



Published: 01.09.2008

Legislators weigh dire revenue forecasts

By Howard Fischer

CAPITOL MEDIA SERVICES

PHOENIX — State tax collections are going to grow at an even slower pace next budget year than the anemic rate they have this year, according to new revenue estimates.

The dire warning Tuesday came from Richard Stavneak, staff director of the Joint Legislative Budget Committee. He told lawmakers that unless they make immediate and permanent reductions in state spending, this year's deficit, estimated at \$970 million, will hit \$1.7 billion next year.

And Stavneak said the consensus among economists is even when the economy starts to pick up two years from now, Arizona's budget will still be in the red without those spending cuts.

But those projections were dismissed by Dennis Hoffman, an Arizona State University economics professor, as not just overly pessimistic but unrealistic.

Hoffman's views are critical to the budget-balancing efforts, which began Tuesday, because he contracts to provide forecasts and economic analysis to Gov. Janet Napolitano. And the governor and her legislative Democratic allies are relying on his numbers to back their contention Arizona needs just temporary solutions to the budget mess.

At those Tuesday hearings members of the House and Senate Appropriations committees began working from a plan prepared by the chairs of both panels. It recommends \$600 million in immediate spending cuts.

It will come down to whose numbers and predictions lawmakers believe.

Both Hoffman and the economists on whom Stavneak rely start from the same belief state tax collections this fiscal year are only slightly higher than last year. That's a problem because Arizona's \$10.6 billion budget was built on the premise of 6 percent revenue growth.

But Stavneak said the consensus of economists is revenues next fiscal year will rise just 1 percent, even as mandated expenses increase far more. Stavneak warned lawmakers Tuesday the deficit next year will hit \$1.7 billion unless they make permanent spending cuts now.

Hoffman acknowledged revenues for the balance of this budget year are "about as bad as I've ever seen." But said only a "deep national recession" would produce the pessimistic numbers for future years.

Stavneak said his projections are based on multiple problems, including shaken consumer confidence caused by the decline in home prices.

"So even if you're in your own house and have no plans to move, even if . . . your job is stable, there clearly has been some effect in terms of the average consumer in terms of what they're willing to spend," he said. And when people spend less, sales tax revenues, which are more than 40 percent of the state budget, decline.

House Minority Leader Phil Lopes acknowledged the meltdown of the subprime mortgage market and decline in home values as the market is saturated with houses that aren't selling. But he said that is transitory.

"People keep coming to this state," the Tucson Democrat told the Arizona Chamber of Commerce and Industry.

"Soon they will soak up the housing that we now see as a glut," he said. "Revenue will rebound, as it always has."

Napolitano's budget-balancing plan for this year — the one Lopes backs — includes what she bills as \$214 million in "savings." But more than half of that is a one-time fix, taking money from special dedicated funds. Some of the other cuts simply defer spending into future years.

She'll release her plans for the new budget year next week.

All content copyright © 1999-2008 AzStarNet, Arizona Daily Star and its wire services and suppliers and may not be republished without permission. All rights reserved. Any copying, redistribution, or retransmission of any of the contents of this service without the expressed written consent of Arizona Daily Star or AzStarNet is prohibited.