
Finance Advisory Committee

January 25, 2024



Key Points

- FY 24 General Fund revenues have fallen short of the enacted forecast. The Individual Income Tax is the primary underperformer.
- Due to declining revenues, the budget is projected to have a shortfall of \$(835) M in FY 24 and \$(879) M in FY 25, or a combined total of \$(1.7) B.
- The Legislature may opt to continue \$369 M of traditional “ongoing one-times” and litigation-related one-time spending in FY 25.
- We will need \$2.2 billion of shortfall solutions after adjusting for the \$369 M in continued one-time spending and a \$100 M ending balance.
- The shortfalls continue through FY 27, the last year of the 3-year budget window. The projected FY 27 shortfall is \$(187) M.

After 6 Months of FY 24: \$(480) M General Fund Revenue Loss

- Relative to Enacted FY 24 Budget

- Individual Income Tax collections have dropped (27.7)% compared to last year and are \$(481) M less than anticipated. Likely due to:
 - Lower pre-tax income, such as capital gains, and
 - The logistics of the 2.5% tax rate. The enacted budget included \$(2.3) B for the impact of the rate reduction.
- Corporate Income Tax growth started strong but is now negative.
 - (8.1)% less than the prior year and \$(9) M below forecast.
- Sales Tax has grown 4.2%, but is \$(36) M below forecast.
 - Retail sales drives this result, but contracting still posting double digit gains.

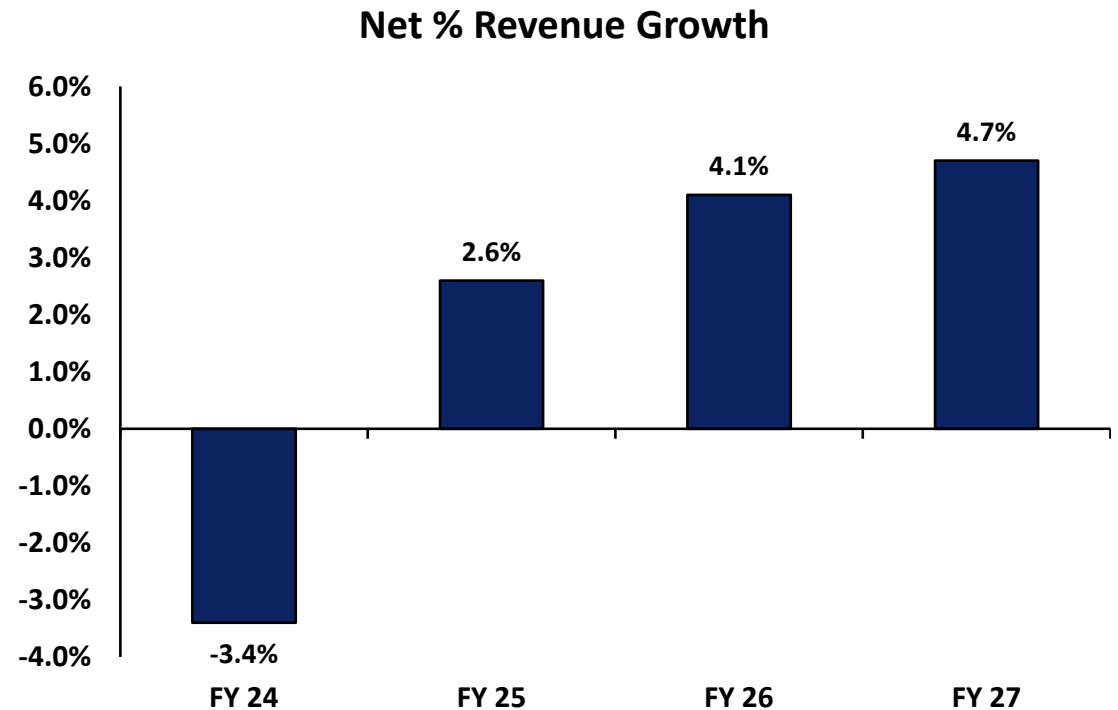
Forecasting State Revenues

January Forecast: Revenue Projected to Decline in FY 24

- With Accelerating Recovery in FY 25 through FY 27

FY 25-FY 27 4-Sector Components

- Finance Advisory Committee
- UA model – base forecast
- UA model – more cautious
- JLBC Staff (sole source of FY 24)

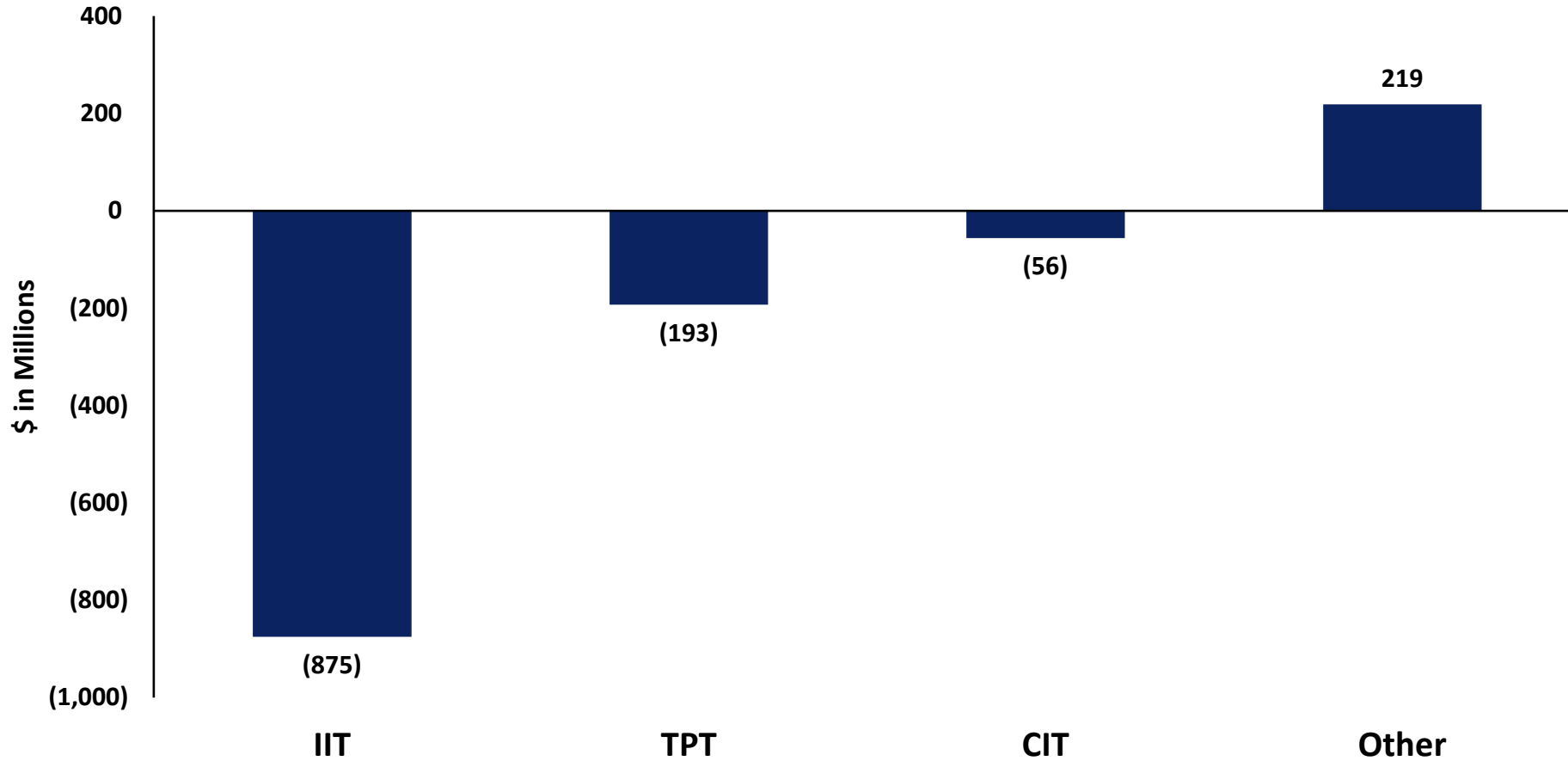


Excludes balance forward, one-time tax rebate and urban revenue sharing

See Appendix A and B

January Forecast Reduces FY 24 Revenue by \$(905) M

- Compared to Enacted Budget



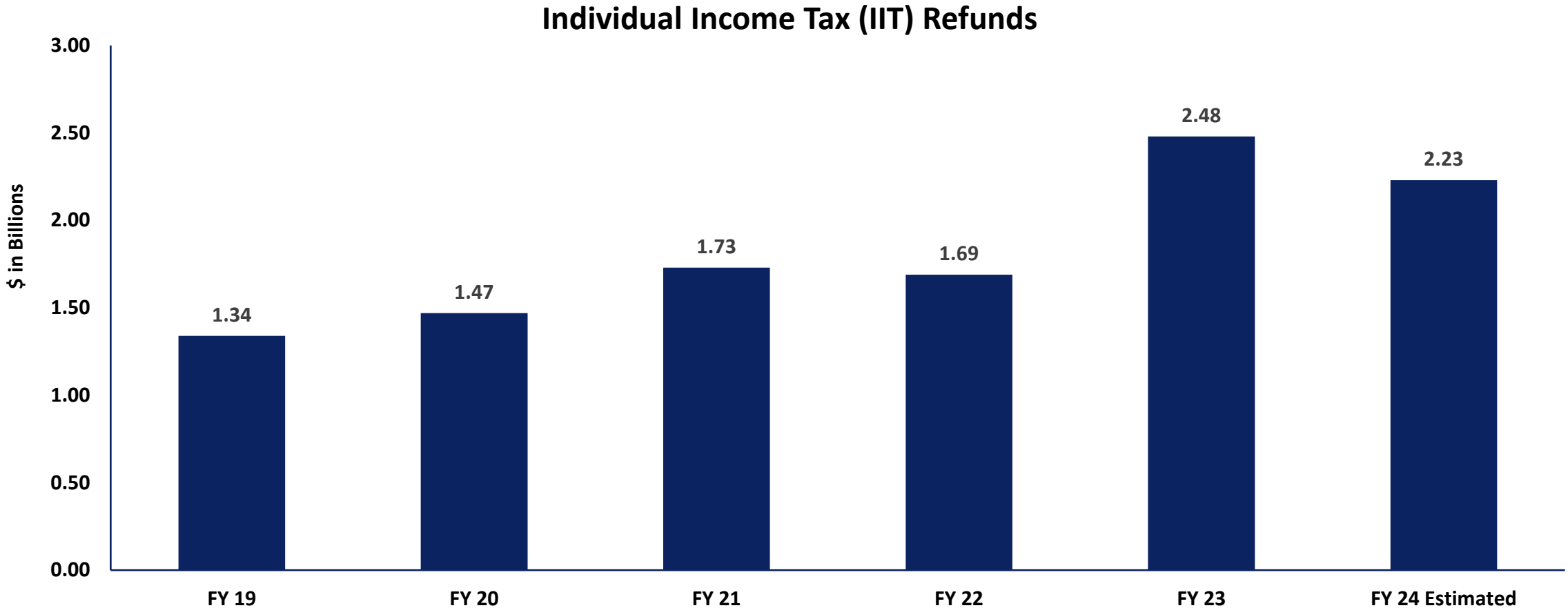
Sales Tax Growth Remains Weak

- Baseline Projects FY 24 Full Year Growth of 2.7%

- YTD growth is 4.2%, smallest increase for comparable period since FY 17.
 - After adjusting for technical factors, the growth is 3.7%.
- Slower growth mainly attributable to Retail Sales. YTD growth after technical adjustments is 2.8%. Retail makes up 54% of total sales tax collections.
 - YTD, motor vehicle sales down (0.7)%; building materials down (3.1)%; and general merchandise down (0.5)%. Combined they make up 40% of retail sales.
- YTD, Restaurant & Bar sales up 2.9%, slowest growth for comparable period since FY 11 (if excluding pandemic year FY 21).
- Contracting activity remains strong with YTD growth of 17.3%. More than half of increase attributable to commercial/industrial construction.

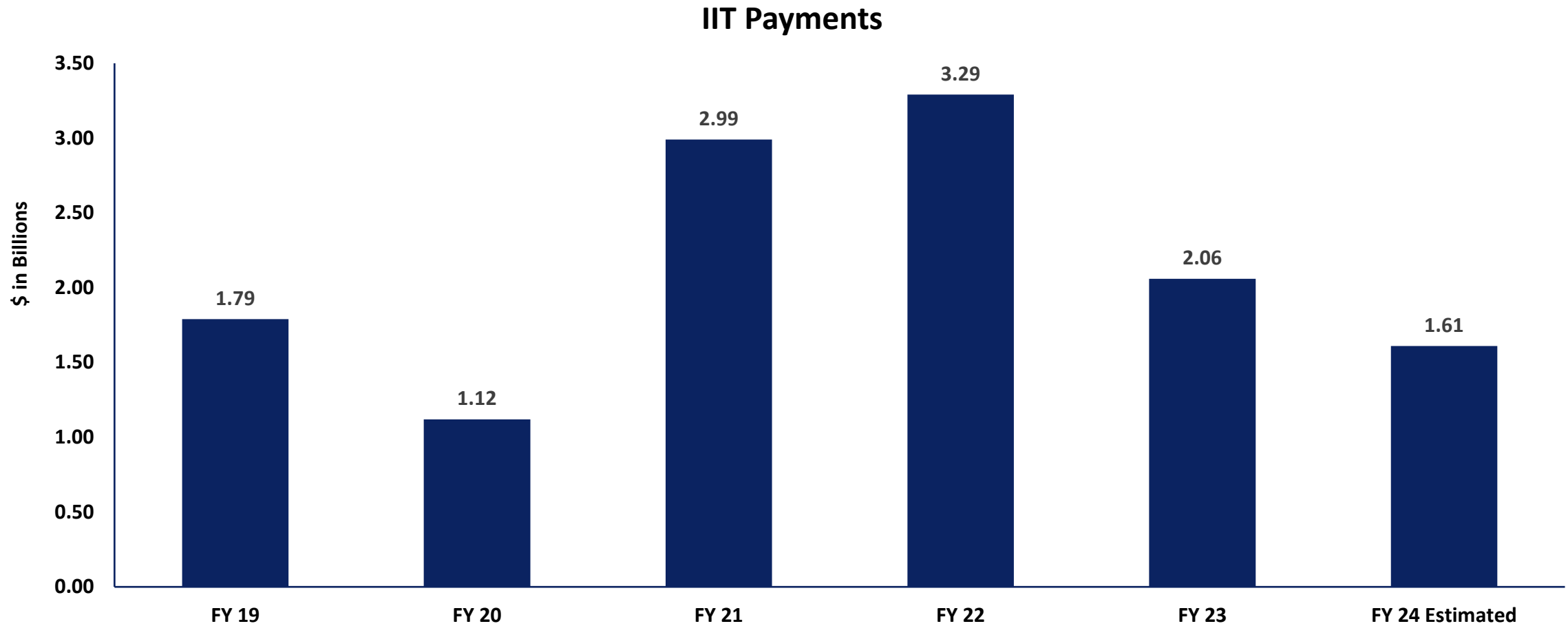
Baseline Forecast Assumes IIT Refunds Start to Decline in FY 24

- Significant FY 23 Growth Due to 1st Phase of IIT Rate Cut
- 2.0% Withholding Rate as of Jan 23 Should Reduce Refunds



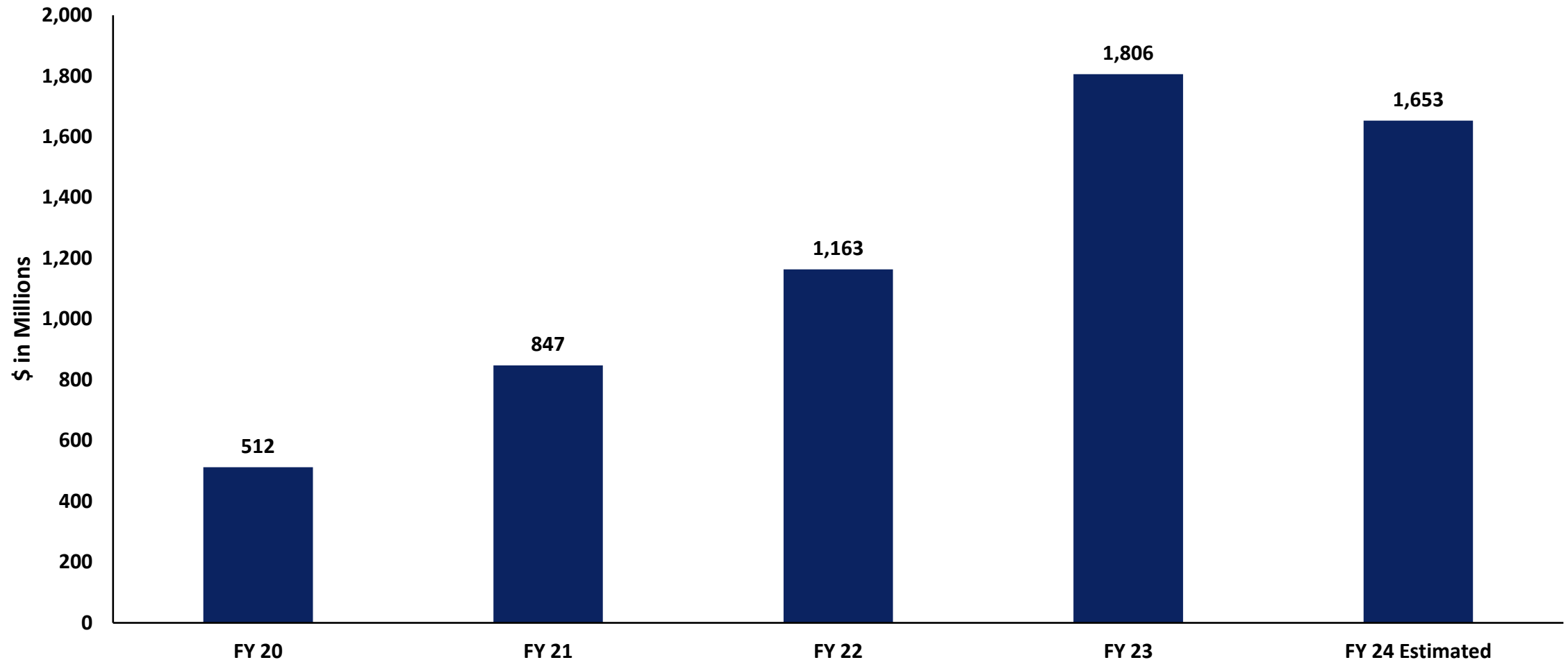
Baseline Forecast Continues IIT Payment Decline in FY 24

- Due to 2nd Phase of IIT Rate Reduction



Corporate Income Tax Grew 250% Between FY 20 and FY 23

- In FY 24, Projected to Decline (8.5%); Blip or Bubble Bursting?



JLBC – Executive Revenue Differences

- Executive is \$823 M above JLBC in FY 24/FY 25

	(\$ in M) <u>Exec > JLBC</u>
FY 24	436
FY 25	387
FY 26	200
FY 27	199

This revenue comparison excludes Executive proposed tax law changes:

- Executive would eliminate all School Tuition Organization tax credits starting in FY 26 at a revenue gain of \$185 M.
- Executive would expand the Low Income Housing Tax Credit starting in FY 26 at a cost of \$8 M in FY 26 and \$16 M in FY 27. Extends the credit from FY 33 to FY 42.

Spending Adjustments

Baseline Spending Projections

- Baseline reflects changes to active statutory/other funding formulas:
 - ADE, Medicaid and the Community Colleges.
- Follows guidance of the enacted budget 3-year plan in terms of \$2.9 B in one-time FY 24 spending:
 - Of that amount \$2.3 B was deleted in the FY 25 estimates
 - \$571 M was retained in FY 25, primarily \$333 M of water supply funding and \$126 M in K-12 new school construction.
- \$369 M of traditional “ongoing one-times” and litigation-related one-time spending were not continued in FY 25:
 - School building repairs, \$183 M; State employee health insurance, \$73 M; and ADC prison health care and related costs, \$113 M.

FY 25 Baseline Spending Projected To Decrease By \$(1.5) B

FY 25 Ongoing Spending Changes

	<u>\$ in M</u>
Medicaid Formula	499
ADE – K-12 Formula	319
Other	<u>8</u>
Total	826

Total Spending Changes **\$(1,485) M**

Total Spending **\$16,271 M**

% Change **(8.4)%**

FY 25 One-Time Spending Deletions

	<u>\$ in M</u>
One-Time K-12 State Aid Supplement	(300)
K-12 Building Renewal Grants *	(183)
State Employee Health Insurance *	(73)
Corrections Dept Operating Funding *	(113)
Housing Funding	(190)
Other Agency Spending	(674)
Transportation Projects	(620)
Capital Projects	<u>(158)</u>
Total	(2,311)

* Executive budget continues in FY 25

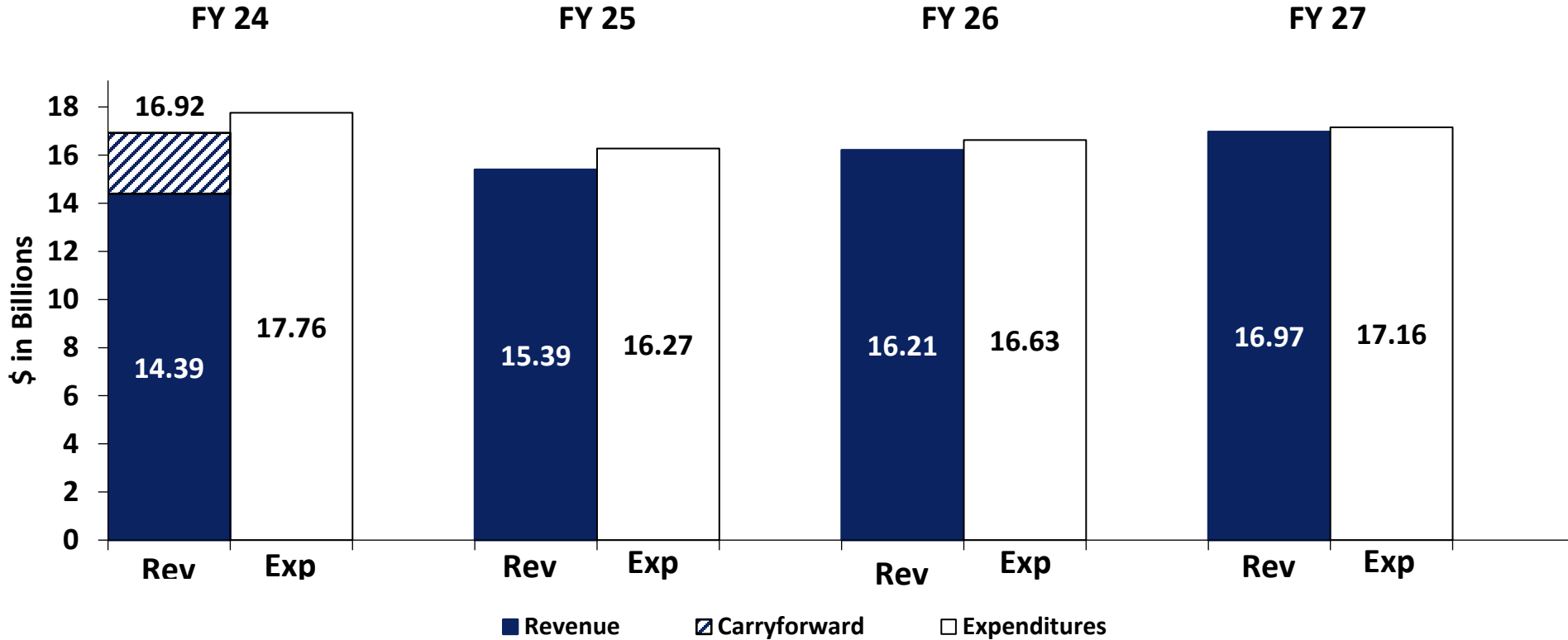
Projected Ending Balances

Excludes \$1.5 B in Budget Stabilization Fund

More Information in Appendix C

Projected Shortfall of \$(835) M in FY 24 & \$(879) M in FY 25

- Assumes Each Year's Shortfall is Resolved and Not Carried Into the Following Year



Cash Balance

\$(835) M

\$(879) M

\$(420) M

\$(187) M



Executive Budget

Executive Solutions to the \$1.7 B Baseline Shortfall

- Positive #s Reduce Shortfall/Negative #s Increase Shortfall

(\$ in M)	
(1,714)	JLBC FY 24 & 25 Baseline Shortfall
823	Higher FY 24 & FY 25 Executive Revenue Estimates
137	Executive Lower K-12/Medicaid Caseload Spending
770	Executive Claws Back Pre-FY 25 Spending
737	Executive Reduces FY 25 Spending
300	Executive Sweeps Dedicated Fund Balances to the General Fund
(344)	Executive Adds New FY 25 Non-Caseload Ongoing Spending
(527)	Executive Adds New FY 25 One-time Spending
<u>(48)</u>	All Other
1,848	Total Executive Solutions
134	Executive FY 25 Ending Balance

Other Considerations

- The FY 24 and FY 25 shortfall projections will likely change as we refine our revenue and caseload spending estimates with more actual data.
- The projections could change due to:
 - Economic conditions
 - The spring 2024 income tax return season for both Individual Income and Corporate Income Tax filers
 - Updated estimates of ESA enrollment
 - Revised Medicaid enrollment as individuals lose eligibility under the pandemic rules.
- Beyond the traditional “ongoing one-times” and litigation issues, there may be interest in retaining other FY 24 one-time spending in FY 25.

STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE

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Appendix A: January Revenue Forecast

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Sales Tax				
JLBC Forecast	2.7%	4.8%	4.6%	4.9%
UA – Low	1.3%	2.2%	4.4%	4.6%
UA – Base	2.8%	4.0%	5.0%	4.9%
FAC	3.3%	3.6%	4.8%	5.3%
Average:	2.5%	3.7%	4.7%	4.9%
Individual Income Tax with Deferral				
JLBC Forecast	-10.5%	5.0%	4.9%	5.4%
UA – Low	-8.1%	6.8%	5.6%	5.7%
UA – Base	-6.0%	7.3%	6.2%	6.2%
FAC	-9.8%	4.6%	5.5%	5.3%
Average:	-8.6%	6.0%	5.6%	5.7%
Corporate Income Tax				
JLBC Forecast	-8.5%	0.0%	3.0%	4.5%
UA – Low	6.2%	1.7%	2.6%	3.0%
UA – Base	8.7%	2.4%	3.6%	4.3%
FAC	3.2%	-0.7%	6.8%	6.2%
Average:	2.4%	0.9%	4.0%	4.5%

JLBC Weighted Average	-3.4%	4.3%	4.5%	5.0%
UA Low Weighted Average	-1.4%	3.7%	4.6%	4.8%
UA Base Weighted Average	0.4%	4.9%	5.2%	5.3%
FAC Consensus Weighted Average	-1.4%	3.4%	5.3%	5.4%
“Big-3” Weighted Average	-1.5%	4.1%	4.9%	5.1%
Consensus Weighted Average ^{1/}	-1.8% ^{2/}	2.6%	4.1%	4.7%

^{1/} Represents ongoing revenue adjusted for small revenue categories.

^{2/} Baseline revenue forecast for FY 2024 is solely based on the JLBC Staff sector forecast of (3.4)%.

Appendix B: FY 23 – FY 25 January Forecast

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%	7,885,089.6	2.7%	207,300.3	8,173,718.4	3.7%	288,628.8
Income - Individual	5,239,552.9	-30.4%	4,689,399.8	-10.5%	(550,153.1)	4,967,499.1	5.9%	278,099.3
- Corporate	1,806,311.4	55.3%	1,652,774.9	-8.5%	(153,536.5)	1,666,740.6	0.8%	13,965.7
Property	22,208.0	-17.1%	21,763.9	-2.0%	(444.2)	21,328.6	-2.0%	(435.3)
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%	46,875.2	3.3%	1,495.4	49,500.2	5.6%	2,625.0
Insurance Premium	761,342.0	7.6%	769,716.8	1.1%	8,374.8	797,426.6	3.6%	27,709.8
Other Taxes	18,354.0	12.6%	19,730.6	7.5%	1,376.6	21,170.9	7.3%	1,440.3
Subtotal - Taxes	15,589,624.2	-6.7%	15,104,571.4	-3.1%	(485,052.8)	15,716,412.9	4.1%	611,841.5
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%	36,590.0	-25.9%	(12,787.2)	39,157.0	7.0%	2,567.0
Licenses, Fees and Permits	42,181.8	3.9%	45,050.1	6.8%	2,868.4	46,942.2	4.2%	1,892.1
Interest	366,763.2	690.7%	360,000.0	-1.8%	(6,763.2)	240,000.0	-33.3%	(120,000.0)
Sales and Services	33,156.3	9.2%	34,482.5	4.0%	1,326.3	35,861.8	4.0%	1,379.3
Other Miscellaneous	178,644.0	14.7%	185,789.8	4.0%	7,145.8	193,221.4	4.0%	7,431.6
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%	1,126,960.2	-7.6%	(92,710.1)	944,284.1	-16.2%	(182,676.0)
Net Ongoing Revenue	16,809,294.5	-3.6%	16,231,531.6	-3.4%	(577,762.9)	16,660,697.0	2.6%	429,165.5
Urban Revenue Sharing (URS)	(1,106,958.7)	N/A	(1,564,826.3)	N/A	(457,867.7)	(1,268,255.6)	N/A	296,570.8
Net Ongoing Revenue w/ URS	15,702,335.8	-5.9%	14,666,705.3	-6.6%	(1,035,630.6)	15,392,441.4	4.9%	725,736.3
One-Time Financing Sources:								
Attorney General 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	(272,956.4)	N/A	(272,956.4)	0.0	N/A	272,956.4
Subtotal - One-Time Financing Sources	(2,212,027.5)	N/A	(272,956.4)	N/A	1,939,071.2	0.0	N/A	272,956.4
Subtotal - Revenues	13,490,308.3	-19.2%	14,393,748.9	6.7%	903,440.6	15,392,441.4	6.9%	998,692.7
Balance Forward	4,709,446.0	426.4%	2,527,233.0	-46.3%	(2,182,213.0)	0.0	-100.0%	(2,527,233.0)
Total - Resources	18,199,754.3	3.4%	16,920,981.9	-7.0%	(1,278,772.4)	15,392,441.4	-9.0%	(1,528,540.4)

Appendix B: FY 26 – FY 27 January Forecast

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	8,557,678.1	4.7%	383,959.7	8,979,299.8	4.9%	421,621.7
Income - Individual	5,243,240.4	5.6%	275,741.2	5,539,962.4	5.7%	296,722.0
- Corporate	1,733,167.0	4.0%	66,426.4	1,811,385.3	4.5%	78,218.3
Property	20,902.0	-2.0%	(426.6)	20,484.0	-2.0%	(418.0)
Luxury - Tobacco	18,838.2	-1.0%	(190.3)	18,649.8	-1.0%	(188.4)
- Liquor	52,272.2	5.6%	2,772.0	55,199.5	5.6%	2,927.2
Insurance Premium	830,121.0	4.1%	32,694.5	864,156.0	4.1%	34,035.0
Other Taxes	22,652.9	7.0%	1,482.0	24,238.6	7.0%	1,585.7
Subtotal - Taxes	16,478,871.8	4.9%	762,458.9	17,313,375.3	5.1%	834,503.5
Other Non-Tax Revenues:						
Lottery	250,185.7	6.6%	15,547.9	266,504.7	6.5%	16,319.0
Gaming Revenue	41,010.9	4.7%	1,853.9	42,955.0	4.7%	1,944.1
Licenses, Fees and Permits	48,913.8	4.2%	1,971.6	50,968.2	4.2%	2,054.4
Interest	135,000.0	-43.8%	(105,000.0)	87,000.0	-35.6%	(48,000.0)
Sales and Services	37,296.3	4.0%	1,434.5	38,788.1	4.0%	1,491.9
Other Miscellaneous	200,950.2	4.0%	7,728.9	208,988.3	4.0%	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	868,644.9	-8.0%	(75,639.2)	851,094.5	-2.0%	(17,550.5)
Net Ongoing Revenue	17,347,516.7	4.1%	686,819.7	18,164,469.8	4.7%	816,953.1
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	16,205,925.3	5.3%	813,483.8	16,970,306.6	4.7%	764,381.4
One-Time Financing Sources:						
Attorney General Settlement	0.0	N/A	0.0	0.0	N/A	0.0
TPT Public Infrastructure	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	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - Revenues	16,205,925.3	5.3%	813,483.8	16,970,306.6	4.7%	764,381.4
Balance Forward	0.0	N/A	0.0	0.0	N/A	0.0
Total - Resources	16,205,925.3	5.3%	813,483.8	16,970,306.6	4.7%	764,381.4

Appendix C: General Fund Balance Sheet

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES WITH ONE-TIME FINANCING SOURCES

	FY 2024 Baseline	FY 2025 Baseline	FY 2026 Baseline	FY 2027 Baseline
REVENUES				
Ongoing Revenues	\$16,231,531,600	\$16,660,697,000	\$17,347,516,700	\$18,164,469,800
Urban Revenue Sharing	(1,564,826,300)	(1,268,255,600)	(1,141,591,400)	(1,194,163,200)
Net Ongoing Revenues	\$14,666,705,300	\$15,392,441,400	\$16,205,925,300	\$16,970,306,600
One-Time Revenues				
Balance Forward	\$2,527,233,000			
One-Time Income Tax Rebate	(272,956,400)			
Subtotal One-Time Revenues	\$2,254,276,600	\$0	\$0	\$0
Total Revenues	\$16,920,981,900	\$15,392,441,400	\$16,205,925,300	\$16,970,306,600
EXPENDITURES				
Ongoing Operating Appropriations	\$15,002,625,400	\$15,725,501,000	\$16,488,259,700	\$16,913,230,100
FY 2024 Supplementals/Ex-Appropriations	(108,392,200)			
Administrative Adjustments	125,000,000	130,000,000	145,000,000	160,000,000
Revertments	(145,000,000)	(155,000,000)	(180,000,000)	(200,000,000)
Subtotal Ongoing Expenditures	\$14,874,233,200	\$15,700,501,000	\$16,453,259,700	\$16,873,230,100
One-Time Expenditures				
Capital Outlay	\$187,946,500	\$29,832,100	\$23,700,000	
Transportation Funding	620,209,600			
Operating One-Time Spending	1,884,608,800	208,057,400	149,231,000	284,034,700
Water Supply Funding	189,200,000	333,000,000		
Subtotal One-Time Expenditures	\$2,881,964,900	\$570,889,500	\$172,931,000	\$284,034,700
Total Expenditures	\$17,756,198,100	\$16,271,390,500	\$16,626,190,700	\$17,157,264,800
Ending Balance ^{1/}	(\$835,216,200)	(\$878,949,100)	(\$420,265,400)	(\$186,958,200)

^{1/} The displayed ending balance shortfalls are presumed to be resolved prior to the end of the fiscal year.