FISCAL POLICY CENTER

At Connecticut Voices for Children

Introducing the Children's Budget: Part II of the Shifting Priorities Series

Wade Gibson, J.D.

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I. Introduction

At the core of Connecticut's economy is an exchange among generations. Each generation invests in its children, with the expectation that those children will prosper and take care of it in old age. In centuries past, multiple generations lived under one roof, each taking turns to take care of one another. Yet as we moved off the farm and into the thriving cities of the Industrial Revolution, these tight bonds loosened: families dispersed and many people were left on their own in old age. In response, Connecticut and the Nation committed some of our newfound prosperity so that our elders, newly distant, were taken care of: we created such programs as Social Security and Medicare, public pensions and property tax circuit breakers to sustain the generational exchange.

Once again, large changes threaten the continuity of this exchange. First, the surge in birth rates following the Second World War has now—65 years later—created a disproportionately large number of new retirees, especially in slow-growing, fast-aging states like Connecticut. Second, the replacement of old-line manufacturing jobs that could support a whole family on one income by service jobs that can scarcely support one person has dimmed the prospects of young workers and families. Third, the shift of risk from companies offering stable jobs and secure retirements to families struggling to provide dependable incomes on their own has strained even those who play by the rules and check all the right boxes. Just as a prosperous new generation of adults is needed to support Baby Boomers in retirement, prospects for Connecticut's rising workforce have deteriorated.

For Connecticut to sustain the generational exchange, it must maintain key systems like public education that prepare our young people to thrive in a rapidly changing world. One would expect a state like Connecticut to invest heavily in these systems, and to invest even more as child poverty has risen, the achievement gap has widened, and job prospects for young people have worsened. Yet, the opposite is true. Over the past two decades, Connecticut has committed less and less of its state budget—where its priorities are made manifest—to public services for young people. In fiscal year (FY) 1992, 26% of the budget went to education; today that figure is down almost a third. Health and human services for young people have similarly declined: the sum of education, health, and human services fell from 40% to 30% over the same period.[1] The past two decades have seen a shift in public priorities away from young people, resulting in higher college tuitions, fewer preschool slots, and weaker family supports.

As we have done in the past, Connecticut must adjust its public policies to preserve the generational exchange. That will mean budgeting for young people *first* in the state budget. Too often, higher education, childcare, and family supports are among the first to be cut or flat-funded when money runs short—even though these programs benefit all of us by sustaining the exchange among generations. To aid in this reprioritization, Voices has produced an easily accessible "Children's Budget," which we will track each year as state budgets are proposed, debated, and enacted.

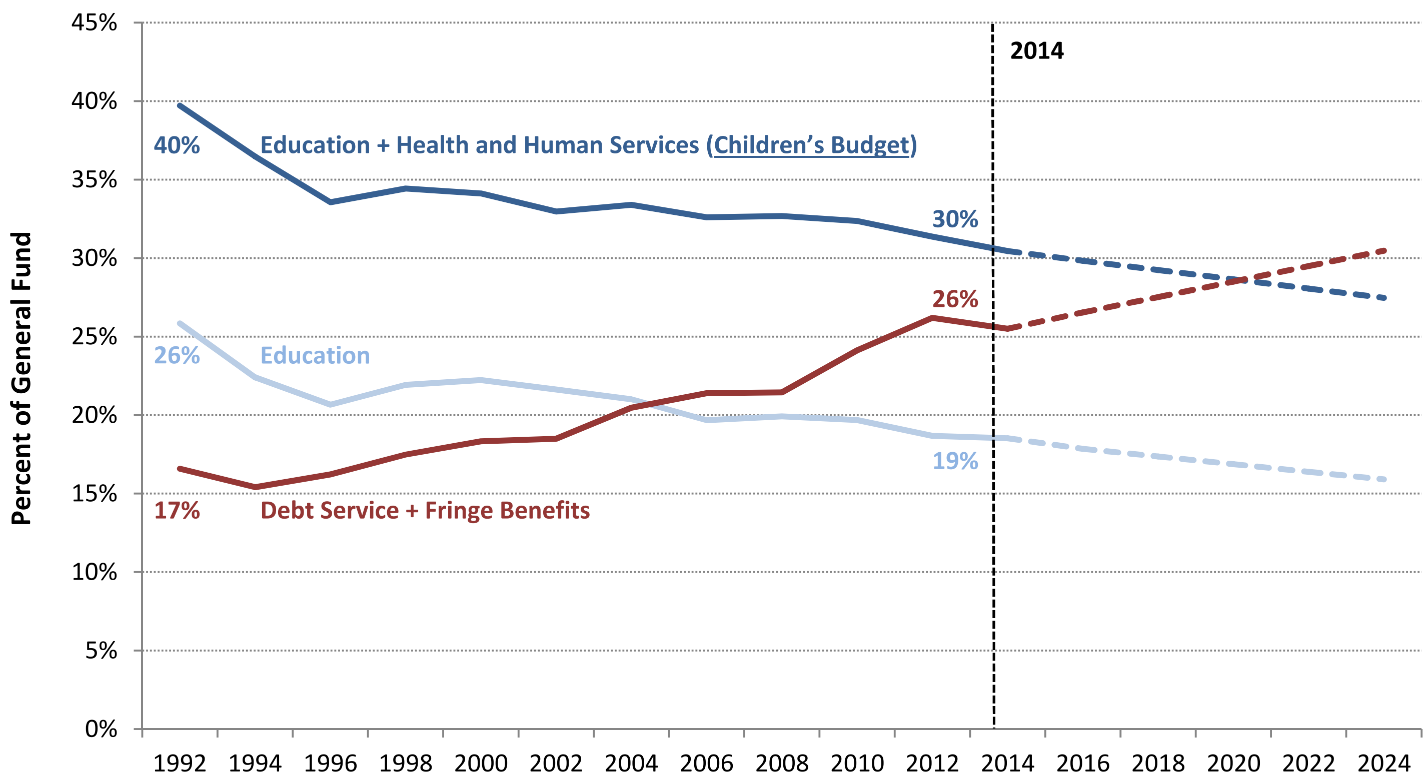
[1] Analysis here, and throughout the report, is based on Office of Fiscal Analysis (OFA) budget books.

Through this Budget, policymakers and citizens can determine where Connecticut's children—and the generational exchange—stand among the state's priorities. Soon after the initial release of the Children's Budget, Voices will publish two additional reports: one, an in-depth analysis of the state's revenue system that maps the areas where Connecticut can competitively raise revenue to fund investments in young people; another, a proposal to make children visible in the state income tax by adding a child or dependent care credit, features Connecticut is virtually alone in lacking. Altogether, these three reports propose solutions on the expenditure, revenue, and tax expenditure sides of the budget to begin shifting Connecticut's fiscal priorities back to its future.

II. A Steady Shift away from Young People

Over the past two decades, spending on education and children's health and human services (the "Children's Budget" defined in the next section) has declined steadily.[2] Once over a quarter of the General Fund, education is now closer to a sixth; once 40% of the budget, the combination of education, health, and human services now comprises 30%.[3] This decline has been consistent across the past 22 budgets. Should it continue at roughly the same pace, education will constitute about a seventh of the budget in a decade (down from a fourth), while the Children's Budget will comprise closer to a fourth (down from two fifths).[4]

Figure 1. Children's Budget Declines as Percent of the General Fund
Source: OFA Budget Books FY 1992-2014



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2 There has not been an appreciable decline in the proportion of Connecticut's population that is young that could explain this budgetary decline. According to the U.S. Census, in 1990 33.5% of the state's population was 24 and under; in 2010 32.0% of the population was. School enrollment has been comparably constant, with public colleges seeing enrollment increase through 2010 and public K-12 schools seeing enrollment increase through the late 2000s, after which it began a slow decline (~1% per year).
3 Analysis of OFA budget books.
4 This projection assumes the previous 22 years' trend continues for another 10 years, which is not guaranteed. The projection is meant to illustrate the effect of continuing our present course.

As we have described in our "Shifting Priorities" series and elsewhere, the state budget has held constant as a share of the economy over the past two decades.[5] As a share of this relatively fixed pie, spending on education and human services has fallen substantially, while spending on debt service, healthcare, and pensions has risen rapidly. If the cost of meeting past obligations to debt holders and public employees constituted the same share of the budget it did in FY 1992, the state would save $1.78 billion in FY 2014, the same amount by which education would rise if we budgeted today like we did in 1992.[6]

Rising health costs—a great national problem—and substantial borrowing—both bonds issued and pension promises underfunded—have produced a large increase in the cost of meeting past obligations, funds that otherwise could reverse the decline in children's spending. In 2011, Governor Malloy and the state's public employee unions reached a deal that sought to produce significant healthcare savings.[7] Connecticut, though, is now significantly boosting pension contributions to reverse the effects of decades of underfunding;[8] as a result, spending on past obligations may continue to rise quickly, despite concerted efforts by Governor Malloy and public employee unions.

While it is crucial the state continue to meet past obligations, it is equally important that Connecticut address the underfunding of investments in our future—that is, investments in children that sustain the generational exchange. Just as decades of underfunding the pension system shifted a large burden onto future generations, so too does decades of underfunding the Children's Budget burden future workers with diminished life prospects, and future governments with higher costs and lower revenues. Because investments in children improve lives, raise incomes, and avoid costs from childhood on through adulthood, they often generate impressive returns. A dollar spent now can make ten down the road.

Investing in children primes them for future success. Preschool programs for disadvantaged students have been shown to be particularly effective, generating annual returns of 16% or higher;[9] the median worker with a college degree earns 84% more than the median worker with only a high school education.[10] Child poverty, meanwhile, is an epidemic whose avoidance can save billions. It has been linked to a host of negative outcomes such as higher rates of asthma, obesity, and crime,[11] as well as lower test scores,[12] graduation rates, and earnings.[13] Absent effective intervention, child poverty is self-perpetuating: nearly half of those who were poor for at least half of childhood remain poor as adults.[14] Little surprise, then, that child poverty costs the United States $500 billion annually.[15] This figure encompasses the billions lost to the associated costs of crime, to increased health expenditures, and to foregone productivity. Yet, even this massive economic sum understates the toll of poverty on family strength, community cohesion, and democratic governance, and it says nothing about the sustainability of our generational exchange. The problem of underfunding the future looms larger still.

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[5] See, e.g., Wade Gibson, *Taking Stock: Four Decades of State Revenues, Expenditures, and Deficits,* Connecticut Voices for Children, January 2012; Matthew Santacroce and Wade Gibson, *Shifting Priorities: Trends in State Appropriations, 1992-2012,* Connecticut Voices for Children, October 2012.

[6] Analysis based on General Fund percent shares and dollar figures in OFA budget books.

[7] Office of the State Comptroller, "Gov. Malloy and Comptroller Lembo Announce $13.3 Billion Reduction in Retiree Health Care Liabilities," May 17, 2012.

[8] State employee and teacher pension contributions increased to $1.9 billion in FY 2014, up from just $540 million a decade earlier. After decades of underfunding public pensions, the state has rightly turned to funding these promises.

[9] James Heckman and Dimitriy Masterov, "The Productivity Argument for Investing in Young Children," *Review of Agricultural Economics* 29, 3, 2007: 446-493.

[10] U.S. Bureau of Labor Statistics, Economic News Release, Table 5: Quartiles and Selected Deciles of Usual Weekly Earnings of Full-Time Wage and Salary Workers by Selected Characteristics, Second Quarter 2013 Averages (Not Seasonally Adjusted), November 1, 2013.

[11] Susan Popkin, "Treating the Disease of Childhood Poverty," The Urban Institute, May 2013.

[12] Richard Murnane, "Improving the Education of Children Living in Poverty," *The Future of Children* 17, 2007: 161-182.

[13] Harry Holzer et al., *The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing up Poor*, Center for American Progress, 2007.

[14] Sarah Fass, Kinsey Alden Dinan, and Yuminko Aratani, *Child Poverty and Intergenerational Mobility*, National Center for Children in Poverty, 2009.

[15] *The Economic Costs of Poverty in the United States.*

III. Identifying the Children's Budget

Connecticut Voices has identified a "Children's Budget"—those expenditures in the General Fund[16] of the state budget that directly benefit young people. This budget encompasses: (a) agencies devoted specifically to young people, such as the State Department of Education, and (b) programs larger than $10 million in present-day dollars in other state agencies that benefit children or their families, such as Temporary Assistance for Needy Families (TANF). The Children's Budget reports appropriated funds[17] and can be easily tracked across the budget cycle as the governor introduces a budget, the legislature modifies it, and the two agree on a final version.

Figure 2. The Children's Budget[18] (not inflation adjusted)

	FY 1992	FY 2014
Young Children		
State Department of Education	$1,345,283,514	$2,917,583,769
Office of Early Childhood	$0	$129,583,957
Department of Children and Families	$176,563,960	$811,397,854
DSS Medicaid (for children and parents[19])	$349,149,277	$1,165,058,719
DSS TANF	$398,487,093	$112,139,791
DSS TANF Child Care Services	$0	$98,967,400
DSS HUSKY B (Children's Health Insurance Program)	$0	$30,460,000
DSS Connecticut Children's Medical Center	$0	$15,579,200
DDS Early Intervention	$4,451,180	$37,286,804
DDS Voluntary Services	$0	$32,376,869
DOL Jobs First	$22,565,019	$18,826,769
DPH School-Based Health Clinics	$493,594	$12,747,463
Youth		
Board of Regents	$252,043,496	$300,865,394
University of Connecticut	$183,887,231	$202,942,550
Office of Higher Education	$23,310,473	$46,339,129
DOL Workforce Investment Act	$16,868,976	$28,481,350
DMHAS Young Adult Services	$0	$69,942,480
JUD Juvenile Alternative Incarceration	$0	$28,367,478
JUD Youthful Offender Services	$0	$18,177,084
Total Children's Budget	**$2,773,103,813**	**$6,077,124,060**
General Fund	**$6,981,840,854**	**$19,957,450,395**
Percent of General Fund	**40%**	**30%**

[16] The General Fund constitutes the large majority of state spending. Starting in FY 2014, however, the state has removed the federal share of Medicaid (about $3 billion) from the General Fund in order to comply with the state's spending cap. To ensure comparability with prior years, this analysis includes the federal share of Medicaid in "General Fund" spending for FY 2014.

[17] The Budget reports funds appropriated by the legislature and approved by the governor since those most clearly reflect the instantiation of public priorities in budget form. The state Earned Income Tax Credit is not included because it is a non-appropriated tax expenditure.

[18] Legacy programs are included in the Children's Budget under their successors' names—i.e., Aid to Families with Dependent Children (AFDC) funds are counted under TANF, AFDC's post-welfare reform successor. Similarly, the higher education institutions recently consolidated in the Board of Regents are included under that category. Mapping programs from two decades ago onto present programs is sometimes made difficult by how programs have changed over time; this Budget hews closely to what is recorded in OFA budget documents, but some nuance may be lost because budget line items have shifted over time.

[19] This figure includes only the portion of Medicaid spent on children and their parents (20-25% of total spending). Data on the share of Medicaid dollars spent on different age groups are available only back to the late 1990s, and these data (from the federal Department of Health and Human Services) do not distinguish between adults with and without children—a highly relevant distinction given the recent Medicaid expansion. The apportionment used here is, therefore, an estimate, although the best possible given data limitations.

While the Children's Budget includes only the state's major children's departments and programs, these encompass the vast majority of spending devoted to young people. The Budget thus provides an accurate way to track the share of state spending devoted to Connecticut's young people without tracking hundreds of line items.

IV. Budgeting for Kids First

To preserve the generational exchange, Connecticut must raise the priority of kids in the state budget. It ought to budget for children—the future of the state—*first* and then construct the rest of the budget. Just as many responsible families "pay themselves first"—auto-debiting a portion of each paycheck into investments that provide for the future—so should Connecticut provide for its future first, committing to the basic investments in young people that helped establish Connecticut's prosperity in the first place. The Children's Budget is an attempt to make that project easier, and we will report each year on Connecticut's progress in making these investments.

Fortunately, Connecticut is not alone in this challenge—the same pressures affect many states and the country as a whole—and we know from experience that public priorities can be reordered to meet new challenges. Moreover, with Governor Malloy's commitment to catch up on long-deferred pension obligations and new initiatives aimed at reducing the cost of employee and retiree healthcare, it is clear these challenges have permeated public awareness and are beginning to be addressed. As the solutions advance, it is critical investments in children not only are held harmless but also grow to ensure that twenty years from now, Connecticut has a strong economy and robust tax base that can support the public systems central to our quality of life.

The Children's Budget stands today $1.8 billion below where it would be if we budgeted in the same proportions as we did in FY 1992. Restoring this Budget over the next decade will require phasing in an additional $180 million each year for children's programs. **That $180 million would represent less than 1% of the General Fund.** Shifting our priorities back to the future is entirely feasible.

However—the shift is only worthwhile if the funds transferred from other areas or raised as revenues are committed to high-return investments. As described above, substantial research indicates that quality preschool, particularly for younger, disadvantaged children, produces large returns. Other early inventions, such as nurse-family partnerships,[20] can generate positive ripple effects throughout the lives of the children affected. It is crucial not only that Connecticut commit to shift our priorities back to the future but also that we maximize the impact of increasingly scarce public dollars. Facing great challenge and with shrinking resources, Connecticut must be committed to refocusing public priorities and rigorous about funding the most impactful programs.

[20] See, e.g., Ted Miller, *Nurse-Family Partnership Home Visitation: Costs, Outcomes, and Return on Investment*, Pew Charitable Trusts, September 2012; Connecticut Department of Social Services, 2013 Program Report Card: Nurturing Families Network.