
Finance Advisory Committee

Revenue and Budget Update

April 11, 2019

JLBC

Key Points About April FAC Forecast

- ❑ April forecast adjusts the '19 revenue estimate downward, especially given loss of January estimated Income Tax payments
- ❑ '20 forecasted growth remains steady at 3.9%, while '21 and '22 decline slightly from January
- ❑ The General Fund would have an ongoing balance of \$150 M and a 1-time balance of \$840 M.

Arizona Ranks 3rd in Economic Momentum

- Recession Concern Remains at National Level

	<u>AZ Rate</u>	<u>AZ Rank</u>
Personal Income	5.9%	6
Population	1.7%	4
Employment	2.7%	3

Momentum calculations via State Policy Reports – Joint NGA/NCSL Project

<u>Wall Street Journal Survey of 60+ Economists</u>	
% Predicting Recession By End of CY 2020	53%

April 4-Sector Forecast

- Continued '19 Growth, then Below Average

April Consensus Forecast

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

Represents Net Growth

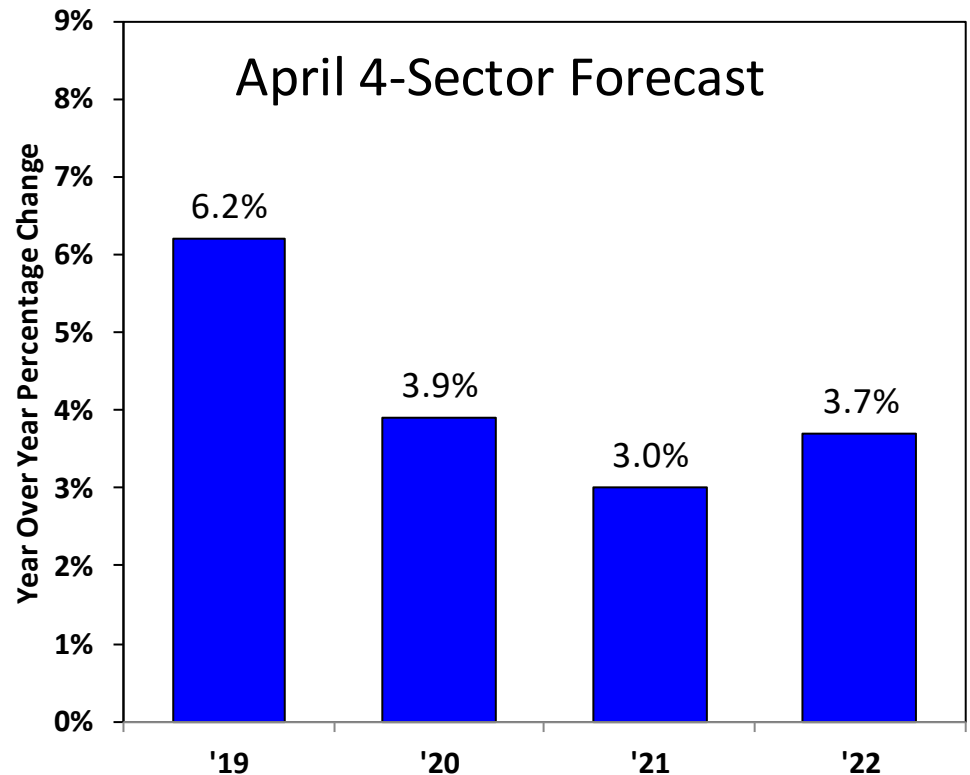
- Previously estimated gross

Chance of Exceeding Forecast

- 60%

Long Run Average Growth

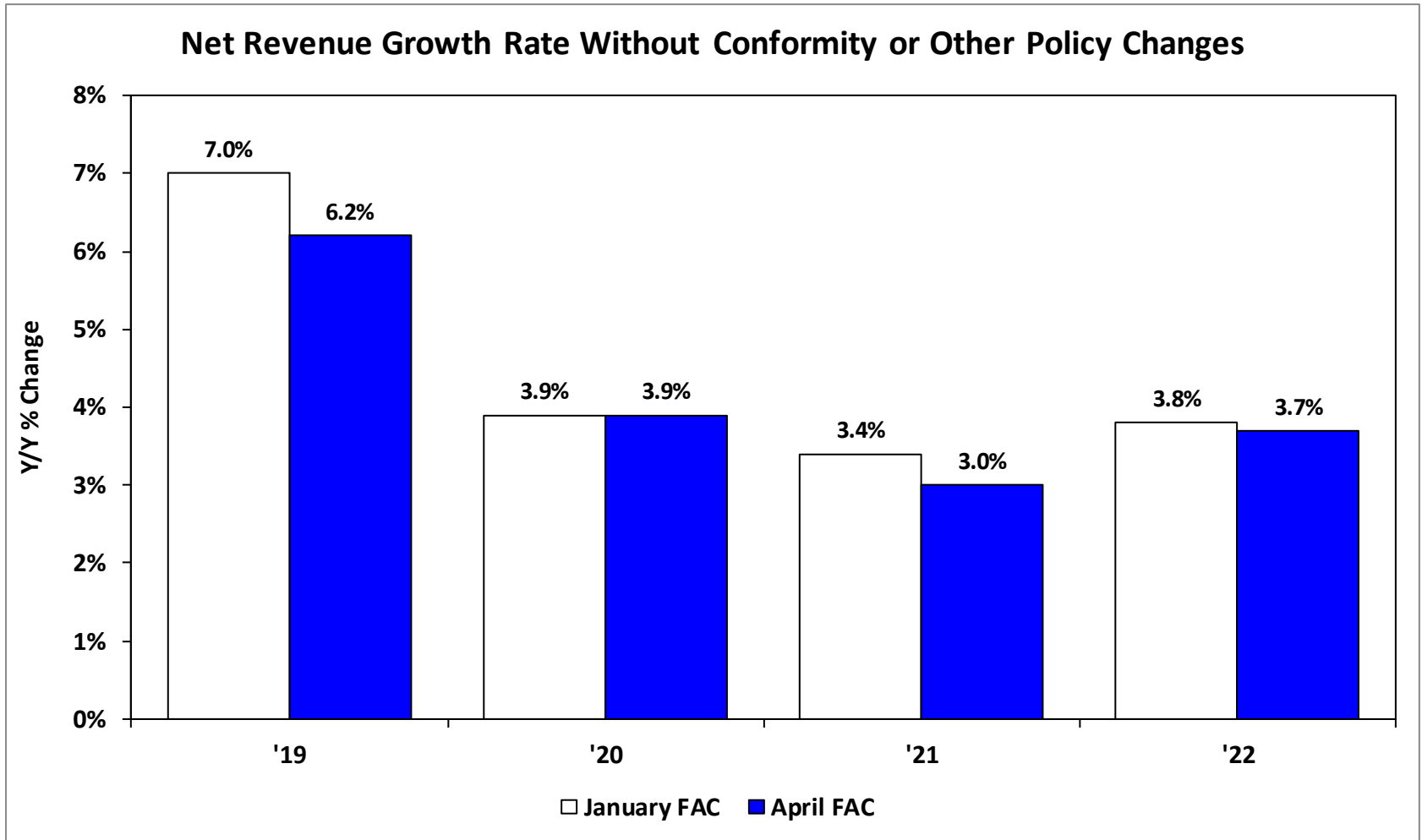
- 4.0%



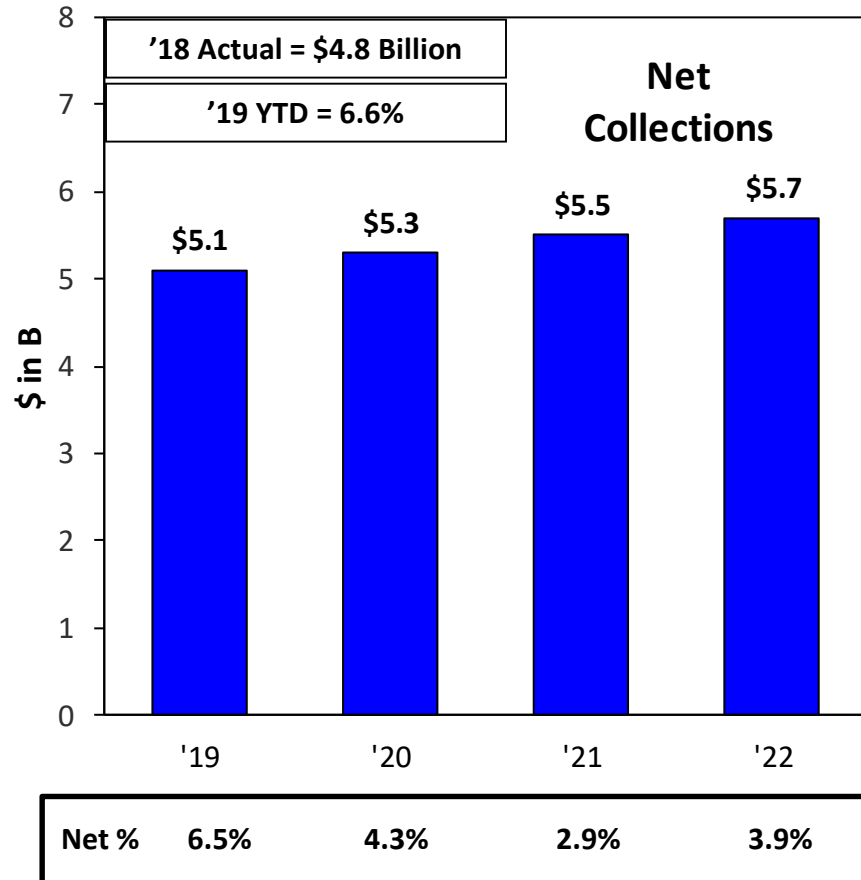
Percent change in net revenues excluding balance forward, one-time transfers and urban revenue sharing

See Appendix B, C, D

April Forecast Versus January FAC



Sales Tax



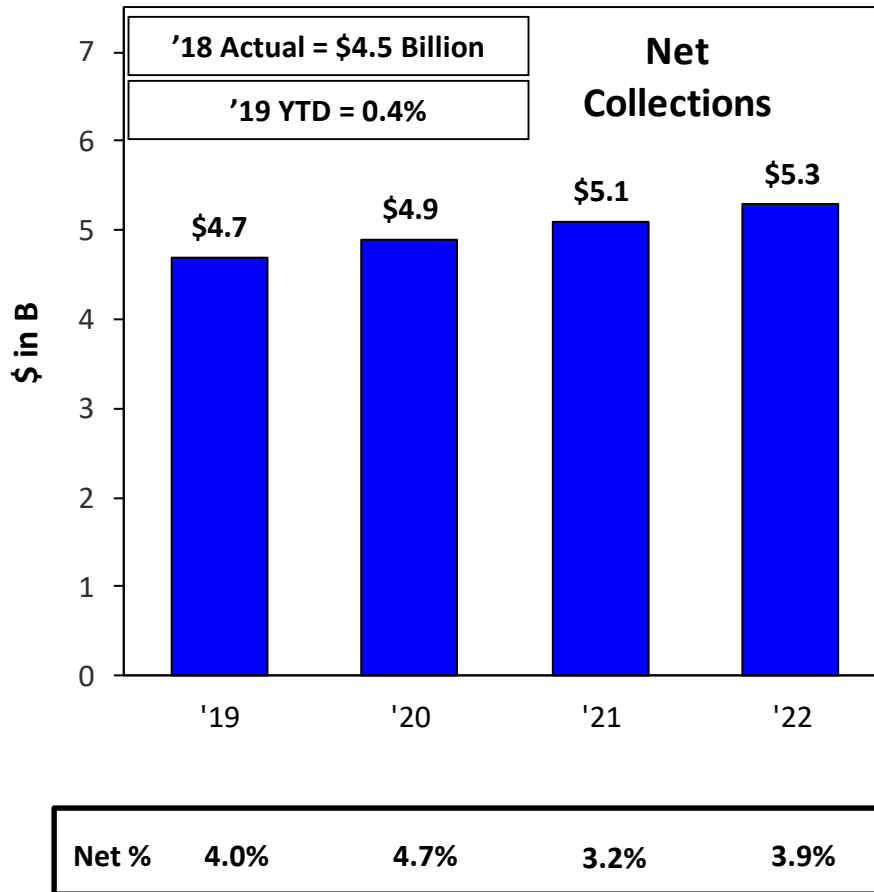
6.6% YTD Growth Fueled by Contracting

YTD Growth by Category*

Retail	6.0%
Contracting	16.3%
Use	8.9%
Restaurant/Bar	5.7%
Utilities	0.9%

* Data through March 2019

Individual Income Tax



Percent Gain Above Prior Year

	YTD '19 *
Withholding	5.6%
Payments	(19.6)%
Refunds	<u>1.3%</u>
Total	0.4%

* Includes preliminary March data

December/January IIT Payments

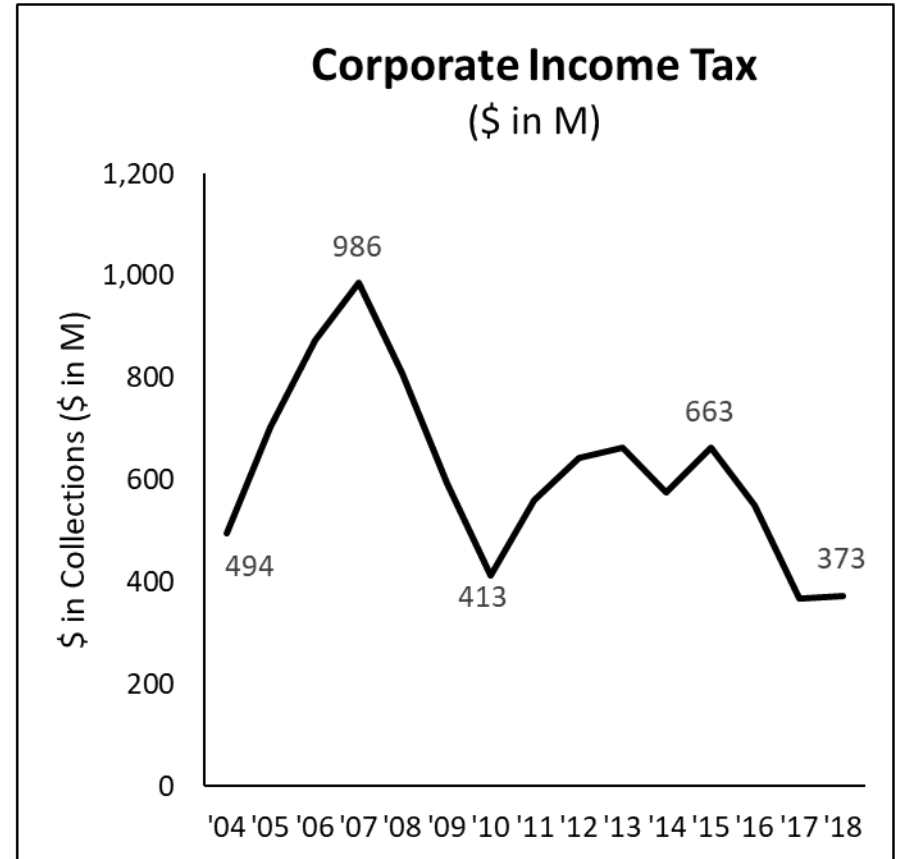
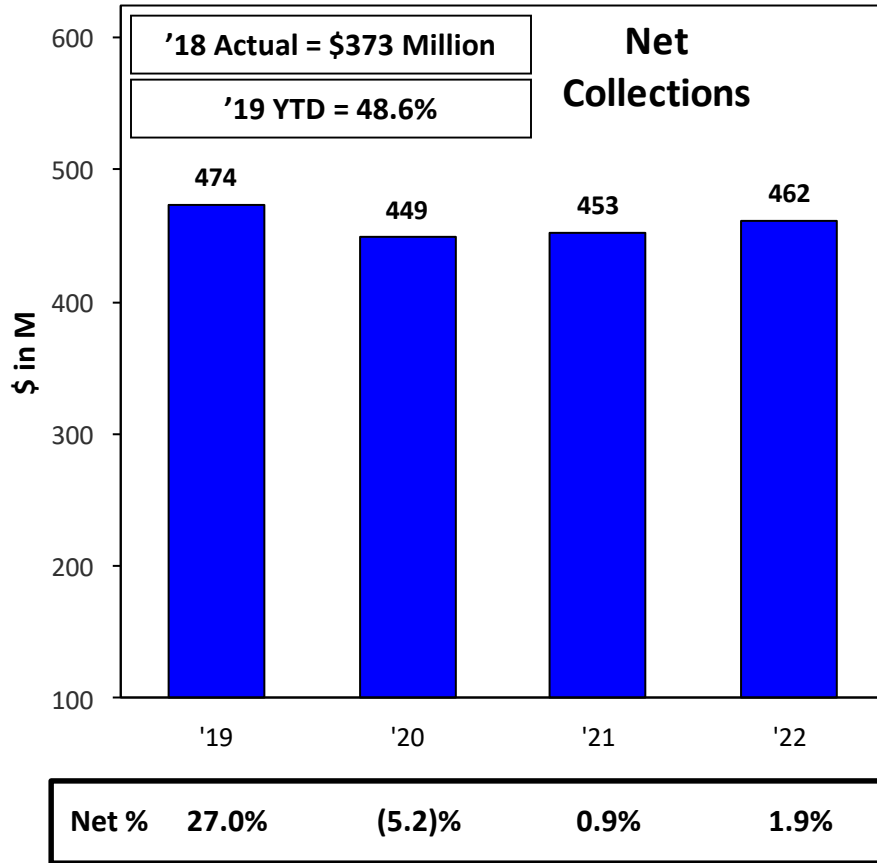
Year	\$ in M
'17	277
'18	434
'19 (forecast)	310
'19 (actual)	213

Possible Reasons for Payment Decline

- But Cannot Be Quantified

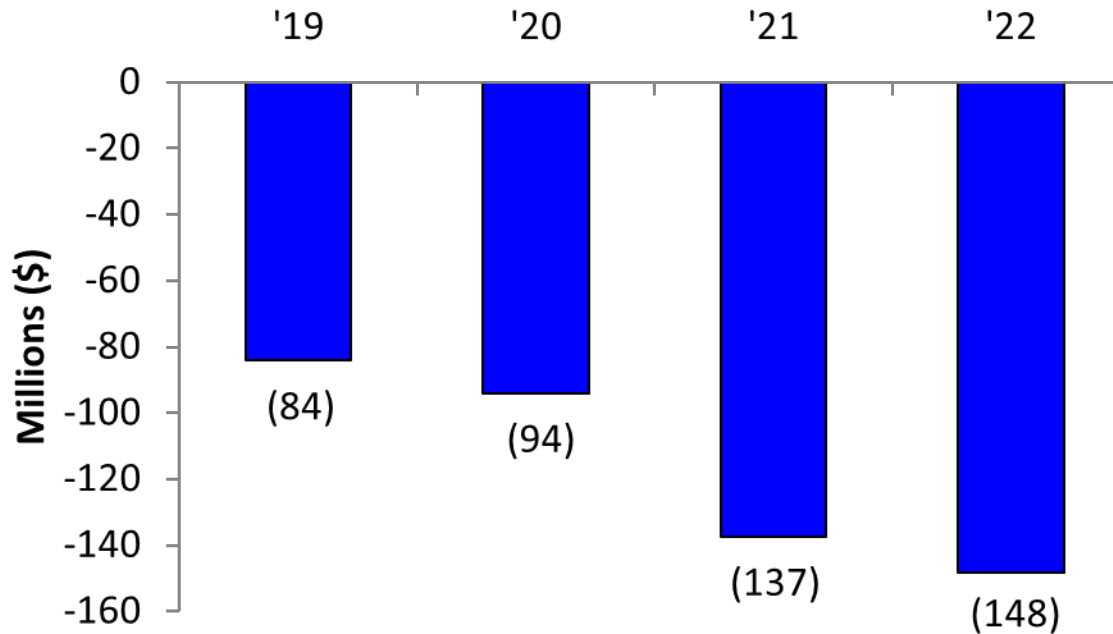
- ❑ Other states experiencing same phenomenon; AZ more hard hit than most
- ❑ December's 9% stock market decline may have reduced capital gains or created capital losses and pushed down IIT payments
 - Same issue could reduce April final payments
- ❑ Federal tax law changes may have permanently changed taxpayer filing behavior
 - With \$10k SALT cap, taxpayers may no longer be pre-paying their April final payment in December/January
 - If correct, we could recoup the loss in the spring (or fall for extended filers)

Corporate Income Tax



Net Revenue Change Since January

Change in Ongoing Revenues
January FAC vs April FAC Estimates



Available Balances Under Difference Scenarios

- Excludes \$470 M Rainy Day Fund

(\$ in M)

	<u>January</u>	<u>April</u>
Ongoing Balance	225	150
One-Time Balance	960	840

- April estimates include \$50 M Caseload savings from January Baseline
 - Reduced forecast growth for ADE and AHCCCS
- April also adjusted for enacted Drought Contingency Plan

Tax-Filing Season Will Complicate Revenue Tracking

- Conformity Projected to Generate \$155 M

- ❑ Especially starting in April, “conformity” revenues will start appearing in monthly actuals
- ❑ Since not yet enacted, these revenues are not in our forecast
- ❑ No means of accurately distinguishing magnitude of these conformity dollars from regular revenue collections
- ❑ Effectively means we should end up above forecast

'19 YTD: 6.1% Growth/\$125 M Below Forecast

- '18 Was \$212 M Above Budget

	<u>% Growth Above Prior Year</u>		<u>'19 +/- Forecast (\$ M)</u>
	<u>'18 Actual</u>	<u>'19 YTD</u>	
Sales	6.2%	6.6%	\$ 1
Individual Income	10.0	0.4	(116)
Corporate Income	1.3	48.6	(3)
Insurance Premium	1.0	41.5	(5)
Other	<u>(2.3)</u>	<u>8.3</u>	<u>4</u>
Overall *	6.9%	6.2%	\$(119)

* Revenues exclude beginning balance, fund transfers and Urban Revenue Sharing
YTD = Year to Date includes preliminary date through March.

Appendix B: April 2019 4-Sector Forecast

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Sales Tax				
JLBC Forecast	6.2%	4.7%	4.1%	3.8%
UA – Low	6.5%	2.2%	0.4%	3.4%
UA – Base	6.7%	5.2%	4.7%	4.4%
FAC	6.4%	5.0%	2.5%	4.1%
Average:	6.5%	4.3%	2.9%	3.9%
Individual Income Tax				
JLBC Forecast	1.9%	4.1%	3.6%	3.3%
UA – Low	4.3%	4.1%	2.0%	3.5%
UA – Base	5.0%	5.3%	4.8%	4.6%
FAC	4.7%	5.1%	2.3%	4.0%
Average:	4.0%	4.7%	3.2%	3.9%
Corporate Income Tax				
JLBC Forecast	35.0%	3.5%	2.1%	2.6%
UA – Low	22.4%	-20.1%	-1.9%	3.9%
UA – Base	23.7%	-14.4%	3.7%	4.3%
FAC	27.0%	8.8%	-0.6%	-2.0%
Average:	27.0%	-5.2%	0.9%	1.9%
Insurance Premium Tax				
JLBC Forecast	1.8%	1.0%	2.0%	1.3%
UA – Low	1.0%	1.2%	2.1%	0.5%
UA – Base	1.1%	1.3%	2.1%	1.4%
FAC	0.7%	1.2%	1.3%	1.8%
Average:	1.2%	1.2%	1.9%	1.2%

JLBC Weighted Average	5.1%	4.2%	3.7%	3.4%
UA Low Weighted Average	5.8%	2.0%	1.1%	3.3%
UA Base Weighted Average	6.3%	4.2%	4.6%	4.4%
FAC Consensus Weighted Average	6.1%	5.0%	2.2%	3.7%
“Big-4” Weighted Average	5.8%	3.9%	2.9%	3.7%
Consensus Weighted Average*	6.2%	3.9%	3.0%	3.7%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix C: General Fund Revenue FY '18 - FY '20

FORECAST REVENUE GROWTH

(\$ in Thousands)

	ACTUAL FY 2018	% CHANGE PRIOR YR	FORECAST FY 2019	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2020	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	4,787,647.2	6.2%	5,096,478.6	6.5%	308,831.5	5,313,484.6	4.3%	217,006.0
Income - Individual	4,544,081.2	10.0%	4,724,465.9	4.0%	180,384.7	4,944,243.3	4.7%	219,777.4
- Corporate	373,076.4	1.3%	473,903.5	27.0%	100,827.1	449,128.3	-5.2%	(24,775.2)
Property	38,719.6	19.0%	29,243.6	-24.5%	(9,476.1)	29,911.2	2.3%	667.6
Luxury - Tobacco	21,978.2	-4.2%	21,479.4	-2.3%	(498.8)	21,073.0	-1.9%	(406.4)
- Liquor	36,019.7	3.8%	36,976.3	2.7%	956.6	37,951.3	2.6%	975.0
Insurance Premium	509,276.0	1.0%	515,181.0	1.2%	5,905.0	521,228.8	1.2%	6,047.9
Other Taxes	7,650.5	179.1%	11,375.7	48.7%	3,725.2	12,041.4	5.9%	665.7
Subtotal - Taxes	10,318,448.8	7.5%	10,909,104.1	5.7%	590,655.3	11,329,061.8	3.8%	419,957.8
Other Non-Tax Revenues:								
Lottery	68,425.4	-13.0%	91,595.8	33.9%	23,170.4	99,553.8	8.7%	7,958.0
Licenses, Fees and Permits	37,969.9	-1.2%	33,707.4	-11.2%	(4,262.5)	34,624.7	2.7%	917.3
Interest	22,013.1	29.5%	35,000.0	59.0%	12,986.9	42,378.6	21.1%	7,378.6
Sales and Services	34,120.9	-18.9%	38,929.3	14.1%	4,808.4	38,250.0	-1.7%	(679.3)
Other Miscellaneous	108,311.8	29.1%	78,422.8	-27.6%	(29,888.9)	80,761.4	3.0%	2,338.5
Transfers and Reimbursements	40,598.6	-36.7%	37,315.4	-8.1%	(3,283.2)	55,063.2	47.6%	17,747.8
Public Safety Transfers	0.0	N/A	72,364.5	N/A	72,364.5	55,670.0	-23.1%	(16,694.5)
Disproportionate Share Revenue	83,704.7	-11.3%	83,604.0	-0.1%	(100.7)	83,868.1	0.3%	264.1
Subtotal - Other Non-Tax	395,144.3	-5.6%	470,939.2	19.2%	75,794.9	490,170	4.1%	19,230.5
Net Ongoing Revenue	10,713,593.0	6.9%	11,380,043.3	6.2%	666,450.3	11,819,231.6	3.9%	439,188.3
Urban Revenue Sharing (URS)	(680,770.1)	N/A	(674,804.4)	N/A	5,965.6	(737,573.6)	N/A	(62,769.2)
Net Ongoing Revenue w/ URS	10,032,822.9	7.2%	10,705,238.9	6.7%	672,415.9	11,081,658.0	3.5%	376,419.1
One-Time Financing Sources:								
Fund Transfers	74,391.7	-48.7%	100,681.7	35.3%	26,290.0	1,840.7	-98.2%	(98,841.0)
Subtotal - One-Time Financing Sources	74,391.7	-48.7%	100,681.7	35.3%	26,290.0	1,840.7	-98.2%	(98,841.0)
Subtotal - Revenues	10,107,214.6	6.4%	10,805,920.6	6.9%	698,705.9	11,083,498.7	2.6%	277,578.1
Balance Forward	150,871.0	-46.9%	449,632.0	198.0%	298,761.0	853,973.6	89.9%	404,341.6
Total - Resources	10,258,085.6	4.8%	11,255,552.6	9.7%	997,466.9	11,937,472.3	6.1%	681,919.7

Appendix D: General Fund Revenue FY '20 - FY '21

FORECAST REVENUE GROWTH

(\$ in Thousands)

	FORECAST FY 2021	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2022	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	5,469,732.2	2.9%	156,247.5	5,684,795.0	3.9%	215,062.9
Income - Individual	5,101,896.8	3.2%	157,653.5	5,298,812.2	3.9%	196,915.4
- Corporate	453,024.9	0.9%	3,896.6	461,841.0	1.9%	8,816.1
Property	30,597.0	2.3%	685.9	31,301.7	2.3%	704.7
Luxury - Tobacco	20,683.8	-1.8%	(389.1)	20,311.9	-1.8%	(371.9)
- Liquor	38,929.6	2.6%	978.3	39,937.8	2.6%	1,008.2
Insurance Premium	530,941.9	1.9%	9,713.1	537,508.6	1.2%	6,566.6
Other Taxes	12,746.1	5.9%	704.7	13,492.2	5.9%	746.1
Subtotal - Taxes	11,658,552.4	2.9%	329,490.6	12,088,000.4	3.7%	429,448.0
Other Non-Tax Revenues:						
Lottery	111,217.3	11.7%	11,663.5	122,399.6	10.1%	11,182.4
Licenses, Fees and Permits	35,583.0	2.8%	958.3	36,584.6	2.8%	1,001.6
Interest	47,118.5	11.2%	4,739.9	48,738.3	3.4%	1,619.9
Sales and Services	37,695.3	-1.5%	(554.7)	37,251.2	-1.2%	(444.2)
Other Miscellaneous	82,396.2	2.0%	1,634.8	84,849.8	3.0%	2,453.6
Transfers and Reimbursements	57,817.6	5.0%	2,754.4	60,454.0	4.6%	2,636.5
Public Safety Transfers	55,670.0	0.0%	0.0	55,670.0		
Disproportionate Share Revenue	83,717.3	-0.2%	(150.8)	83,629.2	-0.1%	(88.1)
Subtotal - Other Non-Tax	511,215.1	4.3%	21,045.3	529,576.8	3.6%	18,361.7
Net Ongoing Revenue	12,169,767.5	3.0%	350,535.9	12,617,577.2	3.7%	447,809.7
Urban Revenue Sharing (URS)	(779,755.4)	N/A	(42,181.8)	(809,005.7)	N/A	(29,250.3)
Net Ongoing Revenue w/ URS	11,390,012.1	2.8%	308,354.1	11,808,571.5	3.7%	418,559.4
One-Time Financing Sources:						
Fund Transfers	0.0	-100.0%	(1,840.7)	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	-100.0%	(1,840.7)	0.0	N/A	0.0
Subtotal - Revenues	11,390,012.1	2.8%	306,513.4	11,808,571.5	3.7%	418,559.4
Balance Forward	150,000.0	-82.4%	(703,973.6)		-100.0%	(150,000.0)
Total - Resources	11,540,012.1	-3.3%	(397,460.2)	11,808,571.5	2.3%	268,559.4