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ARIZONA TAX RESEARCH ASSOCIATION

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State "Budget" Finally Passed

$1.3 billion structural deficit

Commentary and Analysis, Kevin McCarthy

Arizona Republic columnist Bob Robb referred to this year's legislative session as "the most fiscally irresponsible session of the Arizona Legislature I've ever seen. And given that I've been watching for over 30 years now, that's saying a lot". As a 22-year veteran of fiscal policy development at the Capitol, I can say that it is easy to second Robb's observation.

The Legislature finally adjourned sine die on June 27th, two days after passing a new state budget for Fiscal Year (FY) 2009. Faced with a $2 billion deficit between a "current services" budget and estimated revenues for FY09, lawmakers and the Governor finally came to an agreement just days before the beginning of the new fiscal year.

Like most states, Arizona's state tax collections have been negatively impacted by a slumping economy. Estimated on-going revenues for FY09 are over $800 million lower than the adopted base revenues for the FY08 budget.

At one time, Arizona's state budget deficits were closed through budget cuts or tax increases or a combination of both. However, in recent years those uncomfortable decisions have been sidestepped by employing a variety of budget gimmicks that shift the problem to future policymakers. And, while the use of some budget gimmickry has become commonplace, the FY09 budget sets a new record for irresponsible budgeting and poor fiscal management.

Typically, annual budgets are characterized in terms of increases (or decreases) from the prior year's spending plan. However, as a result of the new debt financings, fund shifts, delayed school payments, and assorted other gimmicks, comparing the FY09 budget to the FY08 budget adopted in June 2007 is very difficult. In fact, the task of providing an understandable summary of the new budget is so difficult that the Joint Legislative Budget Committee (JLBC) did not have its standard summary information for lawmakers when the budget was voted on. (In fairness, the absence of that customary information from JLBC was also the result of the final budget agreement being crafted primarily by the Governor's office and not Legislative staff.)

When JLBC did produce its customary budget information two days after its passage, it noted that while the $1.9 billion deficit had been technically erased, what remained was a structural deficit of $1.3 billion. $627 million of that deficit is attributable to the gap between on-going revenue (which may very well be overstated for FY09) and on-going operational spending. The rest of the structural deficit is obviously attributed to a recognition of gimmicks, like the K-12 rollover, that were one-time shifts of spending obligations away from the general fund.

One major source of one-time revenue used to balance the budget was the often used technique of raiding funds from a myriad of accounts, many with balances from non-general fund sources of revenues. In all, there were 120 funds that were tapped for $339 million ranging from $4,600 from the Health Service's Poison Control Fund to $25 million from the Emergency Telecommunications Revolving Fund. The other major source of one-time revenue broke new ground in the area of budget gimmickry. $344 million in

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Fire District Merger Abuses Fire District Assistance Tax

ATRA has argued that fire district property tax levies should have some limitation on their annual growth. In tax year 2007, fire district levies grew a staggering 26%. Responding to the arguments from fire district and union representatives that "local control" should be the only protection for taxpayers, policymakers rejected the idea of putting any limits on levies. "Local control" is certainly on full display in three fire districts in Pima County.

Pima County's La Canada, Heritage Hills, and North Ranch Linda Vista are in the process of merging – the consequences of which are significant for their taxpayers as well as countywide taxpayers. Regrettably, the proposed merger will not require a public vote.

In 2006, ATRA worked in good faith with the Arizona Urban Fire District Alliance (AUFDA) on legislation that allowed fire districts to merge with just a unanimous vote of each board rather than requiring voter approval. At the time, ATRA agreed with AUFDA that district mergers were almost always a benefit to taxpayers and streamlining the

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What's inside…

State to Fund Excess Utilities and Teacher Performance Pay

In addition to debt financing and budget tricks that pushed much of the state's current fiscal crisis into coming budget years, the recently passed state budget included new spending obligations to begin as soon as fiscal year (FY) 2010. The FY 2009 budget implemented new statutory formulas codifying requirements for the state to take over the funding of school districts' excess utilities and to increase funding for teacher performance pay as a replacement for current career ladder programs. While the new teacher pay formula only requires funding in years in which the legislature appropriates sufficient amounts, the new excess utilities statute includes no such clause. Funding excess utilities is now a statutory obligation of future Legislatures.

Excess Utilities

On the November 2000 ballot, the voters approved Proposition 301. This ballot measure added an additional 0.6% to the state sales tax rate to fund primarily teacher pay raises and teacher performance pay programs. Among other statutory changes, the proposition also mandated annual increases in school funding and prohibited school districts from budgeting for excess utilities after FY 2009.

Budget amounts for excess utilities represent the increase in a school district's utility expenses beyond the district's 1985 cost after adjusting for student growth and inflation. As excess utilities are budgeted outside the equalization formula, the burden placed on local property taxpayers varies significantly from district to district depending on the districts relative property wealth and the degree to which the district's utility expenses have increased. As there is no limit to the amount a school district can increase property taxes to fund these utility costs, districts have no incentive to conserve these resources.

The inclusion of the excess utilities elimination in Prop 301 certainly increased support (or decreased opposition) for the measure from those who viewed the above characteristics as a problem. In FY 2000, school districts budgeted $57.7 million for excess utilities. Absorbing these expenses into the districts' equalization formula was surely a favorable trade off for school districts who, from the new sales tax, were expected to annually receive more than $260 million in classroom site fund disbursements, to be protected against downturns in state revenues with voter-protected funding increases, to benefit from $800 million in new School Facilities Board bonding authority for correcting school building deficiencies, and to benefit from several other school programs funded with the new tax.

While the plethora of new school funding would begin in FY 2002, the ballot measure provided school districts seven additional years to continue budgeting for excess utilities before the provision would expire. Instead of taking advantage of this time to gradually decrease reliance on this local property tax, the vast majority of school districts ramped up their excess utilities budgets until the FY 2008 aggregate levy totaled $94.1 million.

School districts even challenged a legislative requirement that districts gradually wean themselves from this tax revenue. The court sided with the districts, ruling that the law unconstitutionally (due to Prop 105) violated the will of the voters by restricting access to the provision which Prop 301 specified would expire in FY 2009.

After receiving the many favorable provisions of Prop 301, school districts will now also receive nearly full funding for excess utilities. Notwithstanding the current fiscal crisis, the FY 2009 state budget enacted a statutory formula requiring the state, beginning in FY 2010, to fund approximately 90% of the average amount each school district will have budgeted for excess utilities in two previous years. The statute does not use the term "excess utilities" in an attempt to avoid a Prop 105 violation; but, aside from the new requirement to average the utility cost of two years, the formula is identical.

The new statute does not exempt excess utilities from budget limits, meaning districts will no longer increase property taxes to cover the expenditures. Instead, state aid will fund nearly the entire amount of these budget increases which will approach $80 million in FY 2010. Property taxes will cover these budget amounts in only the few districts where the ratio of the districts' assessed value to the number of students educated is so high that the districts receives no state aid. In Maricopa County there are only five non-state-aid districts and three of the five pay a minimum qualifying tax rate (QTR) to the state. This minimum QTR will be diverted from the state to cover the excess utilities, meaning the excess utilities of only two of these districts (Fountain Hills Unified and Riverside Elementary) will be funded through increased property taxes.

While requiring the state to fund excess utilities through the equalization formula ameliorates the unequal property tax burdens, it perpetuates the unequal distribution of dollars spent on excess utilities. Only 137 of the 218 school districts across the state benefit from the excess utilities formula. This means of the $80 million in new FY 2010 state funding for K-12 education, as many as 81 school districts will receive nothing. Also, the portions received by the 137 districts will vary significantly. Some districts will receive amounts equal to more than 10% of the districts' student-driven budget limit while others will receive only 0.2%. The average district will receive an amount equal to 2.8% of the district's revenue control limit (RCL).

Lastly, the new law continues to encourage excess spending on utilities.

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While the current excess utilities provisions require districts to make no contribution from the district's operating budget to cover utility expenses above the baseline, the new provisions require the district to cover only 10%. Subsidizing every additional district dollar spent on utilities with nine state dollars is not an incentive to conserve; but it is a slight decrease from the current incentive to spend. However, as the additional spending on utilities will no longer subject the districts' voters to additional property taxes, any decrease in this incentive will likely be offset by the fact that funding for excess utilities will now come from the state.

Teacher Performance Pay

In addition to the state's new obligation to fund excess utilities, the FY 2009 state budget also created a new formula to fund budget increases for all public schools as a substitute to the increases a select few districts currently receive for career ladder programs.

The enacted language defines six stages of appropriation levels for teacher performance pay. Stage one requires an appropriation equal to a 1% budget increase for all school districts and charter schools. Each subsequent stage requires an additional percent increase until the sixth stage which requires the targeted 5.5% increase by FY 2019.

School districts that currently budget for career ladder programs will have the option to replace career ladder funding with the increase in teacher performance pay funding, but they will not receive both.

If school budgets were to remain at their FY 2008 levels, fully funding this new formula will cost the state $224 million a year. But, of course, budgets are likely to increase at least 5% each year for inflation and student growth. This means the program could cost more than $260 million if the Legislature appropriates at the stage six level six years from now.

Justin Olson

FIRE DISTRICTS, *Continued from page 1*

	Heritage Hills			N. Ranch/Linda Vista			La Canada		
Tax Year	**Tax Rate**	**Levy**	**Value (NAV)**	**Tax Rate**	**Levy**	**Value (NAV)**	**Tax Rate**	**Levy**	**Value (NAV)**
2007	1.0000	$662,813	$66,281,268	1.2207	$670,020	$54,888,142	1.2500	$413,255	$33,060,391
2008 (proposed)	1.9035	$1,500,000	$78,803,304	2.1779	$1,500,000	$68,874,042	1.2239	$1,500,000	$122,558,544
Dollar Change	0.9035	$837,187	$12,522,036	0.9572	$829,980	$13,985,900	-0.0261	$1,086,745	$89,498,153
% Change	90.35%	126.31%	18.89%	78.41%	123.87%	25.48%	-2.09%	262.97%	270.71%

process would facilitate more mergers.

Admittedly, ATRA never anticipated the type of "local control" that is currently playing out in La Canada, Heritage Hills, and North Ranch Linda Vista districts. In a written agreement for the proposed merger dated November 2, 2006, it is clear that these three districts have an ulterior motive – to dramatically increase the taxes on its property taxpayers in order to maximize the distribution of the fire district assistance tax (FDAT) to each district.

In state statute, the FDAT rate is capped at 10 cents per $100 of net assessed value and the distribution for each fire district is limited to 20% of its levy, capped at $300,000 for any individual district. As a way to hold merged districts harmless, the $300,000 cap does not apply. Instead, the FDAT distribution to the newly merged fire district is the combined distribution of FDAT that each district received prior to the merger.

In the written agreement of the proposed merger between La Canada, Heritage Hills, and North Ranch Linda Vista, each fire district is required to increase its local levy to $1.5 million so that each district will receive $300,000 in the FDAT. As a result, the total local property taxes will increase by a collective $2.8 million, from $1.7 million to $4.5 million, and the combined FDAT distributed to all the districts will increase by $550,000, from approximately $350,000 to $900,000. Consequently, since the FDAT rate in Pima County is under the 10-cent rate cap, the $550,000 increase in the FDAT to the merged fire district will be a direct tax increase to all property taxpayers countywide.

During the 2008 legislative session, ATRA strongly advocated for the passage of HB2586, which would have applied reasonable limits of 10% annual growth in fire district levies. Sponsored by Rep. Steve Yarbrough, HB2586 was strongly opposed by the fire district associations and union representatives. If the legislation had passed, this merger would be less likely to occur since the districts would not have the ability to dramatically raise property taxes as required by the districts' written agreement.

ATRA attended the district board meeting in June and presented the three boards with a letter explaining ATRA's main concern regarding the proposed merger. In that letter, the fire district boards were made aware that, when informed of this issue, Rep. Yarbrough immediately announced his intention to introduce legislation at the first House Ways and Means Committee hearing during the 2009 legislative session to prohibit merged districts from exceeding the $300,000 FDAT cap. The Arizona Tax Research Association will make the passage of such legislation a major priority next year.

It is safe to say that most of the affected taxpayers located within the boundaries of the proposed district are not aware of the huge tax increase the merger will have since the district members have not taken the time to educate them. However, with just a unanimous vote of each board, the merger will be complete by October 2008. Ironically, that is about the same time that property owners will be receiving their tax bills and, for many, the first time they will learn of the tax impact from the merger.

Jennifer Schuldt

Community College Budgets Grow 8%, Enrollment Declines Statewide

Enrollment

For the second consecutive year, the enrollment in community colleges has declined across the state. While the fiscal year (FY) 2007 decrease of approximately 200 full-time student equivalents (FTSE) represents a small percentage (0.2%) of statewide enrollment, flat-lining growth is a significant change from the 5% average annual enrollment increases these districts saw in the eight years leading up to the decreases. The largest enrollment decreases occurred in the community college districts (CCDs) of Maricopa (-464) and Pima (-186).

The enrollment decreases at five of the districts were offset by enrollment increases at the remaining six. The Yavapai and Cochise CCDs saw the greatest increases with, respectively, 266 and 215 new FTSE. The largest percent increase (18.6%) occurred at the Gila County Provisional CCD, where the audited FY 2007 FTSE represented only the fourth year since the creation of the growing provisional district.

Expenditures

Notwithstanding the statewide decline in community college enrollment, the districts' budgets continue to climb. Throughout the month of June, the 11 college districts adopted budgets for the 2009 fiscal year. The aggregate amount of general fund expenditures budgeted by the different colleges increased 7.2% ($67.9 million) to just over $1 billion. This percent increase nearly keeps up with the 7.4% average increase budgeted in each of the last nine years.

With a $45.1 million increase (8.1%), the Maricopa CCD was responsible for the bulk of the budgeted spending growth. The Pima CCD budgeted the next largest increase with $7.9 million (5.6%) in new expenditures. The largest percent increases were budgeted by the Mohave (12.7%), Gila (10.6%), and Graham (8.3%) CCDs. With 1.7% and 2.1%, respectively, the Yavapai and Pinal CCDs restricted growth in their budgets the most.

Revenue: State Aid

These districts support their general fund expenditures with revenue from three sources: state aid, local property taxes, and tuition. Due to the state's budget crisis, community colleges saw actual decreases in the amount appropriated for FY 2009 state aid.

This year the 11 districts will receive $19.8 million (-12.1%) less state aid than they received in FY 2008. This decrease comes in the form of a suspension of capital outlay state aid (decrease of $20.6 million or 97.6%) and a reduction in the rate of growth of two funding formulas.

The recently passed state budget funds both equalization aid and operating state aid at 96.3% of the amount called for by the statutory formulas. As the formula amount includes increases for growing districts and constant funding for districts with declining enrollment, the five declining districts received a decrease of 3.7% in operating state aid. The districts with small FTSE growth were appropriated slightly smaller decreases.

Only the two districts with the greatest increases in enrollment received more operating state aid than the previous year. The Gila CCD received a 14.9% ($92,500) increase. The increase at the Yavapai CCD was 1.7% ($83,000).

The sum of the operating state aid appropriations amounted to a $3.7 million decrease below last year's level with the Maricopa CCD absorbing $2.1 million of the decrease.

The funding level for equalization aid, on the other hand, increased by $4.4 million. As equalization aid only recognizes rural county assessed values, this appropriation increased significantly despite the declining enrollment in three of the four recipient districts. The Graham CCD received the largest increase ($1.6 million) followed by the Cochise CCD ($1.2 million). The percent increases, however, were larger for the Yuma/La Paz CCD (40.7%) and the Navajo CCD (25.1%).

Combining the appropriations from these two non-capital funding formulas results in a net $689,000 (0.5%) increase over the previous year.

Revenue: Primary Levies

With student enrollment declining and state aid dropping, the cost of the colleges' budget increases will be nearly entirely funded through higher property taxes and greater revenue from tuition and fees.

Each of the community college districts approved increases in primary property tax levies. All of the districts except the Pinal CCD will exceed the truth-in-taxation rate and levy the maximum amount allowed under the Prop-101-adjusted levy limits.

With the recent years' increases in assessed value due to new construction,

See **CCD Budgets,** page 5

CCD	Budgeted GF Expenditures	Change	Primary Levy	Change	State Aid	Change	Cash Balances	% of GF Expenditures	Audited FY 2007 FTSE	Change
Cochise	$34,970,743	5.1%	$15,002,076	5.9%	$14,136,500	0.0%	$8,324,940	23.8%	6,844	3.2%
Coconino	$16,592,723	5.4%	$5,954,221	5.8%	$3,245,400	-13.6%	$4,442,015	26.8%	2,052	1.7%
Gila	$5,307,855	10.6%	$2,872,358	5.9%	$713,000	-5.4%	$1,352,000	25.5%	753	18.6%
Graham	$30,846,000	8.3%	$3,295,467	21.7%	$19,948,900	4.8%	$7,144,185	23.2%	2,401	-1.2%
Maricopa	$600,390,296	8.1%	$345,992,275	7.8%	$55,416,100	-0.1%	$89,073,823	14.8%	69,561	-0.7%
Mohave	$33,511,873	12.7%	$16,355,145	5.2%	$4,063,300	-15.1%	$7,080,049	21.1%	2,866	1.8%
Navajo	$24,896,370	7.9%	$10,645,044	6.9%	$10,136,800	-0.8%	$2,915,330	11.7%	2,304	-4.3%
Pima	$149,822,200	5.6%	$80,642,000	7.6%	$18,874,100	-0.1%	$47,765,583	31.9%	19,807	-0.9%
Pinal	$35,382,000	2.1%	$34,876,346	1.5%	$5,854,300	0.4%	$20,624,600	58.3%	3,823	0.7%
Yavapai	$37,425,989	1.7%	$35,227,381	6.4%	$4,903,400	-11.2%	$7,762,044	20.7%	3,618	7.9%
Yuma/La Paz	$36,316,396	7.6%	$20,554,258	6.9%	$7,444,000	-7.2%	$8,300,000	22.9%	4,279	-2.8%
Totals	$1,005,462,445	7.2%	$571,416,571	7.1%	$144,735,800	-12.1%	$204,784,569	20.4%	$118,308	-0.2%

CCD BUDGETS, *Continued from page 4*

CCD	Tuition	Change	Per Credit Rate	Change	Primary Tax Rate	Change	Primary Levy per FTSE (2007)	Change	Primary Assessed Value	Change
Cochise	$6,369,583	7.6%	$50	2.0%	1.6604	-4.7%	$1,918	7.0%	$903,521,761	11.2%
Coconino	$5,496,573	11.9%	$75	15.4%	0.3654	-1.7%	$2,613	3.5%	$1,688,182,809	11.5%
Gila	N/A	N/A	$60	9.1%	0.5595	-6.5%	$3,395	-11.6%	$513,379,379	13.3%
Graham	$5,340,690	10.1%	$60	9.1%	1.8805	-6.1%	$997	9.8%	$175,244,227	29.7%
Maricopa	$151,305,732	13.1%	$71	9.2%	0.7709	-6.5%	$4,284	8.3%	$44,881,602,698	15.3%
Mohave	$8,897,810	25.9%	$59	9.3%	0.7152	-13.0%	$5,028	9.7%	$2,286,744,927	20.9%
Navajo	$3,800,000	7.0%	$48	9.1%	1.1719	-4.4%	$4,031	10.4%	$908,357,696	11.8%
Pima	$39,171,000	7.1%	$50	5.3%	0.9787	-4.0%	$3,451	7.9%	$8,239,671,672	12.1%
Pinal	$4,622,000	3.8%	$60	5.3%	1.4100	-21.7%	$7,905	17.9%	$2,473,499,660	29.6%
Yavapai	$6,927,300	7.7%	$52	6.1%	1.1915	-11.1%	$8,406	0.7%	$2,956,557,356	19.7%
Yuma/La Paz	$5,766,950	21.6%	$56	21.7%	1.5785	-9.0%	$4,270	17.0%	$1,302,125,809	17.5%
Totals	$237,697,638	12.0%	$58	9.7%			$4,162	8.7%	$66,328,887,994	15.6%

the Pinal CCD has built up cash reserves equivalent to 70% of the districts FY 2009 general fund budget. This amount far exceeds the next highest 24.4% held by the Pima CCD. As the Pinal CCD's budgeted FY 2009 expenditures nearly equal the district's constitutional spending limit, any increase above the budgeted primary levy could only augment the district's already high reserve funds. In these circumstances, the district opted to levy less than the Prop-101 maximum for the second of the two years since the ballot measure took effect. Instead, the district levied a $517,915 (1.5%) increase which is $2.4 million below the truth-in-taxation levy.

The percent increases were much larger for each of the remaining 10 districts which raised property taxes by the 2%-plus-new-construction allowed under Prop 101. By far the largest percent increase, 21.7% (588,656), will be levied in the Graham CCD where the assessed value increased by 29.7% with 21% coming from new construction.

In the Maricopa and Pima CCDs, the levies will increase by $25 million (7.8%) and $5.7 million (7.6%), respectively. These districts plan to levy the largest dollar increases as well as the second and third largest percent increases.

The total increase in community college primary property tax levies, $38.1 million (7.1%), accounts for more than half of the revenue required to fund the district's expenditure increases.

Revenue: Tuition

The colleges plan to fund an additional $25.4 million of the budget increases with greater revenue from tuition and fees. To raise this amount, tuition revenues must increase 12% over last year's levels. The largest portions of the $25.4 million will be raised at the two largest districts, Maricopa ($17.5 million) and Pima ($2.6 million). The Mohave and Yuma/La Paz CCDs, however, expect to collect the largest percent increases with 25.9% ($1.8 million) and 21.6% ($1.0 million), respectively.

The average in-state tuition rate will increase $5 (9.7%) to $58 per credit hour. The Coconino and Yuma/La Paz CCDs will each raise tuition rates by $10 per credit hour. These increases are not only the highest dollar amounts but also the largest percent increases—21.7% at the Yuma/La Paz CCD and 15.4% at the Coconino CCD.

With the new tuition schedules, Arizona residents will pay the most per credit hour at the Coconino ($75) and Maricopa ($71) CCDs. The students' cost per credit hour is lowest at the Navajo ($48), Cochise ($50), and Pima ($50) CCDs.

Cash Balances

The small increase in non-capital state aid, coupled with the significant raises in property taxes and tuition, account for nearly all of the $69.7 million increase in the community college budgets. The remaining portion of the budget increase is easily covered by tapping cash balances.

While the Pinal and Pima CCDs have higher than average reserve funds, each of the college districts has a significant cash balance. Districts have the option to designate portions of the cash balance as reserve funds that are not included in the revenue available for expenditures or they may carry forward any amount of the balance and use it to fund expenses of the coming year.

Districts vary in their practice of designating reserve funds. Some districts designate large portions of their cash balance as reserves; others designate none at all. The districts with no designated reserves carry the entire cash balance forward and presumably intend to save portions of the contingency budget in order to maintain a cash balance.

Whether a district chose to carry balances forward or to designate the balance for reserves, the cash balance in each district, on average, was equivalent to 25.5% of the district's expenditures. Only two districts, Navajo (11.7%) and Maricopa (14.8%), had beginning cash balances that were less than 20% of expenditures. Similarly, only two districts had cash balances greater than 30% of expenditures. The Pinal CCD cash balance equaled 58.3% of expenditures (in addition to the portion of the cash balance designated as reserves, the Pinal CCD plans to transfer FY 2009 revenue to reserves making the 70% reserve amount mentioned above). The Pima CCD cash balance was 31.9% of expenditures.

These cash balances enable districts to maintain budget growth amid enrollment declines and lean revenue years. In total, the college districts will rely on $66.6 million of these cash balances, an increase of $7.4 million (12.6%), to fund expenditures in the FY 2009 budgets.

Justin Olson

STATE BUDGET, *Continued from page 1*

revenue was garnered by reaching back into FY07 and FY08 and debt financing construction of school facilities. Those expenditures, $26 million in FY07 and $318 million in FY08 had already been funded on a cash basis when those budgets were adopted.

The budget summary suggests there are $343 million in spending reductions, which would equate to a 3.4% reduction from the FY08 operational budget. Most state agencies saw small lump sum reductions while the majority of the large "reductions" clearly are viewed as one-time reductions. The universities were hit with a $50 million lump sum reduction but were rewarded with the authority to sell $1 billion in bonds for capital improvements. The community colleges capital outlay funding ($20 million) was eliminated for FY09, but the dubious "equalization funding" was actually increased $4.4 million.

Some of the budget "reductions" will quickly translate into cost shifts to the public. Six state agency budgets were reduced a total of $11.1 million and then provided the authority to raise the same amount through fee increases. In order to eliminate any bellyaching from the public, these agencies were also exempted from the rulemaking process for the fee increases.

Local government's close financial relationship with the state almost always means there will be cost shifts in the budget. (For the record, when the state has surplus revenue local governments often attempt to shift costs to the state.) Those cost shifts are sometimes justified and at a minimum they are always cloaked in some rationale that makes it appear that state government isn't simply balancing its budget on the back of local government. This budget sets a dangerous precedent for counties and cites who were simply directed to "deposit $29.7 million into the state general fund."

Clearly, from a taxpayer's perspective, the worst part of this year's cost shift is the shell game created with county government. In unprecedented fashion, the counties were provided broad authority to backfill any lost funds from any source of county revenue "including funds from any county wide special taxing district." In other words, the counties were given the authority to levy property or sales taxes under the guise of flood control, libraries, jails or health services and simply transfer those funds to their general fund. In addition to the requirement of all counties and cities to deposit monies in the state general fund, Maricopa and Pima counties are also required to pay $24.1 million and $3.8 million, respectively, to the Arizona Health Care Cost Containment System.

Certainly, the challenge that the Governor and Legislature faced with the budget this session was daunting. It would have been difficult to criticize a budget that combined some modest short term gimmicks with an overall fiscal plan that demonstrated a light at the end of the tunnel. Regrettably, the budget did just the opposite. In fact, the Governor and Legislature went out of their way to dig the hole deeper for FY10. Clearly, the best example of this was creating *new* spending programs in the area of school "excess utilities" and teacher performance pay (See story on page 2 for more details).

Key Republicans, Senator Carolyn Allen and Representative Michelle Reagan, fought for the inclusion of the provision for the state to take over school excess utilities payments, an estimated new $80 million obligation in FY10. Despite the state's fiscal situation, Senate President Tim Bee had pursued legislation to expand the teacher career ladder program statewide at a potential annual cost of $260 million.

The problem of elected officials avoiding tough budget decisions and shifting problems to future policymakers is not new and will always be a feature of representative government. The problem Arizona faces is that the state budget process has so thoroughly broken down and gone behind closed doors that it facilitates the efforts of policymakers looking to side-step tough decisions. If there is a lesson to be learned this year, it is that citizens need to demand a return to an appropriations process that is open and transparent to not only the public but the entire membership of the Legislature.