

## Current FY 2010 Budget Status after Governor September 4th Vetoes

As transmitted to the Governor on August 20th, the budget legislation addressed a \$3.16 billion FY 2010 budget shortfall. The Governor vetoed certain elements of the proposal, which effectively eliminated \$464 million in budget savings. With the vetoes, projected General Fund revenues are \$8.22 billion and spending is \$8.69 billion. When the FY 2010 shortfall of \$(464) million is combined with the FY 2009 carryover shortfall of \$(500) million, the current projected FY 2010 shortfall is \$(964) million.

There are 4 main impacts of the Governor's vetoes (see Attachment A):

- Restores \$172 million in Department of Economic Security funding. By line item vetoing the entire DES budget in HB 2006, the budget reverts to the June 30th version. In that bill, the Governor eliminated a \$(130) million lump sum reduction, which included a \$(77) million cut continued from FY 2009 and \$(53) million in new reductions. In addition, the veto eliminated \$(42) million in payment deferrals from FY 2010 to FY 2011.
- Restores \$359 million in Department of Education (ADE) funding (see Attachment B). By line item vetoing the ADE budget in HB 2006, the budget reverts to the July 6th version, which was enacted after the Governor eliminated most K-12 funding with her July 1st veto. The July 6th version includes \$102 million in added inflation funding, restoration of \$175 million in soft capital reductions, and restoration of \$48 million in Homeowner's Rebate funding. That budget also added back funding for expected enrollment and other formula savings, currently estimated at \$126 million. These monies will likely go unused and would revert at the end of FY 2010. After accounting for this likely reversion, the net impact of the veto is to restore \$359 million in K-12 funding.
- Restores the state equalization tax rate (SETR), which would reduce K-12 spending by \$250 million (and leave overall ADE spending \$109 million higher than the August 20th plan after accounting for the \$359 million increase described above). By vetoing the entire General Revenues Budget Reconciliation Bill (BRB) (SB 1025), the permanent repeal of the SETR was eliminated. As a result, there will be \$250 million in additional revenue at the local level for K-12. This local revenue will reduce the state share of K-12 spending by a like amount.
- Eliminates \$183 million in other General Revenue BRB savings (see Attachment C). While restoring the SETR, the veto also eliminated \$183 million in other projected savings. These items include the unclaimed property acceleration (\$74 million), 5-year vehicle license tax renewal revenues (\$28 million), the unclaimed property shift from housing programs to the Department of Revenue (\$24 million), Maricopa and Pima County deposits to the General Fund (\$22 million), and revised procedures for non-resident income tax filers (\$22 million).

The veto of the General Revenues BRB may eventually impact agency operations. For example, SB 1025 permitted certain agencies to use non-General Fund revenues to offset already enacted General Fund reductions. This particular provision would primarily affect the Corporation Commission and Department of Revenue, but they may have sufficient revenue to operate until the next Regular Session. As of now, we are unaware of any immediate impacts by September 30th, but the analysis of agency cash flow is on-going and will be updated as more information becomes available. If any immediate issues are identified, the Legislature could either address this issue in a new Special Session or the Governor could use federal stimulus dollars as a bridge loan.

September 8, 2009

**FY 2010 General Fund Impact  
of September 4 Vetoes**

	<b>FY 2009</b>		<b>FY 2010</b>		<b>Total</b>
	<u>Continuation</u>	<u>1/</u>	<u>FY 2010</u>	<u>1/</u>	<u>Total</u>
	(\$ in millions)				
<b><u>HB 2006 Line Item Vetoes</u></b>					
Economic Security, Department of					
-- Lump Sum/Other Reductions	\$	77.3	\$	52.7	\$ 130.0
-- Payment Deferral		25.0		17.0	42.0
Education, Department of (Net)		-		359.4	359.4 <u>2/</u>
<b><u>SB 1025 Veto</u></b>					
Equalization Tax Repeal		-		(250.0)	\$ (250.0)
Other Lost SB 1025 Savings		-		182.6	\$ 182.6
<b>Net Impact</b>		<u>102.3</u>		<u>361.7</u>	<u>464.0</u> <u>3/</u>

1/ Represents mid-year FY 2009 lump sum reductions continued in FY 2010. The FY 2010 column represents new reductions in addition to the FY 2009 continuation.

2/ The line item veto of the ADE budget restores the budget to the July 6 version, which exceeded the August 20 plan by \$485 million. ADE, however, is expected to revert \$126 of this amount. The July 6 budget restored formula funding beyond expected enrollment and statutory requirements.

3/ Excludes \$500 million of FY 2009 carryover shortfall.

**General Fund  
Detailed List of Budget Changes**

	Revised GF FY 2009	FY 2010 GF Baseline	FY10 over '09 As Transmitted	July 6/Sept 4 Restorations <u>1/</u>	FY 2010 Enacted	FY 10 Expected Revertments <u>1/</u>	FY 2010 Subtotal
<b>ADE - Arizona Department of Education</b>	\$4,007,927,700						
ADE - Formula Changes/No Growth/Cap ADM at 1.0/TNT and SEI <u>1/</u>		(130,717,900)		\$130,717,900	\$0	(123,760,600)	
ADE - Rollover		330,886,200			\$330,886,200		
ADE - Fund Base Level Inflator (Above Transportation)				\$102,093,100	\$102,093,100		
ADE - Loss of Disabled/Displaced Student Vouchers			(\$5,000,000)		(\$5,000,000)		
ADE - Operating Lump Sum Suspension/Reduction			(\$4,216,700)		(\$4,216,700)		
ADE - Salary Lump Sum			(\$692,400)		(\$692,400)		
ADE - FY 09 Annualization			(\$530,000)		(\$530,000)		
ADE - District Lump Sum Suspension/Reduction			(\$175,000,000)	\$175,000,000	\$0		
ADE - Limit Tax Rate Increase of 1% Cap Districts <u>2/</u>			(\$800,000)	\$800,000	\$0	(800,000)	
ADE - TAPBI ADM Funded at 85%/95% <u>2/</u>			(\$10,000,000)	\$10,000,000	\$0	(10,000,000)	
ADE - Career Ladder Suspension <u>2/</u>			(\$3,868,100)	\$3,868,100	\$0	(3,868,100)	
ADE - Desegregation Hard Cap <u>2/</u>			(\$797,900)	\$797,900	\$0	(797,900)	
ADE - No Early Kindergarten Repeating			(\$11,200,000)		(\$11,200,000)		
ADE - GPLET Valuation Offset <u>2/</u>			(\$4,000,000)	\$4,000,000	\$0	(4,000,000)	
ADE - Homeowner's Rebate - Property Tax Reform			(\$48,317,800)	\$48,317,800	\$0		
ADE - Suspend Early Graduation Scholarship Program <u>2/</u>			(\$4,682,800)	\$4,682,800	\$0	(4,682,800)	
ADE - Reduce Charter Additional Assistance			(\$5,000,000)	\$5,000,000	\$0		
ADE - VLT Local Shift <u>3/</u>						22,000,000	
Total <u>4/</u>			(\$274,105,700)	\$485,277,600	\$411,340,200	(125,909,400)	4,293,358,500

1/ Includes \$94 M in higher student count and other technical adjustments that are not expected to occur plus \$32 M in SEI restorations that ADE is not expected to expend.

2/ The enacted K-12 BRB includes these statutory changes that make the funding restoration unnecessary.

3/ The impact of the VLT local shift was previously displayed in BRB veto detail.

4/ The net impact of the Restorations and Expected Revertments is \$359.4 million. This excludes the impact of the State Equalization Tax Rate continuation, which would reduce K-12 spending by \$(250) million.

**General Fund Impact - SB 1025 Veto**  
**Figures Reflect Lost (Gained) Savings**

	<b>FY 2010</b>
	(\$ in millions)
<b><u>General Revenues</u></b>	
State Equalization Tax Rate (SETR)	(250.0) **
Agriculture Fees	0.6
Cities VLT shift	- <u>1/</u>
Corporation Commission Fees (R) - Public Access	(2.6) *
Corporation Commission - Public Access Spending	2.6
Corporation Commission Fees - Securities	0.8
County Lottery distributions (R)	4.1 *
Health Services Fees	0.6
Land Department Fees	0.6
Lottery - Community Protection/Water Supply Distributions (R)	- <u>2/</u>
Racing - Pari-Mutuel Fees (R)	5.3 *
Radiation Regulatory Fees	0.5
Unclaimed Property shift to DOR Admin Fund	24.5
Unclaimed Property acceleration (R)	73.6 *
5-Year VLT shift (R)	28.0 *
Maricopa/Pima County deposit to GF (R)	22.0 *
Nonresident taxpayers standard deduction prorated (R)	22.0 *
<b>Total</b>	<b>(67.4)</b>
 <b>Lost Savings without SETR</b>	 <b>182.6</b>

\* These impacts would occur automatically without further legislative action.

\*\* The State Equalization Tax would be restored without further legislative action.  
 While the tax would lower the ADE General Fund State Aid formula requirement, ADE's General Fund appropriation would need to be reduced to account for this offsetting revenue source. This savings would appear as a year-end reversion.

R = Represents loss of revenue (\$152 million). Other items represent spending adjustments.

- 1/ Local VLT K-12 shift would have reduced ADE spending by \$22 million. This impact is now shown as part of the ADE budget impact
- 2/ Originally expected to generate \$4 million in lottery revenue to the General Fund by eliminating these 2 distributions. Due to low lottery proceeds, this is no longer projected to generate new General Fund revenue.