

# Children's Action Alliance

*A Voice for Arizona's Children since 1988*

## Arizona's Revenues and Spending -

- Where we've been
- Where we're headed



**Wednesday January 6, 2016, 1:00p - 3:00p**

**On-Site Location:** Valley of the Sun United Way  
3200 East Camelback Road, Suite 375, Phx AZ 85018 or

*In collaboration with the Arizona Housing Alliance and the  
Arizona Coalition to End Homelessness*



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# A REVIEW OF THE LAST 7 YEARS

Thanks  
for the  
memories.

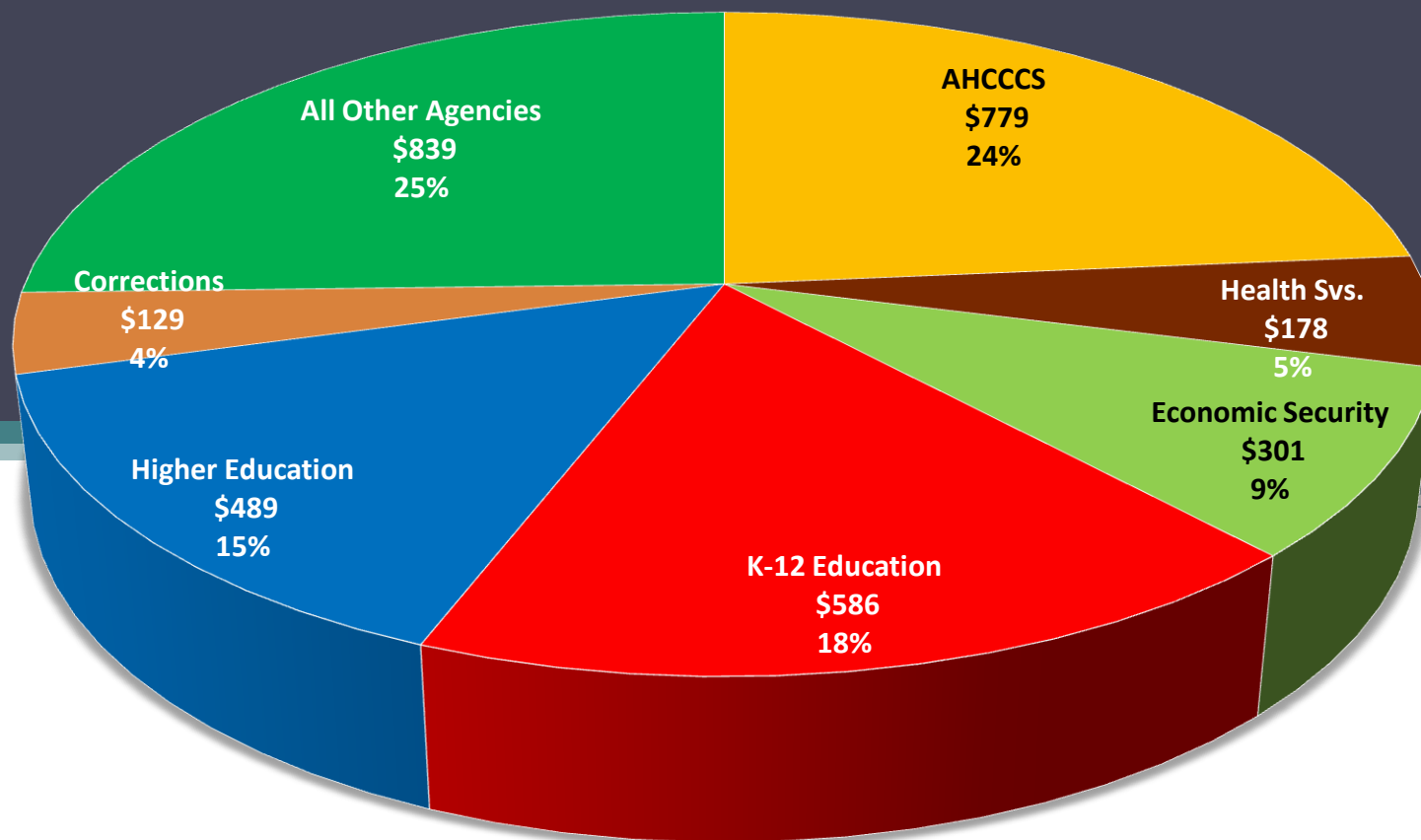
# How the Budget Was Balanced

## FY 08 - FY 12

	Amount	Percent of Total
Permanent Spending Reductions	\$3.3 billion	25%
Additional Federal Assistance	\$2.7 billion	20%
New Debt	\$2.1 billion	16%
Fund Sweeps	\$1.9 billion	14%
Rollovers (payment delays)	\$1.4 billion	10%
Temporary Sales Tax	\$0.8 billion	6%
Rainy Day Fund Transfer	\$0.5 billion	4%
Permanent Revenue Increase (non-tax)	\$0.4 billion	3%
Other	<u>\$0.3 billion</u>	2%
Total	\$13.4 billion	

# 70% of Budget Cuts Have Been to Health, Human Services and Education

\$2.3 billion out of \$3.3 billion Since February 2009



General Fund Dollars in Millions

# THE CUTS ...

- Limited behavioral health services for non-Title 19 adult SMIs
- Froze KidsCare - *Jan 10 - 45,820; Nov 15 - 847*
- Froze child care for low-income working parents - *Jan 09 - 29,006; May 15 - 11,024*
- Reduced spending per pupil in K-12
- Stopped repairing schools or building new ones
- Cut rates for foster parents, health care providers, child care providers

# AND ELIMINATED ALTOGETHER...

- Cash assistance for many relative caregivers
- Full-day kindergarten, preschool, dropout prevention, family literacy programs
- Behavioral Health Services and Children's Rehab Services for non-Title 19 children

# Most spending is driven by formulas

Agency	Total General Fund Budget	Statutory Spending
Education (K-12)	\$3.8 billion	\$3.7 billion
AHCCCS	\$1.3 billion	\$1.2 billion
Corrections	\$996.8 million	-0-
Universities	\$768.4 million	\$10 million
Health Services	\$613.4 million	\$422.0 million
Economic Security	\$479.3 million	\$333.0 million
Child Safety	\$361.0 million	-0-
Other Agencies (including debt)	\$943.7 million	\$505.8 million
<b>Total</b>	<b>\$9.3 billion</b>	<b>\$9.2 billion</b>

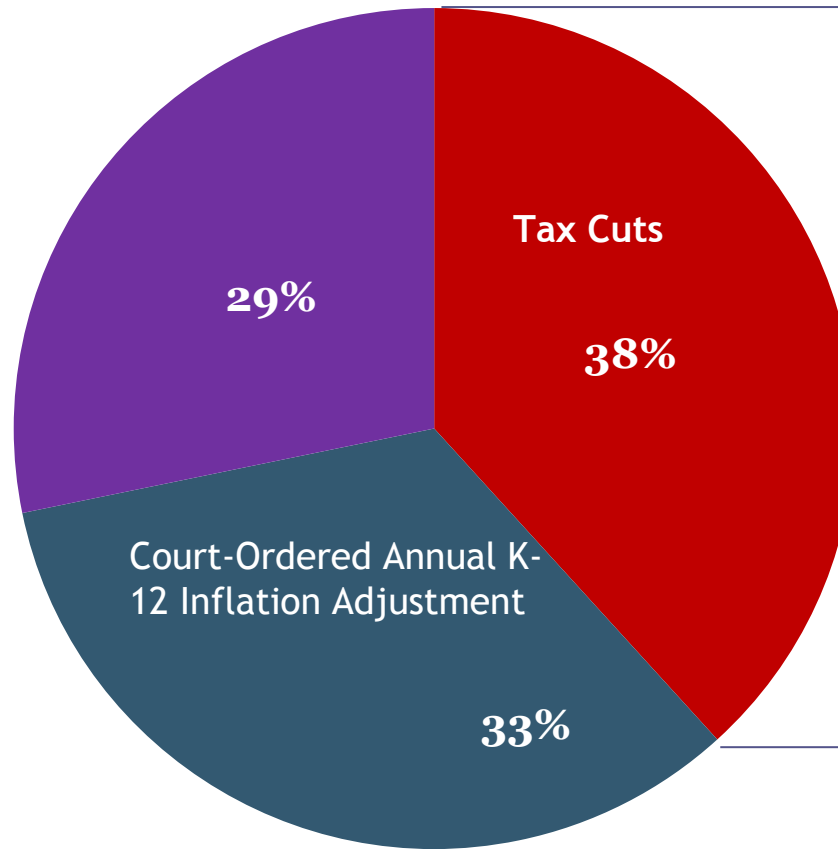
# Many formulas have been suspended

	FY 15 Suspensions	FY 16 Suspensions
Community College/Capital State Aid	\$14 million	\$0.8 million
Dept. of Education	\$256 million	\$373 million
Dept. of Environmental Quality	\$8 million	\$8 million
Dept. of Health Svs.	\$4 million	\$4 million
University Financial Aid Trust Fund	\$13 million	\$15 million
School Facilities Board	Formula repealed - in FY 14 would have been \$260 million	
Public Safety/Highway User Fund	\$79 million	\$87 million
State Govt Building Renewal	\$24 million	\$22 million
Corrections Building Renewal		\$12 million
Universities Building Renewal	<u>\$104 million</u>	<u>\$116 million</u>
Total	<b>\$502 million</b>	<b>\$637 million</b>



# WHAT HAPPENED DURING THE 2015 LEGISLATIVE SESSION

## POLICYMAKERS FACED \$1 BILLION SHORTFALL AT BEGINNING OF 2015 LEGISLATIVE SESSION



**38%**  
of the FY 2016  
projected budget deficits  
is due to tax cuts passed  
since 2009

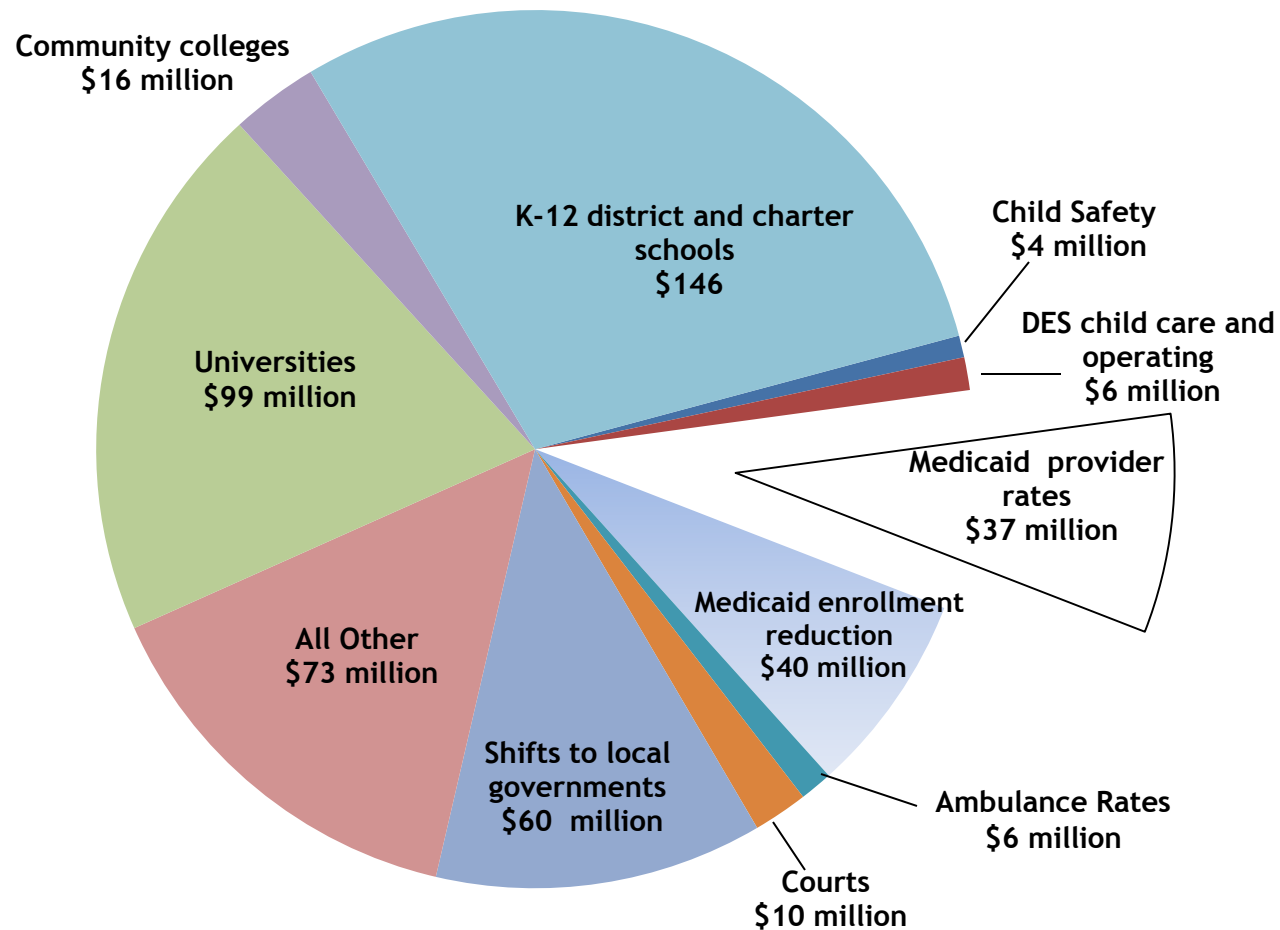
# The Solution

## From a \$1 Billion Shortfall to a Positive \$12 Million

Beginning shortfall	<b><u>\$(1.015 billion)</u></b>
Solutions:	
Higher revenue estimates	52 million
Revenue increases (fraud, tax amnesty, dispro share)	74 million
Fund transfers (\$100 million from Commerce Authority)	220 million
Set aside funding K-12 inflation*	337 million
Spending cuts	497 million
Increased spending*	<u>(176) million</u>
Subtotal	<b>(\$132 million)</b>
Rainy Day Fund Transfer	144 million

## FY 16 BUDGET - SPENDING CUTS AND COST SHIFTS TOTAL \$497 MILLION

### Education and Health Among the Hardest Hit

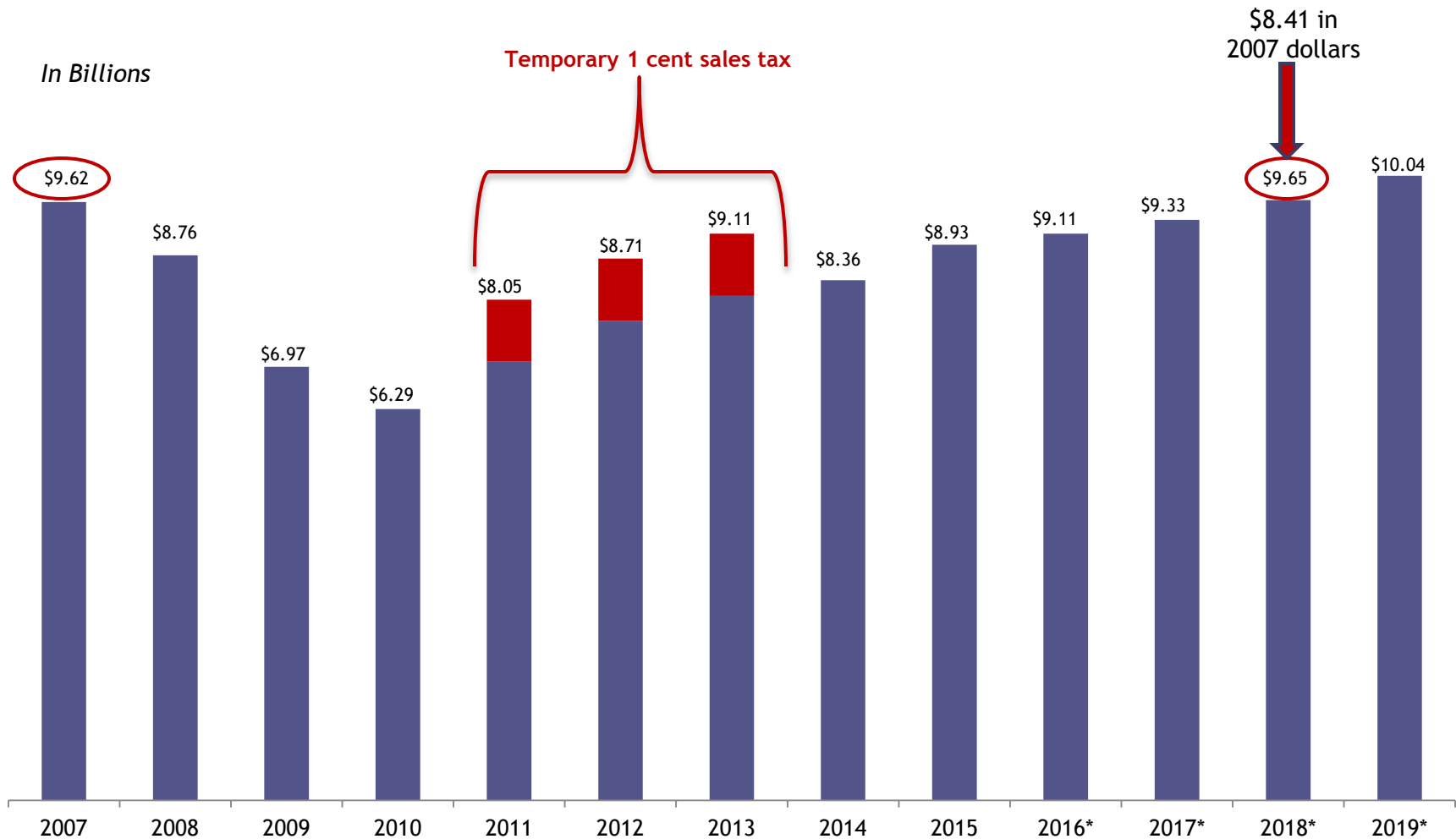


NOTE: In addition, the budget calls for reducing the lifetime limit for TANF Cash Assistance to 12 months beginning 7-1-16, eliminating hold harmless funding for schools with declining enrollments, reducing funding for high school students dually enrolled in district and joint technology education district schools, consolidating state agencies, and instituting a hiring freeze, all of which will result in an additional \$100 million in reductions for FY 17.

# WHERE WE ARE TODAY

- Revenues have not completely recovered
- Most agencies' budgets are lower than they were before the recession

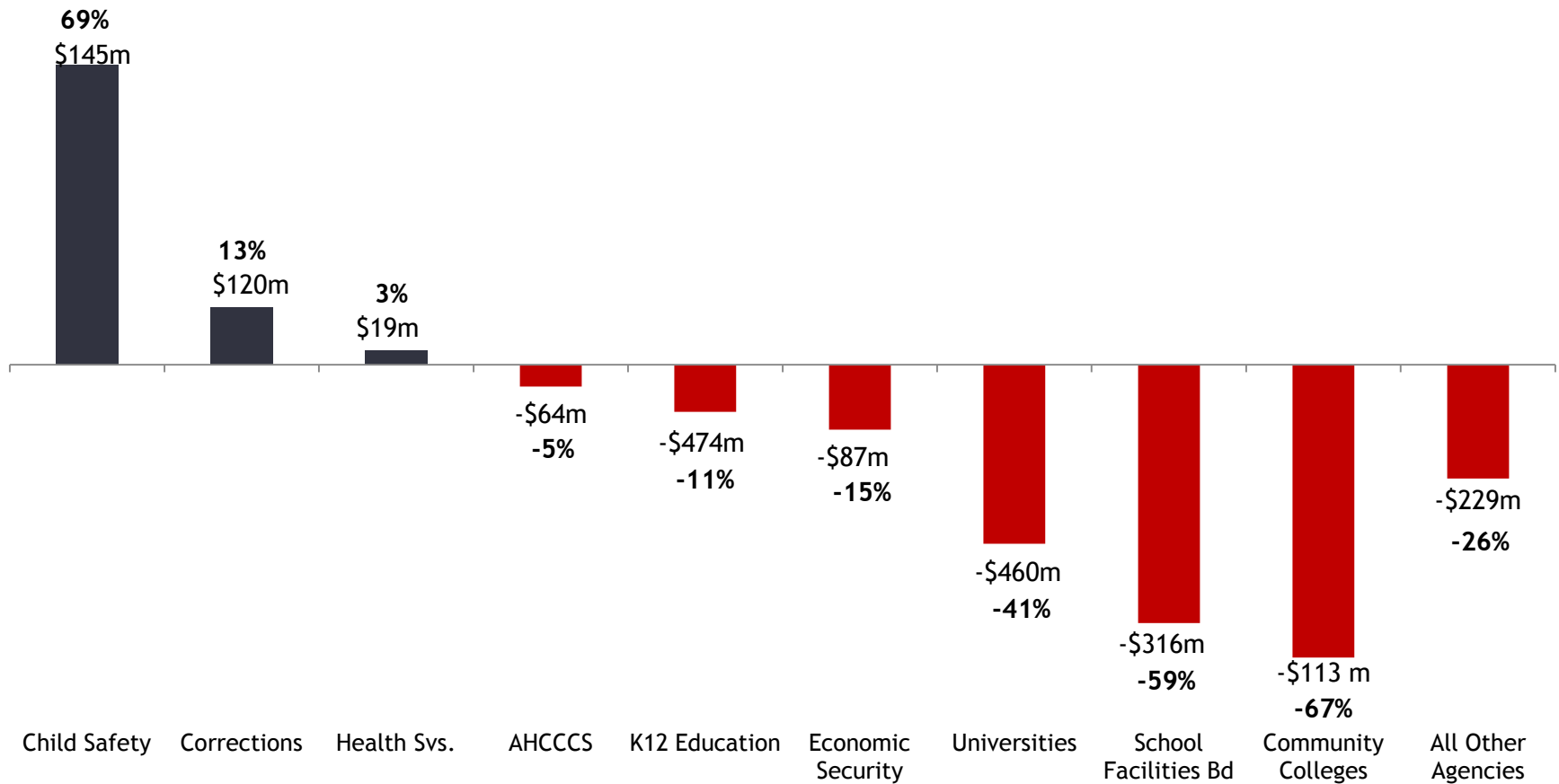
## State Revenues Are Not Projected to Return to Pre-Recession Levels Until Fiscal Year 2018



Source: Joint Legislative Budget Committee Staff, Finance Advisory Committee presentation, 10-8-15

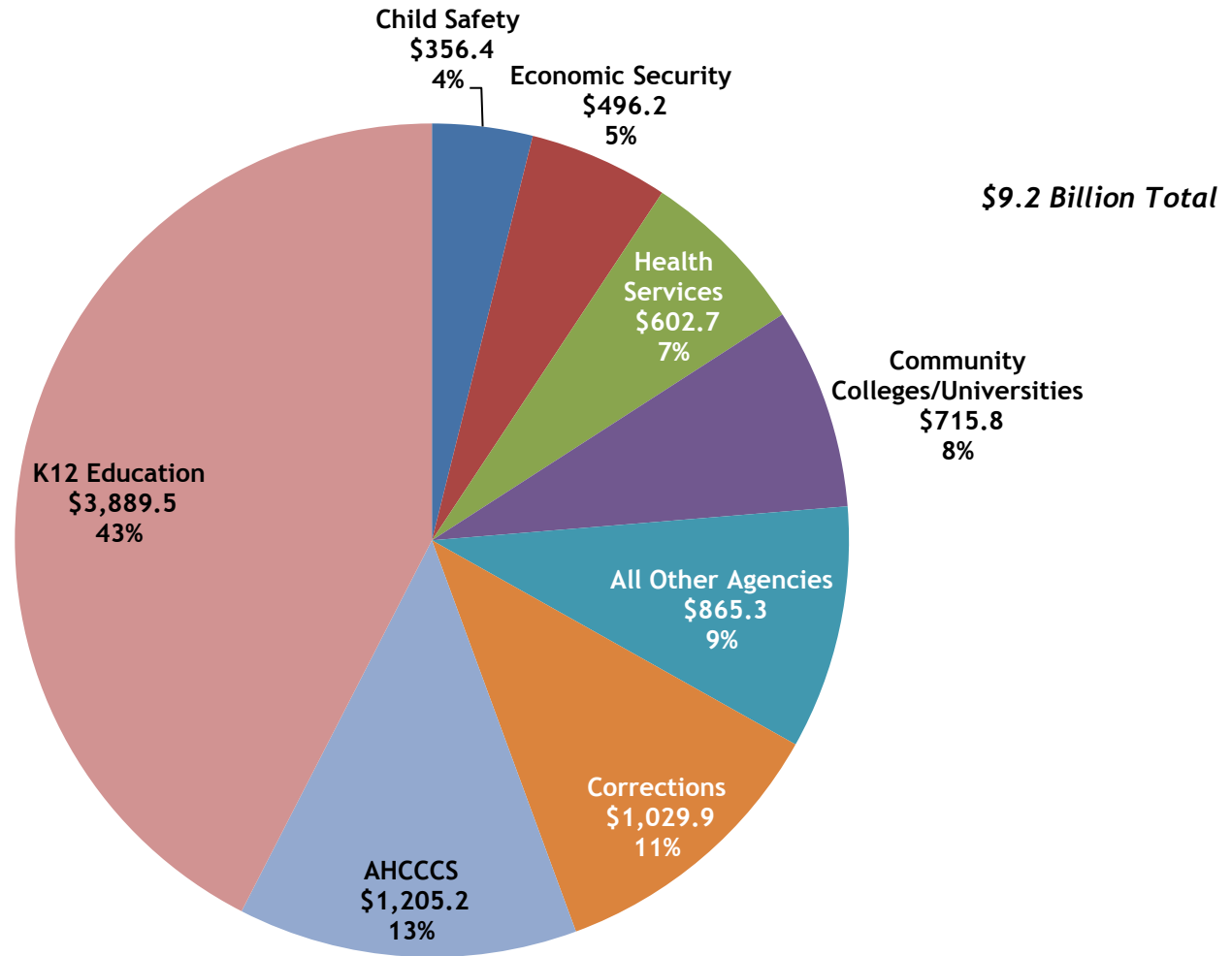
# Total General Fund Appropriations: \$1.1 Billion Lower than Before the Recession

Some Agency Budgets Have Been Restored, Most Have Not



# GENERAL FUND APPROPRIATIONS - FY 2016

(Dollars in Millions)





# LOST OPPORTUNITIES

# Fund Sweeps

\$2.8 billion swept into GF Since FY 03

Agency/Program	Swept
Commerce Authority - Housing Trust	\$2 million
Commerce Authority - Job Training	\$95 million
Corrections - Alcohol/Drug Abuse Treatment and Transition	\$6 million
Economic Security - Domestic Violence Shelter	\$2 million
Health Services - Newborn Screening	\$1 million
Health Services - Substance Abuse Svs	\$4 million
Housing - Housing Trust	\$47 million
Courts - Drug Treatment and Education	\$2 million
Revenue - Estate and Unclaimed Property	\$9 million

# AZ is leaving funding in Washington

Program		
KidsCare	<u>FY 10</u>	Effective 10-1-15, federal match rate is 100%
	General Fund      \$ 30 million Total                      134 million	
	<u>FY 16</u>	
	General Fund      \$ 338,000 Total                      6 million	
Vocational Rehab	<u>FY 17 Request</u>	
	General Fund      \$ 5 million Total                      24 million	

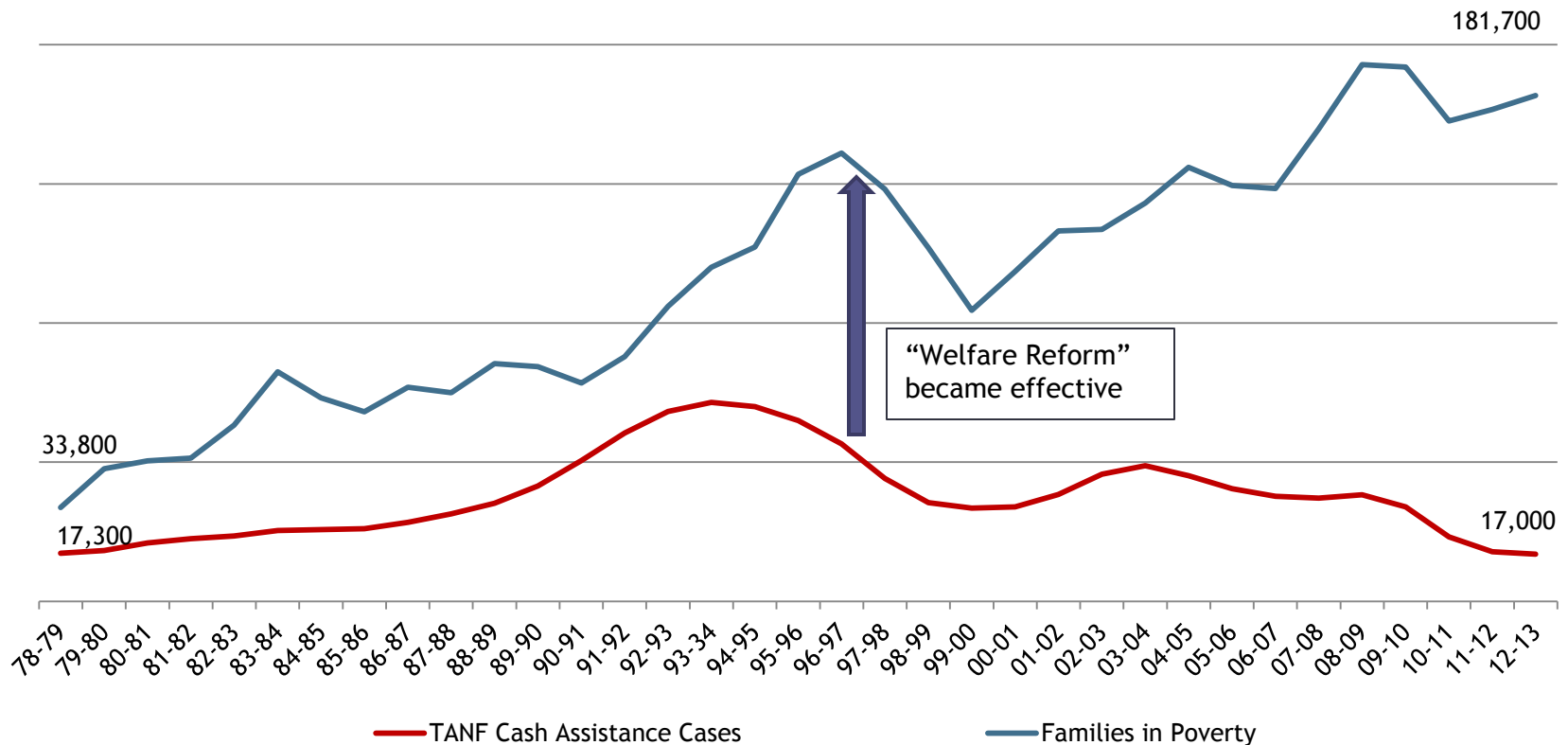
# CUTS TO SAFETY NET HAVE DISASTROUS CONSEQUENCES



# TANF CASH ASSISTANCE

- February 2009      Monthly benefit cut by 20%  
From \$347/mo. for family of 3 to \$277
- July 2010      36 month lifetime limit  
“child only” definition  
restrictions
- July 2011      24 month lifetime limit
- July 2016      12 month lifetime limit

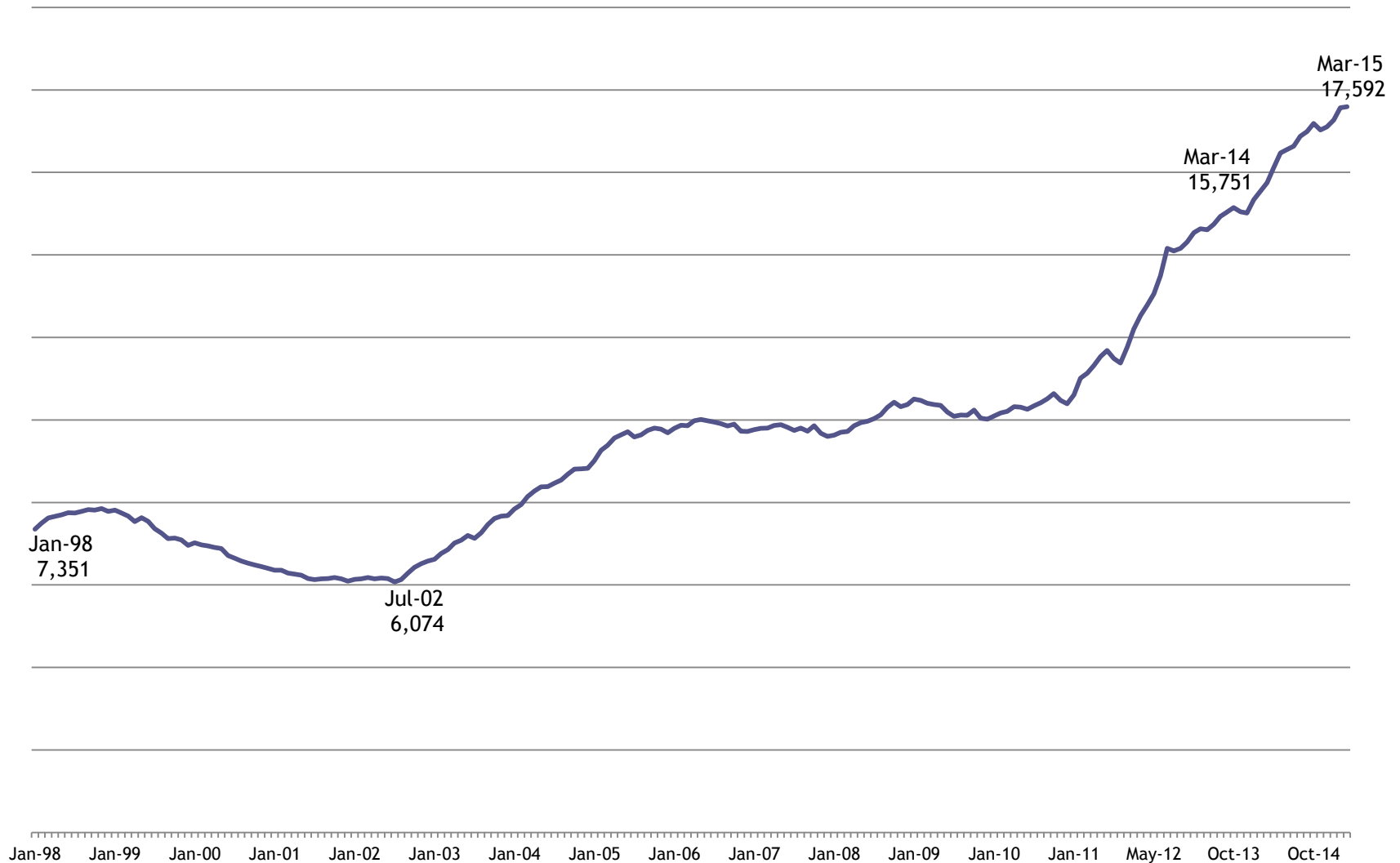
# More Families with Children in Poverty Fewer Families Receiving TANF Cash Assistance



Note: 2015 Poverty Level for a family of 3 is \$20,090 per year (\$1,675/mo); maximum TANF cash assistance benefit for a family of 3 is \$277/mo.

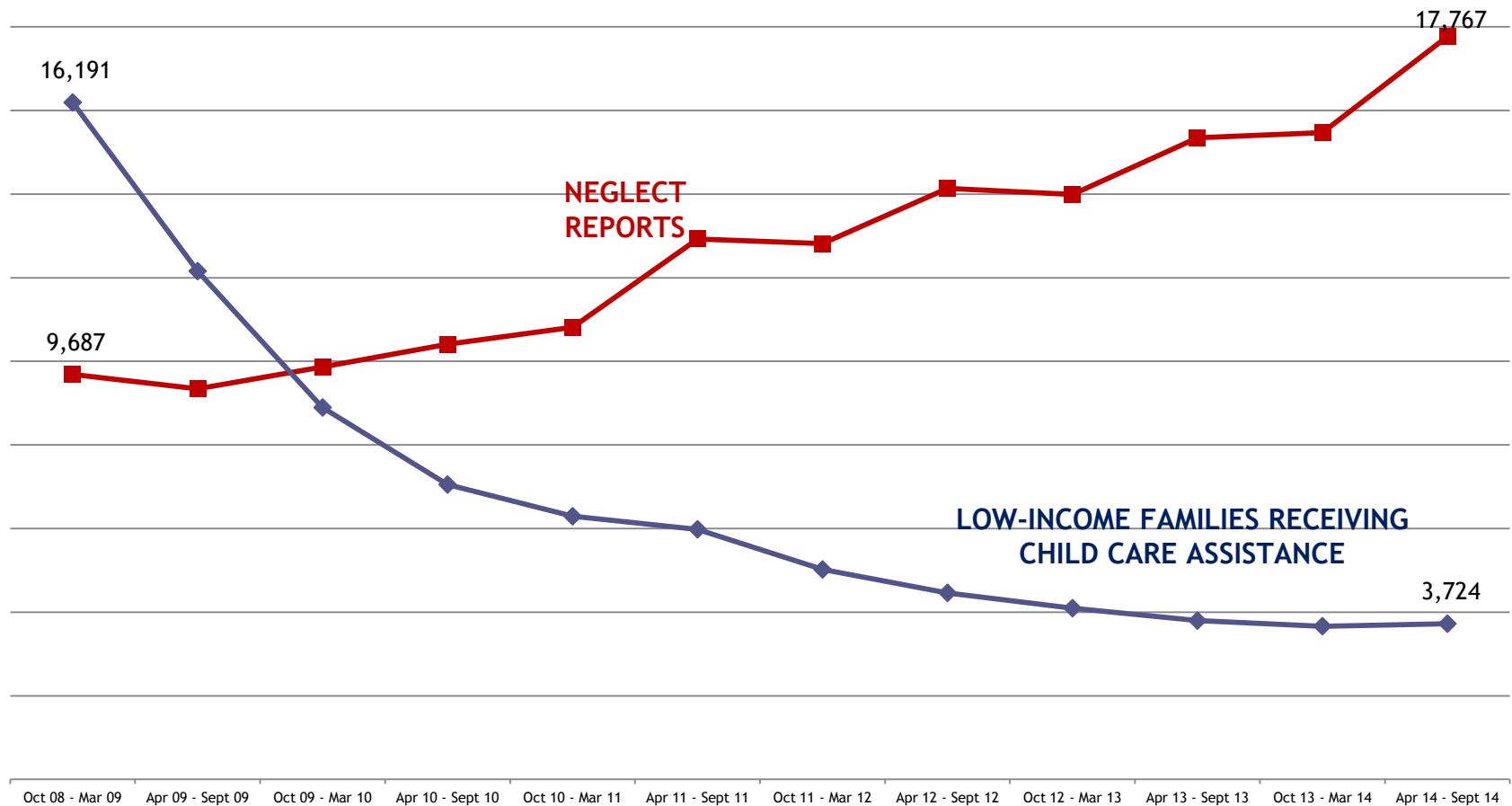
Source: Center on Budget and Policy Priorities analysis of poverty data from the Current Population Survey and TANF caseload data from Health and Human Services and (since 2006) caseload data collected by CBPP from state agencies

## Arizona Children in Foster Care



Source: Department of Child Safety Monthly Reports ("TIGGER")

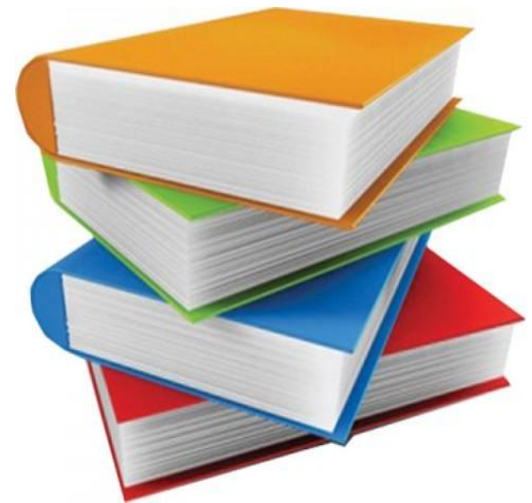
## State Budget Decisions Can Lead to Dangerous and Expensive Trends for Arizona Kids



Sources: Arizona Department of Economic Security, Child Care Administration, *Child Care Cash Report*, various dates; Arizona Department of Child Safety, *Child Welfare Report*, various dates

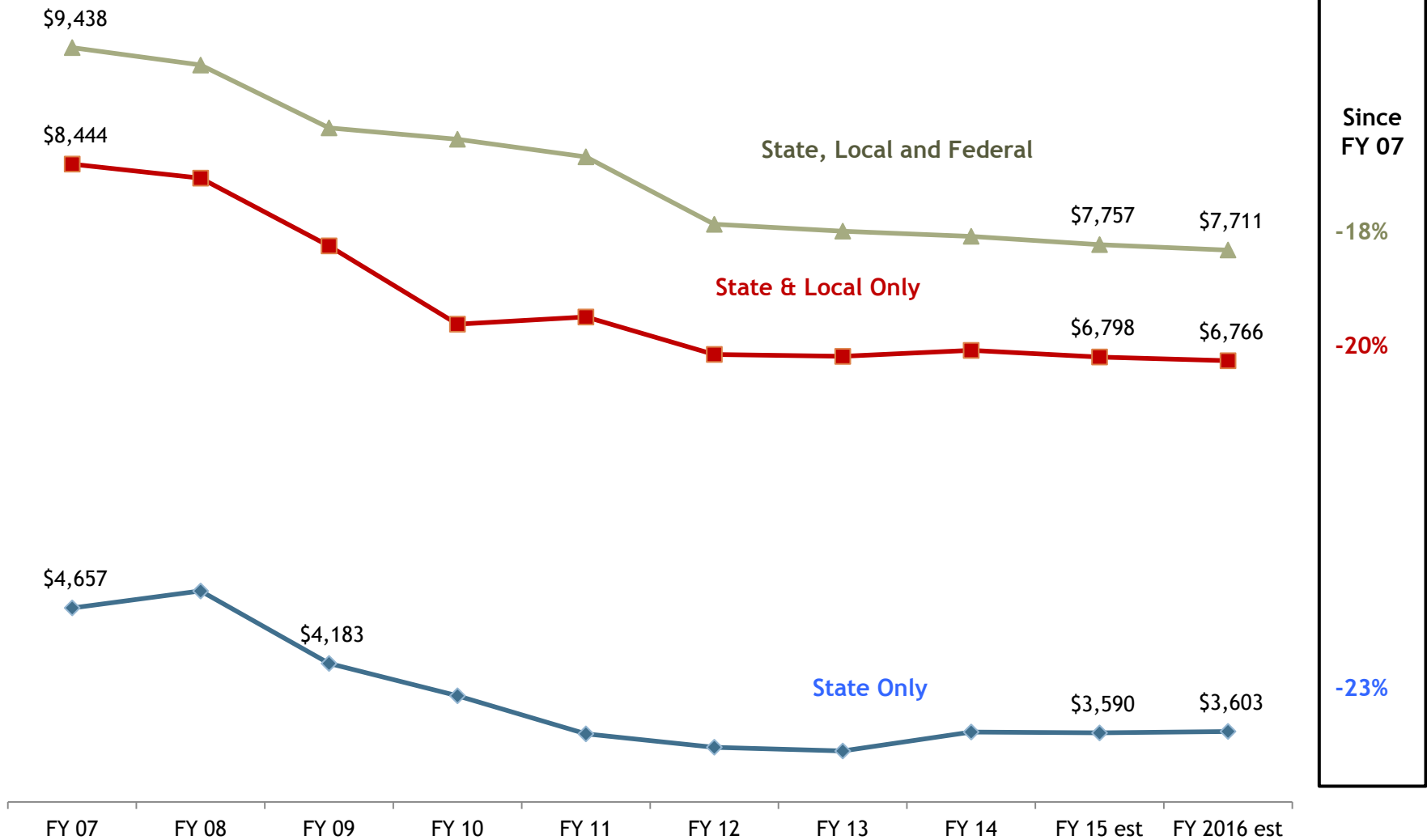


# EDUCATION: RISING EXPECTATIONS SHRINKING RESOURCES



## Funding for K-12 Education Has Fallen Since FY 2007

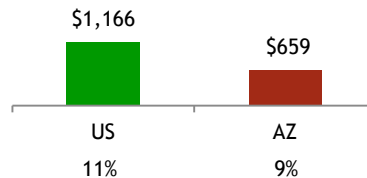
### Funding Per Student - Adjusted for Inflation



Source: Joint Legislative Budget Committee Staff, *K-12 Funding (M&O, Capital and All Other)*, 8/18/15

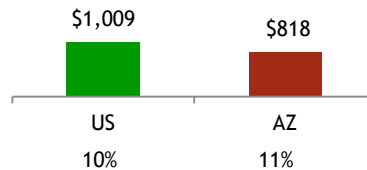
# Education Spending Per Student

## School Administration, General Administration, Other Support and Nonspecified Support Services



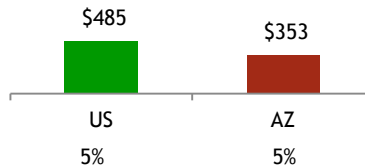
Percent of Total Spending

## Operations and Maintenance of Plant



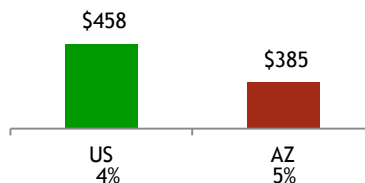
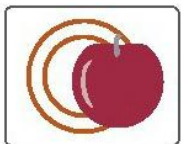
Percent of Total Spending

## Student Transportation



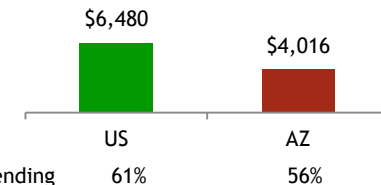
Percent of Total Spending

## Other



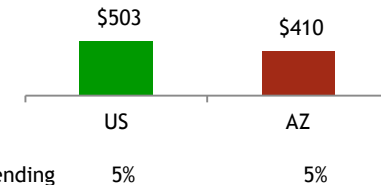
Percent of Total Spending

## Instruction



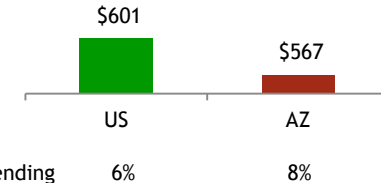
Percent of Total Spending

## Instructional Staff Support



Percent of Total Spending

## Student Support



Percent of Total Spending

Source: U.S. Census bureau, Department of Commercial, Economic and Statistical Administration, *Public Finances: 2013*, issued June 2015.

# WHAT'S ON THE HORIZON?

- Unallocated ongoing funds
- Unallocated one-time funds
- Agency funding requests



## Ongoing and One-Time Unallocated Funding

- \$650 million cash “surplus” by end of FY 17
- **Only \$250 million is considered ongoing**
  - The 7 major agency have requested about \$330 million above the baseline increases included in the projections

# Major Agency Requests

Agency	FY 15	FY 16	FY 17 Request	Increase Above FY 16	
				Dollars	Percent
Education <sup>1</sup>	\$3.8 billion	\$3.9 billion	\$4.0 billion	\$88 million	2%
AHCCCS <sup>2</sup>	\$1.2 billion	\$1.2 billion	\$1.4 billion	\$153 million	13%
Corrections	\$997 million	\$1 billion	\$1.1 billion	\$67 million	7%
Universities	\$768 million	\$661 million	\$732 million	\$71 million	11%
Economic Security	\$483 million	\$497 million	\$582 million	\$86 million	17%
Child Safety	\$361 million	\$356 million	\$462 million	\$106 million	30%
Health <sup>2</sup> Services	\$102 million	\$85 million	\$97 million	\$11 million	13%
<b>TOTAL</b>				<b>\$583 million</b>	

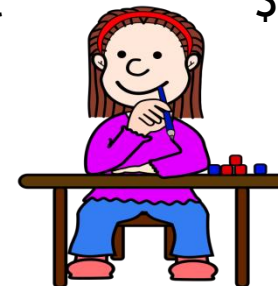
<sup>1</sup>Includes JLBC estimate of \$75 million for increase in students and funding formula not included in agency's budget request.

<sup>2</sup>Behavioral Health Services is being moved from Health Services to AHCCCS - \$517 million included in FY 16 and FY 17 amounts but not Increase or percent calculations

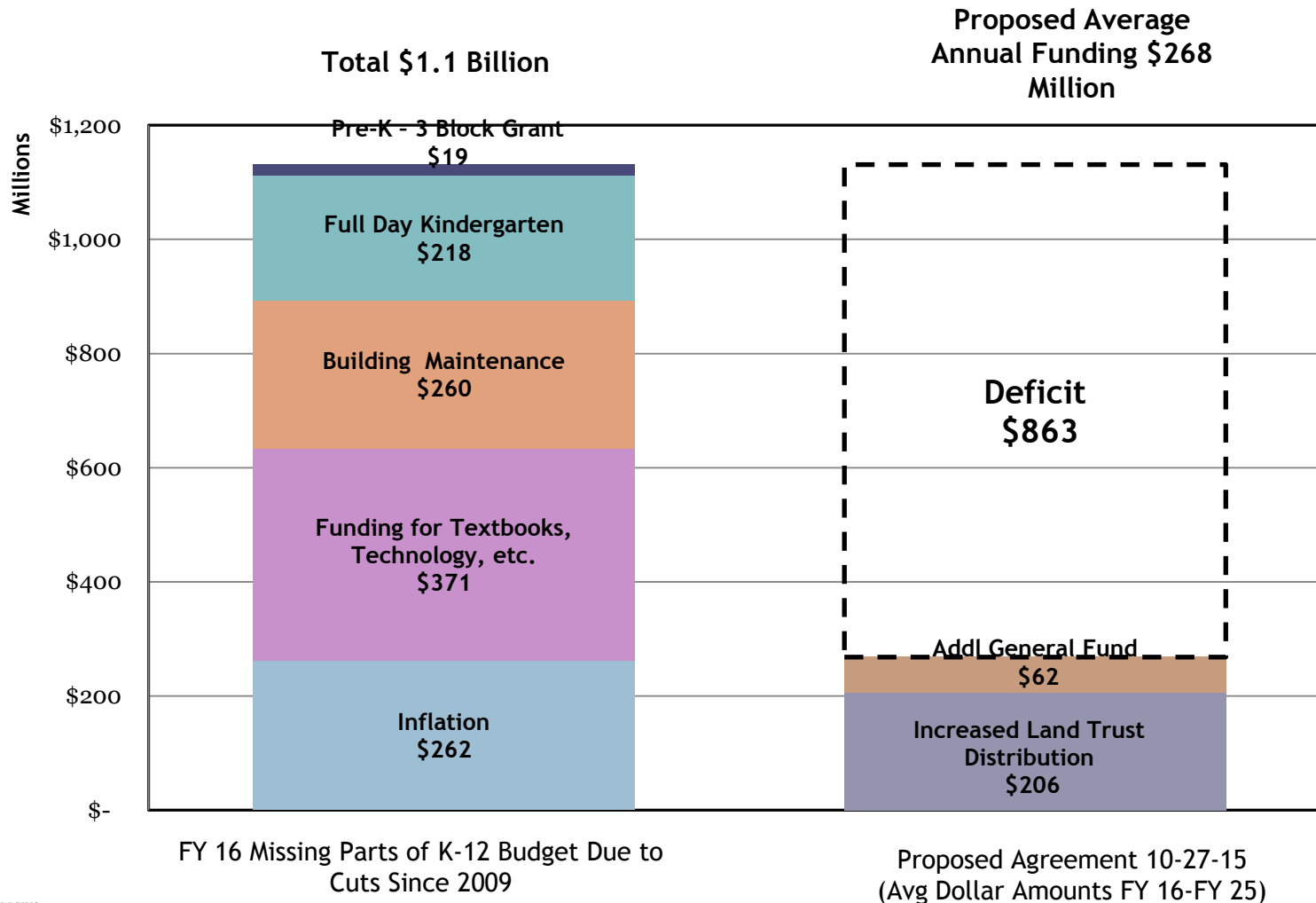
**NOTE: Since this information was collected, the budget requests have been amended to move behavioral health services for individuals served by Des/Division of Developmental Disabilities to DES instead of AHCCCS**

# Dept of Education

Priority Issues - New student accounting system; staff to audit Average Daily Membership; improvements to academic standards	\$4.3 million
Operations and Restoration - Gifted education, adult education, administration of mandated state assessments, increased costs for Empowerment Scholarship Accounts	\$8.5 million
School Support - Staff for Office of Indian Education; epinephrine injectables for districts	\$649,000
JLBC estimate of changes in number and mix of student enrollment and inflation	\$75 million



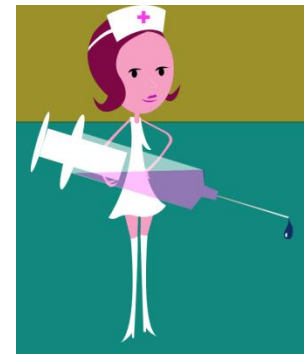
## Annual Cuts to K-12 Education Far Greater than Inflation Agreement





# AHCCCS

Behavioral health transfer, administrative savings and projected caseload growth	\$556 million
Caseload growth and increased medical costs	\$112 million
Continued phase down of KidsCare	(\$300,000)
Staffing and operational costs	\$3.5 million



# Corrections

1,000 new private prison beds activated in Oct 2016 (full year cost will be \$24.6 million)	\$17.6 million
Authority for 2,500 new beds for future fiscal years	--
5% salary increases	\$25.6 million
Additional sergeants for maximum security	\$2.3 million
Inmate health care rate change (also supplemental)	\$9.8 million
Community corrections center in Maricopa County	\$5.7 million
Correctional Officers Retirement Plan	\$3.5 million
Inflation for private prison contracts	\$294,500
Additional re-entry planners	\$202,100
Radio equipment replacement	\$4 million
Back out leap year additional costs	(\$929,100)



# Universities

Restore a portion of reduction made during last legislative session (also subject of supplemental)	\$33.4 million
Student growth - ½ of educational costs	\$10.4 million
Facility maintenance and operation - \$200/resident student	\$19.2 million
Initial costs for veterinary medicine program at Oro Valley	\$8 million



# Dept of Economic Security

Adult Protective Services - 40 staff	\$4.7 million
Salary increases for DDD case managers	\$3.5 million
Home and Community Based Services (non-DDD)	\$2.7 million
DDD/ALTCS caseload growth/costs (also supplemental)	\$30 million
Reinstate DDD/ALTCS adult preventative dental benefit	\$1.4 million
Rate adjustments for DDD and Az Early Intervention Program providers	\$4.9 million
Backfill DDD shortfall	\$5.9 million
Increase child care provider rates to 50 <sup>th</sup> percentile of 2004 market rate + 1.7%	\$7.9 million
Vocational rehabilitation program - reduce waiting list	\$6.7 million
Begin replacing ATLAS (child support automation system)	\$15 million
Enterprise security infrastructure	\$1.3 million



# Dept of Child Safety

Foster care growth	\$64.2 million
Adoption/permanent guardianship growth	\$9.1 million
Case aides/overtime (including pay increase for case aides)	\$4.3 million
Healthy Families (prevention)	\$4.0 million
Emergency child placement center	\$1.2 million
Administration/performance pay (187 additional FTE)	\$28.5 million
CHILDS replacement	\$4.6 million
In-home support funding adjustment	(\$12.7 million)
Other	\$2.7 million



# Dept of Child Safety - Supplemental - \$65.5 million

Foster care growth	\$35.5 million
Permanency	(\$3.7 million)
Overtime	\$4.0 million
Emergency child placement center	\$1.2 million
Administration	\$14.3 million
Attorney General shortfall	\$1.9 million
Other	\$12.3 million

# Health Services

Arizona State Hospital staffing, operating and facilities cost to correct deficiencies	\$10.8 million
Backfill depleted State Hospital Fund	\$500,000
Attorney/risk management payments	\$141,600
Transfer of Behavioral Health to AHCCCS	(\$517.3 million)



# POTENTIAL TAX POLICY CHANGES

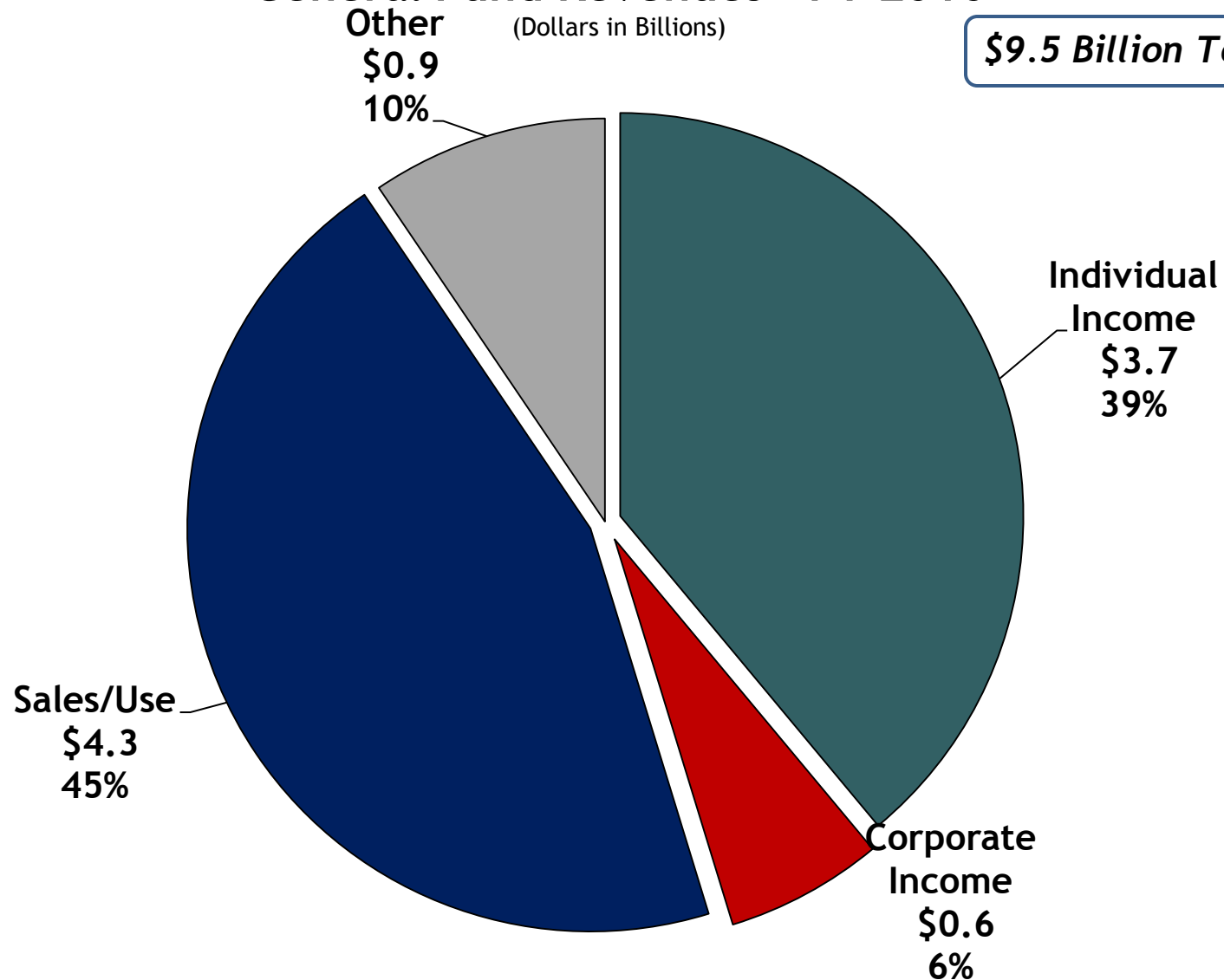




## General Fund Revenues - FY 2016

(Dollars in Billions)

**\$9.5 Billion Total**



Source: Joint Legislative Budget Committee Staff, *Appropriations Report FY 16*

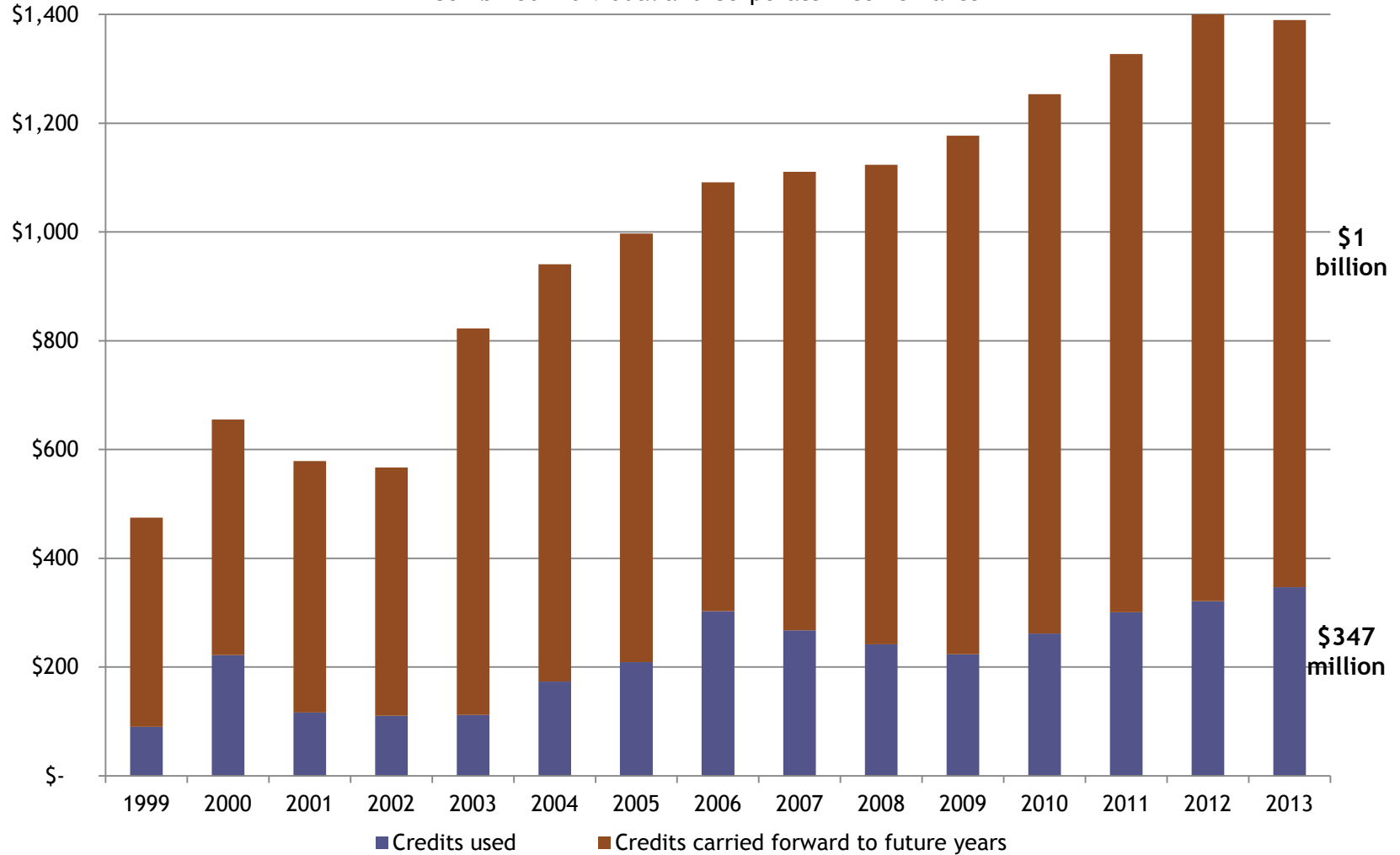
# Tax Cuts Still Phasing In

Year Passed	FY 2017 Impact	FY 2019 Impact
2011	\$322 million	\$422 million
<ul style="list-style-type: none"> <li>•Corporate income tax rate reduction phase down</li> <li>•100% sales factor option for multistate corporations</li> </ul>		
2012	\$95 million	\$120 million
<ul style="list-style-type: none"> <li>•100% sales factor option for multistate service providers</li> <li>•Growth in qualified facility credit</li> </ul>		
2015	\$50 million	\$60 million
<ul style="list-style-type: none"> <li>•Individual income tax bracket inflation adjustment</li> </ul>		

Millions  
of  
Dollars

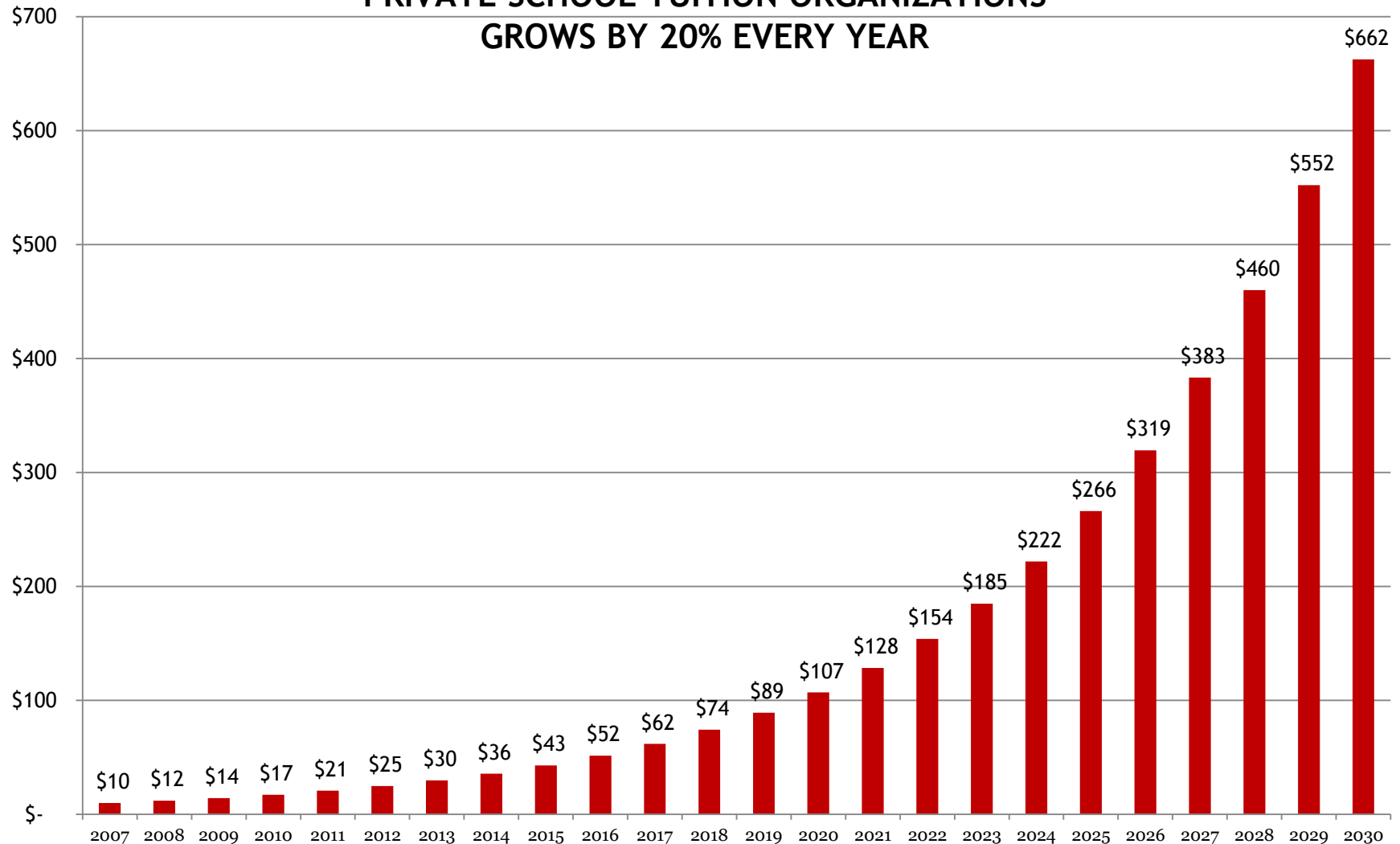
## ARIZONA TAXPAYERS HAVE BUILT UP OVER \$1 BILLION IN TAX CREDITS THAT CARRY FORWARD TO FUTURE YEARS

Combined Individual and Corporate Income Taxes



*In  
Millions*

## CAP ON CORPORATE TAX CREDIT FOR CONTRIBUTIONS TO PRIVATE SCHOOL TUITION ORGANIZATIONS GROWS BY 20% EVERY YEAR



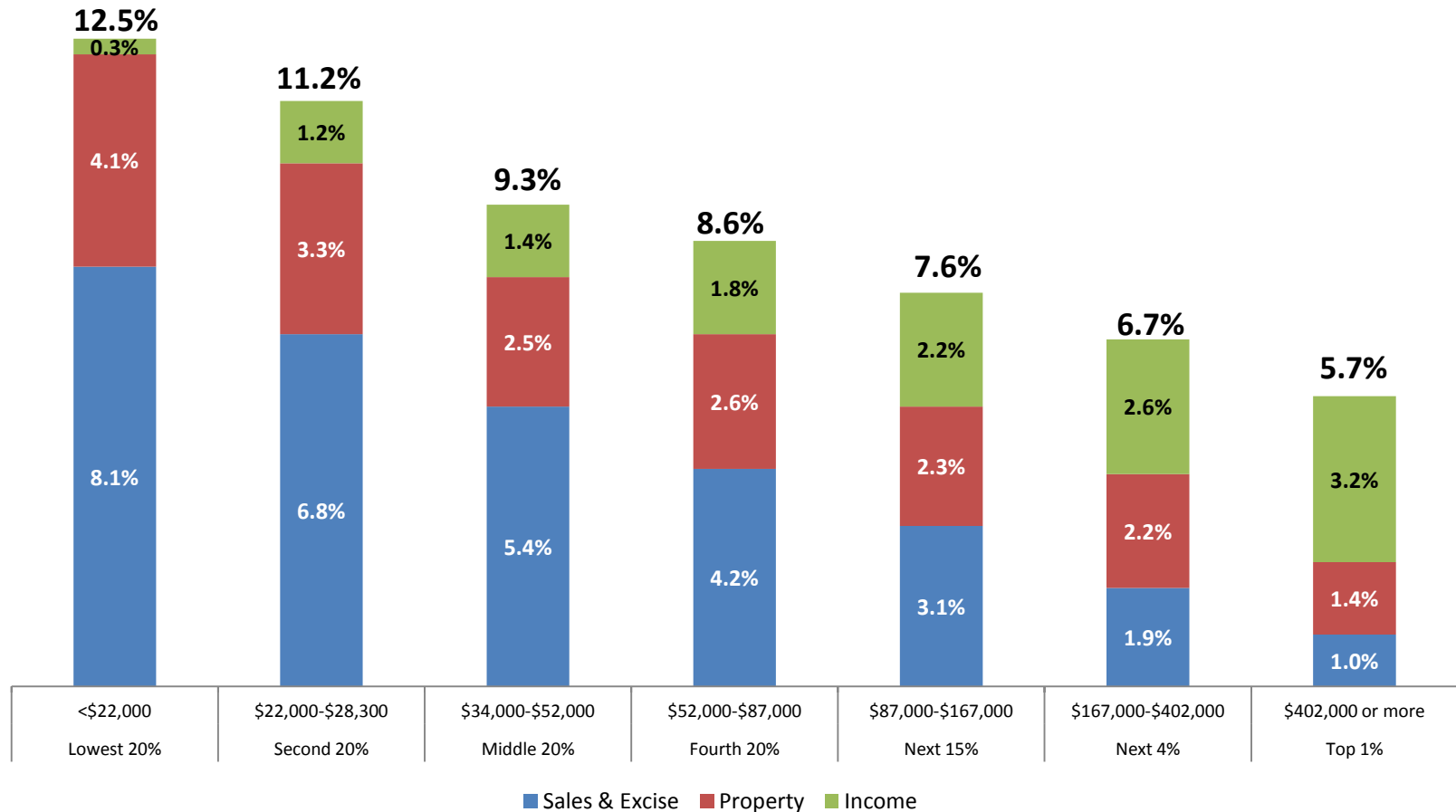
# What we're hearing

➤ “Tax reform”

➤ Flat income tax offset by increasing the sales tax “on certain items”

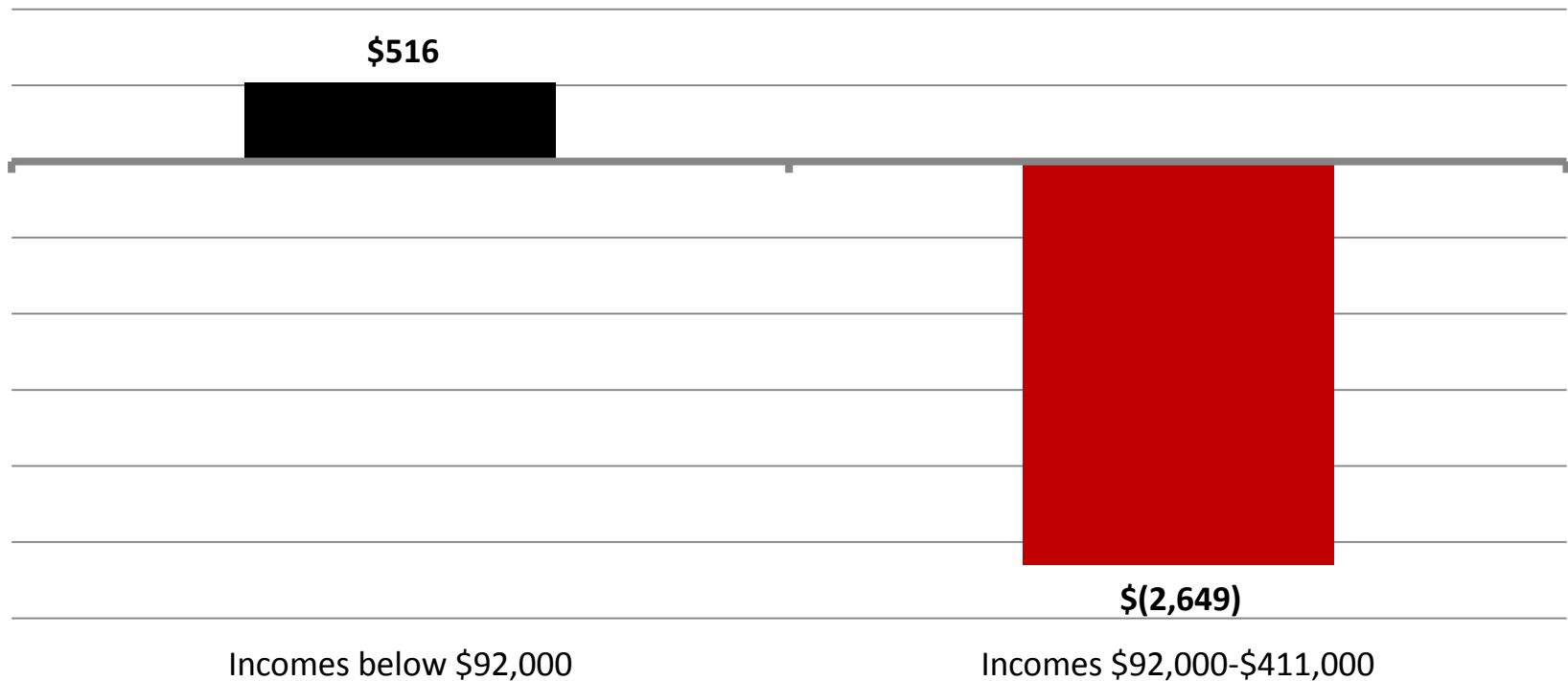
# Arizona's Individual Income Tax Structure Is the Only Offset to the Regressive Impact of the Sales Tax

Portion of Income Paid on State and Local Taxes



# What Would Happen if Arizona's Income Tax was Replaced with a "Super" Sales Tax

**80% OF ARIZONANS WOULD PAY HIGHER TAXES IF THE INCOME TAX WAS REPLACED WITH AN INCREASED SALES TAXES**



\*Does not include incomes above \$411,000 - average tax reduction of at that level is \$32,874.

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model, August 2014

# Contact Information

Karen McLaughlin, Director of Budget and Research  
Children's Action Alliance  
Office: (602) 266-0707 x207  
Email: [KMcLaughlin@azchildren.org](mailto:KMcLaughlin@azchildren.org)  
Web: [www.azchildren.org](http://www.azchildren.org)