

# DECADES

◀ WHAT THE TRENDS TELL US ▶

## Public Finance

### Declining State Government General Fund Revenue



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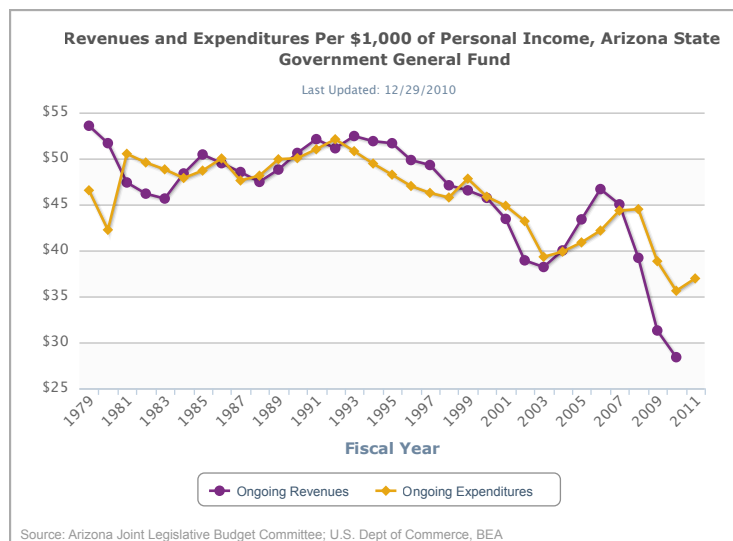
**Q:** What were the most interesting and important trends in Arizona's public finance that occurred in the previous decade? What is the significance of these trends and what insights can we apply to the new decade?

**A:** While a number of interesting trends have been present in Arizona's public finance over the last decade, by far the most important has been the decline in state government general fund revenue. This trend actually started in the mid-1990s, when the first of many tax reductions was implemented. The numerous tax cuts that have been made over the last 15+ years have substantially reduced revenue to the general fund.

In addition, the tax reductions have had the effect of greatly narrowing the tax base. The general fund has become highly dependent on the sales tax, but its narrow base translates into ever slowing revenues as consumer spending shifts to untaxed goods purchased over the Internet and to untaxed services.

Historically, the general fund received revenues equal to nearly \$50 per \$1,000 of personal income. The current figure is less than \$30. While the long, deep economic recession has caused a significant cyclical drop in revenue, projections indicate that revenue during the next economic expansion may rise back only to near \$36 per \$1,000 of personal income: 28 percent lower than the historical norm.

With falling revenues, the public programs receiving funding from the general fund are being pinched—hard. Ninety-five percent of the general fund appropriations go to just three purposes: education, health and welfare, and public safety. Funding per \$1,000 of personal income already has fallen considerably for health and welfare and higher education. In contrast, funding has increased for the correctional system.



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