

ARIZONA BUDGET COALITION (ABC)

FY 2010 Budget Balancing Menu Options¹ Overview

NON-TAX INCREASE BUDGET OPTIONS:

Accounting and Fund Adjustments:

1 One Day Payment Delay to Universities ²	\$	-
2 Payment Deferrals - AHCCCS and DES	\$	142,000,000
3 Reinstate Estimated Sales Tax at 2006 Threshold	\$	55,000,000
4 Agency Fund Balance Transfers	\$	100,000,000
5 Reclaim Sales Tax Collection Fee	\$	22,200,000
6 Recognize Estimated GF Deposit from Photo Radar	\$	35,000,000
Subtotal:	\$	354,200,000

Agency Operating or Programmatic Changes:

7 Rehire Department of Revenue Auditors/Collectors ³	\$	75,000,000
8 Hire Additional Collectors/Auditors (100 each) ³	\$	55,000,000
9 5-year Prepayment of Vehicle License Tax	\$	28,000,000
10 Agency User Fee Increases (self sufficiency)	\$	56,000,000
11 Department of Corrections Home Arrest (non-violent offenders)	\$	22,000,000
12 Department of Corrections (Private Prison Fee)	\$	20,000,000
Subtotal:	\$	256,000,000

Long-Term Financing Initiatives:

13 Securitization of Lottery Revenue (up to):	\$	500,000,000
14 Securitization of Tobacco Settlement Revenue Stream (up to):	\$	900,000,000
15 Sale Lease Back of State Facilities (up to):	\$	500,000,000
Subtotal:	\$	1,900,000,000

Federal Stimulus Funds Available (ARRA):

16 Enhanced FMAP	\$	772,000,000
17 Fiscal Stabilization: Education	\$	461,250,000
18 Fiscal Stabilization: General	\$	138,750,000
19 Federal Child Care Monies	\$	32,000,000
Subtotal:	\$	1,404,000,000

Total Non-Tax Increase Budget Options: \$ 3,914,200,000

Notes:

1) While the Budget Options presented here are not intended to represent all inclusive list of available options, they have been selectively chosen from executive, legislative, and stakeholder proposals that have been vetted for plausible viability.

2) Given that this option, originally estimated at \$75 million has been utilized to address the FY 2009 shortfall, it is no longer available for FY 2010.

3) Hiring start-up and training period for new auditors and collectors required a revision of original estimates of \$120 million for numbers 7 and 8 in FY 2010. Amounts to be collected in FY 2011 for both 7 and 8 are projected to be at least \$100 million each.

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NON-TAX INCREASE BUDGET OPTIONS:

Accounting and Fund Adjustments:

1 One Day Payment Delay to Universities¹	\$	-
Delay fiscal year 2010 final payment from state to the universities by one day; i.e. make payment on July 1, 2010 rather than June 30, 2010. This effectively shifts the payment to FY 2011.		
2 Payment Deferrals - AHCCCS and DES	\$	142,000,000
Apportion the June 2010 monthly payment to DES and AHCCCS Providers (contractors) throughout FY 2011.		
3 Reinstate Estimated Sales Tax at 2006 Threshold	\$	55,000,000
Reinstate the transaction privilege tax (sales tax) estimated June payment for businesses with an annual tax liability of \$100,000 or more as was the law prior to 2007. In 2007, the legislature increased the tax liability threshold to businesses with annual tax liability over \$1,000,000. This budget option will reverse the action taken by legislature in 2007.		
4 Agency Fund Balance Transfers	\$	100,000,000
Transfer fund balance amounts from selected agencies to the General Fund. The balances transferred must be unencumbered and cannot result in job loss.		
5 Reclaim Sales Tax Collection Fee	\$	22,200,000
Eliminate the 1% sales tax collection and remittance tax credit of 1% for businesses filing monthly sales tax reports. While this tax credit may have been justified when sales taxes were collected and remitted manually with paper forms, the emergence of the electronic age substantially reduces processing costs and the credit is no longer justified.		
6 Recognize Estimated GF Deposit from Photo Radar	\$	35,000,000
Properly account for the anticipated receipt in FY 2010 of at least \$35,000,000 in proceeds from citations for speeding violations on Arizona highways. A similar amount currently being deposited in the General Fund for FY 2009 has also not been recognized or booked.		
Subtotal:	\$	354,200,000

Agency Operating or Programmatic Changes:

<p>7 Rehire Department of Revenue Auditors/Collectors</p> <p>Re-employ the 300 Dept of Revenue employees including more than 200 collectors and auditors who were laid off in February of 2009. On average each collector is responsible for collecting in excess of \$800,000 of delinquent taxes, and each auditor on average brings in more than \$400,000 to the state. Hiring start-up and training required a revision of the original estimate of \$120 million.</p>	<p>\$</p> <p>75,000,000</p>
<p>Note:</p> <p>1) Given that this option, originally estimated at \$75,000,000, has been utilized to address the FY 2009 shortfall, it is no longer available for FY 2010.</p>	
<p>8 Hire Additional Collectors/Auditors (100 each)</p> <p>Return staffing levels at the Dept of Revenue to authorized FTE levels extant in FY 2000 and further reduce outstanding tax delinquencies mostly from corporations owing delinquent taxes to the state. Hiring start-up and training required a revision of the original estimate of \$120 million.</p>	<p>\$</p> <p>55,000,000</p>
<p>9 5-year Prepayment of Vehicle License Tax</p> <p>Allow vehicle owners the option of registering their vehicles for five years instead of the current two-year option. This will bring payments from 5-year vehicle registrants into FY 2010 rather than spreading them out over the next five fiscal years.</p>	<p>\$</p> <p>28,000,000</p>
<p>10 Agency User Fee Increases (self sufficiency)</p> <p>Increase user fees and licenses in selected agencies (mostly regulatory) to reflect the real cost of providing services and to more properly reflect the market value associated with these transactions. Agencies regulating specific industries would access higher fees to ensure adequate cost coverage of providing a service.</p>	<p>\$</p> <p>56,000,000</p>
<p>11 Department of Corrections Home Arrest (non-violent offenders)</p> <p>Implement an electronic ankle bracelet home arrest program for non-violent, mostly short-term offenders, thereby effecting substantial cost avoidance (expenditure savings) within Dept of Corrections.</p>	<p>\$</p> <p>22,000,000</p>
<p>12 Department of Corrections (Private Prison Fee)</p> <p>Impose a \$5 per day inmate assessment on private prisons to cover the public safety costs borne by Arizona law enforcement for potential escapees and the risks to Arizona's citizens once these inmates are released.</p>	<p>\$</p> <p>20,000,000</p>

Subtotal:	\$	256,000,000
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Long-Term Financing Initiatives:

<p>13 Securitization of Lottery Revenue</p> <p>Securitize the existing General Fund cash flow stream thereby providing up to \$500 million of one-time capital. To accomplish this financing approach, lottery revenues would be pledged to the holders of the lottery bonds, similar to other revenue bonds issued by state agencies such as ADOT. Such a securitization would reduce annual General Fund revenues by \$45 million per year for approximately 15 years. Debt service payments would start in FY 2011 and end in FY 2026. While lottery revenues would be pledged to bondholders, the bond structure would not require changing the order of distribution of lottery revenues currently in statute.</p>	<p>\$ 500,000,000</p>
<p>14 Securitization of Tobacco Settlement Revenue Stream</p> <p>Securitize up to \$900 million of issued bonds by pledging \$90 million of the \$120 million annual Tobacco Settlement revenue stream. By amortizing \$900 million of the Tobacco Settlement revenue stream, the General Fund will need to provide the \$90 million matching requirement for AHCCCS beginning in FY 2011 and ending in FY 2026 assuming a 15-year term of the bonds.</p>	<p>\$ 900,000,000</p>
<p>15 Sale Lease Back of State Facilities</p> <p>Issue up to \$500 million of "bonds" securitized by several of the state's capital facilities. The state would enter into a lease purchase agreement with the bondholders or their trustee whereby the state would pledge to "buy back" the buildings through an annually appropriated lease payment.</p>	<p>\$ 500,000,000</p>
Subtotal:	\$ 1,900,000,000

Federal Stimulus Funds Available (ARRA):

<p>16 Enhanced FMAP</p> <p>Recognize the total estimated additional monies to be received by the state from the enhanced Federal Medicaid Assistance Percentage (FMAP). This amount is tied in part to Arizona's unemployment data under the federal stimulus package. It is a moving target but the current estimate is well over 3/4 of a billion dollars.</p>	<p>\$ 772,000,000</p>
<p>17 Fiscal Stabilization: Education</p> <p>Recognize and appropriately utilize federal stimulus dollars available to Arizona for education.</p>	<p>\$ 461,250,000</p>
<p>18 Fiscal Stabilization: General</p> <p>Recognize and utilize appropriately federal stimulus dollars available to Arizona for discretionary purposes.</p>	<p>\$ 138,750,000</p>
<p>19 Federal Child Care Monies</p> <p>Recognize and utilize appropriately federal stimulus dollars available to Arizona for child care subsidies.</p>	<p>\$ 32,000,000</p>
Subtotal:	\$ 1,404,000,000

Total Non-Tax Increase Budget Options: \$ 3,914,200,000

ARIZONA BUDGET COALITION (ABC)
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TAX INCREASE REVENUE OPTIONS:

Property Tax:

20 Continue State Equalization Tax (SET)	\$	250,000,000
21 Freeze Qualifying Tax Rate at FY 2010	\$	110,000,000
22 Lower Cap & Reduce Percentage Reduction for Homeowner Rebate	\$	50,000,000
23 Delay Business Property Assessment Ratio Reduction to 20% ¹	\$	3,000,000
24 Establish a Statewide School Capital Facilities Rate of \$0.50 ²	\$	116,000,000
25 Tax Base Equalization Formula for School Construction ³	\$	-
Subtotal:	\$	<u>529,000,000</u>

Individual Income Tax:

26 Reverse 2006-2007 Income Tax Reductions and Reinstate Previous Rates	\$	300,000,000
27 Tax Credit Suspension: Private STO's and Public School Extra Curricula	\$	100,000,000
28 Increase Tax Rate by 10% for \$250k+ earners	\$	80,000,000
Subtotal:	\$	<u>480,000,000</u>

Corporate Income Tax:

29 Rate Change - Increase Tax Rate from 6.96% to 7.96%	\$	100,000,000
30 Tax Credit Suspension: Research and Development	\$	43,700,000
31 Tax Credit Suspension: Motion Picture	\$	17,000,000
32 Tax Credit Repeal - Private School Tuition	\$	20,000,000
Subtotal:	\$	<u>180,700,000</u>

Sales Tax (TPT):

33 Base Expansion-Nail Salons, Barbers, Pet Grooming, Hairdressers	\$	35,200,000
34 Base Expansion-Technical/Trade, Dance & Exam Preparation Schools	\$	21,900,000
35 Base Expansion-Car Repair, Household Goods Repair, Maintenance	\$	99,700,000
36 Base Expansion-Warranty and Service Contracts	\$	21,000,000
37 Increase by 1/10 of 1% per kWh for All Non-Renewable Energy Production	\$	233,000,000
38 Rate Change - Increase Tax Rate by 1/4 of 1% & Include Income Tax Credit	\$	225,000,000
Subtotal:	\$	<u>635,800,000</u>

Total Tax Increase Revenue Options: \$ 1,825,500,000

Notes:

- 1) Original estimate of \$50 million for this item was based on inaccurate assumptions.
- 2) Given that the only expenditures included in the SFB Budget for FY 2010 are for debt service, SFB operating budget and building revenue, the original amount of \$400 million has been revised to \$116.6 million.
- 3) The likelihood that a tax base equalization formula for school construction could be enacted and implemented in time to affect the FY 2010 budget is very low.

ARIZONA BUDGET COALITION (ABC)

FY 2010 Budget Balancing Menu Options Summary Description

TAX INCREASE REVENUE OPTIONS:

Property Tax:

20 Continue State Equalization Tax (SET)	\$	250,000,000
Allow the State Equalization Property Tax to be reinstated automatically as provided under current law. The three year suspension of the tax was enacted due to favorable economic conditions and many in the Executive and Legislative branches intended that the tax cut would be temporary.		
21 Freeze Qualifying Tax Rate at FY 2010	\$	110,000,000
Utilize the current property tax rate for school funding during the next year. Effectively suspend for one year the provisions of law requiring a reduction in property tax rates corresponding to an increase in assessed valuation.		
22 Lower Cap & Reduce Percentage Reduction for Homeowner Rebate	\$	50,000,000
Reduce the maximum property tax rebate amount for homeowners from \$580 (FY 2010) to \$500 and reduce the percentage reduction in primary school taxes for homeowners from 38% to 33%.		
23 Delay Business Property Assessment Ratio Reduction to 20%	\$	3,000,000
Postpone the accelerated decrease in the Class 1 (commercial and industrial) assessment ratio and reinstate the original scheduled reduction enacted in FY 2005. The assessment for Class 1 properties will still decrease to 20% but will be effective for FY 2012.		
24 Establish a Statewide School Capital Facilities Rate of \$0.50²	\$	116,000,000
Setting a statewide rate of \$.50 per \$100 assessed valuation will generate sufficient revenue to fund new construction at school districts experiencing increased enrollment consistent with eligibility requirements of the School Facilities Board. (Either #24 or #25, but not both.)		
25 Tax Base Equalization Formula for School Construction³	\$	-
Return the responsibility for building and repairing schools back to the local property tax base. Through a Qualifying Tax Rate or other tax base equalization mechanism, ensure that each school district, regardless of its assessed valuation per student, has sufficient funds from local property taxes and state aid to meet minimum capital standards. This option will eliminate the need for a School Facilities Board.		

Subtotal: \$ 529,000,000

Individual Income Tax:

26 Reverse 2006-2007 Income Tax Reductions & Reinstate Previous Rates **300,000,000**

Restore the Individual Income Tax rates in effect in 2005 which means a 10% increase in all rates. The lowest rates would increase from 2.59% to 2.85% for married couples filing jointly and having less than \$20,000 in taxable income. The highest rates would increase from 4.54% to 4.99% for married couples filing jointly with taxable income above \$150,000.

Notes:

- 1) Original estimate of \$50 million for this item was based on inaccurate assumptions.
- 2) Given that the only expenditures included in the SFB Budget for FY 2010 are for debt service, SFB operating budget and building revenue, the original amount of \$400 million has been revised to \$116.6 million.
- 3) The likelihood that a tax base equalization formula for school construction could be enacted and implemented in time to affect the FY 2010 budget is very low.

27 Tax Credit Suspension: Private STO's and Public School Extra-Curricula **100,000,000**

Suspend tax credits on donations made to School Tuition Organizations for private school tuition offsets. Also, suspend tax credits for donations to public schools for extra curricula activities.

28 Increase Tax Rate by 10% for \$250k+ earners **\$ 80,000,000**

Effectively reverse the 2006-2007 Income Tax Reduction only for high income individuals and households.

Subtotal: \$ 480,000,000

Corporate Income Tax:

29 Rate Change - Increase tax rate from 6.96% to 7.96% **\$ 100,000,000**

Increase Corporate Tax Rate by 14% (from 6.928% to 7.928%) which would still be less than California's rate of 8.4% thereby, remaining competitive in attracting businesses for California concerned about their tax rates and burden.

30 Tax Credit Suspension: Research and Development (R&D) **\$ 43,700,000**

Suspend R&D Tax Credit until such time as an empirical evaluation of the effectiveness of the credit in stimulating the economy, increasing employment, and generating revenue can be definitively established and proven.

31 Tax Credit Suspension: Motion Picture **\$ 17,000,000**

Suspend Motion Picture Tax Credit until such time as an empirical evaluation of the effectiveness of the credit has been established and proven similar to the criteria mentioned above for the R&D Tax Credit.

32 Tax Credit Repeal - Private School Tuition **\$ 20,000,000**

Repeal tax credits for donations to private schools as tuition offsets.

Subtotal: \$ 180,700,000

Sales Tax (TPT):

33	Base Expansion-Nail Salons, Barbers, Pet Grooming, Hairdressers	\$ 35,200,000
	Apply sales tax to "personal services" similar to the current application to "personal products." Recommended by Citizens Finance Review Commission (CFRC).	
34	Base Expansion-Technical/Trade, Dance & Exam Preparation Schools	\$ 21,900,000
	Apply sales tax to "educational services" similar to the current application to "educational products" such as school supplies, clothing, equipment, books, etc. Recommended by CFRC.	
35	Base Expansion-Car Repair, Household Goods Repair, Maintenance	\$ 99,700,000
	Apply sales tax to "repair services" similar to the current application to "repaired or replaced products." Recommended by the CFRC.	
36	Base Expansion-Warranty and Service Contracts	\$ 21,000,000
	Expand sales tax base by including all warranties and service contracts in the TPT base. Currently, warranties purchased separately from the product are not subject to the TPT (Sales Tax).	
37	Increase by 1/10 of 1% per kWh for all non-renewable energy production	\$ 233,000,000
	Establishment of Utility Excise Tax at the power plant level for all non-renewable energy would not pose a measurable drag on Arizona's economy since much of the increased cost would be exported and paid for by consumers in other states.	
38	Rate Change-Increase Tax Rate by ¼ of 1% & Include Income Tax Credit	\$ 225,000,000
	Increase current state sales tax rate from 5.6% to 5.85% and include an income tax credit of \$25 per person in households below 100% of the Federal Poverty Level.	
	Subtotal:	\$ 635,800,000
	Total Tax Increase Revenue Options:	\$ 1,825,500,000