

Legislature brief / March 19, 2015

\$9.1 billion state budget is all about speed, cuts

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In what felt like record time – far earlier than the normal 100-day target – the Arizona Legislature passed the first budget of Governor Doug Ducey’s term. Its quick passage was hailed as an example of collaboration between the Governor and fellow Republican leadership, with the minority Democratic Party again unable to muster a meaningful role in the budget’s specifics or direction.

The \$9.1 billion budget, approved by both houses in a marathon overnight session, held close to much of what the Governor had proposed in taking office. With an articulated commitment to Arizona’s future and Arizona’s classrooms, the Governor expressed his belief the final budget addressed those priorities.

While the final budget is fiscally balanced and endorsed by numerous Republican legislative leaders, the depth of the cuts to programs serving vulnerable populations and education, however, were notable and lamented by Democrats and advocates alike. Additionally, it is not clear if the newly passed budget will address the long-term structural deficit the state has wrestled with in recent years.

Fiscal balance is a laudable and important goal in state budgeting, especially during tough financial times, but there are questions of whether the future needs of state are being met in order for residents and industry to grow and succeed. With long-term consequences to education and health care, the current budget is not as forward-looking as many community advocates believe it should be.

Below is a summary of some of the key policy choices made.

Education

Governor Ducey’s proposed budget touted “Classrooms First.” However, his executive proposal coupled the increase in classroom dollars with a nearly identical non-classroom spending cut. The cut would have impacted district transportation, classroom aides, nurses and librarians among other key educational functions. The budget also made a huge wager that the state will prevail in an on-going school funding lawsuit.

The final budget passed by the Legislature slightly loosens the requirement that the cuts to K-12 education come only from specific non-classroom expenditures, however the amount – \$117 million – is substantial. There also are \$22 million in cuts to performance funding. And while there are increases for

enrollment growth of approximately \$176 million and for inflation of \$74 million creating a “net gain” in K-12 funding, there are still critical concerns. One is that the \$74 million in inflation continues the Governor’s assumption that the state will prevail in the ongoing schools funding lawsuit. The second, according to budget opponents, is that because growth and inflation are mandatory elements of K-12 funding, the K-12 system is actually experiencing an overall reduction.

Proponents insist that K-12 came out a “winner” in this year’s austere budget, but there is little argument the public post-secondary funding landscape in Arizona is anything but bleak due to cuts. As virtually all studies note, post-secondary education is necessary to prepare a high-quality workforce and is critical to ongoing economic development. Arizona cannot attract and retain the kind of long-term, future-focused industries needed if our community college and public university systems are severely weakened, as both were in the new state budget.

The legislative budget completely eliminates all funding for community colleges in Arizona’s two most populous counties – Pima and Maricopa – to the tune of approximately \$16 million. Community colleges are key components of the state’s economic engine, not only providing post-secondary education, but also much of the specific technical and vocational training that is necessary in the new job landscape.

Perhaps an even greater impactful reduction was the \$99 million cut from the state’s public universities. All three (Arizona State University, University of Arizona and Northern Arizona University) will have to face this staggering reduction after years of seeing state support reduce throughout the Great Recession.

After recently holding tuition increases at bay, it is unclear if the state universities will now have to explore yet again a hike for in-state tuition, keeping higher education further out of reach for many Arizonans.

The impact is so substantial, current Arizona Board of Regents Chair Mark Killian is exploring the possibility of the Board having the standing to sue the Legislature. “We can’t cut our way to excellence,”ⁱ Killian said. “I’m to the point now where I believe we are in clear violation of the Arizona Constitution, and that needs to be addressed.”ⁱⁱ

The Arizona Constitution requires that public universities should be “as nearly free as possible.”

Vulnerable Arizonans

Budget cuts in health and basic assistance could cause additional harm to those Arizonans who are

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– Arizona Board of Regents Chair Mark Killian, who is exploring the possibility of the regents suing the Legislature over \$99 million in funding cuts for state universities

already vulnerable. The impact of a mix of cuts and increases to the Department of Child Safety remains unclear.

The Governor originally proposed a 3 percent provider rate cut to Medicaid providers. The final legislative budget increased those provider rate reductions to up to 5 percent with an estimated savings to the state of \$37 million. This will likely lead to fewer medical professionals treating Medicaid patients and longer wait times. The reductions also will result in fewer federal dollars – potentially in the hundreds of millions – provided as a match to fund care.

Additionally, these cuts will impact one of the bright spots in Arizona’s economy: health care. These reductions could have substantial negative effects on providers and employers across the state and cripple already-weakened rural health care systems.

Those Arizonans struggling the most will also feel the brunt of budget cuts. The Temporary Assistance to Needy Families (TANF) program in the state will now limit a family to only a single year of assistance in their entire lifetime. According to *The Arizona Republic*, Arizona is now the only state in the nation with this highly restrictive requirement.ⁱⁱⁱ

Finally, funding for the Department of Child Safety – a key priority area according to Governor Ducey – was strategically reduced and increased in different areas. An \$11 million one-time funding infusion meant to address caseload growth was not renewed, despite ongoing increases in caseloads. There was a targeted \$8 million increase specific to moving children to permanency, however those funds are not going to be able to address existing foster care or other caseload issues. There was also a \$4 million increase for preventative services. Finally, the agency will see an approximately \$2 million reduction, based on an assumption that increased foster care rates for older children will reduce the need for group homes.

The legislative budget, passed in the early hours of a Saturday morning after a rapid and closed process, relies exclusively on cuts. While it is financially balanced, its impact to the state moving forward is unclear at best. What is clear is Arizona is again making policy choices in a vacuum, not exploring responsible, balanced revenue options as part of a more holistically balanced resolution.

Recent data released by the Tax Foundation ranks Arizona 40th nationally in state tax collections based on per capita income.^{iv} Even more notable, Arizona ranks 43rd nationally in revenue per capita.^v The argument that Arizona is overburdened by taxes and that these continual reductions are leading us to prosperity does not hold when viewing Arizona’s standing nationally. And yet once again the state’s focus on this argument results in substantial budget cuts in critical services and education, with no discussion about potential revenue streams as a possible balancing mechanism.

ⁱ Nowicki, D., MJ Pitzl, Y. Wignett Sanchez. *Budget packs wallop for universities, hospitals*. azcentral.com. March 9, 2015.

ⁱⁱ Hansen, RJ, Y Wignett Sanchez, MJ Pitzel. *Biggs played key role in shaping Ducey’s budget*. azcentral.com. March 10, 2013.

ⁱⁱⁱ Nowicki, D., MJ Pitzl, Y. Wignett Sanchez. *Budget packs a wallop for education, health care, the poor*. Arizona Republic. March 8, 2015.

^{iv} Tax Foundation. *Facts & Figures: How Does Your State Compare?*. 2015. Available at <http://taxfoundation.org/article/facts-figures-2015-how-does-your-state-compare>. Data is from Fiscal Year 2013.

^v Ibid.

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