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# **FY 2022 JLBC Baseline**

## **Comparisons with Executive 1/15 Budget & Executive 1/20 Revisions**

**January 26, 2021**

**JLBC**

# Key Points of JLBC Baseline

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- ❑ 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

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- ❑ 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 17.9%

## - 8.7% Growth When Exclude Deferred Tax Filing

	<u>% Growth</u> <u>'21 YTD</u>	<u>+/- October</u> <u>Forecast (\$ M)</u>
Sales	11.5%	\$ 154
Individual Income	26.7	176
Corporate Income	5.8	59
Insurance Premium	10.0	27
Other	12.1	29
Overall *	17.9	\$ 445

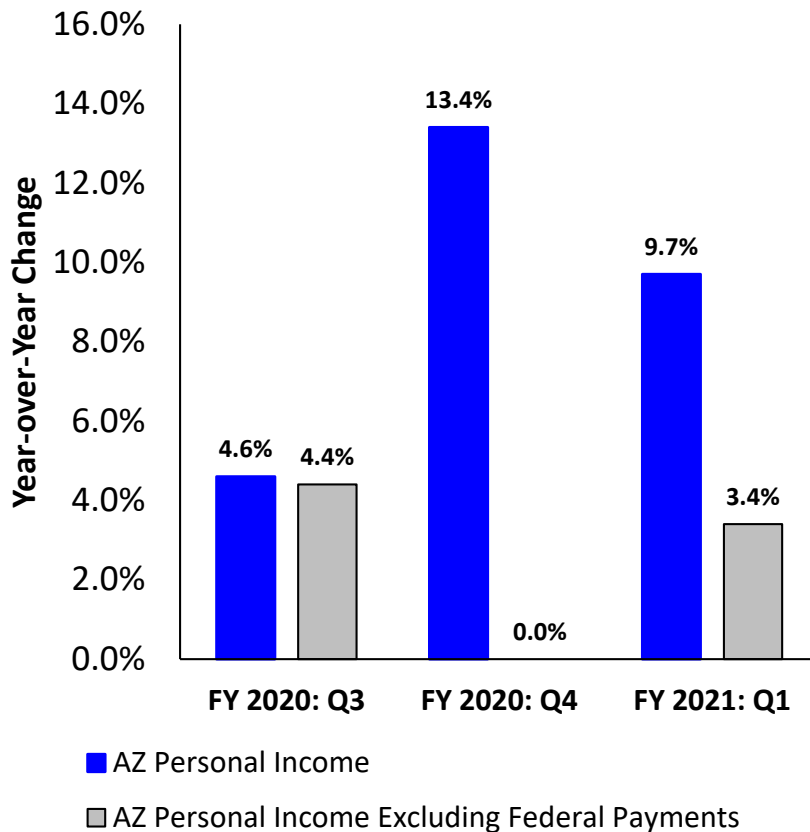
Year to Date overstated due to April '20 income tax filing being deferred to July '20

\* 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 Direct 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

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<u>Major Sources of Spring Direct Aid</u>	<u>\$ in B</u>
<input type="checkbox"/> Paycheck Protection/Other Business Aid	13
<input type="checkbox"/> Unemployment Insurance	10
<input type="checkbox"/> \$1,200/\$2,400 Stimulus Checks	6
<input type="checkbox"/> 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

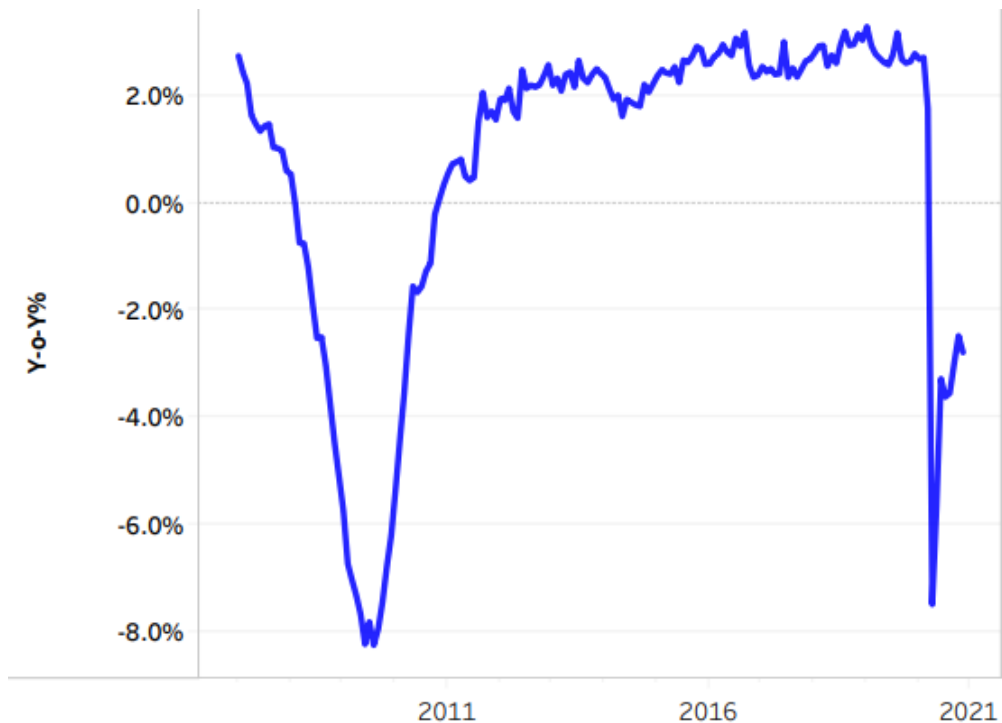
## - Retail/Contracting Excellent; Restaurant/Bar/Hotels Poor

Sales Tax (TPT) % Change over Prior Year		
	4 <sup>th</sup> 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 22%
- ❑ Wayfair/Remote stronger than expected

# AZ Employment (2.7)% 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



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# Forecasting State Revenues

# 4-Sector vs. JLBC Sector Forecasts

## - 4-Sector Likely Understates Current Year Growth

### 4-Sector Components

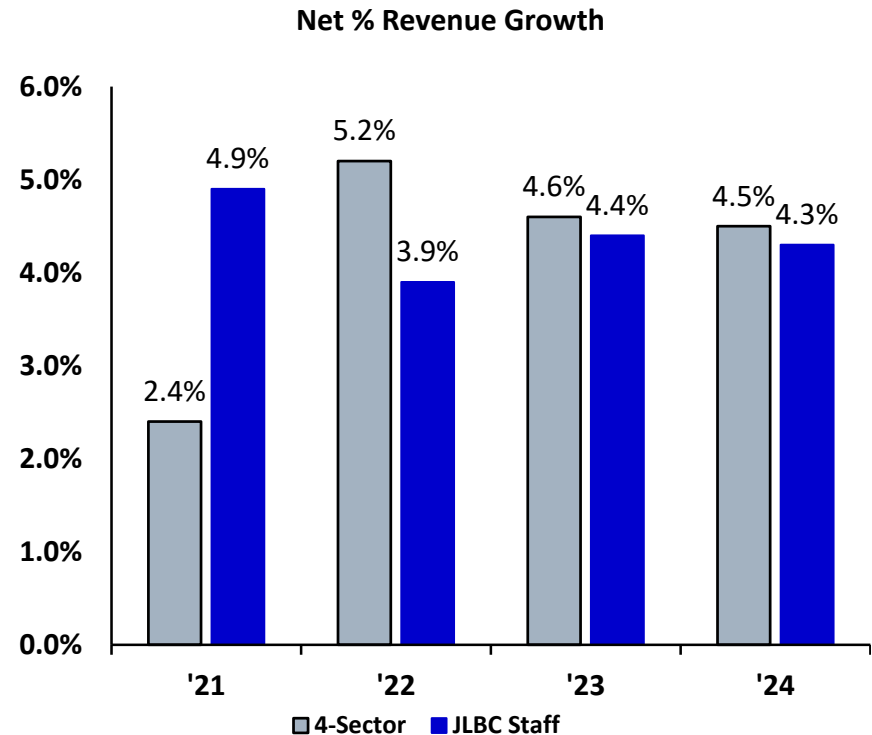
- ❑ Finance Advisory Committee
- ❑ UA model – base
- ❑ UA model – low
- ❑ JLBC Staff

### Year to Date Growth

- ❑ 8.7%

### Income Tax Deferral

- ❑ %'s adjusted to remove effect of 7/20 income tax deferral

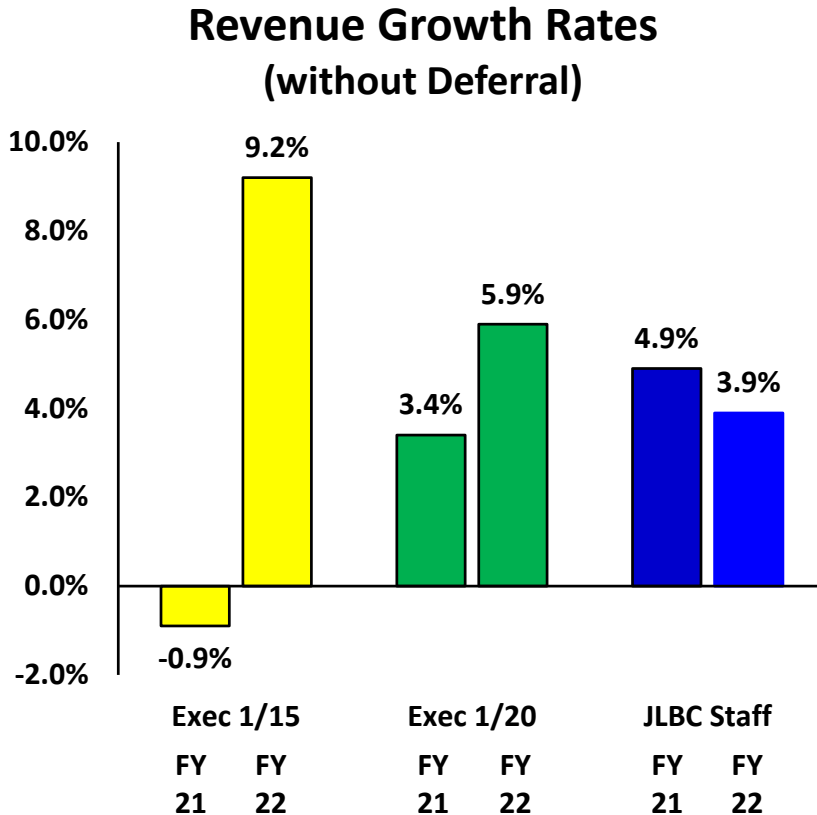


Excludes balance forward, one-time transfers and urban revenue sharing

See Appendix A

# Executive Understates '21 Growth

- But 1/20 Revisions Closer than Original 1/15 Budget

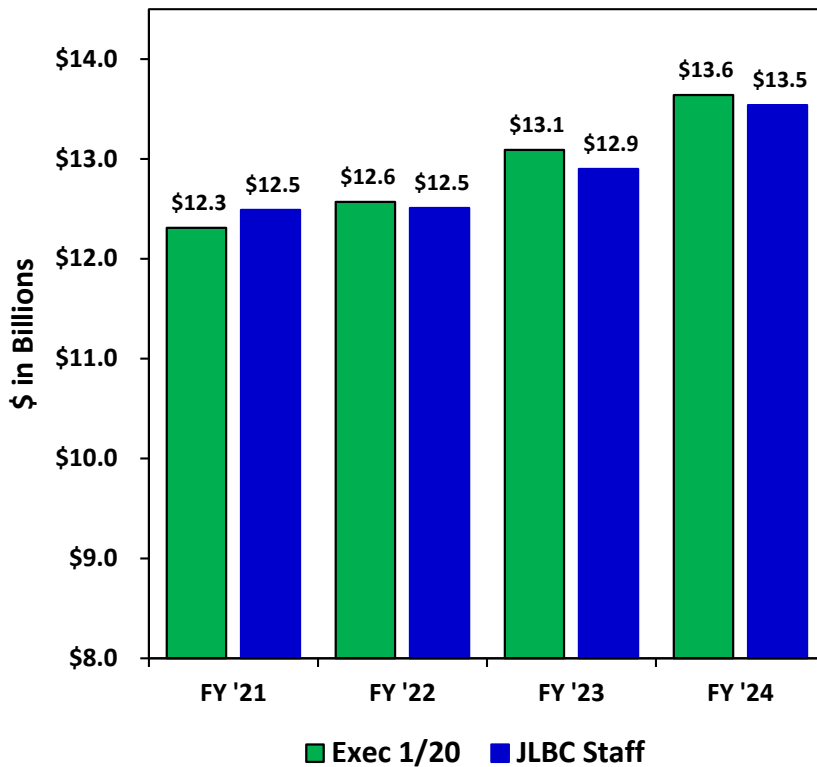


- ❑ JLBC Sector requires 1.2% growth in remaining months
  - Even JLBC is likely low; expect gains above weak Spring '20 TPT base
- ❑ Exec 1/15 required (10)% decline thru June
- ❑ Exec 1/20 still requires (1.7)% decline through June
- ❑ Exec 1/20 adds \$530 M to '21

# Revenues Prior to Policy Changes

- JLBC \$180 M Higher in '21, Exec \$368 M Higher in '22 - '24

Net Ongoing Revenue  
Prior to Policy Changes\*



\*Excludes Balance Forward

## Executive Policy Changes

- \$200 M/\$400 M/\$600 M unspecified '22 - '24 tax cuts
- \$74 M IRS Conformity
  - No conformity on \$473 M of business loss provisions
- Keno/Sports Gaming revenues unspecified

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# Spending Adjustments

**JLBC – funding formula adjustments plus removing '21 \$ designated as 1-time in last year's budget**

**Executive – same concept plus discretionary changes**

# '21 Formulas Significantly Below Budget

## - K-12 and Medicaid

	FY 21 Savings (\$ in M)	
	<u>Exec</u>	<u>JLBC</u>
<input type="checkbox"/> Lower School Enrollment	(389)	(301)
– Savings could reach \$500 M		
– Exec moves \$ to lower income pupils		
– \$500 per FRPL costs \$298 M 1-time		
<input type="checkbox"/> Higher Fed Medicaid Match	(264)	(298)
– In place thru 3/21 (but feds extending)		
– A 1-yr extension yields \$500 M more savings		

# '22 JLBC Baseline Spending Increases by \$602 M

## - Compared to Enacted '21 Budget

### '22 Ongoing Spending Changes

\$ in M

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

### '22 One-Time Spending Additions/Deletions

\$ in M

Reduce K-12 Rollover (Enacted)	30
University 27 <sup>th</sup> Payroll (Enacted)	20
FY 21 State Agency 27 <sup>th</sup> 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>
<b>Total</b>	<b>(127)</b>

<b>Total Spending Changes</b>	<b>\$602 M</b>
<b>Total Spending</b>	<b>\$12,306 M</b>
<b>% Change</b>	<b>5.1%</b>

# K-12 Aggregate Expenditure Limit

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- ❑ Constitution limits K-12 \$ growth to population and inflation, excludes federal funds, bonds, overrides
- ❑ Districts exceeded limit by \$138 M in '21, which will require proportionate reduction
- ❑ If districts redo their '21 budgets, we will probably fall below limit
- ❑ Legislature can override by 3/1/21 with 2/3rds vote
- ❑ JLBC Baseline does not reflect '21 AEL reduction



# Primary Baseline Difference is K-12

## - Between Executive and JLBC Estimates


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- ❑ Over '22 - '24, Exec 1/15 K12 formula spending was originally \$(568) M less than JLBC
  - Of the \$(568) M, \$(271) M was an error
- ❑ 1/20 revisions fixed that error; Exec still \$(297) M below JLBC
  - \$(43) M in '22, \$(97) M in '23 & \$(157) M in '24
- ❑ Difference due to Executive's lower enrollment growth and higher property tax estimates

# \$407 M in Ongoing Executive Policy Issues

## - Outside Standard Baseline Adjustments

\$ in M

200	Tax Cuts (\$400 M '23; \$600 M '24)
26	ADE/State Board 
35	Universities
18	ADC Florence Closure/Private Beds
19	ADC Fire Crews/Forestry grants
14	DPS Overtime/Body Cameras
25	DCS Group Homes
20	DES DD Eligibility Expansion
13	Retirement Employer Rate Increases
37	All Other
<b>407</b>	<b>Total</b>

**'22 K12 Initiatives**

	<u>\$ in M</u>
Transportation Grants	10
Early Literacy	7
College Prep	4
Innovation Grants	3
Teaching Support	1
Other	1

# \$363 M in One-Time Executive Policy Issues

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\$ in M

74	Partial Internal Revenue Code Conformity
142	SFB School Repairs (6 <sup>th</sup> yr): \$39M in '21/\$103M in '22
33	ADOT I-40 W Broadband
10	Commerce – Rural Broadband
48	ADC Building Repairs
15	ADOA Building Repairs/Demolition
14	State Employee Health Insurance (5 <sup>th</sup> year)
<u>27</u>	All Other
<b>363</b>	<b>Total</b>

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# **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

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### 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.

# JLBC: Projected '22 Balance up to \$2.0 B

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- ❑ Of the \$2 B, \$400 M available for ongoing and \$1.6 B for 1-time initiatives
- ❑ Executive 1/15 plan had a projected '22 balance of \$219 M
- ❑ Due to their 1/20 revenue revisions, their new projected '22 balance is \$923 M
  - Exec has not released a plan for these monies; only available for 1-time purposes

# Projected '23-'24 “Structural” Balance Estimates

## - Ongoing Revenues vs Ongoing Spending

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	(\$ in M)	
	<u>'23</u>	<u>'24</u>
Executive 1/15	58	44
Executive 1/20	6	7
JLBC Baseline	353	638

- 1% annual forecast error changes balance by \$750 M
- JLBC is prior to any discretionary changes
- Given small structural balance, Exec budget does not leave capacity for other ongoing initiatives

# Appendix A: Revenue Forecasts with Deferral

	<u>2021</u> *	<u>2022</u>	<u>2023</u>	<u>2024</u>
<b>Sales Tax</b>				
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:	<b>6.9%</b>	<b>4.4%</b>	<b>4.7%</b>	<b>4.8%</b>
<b>Individual Income Tax with Deferral</b>				
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:	<b>22.7%</b>	<b>-2.5%</b>	<b>5.0%</b>	<b>4.6%</b>
<b>Corporate Income Tax</b>				
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:	<b>3.5%</b>	<b>-0.9%</b>	<b>5.2%</b>	<b>5.7%</b>
<b>Insurance Premium Tax</b>				
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:	<b>1.3%</b>	<b>3.5%</b>	<b>3.8%</b>	<b>2.9%</b>

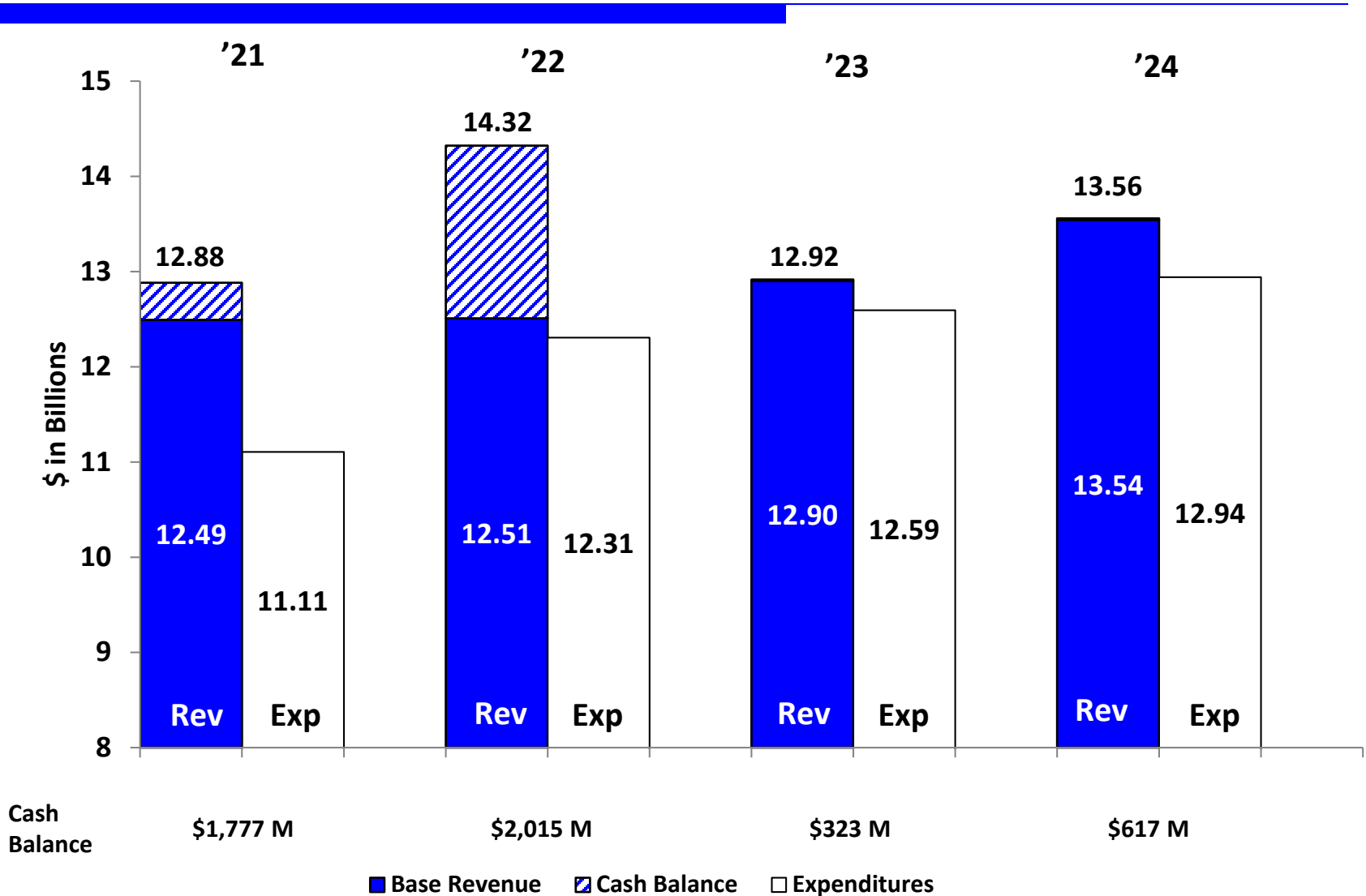
JLBC Weighted Average	<b>15.8%</b>	<b>-0.2%</b>	<b>4.6%</b>	<b>4.5%</b>
UA Low Weighted Average	<b>11.0%</b>	<b>-0.8%</b>	<b>4.2%</b>	<b>3.8%</b>
UA Base Weighted Average	<b>13.8%</b>	<b>1.6%</b>	<b>5.4%</b>	<b>5.1%</b>
FAC Consensus Weighted Average	<b>11.5%</b>	<b>3.5%</b>	<b>5.1%</b>	<b>5.2%</b>
“Big-4”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

\* 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
.....	Maggie Rocker
Senior Administrative Assistant / JLBC & JCCR Clerk.....	Kristy Paddack