

GENERAL FUND REVENUE

Summary of General Fund Forecast

The enacted FY 2025 budget assumes total General Fund revenues of \$16.28 billion. This amount is a decrease of (9.1)% compared to enacted FY 2024 General Fund revenues.

Excluding the beginning balance, one-time revenues, and Urban Revenue Sharing, net revenue under the June 2024 enacted budget forecast is projected to increase by 3.0% in FY 2025.

General Fund Revenue Forecast

FY 2024

The original FY 2024 budget enacted in May 2023 was based on total General Fund revenues of \$17.83 billion. As a result of significantly lower revenue collections than anticipated during the first half of FY 2024, the January 2024 Baseline forecast reduced the original FY 2024 General Fund revenue forecast to \$16.92 billion, a decrease of \$(908) million.

The starting point for developing the January Baseline forecast is the 4-sector consensus process, which is described below. (However, as discussed on page 509 of the *FY 2025 Baseline Book*, the January 2024 Baseline used the JLBC-sector forecast for FY 2024 rather than the average of the 4-sector forecast.)

By the end of April, General Fund revenue was \$120 million above the FY 2024 January Baseline forecast. As a result of the higher-than-projected level of collections during the first 4 months of calendar year 2024, the Legislature in its 2024 Regular Session revisions to the FY 2024 budget adopted a revenue forecast that was \$151 million above the Baseline forecast.

The June 2024 adopted budget for FY 2024 included \$843 million of total one-time transfers from approximately 100 state funds to the General Fund as part of resolving the state's budget shortfall.

As a result of the \$151 million revenue forecast revision and the \$843 million in one-time fund transfers, total FY 2024 General Fund revenue under the June 2024 enacted budget is \$17.91 billion.

FY 2025

The enacted FY 2025 budget forecasts total General Fund revenues of \$16.28 billion, a (9.1)% reduction from FY

2024. Excluding one-time fund transfers and Urban Revenue Sharing, ongoing revenues are projected to be \$16.88 billion, an increase of 3.0% above FY 2024.

Table 1 below summarizes the changing revenue picture in FY 2024 to FY 2027 through the phases of budget development. The growth rates in the table reflect ongoing revenues after the impact of enacted tax legislation.

Table 1	
Ongoing Revenue Change Over Prior Year	
	% Change
FY 2024	
January Baseline ^{1/}	(3.4)%
June Enacted Budget ^{1/}	(2.5)%
FY 2025	
January Baseline ^{1/}	2.6%
June Enacted Budget ^{1/2/}	3.0%
FY 2026	
January Baseline ^{1/}	4.1%
June Enacted Budget ^{1/2/}	3.6%
FY 2027	
January Baseline ^{1/}	4.7%
June Enacted Budget ^{1/2/}	4.6%
^{1/} Includes impact of tax legislation enacted prior to the 2024 Regular Session.	
^{2/} Includes impact of tax legislation enacted during the 2024 Regular Session. For more details, see <i>Table 3</i> .	

Table 2 provides an overview of ongoing and total revenue growth for FY 2024 and FY 2025.

Long-Term Projections

The enacted budget also incorporates revenue planning estimates for FY 2026 and FY 2027, which are shown in *Table 5*. The ongoing revenue growth rates included in the FY 2026 and FY 2027 revenue planning estimates under the June adopted budget are 3.6% in FY 2026 and 4.6% in FY 2027.

4-Sector Forecast

The projected growth rates for the “Big 3” revenue categories of sales, individual income, and corporate income 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 11 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 econometric 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.
- EBR’s conservative forecast model, and
- JLBC Staff projections.

The estimates for the remaining revenue categories, which constitute about 10% of the total, were based on JLBC Staff projections.

	<u>FY 2024</u>	<u>%</u>	<u>FY 2025</u>	<u>%</u>
Ongoing Revenue ^{1/}	\$16,382.9	(2.5)%	\$16,876.2	3.0%
Urban Revenue Sharing	(1,564.8)		(1,268.3)	
One-Time Financing Sources:				
Balance Forward	2,527.2		638.9	
Fund Transfers	843.3		32.2	
One-Time Income Tax Rebate	<u>(274.0)</u>		<u>0.0</u>	
Subtotal	3,096.5		671.1	
Total Revenue ^{2/}	<u>\$17,914.7</u>	(1.6)%	<u>\$16,279.1</u>	(9.1)%

^{1/} Ongoing revenue represents net General Fund revenue, including the impact of enacted tax law changes. It excludes Urban Revenue Sharing and one-time financing sources.

^{2/} Totals may not add up due to rounding.

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 budget legislation enacted during the 2024 Regular Session with an ongoing revenue impact through FY 2027. (See *Table 3* for a complete list of all statutory changes affecting ongoing revenue collections through FY 2027.)

Enacted Budget Legislation

1) 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 the fiscal year must be deposited in the General Fund. The FY 2025 General Appropriation Act (Laws 2024, Chapter 209) provided 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 \$401,600 in FY 2025. Since these changes have the effect of decreasing the excess fund balance by the same amount, General Fund revenue is reduced by \$(401,600) annually, beginning in FY 2025.

2) Reduction of Lottery Revenue Allocation to ACA – Under current law (A.R.S. § 5-572), annual distributions from the State Lottery Commission to the Arizona Competes Fund (administered by the Arizona Commerce Authority) are capped at \$3,500,000. Laws 2024, Chapter 210 (Amusements Budget Reconciliation Bill) reduces this allocation by \$(1,750,000) annually in FY 2025 through FY 2027. As a result, the General Fund portion of the lottery revenue allocation is increased by the same amount, or \$1,750,000 in FY 2025 through FY 2027.

3) Reduction of Corporate STO Credit Cap – Pursuant to A.R.S. § 43-1183, corporations and insurers can claim an income tax credit for cash contributions made to private School Tuition Organizations (STO) that provide scholarships and tuition grants to students of low-income families.

Under Laws 2019, Chapter 281, the aggregate cap of this STO credit was set at \$158.8 million in FY 2024. (Chapter 281 provided that the annual increase of the credit cap was limited to the greater of 2% or the annual change of the Metropolitan Phoenix consumer price index.)

Laws 2024, Chapter 221 (Taxation Budget Reconciliation Bill) reduces the annual STO credit cap to \$135 million, beginning in FY 2025 with no further inflation adjustments. Relative to the projected credit use under prior law, Chapter 221 is estimated to result in General Fund savings of \$31.7 million in FY 2025, \$35.4 million in FY 2026, and \$39.0 million in FY 2027.

4) Converting 90/10 Regulatory Boards to 85/15 – Laws 2024, Chapter 222 increases the percentage of self-supporting regulatory board licensing fee revenue deposited to the General Fund from 10% to 15% from FY 2025 through FY 2028. The distribution reverts to 10%, beginning in FY 2029. Chapter 222 has the effect of increasing General Fund revenue by \$2.9 million annually from FY 2025 through FY 2028.

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. Through FY 2023, the amount distributed to cities and towns was 15% of net income tax collections from 2 years prior. Laws 2021, Chapter 412 increased the URS distribution to 18%, beginning in FY 2024.

As indicated in *Table 4*, total URS distributions will decrease from \$1.56 billion in FY 2024 to \$1.27 billion in FY 2025. This URS decrease will result in General Fund revenue gain of \$297 million in FY 2025 relative to FY 2024.

One-Time Financing

As shown in *Table 4 and 5*, the budget adopted in June 2024 includes the following one-time financing sources:

FY 2024

One-Time Income Tax Rebate

Laws 2023, Chapter 147 provides a one-time individual income tax rebate to an Arizona taxpayer who: (1) filed a full-year resident tax return for TY 2021, (2) claimed a dependent tax credit on the TY 2021 tax return, and (3) had a tax liability of at least \$1 in TY 2019, TY 2020, or TY 2021. *Please see the FY 2025 January Baseline Book for more information.*

The income tax rebate program was originally estimated to have a one-time General Fund cost of \$259.8 million in FY 2024. This estimate was later revised to \$273.0 million under the January Baseline forecast. This amount was further revised to \$274.0 million under the June 2024 Enacted forecast.

Fund Transfers

The June 2024 adopted budget provided a total of \$843.3 million in one-time transfers from approximately 100 state funds to the General Fund to help solve the state's FY 2024 budget shortfall.

The General Appropriation Act (Laws 2024, Chapter 209) authorized \$686.7 million of the fund transfers while the remaining \$156.6 million in transfers were authorized by the Capital Outlay bill (Laws 2024, Chapter 211). *For more details on the FY 2024-FY 2027 fund transfers, see the Summary of One-time General Fund Transfers in the summary section of this book.*

Balance Forward

The FY 2023 General Fund ending balance carried into FY 2024 was \$2.53 billion.

FY 2025

Fund Transfers

The adopted budget includes fund transfers to the General Fund of \$32.2 million in FY 2025.

Balance Forward

The FY 2024 General Fund ending balance carried into FY 2025 is projected to be \$638.9 million.

FY 2026

Fund Transfers

The adopted budget includes fund transfers to the General Fund of \$17.0 million in FY 2026.

Balance Forward

The FY 2025 General Fund ending balance carried into FY 2026 is projected to be \$95.7 million.

FY 2027

Fund Transfers

The adopted budget includes fund transfers to the General Fund of \$12.0 million in FY 2027.

Balance Forward

The FY 2026 General Fund ending balance carried into FY 2027 is projected to be \$20.0 million.

Table 3

**Budget Legislation with Ongoing General Fund Revenue Impact in FY 2024 through FY 2027
(\$ in Millions)**

<u>Legislation / Description of Provision</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
<u>(1) Laws 2024, Ch. 209</u> Reduces Liquor Licenses Fund transfer to General Fund	--	(0.4)	(0.4)	(0.4)
<u>(2) Laws 2024, Ch. 210</u> Reduces ACA Competes Fund allocation from \$3.5 M to \$1.75 M from FY 2025 to FY 2027	--	1.8	1.8	1.8
<u>(3) Laws 2024, Ch. 221</u> Reduces Corporate Low-Income STO Credit Cap to \$135 M, beginning in FY 2025	--	31.7	35.4	39.0
<u>(3) Laws 2024, Ch. 222</u> Converts 90/10 Regulatory Boards to 85/15 from FY 2025 to FY 2028	--	<u>2.9</u>	<u>2.9</u>	<u>2.9</u>
Total – 2024 Enacted Legislation ^{1/}	\$0.0	\$35.9	\$39.6	\$43.2

^{1/} Totals may not add up due to rounding

Table 4

GENERAL FUND REVENUE - FY 2023 - FY 2025

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2023	% CHANGE PRIOR YR	FORECAST FY 2024	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2025	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	7,677,789.3	6.5%	7,900,089.6	2.9%	222,300.3	8,213,718.4	4.0%	313,628.8
Income - Individual	5,239,552.9	-30.4%	4,789,399.8	-8.6%	(450,153.1)	5,044,299.1	5.3%	254,899.3
- Corporate	1,806,311.4	55.3%	1,692,774.9	-6.3%	(113,536.5)	1,736,040.6	2.6%	43,265.7
Property	22,208.0	-17.1%	26,763.9	20.5%	4,555.8	24,387.1	-8.9%	(2,376.8)
Luxury - Tobacco	18,686.8	-10.5%	19,220.7	2.9%	533.8	19,028.5	-1.0%	(192.2)
- Liquor	45,379.8	4.1%	45,875.2	1.1%	495.4	48,500.2	5.7%	2,625.0
Insurance Premium	761,342.0	7.6%	794,716.8	4.4%	33,374.8	825,776.6	3.9%	31,059.8
Other Taxes	18,354.0	12.6%	17,230.6	-6.1%	(1,123.4)	18,712.3	8.6%	1,481.7
Subtotal - Taxes	15,589,624.2	-6.7%	15,286,071.4	-1.9%	(303,552.8)	15,930,462.8	4.2%	644,391.4
Other Non-Tax Revenues:								
Lottery	175,812.0	-4.3%	222,285.2	26.4%	46,473.2	234,637.8	5.6%	12,352.6
Gaming Revenue	49,377.2	373.1%	31,590.0	-36.0%	(17,787.2)	34,657.0	9.7%	3,067.0
Licenses, Fees and Permits	42,181.8	3.9%	50,050.1	18.7%	7,868.4	52,440.6	4.8%	2,390.5
Interest	366,763.2	690.7%	340,000.0	-7.3%	(26,763.2)	250,000.0	-26.5%	(90,000.0)
Sales and Services	33,156.3	9.2%	29,982.5	-9.6%	(3,173.7)	31,361.8	4.6%	1,379.3
Other Miscellaneous	178,644.0	14.7%	180,189.8	0.9%	1,545.8	188,221.4	4.5%	8,031.6
Transfers and Reimbursements	275,596.9	64.7%	166,909.0	-39.4%	(108,687.8)	80,301.0	-51.9%	(86,608.0)
Disproportionate Share Revenue	98,139.0	11.7%	75,853.5	-22.7%	(22,285.5)	74,162.9	-2.2%	(1,690.6)
Subtotal - Other Non-Tax	1,219,670.3	68.8%	1,096,860.2	-10.1%	(122,810.1)	945,782.5	-13.8%	(151,077.6)
Net Ongoing Revenue	16,809,294.5	-3.6%	16,382,931.6	-2.5%	(426,362.9)	16,876,245.4	3.0%	493,313.8
Urban Revenue Sharing (URS)	(1,106,958.7)	N/A	(1,564,819.8)	N/A	(457,861.1)	(1,268,255.6)	N/A	296,564.2
Net Ongoing Revenue w/ URS	15,702,335.8	-5.9%	14,818,111.8	-5.6%	(884,224.0)	15,607,989.8	5.3%	789,878.0
One-Time Financing Sources:								
Fund Transfers	0.0	N/A	843,331.2	N/A	843,331.2	32,191.8	-96.2%	(811,139.4)
Attorney General Google Settlement	75,462.1	N/A	0.0	-100.0%	(75,462.1)	0.0	N/A	0.0
TPT Diversions	(2,287,489.6)	N/A	0.0	N/A	2,287,489.6	0.0	N/A	0.0
One-Time Income Tax Rebate	0.0	N/A	(274,000.0)	N/A	(274,000.0)	0.0	N/A	274,000.0
Subtotal - One-Time Financing Sources	(2,212,027.5)	N/A	569,331.2	N/A	2,781,358.7	32,191.8	-94.3%	(537,139.4)
Subtotal - Revenues	13,490,308.3	-19.2%	15,387,443.0	14.1%	1,897,134.7	15,640,181.6	1.6%	252,738.6
Balance Forward	4,709,446.0	426.4%	2,527,233.0	-46.3%	(2,182,213.0)	638,927.6	-74.7%	(1,888,305.4)
Total - Resources	18,199,754.3	3.4%	17,914,676.0	-1.6%	(285,078.3)	16,279,109.2	-9.1%	(1,635,566.8)

Table 5

GENERAL FUND REVENUE - FY 2026 - FY 2027

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2026	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2027	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	8,580,078.1	4.5%	366,359.7	9,014,193.5	5.1%	434,115.4
Income - Individual	5,282,140.4	4.7%	237,841.2	5,558,862.4	5.2%	276,722.0
- Corporate	1,796,667.0	3.5%	60,626.4	1,879,185.3	4.6%	82,518.3
Property	23,902.0	-2.0%	(485.1)	23,484.0	-1.7%	(418.0)
Luxury - Tobacco	18,838.2	-1.0%	(190.3)	18,649.8	-1.0%	(188.4)
- Liquor	51,272.2	5.7%	2,772.0	54,199.5	5.7%	2,927.2
Insurance Premium	854,621.0	3.5%	28,844.5	887,456.0	3.8%	32,835.0
Other Taxes	19,678.2	5.2%	965.9	20,744.9	5.4%	1,066.7
Subtotal - Taxes	16,627,197.1	4.4%	696,734.3	17,456,775.3	5.0%	829,578.2
Other Non-Tax Revenues:						
Lottery	251,935.7	7.4%	17,297.9	268,254.7	6.5%	16,319.0
Gaming Revenue	36,510.9	5.3%	1,853.9	38,455.0	5.3%	1,944.1
Licenses, Fees and Permits	54,986.9	4.9%	2,546.3	57,466.6	4.5%	2,479.7
Interest	135,000.0	-46.0%	(115,000.0)	87,000.0	-35.6%	(48,000.0)
Sales and Services	32,796.3	4.6%	1,434.5	34,288.1	4.5%	1,491.9
Other Miscellaneous	194,950.2	3.6%	6,728.9	202,988.3	4.1%	8,038.0
Transfers and Reimbursements	80,859.5	0.7%	558.5	81,437.6	0.7%	578.1
Disproportionate Share Revenue	74,428.5	0.4%	265.6	74,452.7	0.0%	24.2
Subtotal - Other Non-Tax	861,468.0	-8.9%	(84,314.5)	844,342.9	-2.0%	(17,125.2)
Net Ongoing Revenue	17,488,665.1	3.6%	612,419.8	18,301,118.2	4.6%	812,453.1
Urban Revenue Sharing (URS)	(1,141,591.4)	N/A	126,664.1	(1,194,163.2)	N/A	(52,571.7)
Net Ongoing Revenue w/ URS	16,347,073.7	4.7%	739,083.9	17,106,955.0	4.6%	759,881.4
One-Time Financing Sources:						
Fund Transfers	17,000.0	-47.2%	(15,191.8)	12,000.0	-29.4%	(5,000.0)
Attorney General Google Settlement	0.0	N/A	0.0	0.0	N/A	0.0
TPT Diversions	0.0	N/A	0.0	0.0	N/A	0.0
One-Time Income Tax Rebate	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	17,000.0	-47.2%	(15,191.8)	12,000.0	-29.4%	(5,000.0)
Subtotal - Revenues	16,364,073.7	4.6%	723,892.1	17,118,955.0	4.6%	754,881.4
Balance Forward	95,652.6	-85.0%	(543,275.0)	19,984.2	-79.1%	(75,668.4)
Total - Resources	16,459,726.3	1.1%	180,617.1	17,138,939.2	4.1%	679,213.0