Members Present:
Eileen Klein, State Treasurer
Matthew Gress, Director, Governor’s Office of Strategic Planning and Budgeting
George Hammond, Director, Economic and Business Research Center, University of Arizona
Elliott Pollack, President, Elliott D. Pollack and Company
Elaine Smith, Senior Economist, Department of Revenue
Steve Taddie, Managing Partner, Stellar Capital Management

The Finance Advisory Committee (FAC) met on October 11, 2018 to update its 4-sector revenue forecast. The FAC is a 12-member panel of private and public-sector economists and their views serve as one of the 4 equal inputs into JLBC’s Baseline revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) econometric models.

The FAC heard presentations on General Fund Revenue collections, the U.S. and Arizona economy, and state cash flows. The JLBC Staff provided members with revised FY 2019 – FY 2022 revenue estimates and spending projections based on the updated October 4-sector revenue forecast. The updated net revenue growth rate for FY 2019 is 6.0%, or 1.4% above the enacted budget growth rate of 4.6%. (Net revenue includes the impact of previously enacted tax law changes but excludes balance forward, budgeted fund transfers, and urban revenue sharing.) The updated FY 2020 net revenue growth rate of 4.1% is close to the enacted budget growth rate of 4.2%. The October update projects net revenue growth of 3.7% and 4.0% in FY 2021 and FY 2022, respectively (See Table 1).

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Comparison of Enacted Budget and October FAC Forecasts</th>
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<tbody>
<tr>
<td></td>
<td>FY 19</td>
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<tr>
<td>Enacted</td>
<td>4.6%</td>
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<tr>
<td>October</td>
<td>6.0%</td>
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</table>

After adjusting for budgeted one-time fund transfers, General Fund revenue growth would be 6.6% in FY 2019 and 2.8% in FY 2020. Baseline spending is projected to increase by 3.4%, or $352 million, in FY 2020. The increase reflects changes to active statutory and other funding formulas, but no discretionary additions.

Under the updated revenue and spending projections, the state is estimated to have a cash balance of $1.1 billion in FY 2020. Of this amount, an estimated $200+ million is expected to be monies (structural balance) available for ongoing initiatives.

The cash balance is subject to several risk factors. These include pending litigation that could significantly affect spending as well as a possible recession, based on the length of the current economic
expansion compared to the historical averages. For more information, please see the JLBC Staff Budget Update and October FAC meeting materials.

The meeting adjourned at 11:55 a.m.

_______________________________________
Kristy Paddack, Secretary

_______________________________________
Hans Olofsson, Chief Economist

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at the JLBC website.