



**CHILDREN'S
ACTION
ALLIANCE**



Beyond Kissing Babies

Transforming
Campaign Sound Bites
Into Common Sense Solutions
for Arizona's Kids & Families

Children's Action Alliance

Children's Action Alliance (CAA) is a non-profit, non-partisan research, education and advocacy organization dedicated to opening the doors of opportunity to all of Arizona's children and families. We are not involved in influencing the outcome of specific elections; we educate citizens and candidates for public office about the needs of Arizona's children, particularly low-income children, and effective strategies to improve their lives.

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INTRODUCTION

The purpose of these briefing papers is to help candidates answer hard questions about how they intend to translate their concerns about kids and families into action.

Particularly in difficult economic times, when Arizona's budget deficit is one of the steepest in the nation, we need leaders who will elevate kids' needs beyond campaign promises. We need leaders who understand that investing in Arizona's children and their families is the very best way to improve the quality of life for our future.

When compared to other states, Arizona continues to be near the bottom – and sometimes dead last – on critical indicators of child and family well-being, such as high school drop-out rates, child poverty, and children without health insurance.

Not only do these embarrassing statistics impact the kids and families they represent, these numbers also impact our state's ability to compete for the kind of 21st century economy so essential to our future. To build a better quality of life, we need leaders who will address complex problems through specific, realistic plans that will help parents give their children the health, education, safety, and security they need to make tomorrow's Arizona second to none.

In the following pages, candidates for public office will find briefing papers on some of the greatest challenges facing our children. The five categories for which we provide background information and policy options are: children's health, early care and education, child abuse and neglect, family income, and tax reform for families.

We have included the section on tax reform for families because it has become increasingly clear to us that advocacy around policies affecting children makes little or no difference without adequate resources obtained through an equitable and reliable tax system. During the economic boom of the 1990s, Arizona did not invest adequately in its children and families. And the problems associated with Arizona's inadequate tax and revenue base are neither new or unknown.

It is our hope that these briefing papers will move candidates from reaction to action and provide them with strategies to lift the political, financial, and bureaucratic barriers that exist so that all of our children can thrive and succeed.

If you need further information on these or other issues affecting children and families in Arizona, please contact our office at 602.266.0707, or visit the Children's Action Alliance website at www.azchildren.org.



CHILDREN'S HEALTH

Access to regular medical care and preventive services is a critical step in promoting the physical, academic and social well-being of children beginning in the critical prenatal stage and continuing as they grow into adults. In Arizona, access to health care is hampered by various challenges, including inadequate funding, the lack of community resources to address gaps in services, and systemic barriers.

In February, a national report from the Annie E. Casey Foundation found that Arizona was the second worst state in the nation when it comes to women who get late or no prenatal care. This is a critical early step because many medical and behavioral risk factors, such as diabetes, anemia, smoking and inadequate nutrition, which might affect pregnancy outcomes, are susceptible to intervention with prenatal care. Early care also can prevent serious health problems or developmental delays in the child.

In Arizona, seven percent of pregnant women receive late or no prenatal care, almost twice the national average. One program that has been proven successful in getting prenatal care to at-risk mothers fell victim to the budget ax this year. Health Start is a voluntary program that uses lay health workers to reach out to high risk pregnant women, children and families. Through home visits and group classes, the program helps pregnant, at-risk mothers obtain health care and provides them with information about nutrition, preventive health care, child development and immunizations.

Services begin before the child is born and may continue until the child reaches age two. Health Start's funding, which once was from the state general fund, was transferred to tobacco settlement funds (Proposition 204). But these funds will be depleted in the 2003 fiscal year, effectively eliminating the program unless a more reliable funding source can be found.

Families without health insurance also face the daunting task of trying to access medical care for their children. Their inability to do so often has disastrous consequences. Uninsured children miss school and fall behind when illness gets in the way of learning. Parents miss work to care for sick children when untreated illnesses grow into medical crises. Children suffer permanent damage to their health from conditions that could have been easily treated. And emergency

RECOMMENDATIONS

Enroll all eligible children and adults in AHCCCS or KidsCare through increased community education and outreach.

Create an incentive program to increase families' access to dental and specialty care. Although many families can access health insurance through KidsCare or AHCCCS, they have great difficulty finding general practitioners, dentists and specialty care in their communities.

Secure a reliable funding source and expanded funding levels for prevention programs, such as Health Start.

Create a reliable source of funding for school-based clinics that provide public health services to uninsured children and families.

Create health coverage options for immigrant families and their children. The lack of services forces many to delay care or to use emergency rooms as a primary source of health care.

Promote information sharing among programs that serve low-income families. Some means of sharing family information among programs (such as school lunches, child care subsidies, and food stamps), would ensure that families are enrolled in all the services they qualify for and would reduce duplication of efforts in reaching out to families for various programs.

rooms increasingly become the alternative for parents who have nowhere else to turn.

Arizona has a network of programs and services aimed at increasing families' access to health care. The two largest of these are the Arizona Health Care Cost Containment System (AHCCCS) and KidsCare, which together provide free or low-cost health insurance coverage to more than 450,000 children statewide. Yet, despite the apparent success of these programs, an estimated 250,000 children in Arizona remain uninsured. In focus groups conducted by Children's Action Alliance, a majority of parents whose children qualified for either AHCCCS or KidsCare but were not enrolled said they had not heard about the programs or thought they were ineligible. In the first years of KidsCare, outreach and enrollment assistance were available through community-based programs funded by the state and private foundations. However, the state and private foundations have eliminated funding for these services, leaving many community organizations without the resources to continue their outreach.

Many parents also are reluctant to apply for AHCCCS and KidsCare because they do not want to go through the same time-consuming application process they already have gone through to receive other forms of assistance. For example, applications for child care subsidies and food stamps require practically the same personal information and proof of income required for KidsCare or AHCCCS. Once a parent qualifies for one type of assistance, that department or agency should be able to share information with the eligibility staff for other assistance programs.

Of the parents that do hear about these programs and whose children are enrolled in coverage, many are unable to access some basic services, like dental care, or the specialty care their children's conditions require because of an alarming shortage of providers. Many specialty care providers practice primarily in the major metropolitan areas like Phoenix, Flagstaff and Tucson. This results in underserved areas and populations. Individuals living in rural areas may also lack adequate transportation or have unreasonable travel distances that affect access to providers.

There are several populations of children who are ineligible for public health insurance or services, including some immigrant children and children of state employees who are not eligible for KidsCare. Further, there are about 60,000 children in Arizona whose families' incomes exceed the income limits for the program, but who do not have health insurance. For example, a family of four earning \$37,000 per year does not qualify for KidsCare, however, they cannot afford the \$6,300 per year the average health plan costs. Arizona has a "safety net" of people, places and programs that help those who do not qualify for public health insurance coverage access primary medical care. Among these are federal community health centers and state-funded school-based clinics. Many of these providers are funded through one-time grants or other unstable sources. Of those that do have reliable funding sources, the need for services often exceeds their resources. However, without the services they provide, many uninsured families with children have nowhere to turn but the crowded and expensive emergency rooms.

Research shows that children who lack adequate medical care live sicker and die younger. Our recommendations include public policy alternatives that can ensure that Arizona has an adequately-funded public health system that addresses the needs of all children and that will give them a solid foundation upon which to build healthy, productive lives.



EARLY CARE & EDUCATION

Landmark brain research confirms that a child's earliest years dramatically shape lifelong learning capacity and behavior. In the first few weeks, months and years of life, children begin to make sense of the world as they develop vision, language and thinking skills. Because of this explosive brain growth, early childhood is the developmental "prime time." But too many Arizona children do not have access to the appropriate early care and education experiences that can help them get ready to learn and succeed.

Brain research tells us that by age three, a child's brain has grown to 90 percent of what it will eventually grow to be. But funding for prevention programs at this critical stage often takes a back seat in the budget process. To really take advantage of early childhood development opportunities and help all children get off to the right start, Arizona should invest more in our children earlier.

Because of limited resources, programs for Arizona's youngest children are often times small-scale, short-term, and narrowly targeted pilot programs that result in gaps for families who fail to qualify for assistance. The state-funded Family Literacy program is an example of a small prevention program that receives limited support. This program and its federally funded counterpart, Even Start, work to build reading, learning, and language skills among parents with preschool age children. They work with children and their parents separately and help parents and children work together to reinforce and develop literacy skills. This program currently serves only about 800 children in 40 sites across the state.

Even Start and Head Start cannot currently serve all of the children in Arizona who need crucial early learning support. There is a national movement underway to make early education more accessible to young children. This movement calls for states to take a leading role by expanding preschool opportunities and integrating their diverse array of providers and programs into coherent systems.

In Arizona, several public policy barriers exist that make this a difficult task. One of these is the state's system of funding construction of public schools, Students FIRST. This program funds school expansions or construction based on a school district's enrollment. However, it does not count full-day kindergarten or preschool students in its funding formulas. Because of this, many schools are forced to choose between over-crowded classrooms or eliminating space for kindergarten and preschool.

RECOMMENDATIONS

Support a statewide mechanism and a multi-year plan to improve the coordination, delivery and quality of child care and preschool programs in Arizona.

Increase access to quality preschool and full-day kindergarten programs for more Arizona families.

Reform Students FIRST to count preschool and full-day kindergarten students in school capital costs.

Provide financial resources and incentives to improve the quality of preschools and child care by increasing the qualifications, training, salary and retention of the teaching staff.

Enhance child care subsidies to low-income working families by expanding the eligibility to 200 percent of the federal poverty level (\$36,200 for a family of four), indexing subsidy rates to the current price of child care and reducing required co-payments.

This and other barriers could be reduced or eliminated if Arizona had a comprehensive and systemic approach to coordinating and delivering quality early education programs. No entity exists in Arizona that has the responsibility for planning, promoting, developing, and evaluating such programs. The responsibility for administering existing programs is divided among various state agencies, including the departments of Education, Economic Security and Health Services. As a result we have a hodgepodge of disconnected programs that overlap in some instances and leave critical gaps in other instances.

Research on the impact of child care has illuminated the relationships between child care quality, worker training, and child outcomes. Research consistently finds that children who have high quality child care arrangements have fewer behavioral problems, are better prepared to start school, and have more language skills. In particular, child care providers with more education and training have a positive impact on child performance, cognitive skills, and adjustment.

Unfortunately, too many child care arrangements in Arizona only meet minimum standards designed simply to protect children from harm. Too few programs achieve the higher standards that give children the opportunity to learn and develop. For example:

- ? Arizona does not meet nationally recommended child to teacher ratios for any age group.
- ? Only 39 percent of Arizona's child care centers require more than a high school diploma or GED to be a child care teacher.
- ? Child care teachers need only complete 12 hours of training within their first year of teaching as compared to cosmetologists, who are required to complete 1,600 hours of training to be certified.
- ? Child care teachers are consistently underpaid, earning less than animal trainers, parking lot attendants and exterminators.

The lack of quality settings is one barrier parents face when searching for child care. Another is cost. Child care costs for two young children per year can exceed \$10,000. Without some form of financial assistance, many parents may be forced to place their children in substandard care. Using state and federal dollars, Arizona does provide subsidies to qualified working families to help pay for the child care of their choice in the private sector. But parents must continue to pay co-payments and other fees even after getting the subsidy and the subsidy amount is usually far behind the current price of child care. Today, child care subsidies are based on the actual price of child care in 1998. With outdated subsidy rates, private child care centers can't afford to retain a stable, qualified workforce and decent child care is out of reach for many families.

The first years of life provide a great opportunity to help each child grow up to be healthy and well-educated. While parents have the first responsibility for the important task of nurturing the next generation of students, workers and community leaders, they cannot do it alone. Everyone – from families to policy makers and elected leaders – has a role to play in giving all of Arizona's children a smart beginning.



CHILD ABUSE & NEGLECT

No group of children or young adults deserves more attention from elected leaders than those who have been victims of abuse and neglect. For many children, the state has been placed in the role of parent, and as such, has the responsibility to protect and nurture the child until a safe, permanent home can be found.

From October 1, 2000, through September 30, 2001, there were 33,458 reports of child maltreatment made to Child Protective Services (CPS). This marks a 4 percent increase compared to the same time period in 1998-1999. CPS investigated 75 percent of the reports. The remaining 25 percent were referred to Family Builders, a voluntary community-based family intervention program.

One out of every three cases investigated and substantiated by CPS was closed immediately after investigation with no follow-up or case management services. This is usually due to lack of funding, unavailability of services or lack of parental cooperation. This may leave children in potentially harmful situations.

Several policy changes would go a long way toward ensuring that children don't fall through the cracks. For example, caseworkers should be able to assess the overall risk to the child, instead of investigating only a specific reported incident of alleged abuse or neglect. This is especially important when there is a chronic history of abuse or neglect, but conditions in the home do not warrant foster care placement. Caseworkers also should be clearly authorized to request in-home dependency petitions, which would provide court oversight and would require families to participate in services that help alleviate problems causing unsafe conditions in the home.

As of December 31, 2001, there were 6,046 children in foster care. When a child must be removed from the home, CPS caseworkers face the additional challenge of finding a suitable place for the child to live. Foster homes and shelter care facilities are used for temporary placements. But we are losing precious foster homes in part due to the high cost of raising children, the need for many families to survive by having two-working parents, and the low reimbursement rates from the state. Foster parents

RECOMMENDATIONS

Improve the protection of children by authorizing in-home dependency petitions to get parents the help they need while keeping families together. This would allow children to remain at home, while under the protection of the court, as families receive mandated services to help improve conditions in the home.

Increase foster home and provider rates to ensure children have sufficient placements and quality of care. The state must help enable more families to be foster parents, and allow quality care by contract providers by paying reasonable rates.

Increase permanency for children by making adoption subsidy and subsidized guardianship financial supports comparable to foster care. For some families, the additional financial burden of caring for children hampers their ability to provide a permanent, nurturing home to a vulnerable child.

Address the child welfare workforce crisis. Turnover rates for both CPS and private agencies on contract with the state are incredibly high. State policies must sustain training, increase salaries, and keep caseloads reasonable.

Secure a reliable funding source and expanded funding levels for prevention programs, such as Healthy Families.

have not received an increase in their reimbursement rate since 1996. The reimbursement rate covers only 50 percent of the actual cost to care for a child on a daily basis in Arizona. Private shelter and foster care providers also struggle to maintain quality care and trained staff with state contract rates that are far below their actual costs.

When family reunification is not possible, caseworkers seek to place children in a permanent loving home. Foster parents often become adoptive parents and relatives are also encouraged to provide permanent homes for children. Adoption subsidy and subsidized guardianship are two programs that help support permanency. Even with the low foster care rate, other supports and allowances are available in foster care that are not available in these subsidy programs. For example, child care subsidy and monthly allowances for children are not continued if a child legally moves to permanency with the help of one of these subsidy programs. This means that families that have received such supports during a foster care placement will lose them if they adopt the child or become permanent guardians. Some families are reluctant to take this step towards permanency for a child, simply because they cannot afford it.

Regardless of where the child is placed, the CPS system struggles to provide the case management services necessary to provide a safe, stable environment in which the child can heal and grow. The caseworkers at CPS are among the most committed employees in Arizona. They are also among the positions with the highest turnover rates in state employment (22 percent). These dedicated men and women must investigate reports, remove children from their homes when necessary, find appropriate placements for children, and help parents and guardians access the services necessary to create stable environments for children.

In the year 2000, the state Legislature approved 104 new positions for CPS, which will help reduce caseloads, but more is needed. In December 2001, the Legislature severely reduced funding for Family Builders, which resulted in increased workloads for CPS workers. When caseloads are high, staff turnover increases, and children in care don't get the consistent supports and attention they need. A federal evaluation of the Arizona child welfare system in the fall of 2001 found a serious lack of attention to the medical, mental health and educational needs of children in care. Caseworkers need the time to be able to advocate and assure necessary services are in place for each and every child.

One of the most important and often overlooked solutions to child abuse and neglect is prevention. In the FY 2002 budget, funding for Healthy Families, a program that identifies at-risk families and provides support services, had its funding totally transferred to tobacco settlement funds. This highly successful prevention program has received state funding since 1995, but with this transfer, funds are expected to be depleted by July 2003. Unless a more reliable funding source can be found, this may mean the end of the program.

Whether it's providing support to vulnerable families, ensuring that children are removed from abusive or neglectful homes, retaining quality CPS staff members and community-based contract agencies, or promoting prevention efforts, the state in its role as parent for many of these vulnerable children must ensure that the resources exist that will allow children to have a safe and stable place to call home.



FAMILY INCOME

An uncertain economy gives new urgency to the question of self-sufficiency. Despite the fact that a majority of Arizona parents with children work, there are a growing number of families who are unable to stretch their wages to meet the costs of basic needs – food, housing, health care, child care and taxes. The reason: in Arizona, a job alone is not enough.

An analysis of employment data reveal that of the 50 occupations employing the most Arizonans, 20 of them have median wages that are less than \$10 per hour. By contrast, recent research shows that a single parent with an infant and a preschooler in Maricopa County would need to earn about \$19.01 per hour to meet all of the family's basic needs without any public or private supports; a married couple would need to earn \$11.24 each to make ends meet. With supports such as child support, child care subsidies and KidsCare, the amount a working parent needs to earn is reduced to about \$8.35 per hour, a much more attainable wage.

For the past six years, welfare reform has emphasized work, without taking into account whether the wages the person earns are enough to raise the family out of poverty and meet all of their basic needs. More training and other supports are needed so that parents can provide for their children.

It would be unrealistic to expect all jobs in Arizona to pay self-sufficiency wages. However, there are public policy strategies that can help working families meet their basic needs, including child care subsidies, housing assistance, transportation assistance or affordable public transportation, and public health insurance. In Arizona, however, some of these supports are non-existent, and those that are available are under-funded.

For example, Arizona provides subsidies to qualified families to help offset the high cost of child care. However, this assistance is not available to every family that needs it, the subsidy amount is far behind the current price of child care and required co-payments are often too high for a working families' budget. In order to ensure that parents have the crucial support they need in order to work, eligibility requirements for subsidies need to be increased from 165 percent of the federal poverty level (\$29,865 for a family of four) to 200 percent of the FPL(\$36,200 for a family of four). The amount of the subsidies needs to be indexed to the current price of child care, and

RECOMMENDATIONS

Enhance child care subsidies to low-income working families by expanding the eligibility to 200 percent of the federal poverty level (\$36,200 for a family of four), indexing subsidy rates to the current price of child care and reducing required co-payments.

Reform Arizona's unemployment system to cover more out-of-work families and to provide increased benefits. Arizona has among the lowest benefits in the nation and among the lowest percentage of workers getting benefits. At the same time, we have one of the healthiest UI trust funds in the country (\$1 billion).

Implement federal welfare changes in ways that maximize the potential success of all needy families. Most parents who receive public assistance need job training and other supports (like substance abuse treatment, English as a second language classes, job search assistance, etc.) to make a successful, permanent transition to work.

Simplify the application process for public benefits and assistance (like food stamps, TANF and child care subsidies) by reducing the amount of paperwork required and providing mail-in options for applications.

the required co-payments need to be reduced.

Despite the existence of some supports, many human service providers report that families are unwilling to apply for assistance – like food stamps – because of burdensome, cumbersome application processes. These providers also express their clients' frustration at having to provide the same highly detailed employment and personal information several different times to receive different forms of assistance. To avoid long waits and applications, some parents fail to get the assistance they qualify for and instead, do without. A simplified application process with options like renewal by mail could go a long way toward ensuring that parents get the support they need for their families.

If working families face barriers in providing for the basic needs of their families, then for those who are unemployed, it is nearly impossible. Arizona is hampered by an unemployment insurance (UI) system whose benefits are too low and that does not take into account the individual's most recent work experience.

Without adequate UI benefits, families may face few options. They can resort to welfare, straining already dwindling state funds. They can turn to friends or families, neglect bills or go hungry. While Arizona's UI system helps some families, it still leaves too many workers out in the cold.

To illustrate, here are a few troubling facts about unemployment insurance:

- ? Just 28 percent of Arizona's unemployed workers receive UI benefits while they are searching for new jobs. The national average is 43 percent.
- ? The maximum weekly UI benefit is \$205 in Arizona. Only Mississippi and Alabama have lower weekly payments.
- ? The maximum weekly UI benefit in Arizona is 33 percent of the average weekly wage. Most states link maximum benefits to 50 percent or more of the state's average weekly wage.
- ? Arizona does not count the most recent work experience of a worker. A dozen other states provide UI benefits to more recent labor force entrants.

Despite these distressing figures, the good news about UI in Arizona is that the state has a \$1 billion trust fund that can be used only for the purpose of improving the system. Among the options available to the state are: increasing the maximum weekly benefit to be more comparable with the state's average weekly wage; providing additional support to families who have children; and, ensuring that the individual's most recent work experience is counted when determining eligibility.

Children do well when their families do well. Without policies and programs that support parents, many of them find themselves unable to feed their children, give them a place to eat, find appropriate care for them while parents work, or give them proper medical attention when they are sick. All of the policy options recommended will have a dramatic impact on parents' ability to make ends meet and to provide stable living environments for their children. Unless changes are made, parents will continue to be employed, but Arizona won't be working.



TAX REFORM FOR FAMILIES

There is widespread consensus that Arizona's tax structure is broken and needs to be revitalized to meet the challenges of the 21st century. A variety of state and national studies have pointed out weaknesses in Arizona's tax system. But after years of large population and job growth and annual state surpluses in the tens, or hundreds, of millions of dollars, many leaders came to believe that tax policy could be avoided forever. The budget crisis recently made us face up to the fact that Arizona's fiscal structure is inadequate to meet the needs of Arizona's economy and state services.

Indeed, recent analysis of census data reveals **no state in the nation spends less per person than Arizona** on state and local government current operating expenses. Arizona spends about 25 percent less than the national average.¹

Far-sighted leaders will recognize that Arizona needs to take action now to fix our broken tax structure and rise to the challenge of doing what it takes to fix it. Our tax system is not as equitable or reliable as it should be. We rely heavily on the sales tax, which hits low-income and fixed-income families the hardest (or, in the vernacular of economists, is regressive). The rates are very high, but many goods and services are exempt.

As we enter a new century with new purchasing patterns, it makes fiscal sense to broaden the base, perhaps lowering the rate. We rely least on the taxes that affect higher income families (called "progressive taxes" by economists): the personal income tax and estate tax. We have tax credits with no accountability measures to insure that they achieve desired goals. We have no state property tax, an important counterbalance to sales and income taxes. We also have a new annual half-billion dollar obligation from the state general fund with Students FIRST to build and maintain schools. Our tax system is ill-prepared to meet the challenges of a new century at the same time that the state is facing massive revenue declines.

But Arizona has many options to improve our state tax structure to make it more balanced and equitable and better able to meet the needs of the state in a new century. Economic wisdom notes that good state tax policy is based on three legs: sales tax, property tax, and income tax. Tax policy changes in Arizona should make sure that all three legs of the stool are as strong and

RECOMMENDATIONS

Establish a bi-partisan blue ribbon commission to examine Arizona's tax system and enact its recommendations. Experts and interest groups agree that Arizona's tax system is broken and unable to meet the needs of the 21st century. A blue ribbon commission should make recommendations to fix our system so that it reflects the current century, relies on balanced and stable revenue sources, is equitable for families, and raises revenues adequate to meet Arizona's needs.

Any tax cuts or credits should come with proof and purpose. Often tax cuts are handed out in the vague hope that they may accomplish some good (spur economic activity, encourage poor children to attend private schools, or improve air quality through the purchase of more alternative fuel vehicles). Proof of the likelihood of this result should be offered *before* enactment, and existing tax breaks should be evaluated periodically to ensure that they are accomplishing their stated purposes.

Find a revenue source for Students FIRST. When legislators and the Governor created Students FIRST, they accepted a half billion dollar annual state general fund obligation with no additional funding source. The state cannot afford to continue to absorb this obligation and a dedicated funding source needs to be established.

sound as possible.

Economists agree the best taxes keep a level playing field by applying the lowest possible rate to the broadest possible base. Excluding some things in favor of others may distort consumer behavior. But the tax base in Arizona has been shrinking over time as consumption patterns change and special loopholes are created.

Arizona is in a new century and a new economy. Like the rest of America, we've moved away from an economy based on goods to an economy based on services. Nationally, the share of personal consumption of services increased from 26 percent of all consumption in 1960 to 42 percent in 1991.² But Arizona taxes only goods and not even all goods.

Some of the exemptions on goods help families afford basics – such as food and medicine. Other exemptions, such as wholesale trade, are designed to prevent double-taxation. Still others, such as four-inch pipes and valves, rodeo animals, and health club memberships, help a relatively limited segment of the population.

In Arizona, an individual is theoretically responsible for reporting and paying sales taxes on purchases through the Internet. But the process is cumbersome and the requirement not widely known and thus the tax is not collected. It would be much simpler to require vendors (with a presence in Arizona) to collect and pay the sales tax themselves. Changing who collects the tax is not a tax increase and is unlikely to require a supermajority to become law.

“Brick and mortar” merchants say that Internet vendors get an unfair advantage by not having to collect sales taxes. They are backed up by a University of Chicago study suggesting that Internet merchants owe up to 30 percent of their sales to this comparative advantage. The Morrison Institute estimates that Arizona will lose approximately \$138 million in state sales taxes in 2003 from the non-collection of sales taxes on Internet purchases.³

Arizona eliminated the state property tax in the mid 1990s. Then, in 1998 the state took on the obligation of building and maintaining schools – a half billion dollar annual commitment with no funding source to pay for this obligation. Around the country, property taxes are often used to pay for school buildings. However, many businesses are concerned that property taxes are assessed unfairly in Arizona – businesses pay two and half times higher rates than residents (25 percent compared to 10 percent for assessment ratios). Arizona could re-instate the state property tax with equal assessment ratios.

Programs funded with Arizona general funds are often – and appropriately – highly scrutinized for effectiveness. Policy-makers want to insure that programs that use state money operate in the most efficient way possible, producing the best outcomes possible.

No similar oversight occurs with tax credits or tax cuts. Tax credits are a dollar for dollar reduction off of a household or business state income tax bill. Some tax credits in Arizona, such as the family tax credit, property tax credit, and credit for increased excise taxes paid, are designed to reduce the tax burden on low-income families. The credit for increased excise taxes

paid was passed as part of Proposition 301 to help offset the sales tax increase for families with income below \$25,000. Other tax credits allow an individual to make a cost free donation to a few favored groups: private schools, extracurricular activities in public schools, charities that provide assistance to the poor, etc. By far, the largest tax credits for households are the private school and extracurricular activities credits, costing the state about \$35 million combined in 2000. Recent analysis from Arizona State University Education Policy Studies Laboratory found that the education tax credits in particular do very little to help improve education options for low-income children.⁴

From 1992 to 2002, the legislature cut taxes by over \$1.25 billion per year. For example, the state property tax was eliminated and corporate income taxes were reduced by more than 20%. Many of these cuts were enacted on the vague hope or promise of “economic development” or creating good jobs. But no accountability measures were enacted to ensure that tax cuts achieved their desired goals. Indeed, evidence –such as one of the worst child poverty rates in the nation – suggest that tax cuts did not serve to create good paying jobs that help families. But the tax cuts are permanent, with no review or accountability measures to insure that objectives are achieved or maintained.

ⁱ Tom Rex, Arizona State University, “Government Spending in Arizona Lowest in Nation,” November 20, 2001

ⁱⁱ *Financing State Government in the 1990s*, National Conference of State Legislatures and the National Governors Association, edited by Ronald Snell, December 1993.

ⁱⁱⁱ Morrison Institute for Public Policy, Arizona State University, *Five Shoes Waiting to Drop on Arizona’s Future*, October 2001.

^{iv} Glen Y. Wilson, *The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years (1998 – 2000)*, Education Policy Studies Laboratory, Arizona State University, March 2002.

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