

Legislative Update

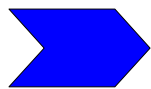
Friday, November 16, 2012

Lorenzo Romero

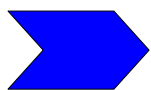
Arizona House of Representatives, Director of Fiscal Policy



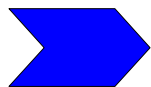
Road Map



Competitiveness



**Job Creation and State
Budget Implications**



Yuma Test Case

Competitiveness

Economic Dev. Legislation

HB 2001, Signed in 2011 (summary):

- Decreases commercial property tax assessment ratio from 20% to 18%
- Enriches the R&D tax credit from 20% to 30% for qualified expenses
- Decreases the corporate income tax rate from approx. 7.0% to 4.9%
- Creates Quality Jobs tax credit – up to \$9k/qualified job
- Establishes a deal closing fund - \$25M/year

HB 2815, Signed in 2012 (summary):

- Phases down the capital gains tax by 25%
- Increases the carryforward on Net Operating Losses from 5 to 20 years
- Expands The Renewable Energy tax credit program to manufacturing
- Establishes a study committee to review the job training program

Result: Out of 9 Western States, AZ went from 9th to 4th in Business Competitiveness*

*Source: GPEC

Competitive Rankings



Current Competitive Ranking*:

1. New Mexico
2. Texas
3. Washington
- 4. Arizona**
5. Oregon
6. Nevada
7. Colorado
8. Utah
9. California

*GPEC, assumes ~\$31M capex, ~140 jobs

Opportunities

California exit strategy

- The passage of proposition 30 increases taxes by approximately \$6B
 - The sales tax rate increases from 7.25% to 7.5%
 - Individual income tax rates increase (top rate at 13.3%)

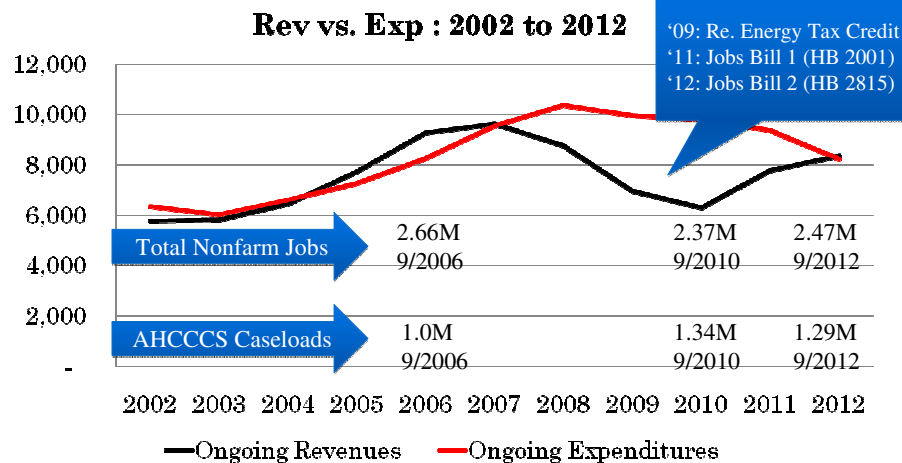
Arizona entrance strategy

- The passage of permanent tax cuts (HB 2001 and HB 2815) provides certainty for a low tax environment (top marginal rate in AZ is 4.54% and capital gains reduced)
- Expiration of one cent sales tax further decreases tax burden
- Mix of tax credits and deal closing fund monies help offset start-up costs
- Two consecutive years of balanced budgets – highly likely for a third year

The Goal: #1 in the Market

Job Creation and State Budget Implications

Historical Economic Perspective



- 7/11 years of unbalanced budgets – expenditures grew by 64%
- Debt Service is now \$362M in FY 2013, 7TH largest budgetary unit
- Total outstanding debt is \$8.2B, general fund debt is \$3.7B

Yuma Test Case

Yuma Test Case

The Impact on Unemployment If Yuma County Wins a Large Manufacturing Project (3,000 Jobs)				
	Current State	Impact of 3K New Direct Jobs	Change*	% Change
Labor Force	91,346	91,346	0	0
Employment	64,235	68,127	3,892	6.1%
Unemployment	27,111	23,219	-3,892	-14.4%
Unemployment Rate*	29.7%	25.4%	-4.3%	-14.4%
*3,000 new direct jobs create an additional 892 indirect jobs				
**September, 2012, Yuma County				

What 3,000 new manufacturing jobs can do for Yuma County and AZ

- Decreases the unemployment rate by over 14%
- Creates 3,000 direct jobs and 892 indirect jobs
- Decreases AHCCCS caseloads (currently Yuma County has the 3rd highest caseload enrollment – approx. 50K)
- Adds approximately \$4M to the state general fund from direct revenues (does not consider savings from individuals getting off state aid programs)

Thank You!



Appendix

Medium-Term: State Investment

*Each new job added to AZ's economy equals \$1K to our general fund – where will we invest the new dollars?

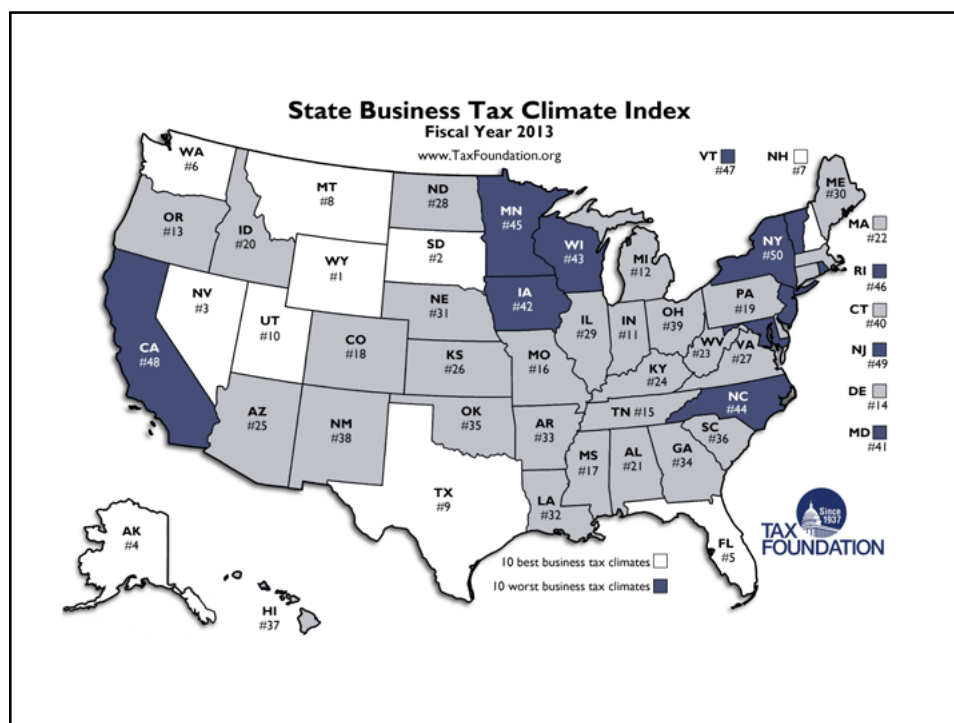
- **The sustainability of our state economy will hinge on how we invest in our future:**
 - School construction
 - Interstate maintenance and construction (I-95, I-11, I-15)
 - Statewide water infrastructure
 - Workforce development
 - Debt paydown (debt service is \$362M – 7TH largest budget unit)

* Joint Legislative Budget Committee

AHCCCS Caseloads

AHCCCS POPULATION BY COUNTY

County	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	One Year Change	% of Growth
Apache	33,601	32,863	32,558	32,482	32,080	31,983	31,944	31,326	31,120	31,142	31,044	30,771	30,202	(3,399)	-10%
Cochise	27,383	27,062	26,899	26,636	26,282	26,172	26,086	25,879	25,802	25,885	26,057	25,990	25,650	(1,733)	-6%
Cocoonino	29,665	29,358	28,987	28,903	28,291	27,794	27,521	27,247	26,902	26,774	26,959	26,757	26,331	(3,334)	-11%
Gila	15,316	15,185	15,144	15,018	14,654	14,535	14,412	14,355	14,321	14,256	14,196	14,011	13,895	(1,421)	-9%
Graham	9,171	9,059	9,013	8,943	8,811	8,659	8,546	8,468	8,455	8,372	8,387	8,225	8,105	(1,066)	-12%
Greenlee	1,407	1,406	1,380	1,361	1,370	1,339	1,316	1,316	1,277	1,249	1,244	1,215	1,160	(247)	-18%
Maricopa	770,333	762,324	757,179	753,732	748,098	743,020	740,082	738,134	738,450	745,612	750,695	745,922	737,625	(32,708)	-4%
Mohave	49,684	48,893	48,485	48,033	47,243	47,006	46,668	46,255	46,178	46,069	45,962	45,729	45,162	(4,522)	-9%
Navajo	41,885	41,098	40,582	40,678	39,867	39,567	39,330	38,684	38,705	38,631	38,583	38,255	37,769	(4,116)	-10%
Pima	209,656	206,403	204,512	202,514	199,813	198,185	195,780	194,004	194,220	194,546	195,123	193,526	191,271	(18,385)	-9%
Pinal	52,790	51,778	51,365	50,912	50,412	49,909	49,698	49,467	49,672	49,812	49,949	49,470	49,004	(3,786)	-7%
Santa Cruz	16,002	15,912	15,830	15,696	15,405	15,178	15,175	15,040	15,051	15,228	15,361	15,309	15,130	(872)	-5%
Yavapai	38,562	38,045	37,728	37,523	37,219	36,973	36,733	36,329	36,080	35,943	35,843	35,470	35,093	(3,469)	-9%
Yuma	53,367	52,100	50,752	50,012	49,530	48,791	49,009	49,249	49,813	50,210	50,905	50,872	50,068	(3,299)	-6%
La Paz	4,730	4,655	4,612	4,592	4,550	4,526	4,506	4,424	4,475	4,454	4,448	4,450	4,350	(380)	-8%
TOTAL	1,353,552	1,336,141	1,325,006	1,317,035	1,303,625	1,293,637	1,286,796	1,280,177	1,280,521	1,286,183	1,294,756	1,285,972	1,270,815	(82,737)	-6%



2013 State Business Tax Climate Index Ranks and Component Tax Ranks

State	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insurance Tax Rank	Property Tax Rank
Arizona	25	24	17	50	1	5
California	48	45	49	40	16	17
Colorado	18	20	16	44	39	9
Nevada	3	1	1	42	41	16
New Mexico	38	39	34	45	15	1
Oregon	13	31	32	4	37	10
Texas	9	38	7	36	14	32
Utah	10	5	14	22	20	3
Washington	6	30	1	48	18	22

Note: A rank of 1 is more favorable for business than a rank of 50. Rankings do not average to total. States without a tax rank equally as 1. D.C. score and rank do not affect other states. Report shows tax systems as of July 1, 2012 (the beginning of Fiscal Year 2013).

Source: Tax Foundation.