

The Business Journal

PHOENIX

May 5, 2005

(Internet Edition)

Republicans strike budget deal with governor

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The Business Journal

Republican legislative leaders and Arizona Gov. Janet Napolitano have reached a budget deal that could be finalized Thursday or early Friday, *The Business Journal* has learned.

The agreement includes:

- Compromise funding for a downtown Phoenix medical school for the University of Arizona.
- Additional funds for all-day kindergarten, Napolitano's top pet project.
- GOP- and business-backed corporate property tax cuts.
- Creation of conservative-supported tax credits for businesses that donate to private school scholarship funds.

The latter replaces a private school voucher program favored by conservatives and school choice advocates but vehemently opposed by the Democratic governor and teachers' unions. Individuals already can deduct private school donations from their state taxes and the compromise allows businesses to do the same.

However, that program, which has strong backing from Catholic schools and tacit support from the business community, will be capped at \$5 million per year.

First-year funding for the UA medical school was a major stumbling block in budget talks between the governor and state Assembly. Napolitano and Phoenix Mayor Phil Gordon (both Democrats) and moderate Republicans want \$7 million in first-year cash for the UA school. Some conservative Republicans worried about future costs of the school and wanted to see more plans before forking over state money.

The new deal allows for \$3.5 million in initial funding for the UA school and another \$3.5 million after a legislative study of the project over the summer.

The budget agreement includes some but not all of all the additional funding for government health care and children's programs advocated by Napolitano and other Democrats.

The budget compromise must be approved by the GOP-majority state Assembly and OK'd by the Democratic

governor. Sources were confident that could occur by as late this evening or early Friday.

"I can confirm nothing at this point," said Napolitano spokeswoman Pati Urias.

Urias did confirm that the governor's office met with legislative leaders Wednesday.

The deal also clears the way for approval of business property tax cuts as well as some other tax relief measures. Napolitano vetoed those tax cuts earlier this year when she nixed GOP budget plans. The governor said she vetoed the initial budget because it did not include money for the new medical school or what she termed as necessary funding for all-day K.

Reducing business property tax rates from 25 percent to 20 percent is the top priority this legislative session for business groups.

The Arizona and Greater Phoenix chambers of commerce, Arizona Association of Industries, Home Builders Association of Central Arizona and National Federation of Independent Business have lobbied hard for the tax cuts arguing they will spur investment and jobs.

"That was our number one priority," said Tom Dorn, lobbyist for the East Valley Chambers of Commerce Alliance.

What remains to be seen is the fate of the tax break for manufacturers and semiconductor firms --including Intel Corp. (NASDAQ: INTC) -- and whether conservative Republicans and Democrats are on board with budget accord.

Republicans could soon approve the "sales factor" tax cut which would help Intel and other manufacturers. The question is whether Napolitano will OK that plan (which she has not supported in the past) or add it to her record number of vetoes this year.

Intel is considering its existing East Valley campus for a \$4 billion expansion and has pressed for the tax benefit at the state Capitol.

Napolitano was at the border Thursday morning with Homeland Security Secretary Michael Chertoff and GOP U.S. Sens. Jon Kyl and John McCain.

Urias said the governor will be back in Phoenix in this afternoon.