

## GENERAL FUND REVENUE

### Summary of General Fund Forecast

The enacted FY 2023 budget assumes total net General Fund revenues of \$16.83 billion. This amount is a decrease of (2.8)% compared to enacted FY 2022 General Fund revenues.

Excluding the beginning balance, one-time revenues, Urban Revenue Sharing, and the impact of enacted tax legislation, base revenue under the enacted budget forecast is projected to decline by (0.6)% in FY 2023.

### General Fund Revenue Forecast

#### FY 2022

The original FY 2022 budget enacted in June 2021 was based on total General Fund revenues of \$13.03 billion. The January 2022 Baseline forecast, which is based on the 4-sector consensus process described below, increased the FY 2022 General Fund revenue forecast to \$15.57 billion, or \$2.54 billion above the amount projected in the June 2021 enacted budget. The large forecast revision under the January Baseline was due to a significant improvement in the revenue outlook during the first two quarters of FY 2022.

In its 2022 Regular Session revisions to the FY 2022 budget, the Legislature adopted a projected ongoing growth rate of 15.1%. (Adjusted for the impact on FY 2022 growth of the income tax deferral from April to July 2020, the growth rate is an estimated 19.5%.) In terms of total revenue, the revised FY 2022 budgeted amount is \$17.31 billion, or 19.5% above FY 2021. This is a General Fund revenue increase of \$1.75 billion relative to the January Baseline forecast and this revision is attributable to:

- Significantly higher-than-projected revenue collections in the period from January through May. As a result, the enacted budget added \$1.04 billion to the January Baseline forecast.
- Court ruling that invalidated Proposition 208 in the spring of 2022. Absent this ruling, Proposition 208 would have imposed a 3.5% surcharge on taxable income above \$250,000/\$500,000, beginning in TY 2021. Certain income tax provisions enacted in 2021 intended to mitigate the impact of Proposition 208 on taxpayers would have cost the General Fund an estimated \$(705) million in lost revenues in FY 2022. The invalidation of Proposition 208 meant that the General Fund would not incur such loss in FY 2022.

(For more information, see pages 461 – 462 of the *FY 2023 Baseline Book*.)

#### FY 2023

The enacted FY 2023 budget forecasts total General Fund revenues of \$16.83 billion, or a (2.8)% reduction from FY 2022. Excluding one-time revenues and Urban Revenue Sharing, ongoing revenues are projected to be \$15.77 billion, or a (8.1)% decrease relative to FY 2022.

*Table 1* below summarizes the changing revenue picture in FY 2022 to FY 2025 through the phases of budget development. The growth rates in the table reflect ongoing revenues after the impact of tax law changes. The table includes the impact on FY 2022 growth of the calendar year 2020 income tax deferral as well as tax legislation enacted during the 2021 and 2022 Regular Sessions.

<b>Table 1</b>	
<b>Ongoing Revenue Change Over Prior Year</b>	
	<b>% Change</b>
<b><u>FY 2022</u></b>	
January Baseline <sup>1/3/</sup>	8.1%
April Update <sup>1/2/3/</sup>	10.9%
June Enacted Budget <sup>1/3/</sup>	15.1%
<b><u>FY 2023</u></b>	
January Baseline <sup>3/</sup>	(4.8)%
April Update <sup>3/</sup>	(4.6)%
June Enacted Budget <sup>3/4/</sup>	(8.1)%
<b><u>FY 2024</u></b>	
January Baseline <sup>3/</sup>	2.5%
April Update <sup>3/</sup>	2.6%
June Enacted Budget <sup>3/4/</sup>	2.8%
<b><u>FY 2025</u></b>	
January Baseline <sup>3/</sup>	0.2%
April Update <sup>3/</sup>	0.4%
June Enacted Budget <sup>3/4/</sup>	2.4%
<sup>1/</sup> Includes the impact on FY 2022 growth of deferring the income tax filing due date from April 15 to July 15 of calendar year 2020. <sup>2/</sup> Forecast provided by the JLBC Staff. <sup>3/</sup> Includes impact of tax legislation enacted in the 2021 Regular Session. For more details, see <i>Table 4</i> . <sup>4/</sup> Includes impact of tax legislation enacted in the 2022 Regular Session. For more details, see <i>Table 4</i> .	

*Table 2* provides an overview of ongoing and total revenue growth for FY 2022 and FY 2023.

#### Long-Term Projections

The enacted budget also incorporates revenue planning estimates for FY 2024 and FY 2025, which are shown in *Table 6*. The ongoing revenue growth rates included in

**Table 2**  
**FY 2022 and FY 2023 General Fund Revenue**  
**(\$ in Millions)**

	<u>FY 2022</u>	<u>%</u>	<u>FY 2023</u>	<u>%</u>
Ongoing Revenue <sup>1/2/</sup>	\$17,155.6	19.5%	\$15,771.3	(8.1)%
Urban Revenue Sharing	(756.4)		(1,107.0)	
One-Time Financing Sources:				
Balance Forward	894.6		4,508.9	
Water Infrastructure Repayment	20.0		0.0	
TPT Diversions	0.0		(2,287.5)	
Newly Enacted Tax Reductions	0.0		(50.0)	
Other One-Time Revenue Changes	<u>0.0</u>		<u>(3.5)</u>	
Subtotal	914.6		2,167.9	
<b>Total Revenue</b>	<b><u>\$17,313.9</u></b>	<b>19.5%</b>	<b><u>\$16,832.3</u></b>	<b>(2.8)%</b>

<sup>1/</sup> Ongoing revenue represents net General Fund revenue, including the impact of previously and newly enacted tax law changes. It excludes Urban Revenue Sharing and one-time financing sources.  
<sup>2/</sup> Includes the impact on FY 2022 growth of adjusting for the deferral of the income tax filing due date from April 15 to July 15 of 2020. Without this adjustment, the FY 2022 growth rate is 15.1%.

- EBR’s conservative forecast model, and
- JLBC Staff projections.

The estimates for the remaining revenue categories, which constitute about 5% of the total, were based on JLBC Staff projections.

Table 3 shows the result of the 4-sector base revenue forecast updates in January and April of 2022. Base revenue excludes the impact of enacted tax legislation. The January Baseline as well as the April update are typically based on the 4-sector consensus forecast. However, based on actual FY 2022 year-to-date revenue collections through March, the JLBC Staff determined that the April 4-sector consensus forecast for FY 2022 was unrealistically low. For this reason, the April forecast update for FY 2022 was solely based on the JLBC Staff sector. For FY 2023 through FY 2025, the April forecast update used the same revenue growth rates as under the January Baseline.

**Budget Legislation**

Each year there are statutory tax law and other revenue changes that affect the state’s net revenue collections. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

The next section provides a detailed description of previously and newly enacted budget legislation with an ongoing revenue impact in FY 2022 through FY 2025. (See Table 4 for a complete list of all statutory changes affecting revenue collections in FY 2022 through FY 2025.)

the FY 2024 and FY 2025 revenue planning estimates under the June adopted budget are 2.8% in FY 2024 and 2.4% in FY 2025. Without tax law changes enacted in the 2021 and 2022 Regular Sessions, the growth rate would be an estimated 4.8% in FY 2024 and 4.7% in FY 2025.

**4-Sector Forecast**

The projected growth rates for the “Big 4” revenue categories of sales, individual income, corporate income, and insurance premium taxes are initially developed and revised using a 4-sector consensus process. This process is based on averaging the results of the following 4 forecasts:

- Finance Advisory Committee panel forecast. Consisting of 12 public and private sector economists, this independent panel normally meets 3 times a year to provide the Legislature with guidance on the status of the Arizona economy.
- The University of Arizona Economic and Business Research (EBR) General Fund Baseline model. The model is a simultaneous-equation model consisting of more than 100 equations that are updated on a regular basis to reflect changes in the economy. The model uses more than 200 variables related to Arizona’s economy and is updated quarterly.

**Previously (Pre-2022) Enacted Budget Legislation**

- 1) Tax Omnibus – Laws 2021, Chapter 412 (Tax Omnibus) reduced the individual income tax rates to 2.55% for taxable income up to \$27,272/\$54,544 and 2.98% for taxable income above \$27,272/\$54,544 in FY 2022/FY 2023. Further rate reductions are contingent upon the state receiving more than forecast as determined in September of each year. Excluding the beginning balance, the "trigger" target is set at \$12.8 billion in FY 2022 and \$13.0 billion in FY 2023 and each year thereafter. Laws 2022, Chapter 321 requires that a total of \$2.29 billion in TPT distributions to various non-General Fund agencies in FY 2023 be added to the actual amount of General Fund revenue reported for FY 2023, excluding the beginning balance, for the purpose of determining whether the \$13.0 billion trigger level has been met. (For more details on the TPT diversions, see page 431 in the *One-Time Financing* section)

If the state receives more than the FY 2022 trigger level, the rates will be reduced to 2.53%/2.75% starting in TY 2023/FY 2024. If the state receives more than \$13.0 billion in FY 2023 or any subsequent year, the rate will be reduced to a single rate of 2.5% in the following Tax Year. Since the enacted budget forecast is estimated to exceed the FY 2022 and FY 2023 trigger levels, the lower tax rates are expected to go into effect. The reduction of the individual income tax rates is estimated to reduce General Fund revenues by \$(1.27) billion in FY 2023, \$(1.64) billion in FY 2024, and \$(2.08) billion in FY 2025.

2) 4.5% Maximum Income Tax Rate – Pursuant to Laws 2021, Chapter 411, beginning in TY 2021, the total individual income tax rate for taxable income above \$250,000/\$500,000, including the Proposition 208 surcharge, cannot exceed 4.5%.

As a result of a court decision in the spring of 2022, Proposition 208 was ruled invalid. This also had the effect of eliminating the cost of the 4.5% Maximum Tax Rate provision under Chapter 411. (For a more detailed discussion, see page 462 in the *FY 2023 Baseline Book*.)

3) Alternative Income Tax Rate (SB 1783) – Laws 2021, Chapter 436 (SB 1783) provides an option for individuals with certain types of income, such as interest and dividends, business profits, and capital gains from the sale of certain capital assets, to be taxed under either the regular individual income tax or an alternative income tax established by SB 1783. An individual who elects to be taxed under SB 1783's alternative income tax would not be subject to the 3.5% surcharge under Proposition 208. Instead, SB 1783 alternative income tax collections would be deposited into the General Fund.

The SB 1783 alternative tax rate is 3.5% in TY 2021 and 3.0% in TY 2022. The rate will be further reduced to 2.8% in TY 2023 and TY 2024 and 2.5% in TY 2025.

Due to the invalidation of Proposition 208, this provision will no longer have an effect. (For a more detailed discussion, see page 462 in the *FY 2023 Baseline Book*.)

4) Other Tax Omnibus Provisions – Besides the rate reduction described under *item 1*, Laws 2021, Chapter 412 made other changes to Arizona tax statutes, including the following:

- Provides a full individual income tax exemption for benefits, annuities, and pensions received by military retirees, beginning in TY 2021. This provision is estimated to reduce General Fund revenues by \$(48.3) million in FY 2022, \$(37.9) million in FY 2023, \$(36.8) million in FY 2024, and \$(35.7) million in FY 2025.

- Adjusts for inflation the percentage of charitable contributions that standard deduction filers can claim over and above the regular standard deduction, beginning in TY 2022. This provision is estimated to reduce General Fund revenues by \$(2.0) million in FY 2023, \$(3.9) million in FY 2024, and \$(5.8) million in FY 2025.
- Increases the credit cap for contributions by corporations and insurers to School Tuition Organizations (STO) for displaced/disabled students from \$5 million to \$6 million, beginning in FY 2022. This provision is expected to have an annual revenue impact of \$(1.0) million, starting in FY 2022.
- Creates a new nonrefundable income tax credit for the processing of qualified forest products, beginning in TY 2021. The credit, which has an annual cap of \$0.5 million per taxpayer and \$2 million in the aggregate, is estimated to reduce General Fund revenues by \$(395,800) annually, beginning in FY 2022.
- Expands the eligibility for students receiving "switcher" individual or low-income corporate STO scholarships to include those who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA), beginning in TY 2021. The provision is expected to result in an annual revenue reduction of \$(0.4) million, beginning in FY 2022.
- Allows public service corporations to deduct for income tax purposes any amount of monies or other property contributed to them to expand, improve, or replace their water system or sewage disposal facilities, beginning in TY 2021. This provision is estimated to reduce General Fund revenues by \$(0.4) million annually, beginning in FY 2022.
- Phases down the Class 1 (commercial) property assessment ratio from 18% to 16% over 4 years, beginning in TY 2022. This provision is estimated to increase K-12 school funding formula costs by \$4.4 million in FY 2023 and \$9.0 million in FY 2024. Since the state does not levy a property tax, there is no General Fund revenue impact.
- Increases the Homeowner's Rebate on primary school district property taxes levied on Class 3 (residential) property from 47.19% to 50.0%, beginning in TY 2022. This provision is estimated to increase K-12 school funding formula costs by \$30.0 million in FY 2023 and \$30.8 million in FY 2024. Since the state does not levy a property tax, there is no General Fund revenue impact.

5) Affordable Housing Tax Credit – Laws 2021, Chapter 430 creates a new nonrefundable affordable housing tax credit that is equal to at least 50% of the amount of the federal low-income housing credit for qualified projects placed in service after June 30, 2022. The Arizona Department of Housing is authorized to allocate a total of \$4 million in tax credits per year from TY 2022 to TY 2025. Each of these 4 award cycles is available for 10 years. The

**Table 3**

**4-Sector Estimates  
Forecast Percentages (FY 2022 - FY 2025)  
Ongoing Base Revenue Growth <sup>1/</sup>**

	FY 2022					FY 2023				
	<u>JLBC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>FAC</u>	<u>Avg</u>	<u>JLBC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>FAC</u>	<u>Avg</u>
<u>Sales Tax</u>										
January	11.7%	11.5%	12.8%	11.8%	11.8%	3.5%	2.2%	4.3%	6.0%	4.0%
April	13.5%	13.8%	14.6%	13.4%	13.8%	3.5%	2.2%	4.3%	6.0%	4.0%
<u>Individual Income Tax <sup>2/</sup></u>										
January	3.0%	0.3%	2.1%	5.3%	2.7%	3.5%	3.3%	4.4%	5.6%	4.2%
April	5.3%	1.4%	2.1%	1.0%	2.5%	3.5%	3.3%	4.4%	5.6%	4.2%
<u>Corporate Income Tax</u>										
January	18.0%	16.8%	17.5%	15.8%	17.0%	3.0%	0.6%	3.5%	2.2%	2.3%
April	31.5%	31.7%	32.6%	25.4%	30.3%	3.0%	0.6%	3.5%	2.2%	2.3%
<u>Insurance Premium Tax</u>										
January	7.0%	5.8%	6.3%	7.0%	6.5%	2.6%	2.5%	3.1%	3.9%	3.0%
April	10.0%	10.2%	11.0%	9.6%	10.2%	2.6%	2.5%	3.1%	3.9%	3.0%
<u>Overall <sup>3/</sup></u>										
January	8.6%	7.2%	8.6%	9.3%	8.4%	2.6%	1.8%	3.4%	4.6%	3.1%
April <sup>4/</sup>	11.3%	9.6%	10.5%	8.8%	10.1%	2.6%	1.8%	3.4%	4.6%	3.1%
	FY 2024					FY 2025				
	<u>JLBC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>FAC</u>	<u>Avg</u>	<u>JLBC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>FAC</u>	<u>Avg</u>
<u>Sales Tax</u>										
January	4.0%	3.9%	5.0%	5.8%	4.7%	4.0%	4.1%	4.8%	5.5%	4.6%
April	4.0%	3.9%	5.0%	5.8%	4.7%	4.0%	4.1%	4.8%	5.5%	4.6%
<u>Individual Income Tax</u>										
January	4.3%	4.4%	5.4%	5.4%	4.9%	4.2%	4.6%	5.3%	5.1%	4.8%
April	4.3%	4.4%	5.4%	5.4%	4.9%	4.2%	4.6%	5.3%	5.1%	4.8%
<u>Corporate Income Tax</u>										
January	3.4%	3.3%	4.3%	3.7%	3.7%	4.5%	6.2%	7.0%	4.9%	5.7%
April	3.4%	3.3%	4.3%	3.7%	3.7%	4.5%	6.2%	7.0%	4.9%	5.7%
<u>Insurance Premium Tax</u>										
January	3.3%	1.4%	1.9%	4.4%	2.7%	3.6%	2.8%	3.1%	3.5%	3.3%
April	3.3%	1.4%	1.9%	4.4%	2.7%	3.6%	2.8%	3.1%	3.5%	3.3%
<u>Overall <sup>3/</sup></u>										
January	4.1%	4.0%	5.0%	5.4%	4.6%	4.1%	4.4%	5.0%	5.1%	4.7%
April	4.1%	4.0%	5.0%	5.4%	4.6%	4.1%	4.4%	5.0%	5.1%	4.7%

<sup>1/</sup> Base revenue growth excludes the impact of enacted tax legislation.

<sup>2/</sup> The FY 2022 individual income tax growth rates reflect the impact of income tax deferral from April 15 to July 15 of 2020.

<sup>3/</sup> The growth rates for each sector represent the weighted average of Big-4 revenue estimates plus JLBC Staff estimates of other revenue.

<sup>4/</sup> April revenue forecast update used the JLBC sector forecast for FY 2022 and the January Baseline growth rates for FY 2023 through FY 2025.

credit is estimated to have a revenue impact of \$(4.0) million in FY 2024 and \$(8.0) million in FY 2025.

6) Reduction of State Treasurer Transfer – Pursuant to A.R.S. § 35-316, the State Treasurer is required to deposit any management fees on investment earnings in excess of its Operating Fund appropriation to the General Fund. The FY 2022 General Appropriation Act (Laws 2021, Chapter 408) increased the State Treasurer’s Operating Fund appropriation by \$224,200. Since the increased appropriation reduces the excess fund balance by the same amount, General Fund revenue is reduced by \$(224,200) annually, beginning in FY 2022.

7) Reduction of DHS Transfer – Laws 2021, Chapter 409 eliminates the requirement that the first \$300,000 in radiation regulatory fees collected be deposited in the General Fund, beginning in FY 2022.

***Newly (2022) Enacted Budget Legislation***

8) Increased Depreciation of Business Personal Property – Laws 2022, Chapter 103 sets the full cash value of business and agricultural personal property initially classified in TY 2022 or later to 2.5% of the property's acquisition cost. Under the valuation tables in place prior to Chapter 103, it generally took between 3 and 30 years for such property to depreciate to 2.5% of its acquisition cost. Laws 2022, Chapter 103 was not scored as part of the 3-year budget plan. Under a separate fiscal analysis by the JLBC Staff, Chapter 103 was estimated to increase General Fund K-12 funding formula costs by \$9.2 million in FY 2023, \$19.2 million in FY 2024, and \$29.6 million in FY 2025. Since the state does not levy a property tax, there is no General Fund revenue impact.

9) Reduction of Class 1 (Commercial) Property Assessment – Laws 2022, Chapter 171 reduces the Class 1 (commercial) property assessment ratio from 16.0% in TY 2025 to 15.5% in TY 2026 and 15.0%, beginning in TY 2027. The JLBC Fiscal Note estimated that the Class 1 assessment ratio reduction will increase General Fund K-12 funding formula costs by \$3.8 million in FY 2027 and \$6.9 million, beginning in FY 2028. Since the state does not levy a property tax, there is no General Fund revenue impact.

10) Reduction of Department of Real Estate Transfer – Laws 2022, Chapter 298 eliminates the statutory minimum fees for real estate licenses. The elimination of the minimum fees under Chapter 298 is expected to reduce the transfer of excess revenue to the General Fund by \$(708,000) annually, beginning in FY 2023.

11) Reduction of Liquor Licenses Fund Transfer – Pursuant to A.R.S. § 4-120, any monies remaining in the

Liquor Licenses Fund in excess of \$700,000 at the end of each fiscal year must be deposited in the General Fund. The FY 2023 General Appropriation Act (Laws 2022, Chapter 313) provides changes to the Department of Liquor Licenses and Control's operating budget, which resulted in the appropriation from the Liquor Licenses Fund to the department being increased by \$2.4 million in FY 2023. Since these changes reduce the excess fund balance by the same amount, General Fund revenue is reduced by \$(2.4) million annually, beginning in FY 2023.

12) Change of Reimbursements from Apache/Greenlee – Laws 2022, Chapter 315 (Higher Education BRB) reduces the out-of-county reimbursement amounts due from Apache and Greenlee counties to the community college districts and requires the difference to be paid by the General Fund. This change has the effect of reducing General Fund revenue by \$(2,293,500) annually, beginning in FY 2023.

13) TPT Exemption for Used Agricultural Machinery – Laws 2022, Chapter 321 (Tax Omnibus) expands an existing Transaction Privilege tax (TPT) and Use Tax exemption to include the purchase of used (as opposed to only new) agricultural machinery and equipment and short-term rentals of agricultural machinery and equipment (leases for less than 2 years). This provision is estimated to reduce General Fund revenue by \$(583,000) annually, beginning in FY 2023.

14) Change to Aircraft License Tax – Laws 2022, Chapter 321 (Tax Omnibus) limits the annual increase of the average fair market value of aircraft for the purpose of assessing the aircraft license tax to the annual change of the U.S. Consumer Price Index. In addition, Chapter 321 benchmarks the FY 2022 value of aircraft to the 2019 average fair market value. These changes to the aircraft license tax are estimated to reduce General Fund revenue by \$(1.9) million in FY 2023, and \$(950,000) annually, beginning in FY 2024.

15) Veterans' Property Tax Exemption – Laws 2022, Chapter 341 provides a property tax exemption for veterans with service- or nonservice-connected disabilities in direct proportion to the percentage rating of the veteran's disability. If approved by voters in the November 2022 General Election, the veterans' exemption is estimated to result in a General Fund K-12 funding formula savings of \$1.0 million, beginning in FY 2024. The savings is due to a property tax shift from homes owned by veterans to owners of other types of property. Since the state does not levy a property tax, there is no General Fund revenue impact. Chapter 341 is contingent on voter approval of Proposition 130 at the November 2022 General Election.

16) Adjusting QCO/QFCO Credit Caps for Inflation – Laws 2022, Chapter 385 annually adjusts for inflation the income tax credit limit for donations to Qualifying Charitable Organizations (QCO) and Qualifying Foster Care Charitable Organizations (QFCO). The current cap for the QCO credit is \$400 for single filers and \$800 for married filers whereas the cap for the QFCO credit is \$500 for single filers and \$1,000 for married filers. The change to the QCO and QFCO credit caps is estimated to reduce General Fund revenue by \$(1.0) million in FY 2023, \$(2.0) million in FY 2024, and \$(4.0) million in FY 2025.

17) Motion Picture Production Tax Credit – Laws 2022, Chapter 387 creates a motion picture production income tax credit, beginning in TY 2023. The credit program will be implemented and administered by the Arizona Commerce Authority (ACA). Chapter 387 authorizes ACA to pre-approve up to \$75 million in refundable credits in Calendar Year (CY) 2023, \$100 million in CY 2024, and \$125 million, beginning in CY 2025. Laws 2022, Chapter 387 was not scored as part of the 3-year budget plan. The JLBC Fiscal Note estimated that during the first 3 years of the credit program, Chapter 387 would reduce General Fund revenues by less than half of the credit cap. The JLBC analysis did not attempt to quantify the indirect impacts of any additional economic activity associated with the bill.

#### ***Urban Revenue Sharing***

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and towns within the state. The amount that is currently distributed to cities and towns is 15% of net income tax collections from 2 years prior. Laws 2021, Chapter 412 increases the URS distribution from 15% to 18%, beginning in FY 2024.

As indicated in *Table 5*, total URS distributions will increase from \$756 million in FY 2022 to \$1.11 billion in FY 2023. This URS increase will result in General Fund revenue loss of \$(351) million in FY 2023 relative to FY 2022.

#### ***One-Time Financing***

As shown in *Table 5*, the budget adopted in June 2022 includes the following one-time financing sources:

##### ***FY 2022***

##### DWR Infrastructure Repayment

The FY 2020 General Appropriation Act (Laws 2019, Chapter 263) appropriated \$20.0 million from the General Fund to the Department of Water Resources' (DWR) Temporary Groundwater and Irrigation Efficiency Projects Fund to construct, rehabilitate and lease wells and infrastructure related to the withdrawal and efficient

delivery of groundwater by qualified irrigation districts. The appropriated monies were reimbursed to the General Fund in December 2021.

##### Balance Forward

The FY 2021 General Fund ending balance carried forward into FY 2022 was \$894.6 million.

##### ARPA Transfer

The enacted budget assumed a one-time transfer of \$635 million from American Rescue Plan Act (ARPA) funds to the General Fund in FY 2022. Due to federal requirements, the Executive later decided to achieve a comparable level of General Fund savings through spending offsets in certain agencies. For this reason, the \$635 million transfer is not included in the FY 2022 revenue forecast in *Table 5*. Instead, a comparable amount will be reflected as a General Fund expenditure decrease in the *FY 2023 Appropriations Report*.

##### ***FY 2023***

##### Transaction Privilege Tax (TPT) Diversion

The enacted budget diverts a total of \$2.29 billion of General Fund TPT revenues to various non-General Fund agency funds in FY 2023. The diverted amount will be allocated as follows:

- ADOT State Highway Fund: \$925.4 million
- ADOT State Aviation Fund: \$20.6 million
- DEMA Border Security Fund: \$209.2 million
- Park Board State Parks Revenue Fund: \$38.2 million
- Budget Stabilization Fund: \$425.0 million
- DEMA Border Security Fund (Border Fencing): \$335.0 million
- DWR Long-Term Water Augmentation Fund: \$334.0 million

##### TPT Distribution for Public Infrastructure

Under current law, the State Treasurer is authorized to distribute prime contracting TPT revenue generated from qualifying projects to a municipality or county to fund up to 80% of the costs of public infrastructure improvements (such as roads, water, and wastewater facilities) needed to support the activities of a qualifying manufacturing facility located in that municipality or county. The amount of state tax dollars paid to cities and counties statewide is currently capped at \$50 million through September 30, 2033. Laws 2022, Chapter 321 increases the cap from \$50 million to \$100 million, which is expected to result in a one-time revenue reduction of \$(50) million in FY 2023.

##### Liquor Licenses Fund Transfer Reduction

Laws 2022, Chapter 309 (Capital Outlay) appropriates \$3.5 million one-time from the Liquor Licenses Fund in FY 2023 to the Department of Liquor Licenses and Control for the cost of remodeling and expanding their existing office space. As explained under *Item 11* in the *Budget*

Legislation section, this has the effect of reducing the transfer of excess revenue from the Liquor Licenses Fund to the General Fund by \$(3.5) million in FY 2023.

**Balance Forward**

The FY 2022 General Fund ending balance carried into FY 2023 is projected to be \$4.5 billion.

**FY 2024**

**Balance Forward**

The FY 2023 General Fund ending balance carried into FY 2024 is projected to be \$1.1 billion.

**FY 2025**

**Balance Forward**

The FY 2024 General Fund ending balance carried into FY 2025 is projected to be \$678.8 million.

<b>Table 4</b>				
<b>Budget Legislation with Ongoing General Fund Revenue Impact in FY 2022 through FY 2025</b>				
<b>(\$ in Millions)</b>				
<b>2021 Legislation / Description of Provision</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>(1) Laws 2021, Ch. 412 – Income Tax Rate Reduction</b>				
- Reduces rates to 2.55%/2.98%		\$(1,273.7)	\$(1,336.0)	\$(1,400.3)
- Reduces rates to 2.53%/2.75%			(308.8)	(323.7)
- Reduces to single rate of 2.50%				(360.0)
- <b>Total Rate Reduction</b>		<b>(1,273.7)</b>	<b>(1,644.8)</b>	<b>(2,084.0)</b>
<b>(2) Laws 2021, Ch. 411 – 4.5% Maximum IIT Rate</b>				
Imposes a maximum combined (regular plus Prop. 208) individual income tax rate of 4.5% on taxable income above \$250K/\$500K <sup>1/</sup>	--	--	--	--
<b>(3) Laws 2021, Ch. 436 – Alternative Tax Rate (SB 1783)</b>				
Imposes alternative tax rate phased down from 3.5% in TY 2021 to 2.5% in TY 2025 on income as defined in SB 1783 <sup>2/</sup>	--	--	--	--
<b>(4) Laws 2021, Ch. 412 – Other Tax Omnibus Provisions</b>				
- Phases down Class 1 Assessment Ratio from 18% to 16%	0.0	<sup>3/</sup>	<sup>3/</sup>	<sup>3/</sup>
- Increases the Homeowner's Rebate from 47.2% to 50%	0.0	<sup>4/</sup>	<sup>4/</sup>	<sup>4/</sup>
- Provides full military pension exemption	(48.3)	(37.9)	(36.8)	(35.7)
- Increases std. deduction for charitable contributions	0.0	(2.0)	(3.9)	(5.8)
- Increases corporate displaced/disabled STO credit cap	(1.0)	(1.0)	(1.0)	(1.0)
- Creates new healthy forest production tax credit	(0.4)	(0.4)	(0.4)	(0.4)
- Expands eligibility for students receiving STO scholarships	(0.4)	(0.4)	(0.4)	(0.4)
- Allows deduction for "Contribution in Aid of Construction"	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>
- <b>Total – Other Tax Omnibus Provisions</b>	<b>(50.5)</b>	<b>(42.1)</b>	<b>(42.9)</b>	<b>(43.7)</b>
<b>(5) Laws 2021, Ch. 430</b>				
Creates a new affordable housing tax credit			(4.0)	(8.0)
<b>(6) Laws 2021, Ch. 408</b>				
Reduces State Treasurer transfer to General Fund	(0.2)	(0.2)	(0.2)	(0.2)
<b>(7) Laws 2021, Ch. 409</b>				
Reduces DHS transfer to General Fund	(0.3)	(0.3)	(0.3)	(0.3)
<b>Total – 2021 Enacted Legislation</b>	<b>\$(51.0)</b>	<b>\$(1,316.3)</b>	<b>\$(1,692.3)</b>	<b>\$(2,136.2)</b>

<b>2022 Legislation / Description of Provision</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<u>(8) Laws 2022, Ch. 103</u> Increases depreciation of business personal property <sup>5/</sup>	--	--	--	--
<u>(9) Laws 2022, Ch. 171</u> Reduces Class 1 (Commercial) Property Assessment <sup>6/</sup>	0.0	0.0	0.0	0.0
<u>(10) Laws 2022, Ch. 298</u> Reduces Department of Real Estate transfer to General Fund	0.0	(0.7)	(0.7)	(0.7)
<u>(11) Laws 2022, Ch. 313</u> Reduces Liquor Licenses Fund transfer to General Fund	0.0	(2.4)	(2.4)	(2.4)
<u>(12) Laws 2022, Ch. 315</u> Changes to reimbursements for Apache and Greenlee Counties	0.0	(2.3)	(2.3)	(2.3)
<u>(13) Laws 2022, Ch. 321</u> Expands TPT exemption for used agricultural machinery	0.0	(0.6)	(0.6)	(0.6)
<u>(14) Laws 2022, Ch. 321</u> Change to Aircraft License Tax	0.0	(1.9)	(0.9)	(0.9)
<u>(15) Laws 2022, Ch. 341</u> Veterans' Property Tax Exemption	0.0	0.0	<sup>7/</sup>	<sup>7/</sup>
<u>(16) Laws 2022, Ch. 385</u> Adjusts QCO/QFCO credit caps annually for inflation	0.0	(1.0)	(2.0)	(4.0)
<u>(17) Laws 2022, Ch. 387</u> Creates a motion picture production tax credit <sup>8/</sup>	--	--	--	--
<b>Total – 2022 Enacted Legislation</b>	<b>\$(0.0)</b>	<b>\$(8.9)</b>	<b>\$(8.9)</b>	<b>\$(10.9)</b>
<b>Grand Total – 2021 &amp; 2022 Enacted Legislation</b>	<b>\$(51.0)</b>	<b>\$(1,325.2)</b>	<b>\$(1,701.2)</b>	<b>\$(2,147.1)</b>

<sup>1/</sup> Due to the invalidation of Proposition 208, this provision will no longer have a General Fund impact.

<sup>2/</sup> Due to the invalidation of Proposition 208, this provision will no longer have a General Fund impact.

<sup>3/</sup> Increases the General Fund K-12 funding formula cost by \$4.4 million in FY 2023 and \$9.0 million annually, beginning in FY 2024.

<sup>4/</sup> Increases the General Fund K-12 funding formula cost by \$30.0 million in FY 2023 and \$30.8 million annually, beginning in FY 2024.

<sup>5/</sup> Chapter 103 was not scored as part of the 3-year budget plan. JLBC Staff Analysis estimated the General Fund K-12 funding formula cost to be \$9.2 million in FY 2023, \$19.2 million in FY 2024, and \$29.6 million in FY 2025.

<sup>6/</sup> JLBC Fiscal Note estimated the General Fund K-12 funding formula cost to be \$3.8 million in FY 2027 and \$6.9 million annually, beginning in FY 2028.

<sup>7/</sup> JLBC Staff Analysis estimated the General Fund K-12 funding formula savings to be \$(1.0) million, beginning in FY 2024.

<sup>8/</sup> Chapter 387 was not scored as part of the 3-year budget plan. The bill has a credit cap of \$75 million in 2023, \$100 million in 2024 and \$125 million in 2025. Based on a JLBC Fiscal Note of an earlier version of the bill, we estimate that less than half of the credit cap will be used by the third year. The JLBC analysis did not attempt to estimate the indirect impacts of the credit.



Table 5

## GENERAL FUND REVENUE - FY 2021 - FY 2023

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2021	% CHANGE PRIOR YR	FORECAST FY 2022	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2023	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	6,244,726.0	15.8%	7,139,888.3	14.3%	895,162.4	7,291,314.0	2.1%	151,425.7
Income - Individual	6,532,702.9	44.2%	7,400,636.2	13.3%	867,933.3	5,946,047.0	-19.7%	(1,454,589.2)
- Corporate	847,020.8	65.5%	1,111,636.5	31.2%	264,615.8	1,132,583.8	1.9%	20,947.2
Property	22,380.0	-7.3%	25,647.9	14.6%	3,267.8	24,552.5	-4.3%	(1,095.3)
Luxury - Tobacco	22,581.1	8.2%	22,306.0	-1.2%	(275.1)	22,085.4	-1.0%	(220.5)
- Liquor	44,938.5	23.9%	45,231.4	0.7%	292.8	46,755.3	3.4%	1,523.9
Insurance Premium	616,251.4	15.2%	677,876.6	10.0%	61,625.1	690,388.0	1.8%	12,511.4
Other Taxes	15,304.9	6.2%	15,534.4	1.5%	229.6	16,000.5	3.0%	466.0
Subtotal - Taxes	14,345,905.7	29.6%	16,438,757.3	14.6%	2,092,851.6	15,169,726.6	-7.7%	(1,269,030.7)
<b>Other Non-Tax Revenues:</b>								
Lottery	104,740.4	1.1%	222,410.2	112.3%	117,669.8	175,241.5	-21.2%	(47,168.7)
Gaming Revenue	0.0	N/A	26,101.3	N/A	26,101.3	18,467.0	-29.2%	(7,634.3)
Licenses, Fees and Permits	39,411.1	13.3%	39,010.5	-1.0%	(400.6)	40,050.0	2.7%	1,039.5
Interest	888.9	-97.7%	39,414.5	4334.3%	38,525.6	25,000.0	-36.6%	(14,414.5)
Sales and Services	26,049.0	16.2%	27,038.9	3.8%	989.9	27,985.3	3.5%	946.4
Other Miscellaneous	147,902.4	17.4%	152,554.8	3.1%	4,652.4	148,359.4	-2.8%	(4,195.4)
Transfers and Reimbursements	131,146.9	12.6%	111,827.5	-14.7%	(19,319.4)	74,851.4	-33.1%	(36,976.1)
Public Safety Transfers	23,343.2	0.0%	0.0	-100.0%	(23,343.2)	0.0	N/A	0.0
Disproportionate Share Revenue	84,858.6	-0.1%	98,514.8	16.1%	13,656.2	91,649.6	-7.0%	(6,865.2)
Subtotal - Other Non-Tax	558,340.5	1.3%	716,872.4	28.4%	158,531.9	601,604	-16.1%	(115,268.3)
<b>Net Ongoing Revenue</b>	<b>14,904,246.2</b>	<b>28.3%</b>	<b>17,155,629.7</b>	<b>15.1%</b>	<b>2,251,383.5</b>	<b>15,771,330.6</b>	<b>-8.1%</b>	<b>(1,384,299.1)</b>
Urban Revenue Sharing (URS)	(828,492.9)	N/A	(756,388.3)	N/A	72,104.6	(1,106,958.6)	N/A	(350,570.3)
<b>Net Ongoing Revenue w/ URS</b>	<b>14,075,753.3</b>	<b>29.4%</b>	<b>16,399,241.4</b>	<b>16.5%</b>	<b>2,323,488.1</b>	<b>14,664,372.0</b>	<b>-10.6%</b>	<b>(1,734,869.4)</b>
<b>One-Time Financing Sources:</b>								
Prescription Drug Rebate Fund Transfer	16,700.0	-75.8%	0.0	-100.0%	(16,700.0)	0.0	N/A	0.0
DPS Highway Patrol Fund Transfer	24,205.7	N/A	0.0	-100.0%	(24,205.7)	0.0	N/A	0.0
Water Infrastructure Repayment	0.0	N/A	20,000.0	N/A	20,000.0	0.0	-100.0%	(20,000.0)
TPT Diversions	0.0	N/A	0.0	N/A	0.0	(2,287,489.6)	N/A	(2,287,489.6)
Newly Enacted Tax Reductions	0.0	N/A	0.0	N/A	0.0	(50,000.0)	N/A	(50,000.0)
Other One-Time Revenue Changes	0.0	N/A	0.0	N/A	0.0	(3,500.0)	N/A	(3,500.0)
Subtotal - One-Time Financing Sources	40,905.7	-55.0%	20,000.0	-51.1%	(20,905.7)	(2,340,989.6)	N/A	(2,360,989.6)
<b>Subtotal - Revenues</b>	<b>14,116,659.0</b>	<b>28.7%</b>	<b>16,419,241.4</b>	<b>16.3%</b>	<b>2,302,582.4</b>	<b>12,323,382.4</b>	<b>-24.9%</b>	<b>(4,095,859.0)</b>
Balance Forward	372,457.0	-61.1%	894,636.0	140.2%	522,179.0	4,508,935.4	404.0%	3,614,299.4
<b>Total - Resources</b>	<b>14,489,116.0</b>	<b>21.5%</b>	<b>17,313,877.4</b>	<b>19.5%</b>	<b>2,824,761.4</b>	<b>16,832,317.8</b>	<b>-2.8%</b>	<b>(481,559.6)</b>

Table 6

## GENERAL FUND REVENUE - FY 2024 - FY 2025

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2024	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2025	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	7,650,750.9	4.9%	359,436.8	8,026,505.7	4.9%	375,754.8
Income - Individual	5,932,208.9	-0.2%	(13,838.1)	5,846,707.3	-1.4%	(85,501.6)
- Corporate	1,178,415.2	4.0%	45,831.4	1,226,298.7	4.1%	47,883.5
Property	24,156.7	-1.6%	(395.8)	23,858.5	-1.2%	(298.2)
Luxury - Tobacco	22,097.8	0.1%	12.4	22,386.1	1.3%	288.3
- Liquor	48,268.9	3.2%	1,513.6	49,739.7	3.0%	1,470.8
Insurance Premium	717,539.8	3.9%	27,151.8	740,955.7	3.3%	23,415.9
Other Taxes	16,544.5	3.4%	544.0	17,123.5	3.5%	579.1
Subtotal - Taxes	15,589,982.6	2.8%	420,256.1	15,953,575.1	2.3%	363,592.4
<b>Other Non-Tax Revenues:</b>						
Lottery	185,177.4	5.7%	9,935.9	195,754.6	5.7%	10,577.2
Gaming Revenue	20,110.2	8.9%	1,643.2	21,421.2	6.5%	1,311.0
Licenses, Fees and Permits	41,512.9	3.7%	1,463.0	43,071.1	3.8%	1,558.1
Interest	27,500.0	10.0%	2,500.0	30,000.0	9.1%	2,500.0
Sales and Services	28,964.7	3.5%	979.5	29,978.5	3.5%	1,013.8
Other Miscellaneous	153,801.8	3.7%	5,442.4	158,458.2	3.0%	4,656.4
Transfers and Reimbursements	78,090.0	4.3%	3,238.6	81,545.1	4.4%	3,455.1
Public Safety Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Disproportionate Share Revenue	95,474.3	4.2%	3,824.7	95,644.9	0.2%	170.6
Subtotal - Other Non-Tax	630,631.4	4.8%	29,027.3	655,873.5	4.0%	25,242.1
<b>Net Ongoing Revenue</b>	<b>16,220,614.0</b>	<b>2.8%</b>	<b>449,283.4</b>	<b>16,609,448.6</b>	<b>2.4%</b>	<b>388,834.6</b>
Urban Revenue Sharing (URS)	(1,429,609.1)	N/A	(322,650.5)	(1,258,493.5)	N/A	171,115.5
<b>Net Ongoing Revenue w/ URS</b>	<b>14,791,005.0</b>	<b>0.9%</b>	<b>126,632.9</b>	<b>15,350,955.0</b>	<b>3.8%</b>	<b>559,950.1</b>
<b>One-Time Financing Sources:</b>						
Prescription Drug Rebate Fund Transfer	0.0	N/A	0.0	0.0	N/A	0.0
DPS Highway Patrol Fund Transfer	0.0	N/A	0.0	0.0	N/A	0.0
Water Infrastructure Repayment	0.0	N/A	0.0	0.0	N/A	0.0
TPT Diversions	0.0	N/A	2,287,489.6	0.0	N/A	0.0
Newly Enacted Tax Reductions	0.0	N/A	50,000.0	0.0	N/A	0.0
Other One-Time Revenue Changes	0.0	N/A	3,500.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	N/A	2,340,989.6	0.0	N/A	0.0
<b>Subtotal - Revenues</b>	<b>14,791,005.0</b>	<b>20.0%</b>	<b>2,467,622.5</b>	<b>15,350,955.0</b>	<b>3.8%</b>	<b>559,950.1</b>
Balance Forward	1,077,036.7	-76.1%	(3,431,898.7)	678,790.3	-37.0%	(398,246.4)
<b>Total - Resources</b>	<b>15,868,041.7</b>	<b>-5.7%</b>	<b>(964,276.2)</b>	<b>16,029,745.3</b>	<b>1.0%</b>	<b>161,703.7</b>