



Budget and Policy Outlook

Presented to **Arizona Tax Research Association**

Outlook Conference & 65th Annual Meeting

on November 18, 2005

By Gary Yaquinto

Director, Governor's Office of Strategic Planning and Budgeting



AGENDA

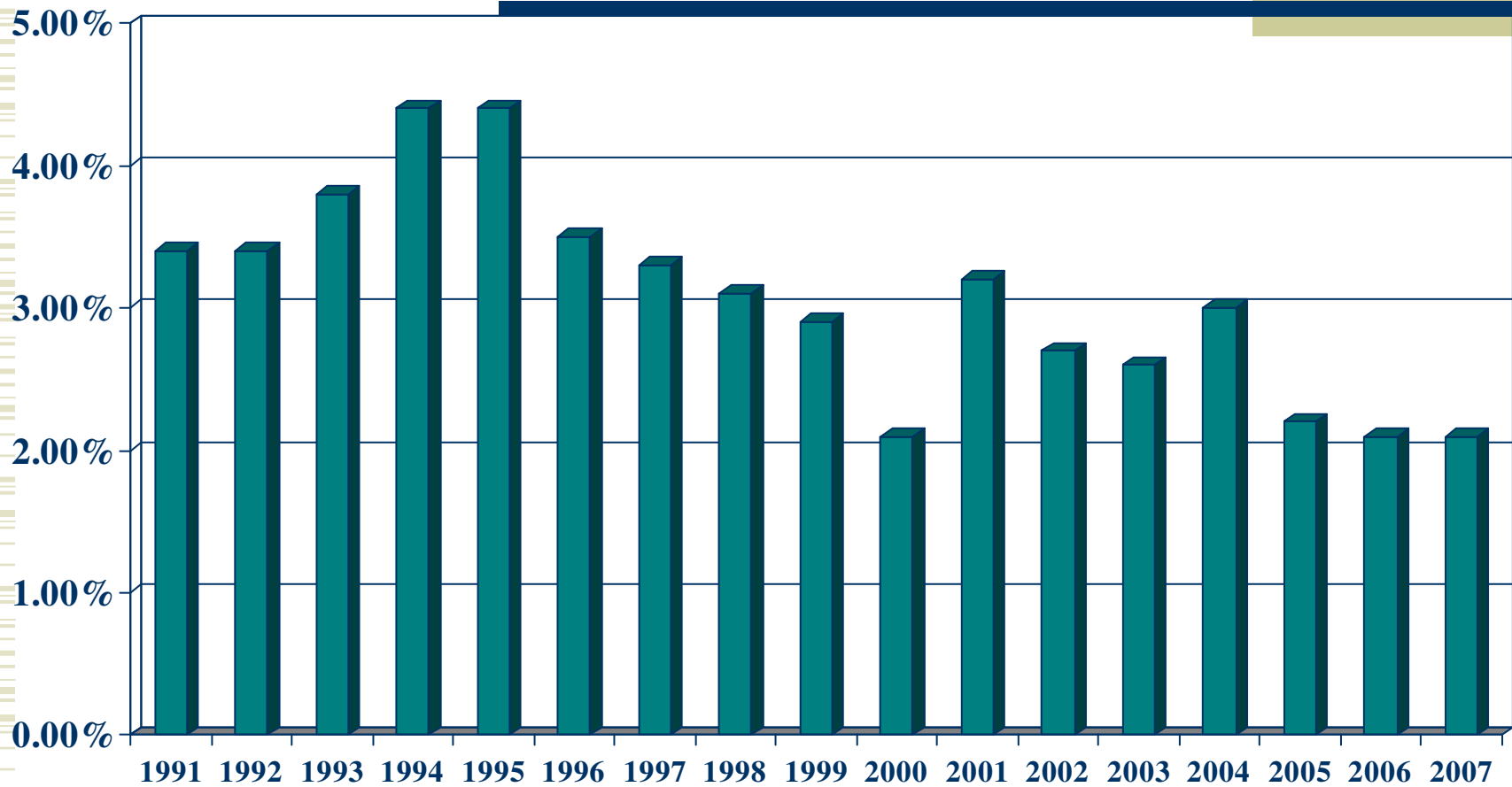


- ◆ Budget Drivers
- ◆ Revenues
- ◆ Expenditures
- ◆ Comparisons with Other States
- ◆ Spending Limits, Structural Balance and a Perspective on TABOR



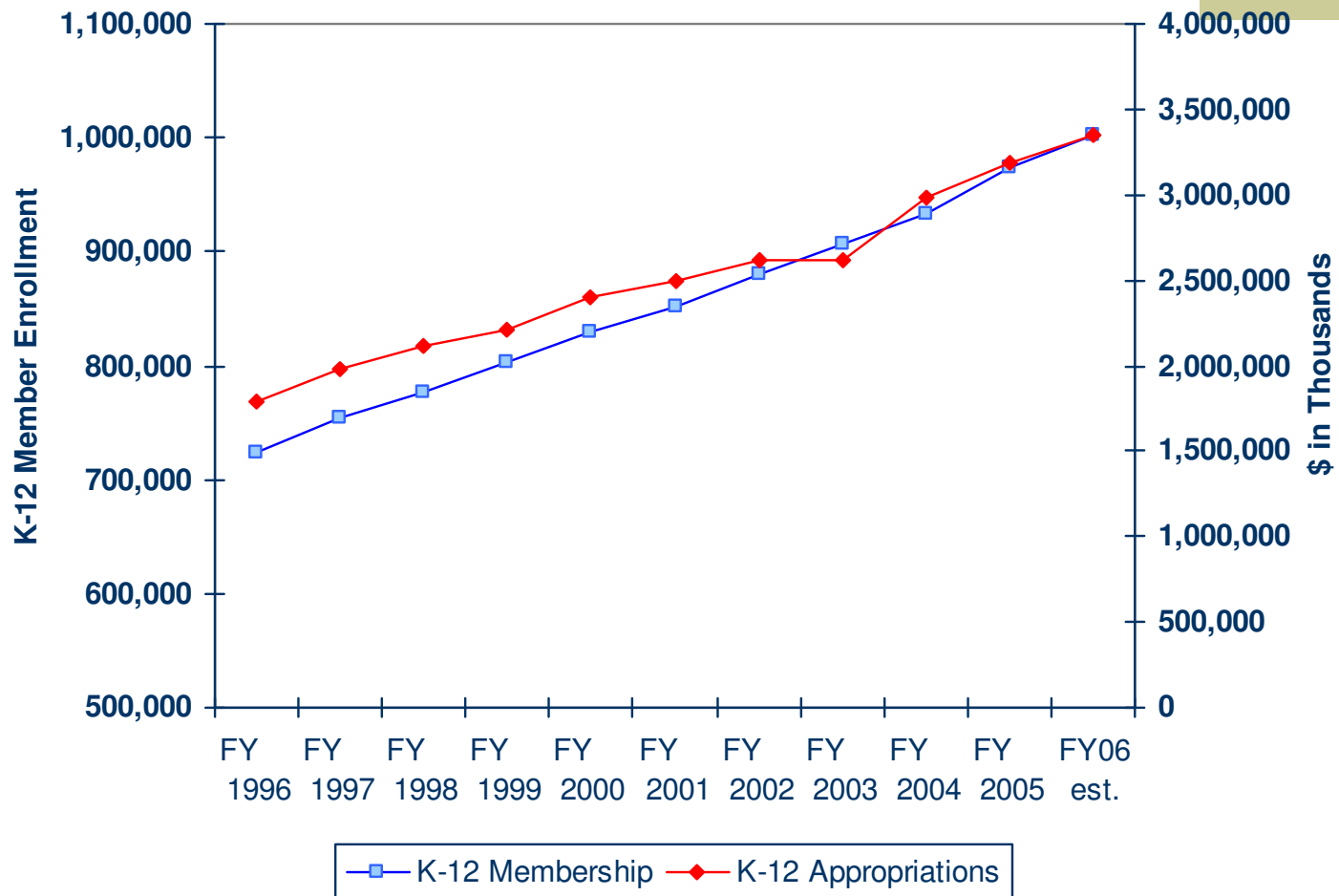
Budget Drivers

Arizona Population Growth



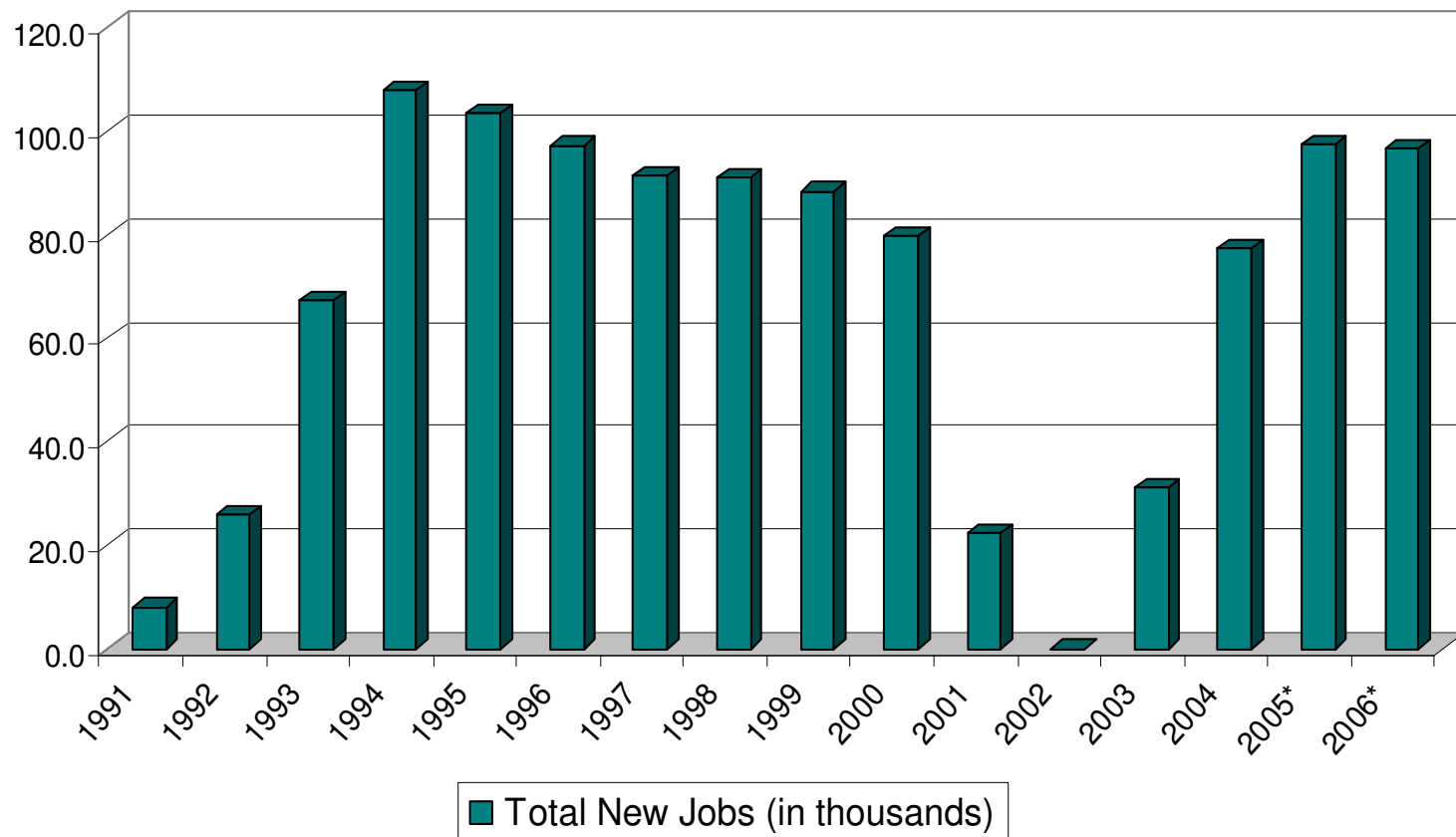
Source: US Census Bureau and Arizona Department of Economic Security

Budget Drivers: K-12



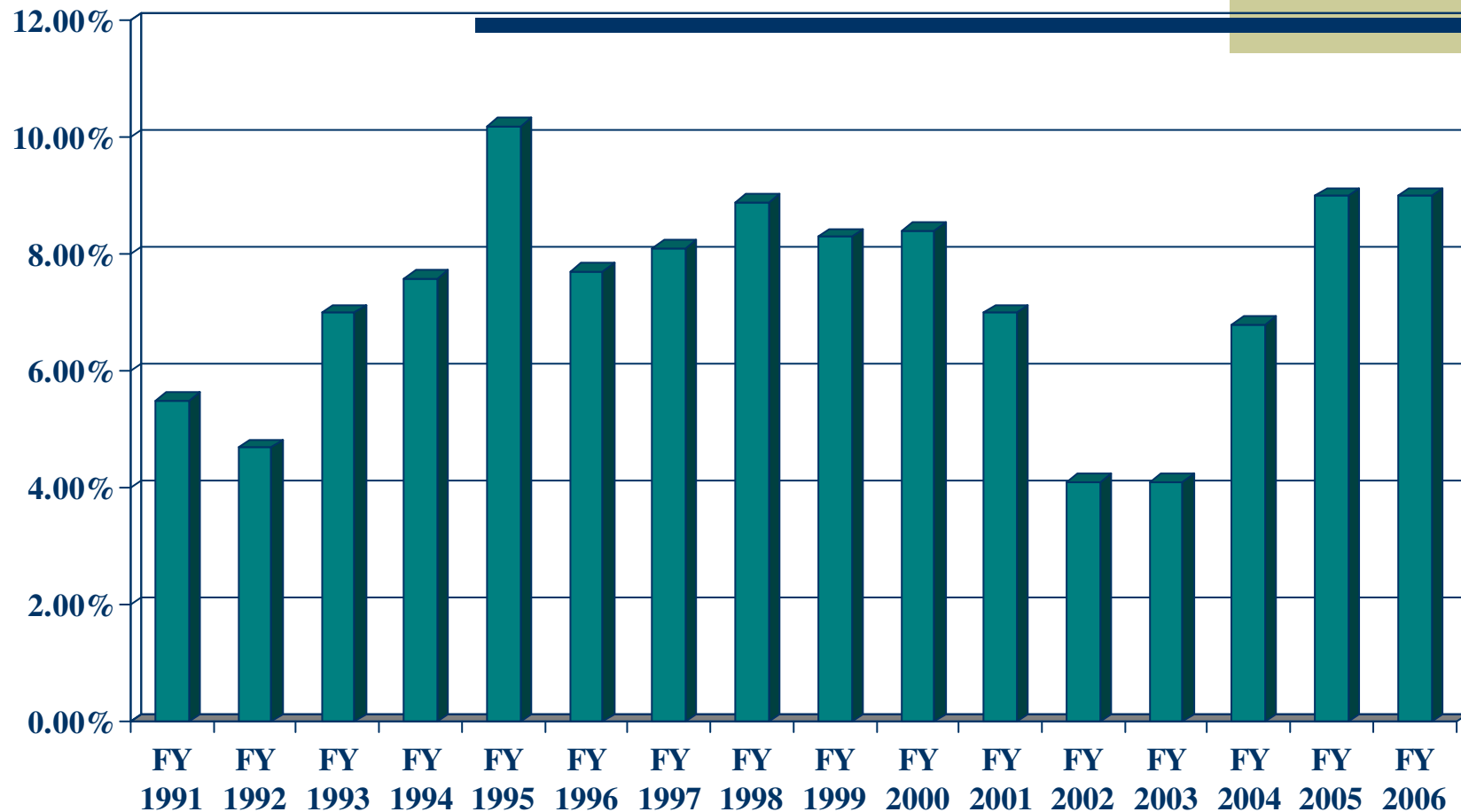
Source: OSPB and JLBC

Arizona Total New Jobs 1991 - 2006



Source: 1991-2004 are actual new jobs, from Department of Economic Security
* 2005 and 2006 are projections from Arizona Blue Chip

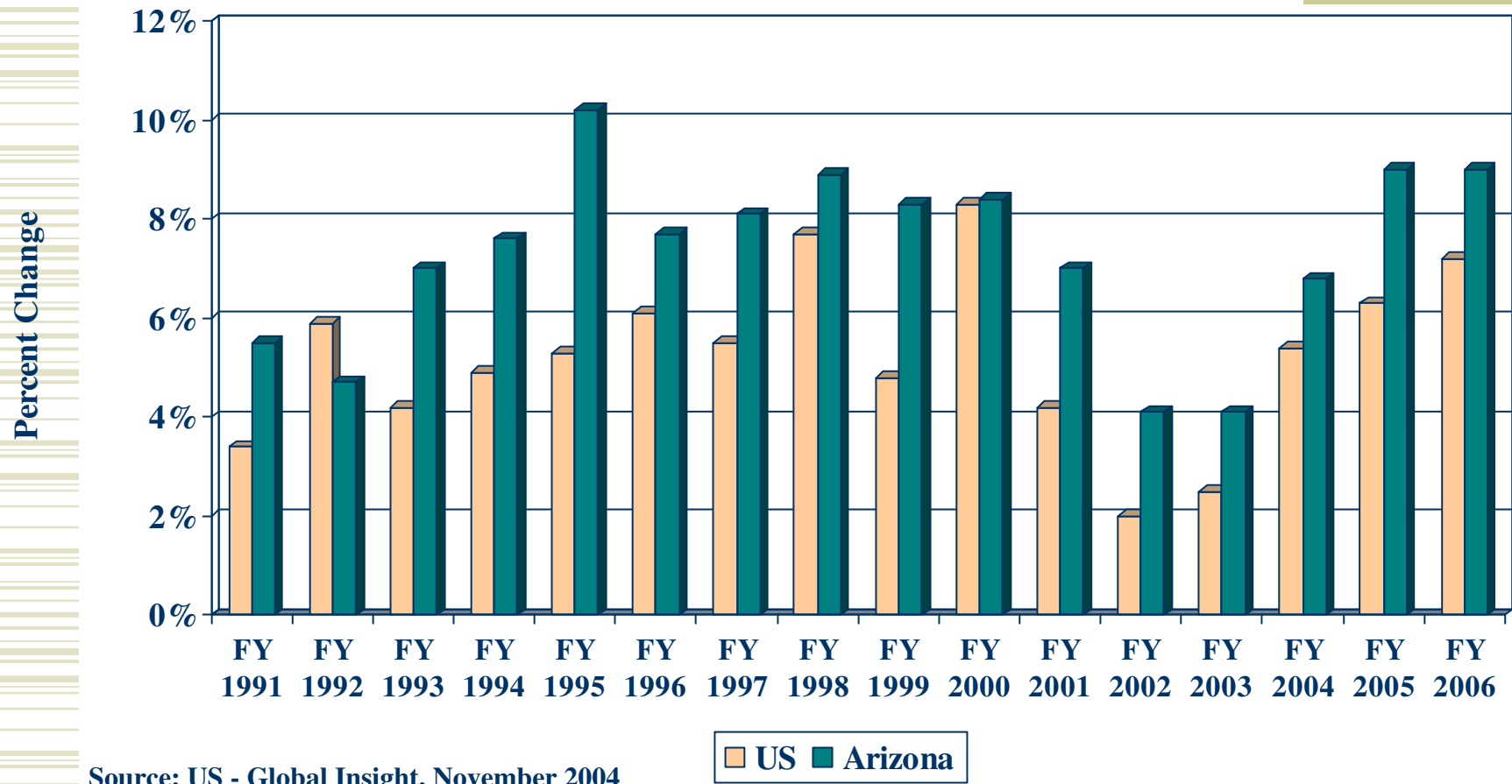
Arizona Personal Income Growth



Source: 1991-2005: actual Personal Income growth from Bureau of Economic Analysis

2006: Seidman Research Institute forecast

U.S. versus Arizona Personal Income



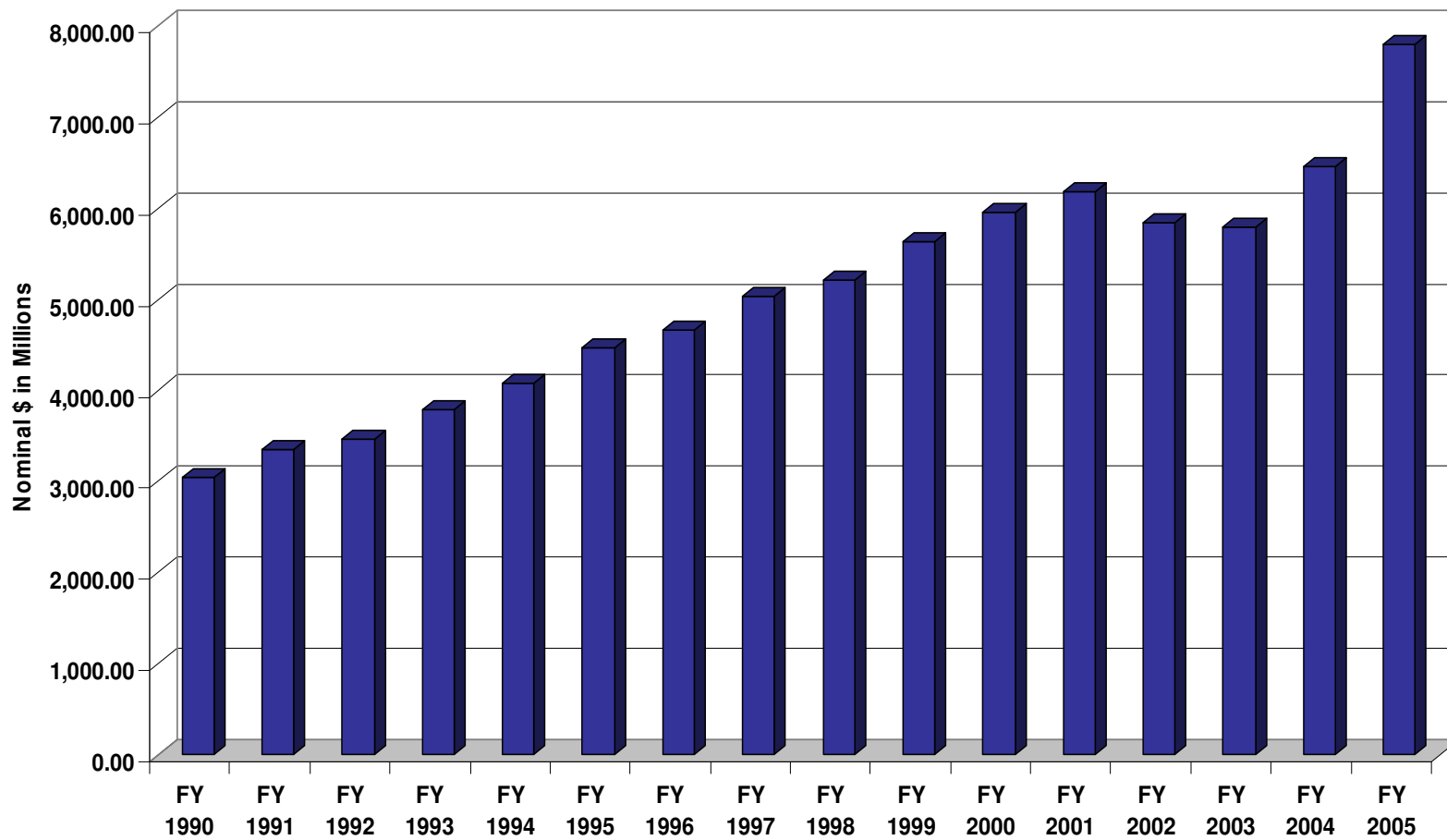
Source: US - Global Insight, November 2004

Arizona - Bureau of Economic Analysis, Forecast: Seidman Research Institute



Revenues

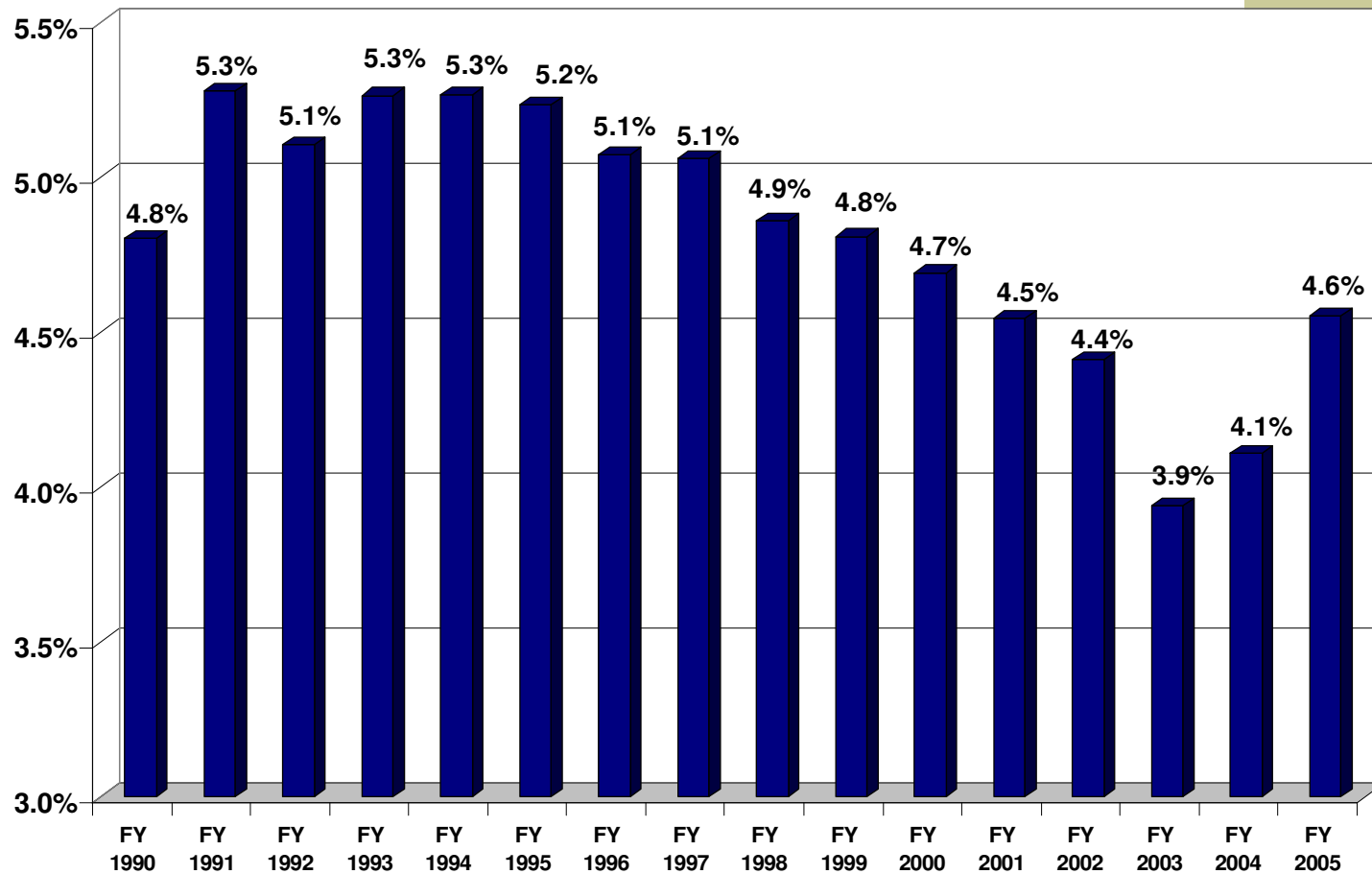
General Fund Revenues* FY 1990 – 2005



Source: OSPB

*Base revenue, excludes beginning balance and one time

General Fund Revenues as a Percentage of Personal Income



Source: OSPB and Bureau of Economic Analysis

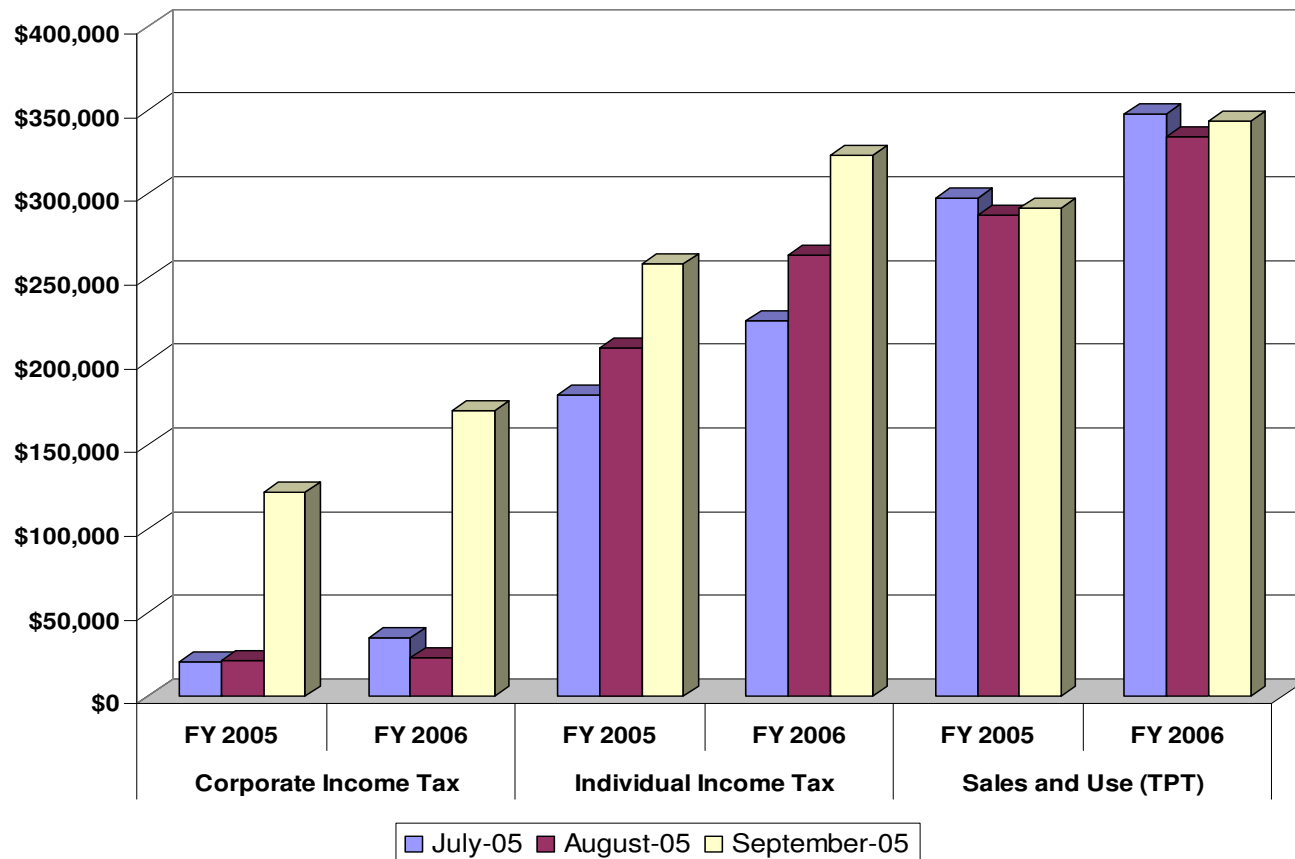
Summary of Revenue Receipts in First Quarter, Fiscal Year 2006

CHANGE IN REVENUE FROM QUARTER 1 FY 2005								
	\$ Change over same month prior year				% Change over same month prior year			
	Corporate Income	Individual Income	Sales and Use	\$ Big 3 Change	Corporate Income	Individual Income	Sales and Use	% Big 3 Change
July-05	\$14,286	\$43,694	\$49,868	\$107,848	68.05%	24.24%	16.75%	21.61%
August-05	\$2,176	\$55,674	\$47,213	\$105,063	10.24%	26.76%	16.45%	20.35%
September-05	\$48,022	\$64,650	\$52,260	\$164,932	39.25%	25.03%	17.93%	24.54%
TOTAL	\$64,484	\$164,018	\$149,341	\$377,843	39.18%	25.37%	17.04%	22.39%

SUMMARY OF COLLECTIONS								
	Corporate Income Tax		Individual Income Tax		Sales and Use (TPT)		BIG 3 TOTAL	
	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006
July-05	\$20,992	\$35,278	\$180,259	\$223,953	\$297,753	\$347,621	\$499,004	\$606,852
August-05	\$21,254	\$23,430	\$208,016	\$263,690	\$286,992	\$334,205	\$516,262	\$621,325
September-05	\$122,358	\$170,380	\$258,308	\$322,958	\$291,524	\$343,784	\$672,190	\$837,122
TOTAL Q1	\$164,604	\$229,088	\$646,583	\$810,601	\$876,269	\$1,025,610	\$1,687,456	\$2,065,299

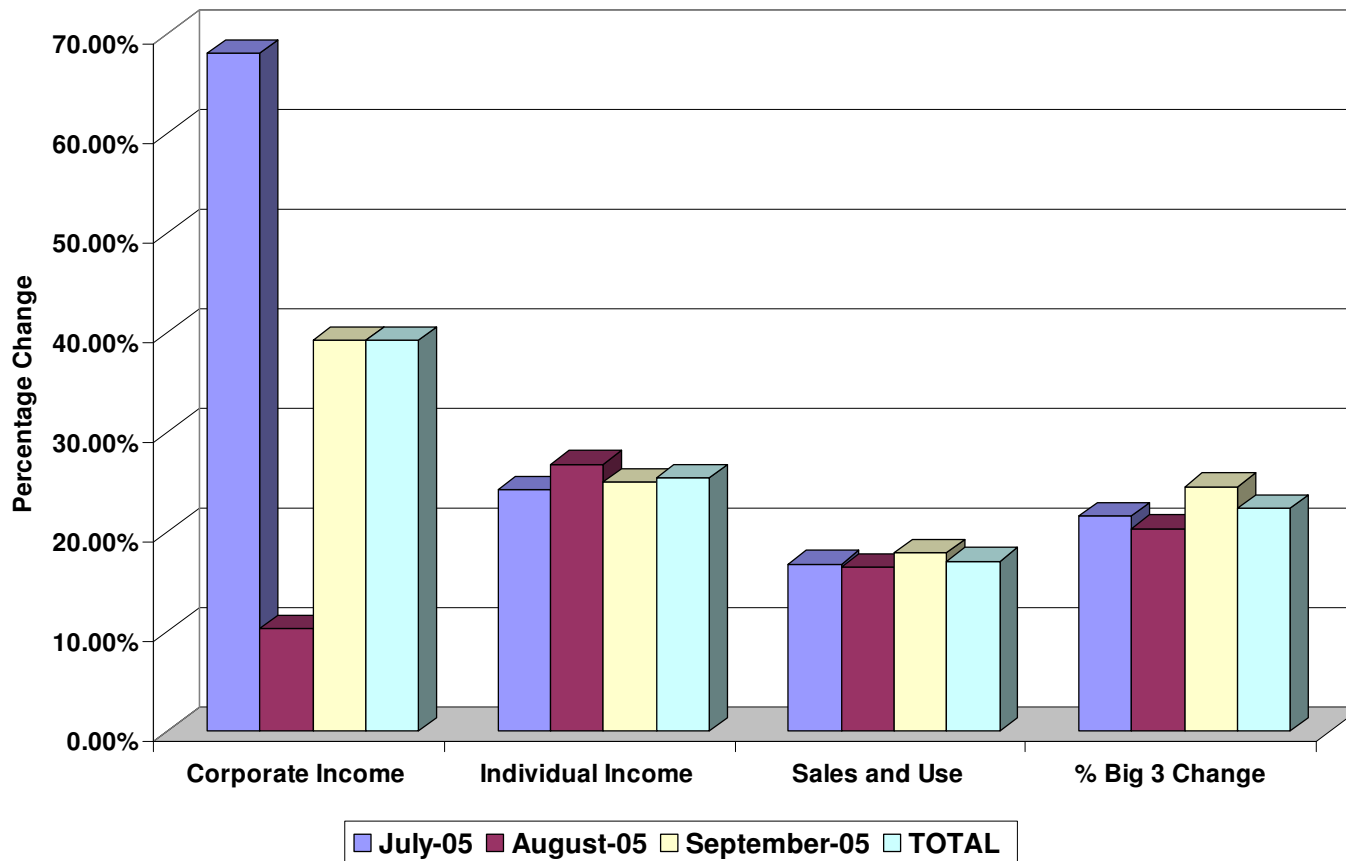
Source: Department of Revenue

Revenue Receipts in 1st Quarter FY 2006 vs. 2005



Source: Department of Revenue

1st Quarter FY 06 Revenue Receipts compared to FY 05

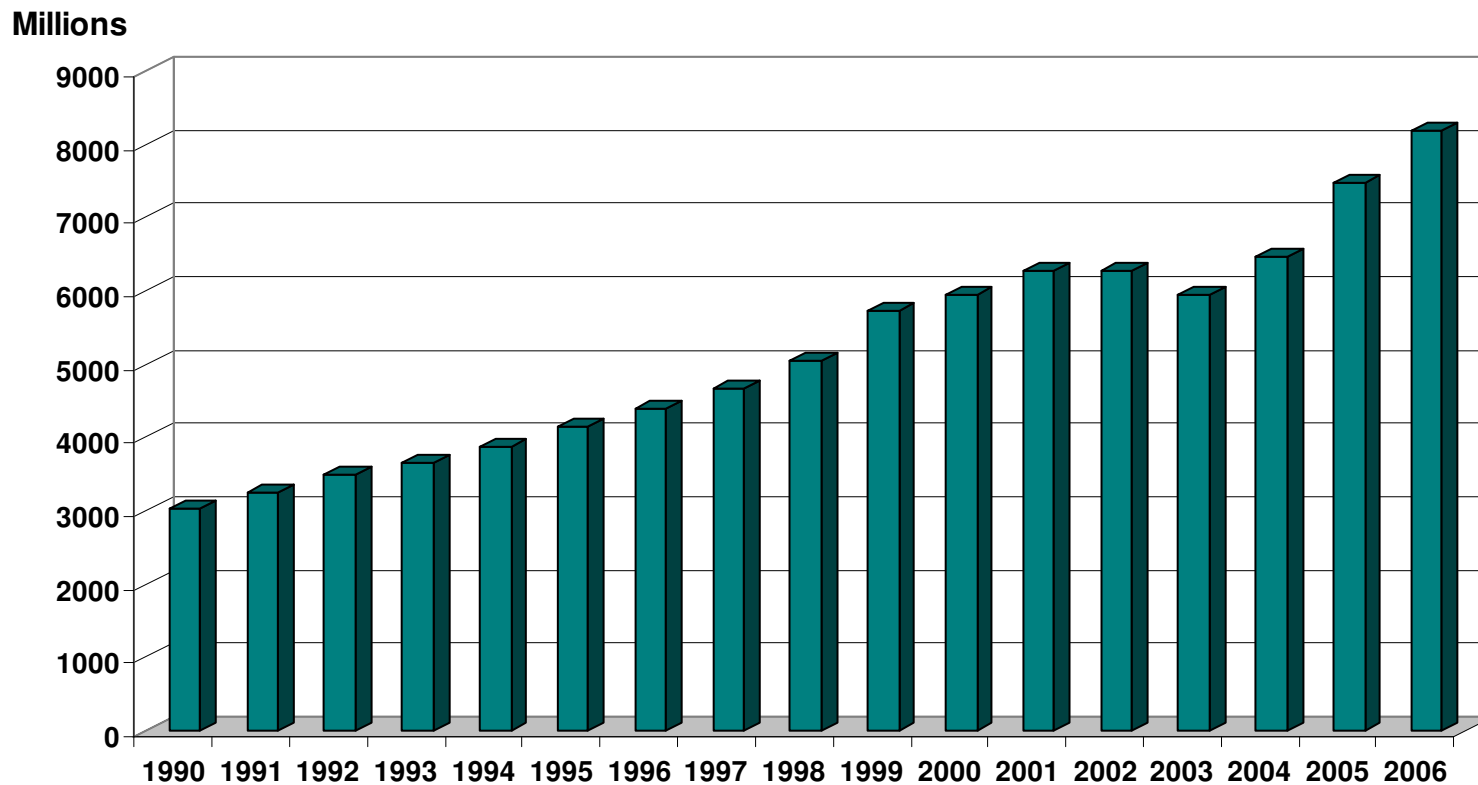


Source: Department of Revenue



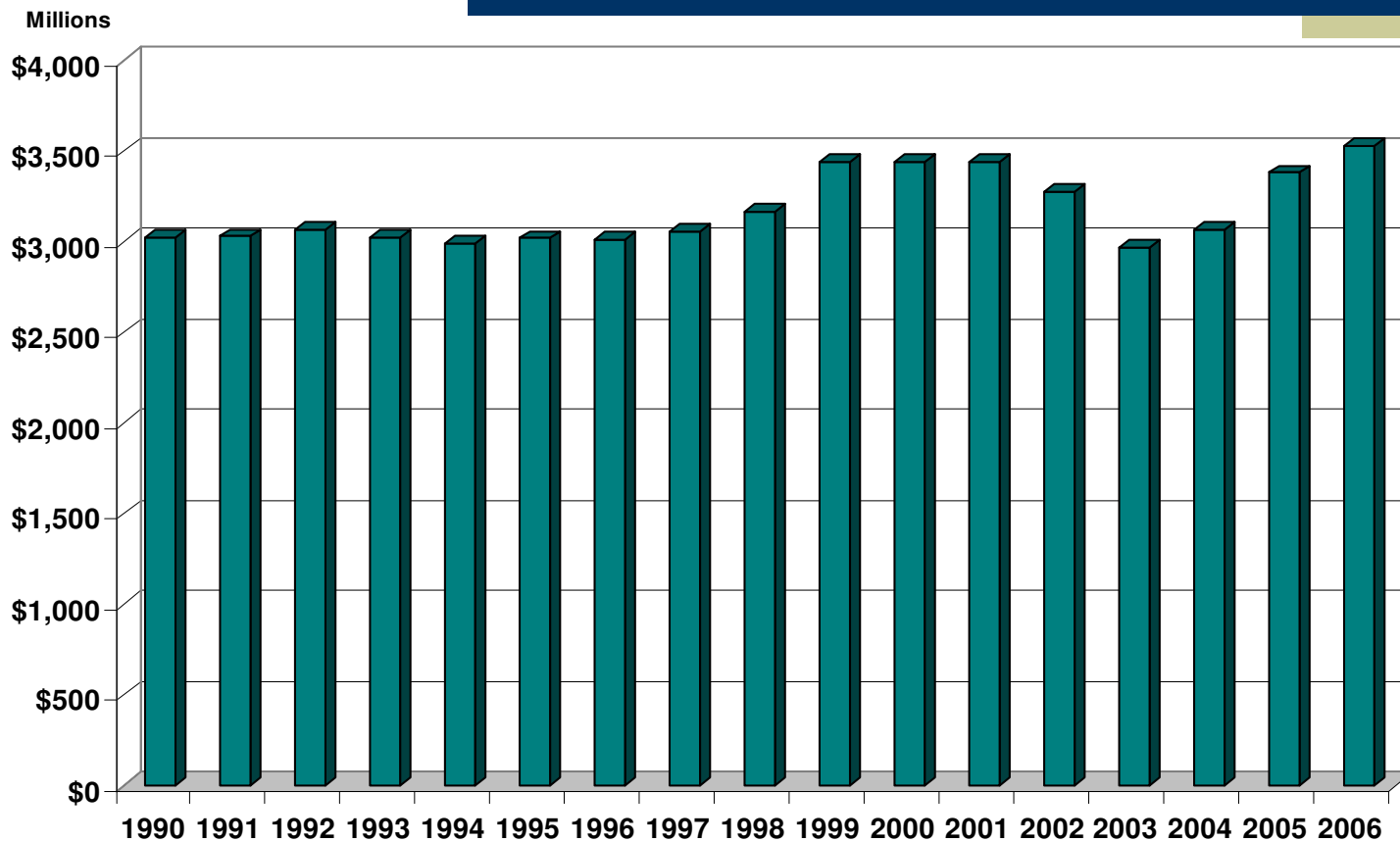
Expenditures

General Fund Agency Spending FY 90- 06 (in Nominal \$)



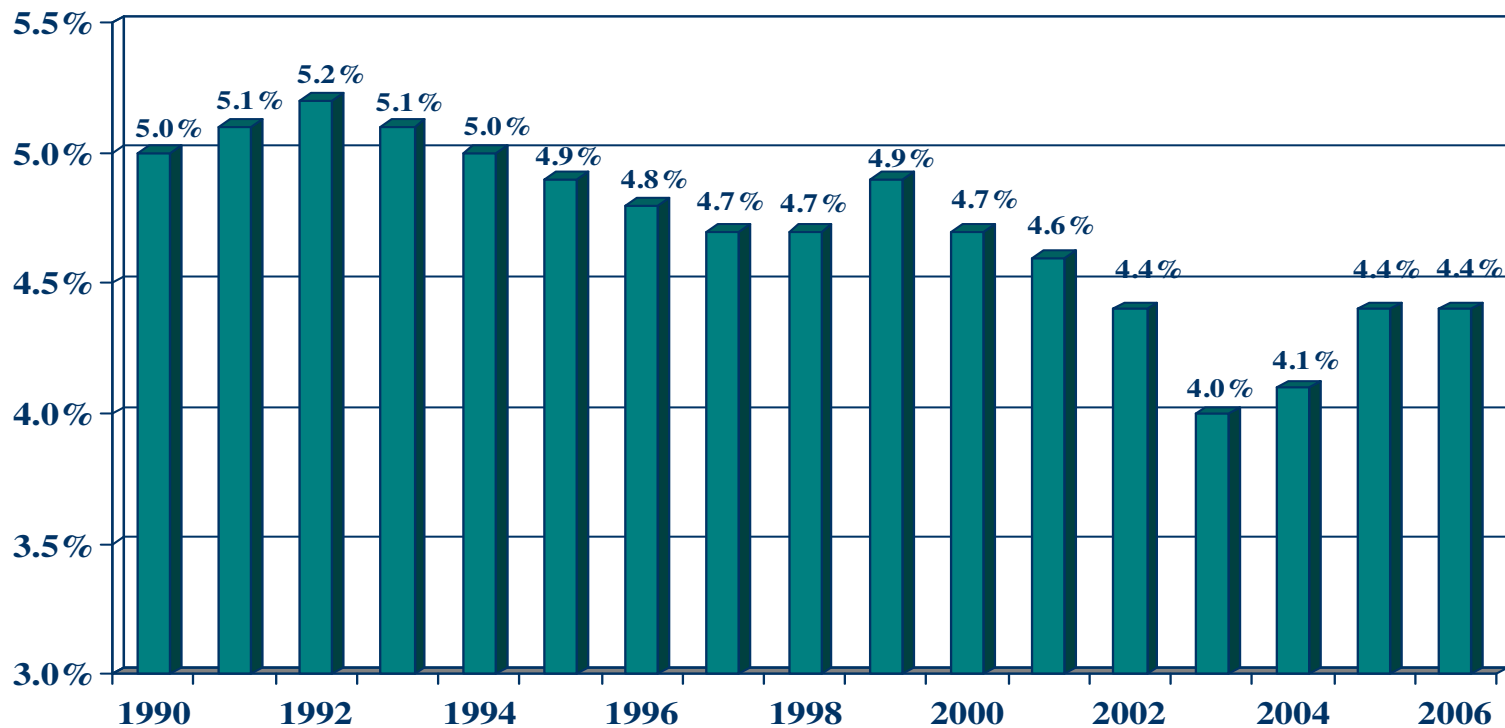
Source: JLBC, 1990 – 2004 are actual spending, 2005 and 2006 are GF Appropriations

General Fund Agency Spending FY 1990 – 2006 (Adjusted for Inflation and Population Growth)



Source: JLBC, 1990 – 2004 are actual spending, 2005 and 2006 are GF Appropriations
Population data are from US Census Bureau and DES. Inflation data from Global Insight

Arizona General Fund Agency Expenditure as a Percentage of Personal Income



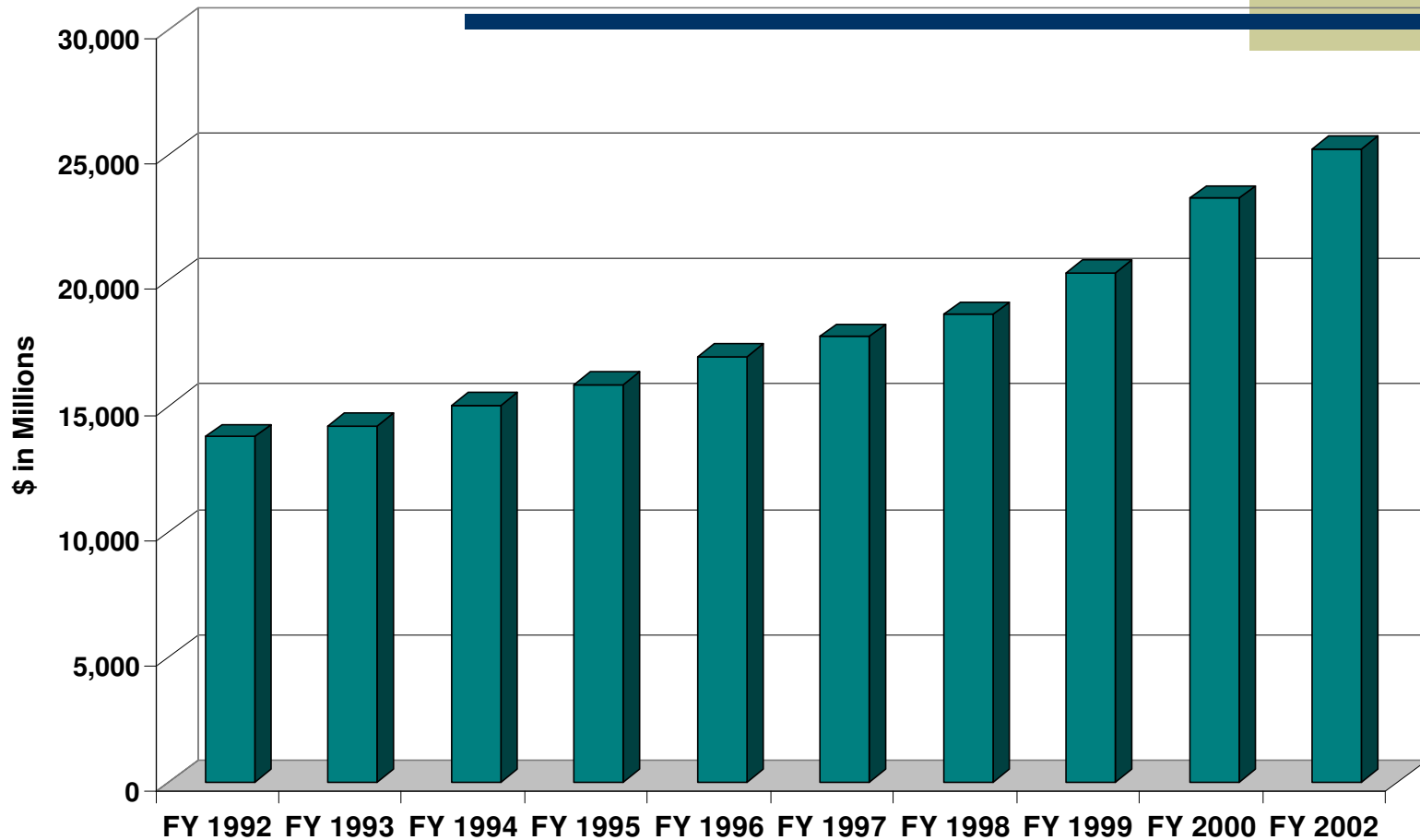
Source: JLBC; 2005 and 2006 are General Fund Appropriations. Personal Income Data are from Bureau of Economic Analysis; 2005 and 2006 are projections.



Comparisons with Other States

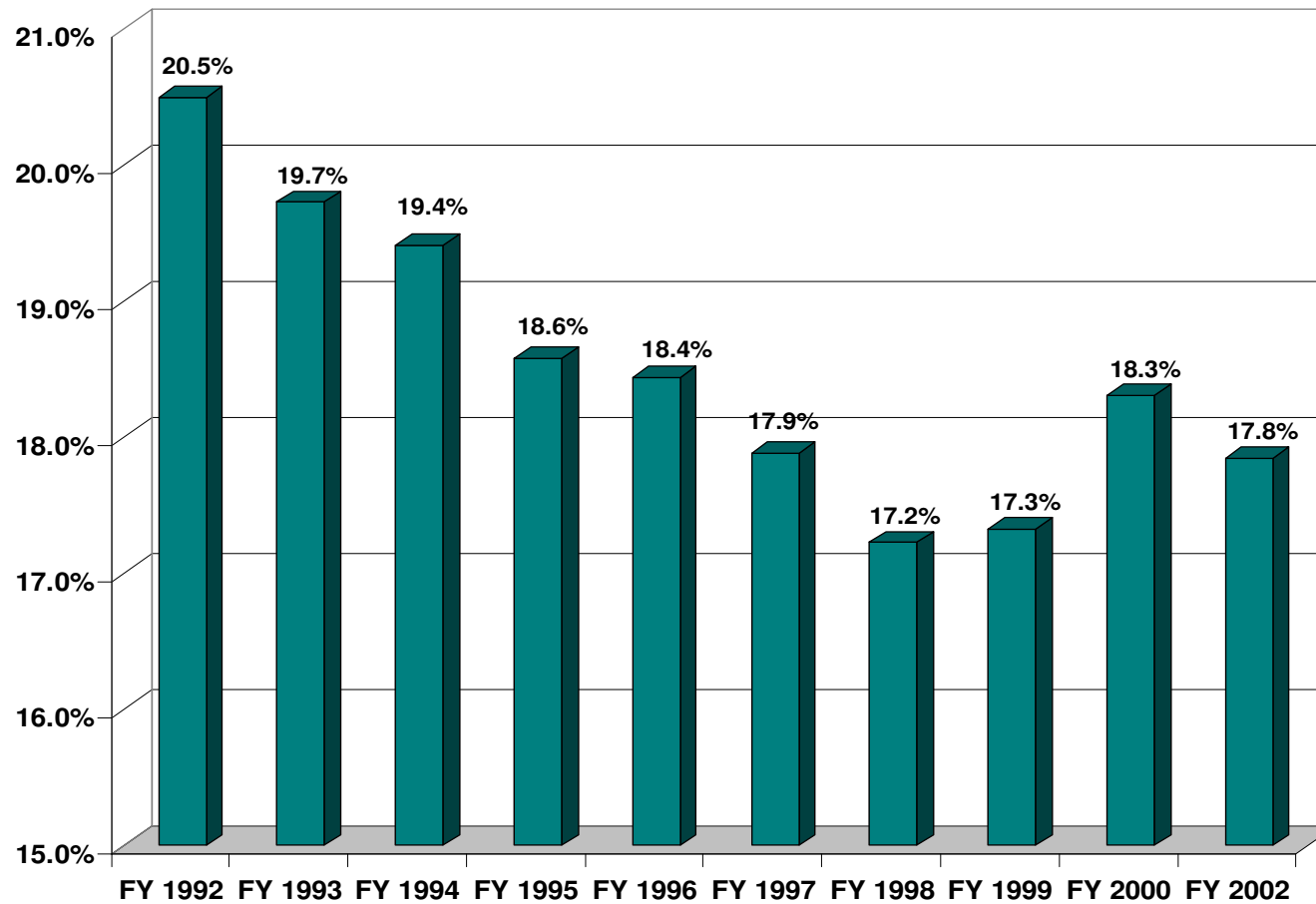


Arizona State and Local General Expenditure FY 1992 –2002



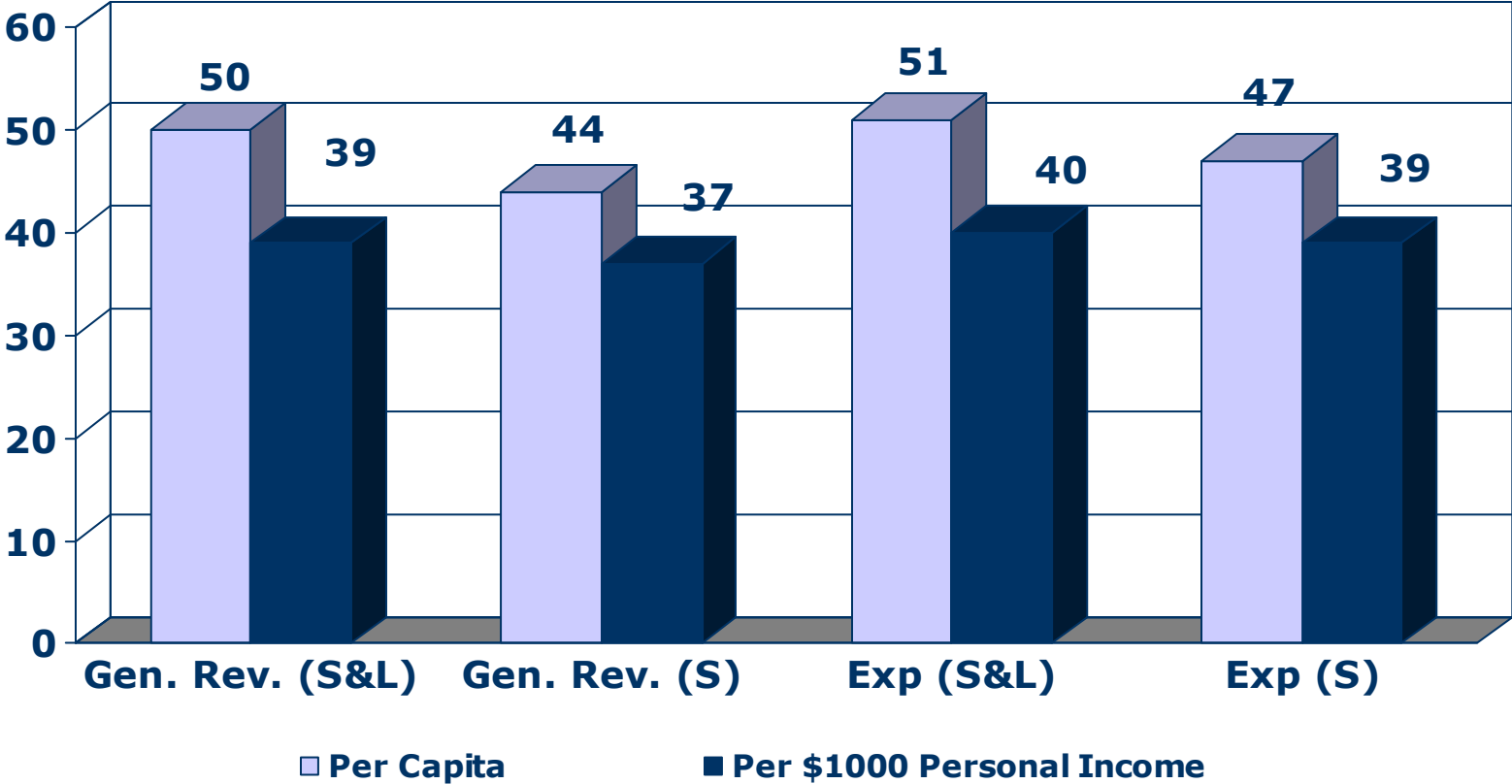
Source: US Census Bureau

Arizona State and Local General Direct Expenditure as a Percentage of Personal Income FY 1992 – 2002



Source: US Census Bureau and Bureau of Economic Analysis

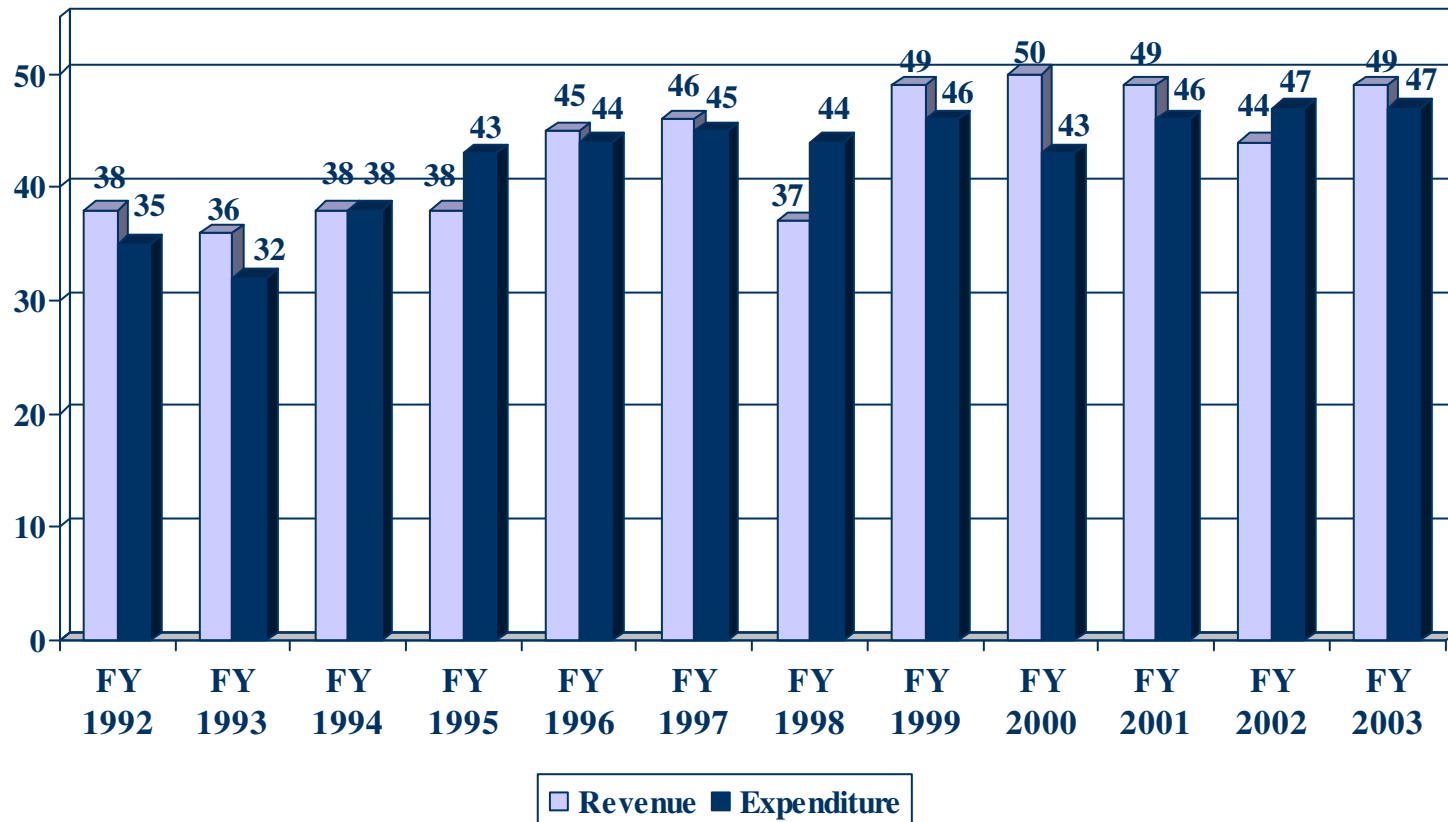
Arizona State and Local and State only Fiscal Rankings in 2002 Per Capita and Per \$1,000 of Personal Income*



Source: U.S. Census Bureau, includes DC

*The higher the rank number, the smaller the revenue or expenditure

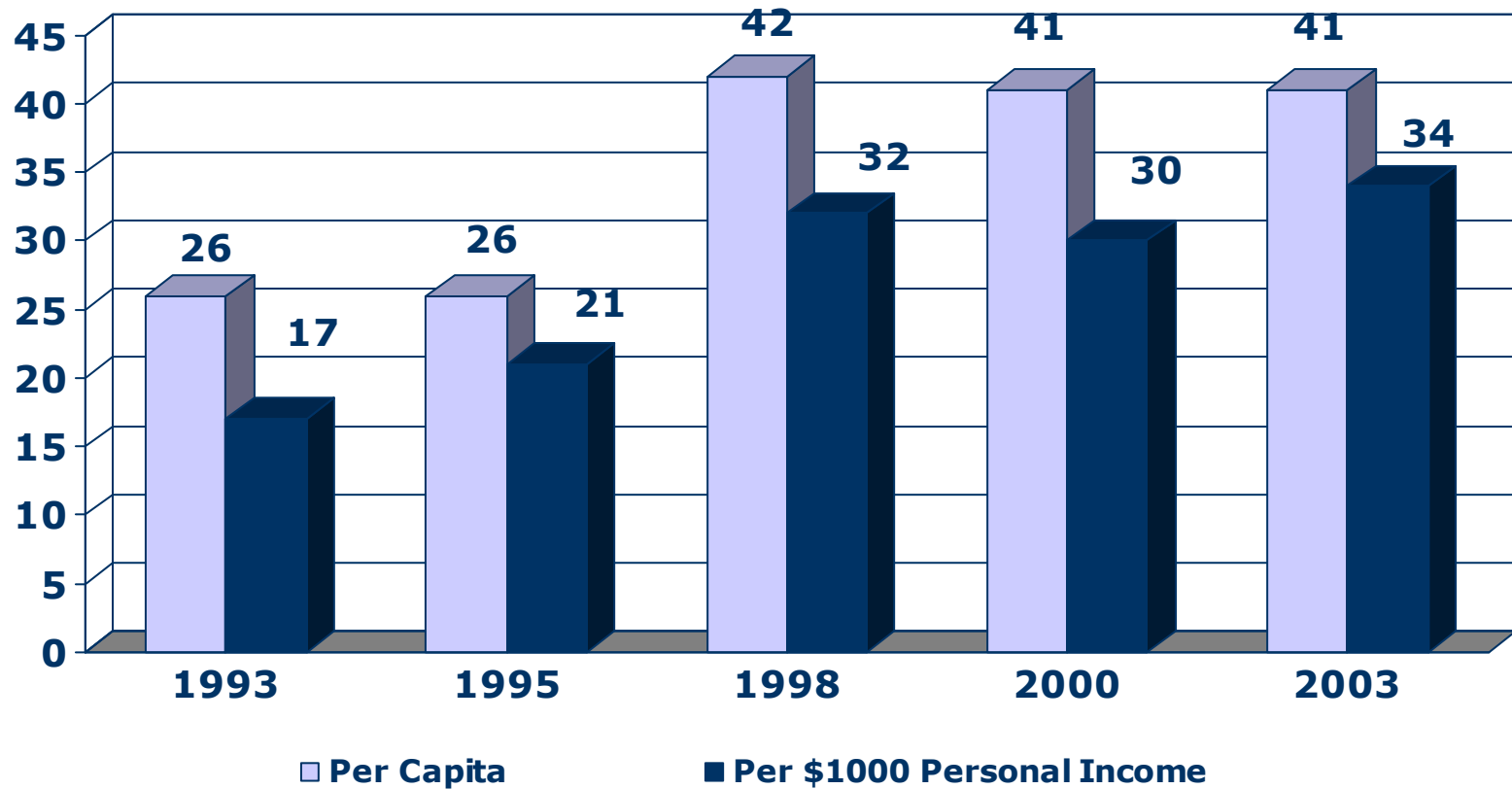
Historical Review of Arizona Fiscal Rankings* compared to Other States (by State Per Capita Revenues and Expenditures 1992 – 2003)



Source: US Census Bureau, excludes DC

* The higher the rank number, the smaller the revenue or expenditure

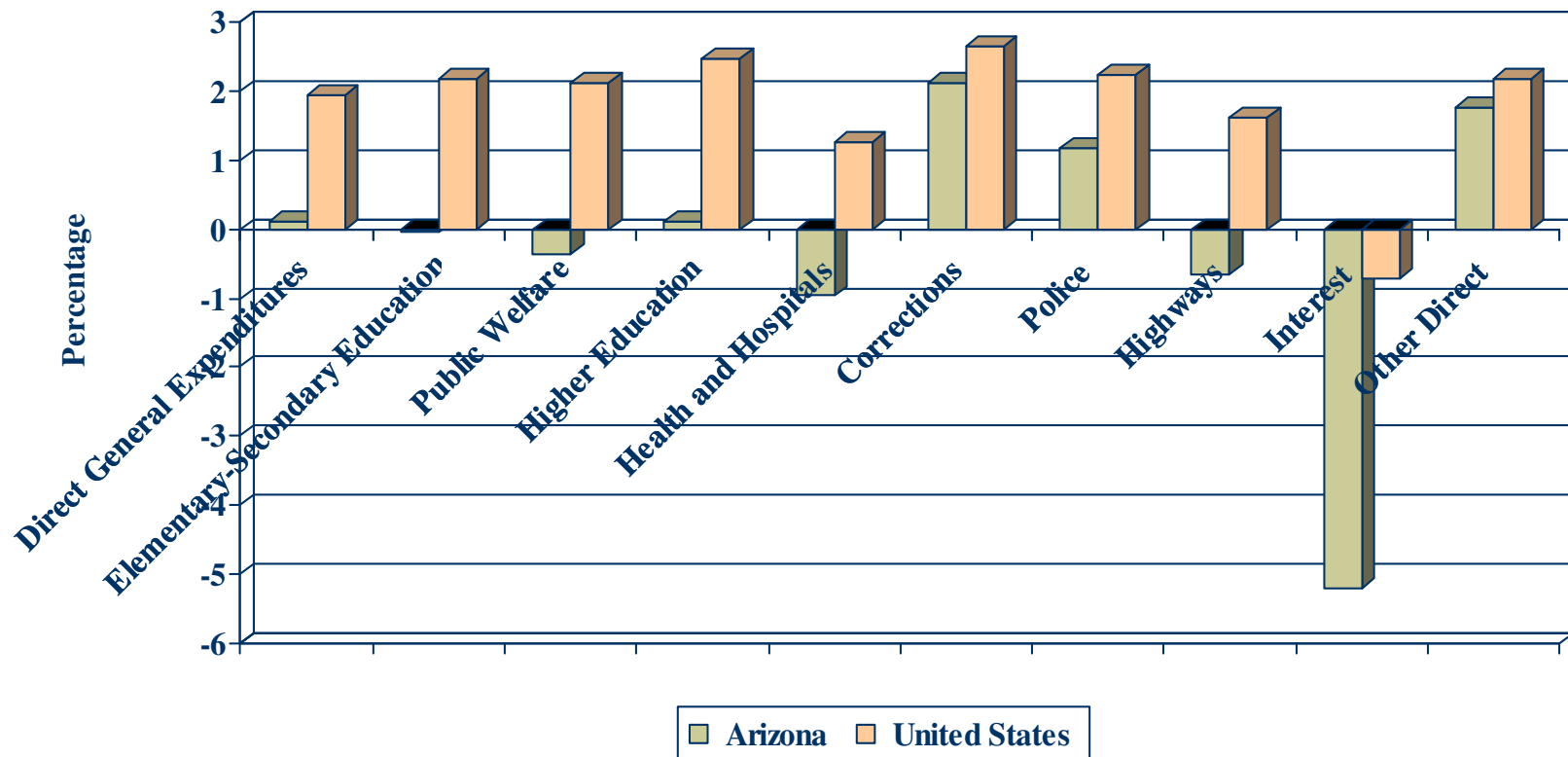
State Tax Collections Rankings Per Capita and Per \$1,000 of Personal Income*



Source: U.S. Census Bureau

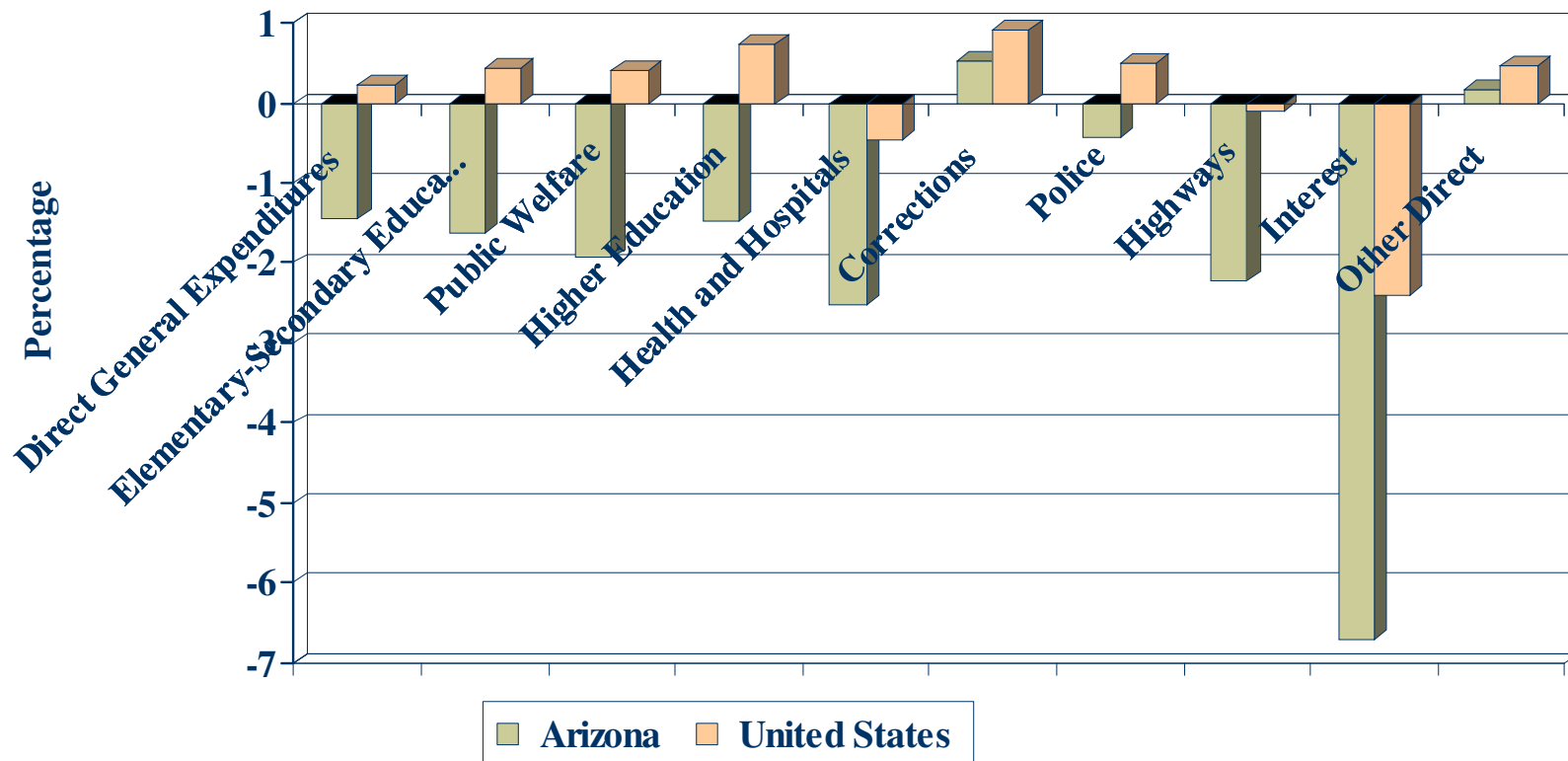
*The higher the ranking, the comparatively lesser the state tax burden

Arizona vs. United States Average Annual % Change in Real State and Local Expenditures Per Capita from 1992 - 2002



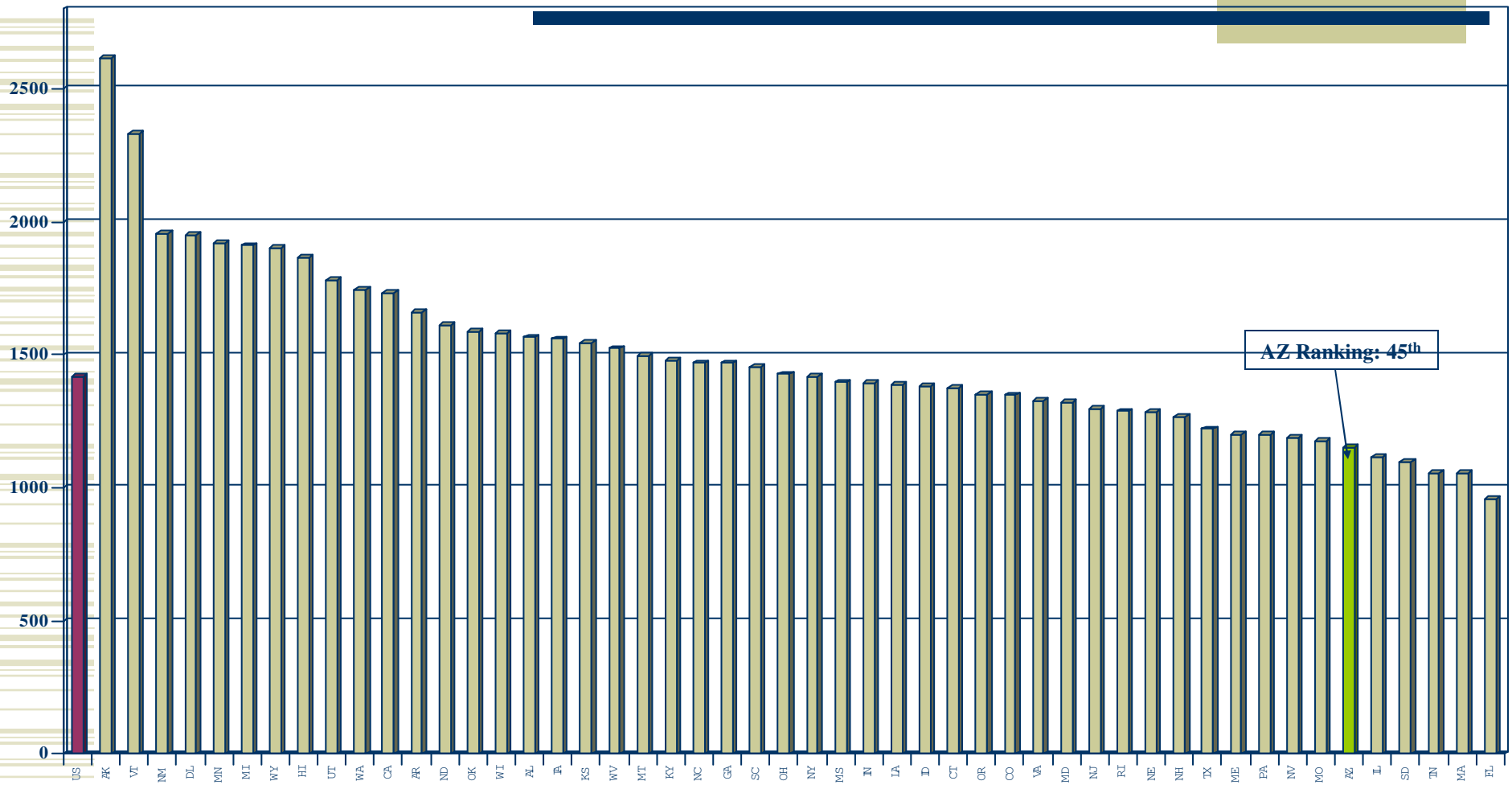
Source: Nelson A. Rockefeller Institute and US Census Bureau

Arizona vs. United States Average Annual % Change in State and Local Expenditures Per \$100 of Personal Income from 1992 - 2002



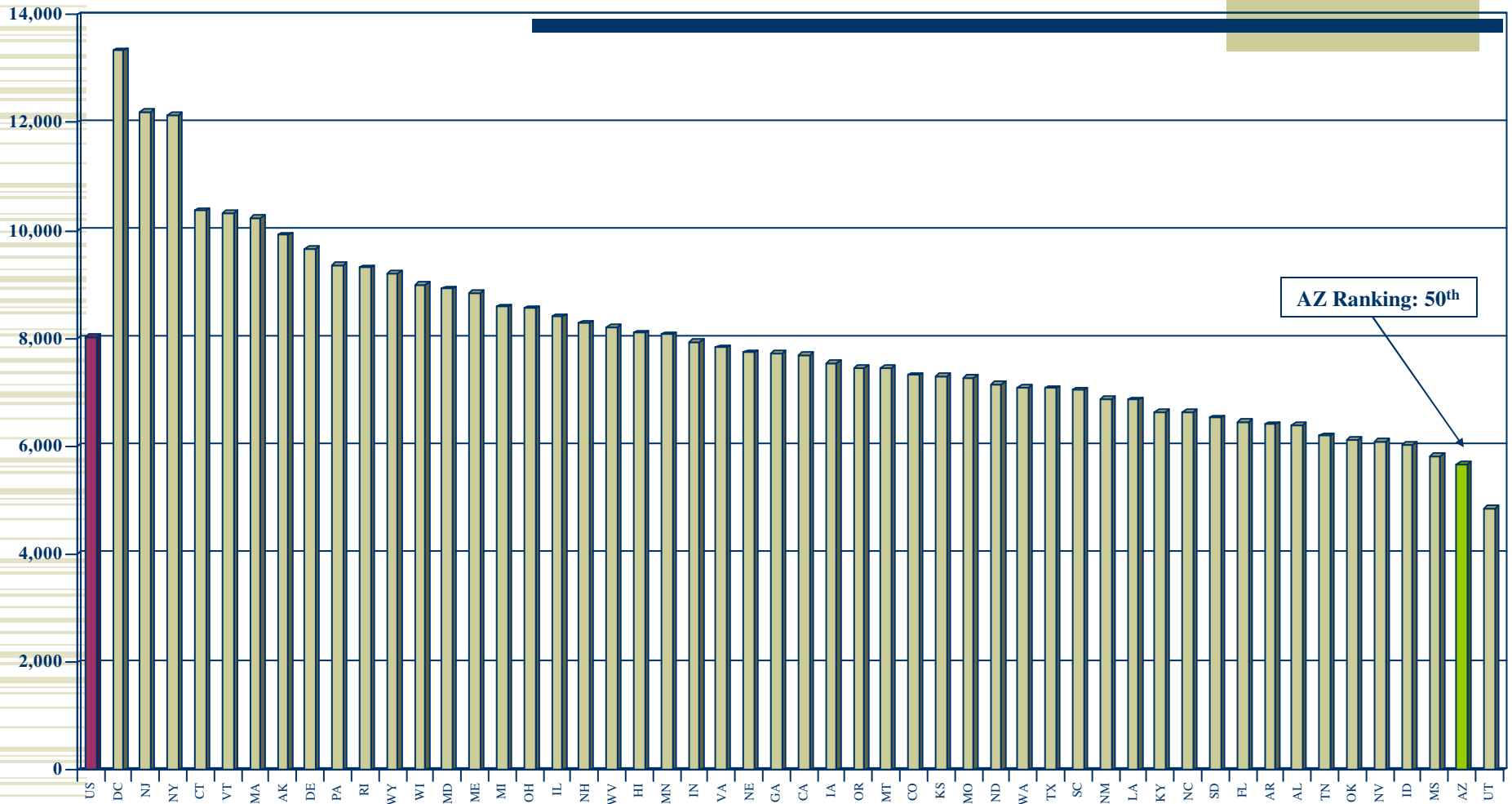
Source: Nelson A. Rockefeller Institute and US Census Bureau

Per Capita Elementary-Secondary Education Spending by State Fiscal Year 2003



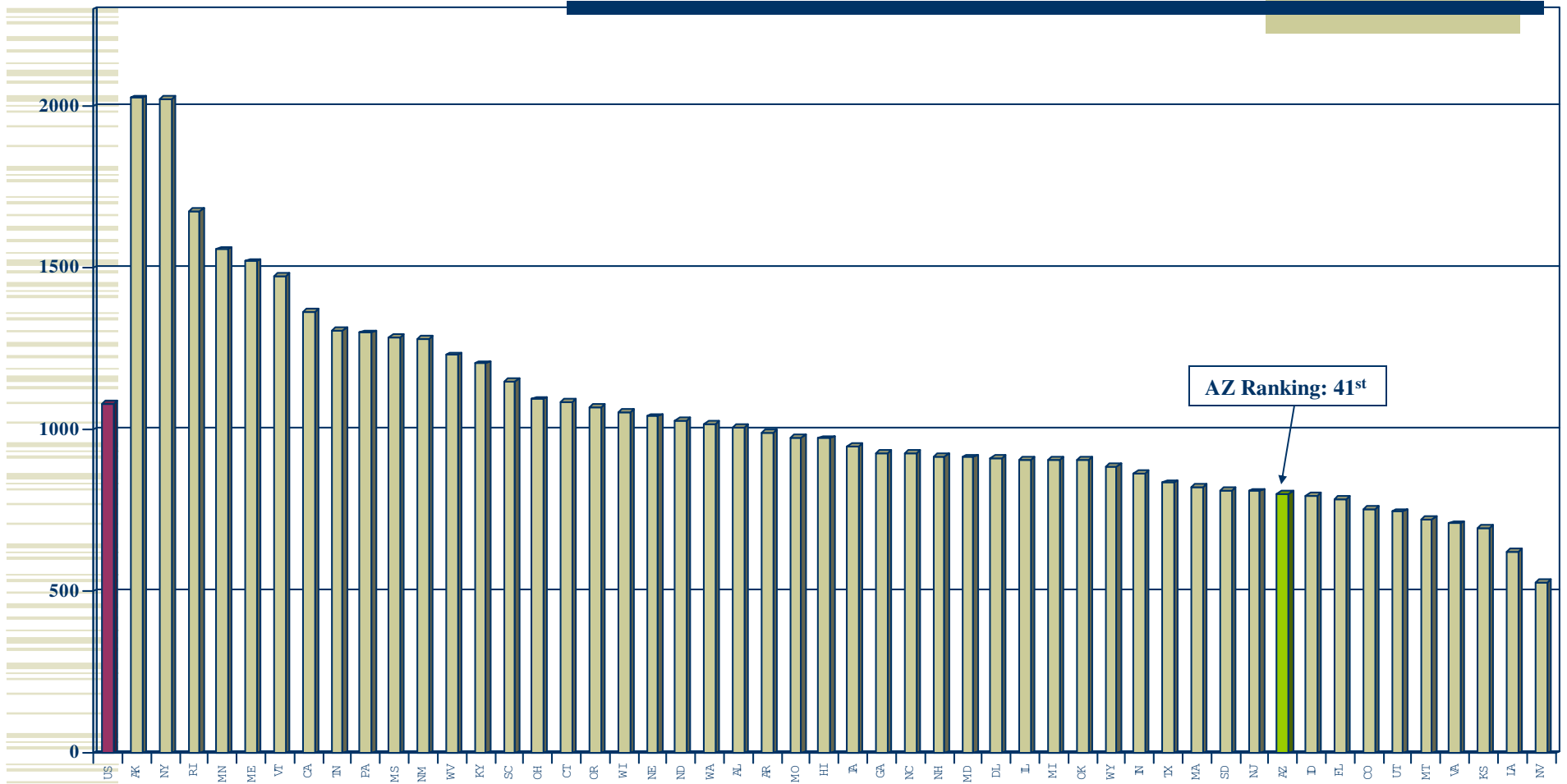
Source: US Census Bureau, excludes DC

Current Spending Per Pupil for Elementary-Secondary Education by State Fiscal Year 2003



Source: US Census Bureau, includes DC

Per Capita Public Welfare Spending by State Fiscal Year 2003



Source: US Census Bureau, excludes DC



Spending Limits, Structural Balances and a Perspective on TABOR

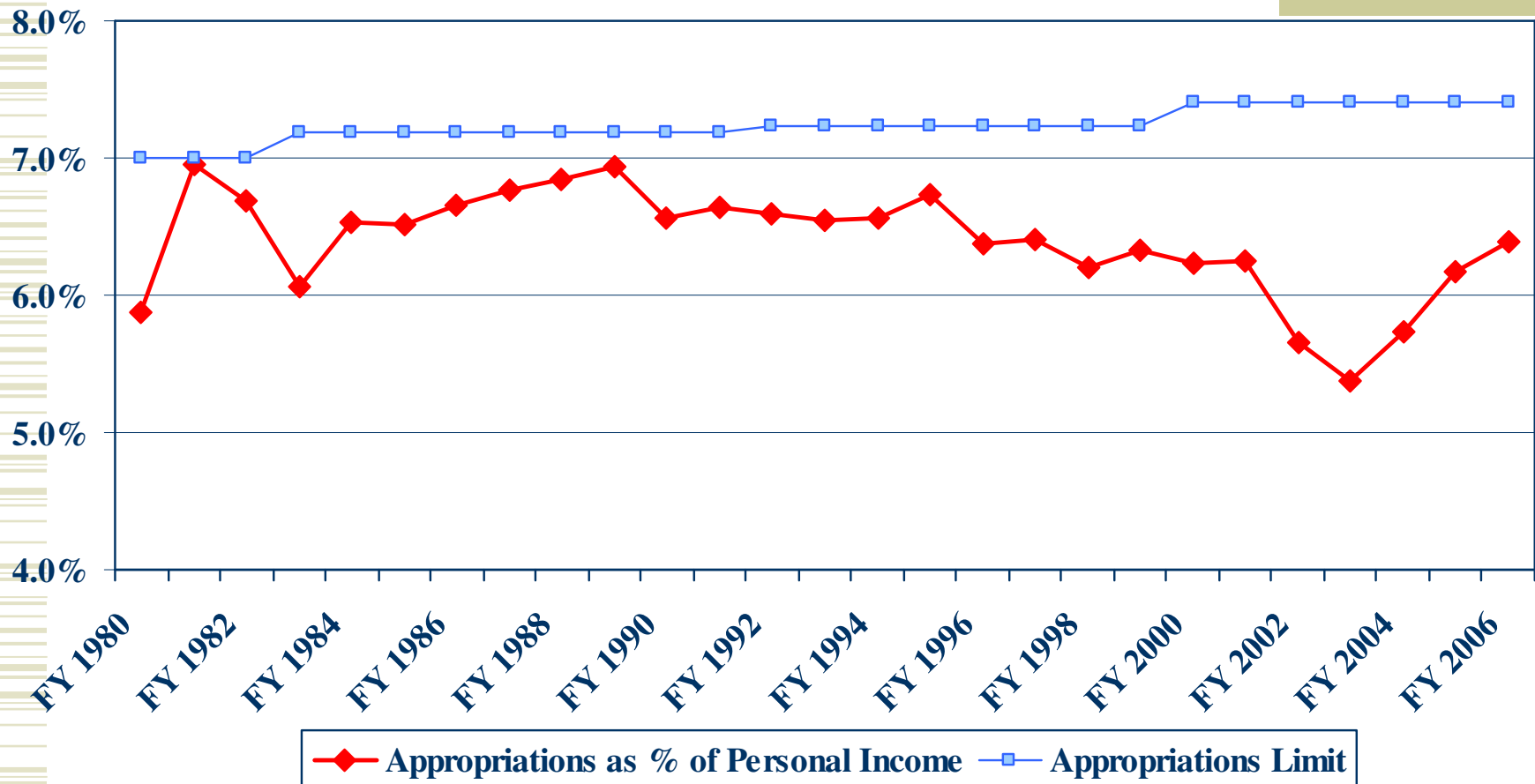


Appropriations Limit vs. Actual Appropriations as a Percentage of Personal Income from 1980 -2006

	<u>EEC Estimation of Personal Income</u>	<u>Allowable Appropriations</u>	<u>Appropriations subject to Limit</u>	<u>Appropriations as % of Per. Income</u>	<u>Appropriations Limit (% of PI)</u>
FY 1980	24,478.6	1,713.5	1,437.0	5.87%	7.00%
FY 1981	24,700.0	1,729.0	1,718.0	6.96%	7.00%
FY 1982	28,500.0	1,995.0	1,903.0	6.68%	7.00%
FY 1983	31,600.0	2,268.9	1,918.0	6.07%	7.18%
FY 1984	33,500.0	2,405.3	2,187.0	6.53%	7.18%
FY 1985	37,000.0	2,656.6	2,414.0	6.52%	7.18%
FY 1986	41,300.0	2,965.3	2,752.0	6.66%	7.18%
FY 1987	45,400.0	3,259.7	3,068.0	6.76%	7.18%
FY 1988	49,300.0	3,539.7	3,370.0	6.84%	7.18%
FY 1989	53,000.0	3,805.4	3,676.0	6.94%	7.18%
FY 1990	57,600.0	4,135.7	3,781.0	6.56%	7.18%
FY 1991	62,600.0	4,494.7	4,156.0	6.64%	7.18%
FY 1992	66,300.0	4,793.5	4,372.0	6.59%	7.23%
FY 1993	69,100.0	4,995.9	4,524.0	6.55%	7.23%
FY 1994	72,500.0	5,241.8	4,758.0	6.56%	7.23%
FY 1995	80,420.0	5,814.4	5,424.0	6.74%	7.23%
FY 1996	88,000.0	6,362.4	5,606.0	6.37%	7.23%
FY 1997	94,900.0	6,861.3	6,086.0	6.41%	7.23%
FY 1998	103,200.0	7,461.4	6,396.0	6.20%	7.23%
FY 1999	112,800.0	8,155.4	7,144.0	6.33%	7.23%
FY 2000	120,000.0	8,892.0	7,486.0	6.24%	7.41%
FY 2001	127,600.0	9,455.2	7,969.0	6.25%	7.41%
FY 2002	142,800.0	10,581.5	8,063.0	5.65%	7.41%
FY 2003	147,900.0	10,959.4	7,962.0	5.38%	7.41%
FY 2004	154,900.0	11,478.1	8,892.0	5.74%	7.41%
FY 2005	166,200.0	12,315.4	10,250.0	6.17%	7.41%
FY 2006	179,200.0	13,278.7	11,455.0	6.39%	7.41%

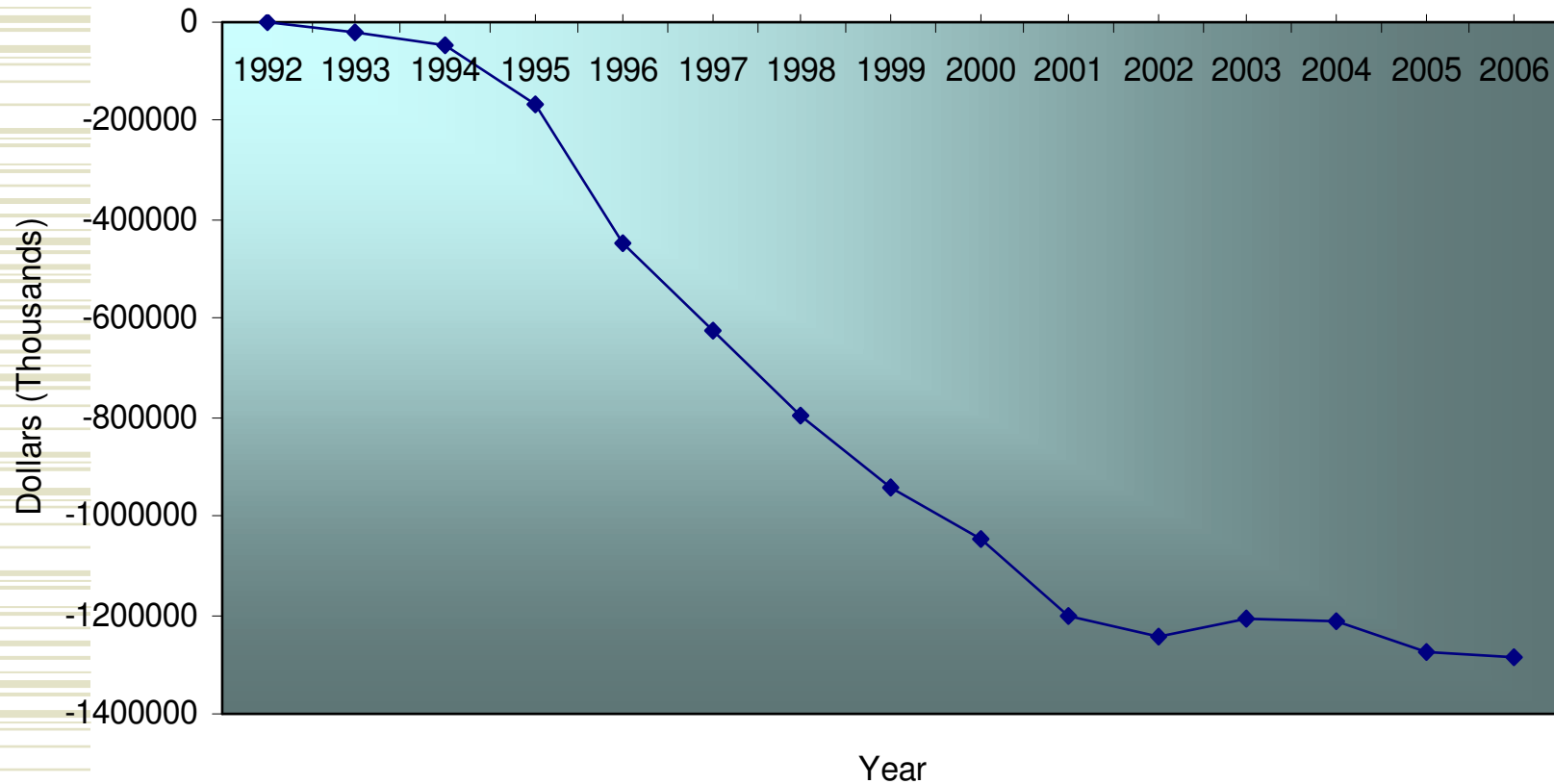
Source: JLBC

Arizona Actual Appropriations vs. Appropriations Limit



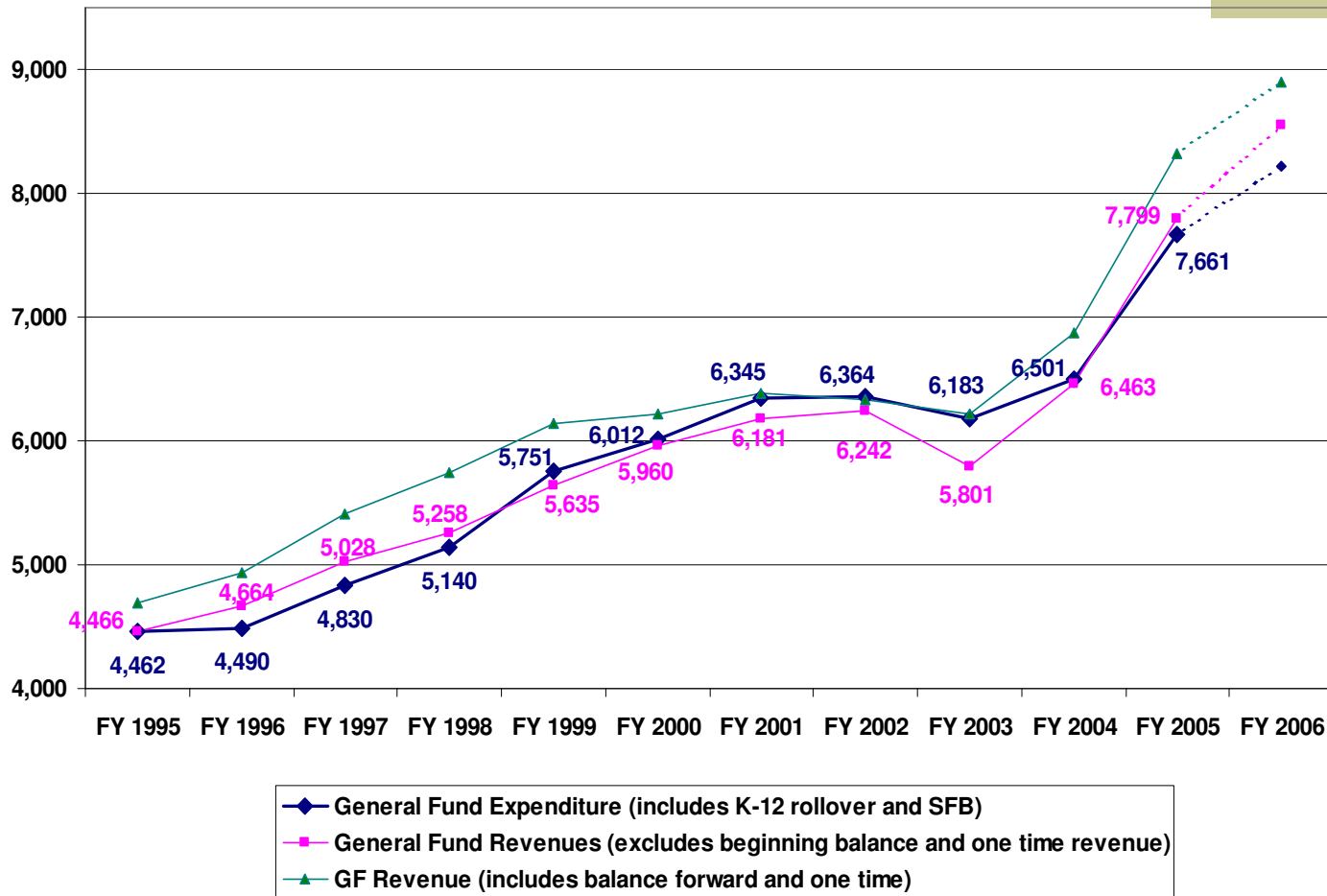
Source: Joint Legislative Budget Committee

Deleted General Fund Revenues



OSP estimates based upon JLBC Appropriations Report - "Revenue Adjustment by Provision", various years.

Historical Review of General Fund Revenue and General Fund Expenditure FY 95 – FY 06



Source: JLBC and OSPB

Colorado's TABOR

- ◆ A set of constitutional provisions Colorado voters adopted in 1992 to limit revenue growth for state and local government
- ◆ TABOR requires voter approval of revenue increases
- ◆ TABOR limits revenue collections by a formula

Revenue Growth = Inflation + Population Growth

Colorado's TABOR

TABOR FORMULAS FOR CALCULATING ALLOWABLE GROWTH IN GOVERNMENT SPENDING

CPI = Denver-Boulder-Greeley Consumer Price Index

STATE

CPI + % Growth
in Population

LOCAL

CPI + Growth
in Real Property Values

SCHOOL DISTRICTS

CPI + Growth
in Enrollment

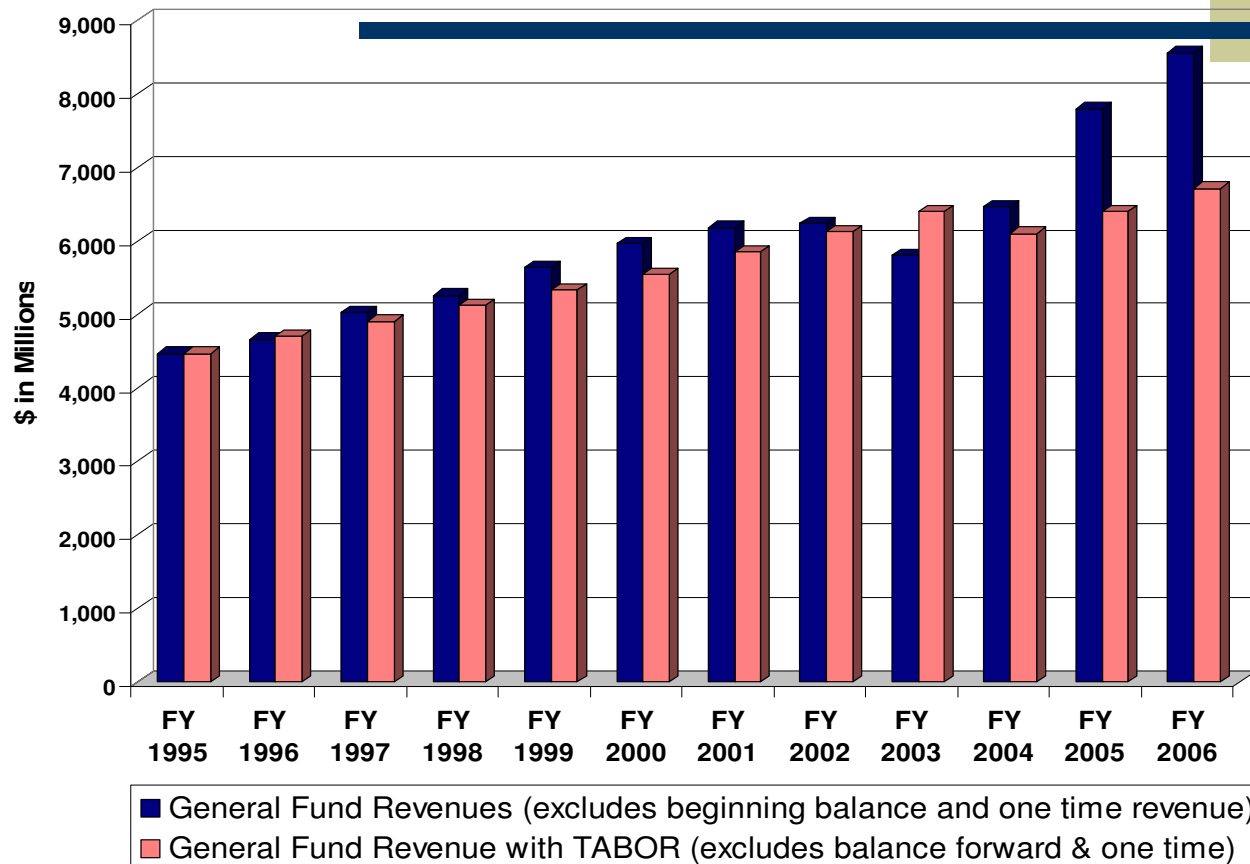
Colorado after 10 years of TABOR

- ◆ TABOR has contributed to declines in Colorado K-12 Education Funding:
 - Under TABOR, Colorado declined from 35th to 49th in the nation in K-12 spending as % of personal income
 - Average per-pupil funding fell by more than \$400 relative to US average
- ◆ Significant Cuts in Higher Education Funding
 - Higher education funding per student (inflation adjusted) dropped 31%
 - College and university funding as % of personal income declined from 35th to 48th in the nation
- ◆ Drops in Funding for Public Health Programs:
 - Children immunization plummeted from 24th to 50th in the nation
 - Prenatal care dropped from 23rd to 48th in the nation
- ◆ On Nov 2, 2005, Colorado voters voted to give up \$3.7 billion in taxpayer refunds over the next 5 years.

Flaws of TABOR

- ◆ Inflation = Consumer Price Index
 - Consumers purchase housing, food, cars, etc.
 - Government purchases health care, education, transportation, etc.
- ◆ Population Growth:
 - The overall change in population growth is different than the subgroup changes.
 - For example, the baby boomers generation is aging, needing more programs to help the elderly.
- ◆ Base Level Expenditures:
 - Heroic assumption that base levels of spending are adequate and appropriate

Hypothetical Scenario for Arizona with TABOR



Note: TABOR's formula: (for Arizona, Inflation = GDP price deflator)

This Year's Allowable Revenue = Previous Year's Allowable Revenue * (1 + Inflation + Population Growth)

Arizona Cumulative Revenue Loss Due To Hypothetical TABOR

