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## Hear me out: What must Arizona do to fix its budget deficit?

PHOENIX -- The nation faces tough questions in tough times, and there are people on both sides of every issue.

Arizona is no different. But who's saying what about the issues important to Arizonans?

ABC15.com has launched a weekly segment called "Hear Me Out," and each Sunday we're debuting an Arizona issue - along with two opposing sides on the topic.

Don't worry, you always have the opportunity to make comments at the bottom of the page. Yeah, your opinion matters too.

This week we're tackling Arizona's budget crisis.

The Arizona legislature will reconvene this week for the 2010 session. Right now, the state faces a \$2 billion deficit.

Some say the state could have avoided large cuts if it had frozen spending back in 2007. They also claim we're already out of most options.

Others suggest that closing tax loopholes is a smart, simple budget-balancing solution.



By Dean Martin  
Arizona State Treasurer

Arizona's government is running on empty. It is literally out of cash because state leaders ignored warnings, and failed to believe that the fuel gauge was dropping. Now we need leaders to act quickly and transparently to fix the mess.

Back in March of 2007, when the state had \$2.4 billion cash in the bank, I warned that a recession was coming and the state needed to slow the rate of spending. However state leaders ignored our warnings and continued to grow general fund spending by 10.5% in FY08 while revenue dropped by 9% (depleting cash on hand to \$1.8 billion).

However this was just the beginning of the fiscal woes of the State of Arizona. In 2008 I warned revenues would drop by 13.7% and at the rate of current spending the entire \$1.8 billion in cash on hand would be wiped out by April 15, 2009. The Governor called me "Chicken Little" for that forecast,

would later grow operating liabilities of the State by another 6.6%.

However "Chicken Little" turned out to be an optimist, actual revenues dropped by 19%! As you may imagine, with revenues dropping and spending still rising, the state was destined to run out of cash, which it did as we predicted on April 15, 2009.

Now the state is broke, not only has it spent the entire \$2.4 billion it had in cash back in 2007, it has needed to borrow more than \$900 million in cash just to keep the lights on. We expect the cash situation to continue to deteriorate in January.

So how are we keeping the lights on in Arizona? Currently we have \$500 million in internal borrowing capacity from state investment accounts and \$700 million that Bank of America has provided the state through a competitive bid process. This gives the state a maximum overnight borrowing of around \$1.2 billion.

If the Executive branch continues to write checks in excess of the \$1.2 billion of borrowing capacity, then the only choice we have at the Treasurer's office is to issue IOUs to pay bills. After nearly three years of warnings, and only a matter of weeks away from sending IOU's, fortunately, the Governor's office has finally instructed state agencies to slow down spending. However, it may be too little, too late, to save the state from the fiscal crisis.

The solution is simple; you cannot spend more than you make (for very long). The State could have avoided large cuts if it had just frozen spending back in 2007. But now it has limited choices, without any reserves left, borrowing maxed out, and stimulus funds coming to an end, the State needs to return spending to sustainable levels.

Recessionary budgets are similar to a patient with frostbite. Act quickly and you may only lose a toe, wait and you may lose a foot, wait too long and you may lose your leg. Fail to act and you will lose the patient. At this point the budget situation has deteriorated to the point where the opportunity to save the foot or leg has been lost; it is now a question of what must be done to save the patient.

We need a sustainable budget. Leaders need to be honest with the public, the promises made over the last couple of years were made with money we never had.

Going back to a budget we can afford is the only fair and equitable way to deal with this problem. Revenues are coming in at 2004-2005 levels. They could return Arizona to solvency by just adopting the 2005 budget. If everyone gets what they got in 2005, we can start moving forward again.

Now a few state leaders will tell you that legislative budget process is complicated; which of course something built by committee and shaped by special interests protecting their pet projects would be very complicated. However our State's cash problem is not complicated, we simply do not have the money to spend more than we had in 2005.

We will need to ask for a waiver from the Federal Government for some of the expensive strings attached to the stimulus bill, (just as Florida and other states

have been granted) and allow us to spend at more sustainable 2005 levels.

We will also need to go back to the voters to fix a few things that have been on the ballot in the last few years. Voters approved Proposition 204 ten years ago because they were promised "free" increases in welfare benefits under the state's Medicaid plan paid for by tobacco settlement money. Unfortunately the voters were never told that the General Fund would pick up the tab if the settlement money wasn't enough.

As a result the taxpayers have been forced to pay hundreds of millions of dollars a year to pay for a program that was advertised as "free". In fact as a result of this program we have more people on welfare in Arizona than we have in school!

This time we should give the voters an honest and transparent choice on how to fix the problem. Option A: lower benefits so the program is self-sufficient from tobacco money as originally advertised. Option B: if the voters want to keep the high cost "Mercedes" benefits, a permanent tax increase to pay for the program. Personally I believe option A is the best option, but let the voters decide which direction they want to take to solve the problem. This problem was created on the ballot, and can only be fixed by the voters on ballot.

It is time leaders were honest and transparent with the public about the state's fiscal problems. Arizona is a great place to work and live, that has not changed during this recession. The Governor and legislature needs to act quickly and decisively to prevent further damage to our economy. No more temporary solutions, no more papering over the problem. Arizona cannot move forward until it gets its fiscal house in order.



By David Lujan  
House Democratic Leader

Arizonans have watched Republican lawmakers and the governor fail multiple times this year to solve one of the biggest budget deficits in history as they take our state down the wrong track.

It's not surprising Arizonans are aggravated with the Republican majority of lawmakers and their wrong priorities — driving our state into more debt, eagerly cutting public safety, education, jobs and health care and harming middle-class families across our state.

We begin 2010 with more than \$3 billion in the red because Republicans and Gov. Jan Brewer refused and failed to employ common sense and responsible solutions.

Republican lawmakers and Gov. Brewer need to stop leading our state down the wrong track toward economic ruin and look at common-sense solutions to the state's continued budget crisis.

It makes no sense that country club memberships and spa treatments receive tax breaks, while middle-class families pay sales tax on clothes and school supplies. Closing these kinds of loopholes are smart, simple budget-balancing solutions, but Republicans refuse to use them.

Republicans also chose to cut funding to the Department of Revenue, which resulted in cuts to staff who go after tax cheats. Due to those cuts, Arizona is losing \$220 million in collections and is set to lose a projected additional \$300 million.

Currently, big corporations receive thousands of dollars in tax accounting credits just for filing their taxes, while most middle-class families pay an accountant to do their taxes.

Big corporations and the rich should pay their fair share in taxes, but Republicans continue to give away tax breaks to corporations and the rich, while middle-class families pay for it. Eliminating these tax loopholes would save the state millions.

We could also work on legislation that makes it easier to tap Arizona's could-be No. 1 money maker — the sun. Solar businesses are a huge part of Arizona's economic future and making our state more attractive to solar businesses can jump start our state's economy.

Businesses would also benefit with affordable health care for them and their employees, but the current cost of health care also is too high. Republicans massively cut health care during tough economic times and now many Arizona families and children can't even afford to go to the doctor. We need to make sure that all Arizonans have access to quality and affordable health care. It's wrong to take away health care from children and seniors while giving tax breaks to big corporations and the rich.

Republicans also have failed to deal with crime and violence along the border, which also affects our economy.

We need tough immigration reform that cracks down on human smugglers, the illegal sale of weapons to drug cartels and other violent criminals, and we need to give police the tools they need to secure our borders.

Phoenix is the kidnapping capital of the nation and we should do everything we can to make sure police can do their job and protect our kids and neighborhoods.

Arizona's budget deficit is too big to solve from one side of the aisle, and if Republicans would agree to work in a bipartisan way on a comprehensive approach in a transparent manner, we could solve the budget without doing irreparable harm to Arizona's future.

Republican lawmakers and Gov. Brewer have taken a piecemeal approach, fighting against each other, and accomplished next to nothing.

It's time to get rid of what's not working and get Arizona on the right track.

**ABC15.com staff**