



Children's Action Alliance

A Voice for Arizona's Children since 1988

ARIZONA HAS BUDGET CHOICES IN 2009

Arizona's new governor and legislature will face state revenues that lag far behind current expenditures. Some legislators and interest groups claim that spending cuts are the only way to balance the budget. This is not true.

Arizona *does* have budget choices.

These choices include collecting more of the taxes that are already owed, eliminating tax deductions and tax credits that no longer serve their intended purpose, or suspending new tax cuts that are scheduled to be phased in.

By strengthening revenue collections, Arizona can avoid severe cuts to health, safety, education and security of children and families. Despite the huge budget deficit, the growing needs of Arizona families, and a significant percentage of state revenue specifically allocated by voter initiatives, ***Arizona has financial options and is not forced to dismantle critical services.***

Children's Action Alliance calls on legislators and the Governor to look at both sides of the ledger as they work to balance the budget. We understand that some services may have to be suspended or some programs combined. But we urge elected officials to consider all the fiscal alternatives and understand the human impact before making cuts that will cause long-term harm. CAA offers the following analysis to highlight the range of choices available to lawmakers, and how those choices impact the well being of Arizona's children and vulnerable families.

None of the revenue ideas are new. Most come from the work of the Citizens Finance Review Commission, co-chaired by Bill Post of APS and Tony Astorga of Blue Cross Blue Shield, which did extensive research and issued recommendations in 2003 (www.azcfr.com). Other ideas come from economic analysis by national organizations.

Please contact Karen McLaughlin, Director of Budget and Research, at (602) 266-0707 x 207 or kmclaughlin@azchildren.org with questions or comments.

RESULTS OF CUTTING CRITICAL SERVICES FOR CHILDREN AND FAMILIES

CUTS IN HEALTH CARE	Eliminate KidsCare and push 65,000 children off of health care coverage, leaving children without vaccinations, well-child visits, and treatment for simple problems, like ear infections. This could increase our already high rate of uninsured children by nearly 25% and leave more hospital bills unpaid by families who don't have insurance. More children would miss school and more parents would miss work. Health treatment would be delayed and more costly.	(\$45.7 million)
	Put children at risk of preventable diseases by cutting funding for vaccinations by more than one-half.	(\$4.6 million)
CUTS IN EDUCATION	Weaken Arizona's education foundation by eliminating all state funding for voluntary full day kindergarten.	(\$218 million)
	Dramatically shrink the funding going to local school districts, including state funding for "soft capital" which pays for computers, textbooks, library resources, instructional aides, furniture and equipment. School funding cuts will force many schools to increase class sizes.	(\$218 million)
	Force students to go to school in buildings that do not meet minimum standards by eliminating the last of the building renewal funding. (FYI - The statutory funding formula for school building repair and upkeep calls for \$216.5 million to keep schools up to minimum standards. This had already been cut to \$20 million statewide.)	(\$20 million)
CUTS IN SAFETY AND SECURITY	Reduce prevention and support services from Child Protective Services which will remove more children from their families and move them into temporary foster care.	(\$11.3 million)
	Turn away 4,700 children of low-income, working parents from child care assistance, forcing more parents to leave children home alone or in other dangerous situations.	(\$19.5 million)
	Exacerbate developmental delays for children from birth to 3 years old by eliminating the funds needed for timely evaluations and therapeutic services.	(\$3.5 million)
	Push more families out onto the streets by removing funds for homeless shelters and low-income households that need help in paying their energy bills.	(\$2.9 million)
OTHER CUTS	Reduce productivity, customer service, timeliness, and quality of services to families and businesses by furloughing and reducing pay for state employees.	(\$252.1 million)

RESULTS OF STRENGTHENING REVENUE COLLECTION AND BROADENING THE TAX BASE

SUSPEND NEW TAX CUTS	Tax cuts passed in 2005, when state revenues were high, are still being phased in. These include the reduction in assessment ratio for commercial property, the single sales factor formula for the corporate income tax, and the film tax credit. A moratorium on the cuts that haven't gone into effect yet would save \$52.3 million in FY 2010 and \$58 million per year thereafter.	\$52.3 million
	Allow the education equalization tax to return at the end of the three-year suspension. This is a statewide property tax that supports K-12 education.	\$250 million
COLLECT MORE TAXES THAT ARE ALREADY OWED	Require that taxes be withheld from contractors that work in Arizona but are located out-of-state. Having taxes withheld will encourage such contractors to file a tax return in Arizona, as is already required.	unknown
	Require pass-thru entities, such as S-corporations that pass their income and losses on to stockholders rather than filing corporate income taxes, to withhold tax on distributions to out-of state owners. These owners legally owe Arizona taxes on the distributions.	unknown
	Disallow deductions for business payments to independent contractors when the business has not filed the required 1099 form. Failing to file a 1099 form allows underreporting of income.	unknown
REMOVE TAX DEDUCTIONS/ CREDITS THAT AREN'T ACHIEVING GOALS	<i>Corporate Income Tax Credits</i> Arizona allows 27 credits that amount to \$58 million in lost revenues per year. The largest is the research and development credit which is unlimited. (\$43.7 million in most recent year.) A December 2008 analysis from JLBC states that "no empirical evaluation of the credit has been conducted" and that the impact on Arizona's employment and economy is unknown.	up to \$58 million
	<i>Individual Income Tax Credits</i> Arizona allows 31 credits that amount to \$252 million in lost revenues per year. The largest are the private school tuition organization and public school extracurricular activity credits which cost the state general fund \$92 million per year. Some tax credits are clearly targeted to benefit low-income families. While other credits help some children, they are not efficient tax policy and the loss to the general fund is not well targeted to those who need it most.	up to \$252 million
TAX PRICE, NOT VOLUME	Unlike the traditional sales tax, taxes that are based on a unit of measure, like gas and liquor taxes, do not automatically rise when prices rise. The result is that these revenues, which support our highways and correctional programs, are much lower than they would be if the changes in price were included in the calculation.	unknown

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RESULTS OF STRENGTHENING REVENUE COLLECTION AND BROADENING THE TAX BASE
(CONTINUED)

APPLY THE SALES TAX TO SOME SERVICES**	Apply the sales tax to personal care services, such as hairdressers, nail salons, and pet grooming.	\$35.2 million
	Apply the sales tax to educational services such as technical and trade schools, dance schools, and exam preparation schools.	\$21.9 million
	Apply the sales tax to miscellaneous services which include car repair and maintenance and household goods repair and maintenance.	\$99.7 million
OTHER WAYS TO STRENGTHEN REVENUE	Reclaim the transaction sales tax that is being retained by retailers as a payment for them collecting the tax (up to \$10,000 per year per retailer).	\$22.2 million
	Return the responsibility for building and repairing schools back to local property taxes. Include an equalization formula so that each district can fund minimum capital standards no matter what their local tax base is. The general fund took responsibility for school construction and repair in FY 99 with no new revenues.	\$520 million to \$675 million
	Strengthen the tax credit review process by requiring a sunset provision for all tax credits and retaining only those credits that are clearly achieving a goal.	unknown

**Economists advise a broad tax base in order to weather the impact of the economic cycle on government revenues. Yet, Arizona exempts two-thirds of services from sales tax, taxing only 55 of the 168 possible services.