

Connecticut’s Declining Children’s Budget

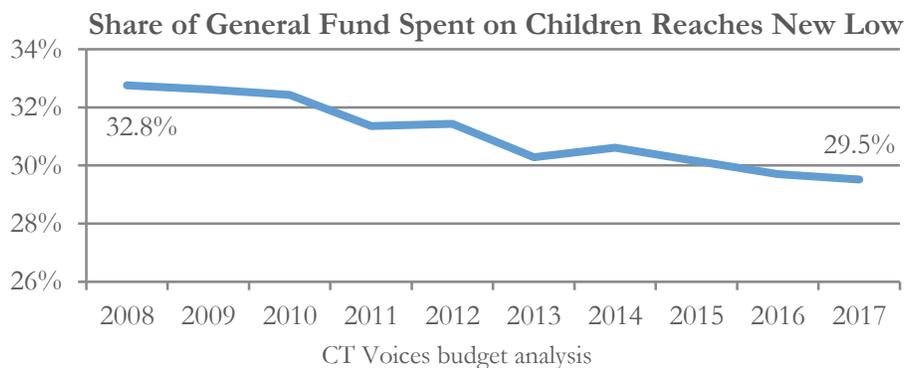
Total spending devoted to children lowest on record

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Connecticut’s high quality of life, its world-class workforce, and its rich economy are the result of long-standing investments in children and families. Thanks to bipartisan policies in health, education and family support, our state enjoys one of the nation’s lowest rates of child poverty and among the highest rates for both children’s health insurance coverage and college graduation. Smart policy choices have helped create a highly prepared and productive workforce and have attracted a large share of jobs that pay family-sustaining wages. Recently, however, many of these policies have been placed in jeopardy due to the twin fiscal challenges of the Great Recession and the present day costs of past poor budgeting practices.

To assess changes in state support over time, our “Children’s Budget” tracks state investments in programs and services that directly impact children, such as early care, K-12 education, health care, and related health and human services.¹ We find that in the current fiscal year (FY 2017), following a cuts-only approach to last year’s budget deficits, **the Children’s Budget fell to a record low 29.5 percent** of General Fund spending. Last year’s cuts fell most heavily on investments in K-12 education, early care, and programs that serve as alternative to youth incarceration.



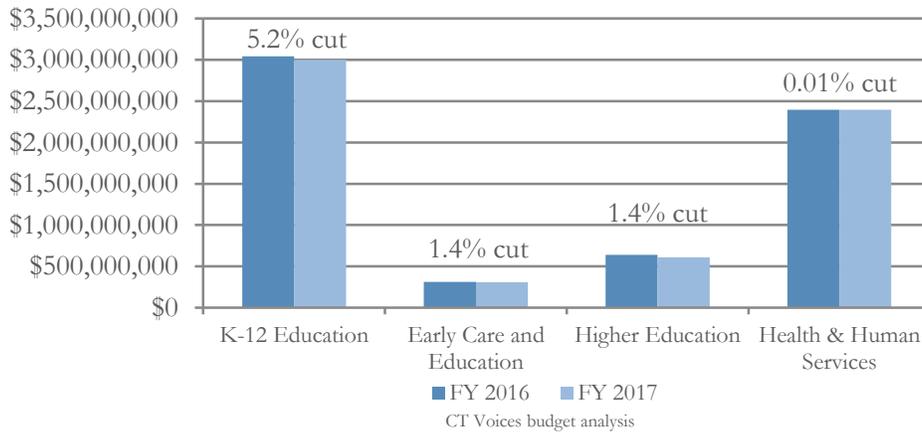
Looking ahead to the coming legislative session, the budget promises to pose new challenges as projected deficits climb to more than \$3 billion. Legacy bills are coming due while revenue collections are weak and demand for services high. Reactive cuts today, however, can lead to costs tomorrow; lawmakers should be careful to protect and improve investments in child and family well-being and avoid last year’s cuts-only approach.

¹ Visit our online visualization to assess appropriations over time, and to compare spending on children to other parts of the budget: <https://public.tableau.com/profile/connecticut.voices.for.children#!/>

LATEST ROUND OF CUTS TO THE CHILDREN'S BUDGET

From FY 2016 to FY 2017, the Governor and the Legislature reduced the Children's Budget by \$81.2 million (1.3 percent). Among the four components of the Children's Budget, higher education experienced the largest percentage point decline and K-12 education experienced the largest cut in absolute dollars.

Cuts to Children's Budget Last Year Equal \$82.1 Million
FY 2016 and FY 2017 Children's Budget Spending



- Higher Education:** The \$33.5 million cut to higher education represents the largest percentage point decline of the four components, driven by cuts to the University of Connecticut and Connecticut State University system. Ultimately, reducing the state's investment in higher education increases the burden on students to pay for higher education costs.
- K-12 Education:** K-12 education experienced the largest dollar-for-dollar cut of \$41 million, driven by (1) the elimination of Transportation of School Children, which aided districts in promoting safe transportation of school children, and (2) cuts to Education Equalization Grants, which improve the equity of school funding across district lines.
- Early Care and Education:** The total early care and education budget was cut by \$4.3 million, driven by cuts to the Birth to Three program, which supports families with infants and toddlers who have delays or disabilities. At the same time, new federal requirements meant to improve the quality of early care, coupled with the lack of new dollars, created a \$6 million shortage in the Care 4 Kids program, which subsidizes childcare for low-income working families.
- Health and Human Services:** Cuts to health and human services worth \$1.4 million (0.1 percent) were driven by (1) reductions in Department of Children and Families personnel, which translates into an overwhelming workload issues, and (2) cuts to the Juvenile Alternative Incarceration program, a therapeutic program that has proven to reduce criminal recidivism and decrease the population of people who become incarcerated.

Top 15 Dollar-for-Dollar Cuts to the Children’s Budget—FY 2016 to FY 2017

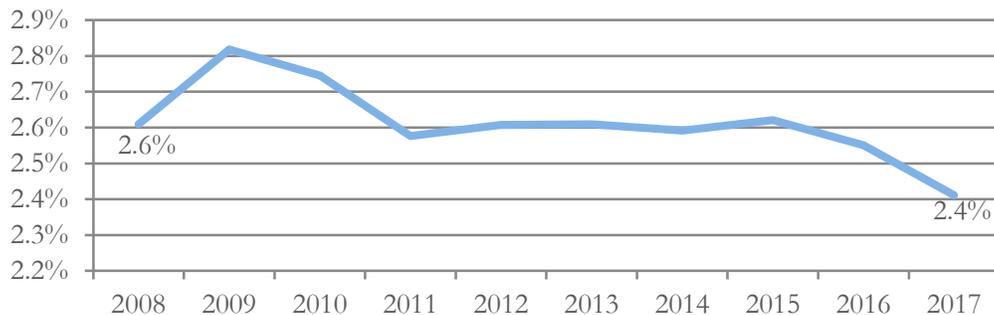
Category	Program	Amount Cut
K-12	Transportation of School Children	-\$22,336,353
K-12	Education Equalization Grants	-\$15,666,899
Higher-Ed	Connecticut State University	-\$13,454,053
Higher-Ed	University of Connecticut	-\$9,747,484
Human Services	Juvenile Alternative Incarceration	-\$7,125,349
ECE	Birth to Three/Early Intervention	-\$6,984,070
K-12	Magnet Schools	-\$5,665,134
Higher-Ed	Office of Higher Education	-\$5,508,226
Human Services	Personnel Services (DCF)	-\$4,762,828
K-12	Excess Cost - Student Based	-\$4,287,828
K-12	Regional Vocational-Technical School System	-\$4,158,434
HHS	Youthful Offender Services	-\$3,781,743
Higher-Ed	Community Technical Colleges System	-\$3,719,182
Human Services	Board and Care for Children - Residential	-\$2,210,326
ECE	TANF/CCDBG Child Care Services	-\$1,699,998

CT Voices budget analysis. Charter School funding (\$107.5 million) was separated from Education Equalization Grants in 2017, resulting in a cut of \$25.6 million. According to OPM, \$10 million from the Municipal Revenue Sharing Grant is supplementing EEQ, resulting in a net cut of \$15,666,899. Cuts to UConn and the Office of Higher Education are driven by cuts to operating expenses and to the Governor's Scholarship program, respectively.

CHILDREN’S BUDGET SHRINKING AS A SHARE OF ECONOMY

In absolute dollars, investments in the Children’s Budget increased since FY 2008 by a modest 4.5 percent, or \$269.1 million (in 2017 dollars), 90 percent of which was a result of additional investments in early care and K-12 education. However, because other areas of the budget grew faster in the same time period, the share spent on children declined as a share of total General Fund spending (from 32.8 to 29.5 percent, as mentioned previously). Moreover, as shown below, investments in children have declined as a share of the state’s total economy. That is, Connecticut is dedicating a smaller share of its resources to its children.

Children's Budget Spending Shrinking as a Share of the Economy

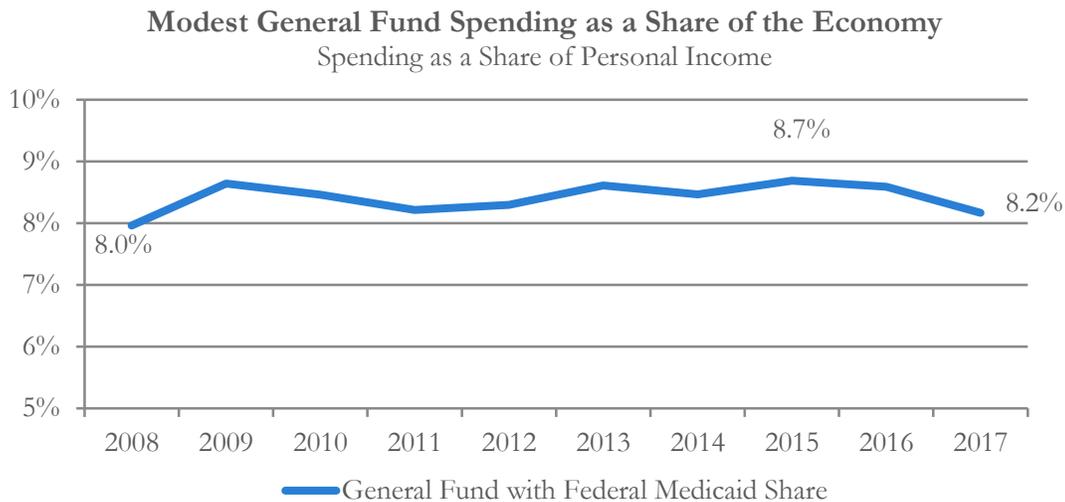


CT Voices budget analysis. BEA Total Personal Income, 2008 – 2016. 2017 based on OPM estimates

ALL REVENUE AND SPENDING DECLINING AS A SHARE OF ECONOMY

Many of the changes to the Children’s Budget since 2010 reflect cuts made to meet balanced budget requirements and slower-than-projected growth in revenues.

While total General Fund spending grew by \$2.9 billion from 2008 to 2017 (in 2017 dollars), the state’s economy grew nearly as fast, which means that state spending has increased only slightly as a share of total resources.² Looking only at the last two years, total General Fund spending has declined by a half percentage point since 2015.³



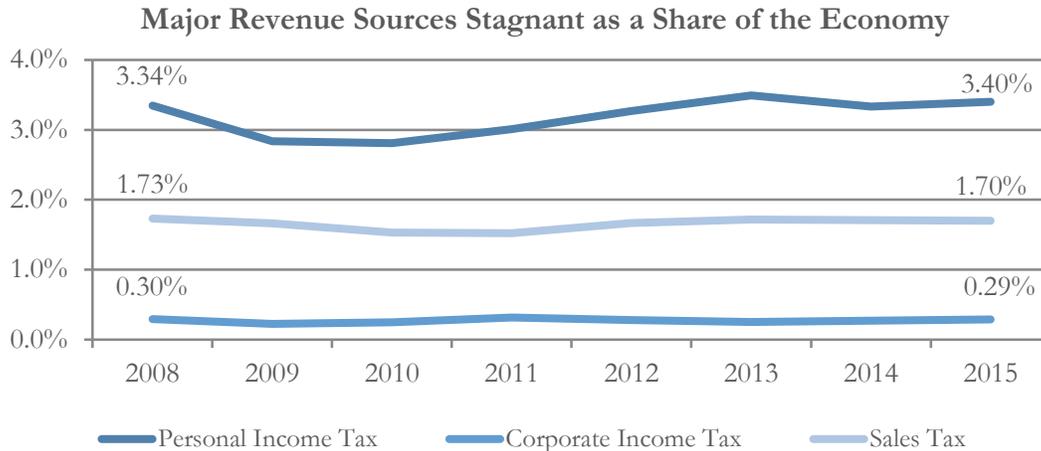
CT Voices budget analysis. BEA Total Personal Income, 2008 – 2016. 2017 based on OPM estimates.

The decline in state revenue reflects policy choices as well as economic factors. Our tax code does not align with the sources of revenue in a modern economy. Indeed, since 2008, while total state tax collections have increased by approximately \$877 million, the ratio of tax collections to personal income – a measure of ability to pay those taxes – has declined, from 6.81 percent in 2008 to 6.77 percent in 2015. The chart below reflects the stagnation of major revenue sources as a share of the economy.⁴

² Measuring revenue and spending relative to personal income shows the relative burden of state and local taxes on state taxpayers and the relative effort states are making to fund public programs

³ When the federal Medicaid share is excluded – leaving the part of the budget that state lawmakers have control over and reflecting taxpayer responsibility – the total General Fund has declined by more than a half percentage point over the last three years.

⁴ From 2001, the sales tax decreased from nearly a third (31.9%) of total general fund revenue to a quarter (25.2%) in 2015. Income tax collections on corporate profits have dropped from 13.2% of general fund revenues in 1991 (when the individual income tax was enacted) to less than 4% of overall tax collections in 2015—significantly less than NY (6%) and MA (9%) due to growth in business tax credits and sophisticated corporate tax avoidance strategies.



CT Voices budget analysis. BEA Total Personal Income, 2008 – 2016. 2017 based on OPM estimates

RECOMMENDATIONS

Under a scenario without new revenue in which discretionary spending is reduced by 10 percent, the Children’s Budget would experience a painful cut of more than \$631 million in FY 18. To avoid exacerbating the shrinking share of our resources spent on children, lawmakers should adopt a balanced-budget approach that invests in the future of the state by modernizing and strengthening our tax code and increasing accountability and transparency.

Ensure Transparency of Business Tax Breaks: Bipartisan legislation in 2016 called for stronger review of the hundreds of millions of dollars spent on business tax breaks, but ultimately failed to become law. Without regular review to ensure these tax breaks are achieving their desired goal, they may become a permanent cost to the state even when changing economic conditions would suggest that they should be modified or repealed. Just like spending on education, infrastructure, and social services, business tax breaks should be subject to public debate.

Avoid a Cuts Only Approach to the State Budget: In confronting budget deficits in the upcoming biennial budget, the common-sense choice for Connecticut should be a balanced approach that includes revenue, rather than an austerity frame that threatens an already fragile recovery. Our Revenue Options brief lays out more than a dozen opportunities to invest in Connecticut’s future by modernizing an outdated sales tax system, strengthening taxes on corporations, and reforming wealth and income taxes.

A Menu of Revenue Options

Modernize Outdated Sales Tax	Apply sales tax to services	\$0.73 to \$1.5 billion
	Collect a larger share of taxes due on internet sales	\$65 to \$75 million
	Apply the sales tax to digital downloads	\$7 to \$11 million
Reform Wealth and Income Taxes	Increase personal income tax a half percentage point for top 1%	\$238 million
	Increases rates on dividends and capital gains	\$134.6 million
	Repatriation of deferred management fees	To be determined
	Join regional compact to close carried interest loophole	\$535 million
	Improve enforcement of existing tax laws	\$40 million
Strengthen Corporate Income Tax	Adopt throwback rule to eliminate “nowhere income”	\$12 to \$25 million
	Eliminate the corporate income tax capital base system and replace with a value-added tax as an alternative minimum tax*	To be determined
	Renew efforts to regularly review business tax breaks*	To be determined
Support Programs	Enact sweetened beverage tax	\$85 to \$141 million
	Institute a low-wage employer fee	\$305 million

See our ‘Revenue Options are Key to Successfully Addressing Budget Shortfalls and Supporting Thriving Communities’ brief here: http://www.ctvoices.org/sites/default/files/Revenue%20Options%202017_0.pdf

Restore Current Services: Current services estimates – a budgeting best practice that helps us account for routine changes like inflation and caseload adjustments – are no longer used when crafting budgets.⁵ Under current services, state officials use the previous year’s spending as a baseline. Then, policymakers adjust that spending for how much it will cost to provide the same level of services in the new year, given changes in the population served or cost increases. Preparing a current services budget is a recognized best practice that assures transparency and accountability.⁶

Spending Cap: In 1991, Connecticut enacted a three part Constitutional Amendment intended to support fiscal health by mandating a balanced budget, creating a spending cap and requiring the creation of a rainy day fund. The spending cap, intended to prevent uncontrolled growth in government spending, has resulted in a significant decrease in the rate of growth in the budget. Prior to the passage of the Amendment, state spending increased an average of 10.8% per year between FY 1987 and FY 1991 and an average of 9.6% over the longer time period of FY 1979 to FY 1993.⁷ Since passage of the Amendment, from FY 1992 to FY 2017, total capped growth averaged 4.19%.⁸ Recently, the legislature has been focused on better defining the terms of the spending cap; in so doing, the Legislature should be careful to avoid an overly broad cap that would limit their the ability to make the very kinds of essential investments necessary to assure the state’s economic and social health.

⁵ McNichol, Elizabeth. Palacios, Vincent. Johnson, Nicholas. CBPP. *Budgeting for the Future: Fiscal Planning Tools Can Show the Way*. February 2014: <http://www.cbpp.org/research/state-budget-and-tax/budgeting-for-the-future-fiscal-planning-tools-can-show-the-way>

⁶ See Governing Magazine on Connecticut’s decision to “hinder transparency” in ‘Bad Budget News? Some States Just Bury It: <http://www.governing.com/topics/finance/gov-kansas-connecticut-budget-news.html>

⁷ Geballe, Shelley, *Coping with the Cap: A Primer on Connecticut’s State Spending Cap and Its Impacts*, 2007: <http://www.ctvoices.org/sites/default/files/bud07spendingcap.pdf>

⁸ OPM, History of Spending Cap, Presentation to the Spending Cap Commission, August 2016: https://www.cga.ct.gov/app/tfs/20160330_Spending%20Cap%20Commission/20160815/History%20of%20Spending%20Cap%20from%20OPM%20-%20Updated%20for%20FY%202017.pdf