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ARIZONA TAX RESEARCH ASSOCIATION

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Legislative leaders discuss budget fixes

Gov's budget office defends executive recommendations

The current budget shortfall facing the 45th Legislature was the focus of the annual ATRA Outlook Conference held this month in Phoenix. As in previous years, the conference included lively presentations from legislative leadership and the Governor's office.

Kicking off the conference, Monica Klaschka, Deputy Director for the Governor's Office of Strategic Planning and Budgeting, outlined the Governor's proposal for mending the biennial budget deficit, which is widely believed to be

approaching \$1.6 billion over the two fiscal years. Klaschka reminded conference attendees that the Governor strongly opposes cutting K-12 funding but is also against increasing taxes. On the other hand, she elaborated, the Governor supports revenue bonding in the amount of \$283 million over the biennium to use for new school construction.

Klaschka argued that over \$3.6 billion in bonds have already been issued collectively

See LEGISLATIVE LEADERS, page 2

Property tax issues focus of tax committee speakers

Steve Huffman calls for reform of deseg taxation

Outlook Conference attendees heard from members of the House and Senate tax committees whose views of important upcoming legislation included considerable discussion of problems with the property tax.

Representative Steve Huffman, a member of the House Ways and Means Committee, noted that the statutory authority allowing school districts unlimited access to the property tax base in the name of desegregation is currently the tax area most in need of reform.

Huffman noted that desegregation levies can create substantial impediments to economic growth and high paying jobs, particularly in communities like Tucson where school district use of desegregation levies have resulted in very high property tax rates.

Especially troubling, Huffman explained, is that while the current funding system provides a lot of money to the 19 school districts availing themselves to this levy authority, it provides no incentive to resolve the problem.

Huffman also described the funding inequities associated with desegregation levies that make it difficult for salaries in "non-deseg" districts to compete with those in "deseg" districts.

Senate Finance Committee Chairman Scott Bundgaard, providing his perspective on closing the state budget deficit, said the Legislature should avoid "budget gimmicks" which, he explained, includes the current proposal for revenue bonding for ongoing obligations under Students FIRST.

See SEN. BUNDGAARD, page 2

Board elects Kevin Kinsall Chairman at ATRA's 61st Annual Meeting



Kevin Kinsall

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Legislative leaders offer budget fixes

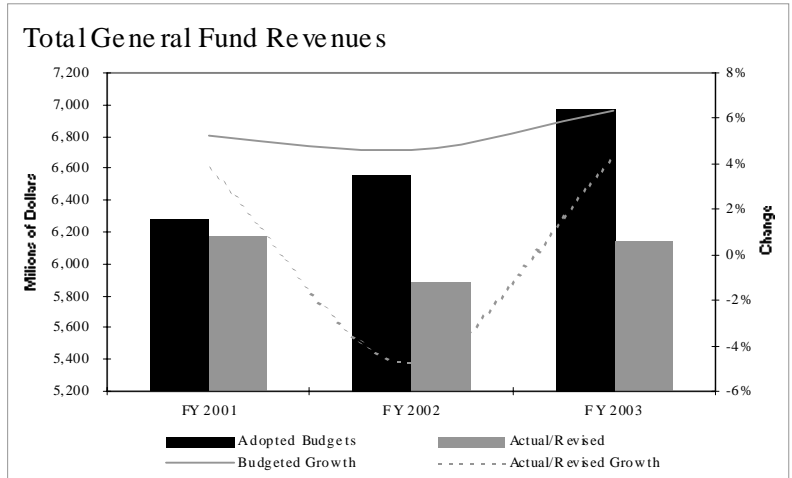
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by numerous agencies. In total, revenue bonding accounts for 18% of the Governor’s budget reduction plan. The remaining fix comes from a 6% decrease in revenue sharing, 23% from fund transfers and revenue adjustments, 19% from the budget stabilization (rainy day) fund, and 34% from spending cuts.

Senator Chris Cummisky, the Senate’s Democratic Assistant Floor Leader, advocated a number of tax policy changes, particularly in sales and income tax structures. Cummisky referenced Arizona’s “three-legged stool,” suggesting that because of Arizona’s reliance on sales taxes, legislators should consider broadening the sales tax base with a commensurate drop in the rate.

House Speaker Jim Weiers recommended that legislators not look to tax increases. Instead, Weiers argued that government should try to be more efficient during economic downturns just as the business community must do in order to survive economic hard times.

Weiers reminded conference attendees “that the right answer is not always the easy one.” Business owners, he said, must make sound decisions in order to be successful and must face the consequences for their decisions. Government, he maintained, should be held equally accountable.



Source: Governor’s Office for Strategic Planning and Budgeting

Senate President Randall Gnant advocated that the Legislature focus on the first year of the biennium, leaving FY 2003 to be determined in the Spring.

Maintaining that growth of state government can be overstated by including Proposition 301 revenues, Gnant nevertheless advocated spending cuts be the primary means for closing the budget deficit.

Finally, Gnant made a strong case against the state incurring more revenue bonded debt as a means of balancing the budget.

ATRA officers elected

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Kevin Kinsall, Manager of Governmental Relations for Phelps Dodge Corporation, was elected Chairman of the Board at the Association’s recent 2001 Annual Membership Meeting. Mr. Kinsall’s chairmanship comes after several years of service on the ATRA Board and the last three as First Vice-Chair.

Also elected at ATRA’s 61st Annual Membership Meeting were Amy Barron Etzkorn, *Advanced PCS*, First Vice-Chair; Larry Lucero, *Tucson Electric Power*, Second Vice-Chair; Barbara Dickerson,

Anderson, Third Vice-Chair; and Dave Minard, *M & I Thunderbird Bank*, Secretary/Treasurer.

Elected to terms on the Board of Directors for terms expiring in 2006 were: Eric Bjornholt, *Microchip*; Samantha Fearn, *Honeywell*; John Colton, *Colton Constructors*; Joy Baker, *Salt River Project*; Larry Lucero, *Tucson Electric Power*; Gavin Russo, *Enron*; Marek Swiderski, *El Paso Electric*; Joe Usher, *Intel*; Mike Brophy, *Ryley, Carlock, & Applewhite*; and Connie Wilhelm, *Central Arizona Homebuilders Assoc.*

Sen. Bundgaard shares tax policy concerns

Continued from page 1

Bundgaard also expressed his continuing concerns about sales and property taxes in Arizona. He said that recent support at the polls for increased sales taxes have displayed a short-sightedness among voters. He speculated that voters may presently be nearing a maximum level. “How many more tax increases can we take?” Bundgaard asked.

On property taxes Bundgaard recommended a number of property tax measures including indexing assessed property values to inflation and consolidating assessment ratios between property classes.

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Columnist Bob Robb refutes twisted history of Arizona public policy with “inconvenient facts”

Editor’s note: *The following text was adopted from Robert Robb’s keynote address at ATRA’s Annual Meeting luncheon on November 16. It appeared in the Arizona Republic on November 18.*

More and more of the public policy discussion in Arizona reminds me of Mark Twain’s observation in *Pudd’nhead Wilson*: It’s not so much what they don’t know that bothers me. It’s what they do know that ain’t so.

The left have succeeded in redefining the 1990s in Arizona in much the same way they successfully hijacked the 1980s at the national level.

You remember the 1980s under Ronald Reagan. The decade of greed, in which the rich got richer while the poor got poorer, and reckless tax cuts caused ruinous deficits.

Malcolm Muggeridge told the story of a fellow-traveling Western journalist in Moscow during the 1930s. Muggeridge began to notice that the supposed Soviet new world and new man were illusions and started expressing skepticism. But, protested the fellow traveler, it’s all true. Except for the facts.

Here are the inconvenient facts about the 1980s.

From the time Reagan’s initial tax cuts were fully implemented in 1983 until Reaganomics were effectively repealed with the income tax rate increases of 1990 — what former Wall Street Journal Editor Robert Bartley called the “Seven Fat Years” — economic growth averaged 3.8 percent a year.

It’s worth putting that record into perspective. In the 1970s, economic growth had averaged only 1.6 percent a year and actually declined during four of the 10 years. And in the 1990s, every time economic growth edged over 3 percent, Alan Greenspan got the vapors and increased interest rates.

Real incomes grew among all socioeconomic strata, not just among the wealthy. In fact, poverty declined by the largest percentage since the federal government declared war on it in 1964.

Despite the tax cuts, federal revenues grew by 8 percent a year, outpacing population growth and inflation.

The deficits were caused because spending increased even faster. But despite the deficits, interest rates fell during the period.

A decade of greed? Charitable giving grew at a rate of 5.1 percent a year, compared with an average of 3.5 percent over the previous 25 years.

A similar caricature has taken hold about Arizona public policy during the 1990s.

During the 1990s, goes the relentless curse, taxes were recklessly cut, education neglected, and social services starved.



Arizona Republic Columnist Bob Robb

Again, the facts prove inconvenient to the case.

During the 1990s, individual income tax rates were cut by about a quarter and there was a significant property tax reduction as well. Toward the end of decade, the tax cutting shifted to the less economically stimulative vehicle-license tax and, as the last gasp of the tax-cut movement, a modest decrease in Arizona’s corporate income tax.

Despite the cuts, state general fund revenues grew faster than population and inflation. With Students FIRST bonding and the new education sales tax increase, state spending actually started increasing at double-digit rates.

In terms of priorities, K-12 spending constituted a larger percentage of the total state budget at the end of the 1990s than at the beginning.

Much is made of the fact that for several years the Legislature did not fully fund the inflation adjustment to the state basic support level. But that’s just one factor in a blindingly complex school finance scheme. According to a study by the Arizona Tax Research Association and the Goldwater Institute, real per pupil spending from all state and local sources actually increased 16 percent during the decade.

So entrenched has the myth become that when you tell people that, they stare at you in disbelief, as though you had just claimed to be from Mars.

See **Bob Robb**, page 4

Bob Robb addresses ATRA Annual Meeting luncheon

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The universities complain about having been shortchanged during the '90s, but they base their argument principally on the fact that their funding declined as a percentage of the overall state budget — an obvious non sequitur that hopefully would be quickly dispatched if advanced by a student in one of their social science classes.

Practically every scheme social activists devised in the futile attempt to get government to substitute for poor or indifferent parenting was launched, even including their catchy names, such as Success by Six.

Arizona joined the federal children's health insurance program, covering kids up to 200 percent of the federal poverty level.

And our state economy grew, fourth-fastest in the entire country. The importance of economic growth as a social policy is widely ignored or neglected. But if national or state fiscal policies can effectuate just a 1 percent increase in annual real wage earnings, that produces an additional \$22,500 in income over a decade for a family initially making \$40,000 a year.

Something else, however, was happening during the 1990s: Arizona voters were steadily emasculating representative government.

In 1990, voters enacted the Heritage Fund, siphoning off a part of Lottery monies for conservation programs.

In 1992, voters required that any tax increases be approved by a two-thirds vote of the Legislature.

In 1994, voters approved an increase in the tobacco tax and designated where the funds should be spent.

In 1998, voters passed a constitutional amendment forbidding the Legislature from changing what voters approve.

Last election, voters directed that tobacco settlement monies be used to expand indigent health care coverage.

They also approved an education sales tax increase, the proceeds of which bypass the legislative appropriations process, along with a mandate that the Legislature increase education funding from other revenues by at least 2 percent a year.

And so, we wake up to a revenue crunch in 2001, and the Legislature has legal control over only about half the budget.

The problem, of course, is that voters consider each of these measures in isolation, while appropriating is quintessentially a balancing act, weighing relative claims against scarce resources.

Not only have legislators been largely removed from what should be their principal function — deciding how much to extract in taxes and where to spend it — but the seeds of future fiscal problems have been planted. During this decade, the tobacco tax will prove insufficient to fund the programs launched by it, and tobacco settlement monies will prove insufficient to cover the additional mandated indigent health care costs.

Exactly how to get out of this mess isn't clear, particularly given the Voter Protection Act of 1998, the one that said that once voters have rung a bell, the Legislature cannot unring it.

But another lesson of the 1980s and 1990s is the indispensability of executive branch leadership in modern government.

Ronald Reagan and Fife Symington were able to advance the cause of conservative government from the executive office.

In the 1990s, Congress became more conservative, with the Gingrich revolution of 1994. And some advances were made, such as welfare reform and the capital-gains tax cut of 1997. But overall, government drifted leftward and congressional conservatives lost their clout and their way.

Conservatives in the Arizona Legislature are smaller in number than during the Symington era. But more consequentially, those who remain seem out of energy and ideas.

In modern government, control of the legislative branch primarily provides the ability to block or tame bad ideas. Executive branch leadership is required to advance the ball.

But advance it toward what? Stephen Moore of the Cato Institute has a simple statement: Freedom works.

The instrumentalities of statism have become so entrenched and entwined that it's almost comical these days to watch government trying to make a decision, as laws, rules and regulations, executive orders, court decisions, attorney general opinions, and voter initiatives and referenda play bumper cars with each other.

But when out of all those machinations a little more freedom for individual initiative can be carved out, good things happen.

And that's the true legacy of the national experience of the 1980s and the Arizona experience of the 1990s.

Not only have legislators been largely removed from what should be their principal function — deciding how much to extract in taxes and where to spend it — but the seeds of future fiscal problems have been planted.

Michael Green and Roger Moody Outstanding Members for 2001

ATRA members recognized two of their own at its Annual Membership Meeting Luncheon, presenting Michael Green and Roger Moody with this year's Outstanding Member Awards.

MICHAEL GREEN

Michael's involvement in ATRA dates back to 1970, making him one of the Association's longest standing members. He has been a member of the ATRA Board of Directors since 1983.

Representing a variety of taxpayers as lawyer and lobbyist for *Fennemore Craig* law firm, Michael has also served continuously on the ATRA Executive Committee since 1991.

Michael has been one of the organization's most active members.

Serving as Chairman of the ATRA Legislative Policy Committee since 1993, Michael has provided outstanding leadership in one of ATRA's most important functions.

In presenting the award, ATRA Chairman Dick Foreman said, "Michael's public policy experience has helped lead ATRA to its current position as the leading voice for sound fiscal policy in Arizona. This honor is long overdue but we hope that it will encourage you to continue to work with us on behalf of Arizona taxpayers for years to come."

ROGER MOODY

Representing *El Paso Corporation* on the ATRA Board of Directors since 1997, Roger Moody has consistently been one of

ATRA's strongest supporters. In presenting the award, Dick Foreman noted that Roger's many years of experience in tax compliance made him a firm believer in ATRA's efforts to control government spending.

Since joining ATRA, Roger has been a fixture at local budget meetings. Dedicating countless hours monitoring budgets, Roger's tax experience has proved invaluable in assisting ATRA staff. "Roger understands that every government expenditure is directly linked to a tax and that ATRA's work monitoring government budgets is crucial to its mission of protecting taxpayers," said Foreman.



Chairman Dick Foreman (right) presents Michael Green with ATRA's 2001 Outstanding Member Award. Also acknowledged with an award, though not in attendance, was Roger Moody.

ATRA Good Government Award goes to Cathy Eden



Cathy Eden accepting ATRA's
2001 Good Government Award

ATRA's 2001 Good Government Award was presented to Cathy Eden, Director of the Arizona Department of Health Services (DHS). ATRA President Kevin McCarthy made the presentation at ATRA's recent Annual Meeting Luncheon.

2001 marked the 11th year that ATRA has recognized outstanding individuals whose work in the public sector is characterized by strong, continuing, and consistent efforts to spend taxpayers dollars wisely and to promote government that is effective, open, and accountable. ATRA solicits nominations from local governments and state agencies and the nominations are reviewed by ATRA members and staff.

In presenting Cathy Eden the award, Kevin McCarthy said "It is a particular honor for me to present this award to Cathy. Few, if any, people in Arizona can match the breadth of experience and service that Cathy possesses as both a high level public administrator as well as an elected official."

See Cathy Eden, page 4

Cathy Eden receives ATRA Good Government Award

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Cathy began her career in public administration in 1983 as manager for Coconino County. In addition to developing a well-deserved reputation as an outstanding administrator for one of the largest counties in the United States, she earned the respect of Coconino County taxpayers for her accessibility, openness, and honesty.

Cathy's service shifted to the state level in 1988 when she became the Director of the Department of Administration under Governor Rose Mofford. During that period she served as the chair of the Governor's Cabinet. Shortly after leaving the Department of Administration, her career in public service took a big turn when she

was appointed to serve in the Arizona House of Representatives in 1990. She won reelection to the House in 1992 and served until 1994.

Cathy rounded out her impressive resume by developing private sector experience serving as the vice president of public affairs for Rural Metro Corp. Her duties with Rural Metro included negotiating with the Federal Health Care Financing Administration on medicare and ambulance services.

She returned to public administration when she was appointed to her current position by Governor Jane Dee Hull in May 2000. Her leadership skills have had an immediate and positive impact on an agency that struggled with employee morale for many years. "Those who know Cathy Eden, know that she has been successful throughout her career because she is only motivated by doing what is best for Arizona's citizens and taxpayers and we are honored to award her with the 2001 ATRA Good Government Award," said McCarthy.



DHS Director Cathy Eden and ATRA President Kevin McCarthy