

Summary of Federal Stimulus Bill
American Recovery and Reinvestment Act
Monies to Help Close Arizona's Budget Deficit

- The federal stimulus bill, officially known as the American Recovery and Reinvestment Act (ARRA), is a \$790 billion bill that includes tax cuts, infrastructure finance, and grants-in-aid to states and local governments as well as individuals, all intended to support increased employment, income and, hence, purchasing power over the next 6 to 30 months.
- The Federal Funds Information for States (FFIS) provides estimates of the potential additional federal aid for states and localities for some 43 programs totaling \$223 billion that are funded under the ARRA. According to FFIS, Arizona can potentially receive an additional \$4.4 billion, which ranks 15th highest amongst the 50 states.
- Major additional grant monies for Arizona are in the Medicaid (Title 19) funding and the State Fiscal Stabilization Funds (SFSF) categories. Some \$90 billion of Title 19 Medicaid monies are added over a 9-quarter period from 10-1-08 through 12-31-10, with Arizona's share estimated to be nearly \$1.9 billion.
- A total of \$53.6 billion was included for SFSF purposes, which breaks out as \$5 billion for state incentive grants and innovation awards for K-12 education, and \$48.5 billion in support of restoring or avoiding state budget cuts that would otherwise occur. Arizona's estimated share of the \$48.5 billion (which is formula-based) is \$1.02 billion. Arizona's share of the \$5 billion of incentive-innovation monies cannot be determined at this time.
- Each state is required to use a minimum of 81.8% of the SFSF monies for education and a maximum of 18.2% for general government purposes, which may include education. For Arizona, according to FFIS, the estimated breakout of our \$1.02 billion is a minimum of \$832 million for education and \$185 million for general government purposes, including education.
- Quite importantly, the ARRA directs the Governor of each state to first use these monies to restore K-12 formula funding and Higher Education funding in Fiscal Years 2009, 2010 and 2011 to the higher of their funding levels of FY 2008 or FY 2009. Specifically, the ARRA directs the monies to be used, where possible, to allow existing formula increases for elementary and secondary education for FY 2010 and FY 2011 to be implemented; and, the ARRA goes on to say the Governor shall use these education monies "to provide, in each of fiscal years 2009, 2010, and 2011, the amount of funds to public institutions of higher education in the State that is needed to restore State support for such institutions excluding tuition and fees paid by students) to the greater of the fiscal year 2008 or fiscal year 2009 level."
- The bill includes maintenance of effort requirements--in order to qualify for SFSF monies, states must maintain funding levels for education at least at the FY 2006 level. While states can request a federal waiver of the MOE requirement, education's share of the budget cannot be reduced (meaning all other areas of the budget would need to be cut proportionately if a federal waiver is granted).

- ARRA also includes a very important "Shortfall" provision that says that if the SFSF are insufficient to fully restore education funding in fiscal years 2009, 2010, and 2011 to the greater of fiscal year 2008 or 2009 levels, the Governor "shall allocate those funds between those clauses in proportion to the relative shortfall in State support for the education sectors." This language is critical since Higher Ed is being targeted for disproportionately large cuts.
- Another "wild card" is the language for K-12 that requires the Governor to attempt to fully fund the existing funding formulae in FY 2010 and FY 2011. This is an uncertainty because the JLBC baseline budget does not provide inflation funding and other funding increments that the K-12 community may believe needs to be reflected in the restoration target prior to apportioning the limited SFSF monies amongst the educational sectors.
- It appears that the University System is best served by taking a position that the Governor should first use the SFSF monies to restore all sectors of education to the higher of their FY 2008 or original FY 2009 levels in FY 2009. For the System, this would mean \$154.1 million to bring funding in FY 2009 back to the FY 2008 level. Next, the remaining dollars would be apportioned amongst the three sectors of public education in a pro rata fashion, to lessen the impact of any cuts proposed for FY 2010. However, each of these scenarios may be upended if the Governor chooses to use SFSF monies to help offset any further revenue shortfall in the current fiscal year.
- The stabilization dollars were made available for application by the Governors upon the bill's enactment (it was signed into law by President Obama on Feb. 17). The Governor must indicate her intent to apply for these funds within 45 days and to allocate these monies within 2 years or they would revert for redistribution to other states. If a Governor is unwilling to apply, there is a process for the Legislature to make application, but that is not a likely scenario for Arizona.
- The Universities must use SFSF monies for general and education purposes, and in a way that mitigates the need to raise tuition for in-state students. Monies may also modernization, renovation or repairs of educational facilities primarily used for instruction, research or student housing (not athletic or student-related facilities) and are consistent with a recognized "green" building system.
- Language was added defining "fiscal year" as having the meaning given under state law.
- Other significant amounts of money are included for K-12 education, but it is not clear whether the monies can be used to supplant state funding at this time.



Arizona State Senate

January 26, 2009

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Gentlemen:

I have read several recent statements from each of you regarding the impact reductions to your state appropriations could have on our state universities. I understand and respect your concerns.

Every day, reports cross my desk that provide new details on the deepening economic recession. Some of these reports include statistics and analyses generated by economists from Arizona public universities.

Page 2

January 26, 2009

Many of your statements to the press have expressed a desire to work with the Legislature and to put your analytical resources to work to help us deal with our budget deficit. Some of you have also suggested that tax increases be enacted to avoid reductions in university spending. I am taking you up on your offer and want to know more about what you may have in mind. Allow me to suggest an approach the Legislature may find helpful.

Please have the appropriate faculty and researchers in your institutions provide a compilation and analysis of economic indicators relating to the private sector in a manner that contrasts, where applicable, with similar data specific to the public sector of our economy.


I would ask that this report on the relative economic status of the private and public sectors include, but not necessarily be limited to, the latest information on the following:

- Job losses or pay reductions
- Employee retirement accounts
- Home foreclosures
- Business and department/agency closings
- Reductions in revenue generated by taxable activities, incomes, values, etc.
- Impact of credit market changes and access to capital
- Impact of current taxation levels on economic activity as well as the impact of specific tax increases you may have in mind.

I ask that these compiled reports be submitted directly to each of you and that you then forward these reports to me with your recommendations (collectively or individually, as you prefer) on what additional cuts or tax increases you would propose in the context of the economic situation these reports describe.

You have expressed a desire to avoid enacting policies that will, as President Crow alluded, cause Arizona to resemble a Third World country. I understand the point through the hyperbole. I would only add that I also wish to avoid tax policies that protect and expand government institutions at the expense of Arizona citizens and businesses that are simply hoping government will not exacerbate their current problems.

Sincerely,



Robert L. Burns

RLB:meh

Fiscal Alternative Choices Team (FACT)

Objective

To present to the Legislature, Governor and citizens of Arizona a broader range of policy options for addressing the FY 2010 budget deficit, and to better manage the impact of the national business cycle on state and local budgets for FY 2011 and beyond.

Team Composition

The FACT consists of a dozen experts on state-local finance from Arizona's Universities and the Board of Regents. Included are the leading economists for each University responsible for economic and state revenue forecasting. The Board-designated leader of FACT is a former Executive Director of the Joint Legislative Budget Committee (JLBC) from 1985-1997, and the former Deputy Chief of Staff for the Governor from 1997-2000.

Schedule

An initial FACT telephonic meeting was held on Friday, February 6th at ABOR offices. This initial meeting was focused upon the work of University and ABOR economists in establishing a baseline for Arizona's economy and public sector spending, particularly in light of the questions posed by Sen. President Bob Burns.

The FACT will be meeting weekly over the months of February and March, with a goal of producing a report with fiscal policy alternatives by March 31st.

Approach to the Work

The Joint Legislative Budget Committee has done a good job of laying out numerous budget cutting strategies for all state agencies. The Appropriations Chairmen have presented a balanced budget alternative for FY 2010 that relies entirely on budget cuts to bring the state budget back into balance.

The FACT approach will be to first focus on strategies for creating a balanced budget for FY 2010 that does not rely exclusively on budget cuts. We will look at alternative strategies for producing a balanced state budget that will include an examination of Arizona's share of new federal grants from the federal stimulus bill, increased revenue from tax law changes, and accounting changes to either accelerate the receipt of revenues owed the state, or to reduce current spending through borrowing or delaying certain payments.

FACT will next look at ways to improve Arizona state government's ability to weather future economic recessions, particularly deep downturns such as the current slump. These longer-range recommendations may include structural reforms to Arizona's tax structure, changes to state-local responsibility for funding education, and reforms to Arizona's Budget Stabilization Fund or other means of dealing with revenue and expenditure volatility.

ARIZONA BOARD OF REGENTS

Fiscal Alternative Choices Team (FACT)

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7 Questions for FACT leader Ted Ferris

He is leading a new task force that will look for innovative ways to balance the state budget

Feb. 8, 2009 12:00 AM

The Arizona Republic

Ted Ferris knows his way around budgets and [state government](#). That experience will be relied on as he heads a new task force called FACT, or the Fiscal Alternatives Choices Team, a group of university economists and business-school faculty and administrators. The group, created by the Arizona Board of Regents, will identify options for solving the state's fiscal crisis. Legislators are looking at a \$3.6 billion shortfall for fiscal 2010.

Ferris served as [executive director](#) of the Joint Legislative Budget Committee for 12 years. He was deputy chief of staff for Gov. Jane Dee Hull from 1997 to 2000. And he was president/CEO of the Arizona Sports and Tourism Authority from 2001 to 2008. Ferris, of Cave Creek, is principal member of Quadpro Consulting, which provides consulting services in the areas of public finance and government relations, as well as sports facility development, financing and operations.

Republic: *What do you hope to accomplish with FACT?*

Ferris: To present to the Legislature, governor and citizens of Arizona a broader range of policy options for addressing the fiscal 2010 budget deficit, and better managing the impact of the national business cycle on state and local budgets.

Republic: *What will be the guiding principles of this group?*

Ferris: Initially, nothing is off the table in order to make sure that a wide range of options are considered for inclusion in the final set of budget-balancing options. Secondly, options that can be considered for fiscal 2010 will be separated from those that would impact fiscal 2011 and later years.

Republic: *What's the biggest thing you learned about state budgets in the many years you dealt with them?*

Ferris: That long-range budget planning is difficult when most decisions are based upon a two- or four-year election cycle. One of the most forward-thinking and strategic budget-planning decisions made was the establishment of Arizona's "rainy-day fund" in the early 1990s. However, the Legislature chose to not allow Arizona's Budget Stabilization Fund to build up to the level necessary to deal with a deep recession such as that being experienced today. The economic analysis at the time called for the fund to reach 15 percent of general-fund revenues at its maximum, but the Legislature chose to impose a cap of 7 percent. The depth of the current recession suggests that even 15 percent is inadequate for an economy and tax structure with the volatility of ours.

Republic: *Will you be looking for specific areas to recommend cutting in the state budget? Efficiencies?*

Ferris: The Joint Legislative Budget Committee has done a good job of detailing a wide range of budget-cutting options, so our focus will be to provide a range of other options not reflected in the appropriations chairmen's options.

Republic: *Are new or higher taxes on the table as part of the "budget-balancing options" being talked about?*

Ferris: While no one wishes to raise taxes in a recession, we would expect that the group will look at options for raising revenues to the state in the short run until growth provides for a resumption of revenue growth. A

particular challenge will be to see if there are ways to increase revenues without having to raise taxes. In the longer run, Arizona needs to evaluate its tax structure to determine whether it is optimal from a variety of standpoints, not just revenue generation, but economic competitiveness and predictability.

Republic: *Some might call FACT a fiscal Dream Team, given that it is made up of university economists and business-school faculty and administrators. At the same time, given the makeup and the fact it was set up by the Board of Regents, isn't it to be expected that it will try to protect the universities' budgets?*

Ferris: The university system certainly includes many talented people and institutional resources that should be drawn upon from time to time to assist [public policy](#) makers. After all, they care about the fiscal health of the state, too.

It is no secret that university budgets are one of the biggest targets for budget cutting in a downturn, as was just demonstrated once again with the midyear cuts for fiscal 2009. While the universities represent roughly 10 percent of the state general-fund budget, they sustained roughly 24 percent of the midyear cuts. The Board of Regents believes the budget cuts proposed for fiscal 2010, on top of those already enacted in fiscal 2009, would seriously damage Arizona's higher-education system and our economic-growth potential.

It's also important to note two things: First, the universities and regents were asked by Senate President Bob Burns and Speaker Kirk Adams to pull together university experts to explore and suggest alternatives to cuts. FACT is the response to that request. Second, once a proposal containing fiscal alternative choices is brought forward from this regents/universities collaborative effort, they will be vetted by an advisory group of private-sector economists and public-finance experts before being forwarded to legislative leaders.

Republic: *How much more difficult is it going to be to deal with a \$3.6 billion deficit for fiscal 2010 than it was trimming \$1.6 billion from the fiscal 2009 budget?*

Ferris: Potentially far more difficult because the cuts in many cases will be on top of cuts made in the prior year. Furthermore, any temporary savings through measures such as furloughs would have to be achieved through elimination of programs and layoffs, or in the case of the universities, through closing entire departments, schools or campuses. That is why the effort to develop a broader range of policy choices for addressing the state's deficit is so important.