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## State budget woes worsen

Up to \$5.7 billion loan may be needed, treasurer says

by [Mary Jo Pitzl](#) - Jan. 6, 2009 12:00 AM  
*The Arizona Republic*

Arizona would have to borrow between \$2.5 billion and \$5.7 billion as early as February to bridge the state caused by a shortfall.

That's the estimate of state Treasurer Dean Martin, who on Monday said that the state may have to borrow

"It's like . . . using your Visa to pay off your MasterCard," Martin said at an afternoon news conference.

He said he hopes to convene a meeting this week of the state Loan Commission, the first step to securing keep the lights on in state government.

The loans would add to the state's financial woes. The current \$9.9 billion budget is already \$1.2 billion in Any borrowing would have to be repaid, with interest, a circumstance that is not contained in the current b

Martin said he will ask legislators for two changes to state law that could delay borrowing until April.

But, he added, borrowing appears inevitable.

Even if lawmakers make deep budget cuts when they start work next week, the savings won't pile up fast Likewise, any tax increases - highly unlikely in the Republican-controlled Legislature - wouldn't be able to reverse the state's upside-down trend of spending outpacing tax collections.

The only hope, as Martin sees it, is a federal stimulus program that would send cash to the states.

Incoming Republican legislative leaders were not immediately available for comment, but Martin has brief

House Speaker-elect Kirk Adams, R-Mesa, last week acknowledged that there is only so much the state c imperative to keep the lights on and to meet payroll. However, he held out hope that the legislative session budget cuts that could blunt the need for borrowing.

Gov. Janet Napolitano's office sounded the only note of optimism. While Martin is correct in a technical, ca there are options to borrowing, said Jeanine L'Ecuyer, the governor's spokeswoman.

In addition to the possibility of a federal stimulus plan, state tax revenues could pick up, she said.

"He's predicating that (the need to borrow) on revenue projections that change all the time," she said.

However, legislative budget analysts, as well as many economists, don't expect a significant increase in tax revenue this year or so.

L'Ecuyer said Martin's office has called to schedule a Loan Commission meeting, although a date has not been set.

"Her schedule is extremely tight, but she is back in Arizona as of (today)," L'Ecuyer said. Napolitano is preparing to visit Washington, D.C., as the next U.S. secretary of Homeland Security.

Martin also said he would like lawmakers to take quick action on his proposed changes to state law:

- Change the requirement that monthly payments to public schools be made on the 15th of the month. Ask the state treasury to take in monthly tax collections (due on the 25th) and give the state a chance to avert some of the problems.

Incoming House Minority Leader David Lujan, D-Phoenix, said Democrats are open to the idea, although he is concerned about what this would have on school operations, especially smaller school districts.

- Change the definition of "available" state money to mean only cash. A recent state attorney general's opinion said that the state must spend all of its available money, including investments, before it can turn to borrowing.

If the state has to follow that path, it must recall \$110 million in loans that it made to the Arizona Department of Transportation intended to pay for accelerated road projects, as well as ADOT operations, and they carry a healthy interest rate.

Martin said he's confident the state could do short-term borrowing at a lower rate, thereby ensuring the 4.8 percent interest rate allowing ADOT operations to continue.

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State Treasurer Dean Martin estimates the state could run out of money to pay its bills as early as Feb. 23, forcing his office to borrow in the short term. He figures the cumulative borrowing tab could range from \$2.5 billion to \$5.7 billion.

**Question:** What effect does this have on state employees? Will they still be paid?

**Answer:** Yes. Martin said the borrowing would be necessary to keep the state operating.

However, the need to borrow underscores the severity of the state budget shortfall, which is \$1.2 billion and counting. As lawmakers begin meeting next week to work on a budget fix, job furloughs or even layoffs are a possibility, although no one has yet presented a plan.

**Q:** Where would the state borrow the money?

**A:** From banks. The Treasurer's Office also is working to secure a line of credit with Bank of America, the state's bank. That would replace the need to go to other lending institutions.

**Q:** How much will the state have to pay in interest?

**A:** That would be determined by the banks the state approaches and the state Loan Commission. The commission, which consists of the governor, the State Treasurer and the head of the state Department of Administration, would meet to set the maximum interest rate the state would accept. Martin's office expects that it would be less than the 4.8 percent interest rate the state is collecting on loans it made to the state Department of Transportation.

**Q:** What does it mean to me as a taxpayer?

**A:** Any borrowing, with the interest rate, adds to the state's \$1.2 billion shortfall. Lawmakers have to decide how to bridge that gap, and deep spending cuts in state programs are inevitable.

**Q:** Could it mean a tax increase?

**A:** Probably not. The Republicans who control the Legislature have said tax increases are not an option, and many legislative Democrats agree. However, Gov.-in-waiting Jan Brewer, a Republican, has said that she won't take any options off the table when it comes to balancing the state's budget.



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