
FY 2020 JLBC Baseline

with Preliminary Executive Comparison

January 22, 2019

JLBC

Three Aspects of Creating a Budget

- Manage risk in setting the forecast
- Set priorities
- Ensure both a structural and cash balance through the 3-year planning period ('20 – '22)

Key Points About Our Current Budget Status

- ❑ JLBC Baseline annually compares a consensus revenue estimate to statutory spending requirements
- ❑ Strong economic growth has substantially improved the state's fiscal condition
- ❑ The General Fund is forecast to have a structural balance of \$200+ M
- ❑ In addition, the state is expected to have a 1-time balance of \$900+ M in '20

Comparing the Executive Budget and JLBC Baseline

- Exec: Lower Caseloads, \$663 M in Discretionary Spending

<u>\$ in M</u>	
\$1,338	JLBC Baseline '20 Ending Balance
(91)	Lower Exec '20 Beginning Balance
14	Higher Exec '20 Revenues
54	Lower Exec Caseload vs. Baseline
(231)	Ongoing Spending Increases
(432)	One-Time Spending Increases
(542)	Rainy Day Fund Deposit
<u>\$109</u>	Executive '20 Ending Balance

Managing Risk in Setting the Forecast

Risk of a Recession Complicates Forecasting

- ❑ We will break record for longest economic U.S. expansion in July 2019
- ❑ Next recession? 2/3rds of 60+ economists in recent Wall Street Journal poll say by the end of CY '20
- ❑ Recession is usually result of a “shock”, not old age
- ❑ No slowing at state level: 6.9% revenue growth in '18, 6.8% so far in '19

How Does the 4-Sector Forecast Address Risk?

- Strong '19 Growth, then Below Average

January Consensus Forecast

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

Represents Net Growth

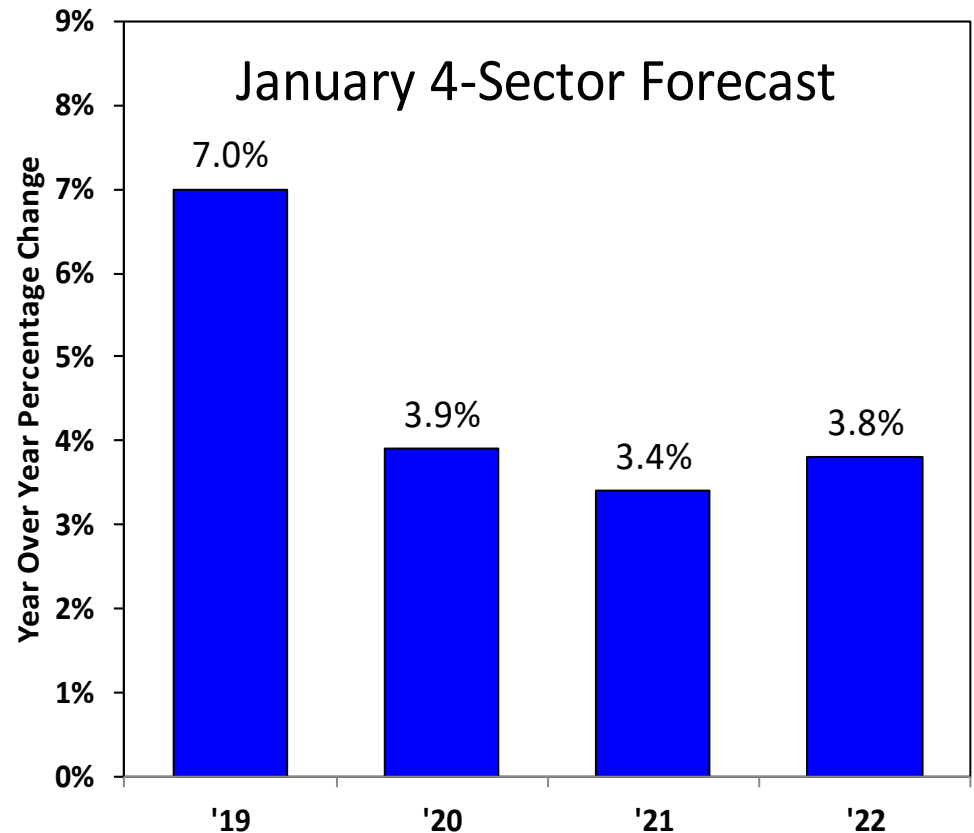
- Previously estimated gross

Chance of Exceeding Forecast

- 60%

Long Run Average Growth

- 4.0%



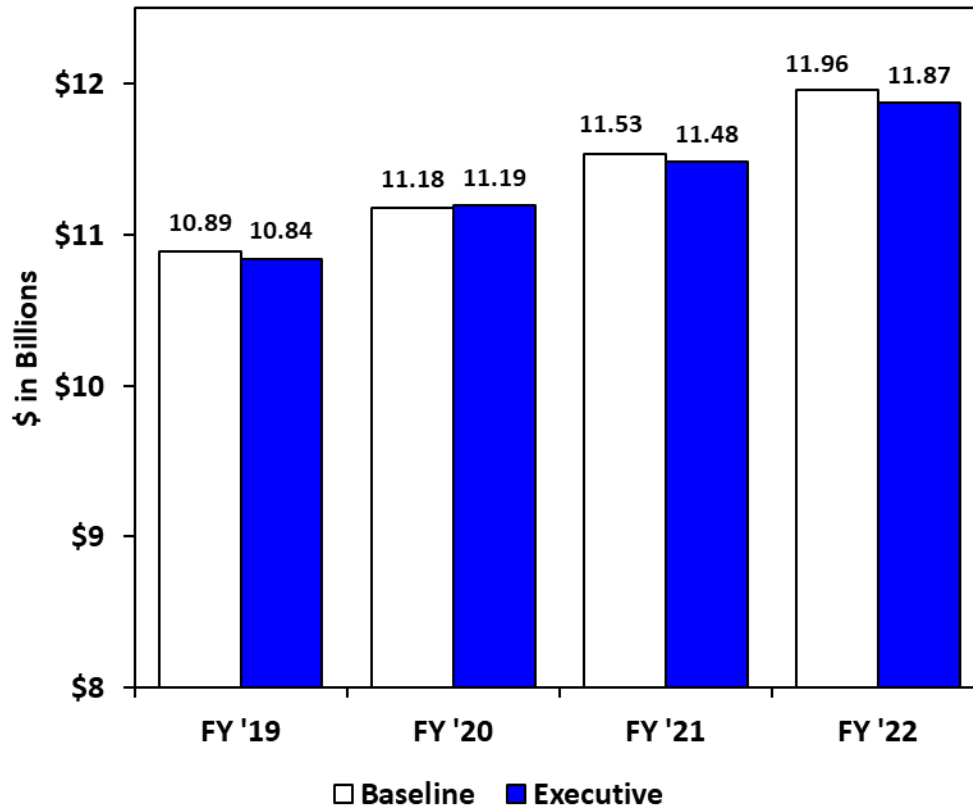
Percent change in net revenues excluding balance forward, one-time transfers and urban revenue sharing

See Appendix A

JLBC/Executive Have Comparable '20 Risk

- Executive More Cautious in '21/'22

Total Revenue*



Exec Above/(Below) JLBC

(\$ in M)

'19	(47)
'20	14
'21	(43)
'22	(88)
	<hr/>
	(164)

* Excludes Balance Forward

JLBC/Executive Revenue Exclusions

- Federal Tax Conformity
 - If we conform, state revenues increase by \$133 M to \$236 M
 - Executive supports simple conformity so their proposal has unaccounted revenue
- US Supreme Court Wayfair ruling allows states to levy TPT on online out-of-state sellers
 - If enacted, may generate \$85 M ????
- US Supreme Court sports betting ruling allows states to authorize sports betting
- Wells Fargo \$37 M Settlement

Another Aspect to Risk: Caseload Forecasting

- Executive Spends Significantly Less over 3 Years

Executive Compared to JLBC

- Lower Medicaid Caseloads
- Lower K-12 Formula
- Higher Unspent \$ Projection

Exec Above/(Below) JLBC	
	<u>(\$ in M)</u>
'20	(52)
'21	(123)
'22	<u>(249)</u>
	(425)

Setting Priorities

'20 – '22 Baseline Spending Projections

- ❑ Baseline is a starting point
- ❑ Baseline reflects changes to active statutory and other funding formulas - no discretionary additions
- ❑ Continues \$930 M in K-12 “rollover” payments
- ❑ '19 budget dedicates long-term K-12 spending increases

Projected Baseline Spending Increases by \$390 M

-Eliminates \$81 M in Recurring 1-Time Spending

'20 Ongoing Spending Changes	
	<u>\$ in M</u>
ADE – K12 Formula	430
DES – Medicaid Formula	51
AHCCCS – Medicaid Formula	32
Judiciary – Maricopa Judges	7
Sec. of State – Presidential Primary	2
Commerce Authority	(6)
DPS – Highway Fee Shift	(30)
Other	<u>(4)</u>
Total	482

'20 One-Time Spending Deletions *	
	<u>\$ in M</u>
SFB Fewer New Buildings	(2)
SFB Building Repairs (4) **	(34)
DES Prop 206 Costs (2) **	(13)
Counties (3) **	(13)
Universities (3) **	(11)
Employee Health (2) **	(10)
Other	<u>(9)</u>
Total	(92)
* As determined by '19 3-year plan	
** # of years funded	

Total Spending Changes	\$390 M
Total Spending	\$10,784
% Change	3.8%

Baseline Adds \$1.56 B to K-12 by '22

(\$ in M Above '18)

	<u>'19</u>	<u>'20</u>	<u>'21</u>	<u>'22</u>
Formula (Student Count/Inflation)	\$ 126	\$ 322	\$ 538	\$ 734
Restore Additional Assistance (Enacted)	100	168	236	304
20% Teacher Pay Plan (Enacted)	240	405	530	516
Other	<u>11</u>	<u>11</u>	<u>10</u>	<u>10</u>
Total Additional Spending	\$477	\$906	\$1,314	\$1,564
Total General Fund	\$4,705	\$5,134	\$5,542	\$5,792

\$231 M in Ongoing Executive Policy Issues

- Outside Standard Baseline Adjustments

\$ in M

85	ADE – New Initiatives
21	Universities – Teachers Academy
32	ADC – Inmate Health Care Contract
13	DES – Make Prop 206 \$ Ongoing
11	Counties – Eliminate DJC Offset
6	Commerce – Restore Grant Capacity
63	Selected State Employee Pay Raises
(11)	Sale Leaseback Debt Refinance
<u>11</u>	All Other
231	Total

K-12	<u>\$ in M</u>
Results Based	60
CTED (JTED)	10
School Safety	9
Counselors	6

\$432 M in One-Time Executive Policy Issues

- \$163 M Likely Ongoing, up from \$81 M in '19

\$ in M

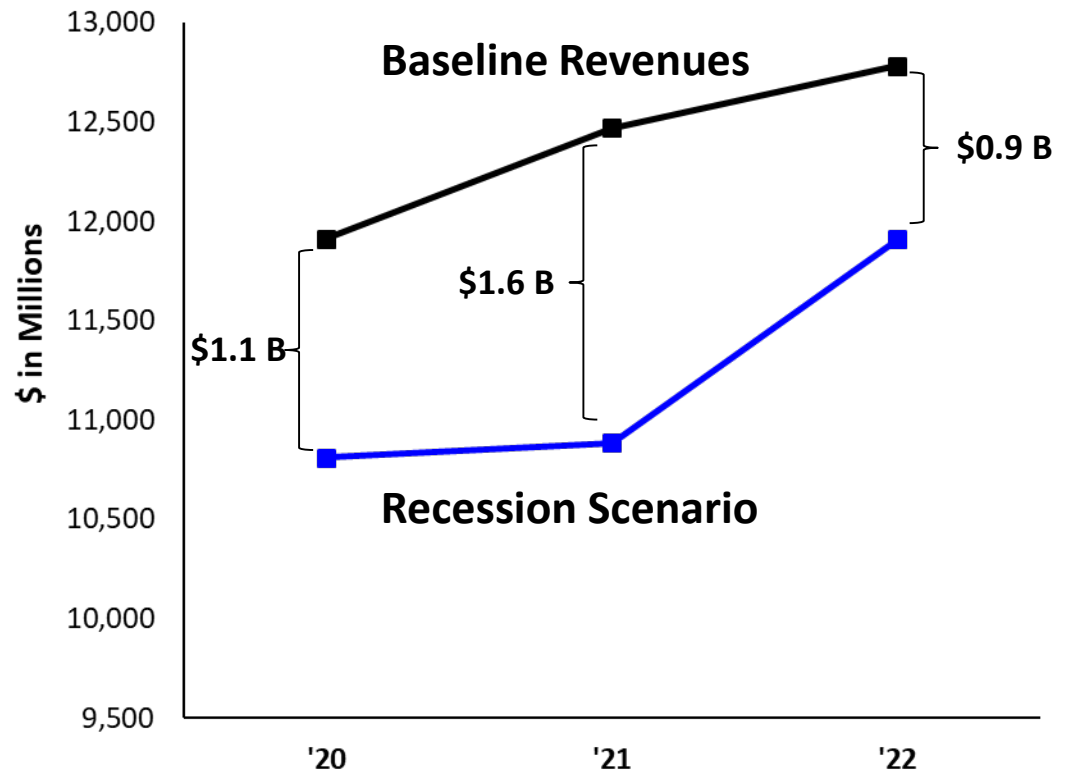
99	SFB – Fund Schools 3 Years in Advance
63	<i>SFB – Building Renewal Grants (was \$34 M)</i>
43	SFB – Fund All of FY 20 Schools in Year 1
35	<i>Universities – Operating/Capital (was \$8 M)</i>
26	Comm Colleges – Maricopa/Pima Funding
35	DWR – Drought Contingency Plan
15	DEQ – Aquifer Remediation (WQARF)
11	<i>DPS – New Officers (unless shift to HSF)</i>
5	DCS – CHILDS IT System
54	<i>State Employee Health Insurance (was \$10 M)</i>
40	ADOT Capital – I-17 Widening
<u>7</u>	All Other
432	Total

Likely Ongoing Spending Appears in Bold Italics

Executive Adds \$542 M to Rainy Day Fund

- Results in \$1 B Total Fund Balance

- ❑ If recession occurs, more likely mild than severe
- ❑ 2001 was mild, 2009 was very severe
- ❑ If repeat 2001 pattern, \$3.6 B 3-year loss
- ❑ Medicaid spending will also increase



Baseline	3.9%	3.4%	3.8%
2001 Scenario	(5.7)%	0.7%	9.4%

Highway Safety Fee Fiscal Impact

- '20 Baseline Includes \$107 M of HSF-Related Savings

General Fund Fiscal Impacts of Different Scenarios

	(\$ in M)
	<u>GF Loss</u>
<input type="checkbox"/> Eliminate Fee	(107)
<input type="checkbox"/> Reset Fee to \$18	(47)
<input type="checkbox"/> Maintain the Fee at \$32	0

- Exec uses vehicle growth to shift \$20 M GF to HSF over 4 years

	Highway Patrol (\$ in M)	# of Vehicles (in M)	Highway Safety Fee
February Fiscal Note	\$149	8.3	\$18.06
April 2018	\$183	7.4	\$24.73
November 2018	\$185	5.8	\$32.00

Ensuring a Structural and Cash Balance

'22 Balances Restrain '20 Level of Initiatives

- Excludes \$470 M Rainy Day Fund

JLBC Baseline

(\$ in M)

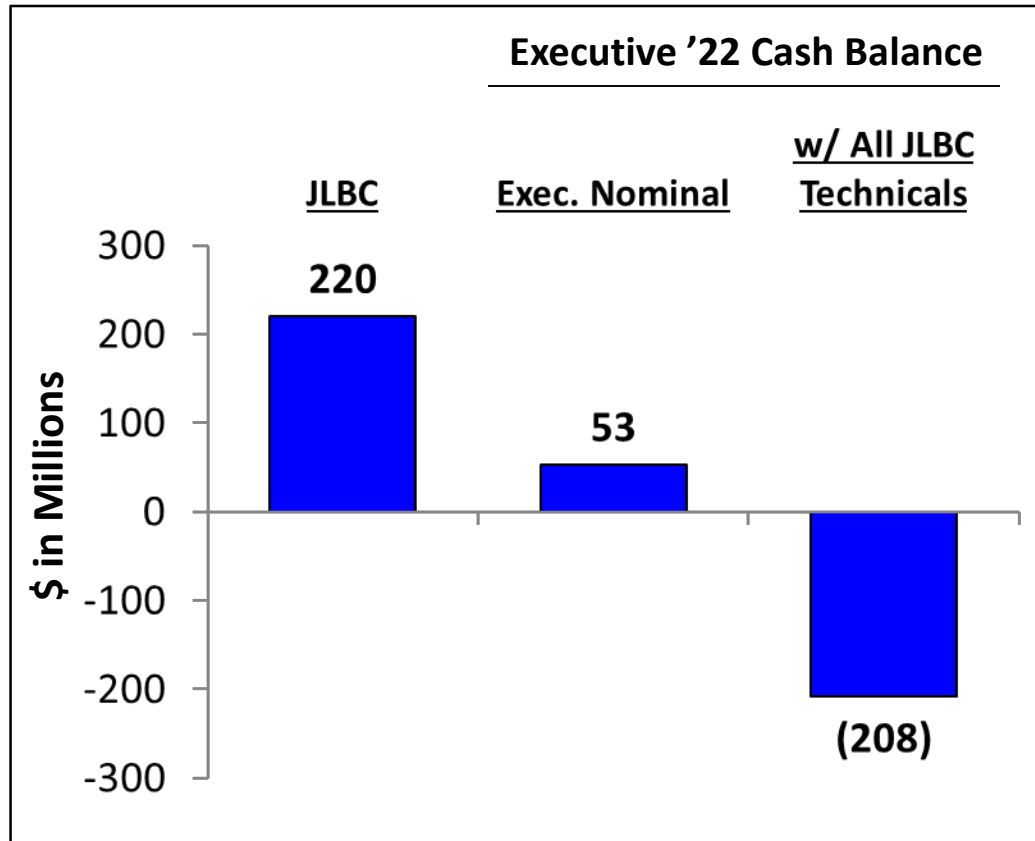
	<u>FY '20</u>	<u>FY '22</u>
Structural Balance	546	249
Cash Balance	1,338	220

- ❑ Structural balance compares ongoing revenues and spending
- ❑ Beyond '20, budget should keep '21 & '22 in balance as well
- ❑ If we permanently commit more than \$200+ M in '20, creates '22 shortfall

See Appendix B for details

What if Adjust Executive for JLBC Revenue/Caseloads?

- Causes Shortfall in '22



- ❑ JLBC Caseloads are \$425 M higher through '22
- ❑ JLBC Revenues are \$164 M higher through '22
- ❑ When combine higher revenues and more caseloads, net loss is \$(261) M
- ❑ \$53 M balance becomes \$(208) M shortfall

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
Senior Fiscal Analysts.....	Steve Grunig
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.....	Micaela Larkin
.....	Patrick Moran
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Fiscal Analysts.....	Sam Beres
.....	Elizabeth Dagle
.....	Morgan Dorcheus
.....	Henry Furtick
.....	Jeremy Gunderson
.....	Josh Hope
.....	Jordan Johnston
.....	Ben Murphy
.....	Geoffrey Paulsen
Assistant Fiscal Analyst.....	Adam Golden
Administrative Assistant / JLBC & JCCR Clerk.....	Kristy Paddack



Appendix A: January 2019 4-Sector Forecast

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Sales Tax				
JLBC Forecast	6.0%	4.7%	4.1%	3.8%
UA – Low	5.7%	2.4%	0.4%	3.2%
UA – Base	6.3%	5.1%	4.7%	4.5%
FAC	6.4%	4.9%	3.9%	4.0%
Average:	6.1%	4.3%	3.3%	3.9%
Individual Income Tax				
JLBC Forecast	5.7%	3.8%	3.6%	3.3%
UA – Low	5.9%	4.0%	1.8%	3.1%
UA – Base	6.6%	5.3%	4.9%	4.8%
FAC	8.3%	6.1%	4.2%	5.0%
Average:	6.6%	4.8%	3.6%	4.1%
Corporate Income Tax				
JLBC Forecast	25.0%	-9.8%	2.1%	2.6%
UA – Low	8.8%	1.1%	-0.6%	3.9%
UA – Base	9.1%	3.7%	2.6%	4.7%
FAC	25.8%	4.1%	1.6%	5.3%
Average:	17.2%	-0.4%	1.5%	4.2%
Insurance Premium Tax				
JLBC Forecast	0.5%	1.0%	2.0%	1.3%
UA – Low	0.1%	-0.2%	2.0%	0.6%
UA – Base	0.2%	0.3%	1.9%	1.8%
FAC	-0.1%	1.4%	1.6%	1.5%
Average:	0.2%	0.6%	1.9%	1.3%

JLBC Weighted Average	6.3%	3.5%	3.7%	3.4%
UA Low Weighted Average	5.6%	2.9%	1.1%	3.1%
UA Base Weighted Average	6.2%	4.9%	4.6%	4.5%
FAC Consensus Weighted Average	7.6%	5.2%	3.8%	4.4%
“Big-4” Weighted Average	6.4%	4.2%	3.3%	3.9%
Consensus Weighted Average*	7.0%	3.9%	3.4%	3.8%

* Represents ongoing revenue adjusted for small revenue categories.

Long Run Budget Permits \$200+ M in Ongoing Initiatives

- Assumes No Discretionary Changes

