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Arizona Budget Coalition to Release Revenue Alternatives as Legislature Holds Special Session

PHOENIX – The Arizona Budget Coalition today called on the state legislature and Governor Brewer to pursue options to increase state revenues before considering any additional cuts to public education, universities, state employees, and vital health and human services.

“Arizona must address the state deficit by investing in the programs and vital services that will help the state recover and keep our families and our economy strong,” said Andrew Morrill, Vice President of the Arizona Education Association.

Tim Schmaltz, Coordinator of the Protecting Arizona's Family Coalition, agreed. **“Since we face substantial deficits in the coming few years, Arizona needs revenue options that will allow us to sustain some very basic services while our leaders work on long term fiscal balance and reform.”**

The Arizona Budget Coalition includes more than 50 Arizona organizations that represent behavioral health, education, labor, services to children and families, and people with disabilities. The Coalition released a list of six revenue options that should be explored and decided upon before considering additional budget cuts. These options include both short and long term strategies. They include:

- 1) Borrowing against guaranteed revenue streams, like the Lottery or the tobacco settlement. This brings in a one-time large infusion of funds that will be paid back over time.
- 2) Increasing the existing assessment on health plans or instituting a new assessment on hospitals or other health institutions. This assessment has the advantage of drawing down federal funds for Medicaid. It requires federal approval before it can be implemented.
- 3) Restoring collections and auditor staff at the Department of Revenue to collect taxes that are already owed to the state principally from businesses. Staffing levels have been cut dramatically, leading to lower collections of taxes.

(more)

- 4) Referring a sales tax increase to voters. This should include a refundable tax credit for low-income families and should not be packaged with tax cuts or other budget provisions.
- 5) Encouraging Congress to provide additional stimulus dollars to Arizona and other states to help build our economy and save jobs. This is under discussion in Congress and our delegation should be urged to support it.
- 6) Identifying additional fund sweeps and user fees, moving up end-of-the-year sales tax collections and reducing the tax credits for public schools and private school tuition.

“These revenue options are viable and deserve to be fully pursued and developed by our elected leaders,” said George Cunningham of Cunningham Consulting Group. **“While some of them will require strong, committed leadership to overcome implementation difficulties, they offer a far better alternative than destroying our future.”**

Representing thousands of state employees, Scott Washburn, state director for SEIU, noted, **“The ABC revenue options are a far better alternative than cutting 15% of the jobs and services provided by State government – especially while we’re striving to get out of this recession.”**

“The budget cuts already enacted have been substantial and will have a damaging effect on Arizona’s economy and its future. We realize that even more severe budget cuts are on the table,” said Dana Wolfe Naimark, President and CEO of Children’s Action Alliance. **“It’s time for these revenue options to take priority over further budget cuts.”**

(2 page “Revenue Options for Arizona” attached)

ABC Coalition Member Organizations (Updated 11/20/09)

Alliance of Arizona Nonprofits ~ AZ AFL-CIO ~ AZ Behavioral Health Corp
 AZ Bridge to Independent Living ~ AZ Center for Afterschool Excellence ~
 AZ Center for Disability Law ~ AZ Child Care Association ~ AZ Coalition Against Domestic Violence
 AZ Community Action Association ~ AZ Education Association ~ AZ Health Care Association
 AZ Public Health Association ~ AZ Statewide Independent Living Council
 Association for Supportive Child Care ~ Association of AZ Food Banks
 AZ Coalition to End Homelessness ~ AZ Council of Human Service Providers ~ Casa de los Ninos
 Catholic Charities Community Services Coconino County ~ Chicanos Por La Causa
 Child and Family Resources, Inc ~ Children’s Action Alliance
 Community Action Human Resources Agency ~ Devereux AZ
 Emerge! Center Against Domestic Abuse ~ Empowerment Systems ~ Foundation for Senior Living
 Graham County Interfaith Care Alliance, Inc ~ Labor’s Community Service Agency
 Madison Street Veterans Association ~ Mentally Ill Kids In Distress ~ NAMI AZ
 NAMI Southeast Valley ~ NAMI Southeastern AZ
 National Association of Social Workers, AZ Chapter ~ New Horizons Counseling Service, Inc
 NOVA, Inc ~ Our Family Services ~ Pima County/Tucson Women’s Commission
 Protecting AZ’s Families Coalition ~ Raising Special Kids ~ Recovery Empowerment Network
 Ryle Fund ~ Service Employees International Union ~ Sojourner Center ~ The Arc of AZ
 The Board of Rabbis of Phoenix ~ The Once-A-Month Church ~ Voices for Education



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.