

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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Valley of the Sun
United Way

A REVIEW OF THE LAST 7 YEARS

Thanks
for the
memories.

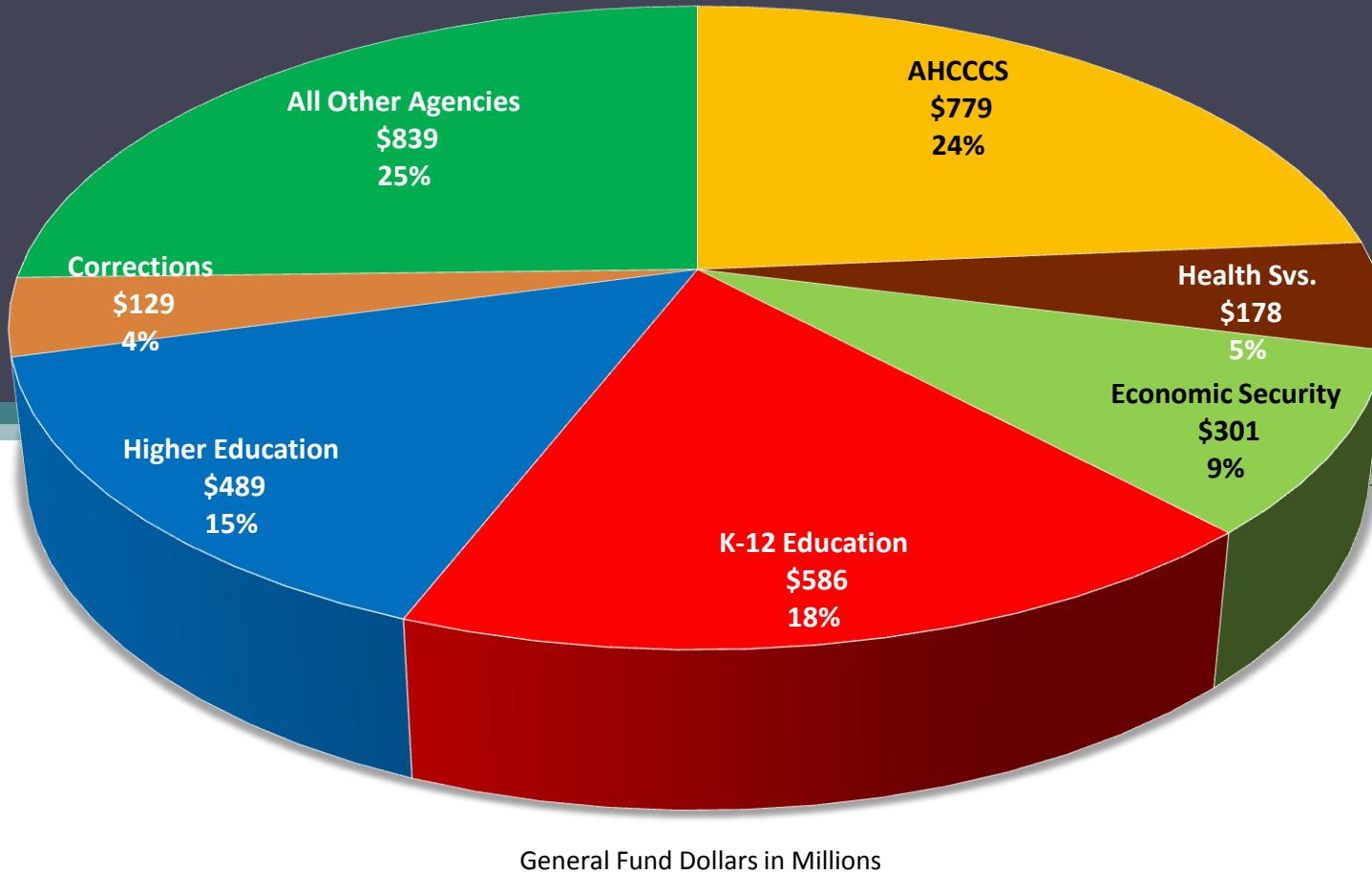
How the Budget Was Balanced

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



Sources: JLBC documents: FY 09 Budget Revisions Plan as Enacted (2/10/09); FY 10 Budget Plan Summary (8/20/09) and 9/4 Budget Summary as Enacted; Potential 4th Special Session Final 11/23/09; FY 11 and FY 12 Approps Reports

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
Total	\$9.3 billion	\$9.2 billion

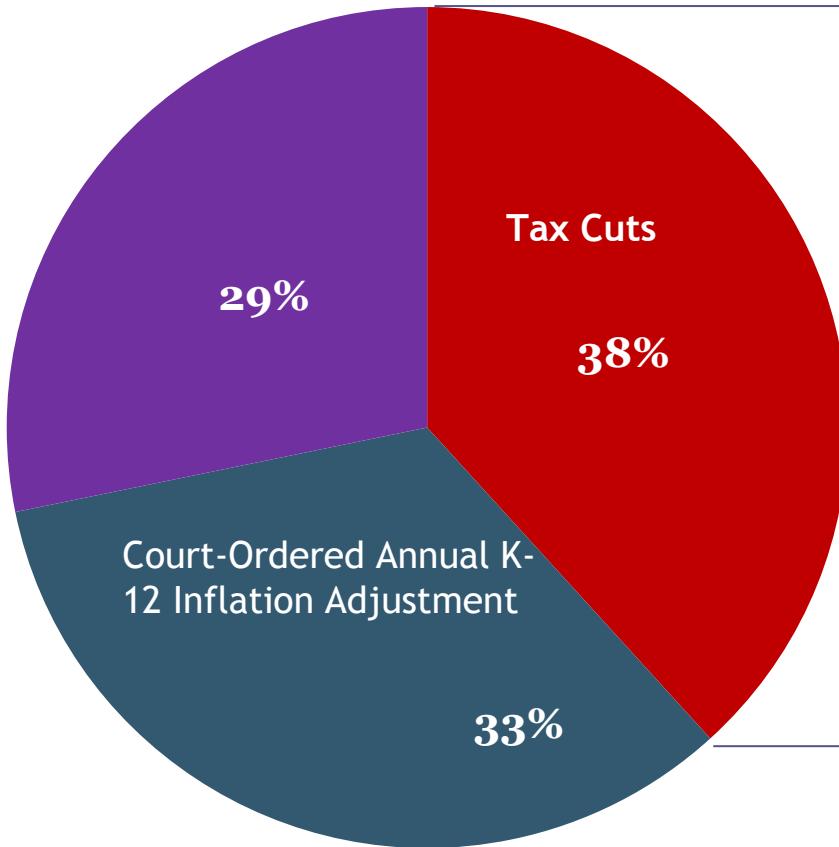
Many formulas have been suspended

	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 Svcs.	\$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	\$502 million	\$637 million

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

Source: Joint Legislative Budget Committee Staff, Finance Advisory Committee Presentation, January 22, 2015;
2014 Tax Handbook.

The Solution

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

Beginning shortfall	<u>\$1.015 billion</u>
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	<u>(\$132 million)</u>
Rainy Day Fund Transfer	144 million

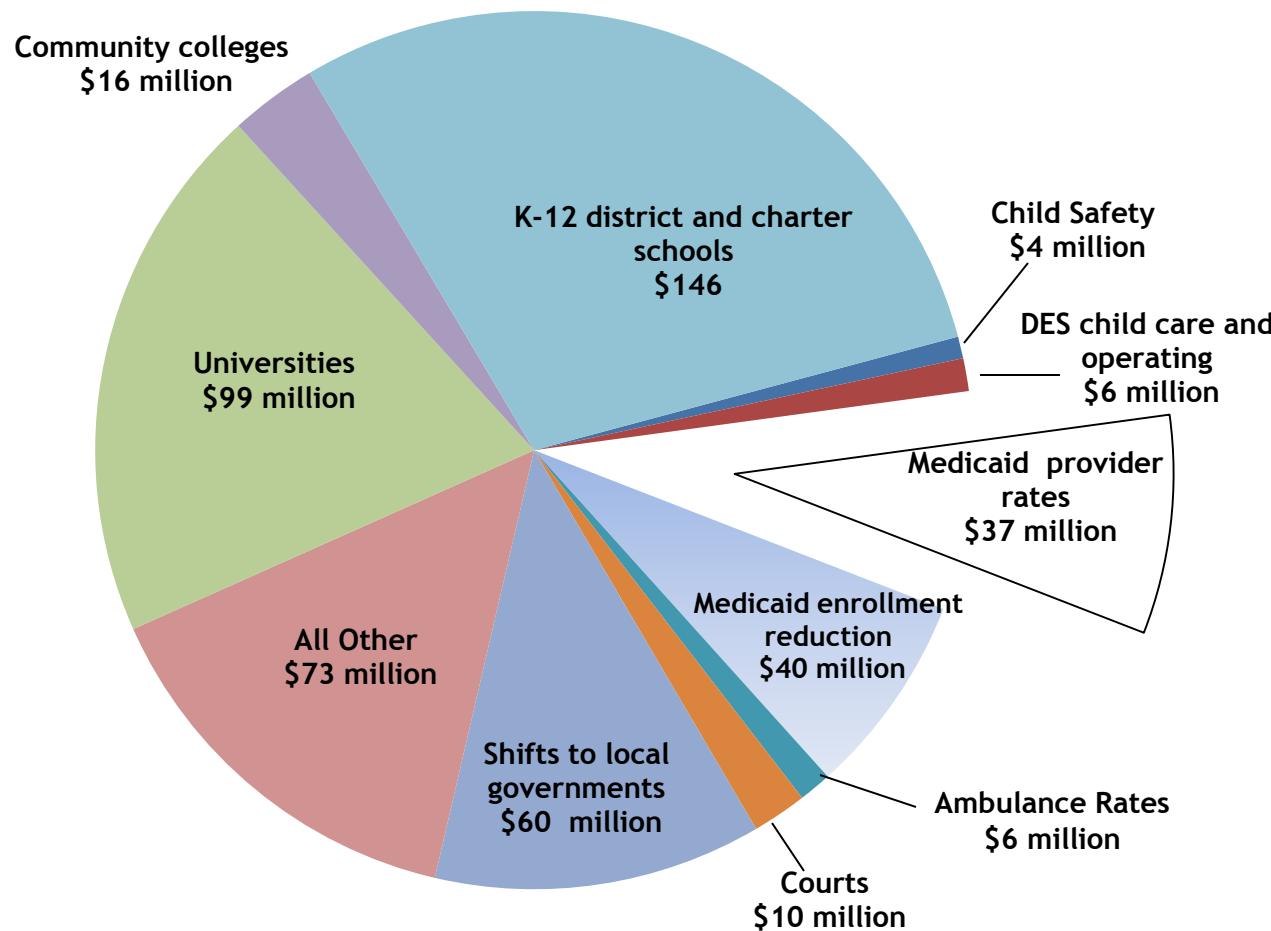


*Budget included \$74 million of “additional inflation”

Source: Joint Legislative Budget Office Staff, *FY 2016 Baseline and March Plan as Engrossed*

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

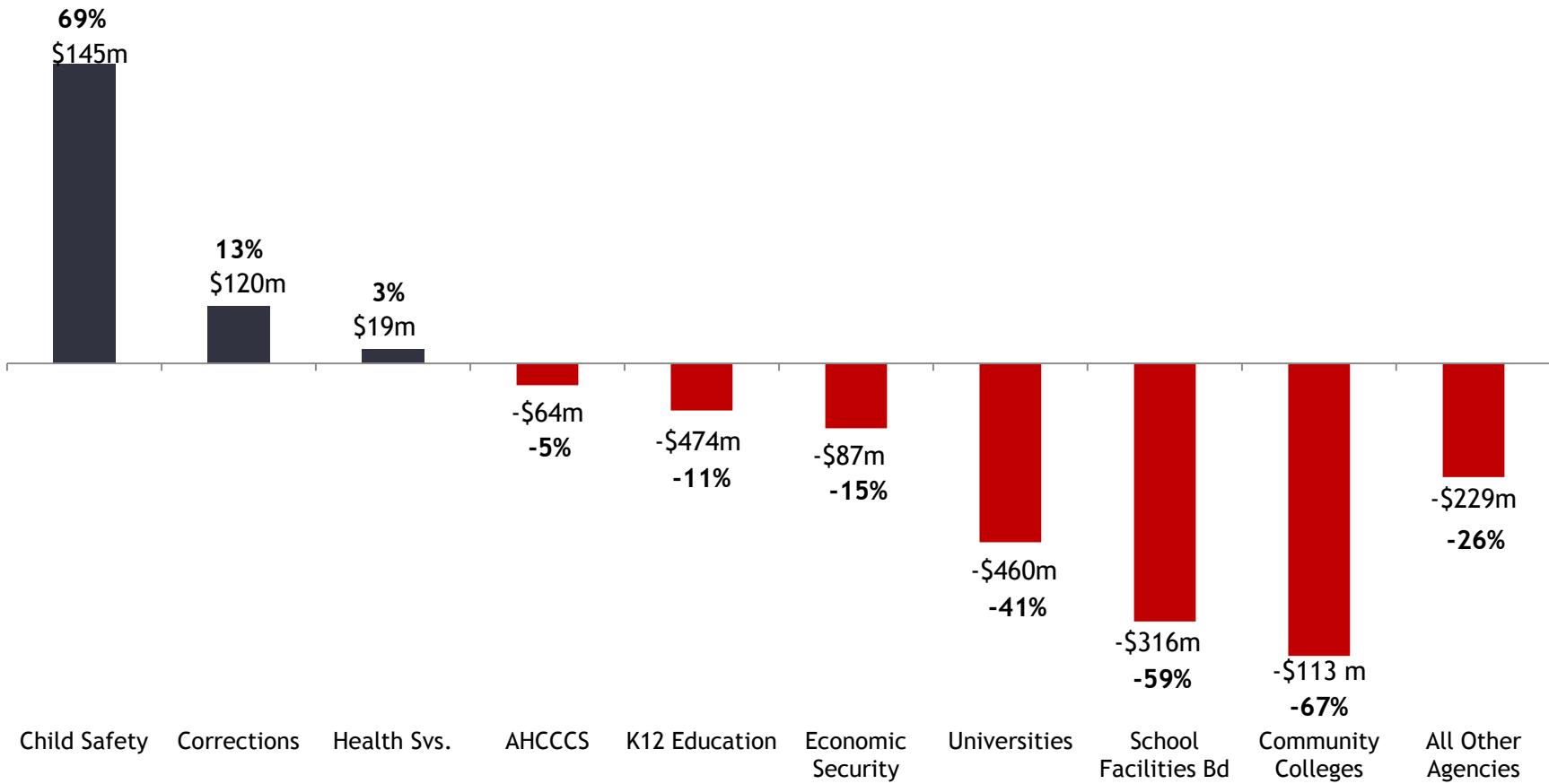
State Revenues Are Not Projected to Return to Pre-Recession Levels Until Fiscal Year 2018



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

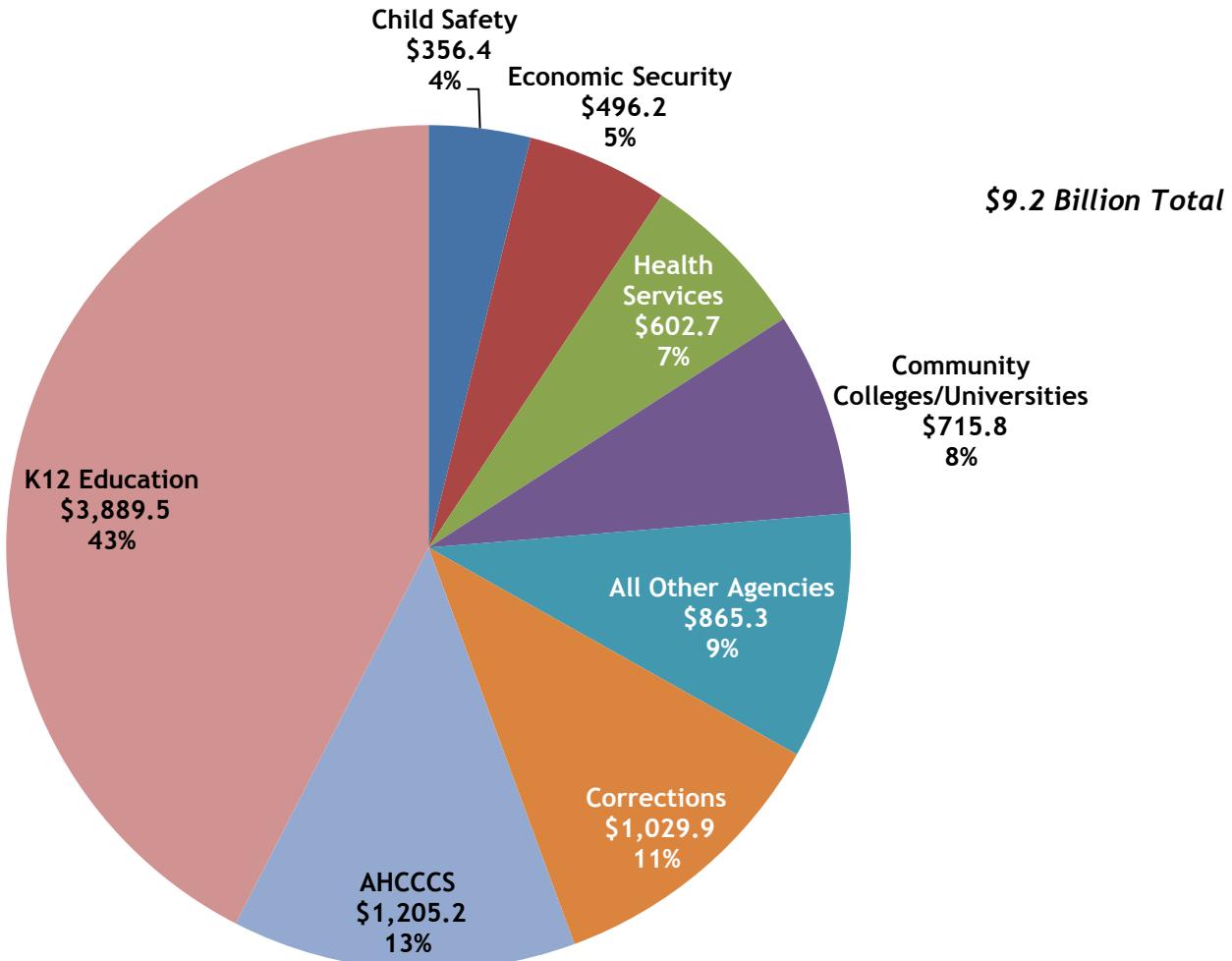
Total General Fund Appropriations: \$1.1 Billion Lower than Before the Recession

Some Agency Budgets Have Been Restored, Most Have Not



GENERAL FUND APPROPRIATIONS - FY 2016

(Dollars in Millions)



SOURCE: Joint Legislative Budget Committee Staff, *Appropriations Report FY 2016*

LOST OPPORTUNITIES



Fund Sweeps

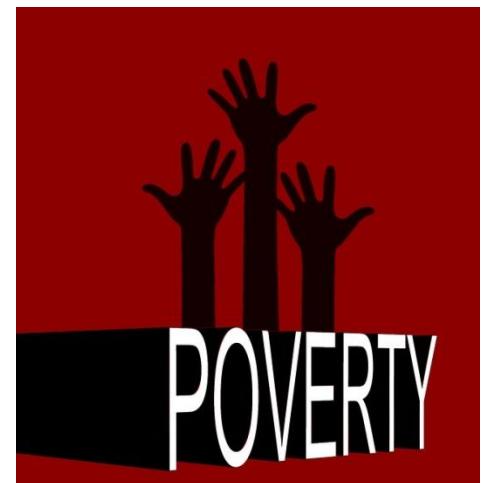
\$2.8 billion swept into GF Since FY 03

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

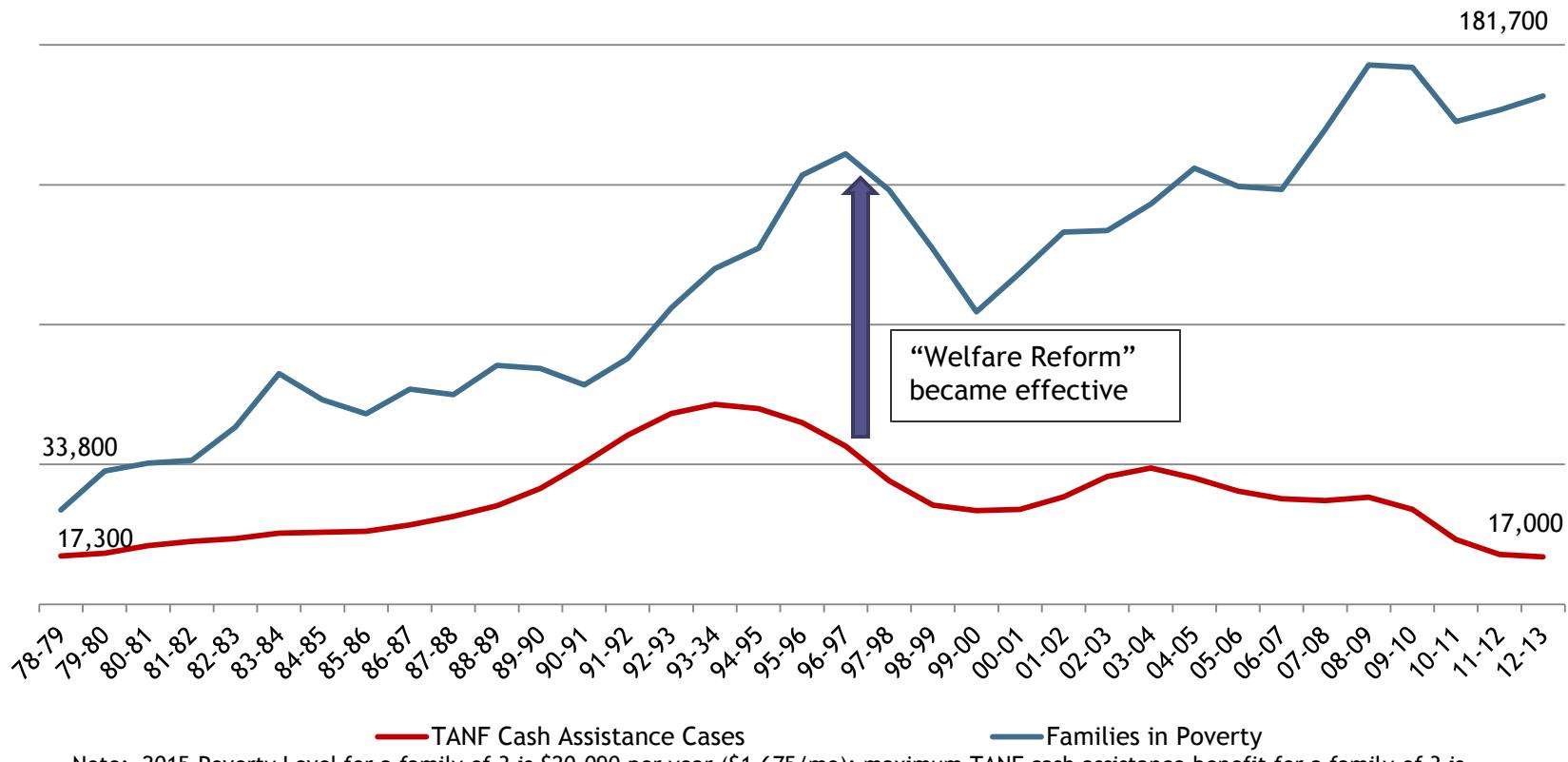
CUTS TO SAFETY NET HAVE DISASTROUS CONSEQUENCES



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**

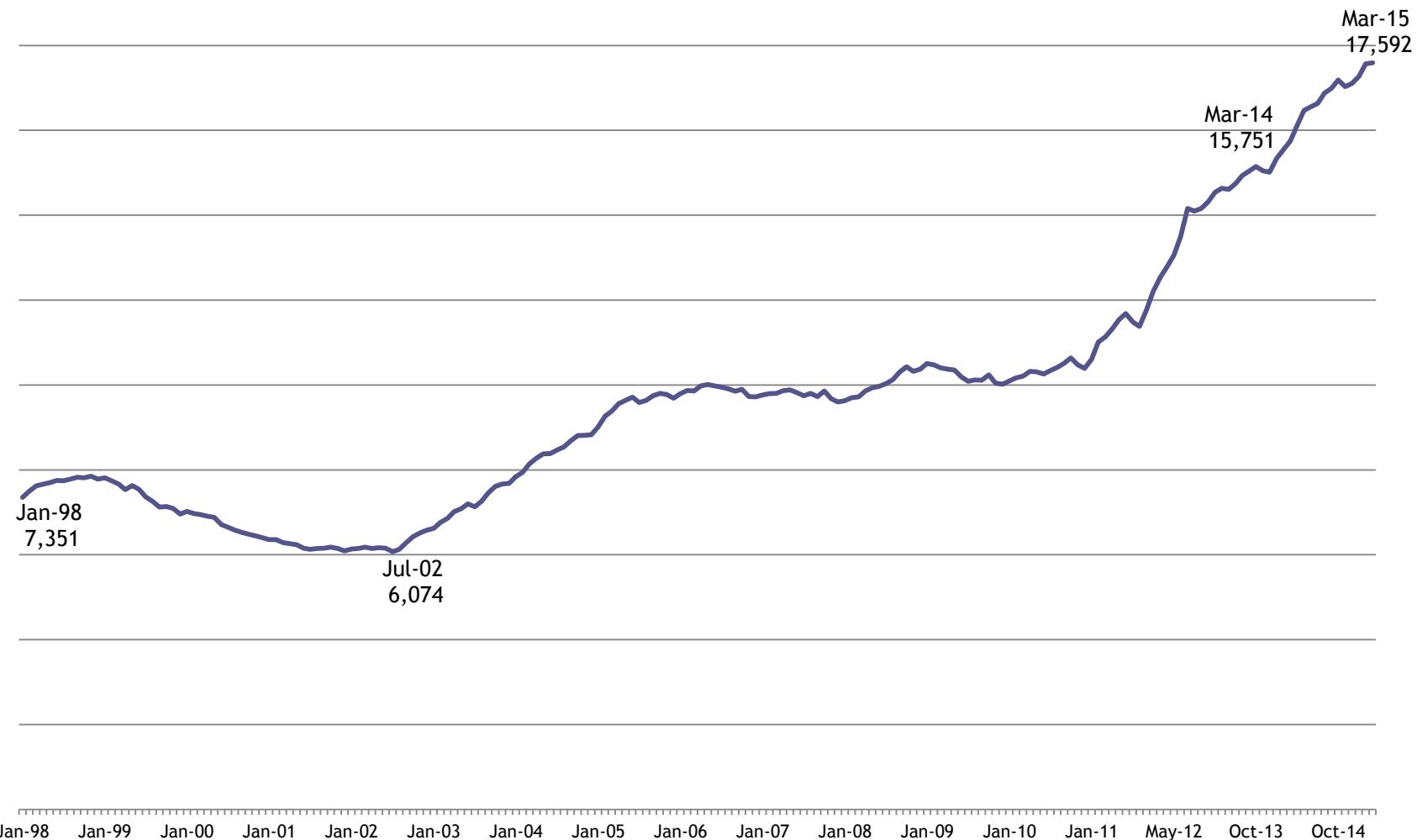
More Families with Children in Poverty Fewer Families Receiving TANF Cash Assistance



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.

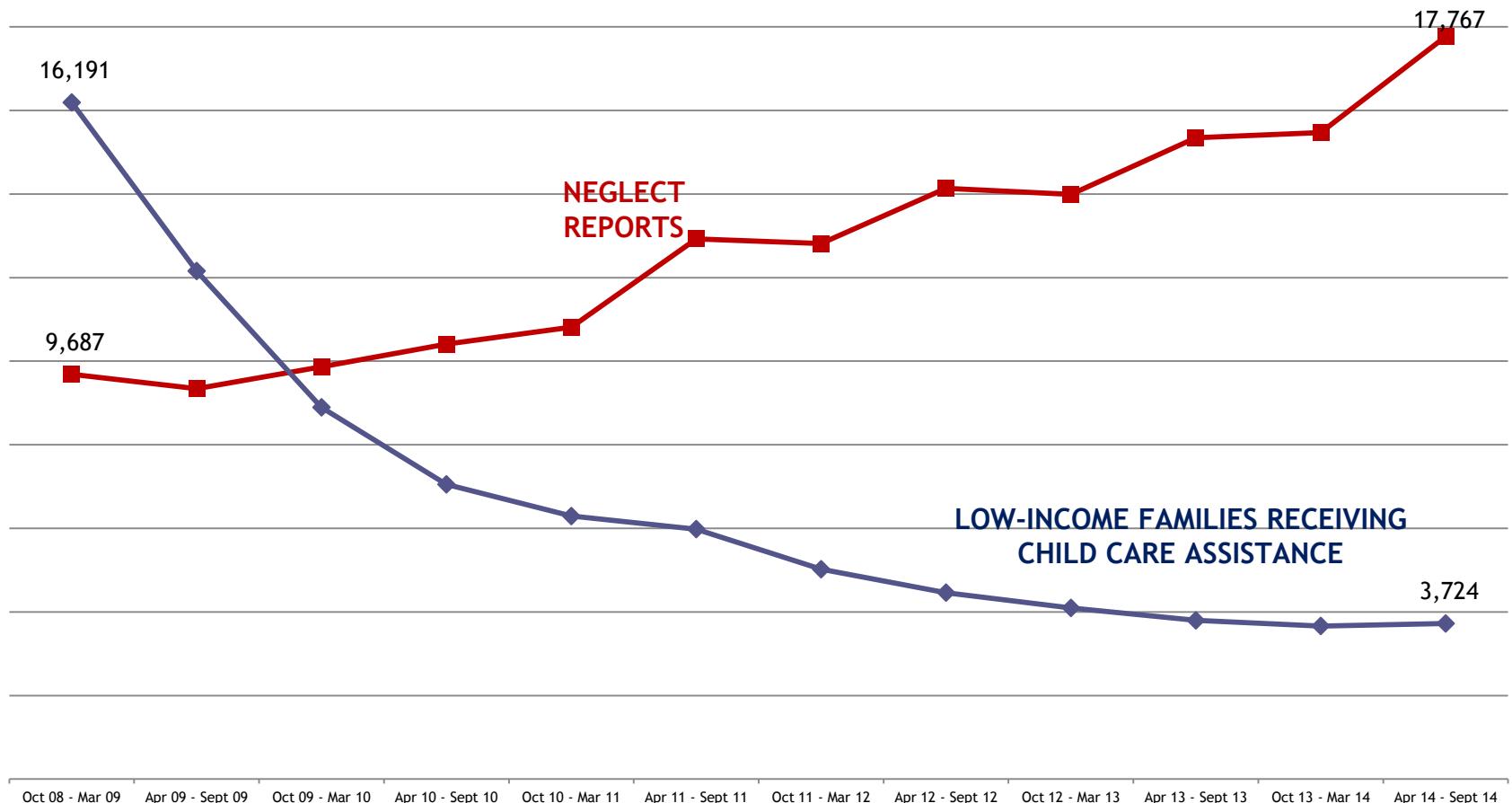
Source: Center on Budget and Policy Priorities analysis of poverty data from the Current Population Survey and TANF caseload data from Health and Human Services and (since 2006) caseload data collected by CBPP from state agencies

Arizona Children in Foster Care



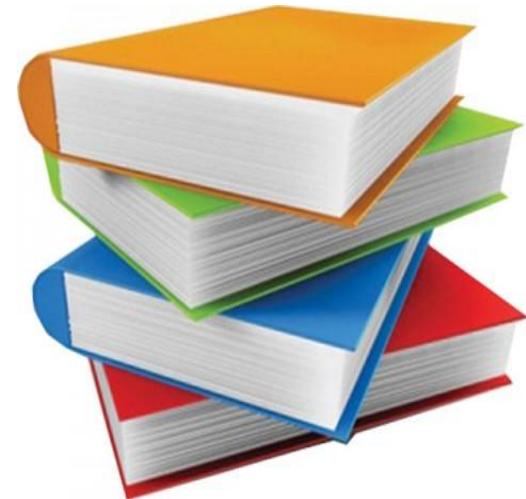
Source: Department of Child Safety Monthly Reports (“TIGGER”)

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



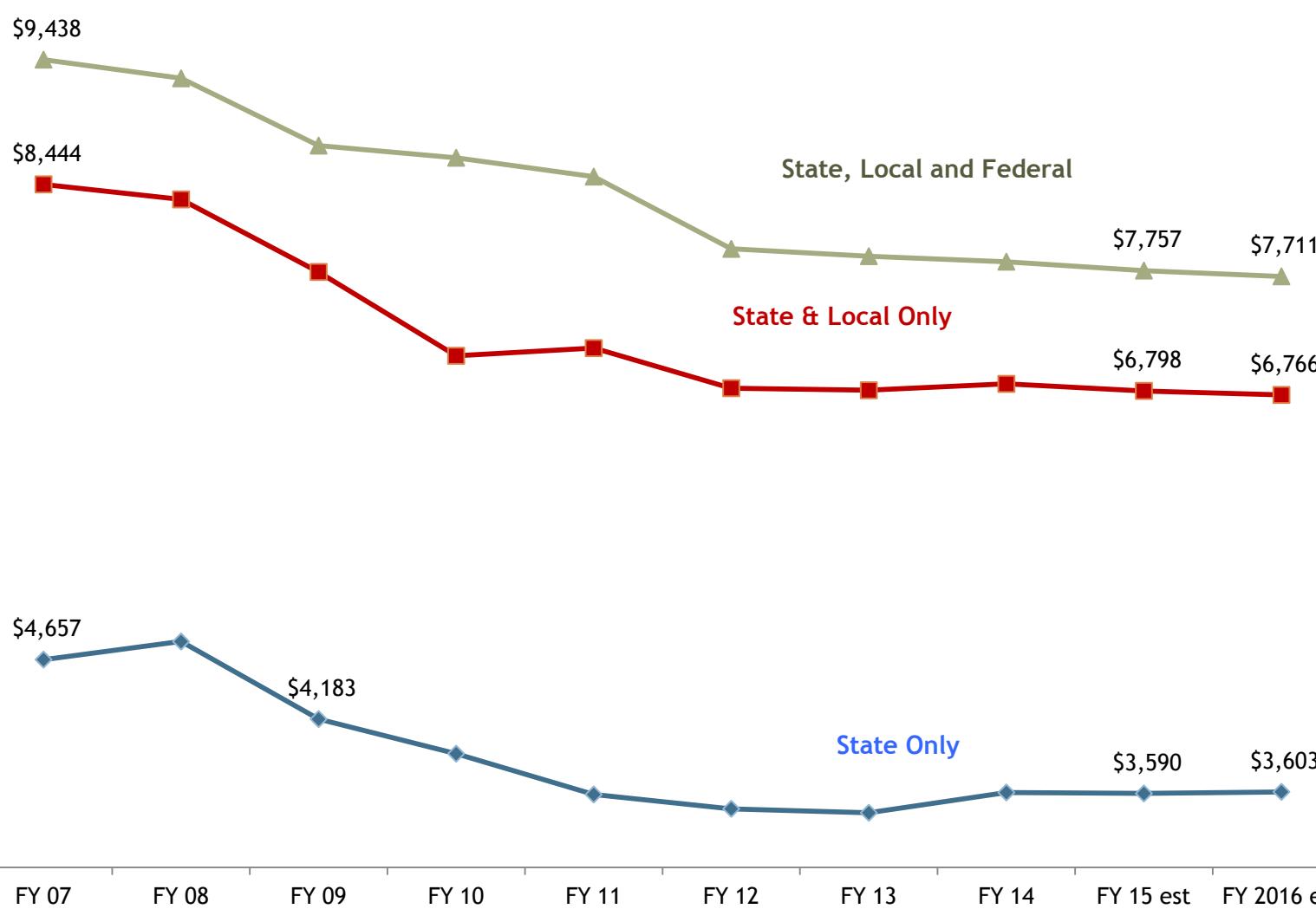
Sources: Arizona Department of Economic Security, Child Care Administration, *Child Care Cash Report*, various dates; Arizona Department of Child Safety, *Child Welfare Report*, various dates

EDUCATION: RISING EXPECTATIONS SHRINKING RESOURCES



Funding for K-12 Education Has Fallen Since FY 2007

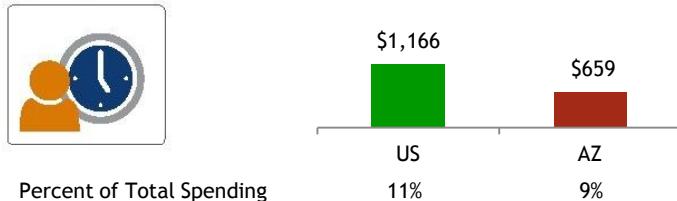
Funding Per Student - Adjusted for Inflation



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

Education Spending Per Student

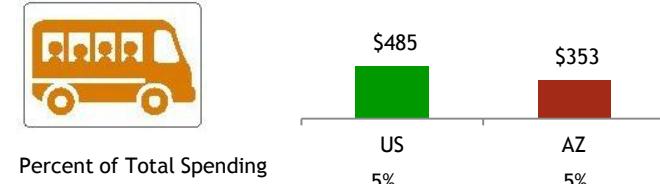
School Administration, General Administration, Other Support and Nonspecified Support Services



Operations and Maintenance of Plant



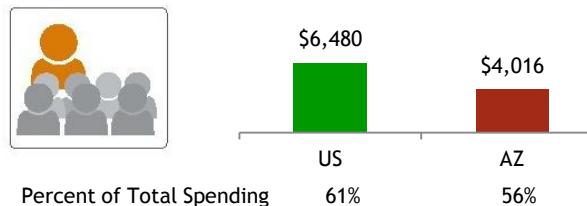
Student Transportation



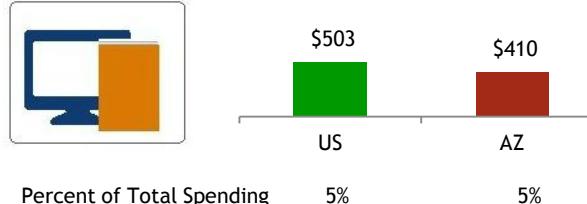
Other



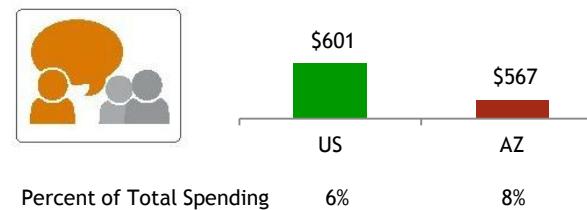
Instruction



Instructional Staff Support



Student Support



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

				Increase Above FY 16	
Agency	FY 15	FY 16	FY 17 Request	Dollars	Percent
Education ¹	\$3.8 billion	\$3.9 billion	\$4.0 billion	\$88 million	2%
AHCCCS ²	\$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 ² Services	\$102 million	\$85 million	\$97 million	\$11 million	13%
TOTAL				\$583 million	

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

²Behavioral 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

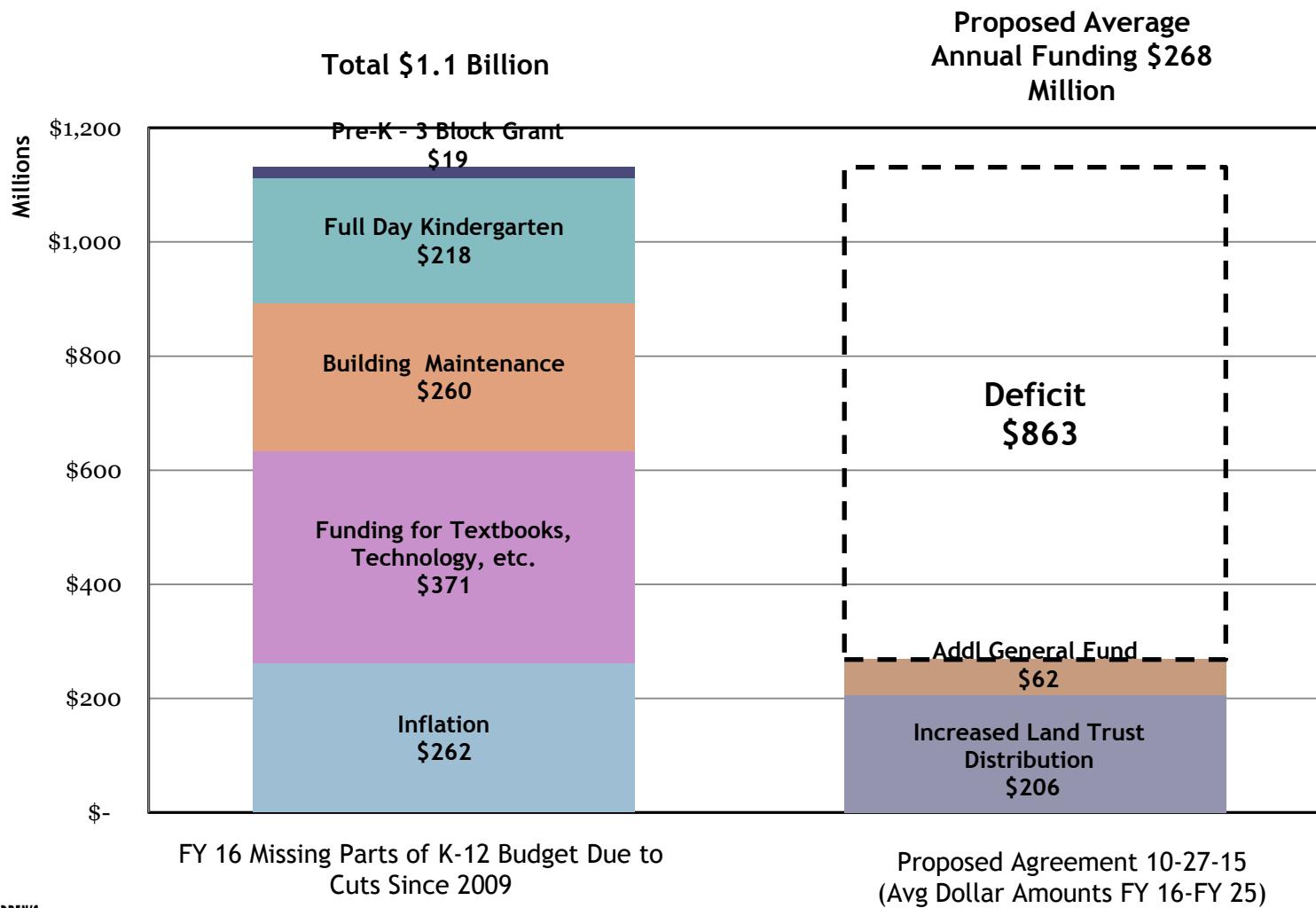
NOTE: Since this information was collected, the budget requests have been amended to move behavioral health services for individuals served by Des/Division of Developmental Disabilities to DES instead of AHCCCS

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 th 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)



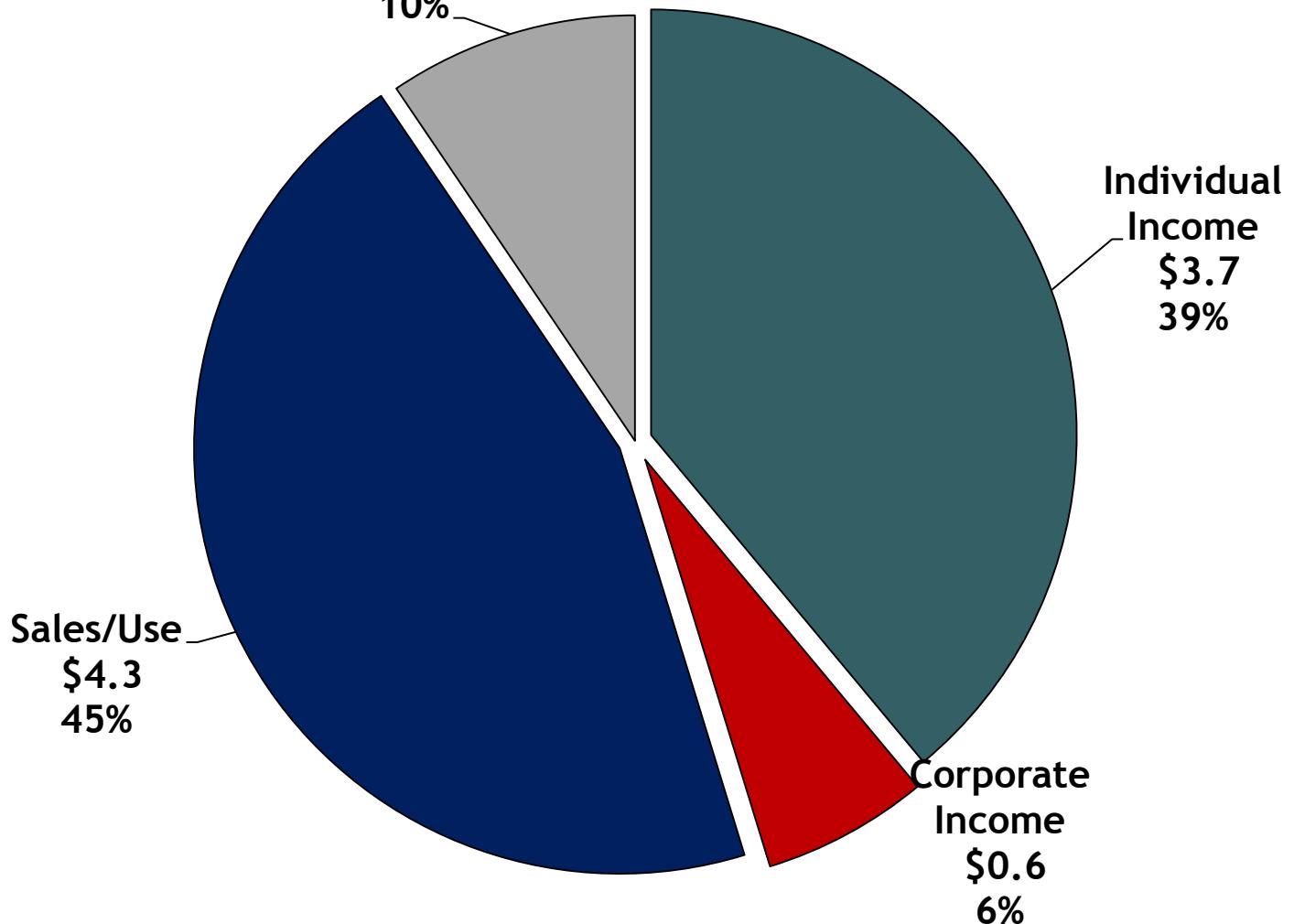
POTENTIAL TAX POLICY CHANGES



General Fund Revenues - FY 2016

Other (Dollars in Billions)

\$9.5 Billion Total



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

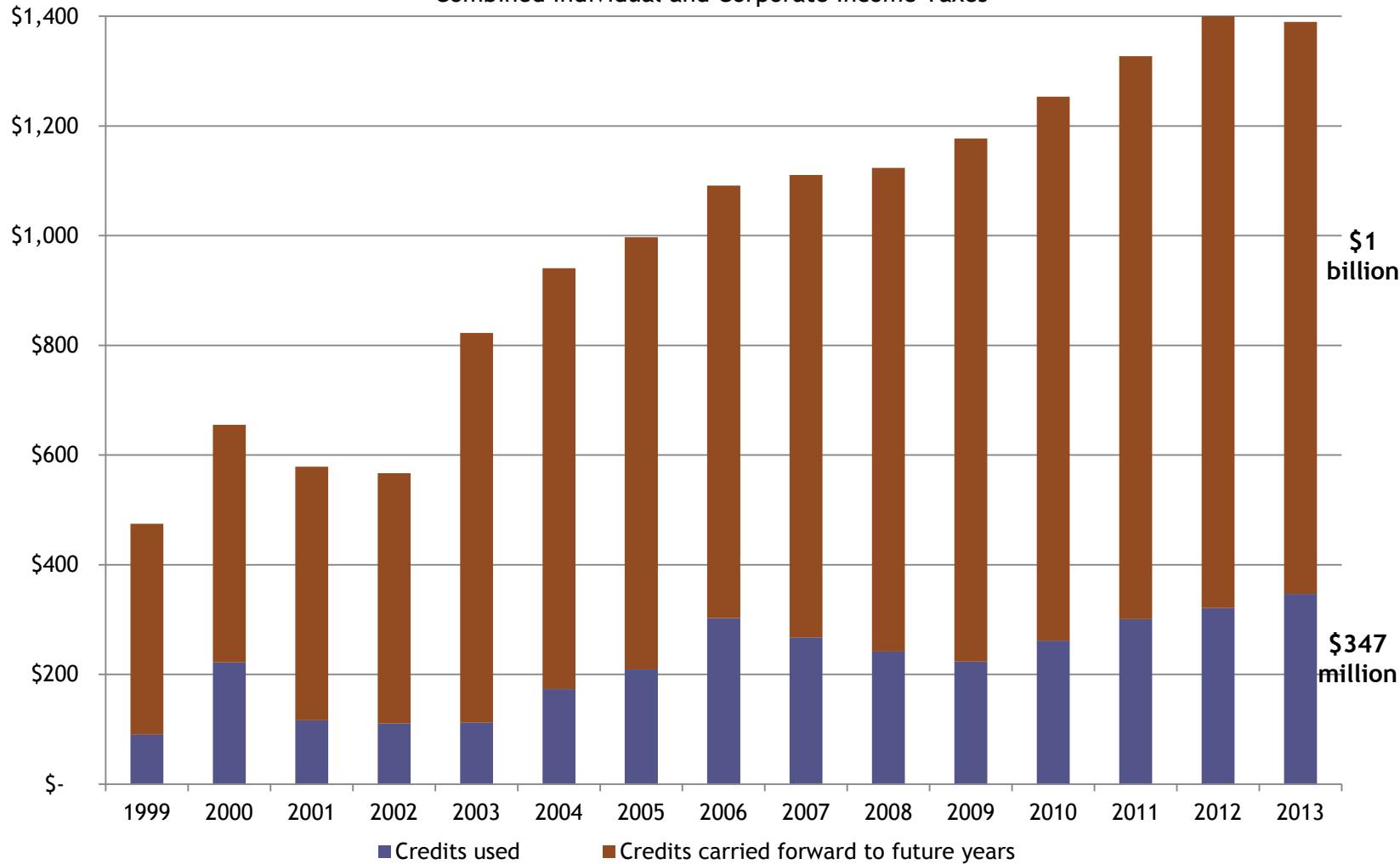
Tax Cuts Still Phasing In

Year Passed	FY 2017 Impact	FY 2019 Impact
2011	\$322 million	\$422 million
	• Corporate income tax rate reduction phase down	
	• 100% sales factor option for multistate corporations	
2012	\$95 million	\$120 million
	• 100% sales factor option for multistate service providers	
	• Growth in qualified facility credit	
2015	\$50 million	\$60 million
	• Individual income tax bracket inflation adjustment	

Millions
of
Dollars

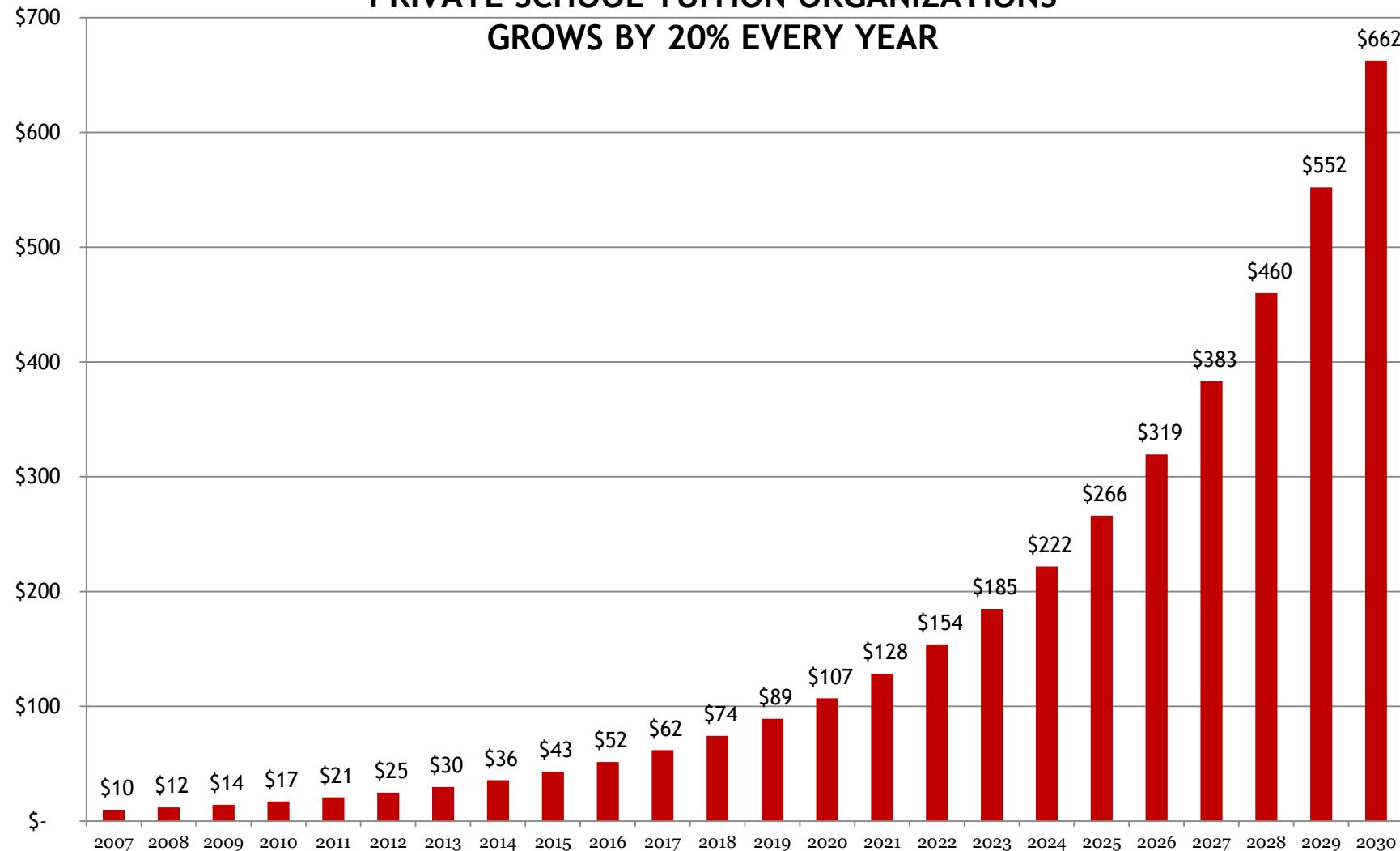
**ARIZONA TAXPAYERS HAVE BUILT UP OVER \$1 BILLION IN TAX CREDITS THAT CARRY FORWARD TO
FUTURE YEARS**

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



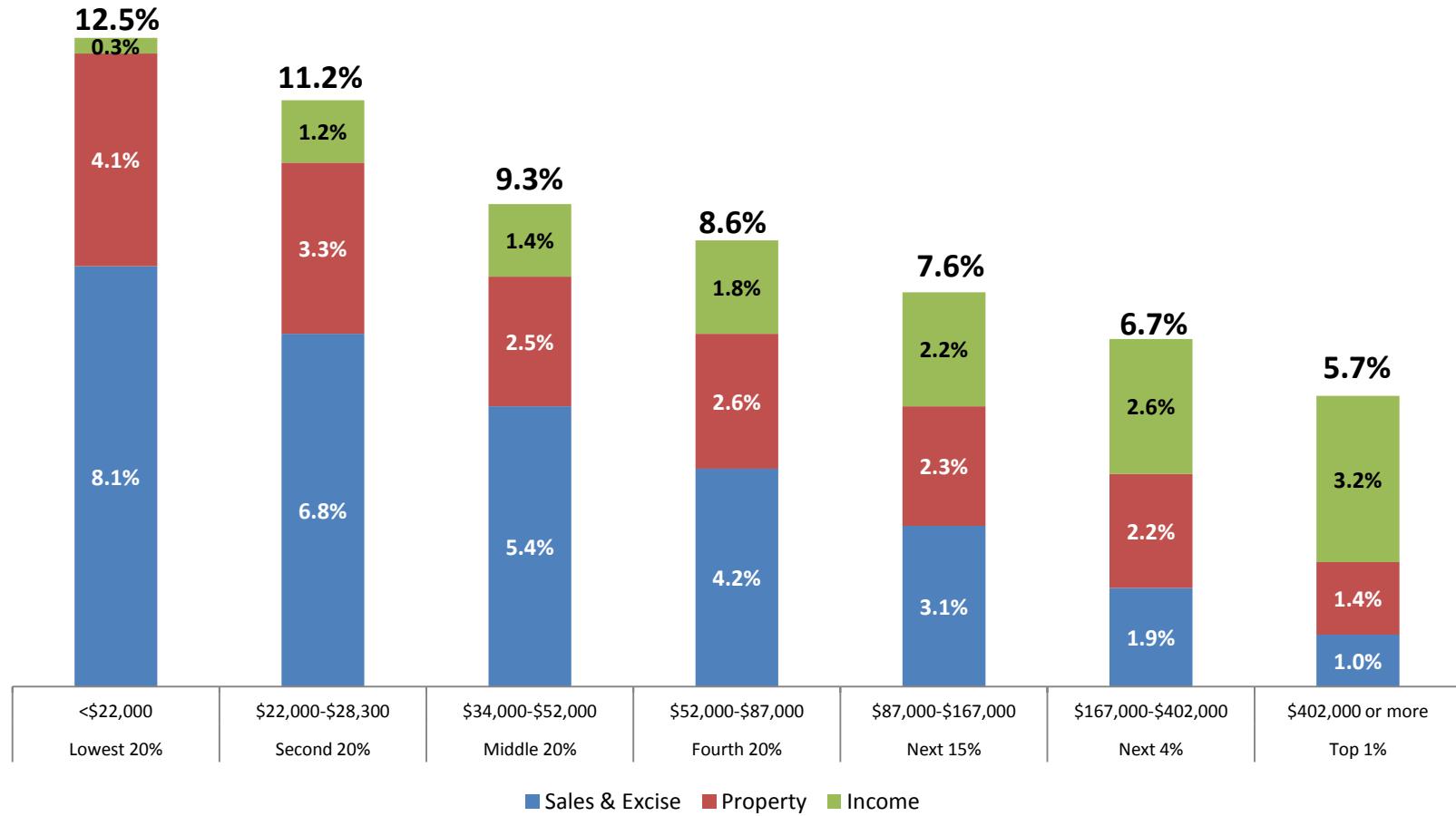
Based on provisions in ARS 43-1183

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

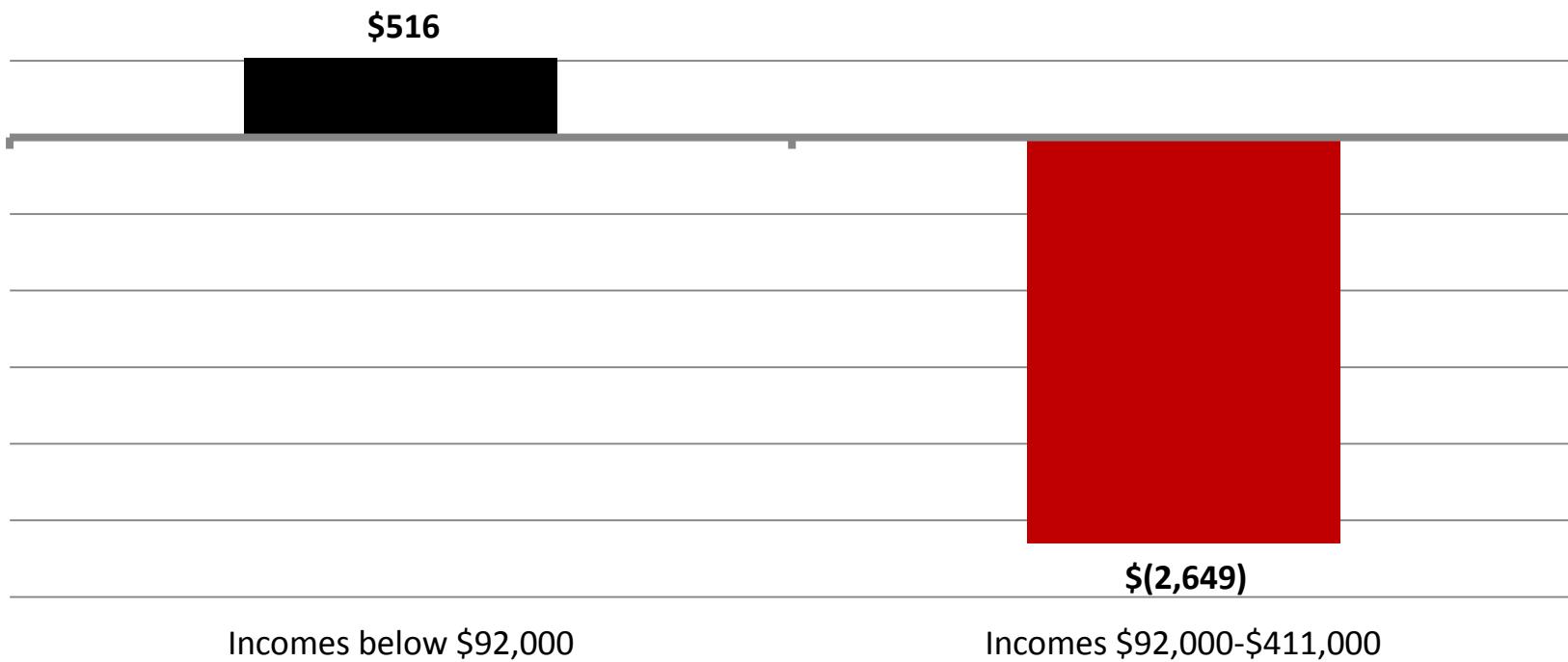
Portion of Income Paid on State and Local Taxes



Source, Institute on Taxation and Economic Policy, *Who Pays?*, January 2015. Share of family income for non-elderly

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

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