

Impact of the Final FY 18-19 Budget on Children and Families

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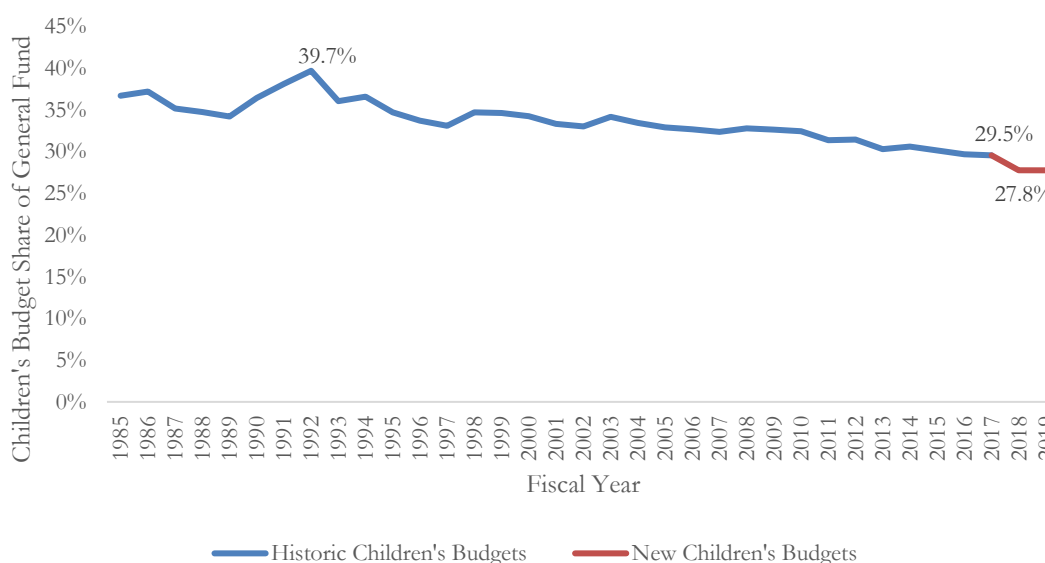
Introduction

More than a hundred days after the new fiscal year began, legislators finally found sufficient common ground to pass a budget. The final document passed with a supermajority vote, an encouraging display of bipartisanship to end an often-gridlocked session. However, the content of the budget agreement includes many troubling provisions, violating the best-practice budgeting principles of equity, transparency, and sustainability. In terms of equity, the budget marks an all-time low in the share of state funding directly devoted children and families, marked by troubling cuts to essential components of thriving communities. In terms of transparency, the budget relies on a series of one-time revenue gimmicks that provide the appearance, but not the reality, of balance. In terms of sustainability, the budget lacks any comprehensive structural solutions to our state's challenges that, when combined with new restrictions on the state's ability to invest in critical services, leaves the state unprepared to address the challenges of a 21st-century society.

The Children's Budget

To track trends in public spending, Connecticut Voices for Children created the Children's Budget, a compilation of all major state investments in children and families, including K-12 education, child welfare, early care and education, and family health. Analyzing changes in the Children's Budget allows us to assess appropriations over time to determine the state's relative priorities. In FY 1992, Connecticut spent nearly 40 percent of its General Fund on the Children's Budget. In FY 2017, that share decreased to 29.5. It has now decreased to **27.8 percent**.

Figure 1. Connecticut Prioritizes Children Less than in the Past.



Source: Connecticut Voices for Children analysis.

The final budget cuts the Children's Budget by \$33.3 million (0.5 percent) in FY 2018, offsetting this decrease by infusing \$47.6 million in FY 2019. Despite these additional dollars, the Children's Budget will remain a smaller share of the General Fund due to other increasing line items. Overall spending increases by \$1.27 billion (5.9 percent) in FY 2018 and by an additional \$304 million (1.3 percent) in FY 2019. However, these figures are distorted by the state's hospital tax arrangement, which taxes hospitals and then returns the taxed dollars plus more in order to draw down additional federal grants. The arrangement appears to increase spending by \$634.8 million, including \$343.9 million from increased hospital taxes. Under this arrangement, however, the state will give back the entirety of the increased taxes to the hospitals, plus an additional \$229 million. While this nets the state \$137 million annually, it also masks cuts to the Children's Budget.¹

Revenue

The final budget does not include significant tax reform. Instead, it relies on short-term revenue grabs, accounting gimmicks, and further burdening the poor while giving money to the wealthy.

Nearly 80 percent of what the General Assembly calls "new" revenue actually comes from a hospital tax agreement and from transferring monies between accounts. Although the state appears to raise \$343.9 million from increased hospital taxes and receive \$483.8 million in new federal dollars, Connecticut will return the hospital tax revenue and much of the new federal dollars to the hospitals themselves, netting only \$137 million in federal funds.² In addition to the hospital tax gimmick, the budget rolls back on past reforms in order to grab General Fund revenue, re-appropriating almost \$330 million in sales tax revenues it promised municipalities as well as \$87.5 million annually from various environmental initiatives.

Of the new tax revenue raised, a majority comes from the pockets of low-income and middle-class families. Connecticut's Earned Income Tax Credit (EITC) is one of the state's most effective tools for combating poverty, helping nearly 200,000 households make ends meet in 2015.³ Despite these benefits, the final budget cuts the state EITC from 27.5 percent of the federal credit to only 23 percent, reneging on a 2015 promise to restore the credit to its original 30 percent level. This will raise taxes for low-income workers, those who make on average less than \$20,000 annually, by \$35 million per year.⁴ Increasing these taxes will place even more obstacles in front of parents trying to provide food, shelter, and financial security for their children. The budget further burdens low-income households by restricting the \$200 property tax credit to seniors and those with dependents, increasing their taxes by \$55 million per year.

Even as the budget promises to make life more difficult for low-income children and families, it cuts taxes for the wealthiest by raising Connecticut's estate tax threshold to the federal level. If current state and federal policy stands, this giveaway to the rich will cost Connecticut \$15.6 million in FY 2019 and will grow as the break becomes fully implemented. If the federal tax reforms currently under consideration in the House and Senate become law, the federal estate tax threshold could double next year and face repeal in six years, also eliminating Connecticut's estate tax, which raised \$156.9 million in FY 2016.⁵

Tying Connecticut's Hands for Generations

As part of backroom budget negotiations, the legislature imposed four new restrictions on the state's ability to support its priorities: a spending cap, volatility cap, bonding cap, and bond lock. These restrictions tie the hands of the state to build a more prosperous society this year and long into the future.

Little discussed during this session's budget debates, the constitutional spending cap plays a prominent role in the final budget. Originally passed as part of the compromise enacting the personal income tax, the constitutional spending cap requires that "general budget expenditures" not grow at a rate greater than the "increase in personal income" or "increase in inflation," whichever is greater. It leaves the definitions of those three terms to the legislature, stipulating that defining or amending them requires a three-fifths vote of each house in the General Assembly.

For more than twenty-five years, those constitutional terms were undefined.⁶ This year, the final budget's near-unanimous enactment sealed constitutional definitions into law, changing the "general budget expenditures" limited by the cap and restricting the state's ability to meet vital needs today or build thriving communities tomorrow.

The most drastic change relates to how the spending cap accounts for pension payments. Under the new agreement, the spending cap will exclude payments for the unfunded portion of the state employee pension system (SERS) through FY 2022 and those for the teacher pension system (TRS) through FY 2026. Because SERS contributions peak in FY 2024 and TRS contributions peak in FY 2032, this essentially attempts to prevent unduly restricting spending in the short term while pressuring future legislatures to pay required contributions in the long term. However, legislators' plans rely on two assumptions: (1) that the Office of Fiscal Analysis and Office of Policy and Management will adhere to longstanding precedent and (2) that the state will realize its assumed rate of return. If either of these assumptions prove false, then the state could face dramatically increased costs with little flexibility to meet them.

Since the legislature enacted the statutory spending cap in 1991, the General Assembly's Office of Fiscal Analysis (OFA) and the Governor's Office of Policy and management (OPM) have ensured that they calculate the spending cap in a consistent way over time. When the legislature enacts laws that move billions of dollars immediately under or out of the cap—by excluding federal funds, for example—OFA and OPM adjust the base of the cap.⁷ This "base adjustment" accounts for the last year's expenditures for the previously excluded or included item to compare like with like. For example, if a program cost \$1 billion in FY 2017 and was excluded from the cap that year but cost \$1.7 billion in FY 2018 and was *included* under the cap that year, OFA and OPM would not suppose that Connecticut spent \$1.7 billion more in capped expenditures in FY 2018. Rather, they would add \$1 billion to the FY 2017 expenditures, compare that to the FY 2018 amount, and see that Connecticut increased spending on that item by \$1.7 billion - \$1 billion = \$0.7 billion.

However, the law does not require OPM and OFA to base adjust when including pensions under the cap.⁸ A future administration or legislature could choose not to base adjust the SERS and TRS contributions, immediately triggering nearly \$1 billion in cuts to critical building blocks for thriving communities. To fix this, the legislature should immediately amend the constitutional spending cap to require base adjustment when moving pensions under the cap.

Even if OFA and OPM continue base adjusting, the effects of including pensions under the cap largely depend on how much the state retirement funds earn. Although TRS's assumed rate of return is 8 percent, over the last decade, the fund earned 5.3 percent returns.⁹ Over the same period, rather than its assumed 6.9 percent, SERS has realized a 5.1 percent return.¹⁰ If these funds' earnings are similar to their returns over the last decade, their growth will pressure the spending cap—and thus state services for children and families—more than currently assumed. For example, Boston College's Center for Retirement Research estimates that if TRS's investments earn similar returns as they have over the last decade, then the state's contributions to TRS will increase almost 500 percent (\$4.9 billion) from FY 2018 to their peak in FY 2032.¹¹ From FY 2026, the last year that the spending cap excludes these contributions, to FY 2032, they are predicted to increase by \$3.8 billion (260 percent). If the state does not reform TRS, or if the fund's average rate of return for the foreseeable future is similar to the last decade's, then billions of dollars of pressure under the cap will squeeze supports for children and families.

Fixing this requires lowering the funds' assumed rates of return to more realistic levels as soon as possible. Assuming that OFA and OPM continue to base adjust, the extent to which SERS and TRS grow *after* FYs 2022 and 2026 determines how much including them under the cap will harm state services. Thus, if Connecticut can peak its contributions to SERS and TRS before those years so that they grow minimally after FYs 2022 and 2026, it will minimize the pensions' pressure on the spending cap. Although in the short term this will increase the state's contribution to its pension funds and thus potentially pressure current investments in children and families, in the long term, it could protect the state from facing billions of dollars worth of devastating cuts. Restructuring TRS payments to maximize contributions before or soon after FY 2026 would also help ameliorate the damage of including it under the cap.

The new spending cap also includes grants to distressed municipalities. This will force policymakers to make unnecessary tradeoffs between essential supports for children and families, such as between state education grants and child care supports or between payments in lieu of taxes for tax-exempt property and transitional services for incarcerated youth. Although including these grants under the cap may allow additional flexibility if they do not grow significantly over the coming years, it also limits the state's ability to develop a prepared workforce during more prosperous times. A better definition would exclude statutory grants to distressed municipalities from the cap, allowing the state to support quality education in its most disadvantaged communities without fear of displacing other essential services.

The new spending cap excludes federal funds. An advantage of this approach is that it does not discourage our government from becoming more accountable by appropriating federal funds. A disadvantage is that because federal grants will probably not grow over the next few years, excluding federal grants forgoes a short-term opportunity to provide additional flexibility under the cap. Overall, this is a step toward a more transparent state budget if Connecticut passes legislation appropriating—and thus explicitly accounting for—all federal funds.¹²

Because of these and other changes to the spending cap, the new budget will be just \$198.5 million under the cap in FY 2019, only 1 percent of net General Fund appropriations for that year.¹³ Thus, in the best-case scenario—no state agency runs a deficit, and Connecticut collects at least as much in taxes as it expects to—Connecticut can spend only \$198.5 million more on General Fund appropriations than FY 2019 amounts.¹⁴ Considering current need, this is not enough to support children and families. For example, restoring the Children's Budget to FY 2016 levels—a budget that eliminated Medicaid for 20,000 parents, reduced the property tax credit from \$300 to \$200, and cut more than \$130 million from K-12 education—would cost \$185.8 million, almost all the room under the cap.¹⁵

Perhaps most distressing of all is the long-term impact of this newly defined spending cap. Put into the budget at the last moment, these new definitions will affect generations to come. Because the final budget passed almost unanimously, these changes are constitutional. Any future changes to the spending cap will require at least a three-fifths vote in both houses of the General Assembly, a standard so high that it took 25 years to reach.

In addition to implementing a constitutional spending cap, the budget also provided for a statutory "Volatility Cap," essentially restricting the state's use of new funds from one of its most volatile but equitable sources. The state's personal income tax revenues are composed of two parts: "withholdings," from paychecks, and "estimates and finals," the typical means of paying for investment-related earnings.¹⁶ The Volatility Cap forces the state to deposit any estimates and finals revenue in excess of \$3.15 billion into the Rainy Day Fund, which it can use only during emergencies. In FY 2017, Connecticut collected \$3.12 billion in estimates and finals revenue, almost passing that threshold.¹⁷ Because estimates and finals tend to be paid by wealthy individuals, the Volatility Cap would likely dampen the effects of any income tax increase on the wealthy: the state could use only the withholdings portion of any new revenue raised for general expenditures, while it would be compelled to lock the estimates and finals portion away for another day. Estimates and finals constituted more than one-third of income tax revenues in FY 2017.¹⁸ Connecticut's overall tax system is upside-down, and the personal income tax is one of only two state taxes that help correct that imbalance.¹⁹ Connecticut must ensure that its tax policies promote rather than inhibit equitable opportunity.

The new budget also imposes various restrictions on state bonding, often used to build schools and stimulate economic development.²⁰ Additional work is necessary to map how these bonding caps will impact the state's ability to facilitate equitable economic growth. Any bond restrictions that limit Connecticut's ability to attract new business, such as investments in critical transportation or information technology infrastructure, would likely undermine the state's long-term prosperity.

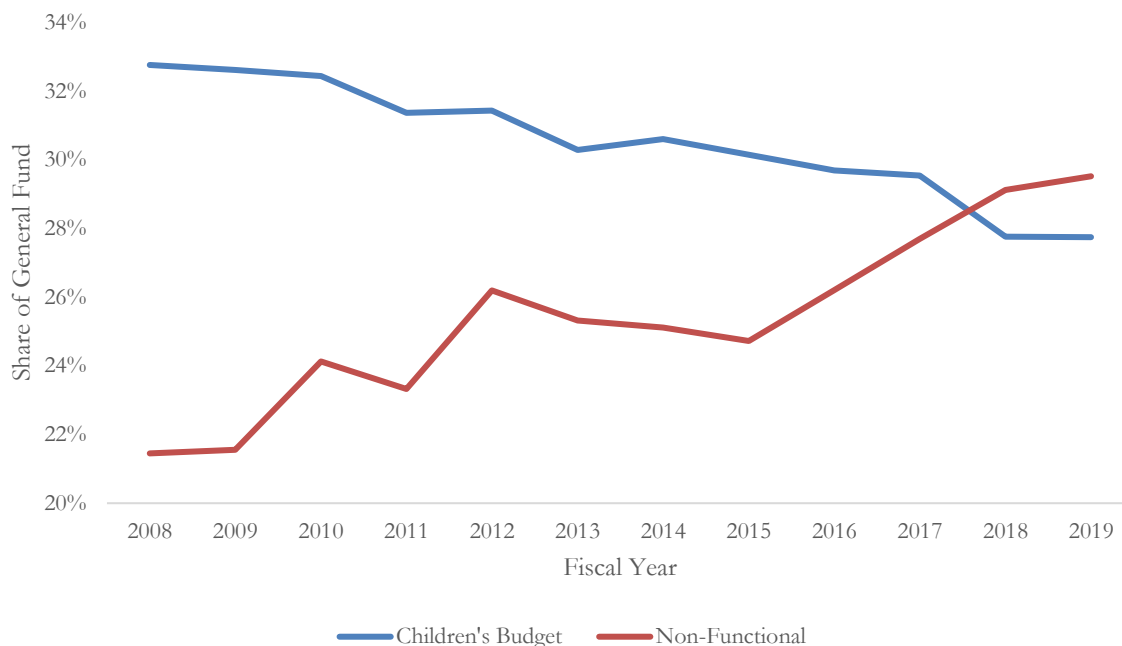
One last-minute addition to the implementer will make fixing these restrictions even more difficult, at least for the next 10 years. Under the so-called "bond lock" provision, which takes effect in May 2018, whenever the state issues

a bond, it must promise not to change the spending cap, volatility cap, or bonding cap except in extraordinary circumstances.²¹ Because bonds are considered contracts, Connecticut must reach a high standard to broach these bond covenants and fix the caps.²² Even if the General Assembly unanimously agreed that it wanted to fix the caps, it could not—unless it met a high standard.

Fixed Costs

Over the last nine years, the share of the budget devoted to children has decreased while the share devoted to fixed costs—teachers’ pensions, state debt, and benefits for public employees—has increased. Without structural reform, these costs threaten to consume an even larger share of the budget over the coming decades, crowding out direct supports for children and families. Fiscal Year 2018 marks the first year that the share of the budget devoted to these “non-functional costs” will exceed the share devoted to children. Overall, nonfunctional costs increased by \$680 million (11.5 percent) in FY 2018 and are projected to increase by an additional \$179.9 million (2.7 percent) in FY 2019.

Figure 2. Share of Budget for Non-Functional Costs Now Exceeds Share for Children.



Source: Connecticut Voices for Children analysis of state budgets.

This July, legislators approved a deal between the state government and state employee union that actuaries estimate will save \$24 billion over the next twenty years.²³ However, no such agreement has been reached for teachers’ retirement fund contributions, another fixed cost, which are predicted to increase by \$5 billion (500%) by 2032.²⁴

Earlier in the session, the Governor proposed shifting some of teacher pensions’ rising costs to municipalities. While the state currently pays for the entirety of teacher pensions, he recommended that municipalities pay half of the teacher retirement system’s “normal cost,” or the amount necessary to pay for the pensions of teachers currently teaching. The Governor’s proposal sought not only to control costs but also make the teacher pension system more equitable. Under the current system, municipal school boards set teacher salaries, thereby determining teachers’ pensions. This effectively subsidizes wealthy school districts, which can afford higher salaries for their teachers, who then earn more generous pensions. Sharing this cost with municipalities would have reduced the gap between what the state pays for pensions in wealthy versus poorer communities. The final budget instead requires teachers to contribute an additional 1 percent of their salary to the teacher pension system, raising about \$38 million annually.²⁵ This is less than 1 percent of the amount that teacher pension contributions are expected to increase over the next 15 years.²⁶ Sustainable reform will require more significant changes to how we fund our teacher pension system.

Municipal Aid

The final budget cuts municipal aid by \$33.9 million in FY 2018 and by an additional \$5.9 million in FY 2019, a 1.3 percent and 0.2 percent reduction, respectively. Most of the cuts occur to the Payment in Lieu of Taxes (PILOT) program, which compensates municipalities for state laws that forbid them from taxing certain kinds of property, including state buildings, private universities, and hospitals. Thirty-three towns containing the lowest-achieving school districts see their overall state funding remain flat, while no other town loses more than 5 percent of its state dollars.

One of the main points of contention this session has been the Education Cost Sharing (ECS) formula, the state's program to equalize education funding among towns. The budget cuts ECS funding by \$31.4 million (1.6 percent) in FY 2018 before adding back \$30.9 million in FY 2019. As with municipal aid overall, the 33 lowest-achieving school districts will receive flat funding. The budget cuts other districts' funding by 5 percent.

Legislators have also attempted to address the capital city's budget crisis. Hartford Mayor Luke Bronin had asked for an additional \$40 million from the state to avert bankruptcy.²⁷ The final budget gives Hartford that \$40 million through two sources: a \$20 million grant to help the city pay its debt and much of a new \$28 million municipal restructuring grant.²⁸ While these short-term efforts will help stabilize the capital city, they do not address the structural challenges Hartford faces, including its high percentage of tax-exempt property. Cuts to the already underfunded PILOT program referenced above seriously disadvantage the capital city, which will face a structural deficit twice its current amount by 2023.²⁹ Authorities such as Moody's have recognized that fully funding PILOT to compensate Hartford for tax-exempt property would improve the city's long-term outlook.³⁰

Conclusion

The final budget adopted by a resounding supermajority has solved a short-term crisis, but it does so by harming the most vulnerable residents of the state, failing to offer structural solutions to a structural imbalance, and tying the hands of future legislators to take bold action. The solution to Connecticut's budget woes lies not with tax hikes for working families or short-term revenue tweaks. Rather, we need a new approach, one grounded in a commitment to economic growth, shared prosperity, and equitable opportunity for every child. As the General Assembly returns to Hartford for the next legislative session, we urge it to prioritize the following:

- **Adopt a balanced approach to structural budget reform.** Connecticut will solve its budget challenges only if it considers the whole range of policy options—including systemic overhauls to our revenue system—instead of a cuts-heavy austerity approach.
- **Restore the state's ability to build thriving communities.** The spending cap, volatility cap, and bonding cap all potentially hamstring the state's ability to create a more prosperous tomorrow. Most troubling of all, the new "bond lock," if not fixed by May 2018, will cement existing language as the law of the land for a decade. Legislators must preserve their ability to adapt any budgetary policies to new economic conditions.

Appendix

This appendix describes proposed changes to each component of the Children’s Budget — early care and education, K-12, higher education, health and human services, child welfare, and juvenile justice — in detail.

A Note on our Methodology

To ensure comparability with prior years, this analysis includes federal Medicaid dollars in total General Fund spending. Beginning in 2014, the state adopted a practice known as “net funding,” removing the federal Medicaid share from total General Fund spending and retaining only the state portion under the spending cap. Also beginning in 2014, the federal government significantly increased its share of Medicaid spending by providing 100 percent reimbursement for low-income adults on Medicaid (HUSKY D).

For example, in the current fiscal year (FY 2017), total Medicaid spending is \$5.964 billion, \$2.447 billion of which represents state investments, while \$3.517 billion comes from the federal government. This means that, in FY 2017, while the state defines total General Fund spending as \$17.864 billion, our baseline for comparison is \$21.381 billion (\$17.864 + \$3.517 billion). We add back in the federal share because we estimate what share of *total* Medicaid spending is devoted to children to calculate the health and human services component of our Children’s Budget.³¹ In FY 2017, we estimate that of the \$5.964 billion in total Medicaid spending, \$1.260 billion is spent on children.

We note as well the impact of hospital tax changes on the calculation of health care funding. In Connecticut, the state taxes hospitals and then redistributes this funding to hospitals across the state. This arrangement allows the state to draw down additional federal Medicaid funding.³² This year, the final budget includes \$634.8 million in additional health spending from FY 2017 to FY 2019, including \$343.9 million from increased hospital taxes. Under the “hospital proposal,” however, the state will give back the entirety of the increased taxes to the hospitals, plus an additional \$229 million. While this nets the state \$137 million annually, it also masks cuts to the Children’s Budget.³³

Health and Human Services

Long-term analyses show that having health insurance lifts families out of poverty³⁴ and that health coverage and access to care offer both financial and emotional security and the opportunity to prevent costly disease.³⁵ Despite these benefits, Connecticut is in the process of undoing the remarkable progress of our HUSKY programs (Medicaid and CHIP insurance coverage for children, caregivers, low-income adults, and elderly or disabled residents). The budget cuts \$93 million from Medicaid by reducing eligibility for low-income parents, disabled adults, and seniors and by limiting medically necessary dental care for adults.

Deep cuts to Connecticut's HUSKY programs are an ongoing trend. The 2018-19 budget will remove roughly 9,500 parents from coverage in addition to the more than 18,000 who lost coverage following the 2015 budget cuts.³⁶ An additional \$15 million in unspecified reductions to Medicaid suggests that HUSKY families will soon be required to pay co-payments and/or premiums and that other service cuts are imminent. The budget also reduces reimbursement rates for providers, which may result in fewer practitioners accepting new Medicaid patients. Cuts to other services, such as the Temporary Family Assistance program (TANF), are detrimental to the health and wellbeing of low-income children and families in Connecticut.

In the long term, we can expect that confusion about which family members are covered and how much they must pay will lead to reduced use of preventive care and long-term costs associated with the failure to intervene early. When parents are insured, their children are more likely to be insured and to access preventive care—whether an annual checkup or regular visits for a chronic condition.³⁷ Charging co-pays and premiums incentivizes low-income families to avoid seeking care. This, in turn, is likely to increase long-term costs of disease and disability that could have been prevented through regular care. Having robust insurance, on the other hand, lifts families out of poverty.³⁸

Any reduction to Medicaid results in a loss of federal revenue, because Medicaid spending is matched at a rate of 50-100 percent depending on each individual's eligibility and the services received; federal funding constitutes roughly 58 percent of all Medicaid spending in Connecticut.³⁹ At the same time that Connecticut is reducing eligibility and services, because of federal requirements, the state's share of the cost of the HUSKY D program (Medicaid for low-income adults) will increase from the starting rate of 0 percent to 10 percent in 2020. Because of this and other increasing state contributions and program shifts, the total Department of Social Services budget appears to increase even as significant cuts are made to programs for Connecticut's low-income population.

With threats to federal funding looming and an ongoing state fiscal crisis, it is imperative that Connecticut prioritize the health and wellbeing of its residents. These cuts may balance the budget in the short term, but debt will continue to grow in the years ahead unless we engage in a long-term strategy for prioritizing the social and healthcare needs of Connecticut's low-income families.

To that end, this budget does make steps towards maximizing federal reimbursement for healthcare received through schools. It also requires schools to determine the insurance status and Medicaid eligibility of students receiving certain services and to encourage eligible families to apply for Medicaid. Steps towards increased transparency and actionable data are included in provisions creating an Office of Health Strategy and detailing the information to be managed by the Health Information Technology Officer.

Connecticut has one of the country's most robust and financially efficient Medicaid programs and a remarkably low uninsured rate.^{40,41,42} This progress is threatened as we widen the pool of families who are ineligible for public insurance and cannot afford private insurance and increase out-of-pocket costs for those who retain their HUSKY coverage. This budget reflects short-term thinking that will make our state both less healthy and less equitable.

Child Welfare and Juvenile Justice

The final budget includes major policy changes in how the state serves children with mental health needs and abused, neglected, and juvenile-justice involved youth. The appropriations given to the agencies serving these populations, however, will undercut the state's ability to effectively implement these policy changes and provide necessary care to guide these children on successful paths.

Child Welfare and Behavioral Health

The Department of Children and Families (DCF) was not subjected to cuts as large as those seen by some other agencies. Nonetheless, the appropriations given to the Department should be interpreted in light of the impact they will have on the Department's ability to fulfill state and federally mandated obligations to protect vulnerable children. Since 1991, DCF has operated under the *Juan F.* consent decree that mandates many reforms to the child welfare system to better protect abused and neglected children. The *Juan F.* consent decree requires the state to provide the funding and other resources necessary to achieve the goals laid out within the consent decree exit plan.

In a recent review, Connecticut's federal district court determined that DCF would not be able to meet the goals set forth in the consent decree exit plan without additional funding above FY 2017 levels.⁴³ Specifically, DCF needed funding to hire more social workers and social work supervisors,⁴⁴ to provide culturally and linguistically responsive services in all parts of the state,⁴⁵ to update their risk and safety assessment tools, and to transition to modern and mobile case management technology.⁴⁶ Although the final budget holds many of the line items used to provide services for children and families impacted by the *Juan F.* consent decree⁴⁷ stable and in some cases even slightly increases appropriations to these lines, the funding provided falls far short of the additional \$14.5 million recommended by the courts⁴⁸ and included in the Governor's budget proposed in February.⁴⁹

Juvenile Justice

The overall appropriations to DCF also reflect a policy shift wherein the Judicial Department will assume responsibility to provide services to juvenile justice-involved youth beginning July 1, 2018. This policy shift could create several complications that the state must strive to avoid.

As previously called for by the Governor,⁵⁰ DCF will close the Connecticut Juvenile Training School (CJTS), which costs more than \$30 million to run annually,⁵¹ by July 1, 2018. Despite closing CJTS, the budget reflects little re-investment of the funds saved from its closing and decreases other youth-serving line items. CSSD received only 62 percent (\$6,564,318 in FY 2019⁵²) of the Residential Board and Care money previously used to operate CJTS. The budget also cuts funding to Juvenile Alternative Incarceration programs, which provide a broad range of services for juvenile-justice-involved youth in their communities by \$5.1 million (19.8 percent) and funding for Youth Offender Services for 16- and 17-year-olds by \$2.9 million (21.5 percent).

To prepare for closing CJTS and transferring responsibility for all juvenile justice services to the Judicial Department, DCF has requested help from the courts to ensure that no more youth adjudicated delinquent are placed in the Connecticut Juvenile Training School (CJTS) after January 1, 2018.⁵³ During this time, DCF should work closely with the Court Supported Services Division (CSSD) to create and execute a mindful transition plan to ensure the safety of the youth and the public. To aid in this transition, the budget allows the courts to place youth adjudicated delinquent in a DCF-operated congregate care setting, such as a group home, through January 1, 2019. The courts should exercise caution in using this option to avoid placing youth in foster care at a higher risk of delinquency and youth adjudicated delinquent at a higher risk of recidivism.⁵⁴

Second, some youth and families covered under the *Juan F.* consent decree to protect children at risk of abuse and neglect are also involved in the juvenile justice system. The Federal Court Monitor, who oversees implementation of the *Juan F.* consent decree, will need to work with CSSD to ensure that (1) CSSD's data collection allows for *Juan F.* outcomes monitoring and (2) CSSD can provide the services these children and families should receive as determined in their DCF case plans.

Third, many of the services needed for rehabilitating justice-involved youth, such as Cognitive Behavioral Therapy, substance abuse treatment, and intensive educational supports⁵⁵, are needed by many other youths as well, such as those who have experienced trauma, those with mental health challenges, those with learning disabilities, and those in foster care. DCF often contracts with nonprofit providers to provide these services to children and families in care regardless of whether these children are in care due to child protective services involvement, juvenile justice involvement, or receiving services voluntarily. The state should ensure that DCF and CSSD work together when transitioning service contracts so that all children can continue to access needed services in a way that is efficient for the state and for families.

The budget provides \$648,859 each year to the Department of Education to support expanded Youth Service Bureau grant eligibility that will help municipalities coordinate services for at-risk youth within communities. This funding is critical because the budget made changes that will limit formal prosecutions of children under Family with Service Needs (FWSN) petitions beginning July 1, 2019. These are petitions used by the courts in instances where youth have run away from home, have engaged in “immoral or indecent conduct,” or have engaged in sex acts with youth who are notably older or younger. While this is a positive step toward reducing juvenile-justice involvement, it is crucial not to undermine this progress by failing to invest appropriately in diversionary efforts such as the community-based diversion plan recommended by the Juvenile Justice Policy Oversight Committee⁵⁶ and through drastically decreased funding to the Judicial Department.

Early Care and Education

The final budget for early childhood, despite annualizing many of last year's cuts and holdbacks, rejected most of the more drastic reductions and eliminations proposed throughout this year's budget session. At various points, budget proposals called for new cuts to the Care 4 Kids child care subsidy,⁵⁷ elimination of the Even Start family literacy program,⁵⁸ and the elimination of the Office of Early Childhood altogether.⁵⁹ The rejection of these more serious cuts preserves much of the state's critical infrastructure supporting children and families in the early years; however, the budget does include a number of cuts to relatively small programs that taken together will have a negative impact on the ability of families to meet their children's needs.

On the positive side, the final budget protects the largest state-funded early care and education programs (School Readiness preschool programs and Child Day Care Centers), from line item cuts, preserving them at FY 2017 funding levels.⁶⁰

Other programs fared less well, suffering from one of three different tactics: annualizing prior year holdbacks, cuts on top of holdbacks, or total program elimination.

- A number of small programs, including the two-generation initiative, child care quality enhancements line item, and Early Head Start, annualize last year's holdbacks without additional cuts.
- Head Start (which provides child care to families below the poverty line) received a seven percent cut over FY 2017 holdbacks. Smart Start funding (used to improve and operate preschools in public schools) received no funding in FY 2018 and was only partially restored in FY 2019.⁶¹
- Funding was wholly eliminated for several smaller quality improvement and wrap-around support programs, including the Help Me Grow child development triage and referral service and Community Plans for Early Childhood.

Combined, these seemingly small cuts damage the network of quality enhancements and wrap-around supports that are essential for high-quality early care and education.⁶²

Moreover, funding for the Care 4 Kids child care, while improved, remains inadequate. In 2016, the OEC announced that the program was underfunded due to new federal regulations, leading to the program's closure to most new applicants. Advocates worked throughout 2016 and 2017 to increase state funding for the program, enjoying some measure of success in the final budget which funds the program at about \$2.9 million and \$7.9 million more than FY 2017 levels in FY 2018 and 2019, respectively. On November 8th, the Office of Early Childhood reported that with this new funding, the program would begin processing applications from some of the 5,769 families who have joined the waitlist during the past fifteen months. However, this funding level is insufficient to admit all families from the waitlist or fully open the program to all new applicants: "[the OEC] will increase enrollment to the greatest extent budgetary constraints allow while looking for opportunities to attract more outside support and make the most efficient use of the resources."⁶³ The failure to include sufficient funding to reopen Care 4 Kids fully in this biennium, combined with anticipated future limitations imposed by the spending cap, may preclude the full restoration of Care 4 Kids any time in the near future, regardless of available revenue.

Although the Office of Early Childhood averted some of the more draconian cuts recommended for other departments under austerity budgeting, it still must contend with flat or reduced funding across all early childhood programming. These funding choices inhibit pay increases for providers, despite 2015 legislation calling on the Office of Early Childhood to develop means to increase salaries for providers meeting heightened credentialing standards.⁶⁴ They also provide no funding for increased quality standards.

K-12 and Higher Education

A robust education is one of Connecticut's main tools to reduce inequality in the state over the long-term. However, wide disparities in the funding of school districts often means that the highest-need students cannot access the services they require. The final budget continues the state's pattern of programs meant to support the education of students in Connecticut's most high-need communities. Reductions in funding for state education aid, technical education, and teacher development will likely have a negative impact on the ability for all children in Connecticut to access a challenging and comprehensive education.

The budget cuts \$60 million (2 percent) from the State Department of Education (SDE) in FY 2018, partially offsetting this with \$38 million in additional funding for FY 2019. Perhaps the most drastic reduction was an 89 percent cut (\$5 million) to the Talent Development line item, which funds educator preparation, certification, and minority teacher recruitment. This cut jeopardizes the state's ability to attract and retain a diverse workforce, an especially critical goal as only 8.3 percent of Connecticut's full-time teaching staff is of color as compared to 44 percent of Connecticut's public school students.⁶⁵ The budget also eliminates funding to Common Core implementation.

Education Cost Sharing grants and the Regional Vocational-Technical School system bear much of the rest of the budget's education cuts. Education Cost Sharing (ECS) grants are state dollars given to towns to make education funding more equal. Based on a calculation that takes into account student need and the relative wealth of the town, ECS grants ensure that children in towns that are less wealthy are able to access all of the necessary programs and materials to succeed. This year, ECS grants will lose \$51 million (2.5 percent), regaining nearly \$31 million in FY 2019. This may result in increased property taxes or further reductions in afterschool programs, reading tutors, and other important wraparound services.

The Regional Vocational-Technical School System loses \$5.6 million (3.4 percent) in FY 2018, reducing the state's ability to train the next generation for skilled high-wage work. These cuts to the Regional Vocational-Technical School System multiply the damage caused by last year's \$7 million reduction.

The largest funding increases in the SDE budget were for the Excess Cost and Magnet Schools line items. Excess Cost grant supports the needs of special education students by funding the personnel, equipment and materials that they require to succeed in school. In FY18, funding for Excess Cost grants will increase by 5.2 percent (nearly \$7 million). The budget increases funding for interdistrict magnet schools \$15 million. These schools are intended, by statute, to promote racial and economic diversity and have a specialized curriculum (such as STEM or the arts).⁶⁶

Higher Education

The budget for FY18 and FY19 continues the trend of cuts to the state college systems and college access scholarships that ensure that all of Connecticut's residents have access to a college education. The budget reduces the Office of Higher Education's budget by \$2.35 million (5.7 percent) in FY 2018 and by an additional \$1.95 million (5 percent) in FY 2019. Most of that reduction occurs to the Roberta B. Willis Scholarship. The Willis scholarship funds low-income, high-achieving Connecticut students to attend state universities, which is critical to keep talent within the state. Furthermore, the final budget also cuts funding for the University of Connecticut, which just reached an all-time high of U.S News & World Report 18th-best public university in the country⁶⁷, by \$28 million (13 percent).

¹ Pazniokas, M. (2017, November 9). Legislators to Return for Limited Revisions to Bipartisan Budget. Retrieved November 14, 2017, from CT Mirror website: <https://ctmirror.org/2017/11/09/legislators-to-return-for-limited-revisions-to-bipartisan-budget/>.

² Phaneuf, K. and Pazniokas, M. (2017, October 31). Malloy Rejects Hospital Tax Plan but Signs Most of CT Budget into Law. Retrieved November 3, 2017, from CT Mirror website: <https://ctmirror.org/2017/10/31/malloy-rejects-hospital-tax-but-signs-most-of-new-ct-budget-into-law/>.

³ Thomas, D., & Noonan, R. (2017, May). Connecticut's Earned Income Tax Credit (EITC) (Issue brief). Retrieved October 19, 2017, from Connecticut Voices for Children website: <http://www.ctvoices.org/sites/default/files/EITC%20Brief%20vFINAL.pdf>.

- ⁵ Department of Revenue Services (2015). Fiscal Year 2015-2016 Annual Report (Report). Retrieved November 14, 2017, from Department of Revenue Services website: http://www.ct.gov/drs/lib/drs/research/annualreport/drs_fy16_annual_report.pdf, page 40.
- ⁶ The same day that the General Assembly passed a resolution to enact a *constitutional* spending cap, it also passed a *statutory* spending cap. Just like any other law, the statutory spending cap required only a majority vote to pass and would require only a majority vote to be amended. The legislature intended the statutory spending cap only as a stopgap measure while it worked on definitions for the constitutional spending cap. In the fall of 2015, legislators sought a formal ruling on the legal effect of the constitutional and statutory spending caps in the absence of a three-fifths vote defining the three terms above. Attorney General Jepsen issued an opinion finding that (a) until the legislature enacts definitions by a three-fifths vote, the constitutional spending cap has no legal effect and (b) until the constitutional spending cap became enforceable, the General Assembly could override or amend the existing statutory cap by simple majority vote. Technically, the General Assembly amended the statutory spending cap with more than three-fifths vote, which is considered implementing the constitutional definitions. See Jepsen, G. (n.d.). Letter written November 17, 2015 to Senator Leonard A. Fasano. Retrieved September 28, 2017, from [https://www.cga.ct.gov/app/tfs/20160330_Spending%20Cap%20Commission/20160330/Letter%20from%20Attorney%20General%20Jepsen%20to%20Sen.%20Fasano%20re%20Spending%20Cap%20\(November%2017,%202015\).pdf](https://www.cga.ct.gov/app/tfs/20160330_Spending%20Cap%20Commission/20160330/Letter%20from%20Attorney%20General%20Jepsen%20to%20Sen.%20Fasano%20re%20Spending%20Cap%20(November%2017,%202015).pdf) and Blumenthal, R. & Cohn, H. (n.d.). Letter written April 14, 1993 to Representative Edward Krawiecki, Retrieved October 5, 2017, from [https://www.cga.ct.gov/app/tfs/20160330_Spending%20Cap%20Commission/20160330/Letter%20from%20Attorney%20General%20Blumenthal%20to%20Rep.%20Krawiecki,%20Jr.%20re%20Spending%20Cap%20\(April%2014,%201993\).pdf](https://www.cga.ct.gov/app/tfs/20160330_Spending%20Cap%20Commission/20160330/Letter%20from%20Attorney%20General%20Blumenthal%20to%20Rep.%20Krawiecki,%20Jr.%20re%20Spending%20Cap%20(April%2014,%201993).pdf).
- ⁷ Cain, S., Wetzel, C., & Fiore, T. (9, May 2016). *Calculating the Expenditure Cap [PowerPoint Slides]*. Retrieved from Spending Cap Commission website: https://www.cga.ct.gov/app/tfs/20160330_Spending%20Cap%20Commission/20160509/Calculation%20of%20the%20Spending%20Cap%20Presentation.pdf, slide 15.
- ⁸ The law requires a base adjustment to be made (the law does not specify by whom) only when an expenditure changes from an appropriated to a nonappropriated source or vice-versa. Pensions are appropriated, and including them under the cap will not make them nonappropriated. Thus, the law is silent about whether OPM and OFA must still base adjust. PA 17-2 Sec. 709 https://www.cga.ct.gov/2017/BA/2017SB-01502-R00SS1-BA.htm#P3136_318928
- ⁹ http://publicplansdata.org/quick-facts/by-pension-plan/plan/?ppd_id=17#investments
- ¹⁰ Over a five-year period, SERS's annual return was 5.7 percent. Over a ten-year period, SERS's annual return was 5.1 percent. Boston College Center for Retirement Research. (n.d.). Plan Data: Connecticut SERS. Retrieved November 13, 2017, from http://publicplansdata.org/quick-facts/by-pension-plan/plan/?ppd_id=16#investments. In its study of SERS, the Boston College Center for Retirement Research used a 5.5 percent return. See Aubry, J., & Munnell, A. (2015, November). Final Report on Connecticut's State Employees Retirement System and Teachers' Retirement System (Issue brief). Retrieved October 19, 2017, from Center for Retirement Research at Boston College website: http://crr.bc.edu/wp-content/uploads/2015/11/Final-Report-on-CT-SERS-and-TRS_November-2015.pdf.
- ¹¹ http://crr.bc.edu/wp-content/uploads/2015/11/Final-Report-on-CT-SERS-and-TRS_November-2015.pdf, page 65, Table A9.
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- ⁵⁸ In May, budget proposals from the Governor, legislative Democrats, House Republicans, and Senate Republicans all called for elimination of Even Start.
- ⁵⁹ At various points throughout 2017, Republican budget proposals and some Democrats' proposals have incorporated early childhood programs into the State Department of Education.
- ⁶⁰ Legislative allocations seem to indicate funding cuts, but in actuality reflect a realignment of federal TANF, SSBG, and CCDF funds that should not impact program funding or service delivery.
- ⁶¹ The Smart Start program consists of capital improvement funds (which renovate and upgrade early care and education classrooms) and operations funds, which come from state bonding funds and the Tobacco Settlement Fund as designated by P.A. 14-41. The budget implementer bill eliminates transfers from the Tobacco Settlement Fund and instead allocates \$0.0 million and \$3.3 million, respectively, in FY 18 and 19.
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