

MINUTES OF THE MEETING
FINANCE ADVISORY COMMITTEE

October 4, 2012

Senate Hearing Room 1, 11:00 a.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

Doug Ducey, State Treasurer

Georganna Meyer, Chief Economist, Arizona Department of Revenue

Aruna Murthy, Director of Economic Analysis, Arizona Department of Administration

Martin Shultz, Senior Policy Director, Brownstein Hyatt Farber Schreck

Randie Stein, Vice President, Public Finance Department, Stone & Youngberg

Marshall Vest, Director, Economic and Business Research Center, University of Arizona's Eller
College of Management

At its October 4, 2012 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. Joint Budget Committee (JLBC) Staff provided members with the latest 4-sector consensus estimates for the "Big 3" revenue collections, along with long-term budget projections. Below is a summary of the key points of the JLBC Staff presentation:

- While the state ended FY 2012 with \$275 million more in the ending balance than expected, FY 2013 growth since July has been slower than forecast.
- Using the 4-sector forecast, Baseline revenues are projected to grow by 5.8% to 6.3% annually between FY 2014 and FY 2016.
- JLBC Staff has developed 2 scenarios for its budget forecast through FY 2016. Two factors will especially influence these estimates:
 - The rate of recovery of the economy and the potential impacts of efforts to reduce the federal deficit.
 - The future of the federal health care legislation, including whether to restore childless adult coverage.
- In the Baseline scenario, revenues grow at the 4-sector rate and the state continues its current freeze on childless adult coverage.
 - The state would accumulate large balances (for example, \$368 million in FY 2014) in the short run. By FY 2016, the balances will have been depleted and the projected shortfall is \$(67) million. The state, however, would still have a \$450 million Rainy Day Fund.
- In the Alternate scenario, revenue growth is capped at 5% in light of general economic uncertainty. Childless adult coverage is restored to 100% of poverty and several other expiring initiatives are continued.

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- The balances would be spent down more quickly and there would be a projected shortfall of \$(411) million in FY 2015 and \$(583) million in FY 2016.

The JLBC Staff also provided the following caveats:

- 1) Long term budget forecasts are subject to considerable change. For example, a 1% forecast error would change available resources by over \$500 million in the third year.
- 2) The availability of short term balances may result in the enactment of new permanent tax reduction and spending initiatives, which would further increase shortfalls in the out-years.
- 3) The budget scenarios assume the continuation of temporary statutory suspensions. If such statutory formulas were funded, however, the balance would decline by another \$(632) million.
- 4) As the 1 cent sales tax initiative is essentially designated for new spending, those monies would not be available to offset any General Fund shortfall.

In addition to the JLBC Staff presentation, panel members heard formal presentations from economist Jim Rounds of Elliot D. Pollack & Co. and State Treasurer Doug Ducey. Additional information is available on our website at [October FAC Meeting](#)

The meeting adjourned at 12:30 p.m.

Alanna Carabott, Secretary

Hans Olofsson, Chief Economist

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 <http://www.azleg.gov/jlbc/meeting.htm>