BUDGET RECOMMENDATIONS

Improve Arizona’s Financial Management

ATRA has aggressively monitored and publicized Arizona’s on-going state general fund structural deficit. For the last six fiscal years the State Legislature and Governor have adopted spending plans that exceeded on-going revenue. The fiscal year (FY) 2006 budget reduced the overall deficit from $534 million in the adopted FY 2005 budget to $273 million for FY 2006. Nevertheless, Arizona’s state spending continues to climb at rapid clip with FY 06 spending up $1 billion (14%) over FY 05. (When the $250 million cash financing for SFB is excluded, state spending growth drops to 10.7%).

ARIZONA’S ONGOING STRUCTURAL DEFICIT

Comparison of General Fund Revenues & Expenditures

Excludes beginning balance, one-time revenues & expenditures, & Prop 301

Much of what drives state government expenditures involves formulas. Some formulas are as simple as multiplying an established dollar amount by the number of people served, or eligible to be served, by a particular program. In most cases, however, spending formulas are considerably more arcane and complex. Undoubtedly, formulas can be useful tools in the budget-making process, providing benchmarks to determine annual funding levels.
As with other tools, however, it is unwise to allow these state funding formulas to run on automatic, performing the appropriator’s work unchecked. In too many cases, formulas contain hold harmless provisions, or merge with other formulas, or become obsolete altogether, resulting in spending that lacks accountability or that is replete with redundancies. These same flawed spending formulas are sometimes referred to as “statutory” or “non-discretionary” or are grouped unnecessarily with voter-mandated spending.

ATRA has pointed out that budget shortfalls provide a good opportunity for legislators to simplify, repair, and regain control of these formulas and, to a considerable extent, the appropriations process. The 47th Legislature should make every effort to avoid the kind of recent budget decisions that have relied on deficit financing and budget gimmickry.

The following are several specific recommendations to reform such problematic formulas in K-12 and higher education that are the result of either flawed policies or simply sloppy budgeting. ATRA encourages the Legislature to apply similar scrutiny to other statutory formulas such as those in corrections, health care, and retirement funding.

Reform agency authority to transfer line item funds between budgets: State agencies have the authority, subject to approval from the Department of Administration, to transfer funds between line items of their budgets in order to balance revenues with expenditures within a budget. A recent use of this transfer authority has exposed a lack of oversight and accountability by the Legislature in this policy. The Superintendent of Public Instruction used this authority last year to transfer $10 million in excess “additional state aid” revenue from the state general fund to fund a new tutoring program. The budget transfer authority was not intended to allow agency heads to circumvent the appropriations process to use “found money” to create new programs. The Legislature should reform this policy to maintain the integrity of the appropriations process.

Manage the general fund exposure to additional state aid costs: “Additional state aid” is money that the state pays to school districts in recognition of what residential property taxpayers would pay were it not for the homeowner’s rebate and the one-percent constitutional cap on primary taxes. Despite efforts to contain property tax growth through the state’s adherence to the truth-in-taxation laws (TNT), growth in local school district property taxes for desegregation/OCR, excess utilities, career ladder, and transportation will result in increased exposure to the state general fund. For FY2006, the Legislature appropriated $297,213,200 in additional state aid. The state should minimize its exposure to homeowner rebate and one-percent cap costs by capping or phasing out local school district levies that are outside the public school equalization system.

Phase out career ladder: Despite the fact that Prop. 301 helped set a policy direction toward performance pay for all school districts in the state, 28 school districts currently have the legal authority to participate in a “career ladder” program. The number of participating districts was capped as of FY1994 because of concerns raised about the cost and effectiveness of the program. According to the Joint Legislative Budget Committee (JLBC), $24,389,800 was levied in local property taxes for career ladder in FY 2004, while $36,350,400 was appropriated from the general fund. Property tax levies on residential property for career ladder also exposes the state general fund to additional state aid costs. Because it is available to only 28 districts, career ladder contributes greatly to inequities in Arizona’s school district spending and taxation.

Don’t exaggerate your obligation to adjust for inflation: Since its enactment in 2000 by Prop. 301, the Legislature has exaggerated its requirement to increase school funding under §15-901.01. Through FY2006, this statute required the Legislature to “increase the base level or other components of the revenue control limit” [emphasis added] by 2%. Some have argued that
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Eliminate student count adjustments for the “concerted refusal by students to attend classes”: Districts are allowed to adjust their student counts in certain circumstances, such as widespread illness or adverse weather conditions. Surprisingly, this list also allows an adjustment for “concerted refusal by students to attend classes for three consecutive days or more.” Again, sometimes these students are actually attending another district or charter school.

Reform joint technological education districts (JTEDs) to increase efficiency and avoid redundancies: A recent report from the Arizona Auditor General confirms numerous concerns and observations that ATRA has communicated to the Legislature for years. JTEDs were originally conceived as opportunities to increase efficiency by centralizing the investment in vocational training facilities and technology. Growth in so called “satellite” JTED courses conducted in high schools and community colleges goes counter to the original purpose for JTEDs and has resulted in inefficient and redundant funding. Reforms should be targeted toward increasing efficiency and avoiding redundancy.

Revisit building renewal and new construction formulas: Several adjustments to Students FIRST formulas should be made. ATRA supports the Legislature’s efforts to reform the building renewal formula. Similar scrutiny should be applied to the new construction formula, especially in regards to population growth estimates used to determine when districts qualify for new schools.

Eliminate invisible square footage for new construction qualification calculations: School district square footage that is built with local option dollars (class B bonds or overrides) is invisible to the state, while students within the walls of that square footage are not invisible in the “pupil per sq. foot” calculation to determine if a school qualifies for new construction.

Eliminate automatic 5% additional funding for statutorily-defined “rural” districts: Students FIRST statutes require the School Facilities Board (SFB) to add 5% to new construction and building renewal formulas for “rural areas.” Rural is defined as a district outside a 35-mile radius from the boundary of a municipality with a population of more than 50,000. The formula generates some interesting results. Globe is rural; Miami is urban. Skull Valley is rural; Kirkland is urban.

Allocate university appropriations in accordance with enrollment growth: For primarily political reasons, general fund appropriations to the universities have strayed considerably over the years from the growth formula guidelines. The result is that there now exists a sizeable per-student funding inequity between Arizona’s three public universities. The Legislature should begin immediately to close this funding gap by appropriating whatever dollars are available for the universities proportionate to where enrollment growth is occurring.

Eliminate the community college hold harmless formula: Operating state aid for colleges increases through student growth, but never decreases for declining student counts. For example, say a hypothetical district started with 1,000 full time student equivalents (FTSE). In the following year, that district’s student count declined resulting in 800 FTSE. The funding formula holds the district at the 1,000-FTSE funding level. A district’s operating state aid cannot be increased until the FTSE count exceeds the highest recorded FTSE since FY 2004. Community college funding should be reformed so that student-based funding follows the students without hold harmless mechanisms.
Reduce or eliminate redundant funding through dual and concurrent enrollment:
Community colleges, high schools and joint technological education districts often enter into agreements that can result in two or more entities counting the same students for the same seat time for funding purposes. Funding should go only to the entity providing the services or should be distributed proportionately.