

Arizona Tax Research Association

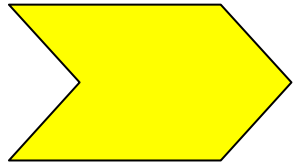
Friday, November 18, 2011

Andy Tobin,

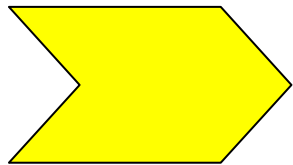
Arizona House Speaker



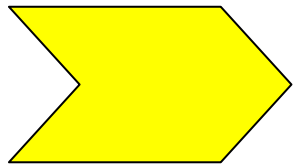
Road Map



Current Fiscal Climate



Budgeting/Job Creation



Economic Development

Current Fiscal Climate

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)		
Revenues	Actual	Above Forecast
Sales and use taxes (excluding 1 cent)	\$ 901,905,258	\$ 35,217,421
Individual Income	\$ 858,395,930	\$ 53,364,359
Corporate Income	\$ 176,867,994	\$ 34,789,055
Totals	\$ 1,937,169,182	\$ 123,370,835

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

FY '12 – '14 Budget Projections

Scenario 1	<u>12</u>	<u>13</u>	<u>14</u>
Revenues	\$8.8 B	\$8.7 B	\$8.3 B
Spending	\$8.4 B	\$8.5 B	\$8.9 B
Balance	\$416 M	\$143 M	\$(610) M

Scenario 2	<u>12</u>	<u>13</u>	<u>14</u>
Revenues	\$8.7 B	\$8.3 B	\$7.8 B
Spending	\$8.5 B	\$8.7 B	\$9.1 B
Balance	\$133 M	\$(375) M	\$(1.2) B

Current Fiscal Climate

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.

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%)

Budgeting/Job Creation

Sustainable Budgeting Driven by Job Creation

- 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