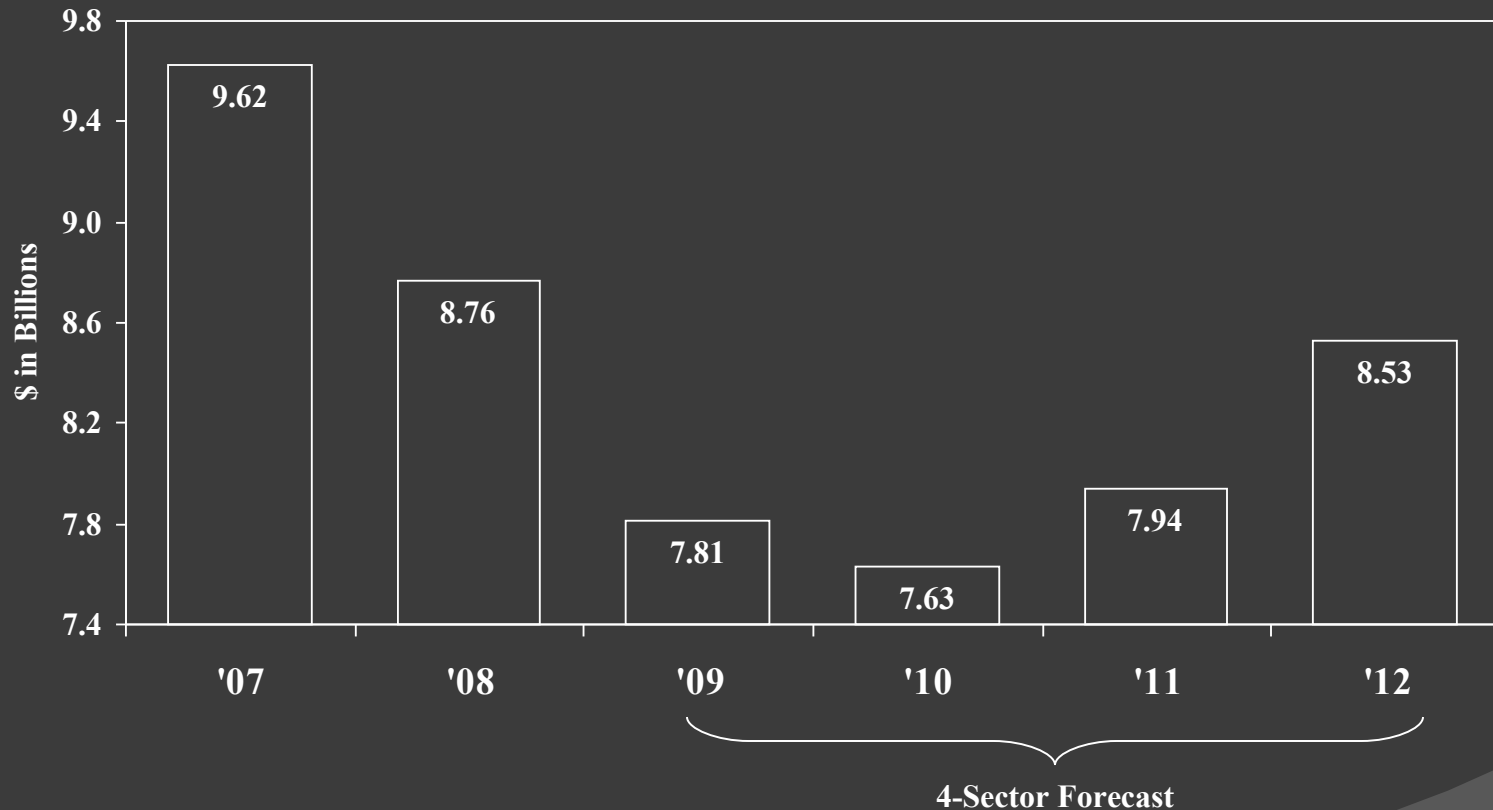


# **STATE OF ARIZONA BUDGET UPDATE**

**June 12, 2009**

# On-Going General Fund Revenue

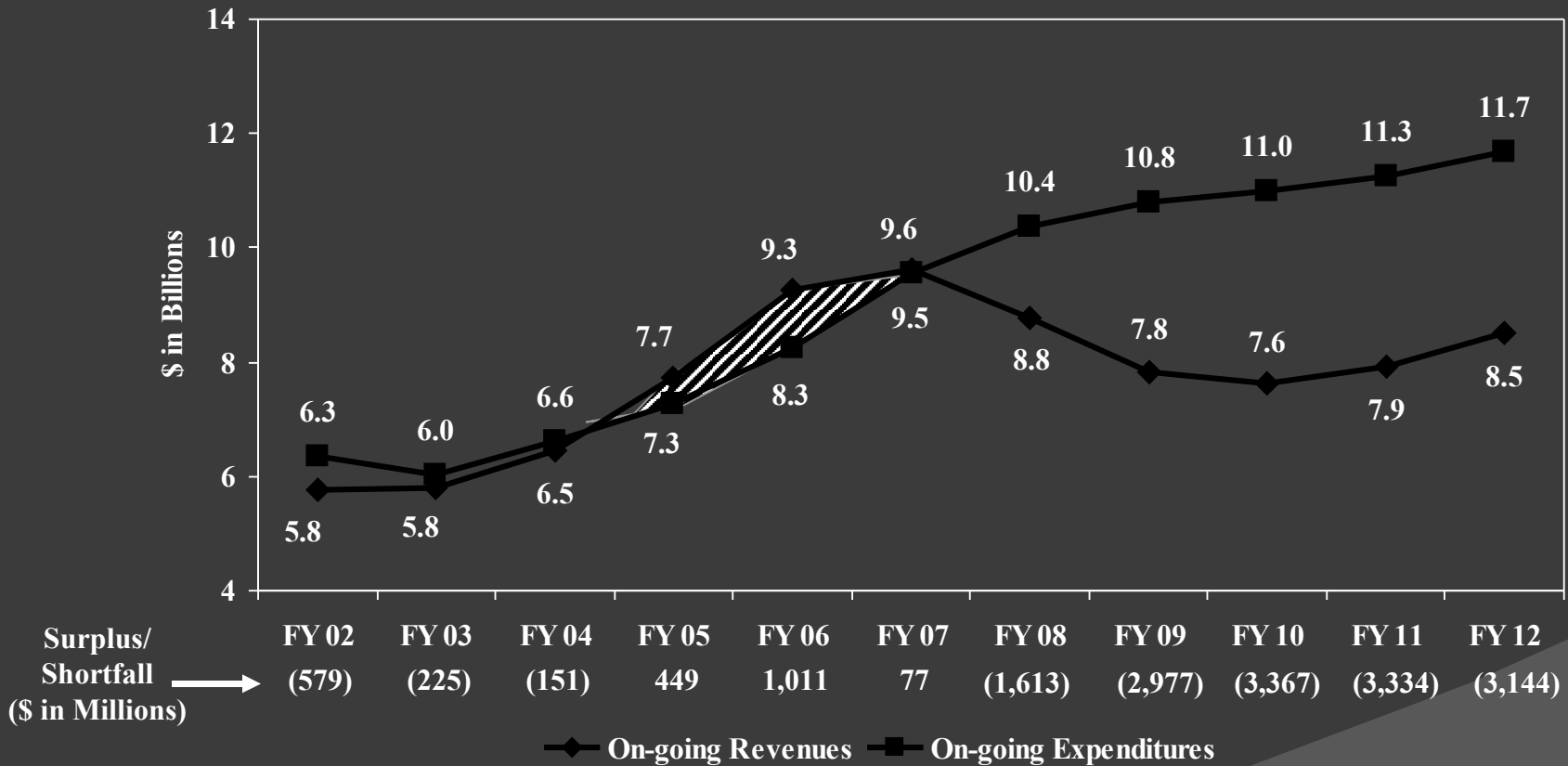
- Collections Will Not Return to '08 Level Until After FY '12



**Includes Urban Revenue Sharing and enacted tax law changes  
- excludes balance forward and other one-time revenues.**

# The Structural Shortfall Remains Substantial Through FY 2012

- Spending Reductions bring Revenues and Spending into Alignment



# When assessing budget deficit, it should be asked:

1. How much and where has spending grown over the last 5 years?
2. What is the impact of voter protection on spending?

# In the Last 5 Years General Fund Spending Has Grown \$3.7 B

FY '04

\$ 6.5 Billion

FY '09\*

\$ 10.2 Billion

\* June 08 Enacted Budget

# Formula and Caseload Spending Has Grown \$2.2 B Since FY '04

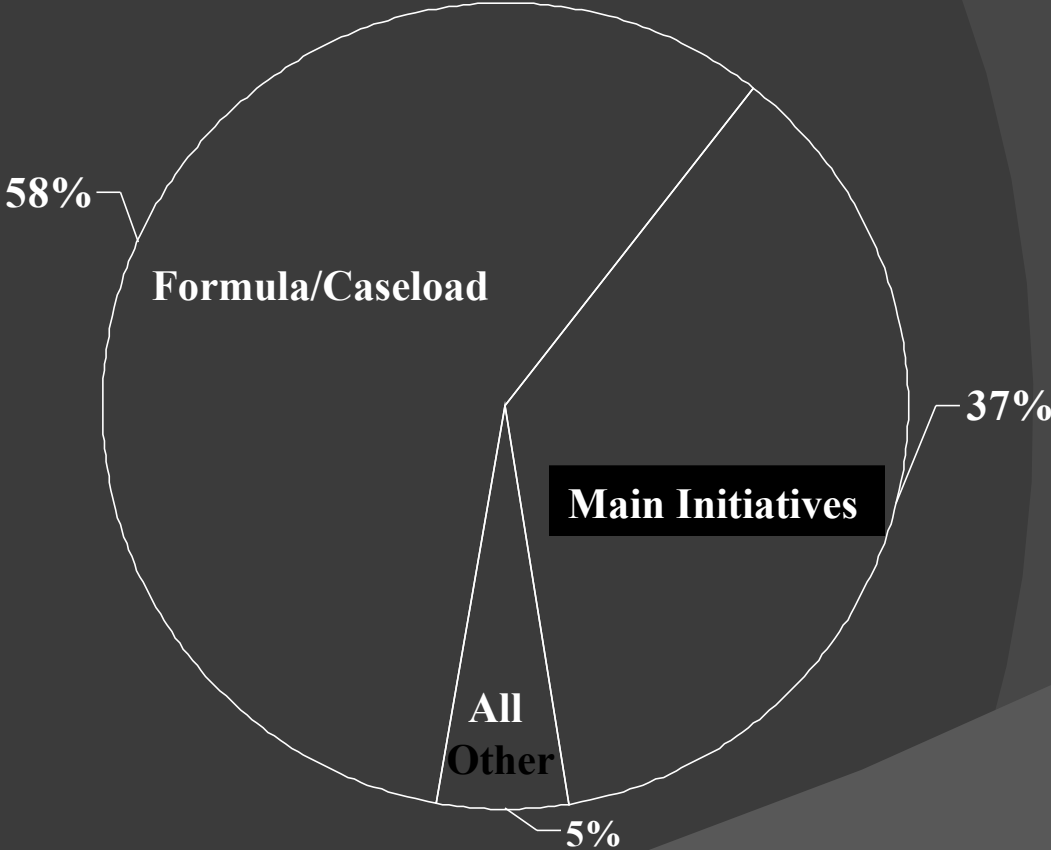
	<u>\$ in M</u>
Title 19 Medicaid – AHCCCS/DHS/DES	1,063
K-12 – Students and 2% Inflation	772
Higher Education Enrollment	106
Dept. of Corrections – Prisoner Growth	<u>218</u>
Total	\$ 2,159

# 7 Other Initiatives Added \$1.4 B to State Budget Since FY '04

	<u>\$ in M</u>
State Employee Pay and Benefits	431
Property Tax Reductions/K-12 Formula Backfill	250
Full Day Kindergarten	208
Federal Funds Backfill	162
Above 2% ADE Inflation	151
Debt Service – SFB/Universities	93
Child Protective Services	<u>83</u>
Total	\$ 1,378

# Overview of Spending Increases FY 2004 – FY 2009

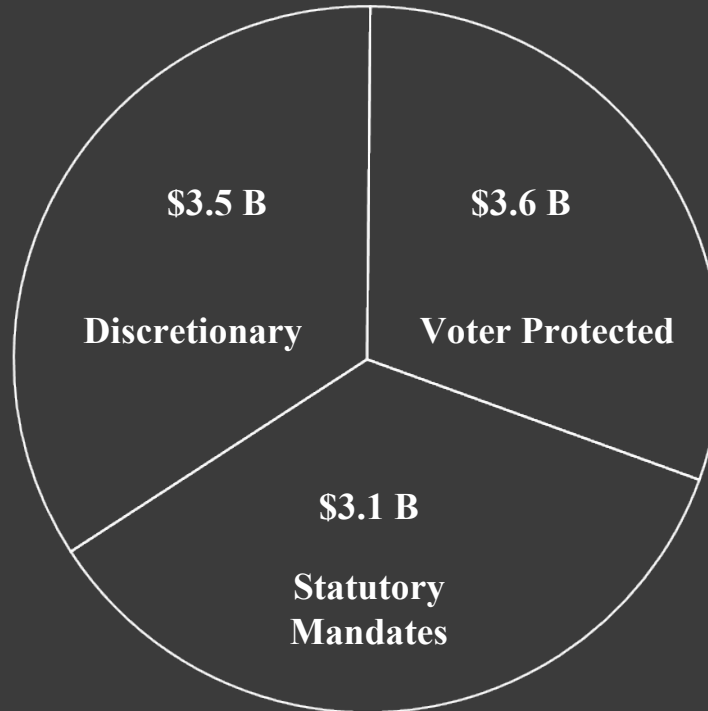
	<u>\$ in M</u>
Caseload/Formula	2,159
Spending Increases	1,378
All Other	<u>200</u>
Total	\$ 3,737



# Voter-Protected Spending Constrains Budget Options

- Prop 105 only permits legislative changes to propositions with a 75% vote to “further the purpose”.
- Prop 301 Education and Prop 204 AHCCCS have greatest impact on state budget.
- This “voter protection” limits, but does not eliminate, ability to modify ADE and AHCCCS.
- There has been no litigation to clarify the scope of Prop 105.

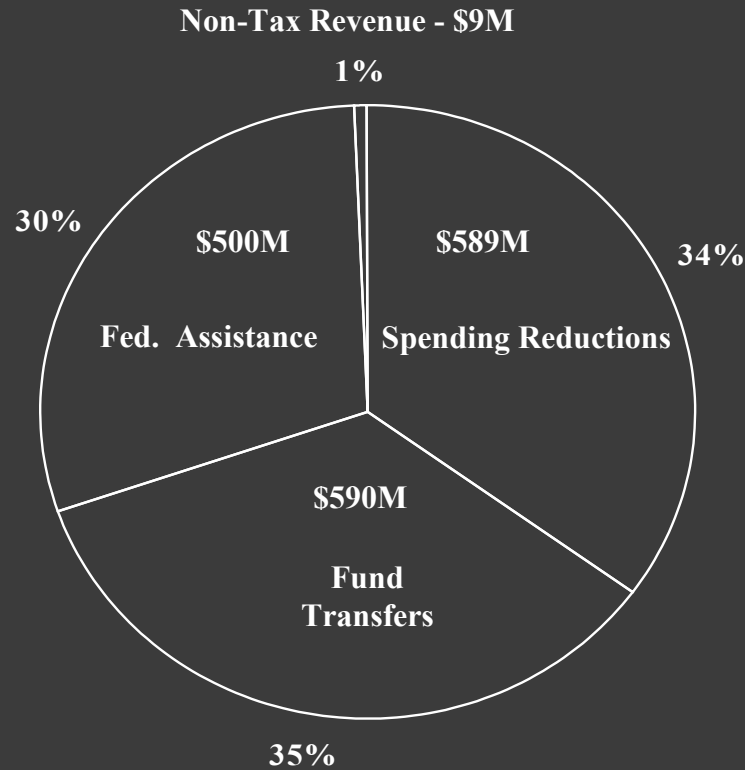
# More than 1/3 of the Budget is Voter-Protected Limits Scope of Spending Reductions



**\$10.2B Enacted FY09 GF Budget**

# FY09 Budget Fix Overview

FY 2009 = \$ 1.68 B, 6% overall reduction



**Budget Solutions in \$ Millions**

# Balancing the FY10 Deficit

## -Portfolio Approach to tackle an historic shortfall-

### t Spending Reductions

- Fund Transfers
- Federal Assistance
- Non-Tax Revenue Enhancements
- Concession Agreements
- Borrowing

# FY10 Spending Reductions Allow Agencies to continue to spend at 94% of the FY09 level

	<u>\$ in M</u>	<u>Savings as % of Budget</u>	
	<u>FY '09</u>	<u>GF</u>	<u>Total Funds</u>
Dept. of Education	\$ 220.2	-5.2%	-2.2%
AHCCCS	17.0	-0.9%	-0.2%
Universities	40.0	-4.3%	-2.8%
Dept. of Corrections	34.9	-3.5%	-3.3%
Dept. of Economic Security	74.5	-10.1%	-2.8%
Dept. of Health Services	38.9	-6.1%	-2.2%
Comm. Colleges	11.3	-7.8%	-0.7%
All Other Reductions	<u>194.4</u>	<u>-NA</u>	<u>-NA</u>
Total	\$ 631.2	-6.1%	-3.0%

# Utilize Federal Stimulus Dollars for short-term deficit reduction

- Transitory monies that will be gone in 2 years; temporary relief that has no bearing on Arizona's structural deficit
- “Strings” limit State's ability to reduce spending in some agencies, particularly in indigent health and education
- Nevertheless utilize entirety of federal stimulus package available of Arizona, to include \$800M in Medicaid monies as well as \$832M in monies available to support K-12 and Higher Education Spending
- Higher Education biggest winner; all of the universities and community colleges FY09 reductions restored, and held largely harmless in FY10

# Budget Highlights

- t Permit School Districts to Bond for Technology
  - Authorize \$100M for new school construction
  - Protects funding for Public and Private Hospitals
  - Expands opportunities for budget overrides for additional education programs
  - Continues Funding for KidsCare program, which provides health coverage for low-income children

# Fiscal Reforms/Tax Relief

- t Permanently Repeals the State Equalization Tax, providing \$250M/yr in property tax relief
- “Or” Interpretation of Prop. 301 inflator
- Requires the Universities to develop a uniform accounting system
- Introduces a Single Assessment Ratio for all new voter-approved overrides and bond elections

# Contrasting Budgets: Majority, Executive, & Democratic Proposals

	<u>Majority</u>	<u>Executive</u>	<u>Democratic</u>
Spending Reductions	\$ 631M	\$ 278M	\$78M
Federal Stimulus	1.2B	1.0B	1.2B
Fund Transfers	347M	198M	140M
Long-Term Borrowing	637M	768M	0
Agency Enforcement	50M	30M	76M
Non-Tax Revenue	246M	144M	125M
Increased Property Taxes	0	164M	1.0B
Sales Tax Increase	<u>0</u>	<u>1.0B</u>	<u>1.2B</u>
Total Solutions	\$ 3.1B	\$3.5B	\$3.8B

# Where Arizona Ranks: Taxation

- t TPT collections among the highest of the states already
  - 4<sup>th</sup> Highest Collections per \$1,000 Income
  - 5<sup>th</sup> Highest in State/Local Per Capita Taxation
- An 18% TPT increase on Arizonans would:
  - Give Arizona 7<sup>th</sup> highest TPT/Sales Tax rate among the states
  - Make every city/town in AZ more expensive than NYC
  - Push 30 Arizona cities/towns above the 10% TPT rate
- Commercial property taxes among of most punitive in the Nation
  - Severe handicap on existing Arizona businesses and impediment to business relocation
  - 5<sup>th</sup> Highest Effective Tax Rate in the nation
- t Corporate income tax rates among highest in the region