GENERAL FUND REVENUE

Summary of General Fund Forecast

The enacted FY 2016 budget assumes total net General Fund revenues of $9.10 billion. This amount is a decrease of (2.7)% compared to enacted FY 2015 General Fund revenues.

Base revenues represent ongoing General Fund revenues, exclusive of tax law and revenue changes, one-time revenue adjustments, and any balance forward from the previous fiscal year. For FY 2016, base revenues are projected to increase 3.8% when compared to forecasted FY 2015 revenues. The detailed enacted budget revenue forecasts appear at the end of this section. *Table 6* compares the enacted FY 2016 forecast to the enacted FY 2015 forecast while *Table 7* compares the FY 2018 revenue planning estimates to the FY 2017 estimates.

General Fund Base Revenue Forecast

FY 2015

The original FY 2015 budget was based on total net revenues of $9.40 billion. This amount was 0.2% above actual FY 2014 collections.

In the original FY 2015 budget, base revenues were projected to be $9.47 billion in FY 2015, or 5.3% above the prior fiscal year. In January 2015, the JLBC Baseline reduced the FY 2015 base revenue forecast downward to 4.3%. The JLBC Baseline projection was based on the "4-sector" forecast *(see below for more information on the 4-sector process)*. The ongoing base revenue in the January Baseline was $165 million lower than in the April 2014 enacted budget due to downward revisions in estimates for each of the "Big 3" revenue categories (sales tax, individual income tax, and corporate income tax).

In its 2015 Regular Session revisions to the FY 2015 budget, the Legislature adopted the January 2015 JLBC Baseline base revenue forecast of 4.3% growth. In terms of total revenue, the revised FY 2015 budgeted amount was $9.35 billion, or (0.4)% below FY 2014.

Subsequent to enactment of the budget, the April 4-sector forecast projected base revenue growth of 4.8% for FY 2015. *Table 1* includes the January and April 2015 4-sector estimates by major categories for FY 2015 through FY 2018.

FY 2016

The January FY 2016 JLBC Baseline forecasted total net revenues of $8.77 billion for FY 2016. Excluding one-time revenues, Urban Revenue Sharing and statutory changes, the ongoing base revenues were projected at $9.49 billion. This amount reflected a base revenue increase of 3.3% compared to FY 2015.

The enacted FY 2016 budget adopted a base revenue forecast of 3.8% compared to FY 2015. FY 2016 revenues are projected to be $9.10 billion, or (2.7)% below FY 2015. The April 4-sector projected FY 2016 base revenue growth of 3.7%.

Table 2 below summarizes the changing revenue picture in FY 2015 to FY 2018 through the phases of budget development. The growth rates in the table reflect ongoing base revenues.

Long-Term Projections

The FY 2016 budget also incorporated revenue planning estimates for FY 2017 and FY 2018, which are shown in *Table 7*. The January 2015 and April 2015 4-sector consensus estimates for FY 2017 and FY 2018 are shown in *Table 1*.

The growth rates in the FY 2017 and FY 2018 revenue planning estimates are based on the January 4-sector forecast. Under the January 4-sector consensus estimate, base revenue would increase by 4.4% in FY 2017 and 5.1% in FY 2018. In comparison, the April growth rates were 4.1% for FY 2017 and 4.8% for FY 2018.

4-Sector Forecast

The JLBC's estimated growth rates for the "Big 3" revenue categories of sales, individual income and corporate income taxes are initially developed and revised using a 4-sector consensus process. This process is based on averaging the results of the following 4 forecasts:

- The Finance Advisory Committee (FAC) panel forecast. This independent panel consists of 13 public and private sector economists that meet 3 times a year to provide the Legislature with guidance on the status of the Arizona economy.
- The University of Arizona Economic and Business Research (EBR) General Fund base model. The model is a simultaneous-equation model consisting of over 100 equations that are updated on an ongoing basis to accommodate changes in the economy. The model uses over 200 variables related to Arizona's economy and is updated quarterly.
- EBR's conservative forecast model, and
- JLBC Staff projections.

Table 1

4-Sector Estimates
Forecast Percentages (FY 2015 - FY 2018)
Base Revenue [1/]

	FY 2015					FY 2016				
	FAC	UA Low	UA Base	JLBC	Avg	FAC	UA Low	UA Base	JLBC	Avg
Sales Tax [2/]										
January	4.5%	2.5%	4.0%	4.0%	3.7%	4.4%	1.1%	4.4%	4.4%	3.6%
April	4.3%	3.7%	4.3%	4.3%	4.2%	4.6%	1.1%	4.6%	4.5%	3.7%
Individual Income Tax [2/]										
January	3.7%	1.8%	3.0%	3.6%	3.0%	4.4%	1.0%	3.8%	5.4%	3.7%
April	5.2%	2.9%	3.7%	5.4%	4.3%	5.0%	1.5%	4.4%	5.2%	4.0%
Corporate Income Tax [3/]										
January [4/]	2.9%	(2.0%)	(1.2%)	15.0%	3.7%	3.1%	(6.6%)	0.7%	3.1%	0.1%
April	9.8%	11.2%	11.2%	15.0%	11.8%	3.3%	0.1%	5.5%	1.2%	2.5%
Overall [5/]										
January	4.0%	1.9%	3.2%	4.6%	4.3%	4.3%	0.5%	3.9%	4.7%	3.3%
April	5.1%	3.9%	4.5%	5.5%	4.8%	4.7%	1.2%	4.6%	4.6%	3.7%

	FY 2017					FY 2018				
	FAC	UA Low	UA Base	JLBC	Avg	FAC	UA Low	UA Base	JLBC	Avg
Sales Tax [2/]										
January	5.0%	3.3%	5.8%	4.8%	4.7%	5.2%	5.4%	6.6%	5.0%	5.6%
April	4.9%	2.2%	5.2%	4.8%	4.3%	4.8%	4.6%	5.9%	5.0%	5.4%
Individual Income Tax [2/]										
January	5.0%	3.0%	5.0%	5.9%	4.8%	5.1%	4.7%	6.0%	5.9%	5.4%
April	5.1%	2.6%	4.8%	5.3%	4.5%	5.4%	4.3%	5.5%	5.3%	5.1%
Corporate Income Tax [3/]										
January	5.1%	(8.8%)	(0.2%)	3.5%	0.2%	7.3%	(11.7%)	(7.2%)	4.5%	(0.9%)
April	6.0%	(9.1%)	(0.8%)	3.1%	(0.1%)	6.4%	(14.2%)	(9.2%)	3.9%	(2.7%)
Overall [5/]										
January	5.0%	2.5%	5.1%	5.2%	4.4%	5.3%	4.4%	5.7%	5.4%	5.1%
April	5.0%	1.8%	4.7%	4.9%	4.1%	5.4%	4.0%	5.3%	5.1%	4.8%

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1/ Prior to any tax law or other revenue changes.
2/ The enacted FY 2016 budget utilized January 4-Sector base revenue estimates.
3/ The enacted FY 2016 budget utilized January 4-Sector base revenue estimates for corporate income tax, plus $52 million for FY 2016 through FY 2018.
4/ Given year-to-date actuals, each of the January 4-sector estimates for FY 2015 were adjusted to 15% growth for the January 2015 Baseline.
5/ The growth rates for each sector represent the weighted average of Big-3 revenue estimates plus JLBC Staff estimates of other base revenue categories. The enacted FY 2016 budget utilized the January 4-sector rates, but modified the FY 2016 rate from 3.3% to 3.8%.

The estimates for the remaining revenue categories, which constitute about 10% of the total, were based on JLBC Staff estimates.

Table 2

Base Revenue Change Assumptions Over Prior Year

	% Change
FY 2015	
Enacted FY 2015 Budget (April 2014)	5.3%
JLBC Baseline (January 2015)	4.3%
Enacted FY 2016 Budget (March 2015)	4.3%
4-Sector Consensus (April 2015)	4.8%
FY 2016	
4-Sector Consensus (January 2015)	3.3%
Enacted FY 2016 Budget (March 2015)	3.8%
4-Sector Consensus (April 2015)	3.7%
FY 2017	
4-Sector Consensus (January 2015)	4.4%
Enacted FY 2016 Budget (March 2015)	4.4%
4-Sector Consensus (April 2015)	4.1%
FY 2018	
4-Sector Consensus (January 2015)	5.1%
Enacted FY 2016 Budget (March 2015)	5.1%
4-Sector Consensus (April 2015)	4.8%

Revenue Adjustments

Table 3 below provides an overview of base revenue growth rates for FY 2015 and FY 2016 with budget legislation changes (which include a number of tax law changes and revenue adjustments described in more detail in *Table 4*) and one-time financing sources. The table shows the base and adjusted revenue growth rates based on the enacted FY 2016 budget.

Ongoing Budget Legislation

Each year there are statutory tax law and other revenue changes that impact the state's revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

As shown in footnote 1 of *Table 3*, ongoing previously enacted budget legislation is estimated to reduce General Fund revenues by $(120.6) million in FY 2015. As noted above, the FY 2015 base revenue growth of 4.3% excludes these changes. The enacted budget assumes a base revenue growth rate of 3.8% in FY 2016. Actual General Fund revenue, which includes the impact of previously and newly enacted legislation, urban revenue sharing and one-time financing sources is estimated to decline by (2.7)% in FY 2016. The following section provides a detailed description of previously as well as newly enacted legislation with an ongoing revenue impact in FY 2015 through FY 2018 (see *Table 4* for a complete list of each of the tax law and revenue changes affecting collections in FY 2015 through FY 2018).

Table 3

General Fund Revenue Growth Rates Based on Enacted FY 2015 and FY 2016 Budget ($ in Millions)

	FY 2015	%	FY 2016	%
Base Revenue	$9,185.6 [1/]	4.3%	$9,516.8 [2/]	3.8%
Previously Enacted Tax Law Changes	N/A		(111.8)	
Newly Enacted Tax Law Changes	(19.8)		52.4	
Urban Revenue Sharing	(608.9)		(605.6)	
One-Time Financing Sources:				
Balance Forward	577.4		12.0	
Fund Transfers	68.9		220.2	
Rainy Day Transfer	144.3		0.0	
Tax Amnesty	0.0		15.0	
Subtotal	790.6		247.2	
Adjusted Revenue	**$9,347.5**	**(0.4)%**	**$9,099.0**	**(2.7)%**

1/ $(120.6) million in previously enacted tax law and revenue changes are included in the FY 2015 base revenue. The FY 2015 increase of 4.3% shown above excludes these changes.

2/ After adjusting for $(19.8) million in new tax law changes in FY 2015, the FY 2016 base revenue increase is 3.8%.

As shown in *Table 4*, ongoing budget legislation enacted prior to the 2015 Regular Session is estimated to reduce General Fund revenue by $(120.6) million in FY 2015, followed by an additional reduction of $(111.8) million in FY 2016, $(87.6) million in FY 2017, and $(86.2) million in FY 2018. All revenue impacts in *Table 4* are stated relative to the prior year.

Newly enacted ongoing legislation in 2015 is estimated to reduce General Fund revenue by $(19.8) million in FY 2015, followed by a revenue gain of $52.4 million in FY 2016, after which revenue will decrease by $(24.1) million in FY 2017, followed by an additional reduction of $(21.8) million in FY 2018. As shown in *Table 4*, this means that the total combined ongoing revenue impact of all (previously and newly) enacted legislation is $(140.4) million in FY 2015, followed by additional revenue reductions of $(59.4) million in FY 2016, $(111.7) million in FY 2017, and $(108.0) million in FY 2018.

Each of the previously and recently enacted tax law and revenue changes is described in more detail below. Budget legislation with a one-time impact is shown in *Table 5*.

Previously (Pre-2015) Enacted Legislation

1) Corporate School Tuition Tax Credit – Laws 2006, Chapter 14 established a tax credit for contributions by corporations and insurers to private school tuition organizations that provide scholarships and tuition grants to students of low-income families. Chapter 14 established a cap on this credit of $5 million per year. Laws 2006, Chapter 325 increased the credit cap to $10 million per year, and provided that the cap be increased by 20% annually, beginning in FY 2008. Credit donations were made up to the cap in each year between FY 2013 and FY 2015, and are currently projected to reach the cap of $51.6 million in FY 2016, $61.9 million in FY 2017, and $74.3 million in FY 2018. Thus, this credit program is estimated to reduce corporate income and insurance premium tax collections by $(7.2) million in FY 2015, followed by additional reductions of $(8.6) million in FY 2016, $(10.3) million in FY 2017, and $(12.4) million in FY 2018. The impact of this provision was not included in the FY 2015 budget adopted in April 2014.

2) Elimination of Small Business Capital Gains – Laws 2011, 2nd Special Session, Chapter 1 eliminates capital gains on income derived from small businesses certified by the Arizona Commerce Authority to receive credit-eligible angel investments, beginning in TY 2014. This provision is currently estimated to reduce individual income tax collections by $(8.6) million, beginning in FY 2015.

3) Phase-Down of Corporate Income Tax Rate – Laws 2011, 2nd Special Session, Chapter 1 reduces the corporate income tax rate from 6.968% to 4.9% over 4 years, beginning in TY 2014. This rate reduction is estimated to reduce corporate income tax collections by $(42.5) million in FY 2015, followed by additional reductions of $(41.9) million in FY 2016, $(37.9) million in FY 2017, and $(41.2) million in FY 2018. Based on subsequent information, these impacts may need to be revised to reflect corporate tax filing behavior more accurately.

4) Phase-In of Single Corporate Sales Factor – Laws 2011, 2nd Special Session, Chapter 1 increases the optional sales factor, which is used to calculate the apportionment of taxable income for multi-state corporations, from 80% to 100% over 4 years, beginning in TY 2014. This provision is estimated to reduce corporate income tax collections by $(29.3) million in FY 2015, followed by additional reductions of $(26.2) million in FY 2016, $(23.0) million in FY 2017, and $(19.3) million in FY 2018. As with the tax rate phase-down, these impacts may need to be revised to reflect corporate tax filing behavior more accurately.

5) Job Tax Credit – Laws 2011, 2nd Special Session, Chapter 1 provides a $3,000 annual individual and corporate income tax credit for each net new qualifying job added by an employer in the state. To qualify for the 3-year credit, the new employment position must: (1) be full-time, (2) pay at least the county median wage, and (3) include health insurance paid by the employer. In addition, a business cannot claim the credit unless it meets certain minimum job creation and capital investment requirements. Laws 2012, Chapter 343 removed the 400 maximum job tax credit claims per employer established by Chapter 1. The job tax credit is currently estimated to reduce revenues by $(4.2) million in FY 2015, followed by additional reductions of $(4.2) million in FY 2016, and $(3.1) million in FY 2017.

6) Expansion of Angel Investment Credit – Laws 2011, 2nd Special Session, Chapter 1 provided certain changes to the State's Angel Investment Tax Credit program, beginning in FY 2012. Under this program, qualified "angel" investors are eligible to receive up to a 35% credit over 3 years on investments in small businesses certified by the Arizona Commerce Authority. The credit program is capped at $20 million. Chapter 1 extended the credit authorization by 4 years, through the end of FY 2016. Additionally, Chapter 1 also increased the asset cap of small businesses qualified to receive credit-eligible angel investments from $2 million to $10 million, beginning in FY 2012. This provision is estimated to reduce individual income tax revenue by $(0.5) million in FY 2015, after which time the $20 million in allowable credit authorization is assumed to be exhausted.

7) Corporate Sales Factor for Service Providers – Laws 2012, Chapter 2 allows multi-state service-providing companies to reduce their Arizona corporate income tax liability through a change in the calculation of the sales factor. To be eligible for the change, a company is required to derive at least 85% of its sales of services from out-of-state customers. The change in the calculation of the sales factor is phased in over 4 years, beginning in TY 2014. This provision is estimated to reduce corporate income tax collections by $(3.0) million, beginning in FY 2015.

8) Reduction of Long Term Capital Gains – Laws 2012, Chapter 343 reduces the individual income taxation of long-term capital gains on assets acquired after TY 2011 by 25% over 3 years, beginning in TY 2013. This provision is estimated to reduce individual income tax collections by $(9.2) million in FY 2015, over and above FY 2014. The provision is projected to reduce revenue by an additional $(11.3) million in FY 2016, when fully phased in.

9) Income Tax Deduction for Federal Bonus Depreciation – Laws 2012, Chapter 343 allows an individual income deduction equal to 10% of the bonus depreciation claimed on federal returns for assets purchased and placed in service in 2013 and subsequent years. The state

revenue impact of this provision depends on whether the federal government provides bonus depreciation or not. In December 2014, the U.S. Congress extended the 50% bonus depreciation retroactively for TY 2014. On April 9, 2015, the Governor signed into law, SB 1188, the 2015 "Conformity Bill" (Laws 2015, Chapter 227), which conformed state statutes to numerous retroactive federal tax extensions adopted in 2014, including the 50% bonus depreciation provision. As a result, the provision is estimated to reduce individual income tax revenue by $(1.8) million, beginning in FY 2015.

10) Qualified Facility Tax Credit – Laws 2012, Chapter 343 created a new individual and corporate income tax credit for businesses that expand or locate qualified facilities in the state, beginning in TY 2013. The credit is 10% of the lesser of (1) the capital investment in the facility or (2) $200,000 for each net new employee hired at the facility. To qualify for the credit, a company is required to devote at least 80% of its property and payroll at the facility to manufacturing, research, or a national or regional headquarter. There are also certain minimum requirements with respect to wage and health insurance coverage for new employees at the facility. The credit is refundable but no single taxpayer can claim more than $30 million per calendar year. The credit must be taken in equal installments over 5 years. The qualified facility credit is subject to an annual aggregate cap of $70 million, which it shares with the renewable energy credit enacted in 2009. This provision is estimated to reduce revenue by $(4.0) million in FY 2015, followed by additional revenue reductions of $(4.0) million in FY 2016, $(4.0) million in FY 2017, and $(4.0) million in FY 2018.

11) Data Center TPT Exemption – Laws 2013, 1st Special Session, Chapter 9 provides, effective September 1, 2013, Transaction Privilege Tax (TPT) and Use Tax exemptions, for equipment purchased by owners, operators, or co-location tenants of computer data centers certified by the Arizona Commerce Authority. To qualify for the exemption, newly constructed data centers located in Maricopa and Pima Counties must make a minimum investment of $50 million over 5 years. The corresponding minimum requirement in other counties is $25 million. Existing data centers, which made an investment of at least $250 million during the 6 years immediately preceding the act's effective date, are eligible for the same exemption with respect to future equipment purchases. The exemption is estimated to reduce General Fund revenue by $(1.8) million in FY 2015, followed by an additional revenue reduction of $(1.9) million in FY 2016.

12) Electricity and Natural Gas TPT Exemption for Manufacturers – Laws 2014, Chapter 7 exempts the gross proceeds from sales of electricity and natural gas to businesses that are principally engaged in manufacturing or smelting operations from the state TPT and use tax. The exemption is estimated to reduce General Fund revenue collections by $(14.6) million in FY 2015 and an additional $(3.6) million in FY 2016.

13) Renewable Energy Facility Credit – Laws 2014, Chapter 8 created an individual and corporate income tax credit for businesses that invest at least $300 million in new renewable energy facilities in Arizona that generate energy for self-consumption. At least 90% of the energy produced at each renewable energy facility must be used for self-consumption and primarily for manufacturing operations. Chapter 8 imposed the following credit caps: (1) $1 million per facility per year, (2) $5 million per taxpayer per year, and (3) $10 million in the aggregate per year. The credit is estimated to reduce General Fund revenues by $(10.0) million, beginning in FY 2016.

Laws 2015, Chapter 6 expanded the credit program to include certified International Operations Centers (IOC). However, the credit requirements are different for an IOC than a manufacturer. To qualify for the credit, an IOC must make minimum capital investments of at least $100 million per year for 10 years, and use at least 51% of the energy produced for self-consumption by the fifth year of operation. While Chapter 6 increased the annual per facility credit cap from $1 million to $5 million, it left the $10 million statewide aggregate cap unchanged. For this reason, the expansion of the credit program under Chapter 6 does not have any additional fiscal impact.

14) Inflation Indexing of Income Tax Brackets – Laws 2014, Chapter 10 provided a one-time inflation adjustment of the individual income tax rate brackets for TY 2015, which was estimated to result in a one-time revenue loss of $(6.1) million in FY 2016. Laws 2015, Chapter 91 makes inflation indexing of the tax brackets permanent, beginning in TY 2016. As a result, the original estimate for FY 2016 has been revised from one-time to ongoing. Moreover, the revenue reduction under Chapter 91 is estimated to be an additional $(9.3) million in FY 2017, followed by another $(9.3) million reduction in FY 2018.

Table 4

Previously and Newly Enacted Budget Legislation with Ongoing Revenue Impact in FY 2015 through FY 2018 ($ Millions) [1/2/]

Previously Enacted Legislation / Description of Provision	FY 2015	FY 2016	FY 2017	FY 2018
Laws 2006, Ch. 14 & Ch. 325				
1) Corporate school tuition credit for low-income students	$(7.2)	$(8.6)	$(10.3)	$(12.4)
Laws 2011, 2nd SS, Ch. 1				
2) Eliminates capital gains on income derived from small businesses	$(8.6)	$0.0	$0.0	$0.0
3) Phases down corporate tax rate from 6.968% to 4.9% over 4 years, beginning in FY 2015	(42.5)	(41.9)	(37.9)	(41.2)
4) Phases in corporate sales factor from 80% to 100% over 4 years, beginning in FY 2015	(29.3)	(26.2)	(23.0)	(19.3)
5) Creates annual $3,000 3-year new job tax credit with conditions [3/]	(4.2)	(4.2)	(3.1)	0.0
6) Increases small business eligibility for 35% "angel" investment tax credit from $2 million to $10 million in assets through FY 2016	(0.5)	4.5	0.0	0.0
Laws 2012, Ch. 2				
7) Provides a change in the calculation of the corporate sales factor for service-providers	(3.0)	0.0	0.0	0.0
Laws 2012, Ch. 343				
8) Phases in (over 3 years) a 25% reduction of long term capital gains on assets purchased after 2011 [4/]	(9.2)	(11.3)	0.0	0.0
9) Provides individual income tax deduction for Federal Bonus Depreciation	(1.8)	0.0	0.0	0.0
10) Creates an income tax credit for capital investments in new or expanded manufacturing facilities, commercial headquarters, or research facilities [4/]	(4.0)	(4.0)	(4.0)	(4.0)
Laws 2013, 1st SS, Ch. 9				
11) Exempts data center equipment from TPT [4/]	(1.8)	(1.9)	0.0	0.0
Laws 2014, Ch. 7				
12) Exempts electricity and natural gas purchased by manufacturing and smelting facilities from TPT	(14.6)	(3.6)	0.0	0.0
Laws 2014, Ch. 8				
13) Creates a tax credit for investment in new facilities that produce energy for self-consumption using renewable energy sources	0.0	(10.0)	0.0	0.0
Laws 2014, Ch. 10 & Laws 2015, Ch. 91				
14) Adjusts individual income tax rate brackets for inflation annually, beginning in TY 2015	0.0	(6.1)	(9.3)	(9.3)
Laws 2014, Ch. 11				
15) Provides that unexpended capitation payments in the Long-Term Care System Fund are reverted to the General Fund	7.9	0.0	0.0	0.0

Previously Enacted Legislation / Description of Provision (Cont'd)	FY 2015	FY 2016	FY 2017	FY 2018
Laws 2014, Ch. 68 16) Requires individual taxpayers claiming the Proposition 301 low-income credit to provide a valid social security number	0.0	1.5	0.0	0.0
Laws 2014, Ch. 127 17) Shifts fine revenues for operating watercraft while intoxicated from the General Fund to Other Fund	(0.5)	0.0	0.0	0.0
Laws 2014, Ch. 168 18) Provides that an employer is allowed to claim 2nd and 3rd year job tax credits for employees that leave and are replaced within 90 days	(0.9)	0.0	0.0	0.0
Laws 2014, Ch. 228 19) Exempts the construction of mixed waste processing facilities located on a municipal landfill from TPT	(0.2)	0.0	0.0	0.0
Laws 2014, Ch. 276 20) Exempts personal property sold to a qualified health sciences educational institution from TPT	(0.2)	0.0	0.0	0.0
Subtotal – Revenue Impact over Prior Year for Previously Enacted Budget Legislation	**$(120.6)**	**$(111.8)**	**$(87.6)**	**$(86.2)**

Newly Enacted Legislation / Description of Provision	FY 2015	FY 2016	FY 2017	FY 2018
Laws 2015, Ch. 6 21) Exempts electricity and natural gas purchased by International Operations Centers from TPT	$0.0	$0.0	$(1.3)	$0.0
Laws 2015, Ch. 8 & Ch. 10 22) Fraud detection and prevention conducted by the Department of Revenue	0.0	41.9	(13.6)	(13.0)
Laws 2015, Ch. 8 23) Assumes ongoing Judiciary fund transfers to General Fund	0.0	6.0	0.0	0.0
Laws 2015, Ch. 10 24) Fraud assessment levied by the Department of Insurance	0.0	0.5	0.0	0.0
Laws 2015, Ch. 14 25) Increases federal disproportionate share cap	11.0	5.5	(7.9)	(8.6)
Laws 2015, Ch. 184 26) Exempts retaliatory insurance premium taxes	0.0	(1.5)	0.0	0.0
Laws 2015, Ch. 220 27) Phases down insurance premium tax rate from 2.0% to 1.7% over 11 years	0.0	0.0	(1.3)	(0.2)
Laws 2015, Ch. 227 28) Conforms state statutes to the federal Internal Revenue Code	(30.8)	0.0	0.0	0.0
Subtotal – Revenue Impact over Prior Year for Newly Enacted Budget Legislation	**$(19.8)**	**$52.4**	**$(24.1)**	**$(21.8)**
Total – Revenue Impact over Prior Year for All (Previously and Newly) Enacted Budget Legislation	**$(140.4)**	**$(59.4)**	**$(111.7)**	**$(108.0)**

1/ Represents marginal pricing: All revenue impacts are stated relative to the prior year.
2/ Some provisions have been revised since the enactment of the FY 2015 budget in April 2014. For more details, see pages 347 - 353 in the *FY 2015 Appropriations Report*.
3/ Includes impact of Laws 2012, Chapter 343 provision, which eliminated individual company cap of 400 eligible employees.
4/ Impact began in FY 2014.

15) Long-Term Care System Fund – Laws 2014, Chapter 11 (Health and Welfare Budget Reconciliation Bill) requires all monies in the Long-Term Care System Fund accrued from capitation payments for developmental disability services that are unexpended and unencumbered at the end of the fiscal year to revert to the General Fund. The transfer amount may be adjusted for reported but unpaid claims as well as estimated incurred but unreported claims, subject to approval by the Arizona Health Care Cost Containment System (AHCCCS). Chapter 11 is currently estimated to increase General Fund revenues by $7.9 million annually, beginning in FY 2015.

16) Social Security Number (SSN) Requirement – Laws 2014, Chapter 68 requires individual taxpayers to provide the Department of Revenue a valid SSN to claim the Proposition 301 Sales Tax Credit, otherwise known as the Increased Excise Taxes Paid Credit (IETC). An individual income tax filer can claim a $25 credit to offset the 0.6% sales tax increase resulting from Proposition 301 passed in November 2000. For taxpayers filing as single or as married person filing separately, the income requirement for claiming the credit is $12,500 or less. Individual taxpayers had previously been able to also claim this credit using a federally-issued individual taxpayer identification number. The SSN requirement is effective January 1, 2015 and is projected to reduce the use of the credit, thereby increasing income tax collections by $1.5 million, beginning in FY 2016.

17) Watercraft Fine Revenue Shift – Laws 2014, Chapter 127 redirects certain fines for operating a watercraft while under the influence from the Public Safety Equipment Fund (PSEF) to the Law Enforcement and Boating Safety Fund (LEBSF). PSEF retains the first $1,200,000 of certain DUI fee revenues and the remainder is deposited into the General Fund. Prior to Chapter 127, PSEF received $1,200,000 and the General Fund received $9,179,400 in FY 2013. After shifting $500,000 of under the influence fees to LEBSF, PSEF is projected to still receive $1,200,000. The General Fund deposit, however, will decline by $(500,000) beginning in FY 2015.

18) Job Tax Credit – Laws 2014, Chapter 168 changes the requirement for the new Job Tax Credit program by providing that second and third year credits can be claimed irrespective of whether the same employee remains employed as long as the employer replaces the vacant position with another qualified employee within 90 days. The provision, which is effective retroactively from January 1, 2014, is currently estimated to reduce income tax collections by $(882,000), beginning in FY 2015.

19) Mixed Waste Processing Facility TPT Exemption – Laws 2014, Chapter 228 exempts the gross proceeds from building a mixed waste processing facility from the prime contracting tax. To qualify for the TPT exemption, the facility must be located on a municipal landfill and constructed for the purpose of recycling solid waste or producing renewable energy from landfill waste. Chapter 228 is estimated to decrease General Fund revenue by $(183,600), beginning in FY 2015.

20) Health Sciences Institution TPT Exemption – Laws 2014, Chapter 276 exempts personal property that is sold to a qualified health sciences educational institution from state and municipal retail, publication, and job printing TPT and use tax. Chapter 276 is estimated to reduce General Fund revenue by $(196,400), beginning in FY 2015.

Newly (2015) Enacted Legislation

21) Electricity and Natural Gas Exemption for International Operations Centers – Laws 2015, Chapter 6 exempts the gross proceeds from sales of electricity and natural gas to the owner or operator of a business certified by the Arizona Commerce Authority as an "International Operations Center." The exemption is estimated to reduce General Fund revenue collections by $(1.3) million, beginning in FY 2017.

22) DOR TPT Collection and Fraud Detection – Laws 2015, Chapters 8 (FY 2016 General Appropriation Act) appropriates $3.2 million to the Department of Revenue (DOR) to contract with a vendor to provide tax fraud prevention services designed to detect fraudulently filed individual income tax returns. Additionally, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) allows DOR to authorize contracted collectors to collect TPT accounts receivable. DOR may use up to $2 million of the revenues collected by the contracted collectors to pay for their services. Combined, these laws are expected to increase General Fund revenue by $41.9 million in FY 2016. Relative to FY 2016, the programs are expected to generate $(13.6) million less in revenue in FY 2017. The revenue generating programs are expected to produce $(13.0) million less in FY 2018 than in FY 2017.

23) Ongoing Judiciary Transfers – The enacted 3-year budget plan assumes the ongoing continuation of fund transfers which will be made in FY 2016 from various Superior Court and Supreme Court funds. The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) contains the specific transfers to be made during FY 2016 – it does not, however, enact any Judiciary fund transfers for FY 2017 and FY 2018. The transfers will increase General Fund revenue by $6.0 million annually, beginning in FY 2016. (Please see the Superior Court and Supreme Court agency pages for more information regarding the FY 2016 transfers.)

24) Insurance Fraud Assessment – Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) continues to suspend the statutory requirement that the Department of Insurance (DOI) set fees so that fee revenues are between 95% and 110% of the department's appropriation for FY 2016. This provision allows DOI to increase the fraud investigation assessment in order to offset a General Fund appropriation for insurance fraud investigators in the department's Fraud Unit. The provision is expected to increase General Fund revenue by $516,600 annually, beginning in FY 2016.

25) Disproportionate Share Transfer Increase – Laws 2015, Chapter 14 (FY 2016 Health Budget Reconciliation Bill) increases the maximum Disproportionate Share Hospital payment allocation for the Maricopa Integrated Health System in FY 2015 and FY 2016. The bill provides that any resulting increase in the amount of Federal Funds that the public hospital draws down with the added allocation be deposited to the General Fund. This provision is estimated to increase revenue by $11.0 million in FY 2015 and an additional $5.5 million in FY 2016 (for a total of $16.5 million). The federal Disproportionate Share payment is currently expected to decrease by $(7.9) million in FY 2017, followed by an additional reduction of $(8.6) million in FY 2018.

26) Retaliatory Tax Exemption – Laws 2015, Chapter 184 provides an exemption from Arizona's insurance premium retaliatory tax to out-of-state insurers doing business in Arizona, if the insurer's home state does not charge retaliatory taxes on Arizona insurers. Retaliatory taxes are owed by out-of-state insurers to the extent that the sum of insurance premium tax an insurer pays in Arizona is less than what the sum of taxes would be if the same insurance business were transacted in the insurer's home state. The exemption is estimated to reduce revenue by $(1.5) million annually, beginning in FY 2016.

27) Insurance Premium Tax Rate Reduction – Laws 2015, Chapter 220 gradually reduces the insurance premium tax rate from 2.0% in calendar year (CY) 2015 to 1.7% in CY 2026 and subsequent years. The rate reduction applies to life, vehicle, and other property and casualty lines of insurance. The law is estimated to reduce insurance premium tax collections to the General Fund by $(1.3) million in FY 2017 and an additional $(0.2) million in FY 2018.

28) IRS Conformity – Laws 2015, Chapter 227 conforms Arizona tax statutes to the Internal Revenue Code (IRC) as of January 1, 2015, including federal provisions that became effective in 2014, but excluding any change to the IRC after January 1, 2015. In December 2014, the federal Tax Increase Prevention Act of 2014 was signed into law, which retroactively extended a number of expiring federal tax provisions for one more year, through TY 2014. One provision under the act allows individual and corporate taxpayers to take a tax deduction of up to $500,000 for qualifying investments purchased and placed in service in 2014. Absent the federal tax extension, the business expensing limit would have reverted to $25,000 for TY 2014.

In the 2013 Regular Session, the Legislature conformed Arizona tax policy to the $500,000 level in FY 2014 as part of that year's IRS conformity legislation. Conformity provisions are typically renewed annually.

In the 2014 Regular Session, the Legislature passed HB 2664 to permanently raise the business expensing limit for state income taxes to $500,000. At the time, the FY 2015 budget had already been enacted and assumed a 1-year continuation of the $500,000 limit at a cost of $25 million. The Governor, however, vetoed HB 2664. The Executive used the $25 million General Fund savings from the veto as a financing source for the cost of establishing the new Department of Child Safety in the May 2014 2nd Special Session. Since the cost of business expensing was redirected elsewhere, the March 2015 budget did not fund its continuation in FY 2016.

The 2015 "Conformity Bill" was signed into law (under Chapter 227) several weeks after the budget was adopted in March 2015. For this reason, Chapter 227 resulted in a General Fund revenue loss of $(30.8) million in FY 2015 relative to the March enacted budget. (Note that the original $25 million cost estimate has subsequently been revised to $30.8 million.)

Urban Revenue Sharing

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and town within the state. The amount that is currently distributed to cities and towns is 15% of net income tax collections from 2 years prior. As indicated in *Table 6*, total URS distributions will decrease from $608.9 million in FY 2015 to $605.6 million in FY 2016, which will result in a net General Fund revenue gain of $3.3 million in FY 2016. As shown in *Table 7*, URS distributions are estimated to increase to $616.8 million in FY 2017 and $631.3 million in FY 2018, which will result in net General Fund revenue losses of $(11.2) million and $(14.5) million in FY 2017 and FY 2018, respectively.

Table 5

FY 2015 through FY 2018 One-Time Financing Sources
($ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018
Balance Forward	$ 577.4	$12.0	--	--
Budget Legislation				
Rainy Day Fund Transfer	144.3	0.0	0.0	0.0
Tax Amnesty	0.0	15.0	0.0	0.0
Fund Transfers	68.9	220.2	100.0	0.0
Subtotal	213.2	235.2	100.0	0.0
Total One-Time Financing	**$790.6**	**$247.2**	**$100.0**	**$0.0**

One-Time Financing
As shown in *Table 5*, one-time financing sources are available in FY 2015, FY 2016, and FY 2017. The following is a discussion of the one-time financing sources. *Table 5* provides the one-time financing detail.

FY 2015
The $790.6 million in one-time financing sources for FY 2015 includes:

Rainy Day Fund Transfer
The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) requires the State Treasurer to transfer an amount equal to the negative ending balance for FY 2015 plus $12.0 million from the Budget Stabilization ("Rainy Day") Fund to the General Fund. Based on a projected FY 2015 ending balance of $(132.3) million, the Rainy Day Fund transfer for FY 2015 is estimated to be $144.3 million.

Fund Transfers
The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) transfers $53.9 million from the Special Employee Health Insurance Trust Fund (HITF) to the General Fund for the purpose of providing adequate support and maintenance for state agencies. Additionally, the FY 2016 General Appropriation Act requires the Attorney General to transfer a total of $15.0 million from the $50.0 million National Mortgage Settlement proceeds to the General Fund to compensate for the costs resulting from the alleged unlawful conduct of defendants.

Balance Forward
The FY 2014 General Fund ending balance carried into FY 2015 was $577.4 million.

FY 2016
The $247.2 million in one-time financing sources for FY 2016 includes:

Tax Amnesty
Laws 2015, Chapter 10 (FY 2016 Revenue Budget Reconciliation Bill) requires the Department of Revenue to establish a tax amnesty program from September 1, 2015 through October 31, 2015. The program, which is estimated to generate a total of $15.0 million for the General Fund in FY 2016, waives civil penalties and interest on unpaid tax liabilities for any period before January 1, 2014 for annual filers, and February 1, 2015 for all other filers. This estimate includes already identified liabilities.

Fund Transfers
The FY 2016 General Appropriation Act provides for a total of $220.2 million in agency fund transfers to the General Fund in FY 2016 (*for more detail, see Detailed List of General Fund Changes by Agency Section*).

Balance Forward
As result of the conditional Rainy Day Fund transfer (*see discussion above*) under Chapter 8, the FY 2015 General Fund ending balance carried forward into FY 2016 is expected to be $12.0 million. Compared to the actual FY 2015 beginning balance of $577.4 million, the projected FY 2016 beginning balance reflects a loss of $(565.4) million.

FY 2017
Fund Transfers
The FY 2016 General Appropriation Act (Laws 2015, Chapter 8) transfers $100.0 million from the Special Employee Health Insurance Trust Fund (HITF) to the General Fund in FY 2017 for the purpose of providing adequate support and maintenance for state agencies.

FY 2018
As shown in *Table 8*, no one-time financing sources are currently included for FY 2018.

Table 6

GENERAL FUND REVENUE - FY 2014 - FY 2016

FORECAST REVENUE GROWTH

($ in Thousands)

	ACTUAL FY 2014	% CHANGE PRIOR YR	FORECAST FY 2015	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2016	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	3,995,367.7	5.7%	4,127,914.5	3.3%	132,546.9	4,276,292.1	3.6%	148,377.6
Income - Individual 1/	3,487,182.0	2.6%	3,572,756.1	2.5%	85,574.1	3,671,335.7	2.8%	98,579.7
- Corporate	575,180.2	-13.1%	570,375.3	-0.8%	(4,805.0)	622,866.5	9.2%	52,491.3
Property	25,611.2	94.0%	26,000.0	1.5%	388.8	26,500.0	1.9%	500.0
Luxury - Tobacco	25,837.4	5.3%	23,395.2	-9.5%	(2,442.2)	22,920.0	-2.0%	(475.2)
- Liquor	32,901.2	3.9%	32,911.7	0.0%	10.5	33,602.8	2.1%	691.1
Insurance Premium	411,760.7	6.5%	450,600.0	9.4%	38,839.3	475,400.0	5.5%	24,800.0
Other Taxes (Includes MV Tax)	6,937.7	342.6%	6,700.0	-3.4%	(237.7)	6,900.0	3.0%	200.0
Subtotal - Taxes	8,560,778.0	3.2%	8,810,652.8	2.9%	249,874.8	9,135,817.3	3.7%	325,164.5
Other Non-Tax Revenues:								
Lottery	72,881.3	-8.0%	75,566.9	3.7%	2,685.6	70,576.3	-6.6%	(4,990.6)
Licenses, Fees and Permits	29,847.6	1.4%	30,937.9	3.7%	1,090.3	30,437.9	-1.6%	(500.0)
Interest	13,821.4	15.0%	9,100.0	-34.2%	(4,721.4)	6,453.6	-29.1%	(2,646.4)
Sales and Services	37,806.2	2.5%	39,140.0	3.5%	1,333.8	39,140.0	0.0%	0.0
Other Miscellaneous	75,896.9	-19.6%	80,000.0	5.4%	4,103.1	80,000.0	0.0%	0.0
Transfers and Reimbursements	55,259.5	77.8%	63,400.0	14.7%	8,140.5	65,900.0	3.9%	2,500.0
Disproportionate Share Revenue	75,366.2	-3.6%	76,821.9	1.9%	1,455.7	88,444.3	15.1%	11,622.4
Subtotal - Other Non-Tax	360,879.0	-0.1%	374,966.7	3.9%	14,087.7	380,952.1	1.6%	5,985.4
Subtotal On-Going Revenue	**8,921,657.1**	**3.1%** 1/	**9,185,619.5**	**3.0%** 2/	**263,962.4**	**9,516,769.4**	**3.6%** 3/	**331,149.9**
Previously Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(111,800.0)	N/A	(111,800.0)
Newly Enacted Changes	0.0	N/A	(19,800.0)	N/A	(19,800.0)	52,433.2	N/A	72,233.2
3-Year 1¢ TPT Increase	8,422.9	-99.1%	0.0	-100.0%	(8,422.9)	0.0	N/A	0.0
Subtotal w/Tax Law Changes	**8,930,080.0**	**-7.2%**	**9,165,819.5**	**2.6%**	**235,739.5**	**9,457,402.6**	**3.2%**	**291,583.1**
Urban Revenue Sharing (URS)	(561,001.2)	N/A	(608,935.7)	N/A	(47,934.5)	(605,634.3)	N/A	3,301.4
Subtotal w/Tax Law Changes/URS	**8,369,078.8**	**-8.1%**	**8,556,883.8**	**2.2%**	**187,805.0**	**8,851,768.3**	**3.4%**	**294,884.5**
One-Time Financing Sources:		N/A						
Fund Transfers	141,541.1	207.7%	68,900.0	-51.3%	(72,641.1)	220,194.5	219.6%	151,294.5
Rainy Day Transfer	0.0	N/A	144,281.2	N/A	144,281.2	0.0	-100.0%	(144,281.2)
Previously Enacted Changes	(24,800.0)	N/A 1/	0.0	N/A	24,800.0	0.0	N/A	0.0
Tax Amnesty	0.0	N/A	0.0	N/A	0.0	15,000.0	N/A	15,000.0
Subtotal - One-Time Financing Sources	116,741.1	106.6%	213,181.2	82.6%	96,440.1	235,194.5	10.3%	22,013.3
Subtotal - Revenues	**8,485,819.9**	**-7.4%**	**8,770,065.0**	**3.3%**	**284,245.0**	**9,086,962.8**	**3.6%**	**316,897.8**
Balance Forward	895,475.0	125.6%	577,399.2	-35.5%	(318,075.8)	12,000.0	-97.9%	(565,399.2)
Total - Resources	**9,381,294.9**	**-1.9%**	**9,347,464.2**	**-0.4%**	**(33,830.8)**	**9,098,962.8**	**-2.7%**	**(248,501.4)**

1/ To reflect the $24.8 million of business expensing as a one-time cost, the FY 2014 individual income tax actual has been adjusted upward by $24.8 million. Prior to this adjustment, the FY 2014 on-going revenue increase would be 2.7%. The business expensing provision was subsequently continued for FY 2015.

2/ The 3.0% FY 2015 increase includes $(120.6) million in previously enacted statutory changes. Adjusting for these changes, the base FY 2015 increase is 4.3%.

3/ Adjusting for the $(19.8) million in newly enacted tax law changes in FY 2015, the base FY 2016 increase is 3.8%.

Table 7

GENERAL FUND REVENUE - FY 2017 - FY 2018

FORECAST REVENUE GROWTH

($ in Thousands)

	FORECAST FY 2017	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2018	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	4,507,727.6	5.4%	231,435.5	4,736,283.2	5.1%	228,555.6
Income - Individual	3,843,661.3	4.7%	172,325.6	4,049,038.9	5.3%	205,377.6
- Corporate	528,701.7	-15.1%	(94,164.8)	446,695.1	-15.5%	(82,006.6)
Property	27,030.0	2.0%	530.0	27,570.6	2.0%	540.6
Luxury - Tobacco	22,514.4	-1.8%	(405.7)	22,118.1	-1.8%	(396.3)
- Liquor	34,320.9	2.1%	718.1	35,065.0	2.2%	744.1
Insurance Premium	492,840.1	3.7%	17,440.1	511,225.5	3.7%	18,385.5
Other Taxes (Includes MV Tax)	7,107.0	3.0%	207.0	7,320.2	3.0%	213.2
Subtotal - Taxes	9,463,902.9	3.6%	328,085.7	9,835,316.6	3.9%	371,413.7
Other Non-Tax Revenues:						
Lottery	77,223.6	9.4%	6,647.3	87,066.5	12.7%	9,842.9
Licenses, Fees and Permits	31,351.0	3.0%	913.1	32,291.6	3.0%	940.6
Interest	6,503.7	0.8%	50.1	6,519.2	0.2%	15.5
Sales and Services	40,314.2	3.0%	1,174.2	41,523.6	3.0%	1,209.4
Other Miscellaneous	83,737.3	4.7%	3,737.3	87,631.0	4.7%	3,893.8
Transfers and Reimbursements	74,057.0	12.4%	8,157.0	76,278.7	3.0%	2,221.7
Disproportionate Share Revenue	93,944.3	6.2%	5,500.0	86,044.3	-8.4%	(7,900.0)
Subtotal - Other Non-Tax	407,131.1	6.9%	26,179.0	417,355.0	2.5%	10,223.9
Subtotal On-Going Revenue	**9,871,034.0**	**3.7%** 4/	**354,264.6**	**10,252,671.6**	**3.9%** 5/	**381,637.6**
Previously Enacted Tax Law Changes	(87,600.0)	N/A	24,200.0	(86,200.0)	N/A	1,400.0
Newly Enacted Changes	(24,116.6)	N/A	(76,549.8)	(21,800.0)	N/A	2,316.6
3-Year 1¢ TPT Increase	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal w/Tax Law Changes	**9,759,317.4**	**3.2%**	**301,914.8**	**10,144,671.6**	**3.9%**	**385,354.2**
Urban Revenue Sharing (URS)	(616,849.7)	N/A	(11,215.4)	(631,335.3)	N/A	(14,485.6)
Subtotal w/Tax Law Changes/URS	**9,142,467.7**	**3.3%**	**290,699.4**	**9,513,336.3**	**4.1%**	**370,868.6**
One-Time Financing Sources:						
Fund Transfers	100,000.0	-54.6%	(120,194.5)	0.0	-100.0%	(100,000.0)
Rainy Day Transfer	0.0	N/A	0.0	0.0	N/A	0.0
Previously Enacted Changes	0.0	N/A	0.0	0.0	N/A	0.0
Tax Amnesty	0.0	-100.0%	(15,000.0)	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	100,000.0	-57.5%	(135,194.5)	0.0	-100.0%	(100,000.0)
Subtotal - Revenues	**9,242,467.7**	**1.7%**	**155,504.9**	**9,513,336.3**	**2.9%**	**270,868.6**
Balance Forward	0.0	-100.0%	(12,000.0)	0.0	N/A	0.0
Total - Resources	**9,242,467.7**	**1.6%**	**143,504.9**	**9,513,336.3**	**2.9%**	**270,868.6**

4/ Adjusting for the $(59.4) million in tax law changes in FY 2016, the base FY 2017 increase is 4.4%.
5/ Adjusting for the $(111.7) million in tax law changes in FY 2017, the base FY 2018 increase is 5.1%.