

MINUTES OF THE MEETING
FINANCE ADVISORY COMMITTEE

April 9, 2015

Senate Hearing Room 1, 12:00 p.m.

Members Present:

Dan Anderson, Assistant Executive Director, Institutional Analysis, Arizona Board of Regents
Brian Cary, Manager of Forecasting, Research, and Economic Development, Salt River Project
Jeff DeWit, State Treasurer
George Hammond, Director, Economic and Business Research Center, University of Arizona's Eller College of Management
John C. Lucking, President, ECON-LINC
Georganna Meyer, The Maguire Company
Aruna Murthy, Director of Economic Analysis, Arizona Department of Administration
Elaine Smith, Senior Economist, Arizona Department of Revenue
Randie Stein, Vice President, Public Finance Department, Stone & Youngberg
Steve Taddie, Managing Partner, Stellar Capital Management

The Finance Advisory Committee (FAC) met on April 9, 2015 to update its 4-sector revenue forecast. The FAC is a 13-member panel of private and public sector economists and their views serve as one of the 4 equal inputs into JLBC's Consensus Baseline revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) econometric models.

The FAC heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. The JLBC Staff provided members with revised [FY 2015 – FY 2018](#) fiscal estimates based on the updated 4-sector revenue forecast, the budget signed by the Governor on March 12, 2015 and for additional legislation subsequently signed by the Governor.

In comparison to the January base revenue forecast, the April projections are more optimistic for FY 2015 and FY 2016 and more cautious for FY 2017 and FY 2018 (*See Table 1*). Upward revisions to FY 2015 and FY 2016 growth likely reflects higher year-to-date collections growth and general improvements to the economy. Downward revisions to FY 2017 and FY 2018 may reflect the potential of higher interest rates and a tighter job market, which would moderate economic growth.

	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>
January 4-Sector	4.3%	3.3%	4.4%	5.1%
April 4-Sector	4.8%	3.7%	4.1%	4.8%

Under the April forecast, net revenues are predicted to increase by \$346 million in FY 2016, \$122 million in FY 2017 and \$259 million by FY 2018. These figures include the impact of Internal Revenue Service conformity legislation signed by the Governor shortly after the FAC meeting.

As a result of the April 4-sector forecast and aforementioned tax legislation, the enacted budget's projected FY 2016 ending balance would slightly increase from \$450,000 to \$3 million. The projected FY 2018 balance of \$33 million under the enacted budget spending plan becomes an \$(18) million shortfall under the revision.

In addition to the JLBC Staff presentation, panel members heard formal presentations from economist Jim Rounds of Elliott D. Pollack and Company and State Treasurer Jeff Dewitt. Some of the thoughts that presenters and panel members shared include:

- Economic conditions continue to gradually improve.
- The pace of recovery in high-wage industries of construction and manufacturing though, has been slow.
- Sluggish growth in withholding collections and average wages suggests that underemployment continues in the state's labor market.
- The March revisions to the state's 2014 employment estimates include significant and unexpected downward adjustments for the second half of the year.
- Corporate profits may be expected to decrease in outlying years, as a result of future increases in wages and interest rates.
- Increases to interest rates should have some mitigating fiscal impacts in the form of greater taxable interest income.
- Taxpayers have finished deducting most of the capital losses accumulated during the downturn, which may increase taxable net capital gains in coming years.
- The state's cash flow is below amounts in recent years and should be monitored closely. At times, cash flow has been a leading indicator of declining economic activity.

Additional information is available on our web-site at [April FAC Meeting](#).

The meeting adjourned at 1:15 p.m.

Kristy Paddack, Secretary

Jon Stall, Senior Fiscal Analyst

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A [full video recording](#) of this meeting is available at the JLBC website.