

## Impacts of Governor's Line Item Vetoes

The Governor's vetoes would have 4 different impacts on the June 30 budget plan approved by the Legislature:

- 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. 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 eliminates \$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. There is no funding, however, for the K-12 payment owed to schools on July 15.

By not providing any new FY 2010 funding, the state appears to be temporarily out of compliance with the federal requirement to maintain state funding at the FY 2006 level in order to receive federal stimulus funds. This requirement is associated with the state's receipt of \$1.0 billion in federal stabilization funds.

- 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 C for a further analysis of the impact of the vetoes on federal stabilization funds.*

- If not subsequently re-instated, the vetoes of the Budget Reconciliation Bills would have a net loss to the June 30 budget plan of \$1.3 billion. 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. *See Attachment D.*

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

	<u>FY 2009</u>		<u>FY 2010</u>		<u>Total</u>
	<u>Continuation</u>	<u>1/</u>	<u>FY 2010</u>	<u>1/</u>	<u>Total</u>
	(\$ in millions)				
<b><u>Lost Spending Reductions</u></b>					
Economic Security, Department of					
-- Lump Sum/Other Reductions	\$ 77.3		\$ 52.7		\$ 130.0 <u>2/</u>
-- Payment Deferral	25.0		17.0		42.0
Environmental Quality, Department of	0.3		0.3		0.6
Health Services, Department of	27.5		19.4		46.9
Universities					
-- Lump Sum Reductions	139.7		40.0		179.7
-- Payment Deferral			100.0		100.0
VLT Fund Transfer					-
-- FY 09 Transfer	8.4				8.4
-- DPS Highway Fund Reduction			6.8		6.8 <u>3/</u>
-- ADOT Spending Reduction			28.0		28.0 <u>3/</u>
Federal Stabilization Funding					-
-- ADE Cut and Backfill			222.1		222.1
-- University Cut and Backfill			10.0		10.0
	<u>\$ 278.2</u>		<u>\$ 496.3</u>		<u>\$ 774.5</u>
<b><u>Vetoed Spending</u></b>					
Education, Department of	\$ -		\$ (3,227.0)		\$ (3,227.0)

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.

### Veto Impact on Major Agencies -- General Fund

	<u>Original FY 2009</u>	<u>Revised FY 2009</u>	<u>With Vetoes FY 2010</u>	<u>% Change FY 10 Over FY 09 Rev</u>	<u>\$ Change FY 10 Over FY 09 Rev</u>
	(\$ 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	645.2	12.3%	70.8
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 as long as the state continues to qualify for these funds.

**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>
<b><u>K-12</u></b>		
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>
VLТ 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
<b>Net Impact (Pre-Post Stabilization Funds)</b>	<b>0</b>	<b>(285,666,600)</b>
<b>Net Total Impact After Shifts</b>	<b>0</b>	<b>(209,750,900)</b>
<b><u>Comm. Colleges</u></b>		
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
<b>Net Impact (Pre-Post Stabilization Funds)</b>	<b>28,671,000</b>	<b>26,490,400</b>
<b><u>Universities</u></b>		
GF Budget <u>1/</u>	920,390,100	920,390,100
Reduction	0	(40,000,000) <u>6/</u>
ARRA Reduction <u>4/</u>	0	(10,000,000) <u>6/</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
<b>Net Impact (Pre-Post Stabilization Funds)</b>	<b>154,138,300</b>	<b>96,000,000</b>
<b><u>General Purpose</u></b>		
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
<b>Total Stabilization Funds Used</b>	<b>432,809,300</b>	<b>583,025,700</b>

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**

	<u>FY 2010</u>
	(\$ in millions)
<b><u>Criminal Justice</u></b>	
ADC concession agreement	100.0
Prison/state building sale/lease-back	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
Redirect 9% CJEF to crime lab	(4.4)
Justice of the Peace Salaries	1.1
	<hr/> 960.8
<b><u>Environment</u></b>	
Use Heritage Fund for Fire Suppression	3.0
Land Department Self-Funding	7.1
Suspend Water Protection Fund	5.0
	<hr/> 15.1
<b><u>General Government</u></b>	
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
Tourism funding formula	5.3
Midnight Reversion (non-lapsing funds)	50.0
	<hr/> 84.2
<b><u>Health &amp; Welfare</u></b>	
KidsCare Parents elimination	5.5
AHCCCS elimination of dentures as covered service	6.2
AHCCCS reimbursement rates	63.0
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
	<hr/> 83.0
<b><u>Higher Education</u></b>	
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
<b><u>K-12 Education</u></b>	
ADE changes: See feed bill line-item veto	N/A
SFB Building Renewal	227.9
	<hr/> 227.9
<b><u>Revenues</u></b>	
State Equalization Tax	(250.0)
Cities VLT shift	22.0

	<b><u>FY 2010</u></b>
	(\$ in millions)
County Lottery distributions	4.1
Unclaimed Property shift to DOR Admin Fund	24.5
Unclaimed Property acceleration	73.6
5-Year VLT shift	28.0
Maricopa/Pima County deposit to GF	22.0
Nonresident taxpayers standard deduction prorated	<u>22.0</u>
	(53.8)
<b><u>State Properties</u></b>	
Sell state Agriculture lab	<u>0.3</u>
	0.3
<b>Total - All BRBs</b>	1,350.50