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A quick update from the week (of May 8, 2023) that is now behind us...

Very few legislative events are more complicated than the enactment of the state budget. Prior to the start of the legislative session, most members of the Capitol community, present company included, projected a protracted budget process, likely edging up towards the start of the fiscal year that begins on July 1st. These expectations were largely validated by the Governor's quick veto of the Republican baseline budget enacted at the beginning of the legislative session.

Yet, this week, in fairly quick fashion, the Senate and House approved a genuine bipartisan \$17.8 billion budget. While to some degree the votes varied from bill to bill, in general, the budget passed out of the Senate by a consistent 25-5 margin. The House followed suit with nearly two-thirds supporting the same negotiated budget.

Despite the clear bipartisan nature of the budget negotiated between the Governor and Republican Leadership, Democrats objected to the process, arguing that Democratic Leadership was not included in the early discussions. While Democratic Leadership was reportedly meeting directly with the Governor separately from the combined discussions, they were only being brought into the joint meetings towards the end of the process. While most members of the Minority Caucus ultimately supported the budget, there was significant criticism that the budget did not adequately reflect the priorities of many rank-and-file Democrats, arguing that the budget agreement was weighted disproportionately in favor of the Republican majority.

Perhaps the biggest disappointment for Democrats was the Governor's inability to cap Arizona's universal school voucher program, officially referred to as Empower Scholarship Accounts. To be fair, the Republican majority was NEVER going to agree to any limitation on the program. If the test of the Governor's loyalty to Democratic priorities was a repeal or cap on ESAs, that was a purely aspirational goal and not a politically realistic expectation.

In response to Republican claims of the success with the expansion of the ESA program, Democrats assert it is a drain on the state budget and a threat to the public school system. To give context, more than 50,000 students are utilizing the program at an estimated cost of approximately of \$600 million by June 2024, eclipsing the original \$30 million estimate.

Unfinished business...

The Legislature is expected to return to work on Monday, with the House calendaring a large number of bills that remain in the system. Several of these bills have not moved since March or early April, as they

are either controversial or highly partisan. The goodwill rhetoric of the bipartisan budget will likely quickly fade away during the course the upcoming floor debate.

Among issues that remain unresolved, statutory reforms relating to affordable housing and homelessness, extension of the transportation sales tax in Maricopa County that will expire next year, repeal of the exemption for residential rental developments from the Assured Water Supply certificate requirements, several state agency continuations (including AHCCCS), multiple state agency director confirmations and a host of other measures that are important to various interests.

Due to the pre-planned absences of several Republican House members, the Legislature is expecting another recess for a few weeks, likely delaying adjournment until June.

Another round of optimism...

While no budget is perfect, the budget provides significant investments in K-12 education with nearly \$900 million in additional funding, including approximately \$350 million in new funding above formula adjustments for inflation and enrollment growth. Perhaps equally important, the aggregate expenditure limit is lifted, allowing additional funds to be budgeted and spent without the political drama that has been experienced over the past few years.

Eligibility for KidsCare was increased from 200% of the federal poverty level to 225%, equating to approximately 9,500 additional children being allowed to enroll in the program.

Given the increased public debate on affordable housing and individuals experiencing homelessness, the budget included \$150M in the Housing Trust Fund to support addressing these increasing social problems.

Conservative Republicans pooled their individual budget allocations to create a \$250 rebate for parents with dependents under 17 years of age and \$100 for dependents 17 years and older. The rebate only applies to parents with at least \$1 of tax liability.

The budget allocated funding for nearly 50 transportation related projects and other local initiatives.

As always, happy to provide further prospective or context.

Stuart