
FY 2020 JLBC Baseline

January 18, 2019

JLBC

Three Aspects of Creating a Budget

- Manage risk in setting an economic 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

How Did We End Up With \$1 B Above Forecast

- Higher than expected revenue growth - '18 & '19 both 2% higher than budgeted

	\$ in M			
<u>Changes to '19's 3-Year Plan</u>	<u>'18</u>	<u>'19</u>	<u>'20</u>	<u>Total</u>
Higher '18 Revenue Base	212	222	231	665
Higher '19 Revenue Forecast	-	267	245	512
Revised Spending/URS	13	(5)	(35)	(27)
Total	<u>225</u>	<u>484</u>	<u>441</u>	<u>1,150</u>

Managing Risk in Setting An Economic Forecast

Risk of a Recession Complicates Forecasting

- ❑ We will break record for longest economic U.S. expansion in July 2019
- ❑ Next recession? Two-thirds of 60+ economists in recent Wall Street Journal surveys say by the end of CY '20
- ❑ But recession is usually result of a “shock”, not old age

Arizona Ranks 4th in Economic Momentum

- Up From 14th in December 2017

	<u>AZ Rate</u>	<u>AZ Rank</u>
Personal Income	4.7%	14
Population	1.7%	4
Employment	3.6%	2

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

- ❑ State revenue growth is also strong – 6.9% in '18, 6.8% year to date in '19
- ❑ Through 12/2018, revenue growth is \$200 M above the budget forecast

Strong '19 Growth, then Below Average

January Consensus Forecast

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

Represents Net Growth

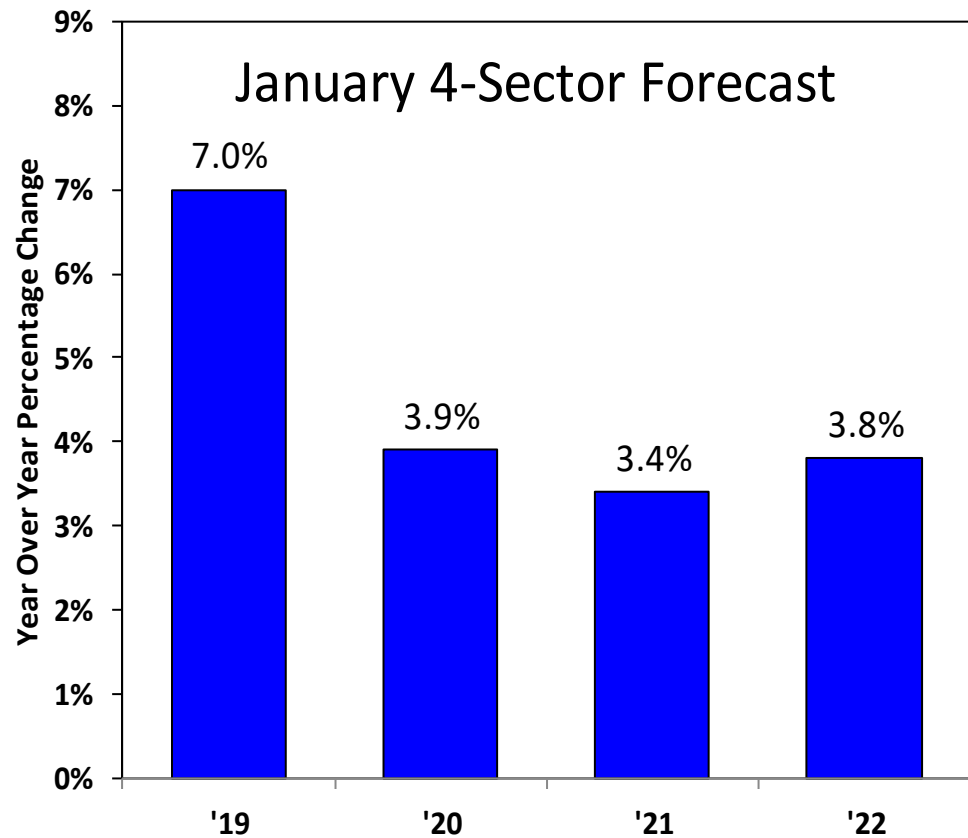
- Previously estimated gross

Chance of Exceeding Forecast

- 60%

Long Run Average Growth

- 4.0%



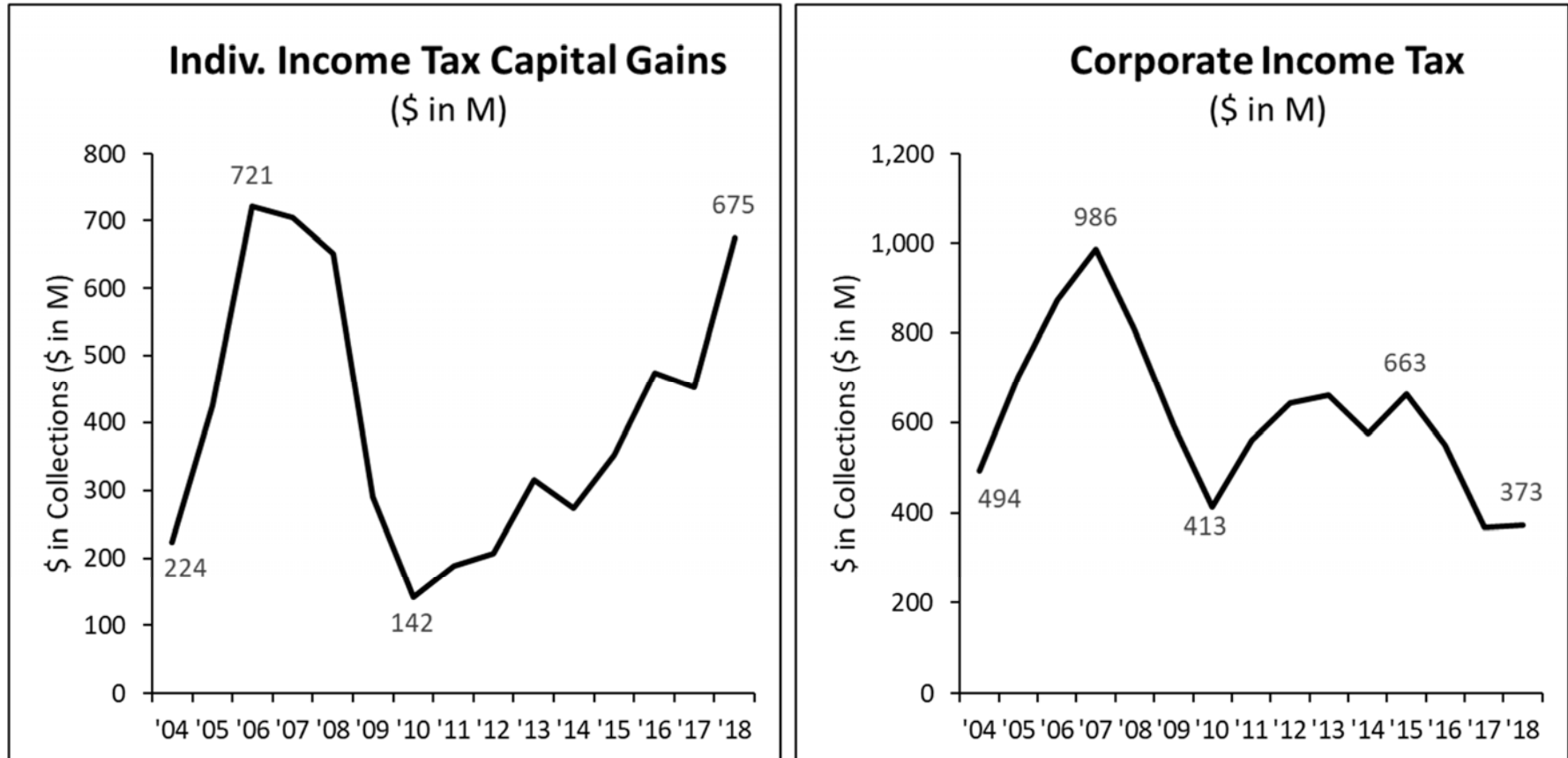
Percent change in net revenues excluding balance forward, one-time transfers and urban revenue sharing

See Appendix A



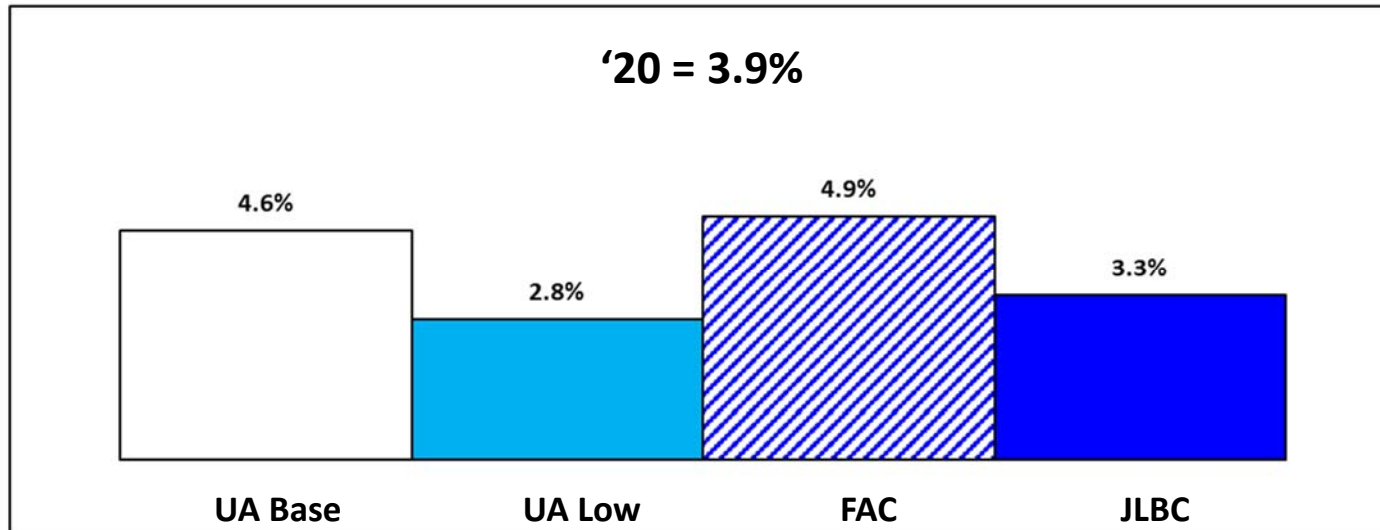
AZ Has 8th Most Volatile Revenue System *

- Over 3 Years, a 1% Error Changes Available Funds by \$725 M



* Based on Pew Foundation Report on the 50 States

How Does the 4-Sector Forecast Address Risk?



- ❑ Each sector has slower growth than the prior forecast, but no recession
- ❑ Overall growth is close to long term 4.0% average

Revenue Issues Not in Baseline

- Federal Tax Conformity
 - If we conform, state revenues increase by \$133 M to \$236 M
- 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

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

'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

Assumes 0.6-cent education sales tax pays \$14 million more of teacher pay plan cost in FY '22

Highway Safety Fee History

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

- ADOT Director determines the fee
- '20 Baseline includes \$107 M of HSF-related General Fund savings, as directed by '19 budget

Options for Allocating 1-Time Monies

- \$150 M reserved to keep '21 balanced
- Continue the \$81 M in reoccurring “1-time” ‘19 monies
 - Or shift to ongoing spending
- Budget Stabilization Fund Deposit (aka Rainy Day Fund)
- K-12 Building Repairs
- Transportation Projects
- Debt Repayment
- Buy down of \$930 M K-12 Rollover
- State Buildings
- Automation Improvements

Ensuring a Structural and Cash Balance

'22 Balances Restrain '20 Level of Initiatives

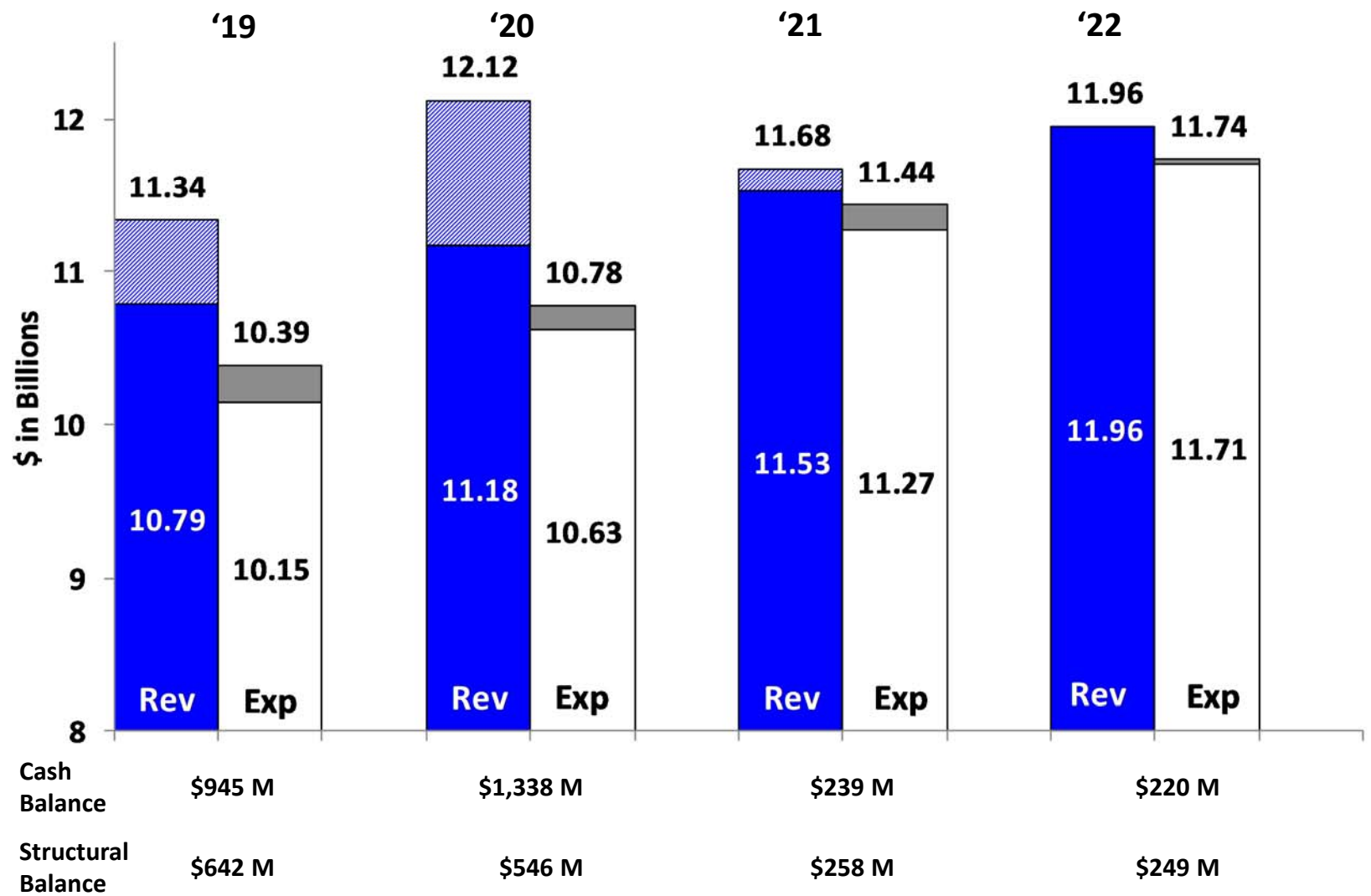
- Excludes \$470 M Rainy Day Fund

	(\$ 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

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

- Assumes No Discretionary Changes



■ Base Revenue
 ▨ Cash Balance / One-Time
 □ Ongoing Expenditures
 ■ One-Time Expenditures₂₀

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
.....	Chris Gustafson
.....	Micaela Larkin
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.....	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.				

