

ARIZONA
REVENUE HIGHLIGHTS
JULY 2002

Final July General Fund revenues were \$455.9 million. This amount is \$(3.3) million below July 2001 collections, and \$(25.6) million below the forecast for the month. Final July revenues are \$(10.7) million below the estimate reported in the preliminary July report, due primarily to revisions in the final sales tax distributions.

Most of the July forecast deficit came from the individual income tax, which finished (5.0)% below July 2001 collections and \$(20.6) million below forecast for the month. Sales tax collections were also below expectations, coming in (0.6)% below July 2001 and \$(8.5) million under the forecast. On a positive note, the corporate income tax, estate tax, and insurance premium tax all ended the month above the forecast.

At the time of its enactment in May, the FY 2003 General Fund budget was based on total revenues for the year of \$6.17 billion, which is actually below FY 2002 collections. This decline is due to the greater use of one-time funding sources in the FY 2002 budget. After adjusting for these one-time revenues and other minor tax law changes, however, the enacted budget's underlying baseline growth rate was a 4.2% increase over estimated FY 2002 collections. As reported in an earlier Revenue Highlights, final FY 2002 revenues are approximately \$(89.5) million below the estimates. With this lower FY 2002 General Fund revenue base, FY 2003 revenues will now need baseline growth of 5.6% to reach the budgeted level of \$6.17 billion.

The revision in the growth percentages especially affects the individual income tax forecast. Our original estimate of individual income growth was 5.4%, but will now become 11.2% with the lower FY 2002 base. The revised sales tax growth estimate of 2.7%, on the other hand, is comparable to our original forecast since FY 2002 collections were close to the projections. Meeting either the individual income or sales tax targets, however, will probably prove difficult as each category's monthly collections are still running negative compared to the prior year.

Sales Tax revenues declined by (0.6)% in July and were \$(8.5) million below forecast. A brief description of collections in the major sales tax categories follows:

- **Retail Sales Tax** collections grew by 3.0% in July. This is the largest growth rate for this category since March. However, this month's growth is probably more of an indication that retail sales are coming off a low base year than that retail sales are rebounding.
- **Contracting Tax** receipts decreased by (6.6)% for the month.
- **Use Tax** revenues fell by (15.0)% in July, continuing their downward plunge.

Individual Income Tax receipts fell by (5.0)% in July compared to the same month last year. Actual collections were \$(20.6) million less than forecasted. Of this forecast shortfall, \$(13.0) million was attributable to a (1.5)% decrease in withholding, which recorded the seventh consecutive month of negative growth (compared to the same month in the prior year). Declining withholding collections are consistent with the job losses reported by the Department of Economic Security over the same period this calendar year. Refunds in July exceeded our forecast by \$7.6 million. This forecast error

was probably due to a delayed processing of tax year 2001 income tax returns and the fact that there was one more processing day in July this year compared to last year.

Corporate Income Tax collections were \$16.2 million in July, which is \$1.9 million, or 13.3%, above forecast for the month. While this month is 31.7% million above last July, it is difficult to predict what the month will mean for the fiscal year since July traditionally represents only 3%-4% of annual corporate income tax collections. Several months will be required to better gauge the health of this category.

Other Revenue Sources – in addition to the “Big 3” tax categories, there are variances in several other categories compared to the forecast:

Insurance Premium Tax – July 2002 collections were \$4.1 million above last year, and \$3.9 million above the forecast.

Estate Tax – July 2002 collections were \$1.6 million greater than last year, and \$1.2 million above the forecast.

Other Revenues – Partially offsetting these increases was a \$(3.8) million reduction in other revenue sources such as sales and services and other miscellaneous revenues.

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**STATE OF ARIZONA
GENERAL FUND REVENUE COLLECTIONS: CHANGE SUMMARY
JULY 2002
(\$ in Millions)**

TAX REVENUE	Current Month					Fiscal 2003 Year-to-Date (One Month)				
	Actual	Difference From		Difference From		Actual	Difference From		Difference From	
	July 2002	Amount	%	Amount	%	July 2002	Amount	%	Amount	%
Sales and Use	\$257.9	\$(1.4)	(0.6)%	\$(8.5)	(3.2)%	\$257.9	\$(1.4)	(0.6)%	\$(8.5)	(3.2)%
Income – Individual	171.8	(9.1)	(5.0)	(20.6)	(10.7)	171.8	(9.1)	(5.0)	(20.6)	(10.7)
- Corporate	16.2	3.9	31.7	1.9	13.3	16.2	3.9	31.7	1.9	13.3
Property	0.5	(0.1)	(13.5)	0.1	12.1	0.5	(0.1)	(13.5)	0.1	12.1
Other Taxes	39.7	5.5	15.9	4.6	13.1	39.7	5.5	15.9	4.6	13.1
Urban Rev. Sharing	(35.9)	(0.7)	2.1	0.0	(0.0)	(35.9)	(0.7)	2.1	0.0	(0.0)
Sub-Total Taxes	450.3	(1.9)	(0.4)	(22.5)	(4.8)	\$450.3	\$(1.9)	(0.4)	(22.5)	(4.8)
OTHER REVENUE										
Lottery	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	(0.1)	(0.1)	346.2	(0.1)	495.4	(0.1)	(0.1)	346.2	(0.1)	495.4
Other Miscellaneous	5.7	(1.3)	(18.9)	(3.0)	(34.6)	5.7	(1.3)	(18.9)	(3.0)	(34.6)
Sub-Total Other	5.6	(1.4)	(19.7)	(3.1)	(35.3)	5.6	(1.4)	(19.7)	(3.1)	(35.3)
TOTAL REVENUE	\$455.9	\$(3.3)	(0.7)%	\$(25.6)	(5.3)%	\$455.9	\$(3.3)	(0.7)%	\$(25.6)	(5.3)%
Education Sales Tax	36.6	0.6	1.8%	(2.0)	(5.1)	36.6	0.6	1.8%	(2.0)	(5.1)
GRAND TOTAL	\$492.6	\$(2.7)	(0.5)%	\$(27.6)	(5.3)%	\$492.6	\$(2.7)	(0.5)%	\$(27.6)	(5.3)%

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SELECT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change Over Prior Period</u>	<u>Change Over Prior Year</u>
Arizona Consumer Confidence	1 st Quarter	96.2	1.0%	(10.6)%
Arizona Unemployment Rate	July	6.0%	(0.0)%	(1.5)%
Arizona Jobs	July	2.2 million	(1.4)%	(1.1)%
Arizona Building Permits (\$ amount)	1 st Quarter	\$2.8 billion	13.0%	(17.0)%
Arizona Building Permits (number)	1 st Quarter	31,831	12.0%	(6.0)%
Arizona Population	July 2001	5.3 million	NA	3.7%
Arizona Personal Income	1 st Quarter	\$136.6 billion	1.4%	2.7%
U.S. Consumer Confidence	July	97.1	(8.7)%	(16.7)%
U.S. Leading Economic Indicators Index	July	111.7	(2.0)%	1.6%
U.S. Real GDP	1 st Quarter	\$9.5 trillion	6.1%	1.7%
U.S. CPI Index	1 st Quarter	178.1	1.4%	1.2%