

July1, 2009

Howdy, Friends O'Farley...

The long (and somewhat late), final (maybe) weekly Farley Report of the session is about to unfold for you.

This had nothing to do with the budget, but I just have to quote Senator Sylvia Allen (R-Snowflake) as she argued last week (as chair of the Senate Retirement & Rural Affairs Committee) in support of a bill that would open up Arizona to uranium mining.

"This earth's been here 6,000 years, long before we had any environmental laws, and somehow it's not been done away with." Yes, she said 6,000 years. Twice. She meant it. It's on tape. And these are the folks we have put in charge of our state during the worst fiscal crisis in our history.

As of 1:00pm (June 30):

In words Sylvia Allen would understand, these are the end times. Hopefully end of session times, anyway.

But as I write this in the early afternoon, there is no sign of a budget agreement of any kind, and not much chance of finding one before the deadline of midnight tonight.

Already, state parks are telling their employees on the ground that they will need to clear out all campers by midnight if there is no budget, and the parks will all close down, right before the biggest weekend of the summer.

It's all going down to the wire, in large part because there was a budget deal supposedly reached between the Governor and the legislative Republicans, a deal that has been in various stages of decay for the last few days.

The deal took the majority's attacks on Arizona families to a new level. Instead of finding new revenues, the tax "reform" in their deal dug the fiscal hole much deeper in a new and twisted fashion- Robin Hood in reverse.

Basically, the entire Republican revenue package, taken as a whole, would shift the burden of Arizona taxes away from corporations and the wealthy and onto the backs of middle class families. It would do this in four ways:

1) A so-called "flat tax". This would get rid of the five different brackets of Arizona income taxes and turn them all into one bracket, along with eliminating most deductions, including those for home mortgage interest, student loan interest, 401k and IRA retirement contributions, and more. Sadly, the Republicans' pet private school tuition tax credit is not eliminated.

Arizona's income tax is the one piece of our revenue structure that is progressive. This policy would gut that progressivity by effectively slashing the taxes paid by the wealthiest Arizonans while increasing the taxes paid by the middle class. The cost to the general fund of instituting this tax cut for the rich would be about \$1.2 billion a year.

2) Lowering the assessment ratio on business property. The way property taxes work, if taxes on one class of property are reduced, that means that taxes on the other classes will increase. This provision would chop business property taxes while hiking residential property taxes for middle-class homeowners, something that will hit retirees particularly hard, and

make it harder for school districts to pass override elections to supplement their meager state funding.

3) Elimination of the education equalization tax. This would reduce taxes primarily on the biggest corporate property owners while costing the general fund (and K-12 education) more than \$250 million a year. The average homeowner would save less than \$3 a month, while the Palo Verde Nuclear Generating Station would save more than \$3.2 million a year, half of which would go to the California investors who own the place.

4) Temporary one-cent sales tax increase. This is the main sticking point on the budget negotiations right now. We don't need any temporary solutions, we need permanent ones to fix our broken tax structure. Sales taxes are the opposite of progressive - they hit middle class families much worse than they hit the wealthy.

Governor Brewer in her efforts to sell the sales tax has been saying that the additional \$1 billion it would bring in yearly (the actual figure may be closer to \$700 million) would go to restore some of the severe education and social services cuts she is also proposing. This seems to be her strategy: hold our kids hostage in exchange for a yes vote on a poorly considered tax increase.

Unfortunately, it is not true that the sales tax revenues would fund education. All those tax cuts for big corporations and the rich will cost much more than the money the sales tax increase will raise. So the proposed sales tax on most Arizona families will pay not for education or health care, but for tax giveaways to the wealthiest among us.

As of 10:00pm (June 30):

Since February, we have been telling the Governor's people at our weekly meetings that we were very concerned that the Republican legislative leadership's end game would be to deliver a terrible budget to her at 11:50pm on June 30, and then blame her for government shutdown.

At around 8:15pm this evening, Governor Brewer finally realized that what we said months ago was coming true, and she was going to need to actually negotiate with Democrats in order to avert disaster. She called our leadership to her office and suggested we should come up with a deal with less than four hours to go.

As soon as Republican leadership heard of this move, they immediately moved to COW (committee of the whole) their budget "trailer bills" - bills that in effect amend the Republican legislative budget that was passed June 4, but was never transmitted to the Governor. (By the way, the Governor last week lost her Supreme Court case to try to force them to transmit those bills to her earlier.)

The trailer bills do not include the flat tax or sales tax referral- thank goodness- but they do continue slashing K-12 education spending, seek \$735 million by mortgaging our prisons and putting up all our other state buildings for collateral, put a two-year moratorium on development impact fees, building codes, and construction contracting sales taxes, lower the assessment ratio for businesses (thus raising property taxes for homeowners) and eliminate the education equalization tax.

As of midnight (July 1):

The bills were rushed through COW with no explanation of content, and huge opportunity for error. One mistake was caught after we had already voted on the bill and moved to another parliamentary section of the floor action, so we had to re-enter COW to fix it. There are undoubtedly many other mistakes that were missed in the rush to folly - those will become

apparent after we adjourn for the session.

All bills passed on party-line votes, occasionally with a couple of Republicans joining Democrats to vote against. Democrats explained our votes and why we felt that this budget sidesteps the financial crisis and the opportunity that it presents to truly reform our tax structure to be more stable in the future. Instead, Republicans will enact huge cuts to necessary programs, education, health care, and much more, alongside accounting gimmicks, borrowing, and tax cuts to wealthy corporations.

We finished the voting around midnight, and now await action in the Senate before we return for final passage. The plan is to third read a whole lot of non-budget bills and pass them back and forth between us and the Senate until we get done and sine die sometime around sunrise (hopefully).

As of now, the state Department of Environmental Quality no longer exists because its continuation authorization bill has not yet passed. Additionally, all "non-essential" (that is not clearly defined anywhere) state employees are no longer being paid to work. Government is now shut down, hopefully to start up again in a few hours.

Once the trailer bills and the June 4 budget bills get sent to the Governor, she will likely line-item veto parts of the underlying budget bills, then veto most of the trailer bills. That may be enough to restart government.

Unfortunately, vetoing the trailer bills will end up also undoing the fix intertwined in one of the trailer bills that would make us eligible for the stimulus money. In order to claim our billions of dollars in stimulus money, we will need to go into special session (perhaps as soon as later today) to fix that once again.

We remain in recess now, to go back into session whenever we are called. This may be a night without sleep, but that suffering is nothing compared to the suffering we are about to wreak upon Arizona families with this budget and other legislation that the Republicans are about to pass over our objections.

As of 3:45am (July 1):

We came back into session at about 1:30am, then did a small COW in order to bring the Department of Environmental Quality back into existence. Then we launched into a whole series of Third Reads on a whole lot of not very important or not very desirable bills.

We nearly killed of Senator Jonathan Paton's (R-Tucson) bill to force nonpartisan City Council elections upon Tucson voters, but it ended up passing by one vote. I explained my vote by letting members know that Tucson voters had already rejected this change four times, so we were inflicting our will upon an electorate who clearly didn't want the change.

Additionally, the Constitution seems to pretty clearly state that the state government can't overrule a city charter, and a Supreme Court decision backs that up. That means the Legislature will spend a lot of taxpayer money fighting the inevitable lawsuit which they will lose.

Once finished with these third reads, we headed off to caucus at around 3am, where we went over a whole lot of other bills coming back over from the Senate for our approval or rejection. That will come shortly after 4am, with any luck.

As of 5:30am (July 1):

21 members have now left, but we plowed through more than 20 Final Passage bills - bills

that have passed the House and then the Senate in amended form. Thanks to the missing members, we were able to kill some bad bills - some of the best news of the night.

We were able to knock off a really bad immigration bill from John Kavanagh (HB2280), another really bad Kavanagh bill to cut in half training requirements for concealed weapons permit holders (HB2439), and a really useless anti-union postcard to Congress (HCM2004).

We are now recessed again, awaiting Senate action to a) send the June 4 budget bills to the Governor so that the House can then send the trailer bills from tonight to her, and b) do a final vote on the Clean Elections bill which is a good bipartisan bill to ensure that Clean Elections remains viable for the upcoming 2010 elections.

Once that is all complete, we may be able to end this session sine die. Hopefully, I will be able to send this in one more update. Folks are getting a little tired around here!

As of 7:30am (July 1):

We have adjourned the session sine die. This session is history - the kind of history that you are condemned to repeat if you don't remember.

Over in the Senate, they managed to defeat the Clean Elections bill which may well lead to the end of Clean Elections in Arizona, once the final ruling is delivered by a federal judge who is likely to get rid of matching funds for participating candidates. That may be awfully technical, but the bottom line is that Clean Elections will no longer be a viable option for most candidates.

While this was going on, the Senate and House finally transmitted all the budget bills to the Governor around 6am, and she immediately set about vetoing budget bills, with some combination of line-item and full vetos. However, the Senate did not want the vetoed bills delivered, or else a new bill would have had to be delivered to her immediately.

To guard against this possibility, they locked the Senate doors briefly while debate continued on the Clean Elections bill. Once that bill was defeated, Sine Die was declared, and the session ended.

Many things are still not clear. What exactly has/will Governor Brewer veto? Will we have to come back in special session, perhaps as early as this morning? Will there be continuing resolutions? What's happening in the outside world as state employees arrive for work and government is shut down? Is government shut down? Right now, no one knows at any level of government.

We'll find out soon. If we are in session by next Tuesday, I will do another Farley report to let you know.

Meanwhile we do know that none of these budget options are good. Hopefully, in a special session, the Governor's very recent recognition of the value of potential Democratic contributions to solving the crisis could strike a hopeful note in what could be a very dark year for Arizona.

For now, I will be going to sleep for a while.

Thanks for paying attention. We need to all pay attention right now and all the way through the next elections.

Steve

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