

GOVERNOR'S BUDGET PROPOSAL

Proposal by Governor Jan Brewer

Released on Monday, June 1, 2009

Governor Brewer's proposal assumes a roughly \$4 billion deficit for fiscal year 2010, which begins on July 1, 2009 (and runs through June 30, 2010).

Here are the main provisions of the Governor's plan:

Revenue

- One-cent increase to the sales tax for 3 years (done via legislative two-thirds vote approval or referendum to the voters)
- Phases out the school tax (state equalization property tax) by one-third each year over three years beginning in FY10. For FY10, predicts this phase-down proposal will bring in approximately \$164.5 million instead of the nearly \$250 million the tax would generate if collected in full.
- Reduces the corporate income tax rate from 6.96% to 4.55% in FY12 (expected loss to the general fund of \$250 million each year)
- Continues the reduction to the business property assessment ratio and proposes to evaluate further reducing the ratio from 20% to 15% in FY12.

November 2010 election

- Proposes a referendum on the November 2010 general election ballot to require any initiative or referendum passed between 1998 and 2004 to be re-referred to the voters for approval. The initiatives/referendums mentioned include Proposition 301 passed in 2000--the education sales tax and the 2% annual inflationary increase.

TABOR: Taxpayer Bill of Rights-like proposal

- Proposes to replace the current constitutional state expenditure limit with a new limit "such as a combined population and inflation formula--that more closely aligns with General Fund revenue sources." This language is similar to what we've seen in previous TABOR proposals. The TABOR concept is a very dangerous proposal that will hinder funding for education in all future years.

K-12 education funding

- Continues all the K-12 cuts from the FY09 budget (passed on Jan. 31, 2009). This means that K-12 funding is automatically reduced the \$98.1 million to the base and the \$21 million in soft capitol.
- Reduces funding to K-12 education by an additional \$295 million, but backfills this cut with federal stimulus dollars in FY10 (in the amount of \$222 million). The

total cut to K-12 education for FY10 would be approximately \$73 million--plus the above mentioned continuation of the cuts made in FY09 (the \$98.1 million to the base level + the \$21 million in soft capital). The additional \$295 million in cuts largely comes from a \$100 million lump sum reduction and a one-time suspension of soft capital of \$175 million.

- Fully funds the 2% inflation factor required by Proposition 301 (the 2% to the base level and the 2% to the transportation formula = \$110 million).
- Fails to fund the entire building renewal funding formula (\$230.4 million cut); however, creates a \$10 million statewide Building Renewal Grant Program to be administered by the School Facilities Board.
- States that the \$100 million needed for new school construction in FY10 will be funded using federal stimulus package of interest-free financing for schools.
- Repeals utility formula (the \$80 million replacement formula enacted last year for districts with "excess utilities"); however "recommends BRB language be adopted to allow local funding for up to \$40 million of excess utilities costs."
- Reduces the TAPBI Program by \$3 million.
- ASDB: lump sum reduction \$2.5 million. Reinstates \$738,000 in funding for school bus replacement.
- Permanent hard cap for desegregation expenses (\$797,900 cut). This means no increase for inflation or student growth.
- Reduces the Arizona Department of Education's budget: \$830,000 lump sum reduction.
- Eliminates the early kindergarten program by providing no state funding in the second year for kindergarten students who are not 5 years old by September 1 (\$11.2 million cut). Recommends BRB language to allow schools to charge tuition for these purposes.
- Suspends the early graduation scholarship program (\$4.68 million cut).
- Sweeps \$6 million from the annual permanent fund receipts to manage state trust lands. This means that the state is removing its financial obligation to fund a state agency and is instead funding this portion of the Land Department by sweeping funds earmarked for the Education Trust.