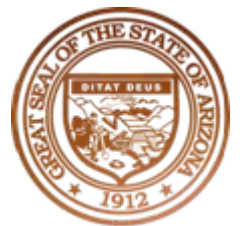


Arizona Economy and Budget

FY 2011 and FY 2012

February 8, 2012



Overview

- Economy
- Structural Deficit
- Reductions



Population

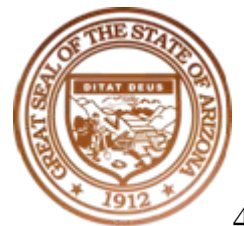
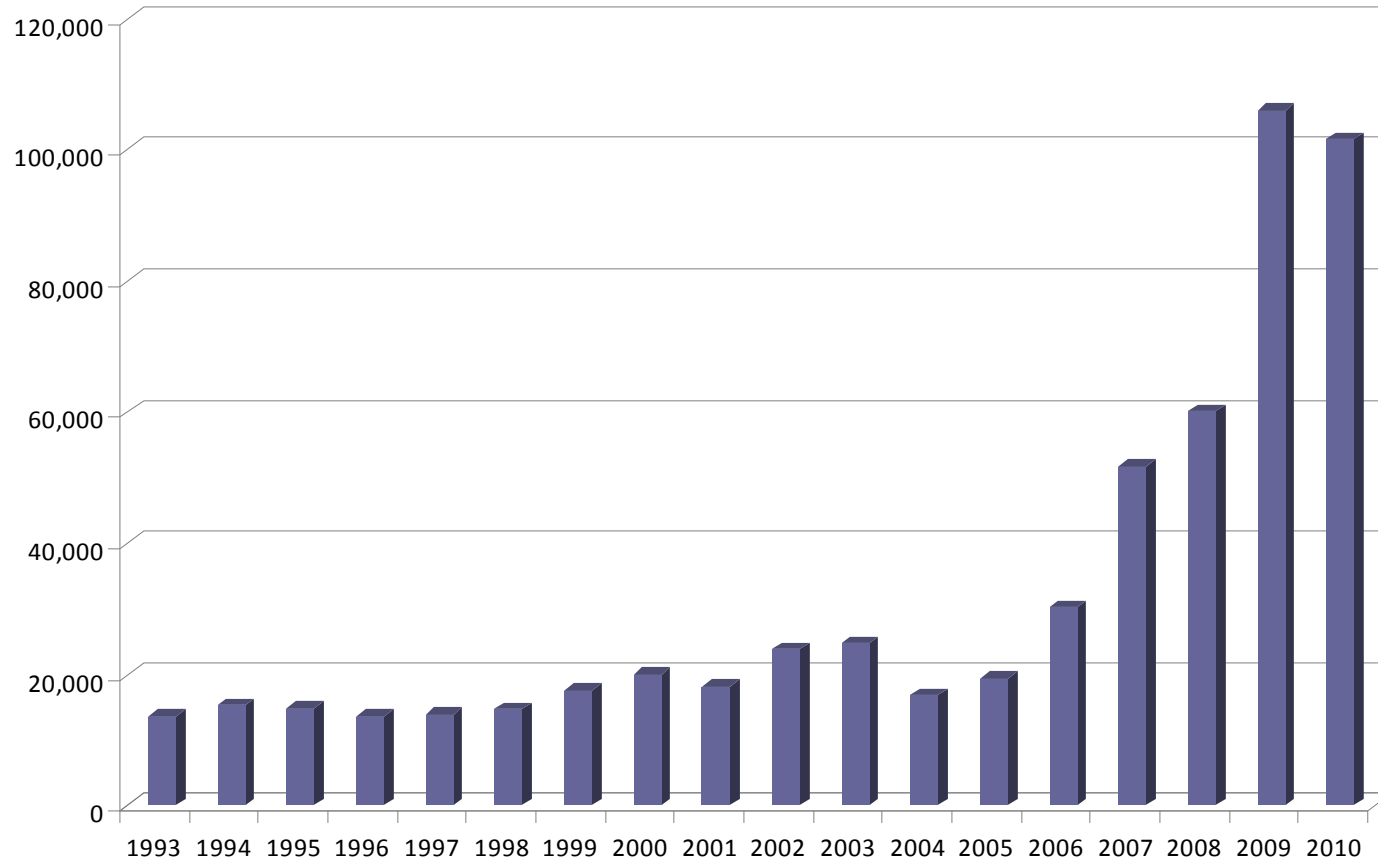
Population Growth

	<u>2007</u>	<u>2009</u>	<u>2010</u>
U.S.	1.0%	0.9%	0.7%
Arizona	3.1%	-0.4%	0.2%
	195,000	-22,712	14,900



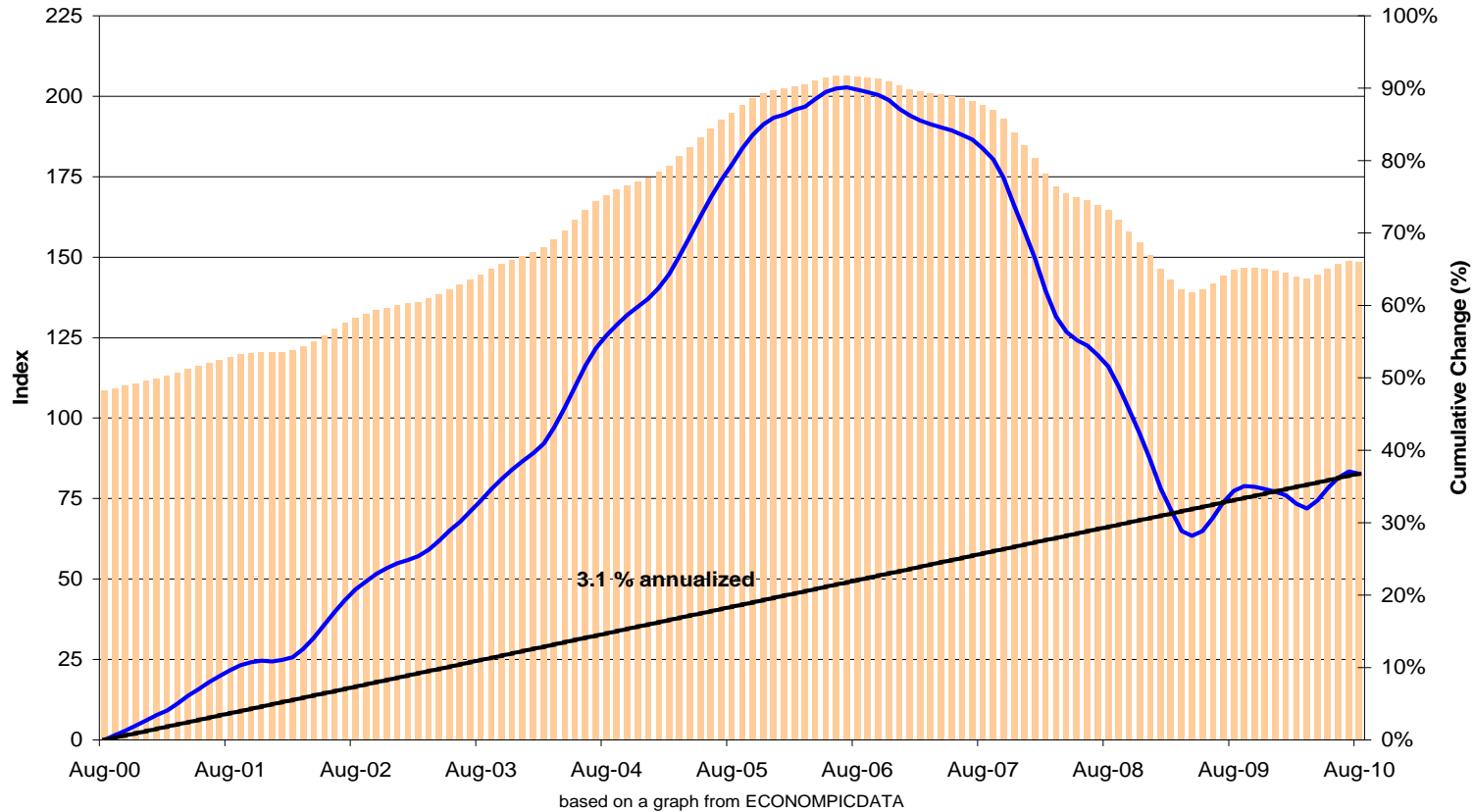
Housing – Vacant Units

60,000 to 75,000 excess units in the system



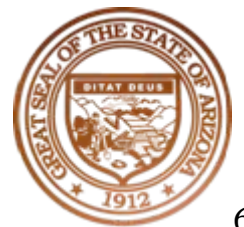
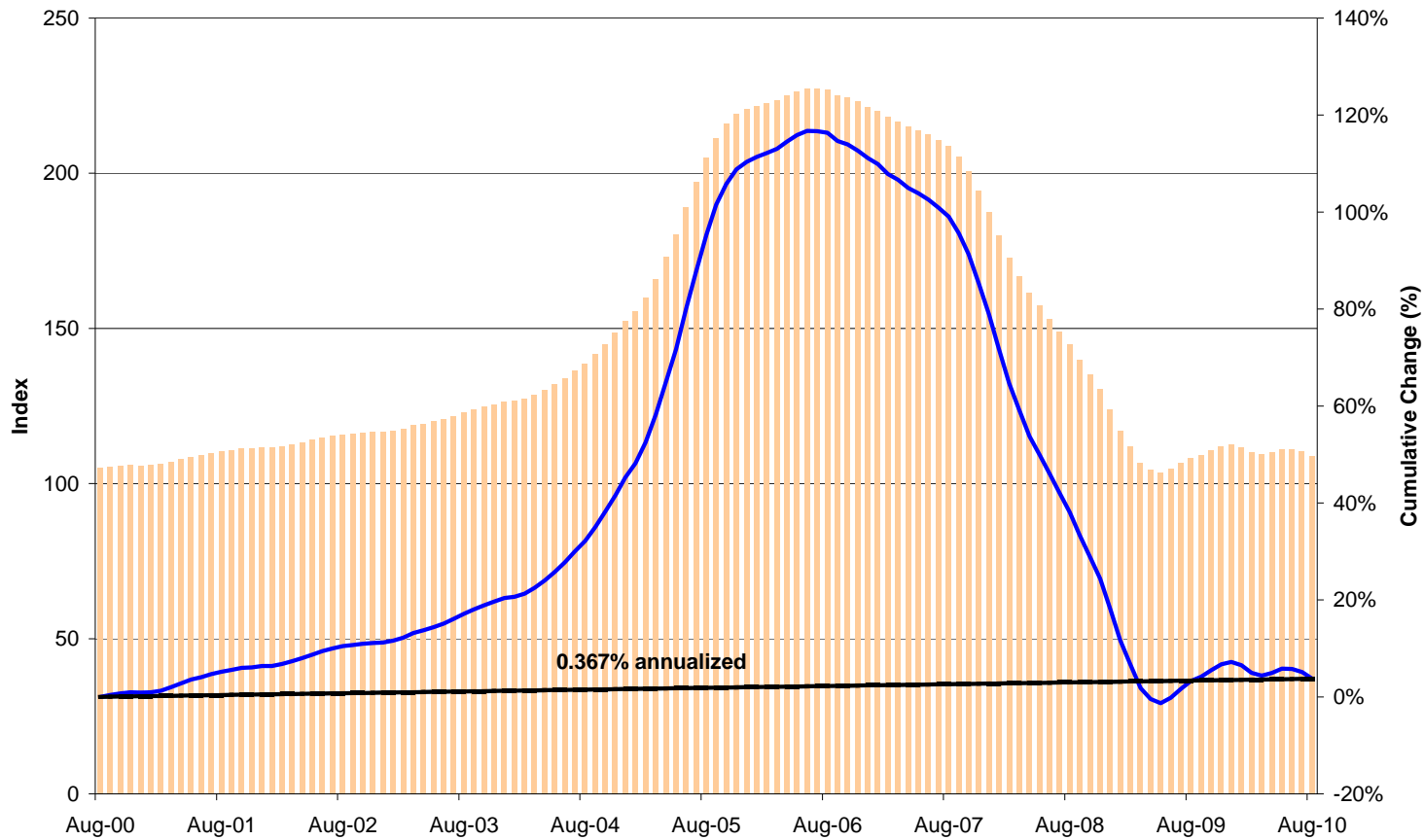
Housing

Case Schiller 20 City Index
Index vs. Change

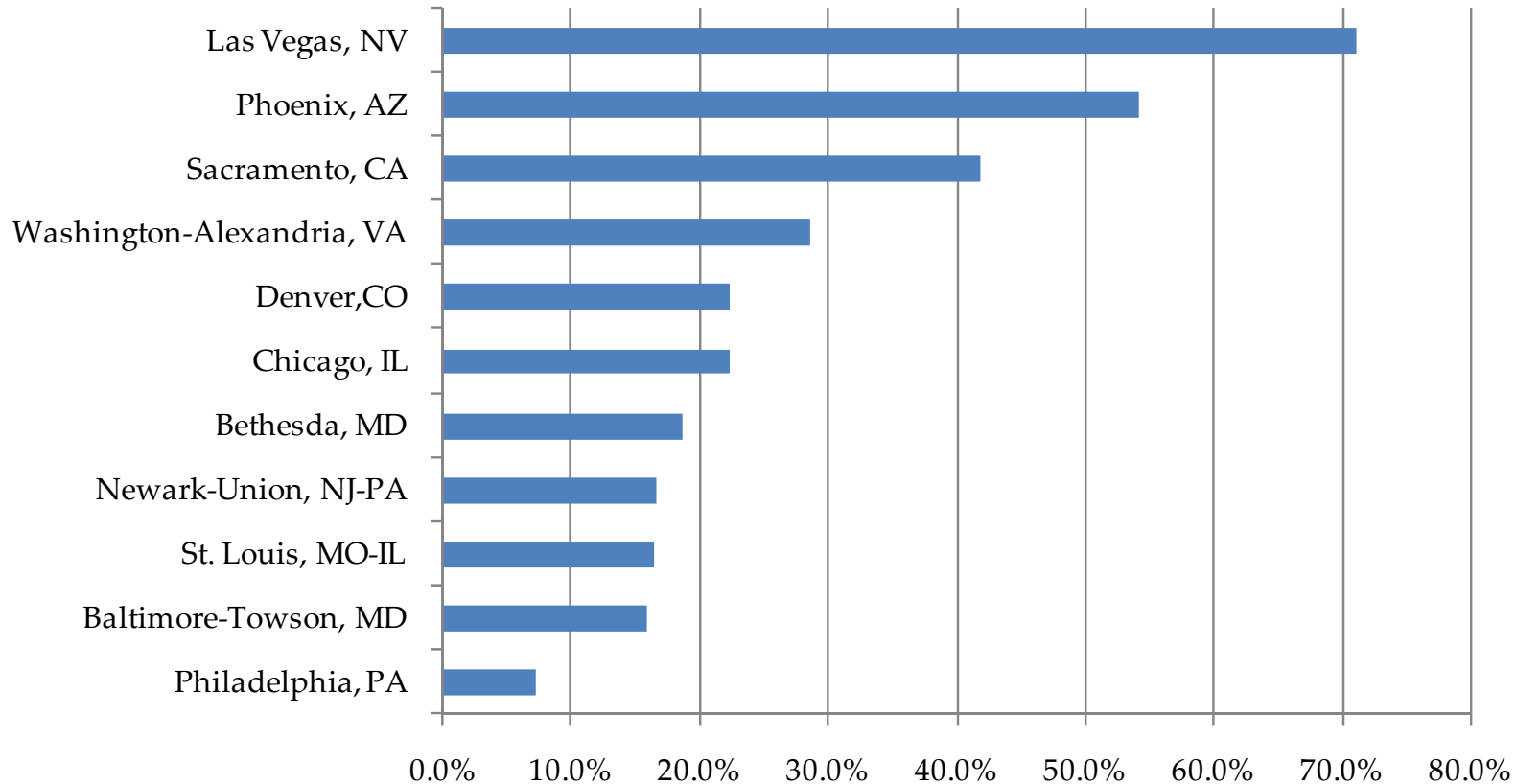


Housing

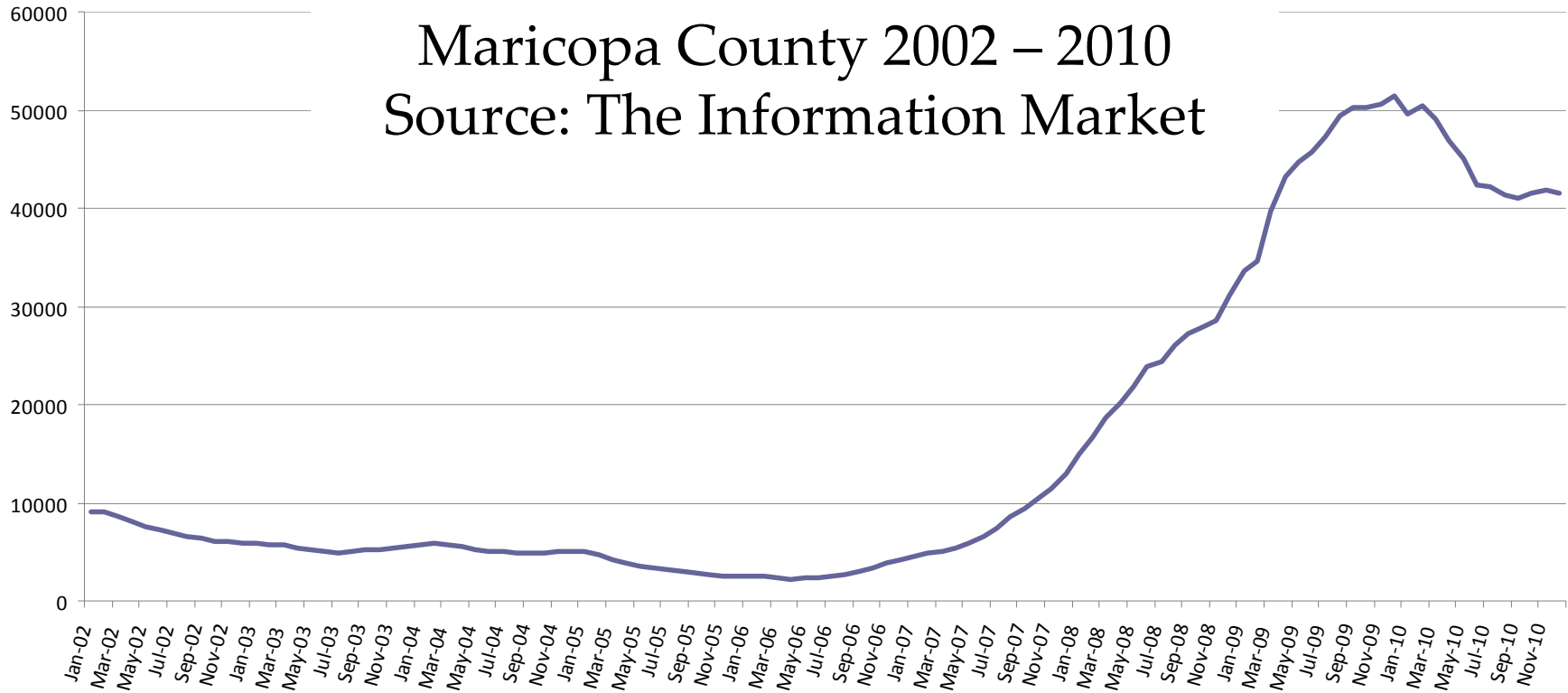
Case Schiller Phoenix Index
Index vs. Change



Housing – Negative Equity



Housing - Foreclosures



Commercial Construction

Commercial Construction Volume
Peak to 2009



Percent Decline

Office

Retail

Industrial

U.S.

-15.4%

-51.4%

-57.5%

Greater Phoenix

-63.3%

-60.3%

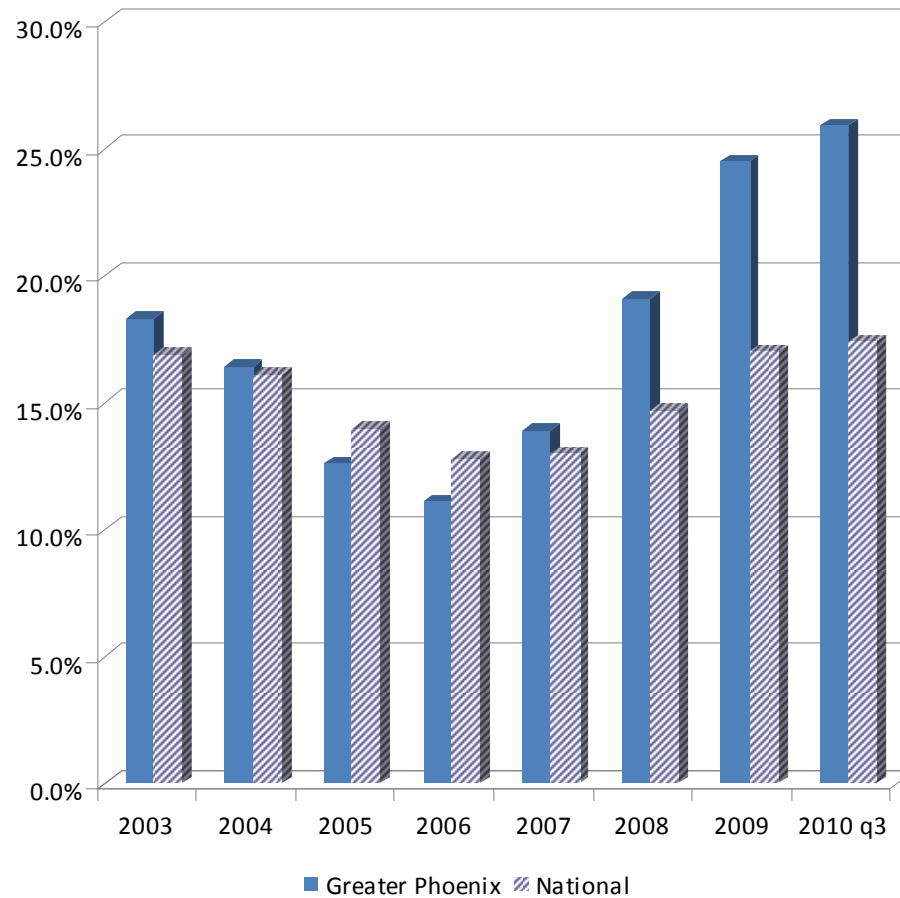
-65.8%



Commercial Space

Office Space Vacancy Rates U.S. versus Greater Phoenix

Source: CB Richard Ellis and Marcus & Millichap



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Commercial Space

Currently no multi-tenant office space under construction (2010 q3)

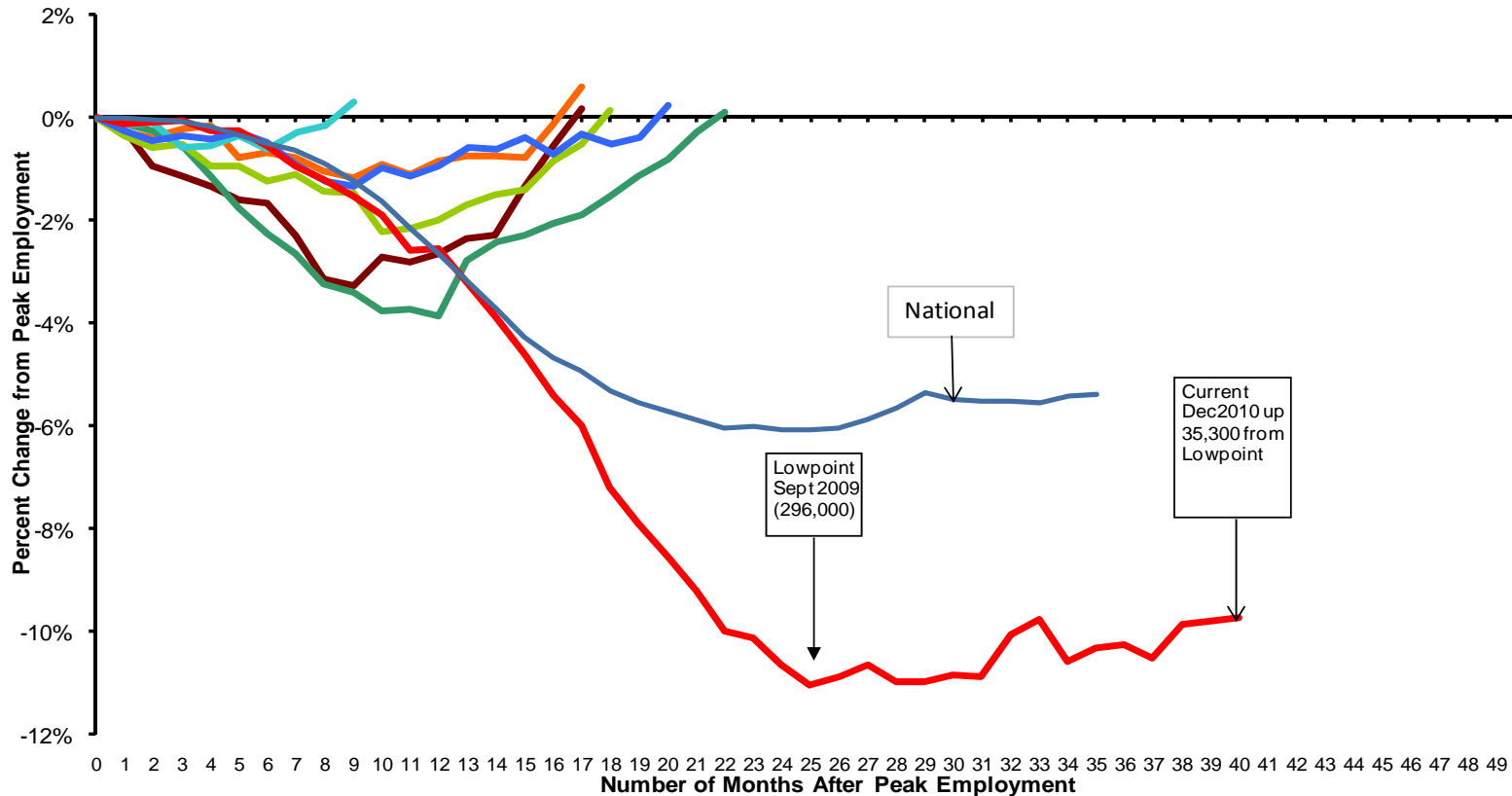
Back To Normal Vacancy?

- Office = 2014-2015
- Industrial = 2013-2015
- Retail = 2014-2015



Employment

Arizona
Job Loss Non-Farm Seasonally Adjusted



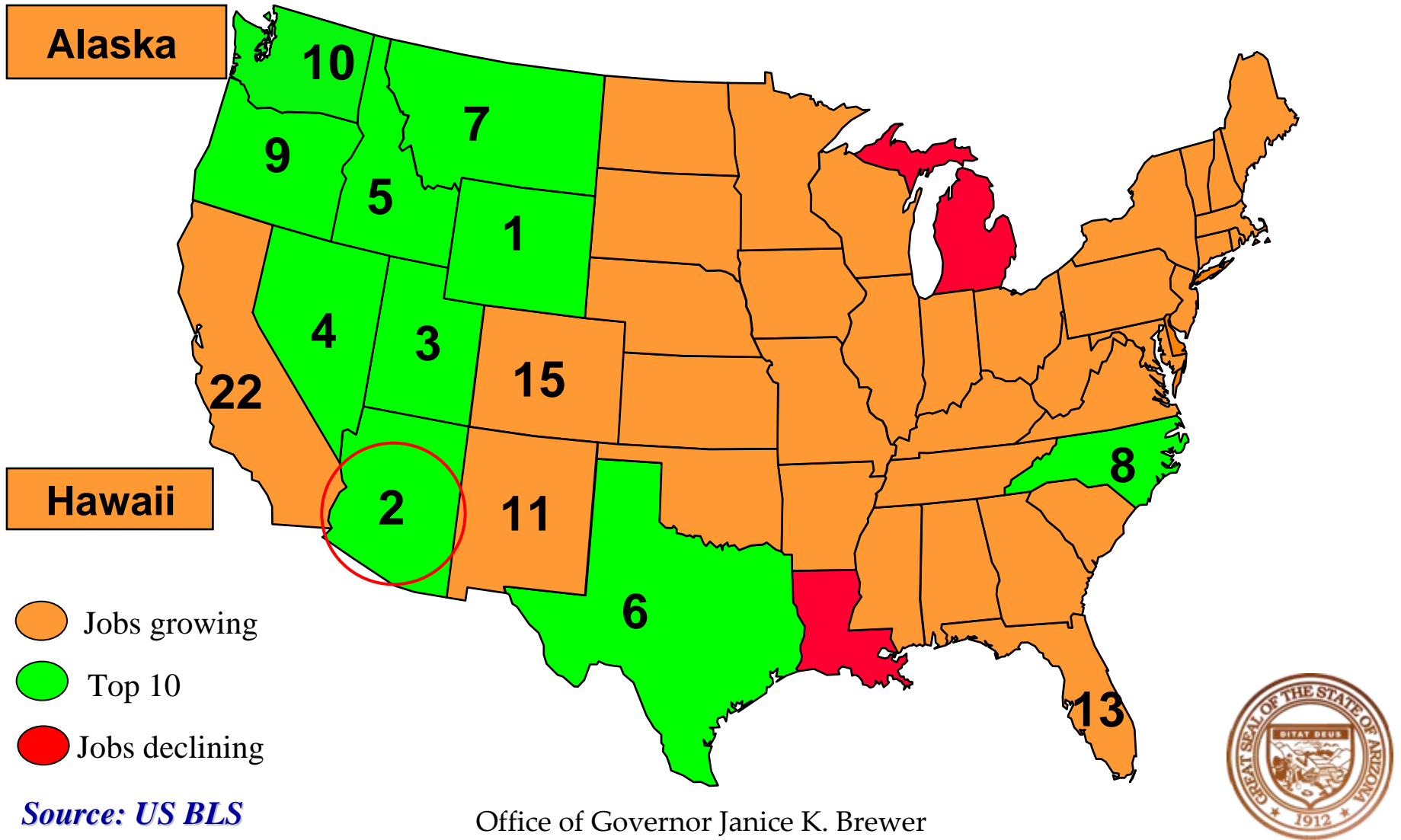
Job Losses by Industry

August 2007 (peak) to current

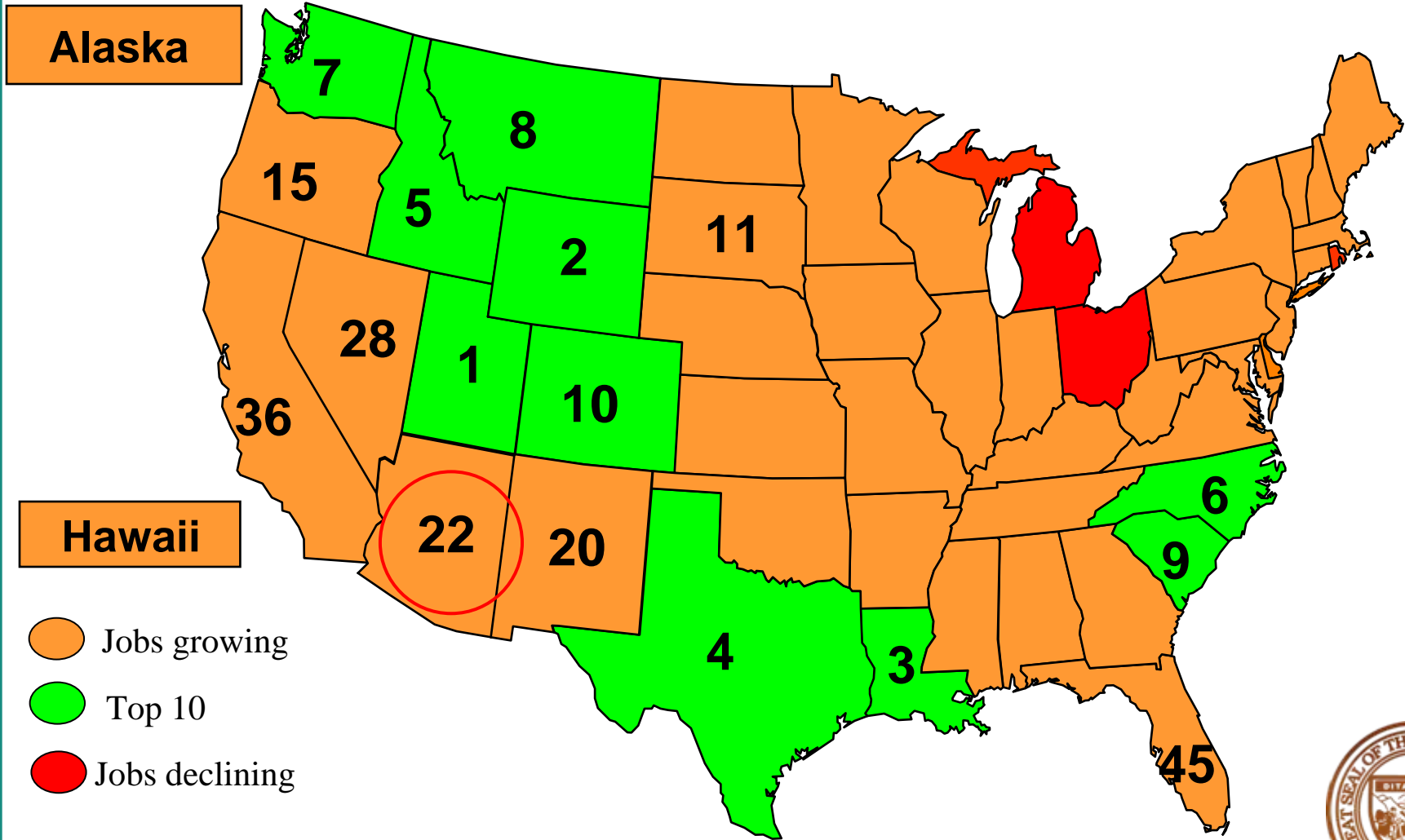
Construction	-49.6%
Manufacturing	-18.9%
Information	-14.3%
Professional and Business	-12.0%
Other Services	-11.6%
Financial Activities	-11.1%
Transportation, Trade & Utilities	-7.4%
Leisure & Hospitality	-5.8%
Government	-4.2%
Natural Resources	-2.8%
Education & Health	13.8%



Job Growth 2006



Job Growth 2007



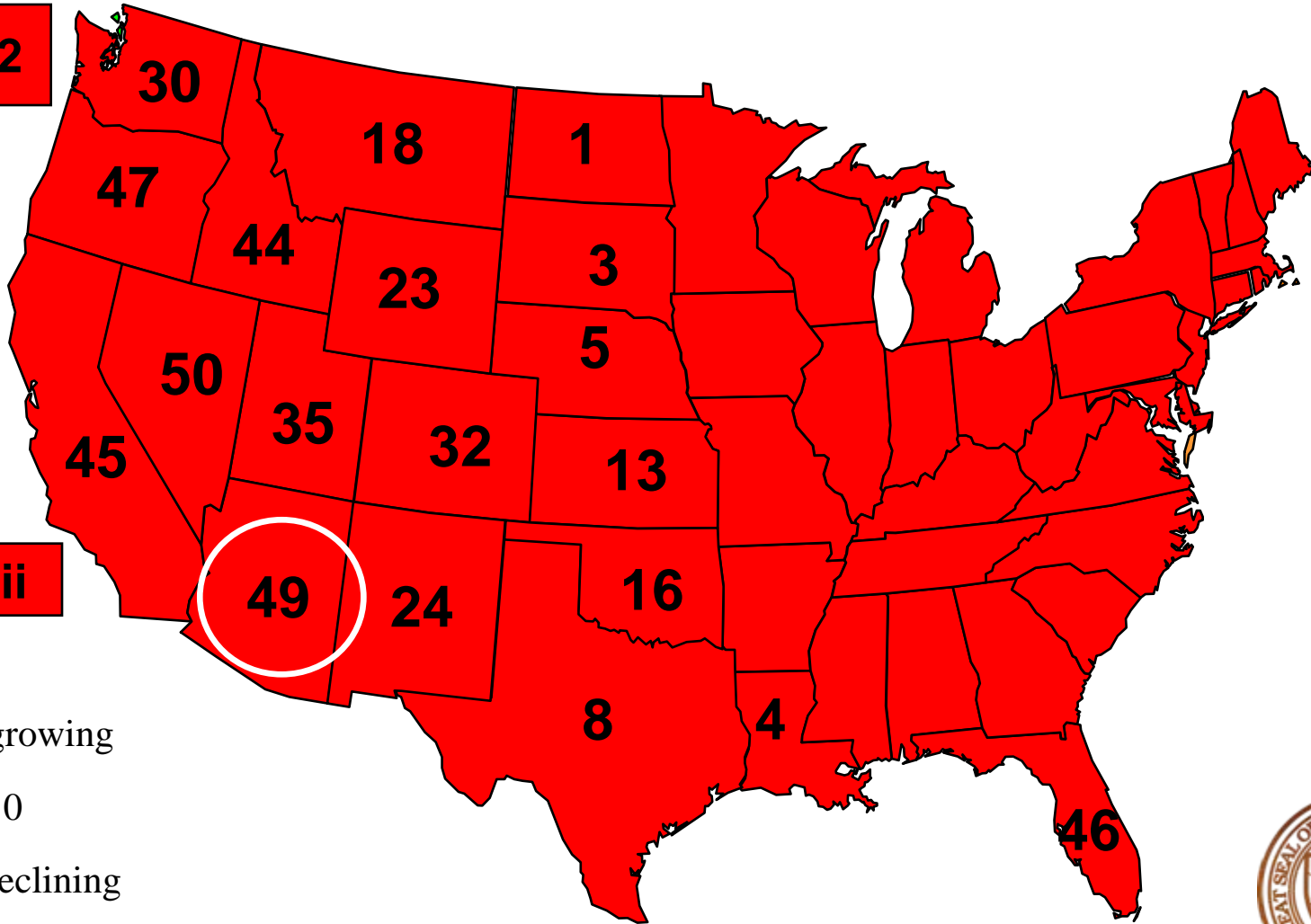
Source: US BLS

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Job Growth 2009

Alaska 2



Hawaii

- Jobs growing
- Top 10
- Jobs declining

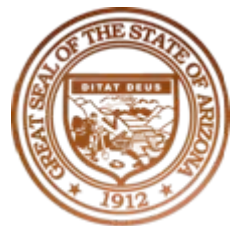
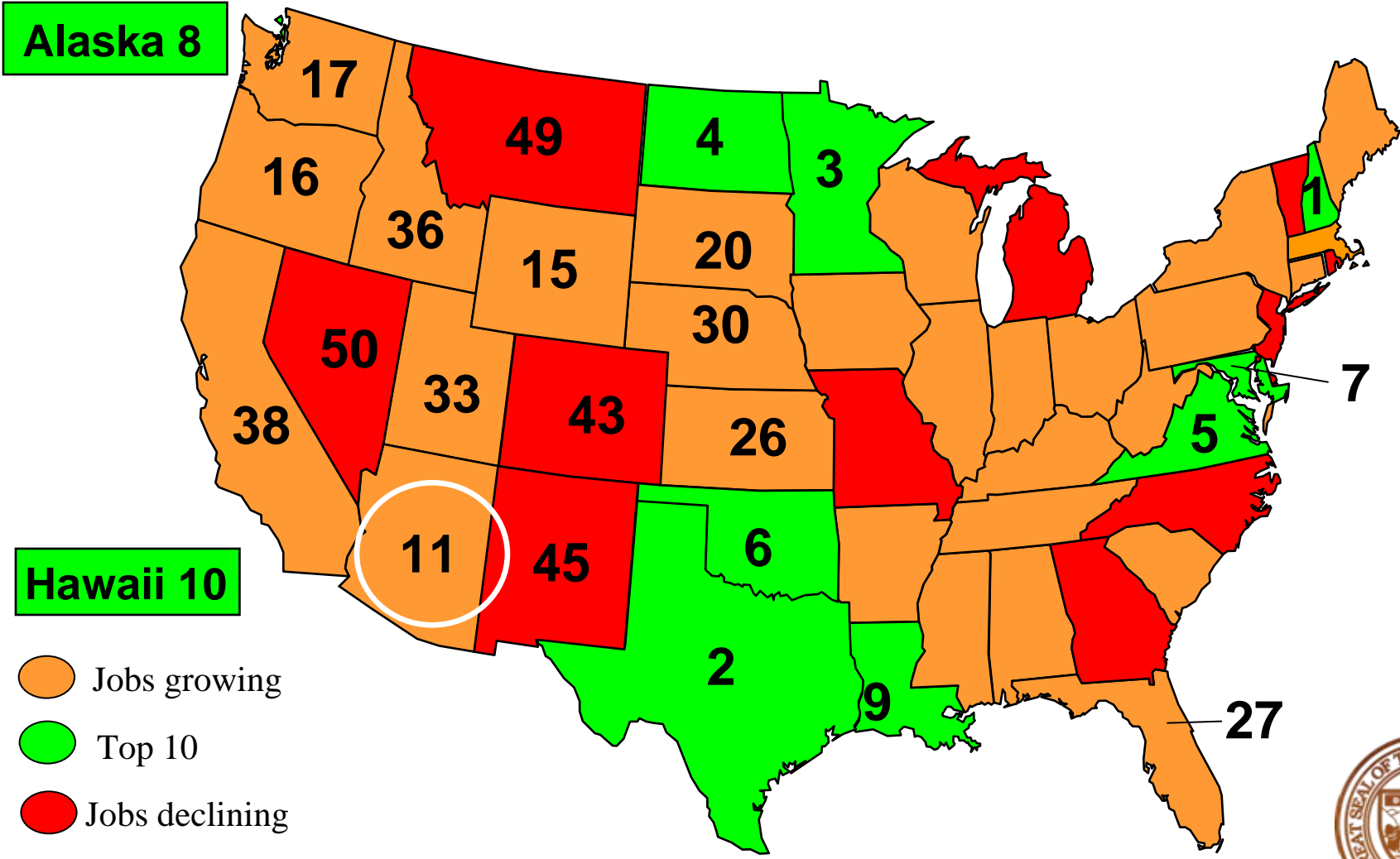
Source: US BLS

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Job Growth Update: Arizona Ranked 11th

November 2010 v November 2009



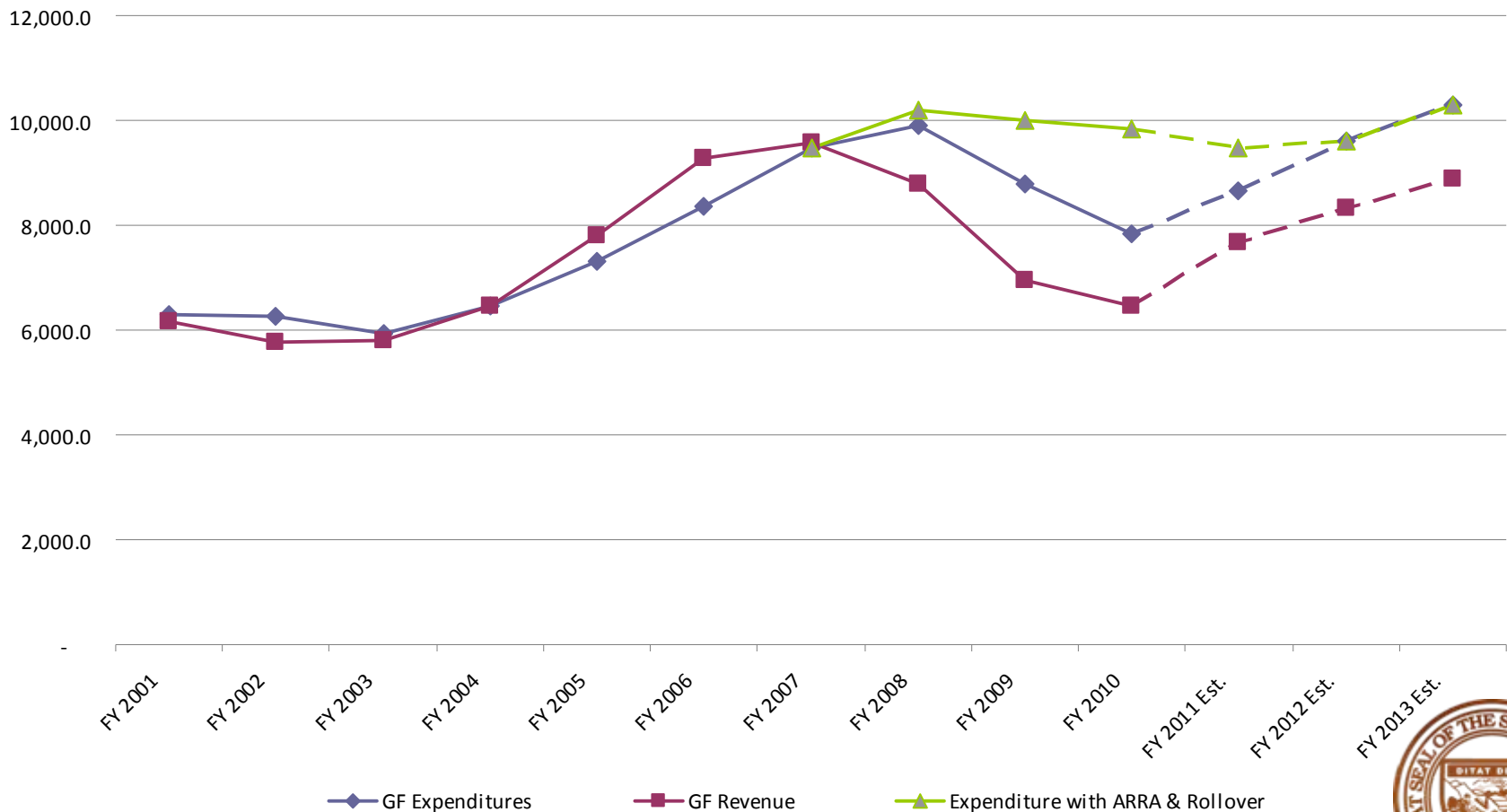
Overview

- Economy
- **Structural Deficit**
- Reductions



State Budget – Structural Deficit

General Fund Ongoing Expenditures and Revenues



Revenue Losses

Between FY 2007 and FY 2010

Individual income: -35.3%

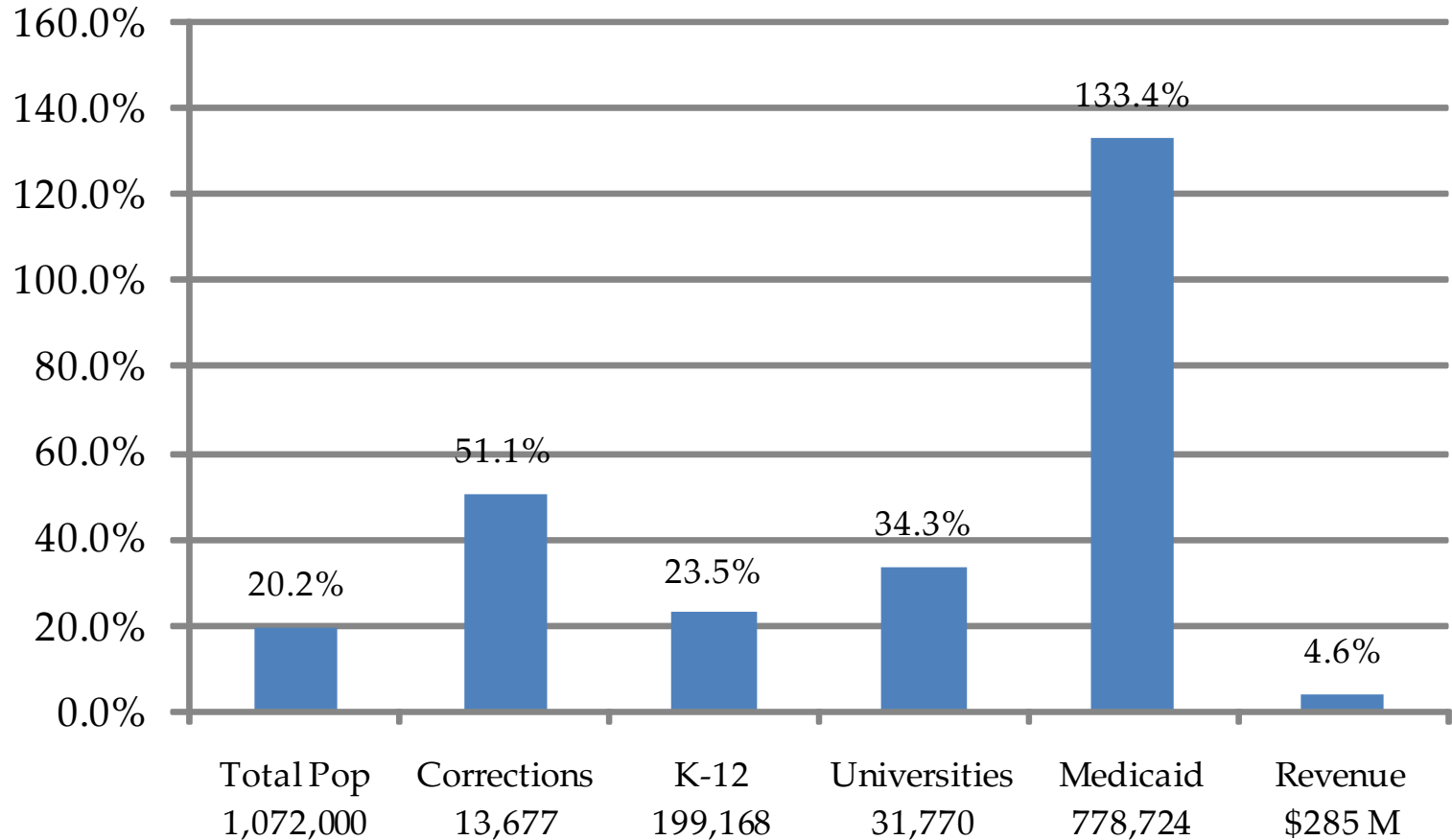
Corporate: -58.1%

Sales: -23.2%

Total Losses: -32.4%



Enrollment Growth FY 2001 to FY 2010



Major Budget Actions To Date

FY 2008 – FY 2011

Permanent Spending Reductions:	\$2.2 B
Federal Assistance:	\$2.7 B
Revenue Increases:	\$1.2 B
Fund Transfers:	\$1.8 B
Payment Deferrals:	\$1.6 B
Rainy Day Fund:	\$0.7 B
Debt:	\$2.2 B



Debt

Arizona's Constitution does not authorize the issuance of general obligation bonds:

- Sale/Leaseback of state buildings: \$1 B
- Lottery bonds: \$450 M
- School Construction Recapture bonds: \$404 M

FY 2012 proposal

Day loan: \$330 M

Annual debt service requirement will grow 61% over the next three years.



Other One-time Initiatives

Payment deferrals:		\$1,585 M
K-12:	\$1,200 M	
Universities:	\$200 M	
Medicaid:	\$185 M	
Federal stimulus:		\$2,700 M
Rainy day fund:		\$710 M
Other fund sweeps:		\$1,800 M



Tax Increases

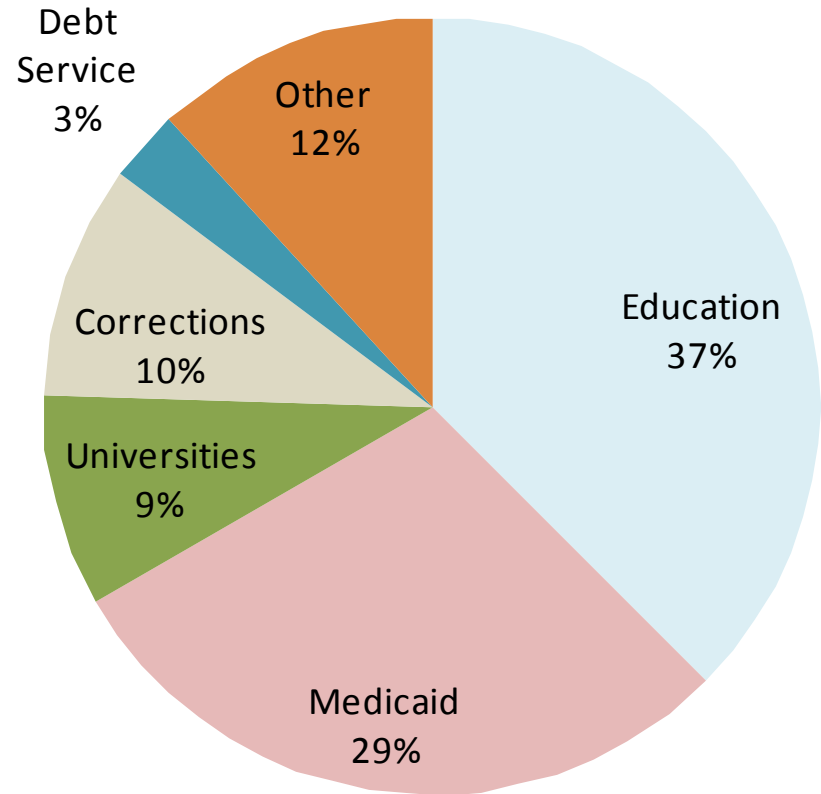
Arizona has raised taxes in excess of \$1 billion



FY 2012 State Ongoing Expenditures

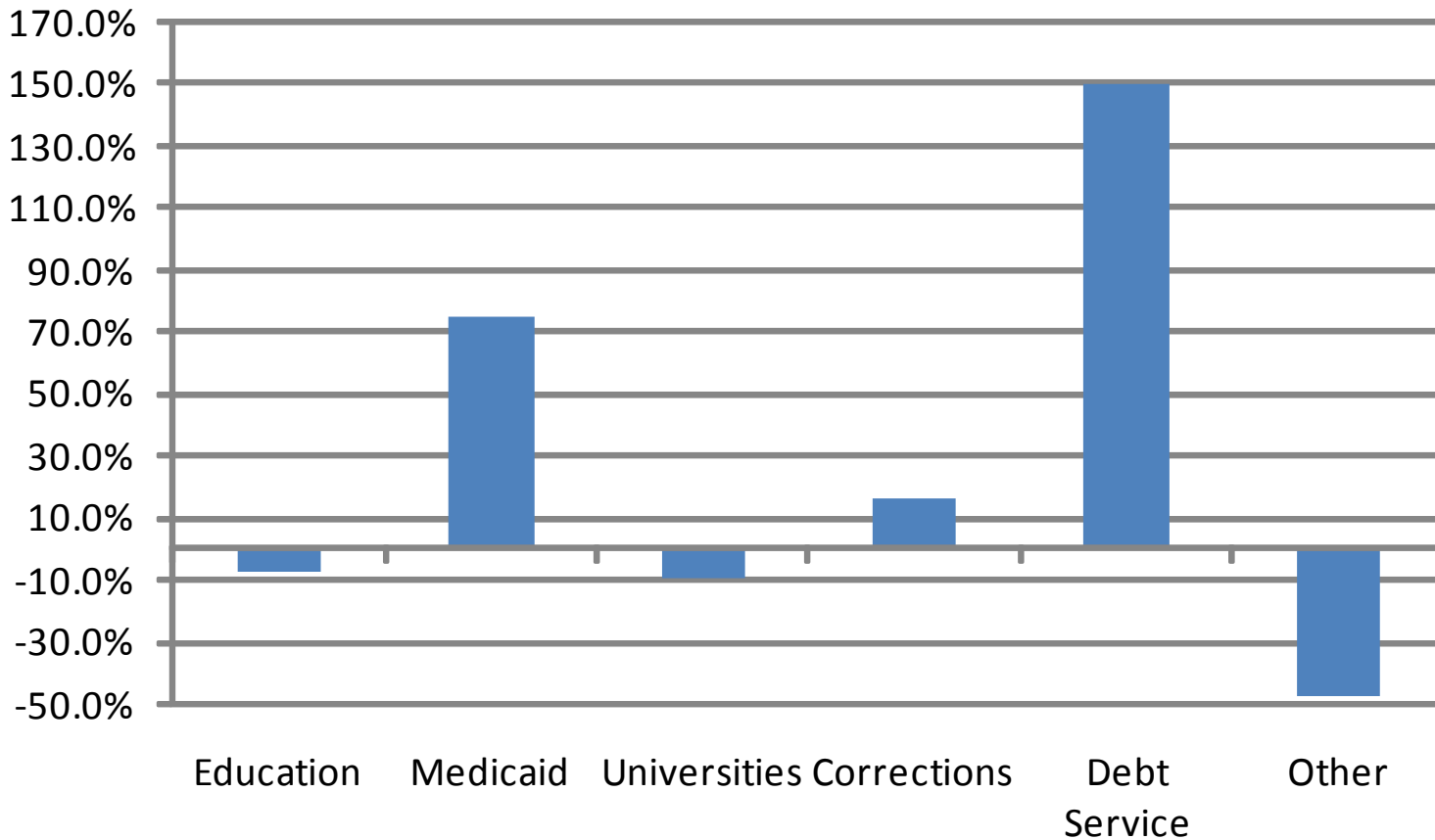
<u>Budget Unit</u>	<u>(Millions)</u>
Education (K-12)	\$ 3,620.3
Medicaid	2,802.9
Universities	855.6
Prisons	948.7
Debt Service	281.7
Other	1,141.0
<hr/>	
TOTAL	9,656.2

Budget Shortfall **\$1,147.1**



Expenditure Changes FY 2007-FY 2012*

Total GF expenditures grew .6%



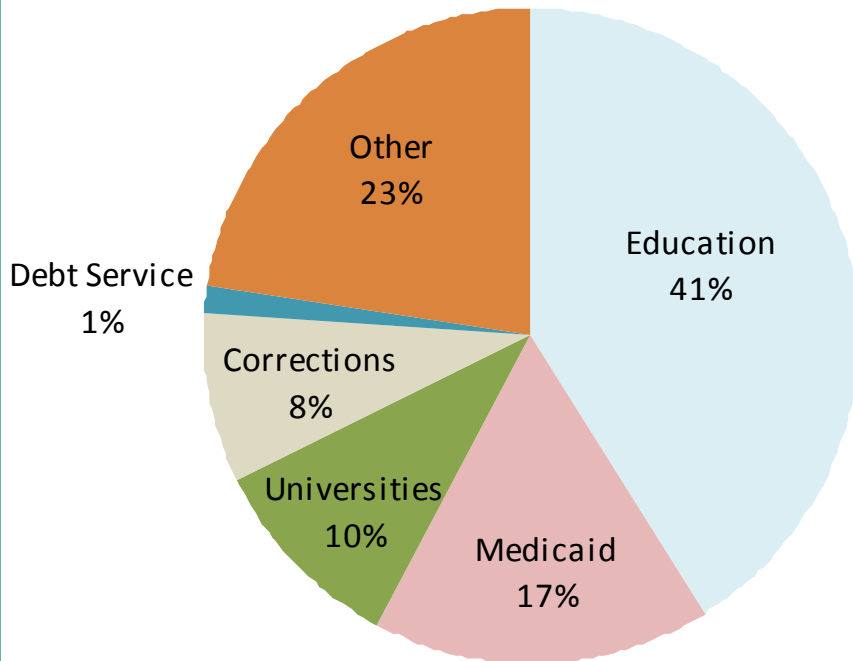
*For FY 2012, projected baseline budget

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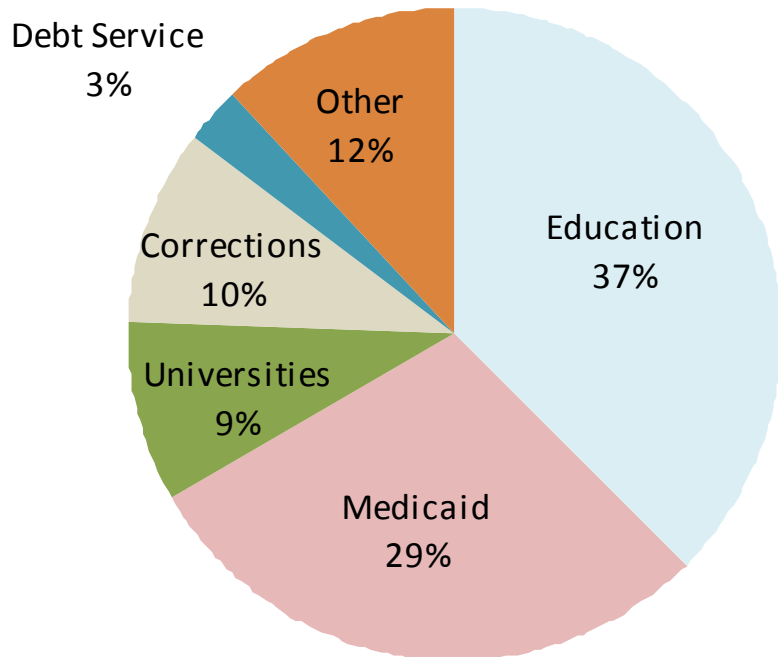


FY 2007 vs. FY 2012*

FY 2007



FY 2012



*For FY 2012, projected baseline budget



Overview

- Economy
- Structural Deficit
- **Reductions**



FY 2012 Reduction Plan

Budget Reductions

Medicaid Reform	\$541.5
Universities	\$170.0
DES	\$91.0
Medicaid Provider Rate Reduction	\$89.0
K-12	\$83.7
Community Colleges	\$72.9
Convention Center Payment	\$15.0
Juvenile Corrections	\$7.2
Other	\$7.2
Total	\$1,077.5



K-12 Education

- Arizona per pupil support is ranked 49th in the country
- Arizona ranks 10th in K-12 enrollment per capita
- Since FY 2008:
 - Reduced per pupil expenditures by 18 percent
 - Eliminated state support for full-day kindergarten
 - Reduced equipment funds by 77%
 - Eliminated building renewal support

FY 2012 proposal - \$83.7 M cut

- Phase out teacher career ladder pay
- Reduce capital expenditures



University Funding

Since FY 2008:

Reduced per student support by 25 percent

Average tuition increase: 53%

FY 2012 proposal - \$170 million cut

- 5 percent pay reduction
- Reduce per student support an additional 22 percent



Community College Funding

Since FY 2008:

Reduced General Fund support 19.3%

FY 2012 proposal - \$72.9 M Cut

Reduce General Fund support by an additional
52%



Health and Welfare

Since FY 2008:

- Reduced child care enrollees by 37 percent (18,000 children)
- Reduced the number of families on cash assistance by 48 percent (19,000 families)
- Reduced state benefits for the SMI population
- Provided no inflation for health care providers for the last three years – no capitation growth for the last two



Health and Welfare (*cont.*)

- Implementing a 5 percent reduction in provider rates on April 1, 2011, combined with other reductions provider rates in general down 10 percent
- Eliminated most non federally mandated Medicaid services
- Reduced number of children in KidsCare by 22,900

FY 2012 proposal - \$91 M cut

Reducing support for Arizona's human services agency (Department of Economic Security) an additional 12 percent



Public Safety

Since FY 2008:

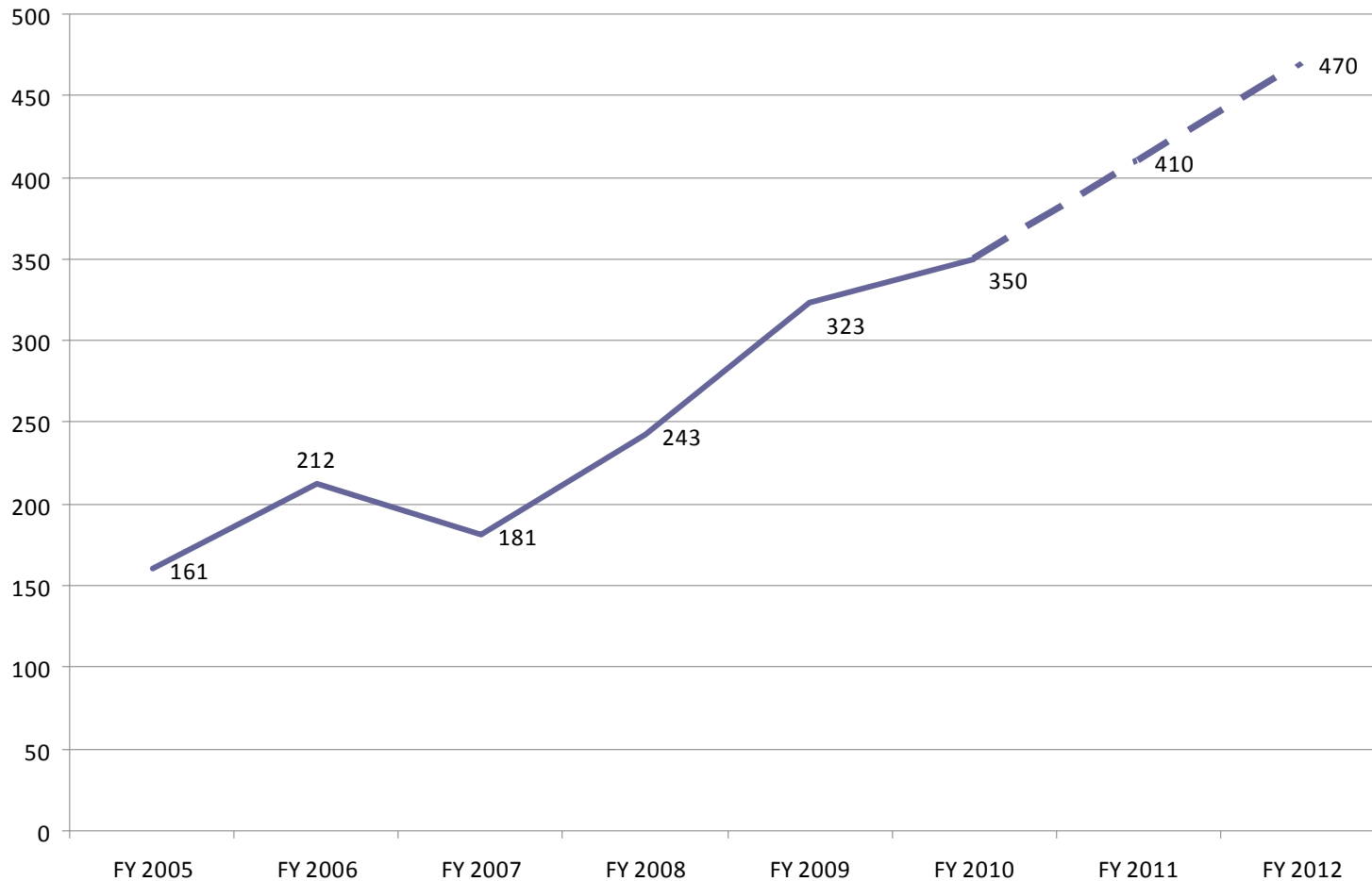
- Shifted support for Highway Patrol from General Fund to transportation funds
- Eliminated more than 236 administrative positions
- Current Corrections bed deficit over 3,000 inmates (about 8 percent) – peaked at 5,486 inmates
- Due to bed deficit, limited savings in correctional reform

FY 2012 Proposal

\$8 million increase to address Correctional Officer safety concerns



Prisoner Assaults on COs



Personnel

Last pay increase was July 1, 2007 (3%)

Since that time

Employee pay cut of 2.75%

Mandatory furlough days equivalent to 2.25%

Increase in retirement contribution 5.49%

Average health premium increase 54.2%

Headcount reduction through RIF and freeze 12.9%

Total GF personal services costs are down 18.9%



General Government

Eliminated or reduced General Fund support for:

- Tourism
- Parks
- Environmental Quality
- Arts
- Water Resources
- Mines and Minerals



Other Issues

Unemployment Trust Fund

CY 2010 balance: **-\$241.5 M**

Suspended Statutory Formulas: \$587 M

