



Central Arizona Partnership Breakfast Remarks by Gov. Jan Brewer

Thursday, December 17, 2009

- Thank you. It is wonderful to be with you this morning to share some thoughts about where we are, where we're headed – and to address some specific issues I know you are interested in.
- A look at our bank book will tell you the state budget has been fundamentally unbalanced for years. And we now face even more significant shortfalls in cash.
- If my mother were here, I know exactly what she'd say. "Looks like you have two choices, Janice. You better figure out what's important and spend way less money on what isn't. And if that doesn't work, you better find some more money."
- Every day the General Fund is borrowing every dollar of uncommitted state cash -- \$1.5 billion.
- The current year deficit is expected to be \$1.5 billion – with \$480 million left over from FY 2009.

- We have a structural deficit because, quite simply, our revenues and expenditures are out of alignment to such an extent that we will produce a \$3.2 billion deficit in FY 2011.
- So, how did we get into this mess?
- Before the recession hit, the State took on major expenditure programs without any adjustments to revenues – for example, property tax reform shifted 11% of the cost of K-12 to the General Fund; courts forced responsibility for building and maintaining school facilities; voter initiative expanded AHCCCS, and, when the recession hit, there were major increases in the AHCCCS population.
- In just the last 12 months, AHCCCS has added 208,000 members at an annual cost of \$329 million.
- Over all, state tax revenues have declined 32 percent in three years.
- Meanwhile, there were other issues adding to our problems -- including constraints imposed by the voters such as Proposition 108 and Proposition 105.
- Before the state could accept Recovery money, we had to agree to a maintenance of effort requirement – through the end of FY 2011 for education and through December 2010 for AHCCCS.
- The MOE for education prohibits reducing funding below the FY 2006 funding the state provided to education. And, the MOE for AHCCCS provides that as long as we accept the ARRA funds for the program, we cannot reduce eligibility.
- MOE limits the State's options to correct the deficit.
- In FY 2011, General Fund monies are to replace over \$1 billion of ARRA funds.
- We knew – and I have said repeatedly -- that we were headed for big trouble.
- And budget cuts? We've made them. Big time. We've made the largest, most aggressive cuts in state history.

- Budget reductions total 29 percent of unprotected funds. As part of these reductions, we have reduced the state workforce by 10% since January 2008.
- So, the overall solution is a balanced approach – precisely the one we are taking – cuts, adding revenue, and, for long-term growth providing incentives for the creation of jobs.

Water Import Fight over Big Chino Valley Water

- I know the Legislature authorized the transfer of water via pipeline from the Big Chino Aquifer to the Prescott area cities and that the Salt River Project has sued to protect base water flows to the Verde River -- which they claim as water supplies for the Valley.
- I have offered to help with a settlement – one-half of the land in the Big Chino is state land and is therefore tied to my efforts to develop a state trust land reform package, and I know the Legislature is also interested in a resolution.
- One way to move forward might be an effort to QUANTIFY the future water needs of the state and other land owners in the Big Chino. That could establish a BASELINE water withdrawal level, which, coupled with monitoring to ensure that level of withdrawal is sustainable, may be the start of a settlement dialogue to settle this dispute.

State Trust Land Reform

- I began efforts to reach consensus on a state trust land reform package soon after I took office in January and that effort has grown substantially as stakeholders have been added to the discussion.
- Although the final drafts of the enabling legislation are challenging, I believe we will have a consensus package for consideration by the Legislature within the next month or so.

- This package is COMPLETE REFORM, not just a conservation measure, although at the present time (in the bill drafts) the conservation of land exceeds that contemplated in previous reform measures.
- This has been made possible because of a new concept wherein the beneficiaries continue to receive grazing revenue and other potential revenue on land that may be conserved as open space but still leased for non-development uses.

Budget Cuts to ADWR

- The Department of Water Resources has done a great job the last few rounds of budget cuts in alerting and energizing communities and the Legislature to protect it from the impact of budget cuts proposed for the agency.
- The effect has been that the agency has suffered no reductions in direct budget or staffing and instead the cuts came from sweeps of funds that it manages.
- But that embroiled the State in lawsuits and drained the Water Banking Fund that was in place for Indian water rights settlements. The cuts amounted to loans that must be repaid.
- For this fiscal year, the agency developed a 15% budget reduction plan as instructed by OSPB, and, like in previous cut plans, it energized the communities and Legislature to defend the agency. The problem is, there are no more sweeps they can offer.
- I called together a group of stakeholders and have a budget plan for the agency that is a combination of cuts, process reform, restructuring, and fee increases, yet which will keep the agency capable of fulfilling its mission and recognizes the times we are in.
- Thank you again for the opportunity to be with you this morning.