

Budget Veto Impacts and the July 6th Legislative Response

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Impacts of Vetoes -- Prior to July 6th

- Line item veto eliminated full year of \$3.2 B in K-12 funding
- Line item vetoes eliminated \$775 M of lump sum reductions
- Vetoes may place state out of compliance with requirements for \$2.3 B in federal stimulus funds
- Veto of entire BRB package results in \$1.35 B loss to 6/30 plan
- Line item vetoes of intent statements on use of federal stabilization funds – no practical impact, but legal concerns

Net Result of Vetoes -- Prior to July 6th

- If K-12 is funded for a full year, state could still qualify for \$1.0 B in federal stabilization funds
- State has a \$2.1 B shortfall in FY '10 if no other changes are made to the enacted budget
- In addition, \$1.3 B of federal Medicaid match rate savings are in jeopardy

July 6th Legislative Response

- On the 1st day of the Special Session, the Legislature:
 - Re-enacted a full year budget for K-12 and added \$485 M in funding -- but also placed some restrictions on its expenditure
 - ⇒ The restoration allows the state to continue to receive the \$1 B in federal stabilization funds
 - Approved statutory changes to ensure the continued receipt of the \$1.3 B in Medicaid match rate savings
- Net impact of vetoes and July 6th restoration is a \$2.6 B shortfall in FY '10

K-12 Line Item Veto

Eliminates \$3.2 B of Funding

- Veto eliminated formula funding payments to school districts and charters
- Schools still retain \$604 M in July rollover payment for FY '09 obligations
- Next payment due to school districts on July 15 and Sept. 15; charters paid on same days plus August 15 – with veto, these payments cannot be made
- Federal stimulus legislation requires states to maintain FY '06 funding level to receive \$1.0 B in federal stabilization funds – state out of compliance until K-12 funding issue resolved

July 6th Plan Restored Full Year K-12 Funding

- On July 6th, Legislature approved full year funding for K-12, and added \$485 M above the June 30th plan:
 - \$131 M to restore enrollment and other formula savings -- these monies will not be expended if the student count does not materialize
 - \$102 M for additional inflation funding
 - \$252 M to restore other reductions, including \$175 M for soft capital
- Legislature restricted most of the \$252 M in restoration from occurring until October 1st, including soft capital

Other Line Item Vetoes Result in the Loss of \$775 M in Savings

- Budget contains various “lump sum” reduction lines – by vetoing those lines, the Governor increases the spending authority for those agencies
- Some of these lump sum reduction lines included both the continuation of FY ‘09 reductions as well as new FY ‘10 reductions
- Sample of a veto of a lump sum reduction:

Department of Environmental Quality	
General Fund Appropriations	\$ 6,815,000
Lump Sum Reduction	(588,700)
Total	\$ 6,226,300

Summary of Line Item Vetoes and Corresponding Increase in Spending Authority

	<u>\$ in M</u>
• DES Lump Sum Reduction, incl. \$78 M from '09	\$ 130
• DES Rollover – FY '10 in FY '11	42
• DHS Lump Sum Reduction, incl. \$27 M from '09	47
• Universities Lump Sum Reduction, incl. \$140 M from '09	180
• University Rollover – FY '10 into FY '11	100
• Vehicle License Tax Fund transfer	43
• Federal Stabilization cut and backfills	232
• DEQ Lump Sum Reduction	<u>0.6</u>
Total	\$ 775

What Happens to Agency Spending if the Vetoes are Left in Place?

(\$ in Millions)

	'09 <u>Original</u>	'09 <u>Revised</u>	'10 With <u>Veto</u>	'10 W/O <u>Veto</u>
DES	\$ 808	\$ 727	\$ 802	\$ 672
DHS	612	574	638	591
Universities	1,080	939	1,079*	889*

* In addition, the Universities would receive \$154 M in federal stabilization funds (from '09) as long as the state continues to qualify for funding.

Note: Excludes rollovers.

Vetoes May Place State Out of Compliance with Federal Stimulus Requirements

- July 6th Legislative Plan Corrected These Problems

- To receive \$1.0 B in federal stabilization funds, state must maintain Education spending at FY '06 level -- Governor vetoed K-12's FY '10 appropriation.
 - July 6th plan restored funding
- To receive \$1.3 B in federal Medicaid match rate savings, state must not increase county share of costs -- The vetoed health and Welfare BRB adjusted FY '09 and FY 10 county contributions to comply with federal law.
 - July 6th plan restores these provisions

Veto of the BRBs Results in Potential \$1.35 B Loss to the Budget Plan

- Unlike the General Appropriation Act line item vetoes, the Budget Reconciliation Bills were entirely vetoed
- The veto prevents the enactment of revenue generators or spending reductions assumed in the budget:
 - \$735 M in State Asset Sale and Lease-back
 - \$100 M in Private Concession Agreement
 - \$73 M in Unclaimed Property Acceleration
 - \$63 M in AHCCCS Reimbursement Rate savings
- The veto would also prevent the state from continuing savings from prior year reductions:
 - SFB's Building Renewal formula is annually suspended. Without the BRB, the state would pay an extra \$228 M

Veto of BRBs (cont.)

- The veto could also generate state savings in one example:
 - By vetoing the BRB, the State Equalization Tax would be restored
 - While this generates \$250 M in K-12 formula revenue, ADE's appropriation is not automatically reduced
- Of the \$1.37 B loss, \$1.08 B would occur without further legislative action.

The Governor Line Item Vetoed Legislative Intent Statements

- These were footnotes stating legislative intent with regard to the expenditure of federal stabilization funding from the stimulus legislation
- The intent was consistent with the Executive's plan for the stabilization funds
- Veto message described this as a legislative attempt to appropriate federal funds
- These footnotes were intent statements, not appropriations
- There was probably no Executive authority to veto these footnotes – the line item power only extends to appropriations