Rules of the Game:

An Advocate's Guide to the Arkansas Tax and Budget System

Arkansas Advocates for Children and Families

Helping Children Be Healthy, Wealthy and Wise.

ARKANSAS ADVOCATES
FOR CHILDREN & FAMILIES

June 2009

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the opinion of the foundation.*

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INTRODUCTION

You've heard it a thousand times: "The only thing certain in life is death and taxes." We've all complained and joked about taxes for so long that we often forget how critical they are in supporting the common good. Whenever you drive to work, your taxes are keeping you and your kids safe by providing paved roads with stoplights along the way, policemen to slow unsafe drivers in your path, and ambulances to come to your aid in case of an accident. Whenever you drink water from the tap, you can rest assured that it's okay for your family to drink, because your taxes have helped pay scientists to keep a close eye on our water supply. The list goes on and on.

We all benefit from our tax system throughout our day, every day. But how can we make sure that our taxes are collected in a fair way, and then put to good use? Big companies can afford highly-paid, full-time lobbyists to help protect their interests and advance their causes. Too often, the voices of our most vulnerable children and families go unheard—unless citizens join together and speak up on their behalf.

But first, you must know how to play the game. This guide will show you the rules, and how to win.

PRINCIPLES OF A GOOD TAX SYSTEM

You might not think of yourself as passionate about taxes, especially if your eyes glaze over in a discussion of numbers and legal jargon. But if you care about any issue affecting children and families in Arkansas, then tax policy should become your best friend. It is the foundation under everything that child advocates care about, from child welfare to health and after-school programs to juvenile justice. Each of these critical programs is only as effective as our tax system. And you don't need to be an accountant or attorney to make a difference. Below are four key principles of a good tax system that you need to know:

Balanced: A good tax system is balanced, meaning that the **tax base** (things that are taxed) is broad enough so that the state does not overly rely on any one source of revenue, especially if doing so places too much of the burden on any one group of taxpayers. A good tax system is also stable, relying more on predictable revenue sources than on those that can fluctuate wildly, such as lottery profits.

Transparent and Accountable: Taxpayers should be able to see where the state's tax dollars come from and how they will be spent. Only then can citizens keep the government accountable. Allowing too many special exemptions and loopholes in the tax code makes it more difficult for the state to implement and for watchdogs to monitor.

Adequate: A good tax system should be able to generate enough revenue to support services that are critical to the well-being of children and families and the state's future growth.

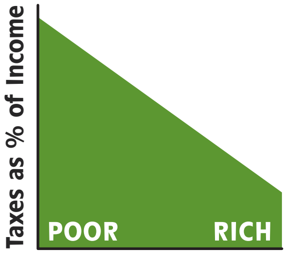
Fair: Finally, a tax system should be based on a family's or business' ability to pay. In other words, a fair tax system is **progressive**, not **regressive**. Low- and middle-income families, as well as small businesses, should not bear a disproportionate share of Arkansas's state and local tax burden. While no single tax can be "fair" to everyone, it is possible to create a tax system that is equitable overall.

Generally speaking, income taxes are

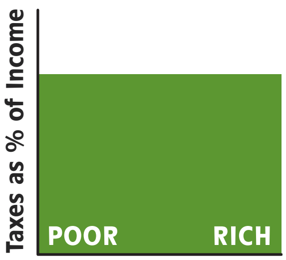
A good tax system is:

- **Balanced**
- **Transparent & Accountable**
- **Adequate**
- **Fair**

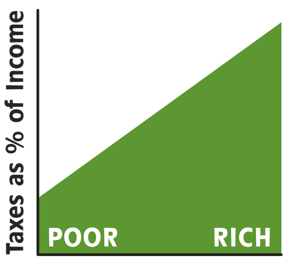
REGRESSIVE



PROPORTIONAL



PROGRESSIVE



the most progressive, followed by property taxes and then sales taxes. Why are sales taxes the most regressive taxes? Low- and middle-income families spend more of their incomes on the basic necessities of life—items such as clothing, household and personal goods—which are subject to the sales tax.

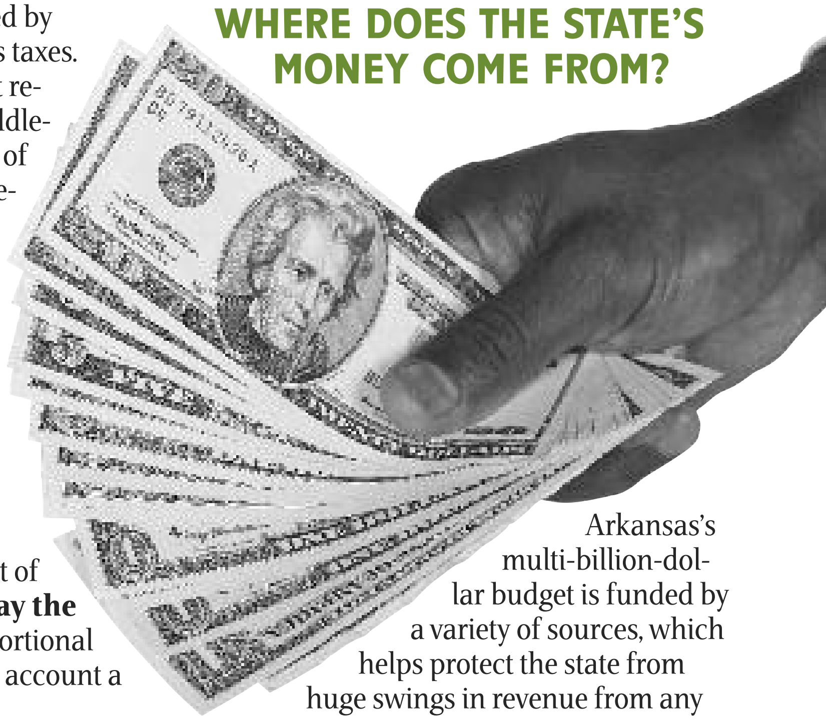
Regressive – As a percent of their income, low-income families **pay more** than upper-income families.

Proportional – As a percent of their income, all taxpayers **pay the same** (e.g., a flat tax). A proportional tax system does not take into account a person's ability to pay.

Progressive – As a percent of their income, low-income families **pay less** than upper-income (e.g., graduated income tax brackets). As earnings increase, the tax rate increases.

Keep these principles in mind as you read the following pages on how Arkansas's tax and budget system works—and how you can advocate to improve it.

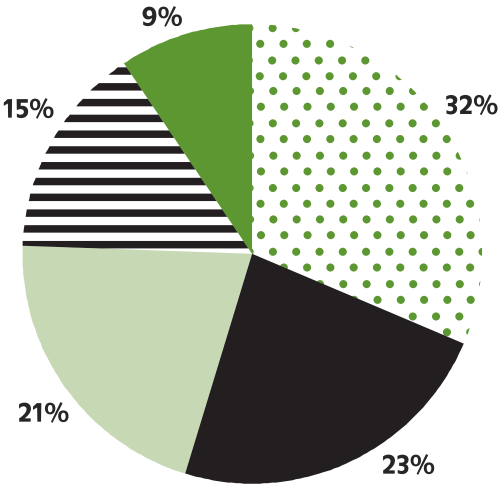
WHERE DOES THE STATE'S MONEY COME FROM?



Arkansas's multi-billion-dollar budget is funded by a variety of sources, which helps protect the state from huge swings in revenue from any single source from year to year:

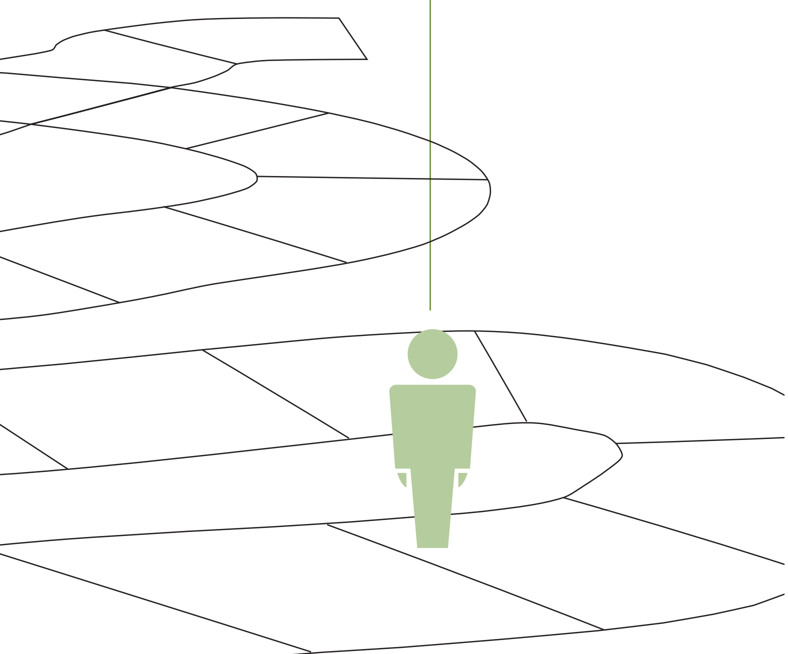
ALL STATE AND FEDERAL REVENUE IN ARKANSAS

FY 2008 (in Billions)



General Revenue	$5.6
Federal Revenue	$4.2
Cash Funds	$3.7
Trust & Other Non-Revenue	$2.7
Special Revenue	$1.7
Total	$17.9

Source: Arkansas Bureau of Legislative Research, 2008



State General Revenue: 31 percent of all revenue

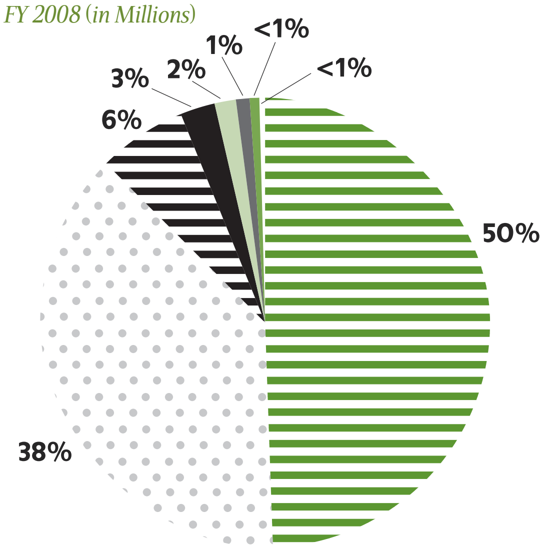
State "general" revenue comes from a variety of state taxes and is used to fund most public services, such as education and prisons. The state legislature has a great deal of discretion over how to spend these funds, so that's where advocates should direct their energy in lobbying for new or expanded state programs.

1. Personal Income Taxes (PIT): Arkansas's primary source of general revenue (49 percent) comes from the state's personal income tax, which is withheld from our paychecks each month. All families making over $17,716 per year have to pay PIT—even low-income families between 100-200 percent of the federal poverty line.

In theory, our personal income tax system is considered progressive: as income rises, its six levels of taxation are **graduated** from 1 percent of income up to 7 percent, with the average taxpayer paying 4.4 percent. But in practice, it really isn't that progressive. For example, the original top tax bracket was set in 1929 at $25,000 (nearly $300,000 in today's dollars), and has only increased to $31,000. Therefore, those earning $31,000 today still pay the same top rate (7 percent) as those earning millions. Arkansas also allows a tax exemption for 30 percent of any **capital gains** earned (income from the sale of assets, such as stocks, bonds, or real estate)—most of which goes to the wealthiest one percent of taxpayers.

2. Sales and Use Taxes (or "Gross Receipts"): Taxes from sales and use of tangible goods make up over a third (38 percent) of all state general tax revenue (the use tax is the same as a sales tax except that it's paid on goods purchased out-of-state for use in-state). Most of this sales tax revenue comes from the 6 percent general sales tax on tangible goods, like clothes—ranking Arkansas as having one of the highest sales tax rates in the country. The rest comes from "selective sales taxes," or excise taxes, on specific products, such as tobacco, alcohol, or soda, which are assessed at a fixed dollar amount per unit instead of a percentage (e.g., $1.15 per pack of cigarettes). You might have heard some of these taxes referred to as "sin taxes" or "luxury taxes." All of these taxes are considered highly regressive, because the poorest Arkansans spend more of their income on these goods than do wealthier ones.

ALL STATE GENERAL REVENUE
FY 2008 (in Millions)



Personal Income Tax	$2,762.9
Gross Receipts Sales & Use	$2,110.3
Corporate Income Tax	$354.0
Tobacco	$141.0
Insurance	$95.2
Miscellaneous	$60.1
Alcohol	$41.2
Gambling	$10.8
Total	$5,575.5

Note: Percentages may not total 100 due to rounding

Source: Arkansas Bureau of Legislative Research, 2008

Of course, not everything we buy is taxed, due to the many tax exemptions passed by the legislature each session—mostly benefiting corporations (see AACF's "Tax Options for Arkansas," 2003). In fact, Arkansas's **tax base** (the range of things that are taxed) is relatively narrow. Most services (such as attorney fees) are excluded from the sales tax, which again, tends to benefit larger corporations and those with higher incomes.

3. Corporate Income Taxes (CIT): This progressive tax is based on a percentage of a corporation's net income. CIT mostly affects residents of other states, who are the owners and shareholders of large corporations in Arkansas that are being taxed.

The state legislature has a great deal of discretion over how to spend general revenue, so that's where advocates should direct their energy.

In Arkansas, the top **marginal tax rate** (what your tax bracket indicates you must pay) for corporations is 6.5 percent of annual profits. However, their **effective rate** (what companies actually pay) is usually much lower, due to the many loopholes in our state's tax system that benefit large corporations. For that reason, CIT revenue has shrunk considerably over the past 30 years as a share of all state income tax revenue, from 31 percent in 1978 to six percent in 2008—causing the state to rely more on taxes from individuals and families to pay for public services.

4. Other State Taxes and Fees: The final sliver of the state's general revenue (about 6 percent) is made up of taxes on "miscellaneous" things like gambling, severance taxes on the extraction of natural resources (e.g., oil, coal, and natural gas), taxes on life insurance premiums, real estate transfer taxes, corporate franchise taxes, and user fees, such as a fee to camp out at a state park.

Arkansas received about $10.8 million in revenue from horse and dog racing and electronic "games of skill" in FY 2008, making up less than 1 percent of the state's budget. The state's new lottery is expected to generate at least $61.5 million in additional revenue for college scholarships as soon as FY 2010 (see AACF's "Gambling on Our Future," 2008). Unfortunately, research shows that state lotteries tend to prey upon those who can least afford to lose money and will make our tax system even more regressive.

Federal Funds: 23 percent of all revenue

In addition to state taxes, all working families pay some kind of federal taxes, such as social security or Federal Insurance Contributions Act (FICA) payroll taxes, or federal excise taxes on gas and cigarettes. The federal government pools this money and then redistributes much of these funds back to states for various uses, such as Title I funding for low-income public schools. Federal funds (also known as "intergovernmental aid") are Arkansas's second largest source of revenue (nearly a quarter of the state's total revenue) and are critical to helping Arkansas overcome its low average salaries and tax revenue, relative to other states. In fact, for every $1 that state residents paid in federal taxes in FY 2005, Arkansas received $1.40 in federal revenue, due to our high poverty level.[1]

While the state legislature has no discretion over how these funds are used, advocates can still lobby legislators to appropriate enough money for the state to receive federal **matching funds**. All federal funds must be spent in accordance with federal rules, and they often require the state to "match" a certain level of federal spending in order to receive the funds. For instance, much of the Medicaid money Arkansas receives from the federal government can be matched three to one. In other words, for every dollar the state spends on Medicaid, the federal government will give us three dollars to spend. Arkansas often contributes little more than the minimum amount necessary to receive federal matching funds, and in some program areas, we forfeit the federal match altogether. As a result, we leave millions of dollars on the table in Washington every year. If we provide another $100 million for Medicaid, for example we'd "draw down" about $300 million in federal matching funds.

Special Revenue: 10 percent of all revenue

"Special revenue" comes from taxes and fees that are earmarked for a specific purpose under either the state constitution or a state law. For example, revenue from the motor fuel tax and vehicle license fees (37 percent of all special revenues) goes towards building roads. In 1996, the state also enacted Amendment 75, which created a 1/8-cent sales tax to help fund certain agencies, such as the Arkansas Game and Fish Commission, the Department of Parks and Tourism, the Department of Her-

1 Data from the Northwest-Midwest Institute, "Per Capita Tax Burden and Return on Federal Tax Dollar: Fiscal 2005"; and *State Rankings 2008: A Statistical View of America,* edited by Kathleen O'Leary Morgan and Scott Morgan (Washington, DC: CQ Press, 2008).

LOCAL PROPERTY TAXES: A SPECIAL CASE

Nearly everyone pays some local taxes in addition to state and federal taxes. For example, residents can vote for the city or county to levy sales taxes (e.g., at restaurants), which are collected by the state government and then sent back to the city or county to use for their own local needs, primarily K-12 education. Property taxes are much more complicated—and contentious. Generally speaking, property taxes are levied at a fixed rate of $0.001 (or one **mill**) per $1,000 of the **assessed value (ad valorum)** of a person's or business' property. Even if you don't own a house, you may indirectly pay your landlord's property taxes through a portion of your rent.

Since housing represents a much higher percentage of low-income families' budgets, property taxes tend to be slightly regressive. AACF's 2004 analysis showed that while the lowest 20 percent of wage-earners paid 1.9 percent of their income toward the property tax, the wealthiest 1 percent paid only 1.1 percent of their income toward property taxes.

Arkansas also has one of the lowest average property tax rates in the country. According to the U.S. Census Bureau, Arkansas ranked 49th in property taxes as a percentage of personal income in 2005, with an average per capita property tax rate that is less than half (37 percent) of the national average. Nevertheless, voters led a "tax revolt" in 2000 (mainly in the wealthiest northwest corner of the state) and passed Amendment 79 to the constitution, which created a five-percent cap on yearly property tax increases and gave a $300 homestead credit (tax break) to help offset homeowners' rising property taxes. Renters, who are usually low- and middle-income, are ineligible for the exemption. In 2007, the credit was increased to $350. The state then raised the even more regressive sales tax in order to offset the cost of this new tax exemption, which—you guessed it!—hurts the poor the most.
For more information, see AACF's *"Property Tax Reform for Arkansas: Some Options for the Future"* (2005) and *"Rebuilding Our Fiscal Foundation: Seven Steps to Overcoming Arkansas's Structural Budget Deficit"* (2008).

itage, and the Keep Arkansas Beautiful campaign. As with federal funds, the state legislature does not have any say about the use of special revenue.

Cash Funds and Other Revenue: 36 percent of all revenue

The rest of the state's revenue comes from cash funds (such as interest on state investments or college tuition fees) and "non-revenue receipts" (such as income the state earned for providing certain services, like renting out a state facility).

All of these streams of money play an important role in shaping our state and its citizens' well-being. The important thing for advocates to remember is that most excise taxes and license fees are **dedicated revenues**, which are not up to the legislature's discretion and are typically used to fund the agency that regulates that activity. For example, the fee to renew your car license tags helps fund the Department of Motor Vehicles; the tax on gasoline goes to the Arkansas Highway and Transportation Department for road construction. However, advocates can lobby for general sales, personal income, and corporate income taxes to be used in ways that benefit children and families.

HOW DOES ARKANSAS'S TAX SYSTEM STACK UP?

As you can see, Arkansas has a ways to go in order to make our tax system as fair, adequate, and stable as possible.

Our tax system is out of balance.

Arkansas's tax system relies too much on the sales tax and not enough on other sources of revenue that more fairly spread the burden. In addition, as our state relies less and less on taxes paid by corporations, our budget must be increasingly funded by low- and middle-income individuals and families.

Why has our tax system become so unbalanced? For one reason, Amendment 19 of our state constitution (sometimes called "The Futrell Amendment") was passed in 1934 to require that any increase in taxes then in existence must be approved by a **supermajority** vote by the state legislature (at least 75 percent). Because the progressive individual and corporate income taxes were all in effect in 1934 (and thus still require a supermajority vote to increase), it is politically very diffi-

Arkansas's tax system is out of balance.

cult to find enough legislators willing raise them now. Raising more regressive taxes, such as the sales tax, requires only a simple majority vote (at least 50 percent). Therefore, the legislature almost always raises revenue by increasing regressive sales taxes instead of more progressive income taxes.

Arkansas's tax system should be more transparent and accountable to the public.

Unlike 42 other states, Arkansas does not publish a comprehensive **"tax expenditure report"** (an itemized listing of revenues lost through providing tax breaks, which affect the state's budget in the same way as spending).[2] For example, corporations are quite good at lobbying for tax exemptions in the budgeting process. Tax cuts are also given to corporations in the form of "economic development incentives," with little transparency or accountability for generating the jobs and economic growth that they promise. The Department of Finance and Administration (DFA) must release fiscal impact statements on each tax bill introduced by the legislator. However, this information is only provided to select individuals—often too late for advocates to influence the legislature's decisions.

According to the Corporation for Enterprise Development, an ideal tax expenditure report contains other features as well, such as a **tax incidence analysis** (a study of who pays how much in taxes), a list of enacting statutes, and multi-year data.

Another area of concern is local property taxes, which have often been inequitably assessed and collected by government officials and evaded by many taxpayers and businesses (who must pay **business personal property taxes** on things like manufacturing or farm equipment). Therefore, our state government has to fund more and more of the cost of local schools compared to other states—even though 76 percent of local property taxes in Arkansas are dedicated to schools. These are all areas in which advocates can start working to ensure greater tax and budget transparency and accountability.

2 Center on Budget and Policy Priorities, "Promoting State Budget Accountability Through Tax Expenditure Reporting" (2009)

"We work in a market-based economy that rewards [my] efforts far more bountifully than it does the efforts of others whose output is of equal or greater value [such as] marvelous teachers and terrific nurses. Taxation should, and does, partially redress this inequality."

WARREN BUFFETT,
CEO of Berkshire Hathaway and currently ranked by *Forbes* as the second-richest person in the world

ADVOCATES MADE IT HAPPEN

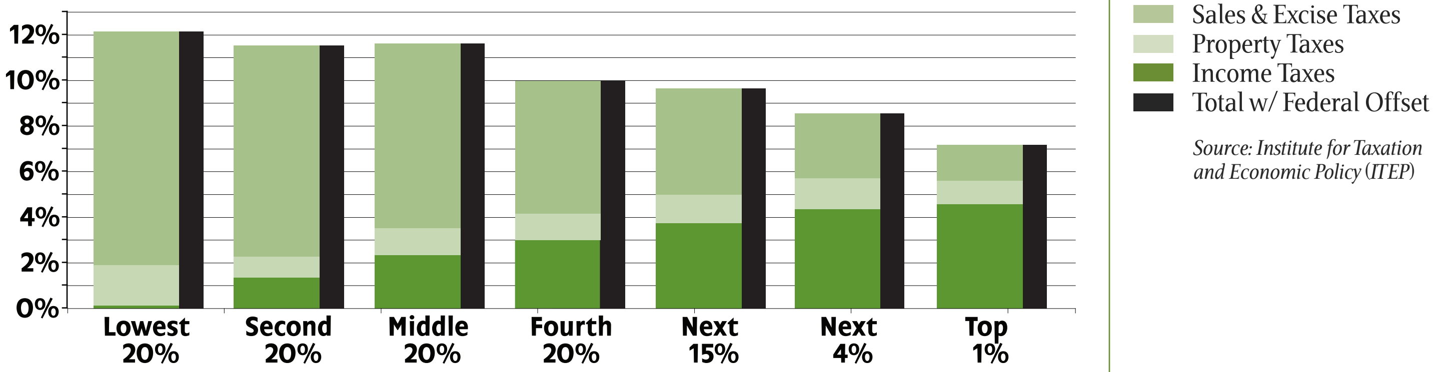
The good news is that the state legislature has made several recent changes that have made our tax system a bit more progressive and increased funding for critical services affecting children and families.

- Arkansas has been recognized as having one of the best preschool programs in the country—thanks in part to the beer tax passed in 2001. The Arkansas Better Chance (ABC) for School Success Program ensures that all three- and four-year-old children below 200 percent of the federal poverty line have access to early childhood education. The program is now mostly funded by general revenue.
- Since 2007, the state has cut the grocery tax from 6 percent to 2 percent, and Governor Mike Beebe hopes to completely eliminate the tax in the 2011 legislative session.
- The state raised the income tax threshold to exempt most families below the poverty line from state income taxes in 2007 but refused to exempt single-parent families with two or more children in 2009.
- Arkansas increased the severance tax on natural gas production in 2008, which is expected to generate $15 million in FY 2009. Although this revenue is dedicated to road construction and maintenance, it still takes off pressure in the budget to pay for programs affecting children and families.
- In 2009, the legislature voted to increase the tobacco tax by 56 cents in order to fund a statewide trauma system and other critical health programs, such as ARKids First health insurance for low-income children, and to help reduce smoking, especially among our kids.

These measures would not have been possible without coalitions of advocates dedicated to lobbying the state legislature over many years. Change is difficult, but possible, and you can help make a difference.

STATE & LOCAL TAXES IN 2006

Shares of family income for non-elderly taxpayers



Source: Institute for Taxation and Economic Policy (ITEP)

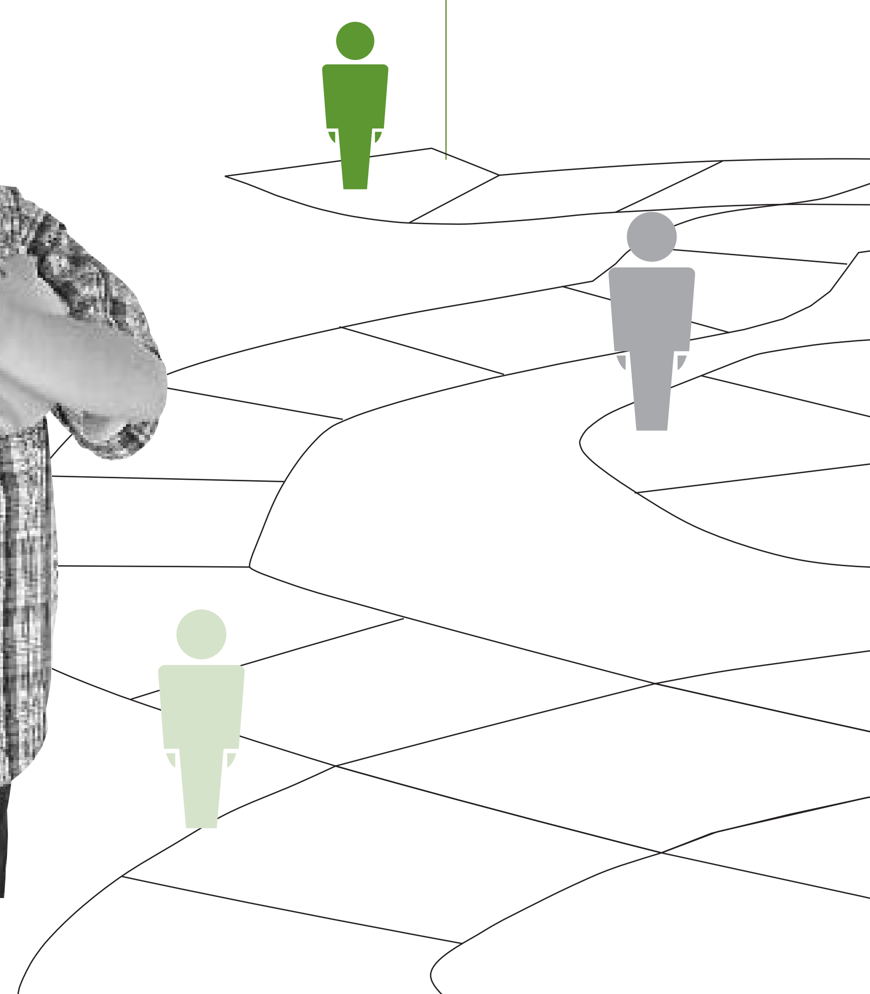
Arkansas's tax system does not generate adequate revenue to support services that are critical to the well-being of children and families and the state's future growth.

According to a 2006 study by the Urban Institute and Brookings Institution's Tax Policy Center and the Federal Reserve Bank of Boston, Arkansas is ranked next to last in the country in terms of its fiscal capacity to provide the level of public services that its population needs, given our high level of poverty.[3] This problem grows worse over time, as state revenues fail to keep up with the rising cost of providing public services—a problem known as a structural budget deficit (see AACF's "Rebuilding our Fiscal Foundation: Seven Steps to Overcoming Arkansas's Structural Budget Deficit," 2008).

Arkansas's tax system is definitely not fair—in fact, it's one of the most regressive in the country.

Overall, low- and middle-income families in Arkansas (those with incomes less than $40,000) pay 12 cents of every dollar they earn in all state and local taxes, compared to just 6 cents on every dollar paid by the richest 1 percent (those with incomes more than $326,000).[4] The chart below clearly illustrates the regressive nature of our tax system. Some large corporations also receive more favorable treatment under the tax system, which leaves small businesses at a competitive disadvantage.

Advocates can help alleviate the regressive nature of our tax system by advocating for a state earned income tax credit (EITC) for low-income working families (see AACF's "Giving Credit Where It's Long Overdue," 2008).

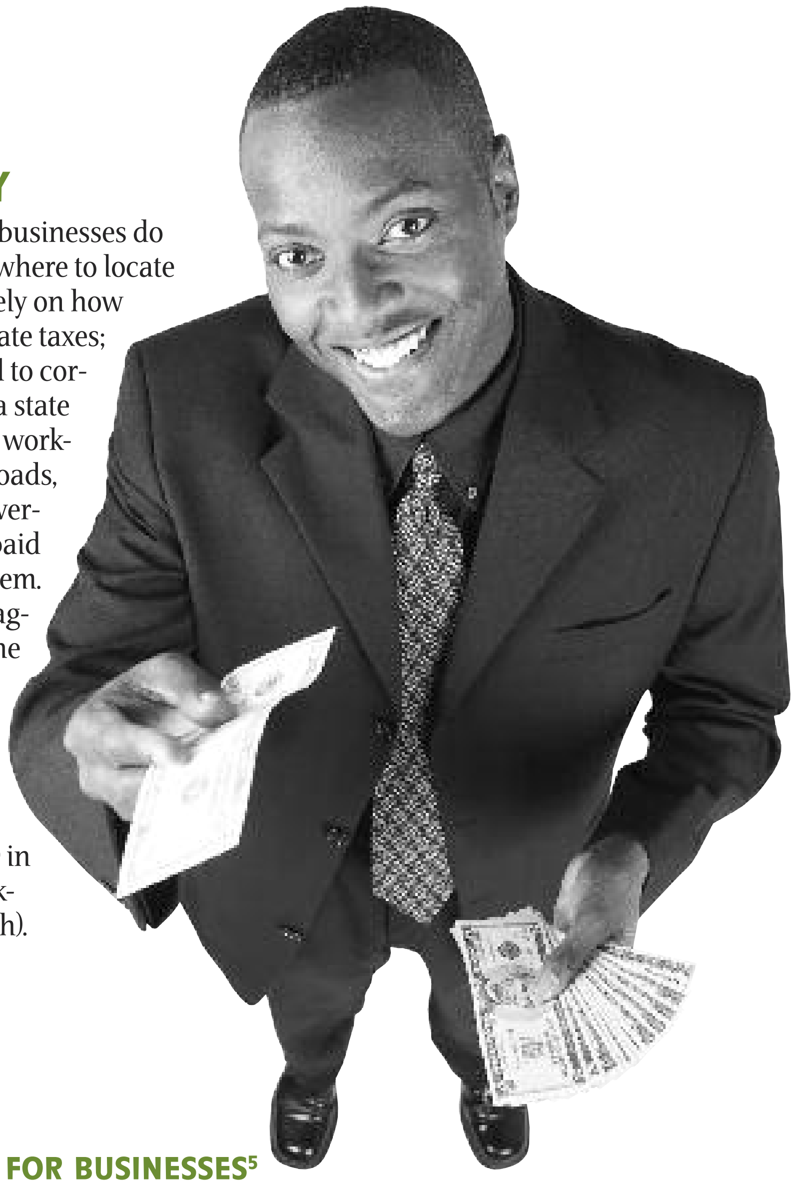


3 "Measuring Fiscal Disparities Across the U.S. States: A Representative Revenue System/Representative Expenditure System Approach, Fiscal Year 2002," joint report by Tax Policy Center (Urban Institute and Brookings Institution) and the New England Public Policy Center at the Federal Reserve Bank of Boston, 2006, www.urban.org/UploadedPDF/311384_fiscal_disparities.pdf

4 Data from the Institute on Taxation and Economic Policy, 2009.

STATE TAXES: ESSENTIAL TO ECONOMIC DEVELOPMENT AND PROSPERITY

Research shows that businesses do not make decisions about where to locate their companies based solely on how much they would pay in state taxes; rather, it is far more critical to corporate leaders to invest in a state that has a highly educated workforce, good schools, good roads, and a high quality of life overall—all of which must be paid for by an adequate tax system. For example, see *Forbes* magazine's recent analysis of the business climate for Arkansas compared to surrounding states. Arkansas ranks seventh in the nation for low taxes—but almost dead last (48th) in quality of life and our workforce's education level (45th).



Arkansas ranks seventh in the nation for low taxes—but almost dead last in quality of life and our workforce's education level.

FORBES' BEST STATES FOR BUSINESSES[5]

State	Business Costs Rank[1]	Labor Rank[2]	Regulatory Rank[3]	Economic Climate Rank[4]	Growth Prospects Rank[5]	Quality of Life Rank[6]	Overall Rank
TX	25	24	13	11	4	27	9
TN	5	36	11	29	38	39	17
OK	19	40	8	28	33	37	26
MO	15	41	6	44	45	21	30
AR	**7**	**45**	**25**	**27**	**18**	**48**	**32**
MS	16	48	16	49	35	46	42
LA	18	50	43	50	17	49	49

Source: Forbes Magazine, July 31, 2008, http://www.forbes.com/2008/07/30/virginia-georgia-utah-biz-cz_kb_0731beststates_table.html

5 1. Index based on cost of labor, energy and taxes. 2. Measures educational attainment, net migration and projected population growth. 3. Measures regulatory and tort climate, incentives, transportation and bond ratings. 4. Reflects job, income and gross state product growth as well as unemployment and presence of big companies. 5. Reflects projected job, income and gross state product growth as well as business openings/closings and venture capital investments. 6. Index of schools, health, crime, cost of living and poverty rates.

THE STATE BUDGET: POOLING OUR RESOURCES FOR THE COMMON GOOD

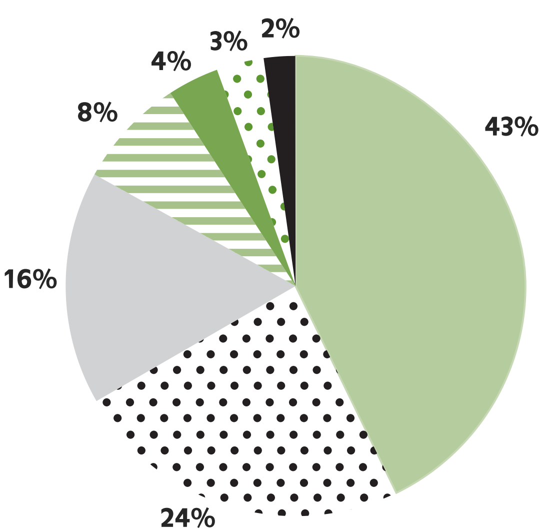
When you create a budget for your family, you are essentially making a statement about your family's top priorities and values. The things you want, such as going on vacation or buying a new flat-screen TV, probably don't get funded until you can meet your needs, such as food, shelter, and clothing—and when times are tough, there may not even be enough money to cover those.

In the same way, our state government must make tough choices about what to spend our tax money on and by how much. As the cost of providing public services rises along with inflation and the growing needs of our population, our government must also decide where more money should come from or which services should be cut.

So where does all of our tax money go? Most general revenue goes toward education and health care, whose costs will continue to increase over time. Below is a list of the major categories of state expenditures:

GENERAL REVENUE EXPENDITURES

FY 2008 (in Millions)



- K-12 Public Schools.......... $1,856.0
- Health & Human Services... $1,043.0
- Higher Education............. $709.9
- Corrections.................... $339.9
- General Government.......... $164.8
- Other & Local Aid............. $138.9
- Other Education (e.g., libraries)............. $99.3
- Total........................... $4351.8

Source: Arkansas Bureau of Legislative Research, 2008

K-12 Education: Education is the state's top funding priority, with the largest share of the state's budget (43 percent, or $1.8 billion in FY 2008) going to pre-K to grade 12 public schools. The state collects local property taxes from counties, then uses a funding formula to redistribute a "foundation," or base, level of money to local school districts in an equitable and adequate manner, as mandated by the state constitution.

Districts also receive additional "categorical" funding based on their number of low-income students eligible for free or reduced-price lunches under the federal National School Lunch Act (NSLA), students with limited English proficiency (LEP), and other special needs.

Health and Human Services: In FY 2008, the state spent $1.04 billion (24 percent of general revenue) on health and welfare programs, such as ARKids First, hospitals, research facilities, and county health units.

Higher Education: The state spent $709.9 million on public universities and colleges in FY 2008 (16.3 percent of general revenue). Arkansas increased funding of higher education in recent years and is now on par with the national average for per capita spending on higher education.

Other Education Spending: In addition to K-12 education, the state also commits about 2 percent of general revenue ($99 million) to specialized state educational facilities each year, such as the Schools for the Blind and the Deaf and public libraries.

Corrections: About 8 percent of state revenue ($339.9 million) went to prisons in FY 2008. Between 1998 and 2008, the number of state inmates, including those housed in local jails, increased by 49 percent from 10,645 to 15,848—and the cost of housing them more than doubled (102 percent).

"Other" Expenditures: There are many other state expenditures that do not fit into the categories above, including administration of state government (e.g., the judiciary

LAKE VIEW

A series of state court cases known as "Lake View" (1994-2007) ultimately declared the state's public school system inadequate under the state's constitution and ordered the state to improve school funding. Act 108 of 2004, nicknamed the "Doomsday" legislation, now requires that spending on K-12 education must have first priority in the state's budget, even if other critical programs must be cut. Despite massive funding increases since 2004, the state still lags behind the national average in K-12 per-pupil spending and achievement, and it still has a long way to go in closing achievement gaps between low-income and minority students and their peers. See AACF's 2008 report by Drs. Jay Barth and Keith Nitta: *Education in the Post-Lake View Era: What is Arkansas Doing to Close the Achievement Gap?*

and dozens of state agencies), and public safety agencies. The state also "turns back" a significant amount of tax dollars to local governments, in the same way that the federal government returns tax dollars to the state.

Battles over state spending are typically fought only at the margins—and long before the legislative session even begins. Policymakers' discretion over spending is limited by earmarked taxes, the prohibition against deficit spending, restricted use of federal funds, and obligations to pay interest on loans, retirement funds, and other programs, such as education. Budget increases are usually incremental, with expenditures varying only slightly from year to year. For these reasons, advocates must begin lobbying for funding increases very early and for a long time and cannot expect major changes overnight. It takes great patience to achieve major legislative victories.

Battles over state spending are typically fought long before the legislative session begins.

FUNDING FOR VULNERABLE FAMILIES

- Arkansas is first among states in the percentage of residents participating in the Medicaid program (22.5 percent of Arkansans versus 14.8 percent in all states in 2006). For every dollar the state spends on Medicaid, the federal government contributes three dollars, on average.
- In contrast, Arkansas ranks last among states in spending on the federal Temporary Assistance for Needy Families (TANF) program, a safety net for impoverished families, which the state operates under the name Transitional Employment Assistance (TEA). The average monthly payment for families was less than $150 in 2006.
- Fully funded by federal dollars, the food stamp program served 558,600 families in Arkansas in 2006.

HOW DOES THE STATE BUDGET GET CREATED?

The Arkansas state fiscal year begins on July 1 and ends on June 30 the following year. The budget process goes through the following stages:

1. The governor issues a policy letter as early as April in the even-numbered year before the regular legislative session begins (odd-numbered year). This statement sets a base level (minimum amount needed to maintain the current level of services and programs) for state spending in the next budget.

2. State agencies then request money for the following fiscal year. In June or July, state agencies may request funding above the governor's base by presenting a "change level request" to the Department of Finance and Administration's (DFA) Office of Budget, which compiles and analyzes the requests and presents them, along with revenue projections, to the governor. The amount of general revenue that state agencies can spend depends upon DFA's forecast of how much revenue the state should receive in the upcoming fiscal year(s), based on the economy, unemployment data, and other factors. Advocates should be prepared to present their own recommendations to state agencies very early in this process.

3. The executive branch (governor's office) then makes its own recom-

mendations by August and holds executive budget hearings with state agencies from September to December. The governor then presents his comprehensive state budget proposal by November. Legislative staff has little time to review budget proposals by the executive branch before hearings on them actually begin.

4. The budget process then moves to the state legislature:

October to December: The Legislative Council (LC) and Joint Budget Committee (JBC) hold their own joint budget hearings to approve the appropriation level for each state agency. Meanwhile, the Bureau of Legislative Research (BLR) releases a hefty manual of the governor's proposed budget for the legislature to consider when the General Assembly convenes in January.

November: By law, **DFA's Office of Economic Analysis and Tax Research** must release the state's general revenue forecast for the next fiscal year at least 60 days prior to the legislative session. This forecast is used as a basis for determining how much general revenue will be available to fund state government programs.

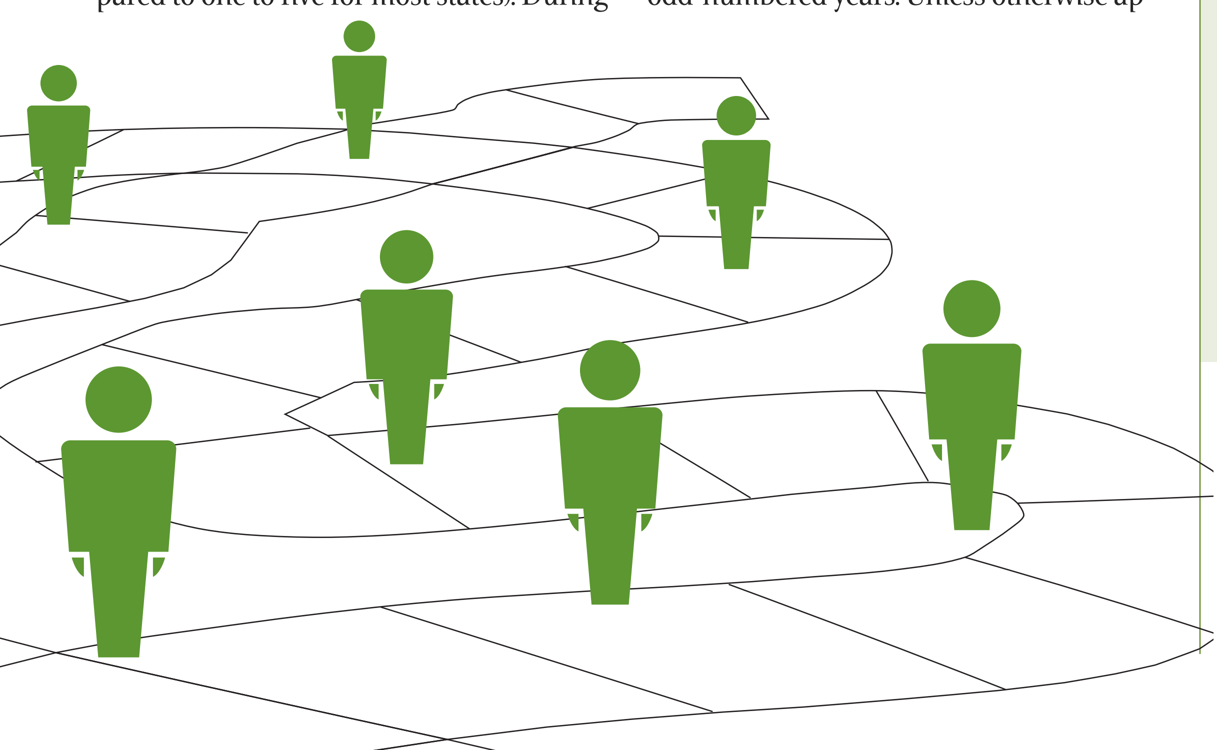
January: When the legislature convenes on the second Monday in January, the JBC introduces the **appropriation** bills for consideration by the full legislature. Article 5 of the state constitution requires that a separate bill must be filed for each subject area, which results in over a thousand bills being introduced by the JBC (compared to one to five for most states). During the session, the JBC and its numerous subcommittees meet daily to hammer out the details of the budget.

January-April: All budget bills must receive a **"do pass"** vote from the JBC before the legislature can vote to approve them. Each time a tax bill is amended, DFA must issue a new **revenue impact statement,** and the bill must be reconsidered by the committee.

As with many tax increases described early in this guide, the constitution requires a supermajority (three-fourths) vote by the legislature on most appropriations bills as well. The precise dollar amounts in these bills are often highly controversial and prompt fierce pressure and bargaining among legislative bodies and individual legislators. But because these negotiations tend to be private and conclusive, most budget bills pass the full chambers unanimously.

A new twist: Annual legislative sessions

Arkansas had long been one of the few states with a biennial (two-year) budgeting process. That all changed in November 2008, when voters passed a constitutional amendment requiring the legislature to begin holding fiscal sessions starting in 2010. From now on, the General Assembly must meet to approve the budget on the second Monday in February during the even-numbered year (what was traditionally the **interim** session) between regular (general) legislative sessions in odd-numbered years. Unless otherwise ap-



WHAT'S A GIF?

Any budget surplus (money left over after all other spending needs are met) can go in the **General Improvement Fund (GIF)**, which is typically used for one-time construction projects or other major capital expenditures. In 2006, the state Supreme Court ruled that projects that did not benefit the state as a whole violated the ban on local "pet projects" in Amendment 14 of the state constitution. Although legislators still file hundreds of GIF bills for different agencies and programs each legislative session, not all are actually funded. The legislature now shifts more surplus funding into "turnback funds" that are redistributed to local governments to spend however they wish.

proved by the LC or JBC, the pre-fiscal session budget hearings in the fall will be limited to "the big six": the Department of Education Public School Fund Account, Institutions of Higher Education, Department of Human Services, Department of Health, Department of Correction, and Department of Community Correction. A two-thirds vote is required to consider any bill other than appropriations bills during the interim fiscal session.

What does this mean for advocates? Probably not much: the Department of Finance and Administration (DFA) will essentially present the same budget information during the interim fiscal session that it presented in the previous regular session; the legislature just has to meet to approve it more frequently. It's still critical to make your voice heard very early in the process.

Keeping things stable

Unlike the federal government (and many of our own pocketbooks), our state government must have a balanced budget which prohibits state agencies from spending beyond our means. Passed in the Great Depression, Amendment 20 effectively prohibited state debt, and the **Revenue Stabilization Act** of 1945 created a formal budgeting process which is largely still in place today. When state revenue (tax dollars) is down, spending must also go down—which is always unpleasant but protects us from gathering a mountain of debt. States like California, which is currently facing a budget crisis of mammoth proportions, have often cited Arkansas's budgeting process as a model of fiscal responsibility.

The Revenue Stabilization Act prioritizes the general revenue budget by three categories (and sometimes sub-categories) of spending:

Category A: These allocations get top priority in the budget.

Category B: This category lists programs that can be funded if there is enough revenue available. In FY 2009, the state could only afford to fund 53.9 percent of programs in Category B.

Category C: Category C is a "wish list" of things that can be funded only if there is a really big growth in revenue. Since this doesn't happen very often, programs in Category C are seldom funded.

At the end of the legislative session, the legislature then makes its final votes on the budget for the next fiscal year.

CONCLUSION

Arkansans have a lot to be proud of—our breathtaking landscapes, our thriving arts and tourism industries, our commitment to improving public education for all, and on and on. At the same time, Arkansas must invest more in its people and infrastructure in order for us all to thrive in the 21st century. Far too many of our neighbors live in poverty and lack the skills to move up in the workforce and become able to adequately support their families. By learning more about the tax and budget system, you've taken a first step in helping move families forward in Arkansas.

PARTISANSHIP IN ARKANSAS

Unlike the sharp partisan divides often found in the U.S. Congress and in most other states, political party matters relatively little in shaping the behavior of individual members of the Arkansas legislature. Factors like geography, interest group influence, and members' own interests and life experiences are more important than political parties when it comes to budgetary (and other) decisions in Arkansas. For that reason, advocates should never assume they know where a legislator stands on an issue because he or she may be a Democrat or a Republican. Advocates must make every effort to work with all legislators and focus on bringing legislators' constituents (members of their legislative district who elected them) to the table.

KEY LEGISLATIVE COMMITEES

Joint Budget Committee (JBC)

The JBC is a bi-chamber (House and Senate) committee that meets almost every morning the legislature is in session. The committee has two co-chairs, a House member and a Senate member. All appropriations bills come out of this committee before they receive consideration by the full chambers. The JBC is the committee that has responsibility for developing the state budget. They also develop and pass the Revenue Stabilization Act, the major piece of budget legislation that has to be passed each session.

A key JBC subcommittee is the **Special Language Sub-Committee**. This is where many of the deals are cut and the language for special budget mandates for programs gets developed (e.g., 11 percent of the state's TANF grant must be transferred to child care). The committee usually meets at 7:00 or 7:30 a.m. during the session.

House and Senate Committees on Revenue and Taxation

These committees pass nearly all tax legislation. The committees rely heavily on staff from DFA and BLR (see "Resources"). They generally meet once a week during the session and monthly during the interim period between sessions.

House and Senate Committee on Agriculture and Economic Development

Measures that grant a tax break for economic development subsidies sometimes go through this committee instead of the Revenue and Tax committees.

HOW ADVOCATES CAN SHAPE THE STATE'S TAX AND BUDGET SYSTEM

There are many things that advocates can do to help enact sound tax and budget policies today:

- **Know your state legislators—and make sure they know you.** Sign up for their email updates. Some even have blogs or communicate with constituents through social networking sites, like Facebook or Twitter. Add their numbers to your speed dial, so you're ready to call when action is needed.
- **Explore the General Assembly's website.** Learn when committees are meeting and how to track a bill through the legislative progress. See the "Resources" section below for more information.
- **Speak up.** Legislators need to hear from people with different jobs, backgrounds, and concerns. They are used to hearing from the same people each year, and when someone new calls, they notice.
- **Never underestimate the power of a letter.** Legislators often view a single letter as the equivalent of receiving 10 calls from their constituents on an issue. Whenever possible, sending hand-written notes in your own words (rather than emailing form letters copied from lobbying groups) carry even more weight. If you are writing about a specific piece of legislation, be sure to specify the bill number (e.g., House Bill 1002), and clearly state whether you think they should vote for or against the bill.
- **Expand your circle of influence.** Talk to your friends and neighbors. They just might pass your message along.
- **Use the media.** Letters to the editor are a popular section of the newspaper.

A single letter may have power equivalent to 10 phone calls.

Politics is the art of compromise. Be prepared to make tradeoffs, build relationships, and keep working for a victory over the long term.

- **Be prepared.** You never know when a window of opportunity will open, so it pays to be prepared. Arm yourself with reliable research and data to support your positions. For example, you can find county-level data on a range of social issues in the Kids Count Data Center on AACF's website: www.aradvocates.org.

- **Present solutions—not just problems.** In other words, if you want the state to increase spending in a particular area, be prepared to suggest how the state can pay for it.

- **Join a coalition.** Thousands of bills are filed every session, which can be overwhelming. While some advocacy organizations have staff that can follow the legislative process full- (or at least part-) time, the average Arkansan doesn't have the time or resources to follow everything. That's why it's important to join a coalition of people with similar interests and goals. Not sure where to start? See the resources at the end of this publication.

- **Don't forget about electoral advocacy.** Because the constitution limits legislators to three terms in office, there is constant turnover in the legislature—and a continual need to help work to elect good public servants and educate new members on issues you care about.

- **You can't always get what you want** ...but with persistence, you might be able to get it in the future. Politics is the art of compromise. Be prepared to make tradeoffs, build relationships, and keep working for a victory over the long term.

How to Send a Message to Your Legislator on the House or Senate Floor

When the House and Senate are in session at the Capitol, you can still gain access to your senators and representatives by going to the chamber doors. At the desks, fill out the slips of paper that will ask you who you would like to speak, and give the paper to the people in red coats. The "pages" (legislative assistants) will then take these to the legislators. If they are able to meet with you they will come to the area where you are. They may not be able to meet with you at that time, but they will send the slip of paper back with an explanation.

Tips for Speaking with Legislators

- Always be respectful and brief—whether at a committee hearing or at the grocery store.
- Introduce yourself and your district.
- Start on a positive note by finding common ground. For example, if your legislator recently voted in support of a children's issue, say thank you.
- Clearly state your position on the issue or bill. This is key if your meeting is cut short.
- Use personal anecdotes when possible. It will make "real world" sense to your legislator.
- If you don't understand something your legislator says, ask him/her for an explanation.
- Have your legislator clarify his/her position on the issue.
- If you don't know the answer to a question, say so, but offer to provide an answer a.s.a.p. Then do it!
- Thank your legislator for his/her time and consideration as you leave.
- Follow up visits with a phone call, e-mail or letter.
- Always remember not to "burn your bridges" with a legislator over an issue. You may need support on another issue in the future.

RESOURCES

Advocacy organizations and coalitions

Arkansas Advocates for Children and Families (AACF)

AACF's website includes a wealth of resource on tax and budget and other policy issues, as well as links to our partners' work on these issues and ways you can get involved: *http://www.aradvocates.org*. Here you can find out about our events, sign on to our "Call to Fairness" statement on fair tax and budget policies, and subscribe to our "Moving Families Forward" email updates on state and federal tax and budget issues.

Arkansas Kids Count Coalition

AACF also staffs the Arkansas Kids Count Coalition, which is part of the Annie E. Casey Foundation's national network of child advocates. The Kids Count Coalition holds advocacy training throughout the state as well as Kids Count Day at the Capitol and pre- and post-legislative conferences each session:
http://www.aradvocates.org/involved/kids_count

Citizens First Congress (CFC) and Arkansas Public Policy Panel (APPP)

The Arkansas Citizens First Congress is a non-partisan coalition of 40 organizations who advocate on a range of fiscal and social policy issues in the state. Led by the Arkansas Public Policy Panel, coalition members lobby together for progressive tax and budget policies for all Arkansans: *http://www.citizensfirst.org*

State government

Arkansas General Assembly

The General Assembly's website includes information on all House and Senate members, committee meetings and calendars, research publications, and a searchable database of all pending bills and enacted legislation: *http://www.arkleg.state.ar.us*
For a quick refresher of how a bill becomes law in Arkansas, see:
http://www.arkansas.gov/house/billtolaw.html

For a much more detailed, step-by-step explanation of the legislative process, see the latest Senate Parliamentary Manual:
http://www.arkansas.gov/senate/documents/2007SenateandJointRules1.pdf

Department of Finance and Administration (DFA)

DFA's Office of Budget prepares the state's budget and provides technical and fiscal expertise to the various branches and agencies of government:
http://www.accessarkansas.org/dfa/budget/index.html

DFA's Office of Economic and Tax Policy staffs the House and Senate Tax Committees and the Economic and Tax Policy Committee, prepares the state's monthly revenue report and economic forecasts, and writes revenue impact statements for all bills introduced in the legislature: *http://www.state.ar.us/dfa/directors_office/do_about.html*

Bureau of Legislative Research (BLR)

BLR staffs most other legislative committees, drafts bills for legislators to introduce, and publishes the "Arkansas Legislative Tax Handbook" before each session, which includes a summary and history of all tax changes in the state. BLR also compiles its own revenue estimates each year, which usually match those of DFA, but not always:
http://www.arkleg.state.ar.us/bureau/fiscal/Pages/default.aspx

For the really ambitious advocate, check out BLR's "Bill Drafting Manual" for how to write a bill yourself:
http://www.arkleg.state.ar.us/bureau/legal/Pages/LegalPublications.aspx

Helping Children Be Healthy, Wealthy and Wise.

ARKANSAS ADVOCATES
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