

Children's Action Alliance

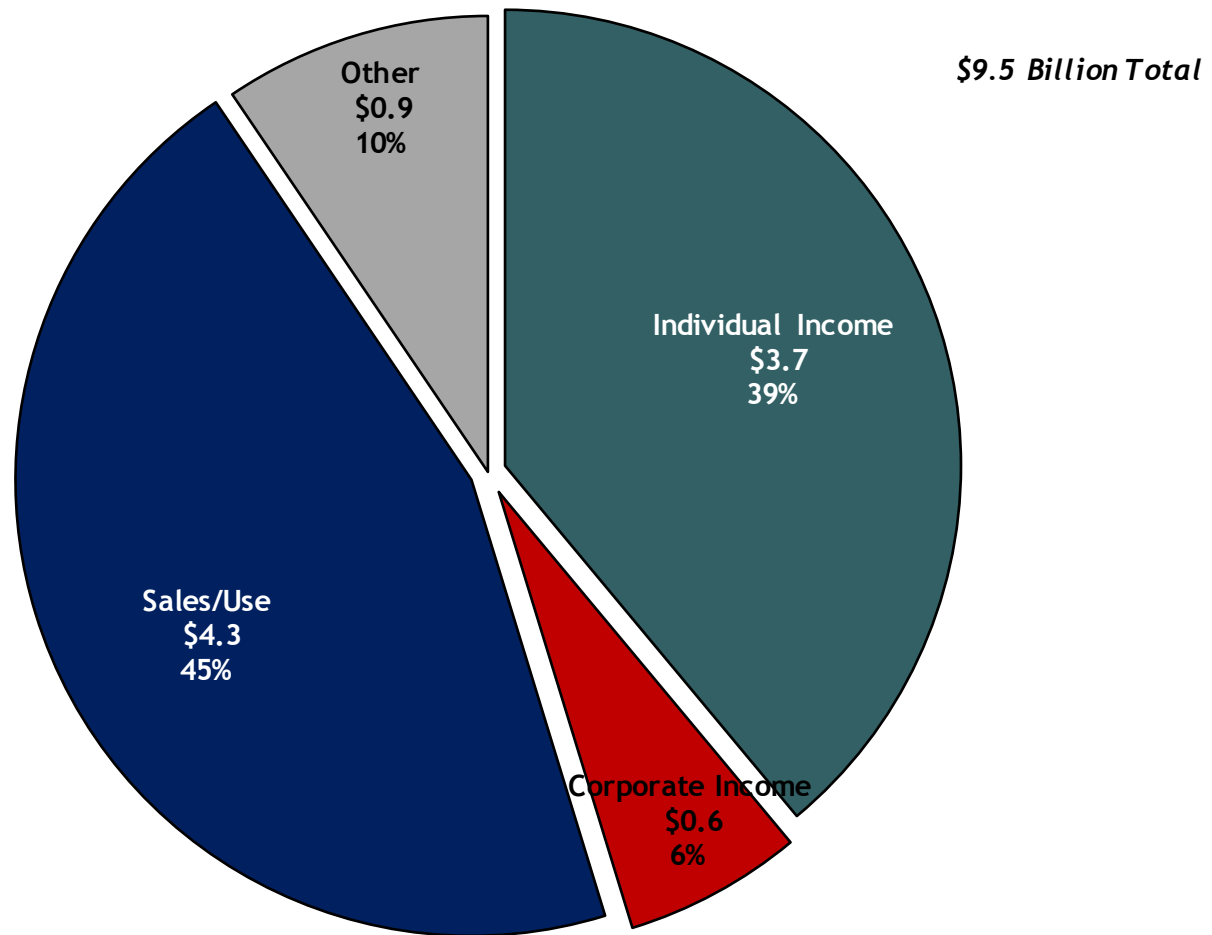
A Voice for Arizona's Children since 1988

**Coconino Coalition for Children and Youth
Arizona's State Budget
September 2015**

WHERE THE MONEY COMES FROM WHERE THE MONEY GOES

General Fund Revenues - FY 2016

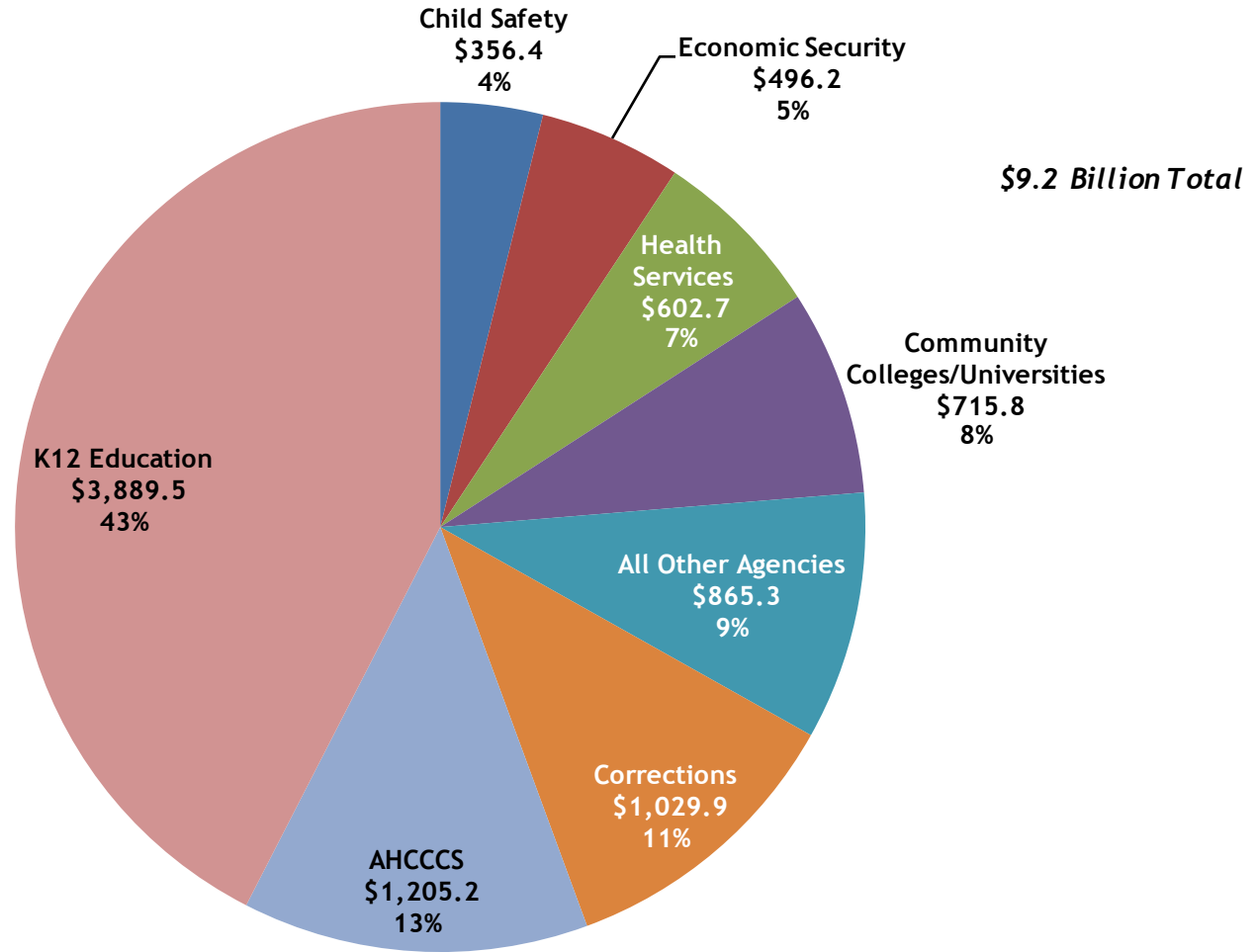
(Dollars in Billions)



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

GENERAL FUND APPROPRIATIONS - FY 2016

(Dollars in Millions)



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

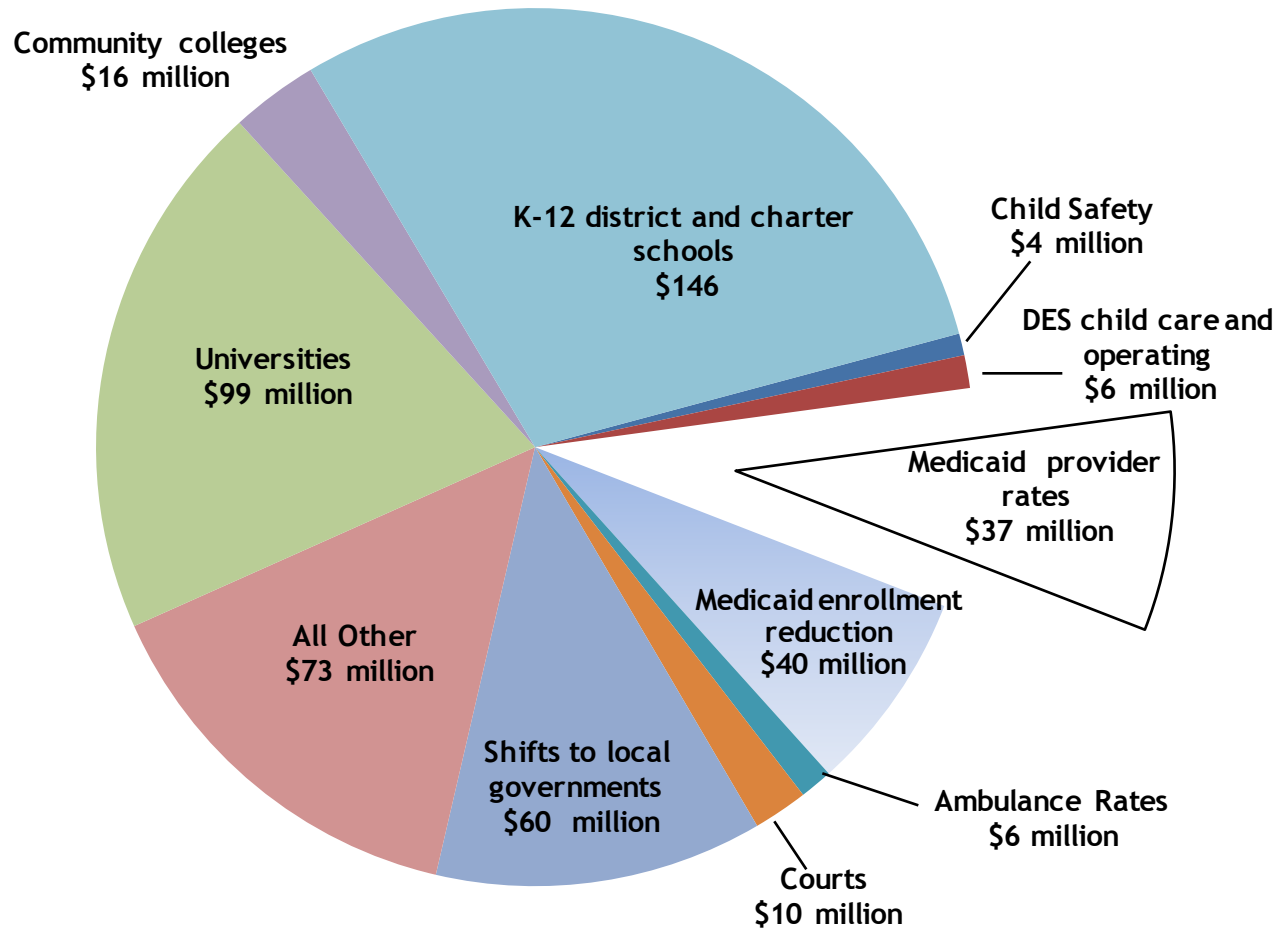
BALANCING THE BUDGET

The FY 2016 Budget

From a \$1 Billion Shortfall to a \$12 Million Ending Balance

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
Rainy Day Fund Transfer	144 million
Set aside funding K-12 inflation*	337 million
Spending cuts	497 million
Increased spending	<u>(176) million</u>
Subtotal	\$1.016 billion
New ending balance*	<u>\$12 million</u>

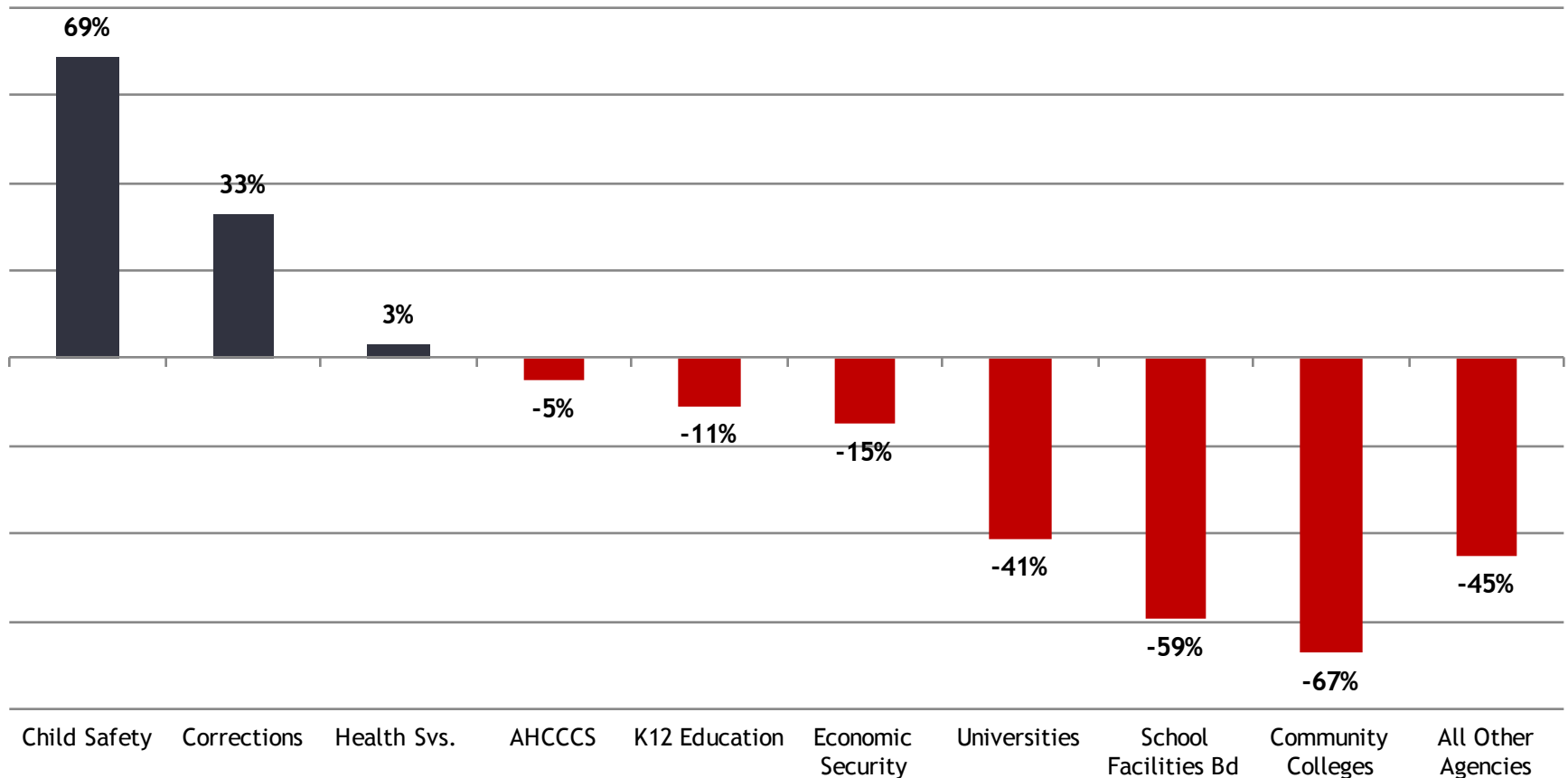
FY 16 BUDGET - SPENDING CUTS AND COST SHIFTS TOTAL \$497 MILLION Education and Health Among the Hardest Hit



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.

Some Agency Budgets Have Been Restored, Most Have Not

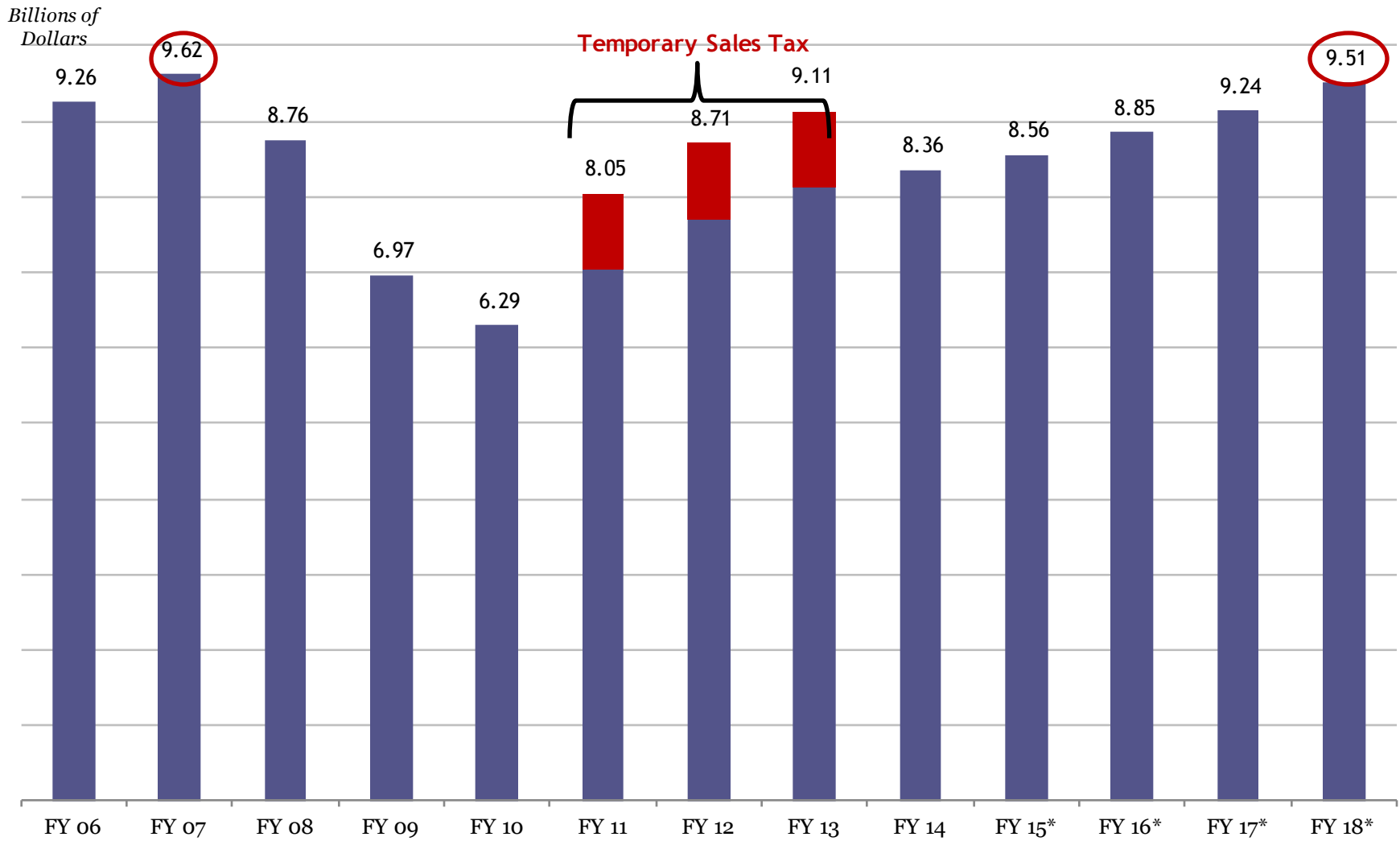
General Fund Percentage Changes - FY 08 - FY 16



The Roots of the Arizona's Fiscal Problems:

Slow Economy and Years of Tax Cuts

Arizona Revenues Are Not Expected to Recover Until After FY 18

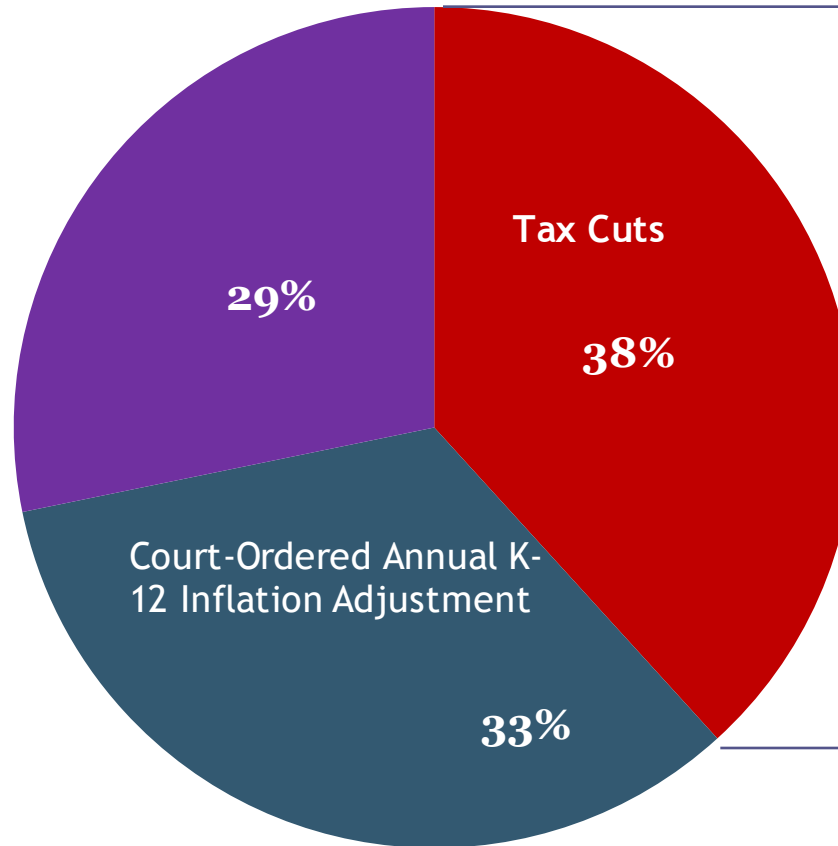


*Projections

Source: Joint Legislative Budget Committee Staff, Finance Advisory Committee Presentation, January 22, 2015 and Appropriations Report - FY 2016

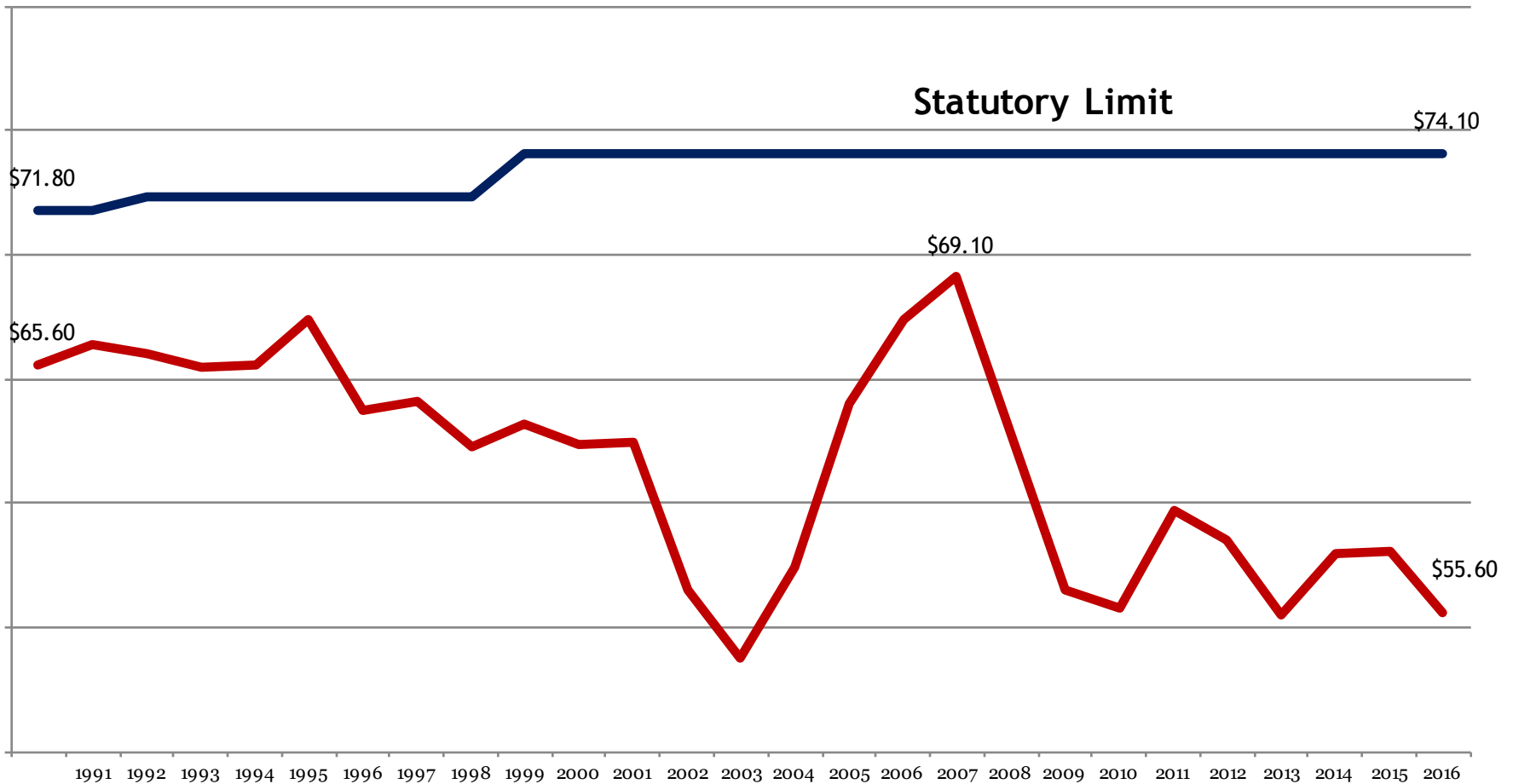


Tax Cuts Passed Since the Recession Accounted for More Than One-Third of the FY 2016 Projected Deficit at the Beginning of the Legislative Session



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

Arizona's Appropriations Have Dropped as a Share of the Economy (Includes General Fund and Other Appropriated Funds)



Cost Per \$1,000 Personal Income



Source: Joint Legislative Budget Committee Staff, *State Appropriations Limit*, February 12, 2015

ARIZONA ONCE WAS A HIGH TAX STATE - BUT NOT ANY MORE

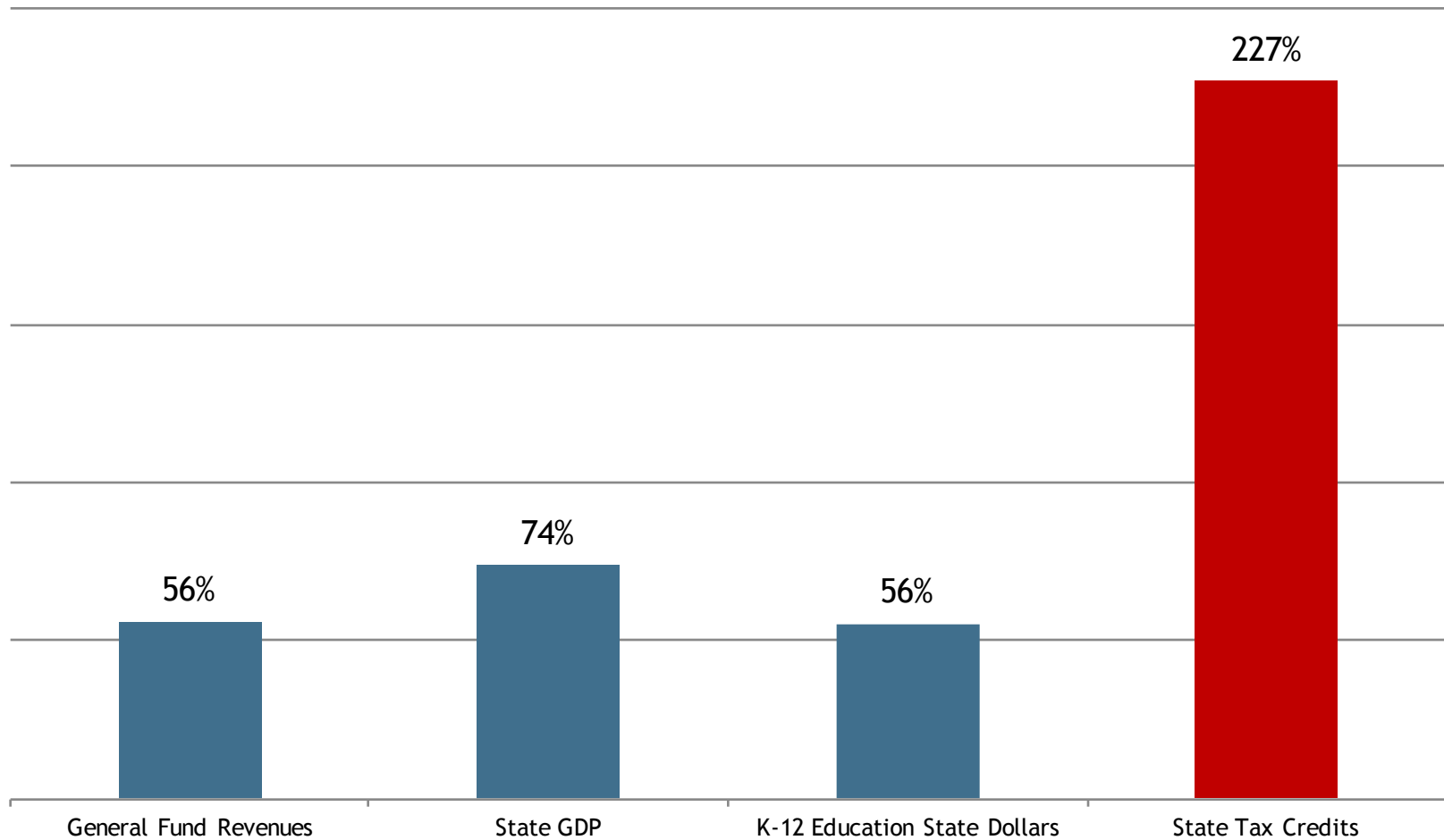
- 1990 \$11.37/\$100 of personal income
Ranked 10th highest

- 2012 \$9.47/\$100 of personal income
Ranked 35th highest

Source: Calculations based on Bureau of the Census and Tax Policy Center data. State and local tax combined

Tax Credits: High Growth/Low Accountability

Tax Credits Are Growing Fast

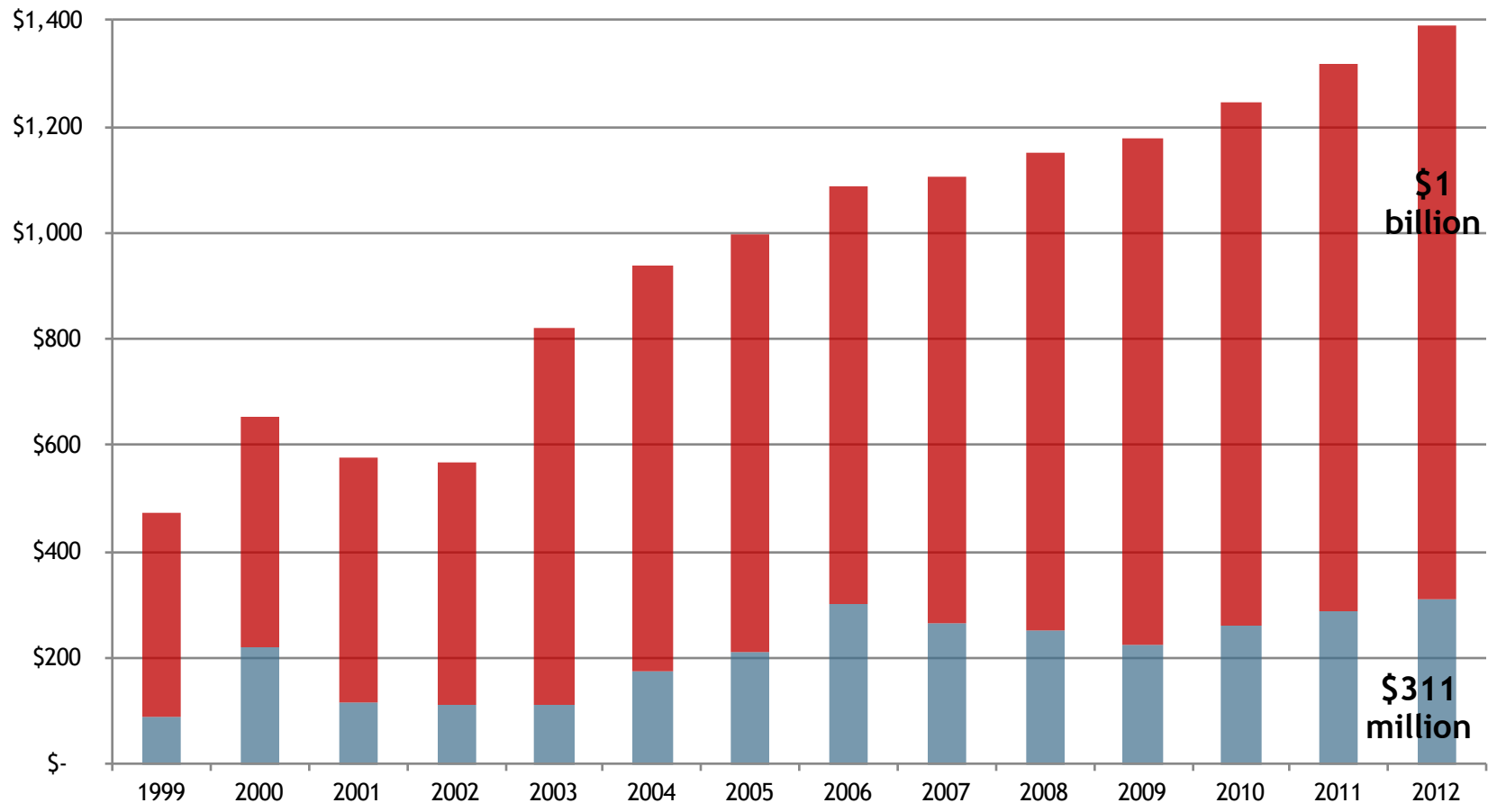


Source: Joint Legislative Budget Committee Staff, *Appropriations Reports for FY 1999, FY 2000, FY 2012 and FY 2013*; Arizona Department of Revenue, *Arizona Income Tax Credits*, November 2014; U.S. Bureau of Economic Analysis, *Gross Domestic Product by State*

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

Combined Individual and Corporate Income Taxes

Millions of Dollars



■ Credits used ■ Credits carried forward to future years

Source: Arizona Department of Revenue, Tax Credit Report, November 2014



Tax Credits Undergo a Less Strenuous Review Process than State Agencies and their Funding

Agencies/Spending

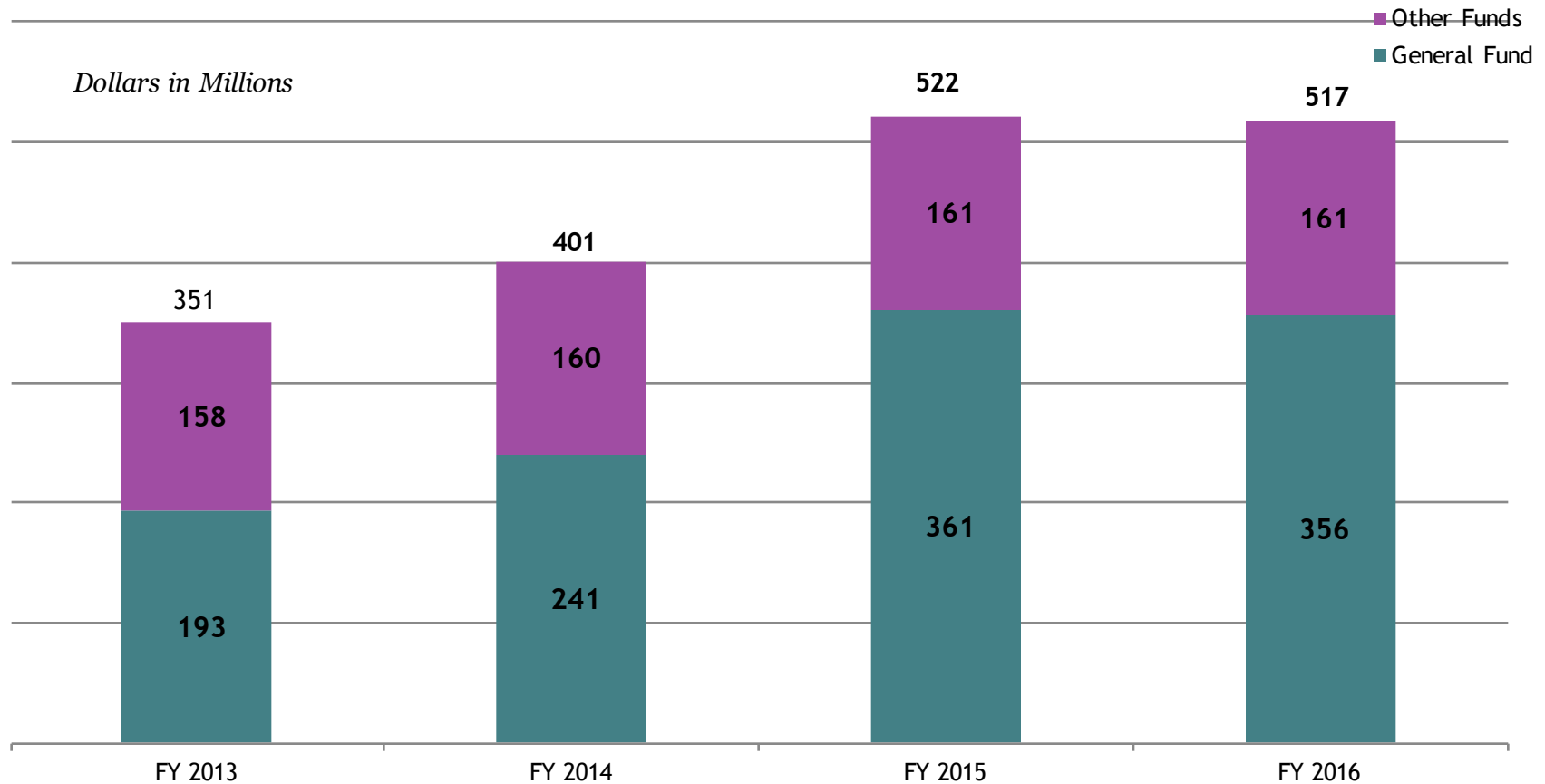
- Agencies undergo extensive review on a regular basis that requires an affirmative vote by the entire legislature to continue the agency.
- Appropriations are limited to what is approved in the annual budget.
- How much will be spent each year can be projected.

Tax Credits

- 5 year cycle with evaluation limited due to untimely data or no data at all.
- Vote only if the credit is to be amended or repealed; 2/3 approval required.
- Few caps/unlimited impact on state funds.
- Cannot predict ahead of time their usage or when the carry forward balances will be used.

DEPARTMENT OF CHILD SAFETY

Department of Child Safety Funding*



*Excludes federal spending authority

Sources: Joint Legislative Budget Committee staff, *Appropriations Report FY 2015 and FY 2016*

DEPARTMENT OF CHILD SAFETY

Major Funding Changes for FY 2016

- Removes \$11 million in “one-time” funding for handling the backlog - the June 2, 2014 snapshot. Backlog at that time was 13,024; as of January 2015 it was 15,728.
- Increases in-home services by \$4 million.
- Adds \$8 million for projected increases in the number of children leaving foster care for adoption and permanent guardianship.
- Increases the family foster care rate for older children and assumes there will be enough new foster homes to reduce the need for emergency shelters and group homes, resulting in a net cut of \$2 million.
- Eliminates transition funding appropriated to the Dept. of Admin.

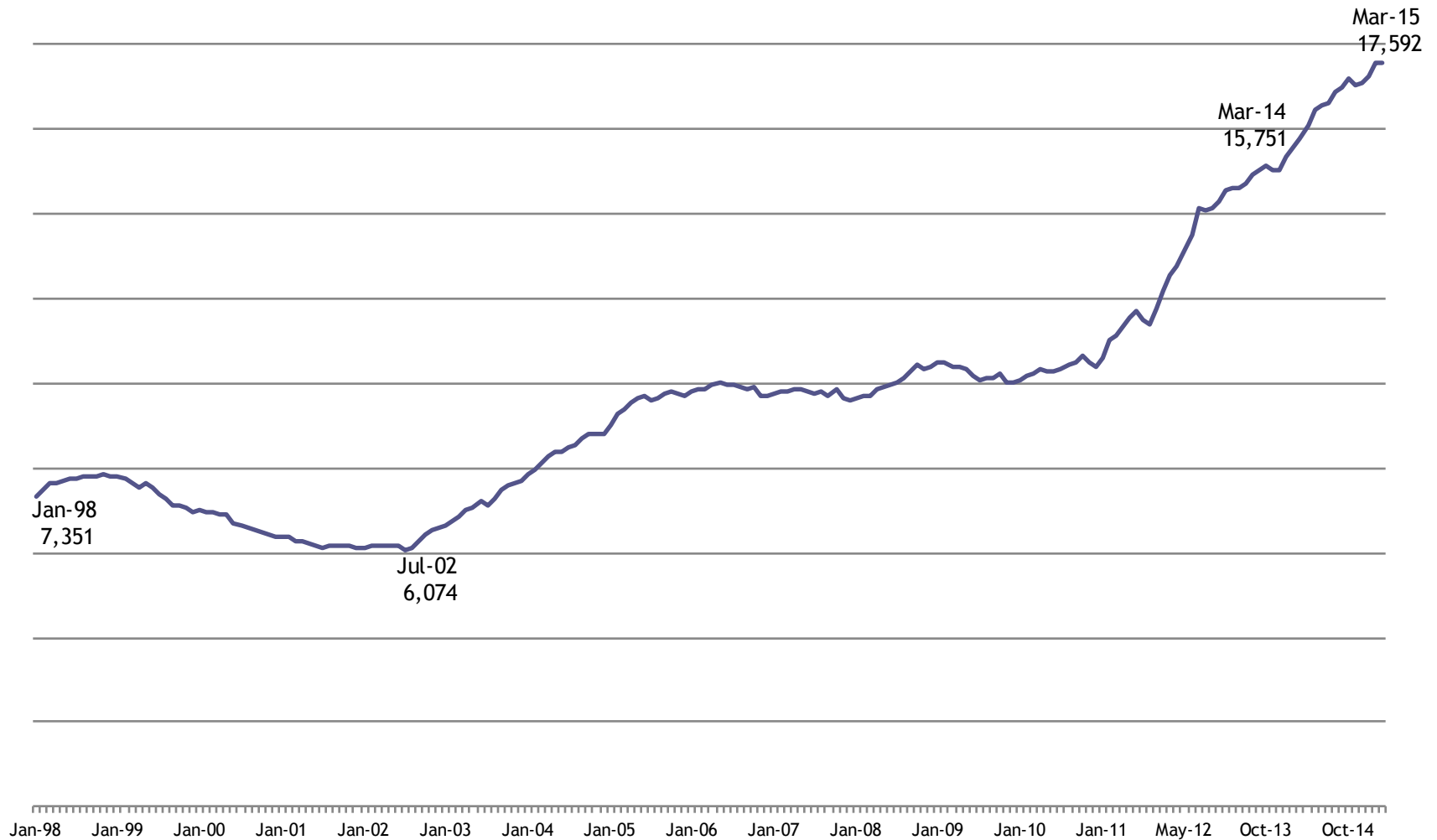
FY 2017 - \$12.4 million cut (backlog); \$4 million increase for prevention.

DEPARTMENT OF CHILD SAFETY

What's Not in the Budget

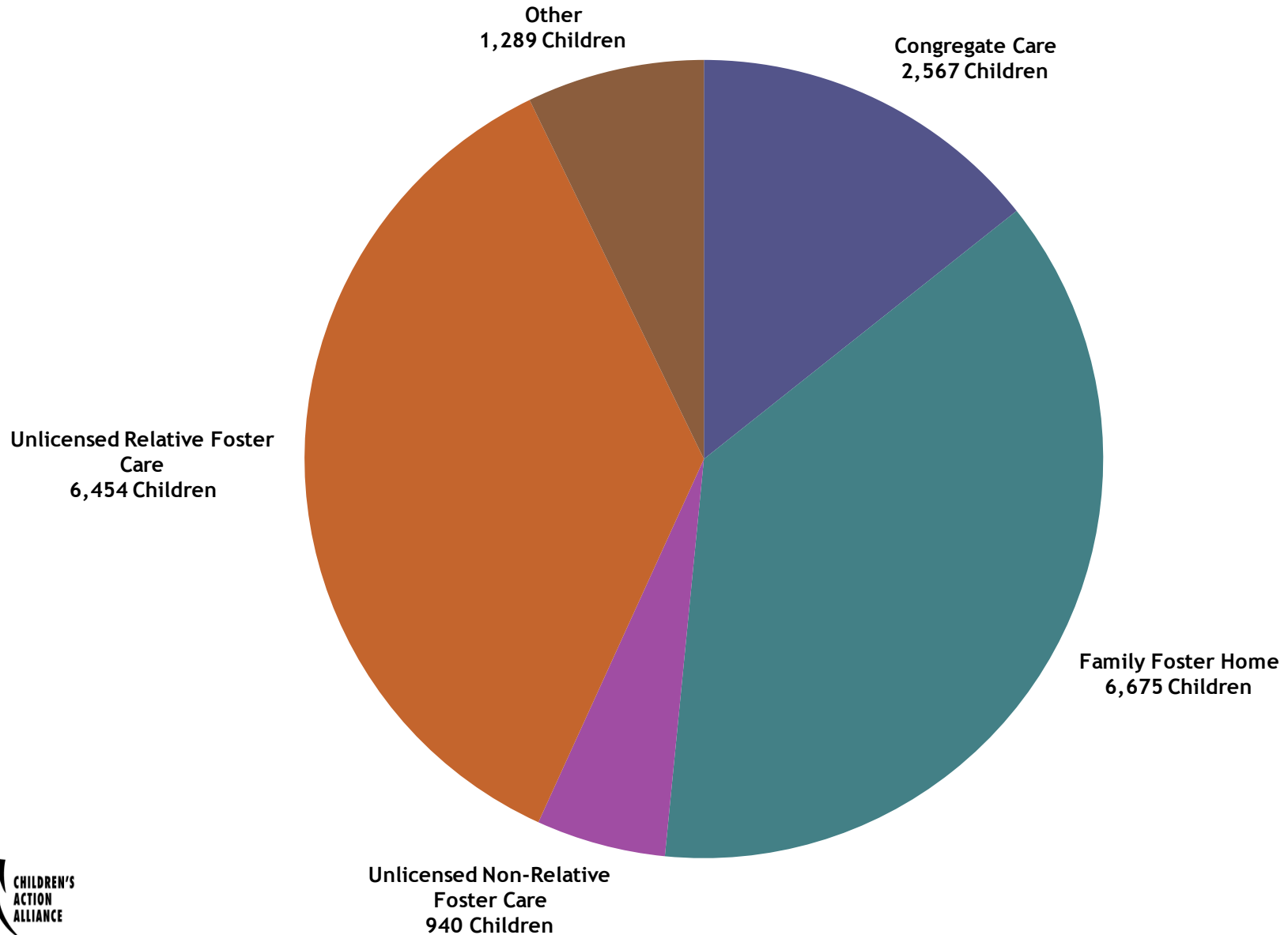
- Assumes no growth in the number of children in foster care
 - Assumes 210 teenagers will move from emergency/residential placements to family foster care, but no overall change in the number of children in foster care
 - Subsidy increases for children below age 12
 - Provides no additional funding for child care
- No relief for overburdened caseworkers

Arizona Children in Foster Care



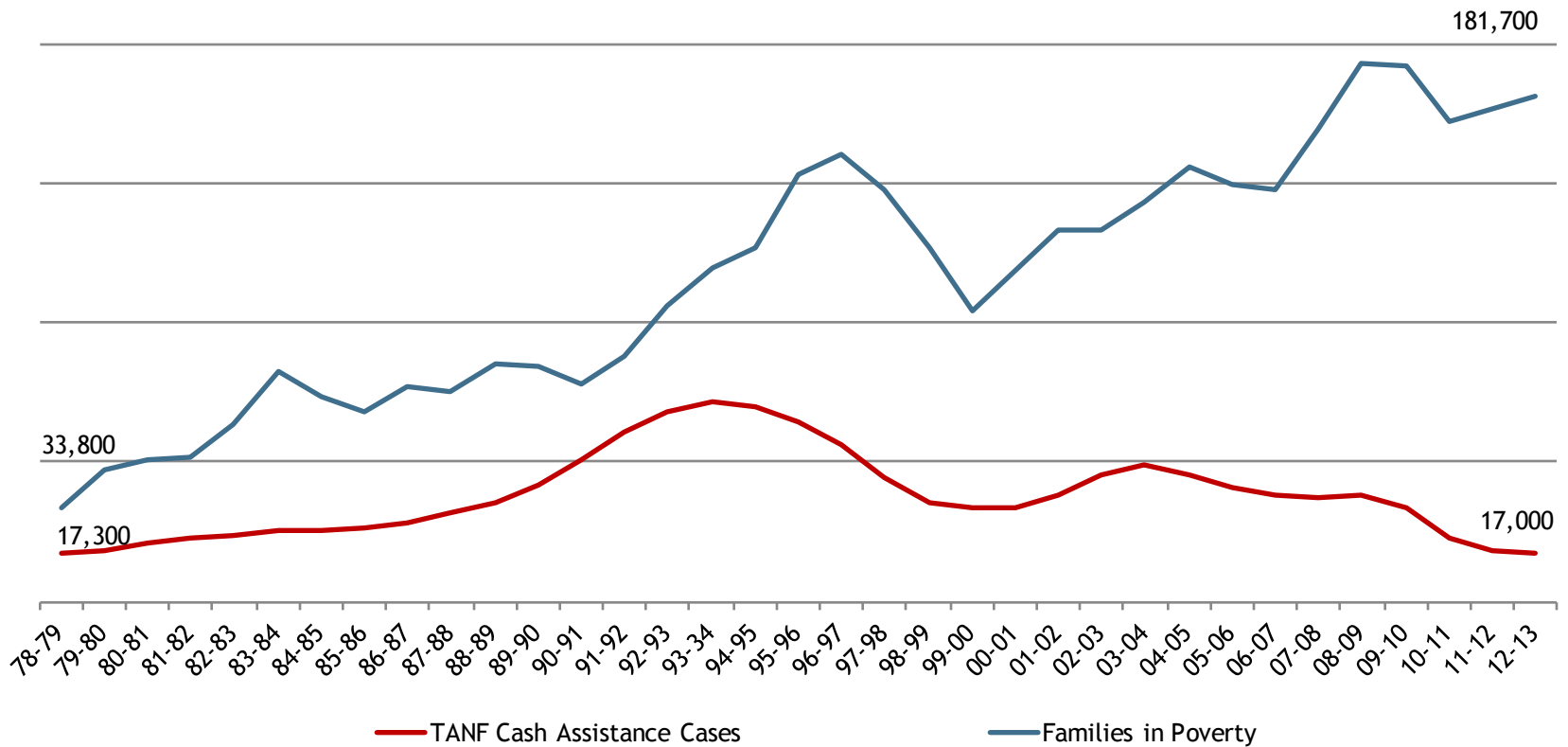
Source: Department of Child Safety Monthly Reports ("TIGGER")

Children in Foster Care by Placement Type, March, 2015

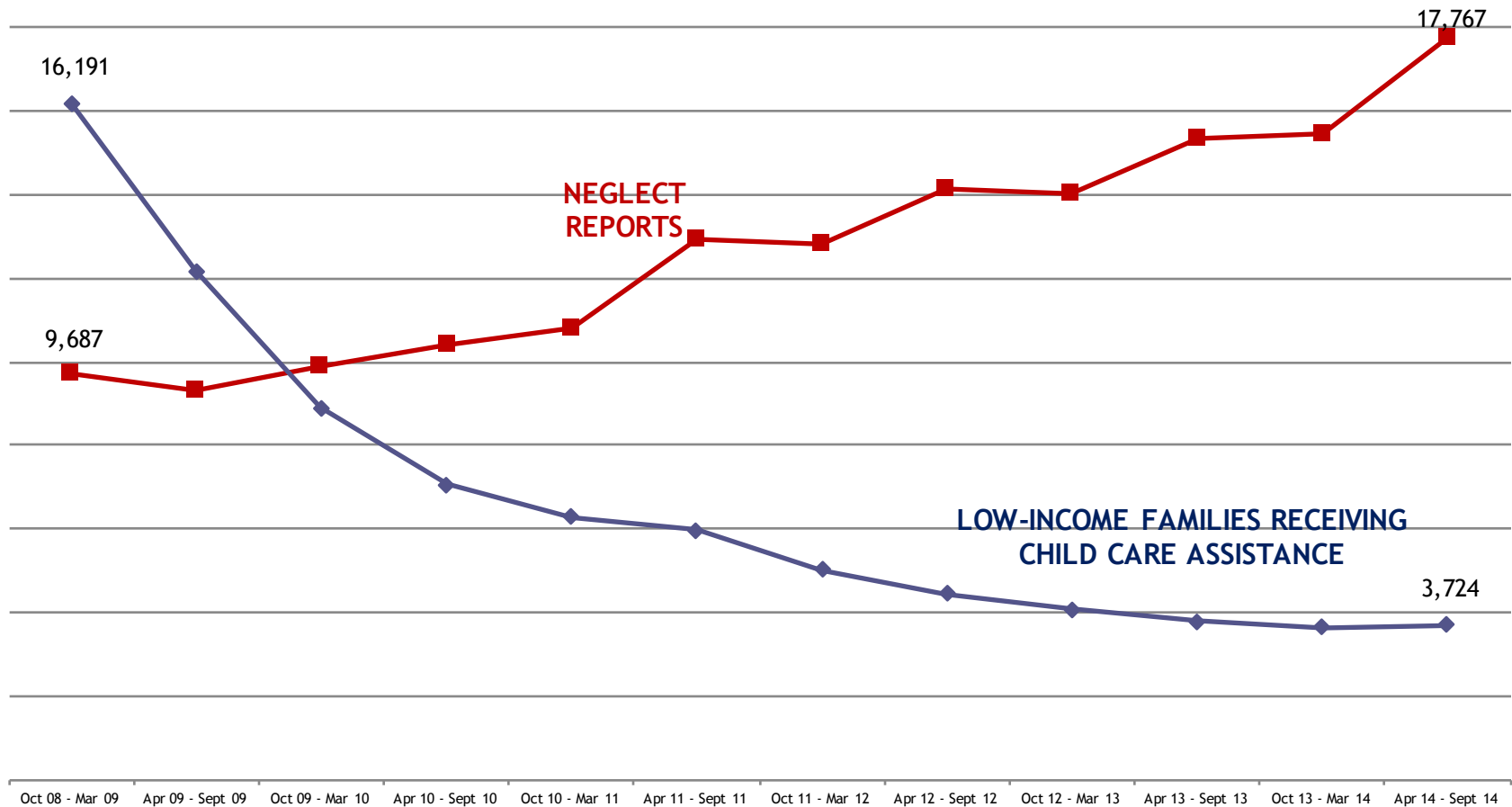


Cuts to Safety Net Have Disastrous Consequences

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



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



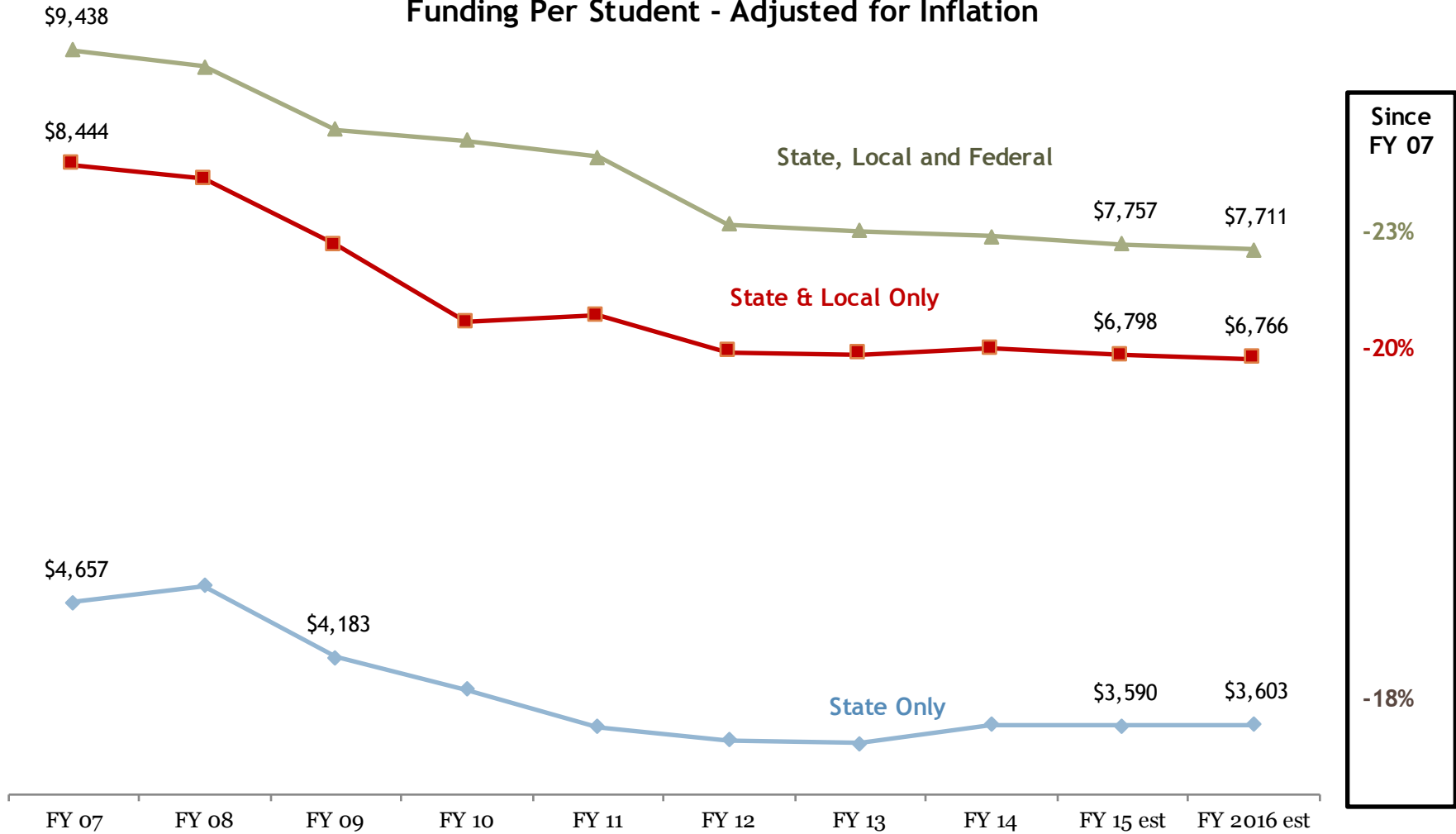
Sources: Arizona Department of Economic Security, Child Care Administration, *Child Care Cash Report*, various dates; Arizona Department of Child Safety, *Child Welfare Report*, various dates

FY 2016 Cuts to Prevention and Family Support

- Cuts \$4 million in state funding for child care vouchers for low-income working families, leaving children in dangerous and unstable conditions while their parents go to work. (Dept. of Economic Security)
- Cuts in half the time limit for the poorest mothers and children to receive TANF Cash Assistance, leaving children vulnerable to hunger, homelessness and crisis. (Dept. of Economic Security)
- Eliminates the funding for school-based and community education about mental illness to help prevent and handle crises. (Dept. of Health Services)
- Sweeps \$5 million in housing assistance funds, putting more families at risk of losing their homes. (Dept. of Housing)
- Cuts \$2 million from operations, further shrinking capacity to help families thrive and help Arizonans succeed in the workforce. (Dept. of Economic Security)
- Sweeps \$3 million out of youth treatment funds, stealing help from Arizona families. (Courts)

Education: Rising Expectations/ Shrinking Resources

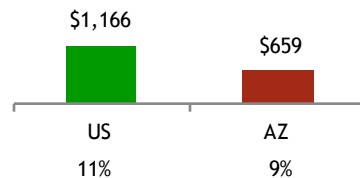
Funding for K-12 Education Has Fallen Since FY 2007 Funding Per Student - Adjusted for Inflation



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

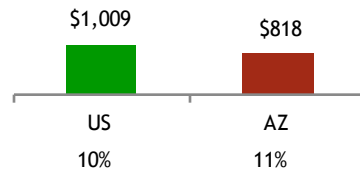
Education Spending Per Student

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



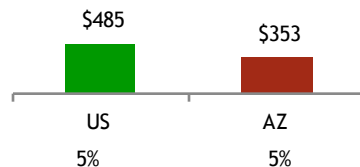
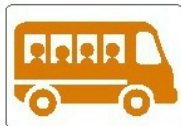
Percent of Total Spending

Operations and Maintenance of Plant



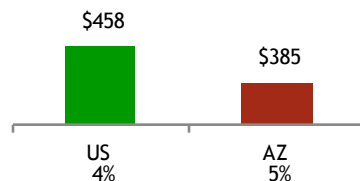
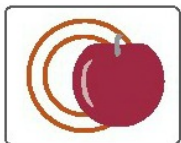
Percent of Total Spending

Student Transportation



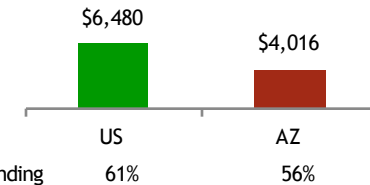
Percent of Total Spending

Other



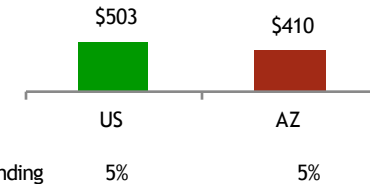
Percent of Total Spending

Instruction



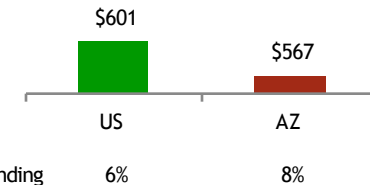
Percent of Total Spending

Instructional Staff Support



Percent of Total Spending

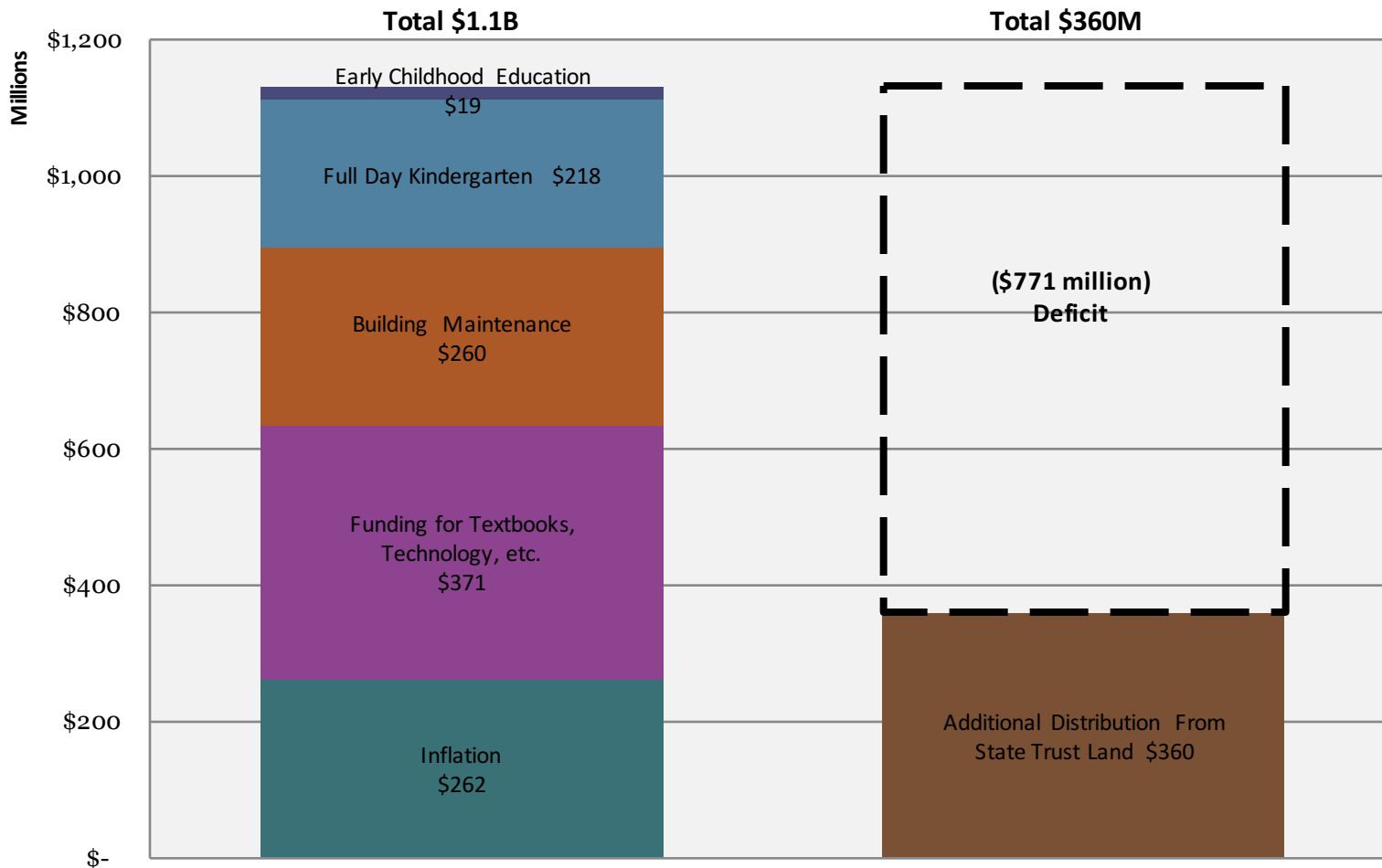
Student Support



Percent of Total Spending

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

Annual Cuts to K-12 Education Far Greater than Proposed Additions from Land Trust Earnings



FY2016 Missing Parts of K-12 Budget Due to Cuts Since 2009

Ducey's Proposal FY17



NEW OPPORTUNITY: INCREASED REVENUES

REVENUES ARE HIGHER THAN PROJECTED

	Budgeted FY 15	Budgeted FY 16	Revised FY 15	Revised FY 16
Beginning Balance	\$ 577.4	\$ 12.0	\$ 577.4	\$ 324.7
Original Revenue Estimate	8,625.8	9,087.0	8,625.8	9,087.0
Revenues Above Projections			381.0	238.8
Expenditures	9,335.5	9,134.3	9,259.5	9,134.3
Ending Balance	\$ (132.3)	\$ (35.5)	\$ 324.7	\$ 516.2
Transfer from Rainy Day Fund	144.3	??	Not Needed	
Final Ending Balance	\$ 12.0			

Options

- Do nothing - carry forward
- Lawsuits - Rental car tax - \$160 million;
K-12 inflation lawsuit - \$262 million
- Transfer to Rainy Day Fund
- Pay off debt (\$3 billion/\$366 million annual payments)
- Fund suspended formulas
- Tax cuts
- Supplemental needs - Corrections, State Hospital, Child Safety
- ?????



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