

Budget on way

\$10.1 bil plan likely means tax cuts, huge investment in state education

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The Legislature moved toward passing a \$10.1 billion budget plan late Friday night, built upon the largest tax cut and one of the largest investments in public education in Arizona history.

Gov. Janet Napolitano and Democrats won big concessions from Republicans on education spending, including \$160 million to offer the governor's prized full-day kindergarten program across the state by 2007 and \$100 million to give every public school teacher a pay raise next year.

Republicans scored their top budget wish with nearly \$550 million in income- and property-tax cuts, plus expanded school choice measures.

"The taxpayers of Arizona are the winners because of this tax cut," said Steve Voeller, president of the Arizona Free Enterprise Club, which lobbied for the income tax cut. "It will keep more money in the economy. This is huge for Arizona."

Lawmakers and Napolitano nearly pushed state government to the brink of a July 1 shutdown dicker over how to carve up a \$1.5 billion revenue surplus. But after a week of intense negotiations and closed-door vote wrangling, Republican legislative leaders and Napolitano signed a deal and began a late-night floor vote. If the compromise survives the night intact, as expected, Napolitano will have five days to sign or veto the budget. A veto would be unlikely and highly controversial, though Napolitano did veto parts of a negotiated agreement last year.

Napolitano garnered \$80 million next year and the same amount the following year to expand voluntary full-day kindergarten across the state. About half of the additional \$100 million for teachers and school employees will offset a mandatory increase to retirement costs. The rest will be used to give teachers a pay hike.

The state's teachers union called the teacher pay package and full-day kindergarten funding "great news for us."

"We're applauding the combined effort of the governor and legislative leadership to meet the needs of our public schools and public school teachers," said John Wright, president of the Arizona Education Association. "This (pay raise) will ensure that not only will people not fall behind next year, but they will see some advance."

School choice advocates were also thrilled with the budget. Republicans forced Napolitano and Democrats to double the size of a corporate tuition tax credit for private school scholarships that lawmakers passed earlier this year. The Legislature had set aside \$5 million, but now there will be \$10 million.

"It's a very good budget for school choice," said Sydney Hay, lobbyist for Advocates for School Choice.

Hay said there is so much demand from corporations to take the tax credit that \$5 million was not going to be enough.

Rep. Rick Murphy, R-Glendale, pushed for another school-choice program in the budget: \$2.5 million in grants for adoptive parents of foster children to use on private school tuition. Parents can receive up to \$5,000 a child each year. Murphy has adopted two foster children but said he would not use the grants himself.

"The experience with my kids was the inspiration," Murphy said. "But my kids are in a very good charter school now and making good progress so I don't plan to apply for the grants in the foreseeable future."

Despite discomfort with the size of the tax cut, Democrats like Senate Minority Leader Linda Aguirre were thrilled with what they called investments in Arizona's future.

Rep. Bill Konopnicki, a moderate-leaning Republican from Safford, graded the budget a "B" but criticized Republican leaders he said were reluctant to reach terms with Napolitano.

Big increase in spending

Lake Havasu Sen. Ron Gould ridiculed his fellow Republicans who supported a budget plan that grew nearly 20 percent from the \$8.2 billion budget approved last year.

Gould and a host of other Republicans were particularly upset with \$95 million in new spending that Napolitano and Democrats secured for more than 30 social services, healthcare, education and economic development programs.

The largest piece in the new package was \$35 million for the 21st Century Fund, a grant program which would promote research and innovations in biosciences. Another \$14.5 million for Child Protective Services would hire more caseworkers, eligibility workers and to improve foster care. Other aspects included more money for vaccines, perinatal care, a Navajo senior center, housing for the mentally ill and diabetes education.

Praise from businesses

Business representatives were happy with the \$545 million tax package. Its key features are a permanent 10 percent reduction in the state income tax and a three-year elimination

of a key property tax.

"This is a nice victory, a nice step in the right direction," said Tim Lawless, of the National Association of Industrial and Office Properties.

His group led the charge to get a property-tax cut in the package, arguing that relief from rising property values and the taxes that usually follow them is needed to boost business competitiveness. His group, as well as other business associations, have complained that Arizona ranks third-highest in the nation in terms of property taxes paid by businesses.

Taking the county education tax from its current rate of 43 cents per \$100 of assessed valuation to zero would save a business with a full-cash value of \$1 million a total of \$430 in a year.

Lawless said the business groups that pushed for the property-tax cut will continue to make their argument that it should be cut permanently.

Bioscience backers were seeking \$50 million, with a commitment for \$100 million over the following four years.

But skeptical lawmakers scaled the proposal back to \$15 million, with no commitment for future years. And they decided to take the dollars from the state's job-training program, which upset business groups that have relied on the training program.

In the end, the biosciences effort got \$35 million and job-training was held harmless.

Immigration progress

With illegal immigration dominated the political landscape in 2006, Republican state lawmakers aggressively pushed a \$160 million plan that included border radar, more troops at the border and new penalties for employers who hire undocumented workers.

Their ambitious proposal changed after President Bush announced a federally funded plan to deploy National Guard troops to the state's southern border, a move Napolitano had been pushing for since January. So now, the state budget will include a \$20 million expansion of a gang task force to hire 50 additional Department of Public Safety Officers whose duty will be to crack down on crime near the Arizona's porous southern border.

It will also let cities and counties to apply for grants they can use to tackle crime associated with illegal immigration.

Republic reporters Mary Jo Pitzl, Anne Ryman, Chip Scutai and Matthew Benson contributed to this article.