

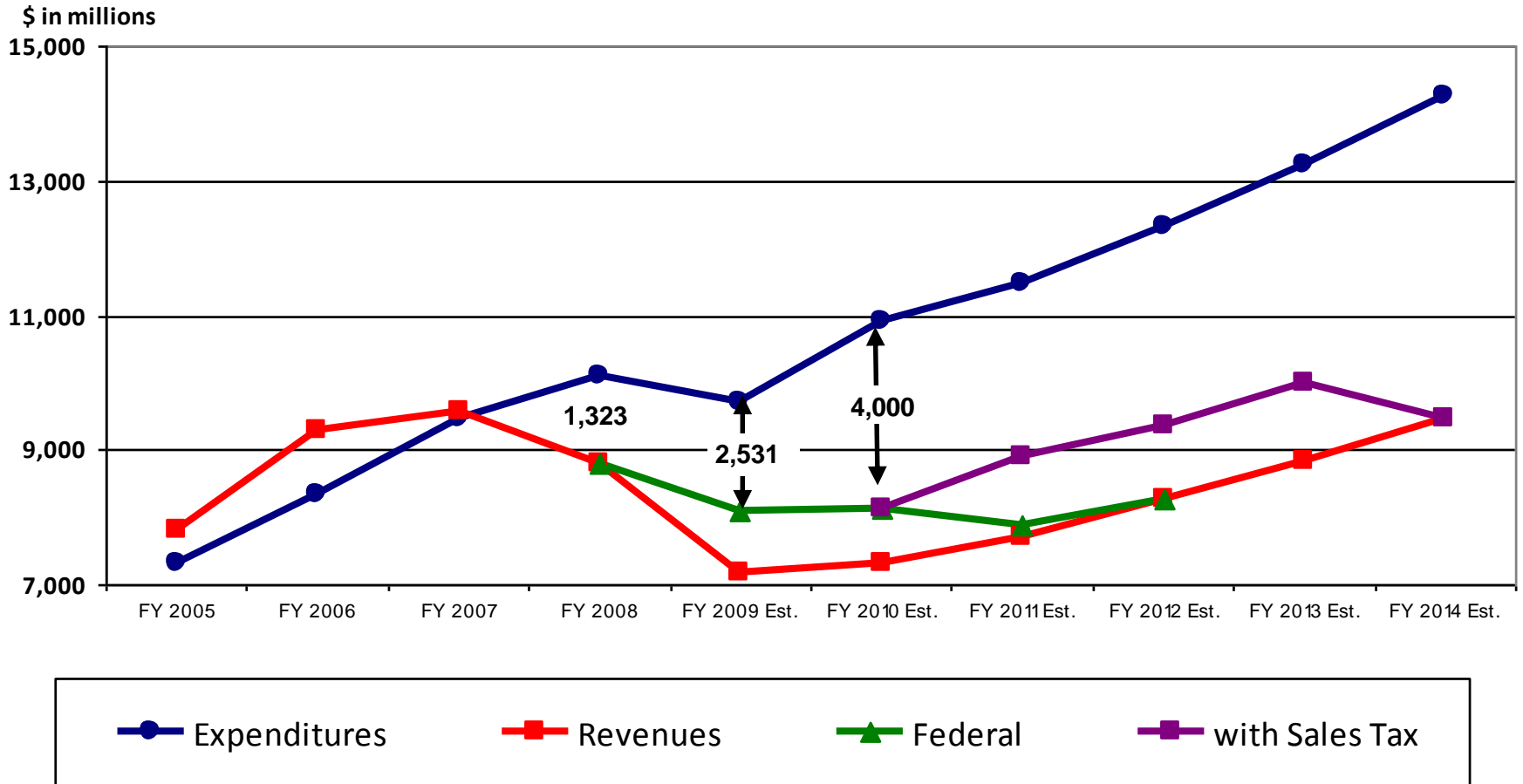
The background of the slide is a stylized, yellow-toned illustration of the Arizona State Capitol building. The building features a prominent central dome topped with a statue of a winged figure. The facade is classical, with a portico supported by columns and a pediment. The text is overlaid on this background.

Building a Better Arizona The 5 Point Plan

Governor Janice K. Brewer

June 1, 2009

Arizona's Future Fiscal Crisis



Budget Reforms

Smarter Budgets for Arizona's Future

- Fix the Rainy Day Fund. Restore size to 15% of expenditures. Establish rules for mandatory deposits and allow withdrawals only when truly necessary.
- Improve Long-Term Revenue Forecasting. Two, five and ten year forecast should be produced or reviewed by an independent entity.
- Establish Mandatory Cash Balance. Phase-in requirement for a fiscal year-ending balance of a maximum 4% to deal with unforeseen challenges.
- Revise State Spending Limit Formula. Permanently limit state spending with a reasonable formula based on growth in population and inflation that avoids problems of formulas imposed in other states.

Reform Prop 105

Require Sufficient Funding Sources

- In November 2010, refer to voters a measure to require any initiative or referendum passed since Prop 105 was enacted to be re-affirmed by the People by 2012
- Measures can be updated and must provide a sufficient funding source that is not derived from the General Fund
- If voters do not approve, Legislature is authorized to amend the program

Spend Less



- Slow the rate of spending in state government
- Reach an accumulated total of \$1 billion in spending cuts
- Reduce FY2010 expenditures by \$600M
- Protect essential education, health and public safety services

Temporary Tax Increase – A Bridge to Economic Recovery

- Temporary one cent increase to existing base. Does not change existing classifications or existing exemptions
- Limited to 36 months
- Over a ten year period, more than offset by targeted tax reductions
- Two avenues to passage: a direct vote by the Legislature or a referral to the ballot for consideration by the voters

Tax Reform

Plan for a Prosperous Future

- Phases Out Burdensome Property Tax. Reduces the “Statewide Equalization Tax” (State Assistance Property Tax) beginning in FY 2010 and completely eliminates by FY 2012.
- Create Competitive Corporate Income Tax Rates. Beginning in FY 2012, reduce the Corporate Income tax to be competitive with other States. Implement in equal increments over a 3 year time period. Among Arizona’s regional competitors, only CA has a higher rate.
- Continue Property Tax Reforms. Maintains reduction of assessment ratios for commercial property taxes. Further reductions will be evaluated beginning in FY 2012.
- Plan produces a net savings to the taxpayers over a 10 year period.

ARRA

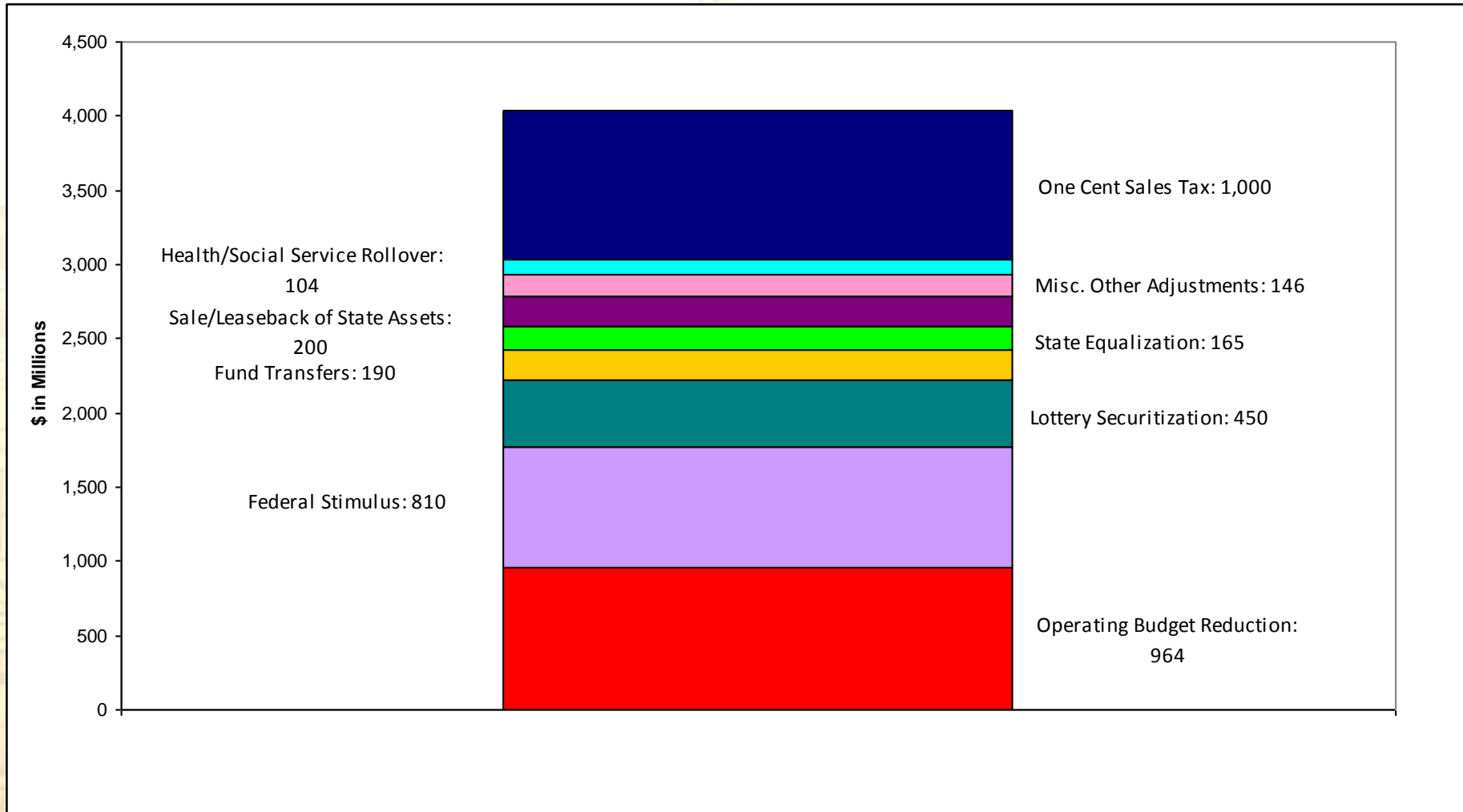
- Signed into law on February 17, 2009
- Approximately \$286 billion appropriated for stimulus expenditures
- Arizona will receive approximately \$6.2 billion
- Goals of ARRA
 - Preserve and Create Jobs
 - Provide assistance for those most impacted by the recession
 - Invest in technological advances in science and health
 - Invest in transportation, environmental protection and other infrastructure
 - Stabilize State and Local Government budgets

ARRA Funds with GF Impact



- State Fiscal Stabilization Funds
 - Education: \$832,000,000
 - General Purpose: \$185,000,000
- Medicaid FMAP: \$1,771,000,000

Governor Brewer's Balanced Budget



Objectives for Managing Through

The Executive Budget:

- Makes reductions without harming core services (Education, Health Care, Public Safety)
- Protects federal funding
- Identifies new funding streams for essential programs
- Implements efficiencies to reduce reliance on the GF
- Minimize shifts to other jurisdictions to prevent increasing local taxes to pay for state services

Executive Budget Highlights

- Education:
 - K-12: fully funds growth and inflation
 - Universities: protects core services
 - Community Colleges: funds rapid growth and job training requirements
- Funds growing demands for state services
 - AHCCCS: Caseload increases of \$494.1M
 - DES: Caseload increases of \$34.8M
 - DHS: Caseload increases of \$48.5M
 - DOC: Caseload increases of \$4.5M

Executive Budget Highlights (cont.)

- Public Safety: Maintains current level of law enforcement activity for immigration, border and gang enforcement
- Business: Sustains support for financial institutions, economic development
- Transportation: Makes an effort to protect ADOT's bond rating, protects highway funding to prevent construction delays
- Arts and Culture: Maintains state support, creates pathway to self-sufficiency

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Building a Better Arizona

FY 2010 Budget

“Protecting the Seed Corn”



Education

K-12 Overview

- The Executive Budget supports schools by funding both student growth and the full amount of Proposition 301 inflation.
- The Executive Budget continues to fund Basic State Aid without shifting the cost to local taxpayers.
- The Executive Budget uses federal stimulus funding to mitigate reductions in state support for K-12, community colleges and universities.

Education

Managing Temporary Resources

- Governor Brewer's completed application for ARRA, along with the Executive Budget demonstrates:
 - A commitment to not go below the Maintenance-of-Effort levels.
 - A commitment to maximize use these one-time funds to help Arizona through this difficult time, while preparing for the inevitable "funding cliff" in 2011.

K-12 Recommendations

- The Executive Budget makes the following reductions:
 - Suspension of soft capital - \$175M
 - K-12 Lump Sum reduction - \$100M
 - Early Kindergarten Repetition - \$11.2M
 - Technology Assisted Project Based Instruction programs – \$3M
 - Suspension of Early Graduation Scholarship State funding - \$4.7M
 - Cap of Desegregation costs - \$798K
 - Department Lump Sum -\$830K

K-12

Utilizing Stimulus Funds

- By preserving \$400M of education stimulus funds for FY 2010, the Executive Budget is able to offset 3/4 of the K-12 education reductions.
- The Executive's Budget provides \$222M in stimulus funds to offset \$295M of the K-12 reductions. This leaves a K-12 exposure to cuts of just \$73M.
- In contrast, the Legislative Leadership Budget leaves more than \$200M of their proposed cuts uncovered by stimulus funds.

School Facilities Board

Meeting the Demands of Growth

- Although many of our school districts have declining enrollment, some are still experiencing growth. The Executive Budget meets the need for the few districts that have actually exceeded capacity by utilizing the new bonding authority provided through ARRA.
- The Executive Budget provides \$10M for Building Renewal grants.
- The Legislative Leadership Budget provides for no new construction and no building renewal monies.

School Facilities Board Moving Toward Future Energy Efficiency

- The Executive Budget implements new energy saving initiatives in our schools, including new federal stimulus programs, that will improve energy efficiency, increase the effectiveness of cooling systems, reduce energy costs, and create jobs.
- Through the use of performance contracting, the School Facilities Board will leverage local funds and private monies to maximize the ability of the State to increase energy efficiency project development.

Higher Education – Laying the Groundwork for Reform

- Federal stimulus dollars to help our higher education system mitigate the impacts of both funding cuts and tuition increase proposals.
- Recognizing that the current models for funding higher education will not meet future demand, Governor Brewer has charged university and community college leaders with the responsibility of reforming their business models
 - Models to emphasize accountability, predictability, transparency for students, parents and taxpayers

Community Colleges

Developing Arizona's Workforce

- The Executive Budget provides:
 - A lump sum reduction to operating state aid (\$9.2M)
 - A suspension of the hold harmless provision (\$1.7M)
 - A FY 2010 cap on equalization aid at FY 2009 levels (\$6.9M); however, no statutory changes are proposed, unlike the Legislative Leadership Budget, which would permanently make this formula discretionary and prevent future increases.
 - \$29M of FY 2010 federal stimulus funding to backfill 2010 operations and capital reductions
- Our community colleges will also be able to utilize additional one-time Workforce Investment Act funding

Community Colleges Tribal College Funding

- The Executive Budget recommends \$2M for Tribal Colleges
 - Diné College 10-year renewal compact
 - Tohono O'odham Community College 10-year initial compact
 - A.R.S. §42-5031.01 requires the State Treasurer to transmit funds for maintenance, renewal and capital expenses of a qualifying tribe's community college.

Universities

Bridging Challenging Times

- Universities will receive \$148M in FY 2010 federal stimulus funding.
- The Executive Budget includes a lump sum reduction of \$42.9M to be allocated by ABOR.
- This reduction, coupled with reductions to community colleges, brings higher education to the federal Maintenance-of-Effort level floor established by ARRA.
- The Executive recognizes concerns that any further action, such as university fund sweeps, could jeopardize receipt of ARRA funds.

Universities

Sustaining the Core

- The Legislative Leadership Budget includes reductions and policy changes that would hamper university operations, capital planning and student support. By contrast the Executive Budget:
 - Maintains the existing tuition and fee appropriation structure.
 - Protects the non-General Fund SPEED package as a vital source of building renewal and capital funding.
 - Does not contain fund sweeps that would damage university operations, result in increase costs to students and endanger federal stimulus funding.



Health and Human Services

AHCCCS Overview

- The economic downturn has resulted in unprecedented AHCCCS caseload growth (almost 11% over the past 12 months), which in turn results in increased funding needs of almost \$500M from the GF.
- The Executive budget balances competing priorities:
 - Controlling healthcare costs
 - Preserving a robust provider network and access to care
 - Maintaining program eligibility for children and working parents.

AHCCCS

Controlling Healthcare Costs

- The Executive Budget implements reasonable reductions to moderate future AHCCCS program growth by:
 - Continuing the hospital rate freeze and 5% physician rate reduction implemented in FY 2009.
 - Modifying the benefit package to reduce or eliminate a limited number of non-mandatory benefits.
- The Legislative Leadership Budget provides funding at a level that will require provider rate reductions of up to 10%.

AHCCCS

Preserving Access to Care

- The Executive Budget fully funds expected caseload and utilization increases.
- The Legislative Leadership Budget includes significant “hidden” cuts:
 - Does not provide sufficient funding to account for expected caseload growth
 - Includes an assumption of \$200M in fraud reduction savings that does not appear to be achievable given all known fraud reduction practices

AHCCCS - Maintaining Coverage for Low-Income Working Families

- The Executive Budget preserves existing AHCCCS and KidsCare eligibility.
- The Legislative Leadership Budget eliminates coverage for an estimated 25,000 children and working parents.

DHS

Preserving a Healthy Arizona

- The outbreak of the H1N1 virus highlighted the need for a strong public health system. The Executive Budget maintains essential public health and laboratory services.
- The Executive budget phases in self-supporting licensure services to process licenses and investigate complaints in a more timely manner.

DHS – Supporting Behavioral Health Services

- The Executive Budget preserves funding for behavioral health services for vulnerable populations, controlling costs with a capitation rate freeze.
- The Legislative Leadership Budget eliminates all Non-Title XIX services for persons with serious mental illness (SMI), and reduces other Non-Title XIX behavioral health funding by \$10.5M. The Department of Health Services is under court order to provide the SMI services.

DES

Serving Vulnerable Arizonans

- In recognition of the extensive budget reductions to DES in recent years (> \$150M), the Executive Budget:
 - Includes funding for caseload growth in a variety of programs.
 - Limits further DES reductions (including annualizations) to roughly 5%.
- The Legislative Leadership Budget includes reductions that equate to an almost 10% reduction.

DES - Prioritizing Child Safety and Permanency

- The Executive Budget recognizes child safety is paramount.
 - Restores \$5.5M to hire and train new staff to return to a 100% CPS investigation rate
 - Provides \$13M to backfill shortfalls in funding for in-home services.
- The Executive Budget assists families that take children into their homes.
 - Partially restores the reduction in foster care payments.
 - Supplements \$5M in federal Title IV-E funds for adoption subsidy caseload growth with \$2.5M GF.

DES - Maintaining Assistance to Low-Income Children and Families

- The economic downturn has resulted in a steady increase in TANF cash assistance clients, 75% of whom are children.
- With no additional TANF funds available to offset this rising cost, the Executive Budget provides \$10M GF.
- The Legislative Leadership Budget provides only \$1M GF and the additional TANF appropriated is unattainable.

DES - Continuing Child Care and DD Funding

- Both the Executive and Legislative Leadership Budgets continue the appropriation of \$18.2M in federal CCDF stimulus funds for child care assistance in FY 2010, reserving an additional \$13M for FY 2011 to limit a funding cliff.
- The Executive and Legislative Leadership Budgets provide similar funding levels for services for persons with developmental disabilities.

Housing

Maintaining Critical Programs

- The Executive Budget transfers \$21.2M from the Housing Trust Fund (HTF) to the General Fund.
- This transfer allows for continued funding of least \$9.4M in housing-related expenditures including:
 - Support for homeless services
 - Housing for the Seriously Mentally Ill
- The Legislative Leadership Budget eliminates the entire annual unclaimed property transfer to the HTF. This will eliminate all state-backed housing programs beginning in FY 2011 and result in a loss of \$18.2M in federal funds.



Public Safety

Founding of
the Fleet
Life and
Death of the
USS Arizona

DPS - Maintaining Current Levels of Law Enforcement

- The Executive Budget reduces the DPS GF amount by \$5.2M while preserving law enforcement activities.
- The Executive Budget:
 - Maintains current level of law enforcement activity for immigration, border and gang enforcement.
 - Maintains current staffing levels and permits additional hiring for critical public safety positions ARRA monies.
 - Replaces state funding with federal dollars to maintain the Arizona Counter-Terrorism Information Center (ACTIC) facility.

DPS - Maintaining Current Levels of Law Enforcement (cont.)

- The Executive Budget:
 - Restores state funding for the DPS crime lab to ensure that scientific analysis of evidence continues
 - Eliminates fees for vital evidence processing.
- The Executive Budget maintains state funding for Arizona's Fraudulent ID Task Force.

Corrections – Maintaining Public Safety and Meeting Inmate Growth

- The Executive Budget:
 - Provides budgetary flexibility and funds new public and private prison beds to relieve overcrowding and preserve staff and inmate safety in the prison system.
 - Stimulates Arizona’s economy and job creation by requiring the procurement of 5,000 private prison beds in Arizona to replace private beds currently located out-of-state.
- The Executive Budget does not establish any new early release programs for inmates.

Corrections – Maintaining Public Safety and Meeting Inmate Growth (cont.)

- While maintaining prison safety, the Executive Budget reduces the GF contribution to corrections by \$31.2M through:
 - Operational efficiencies
 - Restructuring inmate treatment programs
 - Privatizing a portion of inmate health care
 - Annualizing personnel reductions.
- The Executive Budget does not privatize high-risk inmates such as gang members, inmates serving death sentences or other high-risk specialty populations.

Corrections – Maintaining Public Safety and Meeting Inmate Growth (cont.)

- Inmate population is growing by an estimated 151 new inmates per month and the Executive Budget expands prison capacity, including private beds to keep pace with the growth.
- Marginal costs, such as medical inflation, are driving up operational costs and the Executive Budget:
 - Reduces medical expenses related to inmate health care
 - Increases inmate co-pays for medical services.

Juvenile Corrections

Implementing Efficiencies

- The Executive Budget reduces funding by \$8.8M in GF monies without risking public safety or jeopardizing juvenile treatment.
- The Executive Budget:
 - Consolidates housing units
 - Implements a work skills program to facilitate community transition
 - Reduces personnel overtime costs.



Business

Protecting & Improving Arizona's Business Climate

Department of Commerce

- The Executive Budget minimizes the negative effect of a \$2M GF decrease on businesses and community assistance programs by shifting monies from alternate sources, including ARRA Energy Grants.
- The Legislative Leadership Budget does not mitigate \$2M cut

Protecting & Improving Arizona's Business Climate (cont.)

Corporation Commission

- The Executive Budget supports the Commission's effort to become self-supporting and strengthen consumer relations
 - Reduces GF funding by \$3.6M
 - Supports the use of increased revenues

Protecting & Improving Arizona's Business Climate (cont.)

Department of Financial Institutions

- The Executive Budget:
 - Recommends no cuts to DFI so that it may retain its core mission during unstable financial markets
 - Provides interim funding of \$550K for loan origination and licensing programs that protect consumers and businesses; the programs will be self-funded after FY2010
- The Legislative Leadership Budget takes \$173K as a salary lump sum cut.

Protecting & Improving Arizona's Business Climate (cont.)

Department of Real Estate

- The Executive avoids excessive cuts to Real Estate so that it may continue to meet the current needs of the industry and consumers.
- The Legislative Leadership Budget requires the RIF or layoff of 3 employees, which would delay services and decrease the number of cases closed by 100 per year (an annual loss of up to \$140K for the GF).

Protecting & Improving Arizona's Business Climate (cont.)

Department of Revenue

- The Executive Budget provides \$2.1M to outsource a portion of the ADOR revenue collection functions to private contractors
- By outsourcing collections, ADOR does not absorb any net new employee-related-expenses.

Protecting & Improving Arizona's Business Climate (cont.)

Office of Tourism

- The Executive Budget:
 - Recommends a lump sum reduction of only \$3.2M
 - Protects voter approved formula funding
 - Permits continuance of rural marketing grants
- The Legislative Leadership Budget has “hidden” cuts leading to an overall \$8.7M reduction:
 - GF lump sum reduction of \$3.5M
 - GF salary lump sum reduction of \$141K
 - Tourism Fund restoration of \$200K
 - Reduction of Tourism Fund Transfer amount by \$5.3M



Transportation

PLANNING OF
THE FLEET
LIFE AND
DEATH OF THE
USS ANDRUS

Transportation

Driving our Economy

- The Executive Budget focuses on the core mission of ADOT and does not make excessive cuts to the State Highway Fund. Since 2001 over \$1B has been shifted from transportation to GF purposes.
- The Legislative Leadership Budget relies on excessive cuts to transportation funding.
 - With small amounts of cash on hand to pay contractors, ADOT may face a downgrade of its bond rating if excessive sweeps continue.

Transportation

Driving our Economy (cont.)

- The Executive Budget impacts are roughly \$45M less than Legislative Leadership proposals.
 - Contains various balance transfers, but leaves revenue streams intact and does not undo contracts.

Culture



Preserving Our Culture & History

- Arts Commission - The Executive budget maintains the \$14.7M Endowment and requires investigation into alternative funding sources for local community grant amounts.
 - The Arts Commission will be able to continue providing nearly \$1M in grants that are otherwise eliminated by the Legislative Leadership Budget.
- Arizona and Prescott Historical Societies-The Executive Budget maintains the societies and begins gradually moving the organizations to self-sufficiency, phasing out GF support over the next five years.

Commission of Indian Affairs Maintaining and Advancing Government-to-Government Relationships

- The Executive Budget appropriates \$127K to preserve the Commission and provide staff support.
- The Legislative Leadership Budget eliminates the Commission.



Natural Resources

Natural Resources

Protecting Arizona's Water Future

- The Executive Budget for ADWR transfers \$5.4M from accrued interest on the Nevada Water Banking Contract for operations
- The Nevada Water Banking Contract interest is a one-year fix. Before 2011, the Executive will engage the water community in assisting ADWR with a long-term funding solution.
- The Executive Budget restores \$6.9M to ADWR and ends the use of the water banking fund for operations.

ADEQ - Fostering Responsible Environmental Management

- The Executive Budget makes adjustments to ensure that core mission-critical functions of ADEQ are preserved
- The Executive Budget:
 - Maintains SIP requirements
 - Continues the authorization for ADEQ to charge fees in order to self-fund and eliminate GF reliance.

Natural Resources – Maintaining and Maximizing State Land Uses

- To maintain the revenue-generating capabilities of the State Land Department, the Executive Budget FY 2010 does not eliminate any further State Land FTEs leaving sufficient resources to respond to current sales and leasing projects.
- Rather than diverting Heritage Fund monies, the Executive Budget allows the NRCDs more flexibility with the use of license plate revenue.

Natural Resources

State Parks

- The Executive Budget eliminates reliance on the GF for FY 2010 by allowing the Board to utilize a portion of several funds for operations, shifting \$3.6M from GF to these fund sources.
- The Heritage Fund, the largest grant program, is available for future grants.
- The Governor's Sustainable Parks Task Force will examine long-term funding issues and efficiencies.

Natural Resources

Agriculture

- The Executive Budget:
 - Proposes cuts of \$1M.
 - Realizes cost-savings and enhances services by moving the Ag Lab into the DHS Lab, freeing up the Ag Lab building for sale.
- The Executive Budget does not shift pari-mutuel funds as proposed by Legislative Leadership Budget



Local Government

Local Governments Important Partners

- In recognition of the important services local governments deliver and the fiscal challenges that local governments face, the Executive Budget attempts to minimize the impact on cities and counties.
- The Executive Budget includes provisions that affect local governments by \$62M.

Local Government Executive Impacts

- As session law the Executive Budget:
 - Applies 100% of restoration to competency costs to counties on a statewide level. *(Impact depends on caseload)*
 - Allows for reimbursement from counties for sexually violent persons. *(Impact depends on caseload)*
- The Executive Budget also contains various balance transfers that will impact local governments.

Local Governments Legislative Impacts

- In comparison, the Legislative Leadership Budget impacts cities and counties by an estimated \$276M.
- The Legislative Leadership Budget shifts vehicle license tax (VLT) dollars from local governments to fund education (\$190M).
 - The Executive Budget does not contain this shift of funding or responsibility.

Local Governments

Legislative Impacts (cont.)

- The Legislative Leadership Budget eliminates the state's share of ALTCS costs after stimulus funds expire.
 - The Executive Budget maintains its long-term commitment to fund ALTCS costs.
- The Legislative Leadership budget establishes a moratorium on impact fees.
 - The Executive Budget does not contain this provision.
- The Legislative Leadership Budget reduces the State's share of JP salaries (\$1M).
 - The Executive Budget does not contain this reduction.

Local Governments Mitigating Impacts

- The Executive Budget:
 - Takes a number of actions to mitigate the impact on local governments.
 - Allows county and tribal governments to use existing healthcare spending to leverage additional federal funding for counties and tribes.

Local Governments

Mitigating Impacts (cont.)

- The Executive Budget:
 - Restores Prop. 204 hold harmless distributions to counties in FY 2010 (\$4.8M)
 - Assists county budgets by suspending Judicial Productivity Credits for photo radar tickets
 - Maintains the statutory cap on highway dollar shifts