FINANCE ADVISORY COMMITTEE MEETING

Tuesday, September 25, 2001

AGENDA

9:00 - 9:15	JLBC Staff	Revenue Outlook
9:15 - 9:30	Elliott Pollack Elliott D. Pollack and Company	U. S. Economy
9:30 - 9:45	Marshall Vest University of Arizona - Eller College of Business and Public Administration	Arizona Economy
9:45 - 10:00	Dan Anderson Arizona Department of Security	Employment
10:00 -	Discussion	

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REVENUE HIGHLIGHTS

JULY 2001

July revenues finished $(32.5) million below forecast for the month, which is $(3.4) million below our preliminary estimate issued earlier this month. The forecast reflects the Legislature's revenue projection at the time of the budget's enactment.

The Big 3 revenue categories account for the forecast error. The sales tax was $(16.1) million below forecast, the individual income tax finished $(13.1) million under forecast, and the corporate income tax came up short by $(5.0) million.

As we noted in our Preliminary Revenue Highlights of August 10, we are awaiting several months of actual FY 2002 data before we re-evaluate the forecast. If the $(32.5) million revenue shortfall were to hold for the entire year, we would end FY 2002 with essentially a $0 ending balance. Unless the economy recovers quickly, however, the revenue shortfall will grow as the year progresses.

Sales Tax revenues ended July $(16.1) million below forecast. For the second consecutive month, sales tax receipts declined in comparison to the prior year. In July of this year, the sales tax produced (0.7)% less revenue than July of the previous year. Collections were weak in nearly every major sales tax category.

- **Retail Sales Tax** revenues declined in July by (0.4)% in comparison to the prior year, continuing a trend of slowing growth in this category.
- **Contracting Tax** collections were only 1.8% over last year's collections after two strong months at the end of the previous fiscal year.
- **Restaurant and Bar Tax** collections grew by 2.2% over the previous year.

Individual Income Tax revenues were $(13.1) million, or (6.8)%, below forecast for the first month of FY 2002. A year-over-year comparison shows that total collections for July grew by only $2.6 million, or 1.4% over July of the previous year. The shortfall was primarily due to slow growth in withholding tax payments, which came in $(9.8) million below forecast. The growth rate of 2.7%, year-over-year, for withholding is consistent with the significant slowing of job growth observed in the Arizona economy over the last few months.

Corporate Income Tax collections were $12.3 million in July, which is almost $(5.0) million, or (28.7)%, below forecast for the month. While this is the lowest level of July collections in several years, it is difficult to predict what the month will mean for the fiscal year since July traditionally represents only 3%-4% of annual corporate income tax collections. This category will be monitored carefully through the first quarter of the fiscal year.

Other Revenue Sources - Partially offsetting the negative variances in the tax categories are smaller positive variances in other non-tax categories totaling approximately $2.3 million.

JLBC

FY 2002 GENERAL FUND REVENUE COLLECTIONS
DIFFERENCE FROM PRIOR YEAR AND THE FORECAST
($ in Millions)

	Current Month					Fiscal Year-to-Date (One Month)				
	Actual	Difference From *Last Year*		Difference From *Forecast*		Actual Through	Difference From *Last Year*		Difference From *Forecast*	
TAX REVENUE	July 2001	Amount	%	$	%	July 2001	Amount	%	$	%
Sales and Use	$259.3	$(1.7)	(0.7)%	$(16.1)	(5.8)%	$259.3	$(1.7)	(0.7)%	$(16.1)	(5.8)%
Income-Individual	180.9	2.6	1.4	(13.1)	(6.8)	180.9	2.6	1.4	(13.1)	(6.8)
-Corporate	12.3	(11.4)	(48.0)	(5.0)	(28.7)	12.3	(11.4)	(48.0)	(5.0)	(28.7)
Property	0.6	0.0	3.1	0.0	5.1	0.6	0.0	3.1	0.0	5.1
Other Taxes	34.3	(1.3)	(3.6)	(0.7)	(1.9)	34.3	(1.3)	(3.6)	(0.7)	(1.9)
Urban Rev. Sharing	(35.2)	(2.1)	6.4	0.0	0.0	(35.2)	(2.1)	6.4	0.0	0.0
Sub-Total Taxes	452.3	(13.9)	(3.0)	(34.8)	(7.2)	452.3	(13.9)	(3.0)	(34.8)	(7.2)
OTHER REVENUE										
Lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	(0.0)	0.0	(73.8)	(0.0)	0.0	(0.0)	0.0	(73.8)	(0.0)	0.0
Other Miscellaneous	7.0	3.1	78.5	2.3	50.3	7.0	3.1	78.5	2.3	50.3
Sub-Total Other	7.0	3.1	80.8	2.3	49.9	7.0	3.1	80.8	2.3	49.9
TOTAL REVENUE	**$459.2**	**$(10.8)**	**(2.3)%**	**$(32.5)**	**(6.6)%**	**$459.2**	**$(10.8)**	**(2.3)%**	**$(32.5)**	**(6.6)%**

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SELECT ECONOMIC INDICATORS

Indicator	**Time Period**	**Current Value**	**Change Over Prior Period**	**Change Over Prior Year**
Arizona Consumer Confidence	2nd Quarter	106.8	5.3%	(3.3)%
Arizona Unemployment Rate	July	3.9%	(0.4)%	0.0%
Arizona Jobs	July	2.2 million	(1.4)%	0.2%
Arizona Building Permits ($ amount)	1st Quarter	$3.4 billion	23.0%	20.0%
Arizona Building Permits (number)	1st Quarter	33,480	16.0%	0.0%
Arizona Population	July	5.1 million	2.5%	2.5%
Arizona Personal Income	1st Quarter	$135.5 billion	1.4%	5.2%
U.S. Consumer Confidence	July	116.5	(2.1)%	(18.5)%
U.S. Leading Economic Indicators Index	July	109.9	0.3%	0.0%
U.S. Real GDP	2nd Quarter	$9.4 trillion	0.7%	1.3%
U.S. CPI Index	2nd Quarter	177.4	3.0%	3.4%

ARIZONA

PRELIMINARY REVENUE HIGHLIGHTS

AUGUST 2001

Based on preliminary data, August General Fund revenues are $(12.5) million below the original forecast for the month. Fiscal year-to-date revenue collections are estimated to be $(45.0) million below forecast. If the $(45.0) million revenue shortfall were to hold for the entire fiscal year, we would end FY 2002 with a $(14.0) million shortfall.

The preliminary August figures include forecast shortfalls of $(19.3) million for the sales tax and $(8.5) million for the individual income tax. Sales tax collections were essentially flat and income tax withholding grew by 4.5%. The performance of the other tax categories was generally better than expected, with the corporate income tax, the insurance premium tax, and the estate tax each posting forecast gains of over $3 million. As we acknowledged last month, there are accounting issues related to the collection of the new education sales tax that make our preliminary sales tax estimate more tenuous than normal.

We should have a better idea of how FY 2002 tax collections will fare relative to the forecast after September results are tabulated, since September is one of the four significant months for individual and corporate income tax collections.

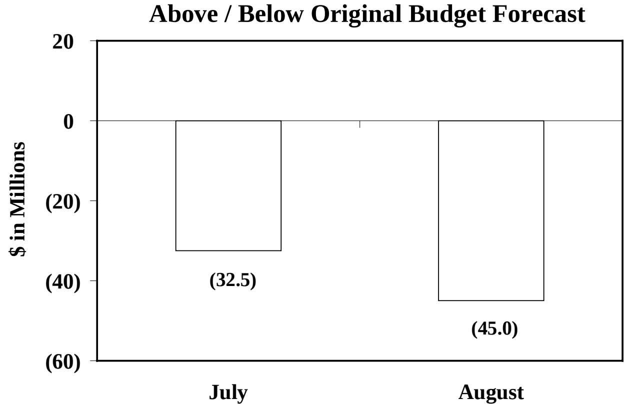
A summary of the most recent JLBC, JCCR, and SPAR meetings is provided on pages 2 and 3 of this document.

General Fund Revenues
Compared to Original Budget Forecast [1/]
($ in Millions)

FY 2002	Forecast	Actual	Forecast Difference
Preliminary August	$483.9	$471.4	$(12.5)
Year-to-Date	$975.7	$930.7	$(45.0)

[1/] Excluding Proposition 301 revenue

Cumulative FY 2002 Revenue
Above / Below Original Budget Forecast



JLBC

JLBC MEETING

At its August 31 meeting, the JLBC considered the following items:

School Facilities Board – The Committee approved an inflation adjustment of 0.6% for the upcoming year for the cost-per-square foot factors used in the new school construction and school building renewal formulas. The inflation index has been used by the Committee since February 2000 and is based on masonry construction costs.

Based on informal advice from the Attorney General, the Board had not planned on applying an inflation factor to building renewal until FY 2003. Legislative Council, however, believes that the index should be applied in FY 2002. We are currently working to resolve these issues.

Department of Economic Security – The Committee considered several agenda items for Arizona Works, the state's welfare privatization pilot. First, the Committee approved the calculation of cash benefit savings attributable to caseload reductions in Arizona Works. As a result, the private vendor is eligible for up to $181,900 in performance incentives.

Second, the Committee approved the estimate of welfare administrative costs in Mohave County. These costs will be used as a benchmark in determining the level of reimbursement to the private vendor if the Arizona Works pilot is expanded to Mohave County. In approving the calculation, the Committee took a neutral stance on whether the portion of administrative costs related to Food Stamps and AHCCCS should be used to calculate incentive payments.

Department of Health Services – The Committee gave a favorable review to proposed capitation payment increases in the Children's Rehabilitative Services program. The new rates are based on an actuarial study and are consistent with the FY 2002 budget.

Lottery Commission – The Committee requested that the Commission reconsider its retailer incentive pay plan. Retailers are currently eligible for an incentive payment equal to 0.5% of Lottery sales in their stores if they increase sales by 5% and display a certain number of promotions. The Lottery proposed to delete some of the promotional requirements. The Committee expressed concern that a retailer could earn incentive payments from large Powerball jackpots without having taken any particular action to boost returns. As a result, the Committee asked the Commission to consider incentive payments based on performance relative to other retailers.

Universities – The Committee received a report from the Universities on tuition collections above the appropriated level. Tuition will probably exceed expectations by $16.4 million. The Universities outlined a wide variety of operating uses for these monies, which are available for expenditure without further legislative review. Representative Knaperek expressed interest in improving the Legislature's oversight of these monies.

Retiree Sick Leave – The Committee approved a Retiree Accumulated Sick Leave (RASL) rate of 0.4%, consistent with the FY 2002 budget amounts. This rate is levied against agency salaries and the monies are used to pay state government retirees with large sick leave balances.

This rate will generate approximately $3.5 million more than needed and is available for transfer back to the General Fund.

JCCR MEETING

At its August 31 meeting, the JCCR considered the following items:

New DHS Buildings – The JCCR favorably reviewed the proposed contract with a private vendor to design, build and operate a new Department of Health Services office building and parking garage at 18th Avenue and Monroe. The new building will house staff currently located outside the Capitol Mall. The state will acquire the property through a 27-year financing arrangement with the private vendor, otherwise known as privatized lease to own (PLTO). The building and parking garage will cost $29 million to construct. The total 27-year cost with financing is $54.6 million.

The JCCR also concurred with DHS' plan to use $100,000 from the agency's operating budget to fund preconstruction activities for the new State Health Laboratory at 17th Avenue and Van Buren. The construction financing has been approved by the Legislature, but will not become available until FY 2003. The operating funds will be reimbursed from financing proceeds.

The Committee favorably reviewed the Department's plan to convert Cholla Hall on the Arizona State Hospital (ASH) campus from a dormitory to program support space for the sexually violent persons (SVP) program.

The Committee also received the quarterly report on the overall ASH construction project. The general project remains on schedule, although the completion of two 60-bed SVP dormitories has been delayed from August to October of this year.

ADOT Projects – The JCCR received a report on the Arizona Department of Transportation's 5-year highway construction plan. The Committee asked that the Arizona Department of Transportation (ADOT) develop more summary level information on the plan so as to permit a better understanding of the state's primary construction goals.

The Committee also approved new performance measures on traffic levels to serve as a gauge of freeway congestion. The

Committee requested that the department also submit measures that would determine progress in mitigating congestion.

The JCCR favorably reviewed ADOT's FY 2002 building renewal allocation plan.

University Projects – The JCCR received a report on Arizona State University lease purchase projects totaling $68.9 million. The single largest item is the $38.8 million expansion and renovation of the Memorial Union. Unlike projects financed through bonds, university lease-purchase transactions do not require formal Committee approval or review.

The Committee also received a report from the universities on the cost effectiveness of lease-purchase versus bond financing. While issuance costs and interest rates for COP financing are typically higher than bond financing, the report indicates that lease-purchases allow for the leveraging of a broader asset base to secure financing. The Committee suggested that the universities submit more formal guidelines on when each financing mechanism is used. This issue of the relative merits of different financing mechanisms also surfaced during the discussion of the new DHS office building.

ADOA Refinancing – The JCCR favorably reviewed and approved the refinancing of several early 1990s lease purchase issuances. The estimated savings over the refinancing period are $6.8 million.

Parks Board – The JCCR approved the release of $2.8 million in park fees for the continued development of Dead Horse Ranch State Park near Cottonwood. The improvements include the addition of restroom/shower buildings, fish cleaning stations, lagoon enhancements, campground development, and land acquisition.

The Parks Board has a list of $141 million in proposed State Park improvements. The JCCR requested that the Board develop a formal means to prioritize these projects prior to presenting any further requests to the Committee.

The JCCR also received a report on further development inside the Kartchner Caverns. The opening of the new lower caverns section remains on schedule for November 2003.

SPAR MEETINGS

Each Joint Appropriations Subcommittee recently held their second meeting of the interim on Strategic Program Area Reviews (SPAR).

County Assistance SPAR – The Joint Appropriations Criminal Justice Subcommittee met on Wednesday, September 5. The JLBC Staff presented an overview of all state funds that are distributed to the counties. In FY 2000, nearly $1.7 billion was distributed through 21 different state agencies. The distribution among counties closely corresponds to each county's share of the state population. State shared revenues account for 55% of the distributed monies, while Health and Welfare programs account for 33% and Criminal Justice programs 9%.

The Subcommittee chose to focus its study on 3 issues: probation officers salaries, anti-gang programs, and the Auto Theft Authority. The JLBC Staff provided an overview of each program. Funding issues related to county participation in the programs were discussed and will be the ongoing focus of this SPAR.

Special Education SPAR – The Joint Appropriations Education Subcommittee met on Thursday, August 23. The Subcommittee heard a presentation on the Arizona Early Intervention Program (AzEIP), which serves preschool children who have disabilities. It also heard a presentation on the "300 Kids Project," which seeks to improve behavioral health services for Title XIX children who have emotional or behavioral disorders.

The Subcommittee identified a list of topics for further SPAR review. They included 1) parental choice grants for all special education pupils, 2) placement neutral funding, 3) Medicaid in the public schools, 4) the special education cost study, 5) Auditor General audits of special education programs, 6) the transfer of assistive devices when students switch schools, 7) expansion of the ASDB Cooperatives program, 8) special education teacher training, and 9) special education data retrieval through the new Student Accountability Information System (SAIS).

Developmental Disabilities SPAR – The Joint Appropriations Health and Welfare Subcommittee met on Wednesday, August 22. The Health and Welfare Subcommittee also heard a presentation on the AzEIP program and the "300 Kids Project." These programs are of interest to both Subcommittees since they overlay the Special Education and Developmental Disabilities delivery systems.

The Subcommittee identified a list of topics for further SPAR review. They included 1) the availability of services, 2) children transitioning out of AzEIPs, 3) technology (e.g. the accounting system, communication between agencies), 4) the role/success of the Interagency Case Management Project and the "300 Kids Project," and 5) the role of medical directors in the decision making process.

ARIZONA
REVENUE HIGHLIGHTS
JUNE 2001

Earlier in the month, we had reported a preliminary estimate of June revenues. Since the Department of Administration is still in the process of closing the state's financial books for the year, any estimates remain subject to change. At this time, we estimate that June General Fund revenues were $(84.2) million below forecast, although it is possible that we could gain another $7 million in year-end adjustments. June revenue collections in all major revenue categories - sales, individual income, and corporate income - were below June 2000 levels. For the entire fiscal year, revenues are $(97.7) million below the enacted budget forecast.

While below forecast, FY 2001 revenues are higher than FY 2000. FY 2001 revenues are estimated to have grown by $238.1 million, or 4.0%, above FY 2000. After adjusting for tax law changes, however, FY 2001 would be the slowest revenue growth year in percentage terms since FY 1991.

The final ending balance depends not only on revenues, but also on the level of appropriations actually expended by state agencies. We preliminarily estimate that net expenditures will be approximately $5 million less than anticipated.

The net impact of the $(97.7) million revenue "loss" relative to the forecast and the $5 million expenditure "gain" is an overall ending balance in FY 2001 of approximately $10 million. That estimate could grow to $17 million depending on the disposition of $7 million in year-end adjustments mentioned above. The enacted budget had assumed that we would end FY 2001 with a $103.1 million ending balance. These funds were then used in FY 2002 and FY 2003 to balance the budget in those years.

To analyze General Fund collections throughout the year, the table and graph below compare the preliminary June results with the original FY 2001 revenue forecast from a year ago.

Sales Tax revenues ended the year $(27.1) million below the forecast. Overall, sales tax collections for the year were 5.5% over the previous year, which was below forecasted growth of 6.5%. June collections were (1.8%) below the previous June, reflecting the lowest growth month in the fiscal year.

- **Retail Sales Tax** revenues increased by 1.5% for the month, which reduced growth in this category to 5.2% for the year.
- **Contracting Tax** revenues increased by 8.2% for the month. However, the growth rate for the year was a modest 3.7%.
- **Utility Tax** collections were 5.0% for the month, reducing growth in this category to 10.4% for the year.
- **Restaurant and Bar Tax** collections were 3.4% for the month, reducing the annual growth rate to 5.4%.
- **Use Tax** collections were (14.5%) below last June, resulting in a growth rate for the year of 11.6%.

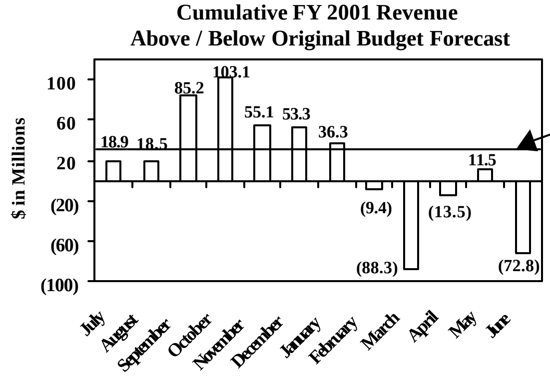
Individual Income Tax revenues were $(62.2) million below the forecast for the month, and are a total of $(184.4) million below the forecast for the year. This represents a growth rate of only 0.5% over FY 2000, compared to the forecast growth rate of 8.6%. These variances include the payment of alternative fuel tax credits of $2.1 million in April, $32.9 million in May, and $24.1 million in June, for a total of $59.1 million for the year. These payments will be reimbursed from the Budget Stabilization Fund (BSF), and will appear in the Other Miscellaneous revenue category.

Income tax withholding fell in the second half of FY 2001. While withholding grew by 7.4% in the first half of the fiscal year, the growth rate was 3.1% in the second six months. In June, withholding declined by (3.3)% compared to June 2000. Since overall job growth remains positive, it is possible that lower levels of employee bonus compensation account for the withholding reduction.

Corporate Income Tax collections were $67.4 million in June, which was the lowest level of collections for that month since 1993. Relative to the forecast, June revenues were $(24.5) million below the forecast and (31)% below last year. This reduction appears to have occurred nationwide as federal corporate returns declined (25)% in June. While corporate collections fell in June, the tax had performed better than expected during the first 6 months of FY 2001. As a result, overall FY 2001 corporate collections were $18.0 million, or 3.4%, higher than FY 2000.

Other Revenue Sources - Partially offsetting the negative forecast variances in the tax categories are positive variances in several other categories, including insurance premium tax: $6.5 million, estate tax: $4.7 million, and interest income: $24.7 million.

JLBC



The current forecast is $24.9 M above the original forecast from a year ago.

We are now $(97.7) M below the current forecast, and $(72.8) M below the original forecast

FY 2001 GENERAL FUND REVENUE COLLECTIONS
DIFFERENCE FROM PRIOR YEAR AND THE FORECAST
($ in Millions)

	Current Month					Fiscal Year-to-Date (Twelve Months)				
		Difference From *Last Year*		Difference From *Forecast*			Difference From *Last Year*		Difference From *Forecast*	
TAX REVENUE	Actual June 2001	Amount	%	$	%	Actual Through June 2001	Amount	%	$	%
Sales and Use	$254.2	$(4.7)	(1.8)%	$(17.6)	(6.5)%	$2,984.7	$155.4	5.5%	$(27.1)	(0.9)
Income-Individual	214.5	(40.4)	(15.9)	(62.2)	(22.5)	2,300.8	11.4	0.5	(184.4)	(7.4)
-Corporate	67.4	(30.8)	(31.4)	(24.5)	(26.7)	541.2	18.0	3.4	26.2	5.1
Property	9.0	(0.4)	(4.6)	(0.1)	(1.1)	39.6	(1.8)	(4.2)	(0.3)	(0.7)
Other Taxes	38.1	0.4	1.0	(1.9)	(4.6)	327.2	(6.0)	(1.8)	10.9	3.4
Urban Rev. Sharing	(33.0)	(1.6)	5.0	0.0	0.0	(396.5)	(18.7)	5.0	0.0	0.0
Sub-Total Taxes	550.2	(77.5)	(12.3)	(106.3)	(16.2)	5,797.0	158.3	2.8	(174.7)	(2.9)
OTHER REVENUE										
Lottery	1.1	(1.2)	(52.4)	(2.5)	(70.2)	21.0	0.0	0.0	0.0	0.0
Interest	13.9	(0.6)	(4.0)	2.4	21.3	89.7	12.0	15.5	24.7	38.1
Other Miscellaneous	126.4	92.0	266.8	22.2	21.3	290.7	67.8	30.4	77.2	36.1
Sub-Total Other	141.4	90.2	176.3	22.1	18.5	401.4	79.8	24.8	101.9	34.0
TOTAL REVENUE	**$691.6**	**$12.7**	**1.9%**	**$(84.2)**	**(10.9)%**	**$6,198.4**	**$238.1**	**4.0%**	**$(72.8)**	**(1.2)%**

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SELECT ECONOMIC INDICATORS

Indicator	**Time Period**	**Current Value**	**Change Over Prior Period**	**Change Over Prior Year**
Arizona Consumer Confidence	2nd Quarter	106.8	5.3%	(3.3)%
Arizona Unemployment Rate	June	4.4%	4.8%	10.0%
Arizona Jobs	June	2.3 million	(1.6)%	1.0%
Arizona Building Permits ($ amount)	1st Quarter	$3.4 billion	23.0%	20.0%
Arizona Building Permits (number)	1st Quarter	33,480	16.0%	0.0%
Arizona Population	July	5.1 million	2.5%	2.5%
Arizona Personal Income	4th Quarter	$133.7 billion	1.2%	7.9%
U.S. Consumer Confidence	June	117.9	1.6%	(15.3)%
U.S. Leading Economic Indicators Index	June	109.6	0.3%	(0.7)%
U.S. Real GDP	1st Quarter	$9.4 trillion	1.2%	2.5%
U.S. CPI Index	June	177.9	0.2%	3.3%

FINANCE ADVISORY COMMITTEE

March 1, 2001

Highlights

- *The FAC Panelists expressed a broad variety of opinions about future economic conditions.*
- *The majority of FAC Panelists believe the slowing in the Arizona economy is simply a return to normal rates of growth after a prolonged period of high growth.*
- *A recession is considered possible but unlikely by most of the panelists.*

How bad and for how long? Posed by one legislator, this was the question on everyone's mind at the March 1st meeting of the Finance Advisory Committee (FAC). While most observers recognize that state revenue collections have slowed in recent months, there is keen interest in knowing how long the slowdown will last and how bad things will get. To answer this question, the JLBC Staff convened a meeting of its Finance Advisory Committee. The FAC is a 16-member panel of the state's leading economists from government, business, and academic settings. Several times a year the Staff calls a meeting of the FAC to receive expert advice on economic conditions and the revenue forecast. Panelists cautioned that the days of double-digit revenue growth rates are behind us and advised the Staff to employ a revenue forecast calling for growth to return to normal levels. Several of the committee members downplayed the likelihood of a recession in the Arizona economy, though they acknowledged that a recession is possible.

The March 1st FAC meeting was prior to either the Executive or JLBC revisions of their revenue forecasts.

National Outlook

The opening presentation on the prognosis for the U.S. economy was given by Elliott Pollack, of Elliott D. Pollack & Company. Pollack gave a good news / bad news summary of the economy, warning "a slowdown is a certainty" and a recession possible. Reasons for optimism that growth will pick back up include low mortgage rates that make housing affordable, low unemployment rates, and favorable consumer demographics. Reasons for pessimism include sinking consumer confidence levels, high amounts of consumer debt, and tougher bank loan standards. As usual, the stock market is a wild card and remains difficult to predict, but it is clear that the decline in the market over the past year has stifled consumers' willingness to make large retail purchases. Pollack summarized his remarks by suggesting that the chances of a recession in the national economy were 50/50. He did believe, however, that any Arizona slowdown would be milder than the national average.

Staff Presentation

Presenting next, the JLBC Staff detailed the status of FY 2001 revenue collections and described the revenue forecast for the next biennium. (A copy of this presentation is available on our web site.) The Staff explained that the January forecast calls for revenues to finish FY 2001 at a level of $100.7 million above the original budget forecast. Through February, revenues are $(9.0) million below the original forecast, making it increasingly unlikely that the state will meet January projections. Each of the economists made a few points related to the major tax categories.

- Brian Schmitz commented on the remarkable run the sales tax had in the 90's, posting baseline growth rates of 9% or better in 7 out of the last 8 years. However, January cumulative year-to-date growth in FY 2001 has only been 7.2%, compared to the January forecast of 8.1%. The slower sales tax growth in this fiscal year is mostly due to the November - January period, when growth averaged a sluggish 3.9%.

- Kent Ennis described revenue collections for the individual income tax. Like the sales tax, the individual income tax grew by leaps and bounds throughout most of the previous decade, but in FY 2001 the income tax has fallen short of expectations. January year-to-date collections are $(42.1) million below forecast.. Poor stock market performance in 2000 makes the outlook for capital gains-related tax payments in April somewhat speculative.

- Jim Rounds called attention to the variability of the corporate income tax, which is easily the most volatile of the Big 3 revenue categories. Corporate income tax growth in FY 2001 has been outstanding, exceeding last year's total at this point by 22.3%. However, most of the growth occurred in the first quarter of this fiscal year. He also highlighted the R&D tax credit and its potential impact to the state.

- Hans Olofsson gave the outlook for the property tax. Property values continue to grow, and at an accelerating rate. It is expected that net assessed value will increase by 8.4% in FY 2001 – the highest growth rate in the current business cycle.

- Richard Stavneak wrapped up the Staff presentation by focusing attention on the differences between the original JLBC forecast and the Governor's forecast. The two forecasts are the same in FY 2001, but the JLBC forecast is higher than the Governor's over the rest of the biennium. He asked the panelists for their perspective on whether we would make the FY 2001 forecast and whether the Arizona economy would quickly return to normal rates of growth. (Subsequent to the FAC meeting, both the JLBC and the Governor decided to revise their forecasts downward.)

State Outlook

Tracy Clark, of Arizona State University, presented the outlook for the state economy. Stating at the outset that he agreed with Pollack's view of national economic conditions, Clark opined that the Arizona economy would stave off recession but that slower growth is a certainty. Relative to other states, Arizona will continue to be among the leaders, though we will not be able to avoid the nationwide slowdown in tax collections. Over the next biennium, he expects car sales to moderate and for capital gains to dry up. When asked how long the slowdown will last, Clark indicated that unless the stock market rebounds, the period of slowing revenues will last through FY 2003.

The final formal presentation was given by Dan Anderson, of the Department of Economic Security, on labor markets. Anderson pointed out that Arizona job growth in January fell to 3.4%, down from growth of 4.3% in the prior January. This type of dropoff does not signal a recession; rather, it is merely a period of below average growth. Stressing his optimism about the Arizona economy, Anderson called attention to consumer confidence levels. Consumer confidence has fallen in recent months, in part due to a barrage of news media headlines about layoffs. However, these well-publicized layoffs have had little effect on total Arizona employment levels.

Other Issues

Besides the formal presentations, several of the other panelists weighed in on the issues and offered their opinion on the economy. Brian Cary, of Pinnacle West, thought that the economy would probably not recover in time for revenue collections to reach the January forecast for FY 2001, but that the economy would soon after return to normal growth levels.

Marshall Vest, of the University of Arizona, summarized the condition of the economy by offering an interesting analogy. He likened the recent slowdown to the sensation you get after driving on the highway for a long time at high speeds and then exiting to a side street at a slower speed. The side street seems slow by comparison to the highway, even though you are still moving rather briskly. In the same way, the economy has just come off a period of high growth and is now moving along at more moderate levels. It may feel like a recession in comparison to the last 5 years, but the underlying dynamics of the Arizona economy are still sound. Several of the other panelists agreed with this interpretation of the economy

Wally Duncan, of Northern Arizona University, offered an alternative view of the economy. He considers a recession probable, not just possible. Duncan expects the Federal Reserve Bank to lower interest rates by one-half to three-quarters of a percentage point this year in an effort to keep a recession from occurring.

Attendance at this meeting of the FAC numbered over 60 people, including 10 legislators.