

Arizona - jobs, the budget and where we're headed

Speaker Kirk Adams
Arizona House of Representatives

Presentation to

East Valley Partnership Board
October 6, 2010

Summary of the Current Budget Status

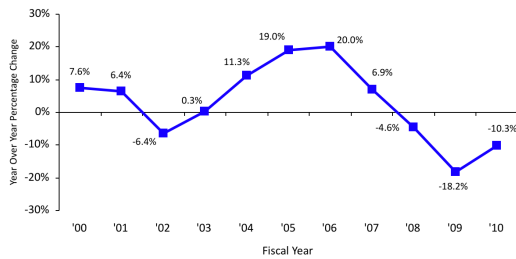
Still Weak – But Better Than Last Year

- ❑ FY '10 revenues declined by (10.3)% - unprecedented 3rd consecutive year of decline
- ❑ April through September revenues, however, have grown slightly
- ❑ FY '11 base revenues forecasted to grow 2.3% in FY '11 followed by 4.8% in FY '12
- ❑ FY '11 shortfall estimated at up to \$(825) M followed by (1.4) B in FY '12 – excludes more than \$1 B in suspended funding formulas
- ❑ Federal restrictions may limit spending options to reduce shortfall, especially in FY '11

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FY '10 Base Revenues Were (10.3)% Below FY '09 - Unprecedented 3 Year Decline of (33)%

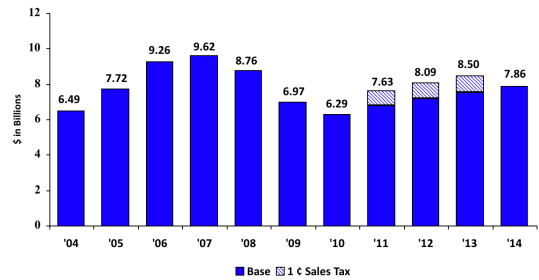


Excludes statutory and one-time changes.

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Even With 1¢ Sales Tax, General Fund Base Revenues Would Be Below '07 Level Through '14



- Excludes balance forward and other one-time revenues

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How Does New Forecast Affect Budget Shortfall?

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FY '11 Shortfall Could Be Up to \$(825) M

4 Potential Problems:

- Potential failure of November ballot props – \$469 M
- Lower Federal Matching Funds - \$158 M
- Possible revenue shortfall with new forecast – \$206 M
- \$100 M K-12 shortfall – offset with federal funds

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* \$15 M net budgeted balance available to offset shortfall

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Baseline FY '12 Spending is Projected to Grow \$900 M - Represents Funding of Active Formula Requirements

- Most of the growth due to elimination of one-time federal assistance for Medicaid and K-12
- K-12 and AHCCCS normal formula growth expected to be relatively limited
 - Population growth moderated
 - Assumes continuation of limited inflation policy
- SFB debt service requirements will increase \$94 M due to one-time FY '11 savings

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Restating Arizona's Main Budget Problem in FY '12

Revenues = \$8.2 B

Spending = \$9.6 B

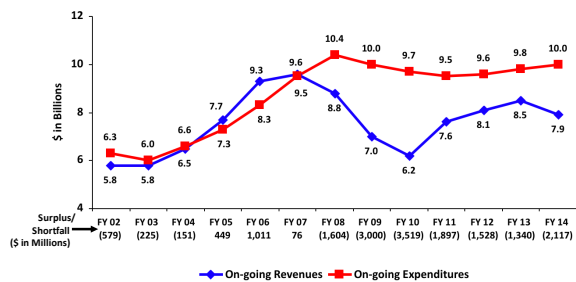
- This estimate does not include \$1.4 B of currently suspended funding formulas

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Structural Gap Comparable to Cash Gap Starting in FY '12

- Represents On-Going Revenues Versus On-Going Expenditures

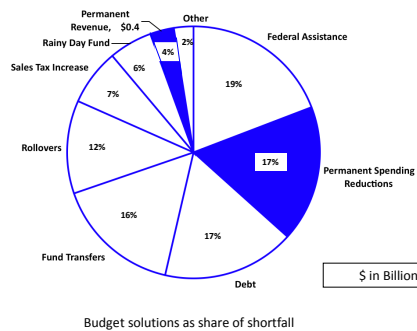


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Since FY '08, State Has Used Mostly Temporary Solution to Resolve Budget Shortfalls

- \$12.5 B In Cumulative Solutions



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While Permanent Solutions Remain Preferable, One-Time Options Are Still Available

- But Usually at Lower Levels

- Rollovers
- Debt Service Payment Holidays
- Fund Sweeps
- Asset Sales and Leasebacks

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Federal Maintenance of Effort (MOE) Requirements May Limit State's Flexibility

- Federal health care legislation prevents state from changing most Medicaid eligibility
 - Changes could result in loss of \$7 B in federal matching
 - Can still modify rates at any time
- Federal education stimulus prevents state from reducing spending below FY '06 level
 - K-12 and Higher Education already at FY '06 level
 - Requirement expires at end of FY '11

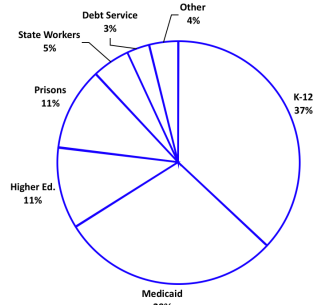
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6 Major Activities Account For 96% of On-Going General Fund Spending

- Education and Medicaid Represent 77%

Unit	(Millions)
Education (K-12)	\$ 3,559.1
Medicaid	2,749.7
Higher Education	1,025.5
Prisons	1,005.7
State Workers	509.0
Debt Service	292.4
Other	422.9
TOTAL	\$ 9,564.3

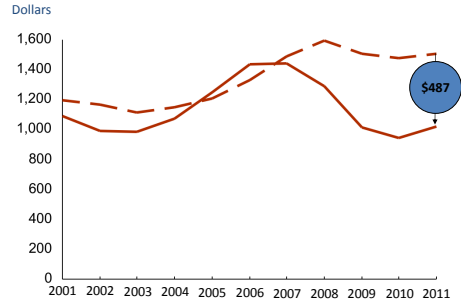


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General Fund per capita revenues and expenditures over time

Data as of February 2010

Per capita General Fund revenues and expenditures, 2001-2011 (FY)

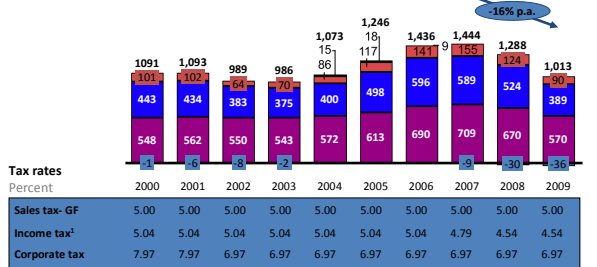


SOURCE: US Census, JLBC Baseline Summary

Arizona General Fund tax revenue per capita

Data as of February 2010

General Fund revenue sources per capita



Tax rates

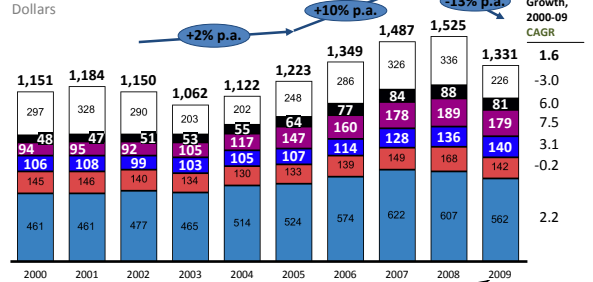
Percent	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sales tax- GF	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Income tax ¹	5.04	5.04	5.04	5.04	5.04	5.04	5.04	4.79	4.54	4.54
Corporate tax	7.97	7.97	6.97	6.97	6.97	6.97	6.97	6.97	6.97	6.97

¹ Top rate of personal income tax
SOURCE: JLBC, Tax Foundation, National Association of Realtors

Arizona General Fund expenditures per capita

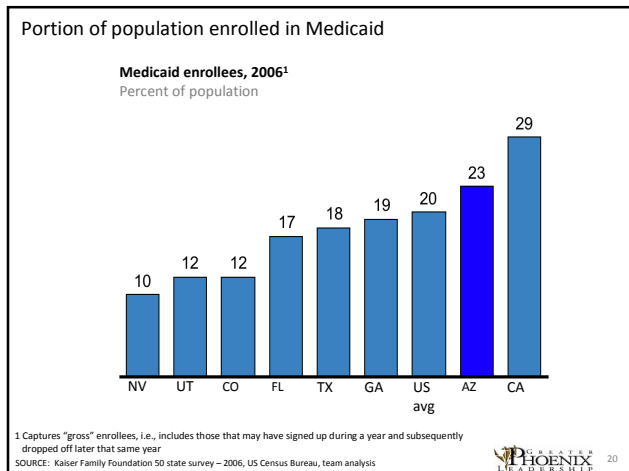
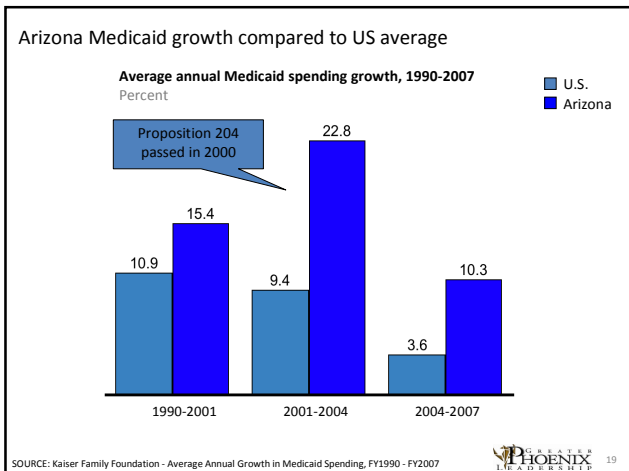
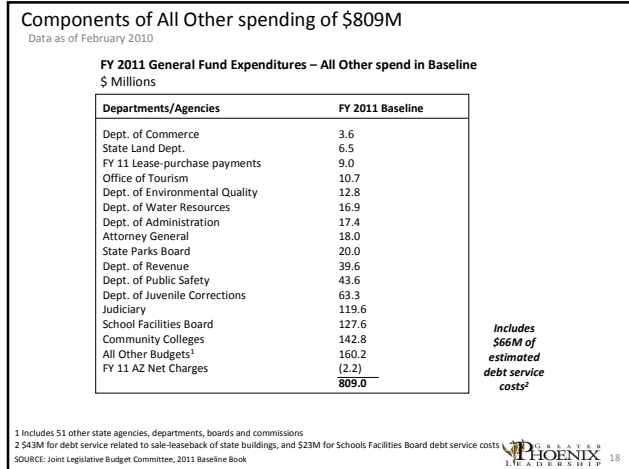
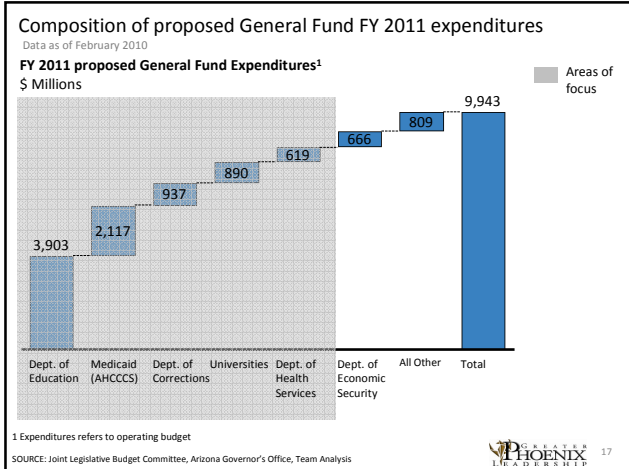
Data as of February 2010

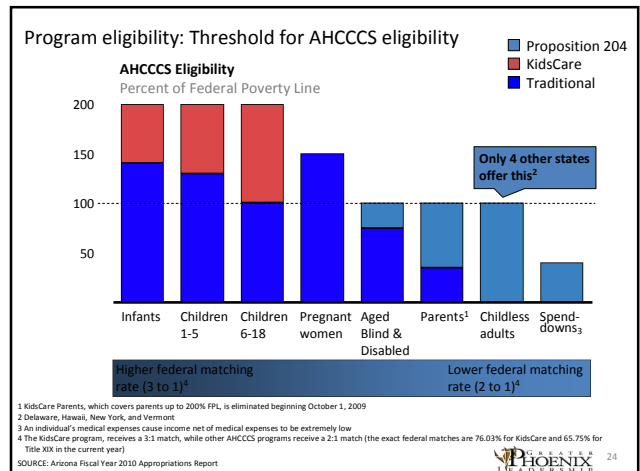
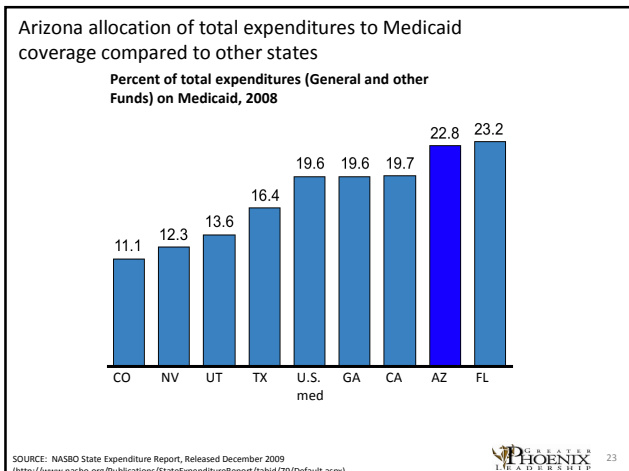
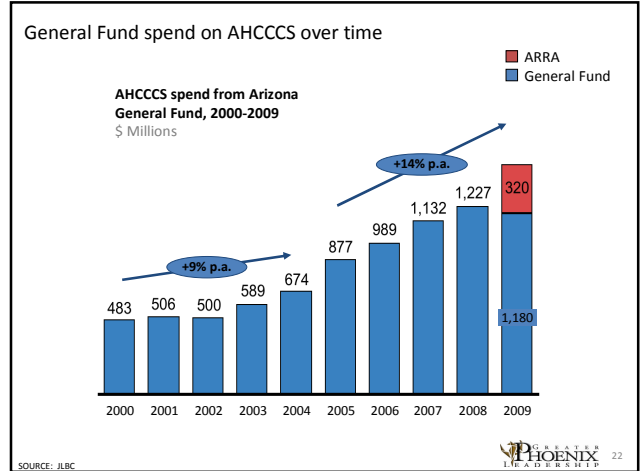
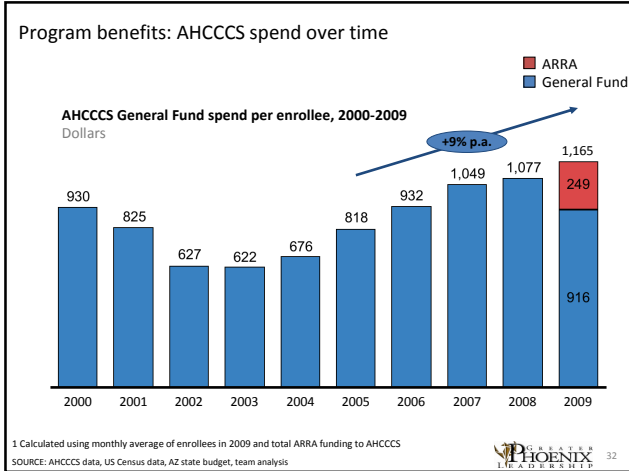
General Fund expenditures per capita by department



Excludes \$69 per capita in ARRA funding for AHCCCS, DHS and DES

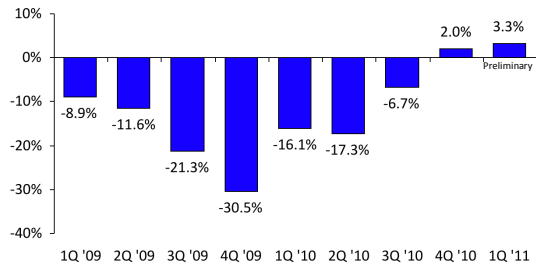
SOURCE: JLBC - "General Fund Operating Budget Spending," US Census, team analysis





There Has Been Some Good News

- First Positive Quarterly Growth Since 1st Quarter of FY '08



Base Revenues Percent Change From Prior Year
*Excludes urban revenue sharing and one-time revenues

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The Road to Recovery Will Still Be Long

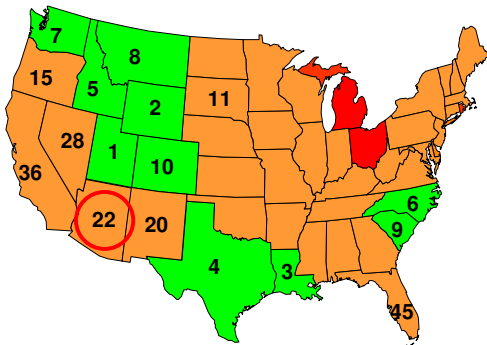
- 335,000 jobs lost since December 2007
 - Summer is high-water mark due to seasonal lay-offs
 - 28% of lost jobs were in construction
- Housing problems persist
 - While pending Valley foreclosures declined from 51,000 in December, there are still 41,318 in the pipeline
 - 50% of Arizona-wide mortgages “underwater”

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Job Growth 2007

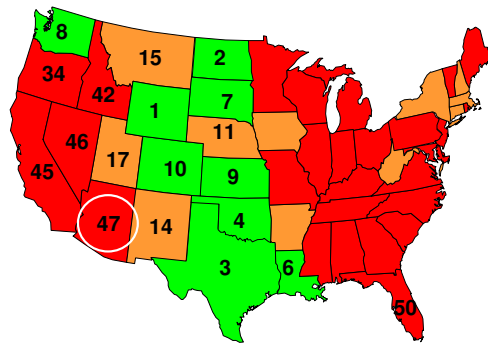
Source: US BLS



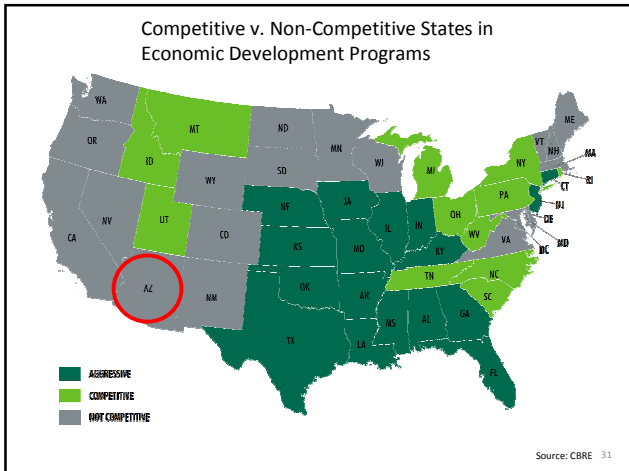
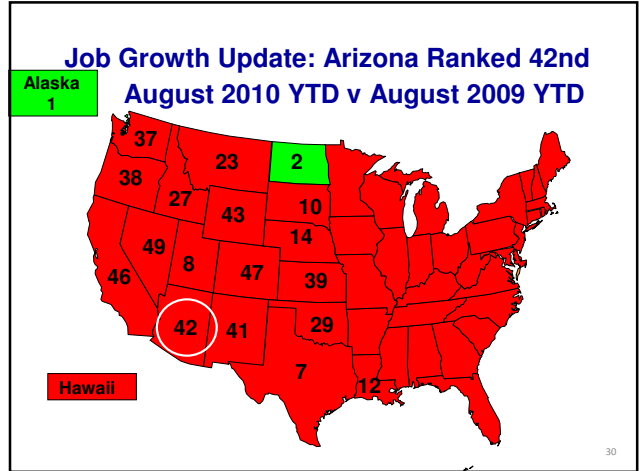
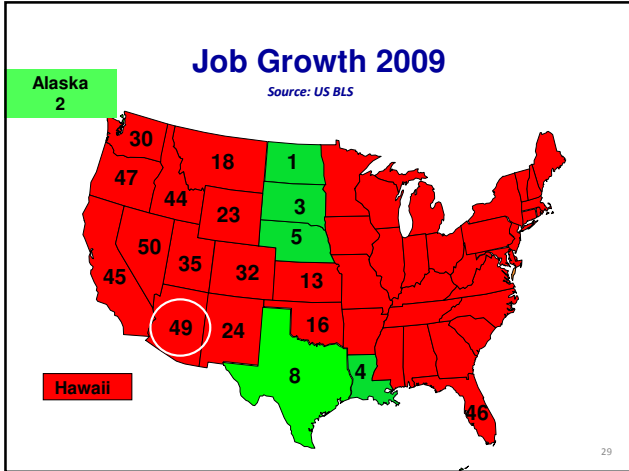
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Job Growth 2008

Source: US BLS



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Addressing Arizona's Jobs Deficit

- Address business tax shortcomings through general, broad-based tax relief for all - small and large employers alike
- Adopt targeted & proven economic development programs successfully used in other states to attract & retain high wage base industries

Arizona must restore growth, but most importantly we must grow well.

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Business Tax Relief

- Continued phase-down of the Commercial Property Tax Assessment ratio from 20% to 15%
- Phase down of the Corporate Income Tax (CIT) rate from 7% to 5%, giving Arizona the 2nd lowest rate among CIT levying states (6th lowest overall)

Arizona's tax rates vs. peer states

Data as of February 2010

Arizona's tax rates are....

Tax rate comparison 2009				
	Corporate tax	Unemp. ins. tax	Total State Sales tax	Personal income tax ¹
AZ	7.0%	5.4%	5.6%	4.54%
CA	8.8%	6.2%	8.3%	10.6%
CO	4.6%	5.4%	2.9%	4.63%
NV	0%	5.4%	6.9%	0%
TX	1%	6.2%	6.3%	0%
UT	5%	9.1%	6.0%	0%
FL	5.5%	5.4%	6%	0%
GA	6%	5.4%	4%	6%
US avg.	6.8%	7.1%	5.1%	5.9%
US Q1	9.4%	10.0%	6.9%	9.4%

¹ Top rate of personal income tax

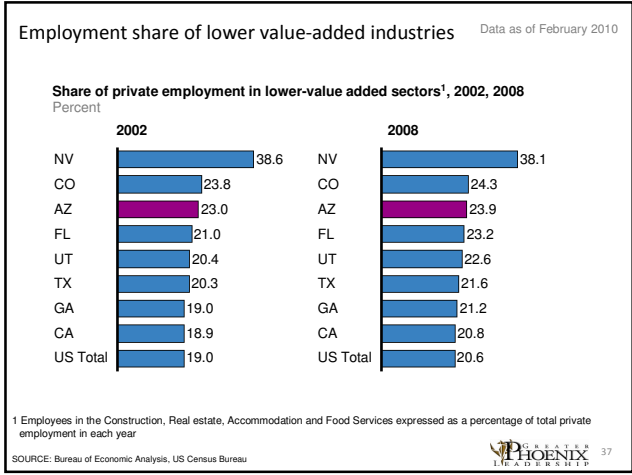
SOURCE: The Tax Foundation

Base Industries

- High wage paying jobs
- Can produce anywhere and therefore highly selective
- Given mobility, targeted incentives may be in order to attract or retain base industry companies
- Create Indirect & Induced jobs – every 1 base industry job creates an additional 2.2 jobs

Impact of 10,000 Aerospace Industry Jobs Impact on Other Industries Arizona (2009 dollars)

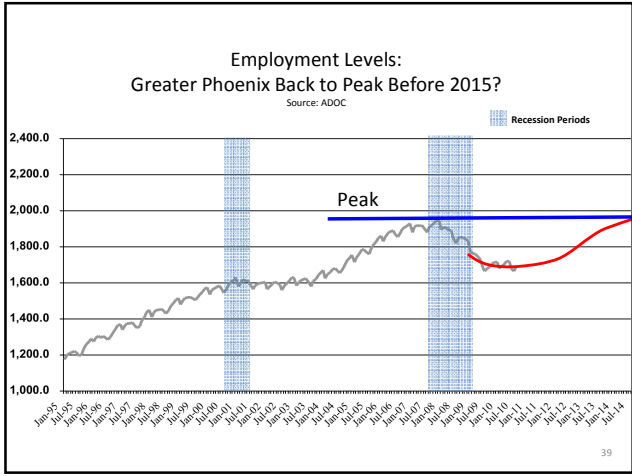
SUMMARY	Jobs	Output
Farming and mining	95	\$21,540,000
Utilities	110	\$66,680,000
Construction	149	\$29,120,000
Manufacturing	1,075	\$356,860,000
Aerospace Direct	10,000	\$3,635,240,000
Aerospace Indirect	2,187	\$795,030,000
Trade	3,044	\$320,990,000
Transportation	678	\$91,320,000
Information	319	\$93,470,000
Financial Activities & Real Estate	2,005	\$497,790,000
Services	11,219	\$1,116,600,000
Private HH	338	\$2,470,000
Government	870	\$71,390,000
Total	32,088	\$7,098,500,000



Arizona Commerce Authority

- Revitalizing the Department of Commerce is critical to Arizona's Economic Strategy which includes:
 - Political leadership to make capital investment & job creation a priority
 - Effective policy tools & tax rates to attract and retain companies
- Commerce Authority will focus on these four areas:
 - Aerospace & Defense
 - Renewable Energy
 - Science & Technology
 - Retention

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Arizona's Opportunity

- Emerging from this requires re-invigorating the private sector
- The State's budget problems are a symptom of the state's economic malaise
- To build a flourishing private sector we must address fiscal policy and the underlying tax code
- A strong private sector economy makes public spending and employment possible
- We have an opportunity to enact tax reforms that incentivize job creation and capital accumulation for Arizona businesses