
Finance Advisory Committee

Revenue and Budget Update

January 23, 2020

JLBC

Three Aspects of Creating a Budget

- Manage risk in developing the Baseline revenue and spending forecast
- Maintain ongoing and cash balances through the 3-year planning period ('21 – '23)
- Set revenue and spending priorities

Key Points

- ❑ Compared to budgeted rates, '19 General Fund revenues grew faster than expected. Trend has continued in '20.
- ❑ These gains will result in newly available funding in the '21 budget process
- ❑ Revenue growth is projected to moderate substantially between '21 and '23

Available Funding

- ❑ After formula spending, we expect \$300 M in available ongoing monies in '21
- ❑ The level of available one-time funds is \$685 M
- ❑ The Baseline backs out over \$100 M in “recurring” one-time '20 spending

The Revenue Forecast

Main Assumptions

- ❑ Arizona economy still performing well
 - 10.2% in '19 revenue growth; 9.6% in '20 year to date

- ❑ The forecast has no recession through '23
 - Recessions are hard to predict; usually due to “shock”

- ❑ “Ongoing” revenues likely include 1-time corporate income tax collections and capital gains
 - Since difficult to quantify, use caution in outyear forecast

'20 YTD: 9.6% Growth/\$346 M Above Forecast

- '19 Was \$248 M Above Budget

	<u>% Growth Above Prior Year</u>		<u>'20 +/- Forecast (\$ M)</u>
	<u>'19 Actual</u>	<u>'20 YTD</u>	
Sales	6.5%	7.1%	\$ 78
Individual Income	10.2	10.4	100
Corporate Income	37.9	22.4	110
Insurance Premium	7.9	4.5	31
Other	<u>26.4</u>	<u>23.6</u>	<u>27</u>
Overall *	10.2%	9.6%	\$ 346

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

Arizona Ranks 3rd in Economic Momentum

- Recession Concerns Easing

	<u>AZ Rate</u>	<u>AZ Rank</u>
Personal Income	5.4%	7
Population	1.7%	3
Employment	2.4%	7

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

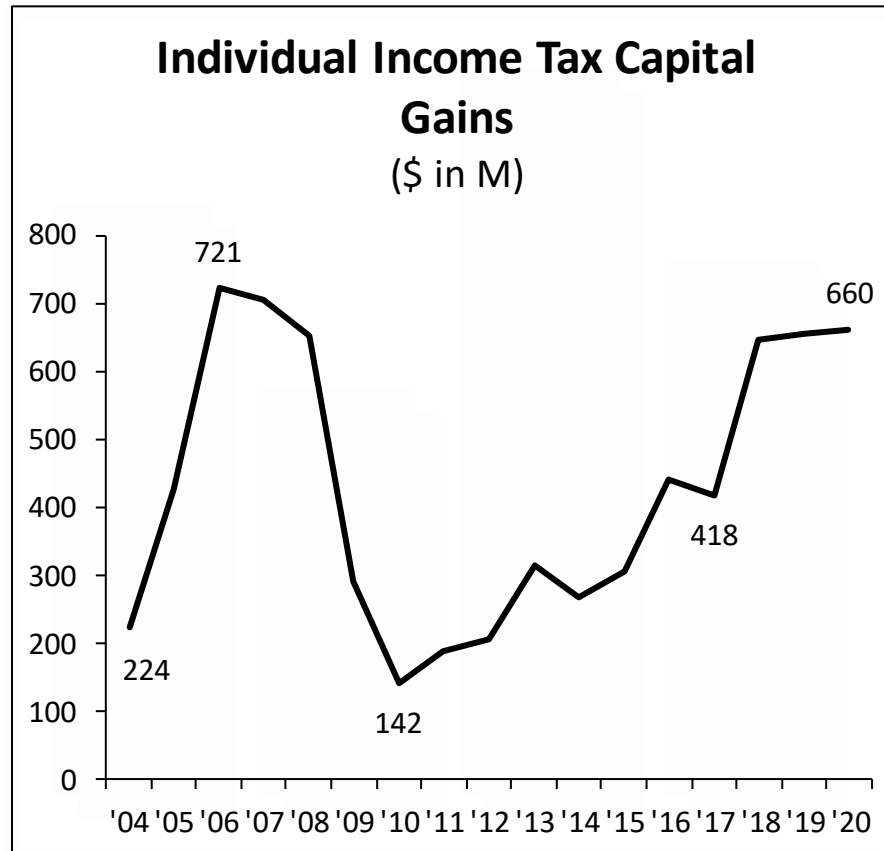
January Wall Street Journal Survey of Economists

% Predicting Recession By End of CY 2021 45%

– down from 77% in September

Ongoing Revenues May Include 1-Time Monies

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



AZ Has 8th Most Volatile Revenue System
Based on Pew Foundation Report on the 50 States

How Does the 4-Sector Forecast Address Risk?

January Consensus Forecast

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

Represents Net Growth

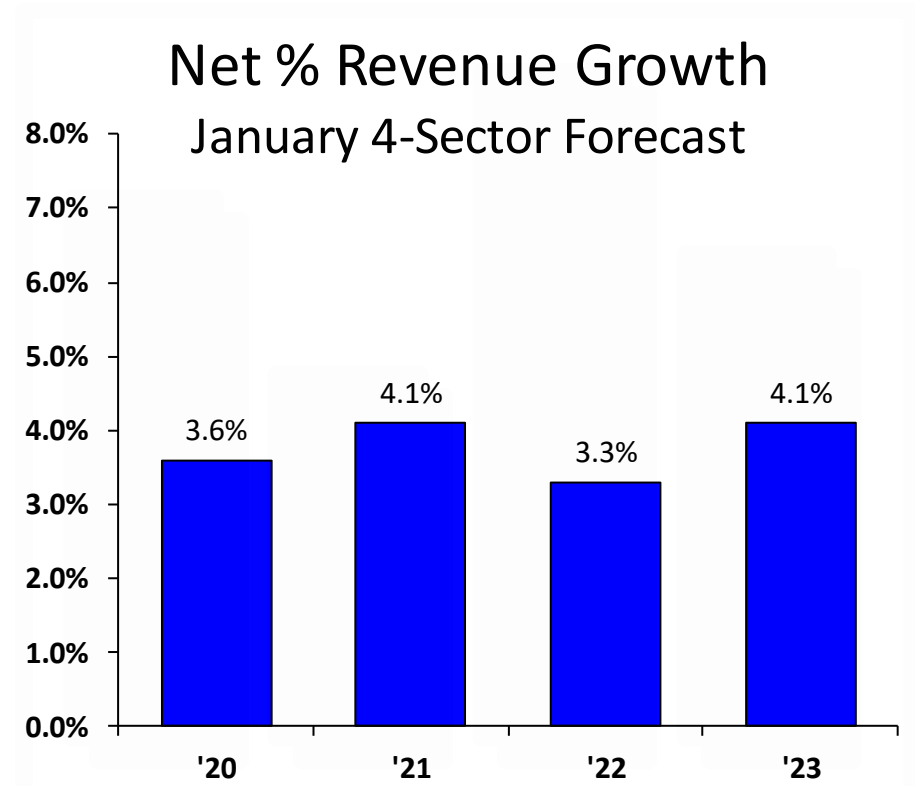
- Includes enacted law changes

Chance of Exceeding Forecast

- 65%

Long Run Average Growth

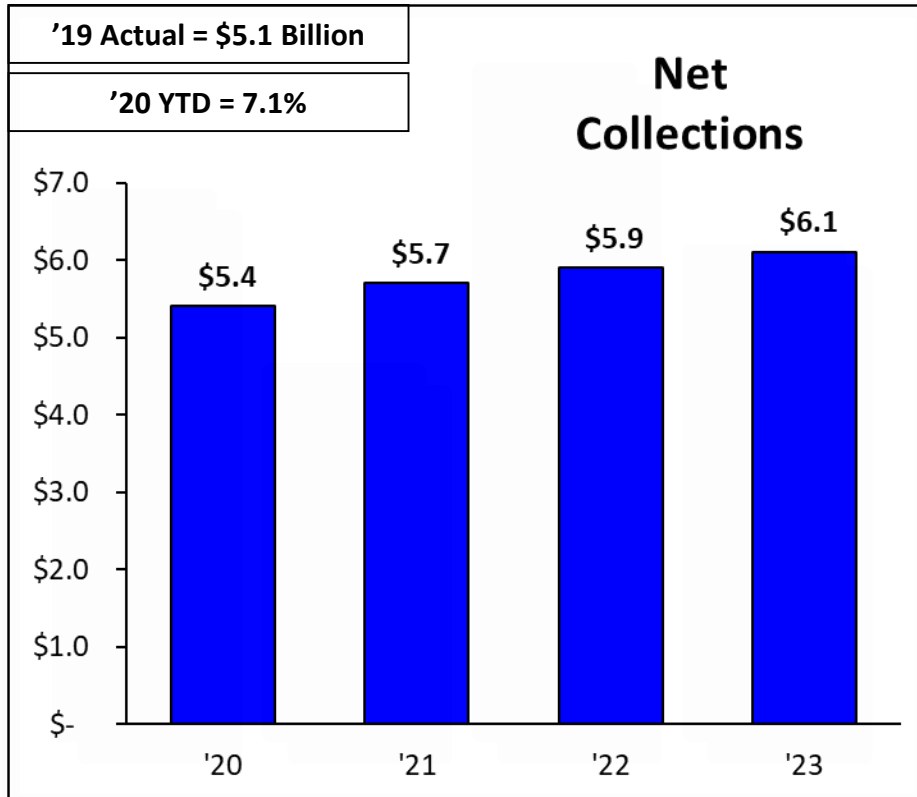
- 4.2%



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

See Appendix A and B

Sales Tax



Net %	'20	'21	'22	'23
	6.6%	4.5%	3.2%	3.6%

Growth by Category

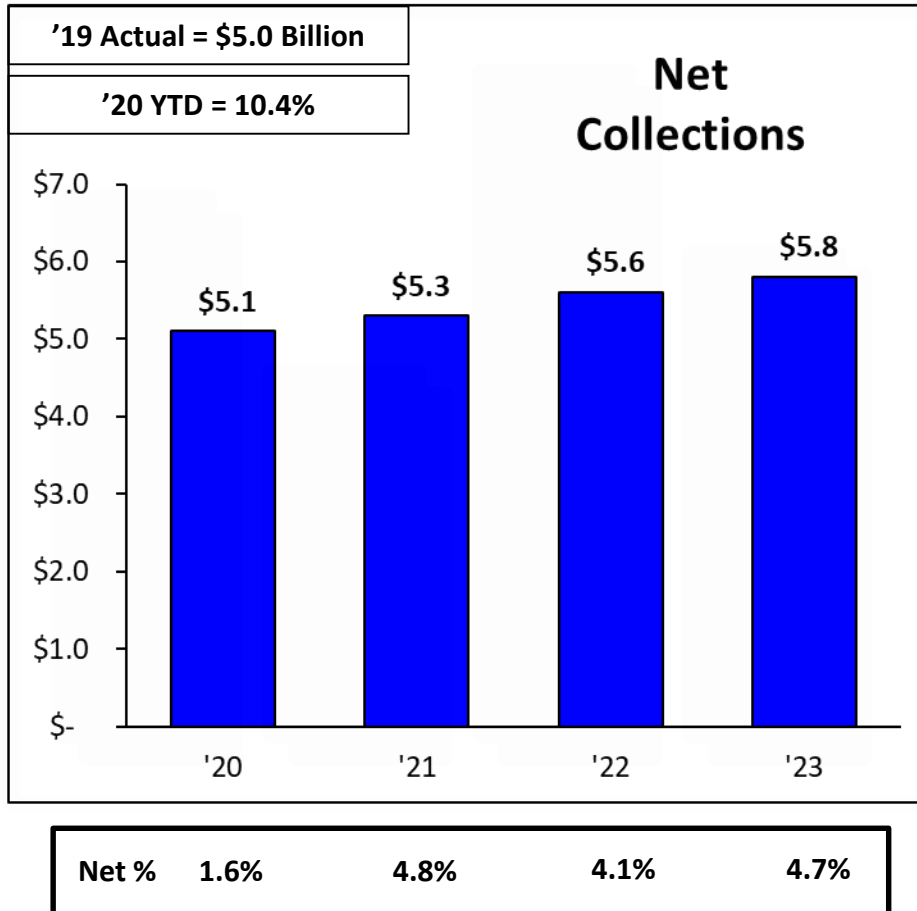
	'19	YTD '20
Retail	6.3%	8.1%
Contracting	15.3%	17.5%
Use	10.6%	5.2%
Restaurant/Bar	6.2%	7.6%
Utilities	<u>(0.2)%</u>	<u>(5.0)%</u>
Total	6.5%	7.1%

Status of Remote Sellers “Wayfair” Collections

-Impact of Reported Revenues Being Overstated

- ❑ Out-of-state internet collections started October 1
- ❑ Projected at \$57 M in '20 and \$85 M in '21
- ❑ DOR created new remote seller code to track
- ❑ In first 2 months, \$51 million was collected
 - Of that amount, \$25 M was deposited into the General Fund
 - Not all of the General Fund share is necessarily a net gain; some remote sellers paid sales tax in prior years

Individual Income Tax

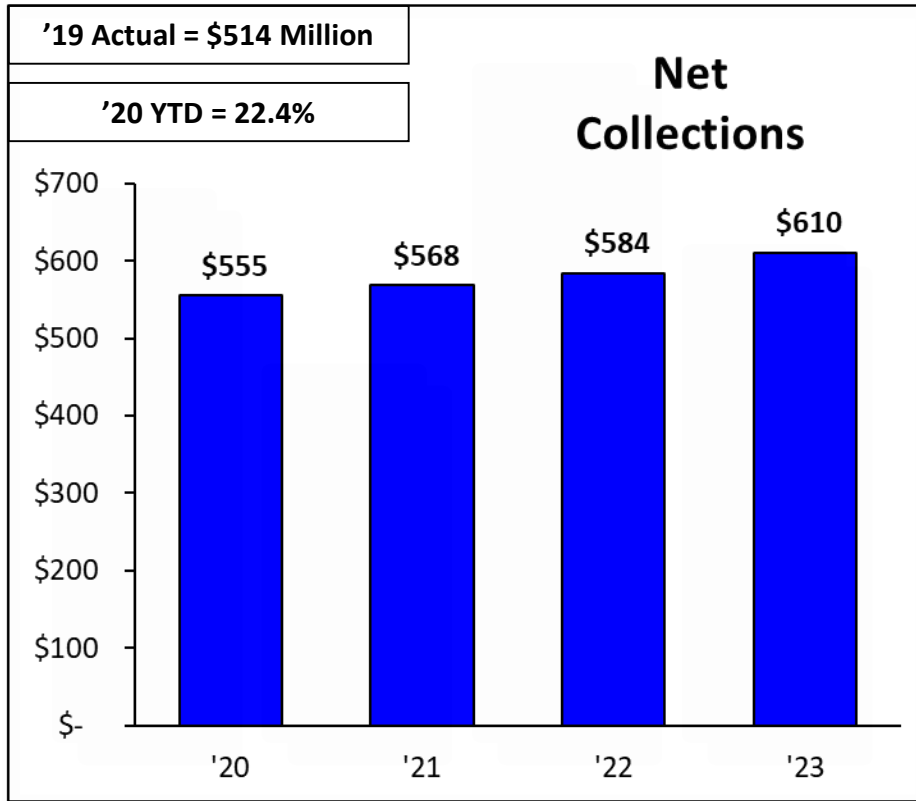


Growth by Category

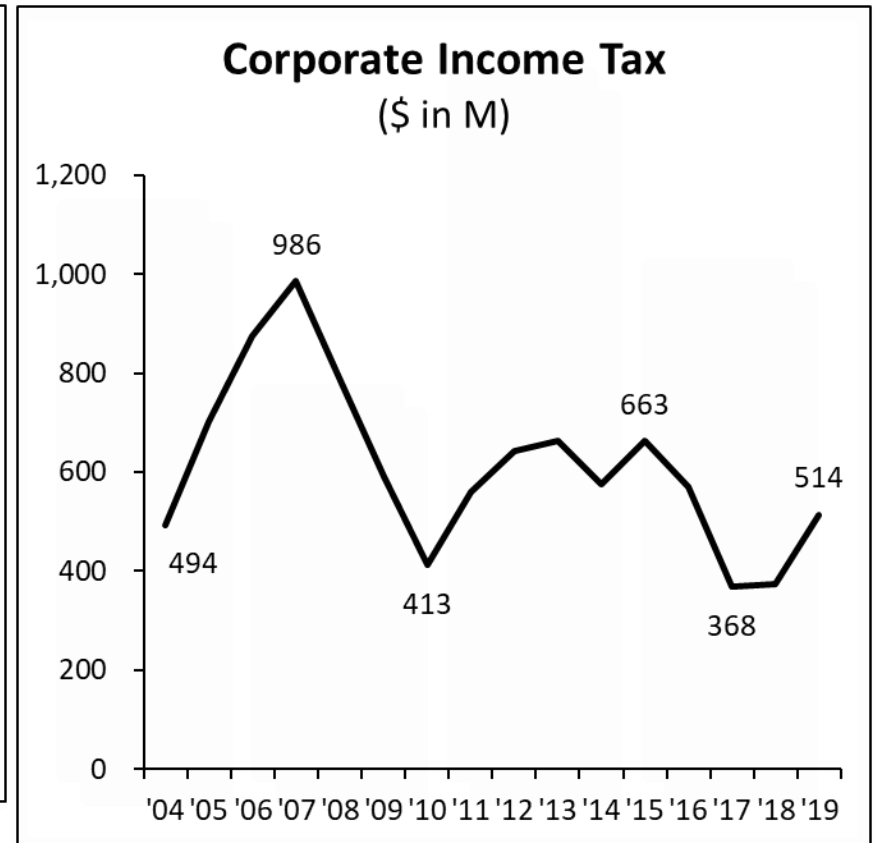
	'19	YTD '20
Withholding	6.2%	7.9%
Payments	11.0%	20.6%
Refunds	<u>(1.3)%</u>	<u>1.0%</u>
Total	10.2%	10.4%

- YTD growth is expected to decline in 2nd half of '20
- Upon passage of IIT changes, withholding rates not revised
- Smaller payments/higher refunds expected in April

Corporate Income Tax - Volatility Continues



Net %	'20	'21	'22	'23
	7.8%	2.5%	2.8%	4.4%



Forecasted “Bottom-Line” ’21 Revenue Growth is 2.9%

- Adjusts Consensus Forecast for Transfers & URS

	'20	'21	'22	'23
Net Revenue Growth (3.6%/4.1%/3.3%/4.1%)	428	505	418	535
1-Time Fund Transfers	(9)	(74)	20	(20)
Urban Revenue Sharing	(63)	(91)	(18)	(39)
Total	356	340	420	476
% Change	3.2%	2.9%	3.5%	3.9%

Excludes Change in Beginning Balance

The Baseline Spending Forecast

Baseline Spending Projected To Decrease by \$(368) M

'21 Ongoing Spending Changes

	<u>\$ in M</u>
ADE – K12 Formula	453
AHCCCS – Medicaid Formula	137
DES – Medicaid Formula	60
SFB – Debt Service Savings	(65)
2010B Payoff – Debt Service Savings	(24)
Other	<u>9</u>
Total	570

Total Spending Changes	\$(368) M
Total Spending	\$11,534 M
% Change	(3.1)%

'21 One-Time Spending Additions/Deletions

	<u>\$ in M</u>
Fund 27th Pay Period In '21	43
Rainy Day Fund Deposit	(271)
2010B Sale/Leaseback Payoff	(190)
Transportation Funding	(77)
ADE – Shift DAA/CAA to Ongoing	(68)
ADE – Prop 301 Bridge Savings	(50)
DWR – DCP Funding/Other	(53)
SFB – Fewer New Buildings	(54)
Recurring One-Time Spending	(172)
Other Agency Spending	(41)
Capital Projects	<u>(5)</u>
Total	(938)

Available Ongoing and One-Time Balances

- Excludes \$1 B Rainy Day Fund

	(\$ in M)
	<u>Baseline</u>
Ongoing Balance	300
One-Time Balance	685

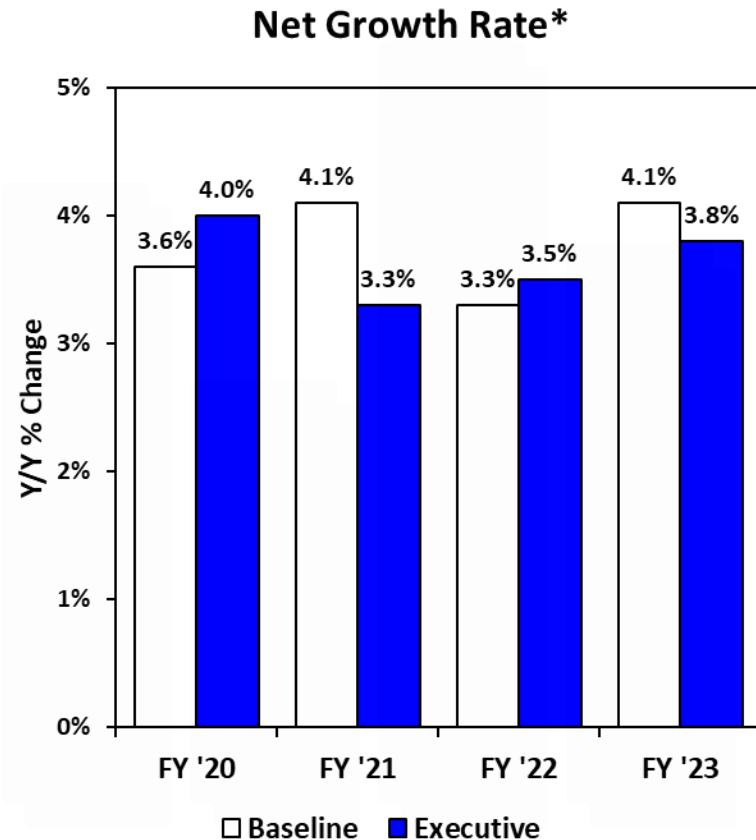
Prior to planning targets, projected '21 ending balance is \$1.0 B. Of that amount:

- Up to \$300 M is available for ongoing objectives
 - Higher \$ level would create '22 shortfall
- \$685 M is available for one time purposes
- \$50 M is set aside as an uncommitted cash balance

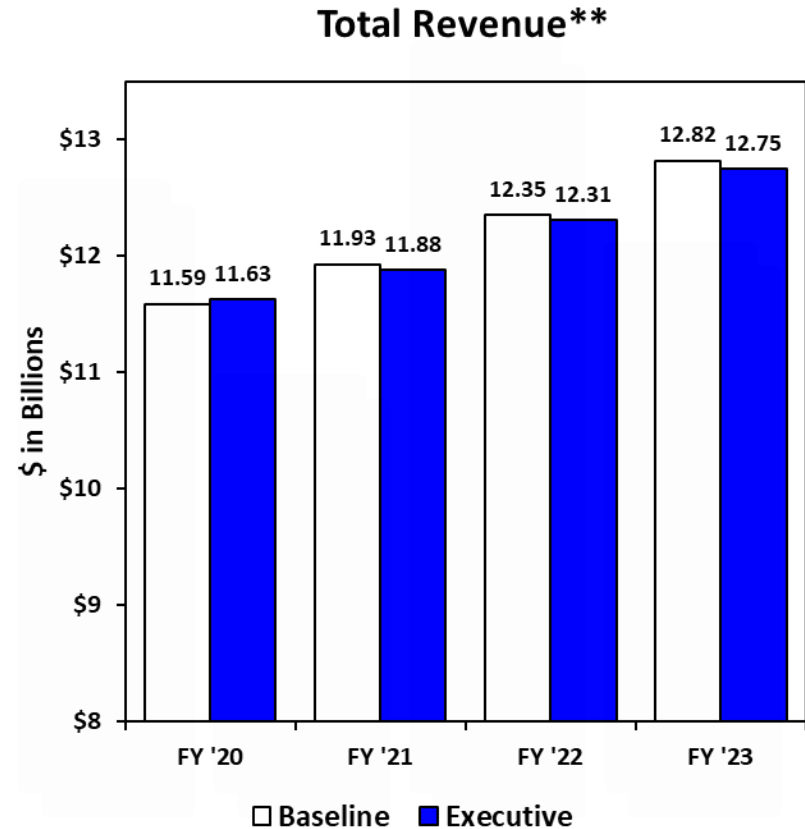
Executive Comparison

JLBC: \$111 M More Base Revenue Over 4 Yrs

- Excludes Executive's Veteran Pension Exemption/Other Policy



*Excludes one-time revenue and URS



**Excludes Balance Forward

Appendices

Appendix A: January 2020 4-Sector Forecast

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Sales Tax				
JLBC Forecast	6.7%	4.8%	4.2%	3.9%
UA – Low	6.5%	2.9%	0.8%	2.9%
UA – Base	7.0%	5.9%	4.2%	4.0%
FAC	6.2%	4.5%	3.4%	3.6%
Average:	6.6%	4.5%	3.2%	3.6%
Individual Income Tax				
JLBC Forecast	3.3%	6.0%	5.9%	5.4%
UA – Low	-1.4%	2.7%	1.4%	4.3%
UA – Base	0.2%	5.1%	4.9%	4.9%
FAC	4.3%	5.2%	4.1%	4.3%
Average:	1.6%	4.8%	4.1%	4.7%
Corporate Income Tax				
JLBC Forecast	10.3%	3.5%	4.1%	4.8%
UA – Low	4.3%	0.0%	-1.2%	3.8%
UA – Base	5.7%	1.7%	4.9%	5.3%
FAC	11.0%	4.7%	3.0%	3.7%
Average:	7.8%	2.5%	2.8%	4.4%
Insurance Premium Tax				
JLBC Forecast	1.6%	1.7%	1.8%	3.1%
UA – Low	2.7%	1.8%	0.8%	0.7%
UA – Base	3.2%	2.1%	1.2%	1.7%
FAC	1.6%	1.0%	1.5%	1.9%
Average:	2.3%	1.6%	1.3%	1.8%

JLBC Weighted Average	5.1%	5.1%	4.8%	4.6%
UA Low Weighted Average	2.7%	2.6%	1.0%	3.4%
UA Base Weighted Average	3.7%	5.2%	4.4%	4.3%
FAC Consensus Weighted Average	5.3%	4.6%	3.6%	3.8%
“Big-4” Weighted Average	4.2%	4.4%	3.5%	4.1%
Consensus Weighted Average*	3.6%	4.1%	3.3%	4.1%

* Represents ongoing revenue adjusted for small revenue categories.

\$48 M Phase-In of Enacted Revenue Reductions

	(\$ in M)		
	'21	'22	'23
Public Safety Transfers	0	(23)	0
Annualize Out-of-State Internet Sales (Wayfair)	28	0	0
Corporate STO with Caps	(16)	(12)	(7)
All Other	(13)	(5)	1
Total	(1)	(40)	(6)

- By '23, revenue base is \$(48) M lower than in '20
- Numbers are incorporated in Net Revenues estimates each year