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FINANCE ADVISORY COMMITTEE

October 18, 2011

Senate Hearing Room 1, 1:30 p.m.

Members Present:

John Arnold, Director, Governor's Office of Strategic Planning and Budgeting
Dr. Jay Q. Butler, Director of Realty Studies and Associate Professor of Real Estate, ASU
Brian Cary, Chief Economist, Salt River Project
Tracy L. Clark, Data Integrity Manager, Arizona Department of Transportation
Doug Ducey, State Treasurer
Debra Roubik, Chief Economist and Founder, VisionEcon
Jim Rounds, Senior Vice President, Elliott D. Pollack & Co.
Martin Shultz, Senior Policy Director, Brownstein Hyatt Farber Schreck
Marshall Vest, Director, Economic and Business Research Center, University of Arizona's Eller College of Management

At its October 18, 2011 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. JLBC Staff provided members with the latest 4-sector consensus estimates for the "Big 3" revenue collections, along with long-term budget projections. Among the key points:

- Since the FY 2011 shortfall no longer has to be paid off with FY 2012 revenues, the state will likely generate a carry-forward balance at the end of FY 2012.
- Due to economic uncertainty and pending "budget" litigation, it is difficult to predict the magnitude of the FY 2012 ending balance. As a result, the JLBC Staff has developed 2 different scenarios.
- The projected carry-forward balance at the end of FY 2012 is \$130 million in one scenario and \$415 million in a second scenario. Since the balance is one-time in nature, using these monies for permanent revenue or spending initiatives would increase future year shortfalls.
- After estimating revenue and funding formula changes for next year, it is not yet clear whether the FY 2013 budget will be in balance or in a shortfall. One model predicts a \$140 million surplus while the second "slow economy" model would result in a \$(375) million shortfall.
- With the expiration of the 1-cent sales tax, however, the state is more likely to incur a shortfall in FY 2014 under either scenario. The shortfall is \$(600) million in the first scenario and \$(1.2) billion in the second.

- 3-year budget estimates are highly speculative and subject to considerable change. For example, a small revenue forecast error of 1% across 3 years could result in a \$500 million revision to the projections in either direction. As a result, the current FY 2014 estimates will probably change considerably over the next 3 years.

For the long-term budget projections presented to the FAC, JLBC Staff developed a [Revenue and Budget Update Summary](#) along with a [Budget Update Slideshow](#).

The meeting adjourned at 2:50 p.m.

Sandy Kelley, Secretary

Hans Olofsson, Chief Economist