

Impacts of Vetoes and the July 6 Legislative Plan

The Governor's vetoes have 5 different impacts on the June 30 budget plan approved by the Legislature. The current estimated FY 2010 shortfall is \$(3.4) billion. This estimate has been revised upward to incorporate the vetoes of the K-12 and AHCCCS rollovers, which leaves the agencies without the authority to shift payments into FY 2011.

The Legislative Plan, as approved on July 6, addresses 2 of these impacts.

- The Governor's line item vetoes of lump sum reductions for certain agencies in the General Appropriation Act result in the loss of \$775 million in savings to the June 30 budget plan. This loss includes both new FY 2010 reductions as well as the continuation of FY 2009 lump sum reductions. The FY 2009 and FY 2010 reductions were incorporated into a single line item as part of the FY 2010 General Appropriation Act.

These vetoes affect the Department of Economic Security (DES), the Department of Environmental Quality, the Department of Health Services (DHS) and the Universities. The line item vetoes also eliminate a transfer of vehicle license tax monies to the General Fund and a reduction in General Fund spending related to federal stimulus funds. *See Attachment A for a list of the individual line item vetoes.*

Attachment B provides information on the level of funding for DES, DHS and the Universities in the absence of the lump sum reductions.

- The Governor's line item veto of the K-12 State Aid payment eliminated \$3.2 billion in proposed spending. Prior legislation had already authorized a \$604 million distribution to schools in July for delayed FY 2009 payments. That payment remains in place. With the line item veto, however, there was no funding for the K-12 payment owed to schools on July 15.

In the 3rd Special Session on July 6, the Legislature restored full year funding to the K-12 system. In addition to the \$3.2 billion, the Legislature added \$485 million above the June 30 plan. *See Attachment C.* This amount includes:

- \$131 million to restore student count savings from lower enrollment. These monies will not be expended, however, if the student count does not materialize;
 - \$102 million for additional inflation funding; and
 - \$252 million to restore other reductions, including \$175 million for soft capital payments. These restorations, however, essentially do not become effective until October 1.
- The vetoes may have placed the state out of compliance with federal requirements for the receipt of stimulus funds. By not providing any new FY 2010 K-12 funding, the state no longer met the federal requirement to maintain state funding at the FY 2006 level. This requirement is associated with the state's receipt of \$1.0 billion in federal stabilization funds. The July 6 funding restoration resolved this problem.

To receive the Medicaid match rate savings in the stimulus package, the state must not increase the counties' share of AHCCCS costs. The vetoed Health and Welfare BRB adjusted FY 2009 and FY 2010 county contributions to comply with federal law. Without these provisions, the state could lose \$485 million in FY 2009 and \$816 million in FY 2010 savings. In the July 6 plan, the Legislature solved this problem by again approving the necessary adjustments to the county contribution levels.

- The Governor line item vetoed several footnotes stating legislative intent with regard to the federal stabilization funding being used to backfill reductions in state spending or to provide new increases in spending. The Executive described these footnotes as legislative attempts to appropriate Federal Funds. They did not veto all these footnotes, however, as they left one intact in the Department of Corrections. In addition, the Governor did sign Laws 2009, Chapter 5, which included the same type of footnote for FY 2009.

These footnotes were not actual appropriations and were only intent statements that reflected the Governor's planned spending of federal dollars. Line item vetoes may only apply to actual appropriations so there may not have been authority to veto these footnotes. *See Attachment D for a further analysis of the impact of the vetoes on federal stabilization funds.*

- The Governor vetoed all Budget Reconciliation Bills (BRBs). If not subsequently re-instated, the vetoes of the BRBs would have a net loss to the June 30 budget plan of \$2.09 billion. *See Attachment E.* Elimination of these statutory changes would either forego new spending reductions or prevent the state from continuing the savings from prior year statutory changes. The provision with the single largest impact would be the loss of \$735 million from the sale and lease-back of state properties.

Of the \$2.09 billion, \$1.08 billion of the loss would occur without further legislative action, either in the form of foregone revenue or automatically adjusted spending levels. The remaining \$1.01 billion net loss would require legislative action to bring spending into accordance with statutory formulas.

The combination of the enacted budget, the \$775 million in lump sum restorations, the \$2.09 billion in lost BRB savings and the \$485 million in additional K-12 spending results in a projected budget shortfall of \$(3.4) billion for FY 2010.

FY 2010 General Fund Impact
Line Item Vetoes - SB 1188/HB 2643 - General Appropriation Bill

	FY 2009			
	<u>Continuation</u>	<u>1/</u>	<u>FY 2010</u>	<u>1/</u> <u>Total</u>

1/ Represents mid-year FY 2009 lump sum reductions continued in FY 2010. The FY 2010 column represents new reductions in addition to the FY 2009 continuation.

2/ Includes \$15 million from Section 57 of HB 2643.

3/ While the fund transfer was vetoed, the spending reduction was left in place.

4/ Restored as part of the 3rd Special Session.

Veto Impact on Major Agencies -- General Fund

	Original FY 2009	Revised FY 2009	With Vetoes FY 2010	% Change FY 10 Over FY 09 Rev	\$ Change FY 10 Over FY 09 Rev
			(\$ in millions)		
Economic Security, Department of <u>1/</u>	\$ 808.3	\$ 727.3	\$ 802.1	10.3%	\$ 74.8
Health Services, Department of	611.5	574.4	638.2	11.1%	63.8
Universities <u>1/</u>	1,080.4	938.9	1,078.6 <u>2/</u>	14.9%	139.7

1/ Excludes the payment deferrals of \$25 million in DES and \$100 million in Universities in the "Revised FY 2009" and "With Vetoes FY 2010" columns.

2/ In addition to this General Fund amount, the Universities would receive \$154.1 million in Federal Stabilization Funds (from FY 2009) as long as the state continues to qualify for these funds.

General Fund Detailed List of Budget Changes

	Revised GF FY 2009	FY 2010 GF Baseline	FY10 over '09 As Transmitted	July 6 Restorations 1/	FY 2010 Enacted	FY 10 Enacted Subtotal
ADE - Arizona Department of Education	\$4,003,927,700					
ADE - Formula Changes/No Growth/Cap ADM at 1.0/TNT and SEI		(130,717,900)		\$130,717,900	\$0	
ADE - Rollover		330,886,200			\$330,886,200	
ADE - Fund Base Level Inflator (Above Transportation)				\$102,093,100	\$102,093,100	
ADE - Loss of Disabled/Displaced Student Vouchers			(\$5,000,000)		(\$5,000,000)	
ADE - Operating Lump Sum Suspension/Reduction			(\$4,216,700)		(\$4,216,700)	
ADE - Salary Lump Sum			(\$692,400)		(\$692,400)	
ADE - FY 09 Annualization			(\$530,000)		(\$530,000)	
ADE - District Lump Sum Suspension/Reduction			(\$175,000,000)	\$175,000,000	\$0	
ADE - Limit Tax Rate Increase of 1% Cap Districts			(\$800,000)	\$800,000	\$0	
ADE - TAPBI ADM Funded at 85%/95%			(\$10,000,000)	\$10,000,000	\$0	
ADE - Career Ladder Suspension			(\$3,868,100)	\$3,868,100	\$0	
ADE - Desegregation Hard Cap			(\$797,900)	\$797,900	\$0	
ADE - No Early Kindergarten Repeating			(\$11,200,000)		(\$11,200,000)	
ADE - GPLET Valuation Offset			(\$4,000,000)	\$4,000,000	\$0	
ADE - Homeowner's Rebate - Property Tax Reform			(\$48,317,800)	\$48,317,800	\$0	
ADE - Suspend Early Graduation Scholarship Program			(\$4,682,800)	\$4,682,800	\$0	
ADE - Reduce Charter Additional Assistance			(\$5,000,000)	\$5,000,000	\$0	
Total			(\$274,105,700)	\$485,277,600	\$411,340,200	4,397,267,900

1/ Legislature restricted some of the \$252 M in restoration from occurring until October 1st, including soft capital

Governor Vetoes --
Allocation of Federal Stabilization Funds and Impact on State Agency Budgets*

	<u>6/30 Plan</u> <u>FY 2009</u>	<u>6/30 Plan</u> <u>FY 2010</u>
<u>K-12</u>		
GF Budget <u>1/</u>	4,226,080,400	4,226,080,400
GF Baseline Changes <u>2/</u>	0	(98,209,200)
GF Baseline Budget	4,226,080,400	4,127,871,200
BSA and ASA Reductions	0	(209,750,900) <u>3/</u>
Property Tax Shifts	0	(53,915,700) <u>3/</u>
VLT Shift	0	(22,000,000) <u>3/</u>
ARRA Reduction <u>4/</u>	(250,000,000) <u>5/</u>	(222,114,000) <u>6/</u>
Revised GF Budget	3,976,080,400	3,620,090,600
Stabilization Fund/Backfill	250,000,000 <u>5/</u>	222,114,000 <u>7/</u>
Post-Stabilization Budget (GF + Fed. Funds)	4,226,080,400	3,842,204,600
Net Impact (Pre-Post Stabilization Funds)	0	(285,666,600)
Net Total Impact After Shifts	0	(209,750,900)
<u>Comm. Colleges</u>		
GF Budget <u>1/</u>	137,679,800	137,679,800
GF Baseline Changes	0	7,493,800
GF Baseline Budget	137,679,800	145,173,600
Reduction	0	(10,829,300)
Revised Budget	137,679,800	134,344,300
Restoration <u>1/</u>	28,671,000 <u>7/</u>	29,825,900 <u>7/</u>
Post-Stabilization Budget (GF + Fed. Funds)	166,350,800	164,170,200
Net Impact (Pre-Post Stabilization Funds)	28,671,000	26,490,400
<u>Universities</u>		
GF Budget <u>1/</u>	920,390,100	920,390,100
Reduction	0	(40,000,000) <u>8/</u>
ARRA Reduction <u>4/</u>	0	(10,000,000) <u>8/</u>
Revised Budget	920,390,100	870,390,100
Stabilization Fund/Backfill	0	10,000,000 <u>7/</u>
Restoration <u>8/</u>	154,138,300 <u>7/</u>	136,000,000 <u>7/</u>
Post-Stabilization Budget (GF + Fed. Funds)	1,074,528,400	1,016,390,100
Net Impact (Pre-Post Stabilization Funds)	154,138,300	96,000,000
<u>General Purpose</u>		
Dept. of Corrections ARRA Reduction <u>4/</u>	0	(50,000,000) <u>9/</u>
Dept. of Corrections Stabilization Fund/Backfill	0	50,000,000 <u>9/</u>
DHS ARRA Reduction (Community Health Centers) <u>4/</u>	0	(11,600,000)
DHS Stabilization Fund/Backfill	0	11,600,000 <u>7/</u>
DES ARRA Reduction (Autism and State-only DD) <u>4/</u>	0	(17,300,000)
DES Stabilization Fund/Backfill	0	17,300,000 <u>7/</u>
DES Restoration (CPS/Adoption/Children Services)	0	26,000,000 <u>7/</u>
Unallocated General Purpose Funds	0	80,185,800
Total Stabilization Funds Used	432,809,300	583,025,700

* Chart has not been adjusted for July 6 K-12 Restoration

1/ The FY 2009 and FY 2010 budget estimates are from the Governor's Fiscal Stabilization Fund application and represent incurred obligations.

2/ Only includes baseline changes to Basic State Aid and Additional State Aid

3/ Line item veto of entire basic state aid/additional state aid appropriation

4/ American Recovery and Reinvestment Act reduction. These reductions are taken in addition to the other reductions listed above and are backfilled with Stabilization Fund monies. In total, these figures comprise the \$311,014,000 of Stabilization Fund savings listed in other budget documents.

5/ The \$(250) million reduction and the intent statement regarding the use of these federal funds to backfill this reduction were enacted as part of Laws 2009, Chapter 5.

6/ Line item veto of spending reduction

7/ Line item veto of intent statement regarding use of stabilization funds.

8/ These funds will be received at the end of FY 2009 and in the first half of FY 2010, and may be spent through FY 2011.

9/ Unlike other ARRA reductions and intent statements in HB 2643, this was not line item vetoed.

General Fund Impact
Veto to 6/30 Plan BRBs
Figures Reflect Lost (Gained) Savings

	FY 2010
	(\$ in millions)
<u>Criminal Justice</u>	
ADC concession agreement (R)	100.0 *
Prison/state building sale/lease-back (R)	735.0 *
ADC AHCCCS rates	26.0
Courts JCEF probation surcharge increase	1.4
DPS HURF/Highway caps	99.2
DPS garage expansion (L. '07, Ch. 261)	2.5 *
DPS - Crime Lab 9% CJEF/Defensive Driving (R)	(14.8) *
DPS - Crime Lab Spending	14.8
Justice of the Peace Salaries	1.1
	<hr/> 965.2
<u>Environment</u>	
Agriculture - Disease Inspections	0.3
Use Heritage Fund for Fire Suppression	3.0 *
Land Department Self-Funding	6.5 *
Parks Board Land Conservation Interest	2.0
Suspend Water Protection Fund	5.0 *
	<hr/> 16.5
<u>General Government</u>	
Military Installation Fund deposit (L. '04, Ch. 235)	2.8 *
21st Century Fund appropriation (L. '07, Ch. 260)	25.0 *
Governor's Emergency Fund	1.1 *
Personnel Board	0.3
Tourism funding formula	5.3 *
Midnight Reversion (non-lapsing funds)	50.0 *
	<hr/> 84.5
<u>Health & Welfare</u>	
KidsCare Parents elimination	5.5
AHCCCS elimination of dentures as covered service	6.2
AHCCCS reimbursement rates	63.0
AHCCCS Rollover	117.9
Cord Blood (Regenerative Tissue)	1.0 *
DES TANF drug testing	1.8
DHS RTC: 100% reimbursement all entities	3.4
DHS SVP: 25% reimbursement all entities	2.1
DHS Assurance & Licensure	4.5
	<hr/> 205.4
<u>Higher Education</u>	
Community Colleges capital outlay	20.1
Community Colleges operating lump sum	9.2
Community Colleges hold harmless	1.7
Universities financial aid match	2.0
	<hr/> 33.0

	FY 2010
	(\$ in millions)
<u>K-12 Education</u>	
ADE changes: See feed bill line-item veto	N/A
SFB Building Renewal	227.9
K-12 Rollover	602.6
	<hr/> 830.5
<u>Revenues</u>	
State Equalization Tax	(250.0) **
Agriculture - Fees	0.4
Cities VLT shift	22.0
Corporation Commission Fees (R) - Public Access	(2.6) *
Corporation Commission - Public Access Spending	2.6
Corporation Commission Fees - Securities	0.8
Liquor License Fees (R)	(2.8) *
Liquor License Spending	2.1
County Lottery distributions (R)	4.1 *
Lottery - 2 added distributions (R)	4.0 *
Racing - Pari-Mutuel Fees (R)	5.3 *
Unclaimed Property shift to DOR Admin Fund	24.5
Unclaimed Property acceleration (R)	73.6 *
5-Year VLT shift (R)	28.0 *
Maricopa/Pima County deposit to GF (R)	22.0 *
Nonresident taxpayers standard deduction prorated (R)	22.0 *
	<hr/> (44.0)
<u>State Properties</u>	
Agriculture Lab Rent Savings	0.3
Total - All BRBs	2,091.4

* These impacts would occur automatically without further legislative action.

** The State Equalization Tax would be restored without further legislative action. While the tax would lower the ADE General Fund State Aid formula requirement, ADE's General Fund appropriation would need to be reduced to account for this offsetting revenue source. This savings would appear as a year-end revertment assuming ADE's full year appropriation is restored.

R = Represents loss of revenue (\$994 million). Other items represent spending adjustments.