
June Budget Update

June 19, 2020

JLBC

Summary

- ❑ Since the April forecast, General Fund revenues have not fallen as much as expected
- ❑ As a result, the projected shortfall by the end of '21 has declined from \$(1.1) B to \$(708) M
- ❑ Of the \$(708) M:
 - \$(190) M would be incurred in '20 and
 - \$(518) M would be incurred in '21

'21 Balance Could Vary from \$0 to \$(1) B Shortfall

- Several Factors Will Influence the Outcome

- Potential for 2nd COVID wave and the government's policy response
- Availability and effectiveness of a future vaccine
- Willingness of the public to resume normal activities
- The Executive's plan for allocating federal COVID resources

When Will GDP Return to Pre-COVID Level?

- Opinion Varies Widely

	<u>% of Panel</u> *
Earlier than CY '21	2
CY '21	30
CY '22	43
Later than CY '22	25

* Survey of 34 economists by FiveThirtyEight and the University of Chicago

Forecasting State Revenues

July Filing Date Complicates Accounting

- ❑ April income tax filing deadline deferred to July
- ❑ Deferral is primarily an Individual Income Tax issue, as corporations generally pay through quarterly estimates
- ❑ As a result, forecast shifts \$600 M in General Fund revenue collections from '20 to '21
- ❑ 4-Sector forecast displayed with and without deferral; the latter provides better sense of underlying economy

June 4-Sector Forecast

- (5.9)% Decline without Deferral, 4.4% Gain with Deferral in '21

June Consensus Forecast

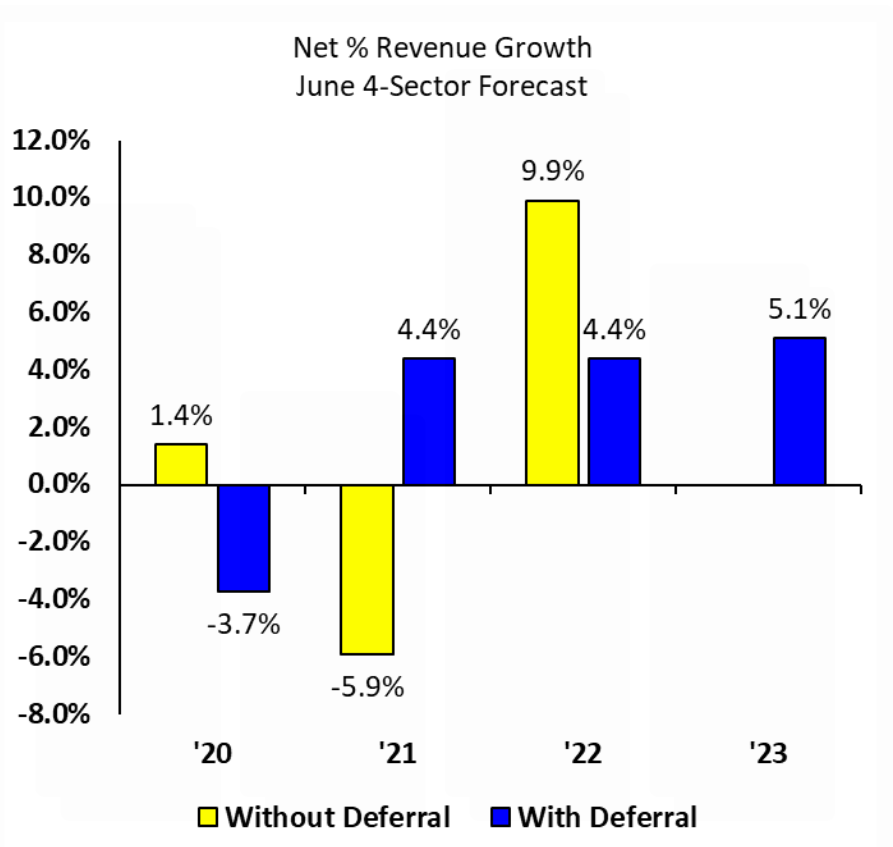
- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Represents Net Growth

- Includes enacted law changes

'20 Forecast

- '20 based only on JLBC Staff forecast
- Staff incorporate recent June data



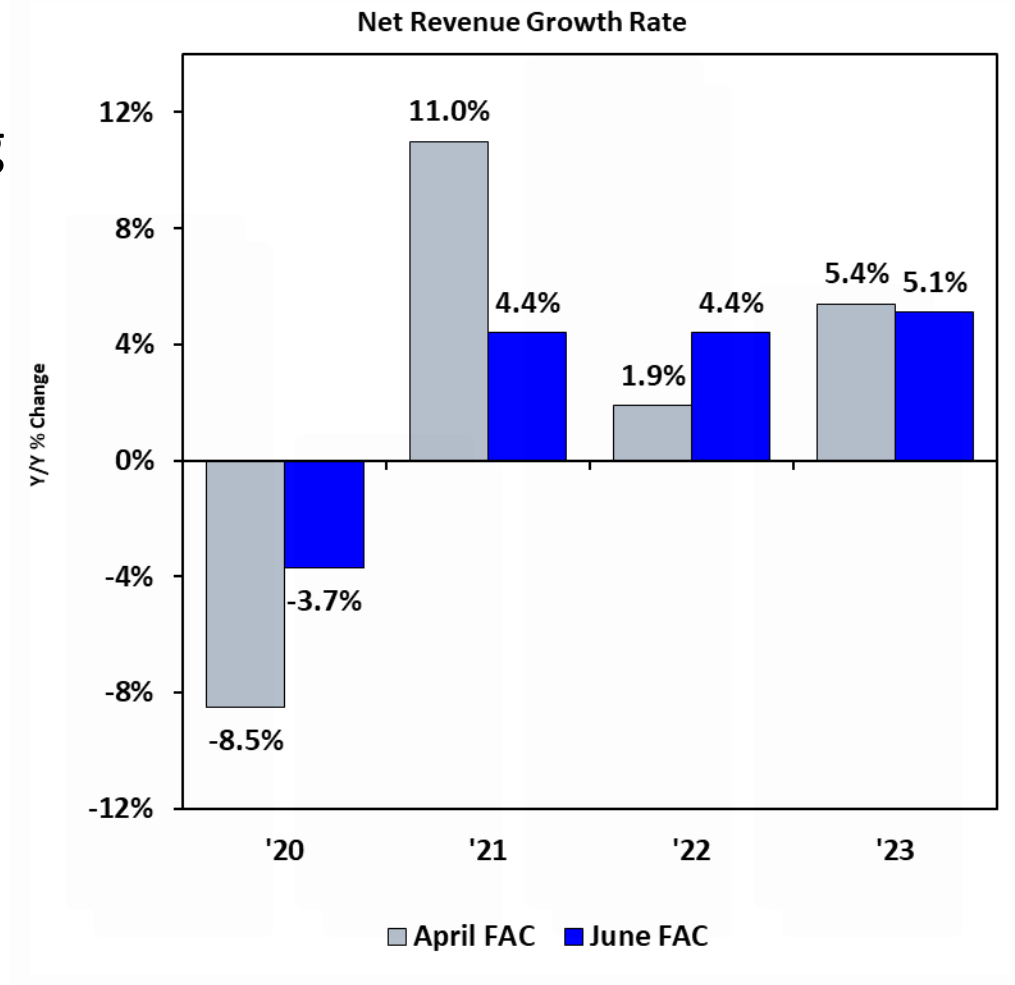
Excludes balance forward, one-time transfers and urban revenue sharing

See Appendix A and B

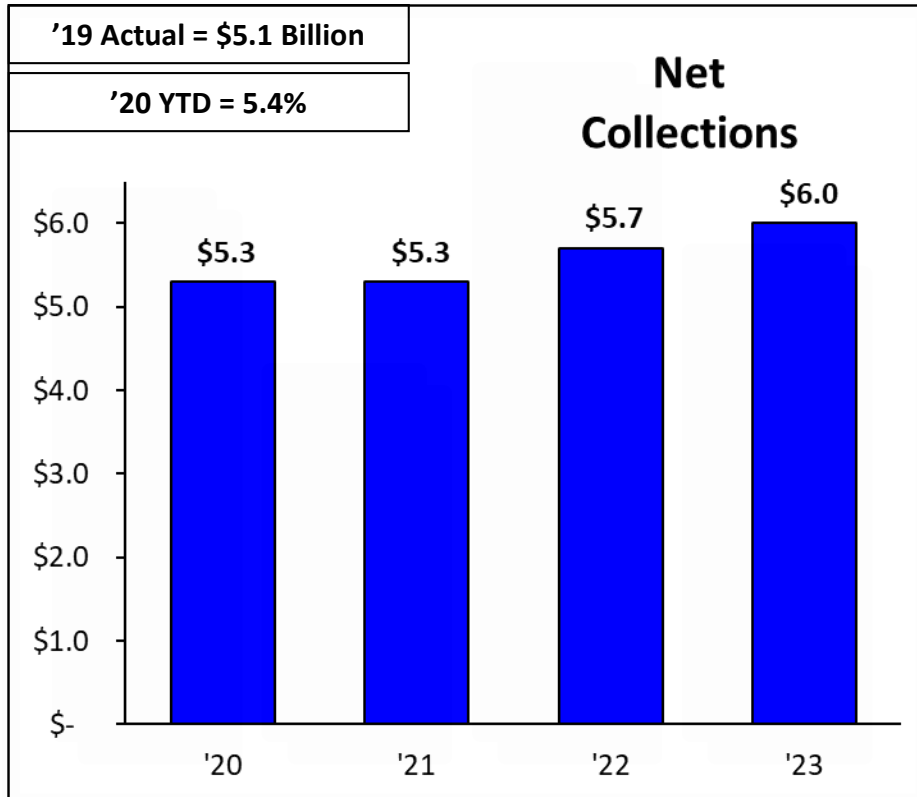
June Forecast Versus April Forecast

- Includes the Deferral

- Spring TPT/Withholding losses less than expected
- April - May results improved '20 forecast
- Less optimism about V-shaped '21 recovery



Sales Tax



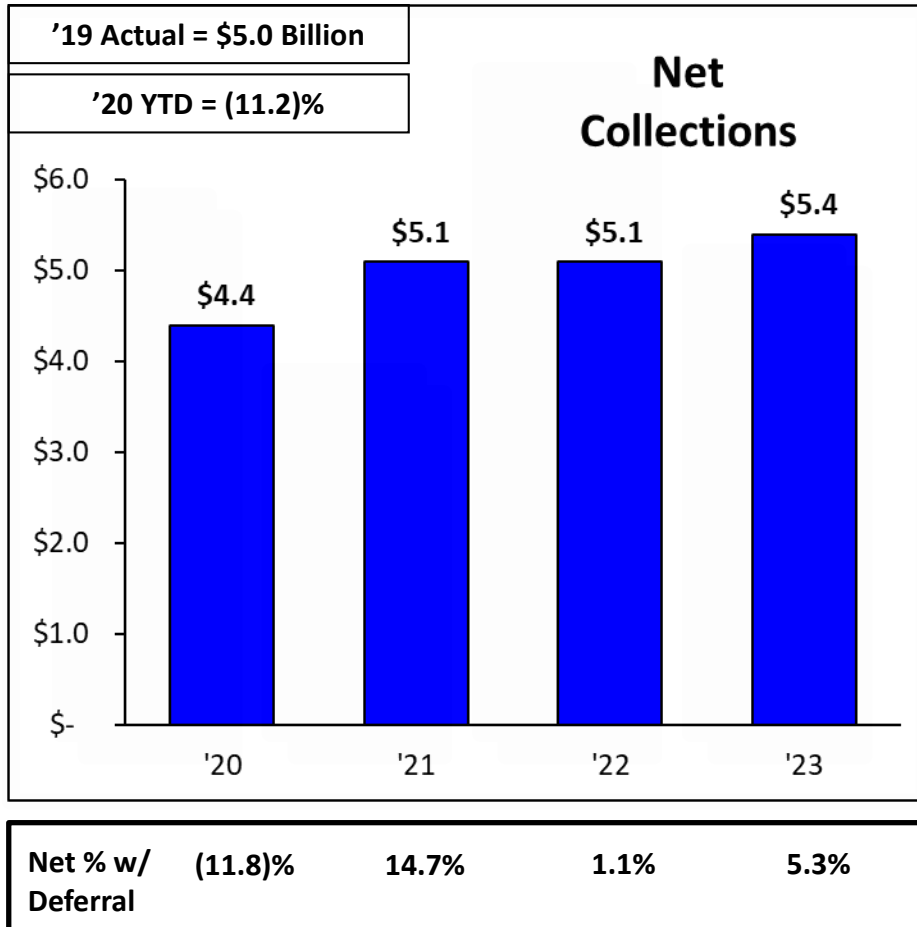
Net %	'20	'21	'22	'23
	3.6%	(0.1)%	8.1%	5.0%

'20 Q4 % Change by Category

	April Forecast	June Forecast	April/May Actuals
Retail	(32)	(8)	(8)
Contracting	9	15	16
Use	(25)	(2)	2
Restaurant/Bar	(70)	(35)	(38)
Utilities	(6)	(7)	(6)
Lodging	<u>(70)</u>	<u>(68)</u>	<u>(67)</u>
Total	(31)	(10)	(7)

□ JLBC Staff projects '21 Q4 15.8% above '20 Q4

Individual Income Tax

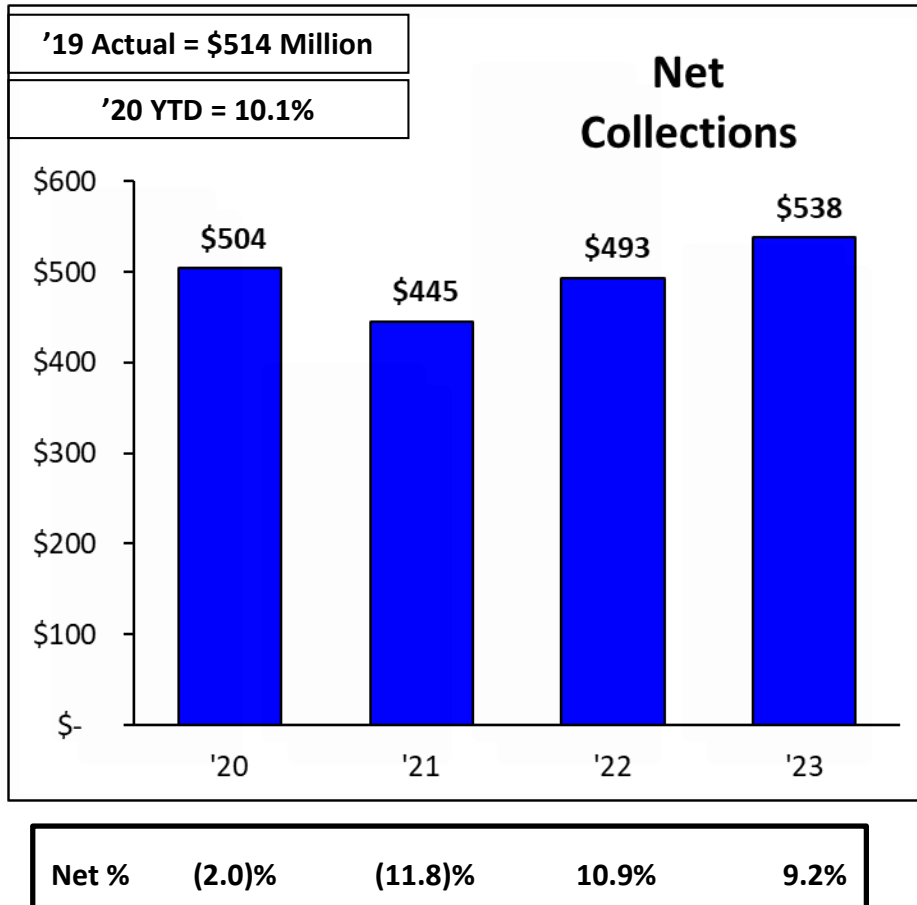


'20 Q4 % Change by Category

	April Forecast	June Forecast	April/May Actuals
Withholding	(15)%	(3)%	(3)%
Payments	(77)	(72)	(77)
Refunds	<u>10</u>	<u>(15)</u>	<u>(20)</u>
Total	(61)	(43)	(52)

- Job losses have not declined as much as expected
- Job losses concentrated in lower wage sectors
- Filers with refunds also appear to be waiting until July
- JLBC Staff projects '21 Q4 withholding 6.9% above '20 Q4

Corporate Income Tax



- ❑ CIT especially sensitive to economy
- ❑ Lost 58% of its value in Great Recession
- ❑ June forecast has (13)% decline across '20 & '21

Spending Adjustments

Medicaid Estimates

- Savings Are Partially Offset by Caseload Increases

- ❑ Retroactive to January, feds have increased their share of Medicaid costs by 6.2%
 - In April, anticipated '20 savings of \$(237) M; actual savings appear to be substantially less
- ❑ Higher federal match lasts as long as federal emergency
 - Had assumed 6/21 end point, revised to 3/21 to conform with CBO scoring
- ❑ Expected 15% enrollment growth by June, only up 6%
- ❑ Compared to April estimate, net '21 AHCCCS spending expected to be reduced by \$(87) M

Projected Ending Balances

Projected Cash Shortfall in Both '20 and '21

	<u>\$ in M</u>
Incurred During '20	(190)
Incurred During '21	<u>(518)</u>
Total Shortfall	(708)

- The '20 shortfall can be rolled into '21
- AZ Constitution allows incurred debts to be paid in following year
- Likely range of '21 shortfall \$0 M - \$(1) B
- Balance excludes \$1 B in Rainy Day Fund

See Appendix C

Non-Legislative '20 Shortfall Solutions

- What can the Executive Implement on their Own?

- Roll '20 shortfall into '21
- Loan from federal Coronavirus Relief Fund (CRF)
- Use CRF to offset current General Fund spending
- Deposit CRF into the General Fund as revenue offset (requires Congressional approval)

State Government Has \$1.8 B in Federal CRF

- Must Be Used on COVID-Related Spending

- ❑ Executive has allocated \$441 M to local governments under 500k population
 - Maricopa/Pima/Phoenix/Tucson/Mesa received of \$1 B directly
- ❑ CRF cannot serve as direct General Fund revenue deposit
 - Congress may address in a July stimulus package
- ❑ The feds, however, allow a state to loan itself CRF as long as \$ repaid by December
- ❑ Also allows state to assume any public safety/public health spending is COVID-related
 - Could result in \$400+ M in General Fund '20 and '21 offsets

Shortfalls Persist After '21

- ❑ Enacted '21 budget built on \$11.93 B in General Fund revenue. Under June update, we would reach that level in '23.
- ❑ Projected shortfalls are \$(720) M in '22 and \$(293) M in '23
- ❑ Any permanent solutions to the '21 shortfall would reduce '22 and '23 amounts by a corresponding amount
- ❑ For example, \$500 million in ongoing solutions in '21 reduces the '22 problem to \$(220) M

Appendices

Appendix A: June 4-Sector Forecast With Deferral

	<u>2020 *</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Sales Tax				
JLBC Forecast	3.6%	1.7%	9.1%	5.1%
UA – Low	0.8%	-2.7%	8.5%	5.2%
UA – Base	1.4%	1.5%	9.5%	5.3%
FAC	3.6%	-0.7%	5.1%	4.5%
Average:	2.3%	-0.1%	8.0%	5.0%
Individual Income Tax with Deferral				
JLBC Forecast	-11.8%	17.6%	-2.4%	6.9%
UA – Low	-13.1%	13.0%	-0.3%	4.2%
UA – Base	-12.5%	17.1%	1.8%	4.6%
FAC	-13.7%	11.3%	5.4%	5.4%
Average:	-12.8%	14.7%	1.1%	5.3%
Corporate Income Tax				
JLBC Forecast	-2.0%	-15.5%	18.0%	8.4%
UA – Low	-4.0%	-19.8%	10.1%	10.4%
UA – Base	-3.8%	-13.0%	12.7%	13.5%
FAC	-4.0%	1.2%	4.0%	5.0%
Average:	-3.4%	-11.8%	10.9%	9.2%
Insurance Premium Tax				
JLBC Forecast	-2.4%	-2.0%	2.5%	3.0%
UA – Low	-4.2%	-2.8%	2.4%	2.5%
UA – Base	-3.8%	-2.4%	3.2%	3.3%
FAC	-4.6%	-1.6%	3.0%	3.6%
Average:	-3.8%	-2.2%	2.8%	3.1%

JLBC Weighted Average	-3.9%	7.2%	3.9%	5.9%
UA Low Weighted Average	-5.9%	3.0%	4.3%	4.8%
UA Base Weighted Average	-5.3%	7.1%	5.8%	5.2%
FAC Consensus Weighted Average	-4.9%	4.2%	5.1%	4.9%
“Big-4” Weighted Average	-5.0%	5.4%	4.8%	5.2%
Consensus Weighted Average**	-4.8%	4.4%	4.4%	5.1%

* JLBC forecast used as only sector for the FY 2020 revenue projection.

** Represents ongoing revenue adjusted for small revenue categories.

Appendix B: Revenue '19 - '21 with Deferral

FORECAST REVENUE GROWTH

(\$ in Thousands)

	ACTUAL FY 2019	% CHANGE PRIOR YR	FORECAST FY 2020	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2021	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	5,096,879.9	6.5%	5,279,871.6	3.6%	182,991.8	5,276,240.9	-0.1%	(3,630.7)
Income - Individual	5,009,020.6	10.2%	4,418,772.3	-11.8%	(590,248.3)	5,069,595.4	14.7%	650,823.0
- Corporate	514,264.1	37.8%	503,866.2	-2.0%	(10,397.9)	444,610.0	-11.8%	(59,256.2)
Property	29,683.3	-23.3%	24,855.1	-16.3%	(4,828.2)	25,001.8	0.6%	146.7
Luxury - Tobacco	21,040.8	-4.3%	21,764.0	3.4%	723.3	21,796.8	0.2%	32.8
- Liquor	37,259.4	3.4%	36,909.4	-0.9%	(350.0)	36,538.0	-1.0%	(371.4)
Insurance Premium	549,760.6	7.9%	536,453.6	-2.4%	(13,306.9)	524,627.6	-2.2%	(11,826.0)
Other Taxes	13,539.4	77.0%	13,568.2	0.2%	28.8	15,129.9	11.5%	1,561.7
Subtotal - Taxes	11,271,448.0	9.2%	10,836,060.5	-3.9%	(435,387.5)	11,413,540.4	5.3%	577,479.9
Other Non-Tax Revenues:								
Lottery	82,886.1	21.1%	103,594.7	25.0%	20,708.6	86,671.5	-16.3%	(16,923.2)
Licenses, Fees and Permits	32,019.5	-15.7%	32,188.9	0.5%	169.4	33,343.3	3.6%	1,154.4
Interest	53,106.7	141.3%	33,090.5	-37.7%	(20,016.2)	15,471.8	-53.2%	(17,618.6)
Sales and Services	24,054.0	-29.5%	22,019.3	-8.5%	(2,034.6)	21,228.8	-3.6%	(790.6)
Other Miscellaneous	111,313.8	2.8%	120,272.8	8.0%	8,959.0	121,153.1	0.7%	880.3
Transfers and Reimbursements	63,365.2	56.1%	96,204.3	51.8%	32,839.1	55,852.6	-41.9%	(40,351.6)
Public Safety Transfers	72,364.5	N/A	23,343.2	-67.7%	(49,021.3)	23,343.2	0.0%	0.0
Disproportionate Share Revenue	95,552.6	14.2%	104,253.8	9.1%	8,701.3	95,417.3	-8.5%	(8,836.5)
Subtotal - Other Non-Tax	534,662.3	35.3%	534,967.5	0.1%	305.2	452,482	-15.4%	(82,485.8)
Net Ongoing Revenue	11,806,110.3	10.2%	11,371,028.0	-3.7%	(435,082.3)	11,866,022.1	4.4%	494,994.1
Urban Revenue Sharing (URS)	(674,804.4)	N/A	(737,573.6)	N/A	(62,769.2)	(828,492.7)	N/A	(90,919.1)
Net Ongoing Revenue w/ URS	11,131,305.9	10.9%	10,633,454.4	-4.5%	(497,851.5)	11,037,529.4	3.8%	404,075.0
One-Time Financing Sources:								
Pre-2019 Enacted Fund Transfers	100,425.9	35.0%	1,840.7	-98.2%	(98,585.2)	0.0	-100.0%	(1,840.7)
Prescription Drug Rebate Fund Transfer	0.0	N/A	69,000.0	N/A	69,000.0	16,700.0	-75.8%	(52,300.0)
Wells Fargo Settlement Fund Transfer	0.0	N/A	20,000.0	N/A	20,000.0	0.0	-100.0%	(20,000.0)
Water Infrastructure Repayment	0.0	N/A	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	100,425.9	35.0%	90,840.7	-9.5%	(9,585.2)	16,700.0	-81.6%	(74,140.7)
Subtotal - Revenues	11,231,731.7	11.1%	10,724,295.1	-4.5%	(507,436.7)	11,054,229.4	3.1%	329,934.3
Balance Forward	449,632.0	198.0%	957,241.0	112.9%	507,609.0	(190,236.7)	N/A	(1,147,477.7)
Total - Resources	11,681,363.7	13.9%	11,681,536.1	0.0%	172.3	10,863,992.7	-7.0%	(817,543.4)

Appendix B: Revenue '22 - '23 with Deferral

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2022	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2023	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	5,701,339.1	8.1%	425,098.2	5,988,462.7	5.0%	287,123.6
Income - Individual	5,124,281.6	1.1%	54,686.2	5,394,836.2	5.3%	270,554.7
- Corporate	493,023.4	10.9%	48,413.4	538,479.2	9.2%	45,455.8
Property	25,150.6	0.6%	148.8	25,301.6	0.6%	151.0
Luxury - Tobacco	21,466.1	-1.5%	(330.7)	21,147.1	-1.5%	(319.0)
- Liquor	39,574.4	8.3%	3,036.4	40,653.3	2.7%	1,078.9
Insurance Premium	539,131.5	2.8%	14,503.8	555,871.1	3.1%	16,739.6
Other Taxes	16,878.6	11.6%	1,748.7	18,837.2	11.6%	1,958.6
Subtotal - Taxes	11,960,845.3	4.8%	547,304.9	12,583,588.4	5.2%	622,743.1
Other Non-Tax Revenues:						
Lottery	91,194.3	5.2%	4,522.8	101,387.7	11.2%	10,193.5
Licenses, Fees and Permits	34,064.1	2.2%	720.8	34,827.4	2.2%	763.2
Interest	10,181.9	-34.2%	(5,289.9)	8,288.4	-18.6%	(1,893.5)
Sales and Services	20,558.5	-3.2%	(670.3)	19,999.9	-2.7%	(558.5)
Other Miscellaneous	117,315.6	-3.2%	(3,837.5)	120,903.9	3.1%	3,588.2
Transfers and Reimbursements	57,679.8	3.3%	1,827.2	59,628.7	3.4%	1,948.9
Public Safety Transfers	0.0	-100.0%	(23,343.2)	0.0	N/A	0.0
Disproportionate Share Revenue	95,474.3	0.1%	57.0	95,644.9	0.2%	170.6
Subtotal - Other Non-Tax	426,468.6	-5.7%	(26,013.2)	440,681.0	3.3%	14,212.5
Net Ongoing Revenue	12,387,313.8	4.4%	521,291.7	13,024,269.4	5.1%	636,955.6
Urban Revenue Sharing (URS)	(738,395.8)	N/A	90,096.9	(827,130.8)	N/A	(88,735.0)
Net Ongoing Revenue w/ URS	11,648,918.0	5.5%	611,388.6	12,197,138.6	4.7%	548,220.6
One-Time Financing Sources:						
Pre-2019 Enacted Fund Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Prescription Drug Rebate Fund Transfer	16,700.0	0.0%	0.0	16,700.0	0.0%	0.0
Wells Fargo Settlement Fund Transfer	0.0	N/A	0.0	0.0	N/A	0.0
Water Infrastructure Repayment	20,000.0	N/A	20,000.0	0.0	-100.0%	(20,000.0)
Subtotal - One-Time Financing Sources	36,700.0	119.8%	20,000.0	16,700.0	-54.5%	(20,000.0)
Subtotal - Revenues	11,685,618.0	5.7%	631,388.6	12,213,838.6	4.5%	528,220.6
Balance Forward	-	N/A	190,236.7	-	N/A	0.0
Total - Resources	11,685,618.0	7.6%	821,625.3	12,213,838.6	4.5%	528,220.6

Appendix C: '20 - '23 Balance Sheet

Statement of General Fund Revenues and Expenditures ^{1/} With One-Time Financing Sources

	FY 2020 June Update	FY 2021 June Update	FY 2022 June Update	FY 2023 June Update
REVENUES				
Ongoing Revenues	\$11,371,028,000	\$11,866,022,100	\$12,387,313,800	\$13,024,269,400
Urban Revenue Sharing	(737,573,600)	(828,492,700)	(738,395,800)	(827,130,800)
Net Ongoing Revenues	\$10,633,454,400	\$11,037,529,400	\$11,648,918,000	\$12,197,138,600
One-time Financing Sources				
Balance Forward	957,241,000	(190,236,700)		
Wells Fargo Settlement	20,000,000			
Water Infrastructure Repayment			20,000,000	
Fund Transfers	70,840,700	16,700,000	16,700,000	16,700,000
Subtotal One-time Revenues	\$1,048,081,700	(\$173,536,700)	\$36,700,000	\$16,700,000
Total Revenues	\$11,681,536,100	\$10,863,992,700	\$11,685,618,000	\$12,213,838,600
EXPENDITURES				
Ongoing Operating Appropriations	\$10,838,429,200	\$11,469,518,500	\$12,002,878,300	\$12,350,613,100
FY 2020 Supplementals/Ex-Approp.	46,459,700			
Enhanced FMAP/Caseload Adjustments		(189,000,000)	269,000,000	115,000,000
Administrative Adjustments	28,000,000	146,000,000	155,000,000	162,000,000
Reversions	(184,000,000)	(184,000,000)	(192,000,000)	(198,000,000)
Subtotal Ongoing Expenditures	\$10,728,888,900	\$11,242,518,500	\$12,234,878,300	\$12,429,613,100
One-time Expenditures				
Capital Outlay	4,575,000	11,000,000		
Transportation Funding	95,310,000			
Reduce K-12 Rollover (Enacted)			30,000,000	
Budget Stabilization Fund Deposit	271,107,000			
2010B Debt Payoff	190,000,000			
Operating One-Time Spending	501,275,000	275,373,600	120,370,000	76,876,700
FY 2020 One-Time Supplementals	80,616,900			
Additional (27th) Pay Period		43,078,600	20,052,100	
Subtotal One-time Expenditures	\$1,142,883,900	\$329,452,200	\$170,422,100	\$76,876,700
Total Expenditures	\$11,871,772,800	\$11,571,970,700	\$12,405,300,400	\$12,506,489,800
Ending Balance ^{2/}	(\$190,236,700)	(\$707,978,000)	(\$719,682,400)	(\$292,651,200)
Ongoing Balance ^{3/}	(\$95,434,500)	(\$204,989,100)	(\$585,960,300)	(\$232,474,500)

- ^{1/} Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.
- ^{2/} This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.
- ^{3/} This calculation reflects the difference between ongoing revenues and ongoing expenditures and excludes one-time adjustments. The Legislature makes the ongoing and one-time classifications as part of its 3-year spending plan. Excludes any Budget Stabilization Fund balance.