



SUMMARY

FY22 State Budget

On June 30, 2021, Governor Ducey signed the Fiscal Year (FY) 2022 state budget passed by the Arizona Legislature. While Arizona's economy is healthy and the state was projected to have \$1.5 – \$2 billion in ongoing new revenue, the Governor signed the largest tax cut in state history. The governor and legislature had the opportunity to make real investments in public education and our communities. Instead, this tax cut primarily benefits the wealthiest and leaves the majority of Arizonans with little to no relief.

Budget Cuts \$3 Billion in State Revenue

The biggest component of the tax cut is a 2.5% flat income tax that will be phased in over the next few years until its full implementation in FY25. This is a permanent reduction in revenue and our state's ability to provide quality public education and public health and safety for our communities. The budget also sets a top marginal tax rate of 4.5%, which will further reduce revenues by \$836 million in the first year and \$487 million the next. These will likely be ongoing annual reductions as it requires a 2/3 vote of the legislature to raise taxes. The combined impact will be a \$3 billion cut to state revenue.

Impacts on the Invest in Education Act

By creating the 2.5% flat tax and setting the tax cap at 4.5%, this budget reduces the amount those making over a half-million in income would pay for the Invest in Education surcharge. In addition to the budget, Governor Ducey signed into law Senate Bill (SB) 1783, which provides a workaround for the wealthiest to avoid paying the surcharge at all. This new law would reduce the revenue created by the Invest in Education Act by \$292 million.

K-12 Education Budget

Instead of investing in public education this budget includes minimal new spending for K-12 education, with many of the funding proposals not going into effect until FY24. Some of the investments include ongoing spending of \$50 million for Special Education funding and \$1 million for Gifted funding, and small one-time spending, such as \$5 million for statewide assessments.

There is also an appropriation of \$107 million broken out between the current fiscal year and FY22 for building renewal. This funding is greatly needed but well below necessary funding levels for rebuilding and repairing our schools.

There is also spending that will be harmful to public education. \$30 million will go to a K-12 Transportation Grant program that will further funnel public money into private schools. This grant program originated as two different bills this session that didn't pass (SB1683 and SB1280); however, the language and additional spending for the grant program was added to the budget at the last minute.

Flat tax and rate cap increases share of tax benefits for Arizonans with high incomes

Estimates of the distributional impacts of the fully-implemented 2.5% flat tax and 4.5% top marginal rate cap, by household income

Household income percentile	Household income range	Share of total tax benefits from proposal	Average tax benefit per household
Lowest 20%	Below \$21,000	0.04%	\$3
Second 20%	\$21,000 to \$40,000	0.26%	\$13
Middle 20%	\$40,000 to \$64,000	1.37%	\$47
Fourth 20%	\$64,000 to \$108,000	5.61%	\$174
Next 15%	\$108,000 to \$224,000	16.9%	\$615
Next 4%	\$224,000 to \$512,000	20.34%	\$2,701
Top 1%	Above \$512,000	55.48%	\$30,047

Table: Arizona Center for Economic Progress | azeconcenter.org • Source: Calculations by Institute on Taxation and Economic Policy (ITEP) • Embed • Created with [Datawrapper](#)



There were many things missing from this budget, including addressing the funding shortage for public school transportation. Since the funding formula for transportation is based on miles driven in the previous school year, funding for this year was reduced for many districts who were remote or partially remote during the 2020-2021 school year due to the pandemic.

Education Policy Changes

The K-12 Education Budget Bill – House Bill (HB) 2898 – added new harmful policy provisions that had not been vetted through the legislative process or had failed during the legislative session.

- **Ban on Mask and COVID-19 Vaccine Mandates** – Counties, towns, and governing boards are prohibited from making health and safety decisions to meet the needs of their communities and prevented from requiring face coverings or the COVID-19 vaccine in schools.
- **Teacher Gag Bill** – Components of a bill (SB1532) that had previously failed were added to the budget. It prohibits teachers from teaching honestly about history and fines districts up to \$5000 for any violations of this law. This policy will have a chilling effect on teachers’ ability to do their jobs and drive more teachers out of the classroom.
- **Voucher Expansion** – Arizona voters have already said they oppose vouchers and support investments in their neighborhood public schools. This budget widely expands eligibility for the state’s private school voucher program and diverts money from public schools to private schools without any accountability. It also expands what vouchers can be used for beyond educational purposes.
- **Expands Open Enrollment** – Another failed bill from this session (HB2427) that takes away local control from communities by prohibiting school boards from determining district boundaries was included in HB2898.
- **State Board to Take Over Investigations** – Investigations will be transferred from Arizona Department of Education (ADE) to State Board of Education (SBE)
- **Pandemic Punishment** – Despite Governor Ducey failing to provide the promised pandemic funding to school districts, this budget seeks to shame and blame school districts and educators for the effects of the pandemic. School districts are required to report by July 1, 2021, whether they offered at least 180 days of “in-person, teacher-led” instruction this past year and for ADE to post all “learning loss” plans online. Arizona’s educators did an amazing job despite the circumstances, without any additional support or funding from the state. Blaming them for the outcome of a massive global health crisis will only drive more teachers out of our state and worsen the teacher shortage in Arizona.

College Placement Exam Waiver	\$1.3 million
College Credit by Examination Incentive Program	\$2.5 million
Literacy Coaches	\$3.1 million
Kindergarten Entry Assessment	\$1.5 million
Dyslexia Screening and Training	\$1.3 million
Teacher Reading Instruction Exam	\$1 million
Alternative Teacher Development Program	\$500,000
Special Education Funding	\$50 million
Gifted Funding	\$1 million
Statewide Assessment Funding	\$5 million
Procure Statewide Gifted Assessment	\$850,000
Extraordinary Special Needs Fund Deposit	\$5 million
4th Year CTED Funding	\$5 million
K-12 Rollover Funding	\$35 million