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ARIZONA TAX RESEARCH ASSOCIATION

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Legislative Leaders Address ATRA Outlook Conference

ATRA's 2003 Outlook Conference was highlighted by speeches from Arizona's top legislative leaders. Speaker of the House Jake Flake, Senate Minority Leader Jack Brown, and Senate President Ken Bennett capped off an informative morning program by reviewing their top priorities for the next legislative session.

Speaker Flake led off the panel's remarks with his thoughts on the on-going state

budget crisis. The Speaker expressed his optimism that the current economic recovery will improve revenue growth and therefore decrease some of the pressure on the deficit. However, he also indicated that he thought the state would again debt finance its ongoing obligation for the School Facilities Board. In addition to expressing his opposition to raising taxes to balance the

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County budgets up \$150.8 million, page 2

More from ATRA's Outlook Conference & Annual Meeting, page 6



House Speaker Jake Flake expresses optimism for improved revenue growth



Senate Minority Leader Jack Brown asks colleagues to keep an open mind on taxes



Senate President Ken Bennett explains the state general fund budget deficit

Kevin Kinsall Re-elected ATRA Chair

Kevin Kinsall, Director of State and Local Governmental Relations for Phelps Dodge Corporation, was re-elected to a third term as Chairman of the Board of Directors for the Arizona Tax Research Association (ATRA). Kinsall was elected at ATRA's 63rd Annual Meeting on November 21, 2003.

Also elected as ATRA officers were Amy Barron Etzkorn, *AdvancePCS*, first vice-chair; Larry Lucero, *Tucson Electric Power*, second vice-chair; Barb Dickerson, *Deloitte & Touche*, third vice-chair; and Dave Minard, *Individual*, secretary/treasurer.

The following ATRA members were elected to seats on the ATRA Board of Directors for terms expiring in 2008: Michael Galloway, *Quarles & Brady Streich Lang*; Gretchen Kitchel, *Pinnacle West*; Jim Klinker, *Arizona Farm Bureau*; John McNamara, *AT&T*; Munir Malik, *Phelps Dodge*; Steve Partridge, *Fennemore Craig*; Layne Simmons, *VIAD*; Allan Stanton, *Individual*; Meyer Turken, *Turken Industrial Properties*; Bob Buns, *General Dynamics*; and Steve Shiffrin, *Ernst & Young*.

Tom Liddy Gives Stirring Speech at Annual Meeting Luncheon

KFYI radio talkshow personality and former congressional candidate, Tom Liddy, addressed ATRA's Annual Membership Meeting luncheon with a thoughtful and provocative discussion on the origins of American liberty and the costs Americans have born to keep it. He stressed the importance of staunchly guarding our liberty both internationally and domestically.



COUNTY BUDGETS UP \$150.8 MILLION

County general fund budgets increased \$150.8 million (8.7%) in fiscal year (FY) 2004, following 13.4% growth in FY 2003. Increased property tax revenues funded most of the growth in the general fund budgets.

Counties reaped the benefits from statewide property value increases of 10.4%. Total county primary levies grew \$59.1 million or 9.7%. Higher valuations were responsible for approximately \$23.4 million of the increase while new construction accounted for \$35.7 million. Over the last five years, county primary levies have grown \$241.2 million or 56%.

Fourteen out of the 15 counties made the decision to increase property taxes and were therefore required to hold truth in taxation (TNT) hearings. Navajo County was the only county that was not required to hold a TNT hearing.

Pinal County's general fund budget had the highest percentage increase at 14.4%, followed by Graham County at 12.7%, and Coconino County with 12.2% growth. Yuma County wasn't far behind with a 12% boost in their general fund budget.

Some of the increased spending in FY 2004 was the result of cost shifts from the state, such as Arizona Long Term Care Service (ALTCS) payments and increased probation costs, in addition to mandatory increases in retirement rates and the continual rise in health insurance premiums. All counties awarded employees with pay raises in FY 2004.

Apache County

Apache County's FY 2004 general fund budget increased 7.9% (\$1,517,787) to \$20,689,055 over last fiscal year. The county maintains \$8.6 million in unreserved funds, representing over 40% of the general fund.

The primary tax rate increased slightly from \$0.3632 to \$0.3696, increasing primary property taxes \$104,463 (10.4%) over last year to \$1,106,417. Increased valuations were responsible for \$81,956 of the increase while new construction accounted for \$22,507. The combined secondary rates levied for the county override and bonds increased from \$0.3829 to \$0.4578, increasing the levy 28.8%, from \$1,084,733 to \$1,396,608. The county levies the maximum rate possible for the jail district at \$0.2000 and also levies a \$0.0353

rate for the juvenile jail district, resulting in a total levy of \$717,834 for FY 2004.

Most employees received a 5.8% cost of living adjustment (COLA) at a cost of \$395,000 to the general fund. The county also absorbed the \$21,000 general fund cost for increased health insurance premiums.

Cochise County

Cochise's general fund budget climbed 9.9% (\$4,612,840) and started the fiscal year with a \$9,548,979 fund balance, 18.6% of the total general fund. The county's primary levy climbed \$959,682 or 6.1%. Keeping the primary tax rate the same this year at \$2.9373, increased valuations represented \$151,351 of the increase while new construction accounted for \$808,331. Secondary tax rates, which include rates for the flood control and library districts, stayed the same but produced an additional \$124,562 in secondary levies due to the increase in secondary values.

Employees received a 3% COLA and an additional 1.25% for merit increases. The total cost to the general fund for employee pay raises amounted to approximately \$930,000. The county also budgeted \$222,719 for seven new full time equivalents (FTE's) this fiscal year.

The new Benson Service Center is stated for completion in 2004. The county issued over \$9 million in certificates of participation (COPs) last year to pay a portion of the construction costs, with the remaining balance of the project being funded by the county's 1/2-cent sales tax.

Coconino County

Coconino's general fund budget increased 12.2% (\$4,657,676) to \$42,810,520. Coconino began the fiscal year with a beginning balance of \$7,926,692. Coconino County increased its primary tax rate six cents to \$0.4753, raising 21.9% (\$953,101) in additional primary levies over last year-the

See COUNTY BUDGETS, page 3

County	FY 03 General Fund	FY 04 General Fund	Change	% Chg
Apache	\$19,171,268	\$20,689,055	\$1,517,787	7.9%
Cochise	\$46,718,669	\$51,331,509	\$4,612,840	9.9%
Coconino	\$38,152,844	\$42,810,520	\$4,657,676	12.2%
Gila	\$28,840,251	\$30,788,028	\$1,947,777	6.8%
Graham	\$13,485,519	\$15,192,462	\$1,706,943	12.7%
Greenlee	\$5,830,566	\$6,259,089	\$428,523	7.3%
La Paz	\$10,587,927	\$10,646,453	\$58,526	0.6%
Maricopa	\$964,903,437	\$1,059,678,297	\$94,774,860	9.8%
Mohave	\$51,619,464	\$53,232,934	\$1,613,470	3.1%
Navajo	\$23,250,980	\$24,479,435	\$1,228,455	5.3%
Pima	\$327,246,491	\$345,493,720	\$18,247,229	5.6%
Pinal	\$70,730,199	\$80,893,969	\$10,163,770	14.4%
Santa Cruz	\$18,842,136	\$20,678,700	\$1,836,564	9.7%
Yavapai	\$62,618,631	\$65,072,347	\$2,453,716	3.9%
Yuma	\$46,371,196	\$51,928,785	\$5,557,589	12.0%
Total	\$1,728,369,578	\$1,879,175,303	\$150,805,725	8.7%

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COUNTY BUDGETS

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largest percentage increase in primary taxes of all the counties. Increased valuations were responsible for \$788,621 of the increase while new construction accounted for \$164,480.

In 2002, voters approved a 1/8-cent capital projects sales tax. The revenue is used for the purpose of implementing the Coconino Parks and Open Space Program. The county also levies a 3/10-cent sales tax for the jail district, which is estimated to bring in \$5,543,203.

The county awarded all its employees with a \$1,250 one-time bonus at a cost of \$700,000 to the general fund. The county budgeted for two new FTE's, which are slated for the Assessor's office. Another major cost for the county was a 9% increase in health insurance premiums at a cost of \$500,000 to the general fund. To help offset the increased costs, the county transferred \$300,000 from their insurance reserve account into the general fund. The county budget also includes funding for various capital projects, such as remodeling the county courthouse, constructing a new juvenile detention facility and a sheriff's substation in Williams.

Gila County

Gila's general fund budget rose 6.8% (\$1,947,777) to \$30,788,028. The county begins the fiscal year with a \$1,000,000 fund balance. By keeping the primary property tax rate the same at \$4.4100, the county's primary levy climbed \$673,835 or 4.6%. Increased valuations drove \$176,338 of the increase while new construction accounted for \$497,497.

County employees received a 2.5% COLA along with a 2.5% salary increase on the employee's anniversary date. The total impact to the general fund for employee pay raises amounted to \$375,000. Health insurance premiums increased \$500 per employee, costing the general fund approximately \$250,000. The county also budgeted to fill six positions from the general fund.

In November 2002, voters of Gila County approved the creation of a provisional community college district. The county will no longer levy a secondary property tax rate for in-county community college tuition.

Graham County

Graham's general fund jumped 12.7% (\$1,706,943) to \$15,192,462 and began the year with a fund balance of \$3,309,486. The county maintained the same primary rate as last year of \$1.7912. The primary levy climbed \$64,690 or 3.7%. Increased valuations were responsible for \$12,851 of the increase while new construction accounted for \$51,839.

Employees received a 5% COLA at an estimated cost of \$252,896 to the general fund. The county absorbed an 8% increase in health insurance premiums at a cost of \$84,304. In addition, the county added five new FTE's to the general fund.

Greenlee County

Greenlee's general fund went up 7.3% (\$428,523) to \$6,259,089 in FY 2004. Greenlee's fund balance is 8.8% of the general fund at \$550,000. The county's primary levy climbed \$168,629 or 16.2%. \$23,750 of the increase was attributable to valuation hikes while new construction accounted for \$144,879. In May 2003, voters extended the county secondary property tax override for another two years. The rate increased from \$0.6202 in FY 2003 to \$1.1934 in FY 2004, increasing the levy from \$1,121,070 to \$1,700,000 (51.6% increase).

Greenlee employees were awarded a 3% COLA at a cost of \$70,000 to the general fund. In addition, all county law enforcement positions received a 5% pay increase, costing the general fund an additional \$25,000. The county is adding two new FTE's to the general fund. The county absorbed a \$40,000 increase in health insurance premiums.

La Paz County

La Paz County's general fund budget grew just 0.6% over last year's budget, bringing the total general fund to \$10,646,453 in FY 2004. The county started the year with a \$1,398,631 beginning fund balance. The county's primary levy climbed \$84,135 or 3.1%, while the primary rate stayed the same at \$2.2500. Increased valuations added \$48,862 of the increase and new construction accounted for \$35,273.

La Paz levies both a 1/2-cent sales tax for general purposes as well as a 1/2-cent for the county jail district. In addition, a 0.112-cent sales tax for the county's Special Health

Services District is budgeted to bring in \$190,000 in FY 2004. The current sales tax for the district is set to sunset in May 31, 2004. Meanwhile, voters approved the implementation of a 66-cent property tax rate for the county hospital district to replace the temporary sales tax. This property tax levy will produce \$856,316 in FY 2004.

La Paz employees received a 1.5% COLA effective July 2003. The Board will decide in January 2004 whether to approve an additional 1.5% increase, retroactive to July. The total cost to the general fund is approximately \$150,000. Health insurance premiums increased 8% this fiscal year at a cost of \$19,000 for general fund employees.

Maricopa County

Maricopa's general fund budget saw a 9.8% hike this year (\$94,774,860), bringing the total general fund to \$1,059,678,297. The county is beginning this fiscal year with \$126,438,426 in unreserved funds, \$52,993,623 (72.2%) above last year's fund balance. Keeping the primary property tax rate the same at \$1.2108, primary taxes in Maricopa County increased \$30,172,968 or 10.9%. \$13,069,167 stemmed from increased valuations while new construction accounted for \$17,103,801. The county traded a one-cent decrease in the debt service rate for a one-cent increase in the library district rate. The county kept the flood control district rate steady at \$0.2119, generating an additional 14% (\$6,285,932) in property tax revenues for the district.

In FY 2004, the jail district sales tax is budgeted to bring in \$100.8 million. The county will soon create another taxing district due to the recent passage of Prop 414, which allows the county to create a special health care district. After the district is established, the county will have the ability to levy up to an additional \$40 million in property taxes in addition to issuing bonds for capital projects.

Upon final budget adoption, the Board of Supervisors approved a 3.9% salary increase for employees and a market salary increase for sheriff's deputies, detention officers, and probation officers. The total general fund cost amounted to \$9,490,221. The county absorbed the 25% increase in health insurance premium benefits this year at a

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cost of \$2,735,186 to the general fund. The county also added 20 new FTE's.

Several capital projects are financed by the general fund in FY 2004, such as a downtown property development/acquisition, northeast superior court expansion, security building, consolidation of justice courts, expansion of the Chandler justice court, and the star call center.

Mohave County

Mohave County's general fund budget for FY 2004 increased 3.1% (\$1,613,470), from \$51,619,464 to \$53,232,934. The county's beginning fund balance is \$6,430,289, \$811,711 (11.2%) less than last year. Levying the same rate as the year before at \$1.7500, the county's primary levy climbed \$2,012,544, or 11%. Increased valuations resulted in \$228,055 of the increase while new construction accounted for \$1,784,489.

The county's special districts all benefited from the significant increase in net assessed values, driving levies up 8% for the flood control district and 10.9% for both the T.V. and library districts.

The county entered into a design/build contract for the construction of a new 100,000 square foot county administration building. The construction is estimated to cost approximately \$20 million and is anticipated to open in October 2005.

Detailed information on Mohave's budget regarding the cost of salary increases as well as new FTE's, etc, remains unclear at this time. In addition to refusing to meet with ATRA staff and members to discuss the budget, Mohave Supervisor's asked ATRA to put its inquiries in writing instead of answering questions at the adoption of the tentative budget hearing. To date, Mohave has not responded to ATRA's written questions.

Navajo County

Navajo County's general fund budget was up 5.3% to \$24,479,435 in FY 2004. The county budget shows a beginning fund balance of \$1,000,000. Navajo County was mandated to drop its primary levy this year by \$865,578, dropping the tax rate down to \$0.4772 from last year's rate of \$0.6909. This

levy reduction was a result of the county losing its appeal to the Arizona Court of Appeals (see the *ATRA Newsletter* for April 2003.)

Navajo began levying a secondary property tax rate last year for its Public Health Services District. The rate increased from \$0.0661 in FY 2003 to \$0.0759 in FY 2004, bringing in \$492,830, resulting in an additional \$101,541 (26%). With the county flood control district rate staying the same and the library district rate changing slightly, the two districts will levy a total of \$1,041,603, \$63,853 (6.5%) more than last year. The total secondary NAV increased \$57,711,206 (9.6%) in FY 2004 to \$649,315,690.

The county provided employees a 3% COLA this year and eliminated 13 vacant positions in the FY 2004 budget. A 50% increase in medical insurance premiums will cost the county approximately \$67,000.

Pima County

Pima's general fund budget increased 5.6% this year, bringing the total general fund to \$345,493,720 in FY 2004. The county began the fiscal year with a \$25,502,923 fund balance. Although the primary tax rate remained the same at \$4.0720, the county's primary levy climbed \$14,379,800 or 7.6%. Increased valuations drove \$7,021,562 of the increase while new construction accounted for \$7,358,238. The rates for the library and flood control districts and debt service for bonds were the same as last year but will produce an additional \$5.2 million as a result of the 8% increase in total secondary NAV.

After the final budget adoption, Pima allocated \$433,105 for employee pay raises in the County Attorney's office but did not budget for any other salary increases. County employees instead were held harmless from a 25% increase in health insurance premiums, which cost approximately \$3.5 million to the general fund.

Pima County will go to voters on May 19, 2004 with a \$451.6 million general obligation (G.O.) bond program. The program provides funding for open space and habitat protection priorities (\$182,300,000), cultural/historic resources (\$20,000,000), neighborhood reinvestment (\$30,000,000), courts and law enforcement (\$87,500,000), public health and other community public facilities (\$57,800,000), parks (\$50,000,000),

flood control (\$22,500,000), and solid waste (\$1,500,000). In addition to the \$451.6 million G.O. bond proposal is a request for a \$150,000,000 sewer revenue bond program.

As a result of Kino Hospital's loss in revenues, due mostly to uncompensated care and diminished federal and state reimbursements, the county has transferred its management responsibilities to four separate outside organizations beginning in FY 2004. The county maintains that restructuring the hospital's operations and services will help contain general fund subsidies and future losses. The \$20 million general fund subsidy to Kino Hospital funds an estimated \$15 million operating loss, \$3,000,000 increase in personnel costs related to salary adjustments, retirement contribution rate increases, and premium pay, and \$2 million for mold remediation and other capital projects for the hospital.

Pinal County

Pinal County's general fund increased 14.4% (\$10,163,770) to \$80,893,969 in FY 2004. Although the beginning fund balance reflects a minimal amount in the adopted budget of \$234,500, the actual balance is approximately \$9 million according to county officials, which is nearly 11% of the total general fund.

Keeping the same primary tax rate as the previous year at \$4.4532 (not including the countywide rate for the Mary C. O'Brien accommodation school), the county's primary levy climbed \$6,008,469 or 16.5%. Increased valuations were behind \$810,292 of the increase while new construction accounted for the majority of the increase at \$5,198,177. The county also kept the library and flood control district rates the same, which will produce an additional \$206,535 in secondary levies.

The county budgeted for a 2% COLA, a 3.2% market adjustment for employees, in addition to 2.5% longevity raises, at a cost of approximately \$4.2 million to the general fund. The county estimates a 14% increase in health insurance benefits, with individual premiums increasing from \$4,200 to \$4,800. The county also budgeted for eight new FTE's.

Capital projects for the county are budgeted at \$31,974,757, which includes

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approximately \$30 million for public safety structures, including a courthouse, sheriff's administration building, and jail expansion, and \$1.9 million for general government facilities.

Santa Cruz County

Santa Cruz County's general fund increased 9.7% (\$1,836,564) to \$20,678,700 in FY 2004. The county started the fiscal year with a \$3,202,532 fund balance, 15.5% of the total general fund. The county's primary property tax rate remained the same this year at \$3.3487, producing \$402,250 in additional primary levies, or 5.3%. Increased valuations generated \$161,513 of the increase while new construction accounted for \$240,737. The secondary rates for debt service and the flood control district are staying the same but will result in \$92,404 of additional secondary levies.

County employees received a 4% COLA at a cost of approximately \$280,000 to the general fund. In addition, employees will receive raises for longevity, ranging from 0.5% to 4.5%, depending on years of service, at an additional cost of \$220,000. County Deputy Sheriffs received a 4% increase as well. The county included four new FTE's in the budget this year. The increase in insurance premiums, which the county absorbed, cost the general fund approximately \$200,000.

Yavapai County

Yavapai's general fund increased 3.9% (\$2,453,716) to \$65,072,347 in FY 2004. The beginning fund balance is \$8,232,727, \$2,510,727 (43.9%) greater than last year's beginning fund balance.

The county opted to increase the primary rate more than seven cents to \$1.6808. The county's primary levy climbed \$3,185,163 or 14.3%, bringing the total primary levy to \$25,495,163. Increased valuations produced \$1,839,954 of the increase while new construction accounted for \$1,345,209. The library district rate increased from \$0.1117 to \$0.1124 and will raise an additional \$180,926 in taxes. The flood control district rate also increased slightly, from \$0.2179 to \$0.2183, bringing in an additional \$327,000 over last year.

The Board of Supervisors made the decision to increase the sales tax rate for the jail district this year, from \$0.20 to \$0.25, which is budgeted to draw an additional \$1,156,000. The Board recently voted to hold a special election on March 9, 2004 to increase the jail sales tax again, this time recommending that voters choose to double the tax to a 1/2-cent rate for a total period of 16 years. It is anticipated that the increased sales tax rate will raise \$11.6 million annually. The county opened a new jail in October 2003, which is the reason for the increase in the jail district sales tax. The county is budgeting \$2,300,000 for 55 new detention officer positions and equipment for the jail.

County employees received a 6% salary range adjustment, costing the general fund

\$1,500,000. No new FTE's were added to the general fund. The county also experienced a 10% increase in health premium costs, costing approximately \$270,000 to the general fund.

Yuma County

Yuma's general fund budget increased 12%, from \$46,371,196 to \$51,928,785 in FY 2004. The county is beginning the fiscal year with \$13,134,896 in unreserved funds, 25.3% of the total general fund.

As a result of keeping the primary property tax rate the same at \$2.3180, the county's primary levy climbed \$821,567 or 5.9%. Increased valuations provided \$164,560 of the increase while new construction accounted for \$657,007. Secondary rates for the flood control and library districts also remained the same, but levies grew \$284,299 (5.9%) as a result of the increase in secondary NAV.

County employees received a 3% merit increase on average, in addition to step increases for court employees and attorneys. The total cost to the general fund was approximately \$700,000. The county is adding approximately 14 new FTE's, with an estimated cost to the general fund, including benefits, at approximately \$670,000.

This year's budget maintains the county's self-funded employee health plan, requiring a 56% increase in costs this year, with individual insurance premiums increasing from \$3,400 to \$5,300. However, the county is working toward implementing a "tiered" health plan in order to offset future increases.

Jennifer Schuldt

County	FY 03	FY 04	Change	% Chg	Salary Adjustments
	Beg. Balance	Beg. Balance			
Apache	\$8,137,600	\$8,631,221	\$493,621	6.1%	3.8% COLA (ASRS) + 2% COLA (all)
Cochise	\$7,605,503	\$9,548,979	\$1,943,476	25.6%	3% COLA (all) + 1.25% merit
Coconino	\$7,496,021	\$7,926,692	\$430,671	5.7%	\$1,250/employee one-time (all)
Gila	\$900,000	\$1,000,000	\$100,000	11.1%	2.5% COLA/2.5% anniversary (all)
Graham	\$2,682,916	\$3,272,917	\$590,001	22.0%	5% COLA (all)
Greenlee	\$750,000	\$550,000	-\$200,000	-26.7%	3% COLA (all)
La Paz	\$1,489,775	\$1,398,631	-\$91,144	-6.1%	1.5% COLA + 1.5% COLA (cond.)
Maricopa	\$73,444,803	\$126,438,426	\$52,993,623	72.2%	3.9% COLA (ASRS) + Market (law enforce.)
Mohave	\$7,242,000	\$6,430,289	-\$811,711	-11.2%	2% COLA (all)
Navajo	\$0	\$1,000,000	\$1,000,000	NA	3% COLA (all)
Pima	\$20,427,020	\$25,502,923	\$5,075,903	24.8%	Attorney's-\$433,105 allocated
Pinal	\$553,211	\$234,500	-\$318,711	-57.6%	2% COLA (ASRS) + 3.2% salary adj.+ 2.5% longevity
Santa Cruz	\$1,698,066	\$3,202,532	\$1,504,466	88.6%	4% COLA (all) + longevity (0.5% - 4.5%)
Yavapai	\$5,722,000	\$8,232,727	\$2,510,727	43.9%	6% range adj.
Yuma	\$9,437,257	\$13,134,896	\$3,697,639	39.2%	3% merit (avg.) + step increases
Total	\$147,586,172	\$216,504,733	\$68,918,561	46.7%	

ATRA Outlook Conference: The latest on the economy, the state budget, and lessons from California

ATRA's Outlook Conference provided a timely opportunity to get the latest on the state of the economy and the budget.



Elliott Pollack

Economist Elliott Pollack's presentation at the ATRA Outlook Conference pointed to evidence that the national economy is currently experiencing an "anemic recovery." Describing some of the differences between the recent economic downturns and others in the past, Pollack said that this recent recession was relatively short and did not result in pent up demand for housing or autos.

This recovery also features high consumer debt burdens and huge amounts of excess capacity. He added that these features are partially offset by "significant fiscal and monetary stimulus and massive amounts of home refinancing."

"It is normal to have both bad and good news in early stages of a recovery," said Pollack. The "net" outlook, he concluded, is that "the economy will continue to expand and will accelerate."

Specific to the outlook for greater Phoenix, Pollack said that population growth and a strong housing market will continue to have a positive impact on the Valley's economy. However, commercial real estate and multifamily housing activity is still far below pre-recession levels.

While overall job growth continues to rank Arizona favorably compared to other states, manufacturing employment levels in the greater Phoenix area, especially hi-tech manufacturing, have not recovered from the economic downturn and the continuing movement of jobs off-shore.

George Cunningham, the Governor's Deputy Chief of Staff for Finance and Budget, provided an up-to-date diagnosis of the state's fiscal condition.

Cunningham first noted that he frequently hears people attribute the budget deficit to



George Cunningham

one of three causes: the tax cuts of the 1990s, state overpending, or the recession. He said that anyone who blames any one of those three factors is only one-third correct. Rather, Cunningham argues, it is a combination of all three factors that resulted in the occurrence and the size of the recent state budget crisis.

Cunningham pointed to figures that show that tax changes that were enacted between 1993 and 2004 resulted in a net revenue loss of nearly \$8.8 billion, or 12.3%.

While Cunningham asserts that the state has taken on more spending obligations than it had revenue to fund, he nevertheless maintains that there has been a steady decline in state general fund revenue as a

percent of personal income. Similarly, Cunningham suggested that state appropriations have not kept pace with growth in personal income.

Larry McCarthy, President of the California Taxpayer's Association, offered his perspective on California budget mistakes that Arizonans should try to avoid. Interestingly, attendees learned that while California's budget crisis is more pronounced than Arizona's, the root causes for the on-going budget problems are very similar.

McCarthy said California's problem begins with a budget process that is superficial and entirely inadequate for the level of spending. The process fails to distinguish between spending on worthwhile programs and programs ripe with fraud.

Drawing similarities with Arizona, he indicated that the initiative process, driven primarily by the public spending lobby, continues to undermine flexible and comprehensive budgeting in Sacramento.

In an attempt to avoid tough budget decisions and setting priorities, policymakers have turned to debt financing rather than say no to the demands of the spending lobby.



Larry McCarthy

Tax committee chairs discuss prospects for tax reform

The chairmen of the Legislature's two tax committees joined the discussions at ATRA's Outlook Conference to give their views on the prospects for tax reform during the upcoming legislative session.



Rep. Steve Huffman

Representative Steve Huffman, chairman of the House Ways & Means Committee, made a case for adopting a super-weighted sales factor for corporate income tax collections. He argued that such a change would provide the most immediate and timely impact in Arizona's manufacturing sectors. He also vowed to continue his efforts to reform unlimited school district property taxes intended for desegregation.



Senator Dean Martin

Senator Dean Martin gave an update on the progress of the Tax Reform for Arizona Citizens (TRAC) Committee, saying that the Committee was close to adopting a series of recommendations. He maintained, however, that the state makes at least an equal effort to reform current spending policies.

Good Gov Award goes to Glendale C.C. Instructor, Gay M. Garesché

ATRA selected Glendale Community College economics instructor, Gay M. Garesché, as the recipient of ATRA's Good Government Award for 2003.

For the last 13 years, ATRA has taken the occasion of its annual meeting to recognize outstanding individuals whose work in the public sector is characterized by strong, continuing, and consistent efforts to spend taxpayer dollars wisely and to promote government that is efficient, open, and accountable.

ATRA chose Ms. Garesché in recognition of her work to reform dual enrollment. Dual enrollment involves high school students, on the high school campus, during the high school day, taught by high school salaried instructors, and counted by the high school for state funding purposes. Meanwhile, those students may also be receiving college credit and high school credit for the exact same class. Rapid growth in the numbers of high school students, including high school freshmen, who were qualifying for college credits and expansion in the types of course being offered meant that taxpayers were being required to provide millions of dollars to fund students twice for the exact same seat time.

Ms. Garesché has courageously and consistently communicated numerous concerns she and numerous other faculty members have raised about dual enrollment to her employer, and to the Governor and State Legislature. While Ms. Garesché certainly understands the financial aspects of dual enrollment, her concerns have emphasized quality.

Among the issues Ms. Garesché raised were the following: how students were being selected and the extent to which these high school students were ready — developmentally and academically — to do college-level work; the implications of "mixed classes" where some students in a class were getting college credit while others in the same class were not; the lack of faculty



Gay M. Garesché

oversight in dual enrollment courses to ensure an appropriately demanding curriculum and rigorous evaluation; the fact that dual enrollment courses were replacing Advanced Placement, or AP courses.

Gay Garesché's leadership and courage on this issue have contributed greatly to several significant developments. Every set of executive budget recommendations from both the Hull and Napolitano administrations have called for reform of dual enrollment. Every year since 1999, legislation has been introduced dealing with dual enrollment. This year, for the first time, the State Auditor General is in the process of separately certifying dual enrollment credits. State law now attempts to address several quality concerns and places some modest restrictions on dual enrollment courses, prohibiting outright, for example, college credits and state funding for high school physical education classes.

Presenting the award, ATRA vice president Michael Hunter said, "Gay's service to the taxpayers of Maricopa County and the State of Arizona is a model for open, efficient, and accountable government."

Gretchen Kitchel Named Outstanding Member

ATRA awarded Gretchen Kitchel with the 2003 Outstanding Member Award at its Annual Membership Meeting luncheon.

The award, presented this year by ATRA board member and past chairman, Dick Foreman, is given to an ATRA member who has served the organization with distinction.

Gretchen joined the ATRA Board of Directors in 1998 representing Pinnacle West Capital Corporation. During her tenure, Gretchen has served on almost every committee, dedicating countless hours in support of ATRA's mission.

As an active member of both the ATRA Tax Practitioners and Legislative Policy Committees, Gretchen's experience and expertise in taxation and public policy development has proven to be a valuable resource to both ATRA staff and members.

In presenting the award, Mr. Foreman said, "Gretchen's personal support and time commitment to ATRA is not only a great example to other members, it is truly what makes ATRA such an effective organization."



Gretchen Kitchel

Legislative Leaders Address ATRA Outlook Conference

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budget, the Speaker also said that more needed to be done to encourage business expansion in Arizona. In particular, he expressed his support for increasing the sales factor for corporate income tax purposes.

Senate Minority Leader Jack Brown, the current legislature's longest tenured member, expressed his concern with the tax system and the state's ability to meet the basic budget obligations.

In particular, Senator Brown expressed his concern about the estimated first year fiscal impact of increasing the weighting of the corporate sales factor.

While indicating that something needs to be done to improve Arizona's business tax climate, he expressed optimism that the current executive and legislative tax studies may point to solutions to Arizona's fiscal problems.

Senate President Ken Bennett, well known for his singing, as well as for his leadership

abilities, provided his vision for the state through a mixture of song and serious fiscal policy talk.

Senator Bennett stressed the fact that the state must limit and manage spending in order for revenues to catch up with the state's spending obligations. He repeated his belief that the state can close the budget gap over the next two years without tax increases if the legislature exercises fiscal restraint on spending.