

ARIZONA

REVENUE HIGHLIGHTS

SEPTEMBER 2000

The final September revenues were \$66.8 million above the original budget forecast for the month, bringing the year-to-date overage to \$85.2 million. In our preliminary report issued during the first week of this month, we estimated that year-to-date revenues were \$89.2 million above the original budget forecast. The current estimate of excess revenues does not incorporate this fiscal year's share of the unbudgeted alternative fuel tax credit liability.

September collections exceeded the forecast mainly due to higher than expected corporate income tax receipts. Corporate tax payments finished \$48.0 million above the monthly forecast and are now \$57.9 million ahead of the year-to-date forecast. In addition, the sales tax and the individual income tax also posted strong months.

Sales Tax revenues in September grew by 11.8% over the prior September and are now \$16.1 million over the year-to-date forecast. Through the first three months of the fiscal year, sales tax collections appear to be on track for another year of impressive growth. A description of receipts in the major sales tax categories follows:

- **Retail Sales Tax** collections increased by 12.9% over September of last year and are now up by 7.8% over last year. The 12.9% growth for this month follows on the heels of last month's 4.0% growth, demonstrating that even with the normally robust retail sales tax, there is a fair amount of variability in tax collections from month to month.
- **Contracting Tax** revenues grew by 9.0% for the month, raising the year-to-date growth rate to 5.9%. Growth in this tax category has steadily declined from the peak year of FY 1999, when growth averaged 17.0%.
- **Utility Tax** receipts continue to surge upward, growing by 20.2% over last September. For the fiscal year-to-date, utility tax revenues are 13.8% ahead of the previous year.

Individual Income Tax collections in September exceeded our forecast by \$10.9 million. The corresponding forecast error year-to-date is \$9.5 million. Most of the difference between actual and forecasted collections in September is attributable to lower than expected refunds, which suggests that higher than forecasted refunds may be processed next month.

Total income tax receipts for the first three months have grown by an impressive 10.5% compared to last year. Withholding receipts are up 9.5% so far this year, which does not indicate any cooling in employment or wage growth. September is also one of the four months when estimated payments are due, and these were up 9.1% in September and 10.4% for the fiscal year-to-date. These payments often signal how strong payments may be later in the year. Since the largest collections take place in the spring, it is too early, however, to draw any definitive conclusion as to what the final tally for FY 2001 may be.

Corporate Income Tax revenues in September surpassed the forecast by 46.6%, bringing the year-to-date overage to \$57.9 million. September is one of the four big months for corporate income tax payments, and this September was an extraordinary one.

Typical corporate income tax collections in September would fall between \$110.0 million and \$120.0 million. Prior to this month, the largest single monthly collection amount the state had ever received was \$129.8 million in June 1997. This past September, collections reached a record \$151.1 million.

The Department of Revenue has indicated that this windfall in collections is *not* the result of an unanticipated audit recovery. This may not bode well for collections this upcoming December. Historically, when the state received a large surge

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in corporate income tax collections in September, unless the surge was due to an audit recovery, December collections dropped markedly as compared to the forecast. As a result, we will need to monitor December collections closely.

FY 2001 GENERAL FUND REVENUE COLLECTIONS DIFFERENCE FROM PRIOR YEAR AND THE FORECAST (\$ in Millions)										
	Current Month					Fiscal Year-to-Date (Three Months)				
	Actual	Difference From Last Year		Difference From Forecast		Actual Through	Difference From Last Year		Difference From Forecast	
TAX REVENUE	<u>September 2000</u>	<u>Amount</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>September 2000</u>	<u>Amount</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Sales and Use	\$244.0	\$25.8	11.8%	\$7.0	3.0%	\$738.7	\$63.6	9.4%	\$16.1	2.2%
Income-Individual	249.4	30.2	13.8	10.9	4.6	615.2	58.5	10.5	9.5	1.6
-Corporate	151.1	41.7	38.1	48.0	46.6	178.6	51.1	40.0	57.9	48.0
Property	0.0	0.0	(0.6)	0.0	3.1	0.7	0.0	2.1	0.0	5.9
Other Taxes	13.2	(6.0)	(31.3)	(1.8)	(11.7)	82.8	(6.5)	(31.3)	(0.5)	(11.7)
Urban Rev. Sharing	<u>(33.0)</u>	<u>(1.6)</u>	5.0	<u>0.0</u>	0.0	<u>(99.1)</u>	<u>(4.7)</u>	5.0	<u>0.0</u>	0.0
Sub-Total Taxes	624.7	90.1	16.9	64.2	11.5	1,516.9	162.0	12.0	83.0	5.8
OTHER REVENUE										
Lottery	1.3	(0.1)	(5.8)	(0.1)	(5.8)	3.1	0.2	5.7	0.2	5.7
Interest	7.6	3.3	74.3	3.4	79.3	12.1	2.7	28.7	2.7	28.1
Other Miscellaneous	<u>7.4</u>	<u>(2.8)</u>	(27.4)	<u>(0.7)</u>	(8.8)	<u>18.0</u>	<u>(22.1)</u>	(27.4)	<u>(0.6)</u>	(8.8)
Sub-Total Other	16.3	0.4	2.3	2.6	18.8	33.2	(19.2)	0.0	2.3	7.4
TOTAL REVENUE	\$641.0	\$90.5	16.4	\$66.8	11.6	\$1,550.1	\$142.8	10.1	\$85.2	5.8

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SELECT ECONOMIC INDICATORS			
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change Over Prior Year Period</u>
Arizona Leading Economic Indicators	June	109.6	0.9%
Arizona Unemployment Rate	August	4.0%	(0.5)%
Arizona Jobs	August	2.23 million	4.6%
Arizona Building Permits	July	\$950.7 million	5.0%
Arizona Population	July	5.05 million	2.5%
Arizona Personal Income	1st Quarter	\$127.0 billion	8.7%
U.S. Real GDP	2nd Quarter	\$9.31 trillion	5.3%
U.S. CPI Index	2nd Quarter	171.6	3.6%