

JLBC Staff – Preliminary May 2020 Revenue Update

The report below provides information on the preliminary May revenue results from the state's largest revenue categories, along with some additional commentary on state spending/Medicaid caseloads. Our office still plans to issue our complete summary of the May revenue results later in June on the regularly scheduled publication date.

In addition, the JLBC Staff plans to release a complete FY 2020 and FY 2021 budget update on June 19th. That document would include a revised revenue forecast along with updated state spending assumptions.

Preliminary Summary of the May Revenue Results

- For the state's largest revenue categories, May revenues were \$163 million above the 4-sector consensus revenue forecast presented at the April FAC meeting. *(See Table 1 below)*.
- The May revenue gains were almost entirely concentrated in Sales Tax collections and Individual Income Tax (IIT) withholding revenues. Given that these revenue categories are more direct measures of economic activity, we believe that the entire \$163 million amount represents a potential gain to the April FAC forecast.

Current Year-to-Date Revenue Results (April and May)

- When these preliminary May figures are combined with the \$269 million forecast gain in the final April revenue results, the state's total forecast gain across April and May is approximately \$432 million.
- However, since a portion of the April revenue gain (\$161 million) was related to timing issues, the state's real year-to-date forecast gain through May is \$271 million.
- At the April FAC meeting, we projected that the state would have a cumulative \$(1.1) billion shortfall by the end of FY 2021.
- As noted above, JLBC Staff intend to release a complete FY 2020 and FY 2021 budget update on June 19th. While the recent revenue gains have the potential to reduce the \$(1.1) billion shortfall, any change in the overall budget projections will depend not only on the April and May revenue gains, but also potential changes in the FY 2021 4-sector consensus revenue forecast.

Table 1				
Preliminary May Revenue Results - Major Revenue Categories				
	May Collections (\$ in M)	% Chg. From May 19	Year-to-Date % Chg. From FY 19	\$ Above/(Below) April FAC Forecast
Sales Tax	391.5	(9.6)%	5.3%	143.0
Individual Income Tax	309.7	(54.7)%	(11.2)%	34.0
Corporate Income Tax	16.5	(60.4)%	10.1%	(9.9)
Insurance Premium Tax	40.6	(12.1)%	(2.4)%	(4.0)
			May Revenue Forecast Gain/(Loss)	163.1

May Revenue Category Results

Based on preliminary data received so far, below is commentary about the performance of the state's major revenue categories during May:

Sales Tax

May Sales Tax collections represent April sales activity, giving the state its first look at the consumer impact during a full month of COVID-related business shutdowns. May Sales Tax revenue totaled \$391.5 million, which is a decline of (9.6)% from the prior year. This decline is significantly lower than the projected decline of (42.6)% for the month. The lower-than-expected decline in Sales Tax generated a forecast gain of \$143 million, which was most of the state's overall gain during May.

Sales Tax performance differed across classifications – as expected, the leisure and hospitality related sectors (restaurant/bar, hotel/motel, and amusements) experienced the most significant declines due to largely being closed for the month. However, these 3 classifications combined comprise only 15% of Sales Tax revenue. The retail sector (52% of revenue) experienced a less significant decline of (11.8)%, and the contracting sector (12% of revenue) actually grew as constructions services were labeled essential and remained open during the shutdown. (See Table 2 for Sales Tax growth by classification).

	<u>May</u>	<u>YTD</u>
Retail	(11.8)%	4.0%
Contracting	13.7%	15.5%
Use	7.6%	5.9%
Restaurant and Bars	(41.9)%	(3.4)%
Utilities	(8.4)%	(5.7)%
Personal Property Rental	(26.1)%	4.3%
Hotel/Motel	(81.0)%	(19.3)%
<u>Amusements</u>	<u>(72.1)%</u>	<u>(6.7)%</u>
Total Sales tax	(9.6)%	5.3%

Individual Income Tax

April net Individual Income Tax (IIT) collections totaled \$309.7 million, which is a decline of (54.7)% from the prior year and \$34.0 million above forecast for the month:

- Withholding – May withholding collections declined by (3.5)%, which was similar to the performance seen during April. Recent declines in IIT withholding have been less than the rate of statewide job losses, likely due to job losses being concentrated in positions with below average wages.
- Estimated and Final Payments – Combined IIT estimated and final payments declined by (87.2)% during May. This decline is generally consistent with the April FAC forecast.
- Refunds – The dollar amount of refunds issued by the state increased by 33.5% during May compared to the prior year. This growth was not unexpected – given the decline in refunds issued during April, we anticipated that refunds have been shifted to the period between May and the revised July 15 filing deadline.

Corporate Income Tax

May net Corporate Income Tax (CIT) collections totaled \$16.5 million, which represents a decline of (60.4)% from the prior year. The decline in May CIT collections is similar to the April results, and are generally consistent with the April FAC revenue forecast.

Spending/Caseload Data

AHCCCS caseloads increased by 37,700, or 2.0%, in June above May, bringing total growth since March to 115,400, or 6.3%. The 6.3% cumulative enrollment growth since the beginning of the COVID-19 pandemic is lower than assumed in the April FAC spending projections. As part of the June 19th budget update, JLBC Staff intends to revise the estimates of AHCCCS enrollment and overall Medicaid spending.