



# BUDGET TRENDS

## Has Arizona recovered from the recession?

No. Arizona still has not regained all of the jobs lost during the Great Recession. Neither state revenues nor spending have returned to pre-Recession levels.

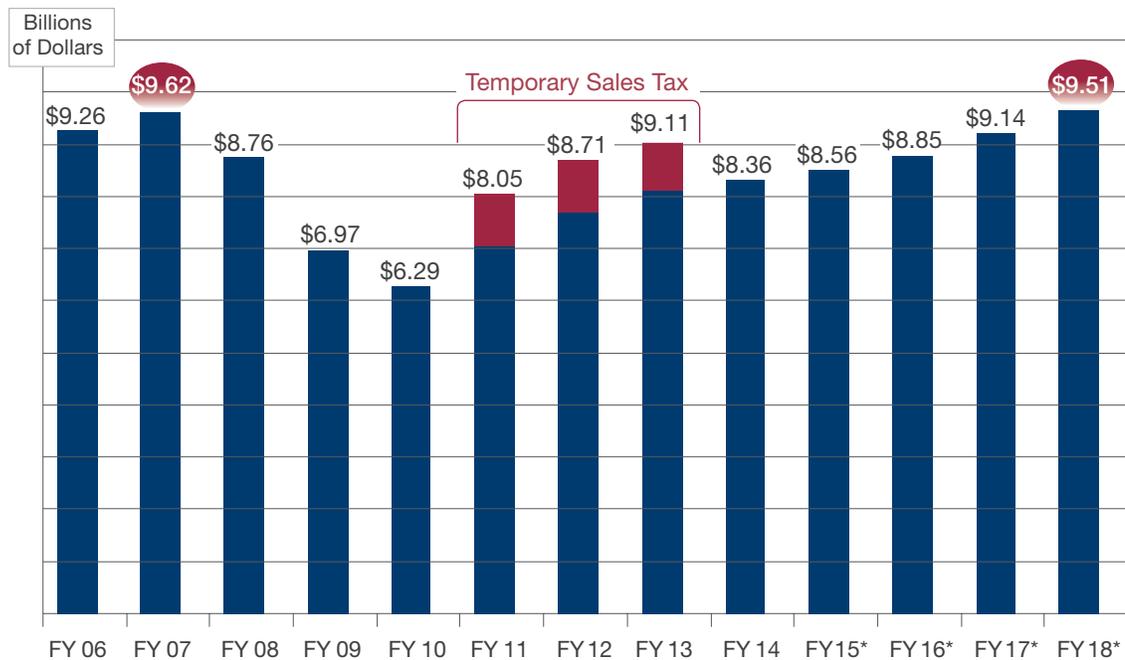
As of June 2014, the nation had recovered all the jobs it had lost during the Great Recession. Almost a year later, Arizona has regained only 78 percent of the jobs that were lost.

The impact of the recession on state revenues has been severe and long-lasting. Recent projections are that revenues will not return to pre-recession levels until after fiscal year 2018.

	Percent of Jobs Recovered
Arizona	78%
U.S.	132%
Maine (lowest)	50%
North Dakota (highest)	1,723%

Calculated from Bureau of Labor Statistics State and Area Employment, Hours and Earnings, seasonally adjusted non-farm data, 2007 to March 2015.

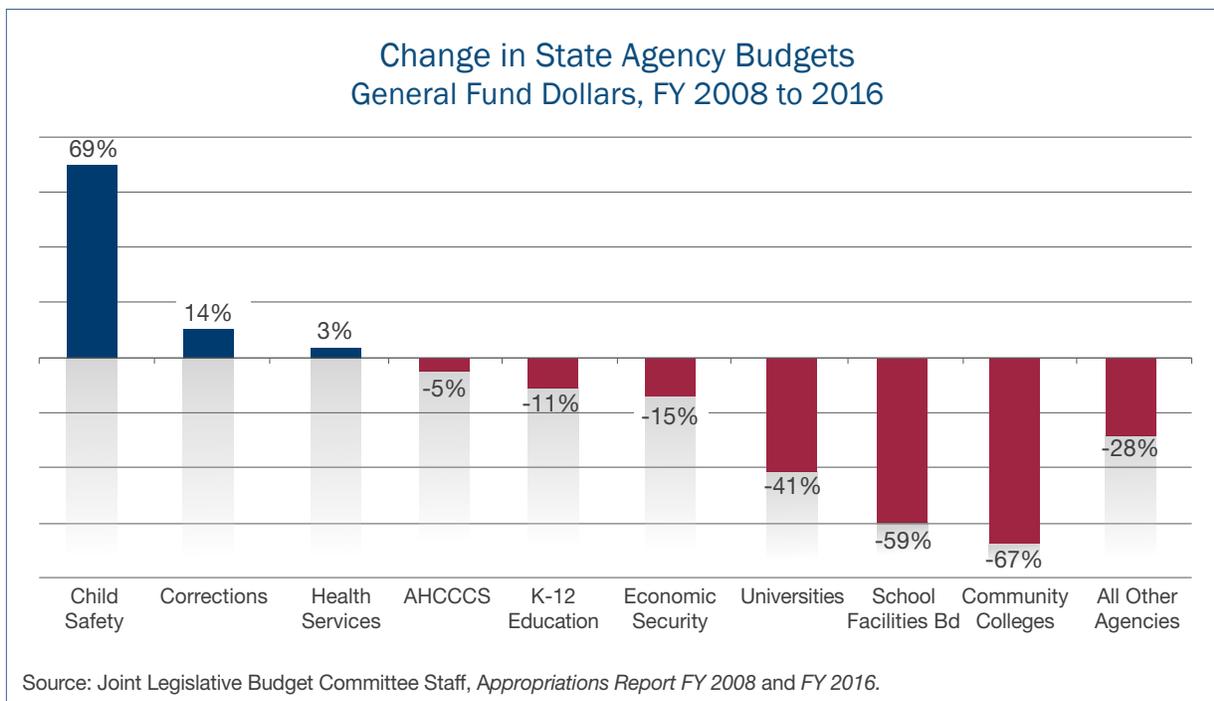
### Arizona General Fund Revenues Are Not Expected to Recover Until After FY 2018



\* Projections

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

Despite higher costs, more prisoners, more students, and more children in foster care, the fiscal year 2016 state budget is smaller than the budget in fiscal year 2008. In total the budget is 86 percent of what it was right before the Great Recession. But the differences vary widely across state agencies and services. The Department of Corrections budget is 14 percent higher than it was before the recession, while funding for community colleges is 67 percent lower.



Most budget cuts to state services have not been restored since the recession. Examples include:

- Eliminating \$4 million in state funding for child care assistance for low-income working families.
- Cutting in half the job training funds for parents trying to move from welfare to work.
- Phasing out KidsCare health coverage for children in low-income, working families.
- Reducing by 20 percent the amount families can receive in TANF cash assistance.
- Eliminating the building renewal formula for public school building maintenance and repair and replacing it with a small grants program that is 80 percent lower than the funding provided in fiscal year 2008.
- Suspending statutory funding formulas for K-12 education and university financial aid, and statutorily eliminating all state funding for Pima and Maricopa community colleges.

Other state budget cuts have been funded by requiring counties, cities and towns to pay for what had previously been a state cost, including:

- Eliminating the \$9 million in state funding for Maricopa County superior court judges.
- Reducing the Department of Juvenile Corrections budget by \$12 million and requiring the counties to make up the difference.
- Requiring local governments to pay \$21 million of the cost for operating the Department of Revenue.



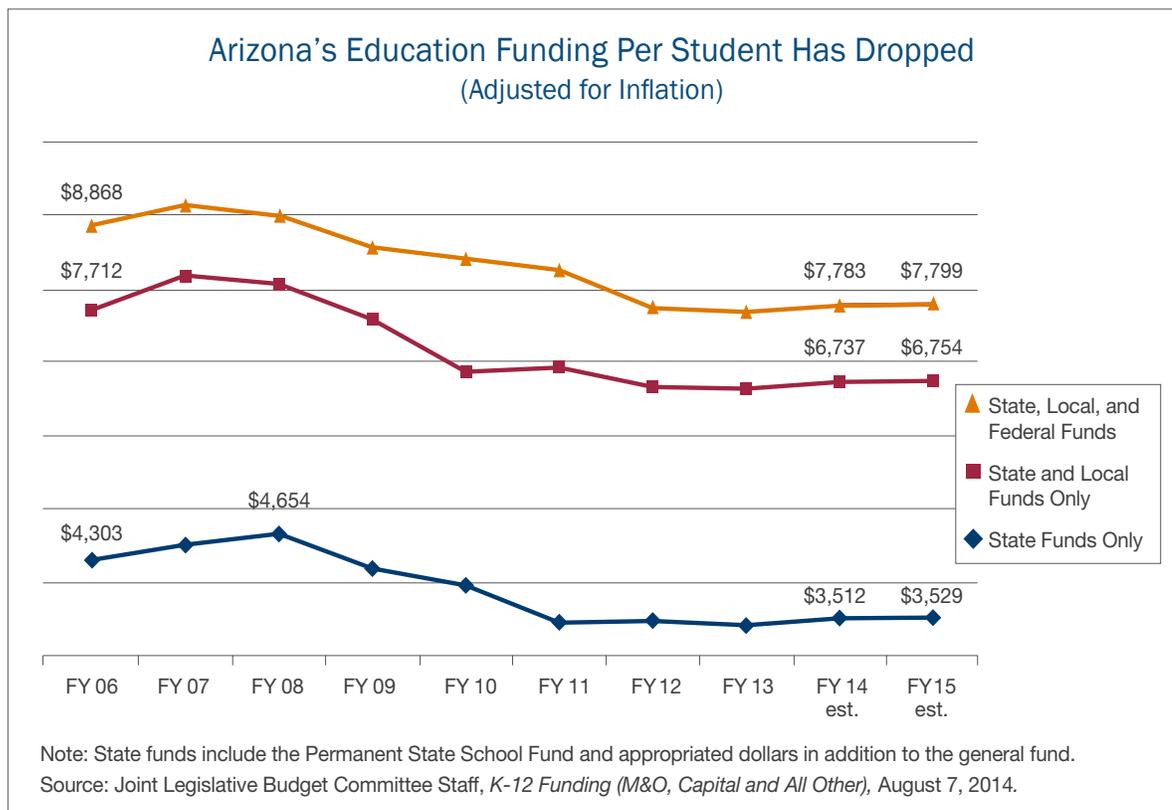


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## What stands out in K-12 public education funding?

Despite the intent of the temporary sales tax to shield education from budget cuts, state investments in charter and district schools have been reduced in numerous ways. State funding per student has dropped 24 percent since fiscal year 2008. Many schools are experiencing crowded classrooms with too few desks and supplies, outdated textbooks and technology, and severe teacher shortages.

By any measure, Arizona's K-12 education funding (adjusted for inflation) has dropped. Trends in funding from state, local and federal sources are shown below.



From a national perspective, U.S. Census data from 2013 ranks Arizona in the bottom five states for various measures of revenue and spending per student. Arizona also ranks third worst in the country in the depth of cuts to school funding since the start of the recession (Center on Budget and Policy Priorities, *Most States Still Funding Schools Less than Before the Recession*, October 2014 ). Arizona has cut investment in K-12 schools, per student adjusted for inflation, by 17.5 percent since 2008—putting us behind only Oklahoma and Alabama. Seventeen states have *increased* education funding since the recession.

The budget cuts to education come at the same time that lawmakers and taxpayers have been raising expectations for schools, teachers, and students.

Examples of major cuts to K-12 education include:

- Lawmakers eliminated state funding for full-day kindergarten. Schools now receive funding for half-day kindergarten only; districts can offer full-day kindergarten but have to pay for it either by cutting spending somewhere else or charging tuition.
- The “building renewal” funding formula for schools to repair and maintain school buildings was repealed from state law as part of the fiscal year 2014 budget and replaced with a grants program that is less than one-tenth of what the formula had called for.
- The state budget suspends a portion of the additional assistance formulas that pay for textbooks, computers, technology, classroom supplies, etc. District schools will receive only \$63 million instead of the full \$445 million required by the formula. Charter schools will receive \$291 million instead of \$310 million.

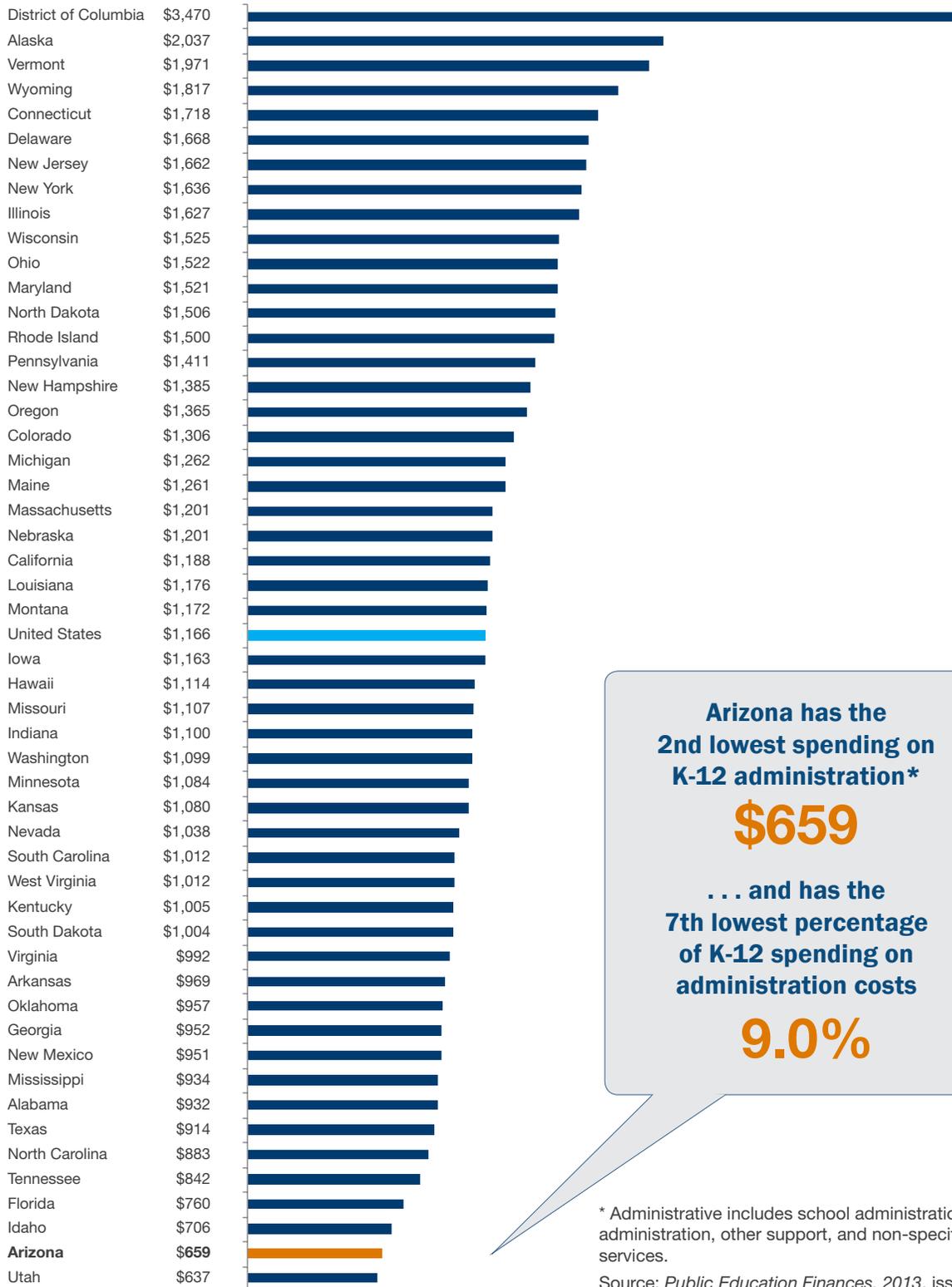
In a lawsuit called *Cave Creek v. Ducey*, the Arizona Supreme Court has ruled that the state legislature violated a voter mandate by only partially funding inflationary adjustments for K-12 funding for three years. The Superior Court has ordered the state to re-set the funding base to meet the voter mandate by adding \$337 million to the K-12 budget every year starting now. The state legislature is appealing this ruling, arguing that their calculation would make the adjustment much smaller. Legal arguments are also ongoing about whether schools must be reimbursed for the missing funding during these three years—a total of \$1.2 billion.

Policy and political discussion about education funding often center on whether school districts are spending tax dollars wisely and getting the money to where it matters most for children. In a February 2015 report, the Arizona Auditor General noted that on a statewide basis, administrative spending by school districts is low. “Compared to national averages, Arizona districts spent 0.9 percentage points less on administration because they paid lower salaries to administrators and support staff and/or employed fewer of them.”



In fact, according to the U.S. Census Bureau, Arizona had the second lowest administrative spending per K-12 student in 2013, including both school and district administrative expenses.

## K-12 Administration Spending Per Pupil, 2013



**Arizona has the 2nd lowest spending on K-12 administration\***

**\$659**

**... and has the 7th lowest percentage of K-12 spending on administration costs**

**9.0%**

\* Administrative includes school administration, general administration, other support, and non-specific support services.

Source: *Public Education Finances, 2013*, issued June 2015, U.S. Census Bureau, Department of Commerce, Economics and Statistics Administration.

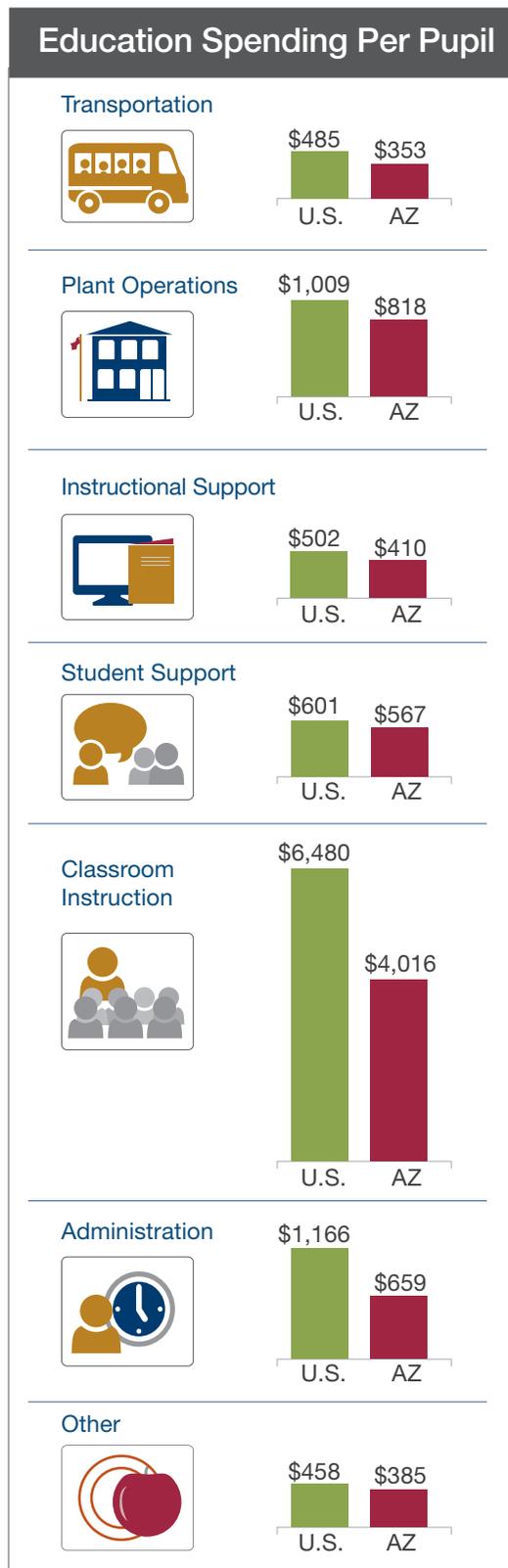
There has been a lot of criticism of public schools for not spending more of their dollars on “classroom instruction.” It’s true that Arizona’s spending per student for classroom instruction is lower than the national average. And due to low state education budgets, Arizona’s spending per student is lower than the national average in every category of school spending. In 2013, Arizona schools spent a total of \$7,208 per student—only two thirds of the national average of \$10,700.

A narrow focus on classroom spending ignores budget areas that are directly linked to student success. For example, spending in “student support services” is not considered classroom spending, but it directly supports student learning and achievement. This spending pays for speech, audiology and occupational and physical therapy services for students as well as health, psychological services, attendance, social work and guidance. Spending needs for these services vary depending on the percentage of students who live in poverty or have special needs.

Similarly, spending on instructional support” is not counted as classroom spending but pays for teacher training, curriculum development, and library, media and technology services, all designed to improve classroom instruction.

Other areas of the budget are equally vital to students’ daily learning, such as food services, transportation, and capital funding for school facilities, equipment, and technology.

Source for illustration: U.S. Census Bureau, Department of Commerce, Economics and Statistics Administration, *Public Education Finances: 2013*, issued June 2015.



The U.S. Chamber of Commerce draws a direct link from high-quality education for all students to global economic competitiveness, warning that even our most privileged students rank in the middle compared to international peers and disadvantaged students fall far behind. The Chamber concludes that “no society or economy can afford for so many of its students to be left behind.” (Leaders and Laggards, 2014)

In their state-by-state report card on K-12 educational effectiveness, the Chamber gives Arizona a grade of “D” for both overall academic achievement and academic achievement for low-income and minority students. At the same time, the Chamber grades Arizona with a “B” for return on investment, noting that student achievement is high relative to the low level of state spending.





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## What are the budget trends for the safety net?

Arizona has a history of bipartisan support for policies that provide temporary help to prevent hunger, homelessness, illness, abuse and neglect. All of these can have lifelong consequences for children and high costs for taxpayers. Budget cuts have weakened the safety net and resulted in expensive emergencies for the state to handle.

Public funding for the safety net works together with private charitable efforts to help struggling families working to get back on their feet—especially families with children. In fiscal year 2016, no state general fund money is appropriated for child care assistance for low-income working families and only a total of \$5.7 million is appropriated for cash assistance, job training and services to address hunger, domestic violence, and homelessness—less than 1 percent of the general fund budget.

### What is Cash Assistance?

Cash assistance is a small monthly payment (not more than \$278 per month for a family of three) to very poor qualified parents to help them pay for basic needs such as rent and clothing while they prepare to join the workforce.

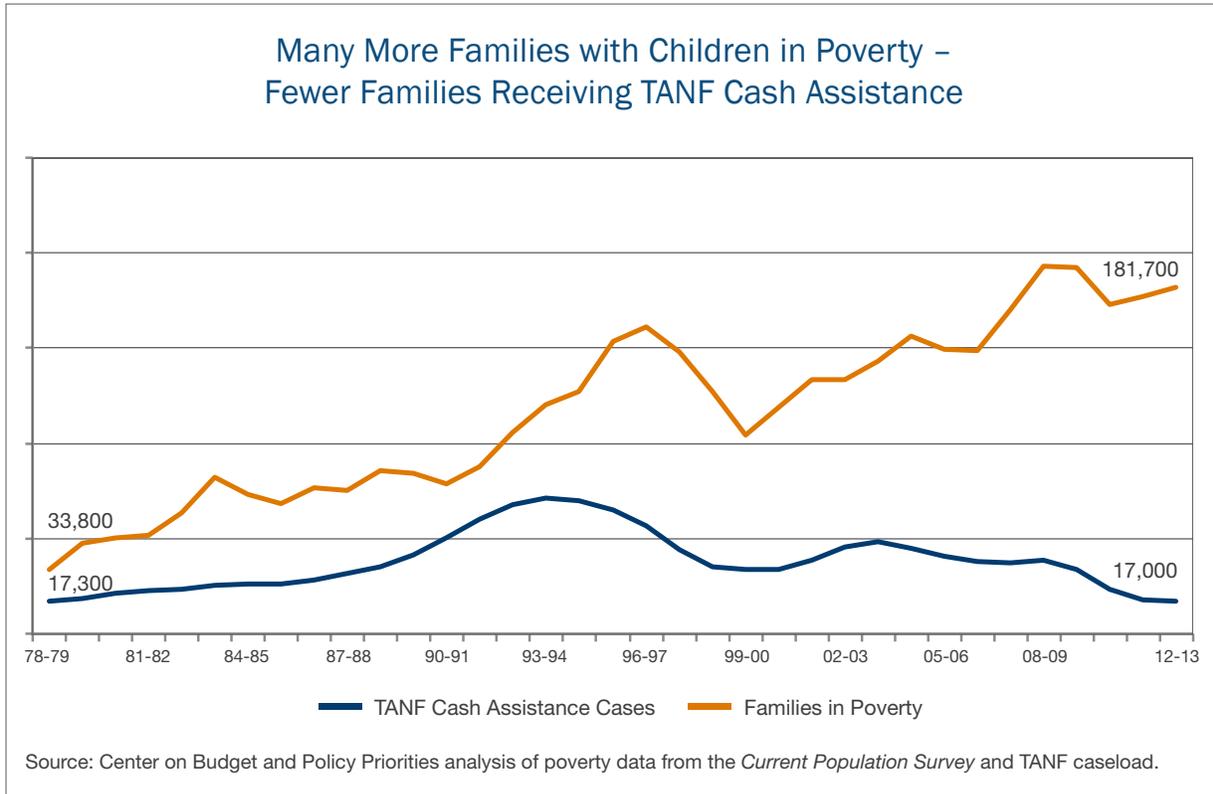
Before and during the Great Recession, many budget cuts to the safety net were passed with a short term goal of saving state spending. But the longer term results have been more families in crisis with nowhere to turn for help and expensive emergencies for the state to handle.

An important part of the safety net is welfare for the poorest mothers and children—also known as cash assistance or Temporary Assistance for Needy Families (TANF).

Over the past few years, the monthly cash amount has been cut by 20 percent. The maximum life-time limit for participation, which was five years until 2009, will be only one year effective July 1, 2016—making Arizona the only state with a limit below 21 months. Other qualification rules narrowed eligibility and cut more than 14,000 children being raised by their grandparents.

The combined result of these policy changes has been dramatic.

At the beginning of welfare reform in 1996, cash assistance was reaching more than half of families with children in poverty in Arizona. By 2013, fewer than one in 10 poor families with children received cash assistance.



Another part of the safety net, child care assistance, was also cut dramatically. All participating families have time limits on the assistance and all help pay for child care, with co-payments based on their income.

**What is Child Care Assistance?**

Child care assistance is a voucher paid for with tax dollars to help qualified, working parents earning low incomes afford child care of their choice in their community.

Enrollment was frozen in 2009 and participation dropped from 16,191 working families to fewer than 4,000 by 2014. Relying on federal funds only, a minimum of 10,500 children can now participate—still far below the need.

Parents who don't have affordable, reliable child care may leave their children home alone or in situations without safe supervision—conditions for child neglect. The evidence shows the loss of child care assistance contributed to the crisis in Child Protective Services with a system that couldn't handle huge growth in reports of child neglect.

