

Sustainability Work Group

December 8, 2009

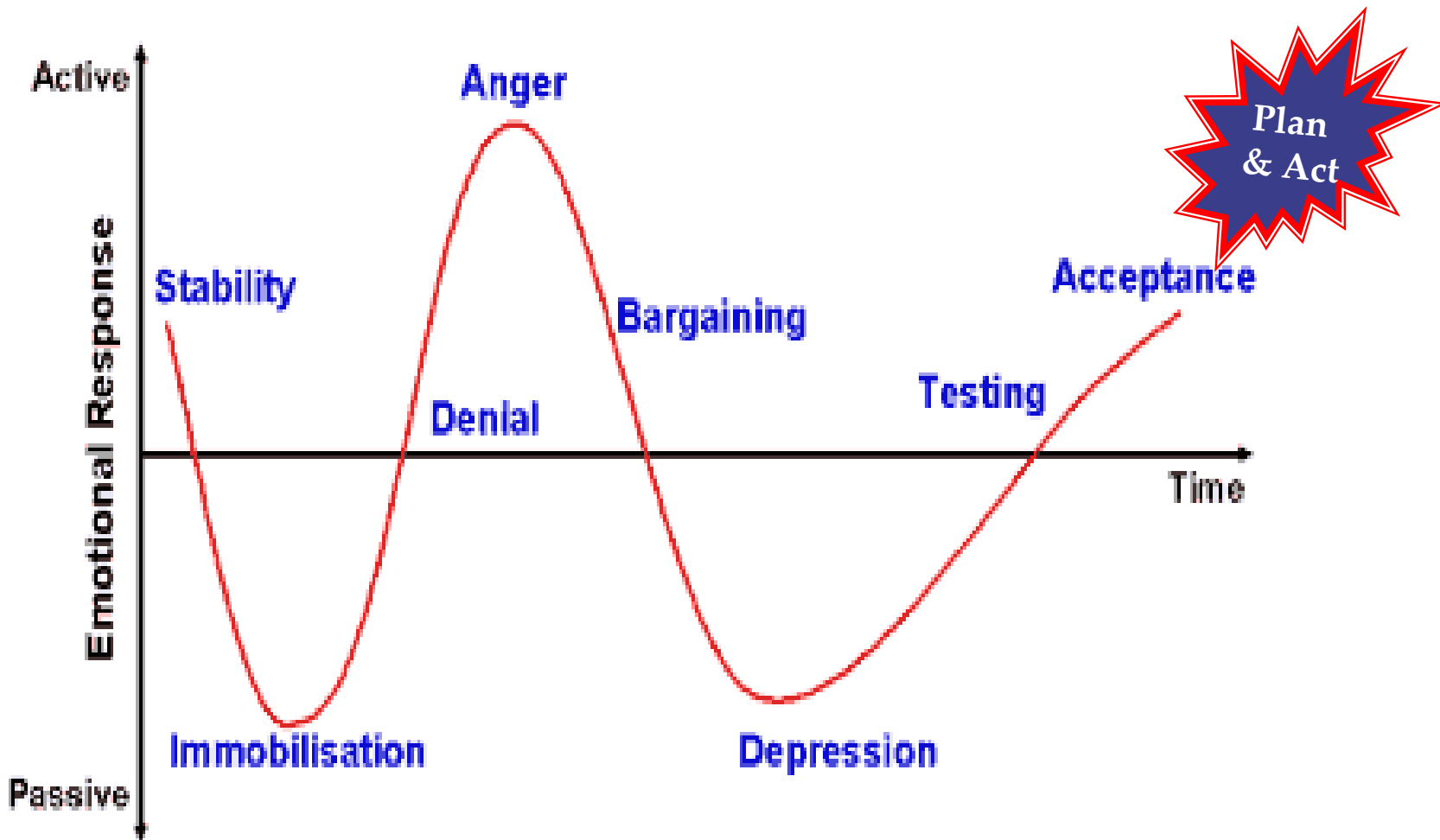
Nancy Thaler
Executive Director
NASDDDS

John Ashbaugh
Vice President, Director U.S. Operations
Danic Technology, Inc.,

Preparing for The Future

The Economic Crisis of 2008 and The Long-Term Economic Situation

The Kübler-Ross grief cycle



Understanding the Economic Crisis of 2008



Where States Get Money for Services

- Individual income tax \$



- Sales tax \$



- Business/corporate taxes \$

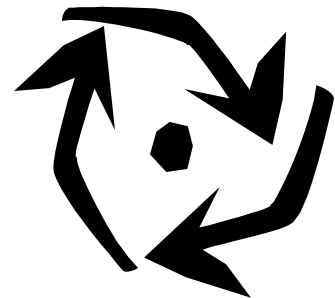


It Started with the Housing Bubble



Falling Dominoes and A Vicious Cycle

- People stopped mortgage payments to the bank
- Banks tightened credit to people and business
- People stopped buying – **sales tax drop**
- Companies stopped investing and producing - **corporate taxes drop**
- Unemployment rose – **income taxes drop**
- People stopped buying – **sales tax drop**



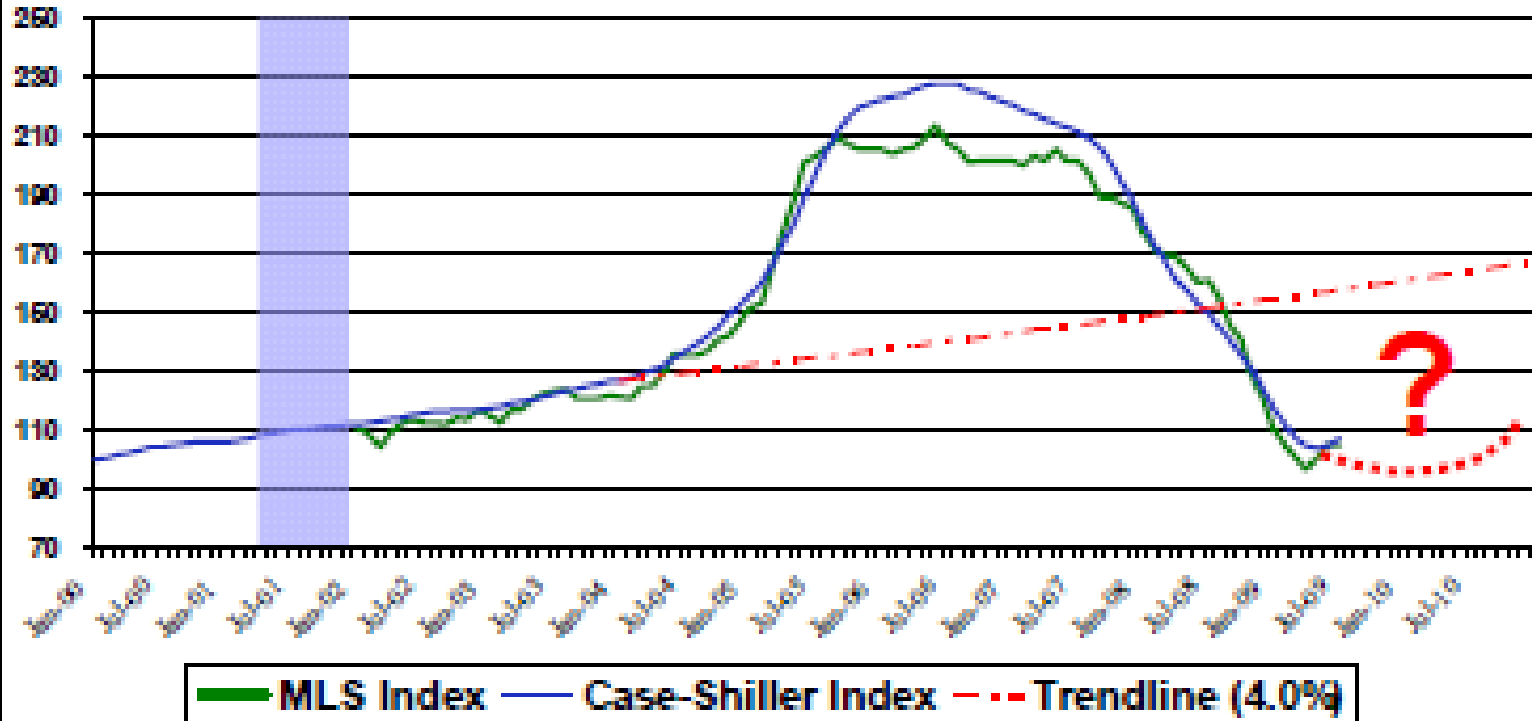
Home Prices Indices

2000 – 2009

Source: Macro Markets, LLC; AMLS



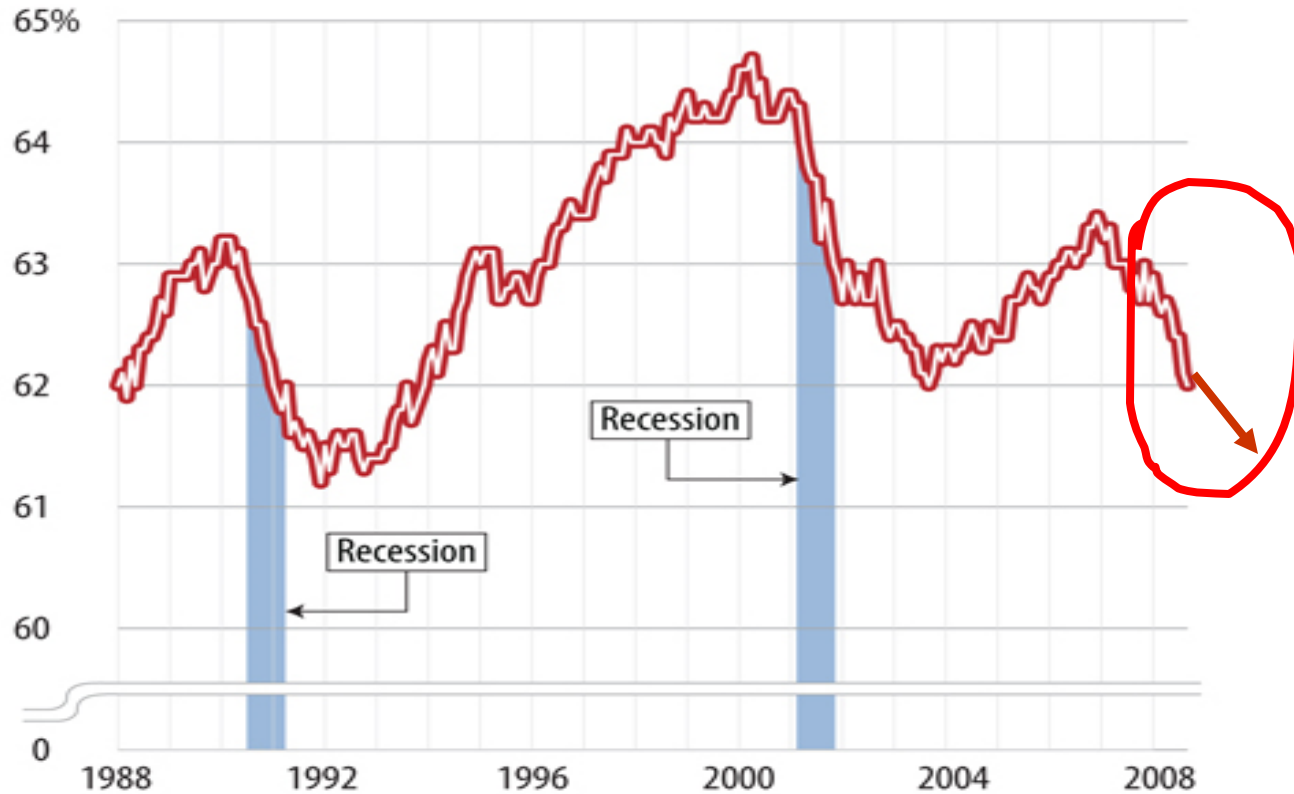
Recession Periods



Elliot D. Pollack & Company

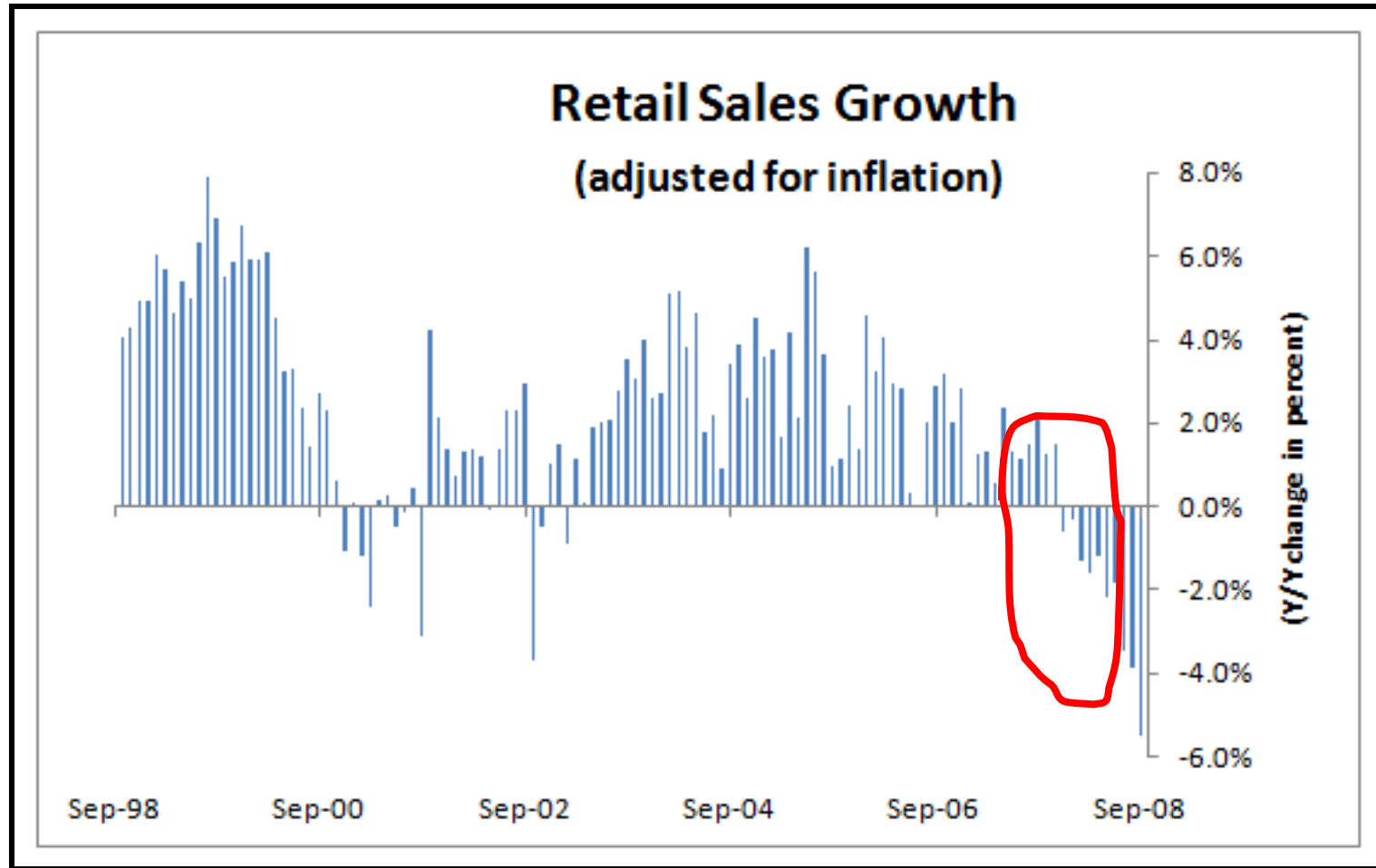
Employment Rates are Falling

Percentage of Employed Americans Has Not Been Lower Since 1993



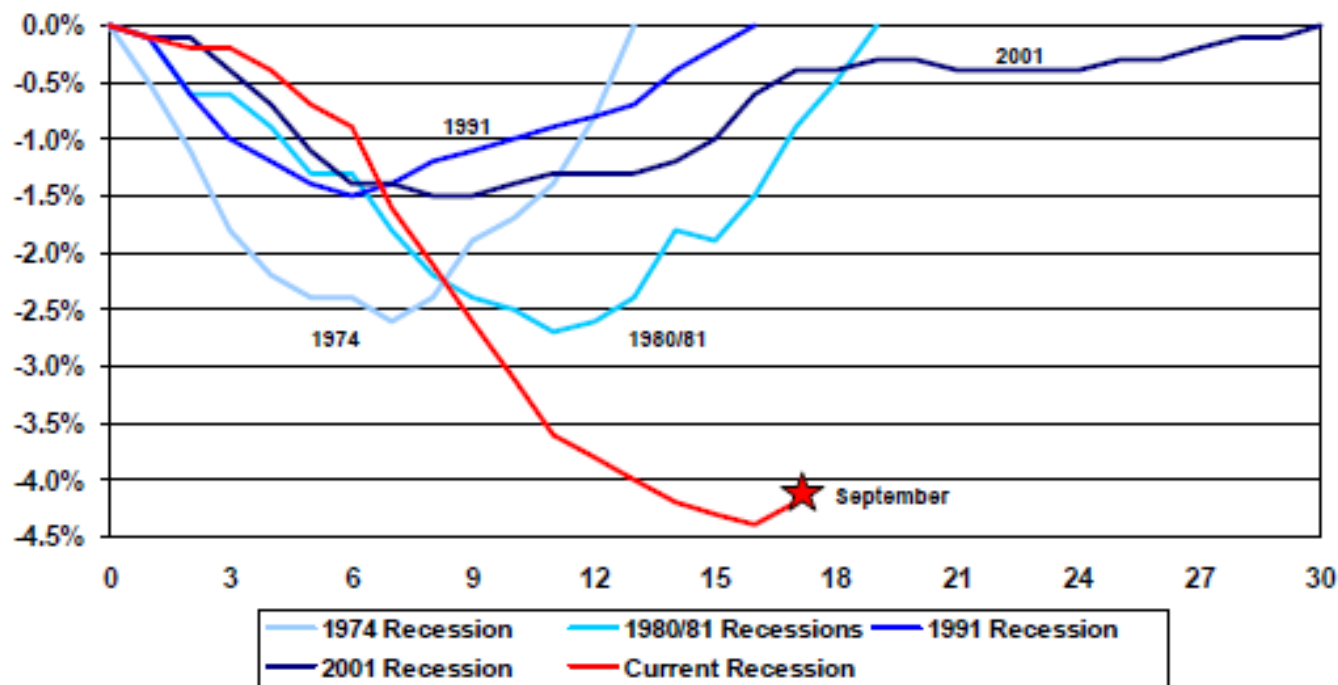
Source: *Employment-Population Ratio*, Bureau of Labor Statistics

Retail Sales Falling



U.S. Y/Y Job Losses - Recent Recessions

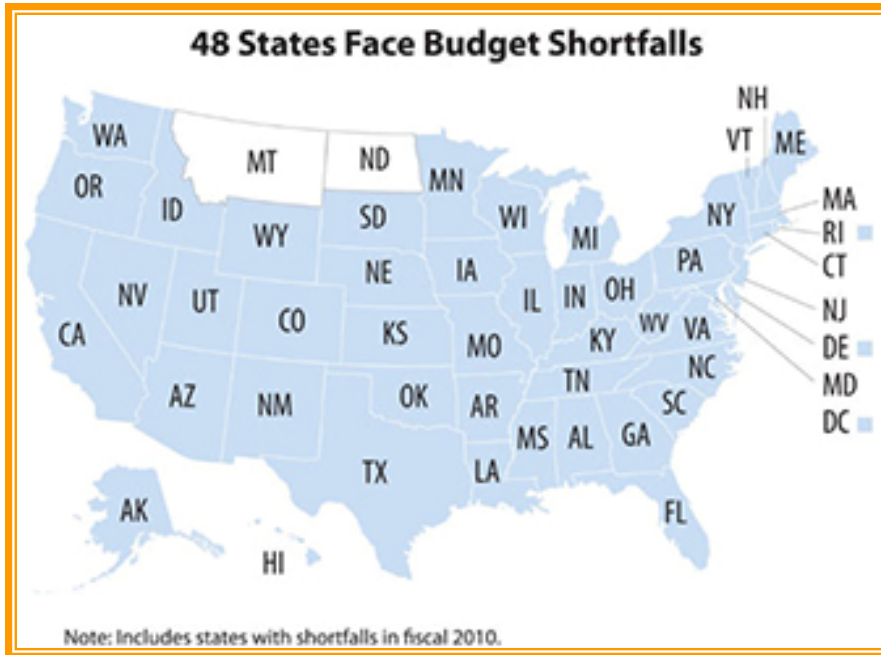
Duration in Months - BLS



Elliott D. Pollack & Company

Impact on States

Impact on States



Fiscal year 2010

48 states have addressed or face budget shortfalls

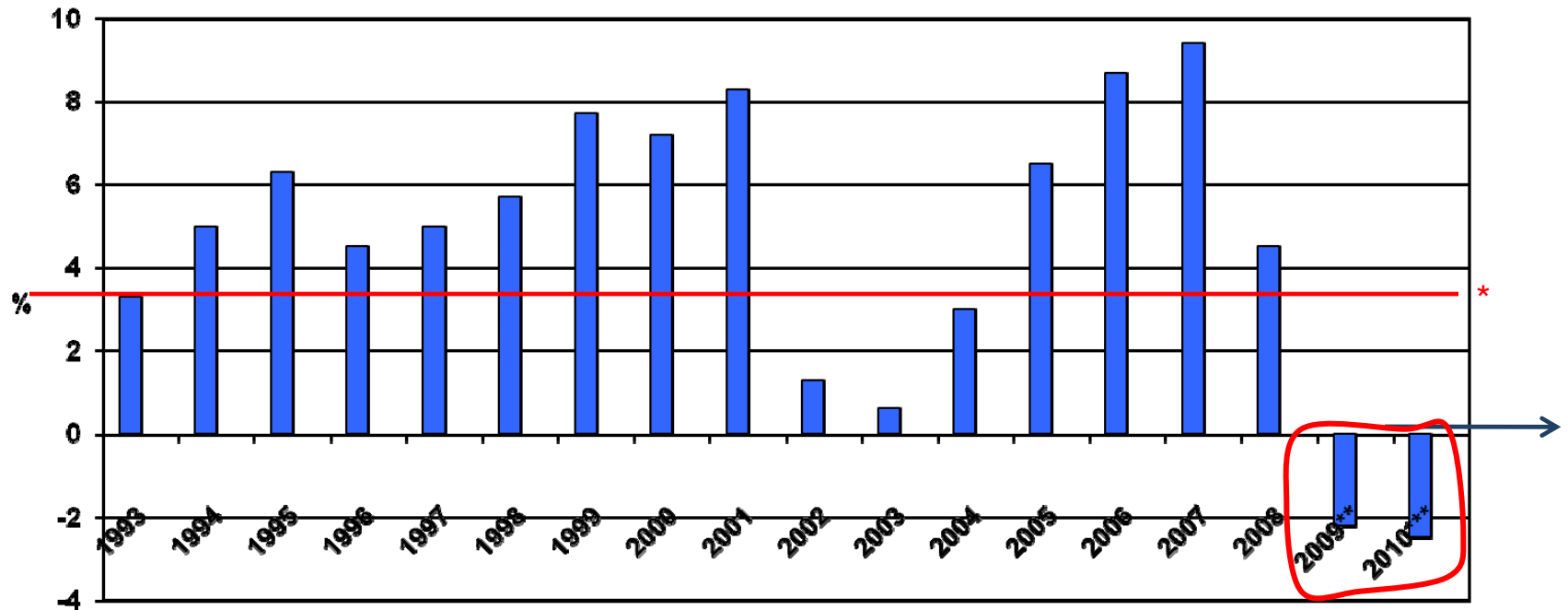
Fiscal year 2011

36 states have estimated gaps

The Center on Policy and Budget Priorities

Impact on States

General Fund Expenditure Growth (%)



*32-year historical average rate of growth is 5.9 percent

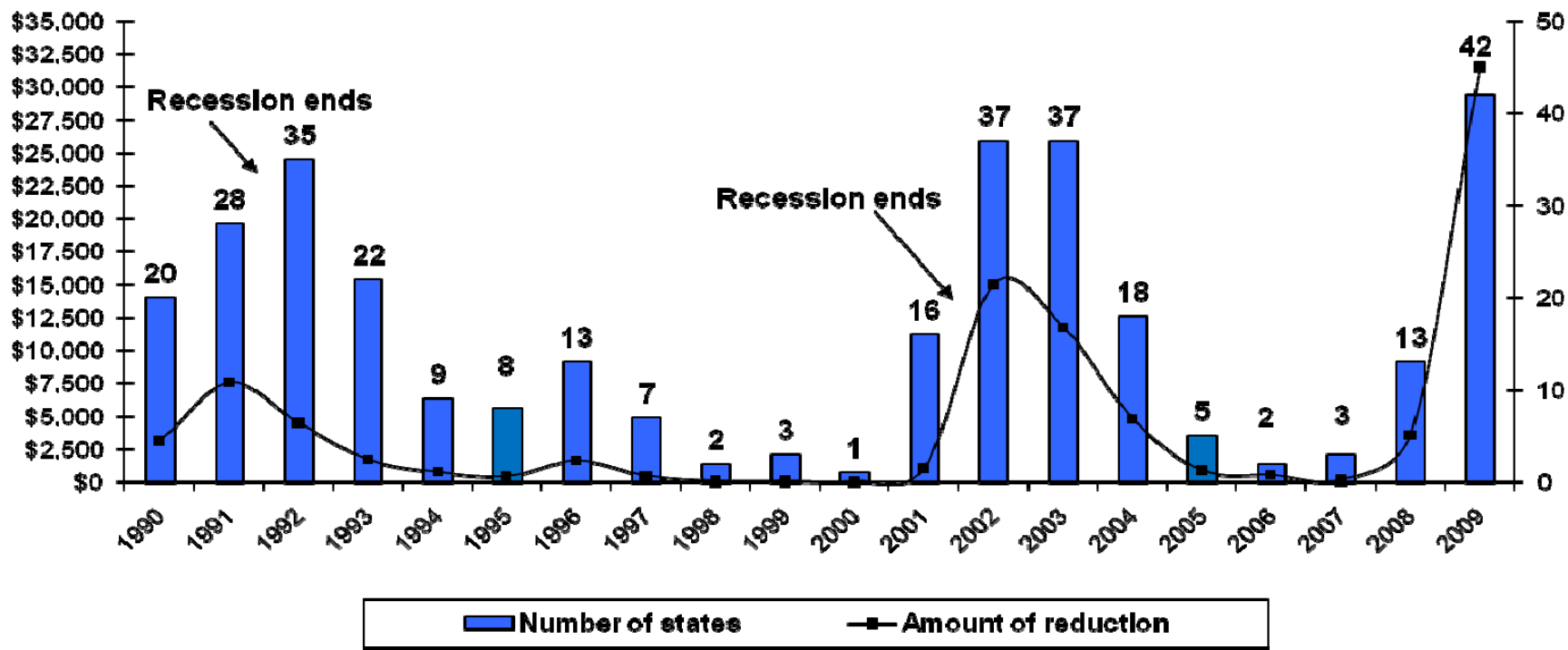
** Fiscal 09 numbers are estimated

*** Fiscal 10 numbers are recommended

Source: NASBO June 2009 Fiscal Survey of States

For the first time on record, states' overall spending has declined in back-to-back years, sinking 4.8 percent last fiscal year and at least 4 percent in the current fiscal year.

Budget Cuts Made After the Budget Passed, Fiscal 1990-Fiscal 2009 (\$ millions)



American Recovery and Reinvestment Act

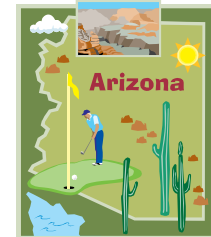
\$246 Billion to States

Arizona - \$2.8 Billion (\$815.7 Million released to date)

Medicaid Portion: \$87 Billion

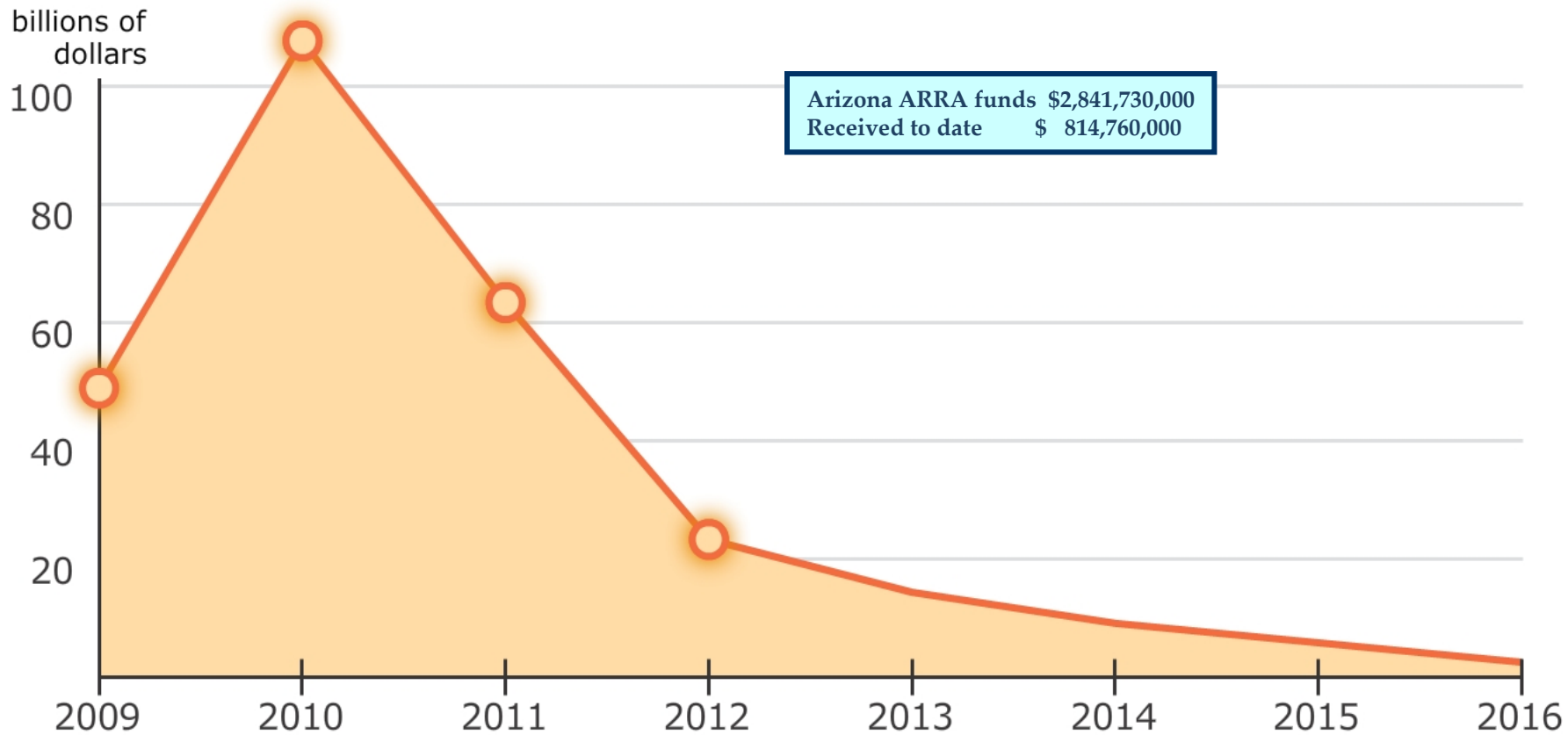
Arizona \$1.98 Billion

October 1, 2008 - December 31, 2010



American Recovery and Reinvestment Cliff.....

Total stimulus spending by year



State Furloughs and Lay-Offs

- **Nearly 1 million state workers - one in five - have been affected by the cutbacks**
 - More than 50% of the states have laid off and/or furloughed workers from 4 to 26 days a year
 - Nearly all states have instituted hiring freezes
 - 75 percent of the states have eliminated vacant positions
- **California** - laid off 17,500 state staff
- **Delaware** - eliminated 500 vacant positions through attrition
- **New Mexico** - eliminated 1,000 state jobs and ordered a hiring freeze for 2,900 vacancies
- **Massachusetts** - eliminated 750 positions
- **Arizona** - laid off 1,000 tax auditors, benefits screeners, and other employees
- **Connecticut** - furloughed 50,000 employees for seven days saving \$70 million
- **Kentucky** – eliminated 1000 positions

Stateline.org

The New Normal

Moving from furloughs to more permanent downsizing, states are girding for the deepest workforce cuts yet in FY 2011.

Many are taking stock of every position to determine what effect job cuts and the elimination of whole departments will have on revenues, expenses and the quality of government services.

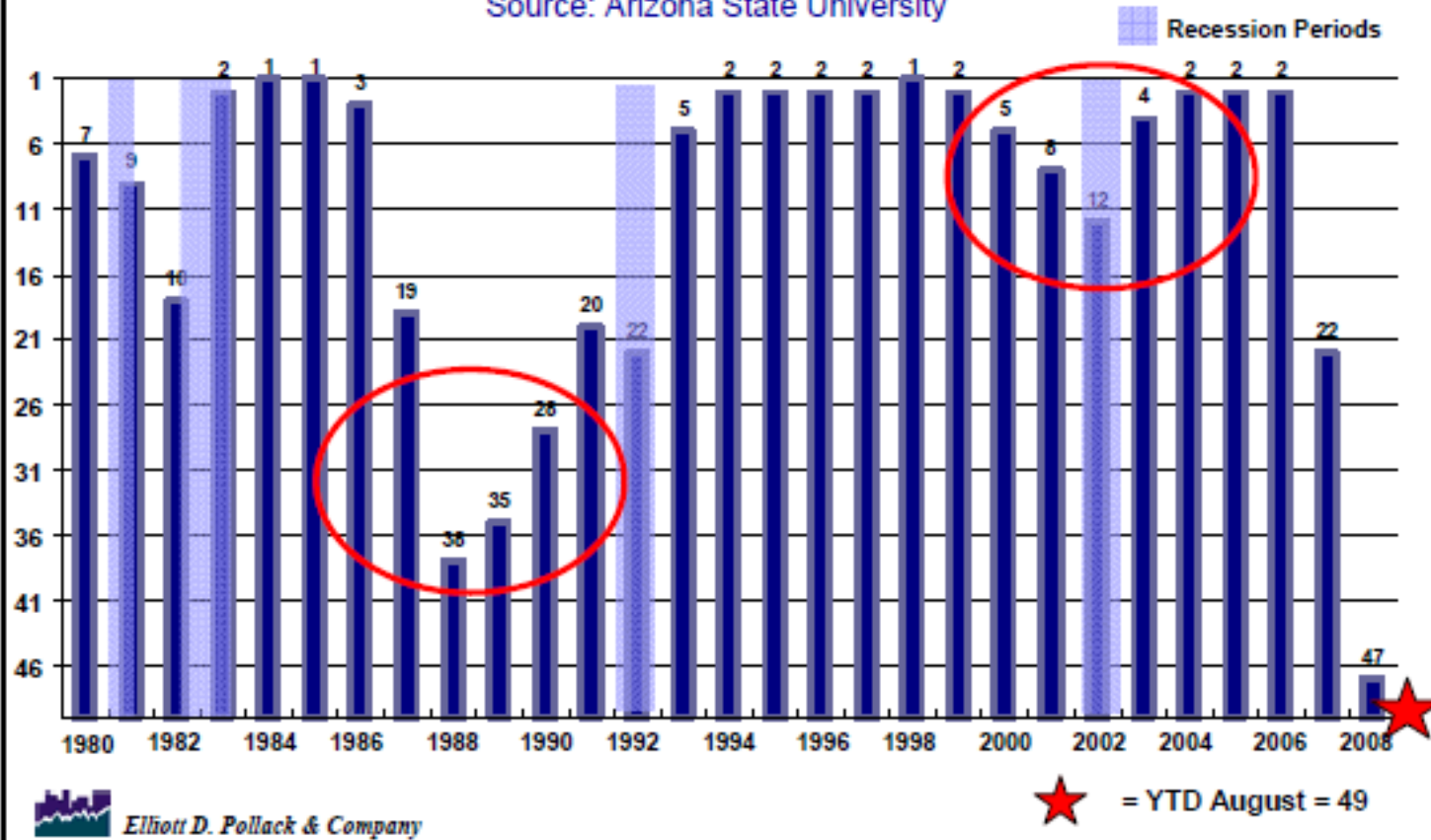
“I think we’re kind of in a permanent retrenchment. There are a number of areas where we’ve got to sit back and almost look at new models for delivering services.”

**Raymond C. Scheppach,
Director of the National Governors Association.**

Arizona

Arizona Employment Rank Among 50 States 1980 – 2009 Growth Over Previous Year

Source: Arizona State University



How did AZ go from 2nd to 49th?

- Financial meltdown.
- Credit crunch/freeze.
- Overextended consumer.



- Loss of wealth incl. home equity.
- Can't sell homes or retire.
- *Population inflows weaken.*



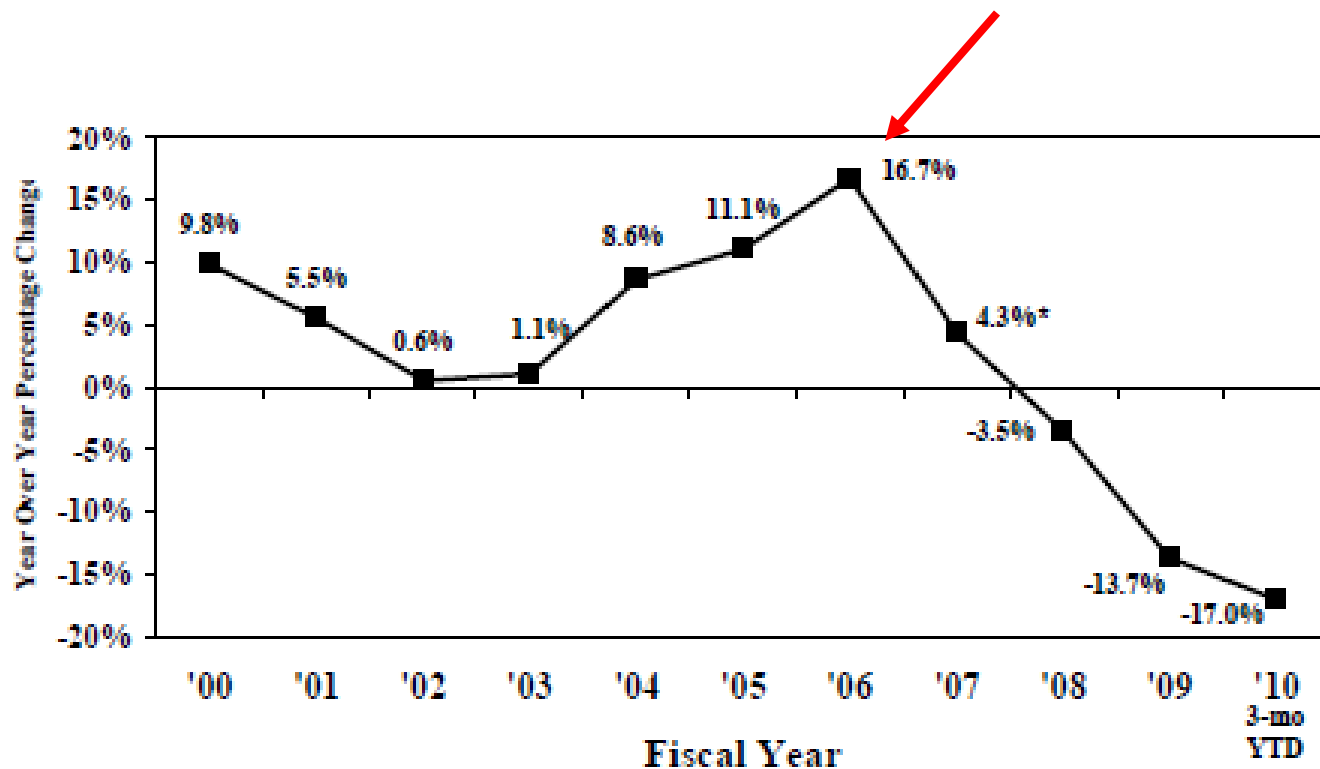
- Excess SF construction.
- Homebuilding crash.
- Excess commercial construction



- *Construction job losses.*
- *All sector job losses.*
- Government crisis.

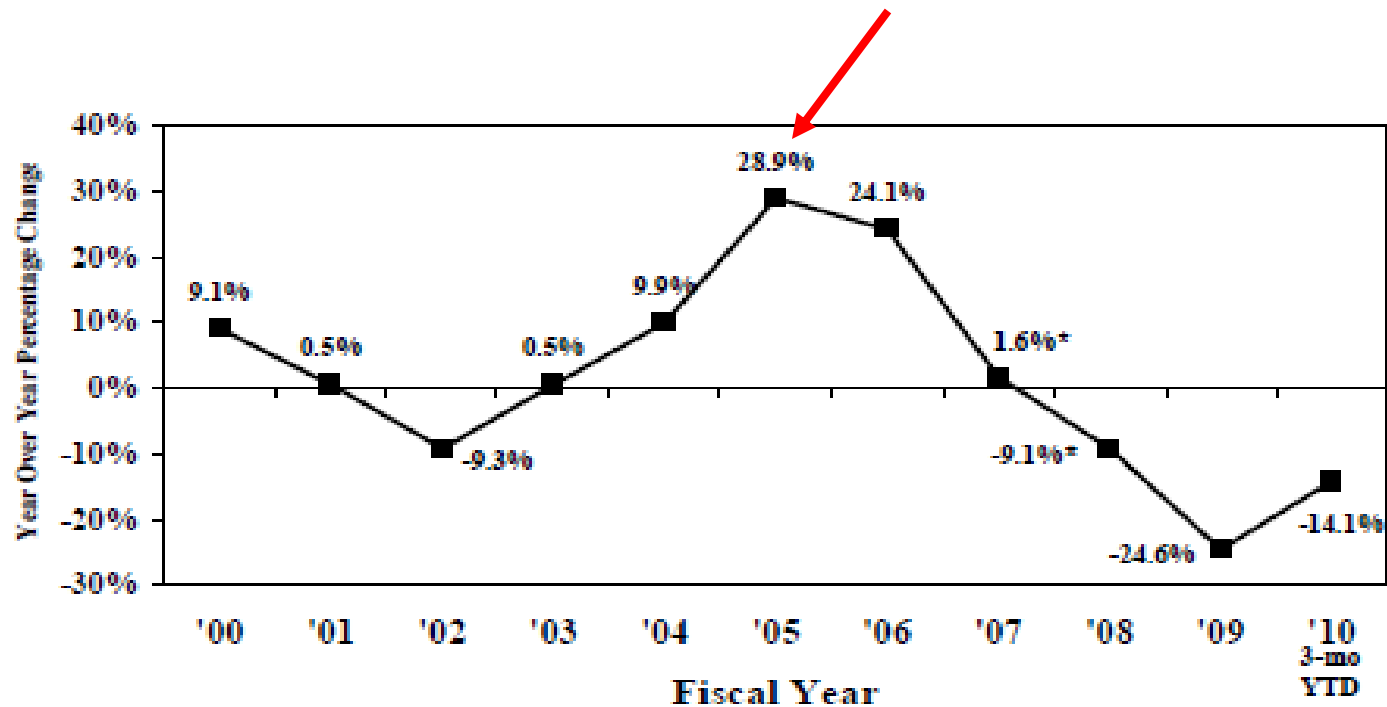


Sales Tax Growth Rate



* The '07 increase of 4.3% includes the one-time impact of the revised June estimated payment threshold from \$100,000 to \$1.0 million enacted by the Legislature. Excluding the impact of the one-time change, baseline collections grew by 5.6%

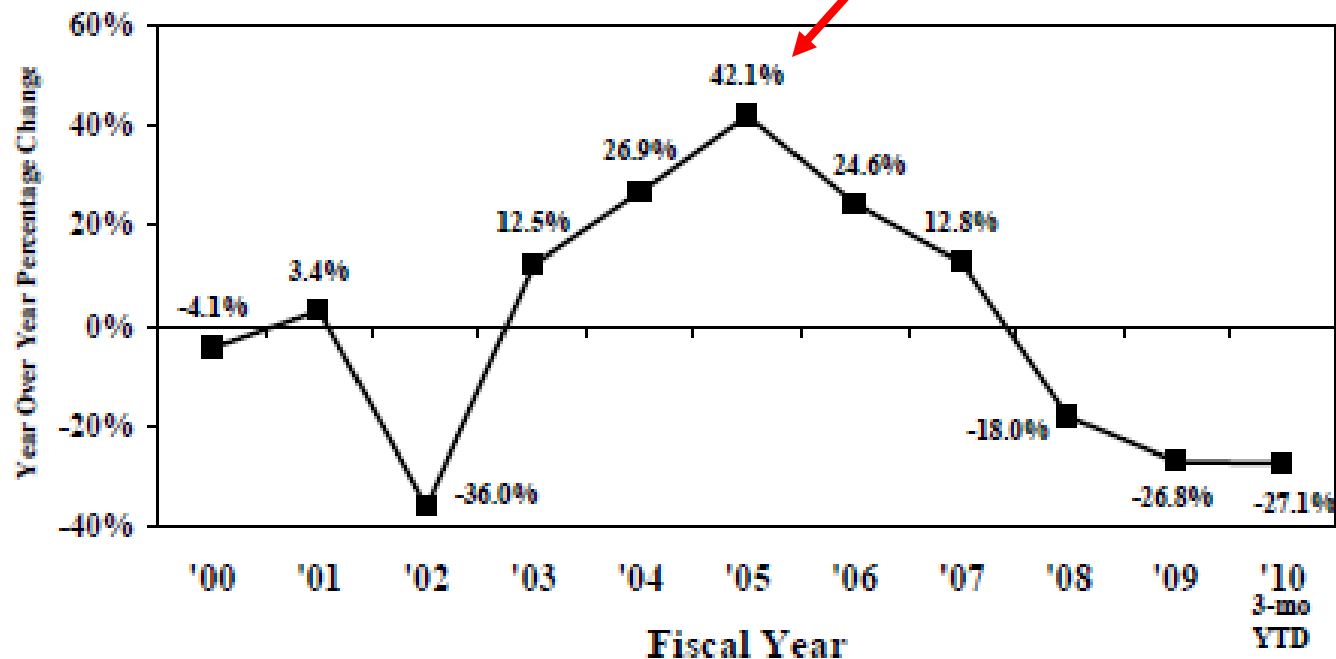
Individual Income Tax Growth Rate



* The '07 and '08 percentages include the impact of the 10% rate reduction passed by the Legislature, and phased in over 2 years beginning in tax year 2006. Excluding the rate reduction, baseline '07 growth was 6.3%, and '08 was (4.1)%.

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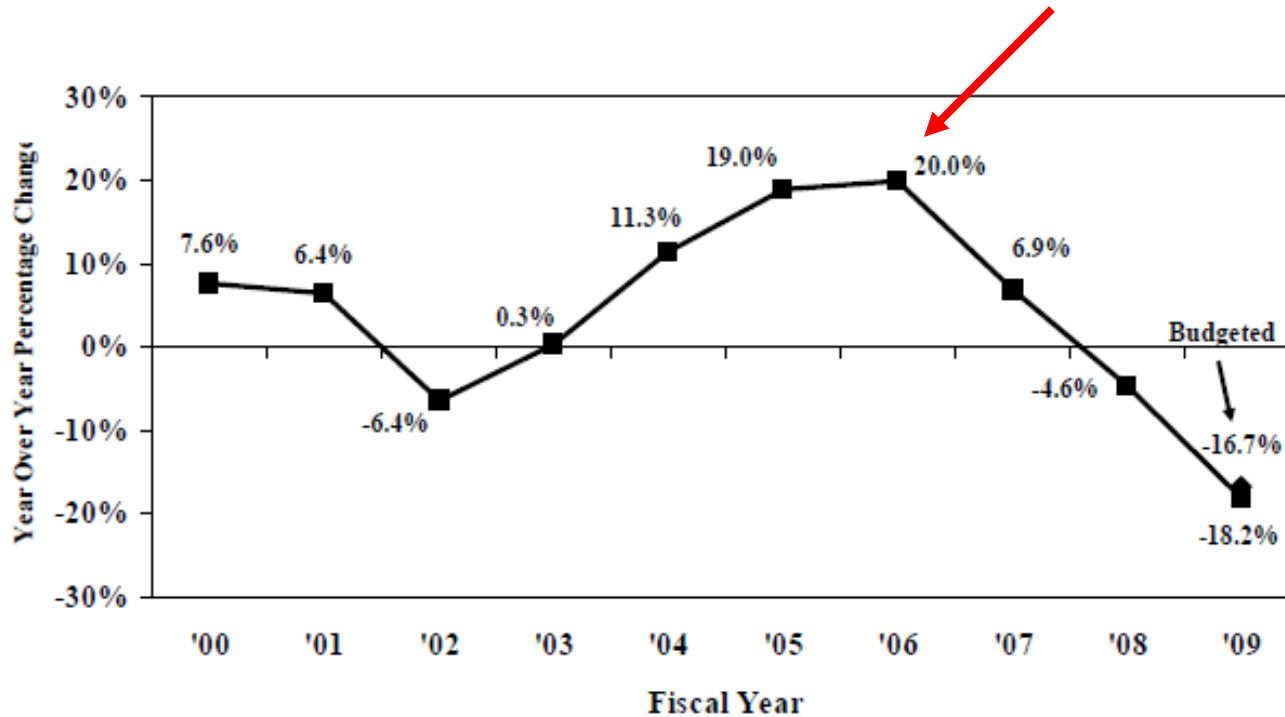
Corporate Income Tax Growth Rate



* The '07, '08, '09, and '10 percentages include the impact of tax law changes, including the consolidated reporting credit, and the phase-in of the corporate sales factor enacted in 2005. Excluding these tax law changes, baseline growth for '07 – '09 would be 13.3%, (17.3)%, and (23.2)% respectively.

'09 General Fund Base Revenue Decline of (18.2)% Was Greater Than Budgeted

- Represents Worst Two Year Loss in Modern Era



JLBC

Excludes statutory and one-time changes.

New Forecast Raises FY '10 Shortfall to \$2.0 B

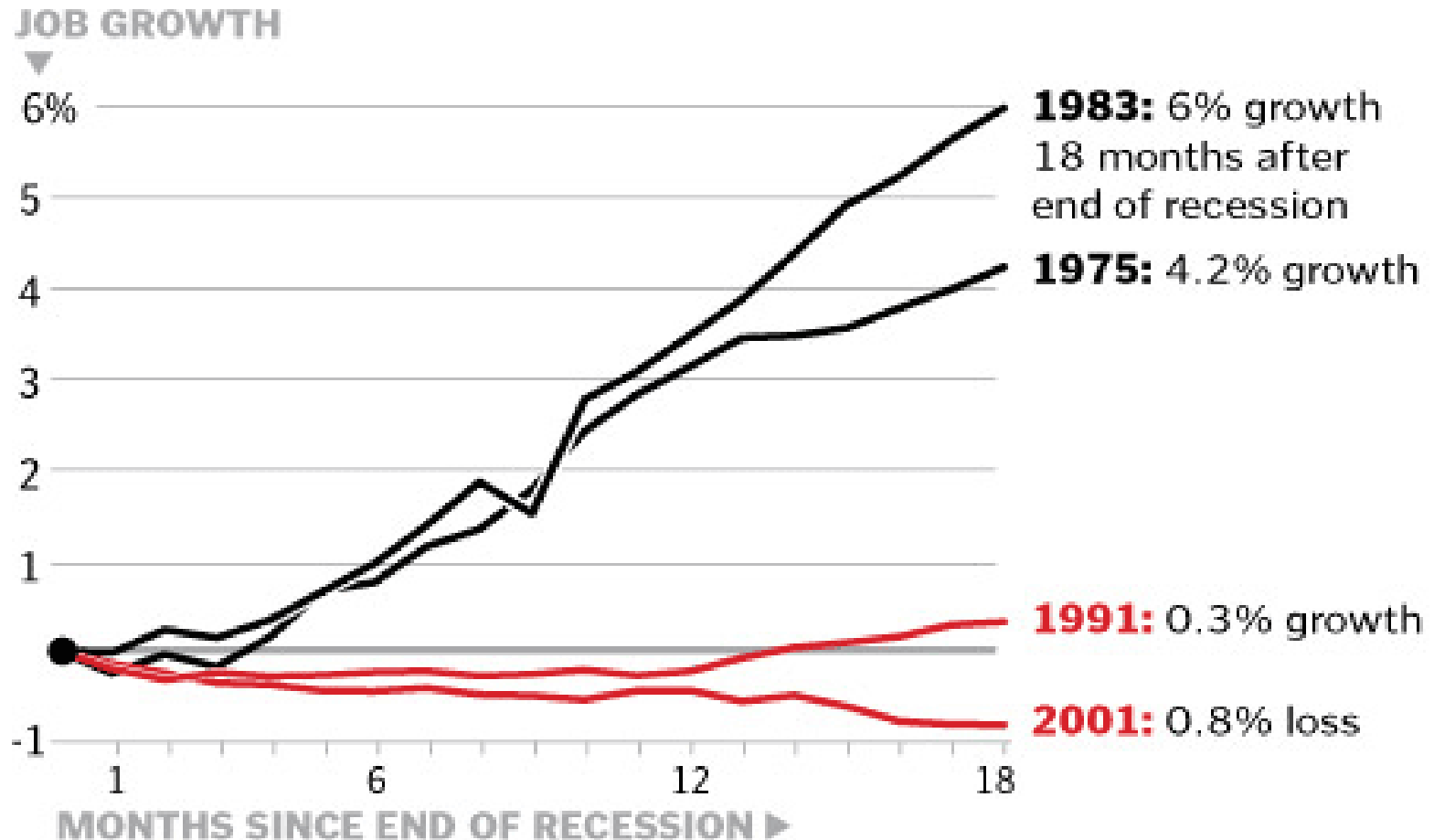
	<u>\$ in M</u>
• FY '09 Carryover Shortfall	\$ 478
• FY '10 Budgeted Shortfall after Vetoes	483
• FY '10 Revenue Shortfall – Oct. Forecast	698
• AHCCCS/DHS Caseloads	135
• Mark-Down of Savings Estimates	165
– AHCCCS Fraud, Concession Agreement, Sale/Lease-Back	
• Total	<hr/> \$1,959

Moody's Shifted Rating Outlook to "Negative"

- Accompanied by Following Observations

- The state has taken some steps to stabilize its fiscal situation
- Statutory limits prevent quick action on shortfalls
- Most balancing measures "are not of a recurring nature"
- "Available reserves have been depleted"
- The state faces the "challenge of addressing ongoing structural imbalance with more limited resources, in an environment of continuing economic weakness"

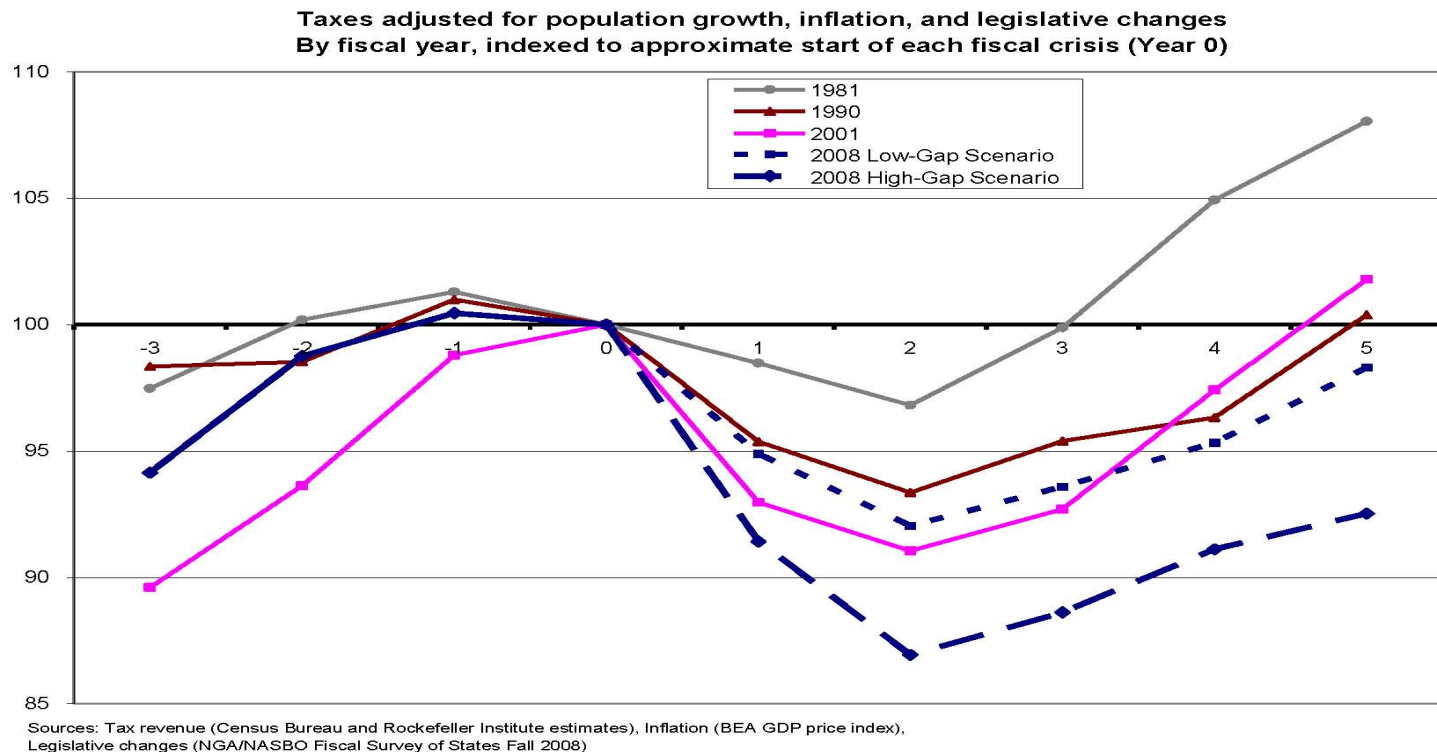
How Long Does it Take for Employment to Bounce Back?



Source: Washington Post; Bureau of Labor Statistics

How Long Will it Take for States to Bounce Back?

Will stimulus last until taxes recover?



Understanding the Long-Term Economic Situation

David Walker, CEO

The Peterson Foundation 2008



Comptroller General of the United States (GAO) from 1998 to 2008.

<http://www.iouathemovie.com/>

U.S. National Debt Clock

The Outstanding Public Debt as of Dec. 5th 2009 at 03:17:19 AM GMT is:

\$12,117,820,453,841.20

The estimated population of the United States is **307,412,710**
so each citizen's share of this debt is **\$39,343.10**.

The National Debt has continued to increase an average of
\$3.86 billion per day since September 28, 2007

http://www.brillig.com/debt_clock/

The Real Debt

\$56.4 Trillion

\$36.3 Trillion promised Medicare benefits not covered by taxes or other contributions

\$6.6 Trillion promised social security benefits not covered by taxes or other contributions

\$13.5 Trillion other fed liabilities



\$184,000

PER PERSON LIVING IN THE U.S.



\$435,000

PER FULL-TIME WORKER

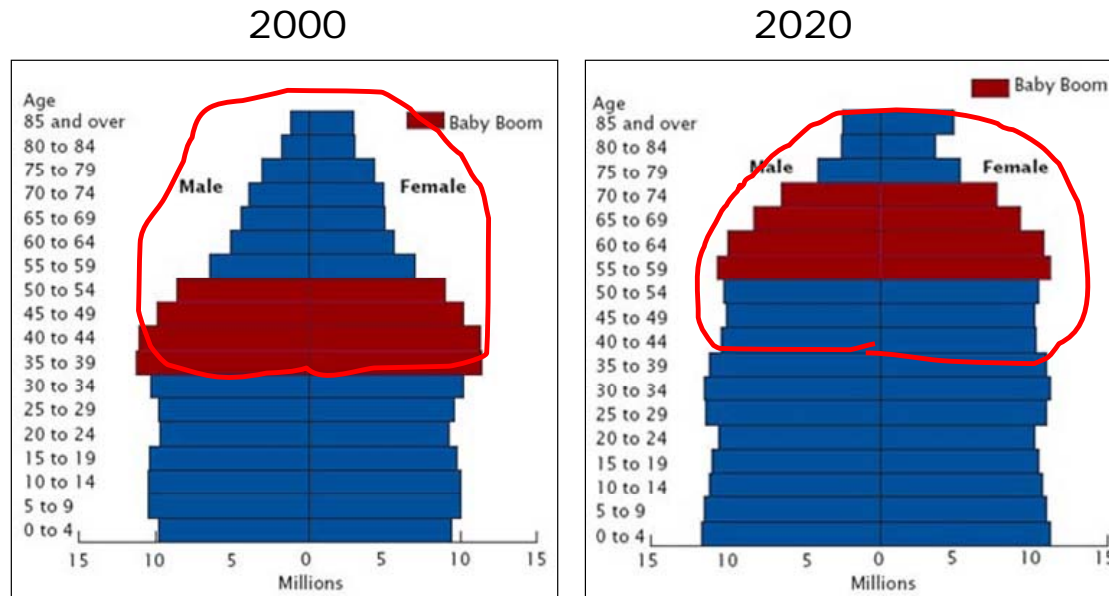


\$483,000

PER HOUSEHOLD

Demographic Pressures

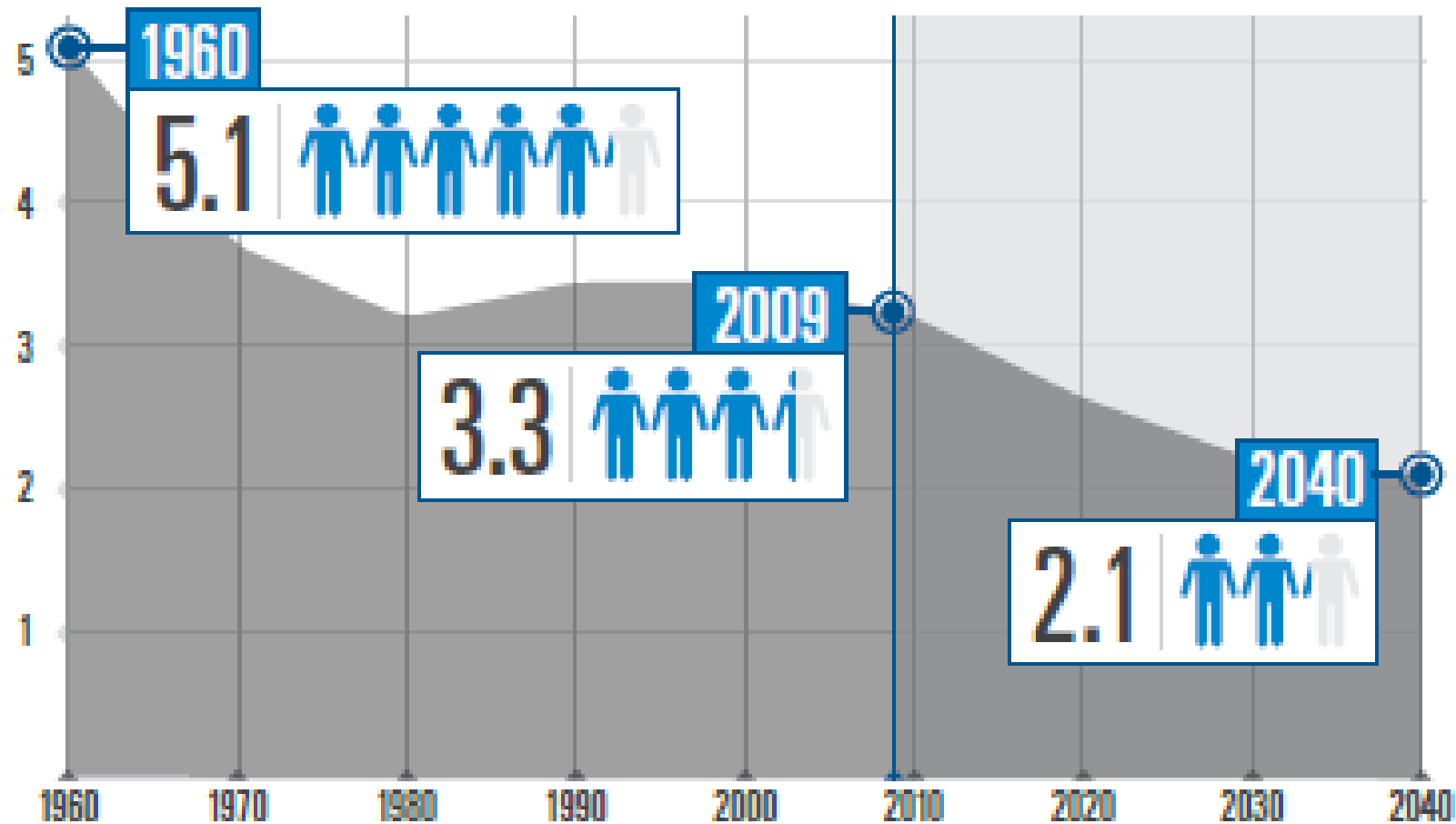
Changing Demographics:



Source of charts: U.S. Census Bureau, "65+ in the United States: 2005," December 2005.

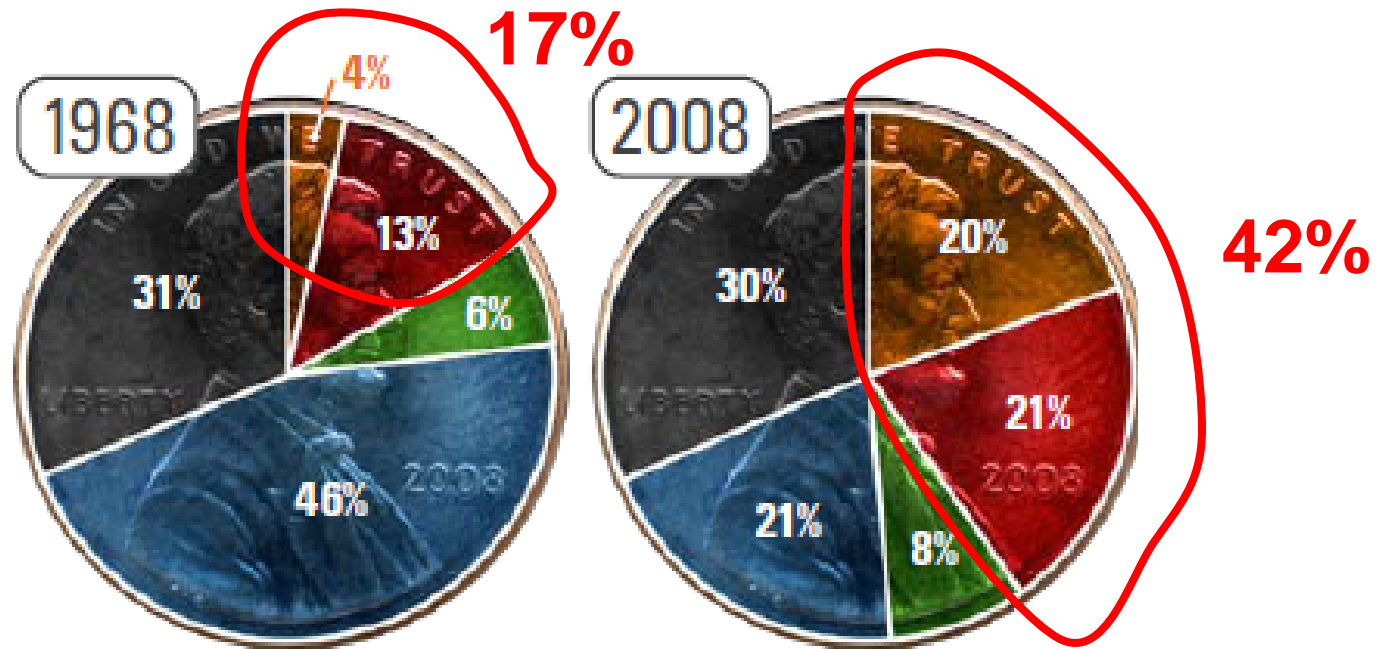
Each day, for the next two decades, more than 10,000 Baby Boomers will become eligible for Social Security. (The Peterson Foundation)

COVERED WORKERS PER SOCIAL SECURITY BENEFICIARY



SOURCE: Social Security Administration

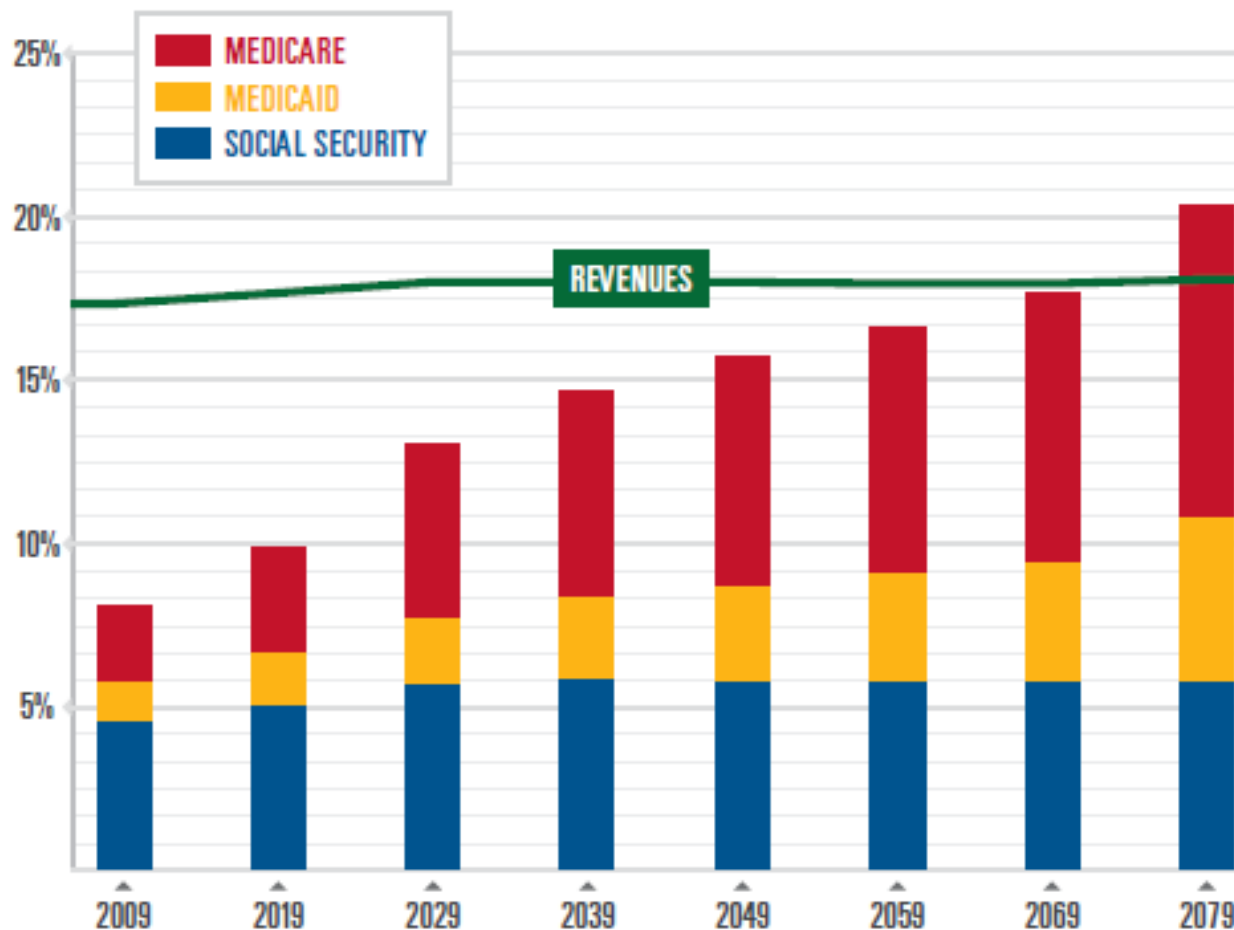
Composition of Federal Spending



- Medicare and Medicaid
- Social Security
- Net Interest
- Defense
- All Other Programs

An Unsustainable Fiscal Trajectory

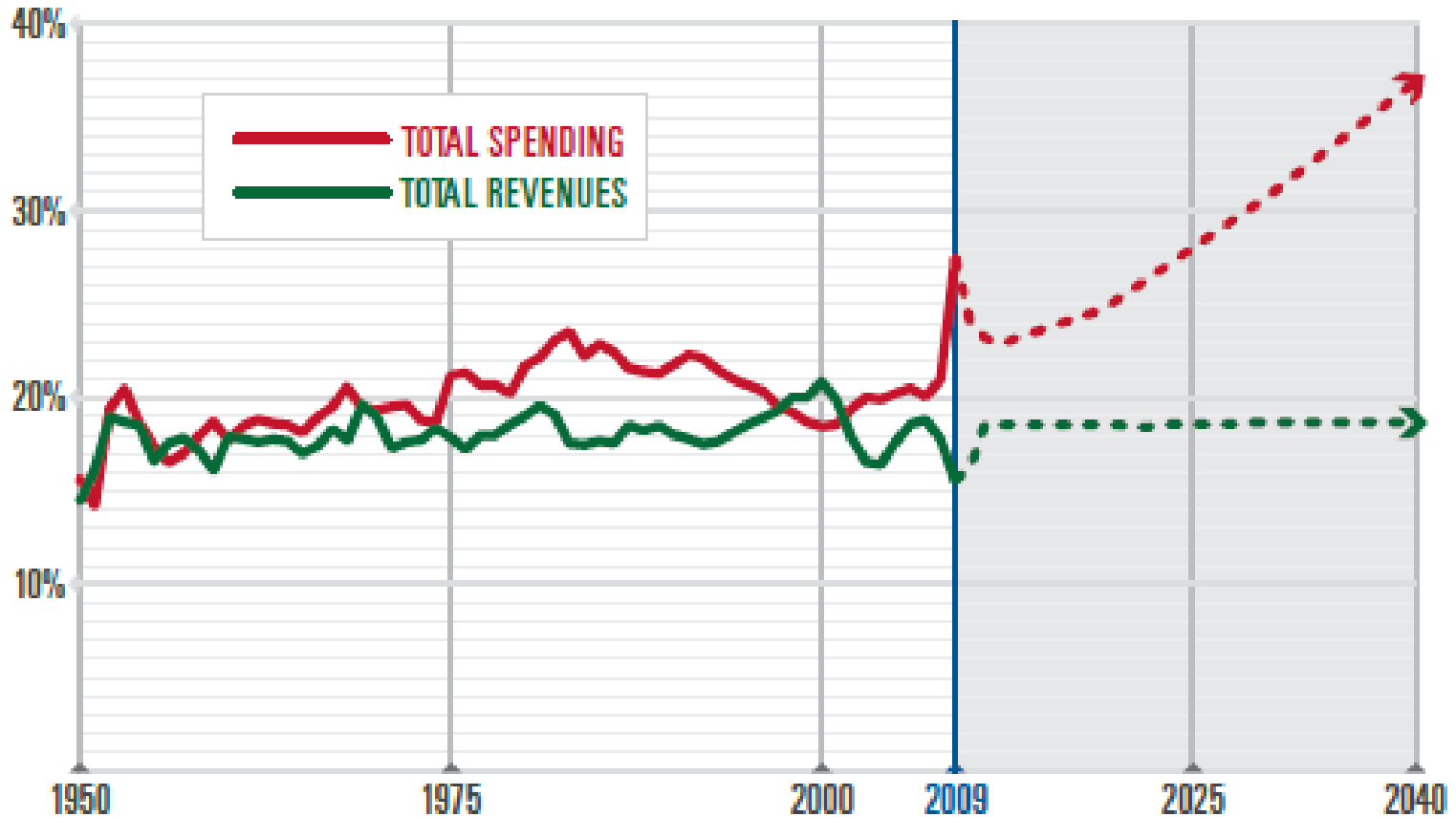
PROJECTED GROWTH IN MAIN ENTITLEMENT PROGRAMS
(% OF GDP)



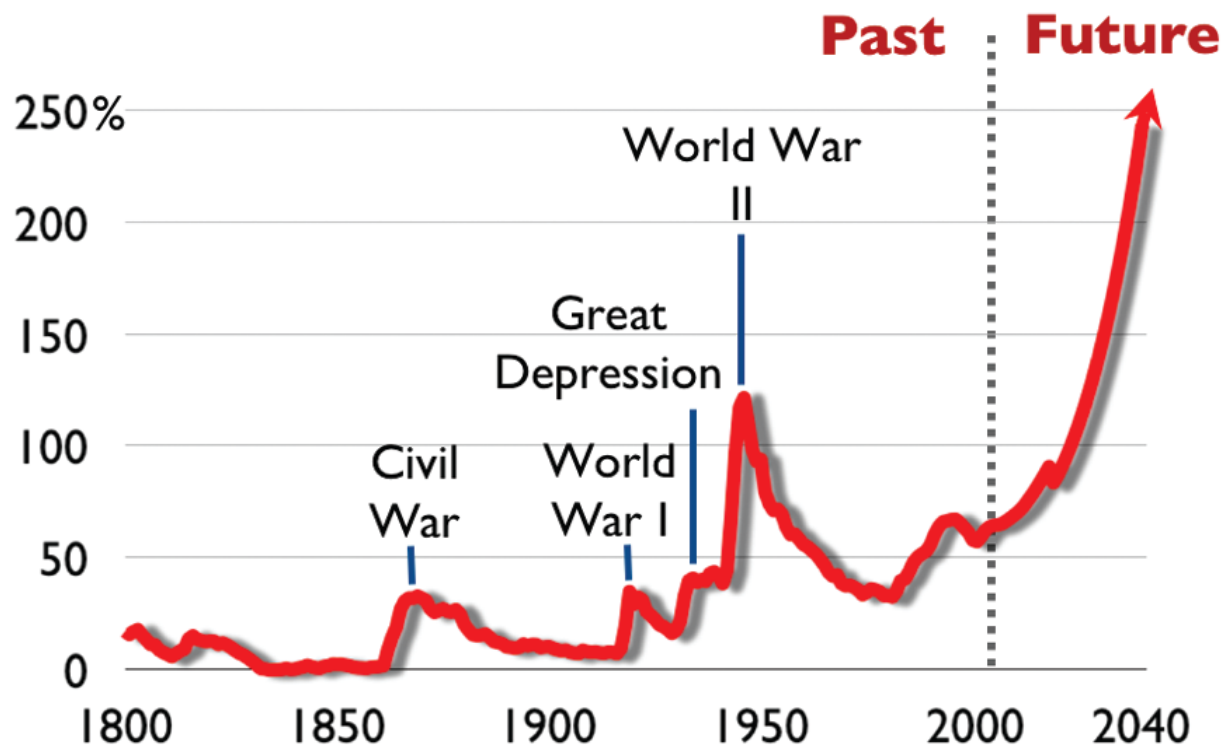
SOURCE: GAO (based on Social Security Trustees' assumptions)

An Unsustainable Fiscal Trajectory

FEDERAL SPENDING AND REVENUES (% OF GDP)



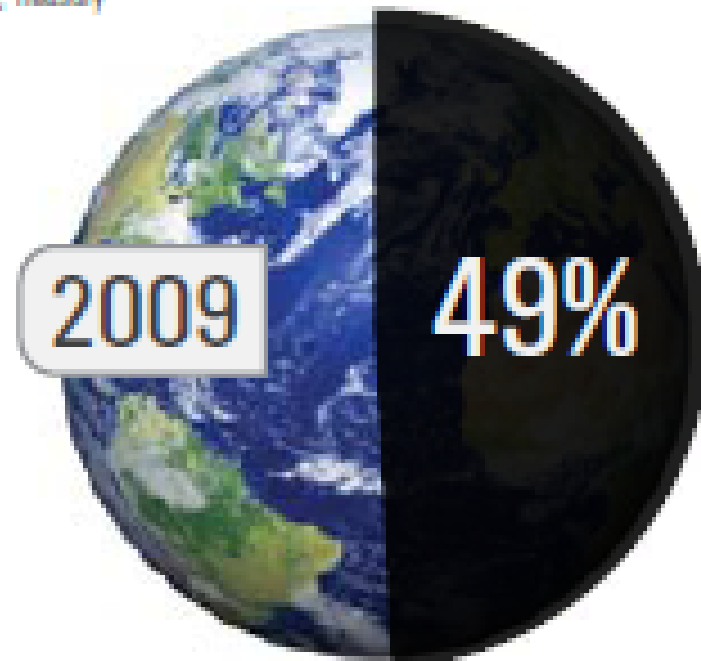
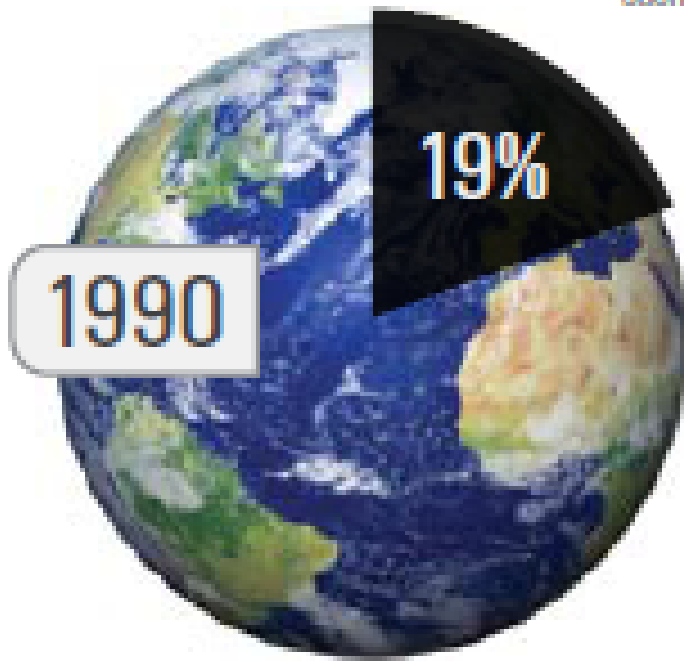
Total Federal Debt (Percentage of GDP)



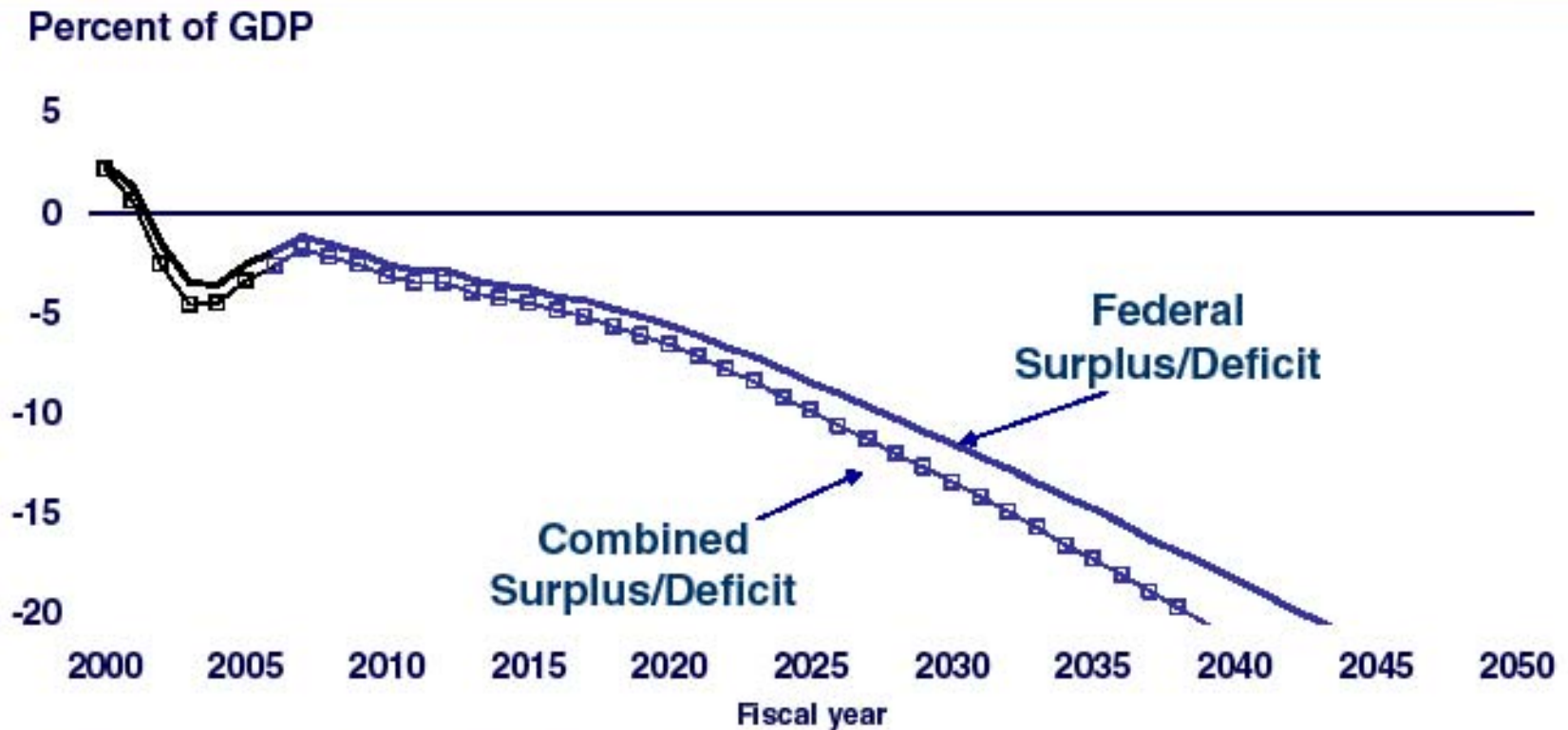
SOURCES: PGPF compilation based upon historical data from U.S. Department of the Treasury and the Office of Management and Budget. Projections based upon data from the Congressional Budget Office (December 2007 and January 2008) and U.S. Government Accountability Office alternative simulation with economic feedback (January 2008 Update). Feedback shows the effect of escalating debt on economic growth.

FOREIGN HOLDINGS OF U.S. DEBT TO THE PUBLIC

SOURCES: OMB, Treasury



State and Local Fiscal Challenges Add to the Federal Government's Fiscal Challenge



Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by 60 percent or
 - Raising federal taxes to 2 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

What Does This Mean?

JLBC

What Does This Mean?

- **The economic recovery will be very slow.** It may take 4 - 5 years to restore funding levels back to 2008.
- Long-term obligations for Medicare, Social Security, Medicaid and paying the national debt will **restrict the availability of both federal and states resources long into the future.**
- In the mean time, **population and the demand for services will grow.**
- We are experiencing a “new normal” in economic life in terms of revenue growth, public expenditures and perhaps even consumer spending habits.
- **To meet the needs of people with disabilities and their families – leaders in all domains of the service system must work together to develop strategies that will assure the program is as cost effective and as efficient as possible....and sustainable.**

The Work Group Process

Stage 1

- Affirm the vision/mission/values – what we value about the program
- Agree on the principles and assumptions going forward
- Analyze the problem: Review available data and identify the need for additional information
- Start identifying potential solutions
- Identify tasks to be completed prior to the next session

Stage 2

- Review additional data requested
- Identify the scope of possible solutions
- Identify the need for additional information to evaluate the effectiveness of proposed solutions
- Prioritize solutions in terms of impact on revenues/expenditures/numbers served

Stage 3

- Evaluate solutions and developing recommendations