

# LIFTING ARIZONA'S WORKFORCE: A HOMEGROWN INGREDIENT FOR ECONOMIC SUCCESS



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"As the well-educated baby boomer generation begins to retire, the diverse young population that will replace it does not appear prepared educationally to maintain or enhance the state's position in a global economy."

*Measuring Up 2006 – Arizona, The National Center for Public Policy and Higher Education*

"USING CONSERVATIVE ESTIMATES, Arizona will require more than 25,000 new carpenters, construction laborers, frontline supervisors, painters and electricians in the next decade. At the current rate of apprenticeship completions, the state will train slightly more than one third that number."

*A Workforce Needs Assessment of the Arizona Construction Trade Industry, Arizona Department of Commerce, February 2005.*

"Arizona must approach its future in the biosciences by building "trees of talent" by encouraging scientific and technical talent to be developed and retained in the state."

*Arizona's Bioscience Roadmap, prepared for the Flinn Foundation by the Technology Partnership Practice, Battelle Memorial Institute 2002.*

"The only way to address the national challenge of global competition is by building strong regional economies."

*Elaine L. Chao, Secretary of Labor, February 2006.*

"While Arizona is expected to experience robust employment growth in bioscience employment across key technical occupations spanning research, laboratory sciences, and production and management support, there is a clear mismatch in the specific areas of demand and key trends in supply."

*Arizona Bioscience Workforce Strategy – Preparing for the Future, October 2003. Prepared for the Maricopa Community Colleges by the Technology Partnership Practice, Battelle Memorial Institute.*

## ACKNOWLEDGMENTS

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Children's Action Alliance (CAA) is a non-profit, non-partisan organization dedicated to promoting the well-being of all of Arizona's children and their families through research, policy development, media campaigns, and advocacy.

The Working Poor Families Project (WFPF) is a national initiative that partners with existing state nonprofit organizations to identify and strengthen state policies that assist working families achieve success in the labor market. WFPF was developed and is managed on behalf of the foundations by the consulting firm of Brandon Roberts + Associates.

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## LIFTING ARIZONA'S WORKFORCE: A HOMEGROWN INGREDIENT FOR ECONOMIC SUCCESS

Arizona is on the move toward the knowledge economy that will define this century. To nurture this transformation, Arizona is making investments in research, biosciences, and technology. We are succeeding in attracting new businesses and significant research grants to supplement the tourism, construction, real estate, and small business components of our economic mix.

Of course, there are many factors outside of our control that could weaken or damage our economic engine: terrorist attacks, growing federal budget deficits, soaring gas prices. But there is also a vital economic component that we can shape right here at home that can either undermine our economic success or fuel our prosperity. That component is the Arizona workforce. And the outcome depends on our state policies and leadership.

As the baby boomers age and the skill requirements of jobs evolve, Arizona competes with other states for a quality workforce to fuel our economy. For decades, we have been fortunate to have a steady flow of workers from other states and other countries. But we also have a home-grown workforce that we can either nurture as a stimulant to our economy or neglect and leave it to be a drain on our prosperity.

In 2000 when the last general census was taken, Arizona ranked as the 20th most populous state with 5.1 million people.<sup>1</sup> By 2036, Arizona will have doubled in population.<sup>2</sup> Over one-third of our workforce is ill-equipped to contribute to the modern economy we are building. These are Arizona's low-income

working adults who have little education or training and earn wages so low they cannot support themselves and their families. More than 550,000 children are growing up in these struggling, working families. Without better connections to education and training, these children will likely be tomorrow's low-wage workforce lacking skills and earning potential.

Educational deficiencies and a lack of crucial skills prevent many low-income adults from thriving in a world where education and knowledge are prerequisites for economic success. Two out of five Arizona adults of working age possess only a high school education or less. Such low levels of educational attainment limit the opportunities of individual families and dim the economic prospects of the entire state.

Helping working adults succeed in the modern economy is essential to the future prosperity of Arizona. With our pioneer spirit and our ethic of hard work, this is a challenge we can meet. Arizona is a state of possibilities; we have transformed this land into a dynamic place to live, work, and create. We can continue this proud history by building more opportunities for Arizonans who work hard to get ahead and achieve their goals. This report explores strategies to energize the state's economy through a trained workforce that fulfills the demands of the state's employers of both today and tomorrow. Included are some directions to explore together to strengthen our workforce and our future economic prospects.

## KEY FINDINGS:

- 1 in 3 Arizona's working families earn low incomes. This ranks Arizona 43rd out of 50 states. (These families earn less than twice the federal poverty level, equal to \$38,614 annual income for a family of four in 2004.)
- 1 in 5 Arizona jobs are in occupations that pay below \$9.29 per hour (\$19,307 annually), the amount required in 2004 to keep a family of four out of poverty.
- 2 out of 5 Arizona adults have a high school education or less.
- Arizona invests very little in basic adult education. Arizona ranks in the bottom ten states in the nation, investing only \$8 per adult without a high school diploma compared to the national average of more than \$46. New Mexico spends more than twice as much as Arizona at \$20 per adult. Utah ranks in the top third in the nation at nearly \$54 per adult, while Florida spends nearly \$200 per adult.
- Many working adults are shut off from need-based financial aid for postsecondary education. Arizona's investment in need-based financial aid for community college and university students is extremely low: Arizona spends an estimated \$9.68 per undergraduate student, compared to the national average of \$410.41.
- High rates of Arizona adults and children go without health coverage. More than 2 out of 5 of Arizona's low-income working families have at least one parent without health insurance.
- The cost of child care is out of reach for many working parents. This leaves children in detrimental situations and reduces the productivity of parents at their jobs. Arizona's child care subsidy rates are six years out of date.

## POLICY STEPS TO LIFT WORKFORCE SKILLS AND EDUCATION:

- Increase the state investment in basic adult education and literacy.
- Increase funding for need-based financial aid for community college and university students.
- Update the rules for need-based financial aid to allow more low-income working adults with families to qualify.
- Strengthen vocational training and education for welfare recipients after they find employment in low-income jobs.
- Provide educational mentoring to community college students who withdraw before earning a career certificate or associate degree.
- Restore the \$17.5 million for job training that was transferred from the Arizona Job Training Fund to the state's General Fund to balance the budget during the state's fiscal crisis.
- Improve access to quality, affordable child care by expanding eligibility for child care subsidies to 200% of the federal poverty level.
- Appropriate sufficient funding for the child care subsidy program to serve all qualified parents and to update the subsidy levels to current rates.
- Strengthen existing health care programs for low-income families and small businesses.
- Conduct outreach to employers and low-income workers to link working adults with educational and career opportunities and employment supports.
- Adopt a state refundable Earned Income Tax Credit.

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## ARIZONA'S WORKFORCE: HARDWORKING YET LARGELY UNDEVELOPED

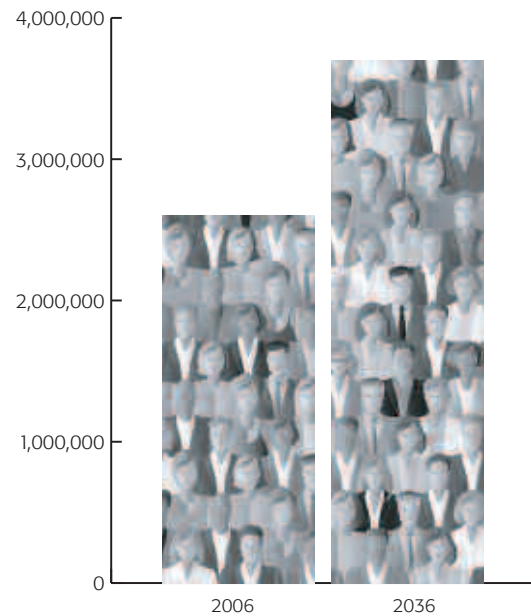
# CHAPTER 1

Arizona is on the move toward the knowledge economy that will define this century. To nurture this transformation, Arizona is making investments in research, biosciences, and technology. We are succeeding in attracting new businesses and significant research grants to supplement the tourism, construction, real estate, and small business components of our economic mix.

Over the last six years, hundreds of millions in tax dollars, along with millions in private funds, have been invested to attract the “knowledge industry” to Arizona. New partnerships have been forged between the public and private sectors. For example, the state universities have a collaboration with the Translational Genomics Research Institute (T-Gen) and the International Genomics Consortium (IGC). These investments and collaborations have reshaped downtown Phoenix, with the opening of a Phoenix campus of the University of Arizona medical school being the most recent addition. In Tucson, the Critical Path Institute, a collaboration between the U.S. Food and Drug Administration, the University of Arizona, and SRI International, is working to enable the pharmaceutical industry to safely accelerate the development of new medications.

Job creation is projected to reach 3.7 million by 2036 with the largest growth occurring in the professional, business, healthcare and social assistance sectors.<sup>3</sup> Over one-third of our workforce is ill-equipped to contribute to the modern economy we are building. These are the 232,300 low-income working families whose parents have little education or training and earn wages so low

**Arizona's Job Creation  
Will Increase by 1.1 Million**



they cannot support themselves and their families. More than 550,000 children are growing up in these struggling, working families. (See Appendix 1 for income thresholds of low-income families.) Without better connections to education and training, these children will likely be tomorrow's low-wage workforce lacking skills and earning potential.

### Shortage of Skilled Workforce

The possibilities for the 21st century Arizona economy are exciting. The bioscience sector is fast growing and offers opportunities for new businesses and high wage jobs. Yet, amid the excitement surrounding these new developments, a quiet but persistent question continues to be raised: Does Arizona have the skilled workforce that this new industry demands?

## What is a Working Family?

Terms like “working family,” “low-income” and “poor” are concepts that people intuitively grasp yet struggle to define precisely. In this report, the following definitions are used:

**Family:** A family is a married-couple or single-parent, primary family with at least one child under age 18.

**Working Family:** A family in which all related members age 15 and over have either a combined work effort of 39 or more weeks in the last 12 months or a combined work effort of at least 26 weeks and one unemployed parent actively looking for work within the past four weeks.

**Poor Working Family:** A working family with an annual income below the threshold for poverty defined by the U.S. Census Bureau. In 2004, the threshold for a four-person family equaled \$19,307.

**Low-Income Working Family:** A family with an annual income less than 200 percent (or double) of the poverty threshold. For a family of four in 2004, the low-income threshold was \$38,614

This report focuses on working families with incomes at or below 200 percent of poverty rather than just those officially defined as poor by the federal government. This is because the official definition no longer reflects the financial reality of what it takes for a family to make ends meet. To spotlight families that earn too much to be technically poor but too little to be truly self-sufficient, this report considers all working families earning less than 200 percent of poverty.

In 2002, Arizona’s Flinn Foundation commissioned the Battelle Memorial Institute to identify the strategies needed to position Arizona as a major southwest bioscience center over the coming decades. Arizona’s Bioscience Roadmap highlights several weaknesses that may hinder Arizona from building the “trees of talent” needed for a thriving bioscience sector. These include budget constraints, a lack of public support for higher education, and a lack of skilled bioscience and other workers.<sup>4</sup>

Arizona’s workforce needs are not limited to this new knowledge-based technology. Workforce shortages either already exist or are being projected in many occupations. The

nursing shortage has received much attention in recent years and resources have been dedicated to address the problem. Arizona hospitals suffer from shortages in other positions as well. A recent survey revealed an 11 percent vacancy rate in radiology technologists, 10 percent in billing/coders, and 9 percent in pharmacists.<sup>5</sup>

There is also a serious shortage of workers in the construction trades. Arizona cannot continue to grow without workers to build homes, commercial buildings, roads, schools, and the other facilities that the nation’s second-fastest growing state needs. The state is experiencing a shortage of workers in “core” skilled trade occupations such as carpenters,

front-line supervisors, and electricians.<sup>6</sup> Industry concern is so great that the Arizona Chapter of the Association of General Contractors started its own charter school in Ft. Mohave in order to “grow” the next generation of workers.<sup>7</sup>

Despite an increasing population and economic growth, Arizona’s ability to provide an abundant, trained workforce is uncertain. Baby boomers are reaching retirement age and the pools of trained workers available for hire are diminishing. Will Arizona’s evolving new 21st century economy stall because employers find it impossible to fill their positions? Where will Arizona find the workforce necessary to meet the increased demands?

### **A Plentiful Resource: Arizona’s Low-Income Workers**

Fortunately, we already have an abundant resource: Arizona’s low-skilled, low-income workers. These are hard-working Arizonans we encounter every day – office workers, child care center teachers, and retail salespersons. (See Appendix 2 for examples of low wage jobs.) At the same time that many Arizona employers are struggling to fill jobs, many Arizona families are struggling to make ends meet. Deliberate, targeted action must be taken to better align the two. As Arizona invests in attracting new employers and industries, it is also time to invest in the human resource side of the equation. The success of Arizona businesses – and the health of Arizona’s economy – requires well-educated, skilled workers who continue to grow and evolve as the demands of their jobs change.

Improving the skills of low-income workers will pay off in several ways. First, employers will reap the benefits of an expanded pool of local talent available to hire and a diminished need – and expense – for recruiting workers from other states or other countries. Second,

## **Did you know...**

- **More than half of Arizona’s low-income working families (58%) spend more than one-third of their income on housing.**
- **More than 2 out of 5 of Arizona’s low-income working families have at least one parent without health insurance.**

Sources: Working Poor Families Project, Population Reference Bureau, analysis of 2004 Current Population Survey; Working Poor Families Project, Population Reference Bureau, analysis of Current Population Survey, Annual Social and Economic Supplement (three-year average, 2003-2005)

moving Arizona’s low-income workers into higher paid jobs means more Arizona families will have increased income which, in turn, results in better housing, better access to education, and improved health care. Finally, with higher job earnings per capita, the state’s economy will be stimulated which, in turn, will create additional good paying jobs downstream. Arizona’s economic future will continue to build.

Being a low-income worker not only means less take-home pay, it also means doing without the assets that come with higher paying jobs: no health insurance for the parents – and often the children as well; no paid time off for vacations, emergencies and illness, so that all time away from work means a lower paycheck; no retirement benefits so future financial security is at risk. The irony is that the lack of these benefits falls to the workers who least can afford to go without them.

Although this report focuses on the education and training of adults, it is important to remember the impact on children. Children who live in low-income families are more likely

to have poor health, have developmental delays or learning disabilities, and to be kept back in school. Medical care is often foregone until the need becomes critical, which means increased expenses, school absences for the children, unpaid time off for parents and, in too many cases, unpaid medical bills for hospitals and physicians. Home life is often unstable as parents juggle multiple jobs and spend many hours away from home. Children experience inconsistent and low quality child care. Many parents have to alternate paying bills, risking utility cutoffs or eviction. Many families live in substandard housing, or skip meals. Those parents with low literacy skills are unable to assist their children with school work. The result is that many of these children fall behind in school. Helping these families move up the economic ladder is important for tomorrow's

generation of Arizonans. If not, the cycle continues, with children growing up without the necessary skills for the employers of tomorrow.

### **Building the Workforce for Tomorrow's Economy**

Arizona has taken important steps in developing our 21st century economy. This goal, however, cannot be fulfilled solely by attracting new employers and new technology to the state. Arizona must also invest in developing a workforce to equal the need for skilled, trained employees. Arizona's low-income working adults provide an abundant, available resource that can not only fill this demand but, at the same time, can lift Arizona's economy.

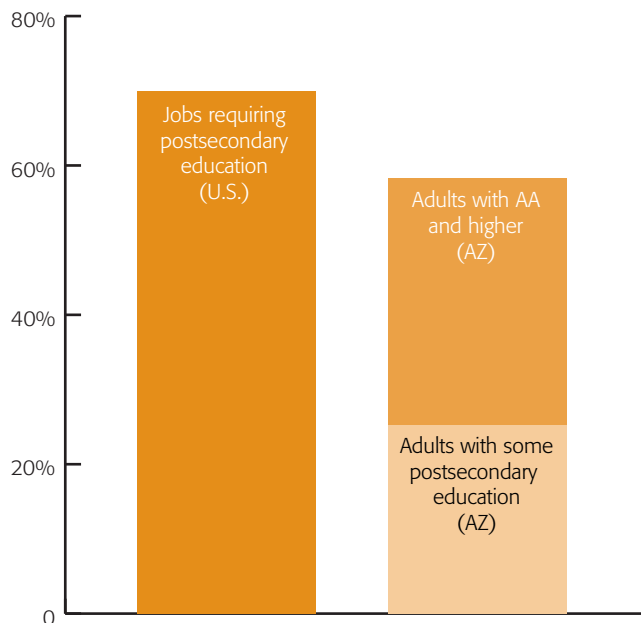


## THE GAP BETWEEN EMPLOYER DEMANDS AND WORKFORCE SKILLS

A significant misalignment exists between the demands of Arizona's employers and the educational level of Arizona's workforce. The Educational Testing Service reports that 70 percent of new jobs created nationally between 1998 and 2008 will require at least some postsecondary education. Yet only 33 percent of Arizona's population possesses an associate's degree or higher and 25 percent have some postsecondary education short of a degree.<sup>8</sup>

Transforming today's low-income, low-educated workers into a 21st century workforce requires a multi-level approach. At one end of the spectrum are workers who need basic education, such as literacy and GED classes. At the other end are those who have some postsecondary coursework but lack the credentials and specific training employers require. Arizona needs to improve its investments at all levels.

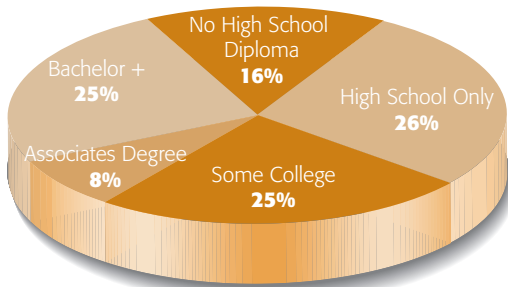
### The Demand For Educated Workers Exceeds Availability



Sources: Educational Testing Service; American Community Survey, Educational Attainment for Arizona Adults 25 years old and older.

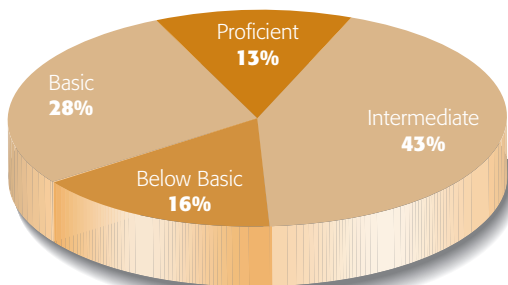


## Arizona Adults Have Low Educational Attainment



Source: American Community Survey, 2004, Educational Attainment for Arizonans ages 25 and older

## Low Literacy Levels of U.S. Adults



Source: A First Look at the Literacy of America's Adults in the 21st Century, National Center for Educational Studies.

## Getting Back to Basics – Literacy Skills and Adult Basic Education

Literacy is a mix of skills that allow a person to perform a wide variety of tasks using written materials.<sup>9</sup> The Arizona Department of Education defines it as “an individual’s ability to read, write and speak in English, compute and solve problems at levels of proficiency necessary to function on the job, in the family and in society.”<sup>10</sup> Examples are balancing a checkbook, reading and following directions for a prescription, and filling out a job application. Underlying skills include the ability to read and understand common words and perform basic math. Many of us take these skills for granted and assume people around us possess them. Yet, 43 to 55 percent of the U.S. population possesses only basic literacy skills, meaning that they are unable to perform moderately challenging literacy activities.<sup>11</sup>

The Arizona Department of Education is responsible for overseeing Arizona’s adult literacy programs, which include adult basic education, adult secondary education, English language acquisition for adults, and family literacy.

**Adult Basic Education.** Instruction in reading, writing and math for adults whose skills are below the 9th grade level.

**Adult Secondary Education and Preparation for the General Equivalency Development (GED) Exam.** Sixteen percent of Arizona adults age 25 and over lack a high school diploma or GED.<sup>12,13</sup> The Adult Secondary Education Program assesses which skills are lacking and provides instruction in preparation for the GED test. The seven-hour GED exam tests competencies in writing, reading, social studies,

### Examples of Basic Skills:

- Finding in a pamphlet for prospective jurors an explanation of how people were selected for the jury pool.
- Using a television guide to find out what programs are on at a specific time.
- Comparing the ticket prices for two events.

### Examples of Intermediate Skills:

- Consulting reference materials to determine which foods contain a particular vitamin.
- Identifying a specific location on a map.
- Calculating the total cost of ordering specific office supplies from a catalog.

science, and math. GED preparation classes are available in a variety of settings: one-to-one instruction, traditional classroom and public television broadcasts. This form of adult education is vital, as one out of four high school diplomas issued in Arizona are earned through GED testing.

## Did you know...

- One out of four high school diplomas issued in Arizona each year are earned through GED testing.

Source: "The Value of Arizona GED Testing," Arizona Department of Education, [www.ade.az.gov/adult-ed](http://www.ade.az.gov/adult-ed).

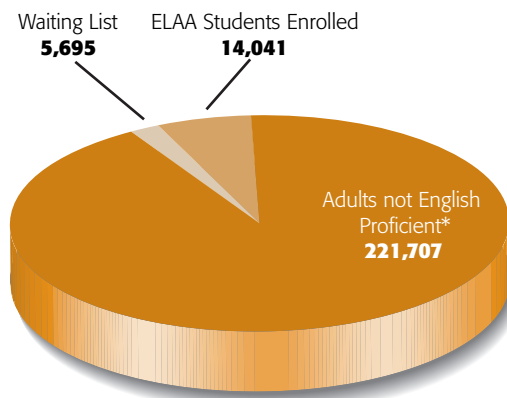
### English Language Acquisition for Adults.

The Arizona Department of Education has set standards for six levels of English Language Acquisition for Adults, from beginning literacy which allows the student to provide personal information, provide basic directions, and use numbers for routine tasks, through level five which includes the ability to state a point of view and give or follow technical instructions. Coursework includes listening/speaking, reading, writing, functions (such as providing personal information or describing an event), grammar and mechanics of the English language. Classes are offered through 28 entities, most of which are school districts, community colleges, and career-training organizations.

**Family Literacy Programs.** Family Literacy is a successful private-public partnership that brings together parents and their preschool-aged children to improve reading and English language skills, strengthen parenting, and improve economic opportunities. With a combination of \$1 million in state funds and a

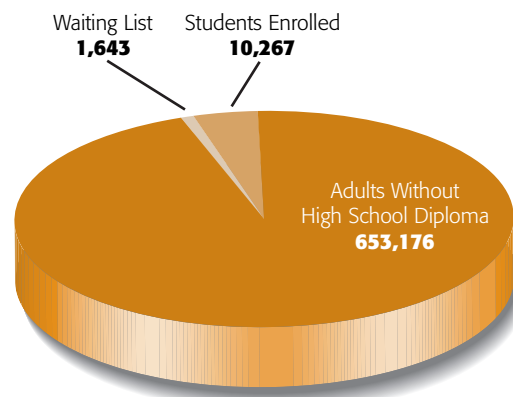
variety of federal funds, Family Literacy programs operate in 15 sites throughout the state, sponsored by community colleges, literacy volunteers, community organizations, and school districts. Last fiscal year, 1,173 adults and 1,200 children were involved in project activities.

## Arizona Meets Very Little of The Need for English Acquisition



\*Reported as speaking English "not well" or "not at all" for 2000 U.S. Census.

## Need for Adult Education Far Exceeds Those Enrolled in Programs



Source: Arizona Department of Education Adult Literacy Services Report, 10/16/06

According to Arizona's Auditor General, nearly three out of four children who participated in Family Literacy made significant improvements in language and problem-solving skills. Parent participants made significant gains in reading, writing, and listening comprehension skills. More than three quarters of the parents advanced their skills by 2.3 grade levels or more.

Unfortunately, federal funding for the Family Literacy program is decreasing and may be completely eliminated by July 1, 2007<sup>14</sup> The Arizona Department of Education has requested an additional \$2 million in state funding to replace federal funds.

With current funding, the Arizona Department of Education is able to provide adult education and English acquisition classes to only a small fraction of those who could benefit from this training. According to an ADE official, waiting lists for these classes are as long as two years and understate the demand as individuals are discouraged from signing up due to the delay in getting enrolled in classes.

As of October 2006, 10,267 students were enrolled in the basic and secondary adult education classes, with another 1,643 on waiting lists. For every 10 adults enrolled in English Language Acquisition classes, another 4 were waiting for slots to open up.<sup>15</sup> Combined, the adults enrolled and those on the waiting list equal less than three percent of the population between 16 and 64 years of age who lack a high school diploma or English proficiency skills.

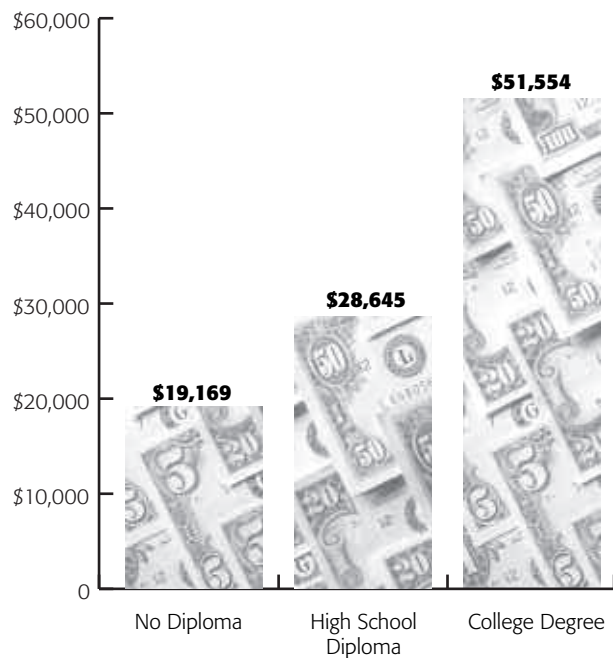
Clearly, Arizona's financial commitment for adult education has not kept pace with demand. The General Fund appropriation for adult education has remained virtually static at \$4.5 million since 1998. Arizona ranks in the bottom ten states in the nation, investing only \$8 per adult without a high school

diploma compared to the national average of more than \$46. New Mexico spends more than twice as much at \$20 per adult. Utah ranks in the top third at nearly \$54 per adult, while Florida spends nearly \$200 per adult.<sup>16</sup> Increasing the availability of adult education would help directly elevate the skill level of the Arizona workforce.

### Postsecondary Education

Possessing a high school diploma or GED is not sufficient in today's economy, and it will be even less adequate in the future. According to the U.S. Census Bureau, adults with a bachelor's degree earned an average of \$51,554 in 2004, while those with a high school diploma earned \$28,645.<sup>17</sup> Those lacking a high school diploma earned only \$19,169. Yet, 2 out of 5 Arizona adults lack any postsecondary education, and only a third of Arizona adults have earned an associate degree or higher.

### What an Education Pays Average Annual Salary



Source: U.S. Census Bureau, 2004 data

While the financial rewards for postsecondary education are great, the path to additional education can be full of obstacles for working parents. A variety of practical action steps can shrink these obstacles and open opportunities for a more skilled workforce.

## Did you know...

- **Forty-five percent of first year community college students do not return for their second year.**

Source: *Measuring Up 2006 – Arizona*, The National Center for Public Policy and Higher Education.

### Learn Now/Learn Later

For low-income adult students who often are balancing school with jobs and family, the community college system can be the ideal place to start or restart their postsecondary education. No longer the “junior college” that served almost exclusively as a stepping stone to a four-year college or university, community colleges now offer a vast array of coursework, from nearly one thousand career certificates which can be obtained in less than a year to associate degrees that provide the basis for a bachelor’s or advanced degree. Career fields range from fire fighting to early childhood education.

For working adults, pursuing an education full-time with no breaks is seldom possible. Due to financial and family responsibilities, working parents are often unable to attend school continuously. One solution is to approach postsecondary education as a series of milestones that can be reached in steps: first earning a career certificate, then an associate’s degree, then a bachelor’s degree.

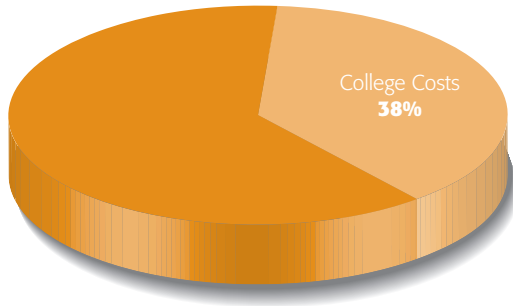
Career certificates require 30-40 credit hours at a community college. These certificates serve dual purposes: they not only qualify the student for higher-paying jobs, the coursework also forms the basis for an associate’s degree. Earning a career certificate can provide a student with a strong career path to follow over time. Many adult students would benefit from career mentoring to help them identify a career path and the sequential steps they can take along that path.

The Arizona economy would benefit from enhanced career mentoring, as well. For example, in a special report about the workforce of high technology manufacturing in Greater Phoenix, the Batelle Memorial Institute concluded that finding and keeping workers with the necessary talent and technical skills will continue to pose a challenge for these firms. The report recommends that the community colleges and employers work to increase awareness of manufacturing technology careers and establish more targeted outreach and mentoring programs to work with diverse student populations.<sup>18</sup>

### Overcoming the Financial Barrier for Postsecondary Education

Although only a fraction of university costs, Arizona’s community college tuition is becoming less affordable for lower-income adults. According to *Measuring Up 2006*, a report card for higher education throughout the nation, “Since the early 1990s, colleges and universities in Arizona have become less affordable for students and their families. If Arizona’s downward trends are not addressed, they could undermine the state’s ability to develop an educated workforce.” Even after financial aid, low-income families end up spending more than one third of their income on education.<sup>19</sup>

## Community College Costs Devour More Than a Third of Low-Income Family Budget



**NOTE:** Based on the lower-middle income families quintile (average family income of \$26,912); community college costs include tuition, room and board less financial aid.<sup>20</sup>

Most low-income working families cannot afford money out of their monthly budgets for tuition and books, let alone associated costs such as transportation and child care during class time. Yet many low-income families do not qualify for traditional financial aid which is based on strict income standards that do not consider family responsibilities. Working parents earning even very low incomes often do not qualify for financial aid. Arizona ranks 45th worst for need-based financial aid grants for community college and university students, with an estimated \$9.68 per student. The national average is \$410.41, with 37 states providing \$100 or more per full-time equivalent.<sup>21</sup>

The Arizona Legislature recently established the Postsecondary Education Grant Fund for students graduating from Arizona high schools or obtaining the equivalent of a high school diploma while living in Arizona. The fund, which received \$5 million in state appropriations, provides a \$2,000 grant annually for up to four years to be used for tuition, books, and fees.

This grant is limited to baccalaureate students and requires reimbursement of all grant monies if a degree is not obtained within five years. Because working adults are unlikely to be able to attend school full-time, they cannot benefit from this grant. A similar grant program, available to part-time students earning career certificates or associate's degrees, would reach more working adults to raise their level of education.

### Building Bridges Between Educational Levels

A danger point for "dropping out" before completing educational goals is when students transition from one level to the next. Whether it be the adult who has just earned a GED or the individual possessing a career certificate who is returning to earn an associate's degree, negotiating the path can be daunting. Encouraging and smoothing the transitions from one level to the next promotes more educational success. This includes not only ease in enrolling and transferring records, but also in traversing a different campus, finding child care that is available when classes are offered, and obtaining books and supplies.

Arizona has an effective program to help high school students from economically disadvantaged groups make successful transitions to community college and university. This program, called Achieving a College Education (ACE) Program, provides individual mentoring and counseling. A similar program for adult students could help them succeed in their entry or re-entry to post-secondary education and the achievement of specific educational goals. An adult ACE program could identify adults enrolled in basic education and provide mentoring and other supports to encourage their continuing education.

Education and career mentoring could also benefit adult students in a variety of situations. For instance, a student who has left due to financial difficulties might become aware he is eligible for child care subsidies. Coaching students on how to stay in school and achieve their educational goals is as important for adults as it is for teenagers. A little less than half of first year community college students in Arizona fail to return for a second year.<sup>22</sup> Yet community colleges have few resources to follow up on students who fail to return without having earned a certificate or degree.

Arizona will soon have a tool for tracking postsecondary students who graduated from Arizona high schools. The Arizona Department of Education's Student Accountability Information System (SAIS), used to track K-12 students across Arizona school districts, is being expanded to postsecondary students beginning July 1, 2007. Data gathered will provide important information about how Arizona students move from one educational level to another, and from one educational institution to another. Efforts should be made to use this system to identify and reach out to students who have dropped out of school without completing a certificate or degree.

### **State-Operated Job Training Programs**

Arizona operates two major employment programs: The Jobs program for Temporary Assistance for Needy Families (TANF) clients and Workforce Connection for WIA clients. Although both have goals of helping people get jobs and become self-sufficient, their approaches and outcomes vary.

**Jobs Program.** The emphasis of Arizona's Jobs program is to move clients into employment as soon as possible to keep the welfare rolls low. While some transitional services are available after the client's cash assistance has ended, the program's success has been hampered by high worker-to-client ratios and management transitions. Statistics show that four in ten of the TANF clients who get a job are no longer employed nine months later.<sup>23</sup>

## **Did you know...**

- **Only 4% of Arizona TANF welfare participants were enrolled in education and training activities in 2004.**<sup>24</sup>
- **The employment retention rate for former TANF participants is 60% after three quarters.**<sup>25</sup>
- **The average hourly wage for people who left TANF in State Fiscal Year 2006 was \$8.19.**

Efforts to enhance job training are underway. First, the Arizona Department of Economic Security, which operates the Jobs program, plans to contact clients six months after they get a job and leave cash assistance. Second, the Department expects to issue contracts which will privatize the Jobs program throughout the state. Under the new contracts, vendors will be required to develop post-employment plans that focus on job retention, self-sufficiency and continued career advancement, including training. The vendors must facilitate child care availability and training in addition to employment services during the 24-month period after clients leave TANF cash assistance. In addition, vendors will be required to identify benchmarks that will be

monitored regarding the percent of clients they engage in post-employment training. The expectation is that the private vendors will reduce the rate of clients returning to cash assistance to below 25 percent.

Plans to improve post-employment job training are hampered by lack of sufficient funding. The federal Deficit Reduction Act (DRA) passed by Congress requires states to engage higher percentages of TANF clients in work-related activities. Arizona's new target will be close to 50 percent participation — much higher than the 19.6 percent required last federal fiscal year. These more stringent requirements must be met with no additional federal or state funds for the Jobs program.

Arizona workers, taxpayers, and employers would benefit from “work first plus career development” policies that view successful employment of welfare clients as only an initial step in raising their self-sufficiency. Employment should be followed by identifying and addressing training needs for a career path that raises skill levels and earning potential over time. Under federal guidelines, TANF clients who obtain employment but continue to receive subsequent job training and education can count toward work participation rates up to the maximum twelve months. Such a strategy would help lift the educational achievement of low-income workers to better meet the needs of Arizona's economy.

**Arizona Workforce Connection.** In 1998, Congress passed the Workforce Investment Act to consolidate federal workforce programs. The main feature of Arizona's Workforce Connection is the creation of “one-stop” centers through which teens and adults seeking employment and employment-related training can get

## Did you know...

- **34% of unemployed adult WIA participants were enrolled in education and training activities in 2004.**
- **The employment retention rate six months after initial placement for former WIA participants is 85%.**

Source: Arizona Workforce Investment Act Annual Performance Report, Program Year 2004.

assistance. Sixteen programs, ranging from Job Corps to Unemployment Insurance to Senior Community Service Employment, deliver their services through these comprehensive one-stop centers, affiliate sites, and self-service electronic access locations. In contrast to the Jobs program, one out of three of the unemployed WIA adults receives training services. Eighty-five percent of adults who obtained employment after participating in the program were still employed six months after placement.

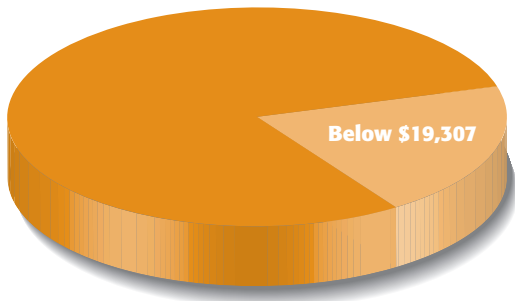
While the Workforce Development program is successful for those who participate, less than one percent of adults who would qualify for its training programs due to lack of a high school diploma or GED receive such training.



## EXPANDING HIGH-PAYING JOBS

Arizona enjoys low unemployment. “Now Hiring” signs can be found on many billboards and in store windows. However, according to the Bureau of Labor Statistics, one out of five Arizona jobs are in occupations with a median pay less than \$19,307 annually, the federal poverty level for a family of four in 2004.

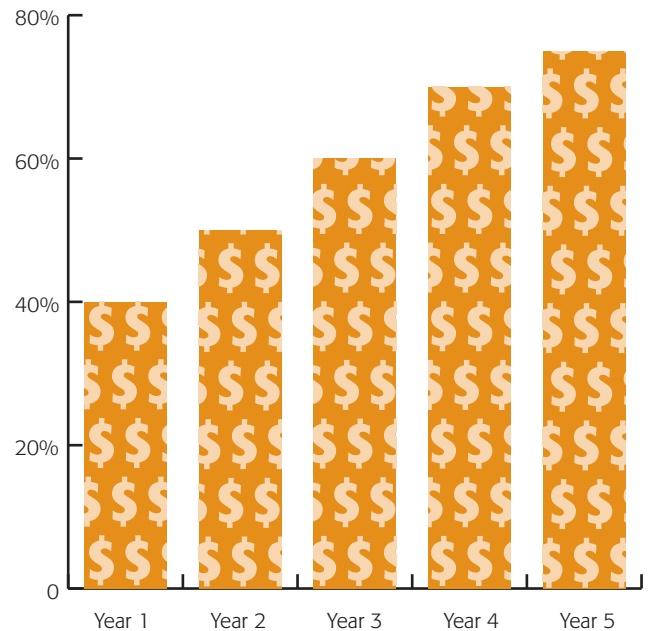
### One-fifth of Arizona Jobs Are in Occupations That Pay Below Poverty Level



SOURCE: Bureau of Labor Statistics, Geographic Profile of Employment & Unemployment based on current Population Survey, 2004

One solution to this problem is to purposefully attract higher-paying industries to the state so that, over time, the mix shifts towards higher paying jobs. In 2002, the Greater Phoenix Economic Council issued a Mandate for Action and Progress: A Prospectus and Map to the Future. This report presented a five-year plan designed to change the mix and quality of jobs by focusing economic development activities in five priority clusters: aerospace/aviation, high technology, bio-industry, software and advanced business and financial services.<sup>26</sup> The plan calls for creation of 18,800 net new jobs over a five-year period, with 60 percent higher wage jobs.

### High Pay Jobs As Percent of Total Job Creation



### Greater Phoenix Economic Council Five-Year Plan

The report identified three “fundamental actions” needed to improve Arizona’s economy:

- 1** Development must shift from quantity to quality.
- 2** A comprehensive economic plan must be organized and executed.
- 3** Education, transportation, and fiscal policy must be aligned with the economic development strategy.

### Commerce and Economic Development Commission

The purpose of the Commission is to manage and leverage financial resources that enhance economic development within Arizona. The Commission is responsible for developing the

state's 10 year economic strategy aimed at ensuring high-quality, high-paying jobs in Arizona. In addition, the Commission administers the CEDS Fund, which provides financial assistance to support the state's economic development efforts. Finally, the Commission is also the recommending body for the Economic Strength Projects program, a grant program providing assistance to local government entities for road construction projects.

The CEDC helps develop and launch "economy defining" initiatives that impact the state's economy. Recent projects include funding for the feasibility and organization planning for the Translational Genomics Research Institute (TGen), the Critical PATH Institute and the "Arizona Virtual Water University."

### **Incentives for Economic Development**

Arizona offers a range of incentives for attracting new businesses and creating full-time jobs. These include:

**Enterprise Zone Program.** The goal of this program is to improve the economies of areas in the state with high poverty or unemployment rates by enhancing opportunities for private investment. Businesses are eligible for income or premium tax credits and property tax reduction.

**Military Reuse Zone.** This program was established to lessen the impact of military base closures. Currently there are two military Reuse Zones in Arizona: Williams Gateway Airport and the Phoenix/Goodyear Airport. Among the tax credits offered to businesses is a credit for each new net job created, totaling up to \$7,500 per non-dislocated employee and up to \$10,000 per dislocated employee.

**Research & Development Income Tax Credit.** This is a state income tax credit for businesses engaged in qualified research and development done in Arizona. This includes research conducted at a state university and funded by a company.

**Small Business Capital Investment Tax Credit Program (Angel Investment Program).** The objective of this program is to expand early stage investments in targeted Arizona small businesses. This is accomplished by providing tax credits to investors who make capital investment in small businesses certified by the Arizona Department of Commerce. An investor seeking an income tax credit must document that the investment was made in either a qualified rural or bioscience company or any other qualified small business. Tax credits up to \$20 million may be authorized to qualified investors beginning July 1, 2006 through June 30, 2011.

**Tucson Empowerment Zone.** The Tucson Regional Economic Opportunities (TREO) has initiated the development of an Economic Blueprint, an economic development vision and strategy for the future. Targeted for completion in 2007, the Blueprint will provide a comprehensive performance-based strategy to effectively position the Tucson region to capitalize on its best economic development opportunities over the coming decades.



### **Employer Sponsored Job Training**

Since 2001, Arizona employers have paid a tax to support the Arizona Job Training Fund. Employers pay one-tenth of one percent on the first \$7,000 of an employee's wages or \$7.00 per year, whichever is lower.

These funds are used to train new and incumbent workers for specific jobs. Under the Net New Hire Program, businesses can apply for grants that return up to 75 percent of the costs of training added employees in jobs that meet wage criteria. The Incumbent Worker Program reimburses employers for up to half of the costs for training that upgrades the skills of existing employees.

The program's intent is to meet specific needs of employers, create new jobs, and increase the skill and wage levels of Arizona

employees. Trainees' wages must also equal or exceed a qualifying wage rate, which range from \$16,748 for rural counties to \$36,079 for large businesses in Maricopa County.<sup>27</sup> During state fiscal year 2006, 136 applications were approved and training was provided for 11,678 workers. The average salaries paid for workers trained was \$46,226.<sup>28</sup>

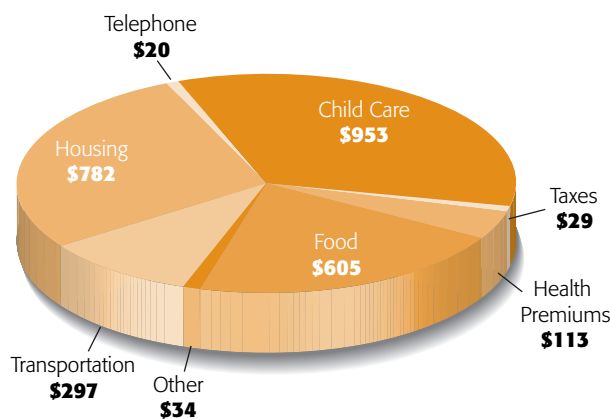
Unfortunately, during the budget crises that occurred between 2001 and 2005, these training funds were used to help balance the state's General Fund. \$17.5 million was transferred over a three-year period and has not been replaced. These funds need to be restored over the next two to three years so that funds are available as demand for training and retraining employees increases.

## BEYOND WAGES – INCENTIVES, BENEFITS AND SUPPORTS

In addition to salaries, American middle class and upper middle class workers rely on employer-provided training, benefits and incentives as well as a wide range of tax breaks and tax incentives to enhance their skill levels and help their families thrive. Similarly, salaries alone are not enough to make ends meet for low-income workers. Employees may need additional, temporary resources to help them sustain and boost their work productivity and to seek additional education and training while working. The following chart shows the challenges low-income families face in meeting their monthly household budgets. Without additional tools, these families will not be able to build financial security, cope with unplanned events such as the breakdown of a car or a family illness, or pay for additional education and training to move up the economic ladder.

### Monthly Expenditures for Low-Income Family

Two Parents, Two Children Household  
Earning \$34,000 Per Year



Only \$34 of monthly earnings remain to pay for clothing, personal items, school supplies, haircuts, etc.

Calculation by CAA staff based on 2006 tax and eligibility criteria.

The family depicted in the pie chart consists of two parents with a three-year old child and a seven-year old child. The family's income of \$34,000 per year is at 170 percent of the Federal Poverty Level, making them ineligible for child care subsidies and most other income support programs. The family is able to receive medical insurance coverage through KidsCare and the companion program HIFA parents, which allows parents of KidsCare children to receive health care coverage. Full-time child care for the three year old and part-time care for the seven year old consumes one-third of the family's income, more than housing costs. The \$34 remaining at the end of the month must cover costs such as clothing, personal items, school supplies, and haircuts. There is no allocation for savings, emergencies, or family activities.

Arizona has the infrastructure in place for many of the supplemental supports low-income workers need. However, many of these supports suffer from neglect or outdated policies that weaken their capacity to support the workforce. These tools need public attention and leadership to keep up with Arizona's evolving workplace economy and workforce demographics.

### Health Coverage

Having access to affordable health care is important for employees, employers, and families. People who have health insurance are more likely to seek medical attention early, thus reducing both the length of an illness and the cost of treating it. Absenteeism is reduced when employees have health insurance for themselves and for their children. Yet, 1.2 million Arizonans, including 250,000 children,

do not have health insurance of any kind.<sup>29</sup> Many of these are in low-income families where the employers either do not provide health insurance benefits or the cost of family coverage is prohibitive.

With federal and state funding, Arizona offers health coverage to qualified adults and children through programs called AHCCCS and Kids Care. This coverage has helped dramatically reduce Arizona's rate of uninsured children from 25% in 1998 to 15% today. This success is even more impressive given that employer-based health coverage has continued to diminish during this time.

Children living in families with incomes up to twice the federal poverty level may be eligible for KidsCare coverage with a robust package of health services geared for children. Adults and children with incomes below the federal poverty level are eligible for AHCCCS coverage and a capped number of parents with incomes between 100% and 200% of the federal poverty level qualify for KidsCare Parents coverage. These policies provides a strong foundation for extending health coverage. However, there are four major weaknesses in Arizona's health policies that hinder coverage for low-income working families.

First, it is estimated that more than half of Arizona's uninsured children are already eligible for AHCCCS or KidsCare but their parents don't know they qualify or don't know how to apply and enroll. The experience in other states shows that we can shrink this gap dramatically through hands-on community-based outreach to families and ongoing advertising. Arizona should target state dollars to leverage private investment in this type of outreach.

Second, the KidsCare coverage for 14,000 parents has been on the chopping block during

the state budget debates the past few years. Arizona should sustain its commitment to cover these parents, strengthening the workforce and families at the same time.

Third, the complexities of the application and enrollment policies and procedures keep qualified people out of coverage. Too many of the people who apply for KidsCare and AHCCCS are denied coverage due to procedural reasons only. Between July 2003 and June 2004, the Department of Economic Security received over 2 million new applications for AHCCCS (Medicaid) coverage. Of those applications, 800,000 were denied or closed for procedural reasons, such as people not turning in the correct paperwork or missing an interview.

In addition, the number of families "churning" on and off coverage is significant. Between January 2004 and September 2004, three quarters (76.6 percent) of the people enrolling in AHCCCS had previously been enrolled in the system within the past twelve months. This churning and inconsistent coverage not only puts families at medical risk, but imposes large taxpayer costs on the state bureaucracy to disenroll people, process new applications, and re-enroll. Arizona can simplify, streamline, and coordinate application procedures for AHCCCS and KidsCare to improve the continuity of coverage.

Fourth, the share of private-sector workers insured by their employers is declining. Nationally, the percentage covered has dropped from 59% in 2000 to 55% in 2005. For small employers (less than 100 employees), the percentages are smaller: In 2005, 40% of workers were covered. Employer-provided health insurance coverage for children is also dropping, from 66% in 2000 to 61% in 2005. Arizona has developed several strategies to

confront this issue. Health Care Group provides a coverage plan to individuals or employers with 50 or fewer employees. Approximately 8,300 businesses currently participate, covering 23,000 members.<sup>30</sup>

A health insurance premium tax credit is now available to lower the cost of coverage for individuals earning less than 250% of the federal poverty level and small businesses of fewer than 25 employees. The credit is available to the health care insurer based on the eligibility of the individual or group being insured. The requirements include a six month "bare" period during which the individual or business must not have been covered by a health insurance policy. The credit is limited to three years and a maximum of \$5 million in tax credits may be authorized by the Arizona Department of Revenue statewide for any one year. This new credit provides another avenue for making health insurance coverage more affordable.



Arizona should continue to test these strategies to extend health coverage for employees in small businesses.

### Child Care

Child care is a necessary expense for working parents with young children. But the Arizona cost of \$4,000 to \$9,000 per year per child puts safe, reliable child care beyond the reach of many working families. For the past 40 years, child care subsidies supported by state and federal tax dollars have helped parents pay for child care and allowed them to be productive and reliable members of the workforce. Parents make co-payments for their child care, with the amount varying based on their income and the care that they choose.

Arizona's child care policies have several weaknesses that leave working parents behind. First, the subsidy amount is still based on what child care centers were charging back in 2000. But, based on the state's own survey, most child care costs in Arizona have risen by 25% or more since then. Arizona is one of only 5 states in the nation still paying child care subsidy rates based on the costs of care in 2000 or earlier.<sup>31</sup> The national benchmark for child care subsidies is to set a rate that allows working parents access to 75 percent of the care in their own communities. Arizona's rates fall more than 20% below the benchmark -- and more than \$150 short per family per month. This shortfall limits the child care options for working parents and hinders the stability and productivity of our workforce.

Second, Arizona's eligibility rules leave out many low income working families. Working parents earning up to 165% of the federal poverty level -- in jobs such as office clerks, medical assistants, and hotel desk clerks -- can

use the subsidy to choose the child care that works best for their families. But parents who earn raises or promotions at work are often financially penalized, because they lose all child care support at once. And many more low-income working families struggle to pay the high costs of child care. Thirty states have eligibility levels higher than Arizona.<sup>32</sup> Raising Arizona's eligibility to 200% of the federal poverty level would strengthen the low-income workforce and give more working parents the opportunity to raise their own skill levels.

Third, state appropriations may not be sufficient to reach all the qualified working parents who apply. From 2003 to 2005, Arizona turned qualified families away due to funding shortfalls. While new funding has stopped this practice, growth in the number of children and new federal requirements that more parents who receive welfare are also working will raise the amount of funds needed to sustain this work support. There are many qualified working parents who are not connected to child care subsidies. Employers, parents, and children would all benefit from outreach and awareness efforts that link families to this benefit.

### **Earned Income Tax Credit**

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for families earning up to \$36,348 with at least one qualifying child (\$38,348 if married filing jointly). The EITC can put up to \$4,536 in a family's pocket, depending on income level and the number of children. Since the credit is refundable, if the family's federal income tax bill is less than the amount of the tax credit, the remaining amount of the credit will be refunded directly to the family. The EITC is one

of the largest and most successful anti-poverty tools in the United States.<sup>33</sup>

In Arizona, approximately 70 percent of the 481,000 households who qualified last year claimed the credit - leaving 147,000 who did not. The federal EITC put \$507 million back into the Arizona economy with purchases of groceries, rent, school supplies, and other basic necessities.<sup>34</sup>

Twenty states have enacted their own EITC, providing families with a tax credit on their state income taxes in addition to the credit on the federal taxes. These credits help to offset the regressivity of state tax systems – low-income families pay a higher share of their income in state and local taxes than higher income families, due to states' reliance on sales taxes. Arizona should enact a refundable state earned income tax credit to improve the fairness of our overall tax system and to improve the economic vitality and opportunities for our low-income workforce. (See Appendix 3.)

## **Did you know...**

- **One out of 5 Arizona adult workers does not have health insurance.**
- **Three out of 5 Arizona workers do not have employer-provided pensions.**

Sources: Population Reference Bureau, analysis of 2005 Current Population Survey, Annual Social and Economic Supplement; Population Reference Bureau, analysis of 2003 - 2005 Current Population Survey, Annual Social and Economic Supplement.

### **Better Connections Needed to Available Support**

Many low-income working families remain disconnected from the available work supports of health coverage, child care, and the earned income tax credit. And many employers do not

know what is available nor that they have employees who might meet the criteria for these services. Direct outreach efforts to both employers and employees would raise awareness about these supports and link qualified families to the services.

When employees have access to low-cost health insurance and can take advantage of work

support such as child care assistance, they have more disposable family income. The benefits would include greater stability and productivity for the adult workers, greater consistency for children, and improved opportunities to lift education and training to meet the demands of our 21st century economy.

## CONCLUSION

Raising the level of education and training of Arizona's low-income workers will fuel the state's 21st century economy. With practical action steps, we can make this transformation happen.

Arizona already has a strong foundation and a workforce that possesses a strong work ethic. Employers want to improve the skills of current and future employees. We have the both the tools and the ability to make our economic dreams come true.



## APPENDIX 1

### Income Thresholds for Low Income Families U.S. Census Bureau

	<b>Upper Annual Income Limit of Federal Poverty Level 2004</b>	<b>Upper Annual Income Limit Low Income Working Family (200% of 2004 Federal Poverty Level)</b>
Two Person Family	\$12,714	\$25,428
Three Person Family	\$15,066	\$30,132
Four Person Family	\$19,307	\$38,614

	<b>Upper Annual Income Limit of Federal Poverty Level 2005</b>	<b>Upper Annual Income Limit Low Income Working Family (200% of 2005 Federal Poverty Level)</b>
Two Person Family	\$13,145	\$26,290
Three Person Family	\$15,577	\$31,154
Four Person Family	\$19,971	\$39,942

**APPENDIX 2****EXAMPLES OF ARIZONA OCCUPATIONS PAYING  
LESS THAN \$9.28\* PER HOUR (AVERAGE)**

<b>Occupational Title</b>	<b>Mean Hourly Wage*</b>
Agricultural Equipment Operators	\$8.68
Bartenders	\$8.02
Cashiers	\$9.17
Child Care Workers	\$7.89
Cooks, Fast Food	\$7.65
Counter Attendants, Cafeteria, Food Concession, & Coffee Shop	\$7.35
Crossing Guards	\$7.60
Dining Room & Cafeteria Attendants & Bartender Helpers	\$6.44
Dishwashers	\$6.75
Farmworkers & Laborers, Crop, Nursery, & Greenhouse	\$6.85
Food Preparation Workers	\$8.70
Food Servers, Nonrestaurant	\$7.86
Helpers—Carpenters	\$8.71
Helpers—Roofers	\$8.48
Home Health Aides	\$9.03
Hosts & Hostesses, Restaurant, Lounge, & Coffee Shop	\$7.46
Hotel, Motel, & Resort Desk Clerks	\$8.23
Janitors & Cleaners	\$8.92
Laundry & Dry-Cleaning Workers	\$7.72
Maids & Housekeeping Cleaners	\$7.55
Manicurists & Pedicurists	\$8.33
Packers & Packagers, Hand	\$7.48
Personal Care & Service Workers	\$8.81
Physical Therapist Aides	\$9.08
Proofreaders & Copy Markers	\$7.88
Religious Workers,	\$9.25
Sawing Machine Setters, Operators, & Tenders, Wood	\$9.22
Shoe & Leather Workers & Repairers	\$9.26
Waiters & Waitresses	\$7.07

\*A family of four where both adults worked full-time (2080 hours per year) at jobs paying \$9.28 per hour or less had incomes below 200% of the federal poverty level in 2004

Source - Arizona Department of Economic Security, 2004 Occupational Wage and Employment Estimates

## APPENDIX 3

### WHAT A STATE EARNED INCOME TAX CREDIT FOR ARIZONA MIGHT LOOK LIKE

#### Why Adopt a State EITC?

**A State EITC provides additional relief from child poverty.** In Arizona, 23% of children live in poverty.<sup>35</sup> A refundable state EITC can lower this percentage. Nationally, the federal EITC has lifted more than 4 million people, half of them being children, out of poverty.<sup>36</sup>

**Low wages and welfare reform.** Welfare rolls have declined dramatically since welfare reform laws were passed in 1996. Many former welfare recipients are now employed in low-wage jobs. A State EITC provides support to those families who enter and remain in the workforce.

**State tax changes.** Enacting a state EITC ensures that low- and moderate-income working families share in the benefits of tax cuts. Arizona taxpayers will receive a five percent income tax reduction in 2007 and again in 2008, for a total of ten percent. The average tax reduction for taxpayers earning less than \$30,000 a year will be \$14 over the two-year period, with those earning between \$25,000 and \$30,000 a year receiving an average reduction of \$56 over the two-year period.

#### Options for a State EITC

**Percent of Federal Credit** – Other states allow a percentage ranging from 5% to 30%.

**Refundable.** The majority of states with their own EITC program provide for a refundable EITC.

**Qualifying Child.** Most states allow workers to qualify for EITC without having to have a qualifying child. Only three states require deny eligibility for those not having a qualifying child.

#### The Cost of a State EITC

For the states currently offering a state EITC, the cost is less than 1 percent of state tax revenues each year. The cost depends on four factors: (1) The number of families claiming the federal credit; (2) the percentage of federal credit at which the state credit is set; (3) whether the credit is refundable or not; and (4) how many residents who receive the federal credit become aware of and claim the state credit.

Source: Center on Budget and Policy Priorities.

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