

ARIZONA STATE SENATE

46TH LEGISLATURE
FIRST REGULAR SESSION

MINUTES OF COMMITTEE ON APPROPRIATIONS

DATE: March 5, 2003

TIME: 1:30 p.m.

ROOM: SHR 109

CHAIRMAN: Senator Burns

VICE CHAIRMAN: Senator Waring

ANALYST: Deborah Johnston
Carolyn Atwater

**COMMITTEE
SECRETARY:** Tracey Moulton

INTERNS: Benjamin Wing
Christopher Kresge

ATTENDANCE

BILLS

<u>Committee Members</u>	<u>Pr</u>	<u>Ab</u>	<u>Ex</u>	<u>Bill Number</u>	<u>Disposition</u>
Senator Anderson	X			HB 2241	DP
Senator Arzberger	X				
Senator Bee	X				
Senator Cannell	X				
Senator Giffords	X				
Senator Harper	X				
Senator Martin	X				
Senator Mead	X				
Senator Rios	X				
Senator Soltero	X				
Senator Verschoor	X				
Senator Waring, Vice Chairman	X				
Senator Burns, Chairman	X				

GOVERNOR'S APPOINTMENTS

Chairman Burns called the meeting to order at 1:40 p.m. and attendance was noted.

CONSIDERATION OF BILLS

HB 2241 – appropriations; named claimants – DO PASS

Benjamin Wing, Research Intern, explained HB 2241 appropriates \$262,329.55 from the general fund (GF) and \$2,084,944.11 from other funds to the Department of Administration (ADOA) for payment of various claims made against state agencies from FY 1998 - 1999 through FY 2000 - 2001.

Senator Waring moved HB 2241 be returned with a DO PASS recommendation. The motion CARRIED with a roll call vote of 10-2-1 (Attachment 1).

Senator Burns announced the individuals who registered their position on the bill (Attachment A).

BUDGET PRESENTATIONS

DEPARTMENT OF EDUCATION (ADE)

Steve Schimpp, Analyst, Joint Legislative Budget Committee (JLBC), distributed a handout entitled Comparison of Major Policy Issues, Department of Education (K-12) (Attachment B).

Highlights from the presentation:

Total Budget

JLBC
\$2.8M GF

EXECUTIVE
\$2.88M GF

\$68M OF

\$28.4M OF

A 3% FY 2003
lump sum
reduction
of \$(348)K

Does not address

Major Policy Issues

- Deferred Payment From FY 03

Adds \$191.3M to
make 1 FY 03 payment
& 11 of 12 FY 04
payments

Adds \$95.8M to
make 1 FY 03 payment
and 10.5 FY 04
payments

Defers 1 month of FY 04

Defers 1.5 months of
FY 04

- Enrollment Growth

\$137.1M total

\$136.5M total

\$88.7M for school
districts

\$59.7M for school
districts

• Enrollment Growth – (continued)	\$48.4M for charter schools	\$76.8M for charter schools
	3.2% overall growth for 2003-2004 school year	concur
• Net Assessed Value Growth	\$(68.1)M savings	\$(82.7)M savings from 6.75% growth
	Additional \$(69.2)M savings may be generated from revised NAV	
• School District Administrative Costs	\$(41.8)M reduction from districts below 10% average	Does not address
• Truth in Taxation	\$18.2M for lower QTR & County Equalization TNT	No QTR change for estimated savings of \$20M
• Teacher Experience Index	\$(17.4)M savings from TEI at 50%	Does not address
• Endowment Earnings	\$10.5M GF increase	\$2.0M GF increase
	Does not address	\$38.0M GF increase to offset debt service
• Career Ladder	\$(6.9)M reduction	Does not address
• Rapid Decline	\$(4.9)M reduction	Does not address
• Inflation Adjustment	Adds \$4.8M	Adds \$73.3M

Additional State Aid (“Homeowner’s Rebate”)

• Net Assessed Value Growth	Adds \$15.1M	Adds \$19.0M
• Desegregation programs	Decreases \$(10.9)M	Does not address
• Excess Utilities	Decreases \$(8.2)M	Does not address

Other Major Policy Issues

• Other Formula Programs	\$3.3M Increase special education vouchers	Concurs
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	\$(\$526)K net decrease for CEC's	\$64.3K net increase
• Early Childhood Block Grant	\$(19.4)M decrease to eliminate program	Does not address
• Adult Education	\$(.4)M decrease to eliminate program	Does not address
• Family Literacy	\$(1.0)M decrease to eliminate program	Does not address
• Other Programs Recommended for Elimination	\$(796)K for Chemical Abuse prevention	Does not address
	\$(600)K for Vocational Ed Extended Year	Does not address
	\$(550)K for AIMS Intervention/ Dropout Prevention	Does not address
	\$(229.2)K for ASSET, Arizona Humanities Council & Arizona Principals' Academy	Does not address
	\$(222.4)K for OPIP & Special Ed Audit	Does not address
• Miscellaneous Issues from Executive budget	Does not address	\$(13)M savings from Scottsdale QTR issue
	Does not address	\$1.5M increase in AIMS testing
	Does not address	\$(351.6)K and 6.0 FTE position decrease
	Does not address	\$9.2M supplemental for FY 03
• Budget Format	Detailed Line Item by Program	Lump Sum by Program With Special Line Items
Revised NAV and TNT Estimates		
• Net Assessed Value Growth	Est. 10% NAV growth	Does not address
	Will reduce Basic State Aid costs \$69.2M	

Will increase Homeowner's
Rebate by \$8.2M

Would increase TNT cost by
\$32.9M

Dawn Nazary, OSPB, distributed a handout entitled Department of Education FY 2003 Supplemental & FY 2004 Budget Recommendation, Select General Fund Policy Issues (Attachment C).

Highlights from the presentation:	FY 2003 Executive/JLBC	FY 2004 Executive/JLBC
Basic State Aid – Program Cuts	\$0/ \$0	\$0/ \$(141.1)M
Supplemental Grant Programs	\$0/ \$0	\$0/ \$(27)M

Tom Horne, Superintendent of Public Instruction, distributed a handout entitled Department of Education, FY 2004 Budget Overview, March 2003 (Attachment D).

Highlights from presentation:

- FY 2004 Budget Recommendation, Executive Summary
- Estimated impact of budget reductions options for Basic State Aid and Homeowner's Rebate
- Adult Education Funding, Implication of State Funding Cuts
- State Administration of GED Testing, FY 03 Costs
- The Value of Arizona Adult Education
- Outcomes of Adult Education for Program Year 2001-2002
- Family Literacy Funding, Implication of State Funding Costs
- Arizona Family Literacy Programs, 2001-2002 Critical Points
- The Value of Arizona Family Literacy Programs
- Early Childhood Block Grant Program Brief
- Early Childhood State Block Grant Allocations to School Districts and Charter Schools, FY 2002
- Chemical Abuse Prevention Program

Ethan Foxx, representing himself, testified that he dropped out of high school when he was 17 years old to provide for two children and did not continue with his high school education until he was 30 years old. He remarked that adult education not only helps people in similar situations, but also immigrant citizens, new to the freedoms we so often take for granted. He urged the Committee to find funding for this worthwhile program.

Terrie Williams, representing herself, testified that the adult education program has a powerful impact on the lives of adult students and their children. She explained that both of her parents did not graduate from high school and although they valued education, they did not assist her with reaching any educational goals. She dropped out of high school in her sophomore year and quickly learned that she needed an education to make any kind of decent salary. She took advantage of adult education classes as soon as she found out about them. With the help that she

received at the class, she was the first in her family to complete a high school education. This became the first step in rebuilding her self-confidence. Since that time, she has successfully completed a tour with the United States Air Force, earning an honorable discharge. She continued her education, obtaining a Bachelors degree in education, worked as a teacher at a local high school and has obtained a Masters in education and recently a Masters degree in counseling. She is now working as an adult education instructor and has become a role model for her son. She urged the Committee to continue funding for this very important program.

Vanda Salls, representing herself, testified that there are currently 36 adult education programs that in FY 02 served over 46,000 student learners with over 2.7 million instructional hours. She stated that adult education holds for many, the key to success and provides an avenue to self-sufficiency. She noted that 50% of adult learners made education gains of two grade levels or more with 57% of adults who sought their GED obtaining their high school equivalency diploma and 77% of adults who entered into post secondary education or training went on to further their education. She opined that adult education is cost effective, offers a positive return on its investment and registers in State social service agencies, correctional programs and in State business.

Ms. Salls remarked that removing the funding for adult education would negatively impact the State, as over \$4.2 million in federal funding would be lost. Additionally, Arizona would be the only State with no alternative high school diploma program. She opined that for many of Arizona's most vulnerable families, adult education offers hope for a brighter, more successful future. She urged the Committee to include adult education funding in the budget.

Geri Cruz, representing herself, testified that she received her GED in 1994, when she was 25 years old. She explained that she dropped out of high school when she was 15. She became a mother of three children within a three-year period. She stated that family literacy programs helped her make a change in her life and that of her children. She urged the Committee to keep these programs running.

Sara Silva, representing herself, testified she currently is a second grade teacher in Tucson and graduated from the University of Arizona in May 2001 with a degree in elementary education and an endorsement in bilingual education. She explained that twelve years ago she was a single Mom with four children and only a seventh grade education. She stated that she did not take an active role in her children's education, opining that it was the teacher's responsibility to educate her children, not hers. Now she is a school teacher with a Bachelor's degree and has four successful children: a daughter in college working on a law degree, a son who is a sophomore in high school and her twin daughters who are freshmen in high school. She stated the reason she is a teacher today with four successful children is because she enrolled in the family literacy program in 1991. The program gave her the opportunity and encouragement she needed to improve her life. She urged the Committee to continue to fund the program.

Cynthia Boggs, representing herself, testified that she recently took the GED exam and is awaiting the results. She stated that she attended the Pima Community College adult education classes for the last five months. She explained that when she was seventeen she dropped out of high school when she discovered she was pregnant. She remarked that it became clear that she needed an education to make a living for her and her daughter. She urged the Committee to continue funding adult education programs.

Lina Prieto, representing herself, testified that she is a former GED student and her experience has inspired her fifteen year old son to continue his education and go on to college. She asked the Committee to consider continued funding for adult education.

Manuel Monge, representing himself, testified that he is seventeen and has never completed junior high school due to difficulties with his family. He stated that his mother took him to Mexico to live after his father died, and after her death, he moved to Texas to live with family. He stated that education was a low priority for his family. He stated that he earned his GED, after deciding to try to make something of himself. He now lives alone in his own apartment and is independent. He remarked that this would not have been possible without the adult education he received. He urged the Committee to continue the funding for adult education.

Senator Burns announced the following people were present in support of adult education and family literacy programming: **Greg Hart, representing himself; Don Adams, Basha’s Inc., and Lynn Reed, Literacy Volunteers of Maricopa County.**

COMMUNITY COLLEGES

Jill Young, Fiscal Analyst, JLBC, distributed a handout entitled Comparison of Major Policy Issues, Community Colleges (Attachment E).

Highlights from the presentation:

Total Budget	JLBC \$116.8M GF	EXECUTIVE \$133.9M GF
	A 5% FY 2003 lump sum reduction of \$(6.4)M	Does not address
Major Policy Issues		
• Student Enrollment	Freezes Operating, Capital Outlay, and Equalization State Aid at FY 03 levels	Adds \$10.6 M for growth
• Eliminate Dual Enrollment	Decreases funding by \$(4.1)M to eliminate Operating and Capital Outlay State Aid for dual enrollment students	Same proposal
• Eliminate Hold Harmless	Decreased \$(108.1)K	Does not address
• Zero-Base State Board	Recommends zero-base budgeting the State Board of Directors	Decreases \$(235.3)K to eliminate State Board of Directors for Community

for Community Colleges Colleges

- Eliminate TPT Distribution to Tribal Colleges Eliminates TPT to tribal Colleges Does not address
- Eliminate Budget Request Process Eliminates budget request process for Community College districts Does not address

Dawn Nazary, Analyst, Governor’s Office of Strategic Planning and Budget (OSPB), distributed a handout entitled, FY 2003 Supplemental & FY 2004 Budget Recommendation, Select General Fund Policy Issues (Attachment F).

Highlights of the presentation:

	FY 2003 Executive/JLBC	FY 2004 Executive/JLBC
FY 2004 Formula – Operating, Capital and Equalization Aid	\$0 / \$0	\$10.6M/ \$0
Eliminate State Board for Community Colleges	\$0 / \$0	\$(223.1)K / \$(223.1)K
Eliminate TPT distribution for Qualifying Tribal Colleges	\$0 / \$0	\$0 / \$(1.75)M

Kristen Boilini, Arizona Community Colleges Association, testified that community colleges are funded on full time student equivalents (FTSE), which is a student that is taking 15 credit hours per semester for an entire year for a total of 30 credit hours. She stated that for those 30 credit hours of instruction, a community college receives approximately \$1,100.00 from the State. She noted that it is a little bit different for each community college district. Because of how budget cuts have been handled in the past, the formulas have become skewed.

Ms. Boilini remarked that when a community college looks at the upcoming semester, contracts are signed with educators, administrators, staff support – the people who are required to provide the services that the students are demanding. At the end of a school year, the district computes the number of students that have been educated (FTSE) and gives the number to the Auditor General’s Office. The Auditor General’s Office then verifies and certifies the FTSE count and it is that number the district gives to OSPB and JLBC, which is used in the budget recommendation for the upcoming appropriation cycle. Consequently, the community colleges are two years in arrears. She commented that at some future date the Association would like to discuss a proposal to bring community colleges to current year funding.

Dr. Fred Gaskin, Chancelor, Maricopa County Community College District, commented Arizona has the lowest high school completion rate in the nation and nearly the lowest college attendance rate. Community colleges provide an important solution to this dilemma for the State.

Dr. Gaskin requested that the Committee fund student enrollment growth pursuant to the community college statutory funding formula. Approximately \$7.2 million should be appropriated to

Arizona's community college districts in FY 2004 for enrollment growth, of which Maricopa Community districts would receive approximately \$4.6 million. The equalization aid statutory formula for qualifying rural community college districts calls for an additional \$3.4 million to be provided in FY 2004. He encouraged the Committee to fund these two important provisions.

Dr. Gaskin remarked that Ms. Boilini explained the colleges' enrollment is funded on a two-year lag. The FY 2004 budget for Maricopa Community Colleges is being built on the projection of approximately 68,000 FTSE, while the current was based on approximately 60,000. The college will carry the additional FTSE for the next couple of years and hope that the State will fully fund that FTSE.

Dr. Gaskin remarked that it is understood that the budget crisis will affect all agencies, but asked that the Committee keep in mind the recent cuts that have already been implemented. He requested the Committee not cut any funding for dual enrollment. He stated that is not a double funding mechanism, but rather it allows high school students to get an early start on college work. He stated that this saves the State in the long run, because students when enrolled in the dual enrollment program are more likely to go straight to a University after graduation. He stated that if dual enrollment were eliminated by the Legislature, the programs would likely be eliminated. The community colleges cannot provide programs without sufficient funding.

Dr. Gaskin asked the Committee to continue authorization and funding for the adult education and family literacy programs. Arizona community colleges participate in contracting with the Arizona Department of Education (ADE) to provide adult education literacy programs to people living in the State who require these services to become work ready. Rio Salado Community College has served over 12,600 students per year in these programs. He urged the Committee to seriously consider these critically essential programs for continued funding.

Dr. Tom Jordan, President, Coconino Community College, testified there are two points he would ask the Committee to consider, 1) the hold harmless provision and 2) support of funding growth.

Dr. Jordan stated that one of the programs Coconino Community College is looking at adding at the start of the fall semester is an associate degree in nursing. He stated that when the CEO of Flagstaff Medical Center came to him a year ago, he was short 50 nurses. He is now short 150 nurses and desperately needs associate degree nurses. To add this program it will cost the college over \$.5 million over the next four years, due to start up and development costs as well as operating costs. He explained the average program costs approximately \$5,000 per FTSE per year, where a nursing program will run between \$11,000 to \$16,000. He stated that the college would begin this program because it serves the health and economic well being of Flagstaff and northern Arizona.

Dr. Jordan stated that the taxpayers passed a \$25 million capital improvement bond and the college constructed a new 129,000 square foot facility in Flagstaff, which was supposed to be finished in December 2001. He stated that because the contractor had not completed the facility, the college still moved into the new facility – although that created a tremendous disruption for the students. It also caused the loss of approximately 80 FTSE for the Fall 2001 – Spring 2003 period. This loss amounts to approximately \$86,000. Additionally, during the last two fiscal years, accumulative reductions to the college have been in excess of \$1.1 million.

Dr. Jordan remarked that in the summer and fall of 2002, as well as this last semester, there were increases in enrollment between 16-19%. These additional students will need to be served but there is no funding for growth. He noted that the strategic plan was to bring in more students with the new facility.

In response to Senator Waring, Dr. Jordan stated the reason for the strategic plan to bring more students in was to address the many technical and occupational programs that the community needs, much like the nursing program, where employers are desperately looking for network engineers, accountants and computer technicians. In order for business to do well and succeed, they need a skilled work force. He commented that another reason the college is trying to grow is that with an increased level of education, graduates will earn more, pay more in taxes and that in turn will improve the overall economy.

Dr. Jordan remarked that Coconino Community College is a young, dynamic institution trying to serve more students and add more technical programs that the business community wants. That will help the community grow, develop and prosper and also attract new businesses.

Dr. Karen Nicodemus, Cochise College and Arizona Community College Association, distributed a handout entitled Equalization (Attachment G).

Highlights from presentation:

For Eastern Arizona College (Eastern) the most significant budgetary issue is the treatment of equalization funding.

Equalization is a balance to offset inadequate local primary tax levy capacity. It is intended to provide the minimum assessed valuation support level necessary to operate a community college. Its use is limited by statute to exactly the same purposes as a primary tax levy.

Even though Eastern is taxing at the maximum allowed under the Constitution and has been since 1980, Eastern's weakness is its \$100 million local valuation – less than one-fifth of the next lowest community college district in the State.

For thirty years (1971 – 2001), equalization was fully funded when cuts were made to State aid to community colleges. Holding equalization – the College's primary tax levy – at a no growth level or reducing equalization below full formula funding causes Eastern to face an inequitable and unrecoverable loss.

Eastern is serving an important segment of southeastern Arizona's population. It has earned an exemplary accreditation from the North Central Association. It is an efficient institution, consistently operating at or near the lowest cost per full time student equivalent of any community college district in the State. It should not be disenfranchised for an inadequate local primary tax levy capacity, which is the direct result of its geographical location, and beyond the bounds of its direct control.

REPORT OF SUBCOMMITTEE TO DEVELOP A TAX PACKAGE

Senator Rios distributed a handout entitled Interim Report of the Subcommittee to Develop a Tax Package (Attachment H).

Highlights from the presentation:

Proposals Submitted by the Subcommittee for Consideration by the Full Appropriations Committee as of March 5, 2003.

- Sales Taxes
 - Eliminate the Exemption for Restaurant Employee Meals
 - Temporary ½ cent sales tax
 - Tax Satellite Television
 - Eliminate the Credit for Accounting Expenses (Hog Trough)

- Property Taxes
 - \$1 QTR to fund Students FIRST
 - Increase the Minimum QTR for Property Owners Not in a School District (Sun City)
 - Increase the Minimum QTR for Property Owners in Property Wealthy School Districts (Palo Verde)
 - Modify the QTR for K-8 vs. 9 – 12

- Other Taxes
 - Eliminate Medicaid Premium Tax Exemption
 - License Loan Originators

Without objection, the meeting adjourned at 5:05 p.m.

Respectfully submitted,

Tracey Moulton
Committee Secretary

(Tapes and attachments on file in the Secretary of Senate's Office/Resource Center, Room 115.)