

**June 21, 2022**

## **Key Findings**

Imagine if getting 31 votes in the House and 16 in the Senate were not the primary considerations for the state budget, what would be the most impactful places the state should invest its \$5.3 billion surplus this coming fiscal year?

According to the Joint Legislative Budget Committee's forecast the legislature has \$1.6 billion in ongoing revenues plus \$3.7 billion in one-time revenues.<sup>1</sup> The surplus is in part due to the Arizona Supreme Court's ruling that Prop. 208's education funding unconstitutionally violated the cap on district education spending. Notably, the ongoing surplus would be \$1.4 billion more for a total pot of \$3 billion if the state Supreme Court had not usurped from voters the right to weigh in on the flat tax enacted in 2021 which is a boon to the wealthiest Arizonans. Overall, the bulk of the surplus traces back to the \$78 billion in federal aid that came to Arizona during the pandemic in various forms.

The Grand Canyon Institute (GCI) identifies six key investment areas the state should be prioritizing with the current surplus. The ongoing needs exceed \$1.6 billion—and they are included to illustrate in part the opportunity cost of the flat tax. GCI's analysis is not a comprehensive evaluation of all areas for possible investment, so the opportunity cost is greater..

GCI recommends addressing the revenue shortfall by making the top marginal tax rate 4.5% on individuals earning \$250,000 or more and married couples earning \$500,000 or more. This still represents a lower tax liability for wealthy taxpayers than before the flat tax was passed, as the 4.5% rate would only apply to taxable income above \$250,000/\$500,000. This revenue gain meets GCI's identified priorities<sup>2</sup> but leaves nothing for additional ongoing initiatives.

### **One-time funding (at least \$1.755 billion):**

- Water (\$1 billion)
- Housing (at least \$720 million)
- Unemployment Insurance program technology modernization (\$35 million)

### **Ongoing funding (\$2.07 billion):**

- Early Childhood Interventions (\$280 million, phased in)
- K-12 Education (\$1.46 billion)
- State Employees Salary Increases (\$330 million)

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<sup>1</sup> Joint Legislative Budget Committee (2022), "Finance Advisory Committee: Briefing Materials," April 7, p. 12, [Finance Advisory Committee \(azilbc.gov\)](https://www.azilbc.gov).

<sup>2</sup> Calculated based on the Joint Legislative Budget Committee's estimates of the impact of Prop 208 on various income levels of taxpayers. See Joint Legislative Budget Committee, Staff Memorandum — [Income Distribution Impact of Tax Proposal - Senate Engrossed](#) (June 24, 2021).

**Make Marginal Tax Rate on Filers earning \$250,000/\$500,000+ 4.5%**

- \$460 million revenue gain to fill ongoing gap (provides no additional funds for other priorities, however)

**Summary**

Arizonans would likely identify sustainable water, rising housing costs, and investing in children as top issues facing the state. These are central to GCI’s budget priorities. GCI aims to mitigate the traumas that prevent at-risk children from reaching their potential by providing systematic support for children and their families.

GCI identifies three critical one-time funding areas:

**Water:** GCI has not been able to evaluate the \$1 billion Gov. Ducey would like to invest, because the policies to support its use have not been fully developed. The fundamental issue with water is conservation and the state and localities should use volume-based pricing to assure high water users pay a sufficiently heavy price that they reduce their usage. Dreams of desalination should stay local, focusing just on the salinized aquifers within the state, not the ocean.

**Housing:** Rental prices have risen astronomically in recent years—with Phoenix leading the nation, but it has impacted much of the rest of the state as well. The state should invest at least \$720 million split equally three ways: continue current rent and utility assistance programs from the pandemic for next fiscal year, then improve their overall operation as well as develop legislation to limit evictions in FY2024, and finally use the rest to pursue strategies aimed at augmenting the supply of affordable housing.

**Unemployment IT modernization:** The Arizona Department of Economic Security (DES) requires \$35 million in state general funds to complement \$40 million in federal funds to overhaul the 1970s software relic that runs the state’s unemployment insurance system, removing challenges and barriers that people face when trying to access the system. This was a significant issue during the pandemic and should be addressed before the next recession which could lead to high unemployment.

GCI likewise identifies three critical ongoing funding areas:

**Early Childhood Interventions:** the state should vastly expand its outreach to at-risk families where about one-third of children under 5 live, through home visitation programs in the first two years and expanded pre-K opportunities until age 5. Phased in over three years, these programs would cost about \$280 million. These programs will pay for themselves over time as it will reduce future crime and drug use, increase high school and college graduation rates, and improve family stability by reducing traumas.

**K-12 Education:** GCI recommends the state invest \$1.46 billion annually. \$835 million would go toward children attending low-income schools or who come from families with

lower incomes by adding a significant opportunity weight, as opposed to the more token one currently advocated by some in budget discussions.

In addition, GCI recommends allocating funds to areas prioritized by Prop. 208 including \$500 million for teacher and critical support staff salary increases and \$100 million to help improve and retain teachers by giving mentor teachers a course release to assist two of their peers in the first couple years of teaching. Finally, \$25 million should be allocated in aid to college students, focused primarily on getting more math and science teachers.

**State Employees:** Investing in state employees may not sound sexy, but they make state government run, and the state has neglected their pay adjustments. The Executive Budget includes pay raises of roughly 10% with some variation.. GCI focuses on significant pay limitations in the Dept. of Child Safety and the Dept. of Correction that undermine the state's service to very vulnerable children, as well as the state's efforts to rehabilitate and reintegrate into society those who have been incarcerated.

**Taxes:** These ongoing costs of \$2.07 billion exceed the \$1.6 billion in estimated ongoing revenues, so GCI recommends making 4.5% the top marginal tax rate for those married tax filers earning more than \$500,000 (\$250,000 for single filers) to bring in about \$460 million in added annual funding. That's at a minimum, as it provides no added ongoing funding for other initiatives, such as the currently being reviewed Special Education cost study authorized last year.

### **Water (Gov. Ducey \$1 billion in one-time funds over 3 years)<sup>3</sup>**

Gov. Ducey has already pushed for \$1 billion in one-time funds for water resource investments or policy initiatives.<sup>4</sup> Water is one of two top priorities in the state, so the allocation matches the concern. GCI has not, however, been able to evaluate how well this appropriation meets the state's needs, in part because the policies surrounding its use have not been fully developed.

As Arizona needs to maintain a long-term sustainable water use within the context of a diminishing supply, the directions are fairly clear.

Overall, the state needs to balance price and equity concerns.<sup>5</sup> Generally, markets are not sufficiently used when pricing water. Depleting groundwater supplies remains an ongoing concern even more so than the declining water levels in Lake Mead. All of

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<sup>3</sup> This section included invaluable contributions from Karen Smith, former Deputy Director of the Dept. of Water Resources and GCI Fellow who is now retired.

<sup>4</sup> Ducey, Douglas A. (2022), "State of Arizona Executive Budget Summary: Fiscal Year 2023," January, p. 37, <https://www.azospb.gov/Documents/2022/FY%202023%20Summary%20Book.pdf>.

<sup>5</sup> Grafton, R. Quentin, Long Chu and Paul Wrywoll (2020), "The Paradox of Water Pricing: Dichotomies, Dilemmas, and Decisions," Oxford Review of Economic Policy, Vol. 36, No. 1, Spring, pp.86-106, <https://doi.org/10.1093/oxrep/grz030>.

these are indications that the price of water is too low. Currently a Saudi alfalfa grower pumps water at will to feed Saudi horses on state trust land.<sup>6</sup>

The state and localities need to improve pricing mechanisms for water. For low users, water prices can be low, but water per unit prices need to rise substantially based on the amount consumed to encourage less use—that holds for household, industrial and agricultural uses.<sup>7</sup> Water is a public good and needs to be treated as such.

### **GCI's policy recommendations**

- The existing Water Infrastructure and Finance Authority can handle fund distribution.
- Desalination only makes financial sense in one location, Arizona. Arizona has saline aquifers where that technology makes sense, such as in the growing Buckeye area. It makes sense to pump and clean that water and perhaps use solar to do it.
- All other water augmentation efforts are generally cost prohibitive—which means Arizona needs to use less.
- Agriculture water subsidies need to be phased out.
- Cities and communities were already required to develop drought plans years ago, so they need to execute them.
- Volume based pricing systems need to be implemented.

### **Housing (at least \$720 million in one-time funds)**

Housing is the other top priority in the state. Rental costs have soared placing Arizona's renters in a precarious position. The American Rescue Plan, through locally administered assistance, is currently helping households primarily below 50 percent of the area median income meet housing and utility costs so they can avoid eviction.

Before the pandemic in 2019, Phoenix was already leading the nation in annual cost increases in both apartment rents (up 8.2%) and single family home rents (up 6.7%).<sup>8</sup> In 2019, Arizona had about 40% to 44% of renters that were cost burdened, paying more than 30% of their income on rent. During 2021 rents in Phoenix rose another 23%, among the top three in the country.<sup>9</sup> In much of South Phoenix rents have risen

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<sup>6</sup> O'Dell, Rob and Ian James (2022), "Arizona provides sweet deal to Saudi farm to pump water from Phoenix's backup supply," *Arizona Republic*, June 9, <https://www.azcentral.com/in-depth/news/local/arizona-environment/2022/06/09/arizona-gives-sweet-deal-saudi-farm-pumping-water-state-land/8225377002/>.

<sup>7</sup> Tempe has a volume water pricing system, "Water Volume Charge," <https://www.tempe.gov/government/municipal-utilities/utility-rate-information/water-volume-charge>.

<sup>8</sup> "America's Rental Housing: 2020," Joint Center for Housing Studies of Harvard University, [https://www.jchs.harvard.edu/sites/default/files/Harvard\\_JCHS\\_Americas\\_Rental\\_Housing\\_2020.pdf](https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Americas_Rental_Housing_2020.pdf).

<sup>9</sup> "America's Rental Housing: 2022," Joint Center for Housing Studies of Harvard University, [https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_Americas\\_Rental\\_Housing\\_2022.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2022.pdf)

two-thirds in the past five years and residents often devote two-thirds of their income to housing and transportation according to the Center for Neighborhood Technology.<sup>10</sup>

Higher rents mean households have less demand for other consumer goods or wrack up debt putting them in a more perilous position. When a family's housing becomes unaffordable, evictions, whether formal or informal (people leaving before being evicted), have traumatic impacts on children, as they are forced to switch schools and lose consistency in their lives. Rent increases are largely driven by low rental vacancy rates (i.e., not enough housing), which are particularly acute in the West.<sup>11</sup>

Currently Arizona offers very little protection to tenants if they are late on a rent payment. This session, HB2485 sponsored by Republican Rep. Justin Wilmeth seals eviction filings from credit reports if the tenant prevails or the case is dropped.<sup>12</sup> This is important as evictions can stay on a credit report for seven years and interfere with obtaining future rental housing, undermining family stability. Next year, the state should make this action retroactive as well.

GCI recommends Arizona require "just cause" for not renewing leases—so a family cannot lose its lease only because a landlord thinks they can get someone to pay more.<sup>13</sup> Eviction processes can begin as little as five days after nonpayment of rent. This period should be lengthened to at least ten days.<sup>14</sup> Arizona or localities should also offer or require mediation before evictions occur to place both parties on a path to addressing nonpayment issues without lawyers and keep families in their homes.<sup>15</sup>

### **GCI's policy recommendations**

GCI recommends that the state allocate funds to avoid the catastrophic challenges many households may face once American Rescue Plan funds end later this year (end point varies with locality). GCI uses Mesa's assistance this calendar year as the means to estimate costs for a statewide policy. By all indications, Mesa has a well run system, a very transparent dashboard, and the overall income and demographics of Mesa are

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<sup>10</sup> Taros, Megan (2022), "It's collapsing on them": Few options for south Phoenix renters as prices surge," *Arizona Republic*, Jan. 25, <https://www.azcentral.com/story/news/local/phoenix/2022/01/25/few-options-south-phoenix-renters-prices-surge/9201074002/>.

<sup>11</sup> U.S. Bureau of the Census (2022), "Quarterly Residential Vacancies and Homeownership, First Quarter 2022," Release Number: CB22-58, April 27, <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>.

<sup>12</sup> HB2485 (2022), Fifty-Fifth Legislature—Second Regular Session, <https://apps.azleg.gov/BillStatus/BillOverview/76991>

<sup>13</sup> Reagor, Catherine, Jessica Boehm and Ralph Chapoco (2022), "Priced Out; Arizona eviction filings are climbing to pre-pandemic levels. Is the system broken? Housing advocates are demanding change," *Arizona Republic*, April 19, [https://www.azcentral.com/in-depth/money/real-estate/2022/04/19/what-can-done-fix-metro-phoenix-eviction-crisis/6654777001/?for-guid=cc524429-b035-4e86-8ba7-2db37aaddeba&utm\\_source=azcentral-News%20Alert&utm\\_medium=email&utm\\_campaign=news\\_alerts&utm\\_term=news\\_alert&utm\\_content=1531AR-E-NLETTER17](https://www.azcentral.com/in-depth/money/real-estate/2022/04/19/what-can-done-fix-metro-phoenix-eviction-crisis/6654777001/?for-guid=cc524429-b035-4e86-8ba7-2db37aaddeba&utm_source=azcentral-News%20Alert&utm_medium=email&utm_campaign=news_alerts&utm_term=news_alert&utm_content=1531AR-E-NLETTER17)

<sup>14</sup> iPropertyManagement, Eviction Process, Eviction Process by State, <https://ipropertymanagement.com/laws/eviction-process> .

<sup>15</sup> Boehm, Jessica (2021), "3 things metro Phoenix can do to prevent an eviction surge after the CDC moratorium ends," <https://www.azcentral.com/story/news/local/phoenix/2021/07/08/things-metro-phoenix-can-do-prevent-post-pandemic-evictions/7802104002/> .

fairly similar to the state as a whole.<sup>16</sup> Mesa’s relief system with federal funds ends in August. GCI recommends that Arizona:

- Extends the current housing assistance programs through June 2023 (about 10 months typically) which GCI projects as costing about \$240 million, which will prevent about 85,000 households from losing their homes.. The state may have to adjust this allocation later in the fiscal year, if the Federal Reserve Board’s effort to raise short-term interest rates slows the economy and pushes up unemployment..
- Brings stakeholders together to refine and improve these housing assistance programs and draft suggested legislation based on principles noted above for the 2024 fiscal year and put aside another \$240 million to continue revised versions of these programs.
- Address housing as a longer term need. The state can require localities with affordability issues to develop plans to create more affordable housing from a series of options from upzoning, reducing lot or parking requirements, or otherwise assisting land use changes to encourage housing development. The Build Back Better bill that passed the House of Representatives last year would have allocated \$247 million to the state for these purposes.<sup>17</sup> Since those federal funds appear unlikely, GCI recommends that the state use one-time funds to further this purpose whether through the Housing Trust Fund or other means by at least that amount, if not greater..

## Unemployment IT System Upgrade (\$35 million one-time funds)

When the COVID-19 pandemic struck in March 2020, Arizona’s unemployment insurance (UI) application system was quickly overwhelmed. The system dates from the 1970s using the legacy programming language COBOL. The system is so antiquated that an effort by GCI to assure that the upcoming boost in unemployment insurance benefits could be applied to everyone, not just new applicants, was not able to go forward legislatively because the software could not handle the request.

So the Arizona Department of Economic Security (DES) has wisely sought to modernize the system, of which \$40 million comes from federal funds. DES requested an additional \$33 million from the General Fund to cover the full cost.<sup>18</sup> Due to inflation, GCI has rounded this up to \$35 million.

DES is currently in the process of selecting a vendor—and there are numerous implementation details to assure the system works in a manner that lowers barriers to people seeking unemployment insurance.

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<sup>16</sup> City of Mesa, CityData Portal, Emergency Rental and Utility Assistance Program, <https://citydata.mesaaz.gov/stories/s/Mesa-Emergency-Rental-Utility-Assistance-Program-E/3t8k-s2r7/>.

<sup>17</sup> National Low Income Housing Coalition, “National Housing Trust Fund Estimated Allocations: State Allocations,” [housed NHTF allocations-15B.pdf \(nlihc.org\)](https://www.nlihc.org/sites/default/files/2021-08/NHTF_allocations-15B.pdf).

<sup>18</sup> Arizona Department of Economic Security (2021), “FY2023 Budget Request.” <https://des.az.gov/sites/default/files/dl/FY2023-DES-Budget-Request.pdf?time=1641843268154>

In the recently leaked draft state budget documents, funding for UI IT modernization was indicated as being sourced from federal and ARPA funds, but specific amounts were not included. This leaves it unclear as to whether DES will receive the full amount of funding needed — \$73,500,000 — to overhaul its UI IT system to ensure it is robust enough to manage any future mass unemployment event.

### ***GCI's policy recommendations***

- The full \$73,500,000 be allocated to cover the costs of fully modernizing DES' UI IT system.
- Arizona allocates any gap in funding needed to complete UI IT modernization efforts with state general funds.

### **Early Childhood Interventions (\$280 million phased in, ongoing)**

Investing in at-risk children and their families is a proven winner. GCI looks at three well-regarded programs as models. The Nurse-Family Partnership already exists in Arizona but lacks the capacity to reach the number of pregnant women and young mothers who could benefit from its services. GCI combines it with the largely similar program Healthy Families Arizona. These programs primarily focus on the first two and potentially three years after a birth.

Quality preschool programs for 3 and 4 years are modeled after the Chicago Parent-Center model which has had impressive longitudinal success.

While much attention focuses on the inadequate funding of K-12 education in Arizona, the first five years of life is a critical time for brain development.

No one is born a college graduate, drug addict, or a criminal, but the social environment during these early years steers children in different directions. GCI focuses especially on at-risk families where evidence demonstrates the greatest impact of policy investments.

Adverse childhood experiences (ACEs) also impact children, especially in their early years. ACEs include eight categories of traumatic or stressful life events experienced before the age of 18 years, including sexual abuse, physical abuse, emotional abuse, household adult mental illness, household substance abuse, domestic violence in the household, incarceration of a household member, and parental divorce or separation. Exposure to ACE's correlates with negative outcomes. The state should have the goal of seeking to limit them as a means to improve the quality of life for everyone as well as reduce future state expenses.

The 2018-2019 National Survey on Children’s Health found Arizona was among the top 10 states with the highest proportion of children birth to age 5 who have experienced at least one ACE. In addition, these young children in Arizona are almost twice as likely to have two or more ACEs (15.5%) than children in the U.S. (8.6%).<sup>19</sup>

About one third of children are born into families that have risk factors such as a mother without a high school degree, living below the poverty line, and/or having no parents securing full-time employment which results in income insecurity.<sup>20</sup> Arizona currently serves about 5,000 children under age 3 through the Nurse-Family Partnership and Healthy Families Arizona home visitation programs.<sup>21</sup> This means about 55,000 additional children under age 2 could benefit from the home visitation service.<sup>22</sup>

A \$137.5 million appropriation phased in over three years would be required if Arizona were to set a goal of serving at least 25,000 of these children (half of the identified at-risk children), assuming a cost of \$5,500 per child (higher than the current per child average) per year. The return on investment far exceeds the cost. Future savings to the government alone, based on a discounted present value, is estimated at 45 cents per dollar, about half the cost of the investment. In addition, the return on investment per dollar is estimated to be about 25 cents in terms of savings to the rest of society (less consequences of ACEs), and more than one dollar for participants.<sup>23</sup>

The two-year program involves 25-35 visits during a woman’s pregnancy and after birth designed to help improve healthy outcomes for the mother as well as to help guide her with the developmental needs of her children. Savings to government include less crime, less use of public assistance, better employment, and less child abuse—all admirable outcomes.<sup>24</sup>

Among 3 and 4 year olds, Arizona likely currently serves one third of the approximately 60,000 most at-risk children through either Head Start, Pre-K (eligibility to 200% of the FPL), or Special Education. Consequently, about 40,000 at-risk children currently are not reached.<sup>25</sup> The state should set the goal of reaching half of these 40,000 children and that cost would also approximate \$120 million or up to \$140 million in order to improve the pay levels of teachers that, too, could be phased in over three years.

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<sup>19</sup> First Things First (2021), “Building Bright Future: Arizona’s Early Childhood Opportunities Report,” pp. 22, 88, <https://www.firstthingsfirst.org/wp-content/uploads/2021/12/State-Needs-and-Assets-Report-2021.pdf>.

<sup>20</sup> Healthy Families Arizona Annual Evaluation Report FY2020, [https://dcs.az.gov/reports?field\\_category\\_tid=259](https://dcs.az.gov/reports?field_category_tid=259)

<sup>21</sup> Healthy Families Arizona 2015 Evaluation Highlights, <https://pcaaz.org/wp-content/uploads/2016/03/HFAz-SFY2015-Program-Highlights.pdf>. Nurse-Family Partnership Arizona 2022 State Profile, [https://www.nursefamilypartnership.org/wp-content/uploads/2021/06/AZ\\_2022-State-Profile.pdf](https://www.nursefamilypartnership.org/wp-content/uploads/2021/06/AZ_2022-State-Profile.pdf).

<sup>22</sup> Based on Census data about 90,000 children are at each age level under 5. See Census Arizona Quick Facts [U.S. Census Bureau QuickFacts: Arizona](https://www.census.gov/quickfacts/az)

<sup>23</sup> Estimates derived from Arizona’s current expenditure per family in Healthy Families and Washington State Institute for Public Policy (2019) “Nurse-Family Partnership: Benefit-Cost Results,” December, <http://www.wsipp.wa.gov/BenefitCost/ProgramPdf/35/Nurse-Family-Partnership>

<sup>24</sup> Healthy Families Arizona Annual Evaluation Report FY2020, [https://dcs.az.gov/reports?field\\_category\\_tid=259](https://dcs.az.gov/reports?field_category_tid=259)

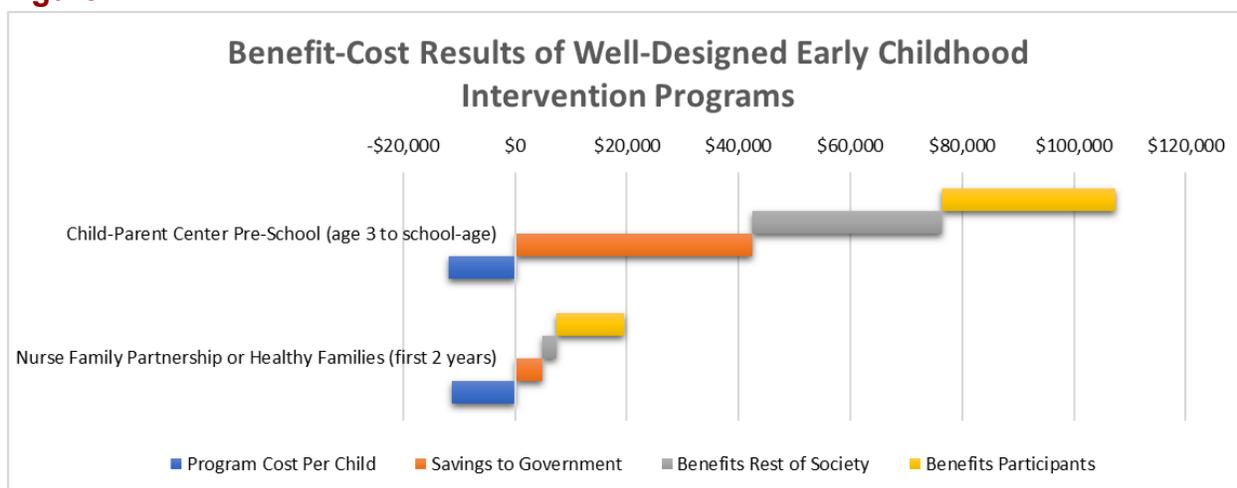
<sup>25</sup> National Institute for Early Education Research, 2019 Arizona Report Card, [https://nieer.org/wp-content/uploads/2020/05/Arizona\\_YB2019.pdf](https://nieer.org/wp-content/uploads/2020/05/Arizona_YB2019.pdf).

The Chicago Child-Parent Center (CPC) Pre-K Longitudinal Study is based on outcomes for children involved in the study when they reach the age of 26, compared to a similar at-risk demographic group that did not attend pre-school. Perhaps because it has followed participants much longer, it shows much stronger benefit-cost outcomes coming from improved school performance, improved earnings, less juvenile and adult crime, less child abuse, and less substance abuse—again admirable outcomes.

The CPC program extends to 3<sup>rd</sup> grade but the greatest impact is from the pre-K portion which is the focus here. The program dates from 1967 which has enabled the study to follow a cohort through age 26. It aims to provide a supportive learning environment for children in a collaboration involving parents, school staff, and the community.

The impacts of the programs are summarized in the chart below but show returns on investment that exceed \$1 in all categories: savings to government, benefits to the rest of society, and benefits to participants. These findings suggest that the dynamic effects easily pay for themselves due to reduced strain on government services, reduced involvement in the criminal justice system, and higher earnings.<sup>26</sup>

**Figure 1**



### **GCI's policy recommendations**

- \$140 million phased in over three years to vastly expand home visitation programs to at-risk families to provide support, guidance and stability during a child's first two years of life.
- \$140 million phased in over three years to vastly expand access to well designed pre-K programs to at-risk children currently left out.

<sup>26</sup> Reynolds, Arthur J. et al. (2011), "Age-26 Cost-Benefit Analysis of the Child-Parent Center Early Education Program, Child Development, Vol. 82, No. 1, Jan-Feb., <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3817956/>. Chart calculations pulled from Table 4.

## **K-12 Education (\$1.46 billion ongoing)**

GCI's focus on K-12 education focuses on three areas—which doesn't include expanding vouchers for private schools. GCI has not found these investments to assure improved academic performance. Meanwhile, they do permit discrimination against students based on sectarian preferences or perceived academic potential, and have inadequate oversight related to curriculum and accountability.<sup>27</sup>

### **GCI's policy recommendations**

- 1) Add an \$800 million opportunity weight to make real inroads into the added needs of students who come from more at-risk families. This far exceeds the \$100 million opportunity weight floated by Sen. Boyer, which while acknowledging this funding omission, is insufficient to provide a meaningful response to the needs of at-risk students.
- 2) Invest in funding mentor teachers to improve teacher retention and recruitment, based on the Prop 208 Invest in Ed initiative. This proposal would reduce the class load of mentor teachers while pairing them with newer teachers. It would also provide free tuition for college students who go into the teaching profession.
- 3) Fund a \$5,000 raise for teachers to improve recruitment and retention, based on the Prop 208 Invest in Ed initiative. GCI advocates a fixed dollar amount so that younger teachers receive a higher percentage increase to improve the status of teaching relative to other jobs.
- 4) Wait until the Arizona Department of Education completes its Special Education cost study before evaluating formula adjustments for Special Education funding weights. .

## **Opportunity Weight (\$835 million ongoing)**

### **GCI policy recommendations**

Research consistently shows that the students who most benefit from added investment come from lower-income families.<sup>28</sup> GCI proposes an opportunity weight to be added to the school funding formula for students who come from economically disadvantaged circumstances to help close the academic achievement gap. Free and Reduced Price Lunch eligibility for the National School Lunch Program, which is 185% or less of the federal poverty guideline, while often used, hides a wide diversity of relative student challenges. GCI recommends the following , placing greatest emphasis on students at

<sup>27</sup> Wells, Dave (2018), "\$10,700 Per Student: The Estimated Cost of Arizona's Private School Subsidy Programs: \$62 Million Extra Cost to State General Fund," Grand Canyon Institute, Sept. 5, [GCI\\_Policy\\_Private\\_School\\_Program\\_Costs\\_2018\\_Sept\\_5\\_2018.pdf \(grandcanyoninstitute.org\)](http://www.grandcanyoninstitute.org/GCI_Policy_Private_School_Program_Costs_2018_Sept_5_2018.pdf)

<sup>28</sup> Jackson, C Kirabo, Rucker C. Johnson, and Claudia Persico (2015), "The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms," National Bureau of Economic Research, Working Paper 20847, January, <http://www.nber.org/papers/w20847>.

greatest risk of poor academic outcomes in order to improve the support they will need to succeed in school. The weight would have three levels defined by the following.

1. **Students attending schools that participate in the Community Eligibility Provision (CEP)** program of the National School Lunch Program. These are the highest poverty schools where at least 40% of attending students have been identified as enrolled in programs such as Supplemental Nutrition Assistance Program (SNAP), Medicaid or Temporary Aid to Needy Families (TANF).<sup>29</sup> GCI estimates 165,000 students in Arizona attend these schools. All students attending CEP schools are eligible for free breakfast and lunch.
2. **“Identified” student populations.** Schools receiving Title 1 funds also track SNAP reciprocity at a minimum, therefore they have data on “identified” student populations. SNAP like Medicaid and free (not reduced) lunch requires incomes to be less than 130% of the federal poverty guideline whereas free and reduced lunch programs provide eligibility up to 185%. These are also students at higher risk of less academic success. GCI estimates that about 20% of all students not in CEP schools would fall into this category.
3. **Free and Reduced Price Lunch recipients beyond students in the above categories.** These students are identified based on an income reporting process through schools and includes students in families with incomes up to 185% of the federal poverty guideline. Eligibility is based on collecting forms from parents which is subject to challenges in getting forms returned as well as error.

**Table 1** below summarizes the three student groups and how the \$800 million investment would break out. The \$800 million is not enough to close the achievement gap, but would represent Arizona’s first concerted effort to do so.<sup>30</sup>

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<sup>29</sup> U.S. Dept. of Education, “GUIDANCE: The Community Eligibility Provision and Selected Requirements Under Title I, Part A of the Elementary and Secondary Education Act of 1965, as Amended.” The guidelines note the “identified” population can include students experiencing homelessness or in foster care.

<sup>30</sup> Baker, Bruce D., Mark Weber, Ajay Srikanth, Robert Kim and Michael Atzbi (2018), “The Real Shame of the Nation: The Causes and Consequences of Interstate Inequity in Public School Investments,” Rutgers University Graduate School of Education and Education Law Center, [The Real Shame of the Nation.pdf - Google Drive](#).

**Table 1 Breakdown of Proposed State Investment by Student Groups**

	Students	Base Level	Weight	Investment per Student	Total Investment
CEP School Enrollment <sup>31</sup>	165,000	\$4,478.46	0.4	\$1,791.39	\$296,000,000
Other “Identified” Students <sup>32</sup>	167,000	\$4,478.46	0.4	\$1,791.39	\$299,000,000
Other Free & Reduced Lunch Eligible	268,000	\$4,478.46	0.2	\$895.69	\$240,000,000
<b>Total</b>					<b>\$835,000,000</b>

### Boosting teacher pay and for critical support personnel (\$500 million ongoing)

Improving teacher salaries should impact teacher recruitment and retention, potentially leading to a larger and stronger stock of teachers and improved learning outcomes as measured by either test scores, high school graduation rates, and/or future earnings capacity of Arizona students.

Research demonstrates that improving teacher pay will improve academic outcomes. A 2000 study of teacher salaries from 1960-1990 found a 10% increase in teacher pay relative to other occupations decreased the dropout rate of students by 3%, which GCI

<sup>31</sup> Based on CEP school enrollment for 2020-2021.

<sup>32</sup> Outside CEP school enrollment, it is assumed about 20% of all other students would be considered “identified” and eligible for the 0.4 weight.

equates as a 3% improvement in the high school graduation rate. The authors also find a 1.6% improvement in college attendance rate among high school graduates.<sup>33</sup>

### **GCI's policy recommendations**

- Allocate \$360 million for \$5,000 annual wage increases (plus employer related expenses) for 60,000 teachers in district and charter schools<sup>34</sup>.
- Allocate \$140 million targeted for hiring and improving compensation for locally-designated critical support personnel.

### **Improving Teacher Mentoring (\$100 million ongoing)**

Based on ASU's Morrison Institute's 2017 Report , there are approximately 9,500 teachers in their first two years and almost 14,000 in their third year of teaching in Arizona.<sup>35</sup> Presumably some level of mentoring already exists. Research indicates that two years of mentoring leads to the best results—which include both teacher retention and improvements in student learning based on standardized testing. This indicates an optimal target group for mentoring and retention.<sup>36</sup> A \$100 million appropriation allocates about \$10,000 per teacher in their first two years for mentoring, which is roughly equivalent to an experienced teacher being provided with a one-class load relief to mentor two teachers. That should be sufficient to improve student achievement and teacher retention. This would not be sufficient funding to also reduce the mentee's load while participating. Exact quantitative improvements are not easily identified due to the various structures and study designs in the literature.<sup>37</sup>

### **GCI's policy recommendations**

- Allocate \$100 million for new teacher retention programs (mentor support)

### **Improving Teacher Recruitment and Development (\$25 million ongoing)**

While Arizona has teacher academies at its three public universities, they are nowhere close to the scope needed to improve the teacher pipeline. The academies provide year-for-year tuition waiver scholarships for students who commit to teaching in Arizona public schools. The universities also provide support services as graduates commence their teaching careers—and hopefully remain in them. Their 2021 annual report

<sup>33</sup> Loeb, Susanna and Marianne E. Page (2000), "Examining the Link Between Teacher Wage and Student Outcomes: The Importance of Alternative Labor Market Opportunities and Non-Pecuniary Variation," *Review of Economics and Statistics*, 82(3): 393-408.

<sup>34</sup> GCI presumes a 20% employer related cost that's variable with salary—primarily FICA and ASRS.

<sup>35</sup> Hunting, Dan et al. (2017), "Finding and Keeping Educators for Arizona's Classrooms," ASU Morrison Institute, May, [ED574452.pdf](#).

<sup>36</sup> Ingersoll, Richard and Michael Strong (2011), "The Impact of Induction and Mentoring Programs for Beginning Teachers: A Critical Review of the Research," [https://repository.upenn.edu/cgi/viewcontent.cgi?article=1127&context=gse\\_pubs](https://repository.upenn.edu/cgi/viewcontent.cgi?article=1127&context=gse_pubs).

<sup>37</sup> Ingersoll, Richard and Michael Strong (2011).

indicated that in 2020-2021, the academies enrolled about 2,400 students with close to 1,000 of those students graduating.<sup>38</sup> The academies' current annual budget of \$20.5 million falls below what's needed to close the teacher gap.

The Morrison Institute report noted that most significant teacher shortages are in math and science.<sup>39</sup> However, only about 6% of those graduates were in the math or science fields. The additional \$25 million in additional funding would target primarily filling positions in these areas and any other key shortage areas identified by the Arizona Dept. of Education. They would be empowered to offer cost of living stipends in addition to tuition waivers in these areas.

### **GCI's policy recommendations**

- Allocate \$25 million to expand the Arizona Teachers Academy by removing current caps on award to students, which provides tuition and fee waivers for higher education students who commit to teaching in Arizona public schools after graduation and focusing on high need areas.

### **State Employee Compensation Improvements (\$330 million on going)**

The tight labor market has also impacted state government. Arizona already had the second lowest state government employment per capita in the country, a number which has declined by about 10% over the last decade. Over that same period state employee pay improvements have significantly lagged the private sector. The Governor's Executive Budget proposal wisely responded to this situation by identifying \$270 million for improvements in pay levels across state government.

GCI accepts most pay increases but makes a few strategic adjustments to it relatively to areas that have had chronic turnover challenges that undermine state government.

GCI increases most pay level increases in the Dept. of Child Safety toward a goal of making these positions a top choice for people entering the field instead of an entry position that is exited quickly. Turnover among caseworkers has been notoriously high due to low pay and very stressful and emotionally challenging working conditions.<sup>40</sup> Yet caseworkers only averaged \$43,000, which the Executive Budget would increase to

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<sup>38</sup> Arizona Board of Regents, "Fiscal Year 2021: Arizona Teachers Academy Annual Report", [arizona-teachers-academy\\_annual-report-2021.pdf](https://azregents.edu/sites/default/files/2021-05/Arizona_Teachers_Academy_Annual_Report_2021.pdf) (azregents.edu).

<sup>39</sup> Hunting, Dan et al. (2017), "Finding and Keeping Educators for Arizona's Classrooms," ASU Morrison Institute, May, [ED574452.pdf](https://morrisoninstitute.org/wp-content/uploads/2017/05/ED574452.pdf).

<sup>40</sup> Arizona no longer publishes turnover rate by position title The last time they did so was before Governor Ducey took office. See p. 14 of Department of Administration 2014 Annual Workforce Report, [https://hr.az.gov/sites/default/files/media/2014%20Workforce\\_Report.pdf](https://hr.az.gov/sites/default/files/media/2014%20Workforce_Report.pdf). For FY2021 turnover for the entire Dept. of Child Safety was 30%, so one can imagine that caseworkers, the highest turnover category, was extremely high. See p. 6 of Dept. of Administration 2021 Annual Workforce Report, <https://hr.az.gov/sites/default/files/Workforce%20Report%20FY2021.pdf>.

\$49,000.<sup>41</sup> GCI recommends a raise closer to \$10,000 a year with the goal of reaching \$60,000 within the next three years.

Likewise, GCI pushes for added salary bumps for Program Specialists, Program Supervisor and Case Aides with the goal of improving retention and services to children and families. Too often already traumatized children, parents and grandparents are retraumatized through their experience with DCS. Combined with GCI's early childhood investment recommendations, GCI aims to move DCS from being primarily a policing agency to more of a support agency. The early childhood intervention investments should reduce the caseload demand on DCS, while the higher pay should lower turnover, combining to create a far more supportive situation for the children under the oversight of DCS.

GCI also increases correctional officer pay by an additional 50%, as current shortages are undermining the ability of ADC to have sufficient programs in place to help those incarcerated to build skills helpful when released. But experienced, devoted staff are needed, and Arizona needs to improve pay to reduce turnover. The Executive Budget boosts average correctional officer pay from \$45,000 to \$54,000.<sup>42</sup> GCI would like to see it raised to closer to \$60,000. Likewise, GCI adds funds to improve staffing for these programs by about one-fifth for substance abuse counselors and educational staff to further assist a focus on the rehabilitation and reintegration of those incarcerated back into the community.

GCI also reduces the Governor's recommended increase in pay of judges from 20% to 10%, seeing no need to have such a large increase in pay, especially an increase so much larger than their support staff. GCI also increases the lowest pay of support staff in the judicial system.

Noted below are the Governor's Executive budget and GCI's recommended adjustments.

### Pay Increases by Agency

Agency	(millions of dollars)	
	Executive Budget	GCI
Dept. of Agriculture	\$1.85	\$1.85
AHCCCS	\$3.51	\$3.51

<sup>41</sup> Ducey, Douglas A. (2022), "State of Arizona Executive Budget: State Agency Budgets Fiscal Year 2023," January, p. 68, <https://www.azospb.gov/Documents/2022/FY%202023%20Agency%20Detail%20Book.pdf>.

<sup>42</sup> Ducey, Douglas A. (2022), "State of Arizona Executive Budget: State Agency Budgets Fiscal Year 2023," January, p. 98, <https://www.azospb.gov/Documents/2022/FY%202023%20Agency%20Detail%20Book.pdf>.

**Pay Increases by Agency**

Agency	(millions of dollars)	
	Executive Budget	GCI
Dept of Child Safety	<b>\$19.35</b>	<b>\$27.13</b>
Corp. Commission	\$0.64	\$0.64
Dept. of Corrections	<b>\$129.57</b>	<b>\$187.61</b>
Dept. of Economic Security	\$47.89	\$47.89
Bd. of Exec. Clemency	\$0.01	\$0.01
Dept. of Health Services	\$5.05	\$5.05
Dept of Insurance	\$0.27	\$0.27
Court of Appeals (Judges)	<b>\$2.96</b>	<b>\$1.48</b>
Court of Appeals (Staff)	<b>\$4.04</b>	<b>\$4.16</b>
Supreme Court (Judges)	<b>\$2.96</b>	<b>\$1.48</b>
Supreme Court (Staff)	<b>\$4.04</b>	<b>\$4.16</b>
Dept of Juvenile Corrections	\$6.16	\$6.16
Land Dept.	\$0.19	\$0.19
Dept. of Liquor Licenses	\$0.65	\$0.65
Pioneers' Home	\$0.87	\$0.87
Dept. of Public Safety	\$30.78	\$30.78
Dept of Transportation	\$6.44	\$6.44
Dept. of Veteran Services	\$1.91	\$1.91
<b>Total</b>	<b>\$269.14</b>	<b>\$332.23</b>

### ***GCI's policy recommendations***

- Increase state employee pay by approximately 10%
- Within the Dept. of Child Safety and Dept. of Corrections for frontline workers increase pay considerably more.

**For more information, contact:** Dave Wells, Research Director, Grand Canyon Institute, at [DWells@azgci.org](mailto:DWells@azgci.org) or at (602) 595-1025, Ext. 2.

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Grand Canyon Institute  
P.O. Box 1008  
Phoenix, Arizona 85001-1008  
[GrandCanyonInstitute.org](http://GrandCanyonInstitute.org)