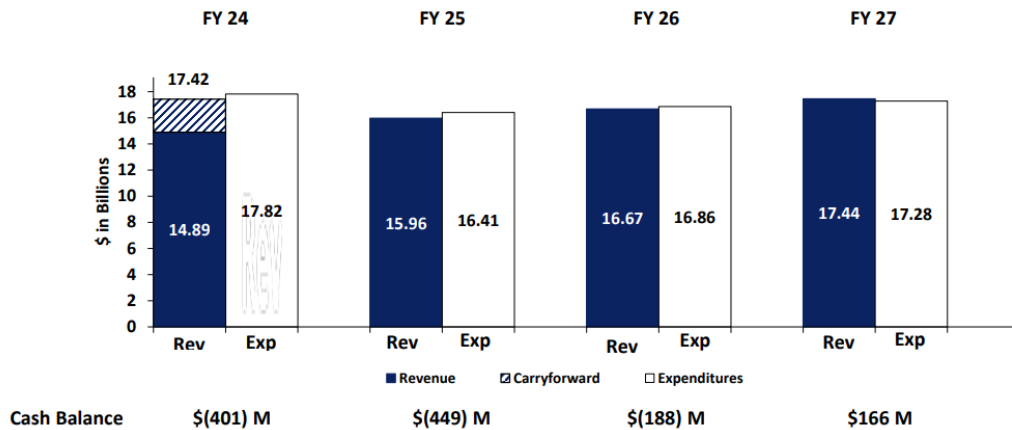


State Budget: Where the Revenue Went

Last week, the Joint Legislative Budget Committee [identified structural deficits](#) for Arizona’s future state budgets. Given the flush budgets of the last few years, Arizonans should wonder where the revenue went.

Figure 1

Projected Shortfall of \$(401) M in FY 24 & \$(449) M in FY 25
- Assumes Each Year’s Shortfall is Resolved and Not Carried into the Following Year



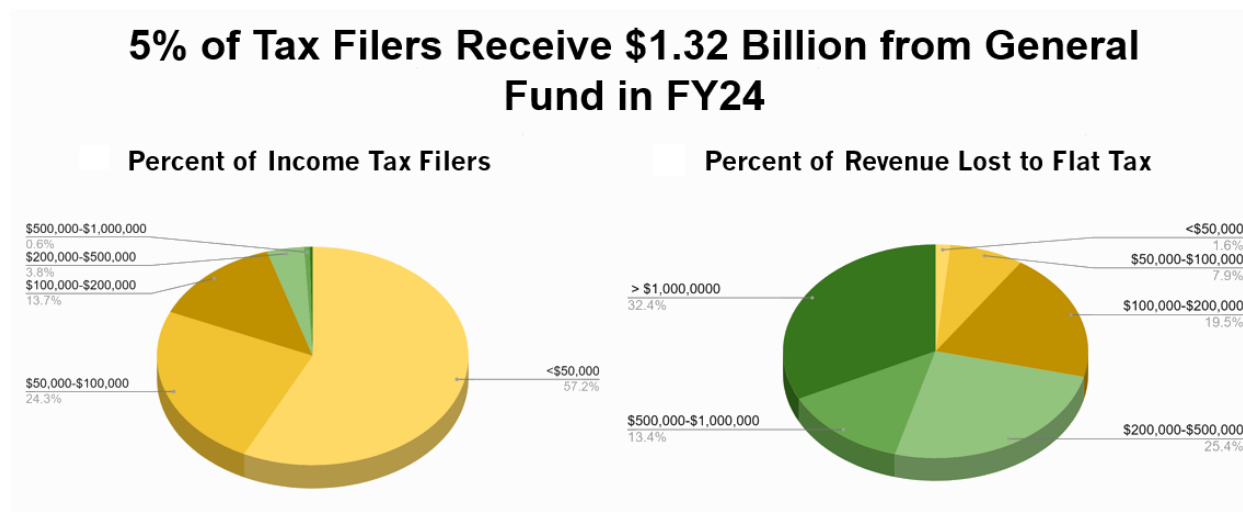
Source: Joint Legislative Budget Committee,
<https://www.azjlb.gov/revenues/revenueandbudgetupdate101123.pdf>

Figure 1 shows a deep drop in expenses after FY24. This is because FY24 is an actual enacted budget that includes added funds for both one-time needs as well as ongoing needs that the legislature has treated as a one-time expenditures. FY25-FY27 are so-called skinny budgets that just meets statutory requirements, nothing more.

Where the revenue has a simple answer: lawmakers in their 2021 session during the Ducey Administration decided to dramatically lower income tax rates for wealthy people. The Grand

Canyon Institute has referred to this as [pizzas and Porsches](#)—most tax filers will save enough to buy a pizza, while the wealthy will save enough to buy a Porsche. Seventy percent of the total value of the tax cut enacted with Arizona’s 2.5% flat tax rate benefitted those with incomes of more than \$200,000. Less than 10% of the total value of the tax cut went to the vast majority of Arizonans who earn less than \$100,000. This is the impact of replacing a progressive income tax rate structure ranging from 2.59% to 4.5% with one tax rate for all Arizonans. See Figure 2.

Figure 2



Source: Joint Legislative Budget Committee and calculations by Grand Canyon Institute.

The structural deficit would disappear if the tax revenue from families with incomes exceeding \$200,000 were not foregone. .. Instead we’ll likely see pushes for a series of cuts because for FY25 \$1.4 billion has already been allocated to filers with an income exceeding \$200,000. Ideally, the legislature would at least refer that issue back to voters as the state continues to have real fiscal needs. See Figure 3.

Arizona continues to have a crisis in K-12 education with [one in six teaching positions vacant](#) entering this school year and almost all filled by nonstandard means—from increasing class sizes, teachers with emergency credentials, and long-term substitutes. And more than 2,000 remain unfilled. Yet with a deficit in the coming year, lawmakers might instead cut K-12 base funding.

[Arizona’s Victims of Crime Fund](#) that primarily supports women escaping domestic violence received \$19 million earlier this year in one-time funds from the American Rescue Plan. However, without that funding stream, its funding levels could become perilously low.

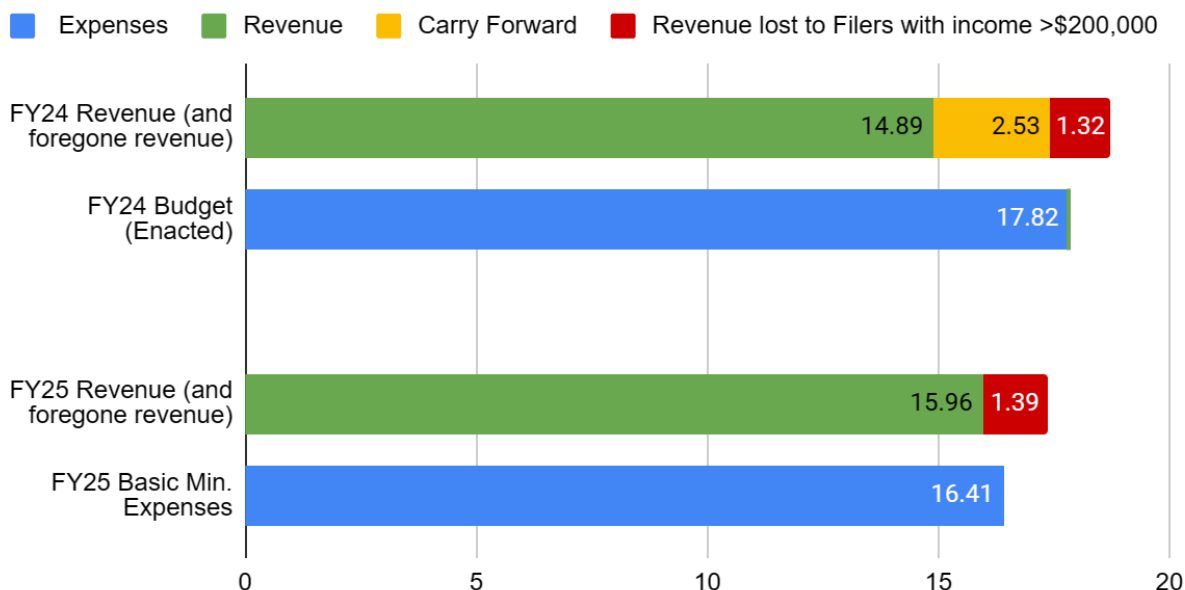
Arizona continues to only provide an [emergency dental benefit](#) for adults on AHCCCS (Medicaid), which means you can get an abscessed tooth pulled, but basic preventative care is not covered.

Most Arizonans would likely prioritize these state investments over massive tax breaks for the well-off, but they certainly should not face service cuts due to [reckless fiscal policy](#) from the wealthy-favored flat tax.

Figure 3

Structural Deficit from Tax Cut to High Incomes

billions of dollars



About

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