinks sold by eating establishments, caterers or grocery stores, and liquors and soft drinks dispensed at bars and soda fountains will be taxed an additional 1 percentage point, bringing the rate from 6.35 percent to 7.35 percent ($48.3M; $65.8M).
- Additional services will be subject to the sales and use tax, including parking services, dry cleaning and laundry services, and interior design services ($11.8M; $24.4M).
- The state will now impose a tax on sales of electronic cigarette products by e-cigarette wholesalers. Connecticut Voices for Children supported this measure for its positive impact on public health ($2.0M; $2.7M).

[ii] See Appendix of this report for references to the sections of the budget bill, Emergency Certified HB-7424. Dollar figures in parentheses refer to anticipated revenues, savings or costs in each year of the biennium. For a more detailed look into the budget, see: https://www.cga.ct.gov/2019/BA/pdf/2019HB-07424-R01-BA.pdf
https://www.cga.ct.gov/2019/FN/pdf/2019HB-07424-R01-FN.pdf

Business Tax Changes But No Real Reform

Like individuals, Connecticut's businesses benefit from state investments in infrastructure, public safety, education and the like, and they are called upon to contribute to the cost of those services through taxation. Over the years, exceptions to business taxes through tax credits have proliferated, allowing similar companies to be treated differently, and without enhancing the fairness of the system. Connecticut Voices for Children has long advocated for a progressive business tax structure that would level the playing field among various types of business entities, as well as create a progressive structure for assessing tax liability.

Although no system-wide business tax reform was included in the budget, there were some increases in the corporation business tax:

- The cap on the use of two types of corporation business tax credits—research and development credits and credits under the Urban Reinvestment Act— was reduced from a 70 percent to a 50.01 percent maximum reduction in tax liability ($34.4; $21.5).[6]
- The budget also extends to the 2019 and 2020 income tax years the existing 10 percent corporation business tax surcharge on certain large companies ($60M; $37.5M).

Businesses that are not subject to the corporation business tax are often established as pass-through entities (PTEs)[7] to insulate their owners from some of the liabilities inherent in operating a business. While often referred to as "small mom and pop shops," PTEs include both small businesses *and* multi-million dollar businesses.

- The budget *eliminates the business entity tax* that for years was the only tax paid by PTEs: a $250 tax paid every two years. The projected loss of revenue ($0; -$44M) is partially offset by *increasing the annual filing* fee on LLCs and LLPs from $20 to $80 ($0; $12M).
- The budget also amends the pass-through entity tax that was enacted in 2018 (PA18-49). That tax is in effect a workaround of the recent federal limitation on the deductibility of personal state and local taxes from the federal income tax. Under the budget, PTE partners and owners will receive a slightly reduced benefit, while still in a better financial situation than if they were subject to the SALT limitation. This law does not provide relief from the SALT limitation to those Connecticut individuals and families whose income comes from sources other than PTEs ($50M; $50M).

Payroll Tax Study

The federal limitation on state and local tax deductions from the federal income tax has prompted a study of a potential major overhaul of Connecticut's income tax. For most taxpayers, an employer payroll tax would substitute for the individual state income tax. Among the issues that need to be considered are the treatment of nonwage income, employment agreements, labor contracts, and EITC eligible taxpayers.

The Property Tax Credit & Real Estate Conveyance Taxes

- Eligibility limitations on the property tax credit against the personal income tax will remain in effect for the 2019 and 2020 tax years ($53M; $53M).[8]
- The so-called "mansion tax" establishes a new conveyance tax rate of 2.25 percent paid by the seller of residential property on the portion of the sales price that exceeds $2.5 million. Under current law, the rates are 0.75 percent on the first $800,000 of the sales price and 1.25 percent on any portion of the sales price that exceeds $800,000 ($0; $6.3M).[9]

Hospital Provider Tax

- The budget eliminates a scheduled reduction in the hospital tax rates on inpatient and outpatient services by maintaining the rates at FY 2019 levels. Other changes accompany the maintenance of the FY 2019 rates ($516M; $516M).[10]

Income Tax Exemption for Teachers' Pensions

- The budget delays by two years the scheduled increase in the income tax exemption for income received from the state Teachers' Retirement System. The current 25 percent exemption is maintained for 2019 and 2020, delaying the scheduled increase to 50 percent until 2021 ($8M; $8M).

Teachers' Retirement System

- The bill makes various changes to the amortization methodology and schedule for funding the Teachers' Retirement System, including a new 30-year amortization schedule for the unfunded accrued actuarial liability as of June 30, 2018. The net impact of the changes is to lower the State's actuarially determined employer contribution (ADEC)[11] ($183.4M; $189.4M).[12]

Fees

- Beginning on August 1, 2019, stores in Connecticut must charge a 10 cent fee for each single-use checkout bag provided to a customer at the point of sale. Beginning July 1, 2021, store owners and operators are prohibited from providing or selling single-use checkout bags ($27.7; $26.8).
- OPM is required to review the existing fees collected by each department and report recommendations for *fee increases of at least $50 million* to the Finance, Revenue & Bonding Committee by February 5, 2020 ($0; $50M).

Motor Vehicle Sales and Use Tax Diversion

- The budget modifies the existing schedule that phases in the diversion of motor vehicle sales and use tax revenue to the Special Transportation Fund by reducing the required diversions in FY 2020 and 2021; it does not change the diversion percentages for FY 2022 and 2023 ($58.2 M; $113.4M).

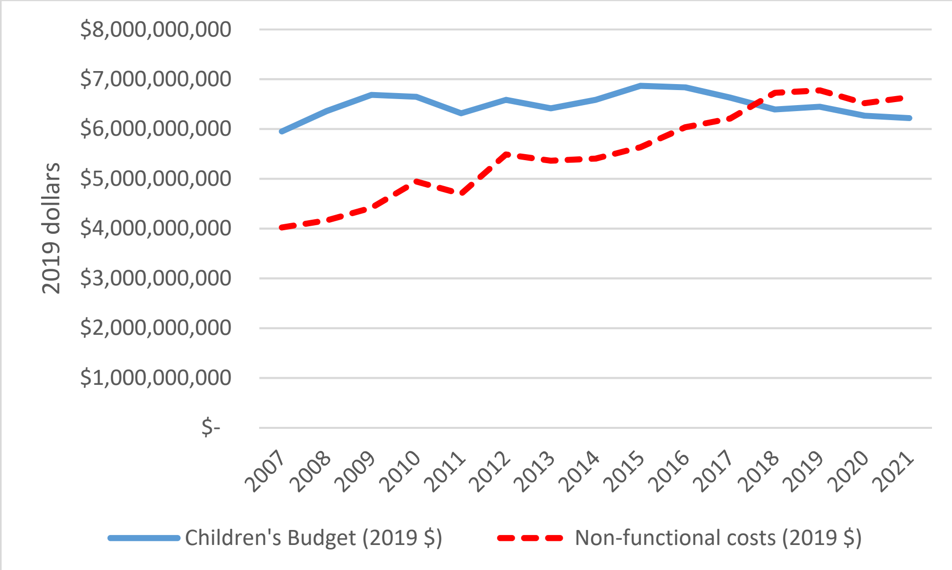
Government Transparency

Another long-term focus for Connecticut Voices for Children has been government transparency, especially with respect to fiscal matters. A very disappointing section of the budget delays the next Department of Revenue Services Tax Incidence Study, an important tool for understanding which groups of people and types of businesses bear the burden or receive the benefit of different taxes and tax breaks. By the time the next report is due in 2022, the 2014 study will be nearly a decade old[13] ($375,000; $0).

III. Children's Budget

Connecticut Voices for Children tracks a Children's Budget, our approximation of how much the state spends to support equitable opportunity for all children and families. When adjusted for inflation, the Children's Budget experiences a very small decrease. In other words, there is no appreciable change in the Children's Budget over this biennial period. (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.[14])

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



Note: Non-functional costs include Debt Services, Fringe Benefits, and payments to fund the teachers' pension system. Children's Budget and Non-Functional costs are in 2019 dollars to account for inflation.[15]

Child Welfare and Juvenile Justice

Children are most likely to thrive when they grow up in safe, stable, caring environments. Some parents are not able to provide this environment for their children, and some children have needs greater than what their parents can meet. In these cases, it becomes the state's responsibility to ensure that these children have supports in place to meet their needs and help them grow into healthy, productive adults. The behavioral health, child welfare, and juvenile justice systems in Connecticut exist to ensure the safety and well-being of these vulnerable populations of children.

The final budget for the FY 2020 and 2021 biennium provides funding to help Connecticut meet the child welfare goals laid out within the Juan F. Consent Decree, achieves efficiencies within the Department of Children and Families (DCF) through creative solutions, and fixes some problems caused by closing the Connecticut Juvenile Training School (CJTS) earlier than planned and moving juvenile justice out of DCF to the Judicial Branch. It fails, however, to fund the Judicial Branch at levels they determined necessary to create a robust continuum of care and to appropriate money for community-based preventative systems and early interventions that help divert children from involvement with the juvenile justice system.

Department of Children and Families

Since 1991, Connecticut has operated under the *Juan F.* consent decree that requires the state to provide funding and other resources necessary to achieve a set of child welfare goals laid out within the consent decree exit plan.[16] The goals remaining are foundational to protecting children from abuse and neglect—such as implementing appropriate case plans and maintaining a reasonable caseload for social workers—and meeting the needs of children in state care as they grow.[17]

After accounting for dollars shifted between departments,[iii] this budget increases funding to DCF beyond FY 2019 appropriations by $29.8 million in FY 2020 (a 3.8 percent increase) and $44.0 million in FY 2020 (a

[iii] Our calculations subtract line items transferred from other agencies including: Youth Service Bureaus, Youth Service Bureau Enhancement. It adds back line items that belonged to DCF when Connecticut Voices for Children created the Children's Budget including: Homeless Youth (now in the Department of Housing), Board and Care for Children – Short Term and Residential (now in Judicial), and Juvenile Justice Outreach Services (now in Judicial).

5.6 percent increase). While a significant portion of this increase is going toward employee wage adjustments, \$4.7 million will fund increased clinical services for children at risk of juvenile justice involvement, more social workers, and expansion of community-based programming in areas of the state where services are lacking or where there are waitlists. The budget also creates a new \$450,000 per year line item called "Youth Transition and Success Programs" to offer life-skills training for Bridgeport-area youth aged 14 years and older.[18]

DCF's budget also makes a number of creative policy and system changes to find fiscal and time efficiencies. The policy changes include creating a transportation unit with automated scheduling software, utilizing intensive care coordination within their Differential Response System; privatizing case management for the voluntary services program;[19] and expanding circumstances under which DCF must check child abuse and neglect registries for vendors, contractors, child care providers, and foster and adoptive families. This last change will help maximize Connecticut's ability to receive federal dollars under the Family First Prevention Services Act.[20]

Additionally, the final budget transfers oversight of the Youth Service Bureaus (YSBs) from SDE to DCF and funds the Juvenile Review Boards (JRBs) through DCF. The FY 2019 budget made a policy change that placed providing care for juvenile justice involved youth entirely within the Judicial Branch. As part of this shift, funding for JRBs and Local Interagency Service Teams (LISTs) was cut from the General Fund; for FY 2019, the Office of Policy and Management temporarily supported JRBs and LISTs using unused funding from other projects.[21] The policy changes regarding YSBs and JRBs within this budget not only restore and expand stable funding (allowing for the creation of two new YSBs in East Windsor and Thompson), they also reinforce that preventing entry into the juvenile justice system falls squarely within DCF's mandate.

Judicial Branch

In FY 2019, when the legislature transferred juvenile justice programs from DCF to the Judicial Branch, the legislature did not provide the Judicial Branch with enough funding to establish new community-based hardware secure facilities and to expand services to provide for the needs of the higher-risk youth who would have previously gone to CJTS. This budget increases the Juvenile Justice Outreach Services line item by \$9.4 million (88.9 percent) in FY 2020 and \$8.9 million (84 percent) in 2021. While this increase will help the Judicial Branch provide vocational services and alternative placement options to the youth in their care as well as provide funding to LISTs,[22] it is still \$800,000 below what the Judicial Branch requested in FY 2020 and \$1.3 million below what the Judicial Branch requested in FY 2021.[23] Additionally, the budget failed to provide the \$2 million per year that the Judicial Branch requested within the Juvenile Alternative Incarceration line item to be able to offer Functional Family Therapy, an intervention well suited for youths with conduct disorder and substance abuse, to families. The budget does provide the funds the Judicial Branch requested to establish hardware secure facilities through their Board and Care for Children line item, and it provides small increases to other line items that fund services to at-risk youth within their communities and funding to municipalities with initiatives to decrease youth violence.

Legislators have taken much needed steps to stabilize juvenile justice funding and fund services for justice-involved youth with high levels of need, but this budget fails to fund diversion adequately. The Juvenile Justice Policy and Oversight Committee (JJPOC) has designed a community-based diversion system that leverages the YSBs to assess the needs of youth and families, connect youth and families with appropriate community-based services, and monitor the effectiveness of these interventions. However, the budget did not provide any additional funding for this infrastructure.[24] Similarly, the JJPOC has designed a school-based diversion system expanding and adapting the School-Based Diversion Initiative to meet the needs of elementary schools and small to medium sized school districts, but the budget does not provide funding for this work.[25] Without appropriate funding for diversion services, Connecticut will not be able to build upon successes decreasing juvenile justice involvement and may result in more children cycling into the costly system of detention.

Early Childhood Education

High quality early care and education help prepare young children for academic and career success and allow parents to participate in Connecticut's workforce. Given that lawmakers labored under tight constraints to create a stable budget, this budget demonstrates that they consider early childhood care and education a priority. The appropriations, however, remain insufficient to reimburse early childhood providers and infant and toddler providers at the rates determined by the federal government to be fair and to maintain enough child care slots to meet demand.

After considering both General Fund appropriations and federal funding,[iv] the Office of Early Childhood (OEC) received a moderate $13.6 million (3.9 percent) increase in funding in FY 2020 and $18.9 million (5.5 percent) increase in funding in FY 2021. The funding increase in FY 2021 includes an additional $4.9 million (9.0 percent above FY 2020 funding) within the line item that funds the Care 4 Kids child care subsidy program. Connecticut received an additional $14.3 million in federal Child Care and Development Funding (CCDF) in FY 2018, which will support child care provider rate increases[26] to at least the 25th percentile of state market rate (a measure indicating that families utilizing Care 4 Kids certificates can access 25 percent of child care programs) to meet the CCDF requirements.[27] Currently, some preschool providers in Connecticut are reimbursed at rates as low as the seventh percentile of the state market rate and some infant and toddler providers as low as the second percentile. Parents often need to pay the difference. Raising preschool reimbursement rates to the 25th percentile will be an improvement for parents paying the difference, but it is not enough to stabilize turnover rates within Connecticut's early child care market, to combat the availability crisis in infant and toddler care, or to comply with federal market rate recommendation of rates at the 75 percentile.[28]

The budget increased Birth to Three funding by $1.4 million in FY 2020 (6.5 percent) and by $2.0 million in FY 2021 (9.4 percent); this increase was made in part by transferring one million dollars from the Department of Education.[29] Connecticut's Birth to Three program supports families whose infants and toddlers may have developmental delays or disabilities. These increases in funding allow the Birth to Three system to continue providing current services as well as to increase the caseload by 1.75 percent,[30] but funding levels remain below that of FY 2017.

This budget also increases the "Early Care and Education" line item funding by $26.3 million (25.9 percent) in FY 2020 and $29.0 million (28.6 percent) in FY 2021. This line item supports the state's largest early child care and education programs: School Readiness preschool programs and state-funded Child Day Care Centers.[31] The additional funding in FY 2021 provides a $100 increase in the full-day reimbursement rate for children supported by these funds, bringing the rate up to $9,027 per child per year. Additionally, the budget specifies that the per child rate provided to centers serving disadvantaged children above the FY 2019 contract per child rate levels must be used to increase early childhood educator pay.[32] Presently, wages for early childhood educators are unsustainably low. When these educators receive their Bachelor's degrees, many transition into the K-12 system, where they are able to earn more money.[33] This budget makes steps toward increasing pay for early childhood educators, and further steps are needed prior to 2025, when 50 percent of early childhood educators must hold a bachelor's degree.[34]

[iv] This budget separates CCDF funding from appropriated funding to improve transparency regarding state funding matches. The Governor's Budget reports moving $67,982,218 from the TANF/CCDBG Child Care Services line item into the Federal and Other Restricted Accounts line item in FY 2020, and moving $53,626,128 in FY 2021; the final budget reflects having moved Care 4 Kids funding out of the General Fund and into the Federal Account.

K-12 Education

Connecticut prides itself on having one of the best public education systems in the country.[35] However deep racial and socioeconomic disparities exist in both access to high-quality educational opportunities and academic outcomes.[36, 37] Disparities in distribution of funding and in the availability of educational services mean that children with the highest needs fall behind grade-level standards.

Both the Governor's budget proposal and the Appropriations Committee budget proposal attempted to maintain funding within line items distributed to schools. To do this, they cut small programs that provide important services to children and young people who need extra educational support. The final budget maintains FY 2019 funding levels for many of these programs. After accounting for the transfer of Youth Service Bureaus to DCF, this budget increases the Department of Education's (SDE) funding by $60.7 million (2.0 percent) in FY 2020 and $112.2 million (3.8 percent) in FY 2021.

These increases spread across a number of line items, and a significant portion of the line item growth is to provide for wage increases. However, growth in line items relating to schools of choice (charter schools, local charters schools, open choice programs, and magnet schools) allows for 1,260 more students to enroll in schools of choice in FY 2020 and 1,200 more students in FY 2021 ($5,425,891 in FY 2020 and $11,659,136 in FY 2021).[38] Additionally, the budget provides $6 million each year for a 2 percent increase to all statutory per pupil magnet school grant amounts.[39] It provides $1.2 million (8.7 percent) of additional funds to the Vocational Agricultural choice schools in FY 2020 and $1.4 million (9.9 percent) in FY 2021 to reflect increases in per pupil grants to the statutory level of $4,200.[40]

Current law calls for the legislature to increase Education Cost Sharing (ECS) funding each year through FY 2028 to achieve full funding levels. It also calls for phasing in use of the ECS formula to distribute funding, which will result in a gradual increase in funding to towns under-funded by the formula through FY 2028, paired with a gradual reduction in funding to towns considered over-funded.[41] This budget calculates ECS allocations using updated student and town data. It uses Free and Reduced Price Lunch counts to identify low-income students, which may overestimate the number of low-income students.[42] Using these data results in the legislature increasing the Education Equalization Grant line item by $37.6 million in FY 2020 (1.9 percent) and by $76.0 million in FY 2021 (3.8 percent).

Additionally, this budget maintains funding for a number of small—but important—programs that the earlier budget proposals of the Governor and the Appropriations Committee cut. These programs, which were funded at FY 2019 levels, include Leadership, Education, and Athletics in Partnership (LEAP), Connecticut Writing Project, Bridges to Success, and the Parent Trust Fund Program.[v] The programs expand opportunities within some of Connecticut's highest-need districts, but the funding levels remain below levels needed to maintain current levels of service.[43]

Finally, Connecticut billionaire Ray Dalio and his wife pledged a $100 million investment in Connecticut's public schools, to be matched with state dollars over a five-year period. The budget bill specifies that the new entity that will oversee this initiative—the "Partnership for Connecticut, Inc."—must not be construed as a public entity and that it will not perform any "governmental function[s]."[44] This language raises questions about transparency and accountability, as it appears to exempt the corporation from the Freedom of Information Act, the State Ethics Code and the State's contracting standards, even with regard to its

[v] Leadership, Education, and Athletics in Partnership (LEAP) is a mentoring program in high poverty neighborhoods of New Haven. The Connecticut Writing Project provides professional development opportunities to teachers and students in the areas of reading and writing. Bridges to Success supports high-school students transitioning to college. The Parent Trust Fund Program trains parents in civic leadership skills. Bridges to Success sustained a $112,490 cut in FY 2017 (81 percent) that has not been restored. Unfortunately, the budget did not restore funding to the Young Parents Program that supports teenage parents continuing their education.

expenditure of public funds generated through state taxes.[45] Given the vast, systemic disparities in Connecticut educational resources, it is important for the Partnership for Connecticut, Inc. to be held to rigorous standards of reporting on allocations, efficiency, and effectiveness.

Health

For children to have the opportunity to succeed, they need access to preventive care, and behavioral, oral, and medical health services. Access to affordable and comprehensive health care means 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.

A modest increase in the income limit for parents and caregivers to be eligible for HUSKY A (Medicaid for pregnant women, parents/caregivers, and children) means that Connecticut is inching closer to aligning income eligibility levels for parent and children again. In 2015, the legislature reduced parent eligibility from 201 percent of the federal poverty level (FPL) to 155 percent FPL. In this budget, the limit for parents was slightly restored from 155 percent FPL—or $39,912 per year for a family of four—to 160 percent FPL—$41,200 for a family of four. This restoration is effective October 1, 2019. Children are eligible for HUSKY A when their family income is below 201 percent FPL. Aligning eligibility limits eliminates confusion about which members of a family have health insurance and increases the number of insured parents in the state. Covering parents is good policy for children, both because they have healthier families and because they are more likely to receive the healthcare they need.[46]

Further, the budget bill passed by the Connecticut General Assembly includes a certification process for Community Health Workers (CHWs) and funding to ensure that the Department of Public Health has adequate staffing to implement this and other new licensing and certification requirements. CHWs can improve health equity by meeting people where they live, work, and play and connecting them with resources and information in a way that is culturally appropriate, accessible, and acknowledges social, cultural, and economic barriers to health.[47]

Unfortunately, the budget bill eliminates two new school-based health centers that were planned but not yet opened. Such centers make health care, particularly behavioral health services, more accessible for students by removing barriers related to stigma and transportation.[48]

Finally, this biennial budget also includes provisions to:

- align newborn screening with national recommendations;
- improve access to mammography;
- reduce hospital readmission rates for adults;
- establish a pilot program to build the capacity of community-based providers of human services that serve the state's Hispanic populations and people of color; and
- establish a Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Health and Human Services Network to make recommendations on improving access to health and social services for the state's LGBTQ population.

IV. Conclusion

Connecticut Voices for Children believes that our state can do better. While this budget avoids dramatic cuts to investments in our children and families, it fails to take the bold steps that will create pathways for all of our children to reach their full potential and participate in growing our economy now and for the future. Also disappointing is the failure once again to address our upside down revenue system, in which lower-income taxpayers pay a larger share of their income in state and local taxes than those who can afford to pay more— and indeed in many cases, to pay much more. Connecticut ranked third for most millionaires per capita in the country in 2018, with 7.75 percent of households holding millionaire status.[49] And Connecticut is home to 17 billionaires, according to Forbes' 33rd annual ranking of the world's billionaires.[50]

We appreciate that this budget includes important steps that address longstanding structural problems and a considerable projected deficit for the biennium. As the state finds itself on a more stable footing, we urge the Governor and lawmakers to establish Connecticut as the leader it has the capacity to be in supporting the health, education and well-being of its children and families through a fair and adequate system of taxation.

Appendix: Highlights of Projected Revenues

Organized from highest to lowest projected revenue, combined over the biennium

Sections	Adjustment	FY20	FY21
356	Maintain Hospital User Fee at FY 2019 level of $900 million	516	516
1	Appropriations	181.5	275.9
82-85	Establishes the Teachers' Retirement Fund Bonds Special Capital Reserve Fund (TRF-SCRF)	380.9	0
86-90	Makes changes to the actuarial funding methodology and benefit design of the Teachers' Retirement System	183.4	189.4
317,318	Adjust the diversion of the motor vehicles sales tax from the GF to the STF	58.2	113.4
323,324	Impose a 1 percent Prepared Foods Tax	48.3	65.8
335	Reflect future income tax credits against the residential real estate rate increase	53	53
333,334	Reduce Personal Income Tax credit for Pass-Through Entity Taxes paid	50	50
341-342,343	Adjust the corporate surcharge	60	37.5
319-322	Increase the Sales Tax on Digital Downloads from 1.0 percent to 6.35 percent	27.5	37.1
349	Reduce cap on R&D and URA tax credits to 50.01 percent	34.4	21.5
355	Surcharge of 10 cents on Certain Bags	27.7	26.8
368	Increase Fees per report by OPM	0	50
325, 326	Expand the Sales Tax to include Parking, Dry-Cleaning, Laundry Services, and Interior Design Services	11.8	24.4
183-189	Establishes the Partnership for Connecticut Inc. for the purpose of strengthening, public education and other philanthropic goals.	20	0
332-334	Adjust the (Personal Income Tax) exemption cap for teachers' pensions	8	8
344-346	Increase annual filing fee for LLC's and LLP's	0	12
352,353	Increase Excise Tax on Alcohol	4.8	5.2
337	Increase the rate on certain residential real estate	0	6.3
373	Fund start-up costs for the Paid Family and Medical Leave	5.1	0
351	Recognize Increase in Sales Tax due to E-Cigarettes Excise Tax	2	2.7
327,328	Lower the threshold for collection of online retail Sales Tax	1.5	2
92	Delays, until February 15, 2022, the statutory requirement for the Department of Revenue Services to produce a biennial Tax Incidence Report	375,000	0
105-143	Merges the responsibilities of the two existing legislative commissions into one new commission, the Commission on Women, Children, Seniors, Equity, and Opportunity	200,000	164,000
338,339	Repeal the business entity tax of $250	0	-44

[1] See "Connecticut's Radical New Budget Rules: Locking in Decreased Investment in our State for the Next Decade," Connecticut Voices for Children, March 2019, http://www.ctvoices.org/publications/connecticuts-radical-new-budget-rules-locking-decreased-investment-our-state-next-decade

[2] Spending in each year of the biennium is just below the amount allowed under the spending cap: $0.2 million under the cap in FY 2020 and $5 million under the cap in FY 2021. The FY 2020 General Fund appropriation of $19.32 billion reflects a growth rate of 1.7 percent over FY 2019 appropriations. The FY 2021 General Fund appropriation of $19.98 billion reflects a growth rate of 3.4 percent over the FY 2020 appropriation. https://www.cga.ct.gov/2019/FN/pdf/2019HB-07424-R01-FN.pdf

[3] https://www.osc.ct.gov/reports/monthly/2019/LetterJune3.htm

[4] "Fiscal Accountability Report, FY 19 – FY 22," Office of Fiscal Analysis, November 15, 2018, https://www.cga.ct.gov/ofa/Documents/year/FF/2019FF-20181115_Fiscal%20Accountability%20Report%20FY%2019%20-%20FY%2022.pdf

[5] See "Modernizing the Sales Tax," Connecticut Voices for Children, http://www.ctvoices.org/sites/default/files/Modernizing%20the%20sales%20tax.pdf

[6] This brings the cap on these two credits in line with the cap on other corporation business tax credits.

[7] PTEs include S-corporations, Limited Liability Partnerships, and Limited Liability Corporations.

[8] Eligibility remains limited to people who are age 65 or older before the end of the tax year or who validly claim at least one dependent on their federal income tax return for that year. This credit applies to taxes paid on a primary residence or motor vehicle and the credit declines as adjusted gross income increases until it completely phases out.

[9] Sellers of properties that exceed $2.5 million can fully recoup the tax paid at the new 2.25 percent rate if they remain in Connecticut for 6 years through a credit against their Connecticut income tax phased in over 3 years and beginning in the third tax year after paying the conveyance tax. Unused portions of the credit can be carried forward for six successive tax years. (The conveyance tax credit would be in lieu of property tax credit paid.) Sellers who stay in Connecticut and recoup the tax paid at 2.5 percent are likely to end up paying less tax than they otherwise would have under the original tax structure. This is because they would not have received any tax credit for their payment at 1.25 percent, but will recoup the full 2.5 percent tax paid.

[10] The budget also carries forward $160,000 of surplus funds from FY 2019 to be made available in both years of the biennium as part of the settlement of pending litigation between the state and the hospitals; it also adds $30M in FY 2020 (sec. 50 (b)) ($-30M; $0).

[11] Regarding the additional costs of the extended amortization schedule, see https://ctmirror.org/2019/05/16/lamonts-pension-shift-would-leave-cts-children-deep-in-debt/

[12] In order to allow the funding methodology changes, the budget also establishes a "Teachers' Retirement Fund Bonds Special Capital Reserve Fund" and appropriates $380.9M in FY 2019 to be deposited in that Fund. The purpose of the Fund is to provide adequate protection for holders of pension obligation bonds issued in 2008 in light of the accompanying changes in the actuarial funding methodology and benefit design of the Teachers' Retirement System (secs. 82-85) ($380.9M from 2019 surplus).

[13] https://portal.ct.gov/-/media/DRS/Research/DRSTaxIncidenceReport2014pdf.pdf?la=en; See also sec. 183-189 of the budget that establish the Partnership for Connecticut, Inc. and exempts it from the Freedom of Information Act and other government accountability statutes.

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[28] *Ibid.*
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[50] The ranking includes 2,153 people who have a combined wealth of $8.7 trillion. https://patch.com/connecticut/greenwich/17-ct-residents-made-forbes-2019-world-billionaires-list