CT FY17 Budget Choices: Implications for Non-Profits and their Funders

Fairfield County Funders Network

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The Business Council of Fairfield County
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CT FY17 Budget Choices is an analysis by the Fairfield County Information Exchange, launched in 1990 by **The Business Council of Fairfield County**. The Exchange is a respected source for information on the issues and trends related to the region's marketplace, its residents, industries, and economic development challenges.

The Information Exchange is supported by corporations located throughout the county, in addition to a network of public officials, CEOs, public, private and non-profit leaders from throughout the 23-town region, and the state Department of Economic and Community Development.

The Exchange also distributes periodic reports analyzing the region's economic development assets, as well as its challenges. Past reports have focused on the region's job recovery, higher education institutions, regional airports, transportation patterns, cost of business improvements, trends in employment, housing, retail sales, office space, and other economic benchmarks. Additional resources are available at **www.BusinessFairfield.com/fcie.htm.**

The Exchange is served by a steering committee of regional business leaders including ***The Ashforth Company, CB Richard Ellis, Eversource Energy, Deloitte , Jones Lang LaSalle, O'Connor Davies LLP, People's United Bank, and TD Bank.*** *The Exchange is also proud to acknowledge the public sector support of the Connecticut Department of Community and Economic Development and Connecticut Innovations.*

How did we get here? Where are we going?

- Long term trends
- Factors determining FY17 budget choices
- Magnitude of cuts
- Implications

The Connecticut Economic Competitiveness diagnostic: Key takeaways

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- **Connecticut has had a long run of strong economic performance**, making it a great state to live and work

- **Recent trends have created a new economic normal** and pose challenges for the state's competitiveness
  - A. Global and national forces are reshaping Connecticut's traditional core sectors
  - B. Peers are closing the gap on Connecticut's livability and cost advantages
  - C. Population trends are reshaping Connecticut's workforce
  - D. Perceptions are hardening on state governance and fiscal uncertainty

- **Connecticut has a portfolio of distinctive assets to address these trends** and ensure long-term competitiveness

- **Five themes have emerged as potential areas for the Commission to consider exploring in further detail**
  - **1. Cities**: How should Connecticut revitalize its urban cores?
  - **2. Growth sectors**: How can Connecticut support its high potential, fast-changing sectors?
  - **3. Transportation**: What investments will best connect talent and businesses?
  - **4. Fiscal outlook**: How can Connecticut address its pension and budget challenges to restore business confidence?
  - **5. Public-private engagement**: How can the State and the private sector collaborate to jointly support long-term growth?

PEERS ARE CLOSING THE GAP ON CONNECTICUT'S ADVANTAGES

Quality of life measures vary widely across Connecticut's cities

Top quartile
Middle 50%
Bottom quartile

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Livability metrics by city, 2014

	CT overall	Bridgeport	Hartford	New Haven	Norwalk	Stamford	Waterbury
Insurance coverage % of population without health insurance	8.5%	20.3%	15.5%	12.3%	17.0%	17.3%	12.6%
School ranking Nationally of 13,506 school districts[1]	-	10,196	7,499	6,002	2,717	1,318	9,021
Crime rates Violent crime per 100k residents	263	905	1,104	1,054	296	240	373
Cost of living Median gross rent as a percentage of household income	31.9%	37.4%	36.2%	36.4%	30.3%	32.5%	35.2%
Homelessness Percent of total population	0.13%	0.30%	0.57%	ND	0.28%	0.31%	1.57%
Unemployment[2] Percent	7.9%	14.6%	19.4%	11.2%	8.5%	9.3%	ND

NOTE: Quartiles are determined using cities >50,000 residents 1 School ranking calculated through surveys, health, safety, student culture, diversity and state test scores 2 Unemployment based on ACS 2014 one year survey estimate for purposes of comparison with city-level data

While Connecticut has a lower poverty rate than the US, it has been growing at a higher rate

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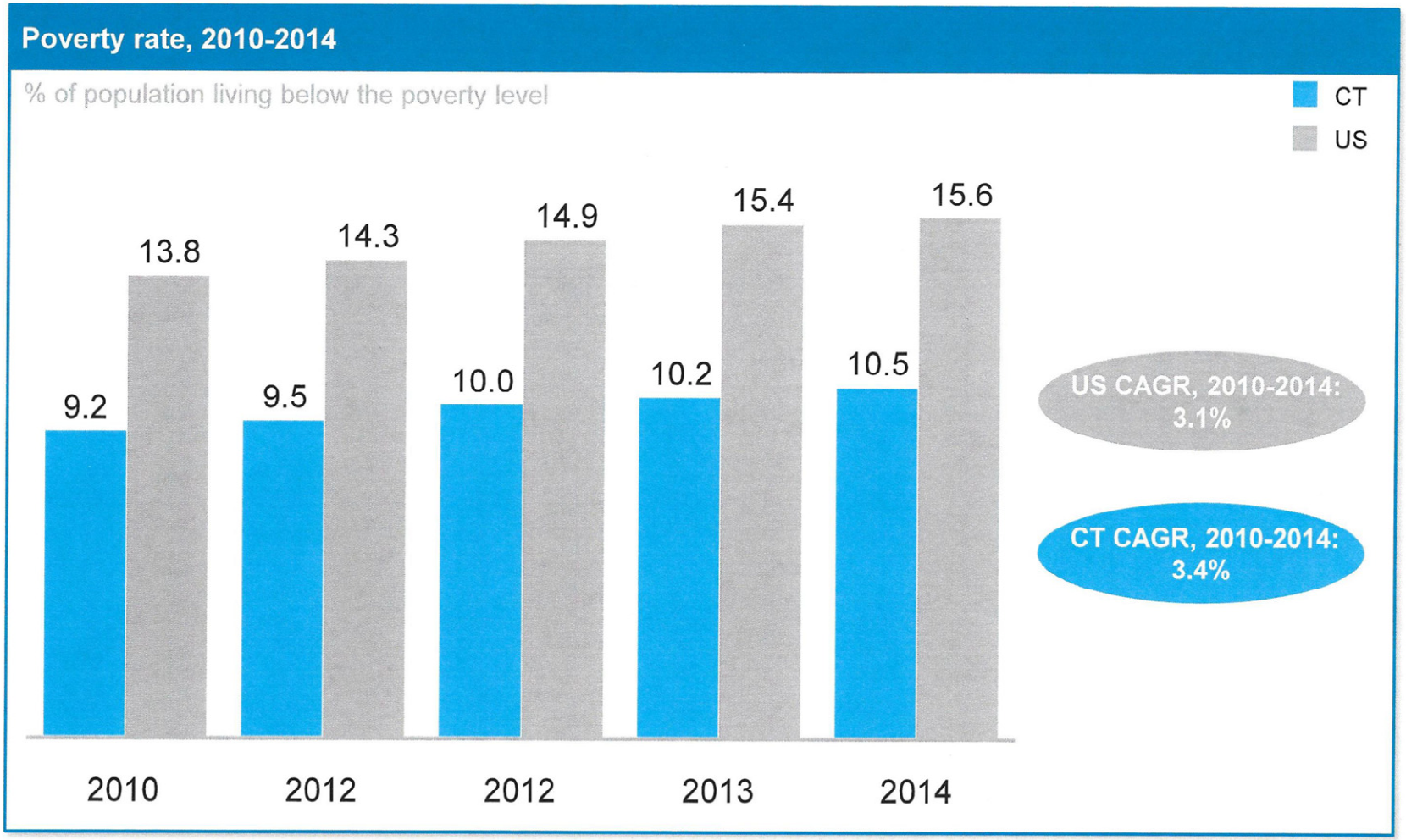

THEMES TO EXPLORE

Potential themes for the Commission to consider exploring

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Growth sectors: *How can Connecticut support its high potential, fast-changing sectors?*

- Skills & workforce development
- Enabling infrastructure (e.g., broadband)
- Modernized and aligned tax code and regulatory/incentive regime

Transportation: *What investments will best connect talent and businesses?*

- Performance and expansion aligned with growth priorities
- Funding certainty
- Access to jobs

Cities: *How should CT revitalize its urban cores?*

- Urban appeal and attraction of young talent
- Economic opportunities for all
- Entrepreneurship

Public-private engagement: *How can the State and the private sector collaborate to jointly support long-term growth?*

- Reignited dialogue, trust, and commitment
- Sector- and opportunity-specific partnerships
- Co-ownership of initiatives

Fiscal confidence: *How can Connecticut address its pension and budget challenges to restore business confidence?*

- Pension sustainability
- Budget stability

Causes of the "new normal" budget

- Gubernatorial and legislative agreement to avoid new taxes (after multiple years of tax increases).
  - Reelection year
  - "Diagnostic" study for CT Commission on Economic Competitiveness
- Deficit caused by mismatch between spending levels and forecasts of economic growth
  - Consistent 4% state growth forecasts, while national economy (GDP) grew at 2.5%.
    - Connecticut growth in 1-2% range.
  - GDP growth caused primarily by labor pool growth and productivity growth.
    - Connecticut labor pool growth lags nation. Productivity is high but rate of growth is declining.

Causes of "new normal" (continued)

- Spending levels driven by
  - A culture of constituency-based budgeting, rather than holistic view of state needs and capacity.
  - State subsidies of "home rule" service requirements (e.g. 911 systems, schools, information technology).

How much was cut?

CT General Assembly Office of Fiscal Analysis:

"Staffing costs were among the biggest cuts in the budget at $325 million. At DSS, personnel costs were cut $19 million – a 14 percent reduction."

The table below identifies the 15 General Fund accounts having the most significant changes from the FY 17 original budget.

Significant Changes by Account (in millions)

Agency	Account	Amount $
Various	Personal Services	(255.0)
OSC	Fringe Benefits	(70.5)
OPM	Reserve for Salary Adjustments	(67.6)
Various	Other Expenses	(50.1)
DSS	Medicaid	(43.1)
SDE	ECS	(32.1)
SDE	Transportation of School Children	(23.3)
UCONN	Operating Expenses	(17.4)
OPM	Reimbursement to Towns for Loss of Taxes on State Property	(16.9)
SDE	Magnet Schools	(11.9)
BOR	Connecticut State University	(10.6)
OPM	Reimbursements to Towns for Private Tax-Exempt Property	(10.5)
UCHC	Operating Expenses	(9.6)
JUD	Probate	6.0
OTT	Debt service	10.0

OFA Revised FY17 Budget Summary

- Education
  The largest cuts to primary and secondary education will be to the grants that local school boards receive to help pay for general and special education and transporting children to school – $57 million in cuts. Also cuts to magnet, charter school and priority school district funding.
- DSS
  While Connecticut has been able to keep per-enrollee costs stable, the Medicaid line item in the budget was cut nearly $100 million. This cut was driven primarily by changing dental coverages for children and by making income eligibility levels more stringent for parents and caregivers applying for the Husky A Medicaid plan. The change made about 14,000 people no longer eligible for Husky A. http://ctmirror.org/2016/07/21/education-social-service-agencies-digest-their-big-budget-cuts/

OFA Revised FY17 Budget Summary

- **OPM**
  Reducing state property PILOT and College and Hospital PILOT funding ($27,392,172)

- **DDS**
  (August 23) Since 2009, the number of individuals served directly by the state Department of Developmental Services in community-living settings have dropped from 15 percent to less than 10 percent. The Malloy administration unveiled plans last week to privatize 40 group homes and a host of services for the intellectually disabled and eliminate the need for 605 state jobs, saving Connecticut almost $70 million annually by next fiscal year.
- Those changes are planned to comply with a major reorganization and savings initiative the governor and the General Assembly ordered in May when they adopted the latest state budget. The administration, which already has laid off 113 DDS employees, would eliminate another 492 workers in two stages, most happening after Jan. 1. That means 25 percent of the full-time positions at the state agency are being eliminated.
- http://ctmirror.org/2016/08/23/parents-of-disabled-urge-malloy-to-scrap-privatizing-group-homes/

OFA Revised FY17 Budget Summary

- Juvenile Justice
  Reacting to a $77 million cut in state funding for the fiscal year, the Judicial Branch has laid off 239 employees and 61 temporary workers. It also has cut $27 million from the community-based programs meant to divert youth from being incarcerated by DCF or adults by the Department of Correction – a 25 percent reduction. The correction department also incarcerates those under age 18 who are convicted of more serious offenses. http://ctmirror.org/2016/07/14/juvenile-justice-in-ct-whats-left-after-all-the-cuts/
-

OFA Revised FY17 Budget Summary

- **Environment**
  DEEP is working with a budget that provides about $10 million less than anticipated for the new fiscal year that began July 1.
- Closures and reduced hours at parks, campgrounds, nature centers and other facilities;
- Lifeguard services at just seven of 23 swimming sites;
- Merger of fish hatcheries in Kensington and Burlington.
- Staffing reductions also mean slower response times to spills, animal nuisance calls and park and boating incidents, as well as longer processing times for environmental permits and reviews.
- Its $70.8 million General Fund budget for 2015-16 was reduced by nearly 5 percent because of various state budget deficit-mitigation efforts. That meant plans to add about 20 staffers not only were postponed, but about 30 retirees weren't replaced.
- The preliminary $71.4 million budget legislators and Gov. Dannel P. Malloy established for DEEP in 2016-17 now is down to $63.9 million. All totaled, the department effectively is left with $61.5 million. That's down 7.5 percent from last fiscal year, and almost 14 percent below the preliminary 2016-17 budget.

Children and Families

(From CT Voices for Children)

- $81.8 million (2.6%) from K-12 – including aid to towns for education and special education; voc-tech by 5% ($7 million)
- $48.7 million (8.1%) from higher ed – including UConn operating expenses, minority advancement program (a college prep program for low income youth), minority teacher incentive program (scholarship program for undergrads of color pursuing careers in education), scholarships
- $38.7 million (4.6%) from DCF – $22 million in cuts applied to Personal Services and $4.5m reduction for placement – partly due to decreased need for beds as CDF moves to more in home-based placements.
- $5.5 million (18%) from behavioral services in Dept Developmental Services
- Office of Early Childhood only cut by 1.2%; and Care 4 kids – CT's largest child subsidy program has full appropriation funding of $122 million. While early childhood slots were maintained programs aimed at improving quality were cut.

Going Forward

(From Gaffney Bennett)

"Connecticut's budget prospects dimmed this week (Sept 9) with the release of a letter from the administration's Office of Policy and Management (OPM) to state agencies instructing them to provide budget options that would "result in a 10 percent reduction from the FY 2017 baseline budget, exclusive of entitlements and formula-based municipal aid." This pre-emptive move was necessary, according to OPM, because its most recent calculation show a miniscule surplus of only $200,000 in the current 2017 fiscal year with **deficit projections in FY 18 expected to reach $1 billion-plus.** Any hiccups – e.g. continued deterioration of revenues and or missed budget targets -- could significantly erode the fiscal picture. An erosion of just $180 million, or approximately 1 percent of the total 2017 FY budget – could trigger another round of rescissions and a deficit mitigation plan, as well as a special session of the Legislature.

When the two budget offices – OPM and the nonpartisan OFA – issue their respective fiscal accountability reports in November the budget picture should become clearer, though not necessarily brighter."

Going Forward

Two 800lb Gorillas in the Wings

- Impact of Connecticut Coalition for Justice in Education Funding v. Rell. (Initial remedy deadline approx. March 1)
- Potential leadership changes in CT executive and legislative branches in the event of a Clinton victory.

Consequences of FY17 reductions

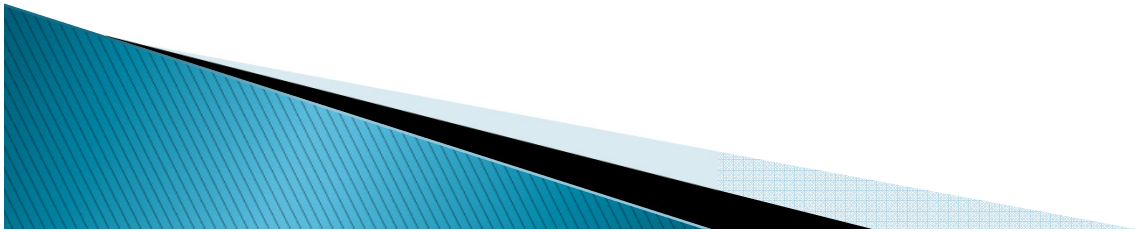
- Formula-driven reductions in federal funding
- Reductions in services provided and outsourced by the state
- Immediate cascade effect of service reductions
- Longer-term compounding effect
- Greater citizen dissatisfaction with municipal and state government

Implications for service providers

- Reduced current revenue for service and administration
- Draining of cash reserves in effort to meet service commitments
- Intensified fundraising
- Reprioritization among mission goals
- Internal reorganization

Implications for providers (continued)

- Alliances and mergers
- Potentially, strategic triage in denying requests for service
- FY18 likely to include further cuts



Recommendations for funders

- Assume further cuts coming in FY18
- Detailed data matter: time for cooperative constituent survey design, implementation, and strategic consideration of findings.
- Possible need to rethink program performance metrics in current grants contracts.
- Consider expanding use of challenge grants to enhance success of intensified grantee fundraising.

Recommendations (continued)

- Consider establishing a pooled loan guarantee program to encourage commercial lending to grantees.
- Review and, potentially, revise on interim basis, policies on foundation expenditure limits set by investment income ratios.
- Develop “agency viability” funding programs (in addition to services maintenance).

Corporate giving

- May increase. Will not fill the gap.
- Will be inundated by requests.
- Will decline first-time applicants.
- Will be reluctant to invest in “viability” funding.
- May become more idiosyncratic as internal power prevails over policy.

Corporate giving

Departing/Declining	Arriving/Increasing
GE	Synchrony Financial
UBS	Point72
Starwood Hotels	FactSet
RBS	

Questions

- Who is responsible for meeting the public's needs?
  - The public, itself, acting through its elected representatives?
- Should philanthropic judgments substitute for democracy?
  - Systemic issues vs. specific interventions.
- Should philanthropy subsidize self-interested inefficiency?
  - E.g. A unified 911 system would save an estimated $15-20 million.

Questions

- Should philanthropy seek to improve democratically arrived at decisions?
  - Is advocacy for government transparency, voter education and participation, and research-based public policy on the state's most important issues a proscribed or an appropriate activity – or an obligation?

- Should philanthropy, through citizenry awareness efforts, seek to hold the public sector accountable in the same way (philosophically) that it holds grantees accountable?

Questions

- How can philanthropists ameliorate the immediate consequences of state budget decisions, while seeking to create the conditions for different decisions in the future?
- If change takes time, how long can Connecticut wait?
- Fairfield County: Lifeboat or launch pad?

Thank you!