CONNECTICUT VOICES FOR CHILDREN

The Governor's Proposed Fiscal Year 2014-15 Budget: The Impact on Children

February 2013

Introduction

The state budget is a statement of our common values and priorities. In charting a course for the future, we must maintain our focus on children, the future of Connecticut. Governor Malloy's proposal demonstrates how current constraints threaten to divert our efforts: a stagnant economy, his self-imposed no taxes pledge, and fast-rising public employee benefit costs leave him few options. The cost of employee healthcare and pensions rose $500 million over last year, and without a stronger economy or more taxes to boost state revenues, the only way we can maintain current investments and make new ones that provide better opportunity for our children is to resort to borrowing, one-time revenues, and cuts to vital family supports.

In his budget proposal, Governor Malloy has done an admirable job of expanding Connecticut's commitment to high-quality preschool and K-12 education, both vital to our future. However, to fund these commitments, the Governor has relied on Medicaid cuts that could cause thousands of parents to lose health coverage, one-shot revenues that will leave holes in future budgets, and substantial borrowing that will burden our children tomorrow. Rather than continue making such tradeoffs on our children's future, we must take a more balanced approach to the budget deficit that includes revenues and better ensures a prosperous and secure future for our children.

This brief outlines some of the proposals affecting children contained within Governor Malloy's proposed budget, as well as their likely impacts – highlighting proposed changes in state and local revenues, the capital budget, health, family economic security, child welfare, juvenile justice, early care and education, and K-12 education.

State Revenues

The Governor's budget proposes little in the way of new tax revenue. It continues the 20% surcharge on the corporation business tax, generating $44.4 million in Fiscal Year (FY) 14 and $74.0 million in FY15; maintains the electric generation tax, raising $76.0 million each year; and reduces the state earned income tax credit (EITC) from 30% of the federal credit to 25% in FY14 and 27.5% in FY15, saving $21.1 million in the first year and $11.0 million in the second. Altogether, these three tax increases generate $141.5 million in FY14 and $161.0 million in FY15.

Rather than tax increases, the largest revenue items in the proposed budget are one-time revenues and transfers among funds and between the state and municipalities. The Governor's proposed transfers to the General Fund include diverting sales and real estate conveyance taxes from the Municipal Revenue Sharing Account ($92.4 million in FY14 and $97.9 million in FY15) and reducing the Mashantucket Pequot and Mohegan Fund Transfer ($129.6 million in both years). The budget also proposes one-time revenues such as an $80 million energy auction and tax amnesty programs estimated to bring in $25 million in FY14.

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In sum, the Governor's deficit mitigation plan includes few revenue changes that are sustainable or that do not pass the burden to other accounts and towns. Accordingly, it increases the likelihood that the state faces new deficits in the period immediately after this budget and may trigger property tax increases at the municipal level to make up for lost state revenues and transfers.

Local Revenues

On balance, the Governor's budget maintains flat funding of municipal aid to cities and towns. The FY14 recommendation of $4.6 billion represents an increase of 4.9 percent over FY13, while the FY 2015 recommendation grows only slightly – to $4.7 billion. However, the proposal significantly reconfigures municipal aid and substantially shifts the both the makeup and sources of grant aid to towns.

Specifically, payment-in-lieu-of-taxes (PILOT) reimbursement for the tax exemption for state-owned property is eliminated, and the associated $73.6 million is redistributed through the Education Cost Sharing (ECS) grant. Similarly, the Mashantucket Pequot and Mohegan (MPM) Grant is eliminated and the associated $56.4 million will be distributed through an increase in the Local Capital Improvement Grant (LoCIP) in FY14 and FY15. Unlike the PILOT and MPM grants, LoCIP grants will be drawn from bonded funds and are not reliant on General Fund revenue.

There are also several major increases in municipal funding in the Governor's proposal. Over the biennium, it proposes about $152 million in new ECS grants, $90 million in a new local transportation capital program, $60 million in new Town Aid Road grants, and an additional $78 million in adjustments to general municipal aid (so-called "hold harmless" grants). In addition, the proposal eliminates funding for the Manufacturing Transition Grant (formerly PILOT-MM&E) and the Municipal Revenue Sharing Grant.

At the same time, the Governor's proposal would eliminate towns' ability to tax automobiles, reducing local property tax revenues by approximately half a billion dollars, with no offset planned. Municipalities, if they cannot find sufficient savings, may be forced to raise mill rates and make up the revenue shortfall on their remaining tax bases.

Capital Budget and Debt Service

The Governor's proposal includes borrowing $750 million to reduce the state's GAAP deficit, as well as delaying payment of existing debt obligations, specifically the FY09 economic recovery notes (ERNs). This delay is projected to realize savings of $150 million per year in FY14 and FY15. Altogether, the budget recommends debt service-related appropriations totaling roughly $2 billion in each year of the biennium.

In addition to the increased bonding resulting from policy changes described in the Local Revenues section, the capital budget issues $1.5 billion in new general obligation bond authorizations in FY14, and $1.6 billion in FY15. New transportation-related bond authorizations total $706.5 million in FY14, and $588.8 million in FY15. Additionally, the proposal includes $1 billion in clean water bond authorizations over the biennium. Significant investments in the capital budget include $986 million for the school construction program, $221 million for affordable and supportive housing, $55 million for various community college projects, and $40 million for non-profit, community-based providers. In addition, the Governor's capital budget recommends the authorization of $315 million in bonds for the UConn 21st Century program, and $95 million in bonds for the CSUS 2020 program. OPM projects that the state will remain within the statutory debt limit during the biennium, with a margin of roughly $4.3 billion in both FY14 and FY15.

Health

Governor Malloy proposes to eliminate coverage for HUSKY parents with income between 133% and 185% of the federal poverty level ($25,399 to $35,317 for a family of three) as of January 1, 2014, with the expectation that they will instead purchase coverage through the new health insurance exchange. The exchange, created under the federal Affordable Care Act, is expected to be up and running in Connecticut by that point. Parents who try to purchase coverage through the exchange will have to pay premiums and co-payments for private health insurance, with subsidies; costs to these parents could be over $6,000 per year. Research suggests that many individuals and families in this income range will not be able to afford coverage on the exchange, even with subsidies. In addition, research also shows the positive effects of covering whole families: enabling parents and children to be covered under the same plan simplifies enrollment and makes it more likely that children will have coverage. The Governor's budget does not provide an estimate of the number of HUSKY parents who will lose Medicaid coverage next year if this proposal is adopted, but it may be as many as 20,000 to 30,000 individuals. The budget document assumes that the change in parent eligibility will result in savings of approximately $6 million and $60 million in FY 14 and FY 15, respectively. The budget document is not sufficiently detailed to indicate why the savings rise so rapidly from one fiscal year to the next.

The Governor does not propose changing the income eligibility limit for pregnant women, which remains at 250% of the federal poverty level. The budget maintains coverage for children in the HUSKY (Medicaid) and HUSKY B (CHIP) as required by federal law.

The Governor's budget expands coverage to individuals on HUSKY D (Medicaid for low-income adults without children) to 133% of the federal poverty level under a state option in the Affordable Care Act. Currently, the income eligibility level for this group is 56% of the federal poverty level ($6,255 for an individual). Connecticut currently pays 50% of the cost for the 85,000 people in HUSKY D. Beginning in January 2014, the federal government will reimburse the state for the full cost of coverage for *all* HUSKY D enrollees, including those under 56% of the federal poverty level. As a result, the state is expected to save hundreds of millions of dollars over the next decade in costs associated with this Medicaid expansion

In addition to these changes in eligibility, the Governor has proposed:

- Reducing funding for the 2-1-1/United Way HUSKY Infoline by 50% in FY14 and eliminating all funding in FY15. As a result, families will lose essential, one-on-one assistance with information, accessing coverage, and obtaining needed care.
- Reducing by more than 60% the state funding for community-based Healthy Start programs that assist pregnant women to access health coverage and prenatal care (a reduction from $1,505,000 to $575,000).
- Eliminating funding for independent performance monitoring in the HUSKY Program ($208,000 per year, though 50% of this cost is reimbursed by the federal government). Independent performance monitoring has been state-funded since 1995 and is conducted by Connecticut Voices under a contract between DSS and the Hartford Foundation for Public Giving. This project provides information on enrollment patterns and long-term trends in children's health services utilization, information that is not reported by the Department's ASO contractor. The project also provides data on maternal health and birth outcomes in the HUSKY Program, based on linked birth-HUSKY enrollment data that is not available to the Department's ASO contractor.
- Reducing funding for expansion of school-based health centers (a 22% reduction of $2.7 million for each year of the biennium). This budget cut will seriously affect the ability of school-based health centers to serve more school-aged children. Schools are a critical part of the mental health care delivery system, providing more than 40,000 annual visits for individual, group and family counseling for mental health issues. Such mental health treatment can both reduce stigma and facilitate access.
- Eliminating millions of dollars for hospitals, providers and pharmacies. It is unclear to what extent these cuts may reduce access to care for families on HUSKY.

In the area of mental health, the Governor's budget recommends an additional $29.6 million in FY14 and $30.1 million in FY15 for DDS to create new program slots for developmentally delayed adults. The FY14 funds will support day programs for 744 new individuals who are graduating from high school, or aging out the Department of Children and Families (DCF) or programs offered by their school districts. This funding will also be used to support an additional 230 residential placements. The FY15 funds will support an additional 345 day program slots and 180 residential placements. The Governor also recommends $26.9 million in FY14 and $23.1 million in FY15 for DMHAS to fund caseload growth. This includes funds to accommodate caseload growth in the Young Adult Services program. These appropriations will help to provide much needed support for developmentally delayed young adults and youth suffering from drug addiction that can no longer be supported by programs designed for younger children.

Family Economic Security

The Governor's budget proposed a temporary reduction in the state earned-income tax credit. Reducing the credit from 30 to 25 percent of a filer's federal EITC would impact some 180,000 taxpayers in Connecticut, and will likely result in a reduction to the average amount of roughly $100 per household. Fortunately, the budget proposes to restore the current 30 percent threshold by 2015. It is critical that the legislature hold the line on the EITC and make certain that the credit amount is restored according to the Governor's proposal.

Several other policy changes discussed elsewhere in this brief could have significant impacts on family economic security in the coming biennium. In particular, Connecticut Voices will monitor the impacts of proposed restrictions to parent eligibility in the Medicaid program and the proposed income limits in the Care4Kids child-care subsidy program. In addition, the Governor's proposed budget affirms his administration's commitment to statewide affordable housing by consolidating several existing housing programs into a new, stand-alone Department of Housing, which will provide centralized leadership and a comprehensive approach to eliminating homelessness and meeting the housing needs of low- and moderate-income families and individuals.

Child Welfare

The Governor's budget reduces funding to the Department of Children and Families (DCF) by $21.7 million (2.6%) compared to the level of funding it would require to maintain current service levels in FY14. In order to increase agency flexibility, over half of the line items in DCF's budget were eliminated and consolidated into other, sometimes new, line items. For this reason, it is difficult to determine the specific nature of cuts to the Department based upon the relative expenditure allocated to each line item, though there are many cases where the Governor's proposals are clear. For instance, the budget recommends a $4.1 million reduction to current spending by removing funding for four therapeutic group homes, a $4.7 million reduction to current spending by eliminating rate increases for private residential facilities, and an additional $2.0 million reduction to current spending on personal services by allowing 30 currently vacant positions to lapse.

These cuts reflect DCF's efforts both to reduce its reliance on serving youth in expensive congregate care settings, and to increase the number of youth who are served in their homes and communities. While these recent positive reforms have both reduced caseloads and saved money, it is important that a substantial portion of these savings be reinvested in community-based services that help prevent children from entering into foster care and keep caseloads down. The Governor does recommend an $846,792 (3.4%) increase in Community Based Child Protective Services. However, this increase is only 12% of the $6.9 million recommended cut in Out of Home Child Protective Services. Similarly, the Governor recommends an increase of $1.1 million (1.3%) in Community Based Behavioral Health Services, but this represents only a fraction of the $8.3 million cut he recommends in Out of Home Behavioral Health Services. The cut to Out of Home Behavioral Health is particularly troubling: since DCF serves fewer youth in out-of-home care, the youth who remain in out-of-home placements area those who have the most serious behavioral health needs. In fact, the Governor's recommendation is $14.1 million (11.1%) less than the Department's request.

Finally, DCF's new Differential Response System (DRS) has played an important role in keeping caseloads down by diverting low-risk child endangerment cases away from foster care and to services provided in the home and community. The Governor recommends a $903,614 (9.8%) cut to the $9.5 million DCF requested to keep DRS at its current service level. Unless the state maintains its commitment to Differential Response, DCF will struggle to identify youth who can be served in the community, and caseloads may begin to rise again.

Juvenile Justice

The Governor's budget proposal maintains current services levels for juvenile programs provided by the Court Support Services Division of the Judicial Department, increasing funding by $2.22 million (15%) in FY14 and $3.08 million (21%) in FY15 (presumably due to increased cost or utilization projections). Funding for Juvenile Services through DCF sees slight increases for FY14 and FY15 over projected expenditures in FY13, but is budgeted at levels slightly below those projected to be necessary to maintain current services. Overall, Juvenile Services funding rises by $0.39 million (0.6%) in FY14 over FY13, but falls $0.47 million (0.7%) short of the levels DCF suggested were necessary to accommodate increasing costs and/or caseloads.

Early Care and Education

The Governor's proposed biennial budget for FY 2014-15 preserves funding for the majority of early care and education-related programs. It includes a significant reorganization of programs and staff from five agencies into a new Office of Early Childhood. It also cuts funding to several programs, including restrictions to eligibility in Care4Kids. These changes come on the heels of significant expansions in early childhood funding in the FY 13 budget, as well as some funding reductions in the November 2012 rescissions and December 2012 deficit mitigation package.

The Governor's budget maintains funding for many important programs. Funding for State-Funded Centers (state and federal), School Readiness Programs in Priority Districts, quality enhancement, Head Start, Family Resource Centers, and the Nurturing Families Network and Help Me Grow within the Children's Trust Fund, remained at FY 13 post-rescission levels. School Readiness Programs in Competitive Districts saw a slight ($0.74 million, or 12%) increase.

The Governor's budget proposes closing Care4Kids eligibility to currently enrolled families whose income rises about 50% of state median income (SMI) (at present, once in the program, families may stay enrolled in Care4Kids if their income rises above 50% of SMI but remains below 75% of SMI). This eligibility change would affect approximately 4% of the families currently in Care4Kids, and would create a sharper cliff for families moving towards income sufficiency rather than the more gradual phase out of childcare subsidies under the current system. Following these eligibility changes, the Governor's budget suggests a cut of $3.27 million (3%) in FY14 from the final FY 13 budget after rescissions.

A number of smaller programs received significant cuts or were eliminated. Head Start Early Childhood Link, which provides quality enhancement for Head Start and funding for the Bridgeport ABCD program, saw a $0.22 million cut (11%). Wraparound services, School Based Health Centers, and the K-3 Reading Assessment Pilot saw cuts between 9 and 11%. The proposal also included a cancellation of the proposed School Based Health Center expansion. Funding for Family Empowerment, Family School Connection, the Children's Law Center and the Kinship Fund from the Children's Trust Fund was eliminated, as was funding for Even Start and Parent Universities.

The Governor's budget also includes an important consolidation and reorganization of early childhood program into a new Office of Early Childhood. All of the critical early childhood programs, including Care4Kids, School Readiness, Head Start, multiple quality enhancement programs, the 211 Childcare contract, Birth to Three, child care licensing, and Connecticut Charts-a-Course, will be housed in this new office by FY 15, with many of them moving in FY 14. A total of 71 staff members will move from the Department of Social Services, the Department of Education, the Department of Developmental Services, the Department of Public Health, and the Higher Education Board of Regents with these program shifts. Additionally, the Governor's budget includes funding for four new staff positions in the Office of Early Childhood.

K-12 Education

The Governor's budget recommends increased grants for education in several areas, while funding in others areas would be cut or remain flat. The largest grant, the $2.01 billion Education Cost Sharing (ECS) grant, would increase by about $152 million over two years when compared to FY 2013 for three reasons. First, additional funding would go to the ECS grant based on a proposed, slightly modified ECS formula in Fiscal Years 2014 and 2015. Second, funding for charter schools would be integrated into the ECS line item. Finally, in Fiscal Years 2014 and 2015, the Governor's budget proposes that the state reallocate $73.6 million in State Owned PILOT funding to the ECS grant. In other words, funds that the state typically provides to municipalities in order to offset the loss of tax revenue from non-taxable, state-owned property would go instead directly into the ECS grant. Since enrollments are decreasing in many districts, these changes could mean that the per pupil ECS grant will increase; however, it is unclear from the budget document which portions of the grant would be direct equalization grants to local districts rather than conditional funding grants.

Apart from the ECS appropriation, the budget recommends that magnet schools receive an additional $28.1 million appropriation in FY 2014 and an additional $15.8 million in FY 2015, while student programs for increasing inter-district cooperation would lose $5.8 million. The Governor's budget also recommends $11.7 million more in state funding in FY 2014 and $9.1 million in additional funds in FY 2015 for the Regional Vocational Technical School System. In addition to the proposed increases for these programs, the budget also proposes $13 million in new funding for the Open Choice program in FY 2014.

The Governor's budget proposes keeping the Excess Cost Grant for extraordinary special education costs constant at the FY13 level of $139.8 million. Special education costs—which account for a large percentage of district spending—are increasing, and districts will have to pay for a growing share of special education costs. The appropriation for public school transportation is proposed to decrease from $25.8 million in FY 2013 to $5 million—as a competitive grant program—in the two subsequent fiscal years.

A number of budget items would be reduced into one line item called, "School Improvement." Totaling $59.4 million in FY 2014, these items would include expenditures such as the "Commissioner's Network", "Wrap Around Services", "Longitudinal Data Systems", and "Development of Mastery Exams."

Finally, the Governor's education budget recommends $3 million in additional funding for a total of $10.8 million in FY 2014 for a "Commissioner's Network" program that will lead interventions in struggling schools. Another $12 million in new funding in FYs 2014 and 2015 for "Talent Development and Common Core" would provide training for both the teacher evaluation and Common Core State Standards initiatives. The Commissioner's Network, along with the increase in funding for ECS grants, magnet schools, and charter schools, are part of the Governor's education reforms passed last year.