Budget Reform Recommendations

Senate Appropriations Committee
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Michael Hunter
Arizona Tax Research Association
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

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

Beg. Balance:          255                   203               13                      1                       18        243 (in millions)

June, 2004 Adopted Budget

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 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
\[ \times \$1.37 \text{ per } \$100 = \text{ GF appropriation} \]

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