



**Budget Reform
Recommendations**

Senate Appropriations Committee

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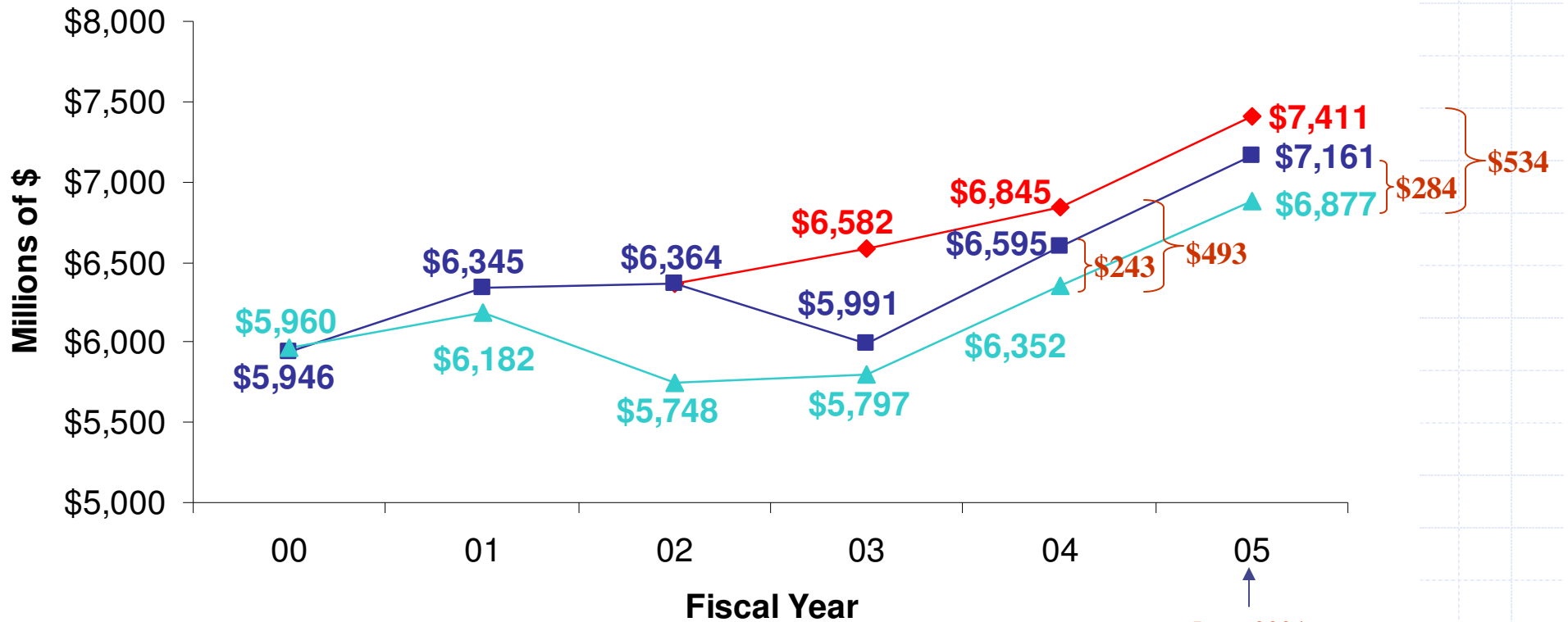


Arizona's Ongoing Structural Deficit

Comparison of General Fund Revenues & Expenditures

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

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



June, 2004
Adopted Budget

Beg. Balance:
(in millions)

255 203 13 1 18 243

Data source: JLBC

Recap on recent spending

- ◆ 5th year of a structural deficit
- ◆ 46th Legislature increased general fund spending \$1.3 billion, or 22.3%
- ◆ FY 2005 general fund spending up 13.2%

Funding Formulas

- ◆ Useful tools, benchmarks to help determine annual funding levels
- ◆ Should not be allowed to run on automatic
 - redundancies
 - hold harmless
 - automatic adjustments
 - obsolescence

Reform agency authority to transfer line item funds

- ◆ Commonly used to balance revenues and expenditures within a budget
- ◆ DOA approval
- ◆ Not intended to circumvent approps process using “found money” to create new programs

Manage exposure to “additional state aid” costs

- ◆ \$297 million appropriated for school districts in recognition of the 35% homeowner rebate and 1% constitutional cap
- ◆ Impacted by:
 - qualifying tax rate (QTR) and truth in taxation (TNT)
 - deseg/OCR; excess utilities; career ladder; transportation

Don't exaggerate obligation to adjust for inflation

- ◆ Prop 301 (15-901.01):

 - “increase the base level *or* other components of the revenue control limit”

- ◆ base level *and* trans. support level (TSL)

- ◆ 1990s: removal of mandatory inflation

- ◆ Citizens and taxpayers not held harmless

Phase out career ladder

- ◆ Capped at 28 districts in FY 1994
- ◆ FY 2004:
 - \$24 million in property taxes (including additional state aid)
 - \$36 million in general fund appropriations
- ◆ Prop 301: Statewide Performance Pay

Cap the Transportation Revenue Control Limit (TRCL)

- ◆ TRCL increases by growth in TSL
- ◆ TRCL cannot decrease, TSL can fluctuate
- ◆ TSL is equalized as part of DSL
- ◆ TRCL adopted in budget as part of RCL
- ◆ Difference between TRCL and TSL has grown to \$49 million, picked up by property tax (and additional state aid)

More K-12 recommendations

- ◆ Move from “prior year plus growth” to current year funding
- ◆ Ensure districts properly withdraw students
- ◆ Eliminate or reduce rapid decline funding
- ◆ Eliminate adjustments for “concerted refusal by students to attend classes”

Reform joint tech ed districts

- ◆ Central vs. Satellite
- ◆ Intergovernmental agreements (IGAs)
- ◆ Auditor General Report:
 - partnerships “can potentially triple the state funding”
 - “the JTED Satellite model is inequitable and less efficient than funding districts directly”

School Facilities Board

- ◆ Revisit building renewal and new construction formulas
- ◆ Eliminate invisible square footage for new construction calculations
- ◆ Eliminate automatic 5% additional funding for “rural” districts

Higher Education

- ◆ Allocate university appropriations in accordance with enrollment growth
- ◆ Eliminate community college hold harmless formula
- ◆ Reduce or eliminate redundant funding through dual and concurrent enrollment

Eliminate community college equalization aid formula

- ◆ Average NAV for 8 rural districts:
\$862,304,800
- ◆ 4 districts above:
 - Coconino; Mohave; Pinal; Yavapai
- ◆ 4 districts below:
 - Cochise; Graham; Navajo; Yuma/La Paz
- ◆ Difference between avg. and actual
 $\times \$1.37$ per \$100 = GF appropriation
- ◆ Counter-intuitive effects for taxpayers

Eliminate state aid to colleges for recreational classes

- ◆ The following classes are offered for credit (2 credits each):

assertiveness training; stress management; personal spiritual development; marriage enrichment; humor and play; single again; creative grandparenting; men in transition

- ◆ Included in comm college FTSE counts for state aid purposes

Don't add to the problem

- ◆ codification of formulas
- ◆ mandatory inflation adjustments
- ◆ phase-ins
- ◆ relationship to other formulas