ATRA Outlook Conference
Current Issues in Arizona Public Finance

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ATRA President
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FY ‘09 State Budget

Arizona’s Structural (Deficit)/Surplus

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

Beg. Balance (in millions)

<table>
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<th>(FY)</th>
<th>02</th>
<th>03</th>
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How Did We Get Here?

- 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.

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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

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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