FISCAL POLICY CENTER

At Connecticut Voices for Children

# Impact of the Governor's FY 2016 Budget on Children

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## I. Introduction

A third of Connecticut's General Fund is spent on children, yet over half of the cuts in the Governor's proposed budget for Fiscal Year 2016 are in funding that supports Connecticut's children and their families. These cuts, totaling $316.4 million, are part of a larger proposal to close the State's deficit of over $1 billion in the coming fiscal year. The deficit is partially a result of contractually obligated expenses, such as state employee fringe benefits and interest due on the money Connecticut borrowed in previous years. But just as we must keep our promises to retired workers and to our lenders, we must also maintain our promise to the next generation: that every child will be able to grow up healthy, safe, and with the opportunity to reach his or her full potential. While the Governor's budget proposal attempts to offset some of the most painful cuts with new revenues, overall children and their families are being asked to foot more than their share of the State's fiscal woes.

To track the impact of Connecticut's budget on children, Connecticut Voices for Children constructed the "Children's Budget" – a compilation of all major State investments in children, including programs that provide for the well-being of children and their families. Using the Children's Budget, we can examine the Governor's proposed budget and determine whether the State plans to remain firm in its commitment to invest in children and families during difficult times.

Unfortunately, the proposed budget makes significant cuts that will hurt the safety, health, and education of Connecticut's children, with a total reduction of $316.4 million (5.1% of the Children's Budget), including:

- $158.0 million from the State Department of Education (mostly from capping statutory formula grants, which provide reimbursement to towns for critical education and related services)
- $49.3 million from the HUSKY health insurance program for children, families, and pregnant women
- $61.4 million from higher education (the Board of Regents, University of Connecticut and Office of Higher Education)
- $15.7 million from the Department of Children and Families

These cuts in proposed appropriations are exacerbated by decreases in tax breaks that benefit working families, including a delay in fully restoring the State's Earned Income Tax Credit, which provides targeted financial help to our lowest-income working parents. While some new revenues are proposed to close the deficit – notably, capping corporations' use of net operating losses to reduce their tax liability and capping the use of tax credits by corporations and hospitals to reduce their tax liability – more should be done to avoid balancing the budget on the backs of children and families.

In short, as has too often been the case, the proposed budget asks our next generation to take on far too much of the bill for the State's deficits. A balanced approach would instead rely more heavily on equitable revenue increases to help preserve and expand important investments in children that the proposed budget puts in jeopardy.

## II. Changes to the Children's Budget

The Children's Budget did not fare well in the Governor's budget proposal for FY 2016, decreasing by 5.1% from current services levels[1] (approximately $316.4 million), as compared to an overall 2.2% decline for non-child and family related budget items. Over half of this Children's Budget decline comes from cuts to the State Department of Education ($158 million), with substantial cuts coming from funding for the Department of Children and Families ($15.7 million), Medicaid/HUSKY A ($49.3 million), Voluntary Services in the Department of Developmental Services ($20 million), and higher education ($61.4 million). **While the Children's Budget comprises a third of the General Fund, over half (53.5%) of the Governor's proposed cuts come from items in the Children's Budget.**

| | FY 2016 Current Services | FY 2016 Proposed[2] | Change from Current Services | Percent Change |
|---|---|---|---|---|
| **Young Children** | | | | |
| State Department of Education | $3,209,426,866 | $3,051,406,083 | -$158,020,783 | -4.9% |
| Office of Early Childhood | $277,262,440 | $270,766,769 | -$6,495,671 | -2.3% |
| Department of Children and Families | $828,498,662 | $812,820,810 | -$15,677,852 | -1.9% |
| DSS Medicaid (HUSKY A)[3] | $805,459,200 | $748,914,800 | -$49,294,400 | -6.1% |
| DSS TANF | $104,370,000 | $102,625,380 | -$1,744,620 | -1.7% |
| DSS HUSKY B (CHIP) | $33,690,000 | $33,690,000 | $0 | 0.0% |
| DSS CT Children's Medical Center | $15,579,200 | $15,579,200 | $0 | 0.0% |
| DDS Early Intervention | $39,186,804 | $39,186,804 | $0 | 0.0% |
| DDS Voluntary Services | $33,017,277 | $12,986,713 | -$20,030,564 | -60.7% |
| DOL Jobs First | $18,051,623 | $18,040,423 | -$11,200 | -0.1% |
| DPH School-Based Health Clinics | $12,048,716 | $11,024,576 | -$1,024,140 | -8.5% |
| **Youth** | | | | |
| Board of Regents | $353,813,840 | $336,774,676 | -$17,039,164 | -4.8% |
| University of Connecticut | $258,812,447 | $219,377,020 | -$39,435,427 | -15.2% |
| Office of Higher Education | $47,178,537 | $42,276,326 | -$4,902,211 | -10.3% |
| DOL Workforce Investment Act | $31,284,295 | $31,284,295 | $0 | 0.0% |
| DMHAS Young Adult Services | $82,898,847 | $80,206,667 | -$2,692,180 | -3.3% |
| JUD Juvenile Alternative Incarceration | $28,442,478 | $28,442,478 | $0 | 0.0% |
| JUD Youthful Offender Services | $18,177,084 | $18,177,084 | $0 | 0.0% |
| **Total Children's Budget** | **$6,197,198,316** | **$5,873,580,104** | **-$316,368,212** | **-5.1%** |
| **Non-Children's Budget** | **$12,394,901,684** | **$12,128,219,896** | **-$266,681,788** | **-2.2%** |
| **General Fund** | **$18,592,100,000** | **$18,001,800,000** | **-$590,300,000** | **-3.2%** |

## III. Fringe Benefits, Debt Service, and Rainy Day Fund

In contrast to the cuts to the Children's Budget, the proposal maintains commitments to our contractual obligations, including payments to employee pensions, health care, and debt service. The Governor's proposal maintains the state's contribution to the State Employee Retirement System (SERS) at a current services level of $1,097 million FY 16, up $127 million from FY 15. It also funds at current services level the healthcare costs of current and retired employees for a total of $1,366 million in the upcoming fiscal year, representing growth of $145 million from the previous year. Payments owed on Connecticut's debt, meanwhile, are set to grow $143 million to a level of $1,651 million. Altogether, these three items account for $413 million in current services growth and 22.8% of the General Fund.

Finally, the proposal deposits just $3.2 million into the state's Budget Reserve Fund, commonly known as its Rainy Day Fund, which currently holds $519.2 million, just 2.9% of proposed FY 16 expenditures.

## IV. Health

The Governor's proposed budget makes significant cuts totaling an estimated $49.3 million (6.1%) to Connecticut's HUSKY health insurance program. Most notably, the proposed budget would eliminate Medicaid (HUSKY A) coverage for over 30,000 pregnant women and parents of children on HUSKY with incomes above 138% of the federal poverty line (about $33,000 per year for a family of four).

The Governor's budget proposal assumes that these parents and pregnant women will be able to purchase insurance through the Access Health CT marketplace. Research shows, however, that many of these adults are unlikely to find comprehensive, affordable insurance. Families will forego purchasing coverage or accessing care due to new co-pays and other out-of-pocket costs that they are not asked to pay under HUSKY. The result will undermine the gains Connecticut has made in the last decade reducing the number of uninsured residents. This risk goes beyond the adult population: we know from national research and the experience of other New England states that when parents lose health insurance coverage their children are at risk of also becoming uninsured and not getting the care they need. In addition, newborns will lose automatic coverage that is tied to their mothers' eligibility for HUSKY A.

The Governor proposes to eliminate coverage for children in HUSKY B whose families pay an unsubsidized rate to buy into the program. Currently, these families have a choice of purchasing coverage through HUSKY B or commercial coverage offered through Access Health CT.

While the Governor's budget proposes to maintain the increased Medicaid reimbursement rates for primary care providers, the budget makes hundreds of millions in additional cuts by eliminating Medicaid rate increases to other health care providers and inflation adjustments scheduled to go into effect in FY 16, and by annualizing rescissions imposed in FY 15. Without adequate reimbursement, the pool of providers willing to provide care will likely decline, leading to problems gaining access to necessary health care despite having health insurance.

Outside the HUSKY program, cuts are also imposed on important health services for children and young adults. Included in these cuts are:

- The elimination of funding for Healthy Start ($1.4 million) which provides case management for pregnant women, new mothers and their babies on HUSKY, with a focus on reducing adverse health impacts from high risk pregnancies
- Reduced funding for the Young Adult Services program within the Department of Mental Health and Addiction Services (DMHAS) by $2.7 million (3.3%)
- A reduction in funding for school based health centers by $1 million (8.5%)

Finally, the proposed budget would eliminate funding for Independent Performance Monitoring of the HUSKY program ($208,050), a small but important and longstanding effort to ensure that scarce public dollars spent on the HUSKY program are actually providing children and families access to needed care.

## V. Education

The Governor's proposed budget would reduce spending on K-12 Education by more than $158 million (4.9% of all State K-12 spending). The lion's share of these cuts comes from capping statutory formula grants, which provide reimbursement to towns for important services such as special education and transportation. However, capping these grants may not save taxpayers money. Many of the previously state-funded services are essential, and in some cases legally required, in order to provide all children access to an adequate education; loss of state funding simply passes costs down to local taxpayers.

The Governor's proposal further harms children, families and towns by ending its practice (over the last three years) of increasing the Education Cost Sharing (ECS) grant for general education, the State's principal form of education aid to towns, by around $50 million per year. Most of the annual increases were directed to "Alliance" school districts, the thirty school districts where students have the lowest standardized test scores. These districts are located in some of Connecticut's poorest towns, and struggle to provide their students with an adequate education. The State should not retreat from its effort to adequately fund these already under-resourced schools. Yet, this budget includes no funding increase, capping grants and effectively downshifting state responsibilities to the local level.

While the proposed budget does fund statutory commitments to create 1,800 new seats in inter-district magnet schools and 1,250 new seats in charter schools in FY 2016, the budget also extends a cap on magnet school funding, reducing State operating support for these schools by $1.9 million.

The proposed budget does appropriate $1 million to finance expansion of the School-Based Diversion Initiative (SBDI), a program designed to reduce in-school arrests, expulsions and out-of-school arrests as part of the Second Chance Society Initiative. SBDI will facilitate changes to school discipline policies that keep more children in school rather than excluding them for minor disciplinary infractions.

The Governor's proposed budget for Higher Education makes cuts totaling $61.4 million to the Office of Higher Education, the University of Connecticut, and the Board of Regents for Higher Education. These cuts are achieved primarily through reduction of block grant funding generally dedicated to operating costs at the University of Connecticut, reduction in the Next Generation Connecticut Program (the Governor's initiative to expand education and research in STEM fields), elimination of the Governor's Scholarship Awards to Students Attending Private

Institutions, and reduction of funding for the Transform CSCU 2020 Program. These cuts represent 9.3% of the State's current general fund spending on higher education.

## VI. Early Care and Education

The Governor's budget proposal for FY 16 maintains funding for School Readiness, the state's largest subsidized preschool program, and for Care4Kids, the state's largest child care subsidy program.[4] The proposal does decrease the Smart Start Pre-school Expansion program by 50% ($5 million), but the Smart Start program, combined with the Federal Preschool Expansion Grant awarded to Connecticut in December,[5] will still allow the state to create up to 1,400 high-quality preschool slots in FY 16. In addition, the budget proposal earmarks funds (that were previously dedicated to Care4Kids) for an Early Head Start–Child Care Partnership, allowing Connecticut to access $3.4 million in federal funding for low-income families.[6] The Governor's proposal demonstrates his continued commitment to expanding high-quality early care and education, particularly to at-risk children.

However, the Governor's budget proposal reduces funding targeted for quality improvements across the state's early education network, which is of concern as studies show that the multiple long-term benefits reaped by early care and education are only realized if programs are of high quality. In particular, the budget proposal decreases funding for School Readiness Quality Enhancement by 5% ($0.26 million) and eliminates funding for Improving Early Literacy ($0.15 million). It additionally eliminates funding for Wraparound Services ($0.45 million) and Parent Universities ($0.49 million)[7], both programs that recognize the need for a two-generation, holistic approach to early education.

The Governor's budget also includes a proposal to offer full-day kindergarten to every child in Connecticut by fall 2017. Full-day kindergarten is a necessary complement to the expansion of high-quality early care and education. Research shows that students who attend full-day kindergarten do better in reading and mathematics than their half-day counterparts, and that full-day kindergarten particularly benefits low-income and minority students.[8] As the state expands its subsidized early care and education, it is critical that all children also have access to full-day kindergarten so that the achievement gains made in the first five years do not fade away. However, full-day kindergarten must be funded in a way that does not come at the expense of students in grades 1-12.[9]

## VII. Child Welfare and Juvenile Justice

The Governor's proposed budget includes a $15.7 million cut from FY 2015 to the state's Department of Children and Families (DCF), a 1.9% reduction to existing services. This decline results primarily from reductions in congregate care capacity ($2.6 million), elimination of private residential treatment rate increases ($3.4 million), and making permanent the Governor's rescissions from earlier in 2015 ($1.8 million).

The budget also includes a significant realignment of juvenile justice services, including a $114 million transfer of juvenile programs from the Judicial Department's Court Support Services Division (CSSD) into the Department of Children and Families (DCF). This transfer includes a $9.9 million cut to juvenile programs. (Because of this transfer, the DCF budget appears to grow from $828 million to $929 million on paper.)

The DCF budget has been falling for several years now, threatening the well-being of our state's most vulnerable children and families. Successive years of funding cuts, coupled with an increasingly complex caseload, have placed increasing strain on the agency. In fact, DCF remains under federal court supervision to meet the needs of children in its care; the federal court-appointed monitor continues to caution against efforts to save money by reducing congregate care and caseloads absent meaningful investment in frontline staffing and development of services that meet the complex needs of those children remaining in care.[10] The state's failure to adequately invest money into DCF to improve care quality is jeopardizing the well-being of our state's most vulnerable children to whom we owe a special responsibility.

## VIII. Revenues

The Governor's proposed budget makes substantial changes on the revenue side of the balance sheet, including the following tax changes to current law:

- Postpone full restoration of Earned Income Tax Credit (EITC): $11 million
- Cap corporations' use of Net Operating Loss in calculating tax liabilities: $156.3 million
- Limit the amount by which corporations and hospitals can use tax credits to offset their tax liability to 35%: $77.5 million
- Update the Hospital Provider Tax to reflect FFY 2013 net patient revenues and to equalize the tax rate on in- and out-patient services: $165.2 million (this change will increase federal Medicaid reimbursements to Connecticut)
- Maintain the 20% surcharge on corporate business taxes indefinitely: $44.4 million
- Eliminate the sales tax exemption on clothing and footwear: $138 million
- Reduce the sales tax rate from 6.35% to 6.2% on 11/1/2015: -$70.1 million

Rather than impose these painful spending cuts on children and families, the State should work to end outdated or wasteful tax expenditures. Instead, the proposed budget limits tax expenditures that would benefit children and families. The state EITC is a highly effective anti-poverty program that benefits working low-income families in all 169 of Connecticut's towns, awarding an average benefit of over $400 to roughly 190,000 households with an average income of $17,649.[11] The proposed budget eliminates a planned restoration of the EITC, leaving the tax credit at a level below the amount established in 2011 – 30% of the federal EITC benefit. At a time when Connecticut's poorest residents are still hurting from the recession, Connecticut should maintain its investment in this important program, and keep its promise of full restoration of the EITC. Full restoration would have the additional benefit of supporting our economic recovery, as research shows that EITC funds are quickly spent.

The budget does propose a reduction in the sales tax rate from 6.35% to 6.2% in November of 2015. To the extent this change is intended to minimize the overall regressive nature of the state revenue system, it is undermined by the elimination of the sales tax exemption on clothing and footwear. Eliminating sales tax exemptions that lack strong rationales (such as efficiency) is generally good tax policy; however, such eliminations should be far more extensive, not limited to taxation of consumer goods.

Some optimistic assumptions regarding increases in personal income tax revenue are built into the Governor's budget proposal. Income tax collection is assumed to grow from $8.7 billion in FY 14 to an estimated $9.3 billion in FY 15 to a projected $9.7 billion in FY 16, increases of 5.9% and 5.2% respectively. Should these revenues fall below expectation, further cuts may become necessary. On the whole, the budget is overly reliant on spending cuts to close the State's projected deficit. The revenues proposed are insufficient to avert painful cuts to children's programs and, in some cases, make our tax system more regressive through measures such as delaying EITC restoration.

## IX. Conclusion

The State has an obligation to close its deficit and pay down its debts, but Connecticut also has an obligation to its children and families – an obligation to ensure that no child wants for basic needs, every child has access to needed healthcare, and every child receives a high quality education. This intergenerational exchange is the lifeblood of a strong society. If we renege on this debt to our children, we put them at risk for a lifetime of poverty, illness, and economic hardship, putting our state's long-term prosperity at risk.

Over the last 30 years, Connecticut's income distribution has grown increasingly unequal, as the income of middle and lower-income families stagnate or decline and the incomes of our highest income families increase. When we allow equalizing public investments in children's healthcare and education to erode, we run the risk that more children will be shut out of economic opportunity simply because of the circumstances of their birth. Unfortunately, the proposed budget asks children to foot too much of the bill for the State's deficit. A more balanced approach to forming the budget, one which relies more heavily on expanded progressive revenues, would afford us greater opportunity to make essential investments in our children and our future success.

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[1] Current services denotes the level of funding required to maintain services at the level they were the previous year given routine changes such as inflation and caseload adjustments.

[2] To ensure accurate comparisons to current services levels, some of the proposed appropriations for FY 2016 were adjusted to reflect transfers from one agency to another. For example, the Early Intervention program, previously housed in the Department of Developmental Services, was split between the Department of Social Services and the Office of Early Childhood in the Governor's budget proposal. This appropriation was subtracted from the line items for both DSS and OEC to maintain accurate year-over-year comparisons.

[3] The Governor's FY 2016-17 proposed budget does not delineate the portion of Medicaid funding spent on children and families, so this amount represents the best estimate given the most recent data available. It assumes all funds cut from HUSKY A will harm kids and families, as well as an estimated 32% of the remainder of the funding. The 32% figure, which represents the most recent data available, does not apply to $11.5 million of cuts that would not fall on children or parents whatsoever.

[4] Though there appears to be an increase of $7.0 million from Current Services in the Care4Kids line item, this increase actually represents a reallocation from Other Services for the Office of Early Childhood's contract with United Way to administer the Care4Kids program, and a contract-mandated increase in rates for family child care and kith and kin providers. The proposal does not contain any increase in funding for program expansion, nor for an increase in rates for child care centers.

[5] Office of Early Childhood, "Federal Preschool Development Grant – Abstract," (October 2014) http://www.ct.gov/oec/lib/oec/initiatives/2014_pdg_abstract.pdf.

[6] U.S. Department of Health and Human Services, Administration for Children and Families, Early Childhood Development, "Preliminary Early Head Start-Child Care Partnership and Early Head Start Expansion Awards" (December 2014) http://www.acf.hhs.gov/programs/ecd/early-learning/ehs-cc-partnerships/grant-awardees.

[7] Line items for wraparound services and Parent Universities are included in the budget for the State Department of Education.

[8] National Institute for Education Research, "Is More Better? The Effects of Full-Day vs. Half-Day Preschool on Early School Achievement," (May 2006), available at http://nieer.org/resources/research/IsMoreBetter.pdf.

[9] The Governor's budget proposal does not contain any new funding for full-day kindergarten.

[10] See, Juan F. v. Malloy exit Plan, Quarterly Report, January 1, 2014 – March 31, 2014, Civil Action No. 2:89 CV 859 SRU. Available at http://www.ct.gov/dcf/lib/dcf/positive_outcomes/pdf/1st_qtr_report_2014_final.pdf.

[11] Source: CT Voices for Children analysis of State Department of Revenue data