Arizona Tax Research Association
Friday, November 18, 2011

Andy Tobin,
Arizona House Speaker
Budget Highlights

• The FY 2012 budget cut permanent spending by approximately $1.1B dollars

• We expected to end FY 2011 with a $330M shortfall, however, we ended FY 2011 with strong revenue growth in capital gains – we now have an unofficial surplus

• For the first 3 months of FY 2012, revenues are $126M above plan – we are seeing major gains in sales tax revenues, individual and corporate income taxes
# Current Fiscal Climate

Rev. Increases, 3 months beginning, FY 2012

## General Fund Revenues
FY 2012 Year-to-date (Three months beginning)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Actual</th>
<th>Above Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and use taxes (excluding 1 cent)</td>
<td>$ 901,905,258</td>
<td>$ 35,217,421</td>
</tr>
<tr>
<td>Individual Income</td>
<td>$ 859,396,930</td>
<td>$ 53,364,359</td>
</tr>
<tr>
<td>Corporate Income</td>
<td>$ 176,867,994</td>
<td>$ 34,789,055</td>
</tr>
<tr>
<td>Totals</td>
<td>$ 1,937,169,182</td>
<td>$ 123,370,835</td>
</tr>
</tbody>
</table>
Current Fiscal Climate

Forecasting Difficult to Predict

• Although most revenues are greater than plan, forecasting is difficult for a number of reasons:

  – **State and local issues:** (1) 30 consecutive months of unemployment above 9% and (2) pending litigation (prop. 204)

  – **Federal issues:** federal policy mandates (Obamacare, debt)

  – **World issues:** geopolitical and fiscal concerns in Europe
Current Fiscal Climate

Forecasting Difficult to Predict

• Due to economic uncertainty and pending “budget” litigation, JLBC Staff has developed 2 different scenarios

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$8.8 B</td>
<td>$8.7 B</td>
<td>$8.3 B</td>
</tr>
<tr>
<td>Spending</td>
<td>$8.4 B</td>
<td>$8.5 B</td>
<td>$8.9 B</td>
</tr>
<tr>
<td>Balance</td>
<td>$416 M</td>
<td>$143 M</td>
<td>$(610) M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scenario 2</th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$8.7 B</td>
<td>$8.3 B</td>
<td>$7.8 B</td>
</tr>
<tr>
<td>Spending</td>
<td>$8.5 B</td>
<td>$8.7 B</td>
<td>$9.1 B</td>
</tr>
<tr>
<td>Balance</td>
<td>$133 M</td>
<td>$(375) M</td>
<td>$(1.2) B</td>
</tr>
</tbody>
</table>
Forecasting Difficult to Predict

- 3-year budget estimates are highly speculative and subject to considerable change. For example, a small revenue forecast error of 1% across 3 years could result in a $500 million revision to the projections in either direction. As a result, the current FY 2014 estimates will probably change considerably over the next 3 years.
B. Budgeting/Job Creation

Sustainable Budgeting Driven by Job Creation

Real job growth leads to:

• Less foreclosures (~23,000 in Maricopa County)
• Absorption of commercial office, industrial, and retail real estate space (~81M SQ FT available)
• Less people on unemployment benefits (~64,700 currently, over 100% increase since December, 2007)
• Manageable case load growth in AHCCCS (From January, 2008 to January, 2010, unemployment rate increased from 4.3% to 10.3%, while AHCCCS case loads increased by 275,500, or 25.4%)
• Coupling out-of-control spending and a sluggish economy, you get dismal employment and economic growth, which then leads to erratic revenue swings

• By solving our unemployment crisis, we can solve the other economic factors (on previous slide) that have plagued our state over the last few years – the economy and job creation will be our focus to make this correction.
Economic Development

Job Creation Driven by Economic Development

- Our policy initiatives and focus of creating jobs is not limited at this point – nothing is off the table

- Framework for policy setting:
  - Create lower barriers to entry for business – cut the red tape
  - Bring new capital to metro and rural Arizona
  - Training for the labor force
  - Incentivize investment in Arizona **TODAY**