
Finance Advisory Committee

Revenue and Budget Update

October 10, 2019

JLBC

Key Points

- ❑ Compared to a budgeted 7.8% growth rate, General Fund revenues grew by 10.2% in '19
- ❑ The unexpected '19 gains will result in newly available funding in the '21 budget process
- ❑ Revenue growth is projected to moderate substantially between '20 and '23

Available Funding

- ❑ After formula spending, we expect \$170 M in available ongoing monies in '21
- ❑ The level of available one-time funds is \$475 M
- ❑ The Baseline backs out over \$100 M in “recurring” one-time '20 spending

Caveats

- ❑ Arizona economy still performing well
 - '20 revenue growth may be understated
- ❑ We are in the midst of implementing income tax conformity and “Wayfair” sales tax changes
 - These type of major revisions add uncertainty to the forecast
- ❑ The revenue estimates assume no recession through '23
 - While national forecasters are more pessimistic, recession timing is difficult to predict.

Arizona Ranks 4th in Economic Momentum

- Recession Concern Remains at National Level

	<u>AZ Rate</u>	<u>AZ Rank</u>
Personal Income	6.3%	3
Population	1.7%	4
Employment	2.5%	5

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

<u>Wall Street Journal Survey of Economists</u>	
% Predicting Recession By End of CY 2021	77%

'20 YTD: 8.6% Growth/\$174 M Above Forecast

- '19 Was \$248 M Above Budget

	<u>% Growth Above Prior Year</u>		<u>'20 +/- Forecast (\$ M)</u>
	<u>'19 Actual</u>	<u>'20 YTD</u>	
Sales	6.5%	6.9%	\$ 34
Individual Income	10.2	9.4	76
Corporate Income	37.9	10.6	45
Insurance Premium	7.9	5.8	6
Other	<u>26.4</u>	<u>32.4</u>	<u>13</u>
Overall *	10.2%	8.6%	\$ 174

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

Revenue Forecast

October 4-Sector Forecast

April Consensus Forecast

- FAC
- UA model – base
- UA model – low
- JLBC Staff

Represents Net Growth

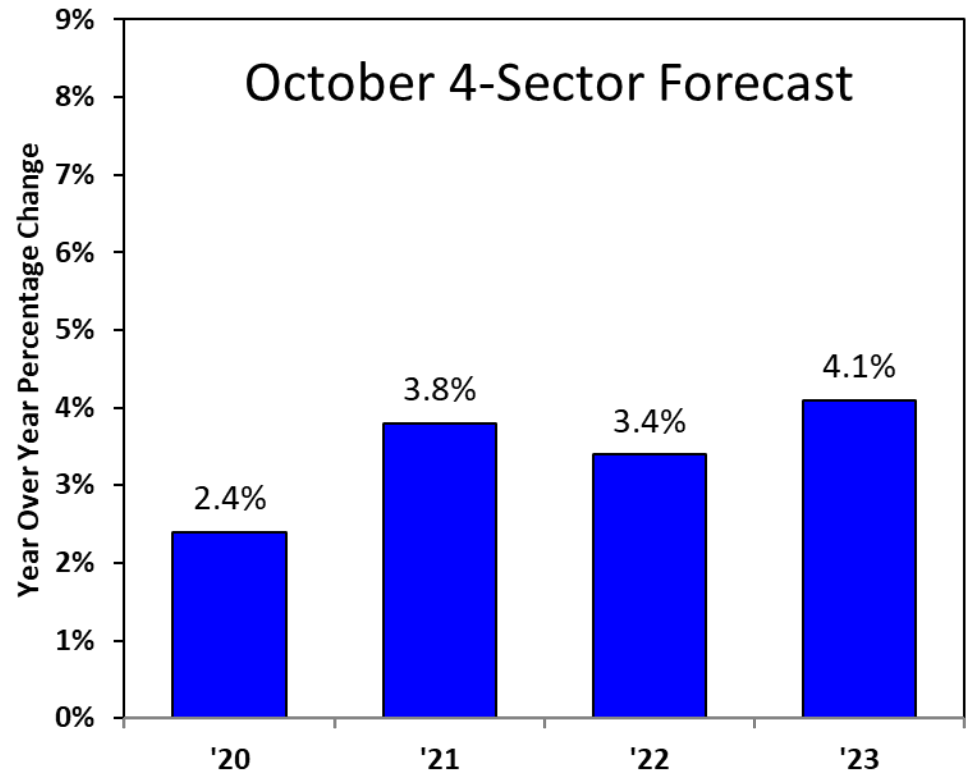
- After tax law changes

Chance of Exceeding Forecast

- 60%

Long Run Average Growth

- 4.0%

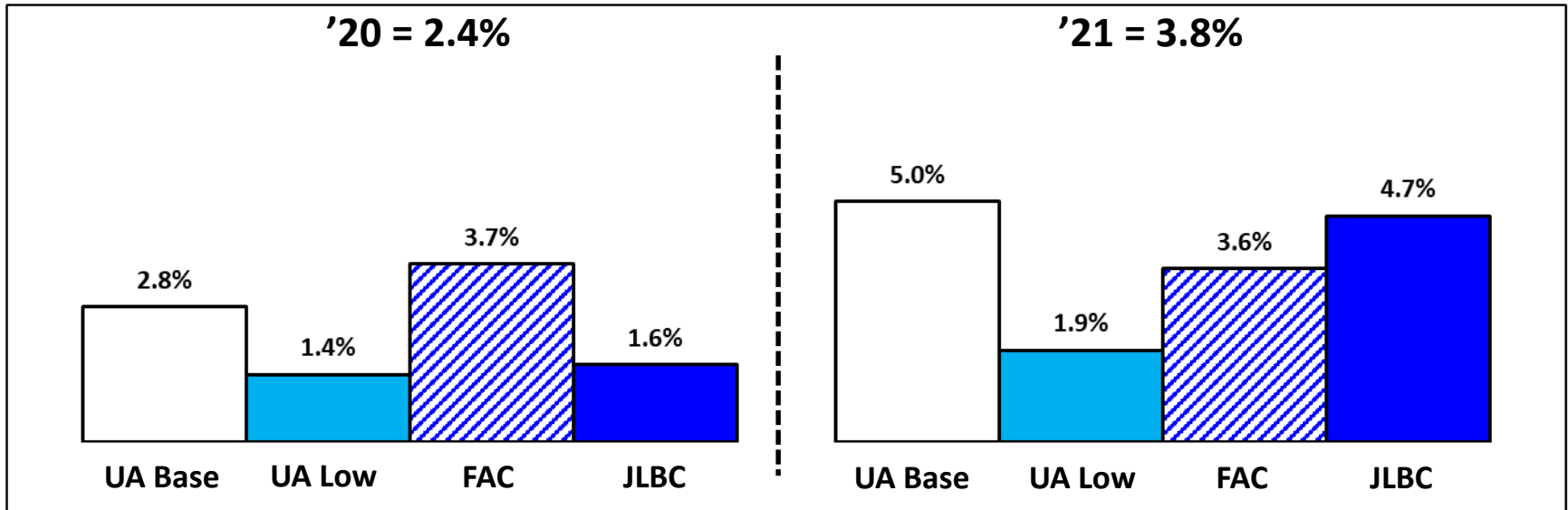


Percent change in net revenues excluding balance forward, one-time transfers and urban revenue sharing

See Appendix A, B, C

Individual 4-Sector Forecasts

- “UA Low” Adds More Caution to Forecast



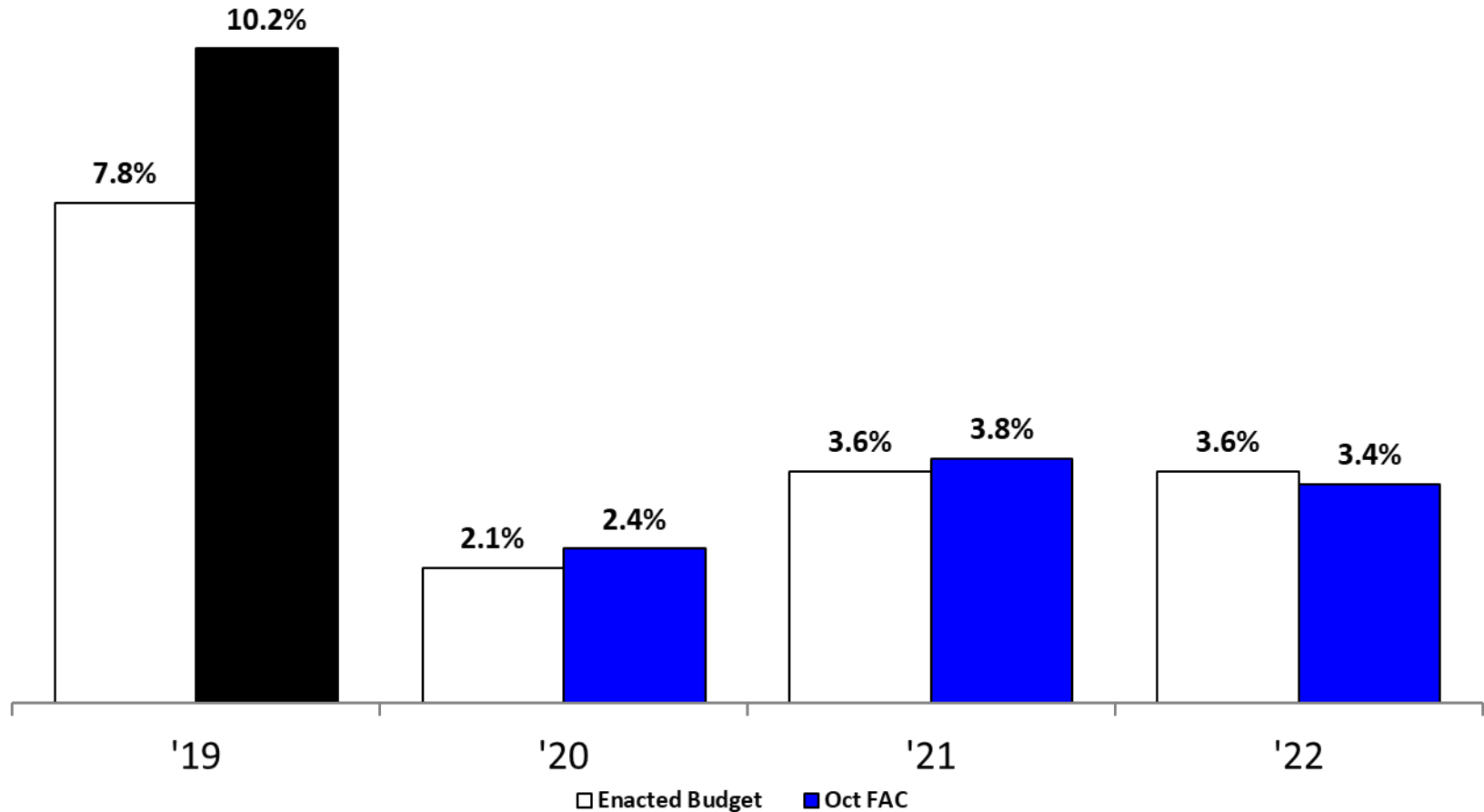
- ❑ Prior to tax law changes '20 growth rate is 4.9%
- ❑ YTD '20 growth is 8.6%. While tax reductions will reduce growth rate after January, 2.4% forecast may be low

Details in Appendix A
Revenue growth adjusted for small categories

'19 Actuals Above Enacted Budget

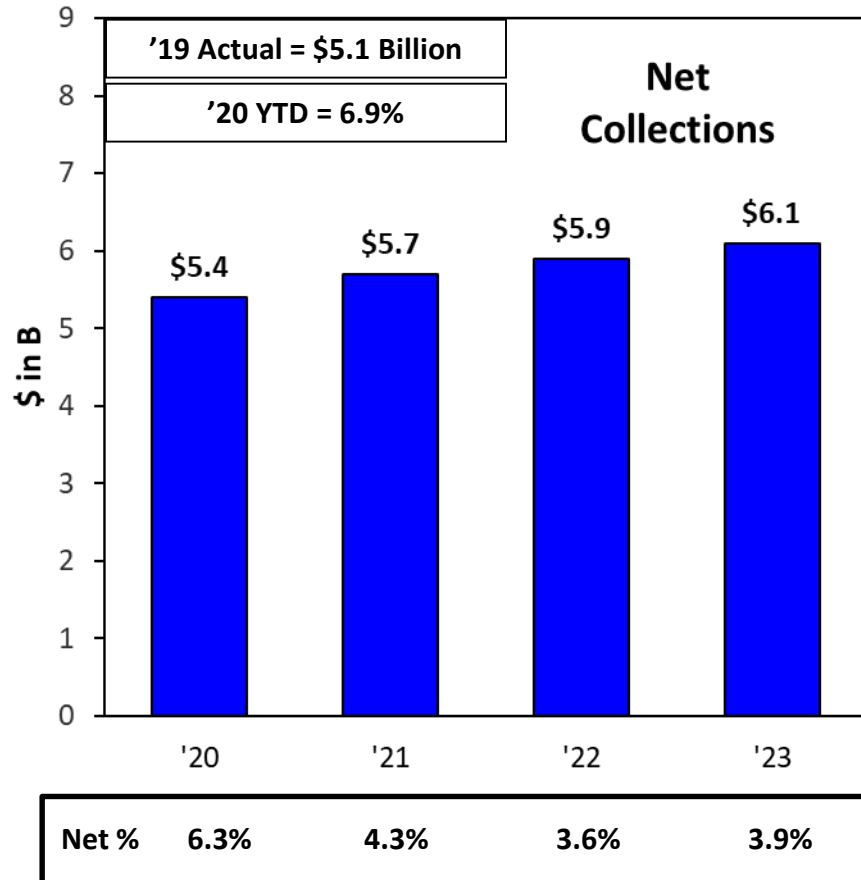
- Primary Reason for Projected Surplus

Net Revenue Growth Rate *



*Excludes Balance Forward, Budgeted Fund Transfers and URS

Sales Tax

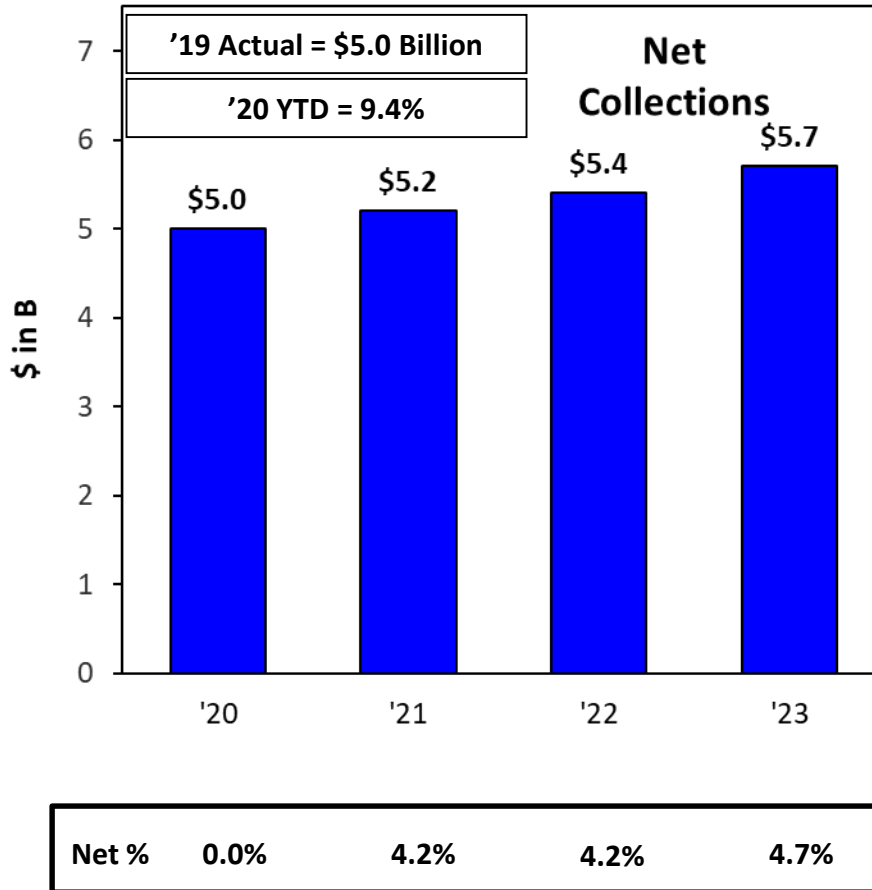


- ❑ Out-of-state internet collections started October 1
- ❑ Projected at \$57 M in '20 and \$85 M in '21

'19 Growth by Category

Retail	6.3%
Contracting	15.3%
Use	10.6%
Restaurant/Bar	6.2%
Utilities	<u>(0.2)%</u>
Total	6.5%

Individual Income Tax



<u>Percent Gain Above Prior Year</u>	
	'19
Withholding	6.2%
Payments	11.0%
Refunds	<u>(1.3)%</u>
Total	10.2%

- YTD growth is expected to decline in 2nd half of '20
- Upon passage of IIT changes, withholding rates not revised
- Smaller payments/higher refunds expected in April

Fed Tax Law Changes Complicated Forecasting

- Tax Cut and Jobs Act (TCJA) Enacted in 12/17

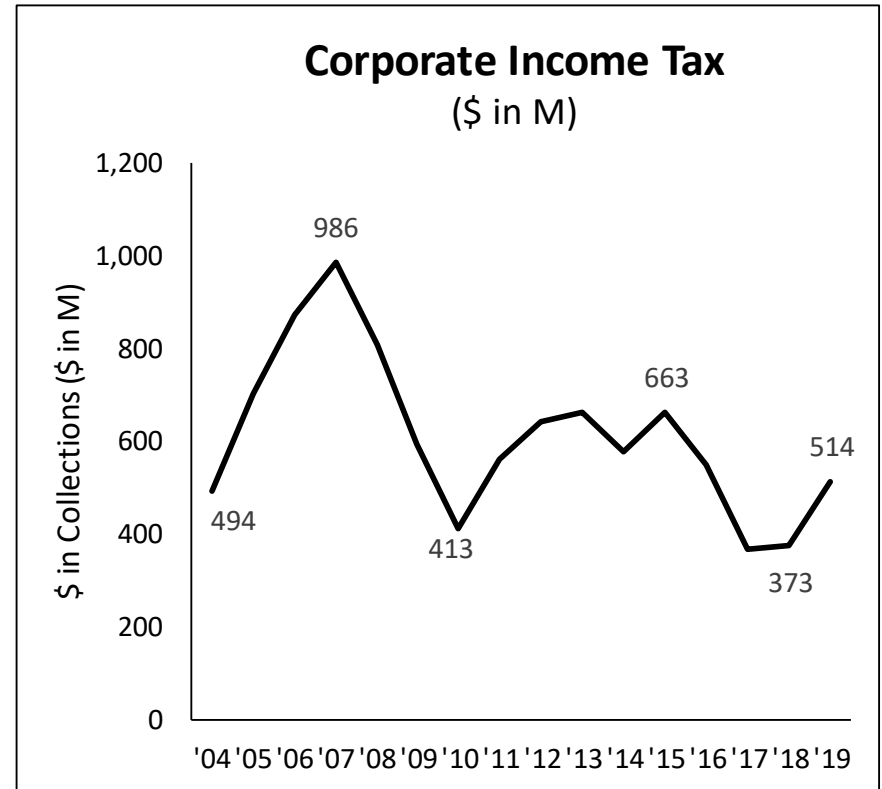
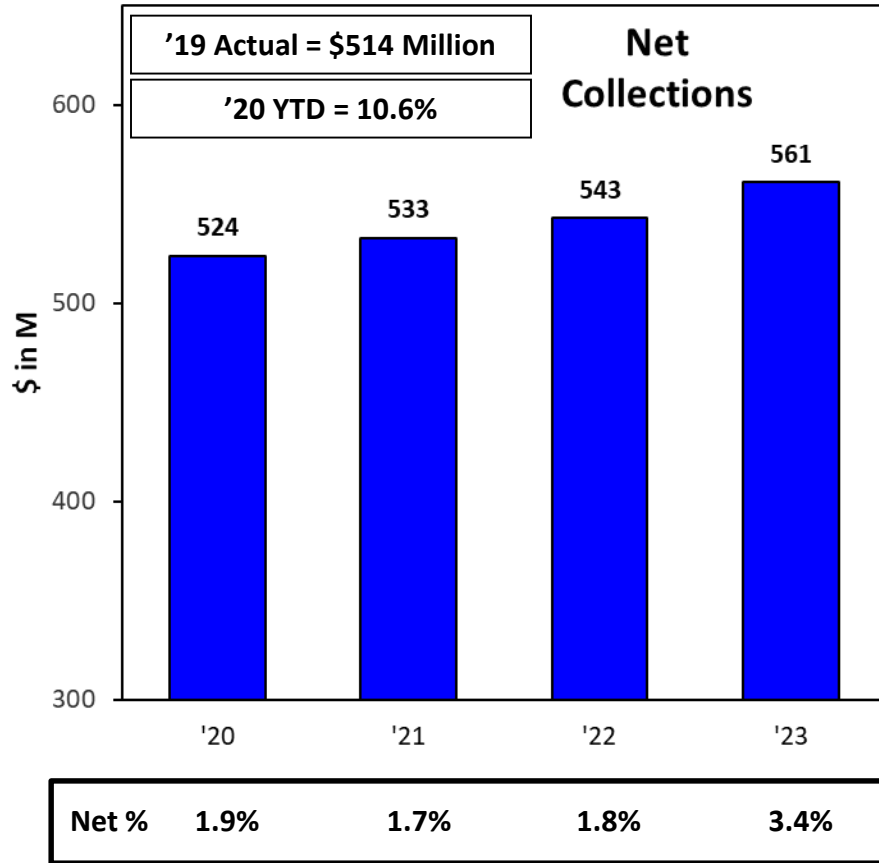
Individual Income Tax

- ❑ Incentivized making income tax payment in CY '17 to avoid loss of state/local tax deduction
- ❑ In the long run, are payments being moved from December to April (or October)?
 - Winter payments fell by (50.8)% last year, increased by 48.0% in the spring

Corporate Income Tax

- ❑ TCJA incentivized corporations to shift income from TY '17 to TY '18 due to lower rates
 - Due to different filing periods, TY '18 income tax returns will be filed into CY '20

Corporate Income Tax



Spending Forecast

'21 – '23 Baseline Spending Projections

- ❑ Baseline reflects changes to active statutory and other funding formulas - no discretionary additions
- ❑ Continues annual suspension of \$188 M of inactive statutory formulas
 - Of the \$188 M, \$135 M restored by '23
- ❑ Continues \$930 M in K-12 “rollover” payments
 - Drops to \$900 M in FY 22
- ❑ Assumes spending classified as one-time in '20 budget does not continue

Baseline Spending Projected To Decrease by \$(286) M

'21 Ongoing Spending Changes

	<u>\$ in M</u>
ADE – K12 Formula	453
AHCCCS – Medicaid Formula	169
DES – Medicaid Formula	61
SFB – Debt Service Savings	(65)
2010B Payoff – Debt Service Savings	<u>(24)</u>
Total	594

Total Spending Changes	\$(286) M
Total Spending	\$11,570 M
% Change	(2.4)%

'21 One-Time Spending Additions/Deletions

	<u>\$ in M</u>
Fund 27th Pay Period In FY 21	80
FY 20 BSF Deposit	(271)
2010B Sale/Leaseback Payoff	(190)
Transportation Funding	(77)
ADE – Shift DAA/CAA to Ongoing	(68)
ADE – Prop 301 Bridge Savings	(50)
DWR – DCP Funding/Other	(53)
SFB – Fewer New Buildings	(33)
Recurring One-Time Spending	(172)
Other Agency Spending	(41)
Capital Projects	<u>(5)</u>
Total	(880)

Ending Balance Forecast

Available Ongoing and One-Time Balances

- Excludes \$1 B Rainy Day Fund

	(\$ in M)
	<u>October Baseline</u>
Ongoing Balance	170
One-Time Balance	475

- ❑ Prior to planning targets, projected '21 ending balance is \$694 M.
Of that amount:
- ❑ Up to \$170 M is available for ongoing objectives
 - Higher \$ level would create '22 shortfall
- ❑ \$475 M is available for one time purposes
- ❑ \$50 M is set aside as an uncommitted cash balance

Options for One-Time Spending

- Retaining “Recurring” One-Time Initiatives

<u>Multi-Year One-Times</u>	<u>(\$ in M)</u>
<input type="checkbox"/> SFB Building Repair Grants	63
<input type="checkbox"/> University Spending	35
<input type="checkbox"/> DJC/Maricopa & Pima Contributions	8
<input type="checkbox"/> State Employee Health Insurance	11
Total	<u>117</u>
 <u>New One-Times in '20</u>	
<input type="checkbox"/> Community College Rural Funding	14
<input type="checkbox"/> Housing Trust Fund Deposit	15
<input type="checkbox"/> Local Transportation Funding	18
<input type="checkbox"/> Other	8
Total	<u>55</u>

ADC Capital Funding

FY 2021 ADC Capital Request by Project Type (\$ in M)

	<u>Amount</u>
Lewis and Yuma Locks/Fire/HVAC ^{1/}	\$ 31.7
Fire Safety Projects at 10 Prisons and COTA	97.1
Evaporative Cooling Upgrades at 9 Prisons	115.6
Locking Projects	35.2
Roofing Replacement/Repair	10.1
Plumbing Projects	22.5
Road and Parking Projects	12.4
Modular Building Replacement at Douglas	18.4
Perimeter Fence/Alarm Projects	14.2
Other Projects	<u>22.7</u>
Total	\$385.5

^{1/} Since submitting their CIP, ADOA/ADC have updated the total cost of the project by \$5.5 million to \$51.4 million. Of that amount, ADC has identified \$19.7 million in funding, leaving \$31.7 million unfunded.

ADC Lock Requests

ADC Locking System Requests and Final Appropriation

(\$ in M)

<u>Fiscal Year</u>	<u>ADC Request</u>	<u>ADOA Oct Request</u>	<u>Governor January Rec</u>	<u>Final Approp</u>
2011	35.7	7.0	-	-
2012	37.5	7.0	-	-
2013	37.5	7.0	-	-
2014	33.1	7.0	-	-
2015	32.0	7.0	3.5	<u>1/</u>
2016	28.8	7.0	-	-
2017	28.8	7.0	-	-
2018	28.8	7.0	1.1	1.5
2019	36.3	7.0	-	-
2020	36.3	7.0	<u>2/</u>	<u>2/</u>
2021	69.0	<u>3/</u>	<u>3/</u>	<u>3/</u>

1/ The FY 2015 budget funded the Executive's January recommendation through an increase of \$3.5 million in ADC's building renewal appropriation.

2/ While there was no specific Executive recommendation or appropriation for locks in FY 2020, ADC is reallocating \$19.7 million of non-appropriated funds to address the Lewis lock issue.

3/ To be determined.

Appendices

Appendix A: October 2019 4-Sector Forecast

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Sales Tax				
JLBC Forecast	5.7%	4.8%	4.2%	3.9%
UA – Low	6.3%	2.3%	1.5%	3.6%
UA – Base	7.4%	6.0%	4.7%	4.2%
FAC	5.7%	4.2%	4.0%	3.8%
Average:	6.3%	4.3%	3.6%	3.9%
Individual Income Tax				
JLBC Forecast	-1.5%	5.6%	5.4%	4.8%
UA – Low	-1.9%	2.1%	2.1%	4.9%
UA – Base	0.2%	5.1%	5.1%	5.0%
FAC	3.1%	3.8%	4.1%	4.1%
Average:	0.0%	4.2%	4.2%	4.7%
Corporate Income Tax				
JLBC Forecast	4.6%	4.2%	3.1%	4.1%
UA – Low	-3.0%	-2.5%	-2.7%	3.3%
UA – Base	-2.6%	2.4%	3.2%	3.7%
FAC	8.6%	2.5%	3.1%	2.6%
Average:	1.9%	1.7%	1.8%	3.4%
Insurance Premium Tax				
JLBC Forecast	-0.1%	0.5%	0.6%	1.4%
UA – Low	0.4%	0.3%	-0.7%	0.1%
UA – Base	0.6%	0.7%	-0.5%	1.1%
FAC	-1.3%	0.5%	1.5%	2.0%
Average:	-0.1%	0.5%	0.2%	1.1%

JLBC Weighted Average	2.1%	4.9%	4.5%	4.2%
UA Low Weighted Average	1.9%	1.9%	1.5%	4.0%
UA Base Weighted Average	3.4%	5.2%	4.6%	4.4%
FAC Consensus Weighted Average	4.3%	3.8%	3.9%	3.8%
“Big-4” Weighted Average	2.9%	3.9%	3.6%	4.1%
Consensus Weighted Average*	2.4%	3.8%	3.4%	4.1%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: General Fund Revenue FY '19 - FY '21

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2019	% CHANGE PRIOR YR	FORECAST FY 2020	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2021	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	5,096,879.9	6.5%	5,416,921.4	6.3%	320,041.6	5,651,005.4	4.3%	234,084.0
Income - Individual	5,009,021.6	10.2%	5,007,978.1	0.0%	(1,043.5)	5,215,956.8	4.2%	207,978.8
- Corporate	514,264.1	37.8%	523,970.8	1.9%	9,706.7	533,045.6	1.7%	9,074.8
Property	29,683.3	-23.3%	30,384.0	2.4%	700.7	31,279.3	2.9%	895.3
Luxury - Tobacco	21,045.8	-4.2%	20,580.4	-2.2%	(465.4)	20,114.6	-2.3%	(465.8)
- Liquor	37,268.3	3.5%	38,618.1	3.6%	1,349.8	39,635.8	2.6%	1,017.7
Insurance Premium	549,760.6	7.9%	549,210.8	-0.1%	(549.8)	551,991.6	0.5%	2,780.8
Other Taxes	13,539.4	77.0%	11,849.1	-12.5%	(1,690.3)	13,268.4	12.0%	1,419.3
Subtotal - Taxes	11,271,462.9	9.2%	11,599,512.7	2.9%	328,049.7	12,056,297.6	3.9%	456,784.9
Other Non-Tax Revenues:								
Lottery	82,886.1	21.1%	103,594.7	25.0%	20,708.6	99,678.6	-3.8%	(3,916.1)
Licenses, Fees and Permits	32,019.5	-15.7%	32,662.6	2.0%	643.0	33,343.3	2.1%	680.8
Interest	53,025.8	140.9%	35,563.2	-32.9%	(17,462.5)	35,817.9	0.7%	254.7
Sales and Services	24,054.0	-29.5%	24,596.8	2.3%	542.8	23,868.5	-3.0%	(728.3)
Other Miscellaneous	111,394.7	2.8%	101,864.2	-8.6%	(9,530.6)	105,734.2	3.8%	3,870.0
Transfers and Reimbursements	58,724.9	44.6%	64,418.2	9.7%	5,693.3	67,336.9	4.5%	2,918.7
Public Safety Transfers	72,364.5	N/A	23,343.2	-67.7%	(49,021.3)	23,343.2	0.0%	0.0
Disproportionate Share Revenue	95,552.6	14.2%	95,431.5	-0.1%	(121.1)	95,417.3	0.0%	(14.2)
Subtotal - Other Non-Tax	530,022.0	34.1%	481,474.4	-9.2%	(48,547.6)	484,540	0.6%	3,065.5
Net Ongoing Revenue	11,801,484.9	10.2%	12,080,987.0	2.4%	279,502.1	12,540,837.4	3.8%	459,850.4
Urban Revenue Sharing (URS)	(674,804.4)	N/A	(737,573.6)	N/A	(62,769.2)	(828,492.9)	N/A	(90,919.2)
Net Ongoing Revenue w/ URS	11,126,680.5	10.9%	11,343,413.4	1.9%	216,732.9	11,712,344.5	3.3%	368,931.2
One-Time Financing Sources:								
Pre-2019 Enacted Fund Transfers	100,425.9	35.0%	1,840.7	-98.2%	(98,585.2)	0.0	-100.0%	(1,840.7)
Prescription Drug Rebate Fund Transfer	0.0	N/A	69,000.0	N/A	69,000.0	16,700.0	-75.8%	(52,300.0)
Wells Fargo Settlement Fund Transfer	0.0	N/A	20,000.0	N/A	20,000.0	0.0	-100.0%	(20,000.0)
Water Infrastructure Repayment	0.0	N/A	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	100,425.9	35.0%	90,840.7	-9.5%	(9,585.2)	16,700.0	-81.6%	(74,140.7)
Subtotal - Revenues	11,227,106.3	11.1%	11,434,254.1	1.8%	207,147.8	11,729,044.5	2.6%	294,790.5
Balance Forward	449,632.0	198.0%	957,241.0	112.9%	507,609.0	535,348.9	-44.1%	(421,892.1)
Total - Resources	11,676,738.3	13.8%	12,391,495.1	6.1%	714,756.8	12,264,393.4	-1.0%	(127,101.6)

Appendix B: General Fund Revenue FY '22 - FY '23

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2022	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2023	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	5,854,694.3	3.6%	203,688.9	6,081,881.2	3.9%	227,186.9
Income - Individual	5,434,858.4	4.2%	218,901.6	5,690,238.1	4.7%	255,379.7
- Corporate	542,588.3	1.8%	9,542.6	561,112.6	3.4%	18,524.3
Property	32,204.4	3.0%	925.2	33,160.5	3.0%	956.1
Luxury - Tobacco	19,671.4	-2.2%	(443.3)	19,237.1	-2.2%	(434.2)
- Liquor	40,715.9	2.7%	1,080.1	41,830.8	2.7%	1,114.9
Insurance Premium	553,187.2	0.2%	1,195.6	559,511.8	1.1%	6,324.6
Other Taxes	14,860.7	12.0%	1,592.3	16,647.2	12.0%	1,786.5
Subtotal - Taxes	12,492,780.6	3.6%	436,483.0	13,003,619.3	4.1%	510,838.7
Other Non-Tax Revenues:						
Lottery	107,993.5	8.3%	8,314.9	119,551.5	10.7%	11,557.9
Licenses, Fees and Permits	34,064.1	2.2%	720.8	34,827.4	2.2%	763.2
Interest	38,077.2	6.3%	2,259.2	40,312.3	5.9%	2,235.1
Sales and Services	23,273.7	-2.5%	(594.8)	22,803.1	-2.0%	(470.6)
Other Miscellaneous	109,632.8	3.7%	3,898.6	113,558.7	3.6%	3,925.9
Transfers and Reimbursements	69,787.1	3.6%	2,450.2	72,394.9	3.7%	2,607.8
Public Safety Transfers	0.0	-100.0%	(23,343.2)	0.0	N/A	0.0
Disproportionate Share Revenue	95,602.8	0.2%	185.5	95,630.8	0.0%	28.0
Subtotal - Other Non-Tax	478,431.2	-1.3%	(6,108.7)	499,078.7	4.3%	20,647.4
Net Ongoing Revenue	12,971,211.8	3.4%	430,374.4	13,502,698.0	4.1%	531,486.2
Urban Revenue Sharing (URS)	(829,792.3)	N/A	(1,299.5)	(862,350.4)	N/A	(32,558.0)
Net Ongoing Revenue w/ URS	12,141,419.5	3.7%	429,074.9	12,640,347.6	4.1%	498,928.2
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
Water Infrastructure Repayment	20,000.0	N/A	20,000.0	0.0	-100.0%	(20,000.0)
Subtotal - One-Time Financing Sources	36,700.0	119.8%	20,000.0	16,700.0	-54.5%	(20,000.0)
Subtotal - Revenues	12,178,119.5	3.8%	449,074.9	12,657,047.6	3.9%	478,928.2
Balance Forward	-	-100.0%	(535,348.9)	-	N/A	0.0
Total - Resources	12,178,119.5	-0.7%	(86,274.0)	12,657,047.6	3.9%	478,928.2

Phase-In of \$48 M of Enacted Tax Reductions

	(\$ in M)		
	'21	'22	'23
Public Safety Transfers	0	(23)	0
Annualize Out-of-State Internet Sales (Wayfair)	28	0	0
Corporate STO with Caps	(16)	(12)	(7)
All Other	(13)	(5)	1
Total	(1)	(40)	(6)

- By '23, revenue base is \$(48) M lower than in '20
- Numbers are incorporated in Net Revenues estimates each year