

As recommended by the GPCC Budget & Tax Committee, 9/09

As recommended by the GPCC Public Affairs Committee, 9/25/09

As reviewed by the GPCC Board of Directors, 10/23/09

As approved by the GPCC Board of Directors, 12/2/09

## **Greater Phoenix Chamber of Commerce 2010 Budget Principles**

### **Plan Strategically**

Over the last several years, the Greater Phoenix Chamber of Commerce has expressed serious concerns with Arizona's fiscal model. The natural tension that usually exists between spending priorities and revenues, which acts as a limiting force on excess spending, has been largely circumvented in favor of overly optimistic revenue forecasts, short term bridges and the temporary infusion of dollars. Combined with reluctance to increase taxes and the most severe economic downturn since the Great Depression, Arizona's fiscal ship of state is in serious jeopardy.

It is important to recognize that Arizona is no longer a rural western state with a small population base and relatively simple budget. Today, Arizona's capitol is the 5<sup>th</sup> largest city in the country and the state's population numbers over 6.5 million. No longer is it enough to adopt yearly budgets in a vacuum without long term planning or considering the impact on out years. Budgets that focus only on the subsequent twelve month fiscal cycle tend to be reactive and rely on short term remedies. Policy makers should begin to construct proactive strategic budgets that provide sensible short term solutions combined with long term growth opportunities.

### **Invest in Arizona**

Arizona policy makers must develop a comprehensive economic development strategy to compete with other states in the western region. The population growth that has fueled our economy for the past two decades is certain to be a vital part of our economy for many years to come. However, Arizona needs to develop strategic measures that will complement the housing sector and bring new high wage, skill jobs to our state. Specific areas to consider include:

- Targeted incentives that provide a healthy return on investment to the state while protecting the interests of taxpayers
- A robust university system which includes world class research capabilities, strong undergraduate programs and a close working relationship with the private sector.
- Investments in Arizona's K-12 structure that maximize the learning potential of our children.
- A comprehensive statewide transportation model that can accommodate future population growth and the needs of the private sector to move goods and services in an efficient manner.

### **Establish Best Practices**

Policy makers should strive to abide by budgeting best practices during this

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extraordinary period of reduced revenues.

- **Major Policy Shifts:** As Arizona faces the largest budget deficit in its history, policy makers are considering a variety of substantial shifts in policy including: increasing taxes, rollovers, borrowing and cost shifts. Under such circumstances, it is imperative that policy makers establish a process whereby stakeholders have the opportunity to provide input and assist where possible and appropriate. Any decisions to increase taxes, borrow or shift costs should be done with a full understanding of the consequences to taxpayers, the state, and other stakeholders.
- **Budget forecasting:** Best practices should include a thoughtful assessment of the dynamic impacts of policy and budget proposals, augmenting the traditional static analysis. Additionally, the Executive and Legislative leaders should work together to formulate a comprehensive revenue forecast utilizing the Finance Advisory Committee (FAC).
- **Fiscal early alert system:** Much like the private sector, the Executive and Legislative leaders should establish a budget triage process triggered upon a substantial decline in state revenues, a natural disaster or national emergency. Once triggered, a comprehensive analysis should be conducted to determine the potential threat to the state, along with recommendations for risk mitigation, including calling the Legislature into Special Session. This proactive approach will provide policy makers with the additional time and information to deal with rapid change.

### **Implement Responsible Revenue Enhancements**

Recognizing that additional state revenues will be necessary to resolve the short term budget crisis and structural deficit, implement revenue enhancements that will not negatively impact the business community's critical role in the recovery of Arizona's economy.

### **Solutions**

- **Spending:** The state cannot continue spending at current levels, with no commensurate permanent cuts. Agencies, programs and funds should be carefully evaluated in order to identify duplication of effort, inefficiencies, and to align their mission with the state's priorities. Policy makers must strive to make thoughtful reductions in spending that result in long term savings and don't jeopardize federal funds or fail to recognize appropriate case load growth. Lawmakers should continue strong transparency and accountability procedures that have been proven to be effective in preventing waste, fraud, and corruption.
- **Federal Funds:** Federal dollars will play a significant role in balancing the state budget. However policy makers should utilize these revenues judiciously, recognizing that once exhausted, the state will once again be responsible for

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filling the funding gap. Not doing so will have the effect of exacerbating the structural deficit in the out years and put the state in a more precarious fiscal position than it is today.

- **Initiative/ Referendum Reform:** The initiative process is a critical component of Arizona's democratic process, one that provides an important check on the power of the Legislature. However, in recent years, changes to this process have limited options available to policymakers during tough economic times. In particular, the Voter Protection Act has created a fundamental imbalance in our constitutional system of checks and balances by essentially prohibiting the Legislature from making any changes to a voter-approved initiative. A string of initiatives that failed to identify a sufficient revenue stream are now the obligation of the General Fund. Policy makers should consider a number of reforms that would provide for additional flexibility and transparency. Some reforms to consider include:
  - After a set number of years, a voter-approved measure should be re-referred to the people. As circumstances change, voters should have the opportunity to re-evaluate public policy initiatives.
  - As required by all voter approved initiatives passed since 2004, measures which rely on the General Fund should be amended to provide an independent funding source.
  - If a voter-approved initiative cannot be implemented due to unintended consequences, lawmakers should have the flexibility to make the corrections necessary to carry out the will of the people.
  - Establish a transparent process for the public and legislators to review proposed initiatives and provide input, prior to actually getting on the ballot.
- **State Retirement System Review**

The state retirement system is long overdue for a comprehensive review. The state should reform the retirement system in ways that will ensure the system is financially sound and will not cause unexpected and excessive costs to the state or the employees. As most entities are moving their retirement systems away from defined benefit plans for new employees, the state should consider similar reforms as well as other changes that keep costs in check.

### **Do no Harm**

- **Tax increases:** Raising taxes is always a difficult proposition, even in the best of times. This year, with the economy in a deep recession and revenues at historical lows, the state is simply spending more than it's collecting. The result is a budget deficit between three and four billion dollars. Before entertaining a tax increase:
  - Every effort should be made to first identify and implement thoughtful, permanent reductions in unnecessary state spending, leaving no options off the negotiating table.

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- *All* areas of the tax code should be evaluated for impact to the economy, stability and potential revenue with an understanding that business property tax is the most onerous tax on businesses in Arizona.
- **Hidden Taxes:** Shifting costs from the General Fund to a program or political subdivision can result in a savings to the state. However, shifting costs away from the state does not mean that those costs will disappear. Accordingly, policy makers should treat cost shifts with the same careful consideration as a sales property or income tax increase.
- **Fund Sweeps:** Strong emphasis should be focused on restoring those swept dollars that were diverted to balance the budget. All efforts should be made to eliminate fund sweeps as a budget balancing tool.
- **Rollovers:** Arizona has employed a number of budget tactics to enhance revenues without increasing taxes, such as the K-12 Rollover (delaying end of year state aid payment(s) to the K-12 school system until the following fiscal year). While this tactic provides short term cash, if the downturn in the economy is longer than one year, it becomes a dangerous precedent. By not making all the payments to state aid in a given year, the state has made more dollars available but the effect on the succeeding year(s) is considerable. In the succeeding year, even if the same amount of rollover is repeated, revenues must be enough to cover the same amount of state aid payments as were made in the preceding year, along with the payment that was rolled over from the preceding year. If revenues for subsequent years, once the rollover is used, are not strong, additional amounts will have to be rolled over. Thus, more and more expenditures are delayed until the following year.
- **Debt:** Lawmakers must exercise fiscal discipline to limit the state's ongoing exposure to debt and serious considerations should be given to the following:
  - **Spending:** Every effort should be made to limit the state's spending before entering into debt, thereby limiting the state's need for future debt.
  - **Borrowing Terms:** All efforts should be made to negotiate the best terms for any debt instrument selected. The debt instrument should not include any prepayment penalties for early retirement. Regardless of the debt term established within the debt instrument, payback of the debt should be accomplished within a maximum term of ten years. The state should establish state revenue benchmarks that, when reached, will automatically begin debt repayment to ensure repayment is made within, or before, the ten year term.
  - **Amount of Debt:** When determining the amount of debt to enter into, the state should consider the effect of the debt on the state's bond rating. All efforts should be made to maintain the state's bond rating as high as possible.