

June 1, 2009

Howdy, Friends O'Farley...

Four more weeks until government shutdown.

Yes, it's June, and that's where we are at. There is a lot of talk about a Republican budget moving into high gear in the Legislature this week, but we've heard that before. Governor Brewer is also making noises about finally releasing a plan of her own this week, but despite a large media campaign rolling out on its behalf, this as-yet-unknown budget has no support from either her own party or legislative Democrats.

The only balanced budget proposal on the table right now is the joint House-Senate Democratic plan released last Thursday (see below), but it will take serious political courage for six House Republicans and four Senate Republicans to cross the aisles and support our plan. Although we have seen very little of that precious commodity so far this session, we are working hard to make that happen, and I do hold out hope.

If we are not able to bring those six and four to our budget, it appears there will be only two options, neither of them good.

1) The House and Senate majority leadership consolidate their terribly misguided budget proposals into one gimmick-packed, education-slashing proposal that gets just enough votes from their own caucuses to pass late at night on June 30. The Governor refuses to abide such a terrible budget, and vetoes it, causing state government to shut down on the first of July.

2) Same as #1, only the Governor is more horrified by the idea of government shutdown than by the horrendous legislative majority budget, so she signs it on June 30 at midnight, ensuring that our state's economy will continue to flail and our citizens will continue to hurt.

Luckily for Arizona families, our joint Democratic plan is so innovative, responsible, and attractive that we stand a chance to pull it off, especially with your help.

As promised last week, here are the details.

Our plan raises enough revenues to restore previous cuts to K-12 education and our universities, vital programs to seniors, the disabled, health care, economic development and foster kids, and preserves these programs into the future.

Our plan balances the budget based on actual current deficit figures, uses every stimulus dollar available to Arizona, and has the forethought to set aside money in the Rainy Day fund to help us next year after the stimulus money runs out.

Our plan rejects one-time gimmicks and rollovers. Instead, we institute sweeping tax reform to add desperately needed stability to our revenue system now and into the future so that we can strengthen our economy and immunize ourselves against future downturns.

Our plan empowers local communities to keep control over local funds as they increase revenues to balance their budgets and maintain vital services for all our citizens.

Our plan increases revenues, but will only require a simple majority vote in the House and Senate, unlike other revenue increasing proposals that require much more difficult 2/3 majorities.

Our plan helps out the engine of our economy- small businesses- by raising the business

personal property tax exemption to \$150,000 and reducing the business real property assessment rate to 18% by 2013.

Our plan is honest, transparent, and accountable. For example, we fund inflation increases for education and healthcare— the Republican proposals do not, in effect adding to their cuts without calling it a cut. All of our numbers have been vetted by the economists at the Joint Legislative Budget Council.

How much does this forward-thinking economy-saving plan cost?

- > The average Arizona household will SAVE \$275 a year.

Governor Brewer has talked about a temporary sales tax to get us through the downturn. In order to raise the amount of revenue that our plan raises, the sales tax rate would have to increase by more than 2%. What does that mean for you and me?

- > The Governor's plan would COST the average Arizona household MORE THAN \$1,000 each year.

How do we Democrats pull this off? There are a lot of different components to this comprehensive plan, and you can review all of them (including all the spreadsheets you can eat) in detail at <http://www.StrongerArizona.com>

The main two elements of the tax reforms are an increase in the Qualifying Tax Rate (QTR) and a dramatic decrease in the sales tax rate as we broaden the sales tax base to include most services, while leaving food and medical exempt.

The Qualifying Tax Rate element is a \$1.50 increase in local property taxes that are designated exclusively to fund education. We know that a majority of Arizonans have repeatedly said that they support a tax increase to protect education, and this is a reasonable and equitable way to make that happen.

The additional cost to homeowners of this small property tax increase is offset many times over by our proposed huge decrease in the sales tax rate. We will slash the current 5.0% state rate to 3.4%.

That will have the effect of not only saving Arizona families a lot of money, it will also make Arizona retailers much more competitive nationally. Aside from the obvious benefits to border towns (imagine the booming business to Yuma car dealers from San Diego buyers seeking to save big money on their purchases), this will encourage our formidable tourist trade to spend more of their dollars in Arizona. All of this will have a large stimulative effect on the economy in general and retail spending in particular.

We pay for this tax cut by expanding the sales tax base to include non-medical services like maid service, country club memberships, and spa treatments (while keeping food exempt as well). This is a needed modernization of the tax code. In recent decades, the retail sector of economy has shrunk even as the service sector grows. Retail-based sales tax revenues have dropped with retail sales, and they drop precipitously in recessions.

A 21st-century service-based economy requires a 21st-century service-based tax system in order to enable government to provide the services that we need as citizens, so shifting the tax structure lays the foundation for future growth.

We will also allow local governments to expand their local sales taxes to the same services. This will mean more stable and dependable revenues to help them with their budget crises now and into the future.

This saves the state money because we would no longer need to refund to cities and counties the 20% of our state sales taxes that we currently pay. Local governments would likely recover much more than that from the expansion of local sales taxes to services. In any case, we only suspend those payments for two years under our plan, and we hold small cities and counties harmless if they do not recover the amounts we project.

These are not radical ideas from somewhere out in left field. Some of the state's most respected economists have urged these reforms for years, and many of these policies were called for by a commission under Governor Napolitano in 2003. In past fiscal crises, we grew out of the recession so quickly that the impetus to permanently fix the broken system was lost.

I don't have to tell you- this recession is much worse. We must do it right this time. We can't limp through on gimmicks, borrowing, and temporary fixes, or we will be back in the same boat sooner or later. The longer we wait, the harder it will get to fix things.

Arizona families are already experiencing a world of hurt, in part because of the ill-advised cuts we legislators have forced upon them. We need to get down to business and do what is right, not simply what is politically expedient.

This joint Democratic budget represents the best thinking in Arizona right now for how we can fix this mess and pave the way for a more successful and stable future. I am fighting to help our esteemed Republican colleagues to see that, and I would appreciate your help in contacting key Republicans and the Governor and urging them to support the Joint Democratic Budget Proposal.

We don't need to shut down state government. There's a pretty attractive option on the table.

Thanks for reading this far through some pretty heavy stuff. Your involvement will make the difference.

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