



AEA Summary of Governor Brewer's Proposed Budget Solution January 15, 2010

Assumes:

FY10 budget deficit: \$1.4 billion (FY10: July 1, 2009 – June 30, 2010)

FY11 budget deficit: \$3.2 billion (FY11: July 1, 2010 – June 30, 2011)

The Governor pledges to honor the federal education maintenance of effort (MOE) requirement. She will NOT request a waiver. The education MOE runs through FY11 (June 30, 2011).

Governor's plan includes budget reductions, rollovers, debt, fund transfers, lottery monies, revenue enhancements and other elements.

Education Budget Proposal

FY2010 (runs through June 30, 2010)

Current year—FY10 reduction: permanently eliminate funding for non-formula programs

- Early education block grant
- Vocational education block grant
- Teacher training
- AIMS intervention
- Gifted support
- Compensatory Instruction Fund
- Adult education and GED
- Disabled student scholarships
- Chemical abuse

This reduction is retroactive to January 1, 2010; thus, if this proposal passes, school districts will not receive their third and fourth quarter payments for these programs in this current fiscal year. This is a reduction in state funding of \$28 million this school year. *In addition, these programs are permanently repealed per the Governor's plan; thus, school districts will not receive any future monies for these programs.*

Assumptions for Governor's FY10 education budget

- Creates another K-12 rollover (rolling over the \$350 million May payment). In addition to this K-12 rollover, the Governor proposes a university rollover of \$100 million. These two rollovers coupled with the ones already in effect bring the state rollover total at the end of FY10 to \$1.3 billion. (For K-12, the rollover amounts to approximately 3 months of regular state aid payments--\$952 million).

FY2011 (July 1, 2010 – June 30, 2011)

For FY11 (2010-11 school year) Governor Brewer proposes the following:

- Permanently eliminates the above programs. The Governor recommends that the only programs to continue through the Arizona Department of Education should be: achievement testing, school safety, English immersion fund and administration, and teacher certification.
- Eliminate the full-day kindergarten funding weight. This removes all funding by the state for FDK (loss of \$218 million statewide). *The Governor's Office contends that this is formula funding and not a cut in basic state aid; thus it is their belief that the state will not violate the federal MOE requirement with this cut in funding.*
- Continue the soft capital cut (\$180 million).
- Reduce charter school additional assistance (\$10 million).
- Continue to not fund the early graduation scholarship program (\$5 million).
- Do NOT fund the utilities funding program which was created to help all districts that levied for excess utilities. (\$100 million)

- Do NOT fund the building renewal formula (\$231 million). Instead, create a \$5 million statewide grant program. (Note, the building renewal formula has not been fully funded since 2002, and funding has been completely eliminated since FY09.)
- No state funding for new school construction. Instead, with 92 school districts continuing to see growth, the Governor recommends that the \$100 million in federal finance authority via qualified school construction bonds be used.

Assumptions for Governor's FY11 education budget

- The Governor funds \$115 million for both the 1.3% inflation and the anticipated 0.9% ADM growth as part of the baseline budget (that gets to the \$3.2 billion deficit); however, she then removes the funding through the above education reductions. The Governor predicts that Truth in Taxation (TNT) will increase local support by \$81.2 million, and she will use the remaining \$93 million in education federal stimulus dollars in FY11. *The net result is that 2010-11 school year funding will be at the 2005-2006 school year level.*

Other Big Budget Issues

There are many other large budget and policy issues in the Governor's budget proposal.

Cuts:

- Eliminate the KidsCare Program—this leaves 46,800 children without health insurance
- Prop 204 rollback to using only tobacco tax settlement dollars—if approved by the voters, this will cause 310,500 people to lose health care coverage
- Close the Department of Juvenile Corrections and shift the responsibility for these kids onto the counties
- Change statute relating to Arnold v. Sarn lawsuit, which leaves 17,600 seriously mentally ill people without behavioral health services
- A 5% employee pay reduction on every state employee as of April 1, 2010 (this does not apply to K-12 employees)

Revenue

- Get super majority vote (40 in House and 20 in Senate) to approve a 3-year one-cent sales tax (must be approved by March 1 by the legislature with no voter approval; it stays in effect through FY13)
- Issue revenue bonds against the general fund revenue the lottery provides annually (i.e. borrowing against the lottery)
- Expand the sales tax base to include repair services
- Increase the Department of Revenue's audit and collection staffs
- Borrow \$260 million from First Things First (must be voter approved)
- Expand the sale and lease back of state building transactions to net another \$300 million

May 2010 election

- | | |
|-------------------------------|----------------------------------|
| • General Prop 105 reform | • Borrow from First Things First |
| • Prop 204 rollback | • Lottery reauthorization (?) |
| • Sweep Growing Smarter funds | |

In addition Governor Brewer proposes to establish a Constitutional Budget Stabilization Fund. She would like executive authority to make reductions and she also wants to establish a state fee commission.