



REVENUE OPTIONS FOR ARIZONA

November 16, 2009

INTRODUCTION:

Arizona's Fiscal Imbalance is severe and applies to both the short term (FY 2010 and FY 2011) and the mid/long term (FY 2012 and beyond). The magnitude of the difference between projected annual revenues and expenditures in the next few years is at least \$2 billion and may exceed \$3 billion each year for the foreseeable future.

Arizona's budget deficit is incredibly large for several reasons. We have worsened the deficit by shrinking our revenue base through a series of tax cuts enacted over the past two decades. In addition, the national recession and the mortgage crisis have had a dramatic impact on our state and local economies.

Governor Brewer and the state legislature have already enacted severe budget cuts to health, human services, education, and jobs. Even more severe budget cuts are on the table with options prepared by the state agencies that will further reduce benefits and services to Arizona's citizens.

The Arizona Budget Coalition stands united in our call to executive and legislative leaders for a comprehensive approach to balance our state budget. We urge our elected leaders to aggressively pursue a combination of revenue options that will provide: 1) "Bridge Funding" in the short term (FY 2010 and FY 2011) to help Arizona get through the economic downturn while protecting education, health and human services, and 2) Permanent Revenue increases for the long term to restore the state's fiscal balance between ongoing revenues and expenditures.

REVENUE OPTIONS: The Coalition believes that the following six Options should be pursued prior to enacting further damaging budget cuts:

1) **Monetize Revenue Streams.** As has been successfully accomplished in many state and local governments across the country, Arizona has the opportunity to monetize existing revenue streams. This strategy provides a one-time lump sum for each revenue stream to help Arizona through the current economic downturn. Prime candidates for monetization include revenue streams for the:

- a) Lottery (\$500 million)
- b) Tobacco Settlement Agreement (\$900 million)
- c) Vehicle License Tax (\$500 million)

These financial bridges would be used to help balance Arizona's FY 2010 and FY 2011 budgets and help avoid further damaging budget cuts.

2) **Explore Health Care Provider Assessments (HCPA).** There has been much discussion and speculation in recent months regarding the feasibility of enacting a health care provider assessment with some estimates of \$500 million or more. Federal law permits states to collect revenues from certain

categories of health care providers or services – including hospitals, health insurers, and others – and use the proceeds to draw down federal matching funds. Federal matching dollars may be used to fund various activities including raising provider rates and paying for a portion of the state’s share of Medicaid programs. Currently 44 states have some type of a provider assessment. Given that the Center for Medicare and Medicaid Services must approve any health care provider assessment that seeks to draw down federal Medicaid matching funds, the ABC urges the Governor and the Legislature to pursue the feasibility of any HPCA with the intent that proceeds be realized in FY 2011 or as soon as practicable thereafter.

3) **Restore DOR Auditing/Collections Staffing to FY 2000 FTE levels.** The Department of Revenue’s auditing and collections staff were reduced through layoffs in FY 2009 by 250 to 300 positions. Reinstating these positions and re-employing laid off workers by March 2010 will net the state more than **\$125 million in revenue collections in FY 2011**. Returning staffing levels at DOR to the authorized FTE levels in FY 2000 will generate an additional **\$75 million for FY 2011**, assuming that new hires complete training by the start of FY 2011. It is unfair and irresponsible for revenue that is owed to the state to go uncollected due to staffing shortages.

4) **Approve Ballot Referendum for Tax Increase.** To achieve long term fiscal balance in Arizona between revenue and expenditures, a substantial permanent increase in tax revenues will be required. Arizona voters will effectively be asked to restore funding that the state has lost through tax cuts enacted over the past two decades. A permanent 1-cent increase in the sales tax rate with allowance for an offsetting tax credit for low income families would raise up to **\$1 billion per year** and represent a first step in achieving long term fiscal balance for the state.

5) **Encourage President and Congress to enact a second round of Fiscal Stabilization Funds for States.** Once Congress and President Obama reach closure on the Health Insurance Reform package, their attention will be refocused to other matters including the economy and a possible second round of stimulus funding. We urge Governor Brewer to work with the National Governors Association (NGA) and Arizona’s legislative leadership to work with the National Conference of State Legislatures (NCSL) and Arizona’s Congressional delegation to advance a second round of “Fiscal Stabilization” funds. Additional federal aid could **approach \$1 to \$3 billion for Arizona**.

6) **Adopt Other Revenue Options.** There are several accounting changes, fund adjustments and agency user fee increases that could collectively increase available revenue by **in excess of \$100 million**. These include: 1) Reinstatement of estimated sales tax threshold at 2006 level; 2) Agency fund balance transfers; 3) Agency user fee changes; and 4) Reclaiming sales tax collection fee. In addition, there is the possibility of modifying the private and public school tuition tax credits for corporations and individuals.

CONCLUSION:

The Governor and the Legislature have the opportunity to minimize more permanently damaging budget reductions that could potentially retard or even destroy Arizona’s future economy and the quality of life so treasured by its citizens. The six Revenue Options above have the potential to provide up to **\$6.7 billion** in additional revenue to the state. The ABC believes the options are both doable and viable in the short term while Arizona leaders take a long-term, comprehensive approach to achieve permanent fiscal balance.