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Abstract

Though it falls far short of accounting for what the state spends each year, the general fund budgeting process is a major focal point of Arizona state politics. Each year making the general fund budget requires considerable wheeling and dealing between the governor and legislators and among partisan and other groups in both houses of the legislature. Since 2008, revenue shortages have driven budgetary decision-making. The legislative session in 2010 will perhaps be best remembered for controversial illegal immigration legislation, but was also somewhat historic in terms of budgeting adjustments. This report examines the characteristics of the general fund budget, looks at how the process unfolded in 2010, and concludes with a critique of financial issues facing the state.

Keywords: Arizona budget, state budgeting, taxes, Arizona politics, Jan Brewer

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Budgeting in Arizona: Hard Decisions for Hard Times

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Though it falls far short of accounting for what the state spends each year, the general fund budgeting process is a major focal point of Arizona state politics.¹ Each year making the general fund budget requires considerable wheeling and dealing between the governor and legislators and among partisan and other groups in both houses of the legislature.

The type and level of stress in budgeting varies with several factors such as the partisan composition of the legislature, which party controls the governorship, the amount of partisan cohesion among legislators, and the anticipated level of revenue available for distribution. Since 2008, revenue shortages have driven budgetary decision-making. The legislative session in 2010 will perhaps be best remembered for controversial illegal immigration legislation, but was also somewhat historic in terms of budgeting adjustments. This report examines the characteristics of the general fund budget, looks at how the process unfolded in 2010, and concludes with a critique of financial issues facing the state.

Background

The general fund budget draws largely on sales and income tax revenues and distributes funds among a wide range of activities. In fiscal year 2009 sales taxes contributed around 47% of the revenues and the individual income tax contributed 36%. Over the past several decades, K-12 education has claimed the largest share of funds, currently 43% of the spending, though, as Table 1 indicates, the rate of growth in recent years has been especially high for health services and the AHCCCS program, the state's version of Medicaid. In June of 2010, the agency caseload was 1.36 million members, an 8.5% increase from June 2009.

From 2000 to 2009, the budget generally grew on the average a little over 5% a year (Table 2). For fiscal years 2005, 2006, and 2007, however, the increases were over 15%, considerably above the rate of inflation and population growth. The total amount of spending went from \$6.5 billion in fiscal year 2004 to \$10.2 billion in

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**Table 1. Comparison of Nine Largest General Fund Operating Budgets
FY 1999 vs. FY 2009 (\$ in Millions)**

	FY 1999 Actual	FY 2009 Appropriated	\$ Change FY 1999-2009	% Change FY 1999-2000
Education (K-12)	\$ 2,224.3	\$ 4,141.2	\$ 1,916.9	86.2
AHCCCS	476.5	1,425.3	948.8	199.1
Universities	728.9	1,080.4	351.5	48.2
Corrections	12.4	947.5	435.1	84.9
Economic Security	424.5	808.3	383.8	90.4
Health Services	253.9	611.5	357.6	140.8
School Facilities Board	310.9	101.2	(209.7)	NA
Public Safety	76.0	63.5	(12.5)	(16.4)
Community Colleges	124.1	147.7	23.6	19.0
Other	761.8	635.4	(126.4)	(16.6)
Total	5,893.3	9,962.0	4,068.7	69.0%

Source: Joint Legislative Budget Committee.

**Table 2. Ten-Year History of General Fund Expenditures
FY 2000-FY 2009 (\$ in Millions)**

	Total Expenditure	Annual Growth %	Above (Below) Inflation and Pop. Growth
FY 2000	\$ 6,012.3	2.0%	-2.7%
FY 2001	6,367.7	5.9%	1.0%
FY 2002	6,338.6	-0.5%	-5.3%
FY 2003	6,040.6	-4.7%	-9.1%
FY 2004	6,515.8	7.9%	2.3%
FY 2005	7,545.1	15.8%	9.0%
FY 2006	8,768.4	16.2%	9.2%
FY 2007	10,200.5	15.8%	9.9%
FY 2008	10,149.3	-0.5%	-5.4%
FY 2009	9,906.2	-2.4%	-6.7%
10-Year Average		5.3%	0.0%

Source: Joint Legislative Budget Committee.

fiscal year 2007. Since 2007, however, total spending has been on the decline, and has been lagging behind inflation and population growth.

Under the executive budgeting system adopted in 1966, the governor is the central budget making authority in Arizona. Department heads submit their spending plans to staffers in the governor's Office of Strategic Planning and Budgeting (OSPB) who review and revise them in accordance with the governor's priorities and in light of anticipated revenues. The governor then sends his or her proposals to the legislature.

Legislators, however, are not dependent on information supplied by the governor. Since 1966, they have effectively used a Joint Legislative Budget Committee (JLBC), which has its own permanent staff to do independent research, analyze the governor's budget recommendations, and prepare alternative budgets for each agency. The committee consists of the appropriations committees in each house. The chairs of the House and Senate committees rotate heading the joint committee. The JLBC's budget recommendations go to the Appropriations Committees in the House and Senate. These committees draft a general appropriations act for the entire body, usually after holding public hearings. The adoption of the general budget requires a majority vote of the entire membership in each legislative body—31 house members, 16 senators.

Republicans have controlled the state House since 1966—the year the “one-person, one vote,” standard brought about the present structure of the legislature—and have lost control of the Senate on only a few occasions since that time. The election of Janet Napolitano in 2002 and again in 2006 created a situation in which a Democrat held the office of governor while Republicans controlled both houses of the legislature. On budgeting matters the governor was often able to forge a winning coalition of Democrats and moderate Republicans.

Following the 2008 election, the legislature became increasingly Republican and increasingly conservative—partly because conservative Republicans ousted targeted moderate Republican incumbents in several primaries and went on to win their seats. In 2009 Republicans had a lead of 35 to 25 in the House and 18 to 12 in the Senate. More important, the underlying political dynamics changed after the 2008 election because of Napolitano's decision to become Secretary of Homeland Security in the Obama administration. Jan Brewer, generally known as a conservative Republican, moved up from the position of secretary of state to become governor. Not long after taking office Governor Brewer kicked up a storm in her own party by suggesting the referral of a tax increase to voters—something she could not get through the Republican legislature during budgeting negotiations in 2009.

Regardless of partisan splits, the making of the general fund process has generally been one in which a few people do the heaving lifting and do so behind closed doors. A small group of legislative leaders and the governor and/or their staffs

keep journalists and even most legislators in the dark as to what is happening until they are ready to present the budget plan to the legislature as a whole. Typically, members of the minority have been excluded from playing a meaningful role in the process.

The Arizona general budgeting process, like that in other states, has generally taken the form of a “succession of responses to revenue forecasts” (Moore, 2003). In Arizona dueling revenue projections come from the governor and the legislature, the OSPB and the JLBC. Much of the early negotiating between governors and legislators centers on trying to reach agreement on just how much money the state can expect to take in the next fiscal year and on just how much money they have to work with in putting the budget together. Revenue estimates, though, are not fixed and may change while negotiations are going on. At times, new revenue projections showing an increase in anticipated revenue have helped resolve impasses between the governor and legislative leaders. In 2005, for example, a new projection that the state was going to have several more million in revenues than previously expected made it possible for each side to get what they wanted and to wrap up their negotiations. In 2008, projections kept getting worse, causing a feeling of panic and despair.

The Arizona Constitution, in effect, requires a balanced state general fund budget. The constitutional requirement, however, is not self-enforcing and there is no implementing statute spelling out what happens if the budget is not balanced or giving an official such as the state attorney general the authority to take action in this situation. In 2009 Arizona legislators went into September still struggling to meet a July 1 deadline for the adoption of a balanced general fund budget for fiscal year 2010. The governor finally picked through what the legislature had to offer and came up with a tentative budget plan intended to get the state through the balance of the year. The government had not shut down and legislators had not faced any official penalty for failing to prepare a budget plan in which revenues and expenditures were in balance. Still, as Labor Day sailed by, few had any kind words for the governor and the legislators responsible for the stalemate.

Various legal constraints on both raising revenues and controlling spending complicate the task of balancing the budget. On the revenue side, for example, Proposition 108 adopted in 1992 requires a two-thirds majority of the total membership in the House and Senate to increase any tax or revenue source or to make any “net increase in the state’s revenue collection,” a requirement that, under existing political conditions, makes even the smallest increase very unlikely. Previously, changes of this nature required only a majority vote.

When it comes to spending, budget makers have to live with the fact that over 60% of what goes into the general fund budget qualifies as mandatory rather than discretionary spending. With so much of the budget essentially off-limits to cuts,

relatively unprotected services such as universities receive a disproportionate share of attention when legislators began to search for ways to trim expenditures.

The mandatory spending is largely formula-driven, for example, determined by changes in the number of school children, the number of people eligible for health care services, or the number of people in prison. With continued growth, state spending increases are on automatic pilot of six to seven percent a year.

Some of the formula spending is self-imposed by the legislature and can be changed by altering a statute or gotten around simply by legislation diverting the flow of revenue to other purposes. A good portion of the mandated formula spending is the result of voter-approved measures. These are difficult to change because of Proposition 105 (The Voter Protection Act), adopted in 1998, that requires a three-fourths vote in both legislative chambers to make any changes in measures approved by the voters. In addition, any change must “further the purpose” of the ballot proposition. Since 2004, thanks to another popularly approved proposition, a measure adopted through a public vote must have a devoted funding source other than the general fund. Voter-mandated programs adopted before that time, however, continue to draw on the general fund. One particularly expensive initiative that became the object of considerable attention in 2010 was Proposition 204 approved by the voters in 2000 that extended health care coverage in the Arizona Health Care Cost Containment System (AHCCCS), the state’s Medicaid program, to all Arizonans living under the federal poverty line. Before passage of the initiative, eligibility was at about 35% of the poverty level. In addition to using tobacco taxes to fund the expansion, the General Fund was also obligated to make-up any uncovered costs.

State lawmakers have only a limited range of discretion in raising revenues and cutting spending. Still, historically, they have shown a remarkable ability to adjust to revenue shortfalls and to achieve balance without doing severe damage to major programs. Legislators have accomplished this in various ways. They have drawn on the state’s rainy day fund (technically the Budget Stabilization Fund) and, striking a much larger vein, raided special “off budget” funds fed by earmarked state revenues and set aside for particular purposes such as highways, ground water cleanup, and job training. There are some 270 nonappropriated special and revolving accounts out of which legislators can draw funds if necessary. The budget has also been “balanced” by moves such as counting revenues not yet received or postponing the payment of bills to the next fiscal year. An example of the latter is the education “rollover” through which the legislature postpones payments to schools.

Legislators have further coped by imposing expensive mandates on local governments. County officials, for example, have been stuck with large fiscal burdens in the area of health care. Municipalities enjoy a more independent status *vis-à-vis* the state and have not been as heavily impacted by mandates. They have, however, had

to fear “takeaways,” that is, legislative decisions to redirect revenue streams away from cities and towns into the state budget. In 2003, for example, the legislature sliced the share of the state income tax earmarked for municipalities from 15% to 14.8% and diverted some of the funds going to localities out of the highway fund into the general fund.

Budget Making in 2010

While the steep drop in revenues did not abate in calendar year 2010, the Arizona legislative session was a surprisingly brief 109 days and not the bruising, seven-special sessions circus it was in 2009. In FY 2009, the legislature and governor had cut nearly \$1.1 billion from the state budget and utilized debt financing, including the sale/leaseback of state buildings, including the House and Senate buildings and the executive tower. The legislature began the session in January 2010 needing to address a shortfall in the FY 2010 budget and to create a balanced FY 2011 budget. Also hanging over the legislature was Governor Jan Brewer’s call for a public vote on a three-year sales tax increase of one-cent on the dollar.

When Governor Brewer released her budget proposal on January 15, 2010, estimates for the FY 2010 deficit stood at \$1.4 billion; for FY 2011, \$3.2 billion. She released a detailed budget plan, advocating for spending of \$8.6 billion in FY 2011. The governor’s solutions included fund transfer, fund sweeps of programs including one for land preservation that would have to be approved by voters, restriction of cash assistance, elimination of the Department of Juvenile Corrections and a substantial reduction in Arizona’s expanded Medicaid eligibility passed by voters in 2000. The Medicaid reduction alone was estimated to provide \$382 million in savings (Governor’s Office 2010).

Compared to last year, Republicans in the legislature were generally willing to work with the governor. The chief sticking point continued to be her call for a temporary one-cent sales tax increase estimated to generate approximately \$1 billion annually in revenue. The legislature had been more inclined to simply cut its way out of the budget debacle. The battle had been going on for well over a year. Raising taxes was a special problem for the 30 or so Republican legislators, including the Senate President and Speaker of the House, who had signed the “Taxpayer Protection Pledge” not to raise taxes.

The governor initially asked the legislature to raise the sales tax directly, but realizing the futility of trying to get a two-thirds vote to do this, later requested legislators to send the issue to the public. Several Republican legislators who had taken a pledge not to raise taxes were unwilling to even refer the question to the voters. By February, however, a coalition of Republicans and Democrats agreed to subject the increase to a public vote. They preferred to do this rather than make even more

drastic cuts (Pitzl, “Tax was Rare,” 2010). This action caught the eye of Grover Norquist, president of Americans for Tax Reform, the sponsoring organization of the Taxpayer Protection Pledge. Norquist criticized 15 Republicans for violating their pledge in voting for having a referendum but said voters, not his organization, would take care of that situation (Pitzl, “Anti-Tax Pledge,” 2010).

Other observers declared it was about time the legislature took steps to raise revenues—legislators in dozens of other states where conditions were not nearly as bad as they were in Arizona had already overcome their aversion to raising sales, income, and other taxes to deal with shortfalls (Hansen, 2010). Only a few, however, had asked the voters to take such action and there was considerable apprehension about what the voters might do. In California, voters rejected five of six ballot measures in a special May 2009 election designed to help bring the state budget back into balance. A mix of measures that included borrowing, extending tax increases, and designated money for education spending were voted down by 60%. The only measure that was successful prevented raises for legislators and other constitutional officers in years with a deficit. This measure passed with 75% of the vote (Steinhauer, 2009). Arizona legislators looked to this as a harbinger of defeat for the proposed sales tax increase advocated by the governor.

On Thursday March 18, 2010, Governor Jan Brewer signed the state budget for fiscal year 2011 into law. The 11 bills in the \$8.9 billion spending plan had passed the Republican-controlled legislature on party-line votes, Republicans for, Democrats, against. The plan was designed to cope with a projected \$2.6 billion deficit for fiscal year 2011 and the remaining \$700 million shortfall in the current budget. It had a \$72 million cushion for use if it turned out that some cuts could not be made. It featured spending cuts of \$100 million in the current fiscal year and some \$1.1 billion in the next one. Of the \$1.1 billion in spending cuts, \$385 million came from eliminating coverage for 310,000 people in AHCCCS and \$18 million from eliminating the KidsCare program that provided low- or no-cost health insurance to 39,000 low-income children.

Lawmakers also sought to save \$218 million by cutting funding for kindergarten down to a half day. The adopted budget plan was contingent on getting the voters to agree to the temporary sales tax in May and two other cost cutting measures in November. The plan included \$862.4 million of additional spending cuts—mostly in education—in case the voters rejected the sales tax increase.

Democrats and spokespeople for education and social service groups argued that the Republicans had made unnecessarily deep cuts by ignoring revenue-raising alternatives such as the elimination of tax breaks or applying the sales tax to more transactions. Democratic leaders contended: “Those of you who are voting for this budget are voting because it’s the budget you want. . . . You are choosing to ignore options (Pitzl, “Arizona Budget Passes,” 2010). They pointed out budget bills in

regard to KidsCare and local transportation not only cut off funds but terminated the programs completely, making it more difficult to bring them back in better times. Democrats and others complained that the budget had a disproportionate impact on the poor.

Ultimately, passage of federal health care reform in March saved both the KidsCare and AHCCCS from cuts. Both programs were subsidized with federal funds, but the governor and legislators declared that the state could not afford its share of about 25 percent for KidsCare and 33 percent for AHCCCS. Shortly after the budget was passed, President Obama signed the new federal health care reform legislation that promised additional money to help the state with health care costs because it had broader AHCCCS eligibility than required. The federal law, however, required that the state continue to provide health care at the funding level it had been providing at the time the president signed the law (maintenance of effort) in order to get future increases and to maintain the federal aid it was now receiving. Changes called for in the new Arizona budget had not as yet gone into effect. By following through on eliminating KidsCare and scaling back on AHCCCS eligibility the state stood to lose \$7.8 billion a year in federal funds (Fisher, 2010). Late in April, the prospect of losing the federal funds prompted legislators to restore the health care cuts they had made. However, the legislative budget made the funding to continue AHCCCS at the current eligibility levels contingent upon receiving the increased match rate that was put into place as part of the new healthcare law. The governor also joined a lawsuit contesting the right of the federal government to require funding at current levels as condition of receiving federal aid.

On May 18, 2010, voters overwhelmingly approved Proposition 100, the temporary one cent per dollar sales tax increase in a special election. Thirty-six percent of the eligible voters in the state turned out to vote and the measure passed 64 percent to 36 percent. In a rejection of antigovernment, antitax sentiment, the proposition carried the districts represented by several legislators who had voted against the increase or against even referring the measure. The voters may have been influenced by a warning that if the measure failed, some \$862 million more, mostly in education funds, would be automatically cut to balance the budget for the fiscal year starting July 1.

The vote raised the state sales tax to 6.6 percent. With the increase, Arizona's moved from 28th to the 8th highest state sales tax rate. The one cent increase went into effect in June and is set to expire in three years, on May 31, 2013. In the interim, the one cent tax is expected to raise about \$1 billion a year. About two-thirds of the revenue generated by the tax will go to fund primary and secondary education, and the remaining one-third will be appropriated to help public safety and health and human services. Supporters of the tax included a wide assortment of groups, including the Arizona Education Association and the Chamber of Commer-

ce. Opponents included some taxpayer associations and groups representing small businesses. Supporters spent some \$2 million on the effort, vastly outspending the opponents.

In November 2010 voters were asked to approve two other components of the budget plan: the diversion of \$325 million from the First Things First program for early childhood education and another \$123 million for a land conservation fund into the general fund budget. Voters rejected both proposals, resulting in an additional budget deficit to be addressed by Arizona lawmakers upon return for the 2011 session.

Schools and human health and other services suffered the most from budgetary decisions made by the legislature. Taxpayer watchdog groups, on the other hand, saw the budget as a meaningful first step toward reducing spending. While business groups such as the Arizona Chamber of Commerce endorsed the one cent sales tax they expressed disappointment over the failure of the legislature to go along with a proposal to lower corporate income and business property taxes (Arizona Chamber of Commerce, 2010). Cities and towns lost monies in the Local Transportation Assistance Fund that comes from the state lottery as well as grant funding that provided for local historic preservation through the Heritage Fund.

Concluding Observations

In the past two sessions the legislature has cut more than \$2 billion from the general fund budget. Given the economic and political conditions, even deeper cuts are likely in the immediate future. Adoption of the sales tax measure does not mean that the legislature will be able to avoid more budget cutting—even if it wanted to. Still, many would insist that the problem in Arizona is not too much spending but too little revenue—that it is time for lawmakers to look for long-term revenue solutions to budgeting problems. The passage of the temporary sales tax by nearly two-to-one came as somewhat of a surprise in a state where antitax, antigovernment politicians are prominent. Still, it did not solve the long-term structural deficit the state is facing.

Arizona was hit harder than most states by the recession and is taking longer to climb out. Governor Brewer's director of the Office of Strategic Planning and Budgeting has estimated that Arizona will head into FY 2012 with a \$1 billion gap, and an additional \$1 billion in 2013. The Joint Legislative Budget Committee estimates a structural shortfall of nearly \$1.7 billion as part of the enacted FY 2011 budget. Just trying to keep up with projected population growth is likely to sustain the search for more revenue. The state now has 6.1 million people and is the 16th largest in the nation. U.S. Census Bureau projections have the population of Arizona more than doubling by the year 2030, rising to 10.7 million people, making it the tenth

largest state (though there have been some recent signs of a slowdown in growth). Population growth has already brought increased pressure for more spending on education, health care, transportation and other services and the financial problems seem likely to magnify in the future.

Compared to citizens in other states, Arizonans do not hand over much in terms of taxes, fees, and other charges to their state and local governments. Arizona state and local governments, according to the most recent report of the U.S. Bureau of the Census in 2006, ranked next to last among the states in own source revenues per capita. They collected \$4,487 per person, while governments in the average state collected \$5,803. In the same year, Arizona governments ranked 43rd among the states in the percent of personal income in the state taken by state and local governments through taxes and other means. Arizona's percentage stood at 15.3, the average state at 16.9.

At one time Arizona governments imposed a relatively heavy revenue burden on its citizens. With increased wealth and a series of tax cuts, however, the burden has become one of the lightest in the nation. At the same time, though, Arizona governments have collected relatively little money. As a consequence, as Table 3 indicates, they have been considerably below average when it comes to total spending per capita (41st in the nation in 2006) and particularly low when it comes to spending money on K-12 education (48th among the states in 2006).

Arizona governments could do considerably more without imposing much of a burden. One study suggests that the wealth of the state (including capital gains) has increased over the past 15 years at a greater rate than state spending—had state spending grown at the same rate as the growth of taxable income, the state, in 2007, would have been spending an additional \$1 billion (Hoffman and Clark, 2007).

Where to look for more revenue? Arizona politicians seem to prefer raising revenues by encouraging people to do the wrong thing—smoke, drink, and gamble. They also prefer the sales tax to other sources of tax revenue and are unusually reliant on this source of revenue. At last count, 2006, State and local governments were drawing upon general and selective sales taxes for around 26 percent of all their revenues, compared to a national average of around 19 percent. (See Table 4.) This will increase with the temporary sales tax. Currently the 55 percent of state general fund revenues come from the sales tax (Joint Legislative Budget Committee 2010).

Continued reliance on the sales tax may reflect a widely held belief in the fairness of taxing consumption. On a more practical level, it also reflects a long-standing desire to shift or “export” as much as possible of the tax load to winter residents, conventioners, and tourists. Still, over reliance on this particular tax is dangerous because it is highly volatile to changes in the economy, thus promising more periods of extreme feast or famine. Critics also point out that the sales tax

Table 3. State and Local Revenues and Spending 2006

Item	Arizona	USA	Arizona Rank
Total own source revenues, millions of dollars	27,665	1,733,7	85
Per capita burden imposed by own source revenues	4,487	5,803	49
Percent of personal income taken by own source revenues	15.3	16.9	43
Total Spending per capita	6,935	8,375	41
Spending per capita on K-12 education	1,255	1,672	48

Sources: U.S. Bureau of the Census, Federation of Tax Administrators, The Public Policy Institute of New York State.

Table 4. Breakdown of State and Local Revenues, 2006

Item	Arizona	USA
General revenue, thousands of dollars	36,482,885	2,186,018,089
Percent from Federal Government	24.1	20.7
Percent from own sources	75.9	79.3
Percent from taxes	54.7	54.6
Percent from property tax,	15.1	16.4
Percent from sales and gross receipts	25.7	18.9
Percent from individual income tax	8.9	12.3
Percent from charges and miscellaneous general revenue	21.1	24.6

Data Source: U.S. Census Bureau of Census.

tends to be regressive, disproportionately burdening low-income people. A more diversified and progressive revenue structure could be reached through a revitalized state income tax. The state's income-tax rate is one of the lowest among the 43 states that collect such taxes, according to the Tax Foundation. The revenue stream is unbalanced and volatile.

Along with tax restructuring, several reforms seem in order in regard to improving legislative flexibility on budgeting matters and in improving the process

itself. Legislative flexibility could be greatly improved by ballot measures: eliminating the requirement of a supermajority legislative vote for revenue increases (going back to a majority vote requirement); giving lawmakers the ability to waive voter-approved spending mandates during economic downturns; requiring voters to reauthorize voter-approved spending every eight years; replacing the existing cap on general obligation bonds of \$350,000 set when Arizona became a state with one that raises the limit to no more than five percent of the state's assessed property value.

As for the process itself, recent events have made abundantly clear that the state has a roller-coaster economy and lawmakers need to think ahead. With the slow down, the Budget Stabilization (rainy day) fund came in handy. The only regret is that legislators did not put more away when times were good. To be safe, one needs to anticipate revenue shortfalls covering several years. Arizona currently caps the fund, statutorily, at seven percent of state revenues. The original cap was 15 percent. Some states have no caps at all on how much can go into their rainy day accounts.

Large rainy day funds are difficult to build, because, at heart, most of the active participants in the budgeting process are uncomfortable about putting a big pot of money aside. For some, pouring money into rainy day funds means walking away from immediate pressing needs. Those bent on downsizing government, on the other hand, see rainy day accounts as a way to avoid spending cuts. Far better, they argue, to have excess funds returned to the taxpayers. Last session, some conservatives looked at the rainy day fund essentially as an obstacle to overcome in their effort to cut spending. They set out to deplete the fund as soon as possible, hoping to use most of it to fix the shortage in the current year revenues. This, they reasoned, would bring greater attention to spending cuts when the legislature got around to putting together the fiscal year 2009 budget (Fisher, 2008).

Still, overall, there seems to be an emerging consensus that legislators should not view the Budget Stabilization Fund simply as something to draw upon to handle one-time unexpected emergencies. It may serve that purpose but more centrally its value is providing a way to mitigate the effects of a roller coaster economy. The money is set aside with the certainty that it will be needed when the economy inevitably slows down in order to maintain a desired level of service or, at least, to help avoid drastic cuts in necessary services until the economy recovers.

Recent events also illustrate that when state revenues are in decline, local governments come in handy. Each year municipal and county officials have to be concerned with mandates shifting expenses their way ("shift and shaft" federalism) and having revenues they have been drawing upon taken away from them for state use. They always have to worry about costly mandates and takeaways, but especially so when state lawmakers face budget deficits. Unfortunately, these are the very times

when localities also face revenue shortfalls and the state action makes a bad local situation even worse. State officials think of this as “burden sharing,” local officials think of it as “burden shifting.”

Quite naturally, state officials give prime attention to state budgets and local officials give prime attention to local budgets. The state, though, has the upper hand. State budget makers look at their essential task at hand as somehow putting together a budget that balances spending and revenues of the state government. They are not apt to worry excessively about the budgetary problems of local government officials or the impact of their decisions on local entities. Local officials have little choice but to adjust as well as they can. The result of all this is that a state budget problem becomes a hundred or so local government budget problems. A highly touted “savings” at the state level, may be offset by an increase in local taxes.

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Note

¹The general fund budget for the state of Arizona usually accounts for only a little more than a third of what the state government actually spends. For fiscal year 2009, budget experts project this will be 35 percent of a total expenditure of \$28 billion. Other expenditures come from federal funds and state funds earmarked for specific programs. Historically, Arizona has been considerably below the national average in the percent of total spending through the general fund, considerably above average in the amount of spending through earmarked funds, and about average in percent expenditures from federal aid in recent years. In fiscal year 2004, for example, the general fund portion of total Arizona state expenditure was 31 percent, the federal funds percent was also around 31 percent, and the state earmarked funds some 37%. Comparable estimates for all states in fiscal year 2004 show general funds accounting for 43%, federal funds for 30% and earmarked state funds for 26% of total state spending (National Association of State Budget Officers, 2004).