A Summary of State General Fund Conditions
- The ‘19 JLBC Baseline

- The Baseline compares revenues with funding formula requirements to provide a guideline of available resources

- Both the current budget and ‘19 Baseline have projected shortfalls:
  - ‘18 = $(20) M
  - ‘19 = $(108) M

See Appendix A for outyear estimates
The Caveats

- The shortfall is likely greater since the Baseline eliminates $89 M in “1-time” ’18 spending that appears ongoing in nature.

- Federal tax conformity could have significant fiscal impact – but the projections will be highly speculative.
# Projected Baseline Changes

## - Spending Growth Outpaces Revenues

<table>
<thead>
<tr>
<th>Net ’19 Revenue Growth</th>
<th>$ in M</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.6% Consensus Revenue Growth</td>
<td>368</td>
</tr>
<tr>
<td>One-Time Fund Transfers</td>
<td>(8)</td>
</tr>
<tr>
<td>Previously Enacted Tax Legislation</td>
<td>(75)</td>
</tr>
<tr>
<td>Urban Revenue Sharing</td>
<td>6</td>
</tr>
<tr>
<td>Beginning Balance Reduction</td>
<td>(151)</td>
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<table>
<thead>
<tr>
<th>Total Revenue Changes</th>
<th>140</th>
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<tbody>
<tr>
<td>Total Revenue</td>
<td>$9,947</td>
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<tr>
<td>% Change</td>
<td>1.4%</td>
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<table>
<thead>
<tr>
<th>Net ’19 Spending Changes</th>
<th>$ in M</th>
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<tr>
<td>ADE – K12 Formula</td>
<td>168</td>
</tr>
<tr>
<td>Medicaid Formula</td>
<td>149</td>
</tr>
<tr>
<td>University Bonding</td>
<td>27</td>
</tr>
<tr>
<td>School Facilities Debt Service</td>
<td>(35)</td>
</tr>
<tr>
<td>Eliminate 1-Time $</td>
<td>(89)</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
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<table>
<thead>
<tr>
<th>Total Spending Changes</th>
<th>228</th>
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<tr>
<td>Total Spending</td>
<td>$10,056</td>
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<tr>
<td>% Change</td>
<td>2.3%</td>
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</table>
’19 & ’20 Forecast Below Enacted Budget
- Primary Reason for Projected Shortfalls

January Consensus Forecast

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

Chance of Exceeding Forecast

- 60%

Long Run Average Growth

- 4.25%

Base Revenue Growth Rate *

<table>
<thead>
<tr>
<th></th>
<th>'18</th>
<th>'19</th>
<th>'20</th>
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</thead>
<tbody>
<tr>
<td>Enacted Budget</td>
<td>4.3%</td>
<td>4.1%</td>
<td>4.5%</td>
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<tr>
<td>Jan FAC</td>
<td>4.3%</td>
<td>3.6%</td>
<td>4.3%</td>
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</tbody>
</table>

*Excludes one-time revenues, tax law changes, and urban revenue sharing

See Appendix B
## Funding Formula Requirements

<table>
<thead>
<tr>
<th>Category</th>
<th>$ in M</th>
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<tbody>
<tr>
<td>K-12</td>
<td>168</td>
</tr>
<tr>
<td>Medicaid</td>
<td>149</td>
</tr>
<tr>
<td>University Capital</td>
<td>27</td>
</tr>
</tbody>
</table>

- **K-12**: Funds 1.3% enrollment growth, 1.77% inflation and a new 1.06% teacher salary raise
- **Medicaid**: Funds 2.0% enrollment growth, 3.5% rate increase and minimum wage adjustments
- **University Capital**: Funds first year of 25-year commitment to support university capital projects
Baseline Eliminates $89 M in 1-Time Spending
- Legislative Interest in Retaining Some of These Funds?

<table>
<thead>
<tr>
<th>Possible Retention Candidates</th>
<th>$ in M</th>
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<tbody>
<tr>
<td>ADE IT System</td>
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<tr>
<td>SFB Building Grants</td>
<td>17</td>
</tr>
<tr>
<td>Universities</td>
<td>15</td>
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<tr>
<td>DES – DD Prop 206</td>
<td>12</td>
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<tr>
<td>State Employer Health Insurance</td>
<td>25</td>
</tr>
<tr>
<td>County Assistance (DJC Offset/Other)</td>
<td>10</td>
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</table>
How Will Federal Tax Law Changes Affect AZ?

- AZ uses income on the federal form as the starting point for our own individual and corporate income tax.

- When feds change their income definition, AZ has to decide whether to conform in statute.
When Are AZ and Federal Taxes Linked?

- **Tax Rates**
  - Feds lowered both individual and corporate rates, but no AZ impact

- **Deductions**
  - We do not conform to feds’ standard & medical deductions
  - AZ currently conforms to most others
  - Feds have now reduced deductions, which would generate more state revenue

Linked
- No

Yes/No
Conformity Is Very Difficult to Estimate

- Federal legislation includes over 100 provisions, is very complex and is the largest revision in the tax code in 30 years
- Some provisions can be estimated using AZ-specific data
- Most provisions, however, require prorating national data
  - Some national estimates are highly speculative
  - AZ’s percent share of national estimates further adds to the speculation
- JLBC Staff’s conformity projection is still being developed
Director…………………………………………………………………………………………………Richard Stavneak
Office Manager………………………………………………………………………………………Linda Monsanto
Deputy Directors……………………………………………………………………………………Steve Schimpp
...............................................................................................................................Stefan Shepherd
Assistant Director.......................................................................................................Jack Brown
Chief Economist........................................................................................................Hans Olofsson
Principal Fiscal Analyst.............................................................................................Jon Stall
Senior Fiscal Analysts.................................................................................................Matt Beienburg
..............................................................................................................................Steve Grunig
..............................................................................................................................Chris Gustafson
..............................................................................................................................Micaela Larkin
..............................................................................................................................Patrick Moran
..............................................................................................................................Rebecca Perrera
Fiscal Analysts...............................................................................................................Sam Beres
..............................................................................................................................Morgan Dorcheus
..............................................................................................................................Henry Furtick
..............................................................................................................................Jeremy Gunderson
..............................................................................................................................Josh Hope
..............................................................................................................................Ben Murphy
..............................................................................................................................Geoffrey Paulsen
Administrative Assistant / JLBC & JCCR Clerk.........................................................Kristy Paddack
Appendix A: Projected ’21 Balance Grows to $212 M
- But Excludes Any Discretionary Changes in Next 3 Years
## Appendix B: January 2018 4-Sector Forecast

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<tr>
<td><strong>Sales Tax</strong></td>
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<tr>
<td>JLBC Forecast</td>
<td>4.5%</td>
<td>4.2%</td>
<td>4.1%</td>
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<tr>
<td>UA – Low</td>
<td>3.9%</td>
<td>1.7%</td>
<td>4.0%</td>
<td>4.8%</td>
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<tr>
<td>UA – Base</td>
<td>4.7%</td>
<td>4.8%</td>
<td>5.2%</td>
<td>4.5%</td>
</tr>
<tr>
<td>FAC</td>
<td>4.5%</td>
<td>3.9%</td>
<td>4.0%</td>
<td>4.3%</td>
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<tr>
<td><strong>Average:</strong></td>
<td>4.4%</td>
<td>3.7%</td>
<td>4.3%</td>
<td>4.4%</td>
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<tr>
<td><strong>Individual Income Tax</strong></td>
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<td>5.6%</td>
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<td>5.3%</td>
<td>5.2%</td>
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<tr>
<td>UA – Low</td>
<td>4.2%</td>
<td>0.9%</td>
<td>4.4%</td>
<td>5.6%</td>
</tr>
<tr>
<td>UA – Base</td>
<td>6.1%</td>
<td>4.4%</td>
<td>5.4%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FAC</td>
<td>4.5%</td>
<td>3.9%</td>
<td>3.7%</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>Average:</strong></td>
<td>5.1%</td>
<td>3.5%</td>
<td>4.7%</td>
<td>4.9%</td>
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<tr>
<td><strong>Corporate Income Tax</strong></td>
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<tr>
<td>JLBC Forecast</td>
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<td>5.7%</td>
<td>4.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>UA – Low</td>
<td>3.9%</td>
<td>0.5%</td>
<td>2.7%</td>
<td>9.4%</td>
</tr>
<tr>
<td>UA – Base</td>
<td>4.5%</td>
<td>4.6%</td>
<td>3.6%</td>
<td>4.6%</td>
</tr>
<tr>
<td>FAC</td>
<td>-1.1%</td>
<td>2.5%</td>
<td>-1.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td><strong>Average:</strong></td>
<td>2.9%</td>
<td>3.4%</td>
<td>2.4%</td>
<td>5.5%</td>
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<tr>
<td><strong>Insurance Premium Tax</strong></td>
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<tr>
<td>JLBC Forecast</td>
<td>3.4%</td>
<td>4.1%</td>
<td>3.8%</td>
<td>3.8%</td>
</tr>
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<td>UA – Low</td>
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<td>UA – Base</td>
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<td>1.5%</td>
<td>1.5%</td>
<td>1.8%</td>
</tr>
<tr>
<td>FAC</td>
<td>3.4%</td>
<td>3.4%</td>
<td>3.1%</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>Average:</strong></td>
<td>3.0%</td>
<td>2.6%</td>
<td>2.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td><strong>JLBC Weighted Average</strong></td>
<td>4.9%</td>
<td>4.4%</td>
<td>4.6%</td>
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<tr>
<td><strong>UA Low Weighted Average</strong></td>
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<td>1.3%</td>
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<tr>
<td><strong>UA Base Weighted Average</strong></td>
<td>5.2%</td>
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<td>5.1%</td>
<td>4.6%</td>
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<tr>
<td><strong>FAC Consensus Weighted Average</strong></td>
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<td>3.9%</td>
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<td>4.2%</td>
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<tr>
<td><strong>“Big-4” Weighted Average</strong></td>
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<td>4.5%</td>
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<tr>
<td><strong>Consensus Weighted Average</strong>*</td>
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<td>3.6%</td>
<td>4.3%</td>
<td>4.5%</td>
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<tr>
<td><strong>Adjusted Consensus Weighted Average</strong></td>
<td>3.1%</td>
<td>2.8%</td>
<td>4.2%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

* Represents ongoing revenue adjusted for small revenue categories.
** Represents ongoing revenue adjusted for tax law changes; excludes urban revenue sharing.