
Finance Advisory Committee

Revenue and Budget Update

October 8, 2020

JLBC

Key Points

- ❑ Since our June update, revenue collections have been higher than anticipated
- ❑ The preliminary '20 ending balance is \$372 M
- ❑ We anticipate ending '21 with a \$400+ M balance and ending '22 near \$100 M
- ❑ The course of the pandemic as well as federal policy responses could have a significant impact

Caveats

- ❑ The October estimates assume no long-term spike in COVID and no wide-scale business shutdowns
- ❑ While federal COVID aid has propped up our economy, that assistance is quickly being depleted
- ❑ A new federal aid package could significantly change the October projections
- ❑ For example, extending the current enhanced Federal Medicaid match could save \$500 M in '22

When Will GDP Return to Pre-COVID Level?

- Opinion Varies Widely

	<u>% of Panel</u> *
End of FY 21	7
1 st Half of FY 22	23
2 nd Half of FY 22 or later	62

*Survey of 235 members of the National Association for Business Economics (NABE)

Arizona Ranks 3rd in Economic Momentum

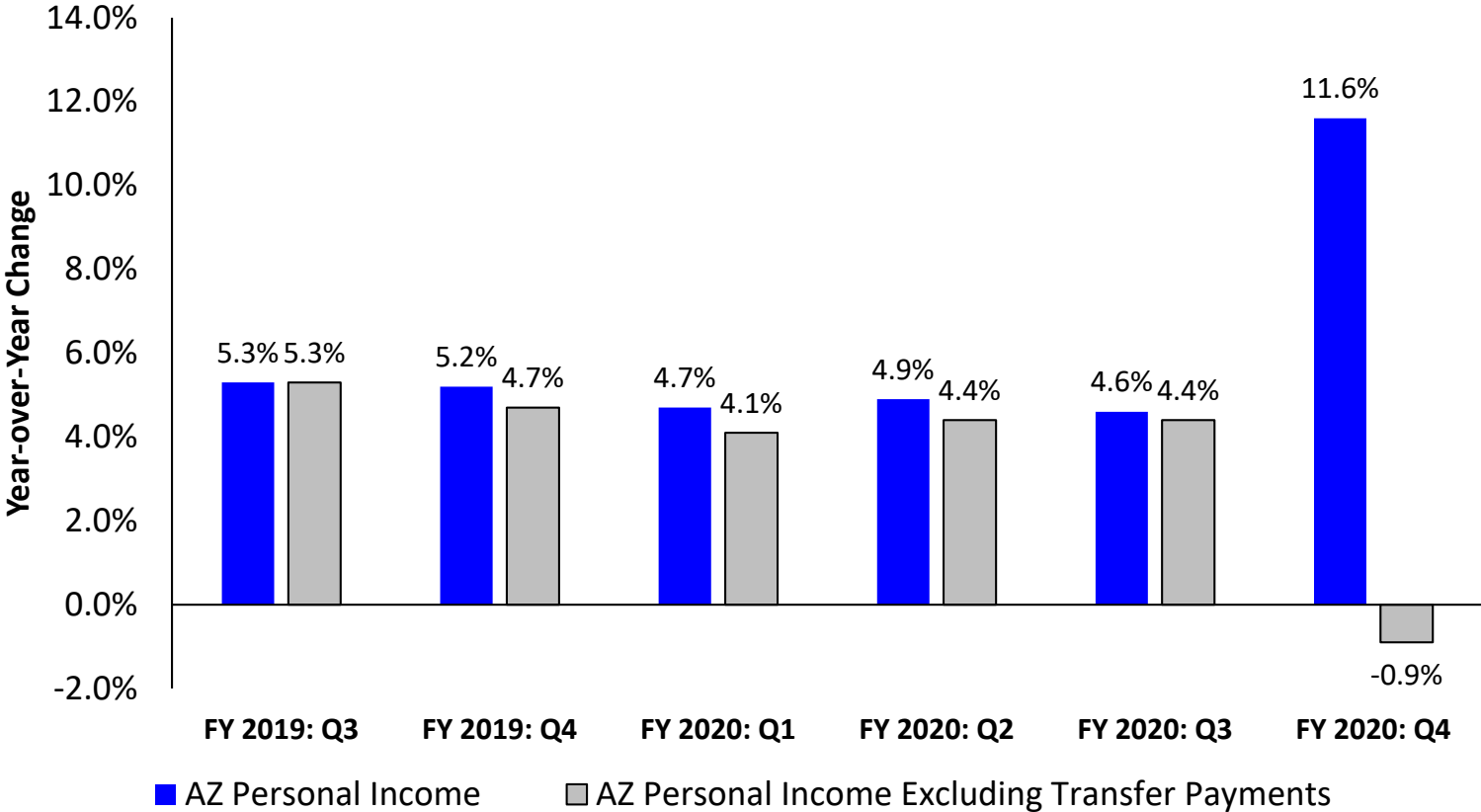
	<u>AZ Rate</u>	<u>AZ Rank</u>
Personal Income	11.6%	21
Population	1.7%	3
Employment	(3.4)%	4

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

Personal Income Grew 11.6% in 4th Quarter

- Due to \$30 B in CARES Act Federal Assistance to Arizona

Arizona Personal Income



'21 YTD: 24% Gain Aided by Deferred Tax Filing

- \$405 M Above June Forecast

	<u>% Growth Above Prior Year</u>		<u>'21 +/- Forecast (\$ M)</u>
	<u>'20 Actual</u>	<u>'21 YTD</u>	
Sales	5.8%	11.0%	\$ 174
Individual Income	(9.6)	39.8	148
Corporate Income	(0.5)	29.4	77
Insurance Premium	(2.7)	(8.8)	(8)
Other	<u>2.1</u>	<u>(4.4)</u>	<u>14</u>
Overall *	<u>(1.6)</u>	<u>23.6</u>	<u>\$ 405</u>

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

Forecasting State Revenues

October 4-Sector Forecast

- '21 High Due to July '20 Tax Filing Date

June Consensus Forecast

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

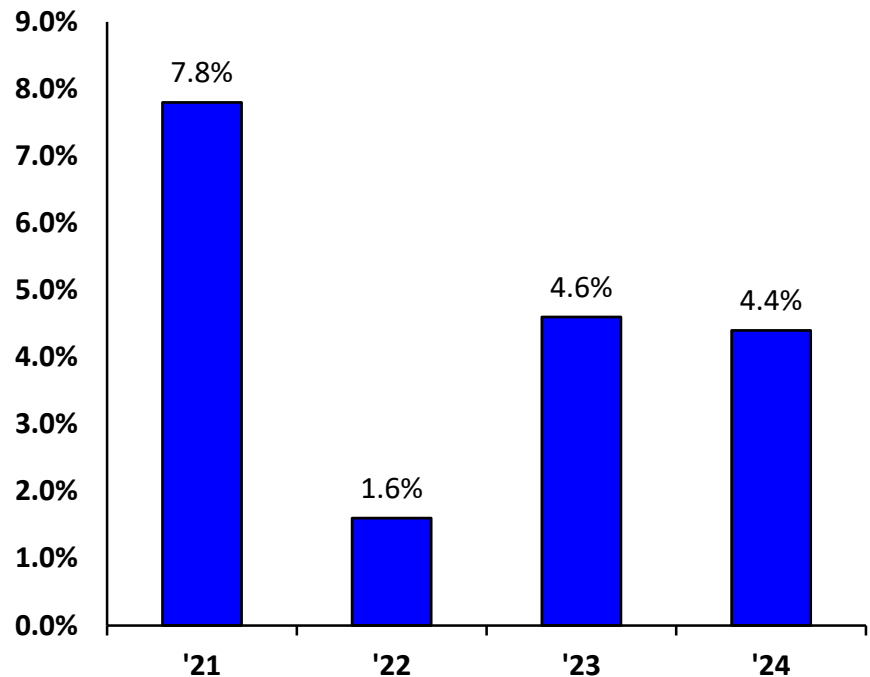
Represents Net Growth

- Includes enacted law changes

Long Run Average Growth

- 4.2%

Net % Revenue Growth
October 4-Sector Forecast



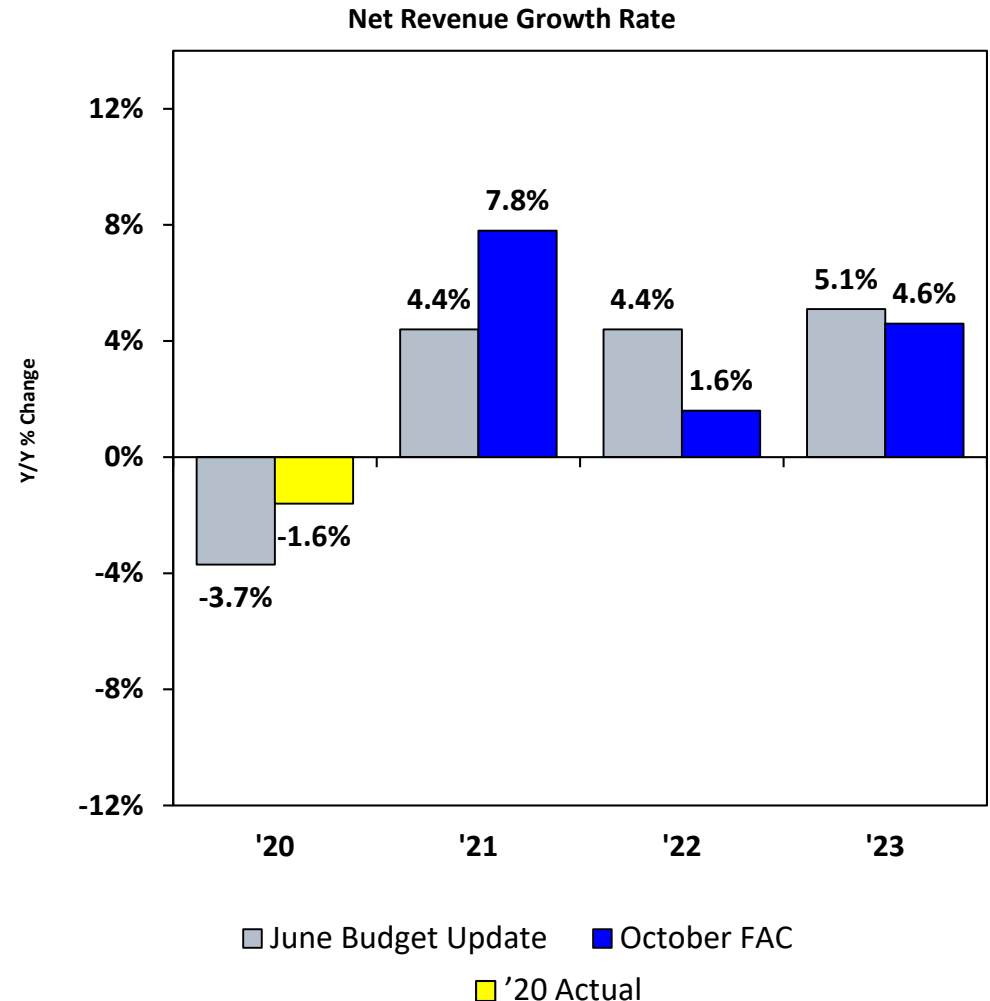
Excludes balance forward, one-time transfers and
urban revenue sharing

See Appendix A and B

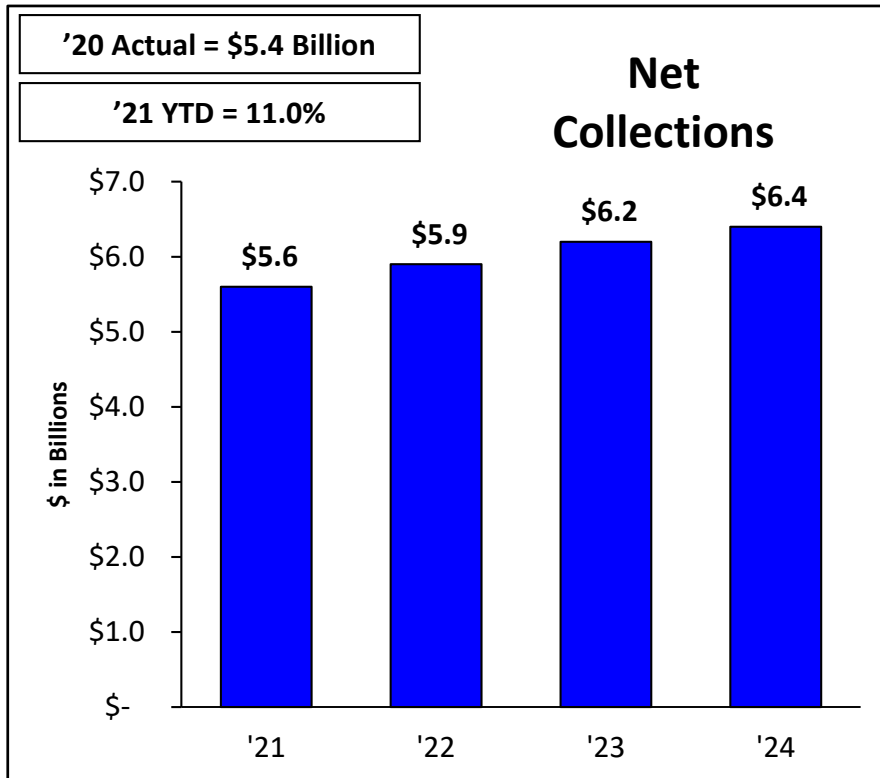
October Forecast Versus June Forecast

- 7.8% '21 Growth Cautious in Light of 1st Quarter Results

- Forecast met if 2% Growth 10/20 to 6/21
- More IIT payments shifted to July '20 than expected
- High '21 depresses '22 growth
- Return to normal long-run growth by '23



Sales Tax 4-Sector Forecast



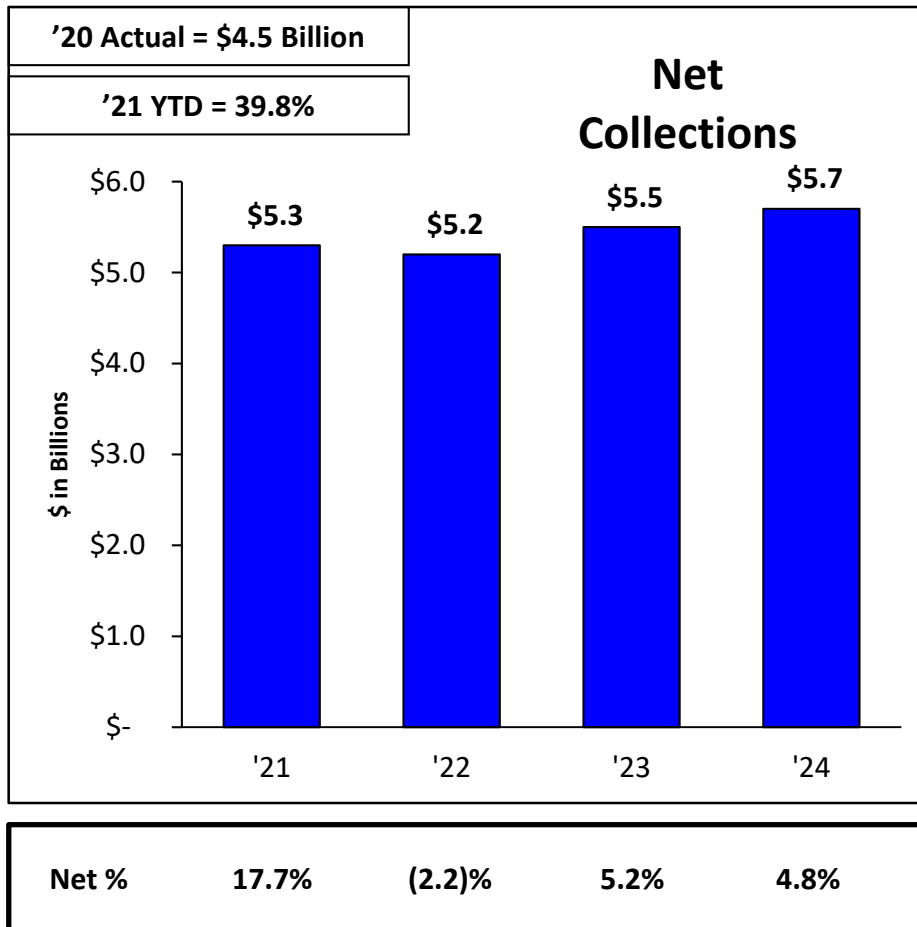
Net %	'21	'22	'23	'24
	3.5%	5.6%	4.8%	4.4%

% Change over Prior Year

	4 th Qtr FY 20	1 st Qtr FY 21
Retail/Remote Sales	5%	19%
Contracting	18	19
Restaurant/Bar	(32)	(12)
Lodging	(67)	(34)

- Strong retail growth - aided by Wayfair collections
- Dining/lodging still weak
- What happens as fed stimulus declines?

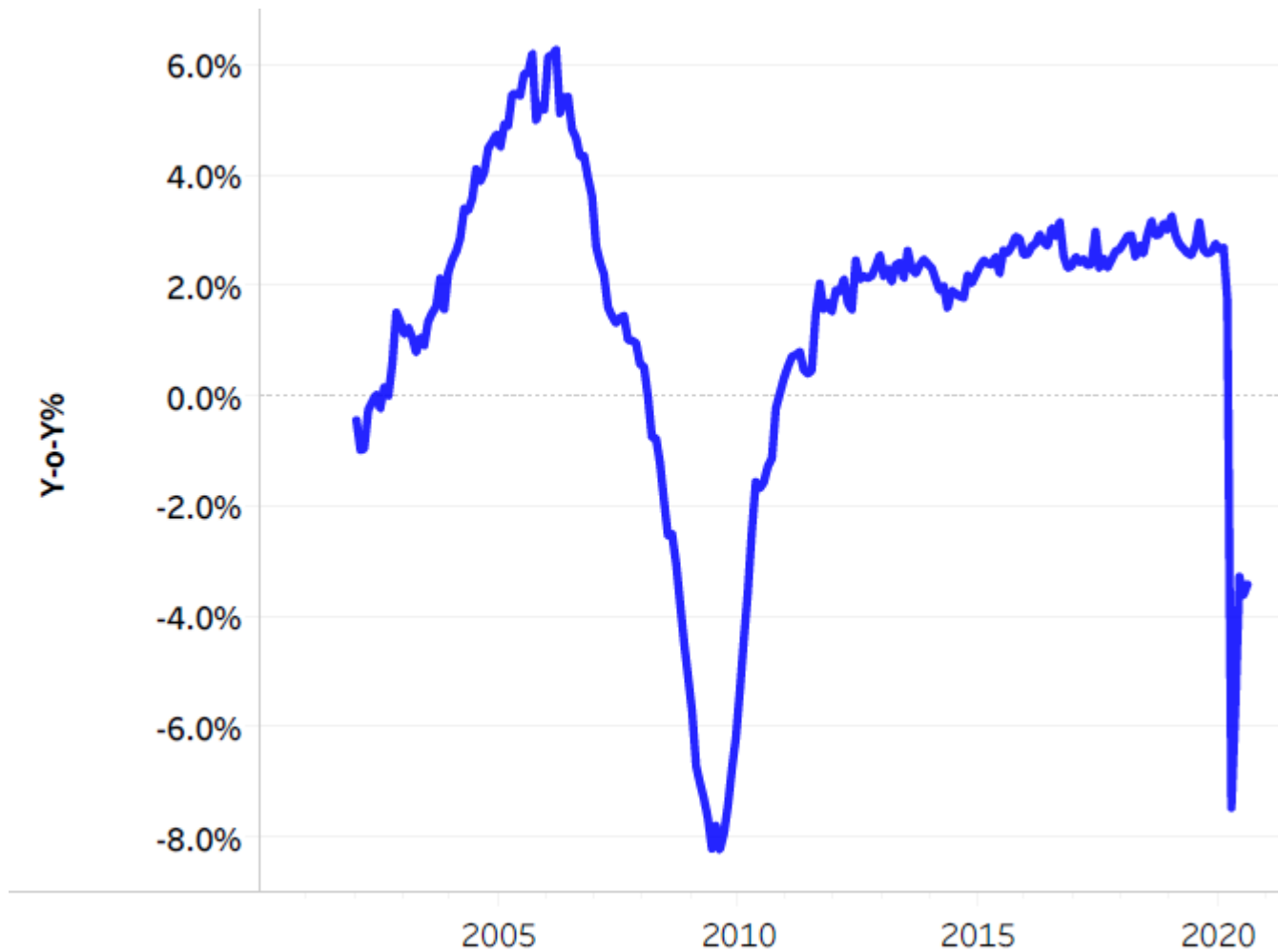
Individual Income Tax 4-Sector Forecast



- ❑ July filing date has inflated '21 growth rate
- ❑ July “payments less refunds” \$550 M above last year
- ❑ Despite job losses, withholding up 1.0% in 1st Qtr
- ❑ Job losses concentrated in lower wage sectors

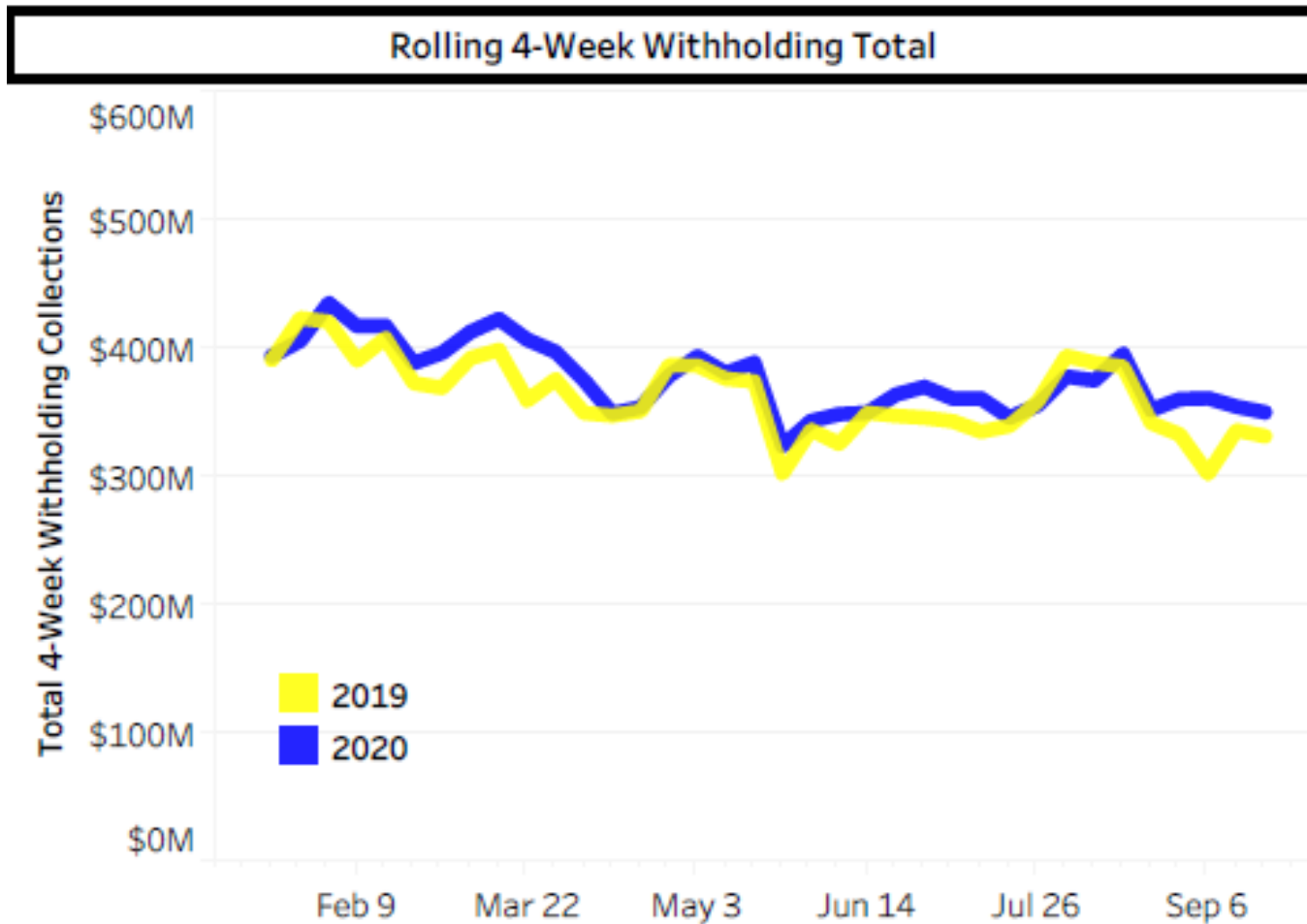
AZ Employment (3.4)% Less than a Year Ago

- 100,200 Fewer Arizonans Employed

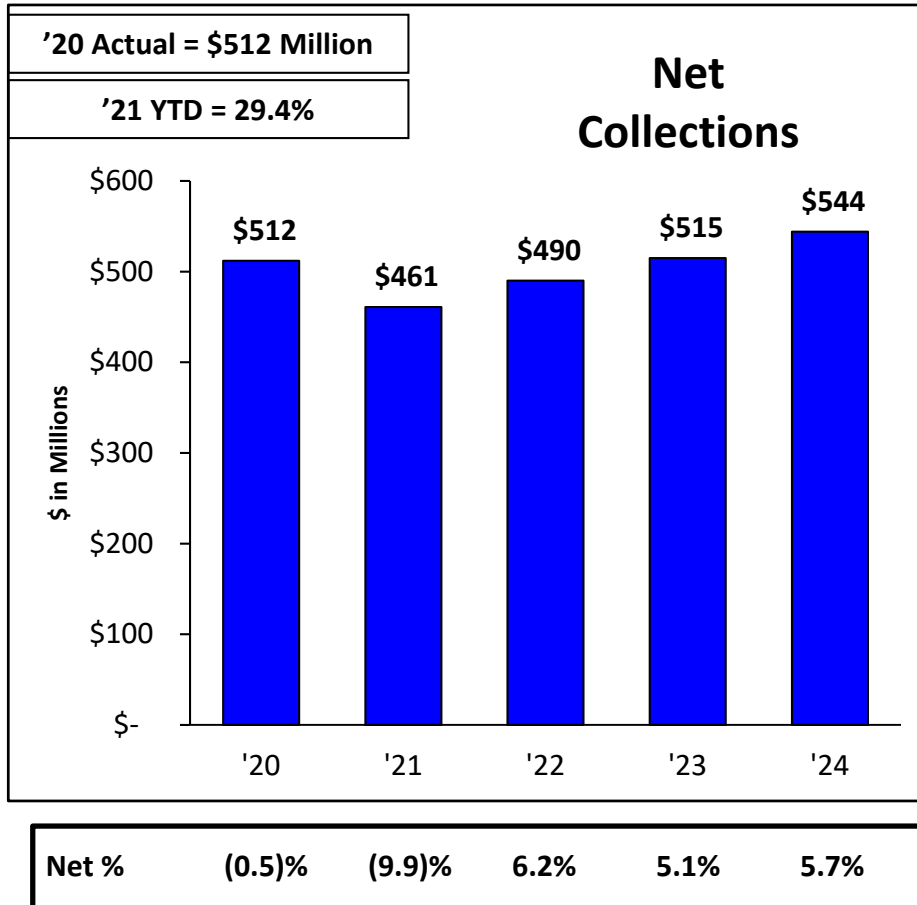


Withholding Has Not Experienced a Similar Drop

- Job Loss Centered on Lower Paying Jobs



Corporate Income Tax 4-Sector Forecast



- ❑ CIT especially sensitive to economy
- ❑ Lost 58% of its value in Great Recession
- ❑ But the 4-Sector may be too cautious
- ❑ Forecast requires 28% drop in final 9 months

Spending Adjustments

Baseline Spending Projections

- ❑ Baseline reflects changes to active statutory and other funding formulas - no discretionary additions
- ❑ Continues annual suspension of \$49 M of inactive statutory formulas in '22
 - K-12 Additional Assistance fully restored in '22
- ❑ Assumes \$900 M in K-12 “rollover” at end of '22
 - Rollover declines by \$30 M due to prior legislation
- ❑ Assumes spending classified as one-time in '21 budget does not continue

Baseline Spending Projected To Increase by \$564 M

'22 Ongoing Spending Changes

	<u>\$ in M</u>
AHCCCS – Medicaid Formula	305
ADE – K-12 Formula	203
DPS – Highway Safety Fee Backfill	161
DES – Medicaid Formula	54
Other	<u>4</u>
Total	727

'22 One-Time Spending Additions/Deletions

	<u>\$ in M</u>
Reduce K-12 Rollover (Enacted)	30
University 27 th Payroll (Enacted)	20
FY 21 State Agency 27th Payroll	(43)
SFB – Building Renewal Grants	(91)
SFB – Fewer New Buildings	(18)
State Employee Health Insurance	(22)
Other Agency Spending	(28)
ADC Capital Projects	<u>(11)</u>
Total	(163)

Total Spending Changes	\$564 M
Total Spending	\$12,326 M
% Change	4.8%

Uncertain Federal Medicaid Match Savings

- ❑ Feds have temporarily increased their share of Medicaid costs by 6.2%
- ❑ June update assumed \$(189) M in match savings
- ❑ But AHCCCS/DES will likely adjust provider rates above budget, thereby reducing savings
- ❑ As a result, October update removes match rate savings
 - Plan to restore in January Baseline with better estimate of savings

Projected Ending Balances

Excludes \$970 M in Budget Stabilization Fund

More Information in Appendix C

FY 20 Ending Balance Higher Than Projected

	<u>\$ in M</u>
March Enacted Budget	\$657
April Forecast	(638)
June Forecast	(190)
Preliminary Actual	372

- ❑ '20 Ending Balance improved by \$562 M between June and now
- ❑ Of that amount, \$248 M is due to higher-than-expected revenue and \$314 M is due to lower-than-expected spending
- ❑ The lower spending is the result of substituting federal Coronavirus Relief Fund monies for General Fund expenditures

The State Received \$1.86 B in CRF Monies

- \$1.4 B Allocated To-Date

	<u>\$ in M</u>	
Local Funding (Non-Big 5)	\$441	<input type="checkbox"/> In our unofficial accounting, \$425 M not yet allocated
Agency Spending Offsets	396	<input type="checkbox"/> \$300 M of agency offsets occurred in FY 20
K12 Enrollment Stability	370	
FEMA Bridge Loan	150	<input type="checkbox"/> Another \$90 M offsets Non-GF spending and will be transferred to the GF in '21
FEMA 25% Match	50	
DHS PPE	14	
SOS Elections	9	
Stay Connected Tech	2	<input type="checkbox"/> \$150 M FEMA Bridge Loan is to be repaid to the CRF
Total	\$1,432	

Implications for FY 21 Ending Balance

	<u>\$ in M</u>
June Forecast	(518)
Higher '21 Beginning Balance	372
Non GF Offset Transfers	90
Higher '21 Oct FAC revenues	656
Remove Medicaid Match Savings	<u>(189)</u>
October Forecast	\$411

- ❑ Unless there is an economic downturn, we expect the ending balance estimate will increase in the January Baseline
- ❑ We anticipate greater clarity on the Medicaid match savings after AHCCCS announces its rate increases
- ❑ State may also generate K-12 savings due greater use of online programs and lower enrollment; estimate not yet available

Projected '22 Balance of \$93 M

- What Could Increase or Decrease the Balance?

Factors Increasing the Balance

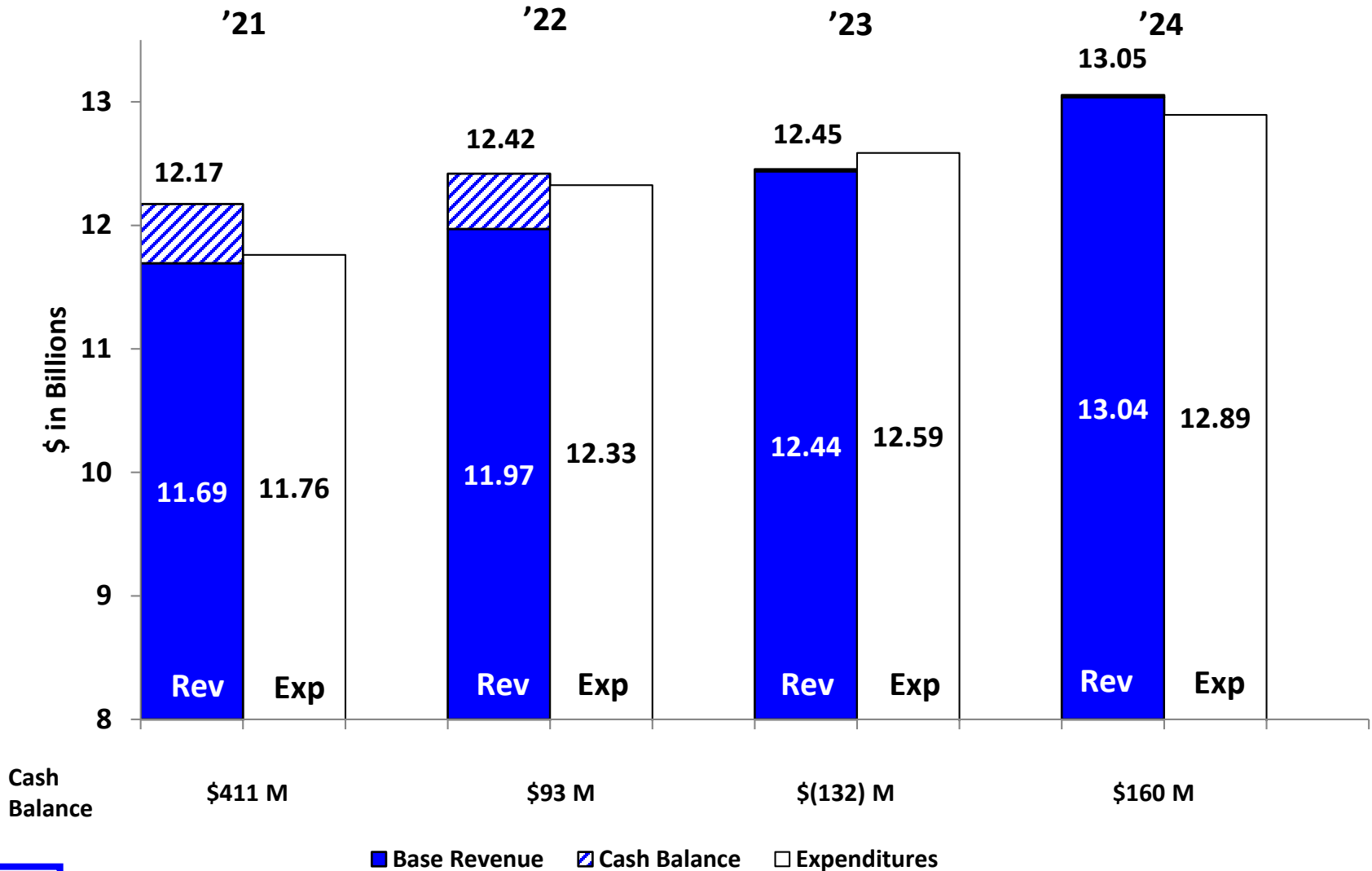
- Grow more quickly than 2% between now & June
- '20 and '21 Medicaid match savings
- More federal stimulus – both direct and indirect

Factors Decreasing the Balance

- Extended COVID spike and business shutdown
- Continuing 1-time '21 initiatives in '22
- Pending K12/DCS/Prison health care litigation

Mixed Signals: '23 \$(132) M Shortfall/'24 \$160 M Balance

- Assumes No Discretionary Changes



Appendices

Appendix A: October 4-Sector Forecast

	<u>2020 *</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Sales Tax				
JLBC Forecast	4.9%	5.3%	5.3%	3.9%
UA – Low	2.0%	5.2%	4.3%	4.1%
UA – Base	5.6%	6.4%	4.7%	4.6%
FAC	1.6%	5.4%	4.8%	5.1%
Average:	3.5%	5.6%	4.8%	4.4%
Individual Income Tax with Deferral				
JLBC Forecast	19.9%	-5.4%	5.1%	4.8%
UA – Low	15.3%	-3.1%	4.2%	3.4%
UA – Base	21.4%	-1.3%	5.3%	4.7%
FAC	14.2%	0.9%	6.0%	6.1%
Average:	17.7%	-2.2%	5.2%	4.8%
Corporate Income Tax				
JLBC Forecast	-4.7%	5.9%	4.7%	4.2%
UA – Low	-24.6%	6.0%	4.4%	6.4%
UA – Base	-15.8%	13.8%	6.4%	7.4%
FAC	5.5%	0.5%	4.9%	4.9%
Average:	-9.9%	6.2%	5.1%	5.7%
Insurance Premium Tax				
JLBC Forecast	1.3%	1.2%	0.7%	0.6%
UA – Low	-2.8%	4.1%	2.3%	0.7%
UA – Base	-2.6%	4.4%	4.5%	2.4%
FAC	-0.5%	2.0%	2.3%	2.0%
Average:	-1.2%	2.9%	2.4%	1.4%

JLBC Weighted Average	10.5%	0.3%	5.0%	4.2%
UA Low Weighted Average	6.0%	1.4%	4.2%	3.7%
UA Base Weighted Average	10.7%	3.1%	5.0%	4.7%
FAC Consensus Weighted Average	6.9%	3.0%	5.2%	5.4%
“Big-4” Weighted Average	8.5%	2.0%	4.8%	4.5%
Consensus Weighted Average*	7.8%	1.6%	4.6%	4.4%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: Revenue '20 - '22

FORECAST REVENUE GROWTH

(\$ in Thousands)

	ACTUAL FY 2020	% CHANGE PRIOR YR	FORECAST FY 2021	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2022	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	5,392,289.3	5.8%	5,582,691.0	3.5%	190,401.7	5,893,791.9	5.6%	311,100.9
Income - Individual	4,529,859.0	-9.6%	5,331,644.0	17.7%	801,785.0	5,212,038.1	-2.2%	(119,605.9)
- Corporate	511,881.9	-0.5%	461,205.5	-9.9%	(50,676.3)	489,790.1	6.2%	28,584.5
Property	24,142.9	-18.7%	22,474.0	-6.9%	(1,669.0)	22,505.1	0.1%	31.2
Luxury - Tobacco	22,074.8	4.9%	22,024.5	-0.2%	(50.3)	21,766.3	-1.2%	(258.2)
- Liquor	38,068.5	2.2%	38,581.8	1.3%	513.3	39,595.1	2.6%	1,013.3
Insurance Premium	535,163.4	-2.7%	529,009.0	-1.2%	(6,154.4)	544,358.0	2.9%	15,349.0
Other Taxes	14,408.1	6.4%	16,093.1	11.7%	1,685.0	18,027.1	12.0%	1,934.0
Subtotal - Taxes	11,067,887.7	-1.8%	12,003,722.9	8.5%	935,835.2	12,241,871.6	2.0%	238,148.8
Other Non-Tax Revenues:								
Lottery	103,594.7	25.0%	105,444.5	1.8%	1,849.8	111,412.0	5.7%	5,967.4
Licenses, Fees and Permits	34,787.2	8.6%	35,514.9	2.1%	727.7	36,268.0	2.1%	753.1
Interest	39,394.6	-25.8%	26,250.0	-33.4%	(13,144.6)	22,500.0	-14.3%	(3,750.0)
Sales and Services	22,425.1	-6.8%	23,623.0	5.3%	1,197.9	23,179.0	-1.9%	(444.0)
Other Miscellaneous	126,013.8	13.2%	134,299.8	6.6%	8,286.0	142,587.0	6.2%	8,287.2
Transfers and Reimbursements	116,512.3	83.9%	65,338.9	-43.9%	(51,173.4)	53,720.6	-17.8%	(11,618.3)
Public Safety Transfers	23,343.2	-67.7%	23,343.2	0.0%	0.0	0.0	-100.0%	(23,343.2)
Disproportionate Share Revenue	84,949.1	-11.1%	104,253.8	22.7%	19,304.7	95,417.3	-8.5%	(8,836.5)
Subtotal - Other Non-Tax	551,020.0	3.1%	518,068.1	-6.0%	(32,951.9)	485,084	-6.4%	(32,984.4)
Net Ongoing Revenue	11,618,907.8	-1.6%	12,521,791.1	7.8%	902,883.3	12,726,955.4	1.6%	205,164.4
Urban Revenue Sharing (URS)	(737,561.2)	N/A	(828,492.9)	N/A	(90,931.7)	(756,261.1)	N/A	72,231.7
Net Ongoing Revenue w/ URS	10,881,346.6	-2.2%	11,693,298.2	7.5%	811,951.6	11,970,694.3	2.4%	277,396.1
One-Time Financing Sources:								
Pre-2019 Enacted Fund Transfers	1,840.7	-98.2%	0.0	-100.0%	(1,840.7)	0.0	N/A	0.0
Prescription Drug Rebate Fund Transfer	69,000.0	N/A	16,700.0	-75.8%	(52,300.0)	16,700.0	0.0%	0.0
Wells Fargo Settlement Fund Transfer	20,000.0	N/A	0.0	-100.0%	(20,000.0)	0.0	N/A	0.0
CRF Offset Fund Transfer	0.0		90,000.0	N/A	90,000.0	0.0	-100.0%	(90,000.0)
Water Infrastructure Repayment	0.0	N/A	0.0	N/A	0.0	20,000.0	N/A	20,000.0
Subtotal - One-Time Financing Sources	90,840.7	-9.5%	106,700.0	17.5%	15,859.3	36,700.0	-65.6%	(70,000.0)
Subtotal - Revenues	10,972,187.3	-2.3%	11,799,998.2	7.5%	827,810.9	12,007,394.3	1.8%	207,396.1
Balance Forward	957,241.0	112.9%	372,457.0	-61.1%	(584,784.0)	411,247.1	10.4%	38,790.1
Total - Resources	11,929,428.3	2.1%	12,172,455.2	2.0%	243,026.9	12,418,641.4	2.0%	246,186.2

Appendix B: Revenue '23 - '24

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2023	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2024	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	6,175,108.0	4.8%	281,316.1	6,448,819.5	4.4%	273,711.5
Income - Individual	5,480,569.6	5.2%	268,531.5	5,741,899.2	4.8%	261,329.6
- Corporate	514,894.5	5.1%	25,104.4	544,028.4	5.7%	29,133.9
Property	22,536.4	0.1%	31.3	22,567.8	0.1%	31.4
Luxury - Tobacco	21,564.3	-0.9%	(202.0)	21,369.4	-0.9%	(194.9)
- Liquor	40,639.0	2.6%	1,043.9	41,714.5	2.6%	1,075.5
Insurance Premium	557,670.6	2.4%	13,312.6	565,711.7	1.4%	8,041.2
Other Taxes	20,211.0	12.1%	2,184.0	22,677.6	12.2%	2,466.6
Subtotal - Taxes	12,833,193.3	4.8%	591,321.7	13,408,788.1	4.5%	575,594.8
Other Non-Tax Revenues:						
Lottery	101,034.0	-9.3%	(10,378.0)	111,735.1	10.6%	10,701.2
Licenses, Fees and Permits	37,047.5	2.1%	779.6	37,854.7	2.2%	807.2
Interest	20,425.4	-9.2%	(2,074.6)	20,058.8	-1.8%	(366.6)
Sales and Services	22,760.9	-1.8%	(418.1)	22,367.9	-1.7%	(393.0)
Other Miscellaneous	142,505.9	-0.1%	(81.1)	142,425.9	-0.1%	(80.0)
Transfers and Reimbursements	54,043.6	0.6%	323.0	54,381.9	0.6%	338.3
Public Safety Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Disproportionate Share Revenue	95,474.3	0.1%	57.0	95,644.9	0.2%	170.6
Subtotal - Other Non-Tax	473,291.6	-2.4%	(11,792.2)	484,469.3	2.4%	11,177.6
Net Ongoing Revenue	13,306,484.9	4.6%	579,529.5	13,893,257.3	4.4%	586,772.4
Urban Revenue Sharing (URS)	(868,927.4)	N/A	(112,666.3)	(855,274.2)	N/A	13,653.2
Net Ongoing Revenue w/ URS	12,437,557.5	3.9%	466,863.2	13,037,983.1	4.8%	600,425.6
One-Time Financing Sources:						
Pre-2019 Enacted Fund Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Prescription Drug Rebate Fund Transfer	16,700.0	0.0%	0.0	16,700.0	0.0%	0.0
Wells Fargo Settlement Fund Transfer	0.0	N/A	0.0	0.0	N/A	0.0
CRF Offset Fund Transfer	0.0	N/A	0.0	0.0	N/A	0.0
Water Infrastructure Repayment	0.0	-100.0%	(20,000.0)	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	16,700.0	-54.5%	(20,000.0)	16,700.0	0.0%	0.0
Subtotal - Revenues	12,454,257.5	3.7%	446,863.2	13,054,683.1	4.8%	600,425.6
Balance Forward	-	-100.0%	(411,247.1)	-	N/A	0.0
Total - Resources	12,454,257.5	0.3%	35,616.1	13,054,683.1	4.8%	600,425.6

Appendix C: General Fund Balance Sheet

	FY 2021 <u>October FAC</u>	FY 2022 <u>October FAC</u>	FY 2023 <u>October FAC</u>	FY 2024 <u>October FAC</u>
REVENUES				
Ongoing Revenues	\$12,521,791,100	\$12,726,955,400	\$13,306,484,900	\$13,893,257,300
Urban Revenue Sharing	(828,492,900)	(756,261,100)	(868,927,400)	(855,274,200)
Net Ongoing Revenues	<u>\$11,693,298,200</u>	<u>\$11,970,694,300</u>	<u>\$12,437,557,500</u>	<u>\$13,037,983,100</u>
One-time Financing Sources				
Balance Forward	\$372,457,000	\$411,247,100		
Water Infrastructure Repayment		20,000,000		
CRF Offset Fund Transfers	90,000,000			
Other Fund Transfers	<u>16,700,000</u>	<u>16,700,000</u>	<u>16,700,000</u>	<u>16,700,000</u>
Subtotal One-time Revenues	<u>\$479,157,000</u>	<u>\$447,947,100</u>	<u>\$16,700,000</u>	<u>\$16,700,000</u>
Total Revenues	\$12,172,455,200	\$12,418,641,400	\$12,454,257,500	\$13,054,683,100
EXPENDITURES				
Ongoing Operating Appropriations	\$11,469,755,900	\$12,195,664,300	\$12,550,761,300	\$12,884,699,400
Enhanced FMAP Savings ^{1/}				
Administrative Adjustments	146,000,000	155,000,000	162,000,000	162,000,000
Revertments	<u>(184,000,000)</u>	<u>(192,000,000)</u>	<u>(198,000,000)</u>	<u>(198,000,000)</u>
Subtotal Ongoing Expenditures	<u>\$11,431,755,900</u>	<u>\$12,158,664,300</u>	<u>\$12,514,761,300</u>	<u>\$12,848,699,400</u>
One-time Expenditures				
Capital Outlay	\$11,000,000			
Reduce K-12 Rollover (Enacted)		30,000,000		
Operating One-Time Spending	275,373,600	116,877,600	71,482,600	45,937,500
27th Pay Period (Enacted)	<u>43,078,600</u>	<u>20,052,100</u>	<u>\$71,482,600</u>	<u>\$45,937,500</u>
Subtotal One-time Expenditures	<u>\$329,452,200</u>	<u>\$166,929,700</u>	<u>\$71,482,600</u>	<u>\$45,937,500</u>
Total Expenditures	\$11,761,208,100	\$12,325,594,000	\$12,586,243,900	\$12,894,636,900
Ending Balance ^{2/}	<u><u>\$411,247,100</u></u>	<u><u>\$93,047,400</u></u> ^{4/}	<u><u>(\$131,986,400)</u></u>	<u><u>\$160,046,200</u></u>
Ongoing Balance ^{3/}	<u><u>\$261,542,300</u></u>	<u><u>(\$187,970,000)</u></u>	<u><u>(\$77,203,800)</u></u>	<u><u>\$189,283,700</u></u>

^{1/} The increased federal Medicaid match rate lasts through the end of the declared federal health emergency. No net savings are displayed in FY 2021 as higher-than-budgeted Medicaid capitation rate increases may reduce the match rate savings.

^{2/} This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

^{3/} This calculation reflects the difference between ongoing revenues and ongoing expenditures and excludes one-time adjustments. The Legislature makes the ongoing and one-time classifications as part of its 3-year spending plan. Excludes any Budget Stabilization Fund balance.

^{4/} The FY 2022 cash balance is presumed to be allocated as part of the FY 2022 budget process.