

Economic Impact and Fiscal Health

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GREATER PHOENIX LEADERSHIP

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Arizona Association for
Economic Development



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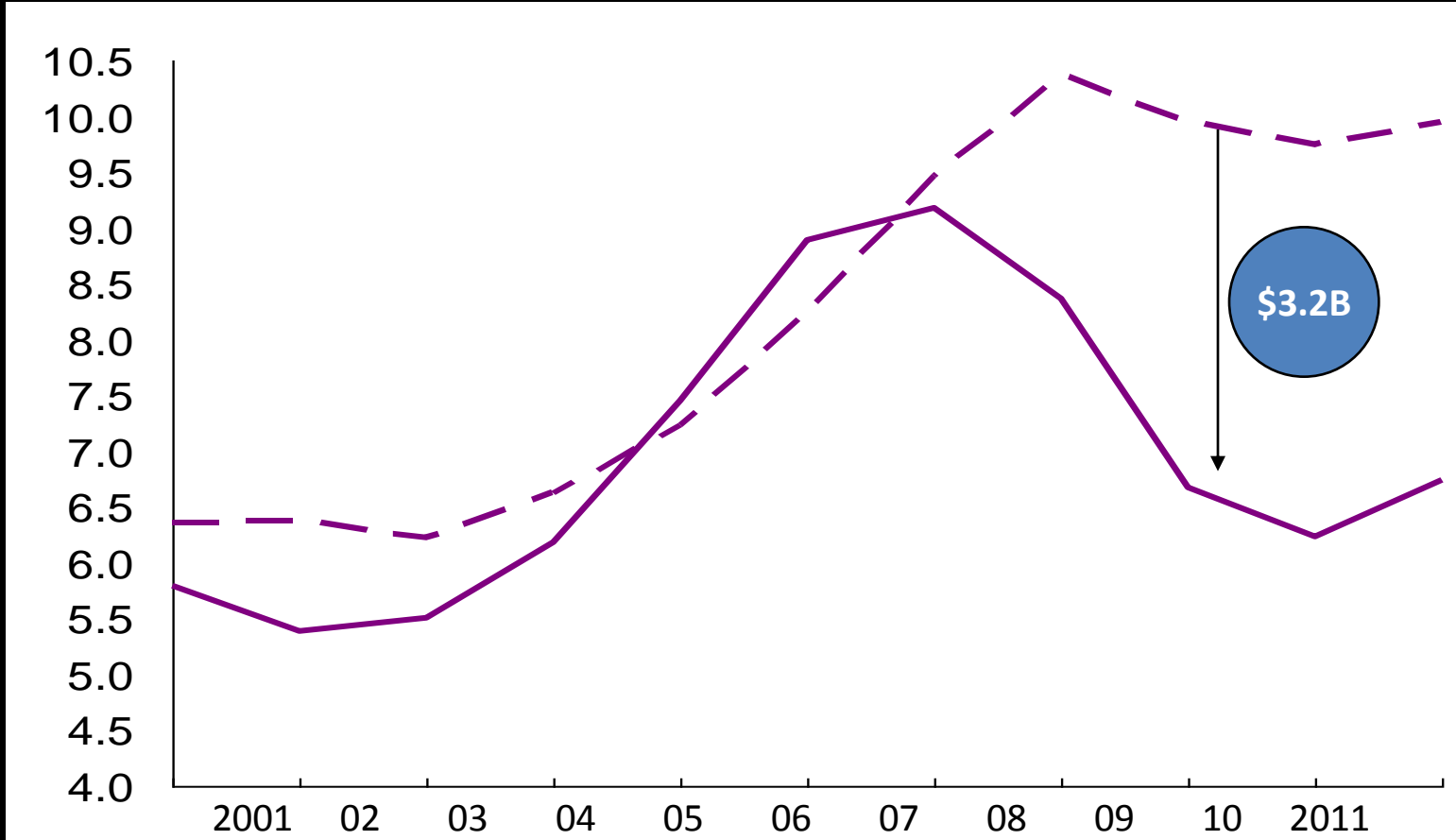
Greater Phoenix
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General Fund Revenues and Expenditures Over Time

General Fund revenues and expenditures
2001-2011 (FY)
\$ Billions

— Tax Revenue to General Fund
- - General Fund Expenditures



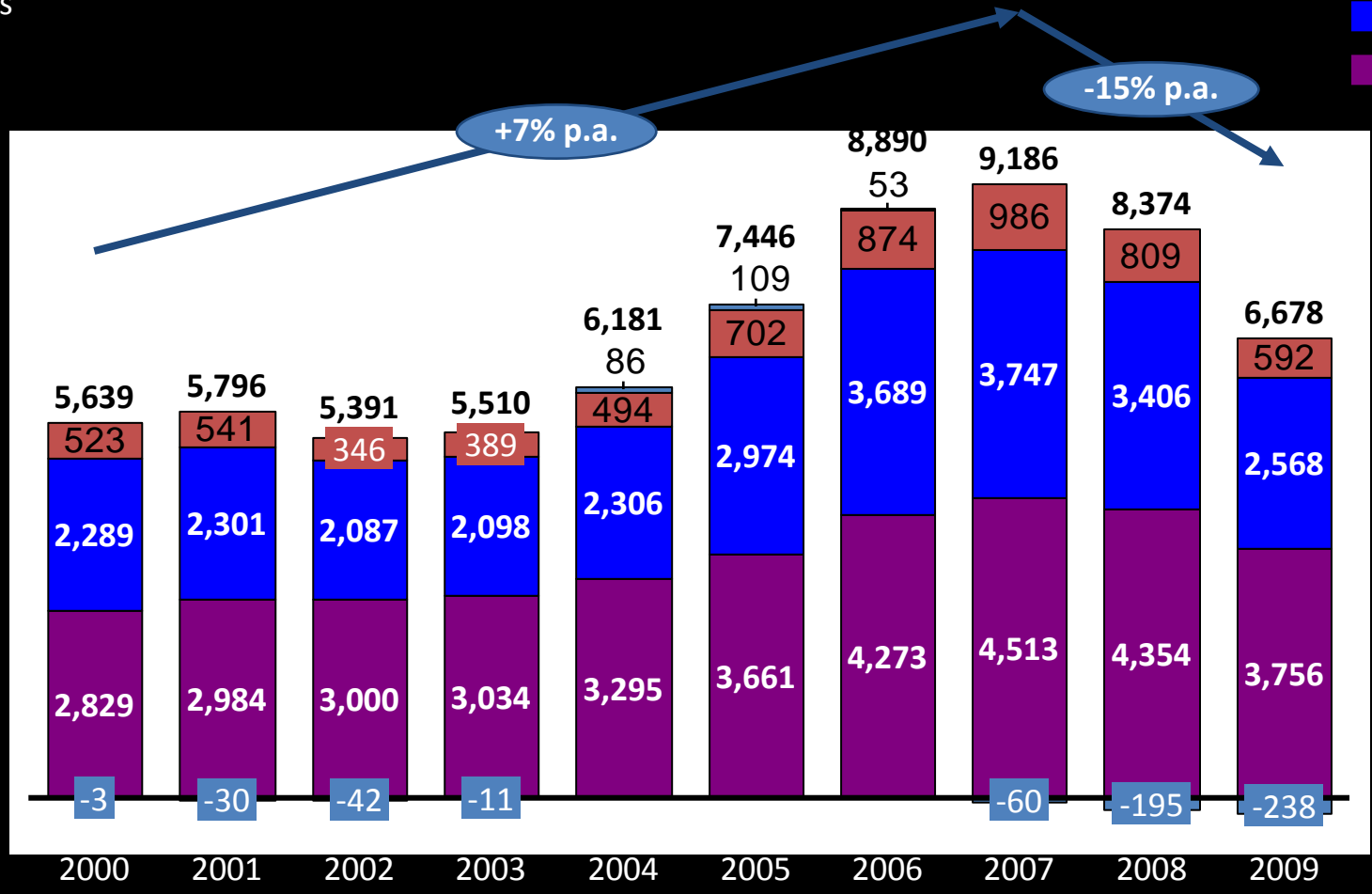
SOURCE: JLBC – “10 Year History of General Fund Expenditures,” “Historical General Fund Revenue Collections”

Data as of February 2010

Arizona General Fund Tax Revenue

General Fund tax revenue sources, 2000-2009 (FY)
\$ Millions

- Other
- Corp income
- Income tax
- Sales tax



CAGR
2000-09
Percent

1.9
1.4
1.3
3.2

SOURCE: JLBC – "Historical General Fund Revenue Collections," team analysis

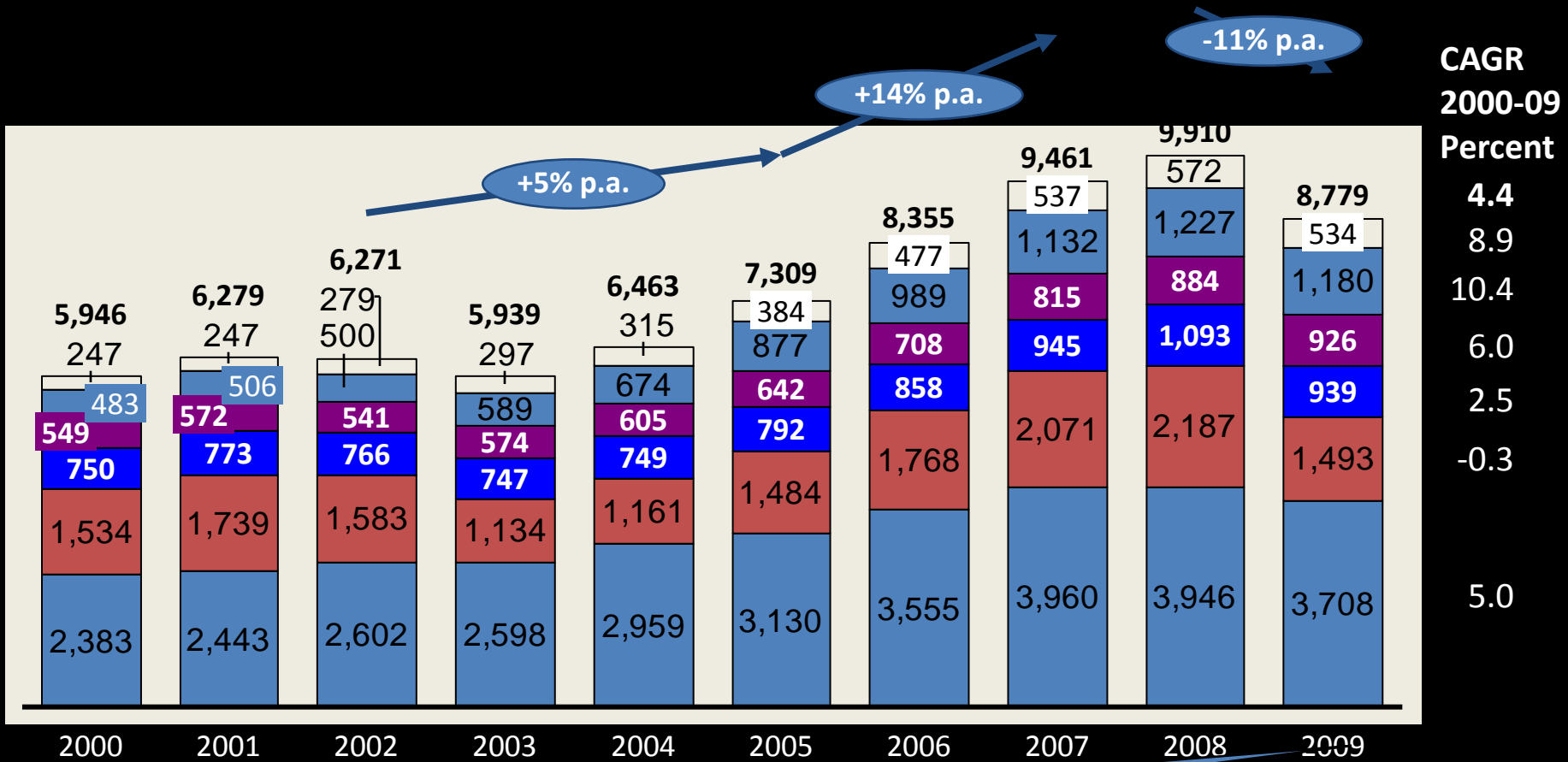
Data as of February 2010

Arizona General Fund Expenditures

General Fund expenditure breakdown, 2000-2009 (FY)

\$ Millions

- Dept. of Health Services
- University
- AHCCCS
- Other
- Corrections
- K-12



SOURCE: JLBC – "General Fund Operating Budget Spending," team analysis

Excludes \$461 M in ARRA funding for AHCCCS, DHS and DES

Data as of February 2010

“Do Nothing” Scenario Output

Variable **Scenario Value**

Employment growth (Arizona)

2.0% p.a.

Growth in average income per capita

1.2% p.a.

Median home prices

Varies

Sales tax rate

5.6%

Personal income tax ratio - index to current

1.0

Corporate tax ratio - index to current

1.0

Property tax ratio - index to current

1.0

Population growth

2.5% p.a.

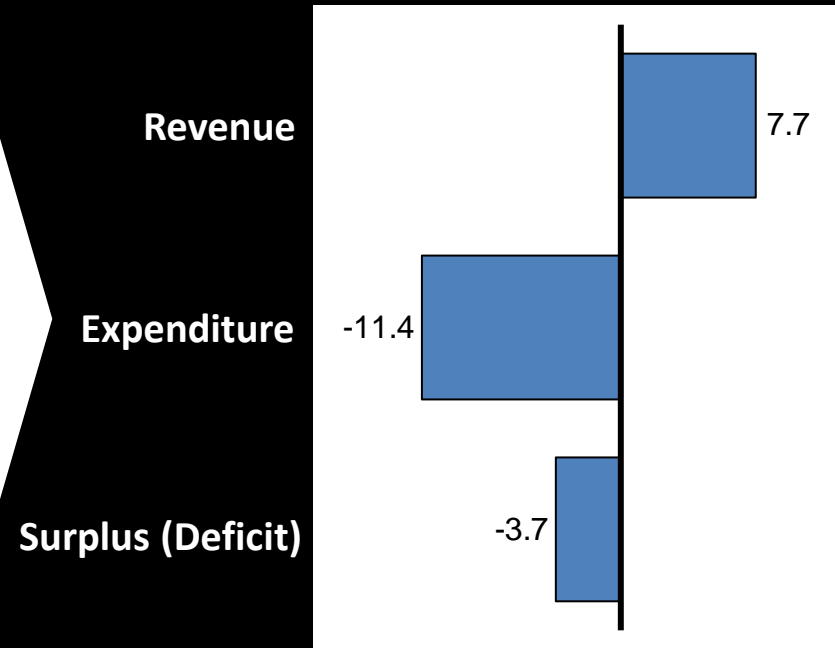
Inflation

1.2% p.a.

Spend ratio – index to current

1.0

Scenario output, FY 2015 \$ Billions



SOURCE: Team analysis

Data as of February 2010

Growth Rate Sensitivity Analysis for “Do Nothing” Case

Estimated total revenues to the state based on combinations of growth rates, FY 2015
\$ Millions

Range of growth rates for average income per capita percent

	0.0	1.2	2.0	3.0	4.0	5.0	6.0	7.0
0.0	6,458	6,907	7,224	7,641	8,084	8,555	9,056	9,588
1.0	6,830	7,310	7,650	8,098	8,574	9,081	9,621	10,197
2.0	7,224	7,738	8,103	8,584	9,097	9,644	10,227	10,850
3.0	7,641	8,193	8,584	9,102	9,655	10,245	10,876	11,551
4.0	8,084	8,676	9,097	9,655	10,251	10,888	11,572	12,305
5.0	8,555	9,191	9,644	10,245	10,888	11,578	12,319	13,116
6.0	9,056	9,739	10,227	10,876	11,572	12,319	13,124	13,991
7.0	9,588	10,324	10,850	11,551	12,305	13,116	13,991	14,935

Range of employment growth rates Percent

Do nothing case - revenues

Do nothing case - expenditures

Data as of February 2010

Tax Rate Sensitivity Analysis for “Do Nothing” Case

Estimated incremental tax revenues to the state based on combinations of growth rates, FY 2015
\$ Millions

PRELIMINARY

Range of sales tax rates
Percent

 Current

Range of
top
personal
income tax
rates¹
Percent

	4.00	4.50	5.00	5.50	6.00	6.50	7.00	7.50
3.00	(1,720)	(1,317)	(914)	(511)	(107)	296	699	1,102
3.50	(1,423)	(1,020)	(617)	(214)	189	592	996	1,399
4.00	(1,127)	(724)	(320)	83	486	889	1,292	1,695
4.54	(806)	(403)	0	403	806	1,209	1,613	2,016
5.00	(533)	(130)	273	676	1,079	1,482	1,886	2,289
5.50	(237)	166	570	973	1,376	1,779	2,182	2,585
6.00	60	463	866	1,269	1,673	2,076	2,479	2,882
6.50	357	760	1,163	1,566	1,969	2,372	2,776	3,179
7.00	653	1,056	1,460	1,863	2,266	2,669	3,072	3,475
7.50	950	1,353	1,756	2,159	2,563	2,966	3,369	3,772

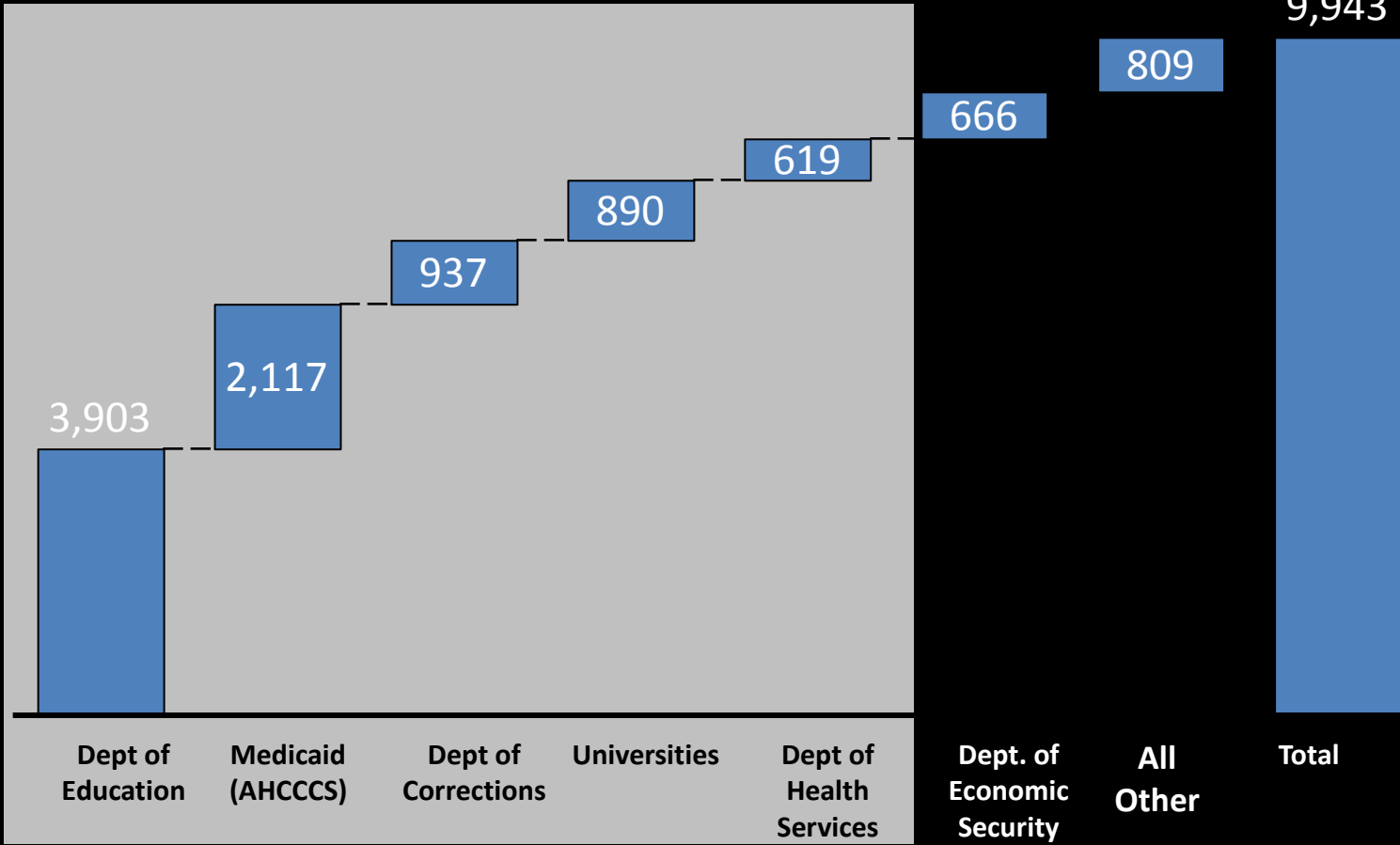
¹ Because of the use of indexing, the calculation is based on the actual effective tax rate, whereas the scale reflects changes to the top rate of personal income tax

SOURCE: Team analysis

Composition of Proposed General Fund FY 2011 Expenditures

FY 2011 proposed General Fund Expenditures¹
 \$ Millions

■ Areas of focus



¹ Expenditures refers to operating budget

Components of All Other Spend of \$809M

FY 2011 General Fund Expenditures – All Other spend in Baseline

\$ Millions

Departments/Agencies	FY 2011 Baseline
Dept. of Commerce	3.6
State Land Dept.	6.5
FY 11 Lease-purchase payments	9.0
Office of Tourism	10.7
Dept. of Environmental Quality	12.8
Dept. of Water Resources	16.9
Dept. of Administration	17.4
Attorney General	18.0
State Parks Board	20.0
Dept. of Revenue	39.6
Dept. of Public Safety	43.6
Dept. of Juvenile Corrections	63.3
Judiciary	119.6
School Facilities Board	127.6
Community Colleges	142.8
All Other Budgets ¹	160.2
FY 11 AZ Net Charges	(2.2)
	809.0

Includes \$66M of estimated debt service costs²

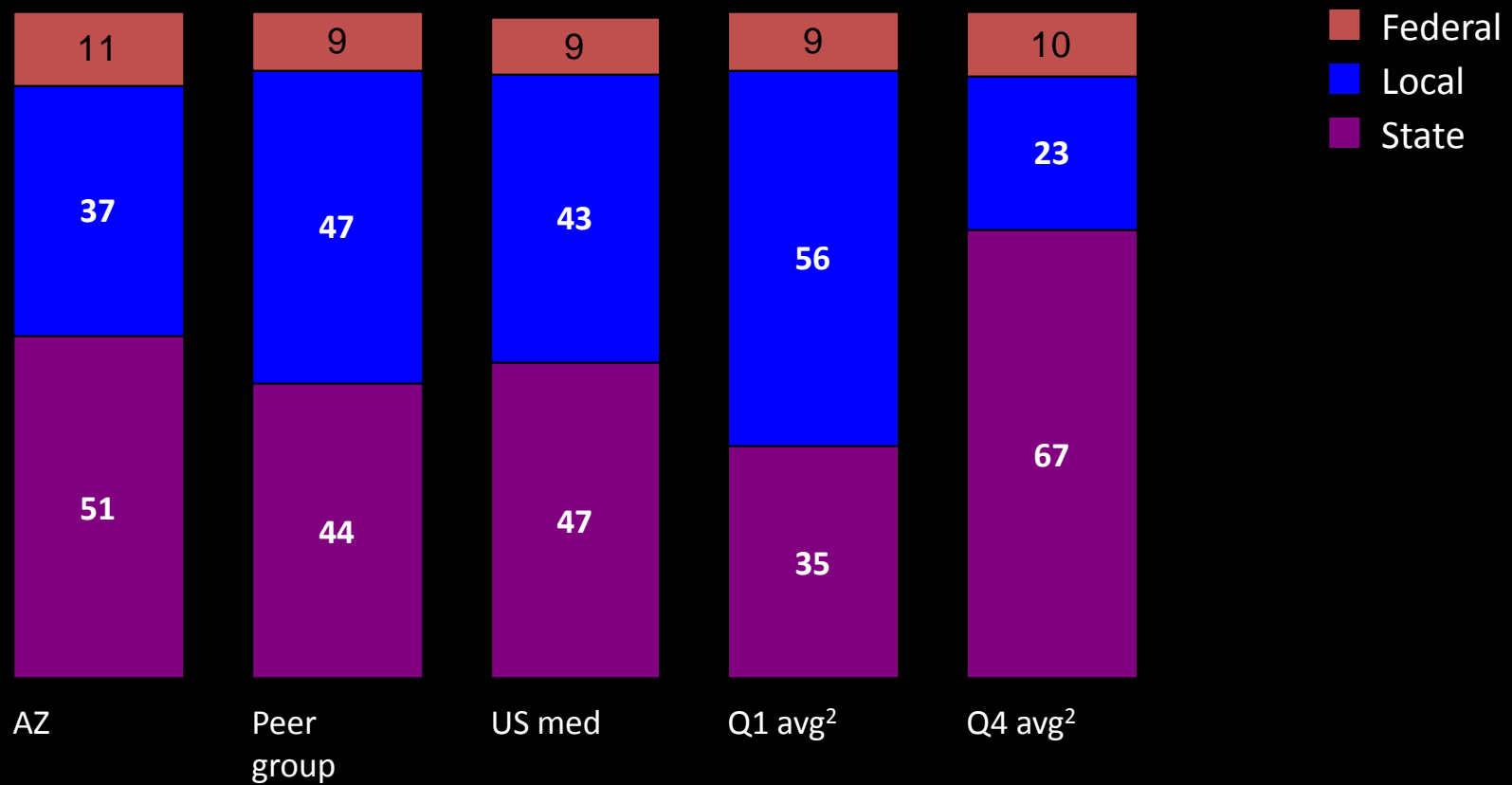
¹ Includes 51 other state agencies, departments, boards and commissions

² \$43M for debt service related to sale-leaseback of state buildings, and \$23M for Schools Facilities Board debt service costs

SOURCE: Joint Legislative Budget Committee, 2011 Baseline Book

K-12 Funding Sources in Arizona vs. Peers

Source of K-12 education funding, 2007
 Percent of total funding¹



¹ Total funding (includes general fund), includes spend includes teacher salaries, all current (annual) expenditures, capital expenditures, other programs, and interest on debt

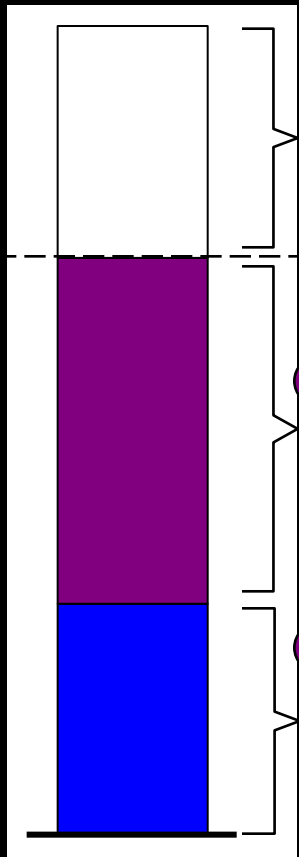
² Q1 is the quartile with the lowest percentage of state contribution, Q4 is the quartile with the highest percentage of state contribution

SOURCE: National Center for Education Statistics, team analysis

Data as of February 2010

Illustrative Example Showing How the Qualifying Tax Rate (QTR) Affects State K-12 Funding for a District

K-12 education funding
Dollars



Additional state, federal, and local funding for adjustments beyond equalization base

3 State funding = equalization base – funds raised from the qualifying tax rate (QTR)

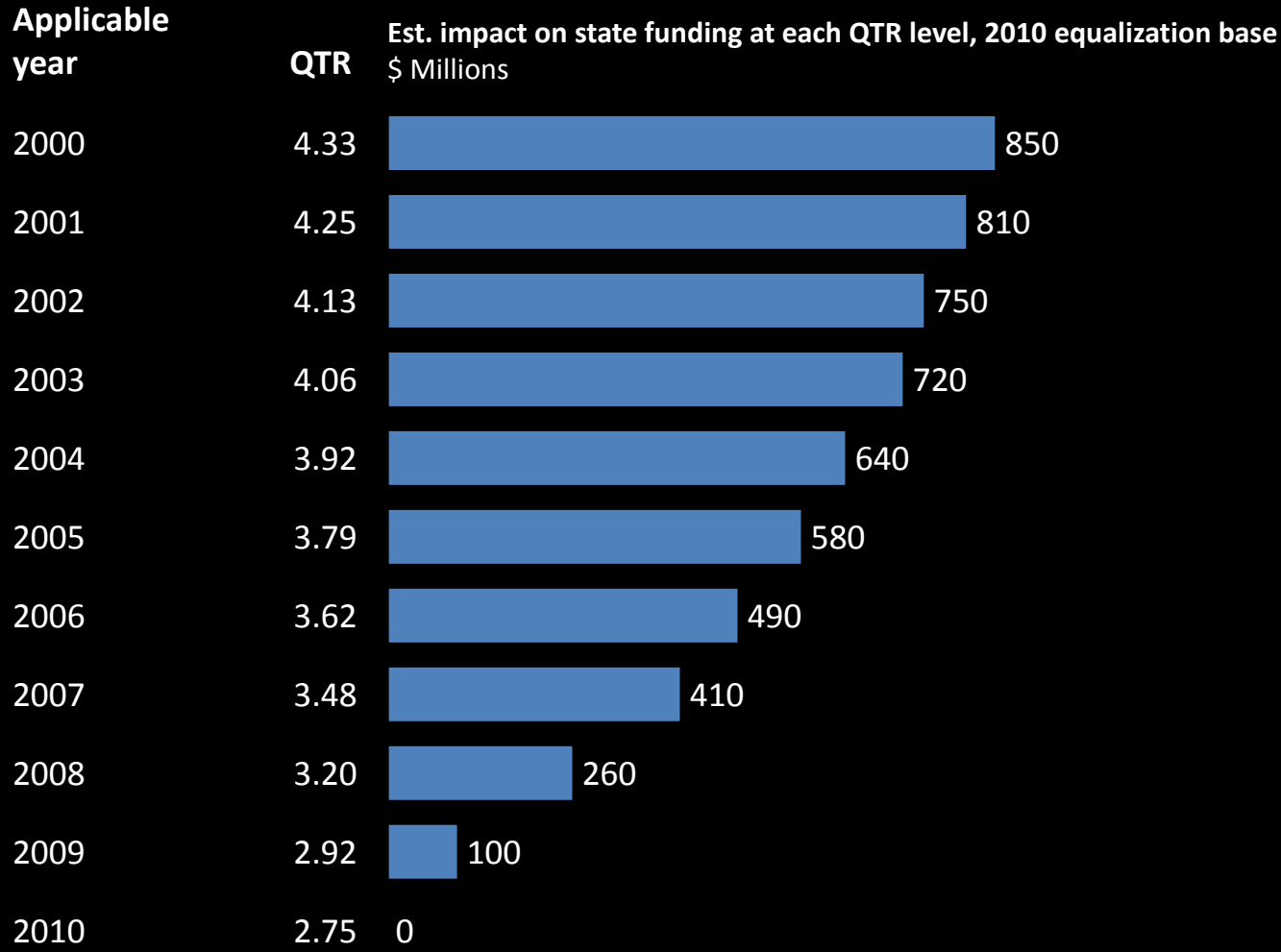
2 Funds raised by the QTR on the net assessed property value

ILLUSTRATIVE - NOT TO SCALE

Example district

1 Equalization base = monies for K-12 education from the equalization formula

Estimated change in state funding for K-12 at different Qualifying Tax Rates

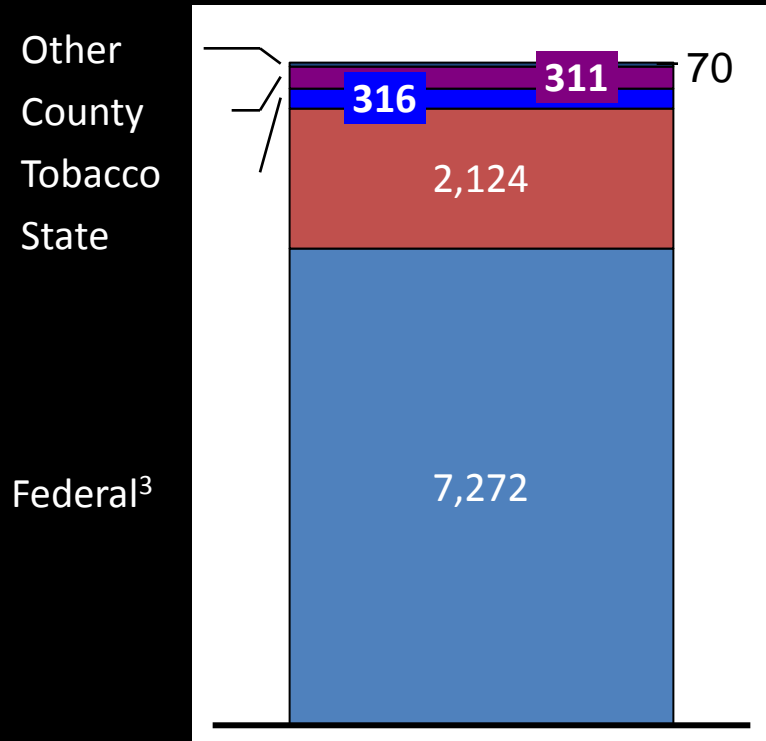


SOURCE: Arizona Department of Education, Arizona Tax Research Association, team analysis

Breakdown of Major Revenue and Cost Categories in AHCCCS

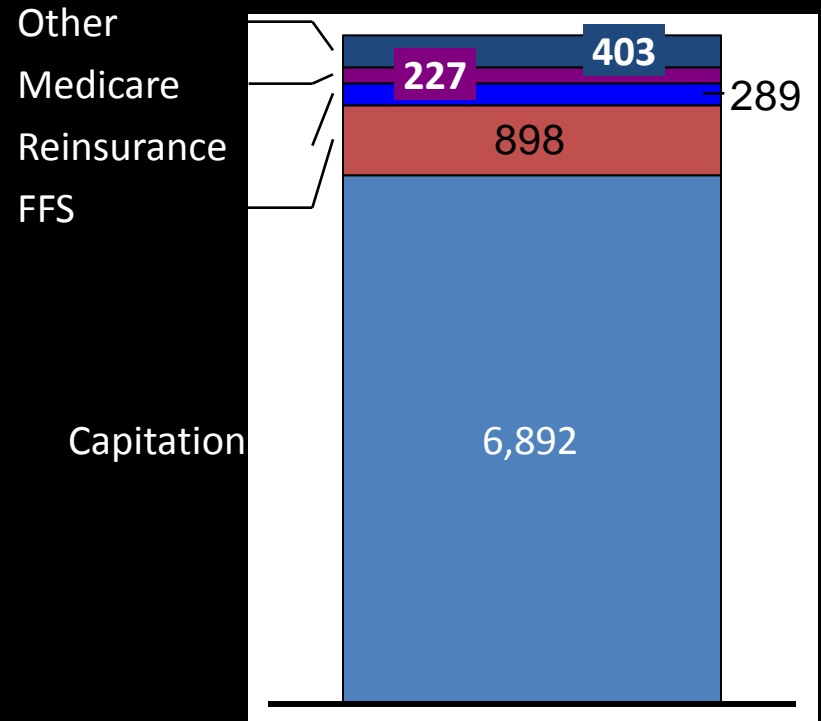
AHCCCS revenue breakdown,
2009
\$ Millions

100% = \$8,788



AHCCCS cost breakdown,
2009
\$ Millions

100% = \$8,711



1 Includes Gaming, premium revenue, intergovernmental and other

2 Includes Administrative expenses, DSH, GME and trauma centers

3 Includes ARRA funding

Drivers of Healthcare Costs in Arizona

AHCCCS / DHS expenditures

=

Program eligibility
(number of enrollees)

X

Program benefits
(cost per enrollee)

- Threshold for access to program (percent of Federal Poverty Line)
- Different program offerings (children, SSI, childless adults)

- Overall cost of services offered (capitation rates)
- Quality of services offered

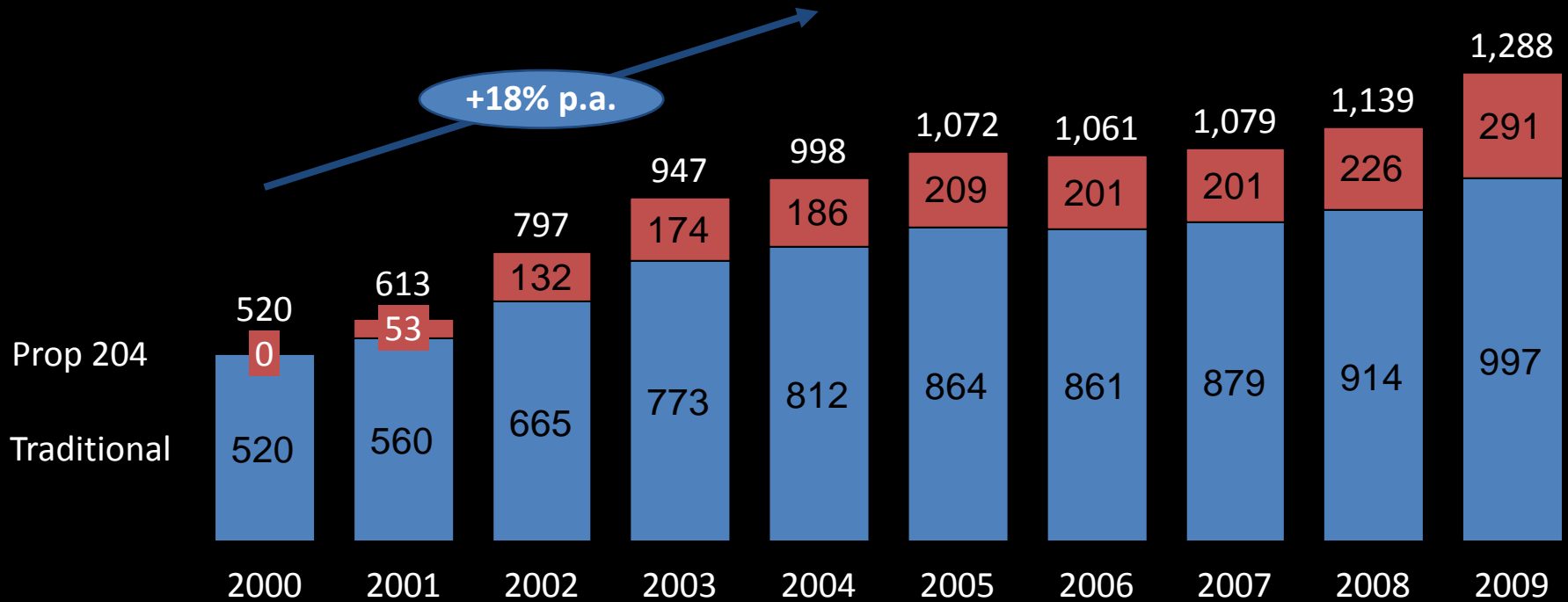
Funding sources

- Provider taxes

Program Eligibility: Arizona AHCCCS enrollees over time

AHCCCS enrollees, 2000-2009¹

Thousand enrollees



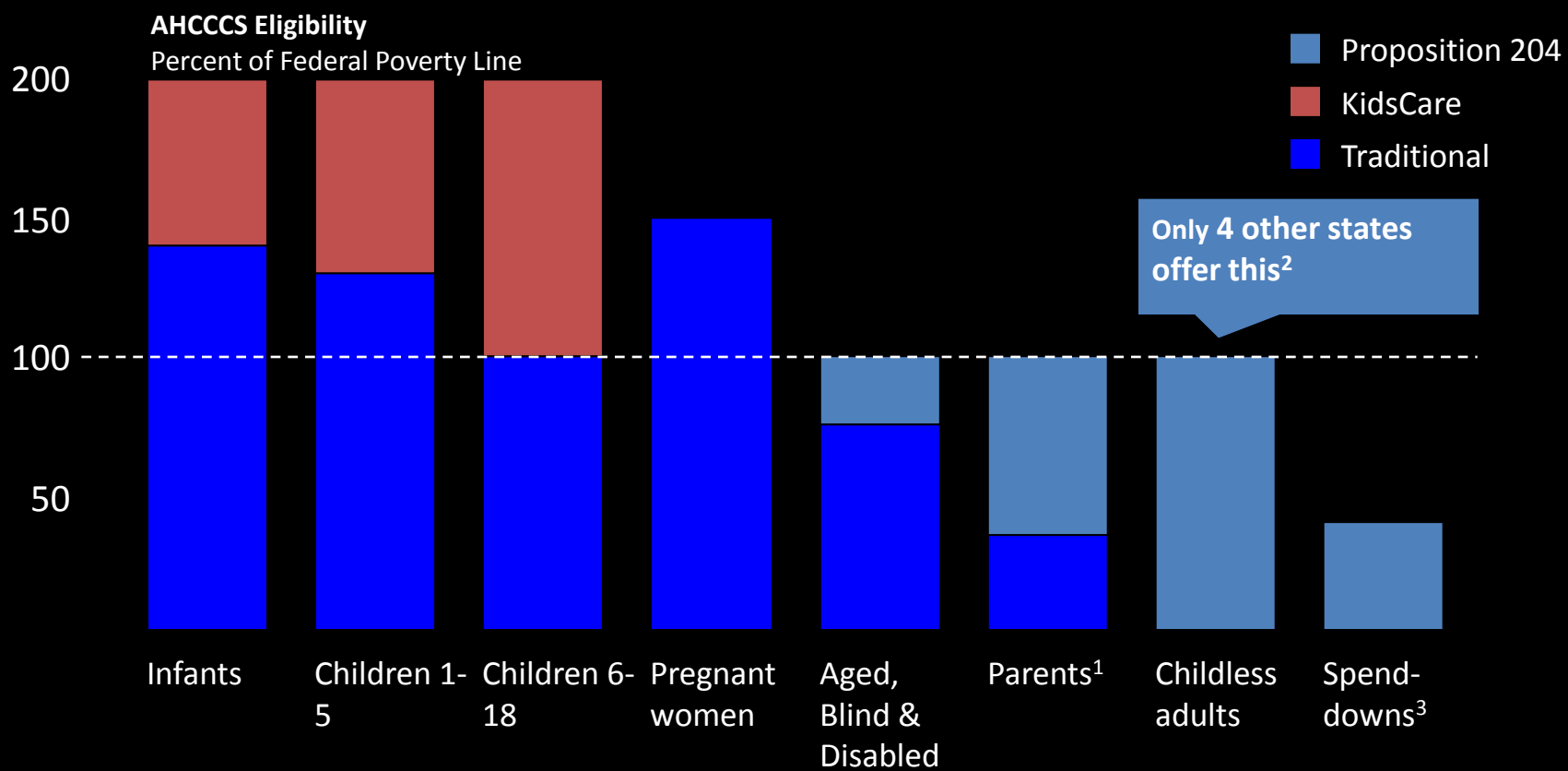
Percent of population in AHCCCS

Note that this number differs from state comparison analysis because this is a monthly average versus a cumulative number of enrollees over the year

¹ Enrollee data calculated by taking the average of monthly enrollees throughout the year

SOURCE: AHCCCS data, US Census data, AZ state budget, team analysis

Program Eligibility: Threshold for AHCCCS Eligibility



Higher federal matching rate (3 to 1)⁴ | Lower federal matching rate (2 to 1)⁴

¹ KidsCare Parents, which covers parents up to 200% FPL, is eliminated beginning October 1, 2009

² Delaware, Hawaii, New York, and Vermont

³ An individual's medical expenses cause income net of medical expenses to be extremely low

⁴ The KidsCare program, receives a 3:1 match, while other AHCCCS programs receive a 2:1 match (the exact federal matches are 76.03% for KidsCare and 65.75% for Title XIX in the current year)