
FY 2019 JLBC Baseline

January 12, 2018

JLBC

A Summary of State General Fund Conditions

- The '19 JLBC Baseline

- The Baseline compares revenues with funding formula requirements to provide a guideline of available resources

- Both the current budget and '19 Baseline have projected shortfalls:
 - '18 = \$(20) M
 - '19 = \$(108) M

See Appendix A for outyear estimates

The Caveats

- ❑ The shortfall is likely greater since the Baseline eliminates \$89 M in “1-time” ’18 spending that appears ongoing in nature
- ❑ Federal tax conformity could have significant fiscal impact – but the projections will be highly speculative.

Projected Baseline Changes

- Spending Growth Outpaces Revenues

Net '19 Revenue Growth	
	<u>\$ in M</u>
3.6% Consensus Revenue Growth	368
One-Time Fund Transfers	(8)
Previously Enacted Tax Legislation	(75)
Urban Revenue Sharing	6
Beginning Balance Reduction	(151)
Total Revenue Changes	140
Total Revenue	\$9,947
% Change	1.4%

Net '19 Spending Changes	
	<u>\$ in M</u>
ADE – K12 Formula	168
Medicaid Formula	149
University Bonding	27
School Facilities Debt Service	(35)
Eliminate 1-Time \$	(89)
Other	8
Total Spending Changes	228
Total Spending	\$10,056
% Change	2.3%

'19 & '20 Forecast Below Enacted Budget

- Primary Reason for Projected Shortfalls

January Consensus Forecast

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

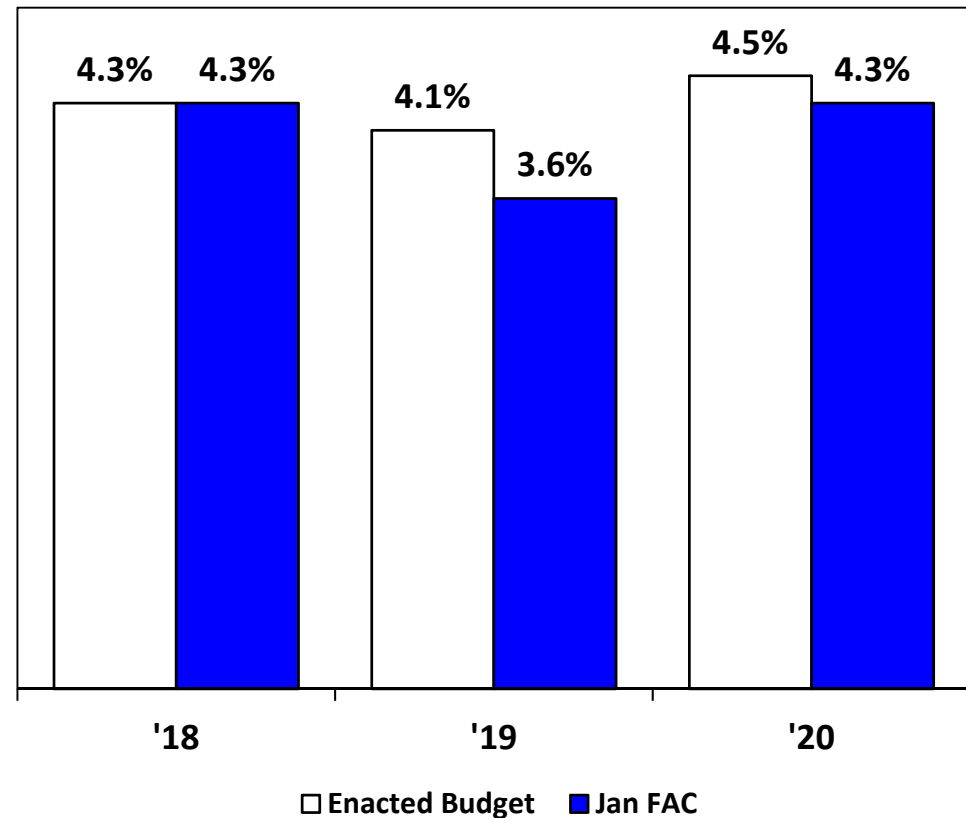
Chance of Exceeding Forecast

- 60%

Long Run Average Growth

- 4.25%

Base Revenue Growth Rate *



*Excludes one-time revenues, tax law changes, and urban revenue sharing
See Appendix B

Funding Formula Requirements

	<u>\$ in M</u>
<input type="checkbox"/> K-12	168
<ul style="list-style-type: none">• Funds 1.3% enrollment growth, 1.77% inflation and a new 1.06% teacher salary raise	
<input type="checkbox"/> Medicaid	149
<ul style="list-style-type: none">• Funds 2.0% enrollment growth, 3.5% rate increase and minimum wage adjustments	
<input type="checkbox"/> University Capital	27
<ul style="list-style-type: none">• Funds first year of 25-year commitment to support university capital projects	

Baseline Eliminates \$89 M in 1-Time Spending

- Legislative Interest in Retaining Some of These Funds?

<u>Possible Retention Candidates</u>	<u>\$ in M</u>
<input type="checkbox"/> ADE IT System	7
<input type="checkbox"/> SFB Building Grants	17
<input type="checkbox"/> Universities	15
<input type="checkbox"/> DES – DD Prop 206	12
<input type="checkbox"/> State Employer Health Insurance	25
<input type="checkbox"/> County Assistance (DJC Offset/Other)	10

How Will Federal Tax Law Changes Affect AZ?

- AZ uses income on the federal form as the starting point for our own individual and corporate income tax
- When feds change their income definition, AZ has to decide whether to conform in statute

When Are AZ and Federal Taxes Linked?

	<u>Linked</u>
<input type="checkbox"/> Tax Rates	No
<ul style="list-style-type: none">• Feds lowered both individual and corporate rates, but no AZ impact	
<input type="checkbox"/> Deductions	Yes/No
<ul style="list-style-type: none">• We do not conform to feds' standard & medical deductions• AZ currently conforms to most others• Feds have now reduced deductions, which would generate more state revenue	

Conformity Is Very Difficult to Estimate

- ❑ Federal legislation includes over 100 provisions, is very complex and is the largest revision in the tax code in 30 years
- ❑ Some provisions can be estimated using AZ-specific data
- ❑ Most provisions, however, require prorating national data
 - Some national estimates are highly speculative
 - AZ's percent share of national estimates further adds to the speculation
- ❑ JLBC Staff's conformity projection is still being developed

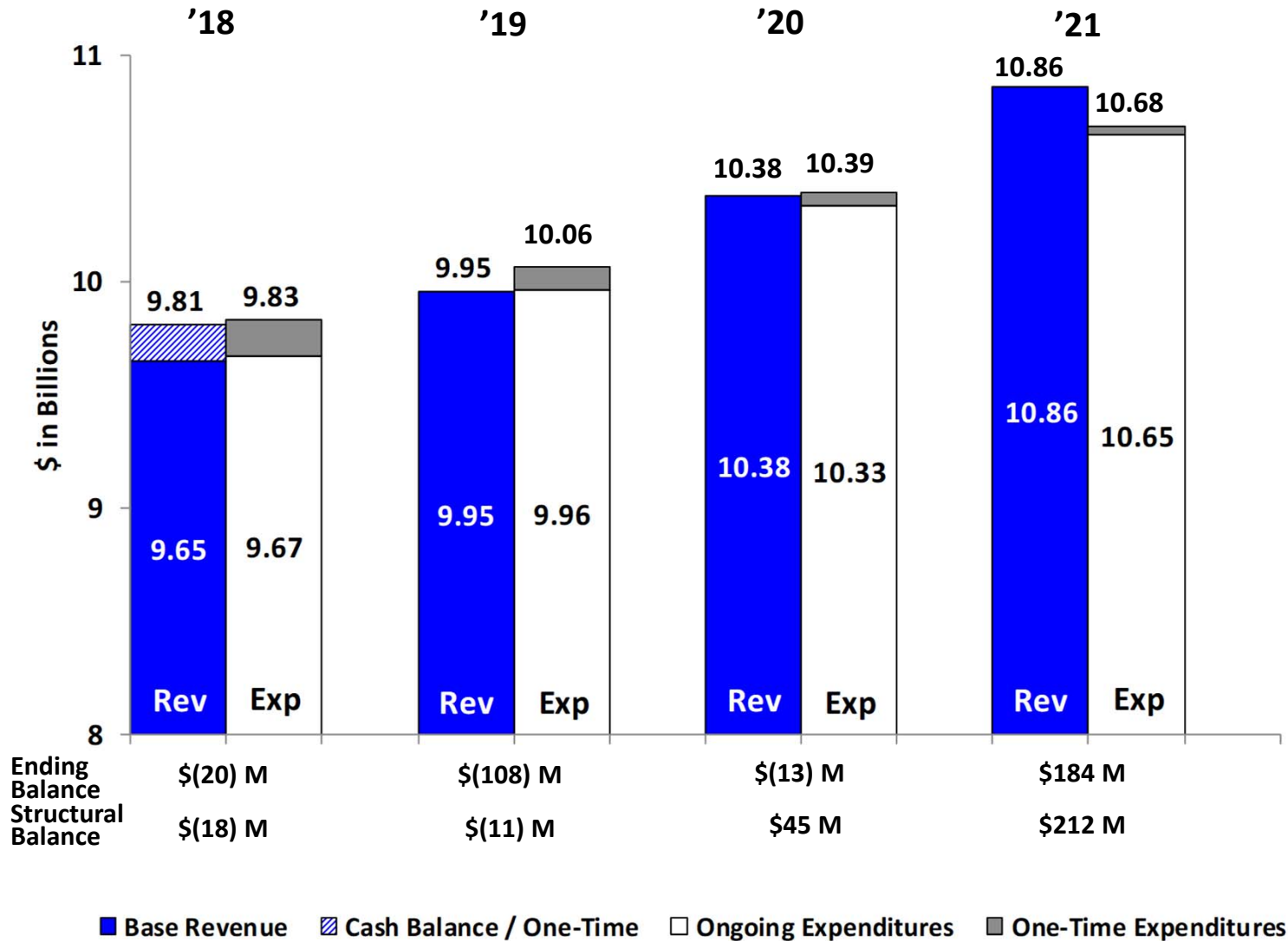
**STAFF OF THE
JOINT LEGISLATIVE BUDGET COMMITTEE**

Director..... Richard Stavneak
 Office Manager..... Linda Monsanto
 Deputy Directors..... Steve Schimpp
 Stefan Shepherd
 Assistant Director..... Jack Brown
 Chief Economist..... Hans Olofsson
 Principal Fiscal Analyst..... Jon Stall
 Senior Fiscal Analysts..... Matt Beienburg
 Steve Grunig
 Chris Gustafson
 Micaela Larkin
 Patrick Moran
 Rebecca Perrera
 Fiscal Analysts..... Sam Beres
 Morgan Dorcheus
 Henry Furtick
 Jeremy Gunderson
 Josh Hope
 Ben Murphy
 Geoffrey Paulsen
 Administrative Assistant / JLBC & JCCR Clerk..... Kristy Paddack



Appendix A: Projected '21 Balance Grows to \$212 M

- But Excludes Any Discretionary Changes in Next 3 Years



Projected cash shortfalls assumed to be solved as part of the budget process

Appendix B: January 2018 4-Sector Forecast

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Sales Tax				
JLBC Forecast	4.5%	4.2%	4.1%	4.0%
UA – Low	3.9%	1.7%	4.0%	4.8%
UA – Base	4.7%	4.8%	5.2%	4.5%
FAC	4.5%	3.9%	4.0%	4.3%
Average:	4.4%	3.7%	4.3%	4.4%
Individual Income Tax				
JLBC Forecast	5.6%	4.6%	5.3%	5.2%
UA – Low	4.2%	0.9%	4.4%	5.6%
UA – Base	6.1%	4.4%	5.4%	5.0%
FAC	4.5%	3.9%	3.7%	4.0%
Average:	5.1%	3.5%	4.7%	4.9%
Corporate Income Tax				
JLBC Forecast	4.3%	5.7%	4.2%	3.0%
UA – Low	3.9%	0.5%	2.7%	9.4%
UA – Base	4.5%	4.6%	3.6%	4.6%
FAC	-1.1%	2.5%	-1.4%	5.3%
Average:	2.9%	3.4%	2.4%	5.5%
Insurance Premium Tax				
JLBC Forecast	3.4%	4.1%	3.8%	3.8%
UA – Low	2.7%	1.3%	1.4%	1.3%
UA – Base	2.7%	1.5%	1.5%	1.8%
FAC	3.4%	3.4%	3.1%	3.3%
Average:	3.0%	2.6%	2.5%	2.6%

JLBC Weighted Average	4.9%	4.4%	4.6%	4.5%
UA Low Weighted Average	4.0%	1.3%	4.0%	5.1%
UA Base Weighted Average	5.2%	4.4%	5.1%	4.6%
FAC Consensus Weighted Average	4.2%	3.9%	3.7%	4.2%
“Big-4” Weighted Average	4.6%	3.4%	4.2%	4.5%
Consensus Weighted Average*	4.3%	3.6%	4.3%	4.5%
Adjusted Consensus Weighted Average**	3.1%	2.8%	4.2%	4.5%

* Represents ongoing revenue adjusted for small revenue categories.

** Represents ongoing revenue adjusted for tax law changes; excludes urban revenue sharing.

