
Finance Advisory Committee

Revenue and Budget Update

April 13, 2016

JLBC

Summary of Current Budget Status

- ❑ April revenue forecast is comparable to January Baseline estimates
- ❑ While '16 has improved, '17 estimates have declined
- ❑ The net impact of the April FAC results would reduce '17 revenues by \$(8) M, compared to the January Baseline
- ❑ '18 and '19 base revenues are each down approximately \$70 M compared to January Baseline

Revenue Growth Improves Slightly Over Time

April Consensus Forecast

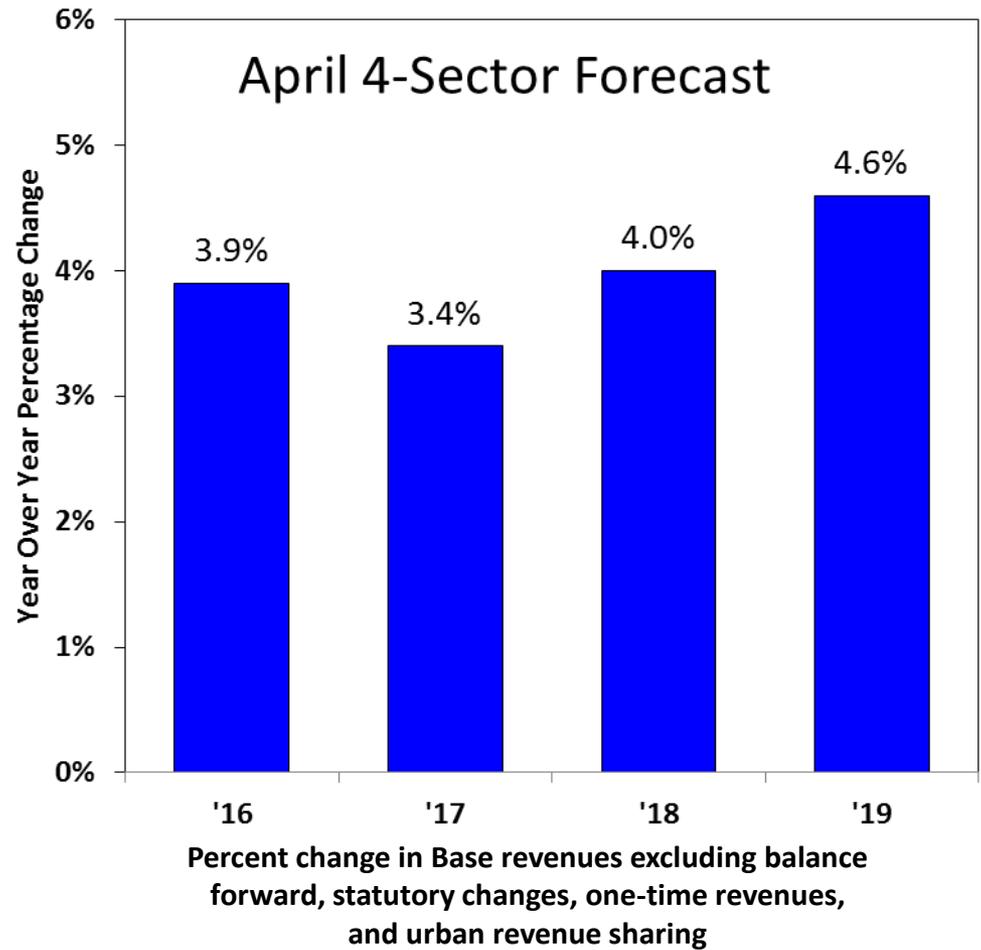
- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Chance of Exceeding Forecast

- 66%

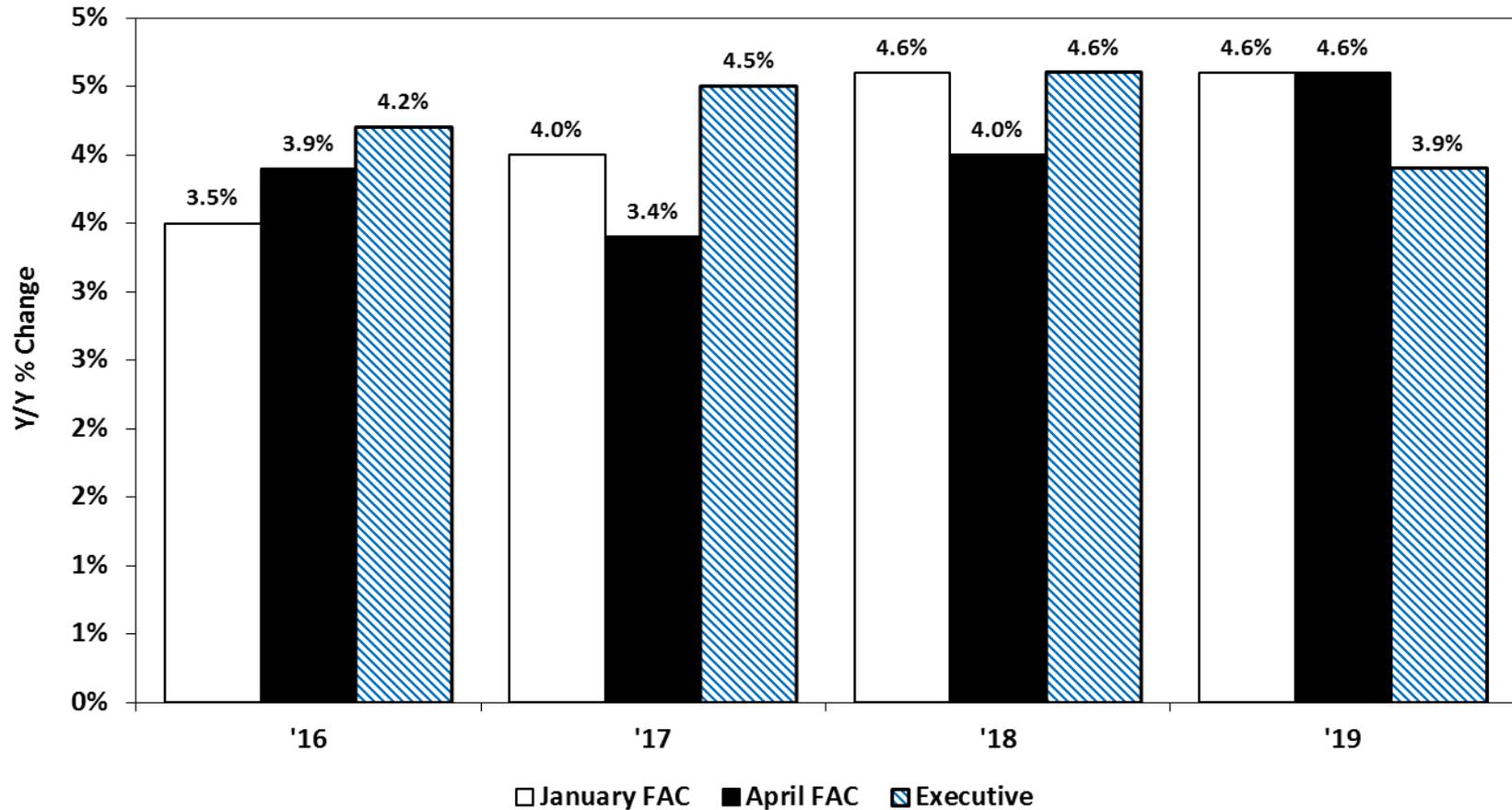
Long Run Average Growth

- 4.7%

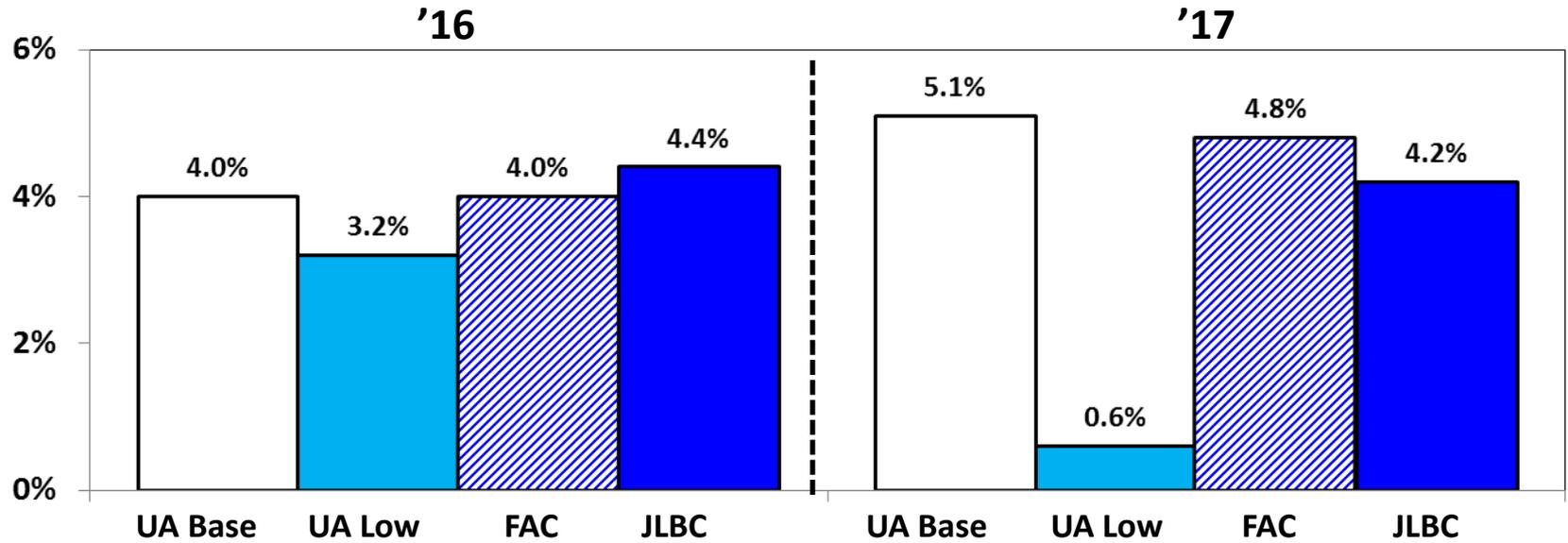


April Forecast Versus January FAC & Executive

Base Revenue Growth Rate Without Policy Changes



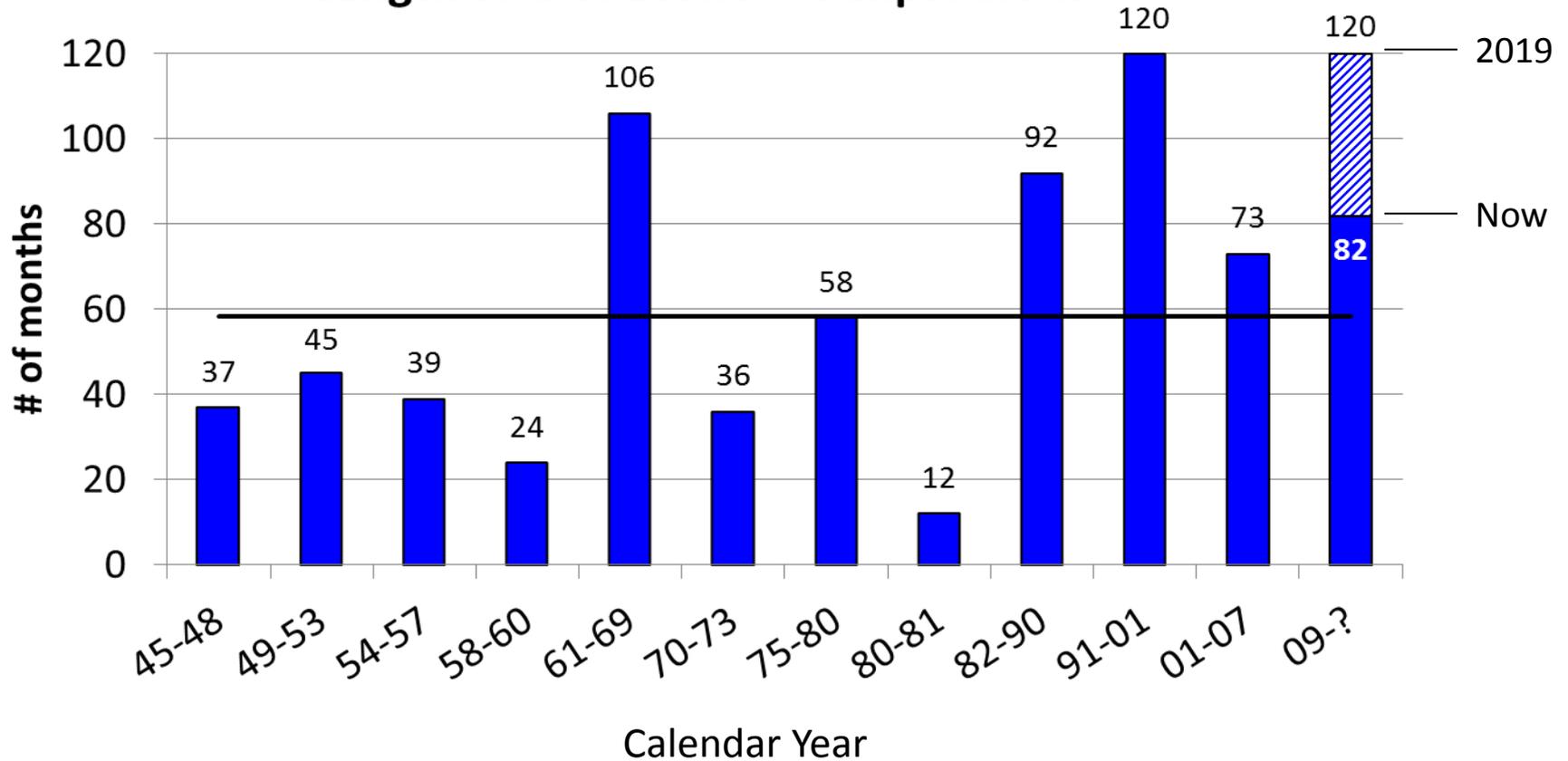
4-Sector Base Growth is 3.9% in '16 & 3.4% in '17



- ❑ With exception of UA Low, other sectors have comparable '17 growth rates
- ❑ Recessions rarely predicted in advance
- ❑ Especially given current length of expansion, an economic slowdown remains possible

Forecast Risk: Current Expansion Exceeds Historical Average

Length of U.S. Economic Expansions



Forecast Risks II

- 1% Variance Yields \$625 M Over 3 Years

Potential Gains / Upside

- Increased net migration to AZ
- Continuation of low oil and gas prices

Potential Losses / Downside

- Future monetary policy mistakes
- Slower global growth and a stronger dollar would hurt AZ exports and international tourism

Potential Litigation Losses

- Ongoing retirement litigation
- Hospital assessment
- Rental car surcharge
- Foster care lawsuit in U.S. District Court

Revenue Overview

'16 Revenue Growth Dropped from High '15

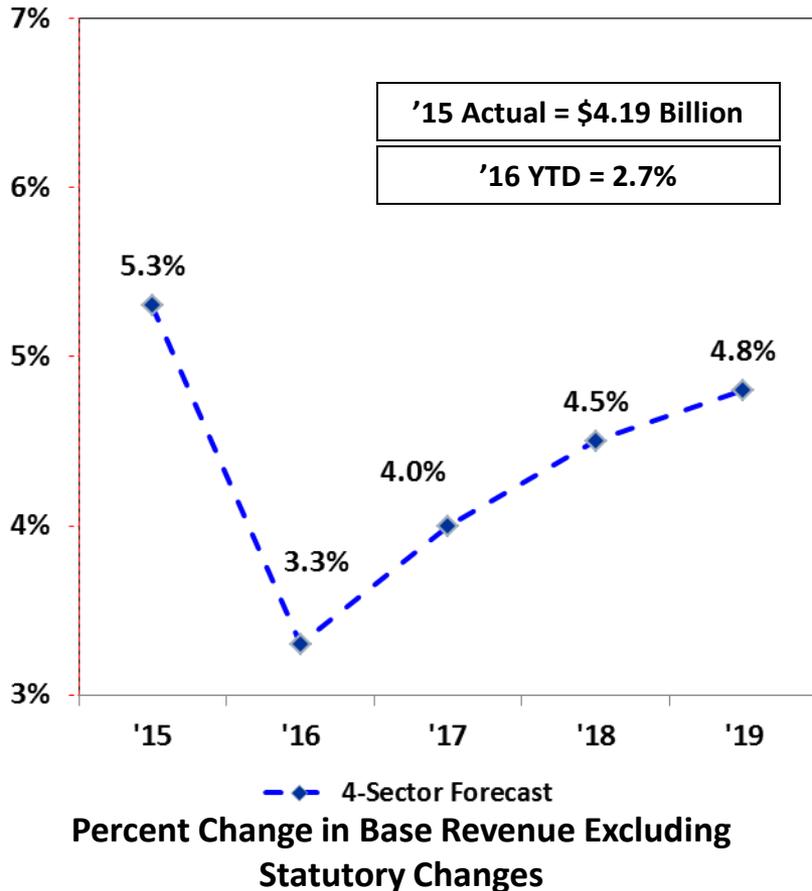
- Led by Slow Sales and Tax Law Phase-in

	<u>'15 Actual</u>	<u>'16 YTD</u>
Sales	4.9%	2.7%
Individual Income	8.6%	3.6%
Corporate Income	15.3%	(9.8)%
Overall	7.1%	3.1%

- ❑ Through March, year-to-date revenues \$29 M above forecast
- ❑ Difficult to interpret YTD in middle of tax filing season

Sales Tax

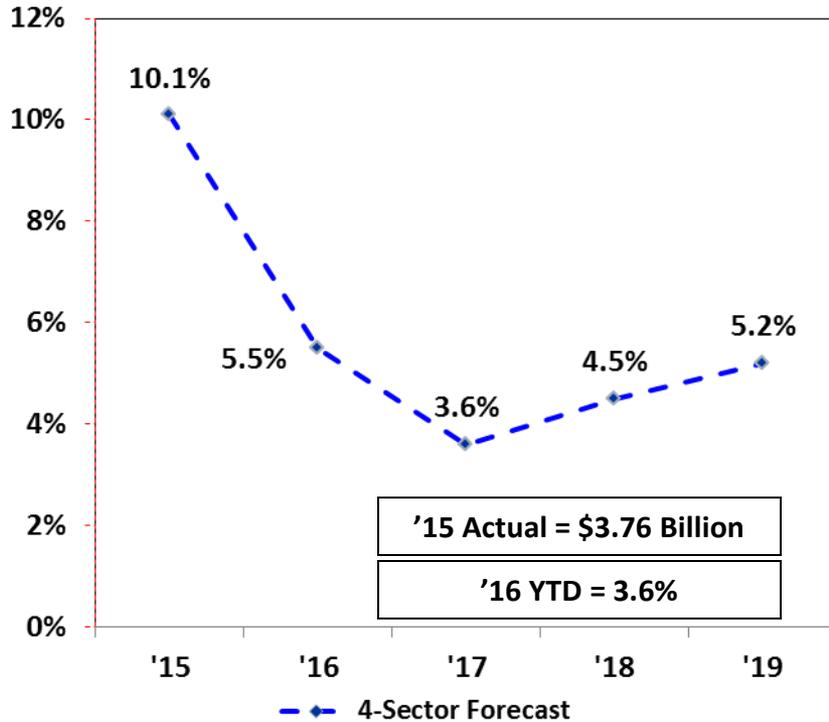
- Projected Growth of 3.3% in '16 and 4.0% in '17



- YTD, retail is up 7.8%; contracting is down (16.4)%
- Trends likely related to Jan. '15 contracting law
- \$15 M in '16 amnesty collections
- Overall, 2.2% YTD growth is weak (adjusted for amnesty)

Individual Income Tax

- Projected Growth of 5.5% in '16 and 3.6% in '17



Percent Change in Base Revenue Excluding Statutory Changes and One-Time Changes

- '15: low withholding growth offset by capital gains
- That trend persists YTD in '16

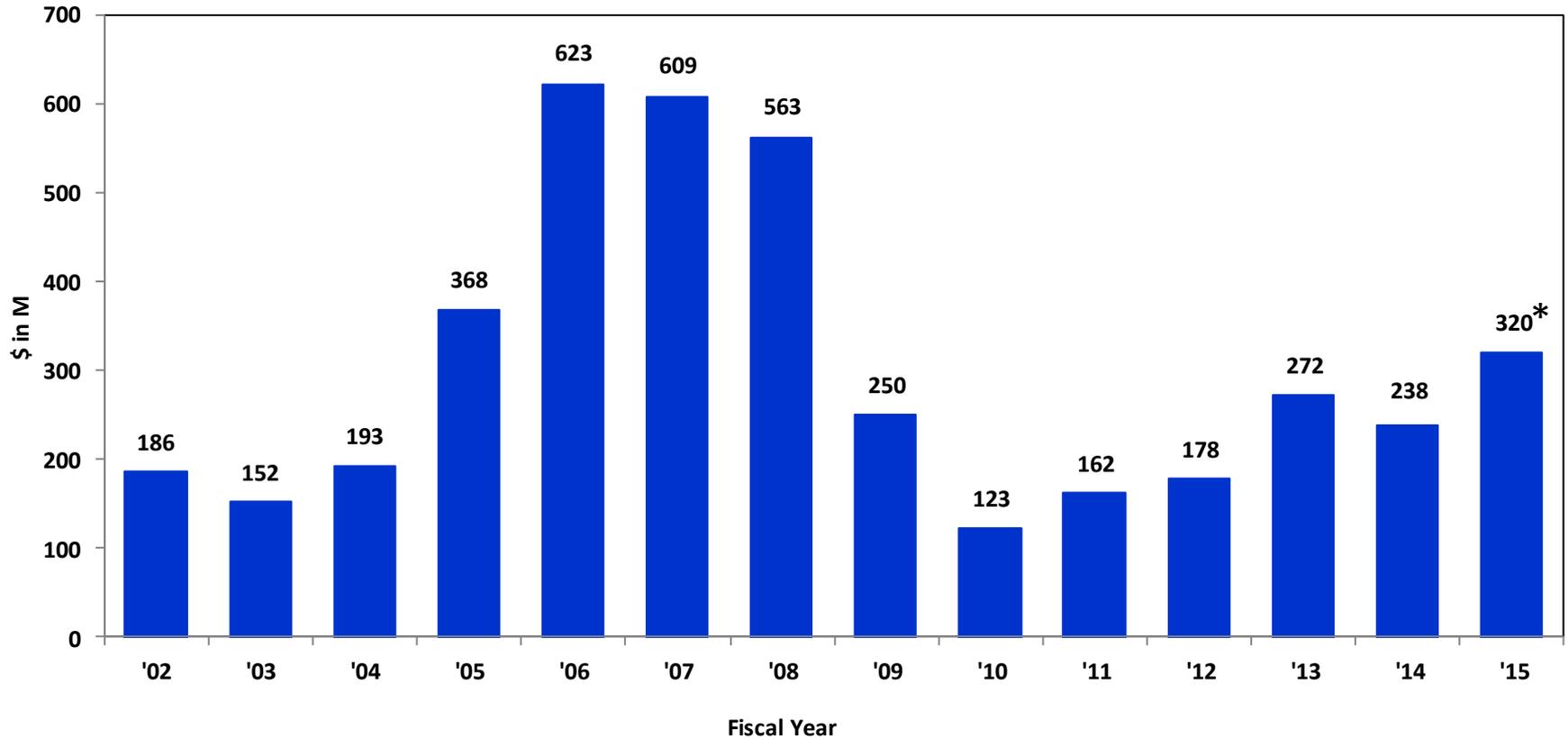
'16 Continues Slow Withholding/High Payments

Percent Gain Above Prior Year		
	<u>'15</u>	<u>'16 YTD</u>
Withholding	3.4%	2.7%
Payments	14.8%	21.1%
Refunds	(0.8)%	13.0%
Net	<u>8.6%</u>	<u>3.6%</u>

- ❑ Withholding growth remains sluggish at 2.7%
- ❑ YTD payment growth related to:
 - One-time fiduciary income
 - Late filers '14 gains
- ❑ Too early to tell magnitude of April payments
- ❑ High YTD refund growth due to timing of return processing

Capital Gains Estimates Have Been Rebased

- Uses Lower Effective Tax Rate of 3.8%

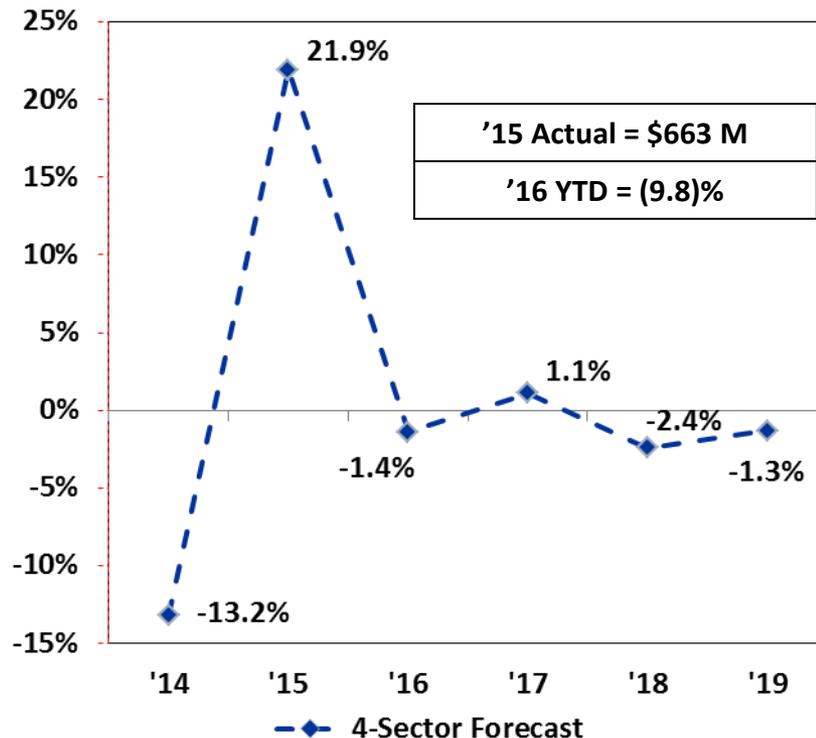


Individual Income Tax Capital Gains Revenue

* Preliminary '15 Estimate

Corporate Income Tax

- Projected Growth of (1.4)% in '16 and 1.1% in '17

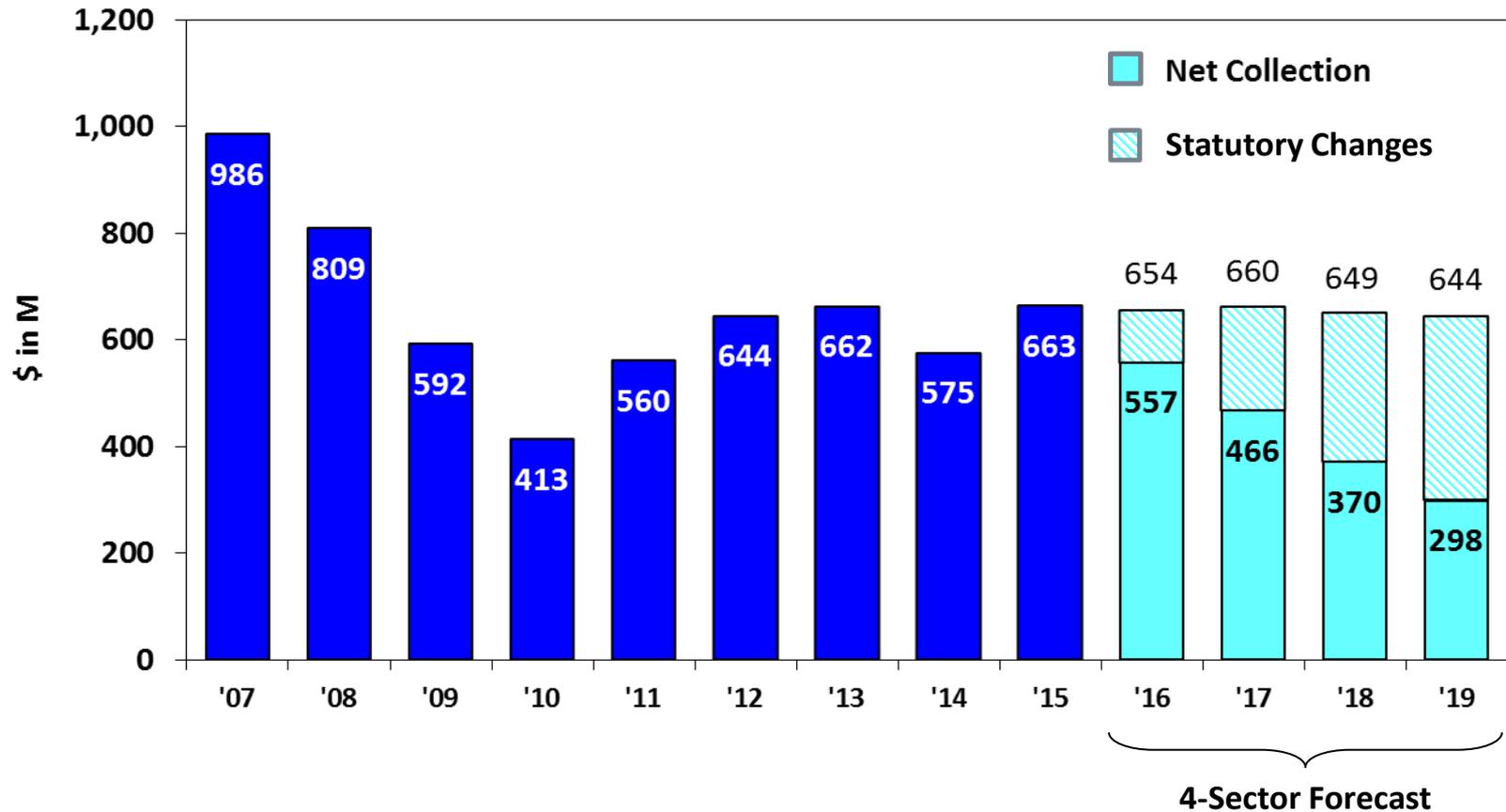


Percent Change in Base Revenue Excluding Statutory Changes and One-Time Changes

- In 22 of last 28 years, annual change has been > +/- 10%
- Excluding amnesty gains, YTD decline is actually (15.0)%
- '16 decline likely due to tax cuts, but no definitive evidence

'19 CIT Projected to be \$298 M

- Primary Reductions are 2% Rate Cut and 100% Sales Factor

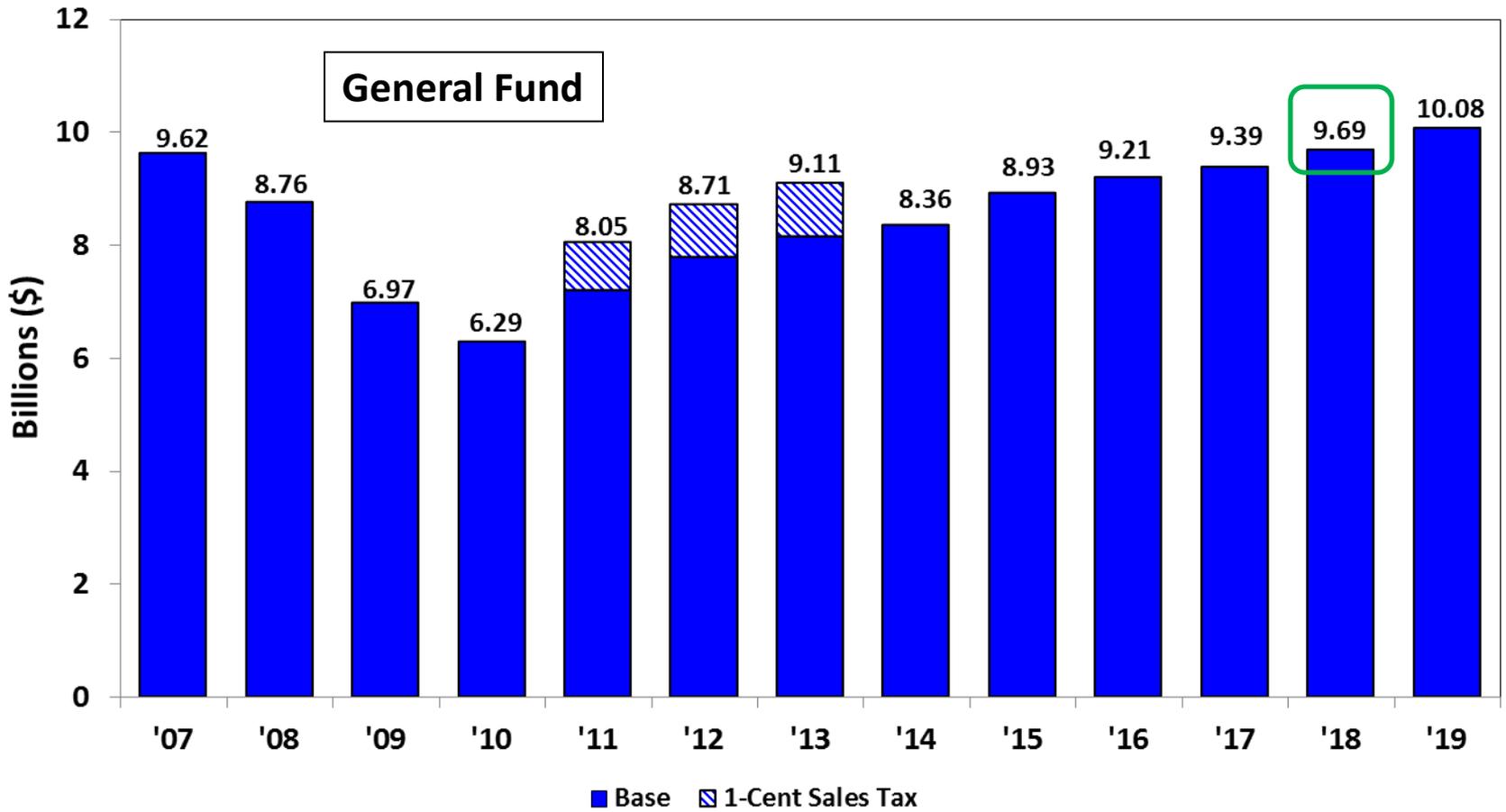


Components of the Revenue Forecast

- Excludes Change in Beginning Balance

	\$ in M			
	<u>'16</u>	<u>'17</u>	<u>'18</u>	<u>'19</u>
Base Revenue Growth (3.9%/3.4%/4.0%/4.6%)	375	339	404	475
One-Time Fund Transfers	139	(117)	(100)	0
One-Time Amnesty Collections	47	(47)	0	0
Previously Enacted Tax Legislation	(98)	(98)	(90)	(73)
Urban Revenue Sharing	3	(58)	(15)	(9)
Total	466	19	199	393
% Change	5.2%	0.2%	2.1%	4.1%

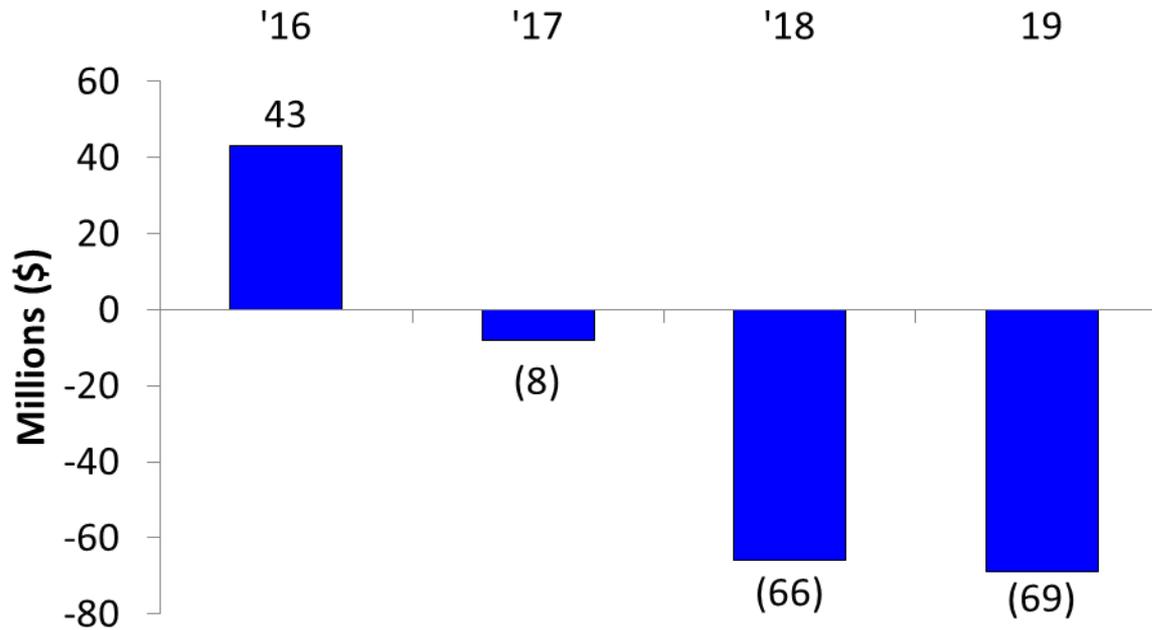
Revenue Will Reach Pre-Recession Level in '18



Excludes balance forward and other one-time revenues. Includes tax law changes and Urban Revenue Sharing.

Net Revenue Change Since January

Change in Ongoing Revenues
January FAC vs April FAC Estimates

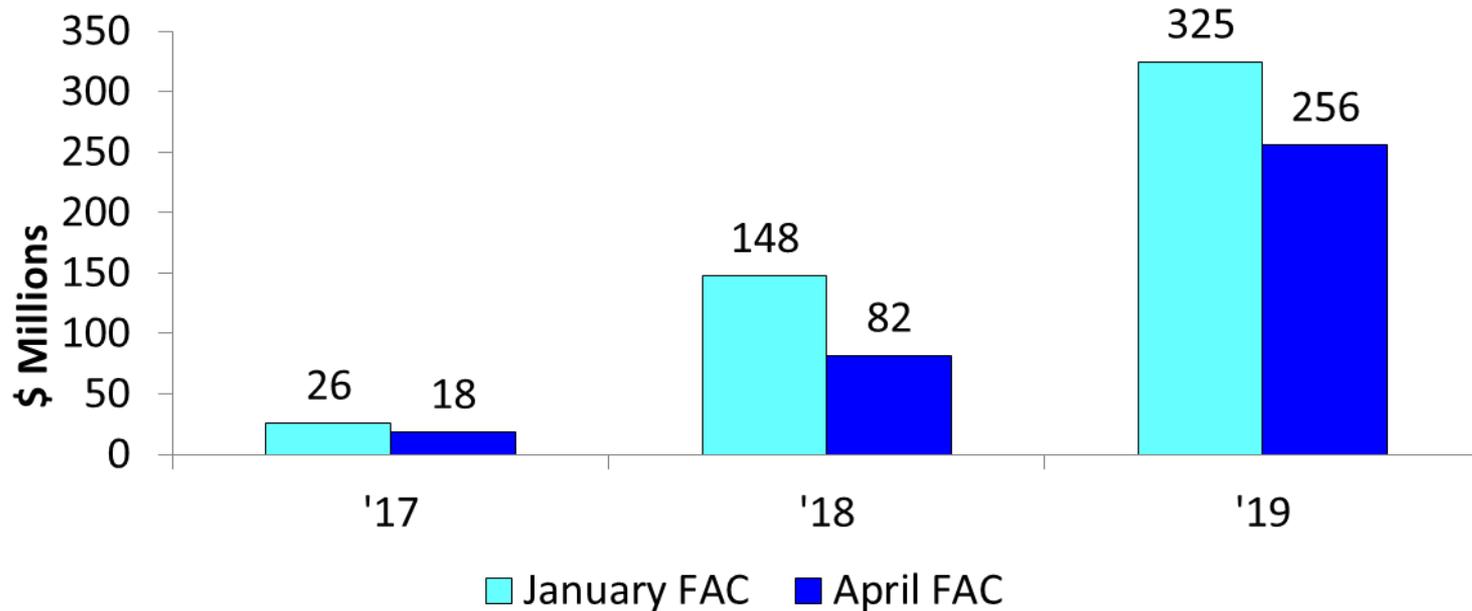


Impact of April FAC Forecast on Cash and Structural Balances

- ❑ Spending assumes January Baseline
- ❑ '17: large cash balance, small structural balance
- ❑ Using cash balance for ongoing items creates structural gap
- ❑ Excludes \$460 M Rainy Day Fund Balance

FY 2017 Projections (\$ in M)		
	Baseline (January)	Revised (April)
Balance Forward / Other One-time Revenues	\$ 599	\$ 642
Ongoing Revenues	9,397	9,389
Ongoing Spending	(9,371)	(9,371)
Cash Balance	\$ 625	\$ 660

Baseline Structural Balance Improves Through '19



- ❑ Improving balances could provide more flexibility, but...
- ❑ Based on highly unlikely assumption of no discretionary changes in next 3 years

Appendix

Appendix: April 2016 4-Sector Forecast

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Sales Tax				
JLBC Forecast	3.1%	4.5%	4.5%	4.3%
UA – Low	3.3%	1.7%	3.2%	4.9%
UA – Base	3.6%	5.7%	6.2%	5.8%
FAC	3.4%	4.2%	4.0%	4.1%
Average:	3.3%	4.0%	4.5%	4.9%
Individual Income Tax				
JLBC Forecast	6.3%	4.0%	4.8%	4.8%
UA – Low	4.5%	-0.3%	3.2%	5.1%
UA – Base	5.1%	5.2%	5.4%	5.4%
FAC	6.0%	5.5%	4.5%	5.5%
Average:	5.5%	3.6%	4.5%	5.2%
Corporate Income Tax				
JLBC Forecast	1.7%	2.7%	3.0%	3.0%
UA – Low	-4.5%	-2.2%	-7.5%	-6.4%
UA – Base	0.0%	0.0%	-8.8%	-8.0%
FAC	-2.7%	3.8%	3.1%	3.8%
Average:	-1.4%	1.1%	-2.4%	-1.3%
JLBC Weighted Average	4.4%	4.2%	4.6%	4.5%
UA Low Weighted Average	3.2%	0.6%	2.7%	4.6%
UA Base Weighted Average	4.0%	5.1%	5.1%	5.1%
FAC Consensus Weighted Average	4.0%	4.8%	4.2%	4.7%
“Big-3” Weighted Average	3.9%	3.7%	4.1%	4.7%
Consensus Weighted Average*	3.9%	3.4%	4.0%	4.6%
Adjusted Consensus Weighted Average**	2.9%	2.5%	3.1%	3.9%

* Represents on-going revenue adjusted for small revenue categories.

** Represents on-going revenue adjusted for tax law changes; excludes Urban Revenue Sharing.