Finance Advisory Committee

Revenue and Budget Update

April 11, 2018

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A Summary of State General Fund Conditions

- Due to strong year-to-date growth, current budget discussions envision increasing the combined ‘18 and ‘19 revenue estimates by $245 M.
- The updated 4-sector April forecast would raise the projection by another $51 M.
- Of that amount, $46 M would be ongoing revenue.

Arizona Ranks 5th in Economic Momentum

- Up from 14th 3 Months Ago

	AZ Rate	AZ Rank
❑ Change in Personal Income (Dec)	5.6%	3
❑ Change in Population (July)	1.6%	6
❑ Change in Employment (Feb)	2.3%	9
❑ Unemployment Rate (Feb)	4.9%	46

Momentum calculations via State Policy Reports – Joint NGA/NCSL Project

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’18 YTD Revenues $262 M Above Forecast

	’18 YTD	Above/(Below) Forecast ($ M)
Sales	6.4%	$ 56
Individual Income		
Withholding	*6.1%*	*75*
Payments	*27.2%*	*142*
Refunds	*7.2%*	*(23)*
Subtotal - Individual Income	10.4%	194
Corporate Income	(5.7)%	13
Insurance Premium	(23.7)%	(5)
Other	6.0%	4
Overall *	6.2%	$ 262

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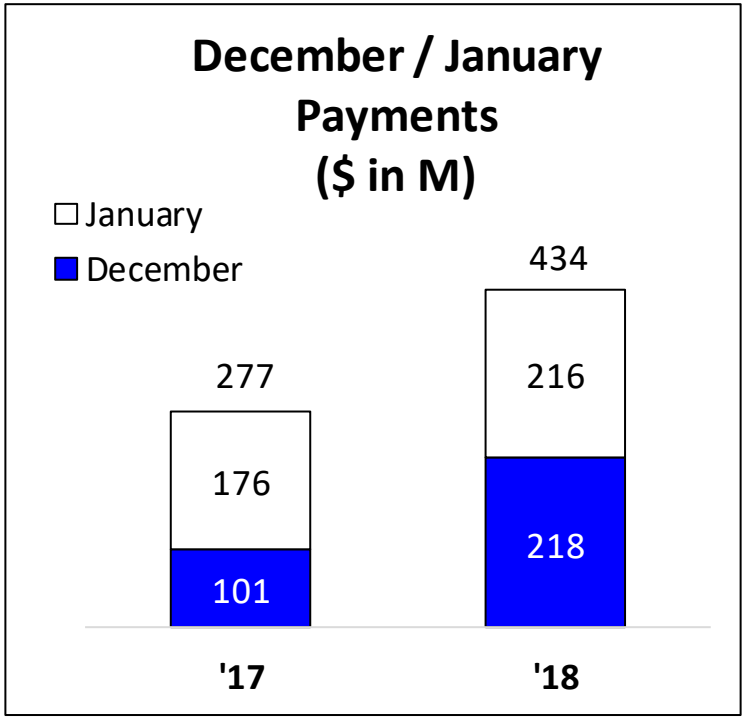
* Revenues exclude fund transfers and Urban Revenue Sharing. Represents preliminary March data.

December/January Income Tax Payments Grew By 57% Over Prior Year

- Why? We don't know
- Avoid '18 Fed SALT cap?
- Capital gains from 25% '17 stock market gain?
- Pass-through profitability?



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Some of the Year to Date Gains May Be Offset by Higher Refunds

- Early payment of income taxes may help with taxpayer's federal taxes, but does not change state liability.
- As a result, state may incur higher than expected refunds.
- Still too early in tax filing season to draw any conclusions about refund levels.
- In terms of "scorable" revenue gains, we have instead suggested focusing on TPT and Withholding YTD results.
  - Up $131 M through March
  - Depending on refunds, gains could be significantly higher

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Consensus: Modest Growth Through ’21

April Consensus Forecast

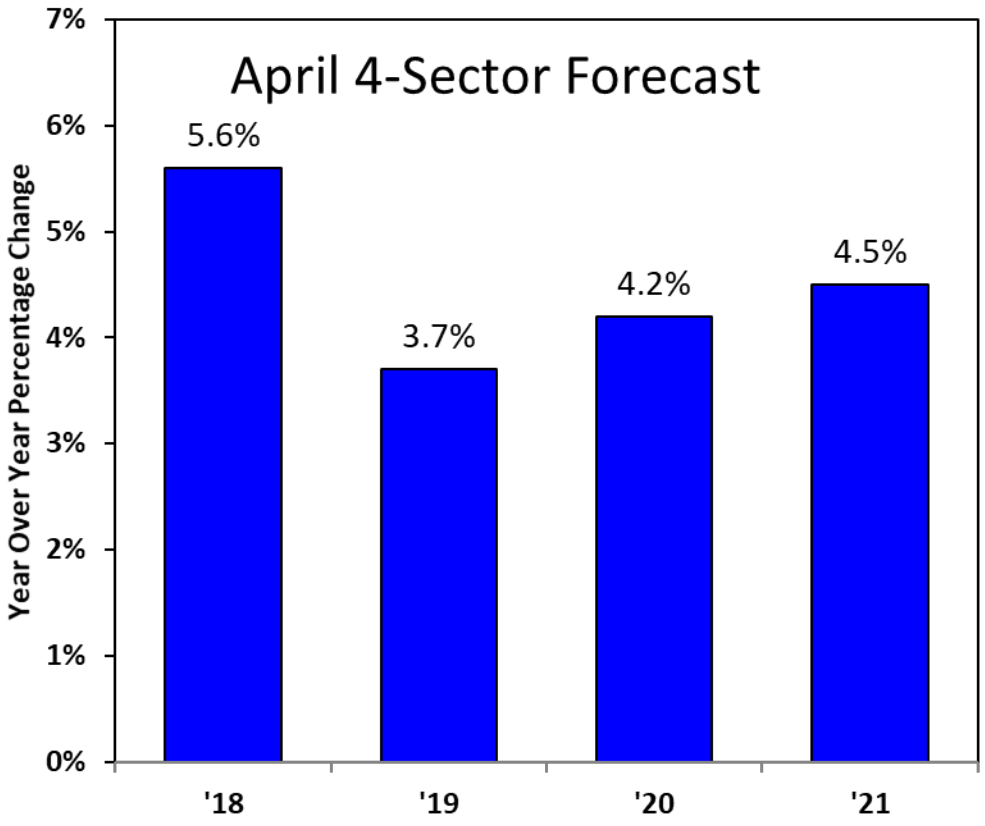
- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Chance of Exceeding Forecast

- 60%

Long Run Average Growth

- 4.25%



Percent change in Base revenues excluding balance forward, statutory changes, one-time revenues, and urban revenue sharing

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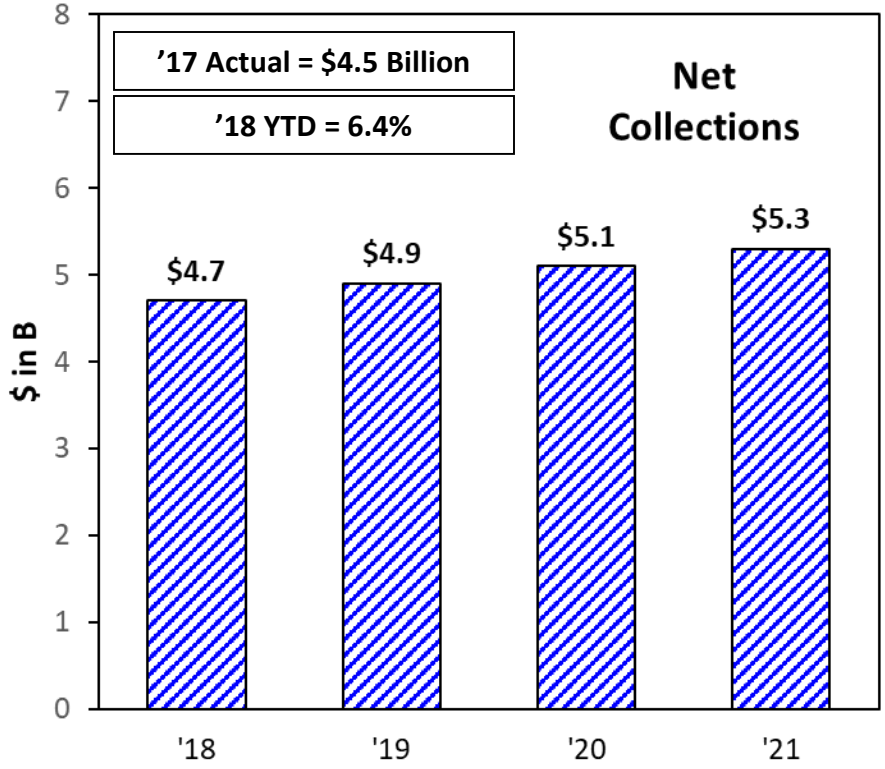
Sales Tax and Corporate Income Tax

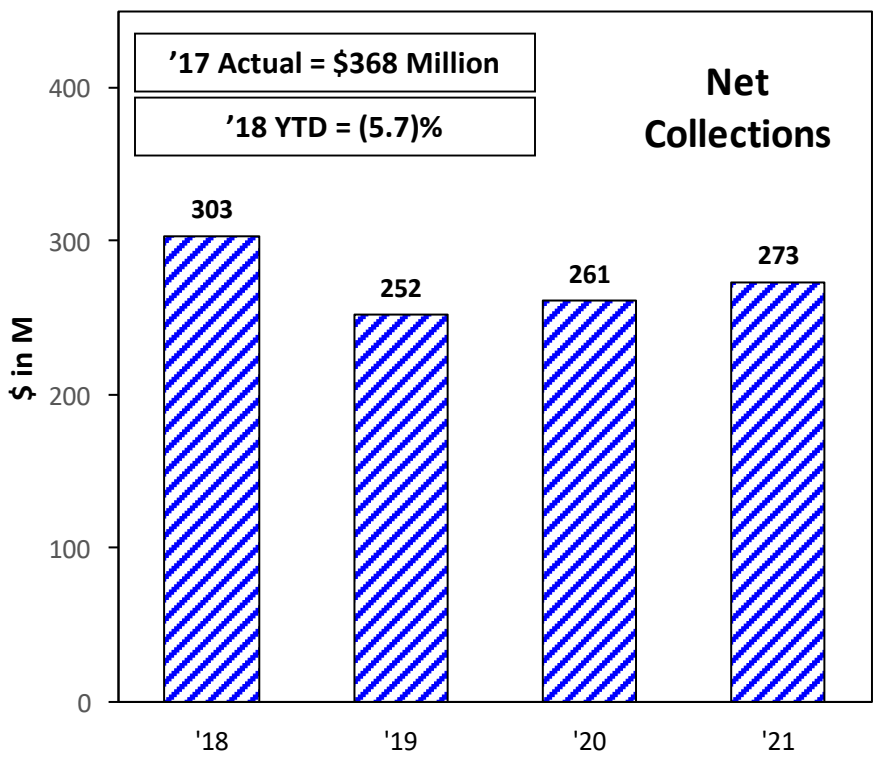
Sales Tax



	'18	'19	'20	'21
Base %	5.4%	3.8%	4.2%	4.3%
Net %	5.0%	3.8%	4.2%	4.3%

- YTD Retail 4.7%
- YTD Contracting 14.1%

Corporate Income Tax



	'18	'19	'20	'21
Base %	2.1%	2.3%	4.0%	4.9%
Net %	(17.8)%	(16.7)%	3.7%	4.6%

- '19 Completes Tax Cut Phase-in
- Speculative, could take longer
- STO Credit Slowing

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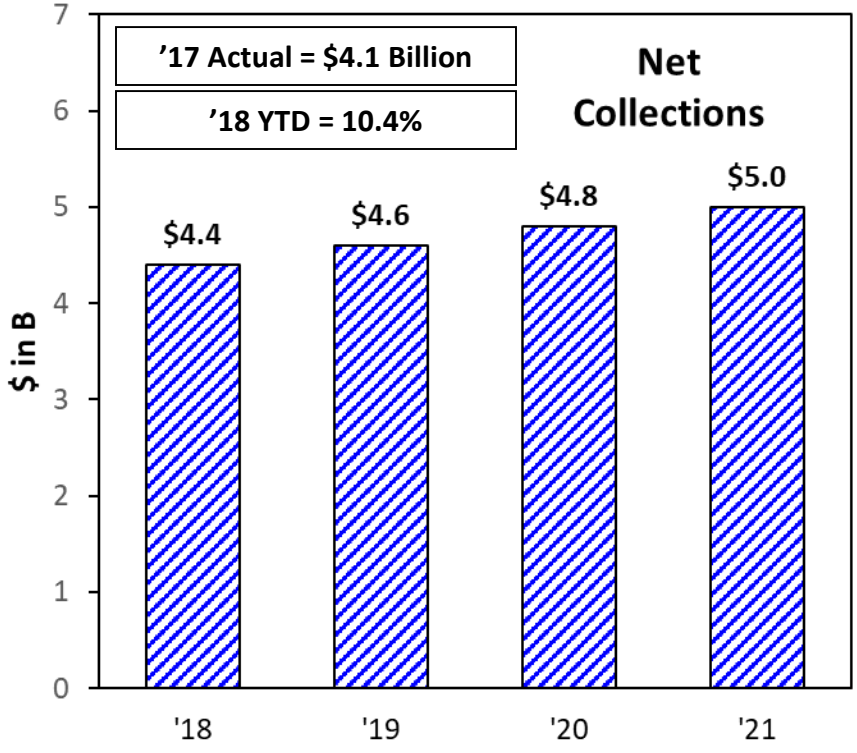
Individual Income Tax and Insurance Premium Tax

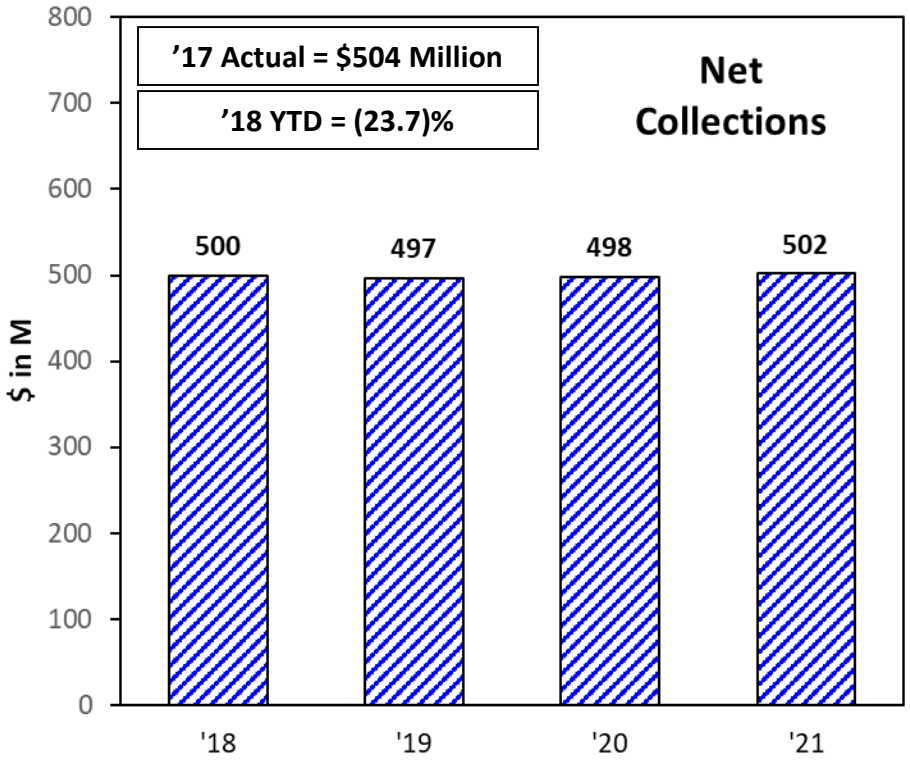
Individual Income Tax



Base %	7.3%	3.6%	4.7%	4.9%
Net %	7.0%	3.4%	4.7%	4.9%

- YTD Withholding 6.1%
- April payments/refunds always speculative

Insurance Premium Tax



Base %	1.0%	1.4%	1.3%	1.7%
Net %	(0.8)%	(0.7)%	0.3%	0.7%

- YTD Loss is timing issue
- Negative impact of Individual Mandate Repeal/Lower AHCCCS caseloads

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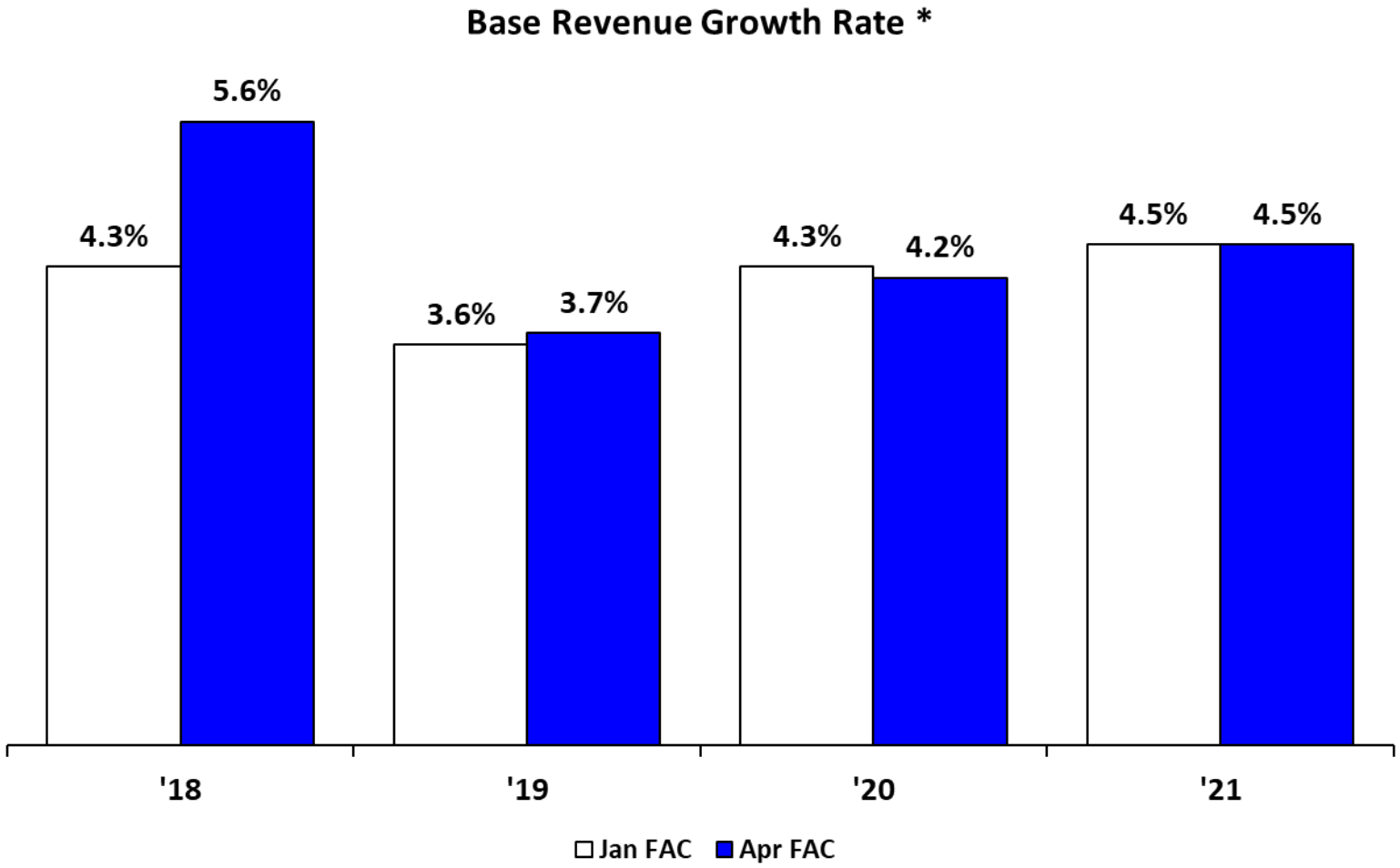
’18 Growth Rate Improved Since January



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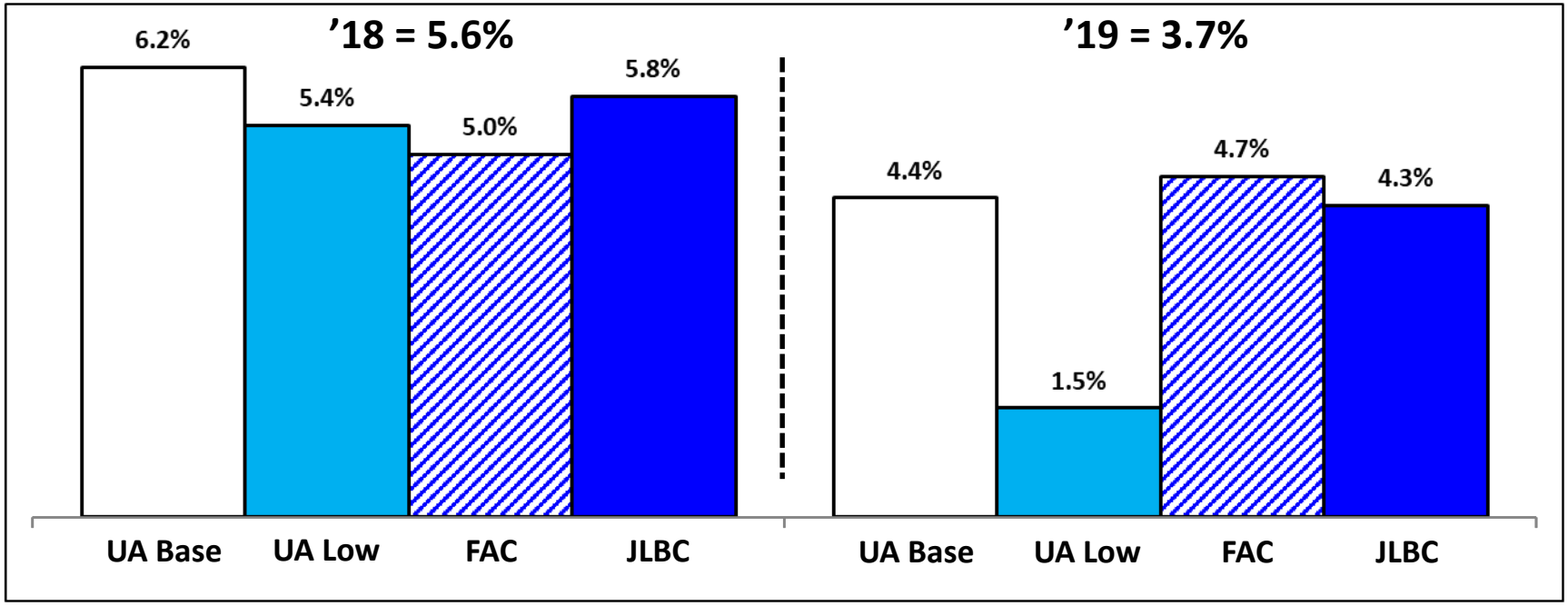
*Excludes one-time revenues, tax law changes, and urban revenue sharing

“UA Low” Adds More Caution to Forecast in ’19



- “UA Low” is a slower growth scenario; not a recession
- . . . but we are approaching historical length of expansion

Details in Appendix A

Base Revenue growth adjusted for small categories

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Forecasted Net ‘19 Revenue Growth is 3.2%

- Net Growth Adjusts Base for Transfers & Tax Cuts

	’18	’19	’20	’21
Base Revenue Growth (5.6%/3.7%/4.2%/4.5%)	563	390	452	501
Loss of 1-Time Fund Transfers	(137)	(8)	0	0
Previously Enacted Tax Legislation	(118)	(75)	(6)	(6)
Urban Revenue Sharing	(17)	6	(33)	(15)
Total	291	313	413	480
% Change	3.1%	3.2%	4.1%	4.6%

Excludes Change in Beginning Balance

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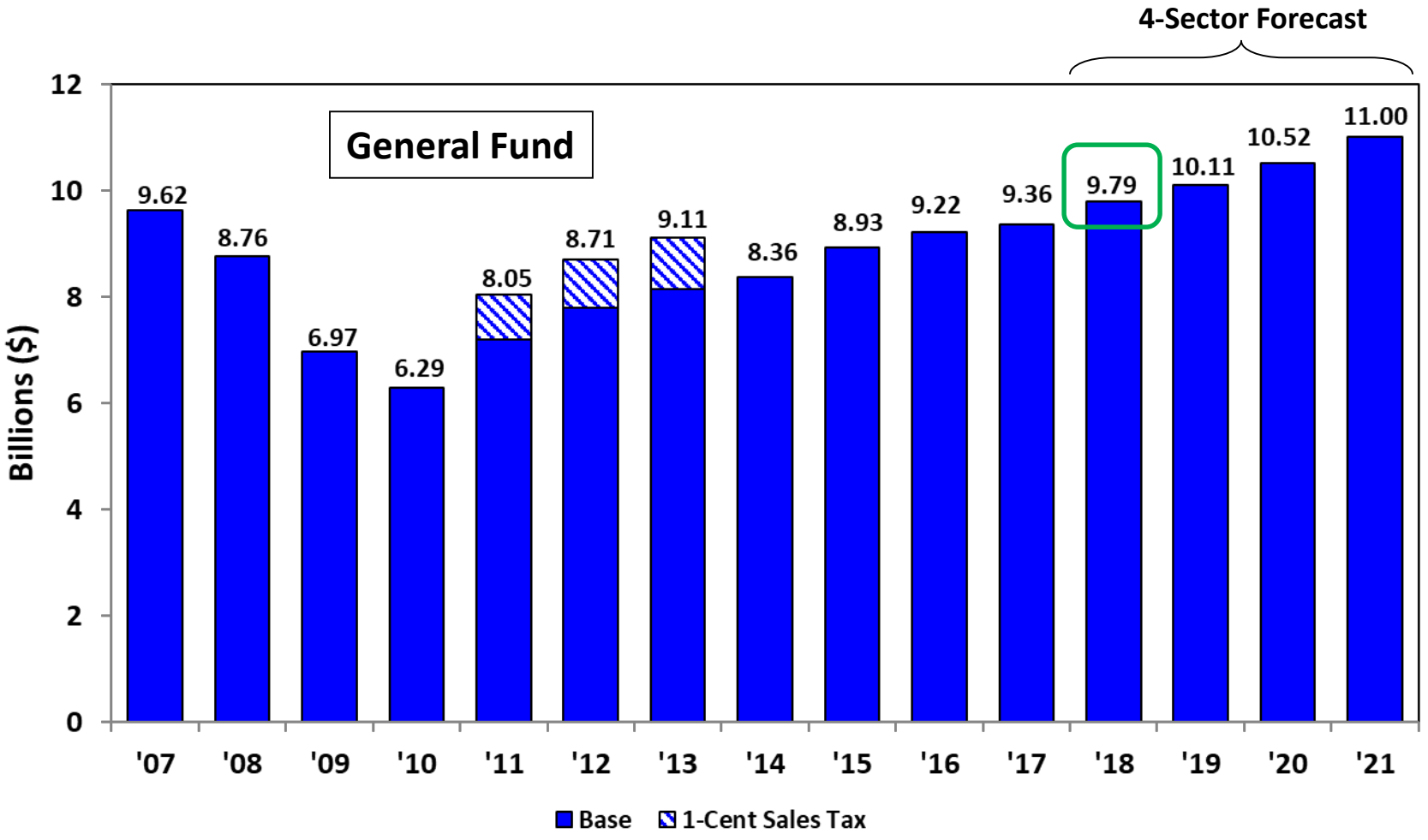
Forecast Reaches Pre-Recession Level in ’18



Excludes balance forward and other one-time revenues. Includes tax law changes and urban revenue sharing.

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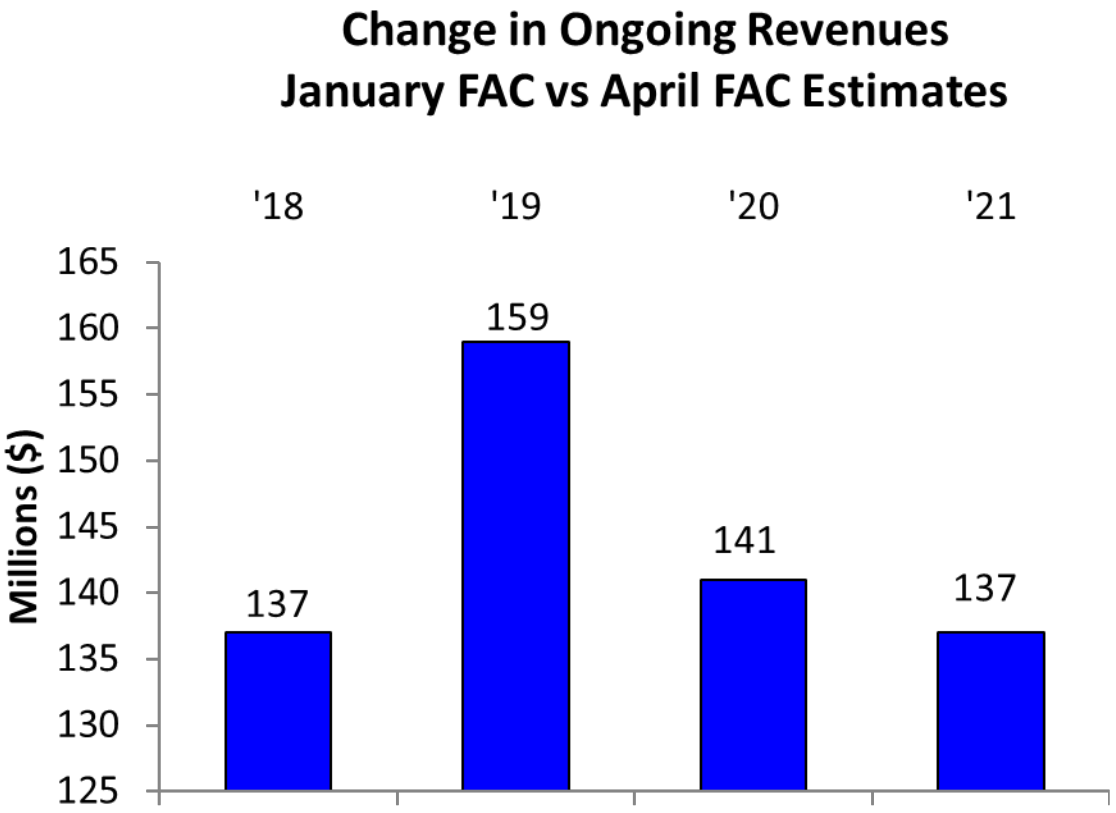
Net Revenue Change Since January



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April Forecast Does Not Address ’18 Federal Conformity

- AZ taxable income largely conforms to federal definition, but no automatic link
- In December, Congress approved significant ‘18 income tax changes
- ***If*** state decides to conform, JLBC speculatively estimates a ‘19 gain of $133 M
- State has not yet addressed ‘18 conformity; April forecast does not reflect this revenue gain

Appendix A: April 2018 4-Sector Forecast

	2018	2019	2020	2021
Sales Tax				
JLBC Forecast	5.6%	4.5%	4.3%	4.2%
UA – Low	5.0%	1.5%	3.5%	4.5%
UA – Base	5.4%	4.6%	5.0%	4.3%
FAC	5.5%	4.8%	4.1%	4.3%
Average:	**5.4%**	**3.8%**	**4.2%**	**4.3%**
Individual Income Tax				
JLBC Forecast	7.0%	4.0%	5.5%	5.3%
UA – Low	7.1%	1.2%	4.0%	5.4%
UA – Base	8.6%	4.4%	5.1%	5.0%
FAC	6.7%	4.8%	4.2%	3.8%
Average:	**7.3%**	**3.6%**	**4.7%**	**4.9%**
Corporate Income Tax				
JLBC Forecast	11.2%	3.6%	4.7%	4.0%
UA – Low	1.9%	0.3%	4.7%	7.5%
UA – Base	2.9%	3.6%	4.7%	5.4%
FAC	-7.5%	1.3%	1.5%	2.3%
Average:	**2.1%**	**2.3%**	**4.0%**	**4.9%**
Insurance Premium Tax				
JLBC Forecast	-0.3%	2.9%	2.3%	2.2%
UA – Low	2.0%	0.4%	0.3%	1.1%
UA – Base	2.0%	0.4%	0.4%	1.6%
FAC	0.3%	2.0%	2.2%	2.0%
Average:	**1.0%**	**1.4%**	**1.3%**	**1.7%**
JLBC Weighted Average	**6.1%**	**4.2%**	**4.7%**	**4.6%**
UA Low Weighted Average	**5.6%**	**1.3%**	**3.6%**	**4.8%**
UA Base Weighted Average	**6.5%**	**4.3%**	**4.8%**	**4.5%**
FAC Consensus Weighted Average	**5.2%**	**4.6%**	**4.0%**	**3.9%**
"Big-4" Weighted Average	**5.9%**	**3.5%**	**4.2%**	**4.4%**
Consensus Weighted Average*	**5.6%**	**3.7%**	**4.2%**	**4.5%**
Adjusted Consensus Weighted Average**	**4.4%**	**3.0%**	**4.1%**	**4.4%**

* Represents ongoing revenue adjusted for small revenue categories.
** Represents ongoing revenue adjusted for tax law changes; excludes urban revenue sharing.

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Appendix B: General Fund Revenue FY '17 - FY '19

FORECAST REVENUE GROWTH

($ in Thousands)

	ACTUAL FY 2017	% CHANGE PRIOR YR	FORECAST FY 2018	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2019	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	4,506,161.1	4.5%	4,733,609.7	5.0%	227,448.7	4,915,713.0	3.8%	182,103.3
Income - Individual	4,130,898.7	4.1%	4,418,776.6	7.0%	287,877.8	4,577,875.3	3.6%	159,098.8
- Corporate	368,136.4	-35.5%	302,572.5	-17.8%	(65,564.0)	309,472.1	2.3%	6,899.6
Property	32,538.5	-15.4%	32,466.4	-0.2%	(72.1)	34,505.7	6.3%	2,039.3
Luxury - Tobacco	22,935.1	-8.1%	21,967.2	-4.2%	(967.9)	21,409.6	-2.5%	(557.6)
- Liquor	34,703.2	1.8%	35,620.0	2.6%	916.8	36,286.0	1.9%	666.0
Insurance Premium	504,339.3	2.8%	500,064.7	-0.8%	(4,274.6)	507,095.7	1.4%	7,031.0
Other Taxes (Includes MV Tax)	2,740.7	-65.6%	3,486.5	27.2%	745.8	988.8	-71.6%	(2,497.7)
Subtotal - Taxes	9,602,453.1	1.6%	10,048,563.7	4.6%	446,110.6	10,403,346.3	3.5%	354,782.6
Other Non-Tax Revenues:								
Lottery	78,690.4	21.1%	93,214.5	18.5%	14,524.1	95,004.3	1.9%	1,789.8
Licenses, Fees and Permits	38,436.5	24.8%	38,454.8	0.0%	18.3	42,396.6	10.3%	3,941.8
Interest	17,001.0	26.0%	19,036.0	12.0%	2,035.0	31,728.9	66.7%	12,692.9
Sales and Services	42,062.1	-1.5%	42,355.0	0.7%	292.9	41,649.2	-1.7%	(705.8)
Other Miscellaneous	83,890.5	-9.4%	88,520.0	5.5%	4,629.4	83,132.1	-6.1%	(5,387.9)
Transfers and Reimbursements	64,129.5	-22.4%	40,753.5	-36.5%	(23,376.0)	63,872.1	56.7%	23,118.6
Disproportionate Share Revenue	94,321.7	0.5%	95,246.5	1.0%	924.9	95,132.7	-0.1%	(113.8)
Subtotal - Other Non-Tax	418,531.7	-0.6%	417,580.3	-0.2%	(951.4)	452,915.9	8.5%	35,335.6
Subtotal On-Going Revenue	**10,020,984.8**	**1.5%** 1/	**10,466,144.0**	**4.4%** 2/	**445,159.2**	**10,856,262.2**	**3.7%**	**390,118.2**
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(75,296.2)	N/A	(75,296.2)
Subtotal w/Tax Law Changes	**10,020,984.8**	**1.5%**	**10,466,144.0**	**4.4%**	**445,159.2**	**10,780,966.0**	**3.0%**	**314,822.0**
Urban Revenue Sharing (URS)	(663,582.2)	N/A	(680,770.1)	N/A	(17,187.9)	(674,804.4)	N/A	5,965.6
Subtotal w/Tax Law Changes/URS	**9,357,402.6**	**1.0%**	**9,785,373.9**	**4.6%**	**427,971.3**	**10,106,161.6**	**3.3%**	**320,787.7**
One-Time Financing Sources:								
Fund Transfers	145,091.5	-34.1%	8,172.7	-94.4%	(136,918.8)	0.0	-100.0%	(8,172.7)
Subtotal - One-Time Financing Sources	145,091.5	-34.1%	8,172.7	-94.4%	(136,918.8)	0.0	-100.0%	(8,172.7)
Subtotal - Revenues	**9,502,494.1**	**0.2%**	**9,793,546.6**	**3.1%**	**291,052.5**	**10,106,161.6**	**3.2%**	**312,615.0**
Balance Forward	284,015.0	-9.1%	150,871.0	-46.9%	(133,144.0)	103,887.9	-31.1%	(46,983.1)
Total - Resources	**9,786,509.1**	**-0.1%**	**9,944,417.6**	**1.6%**	**157,908.5**	**10,210,049.5**	**2.7%**	**265,631.9**

1/ The 1.5% FY 2017 increase includes $(127.4) million in tax law changes. Adjusting for these changes and one-time tax amnesty monies of $47 million in FY 2016, the base FY 2017 increase is 3.3%.

2/ The 4.4% FY 2018 increase includes $(118.2) million in tax law changes. Adjusting for these changes, the base FY 2018 increase is 5.6%.

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Appendix B: General Fund Revenue FY '20 - FY '21

FORECAST REVENUE GROWTH

($ in Thousands)

	FORECAST FY 2020	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2021	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	5,123,682.3	4.2%	207,969.3	5,344,862.3	4.3%	221,179.9
Income - Individual	4,785,718.6	4.5%	207,843.2	5,017,826.7	4.9%	232,108.2
- Corporate	262,335.3	-15.2%	(47,136.8)	274,177.2	4.5%	11,841.9
Property	33,402.8	-3.2%	(1,102.9)	33,793.1	1.2%	390.4
Luxury - Tobacco	21,236.3	-0.8%	(173.3)	21,068.5	-0.8%	(167.9)
- Liquor	37,043.7	2.1%	757.7	37,823.4	2.1%	779.6
Insurance Premium	502,990.2	-0.8%	(4,105.5)	506,892.9	0.8%	3,902.7
Other Taxes (Includes MV Tax)	1,038.2	5.0%	49.4	1,090.1	5.0%	51.9
Subtotal - Taxes	10,767,447.5	3.5%	364,101.2	11,237,534.2	4.4%	470,086.7
Other Non-Tax Revenues:						
Lottery	105,704.9	11.3%	10,700.6	116,963.9	10.7%	11,259.0
Licenses, Fees and Permits	43,875.5	3.5%	1,478.9	45,418.4	3.5%	1,542.9
Interest	41,645.6	31.3%	9,916.7	46,065.2	10.6%	4,419.6
Sales and Services	41,871.3	0.5%	222.1	42,071.7	0.5%	200.3
Other Miscellaneous	81,269.3	-2.2%	(1,862.8)	84,289.6	3.7%	3,020.4
Transfers and Reimbursements	57,754.2	-9.6%	(6,117.8)	61,380.5	6.3%	3,626.2
Disproportionate Share Revenue	94,663.2	-0.5%	(469.5)	94,663.2	0.0%	0.0
Subtotal - Other Non-Tax	466,784.0	3.1%	13,868.1	490,852.4	5.2%	24,068.4
Subtotal On-Going Revenue	**11,234,231.5**	**3.5%** 3/	**377,969.3**	**11,728,386.6**	**4.4%** 4/	**494,155.1**
Previously Enacted Tax Law Changes	(6,433.3)	N/A	68,862.9	(5,800.0)	N/A	633.3
Subtotal w/Tax Law Changes	**11,227,798.2**	**4.1%**	**446,832.2**	**11,722,586.6**	**4.4%**	**494,788.4**
Urban Revenue Sharing (URS)	(708,202.4)	N/A	(33,397.9)	(723,382.7)	N/A	(15,180.3)
Subtotal w/Tax Law Changes/URS	**10,519,595.8**	**4.1%**	**413,434.3**	**10,999,203.9**	**4.6%**	**479,608.1**
One-Time Financing Sources:						
Fund Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - Revenues	**10,519,595.8**	**4.1%**	**413,434.3**	**10,999,203.9**	**4.6%**	**479,608.1**
Balance Forward	0.0	-100.0%	(103,887.9)	0.0	N/A	0.0
Total - Resources	**10,519,595.8**	**3.0%**	**309,546.4**	**10,999,203.9**	**4.6%**	**479,608.1**

3/ Adjusting for the $(75.3) million in tax law changes in FY 2019, the base FY 2020 increase is 4.2%.

4/ Adjusting for the $(6.4) million in tax law changes in FY 2020, the base FY 2021 increase is 4.5%.

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