Memorandum

Date: October 26, 2018

To: Arizona Chamber of Commerce and Industry

Re: Executive Summary: Costs and Funding Challenges Related to Select Policy Proposals

Rounds Consulting Group, Inc. (RCG) was asked to review cost estimates associated with changes to three separate public policy programs in the state, and offer an opinion on the extent any, or all, are fiscally viable. Economic considerations are also provided.

The three proposals include: 1) providing free community college and university tuition, 2) implementing a state "Medicare for All" plan, and 3) enacting the tax increases included in the original Invest in Ed initiative. The primary findings are listed below.

Economic and Fiscal Summary:

- **Implementing a free college tuition model** in Arizona would cost approximately $2.6 billion per year. This amount is more than 25% of the state's General Fund budget. The program would result in a net economic loss to the state since the funds would be better utilized in other areas and tax increases would be required to make the program fiscally stable. The immediate options to finance the program would be to add approximately 50% to the state sales tax rate or raise individual income taxes on all taxpayers by approximately 50%.

  The program would need to produce tens of thousands of additional jobs each year to break even. Since the required tax increases would severely dampen economic growth in the state, the proposed program would yield net job losses.[1] Conclusion: The state cannot afford this plan and it will produce net economic losses.

- **Implementing a "Medicare for All" program** in the state would result in added costs, for just the uninsured, in the amount of $4.3 billion per year. To cover this cost, the sales and income taxes would again need to be targeted. In general, either the sales tax rate would need to double or the income taxes imposed on all residents would need to double.

  If the program were expanded to "All," the annual cost would increase to $45 billion per year, absent additional federal funding. The scale of this expense is so large that there is no mathematical solution for paying for the program.[2] Conclusion: Not only can the state not afford this plan, it is mathematically impossible.

[1] http://www.azchamberfoundation.org/wp-content/uploads/2018/06/Policy-Review_tuition_final.pdf
[2] http://www.azchamberfoundation.org/wp-content/uploads/2018/06/Policy-Brief_medicare_final.pdf

- **Implementing an income tax increase similar to the provisions of Invest in Ed** will not produce a cost in the same manner described in the previous two proposals. The economic consequences more directly relate to the extent the economy would slow or even stall under the provisions that would nearly double the tax rate on the top earners and significantly impact small business development. It is the small business impacts that are particularly troubling.

  As many as 40,000 small businesses in the state would be impacted by the income tax increase, yet no larger corporations would realize a change in tax liability. Since small businesses often rely on their own income as a means of reinvestment in labor and capital, expansion opportunities would be constrained.

  The primary consideration is not state cost increases, but lost jobs and tax revenues if implemented. Extensive research was conducted on this topic including the development of economic models, the review of scores of academic papers, and included dozens of interviews. The economic impact scenarios are displayed below from least harmful to most harmful. The impacts also represent the lower end of the economic harm that was conveyed through the economic modeling.

  - *Lower Wages:* New job creation moving forward will include average annual wages that are $1,000 less than the current performance. Over ten years, state and local government entities would lose $400 million in tax revenue and 13,000 fewer jobs would exist.

  - *Weaker Job Growth:* The rate of job growth will slow slightly, from the projected 1.7% annual rate to 1.6%. Over ten years, state and local governments would lose over $1.0 billion in tax revenue and 40,000 fewer jobs would exist.

  - *Constrained Business Recruitment:* Business recruitment will slow by 25% each year compared to current performance. Over ten years, state and local governments would lose over $1.8 billion in tax revenue and 65,000 fewer jobs would exist.

  The greater concern is if the impacts occur at the same time, rather than being mutually exclusive. The measure would impact the state's ability to recruit large businesses, and would significantly harm the ability to grow small businesses from within. Fewer jobs would be created each year, and those that materialize would have lower associated wages.

  Thus, the lower end of the combined economic and fiscal impact from the proposed increase in taxes would be a loss of 118,000 jobs within ten years and $3.2 billion in lost tax collections. It was concluded the range of impact would actually be between 2x and 3x these incremental values. This would bring the combined job loss figure to more than 350,000 and the lost tax collections figure to nearly $10 billion over ten years. Conclusion: The state can not afford this plan and significant economic harm would be realized.

Future Considerations:

Very small changes in the state's ability to not just grow, but to grow well, will have significant impacts on things like job creation and tax revenue collections. Bad tax policy will lead to considerable economic harm

as evidenced by the projected jobs and revenue losses under the poorly crafted income tax increase proposal.

Perhaps just as concerning is the extent poorly considered expenditure proposals, such as free college tuition or “Medicare for All” will result in irreparable economic and fiscal harm.

Political candidates are expected to make bold promises, but the aforementioned proposals are nothing more than a promise to derail the state’s economy.