Morrison Institute for Public Policy

ARIZONA STATE UNIVERSITY

Understanding Arizona's Propositions: Prop 302

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Proposition 302 – Sweeping the Early Childhood Health and Development Board Fund (First Things First)

Proposition 302 asks Arizonans to sweep the Early Childhood Health and Development Board Fund, more commonly referred to as First Things First (FTF), to help balance the General Fund budget for the current fiscal year.

If voters approve the sweep, the Joint Legislative Budget Committee – or JLBC, the budget staff for the Legislature – estimates a $345 million benefit to the General Fund. This includes not only the current balance in the fund, but anticipated revenue from a tobacco tax that was established to fund the original early education program.[i]

Proposition 302 also proposes permanently directing that tobacco tax to the General Fund, with an estimated benefit of $40 million per year to the Department of Economic Security and $80 million to the General Fund for FY2012 and beyond. Legislators passed and the governor signed the budget for this current fiscal year presuming voters would say "yes" to both this and Proposition 301, which seeks to sweep another dedicated fund that provides for land conservation and preservation near urban areas.

The fund sweep is being referred to voters because First Things First was created by voter initiative in 2006, and as a result of another voter initiative is legally "protected" from legislative modification. In order to sweep the fund and redirect the tobacco tax revenue, voters must approve the change.

Established when 53% of voters approved the measure in 2006[ii], First Things First increased the state sales tax on cigarettes by $0.80 per pack, as well as on other tobacco products. A central board and 31 regional partnership councils were established statewide to identify development and health needs at both the state and local level. The system then distributes monies through grants for eligible programs for children 5 and

Statute requires each regional council be composed of 11 members who live or work in the region and must include:

- Parent of a child 5 years or younger
- Child care provider
- Health services provider
- Public school administrator
- Early childhood educator
- Member of the business community
- Representative of the faith community
- Representative of a philanthropic organization
- If there is an Indian tribe in the region, an official or employee of tribal government

Source: A.R.S. 8-1162

under.

The funding is spent in five general program areas that include quality learning opportunities, educated teachers and caregivers and healthy children. The agency reported grant awards of more than $31 million for FY2009 and in excess of $106 million for FY2010, with grants awarded both statewide and in each of Arizona's 15 counties. It anticipates awarding $191.5 million in grants for the current fiscal year, which began on July 1, assuming Prop 302 is unsuccessful.

The board of First Things First lost a court challenge on the wording of the ballot measure. The board contended the language was not impartial, did not mention the agency's moniker of "First Things First," which was not included in the original ballot measure, and did not clarify that only 10% of the funding received from the tobacco tax is for administration. While acknowledging that he may have included "First Things First" in the description, the Superior Court judge found the language sufficiently neutral.[iii]

Yes on Proposition 302?

Proponents of the ballot measure first and foremost point to the current budget crisis. The state has made permanent spending reductions in excess of $2 billion since FY2008[iv] from a variety of program areas including health, human services and education. Additionally, proponents note that First Things First is only able to serve specific populations.

Arizona is not alone in targeting cuts to pre-k programs. In the last year, Illinois has cut $32 million, New York $30 million and North Carolina, the program Arizona used as a model for First Things First, $5 million.[v]

The Arizona agency also has faced criticism that its grant process has potential conflict-of-interest issues and that a disproportionate number of dollars have been awarded to but a few agencies. In review of grant contracts provided by the agency, 144 grantees were awarded contracts in FY2010. Of those, seven were between $1 million and $2 million, and six were in excess of $6 million. Valley of the Sun United Way received nearly $27.9 million, or more than one-quarter of the total amount to all recipients.

> *"Proposition 302 essentially redirects funds from specialized preschool programs that serve a narrow population to core health and human services programs that will benefit far more children and families."*
>
> *- Glenn Hamer, president & CEO*
> *Arizona Chamber of Commerce and Industry*
>
> *- Reginald M. Ballantyne III, chairman*
> *Arizona Chamber of Commerce and Industry*
>
> Source: Secretary of State's Office

A consistent criticism lobbed at First Things First since passage of the original initiative is that the agency spent too much time and money establishing a bureaucracy and did not get funds into the community as quickly or efficiently as possible. State Sen. Ron Gould, R-Lake Havasu City, often identified as one of the staunchest conservatives in the Legislature, commented, "They [FTF] enriched themselves by creating a bureaucracy at the ballot box."[vi]

Proponents also point to what at times has been a contentious relationship between the agency and the Legislature. The agency successfully sued the Legislature in 2009 for sweeping $7 million in interest from the fund.[vii]

Additionally, in the fall of 2009, the Department of Health Services (DHS) approached the FTF board to provide scholarships to cover substantial increases in cost for licensing child care centers when DHS's licensing budget was cut. FTF opted not to fund the scholarships. The agency argued that per statute, FTF money cannot be used to supplant General Fund dollars that are cut, and as a result could not fund the DHS request.[viii]

Other supporters point out that Prop 302 requires the swept funds and future tobacco revenue to be used for similar purposes and that prioritizing is required in such unprecedented fiscal times of crisis.

Federal mandates, when coupled with voter-protected programs, lock away a large portion of the state General Fund. In 2008, for example, voter-protected allocations were estimated at more than one-third of the total General Fund budget.[ix] Voter authorization for the fund sweep, according to proponents, is necessary to begin bringing spending in line with expenses.

If Proposition 302 fails, a $345 million deficit opens up in the current fiscal year budget.

No on Proposition 302?

Opponents of Proposition 302 – many of whom have launched a coordinated effort including a website, Facebook page and YouTube presence – first point to the benefits of early education and health and how those benefits carry through K-12 education and contribute to a ready workforce. Additionally, many question the intent of going back to voters to undo an initiative they already have approved at the ballot box.

The science and study of early brain development has led to research-based conclusions about the value of early childhood experiences: "Ensuring that children have positive experiences prior to entering school is likely to lead to better outcomes than remediation programs at a later age, and significant up-front costs can generate a strong return on investment."[x] Further, three cornerstone studies[xi] of early education whose models have been replicated estimate the benefit of high-quality preschool education to cost at a ratio ranging from 5 to 2, up to a benefit-to-cost ratio of 16 to 1.[xii] With the elimination of full-day kindergarten as part of last year's budget cuts, opponents of the proposition argue an agency committed to delivering early education is critical now, more than ever.

Opponents of eliminating FTF counter the argument that the administrative structure is a bloated bureaucracy by pointing to the enabling legislation that permits only 10% of the tobacco tax collected to go towards administrative costs. Additionally, the regional council format, while bulky, provides a tool for local control according to agency advocates.

> *"In addition to being created by voters, FTF program and funding decisions are guided by parents, educators, and business leaders to meet the specific needs of their communities."*
>
> *- Jennifer Bonnett, executive director*
> *Arizona Public Health Association*
>
> *- Dorothy Hastings, immediate past president*
> *Arizona Public Health Association*
>
> Source: Secretary of State's Office

To those who question the amount of time it took to award grant funds, opponents of Prop 302 note that the statute established by the original initiative set a deadline of 2009 to begin distribution, which the agency met. Further, the agency advised one reason the fund carries a

balance is that they do not spend current-year tobacco tax, instead awarding grants based on prior year revenue to ensure awards match available funding.

In response to questions about conflict of interest, the agency points out that staff and regional council members undergo conflict-of-interest training and recuse themselves from funding discussions and decisions when appropriate.[xiii]

Opponents of Proposition 302 also note that FTF offered an interest-free loan to the state with values ranging from $260 million in January[xiv] to upwards of $300 million in May.[xv] The governor originally included this loan in her budget proposal released in January. Ultimately, however, the Legislature rejected the loan and instead referred the fund sweep to voters.

Concerns also have been raised that the Legislature is trying to co-opt a revenue source – the tobacco tax – that has never been intended or calculated as part of the General Fund. Also, there is no way to ensure the swept money will not be used for other purposes, or supplant other General Fund money.

Advocates of the early education and health fund point out that once the money is swept and the tax redirected to the General Fund, the entire agency as well as the early education system that has been implemented thus far simply goes away – perhaps forever, since they doubt even when good fiscal times return, such an agency will be funded again.

Just as proponents of the measure note the severity of Arizona's budget crisis, opponents of Proposition 302 do, too. They point out that even if this money is swept and the FTF program disappears, the budget crisis is not solved. JLBC recently released updated estimates of the budget deficit for the current fiscal year and noted that if both this and the land conservation fund are swept, there is still a possible revenue shortfall of more than $360 million. Additionally, JLBC estimates a budget deficit of $1.4 billion in fiscal year 2012.[xvi]

Critics of the measure argue that if Prop 302 passes, not only will a key priority program approved by voters be eliminated, but also the state's fiscal footing will remain shaky.

The Bottom Line

A "yes" vote would transfer the balance of the Early Childhood Health and Development Board Fund, estimated at approximately $345 million, to the General Fund. Additionally, the tobacco tax that currently funds the program would be redirected to the General Fund. A requirement would be that swept money be used for similar purpose to the Early Childhood Health and Development Board fund.

As a result of the sweep, however, the Early Childhood Health and Development Board, or First Things First, would no longer exist, and no further grants to statewide or local programs would be awarded for early education and childhood health programs.

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[i] JLBC. *Fiscal Impact of Legislatively Referred Ballot Measures.* http://www.azleg.gov/jlbc/ballotpropsumm301-302.pdf

[ii] Secretary of State's Office.

[iii] Fischer, Howard. "Judge tosses First Things First ballot challenge." *Arizona Guardian.* July 26, 2010.

[iv] JLBC. *Budget Background Presentation. June, 23, 2010.* http://www.azleg.gov/jlbc/budgetbackground.pdf

[v] Epstein, Dale Ph.D. and Steve Barnett, Ph.D. *Brief Report: Funding cuts to state-funded prekindergarten programs in FY10 & 11.* July 7, 2010. http://nieer.org/pdf/Funding_Cuts_to_State-Funded_Prekindergarten_Programs_in_FY10_FY11.pdf
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[viii] del Puerto, Luige. "Fate of First Things First hinges on ballot measure.". *Arizona Capitol Times.* March 19, 2010. http://azcapitoltimes.com/news/2010/03/19/fate-of-first-things-first-hinges-on-ballot-measure/
[ix] Morrison Institute. *What If Arizona Defined "Dire Straits" and "Temporary" Today?* http://morrisoninstitute.asu.edu/publications-reports/special-reports/2010-what-if-...-a-special-report-on-arizonas-budget-crisis/2010-what-if-...-arizona-defined-dire-straits-and-temporary-today
[x] *Summary of Essential Findings. A Science-Based Framework for Early Childhood Policy. Using Evidence to Improve Outcomes in Learning, Behavior, and Health for Vulnerable Children.* Center on the Developing Child at Harvard University. August, 2007.
[xi] The three studies often referred to are: Carolina Abecedarian, Chicago Child-Parent Centers and High/Scope Perry Preschool.
[xii] Frede, Ellen C. Ph.D and W. Steven Barnett, Ph.D, Editors. *Who Goes to Preschool and Why Does it Matter?* Preschool Policy Facts. National Institute for Early Education Research.
[xiii] Horizon interview on KAET Channel 8 with Rhian Evans Allvin, Executive Director of First Things First. April 7, 2010. http://www.azpbs.org/horizon/detailvid.php?id=2352
[xiv] The Executive Budget Summary, Fiscal Year 2011. http://www.azgovernor.gov/documents/AZBudget/2011/FY2011_BudgetSummaryFINAL.pdf
[xv] First Things First Board Resolution, adopted May 18, 2010.
[xvi] http://www.azleg.gov/jlbc/revenuebudgetupdate.pdf

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