

# **ATRA Outlook Conference**

*Current Issues in Arizona Public Finance*

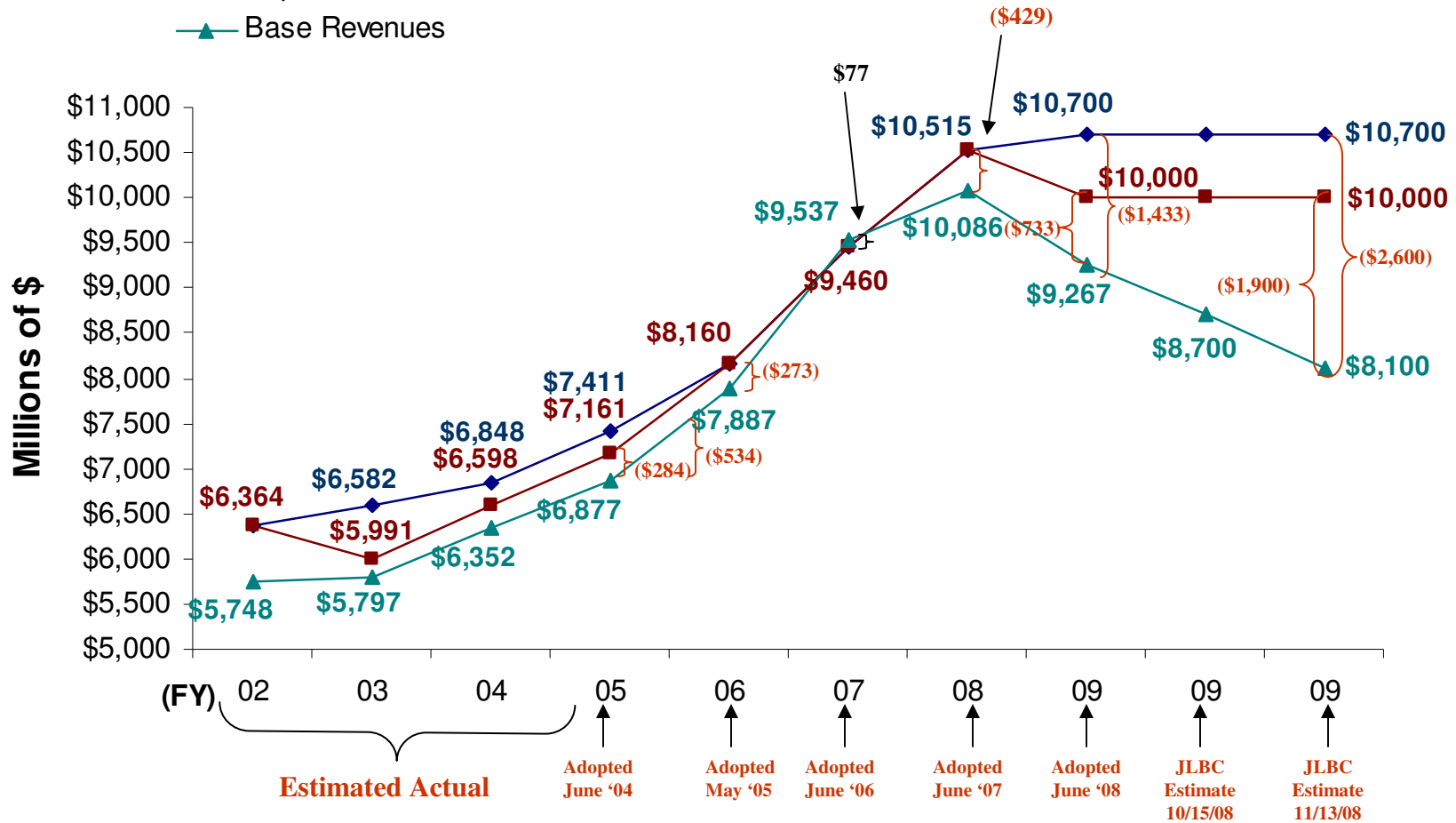
**Kevin McCarthy**  
**ATRA President**  
**Friday, November 21, 2008**

# FY '09 State Budget

## Arizona's Structural (Deficit)/Surplus

*Excludes beginning balance, one-time revenues & expenditures, & Prop 301*

- ◆ Expenditures [Includes K-12 rollover (FY '03 & '09 only) & SFB debt financing]
- Expenditures
- ▲ Base Revenues




Beg. Balance  
(in millions)

13      1      18      243      329      1,047      529      1      1      1



## How Did We Get Here?

- Current structural deficit started in June 2007 - FY 2008 structural deficit of \$429 million.
- Hole dug deeper in June 2008 with FY 2009 structural deficit of \$1.4 billion.
- We intentionally masked those deficits through an endless array of budget gimmicks.



## How did we avoid addressing the deficit? A few examples:

- FY08 – spent \$529 million in carry-forward revenue for on-going spending obligations
- FY08 – rollover \$272 million in K-12 school aid payments to FY 2009
- FY09 – rollover \$602 million in K-12 school aid payments to FY 2010
- FY09 - \$344 million in one-time revenue from bond sale for school buildings already paid for with cash
- FY09 - \$339 million in fund raids



## **The planned budget deficit has gotten worse**

- The FY08 and FY09 budget decisions were grounded in the expectation that the economy would recover and increased revenue would cover the poor budget decisions.
- Regrettably, the reverse occurred. Base revenues are almost \$2 billion below the adopted FY08 revenue forecast.



## What do we do know?

- A major correction in spending is necessary if we are to have any hope of seeing light at the end of the tunnel by FY 2011.
- Continued avoidance of tough decisions will undoubtedly increase the severity of the budget crisis down the road.
- Banking on a major economic recovery in the near future would be a mistake.



## **Real or perceived impediments to closing the deficit?**

- Strong leadership
- Initiative driven spending and Prop 105
- Prop 108 – 2/3's vote to increase general fund revenue



## Prop 105 Limitations?

- How much spending is off-limits to the Legislature?
- Estimates vary but JLBC estimates voter protected spending around \$3.5 billion
- Under any scenario, the majority of the state's \$10 billion budget is subject to legislative scrutiny
- Discretionary vs. “Mandated Spending”





## Where to cut?

- First, the “current services” approach to the budget has to be set aside
- Real reductions in the spending base are needed not just reductions in the rate of growth
- Every option has to be on the table:
  - Across the board cuts
  - Elimination of low priority programs
  - Elimination of recently added programs



## **ATRA Budget Recommendations**

- Deficit provides opportunity to improve the state's fiscal management
- Arcane and complex funding formulas should all be scrutinized
- Redundant funding, hold harmless formulas, and ghost funding should all be eliminated first