
FY 2022 JLBC Baseline

January 15, 2021

JLBC

Key Points

- ❑ Since the pandemic began, revenue collections have been much higher than anticipated
- ❑ Lower school enrollment and higher federal Medicaid funding have reduced state spending
- ❑ The projected '22 ending balance is \$1.6 B to \$2 B
- ❑ The lower end of the range is the 4-sector forecast while the upper end is the JLBC Staff projection

Caveats

- ❑ The revenue estimates assume no widespread business shutdowns due to COVID.
- ❑ The ongoing federal policy response will also affect budget discussions
 - The December federal aid package includes \$1.1 B in new aid for K-12 schools
- ❑ \$1.3 B to \$1.6 B of the General Fund balance is from 1-time funds and would not finance ongoing initiatives

'21 YTD General Fund Revenues Up 17.8%

- 8.6% Growth When Exclude Deferred Tax Filing

	<u>% Growth</u> <u>'21 YTD</u>	<u>+/- October</u> <u>Forecast (\$ M)</u>
Sales	11.4%	\$ 151
Individual Income	26.7	176
Corporate Income	5.8	59
Insurance Premium	10.0	27
Other	<u>12.1</u>	<u>29</u>
Overall *	17.8	\$ 442

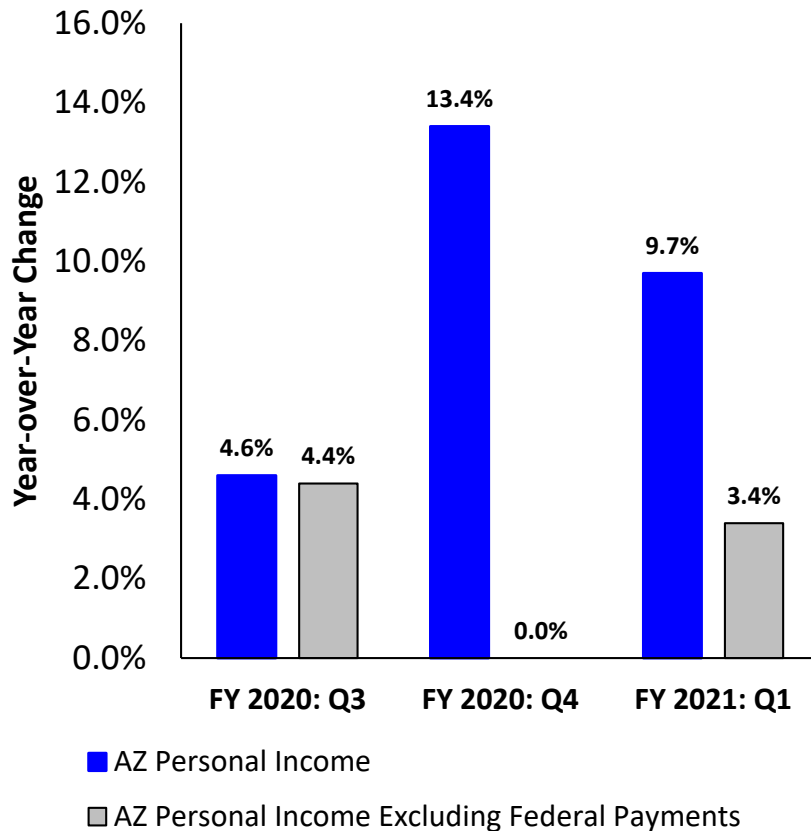
Year to Date overstated due to April '20 income tax filing being deferred to July '20

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

Why Is AZ Revenue Growth Strong?

- \$32 B in Federal CARES Act Assistance to Arizona
- Underlying State Economy Remains Healthy

Arizona Personal Income



- Personal Income twice pre-pandemic growth
- Fed aid generates TPT and income tax
- Excluding Fed \$, Personal Income growth is 75% of pre-pandemic level

AZ Received \$32 B in Direct Federal COVID Aid

- Represents Just Spring \$, not New December Package

Major Sources of Spring Direct Aid \$ in B

- Paycheck Protection/Other Business Aid 13
- Unemployment Insurance 10
- \$1,200/\$2,400 Stimulus Checks 6
- Hospitals/Health Care Providers 2

New December Aid

- Additional \$300 B nationwide of Paycheck Protection Loans/Grants
- Another 11 weeks of federally subsidized UI payments
- New \$600 per person stimulus checks below \$75k household income

TPT is a Good Proxy for Az's Economic Health

- Retail/Contracting Excellent; Restaurant/Bar/Hotels Poor

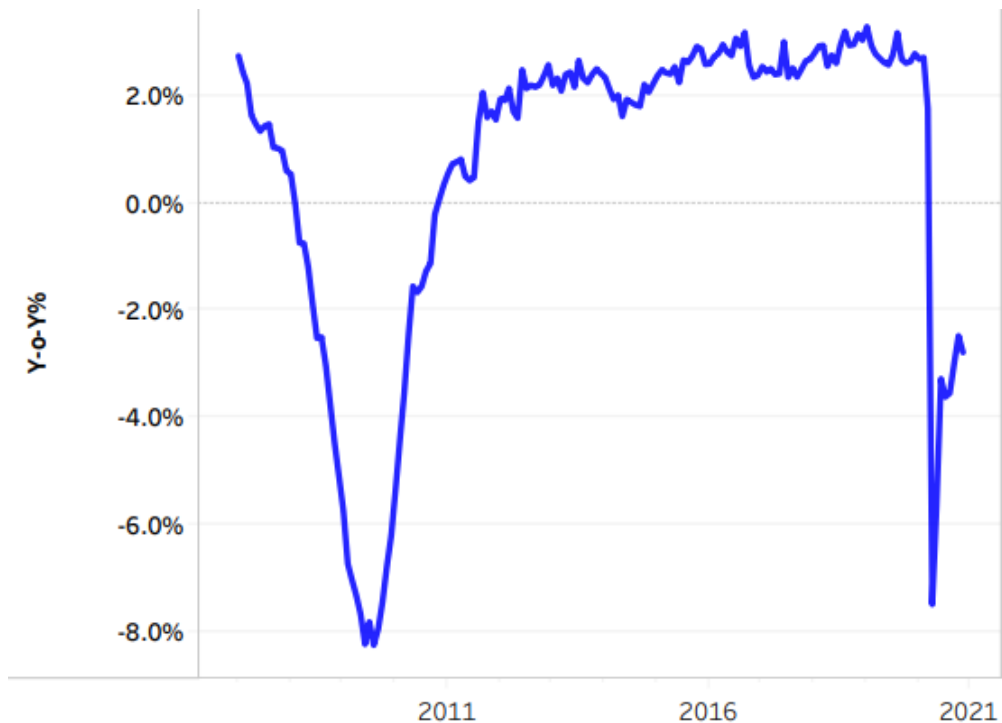
Sales Tax (TPT) % Change over Prior Year		
	4 th Qtr <u>FY 20</u>	YTD Dec <u>FY 21</u>
Retail/Remote Sales	5%	18%
Contracting	18	19
Restaurant/Bar	(32)	(11)
Lodging	(67)	(34)

- ❑ US durable goods spending up 13% in November
- ❑ US services spending down 5%

- ❑ In AZ retail, auto sales up 13%; building materials gained 35%
- ❑ Wayfair/Remote stronger than expected

AZ Employment (2.8)% Less than a Year Ago

- But Withholding Up 5.6% through December



- ❑ The COVID job crash almost as deep as Great Recession
- ❑ Recovery has been much quicker
- ❑ Job losses centered on lower paid jobs
- ❑ Resulted in less withholding impact

Forecasting State Revenues

January 4-Sector Forecast

4-Sector Components

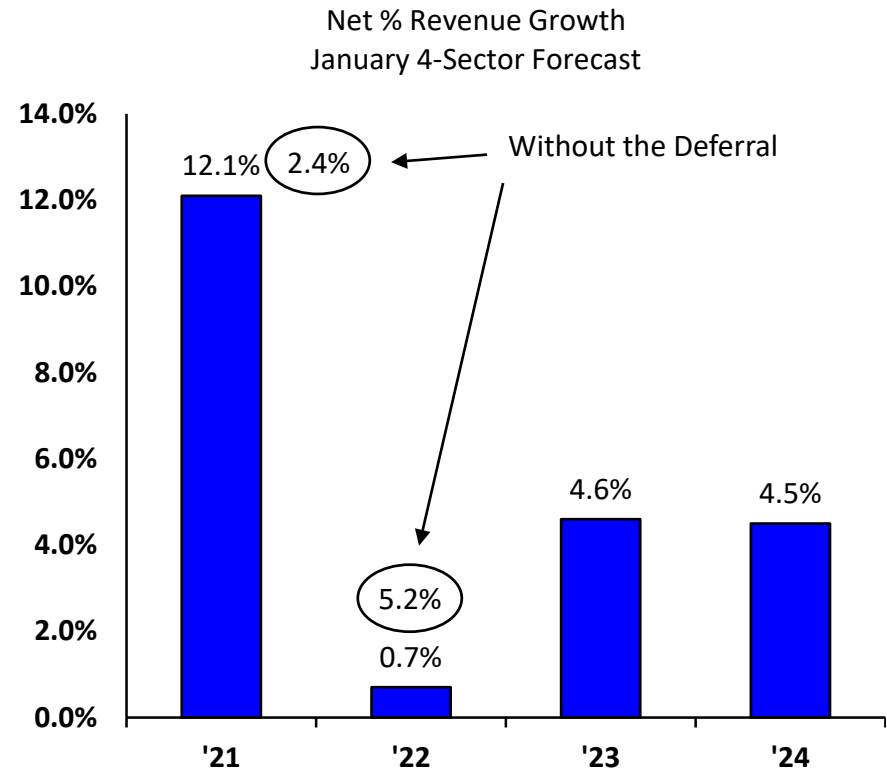
- ❑ Finance Advisory Committee
- ❑ UA model – base
- ❑ UA model – low
- ❑ JLBC Staff

Represents Net Growth

- ❑ Includes enacted law changes

Long Run Average Growth

- ❑ 4.4%

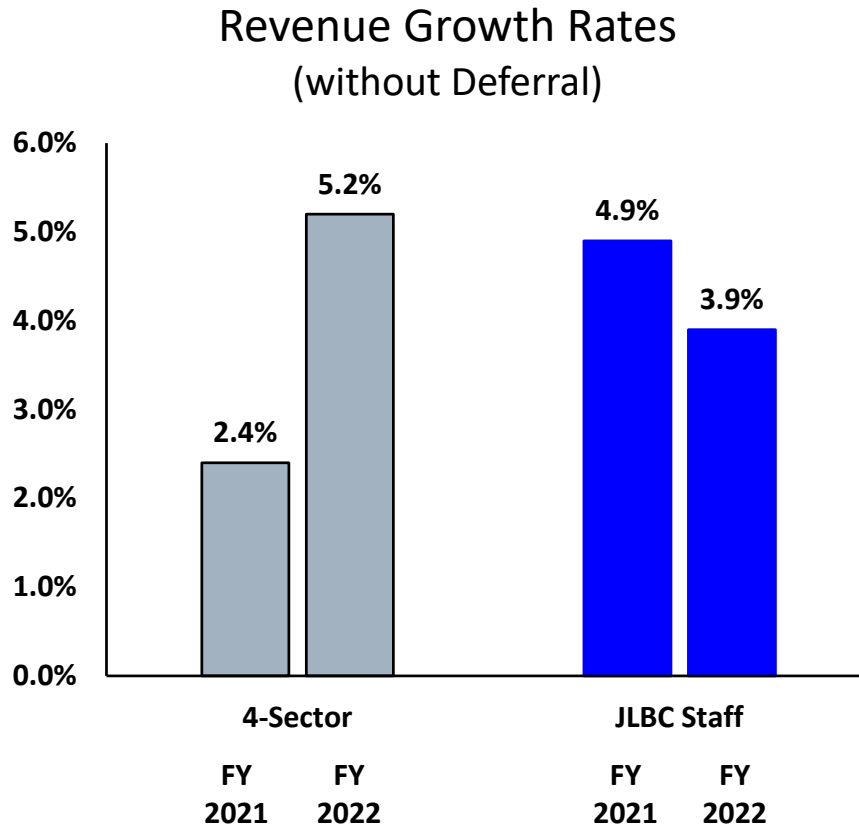


Excludes balance forward, one-time transfers and urban revenue sharing

See Appendix A

4-Sector Likely Understates '21 Growth

- Requires (3.6)% Decline in Remaining Months



- ❑ Excluding deferral, '21 YTD is 8.6%
- ❑ JLBC Sector requires 1.3% growth in remaining months thru June
- ❑ With higher '21 base, JLBC '22 growth rate lower than 4-sector
- ❑ Overall, however, '22 JLBC Sector is \$450 M higher than 4-Sector

Spending Adjustments

Baseline Spending Projected To Increase by \$602 M - Compared to Enacted '21 Budget

'22 Ongoing Spending Changes

	<u>\$ in M</u>
AHCCCS – Medicaid Formula	228
ADE – K-12 Formula	223
DPS – Highway Safety Fee Backfill	161
DES – Medicaid Formula	89
Other	<u>28</u>
Total	729

'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 27 th Payroll	(43)
SFB – Building Renewal Grants	(91)
SFB – Revised New Buildings Cost	17
State Employee Health Insurance	(22)
Other Agency Spending	(27)
ADC Capital Projects	<u>(11)</u>
Total	(127)

Total Spending Changes	\$602 M
Total Spending	\$12,306 M
% Change	5.1%

Projected Ending Balances

Excludes \$970 M in Budget Stabilization Fund

Also See Appendix B

JLBC Revenues: '21 Ending Balance is \$1.8 B

- Up from \$700 M in Enacted March Budget

Main Reasons for Growth in the '21 Balance

	<u>\$ in M</u>
<input type="checkbox"/> Smaller '20 Carryforward	(190)
<input type="checkbox"/> Higher Revenue	600*
<input type="checkbox"/> K-12 Savings from Lower Enrollment	300
<input type="checkbox"/> Fed Medicaid Match Rate Savings	300

* Almost entirely due to deferral of April '20 income tax to July '20. After adjusting for that factor, current '21 revenue forecast is comparable to March budget.

Projected '22 Balance of \$1.6 B to \$2.0 B

- ❑ Lower end of range is 4-Sector forecast while upper end is JLBC Staff forecast
- ❑ Expenditure estimates the same in both scenarios
- ❑ Balance is primarily 1-time in nature
- ❑ Under 3-year forecast, we have capacity for \$300 M to \$400 M in ongoing initiatives

K-12 Funding Issues

- General Fund Enrollment Savings, More Federal Dollars

- ❑ Baseline reflects lower '21 enrollment counts, generating \$300 M in General Fund savings
 - Districts down (5)%, charters up 5%
- ❑ Baseline excludes 95% distance learning factor which will not be finalized until the spring – could save another \$200 M
- ❑ New December federal law provides \$1.03 B to AZ schools, distributed by Title I student counts
- ❑ ADE also has another \$109 M to distribute at their discretion
- ❑ Governor has another \$31 M to distribute to any K-12 or higher education entity + \$54 M for private K-12 schools

K-12 Aggregate Expenditure Limit

- ❑ Constitution limits district budgets to 1980 spending + 10%, adjusted for population and inflation
 - Mostly Basic State Aid
 - Excludes federal funds, bonds, overrides
- ❑ Districts exceeded limit by \$138 M in '21
- ❑ If districts redo their '21 budgets, we will probably fall below limit
- ❑ Legislature can override by 3/1/21 with 2/3rds vote

Appendix A: Revenue Forecasts

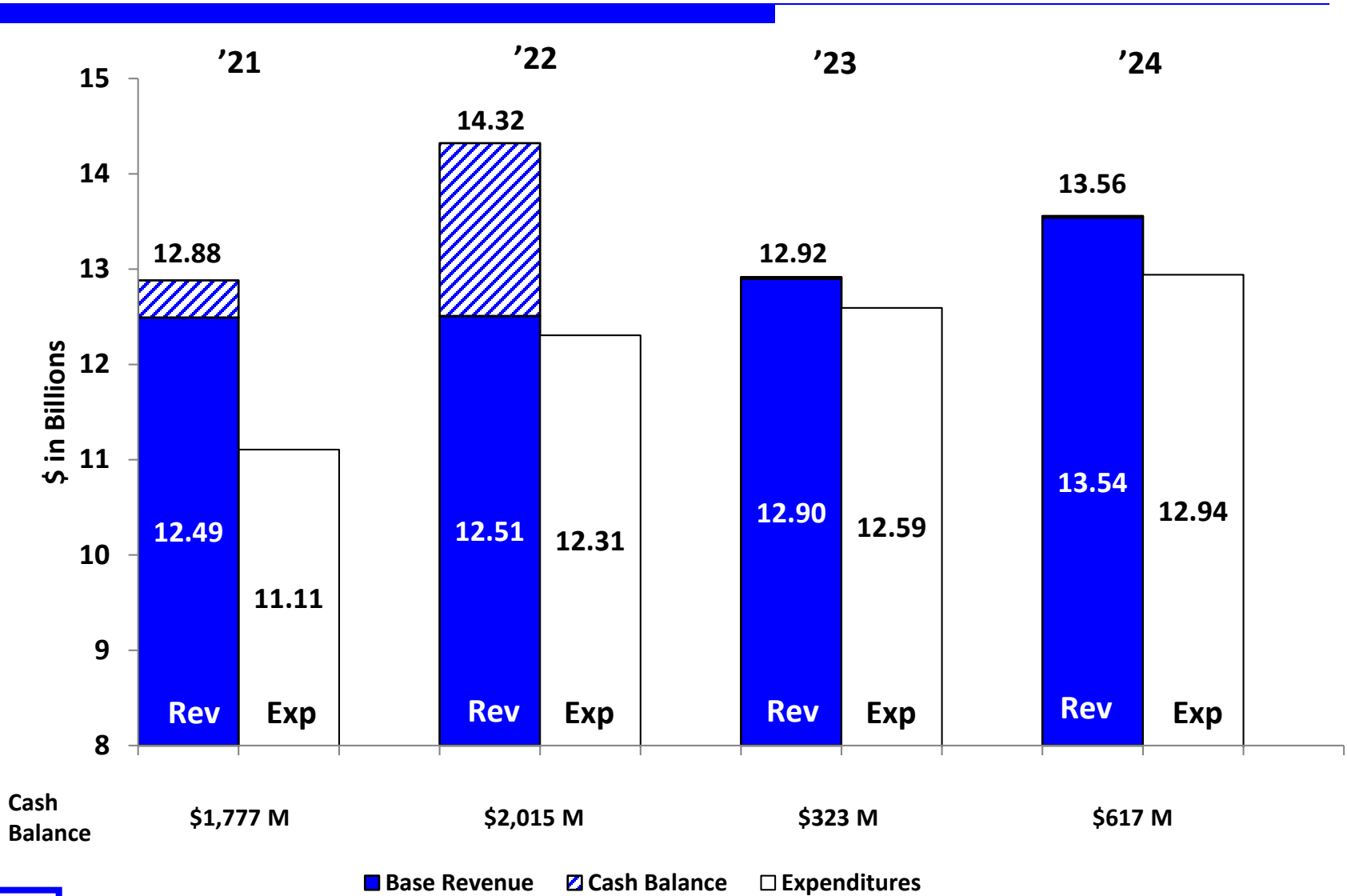
	<u>2021</u> *	<u>2022</u>	<u>2023</u>	<u>2024</u>
Sales Tax				
JLBC Forecast	8.1%	4.0%	4.4%	4.2%
UA – Low	4.8%	2.6%	4.4%	4.2%
UA – Base	8.2%	5.0%	5.5%	5.5%
FAC	6.6%	5.8%	4.5%	5.1%
Average:	6.9%	4.4%	4.7%	4.8%
Individual Income Tax with Deferral				
JLBC Forecast	27.5%	-4.5%	4.9%	4.9%
UA – Low	21.1%	-4.6%	4.0%	3.3%
UA – Base	23.4%	-2.0%	5.3%	4.6%
FAC	19.0%	1.3%	5.9%	5.5%
Average:	22.7%	-2.5%	5.0%	4.6%
Corporate Income Tax				
JLBC Forecast	6.9%	-2.5%	5.0%	4.7%
UA – Low	-2.1%	-2.1%	3.6%	5.6%
UA – Base	2.2%	-0.8%	5.7%	7.4%
FAC	7.0%	1.6%	6.5%	5.2%
Average:	3.5%	-0.9%	5.2%	5.7%
Insurance Premium Tax				
JLBC Forecast	2.0%	2.8%	3.5%	3.2%
UA – Low	0.9%	4.5%	4.1%	2.2%
UA – Base	1.0%	4.6%	5.0%	3.2%
FAC	1.5%	2.2%	2.6%	3.0%
Average:	1.3%	3.5%	3.8%	2.9%

JLBC Weighted Average	15.8%	-0.2%	4.6%	4.5%
UA Low Weighted Average	11.0%	-0.8%	4.2%	3.8%
UA Base Weighted Average	13.8%	1.6%	5.4%	5.1%
FAC Consensus Weighted Average	11.5%	3.5%	5.1%	5.2%
“Big-4” Weighted Average	13.0%	1.0%	4.8%	4.6%
Consensus Weighted Average*	12.1%	0.7%	4.6%	4.5%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: '21 - '24 Revenue vs. Spending

- JLBC Staff Sector Revenue Forecast



STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE

Director.....	Richard Stavneak
Office Manager.....	Linda Monsanto
Deputy Directors.....	Stefan Shepherd
.....	Jack Brown
Chief Economist.....	Hans Olofsson
Senior Consultant.....	Micaela Larkin
Principal Fiscal Analysts.....	Patrick Moran
.....	Rebecca Perrera
Senior Fiscal Analysts.....	Morgan Dorcheus
.....	Henry Furtick
.....	Steve Grunig
.....	Jeremy Gunderson
.....	Geoffrey Paulsen
Economists.....	David Hoffer
.....	Molly Murphy
.....	Ben Newcomb
Fiscal Analysts.....	Lydia Chew
.....	Ryan Fleischman
.....	Jordan Johnston
.....	Lauren Jorgensen
.....	Nicole Lovato
.....	Alexis Pagel
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Senior Administrative Assistant / JLBC & JCCR Clerk.....	Kristy Paddack

