Children's Action Alliance
A Voice for Arizona's Children since 1988

GOVERNOR BREWER'S FY 2011 AND FY 2012 BUDGET PROPOSAL: THE IMPACT ON CHILDREN AND FAMILIES

(February 10, 2011) In addition to the chart highlighting portions of Governor Brewer's budget recommendations, CAA's budget analysis includes two charts that summarize the recommendations and the governor's strategies for balancing the budget.

The bar chart (page 9) shows the change in General Fund support for state agencies from the FY 08 appropriation to the governor's FY 12 recommendation. While support for all state agencies combined has fallen by 16%, the changes for specific agencies vary widely - community colleges will have experienced a 57% reduction in state support while AHCCCS will have grown by 10%. **The pie chart (page 10) shows how the governor plans to fill the current year's deficit as well as balancing next year's budget through:**

Continued Suspension of Support for Public and Charter Schools:
The governor's proposal leaves out $541.8 million in funding to public schools for increased utility costs, school facility maintenance costs, funding for textbooks, computers and other in-class supplies, and $10 million in support for charter schools.

State Program Cuts:

- $541 million for cutting 30,000 parents from health care as well as eliminating coverage for 250,000 adults without children at home. (12-month cost is $1 billion)
- $89 million for continuing the 5% rate cut for AHCCCS and Department of Health Services providers.
- $12 million for continuing the freeze on KidsCare enrollment.
- $10 million for continuing the cap on child care for low-income working parents.
- $73 million for cutting state support for community colleges by 50%.
- $170 million for cutting state support for universities by 20%.
- $7.2 million for reducing Department of Juvenile Corrections.
- $84 million for cutting state support for K-12 public and charter schools.
- $40 million in cuts to the Department of Economic Security for reducing benefits in the TANF cash assistance program, cutting provider rates and reducing operations.
- $10 million for adjusting the budget for changes in the inmate population and start-up costs for new prison beds.

Temporary Strategies:

- $41 million in temporary fund shifts.
- $245 million to increase K-12 rollover to $1.2 billion.
- $330 million for borrowing First Things First fund balance for 24 hours.
- $152 million for sweeping dedicated funds to the general fund.

Other Strategies:

- $11 million shifting of costs to counties, cities and towns.

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CHILDREN'S ACTION ALLIANCE

GOVERNOR'S BUDGET PROPOSAL FOR FY 2011 AND FY 2012

An analysis by Children's Action Alliance – updated 1/28/11

Arizona is falling off a funding cliff as the federal stimulus dollars expire and Governor Brewer's budget does nothing to cushion the impact for Arizona families. It also ignores the next funding cliff when the temporary state sales tax dollars go away -- education and health care are left unprotected from more major misery. The budget moves resources from the classroom to the prison cell and promises a weaker workforce. It is an attack on parents by:

- **Canceling the health insurance of 30,000 parents**
- **Shifting higher education costs to families with higher tuition for community colleges and universities**
- **Squeezing families with both larger class sizes and higher fees to pay for public education in K-12**

This budget ignores a long list of alternatives such as doing a better job collecting taxes that are already owed, enacting a tax on health care providers that 22 other states already have, closing outdated tax loopholes, and being smarter with our tax dollars in the prison system.

STATE SERVICES	12-MONTH IMPACT	GOVERNOR'S BUDGET PROPOSAL	CONSEQUENCE/NOTES
NEW SPENDING			
ECONOMIC DEVELOPMENT Economic development has been the responsibility of the Dept of Commerce.	**$31.5 million increase**	**ABOLISHES THE ARIZONA DEPT OF COMMERCE AND CREATES A NEW "COMMERCE AUTHORITY"**	Takes $31.5 million from the general fund to fund this new agency. The Dept of Commerce's general fund appropriation is only $3.5 million currently.
CORRECTIONS Adds 306 correctional officers over a 3-year period. Plan includes appropriating FY 12 and FY 13 funds. When fully implemented, the added correctional officers will cost $25 million a year.	**$8.4 million First year cost; $25 million when phased in.**	**3-YEAR PLAN TO INCREASE STAFFING LEVELS**	FY 10 prison population growth was negligible and the current year population is down 216 inmates.

STATE SERVICES	12-MONTH IMPACT	GOVERNOR'S BUDGET PROPOSAL	CONSEQUENCE/NOTES
NEW SPENDING (CONTINUED)			
TOURISM All General Fund support for the Dept of Tourism was eliminated in the FY 11 budget.	**$1 million increase**	**ADDS $1 MILLION**	Adds funds for a matching donation program to increase tourism funding.
STATE FURLOUGH DAYS Beginning July 2010, all state employees were required to take 6 unpaid days off (furlough). This resulted in state offices being closed during the furlough days.	**$20.1 million increase**	**ELIMINATES FURLOUGH DAYS**	Restores the number of days that state offices and services are available as well as restoring an average 2.3% to state employee salaries.
CUTS IN STATE SERVICES			
"PROP 204" HEALTH CARE – AHCCCS AND BEHAVIORAL HEALTH Voter-approved health coverage for poor adults is currently paid for with a combination of tobacco funds, general fund and federal match. The Governor's proposal will eliminate all general fund dollars, leaving tobacco funds as the only dollars to match federal funds.	**$1 billion cut plus loss of $2 billion federal match**	**CUTS OUT 30,000 PARENTS** **ELIMINATES COVERAGE FOR ADULTS WITHOUT CHILDREN AT HOME**	To be effective 10/1/11, this will impact 280,000 adults: 30,000 parents and 250,000 childless adults. Included in the 280,000 are an estimated 5,200 adults with serious mental illnesses and possibly 12,000 children. Federal disapproval would mean an unbalanced budget for FY 12; approval may result in lawsuits because this cut violates the voter mandate for health coverage for all poor Arizonans.
PROVIDER RATE – AHCCCS AND DHS Governor Brewer previously announced a 5% provider rate cut for all AHCCCS and DHS providers effective 4/1/11. This will continue into the next fiscal year.	**$89 million cut**	**CONTINUATION OF PROVIDER RATE CUTS/POTENTIAL FOR ADDITIONAL CUTS**	The Governor's recommendation continues the 4/1/11 provider cuts into FY 12, provides for no capitation rate growth, and freezes provider rates. The potential for up to an additional 5% rate cut exists in order to offset anticipated growth in medical services.

STATE SERVICES	12-MONTH IMPACT	GOVERNOR'S BUDGET PROPOSAL	CONSEQUENCE/NOTES
CUTS IN STATE SERVICES (CONTINUED)			
KIDS CARE Affordable health care coverage for children of low-income working parents.	**$11.8 million cut**	**FREEZE CONTINUED**	Arizona already has the 5th highest percentage of uninsured children in the nation. Children will go without the care they need to learn and grow. Since January 2010, 22,000 children have lost their KidsCare coverage, which is more than a 50% drop.
CHILD CARE Assistance with child care expenses for low-income working parents	**$10 million cut**	**CAP ENROLLMENT BELOW PREVIOUS PARTICIPATION**	Continues the waiting list started in February 2009. The proposal will fund approximately 12,800 children in low-income working families. As of December 2010, 8,000 children were in the waiting list.
K-12 EDUCATION FUNDING FORMULA Arizona received $212 million in one-time federal Education Jobs funding in FY 11 which was used to backfill the general fund requirement for the K-12 funding formula.	**$212 million cut**	**PERMANENTLY REDUCES K-12 FUNDING BASE**	Fails to backfill $212 million in one-time federal funding. The Governor's plan is to lower state support.
SUSPENDS STATUTORY EDUCATION FUNDING FORMULA ARS 15-901.B.2 prescribes the funding formula for K-12 education.	**$40 million not funded**	**FAILS TO FUND STATUTORY K-12 FUNDING FORMULA**	State law* prescribes a funding formula for K-12 education. The governor's plan funds only a portion of the required increase, shorting school districts by $40 million. Underfunding will require school districts to make further cuts or ask their taxpayers to approve overrides to increase property taxes. * ARS 15-901.1
COMMUNITY COLLEGES	**$72.9 million cut**	**REDUCE STATE FUNDING BY HALF**	Cuts state support despite enrollment growth. It is unclear how other revenue sources (property taxes and tuition) can fill the gap this cuts creates.

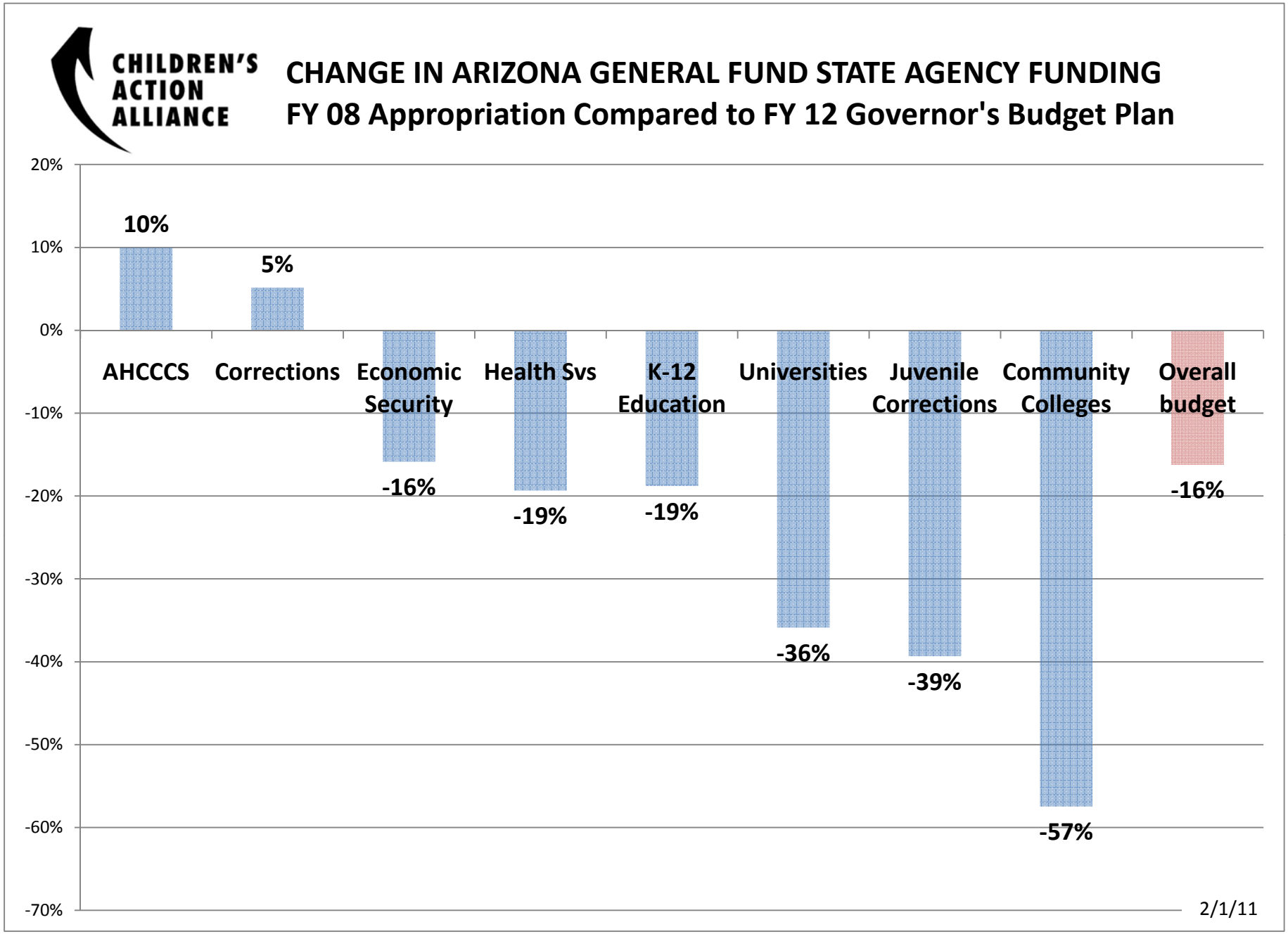
STATE SERVICES	12-MONTH IMPACT	GOVERNOR'S BUDGET PROPOSAL	CONSEQUENCE/NOTES
CUTS IN STATE SERVICES (CONTINUED)			
UNIVERSITIES	**$170 million cut**	**FUNDING REDUCTION**	20% reduction in state support.
PROJECT CHALLENGE	**$1.6 million cut**	**ELIMINATED**	This program provided intervention for high-school dropouts in a boot-camp setting that built life skills.
DEPT OF JUVENILE CORRECTIONS The Dept of Juvenile Corrections (DJC) operates 3 secure juvenile facilities with an average daily population of 396, down from 454 in FY 10. In addition, DJC provides community-based services and probation oversight for nearly 400 juveniles.	**$7.2 million cut**	**REDUCES CRITICAL FUNDING**	These cuts jeopardize adequate staff-to-child ratios and reduce the department's ability to provide treatment and rehabilitation and a safe environment.
ONE-TIME STRATEGIES			
AHCCCS ROLLOVER	**$115.4 million**	**RESETS THE AHCCCS ROLLOVER**	The current budget calls for delaying AHCCCS payments past June 30 into the new fiscal year. However, enhanced federal match rates cease as of June 30, 2011. The reversal will save state funds and have no impact on services or providers. At the end of FY 12, a new rollover of $115.4 million will be established.
K-12 ROLLOVER This rollover delays making payments to school districts.	**$245 million**	**INCREASES K-12 ROLLOVER TO $1.2 BILLION**	This accounting gimmick actually costs the state more money in the long run because schools are paid interest for the time payments are delayed. Many school districts have to borrow money to cover expenses until the payments are received.

STATE SERVICES	12-MONTH IMPACT	GOVERNOR'S BUDGET PROPOSAL	CONSEQUENCE/NOTES
ONE-TIME STRATEGIES (CONTINUED)			
FIRST THINGS FIRST "MIDNIGHT ROLLOVER" This gimmick transfers the First Things First fund balance to the General Fund for 24 hours, allowing the state to end the fiscal year with no deficit on paper.	**$330 million**	**BORROWS FIRST THINGS FIRST FUNDS FOR 24 HOURS**	This will not have an impact on First Things First programs or funding. It will also do nothing to resolve the state's funding issues as the $330 million is not available to pay general fund obligations.
FUND TRANSFERS Programs with dedicated funding sources have been established over the years, many supported by licensing and regulation fees and special taxes. These include a wide range of programs such as the Barbers Board, the Housing Trust Fund and the child care center licensing program.	**$151.7 million over 2 years**	**CONTINUED DIVERSION OF FUNDS FROM ORIGINAL INTENT**	The Governor's plan proposes ongoing fund sweeps from many dedicated funding sources, such as the Child Abuse Prevention and Treatment Trust, the Spinal and Head Injuries Trust, and the Housing Trust funds. Sweeping these dollars into the general fund diverts them from their original purpose. The child care center licensing fees, which were significantly increased last year, are included in the Health Services Licensing Fund which is being swept by $304,000.
COST SHIFTS			
ADULT SERVICES/DEPARTMENT OF ECONOMIC SECURITY	**$6 million cut**	**REDIRECTS FEDERAL FUNDING TO COVER STATE CUT**	Reduces $6 million in general fund support for adult services with the intent that DES use available Social Services Block Grant funds to maintain the current level of services. DES indicates this will not reduce any services.

STATE SERVICES	12-MONTH IMPACT	GOVERNOR'S BUDGET PROPOSAL	CONSEQUENCE/NOTES
COST SHIFTS (CONTINUED)			
SHIFTING EXPENDITURES TO FEDERAL FUNDS Federal Temporary Assistance to Needy Families (TANF) funds are used to support a wide variety of DES programs. This includes temporary cash assistance for single mothers, domestic violence prevention, hunger and homeless programs, adoption services, and services to children involved in the Child Protective Services program.	**$35 million reduction in general fund support**	**SHIFTS FUNDING SOURCE FROM GENERAL FUND TO FEDERAL TANF DOLLARS**	The Governor's recommendation uses temporary federal dollars for ongoing expenses. Once these additional federal dollars are exhausted, they will not be replaced and the fund shift will need to be reversed. DES estimates this will not occur for several years.
NEW FEES • Background checks for prisoners	**$1.7 million/ year**	**INCREASES FEES**	• Visitors to state prisons will have to pay a background check fee. The proceeds will be used for ongoing building renewal for the prison system. Up until now, building renewal for state prisons has been paid for out of the state's building renewal formula.
• Banking charge for inmate bank accounts	**$340,000/year**		• A 1% charge will be assessed on all inmate bank accounts.

STATE SERVICES	12-MONTH IMPACT	GOVERNOR'S BUDGET PROPOSAL	CONSEQUENCE/NOTES
COST SHIFTS (CONTINUED)			
REDIRECT FUNDS/INCREASE COUNTY AND CITY COSTS The Governor's budget plan includes increasing fees charged to counties, diverting state funds currently used to support county programs, and requiring cities to support programs previously funded by state dollars. These include:			
• Redirecting state funds that previously supported county attorneys and indigent defense offices. The funds will be used instead to purchase safety equipment and to replace vehicles in the Dept of Public Safety.	**$2.2 million**		
• Increasing the fees counties pay for housing Sexually Violent Persons at the Arizona State Hospital. County participation in costs will increase from 50% to 100%.	**$2.7 million**		
• Continuing the requirement that counties pay 100% of the cost of Restoration to Competency services.			
• Requiring cities to provide funding for the Department of Water Resources	**$6.2 million**		

STATE SERVICES	12-MONTH IMPACT	GOVERNOR'S BUDGET PROPOSAL	CONSEQUENCE/NOTES
FUTURE BUDGETS			
RAINY DAY FUND Arizona's current statutory funding formula for making deposits into the Budget Stabilization Fund (Rainy Day Fund) limits the fund balance to 7% of general fund revenues. The governor's proposal is to increase the maximum balance to 15% of general fund revenues and constitutionally establish the Budget Stabilization Fund as a separate fund.		**INCREASES RAINY DAY FUND MAXIMUM BALANCE** **PROTECTS DIVERSION OF FUNDS THROUGH CONSTITUTIONAL AMENDMENT**	The current Rainy Day Fund has been underfunded and available dollars were often diverted for other purposes. Creating the fund in the constitution will protect it from other uses and increasing the maximum which will help smooth our revenue shortfalls during economic downturns.
NEW STATE SPENDING LIMIT Arizona's current spending limit is set at 7.41% of total state personal income.		**LIMITS USE OF STATE REVENUES TO SUPPORT PROGRAMS**	A new revenue limit is proposed that would cap revenues available for appropriation at the average of the previous 10 years' growth in revenues. This plan will prevent state services from being restored to pre-recession levels.


CHILDREN'S ACTION ALLIANCE
CHANGE IN ARIZONA GENERAL FUND STATE AGENCY FUNDING
FY 08 Appropriation Compared to FY 12 Governor's Budget Plan
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
10%
5%
-16%
-19%
-19%
-36%
-39%
-57%
-16%
AHCCCS
Corrections
Economic Security
Health Svs
K-12 Education
Universities
Juvenile Corrections
Community Colleges
Overall budget
2/1/11

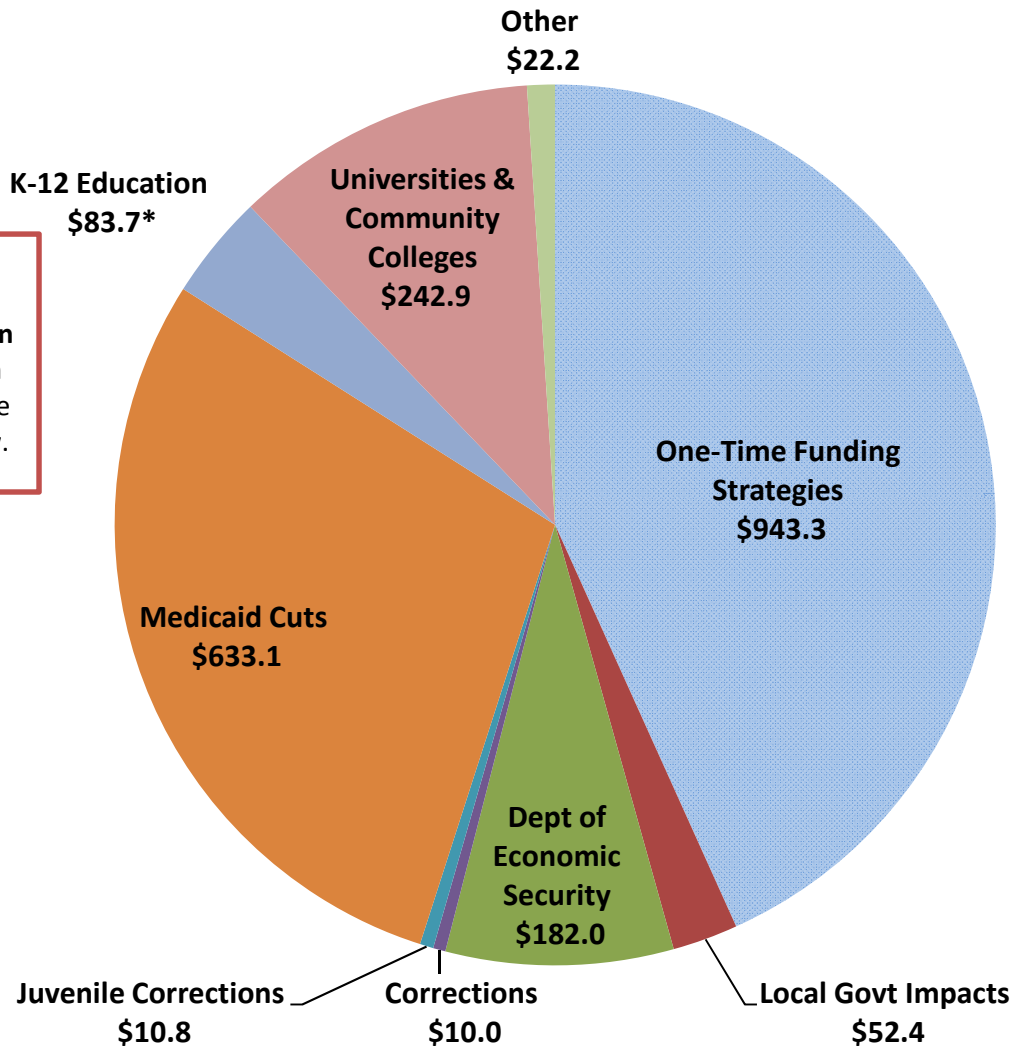
CHILDREN'S ACTION ALLIANCE

GOVERNOR BREWER'S BUDGET IS BASED ON BUDGET CUTS AND ONE-TIME FUNDING STRATEGIES

FY 11 and FY 12 Recommendations Combined

(Dollars in Millions)

*In addition to the $83.7 million in cuts, **Gov. Brewer withholds an additional $541.8 million** by not funding K-12 to the extent directed by AZ law.



2/1/11