
FY 2022 JLBC Baseline with Executive Comparison

January 19, 2021

JLBC

Key Points

- ❑ Since the pandemic began, revenue collections have been much higher than anticipated
- ❑ Lower school enrollment and higher federal Medicaid funding have reduced state spending
- ❑ The projected '22 ending balance is \$1.6 B to \$2 B
- ❑ The lower end of the range is the 4-sector forecast while the upper end is the JLBC Staff projection

Caveats

- ❑ The revenue estimates assume no widespread business shutdowns due to COVID.
- ❑ The ongoing federal policy response will also affect budget discussions
 - The December federal aid package includes \$1.1 B in new aid for K-12 schools
- ❑ \$1.3 B to \$1.6 B of the General Fund balance is from 1-time funds and would not finance ongoing initiatives

'21 YTD General Fund Revenues Up 17.8%

- 8.6% Growth When Exclude Deferred Tax Filing

	<u>% Growth</u> <u>'21 YTD</u>	<u>+/- October</u> <u>Forecast (\$ M)</u>
Sales	11.4%	\$ 151
Individual Income	26.7	176
Corporate Income	5.8	59
Insurance Premium	10.0	27
Other	<u>12.1</u>	<u>29</u>
Overall *	17.8	\$ 442

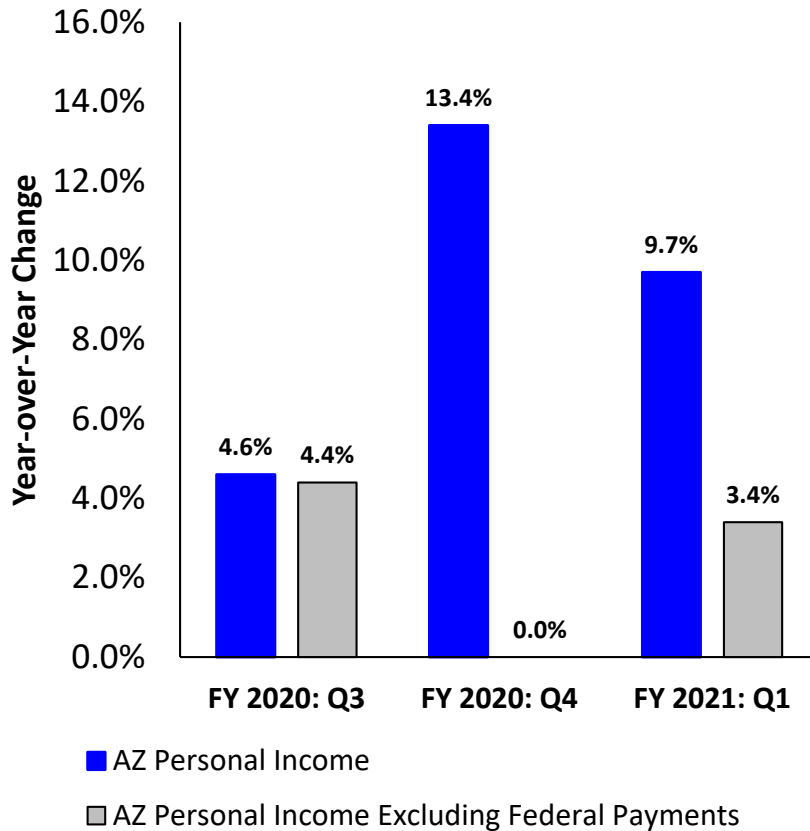
Year to Date overstated due to April '20 income tax filing being deferred to July '20

* Revenues exclude beginning balance, fund transfers and Urban Revenue Sharing
YTD = Year to Date through December

Why Is AZ Revenue Growth Strong?

- \$32 B in Federal CARES Act Assistance to Arizona
- Underlying State Economy Remains Healthy

Arizona Personal Income



- Personal Income twice pre-pandemic growth
- Fed aid generates TPT and income tax
- Excluding Fed \$, Personal Income growth is 75% of pre-pandemic level

AZ Received \$32 B in Direct Federal COVID Aid

- Represents Just Spring \$, not New December Package

Major Sources of Spring Direct Aid \$ in B

- | | |
|---|----|
| <input type="checkbox"/> Paycheck Protection/Other Business Aid | 13 |
| <input type="checkbox"/> Unemployment Insurance | 10 |
| <input type="checkbox"/> \$1,200/\$2,400 Stimulus Checks | 6 |
| <input type="checkbox"/> Hospitals/Health Care Providers | 2 |

New December Aid

- Additional \$300 B nationwide of Paycheck Protection Loans/Grants
- Another 11 weeks of federally subsidized UI payments
- New \$600 per person stimulus checks below \$75k household income

TPT is a Good Proxy for AZ's Economic Health

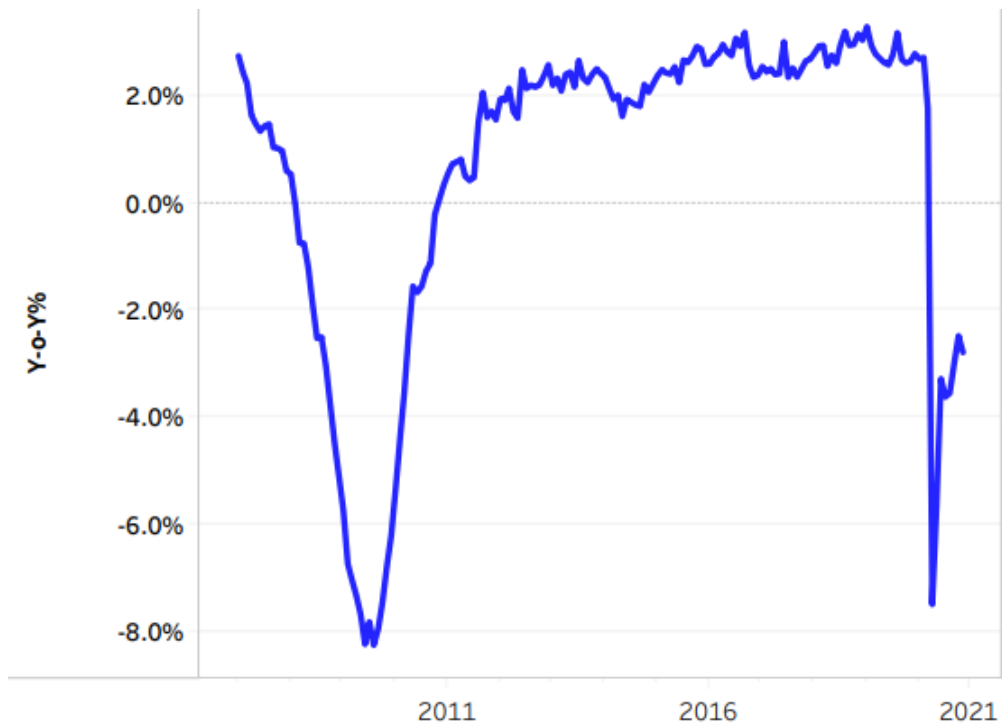
- Retail/Contracting Excellent; Restaurant/Bar/Hotels Poor

Sales Tax (TPT) % Change over Prior Year		
	4 th Qtr <u>FY 20</u>	YTD Dec <u>FY 21</u>
Retail/Remote Sales	5%	18%
Contracting	18	19
Restaurant/Bar	(32)	(11)
Lodging	(67)	(34)

- ❑ US durable goods spending up 13% in November
- ❑ US services spending down 5%
- ❑ In AZ retail, auto sales up 13%; building materials gained 22%
- ❑ Wayfair/Remote stronger than expected

AZ Employment (2.8)% Less than a Year Ago

- But Withholding Up 5.6% through December



- ❑ The COVID job crash almost as deep as Great Recession
- ❑ Recovery has been much quicker
- ❑ Job losses centered on lower paid jobs
- ❑ Resulted in less withholding impact

Forecasting State Revenues

4-Sector vs. JLBC Sector Forecasts

- 4-Sector Likely Understates Current Year Growth

4-Sector Components

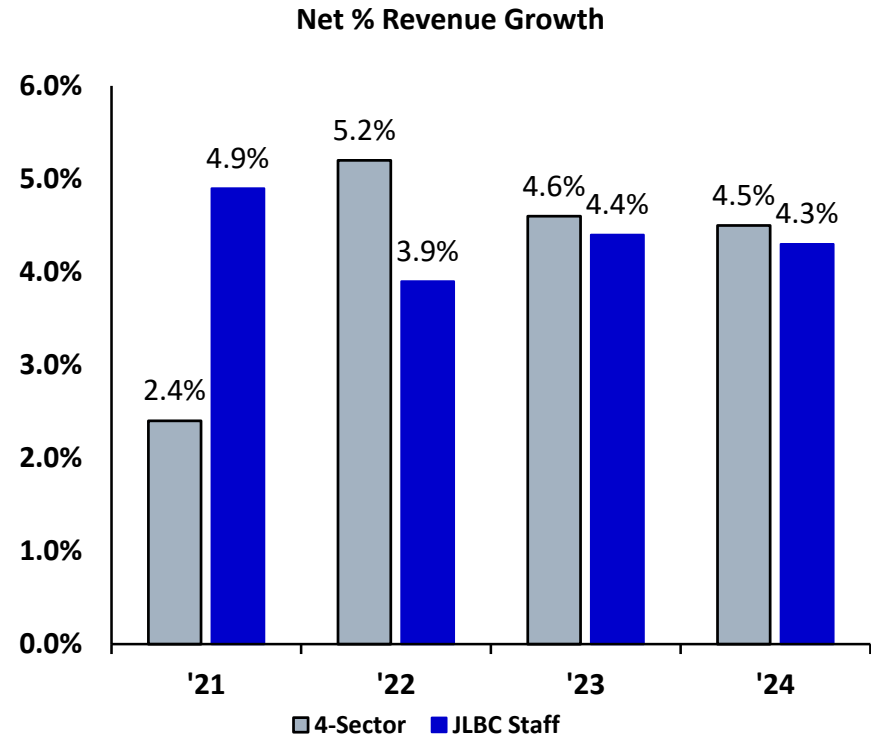
- ❑ Finance Advisory Committee
- ❑ UA model – base
- ❑ UA model – low
- ❑ JLBC Staff

Year to Date Growth

- ❑ 8.6%

Income Tax Deferral

- ❑ %'s adjusted to remove effect of 7/20 income tax deferral

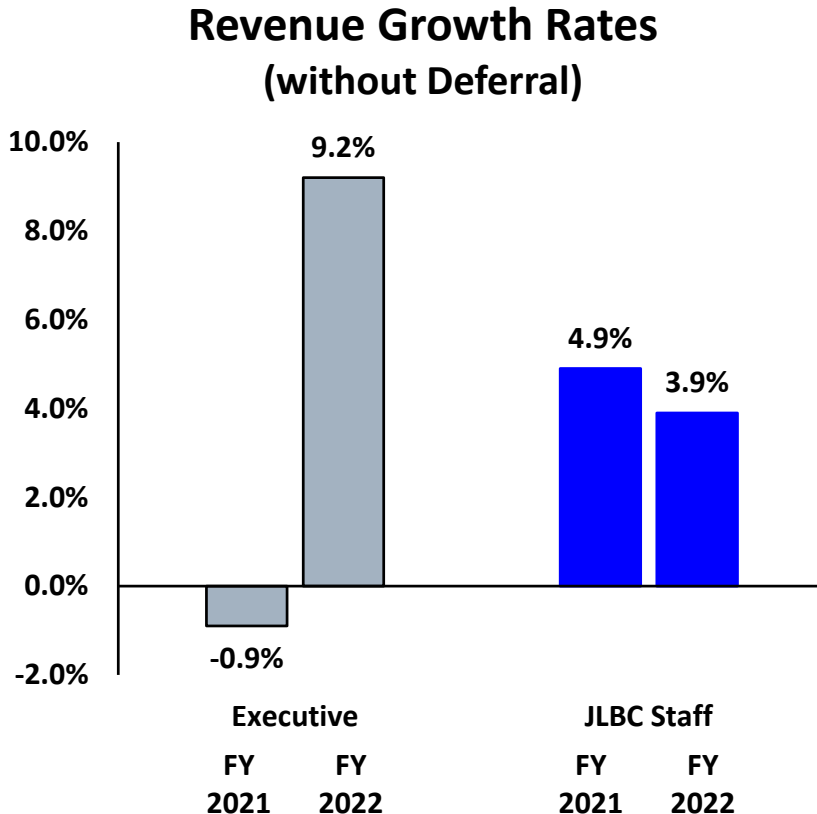


Excludes balance forward, one-time transfers and urban revenue sharing

See Appendix A

Executive Seriously Understates '21 Growth

- Requires (10.4)% Decline in Remaining Months thru June

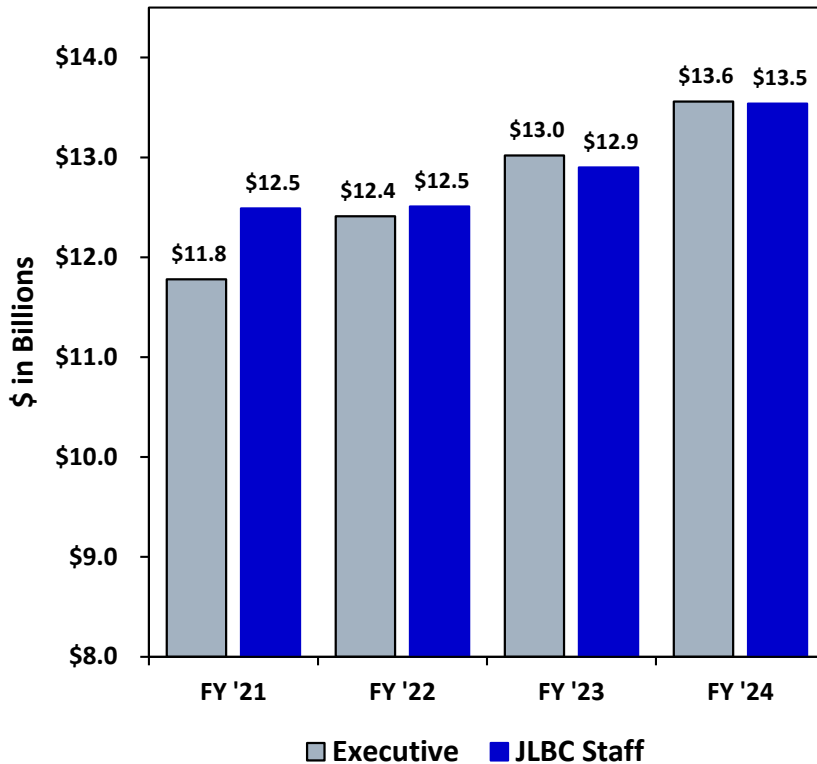


- JLBC Sector requires 1.3% growth in remaining months
 - Even JLBC is likely low; expect gains above weak Spring '20 TPT base
- Executive **\$(700) M** below JLBC '21 revenues
- Executive rebounds with much higher '22 growth rate

Revenues Prior to Policy Changes

- JLBC \$700 M Higher in '21, Exec \$50 M Higher in '22 - '24

Net Ongoing Revenue
Prior to Policy Changes*



*Excludes Balance Forward

Executive Policy Changes

- \$200 M/\$400 M/\$600 M unspecified '22 - '24 tax cuts
- \$74 M IRS Conformity
 - No conformity on \$473 M of business loss provisions
- Keno/Sports Gaming revenues unspecified

Spending Adjustments

JLBC – funding formula adjustments plus removing '21 \$ designated as 1-time in last year's budget

Executive – same concept plus discretionary changes

'21 Formulas Significantly Below Budget

- K-12 and Medicaid

	FY 21 Savings (\$ in M)	
	<u>Exec</u>	<u>JLBC</u>
<input type="checkbox"/> Lower School Enrollment	(389)	(301)
– Savings could reach \$500 M		
– Exec moves \$ to lower income pupils		
– \$500 per FRPL costs \$298 M 1-time		
<input type="checkbox"/> Higher Fed Medicaid Match	(244)	(298)
– In place thru 3/21		
– A 1-yr extension yields \$500 M more savings		

'22 JLBC Baseline Spending Increases by \$602 M

- Compared to Enacted '21 Budget

'22 Ongoing Spending Changes

\$ in M

AHCCCS – Medicaid Formula	228
ADE – K-12 Formula	223
DPS – Highway Safety Fee Backfill	161
DES – Medicaid Formula	89
Other	<u>28</u>
Total	729

'22 One-Time Spending Additions/Deletions

\$ in M

Reduce K-12 Rollover (Enacted)	30
University 27 th Payroll (Enacted)	20
FY 21 State Agency 27 th Payroll	(43)
SFB – Building Renewal Grants	(91)
SFB – Revised New Buildings Cost	17
State Employee Health Insurance	(22)
Other Agency Spending	(27)
ADC Capital Projects	<u>(11)</u>
Total	(127)

Total Spending Changes	\$602 M
Total Spending	\$12,306 M
% Change	5.1%

K-12 Aggregate Expenditure Limit

- ❑ Constitution limits K-12 \$ growth to population and inflation, excludes federal funds, bonds, overrides
- ❑ Districts exceeded limit by \$138 M in '21, which will require proportionate reduction
- ❑ If districts redo their '21 budgets, we will probably fall below limit
- ❑ Legislature can override by 3/1/21 with 2/3rds vote
- ❑ JLBC Baseline does not reflect '21 AEL reduction

Primary Baseline Difference is K-12

- Between Executive and JLBC Estimates

- ❑ Over '22 - '24, Executive K12 formula spending is \$(568) M less than JLBC
 - \$(43) M in '22
 - \$(232) M in '23
 - \$(293) M in '24


- ❑ Of the \$(568) M, \$(271) M is a technical error

- ❑ Remainder is due to Executive's lower enrollment growth and higher property tax estimates

\$407 M in Ongoing Executive Policy Issues

- Outside Standard Baseline Adjustments

\$ in M

200	Tax Cuts (\$400 M '23; \$600 M '24)
26	ADE/State Board 
35	Universities
18	ADC Florence Closure/Private Beds
19	ADC Fire Crews/Forestry grants
14	DPS Overtime/Body Cameras
25	DCS Group Homes
20	DES DD Eligibility Expansion
13	Retirement Employer Rate Increases
37	All Other
407	Total

'22 K12 Initiatives

	<u>\$ in M</u>
Transportation Grants	10
Early Literacy	7
College Prep	4
Innovation Grants	3
Teaching Support	1
Other	1

\$363 M in One-Time Executive Policy Issues

\$ in M

74	Partial Internal Revenue Code Conformity
142	SFB School Repairs (6 th yr): \$39M in '21/\$103M in '22
33	ADOT I-40 W Broadband
10	Commerce – Rural Broadband
48	ADC Building Repairs
15	ADOA Building Repairs/Demolition
14	State Employee Health Insurance (5 th year)
<u>27</u>	All Other
363	Total

Projected Ending Balances

Excludes \$970 M in Budget Stabilization Fund

Also See Appendix B

JLBC Revenues: '21 Ending Balance is \$1.8 B

- Up from \$700 M in Enacted March Budget

Main Reasons for Growth in the '21 Balance

	<u>\$ in M</u>
<input type="checkbox"/> Smaller '20 Carryforward	(190)
<input type="checkbox"/> Higher Revenue	600*
<input type="checkbox"/> K-12 Savings from Lower Enrollment	300
<input type="checkbox"/> Fed Medicaid Match Rate Savings	300

* Almost entirely due to deferral of April '20 income tax to July '20. After adjusting for that factor, current '21 revenue forecast is comparable to March budget.

Projected '22 Balance of \$1.6 B to \$2.0 B

- ❑ Lower end of range is 4-Sector forecast while upper end is JLBC Staff forecast
- ❑ Expenditure estimates the same in both scenarios
- ❑ Balance is primarily 1-time in nature
- ❑ Under 3-year forecast, we have capacity for \$300 M to \$400 M in ongoing initiatives

Projected '22-'24 Cash Balance Estimates

(\$ in M)

	<u>'22</u>	<u>'23</u>	<u>'24</u>
Executive	219	226	248
JLBC Baseline	2,015	323	617

- The Executive rolls forward the balance each year for use in the following year
- The JLBC Baseline assumes the balances in each year are allocated and not carried into the next year

Appendix A: Revenue Forecasts with Deferral

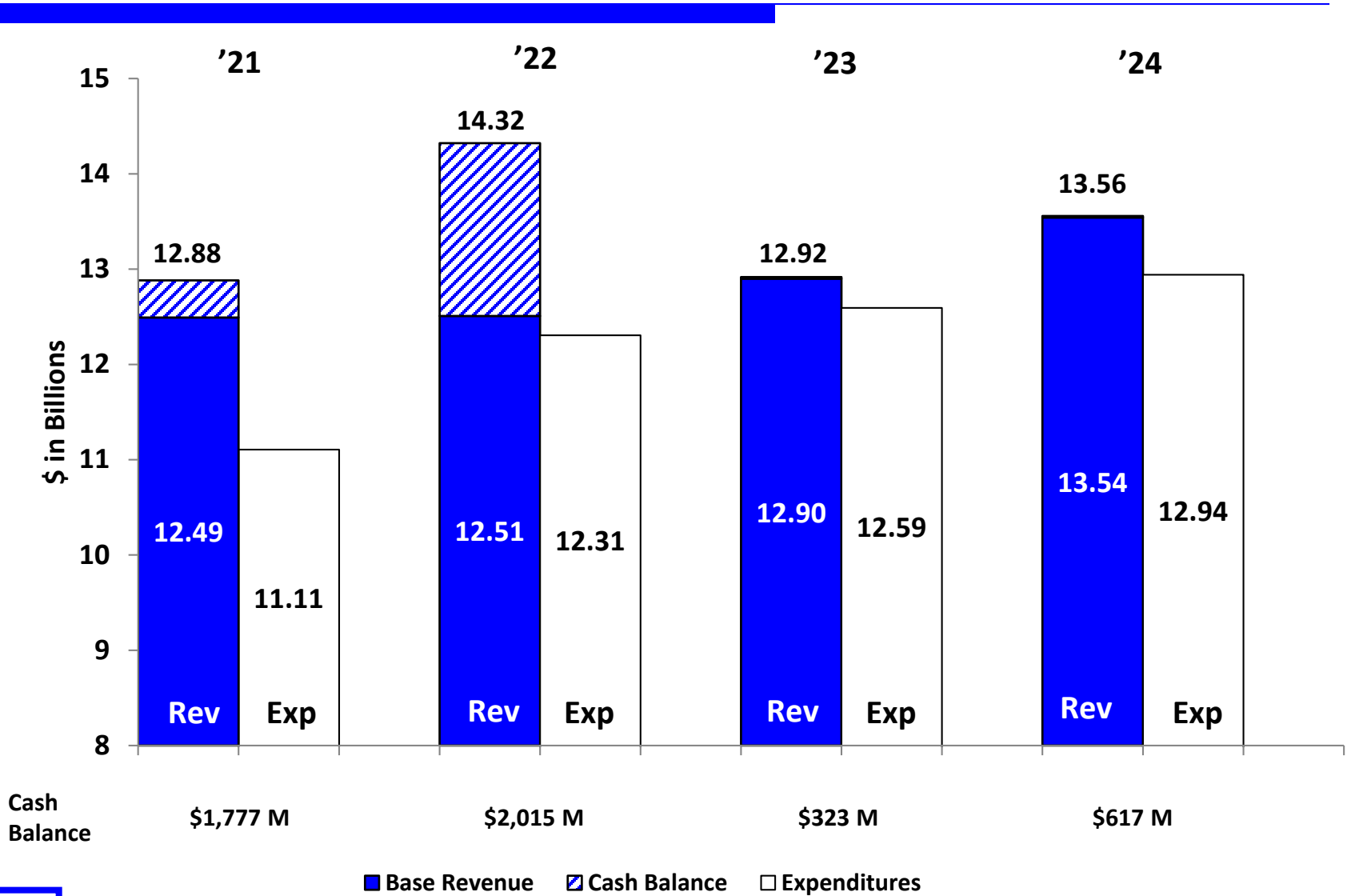
	<u>2021</u> *	<u>2022</u>	<u>2023</u>	<u>2024</u>
Sales Tax				
JLBC Forecast	8.1%	4.0%	4.4%	4.2%
UA – Low	4.8%	2.6%	4.4%	4.2%
UA – Base	8.2%	5.0%	5.5%	5.5%
FAC	6.6%	5.8%	4.5%	5.1%
Average:	6.9%	4.4%	4.7%	4.8%
Individual Income Tax with Deferral				
JLBC Forecast	27.5%	-4.5%	4.9%	4.9%
UA – Low	21.1%	-4.6%	4.0%	3.3%
UA – Base	23.4%	-2.0%	5.3%	4.6%
FAC	19.0%	1.3%	5.9%	5.5%
Average:	22.7%	-2.5%	5.0%	4.6%
Corporate Income Tax				
JLBC Forecast	6.9%	-2.5%	5.0%	4.7%
UA – Low	-2.1%	-2.1%	3.6%	5.6%
UA – Base	2.2%	-0.8%	5.7%	7.4%
FAC	7.0%	1.6%	6.5%	5.2%
Average:	3.5%	-0.9%	5.2%	5.7%
Insurance Premium Tax				
JLBC Forecast	2.0%	2.8%	3.5%	3.2%
UA – Low	0.9%	4.5%	4.1%	2.2%
UA – Base	1.0%	4.6%	5.0%	3.2%
FAC	1.5%	2.2%	2.6%	3.0%
Average:	1.3%	3.5%	3.8%	2.9%

JLBC Weighted Average	15.8%	-0.2%	4.6%	4.5%
UA Low Weighted Average	11.0%	-0.8%	4.2%	3.8%
UA Base Weighted Average	13.8%	1.6%	5.4%	5.1%
FAC Consensus Weighted Average	11.5%	3.5%	5.1%	5.2%
“Big-4” Weighted Average	13.0%	1.0%	4.8%	4.6%
Consensus Weighted Average*	12.1%	0.7%	4.6%	4.5%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: '21 - '24 Revenue vs. Spending

- JLBC Staff Sector Revenue Forecast



STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE

Director.....	Richard Stavneak
Office Manager.....	Linda Monsanto
Deputy Directors.....	Stefan Shepherd
.....	Jack Brown
Chief Economist.....	Hans Olofsson
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.....	Henry Furtick
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Fiscal Analysts.....	Lydia Chew
.....	Ryan Fleischman
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.....	Nicole Lovato
.....	Alexis Pagel
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Senior Administrative Assistant / JLBC & JCCR Clerk.....	Kristy Paddack

