



Return on Education

A Series of Briefs about K-12 Funding Issues

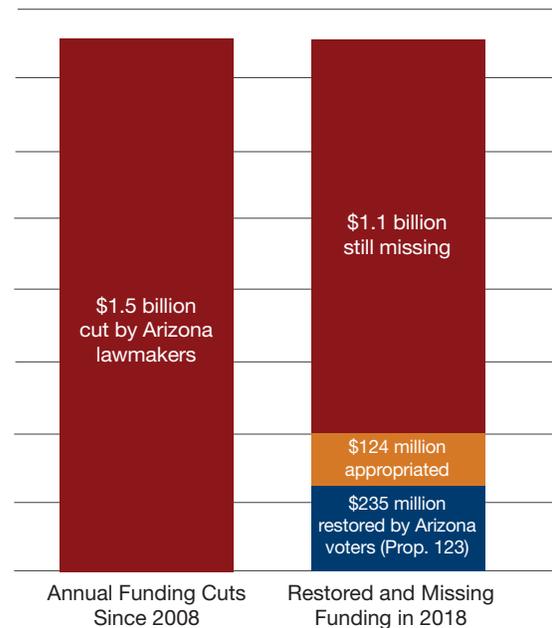
Arizona's Tax Collections Are Not Growing Fast Enough to Re-Invest in Public Education

Arizona's public schools have \$1.1 billion less in funding today than they had in 2008. As a result, public school students are experiencing a severe shortage of permanent teachers in their classrooms, outdated textbooks and technology, and dysfunctional school facilities. Performance on our statewide goals for educational achievement remains far below expectations. Future state revenue projections show that relying on economic growth without tax increases is not a realistic plan to reinvest the funding our schools need. Arizona's workforce and competitiveness will suffer without an urgent, credible plan that makes significant re-investments in our public education system.

Arizona will see some revenue growth, but not enough to restore education funding.

Every year, the nonpartisan Joint Legislative Budget Committee (JLBC) creates and updates revenue projections based on new economic data. The most recent projections show that state revenues are projected to increase by \$1.1 billion between now and 2021, largely due to population and economic growth. But \$810 million of that increase is already spoken for: bond payments for university facilities, more people covered by AHCCCS health coverage, services for more people with developmental disabilities, inflationary costs for school classrooms and

Arizona Lawmakers Leave \$1.1 Billion of Education Funding Missing in 2018



Source: Joint Legislative Budget Committee Appropriations Reports.



We have a growing economy here. Maricopa County is the fastest growing county in the country right now. Our tax base is expanding. I want to see those dollars go to K-12 education, I want to see them do that without raising taxes.

- Arizona Governor Doug Ducey

I don't think we have time to do that. I think the clock is ticking in a way that is going to make those situations worse before it gets better.

- Jim Swanson, CEO of Kitchell Corporation and Chairman of Governor Ducey's Classroom First Initiative Council

more K-12 students. After subtracting those necessities, only \$300 million in increased revenue is left. Unfortunately, this is not enough revenue to restore lost education funding. Even if every cent of new available revenues were spent on education, K-12 schools would still be missing over \$800 million in 2021.

Based on past history, the chances are between slim and none that every cent will be spent on education. That would mean not a single new penny spent on university operations or water issues or improving prison inmate health care or providing relief to the counties or dealing with the opioid crisis. Many priorities emerge as our state grows and changes. Most areas of state government saw large funding cuts during the recession that still haven't been restored. Unforeseen new costs will also arise that require investment from state lawmakers. This all means that our public schools will get only a fraction of total revenue growth.

And revenue growth could certainly be lower. Lawmakers could pass even more tax cuts that will eat away state revenues. A recession might hit within this timeframe, as many experts expect, and education funding could be cut even more.

Even in a growing economy, revenues are not enough.

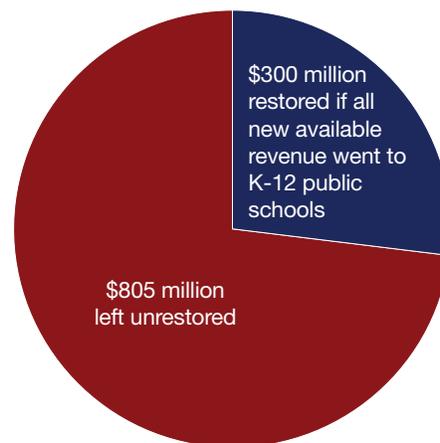
The overall economic cycle, both in Arizona and nationally, determines revenue trends. General fund revenues rise and fall depending on how well the economy is performing. The last economic recession hit the country unusually long and hard and Arizona's general fund revenues were hit especially hard. While the timing of the next economic downturn is uncertain, we are in the 99th month of recovery since the worst part of the Great Recession; close to the record of 120 months. Many economists believe the next recession will begin in the 2019-2021 timeframe, which would mean even less revenue for the state than currently projected.

Arizona's budget is already feeling the impact of a changing economy and past tax decisions. JLBC recently reported that revenues for the 2017 fiscal year came in \$19 million below forecast, with corporate income taxes \$52 million below forecast—the lowest level of corporate income tax collections since 1993. They also project a combined cash shortfall of \$104 million for this fiscal year and next year, noting that revenues are not sufficient to pay for all appropriated expenditures.

The current budget shortfall exists even though Arizona's economy is growing. Recent Bureau of Economic Analysis reports show that Arizona has added over 435,000 jobs since the worst month of the Great Recession, which means more people are working and contributing taxes to the state general fund.

If our budget is already in trouble during this period of economic growth, we risk a major budgetary crisis when the next recession hits. With this in mind, reinvesting in public education without raising revenue is an impossibility.

Projected Revenue Growth Not High Enough to Restore Education Funding Fiscal Year 2021



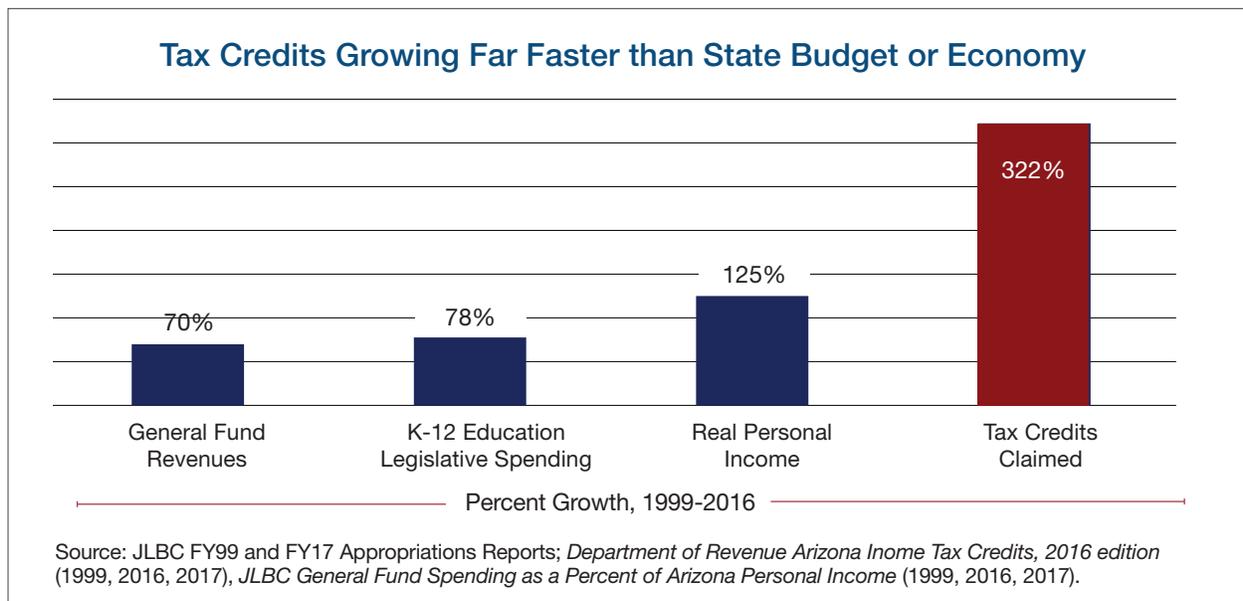
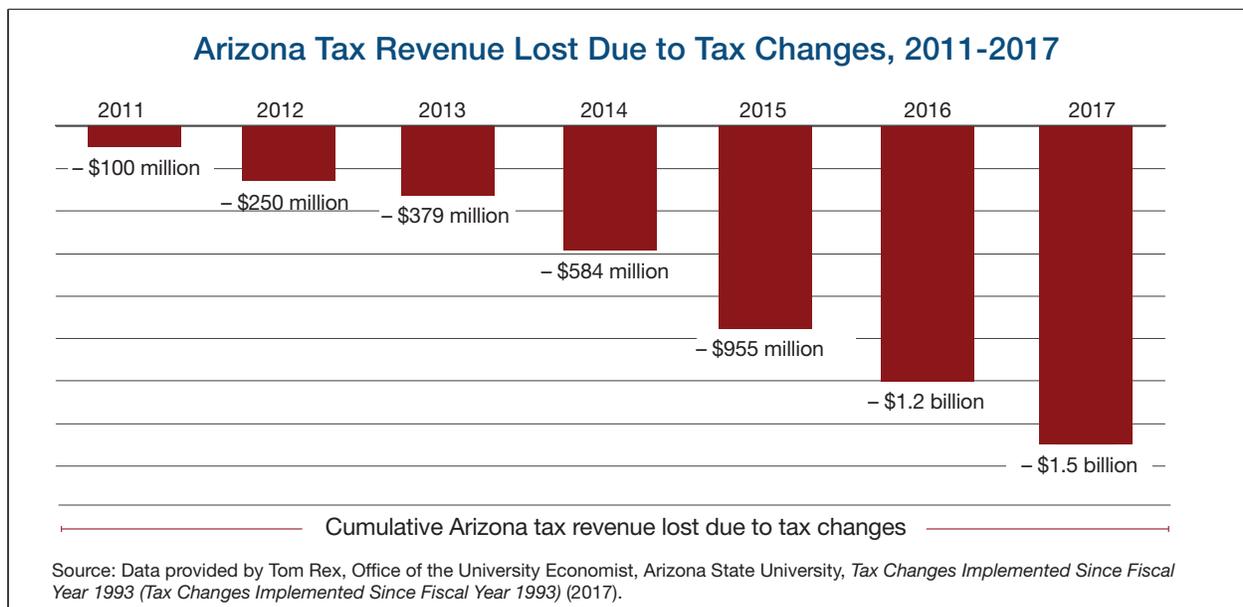
Source: Joint Legislative Budget Committee Appropriations Reports and October 2017 Finance Advisory Committee Meeting.

Where did all the revenue go?

Past tax decisions are shrinking the resources available to invest in public education today. Apart from 2003, the Arizona legislature and governors have reduced tax rates and/or increased exemptions and credits in every year since 1990. In total, the tax changes cost the state over \$4 billion each year. Some of the largest tax cuts were implemented in the last six years when state lawmakers cut over \$1.5 billion in annual state general fund revenues.

Tax credits have grown fast since 1999, costing the state \$393 million in 2017. Today there are 33 credits available to individuals and 22 available to corporations.

Fiscal policies like these strain our budget and make it difficult to fully invest in our state's public schools.



What's the plan?

Increasing educational attainment for all Arizona children so that we are building a highly skilled workforce should be one of our state's highest priorities. This is evident in the number of leaders in business, education and government who have come together to adopt the Arizona Education Progress Meter. The Education Progress Meter is a series of metrics that measures where our education system currently stands, and how far we need to go to ensure that we are providing every child in the state with an excellent education.

Unfortunately, the educational attainment goals set by Arizona's leaders face a significant barrier: Arizona's public schools will enter 2020 with less funding than they had in 2008. As a result, our underfunded schools are dealing with a teacher shortage at crisis levels, overcrowded classrooms, outdated textbooks and technology, broken down school buses and leaky roofs, and a loss of critical support staff such as nurses and classroom aides. Unless the governor and our state legislature re-invest in the public education system, it may be impossible to achieve these critical goals.

Every Arizona child deserves an excellent education, but if the plan to increase investments in our public schools relies solely on population growth and uncertain economic growth, then we are destined to leave many children behind. Arizona needs a real plan that restores state revenues to re-invest in public education.

