

Fiscal Note

BILL # SCR 1033

TITLE: state debt; limit; restrictions; prohibitions

SPONSOR: Mesnard

STATUS: As Introduced

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Description

If approved by voters at the 2024 General Election, the resolution would amend the Arizona Constitution to apply the state's existing \$350,000 debt limit to the following obligations that are paid with General Fund monies: 1) general obligation bonds; 2) long-term notes and obligations; 3) certificates of participation and other obligations pursuant to any lease-purchase agreement; 4) revenue bonds; and 5) obligations of the state in one fiscal year that are deferred to another fiscal year (also known as "rollovers").

Estimated Impact

Given the nominal size of the \$350,000 debt limit, the resolution would effectively prohibit future debt financing paid with General Fund monies. The impact of this restriction would depend on the state's potential use of debt financing in the future – the state has generally used General Fund debt financing for operational expenses (during significant budget shortfalls) or for large one-time capital expenses.

The resolution would also apply the \$350,000 limitation to "obligations of the state in one fiscal year that are deferred to another fiscal year". The state currently enacts an \$800.7 million K-12 "rollover" each year as a remaining item from budget shortfall actions taken during FY 2008 – FY 2010. According to the Legislative Council, the resolution would prohibit the continuation of the K-12 rollover following approval of the resolution at the 2024 General Election. Therefore, the K-12 rollover would be required to be paid off in the next budget following the resolution's approval – this would result in a one-time General Fund spending increase of \$800.7 million in FY 2026.

Analysis

Article 9, Section 5 of the Arizona Constitution currently authorizes the state to "contract debts to supply the casual deficits or failures in revenues, or to meet expenses otherwise not provided for" subject to an aggregate limit of \$350,000. Under this current debt limitation, various court rulings and Attorney General opinions have resulted in allowing the state to use various debt financing from non-General Fund sources and debt-like arrangements paid from the General Fund, without regard to the nominal \$350,000 limit.

The resolution would apply the \$350,000 limit to debt financing paid with General Fund monies and specify the applicable debt types. As historical background, the state used the following General Fund financing as budget solutions during the budget shortfalls in FY 2008 – FY 2010: A total of \$1.04 billion through 2 transactions for the sale/lease-back of state-owned facilities and \$450 million through the issuance of Lottery revenue bonds.

As noted above, under the current constitutional debt limit, the state already currently engages in debt financing from non-General Fund sources, including University financing (paid with system revenues, including tuition) and Arizona Department of Transportation financing (paid with gas taxes and vehicle licenses tax). Therefore, the resolution applying the constitutional debt limit only to General Fund issuances would have no effect on the state's non-General debt practices. The state's non-General Fund debt usage would remain subject to current statutory limitations – for example, University debt issuances are limited to 8% of each university's spending (A.R.S. § 15-1683).

(Continued)



Local Government Impact

None. The resolution's restrictions only apply to state debt financing.

2/27/23