

GENERAL FUND REVENUE

FY 2025

FY 2025 Baseline General Fund revenues are projected to be \$16.99 billion. As shown in *Table 1* below, this is an increase of \$715.2 million compared to the original revenue estimate included in the FY 2025 budget adopted in June 2024.

Table 1

**FY 2025 Revenue Forecast
(\$ in Millions)**

Adopted FY 2025 Revenue Estimate	\$16,279.1
Revision to Revenue Forecast	\$715.2
Revised FY 2025 Revenue Estimate	\$16,994.3

The higher FY 2025 revenue level under the January Baseline is the result of:

- An increase of \$389.5 million in ongoing revenues due to higher levels of collections than originally projected.
- An increase of \$323.9 million in the carry-forward balance from FY 2024. The original budget assumed an ending balance of \$638.9 million for FY 2024 while the actual balance carried forward was \$962.8 million.
- An increase of \$1.8 million in budgeted one-time fund transfers. Under the June 2024 adopted budget, this amount was expected to be transferred to the General Fund at the end of FY 2024 but ended up being delayed to FY 2025.

Current year ongoing net revenue estimates are based on the 4-sector consensus forecasting process (*see FY 2026 and Beyond section below*). Net revenue includes the impact of previously enacted legislation but excludes Urban Revenue Sharing and one-time revenue adjustments, such as budgeted fund transfers and the carry-forward balance.

Table 2 shows the projected net revenue growth rates in FY 2025 through FY 2028 for the “Big 3” General Fund revenue sources of sales, individual income and corporate income taxes that were provided by each of the components comprising the 4-sector consensus forecast.

Based on the weighted average of the components of the 4-sector consensus forecast, “Big 3” General Fund revenue is projected to grow by 5.0% in FY 2025. After incorporating the smaller revenue categories, including the insurance premium tax, which were estimated by the

JLBC Staff, the net revenue growth rate is 2.7%. After including Urban Revenue Sharing, fund transfers and the carry-forward balance, overall revenues are projected to decline by (7.3)%, to a total of \$16.99 billion in FY 2025.

FY 2026 and Beyond

The FY 2026 Baseline projects total net revenue of \$17.58 billion, which is 3.5%, or \$588.2 million, above the amount in FY 2025. Net revenue, which excludes Urban Revenue Sharing, fund transfers and the beginning balance, is projected to grow by 3.4% in FY 2026.

The FY 2026 Baseline also incorporates revenue planning estimates for FY 2027 and FY 2028, which are shown in *Table 5*. Under the January Baseline, net revenue would increase by 4.4% in FY 2027 and 4.7% in FY 2028.

The Baseline estimated 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 averaging process. This process is based on averaging the results of the following 4 forecasts:

- Finance Advisory Committee panel forecast of January 2025. Consisting of 11 public and private sector economists, this independent panel usually 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.
- EBR’s more cautious forecast model, and
- JLBC Staff projections.

The growth rates from each sector of the forecast for FY 2025 through FY 2028 are displayed in *Table 2*.

Risks to the Revenue Forecast

While most economists believe that the US economy is still on course for a "soft landing," there are certain factors that continue to pose risks to the outlook particularly with respect to the current conflicts in the Middle East and in Ukraine. If these conflicts were to escalate, American households and businesses would likely face higher energy prices, weaker equity values and tighter financial conditions, which would have a dampening effect on consumer spending and business investments.

Table 2

**4-Sector Estimates
Forecast Percentages (FY 2025 - FY 2028)
Net Revenue ^{1/}**

	FY 2025					FY 2026				
	<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>
Sales Tax	3.5%	2.2%	3.4%	3.4%	3.1%	4.1%	2.9%	4.1%	3.7%	3.7%
Individual Income Tax	9.7%	5.6%	7.4%	6.6%	7.3%	5.0%	5.9%	6.3%	4.5%	5.4%
Corporate Income Tax	6.5%	6.3%	7.3%	7.4%	6.9%	3.1%	2.5%	3.4%	5.8%	3.7%
Overall ^{2/}	3.5%	1.7%	2.9%	2.7%	2.7%	3.4%	3.0%	3.8%	3.3%	3.4%
	FY 2027					FY 2028				
	<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>
Sales Tax	4.2%	3.9%	4.2%	4.4%	4.2%	4.4%	4.0%	4.4%	4.1%	4.2%
Individual Income Tax	4.9%	6.2%	6.5%	5.3%	5.7%	5.0%	6.2%	6.5%	4.9%	5.6%
Corporate Income Tax	3.2%	2.5%	3.3%	7.7%	4.2%	2.9%	2.9%	3.7%	5.8%	3.9%
Overall ^{2/}	4.1%	4.3%	4.6%	4.8%	4.4%	4.5%	4.7%	5.0%	4.6%	4.7%

^{1/} Includes impact of previously enacted tax legislation.

^{2/} The growth rates for each sector represent the weighted average of Big-3 revenue estimates plus JLBC Staff estimates of other revenue.

Revenue Adjustments

Table 3 provides an overview of ongoing net revenue and total revenue growth for FY 2025 and FY 2026. As noted earlier, ongoing net General Fund revenue includes the impact of previously enacted tax legislation but excludes Urban Revenue Sharing, and one-time financing sources. As shown in Table 3, under the January Baseline, ongoing net revenue is projected to grow by 2.7% in FY 2025 and 3.4% in FY 2026. Total revenue, which represents all net General Fund revenue, including Urban Revenue Sharing and one-time financing sources, is estimated to decrease by (7.3)% in FY 2025, followed by an increase of 3.5% in FY 2026.

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, state conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

As noted earlier, the Baseline revenue forecast was prepared on a net revenue basis, which means that the projected revenue levels already reflect the impact of prior tax law changes, such as the reduction of the corporate low-income STO credit cap provided by Laws 2024, Chapter 221. For more details on previously enacted tax legislation, see page 436 in the *FY 2025 Appropriations Report*.

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 distributed to cities and towns is 18% of net individual and corporate income tax collections from 2 years prior.

Table 3				
General Fund Revenue Baseline For FY 2025 and FY 2026 Budget (\$ in Millions)				
	<u>FY 2025</u>	<u>%</u>	<u>FY 2026</u>	<u>%</u>
Net Revenue ^{1/}	\$17,265.7	2.7%	\$17,848.1	3.4%
Urban Revenue Sharing	(1,268.2)		(1,186.3)	
One-Time Financing Sources:				
Balance Forward	962.8		903.7	
Fund Transfers	<u>34.0</u>		<u>17.0</u>	
Subtotal	996.8		920.7	
Total Revenue	<u>\$16,994.3</u>	(7.3)%	<u>\$17,582.5</u>	3.5%
^{1/} Net revenue represents ongoing General Fund revenue after the impact of previously enacted tax legislation.				

As shown in *Table 4*, total URS distributions will decrease from \$1.27 billion in FY 2025 to \$1.19 billion in FY 2026. This URS reduction results in a net General Fund revenue gain of \$82 million in FY 2026 relative to FY 2025. As displayed in *Table 5*, URS distributions are projected to increase to \$1.27 billion in FY 2027 and \$1.33 billion in FY 2028, which will result in a net General Fund loss of \$(85) million and \$(63) million in FY 2027 and FY 2028, respectively.

One-Time Financing

As shown in *Table 4*, the FY 2025 budget adopted in June 2024 includes the following one-time financing sources:

FY 2025

Fund Transfers

The enacted FY 2025 budget provided for a total of \$32.2 million in one-time transfers from various state funds to the General Fund in FY 2025. However, due to the delay of a fund transfer in the amount of \$1.8 million that was originally scheduled to occur at the end of FY 2024, but ended up being transferred in FY 2025, the total fund transfer will now be \$34.0 million.

Balance Forward

The FY 2024 General Fund ending balance carried into FY 2025 was \$962.8 million.

FY 2026

Fund Transfers

The June 2024 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 \$903.7 million.

FY 2027

Fund Transfers

The June 2024 adopted budget includes fund transfers to the General Fund of \$12.0 million in FY 2027. The Baseline assumes no other one-time revenue sources in FY 2027.

FY 2028

The Baseline assumes no one-time revenue sources in FY 2028.

Table 4

GENERAL FUND REVENUE - FY 2024 - FY 2026

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2024	% CHANGE PRIOR YR	FORECAST FY 2025	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2026	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	7,933,914.2	3.3%	8,181,849.0	3.1%	247,934.8	8,484,425.1	3.7%	302,576.1
Income - Individual	4,845,765.9	-7.5%	5,200,233.7	7.3%	354,467.8	5,481,787.7	5.4%	281,554.0
- Corporate	1,744,821.7	-3.4%	1,864,690.9	6.9%	119,869.2	1,933,857.0	3.7%	69,166.0
Property	25,995.0	17.1%	38,287.0	47.3%	12,292.0	37,721.3	-1.5%	(565.7)
Luxury - Tobacco	19,541.4	2.5%	18,128.5	-7.2%	(1,413.0)	17,947.2	-1.0%	(181.3)
- Liquor	44,919.1	-3.6%	46,333.2	3.1%	1,414.0	48,974.2	5.7%	2,641.0
Insurance Premium	820,435.1	7.8%	881,967.7	7.5%	61,532.6	923,420.2	4.7%	41,452.5
Other Taxes	17,196.5	-6.3%	19,721.0	14.7%	2,524.5	20,746.5	5.2%	1,025.5
Subtotal - Taxes	15,452,588.9	-0.9%	16,251,211.0	5.2%	798,622.1	16,948,879.0	4.3%	697,668.1
Other Non-Tax Revenues:								
Lottery	222,285.2	26.4%	217,294.1	-2.2%	(4,991.1)	223,203.1	2.7%	5,909.1
Gaming Revenue	36,477.3	-26.1%	40,711.5	11.6%	4,234.2	43,764.8	7.5%	3,053.4
Licenses, Fees and Permits	52,664.5	24.9%	52,240.2	-0.8%	(424.3)	54,800.0	4.9%	2,559.8
Interest	371,165.8	1.2%	250,000.0	-32.6%	(121,165.8)	135,000.0	-46.0%	(115,000.0)
Sales and Services	30,757.0	-7.2%	29,361.8	-4.5%	(1,395.2)	30,712.5	4.6%	1,350.6
Other Miscellaneous	226,979.6	27.1%	231,554.1	2.0%	4,574.4	239,890.0	3.6%	8,335.9
Transfers and Reimbursements	328,017.4	18.7%	103,389.8	-68.5%	(224,627.5)	82,294.5	-20.4%	(21,095.3)
Medicaid Hospital Revenue	90,125.0	-8.2%	89,942.8	-0.2%	(182.2)	89,569.8	-0.4%	(373.0)
Subtotal - Other Non-Tax	1,358,471.8	11.3%	1,014,494.3	-25.3%	(343,977.5)	899,234.7	-11.4%	(115,259.5)
Net Ongoing Revenue	16,811,060.7	0.0%	17,265,705.2	2.7%	454,644.5	17,848,113.8	3.4%	582,408.5
Urban Revenue Sharing (URS)	(1,564,819.8)	N/A	(1,268,255.6)	N/A	296,564.2	(1,186,305.8)	N/A	81,949.8
Net Ongoing Revenue w/ URS	15,246,240.9	-2.9%	15,997,449.6	4.9%	751,208.7	16,661,808.0	4.2%	664,358.3
One-Time Financing Sources:								
Fund Transfers	841,564.7	N/A	33,991.8	-96.0%	(807,572.9)	17,000.0	-50.0%	(16,991.8)
One-Time Income Tax Rebate	(273,550.1)	N/A	0.0	N/A	273,550.1	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	568,014.6	N/A	33,991.8	-94.0%	(534,022.8)	17,000.0	-50.0%	(16,991.8)
Subtotal - Revenues	15,814,255.5	17.2%	16,031,441.4	1.4%	217,185.9	16,678,808.0	4.0%	647,366.5
Balance Forward	2,527,233.0	-46.3%	962,823.0	-61.9%	(1,564,410.0)	903,661.3	-6.1%	(59,161.7)
Total - Resources	18,341,488.5	0.8%	16,994,264.4	-7.3%	(1,347,224.1)	17,582,469.3	3.5%	588,204.8

Table 5

GENERAL FUND REVENUE - FY 2027 - FY 2028

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2027	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2028	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	8,839,567.6	4.2%	355,142.5	9,213,338.4	4.2%	373,770.8
Income - Individual	5,796,177.8	5.7%	314,390.2	6,123,606.2	5.6%	327,428.3
- Corporate	2,015,070.6	4.2%	81,213.6	2,092,896.0	3.9%	77,825.4
Property	37,250.0	-1.2%	(471.3)	37,713.3	1.2%	463.3
Luxury - Tobacco	17,767.7	-1.0%	(179.5)	17,590.0	-1.0%	(177.7)
- Liquor	51,765.7	5.7%	2,791.5	54,354.0	5.0%	2,588.3
Insurance Premium	967,744.4	4.8%	44,324.2	1,015,163.8	4.9%	47,419.5
Other Taxes	21,866.8	5.4%	1,120.3	22,741.4	4.0%	874.7
Subtotal - Taxes	17,747,210.7	4.7%	798,331.6	18,577,403.1	4.7%	830,192.5
Other Non-Tax Revenues:						
Lottery	238,382.7	6.8%	15,179.6	256,214.1	7.5%	17,831.4
Gaming Revenue	58,106.2	32.8%	14,341.4	73,772.4	27.0%	15,666.1
Licenses, Fees and Permits	57,266.0	4.5%	2,466.0	59,556.6	4.0%	2,290.6
Interest	87,000.0	-35.6%	(48,000.0)	87,000.0	0.0%	0.0
Sales and Services	32,094.5	4.5%	1,382.1	33,378.3	4.0%	1,283.8
Other Miscellaneous	249,725.5	4.1%	9,835.5	259,714.5	4.0%	9,989.0
Transfers and Reimbursements	82,853.0	0.7%	558.5	83,431.1	0.7%	578.1
Medicaid Hospital Revenue	89,481.5	-0.1%	(88.3)	89,481.5	0.0%	0.0
Subtotal - Other Non-Tax	894,909.4	-0.5%	(4,325.3)	942,548.4	5.3%	47,639.0
Net Ongoing Revenue	18,642,120.1	4.4%	794,006.3	19,519,951.6	4.7%	877,831.5
Urban Revenue Sharing (URS)	(1,271,686.4)	N/A	(85,380.7)	(1,334,816.0)	N/A	(63,129.6)
Net Ongoing Revenue w/ URS	17,370,433.7	4.3%	708,625.6	18,185,135.6	4.7%	814,701.9
One-Time Financing Sources:						
Fund Transfers	12,000.0	-29.4%	(5,000.0)	0.0	-100.0%	(12,000.0)
One-Time Income Tax Rebate	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	12,000.0	-29.4%	(5,000.0)	0.0	-100.0%	(12,000.0)
Subtotal - Revenues	17,382,433.7	4.2%	703,625.6	18,185,135.6	4.6%	802,701.9
Balance Forward		-100.0%	(903,661.3)		N/A	0.0
Total - Resources	17,382,433.7	-1.1%	(200,035.7)	18,185,135.6	4.6%	802,701.9