
Finance Advisory Committee

Revenue and Budget Update

April 7, 2022



Key Points – Similar to Our January Outlook

- General Fund revenues continue their strong growth – currently 18%
- The outcome of referendum, litigation and federal policy decisions will affect available resources
- We now project \$1.29 B is available for ongoing initiatives plus \$2.8 B for one-time purposes (January estimates were \$1.0 B/\$2.1 B)
- “Maximum Commitment” scenario same as January: based on outcomes using up the most resources so as to not overstate '23 \$

“Maximum Commitment” Scenario Assumptions:

- Not a Prediction of Litigation/Referendum Results!

- Proposition 208 is upheld in litigation
 - With Superior Court ruling, seems much less likely
- Set aside \$939 M of General Fund income tax revenues to transfer to the Prop 208 fund or for taxpayer refunds
- The enacted income tax cut, including the triggers, go into effect
- The federal government does not extend the special enhanced Medicaid match rate past June 2022
- Add \$100 M in '24 and \$140 M in '25 for the just-released lower regular Federal Medicaid match rates

General Fund Revenues

January vs. April 4-Sector Forecasts

- April Estimates Raise the Forecast in '22 and '23

4-Sector Components

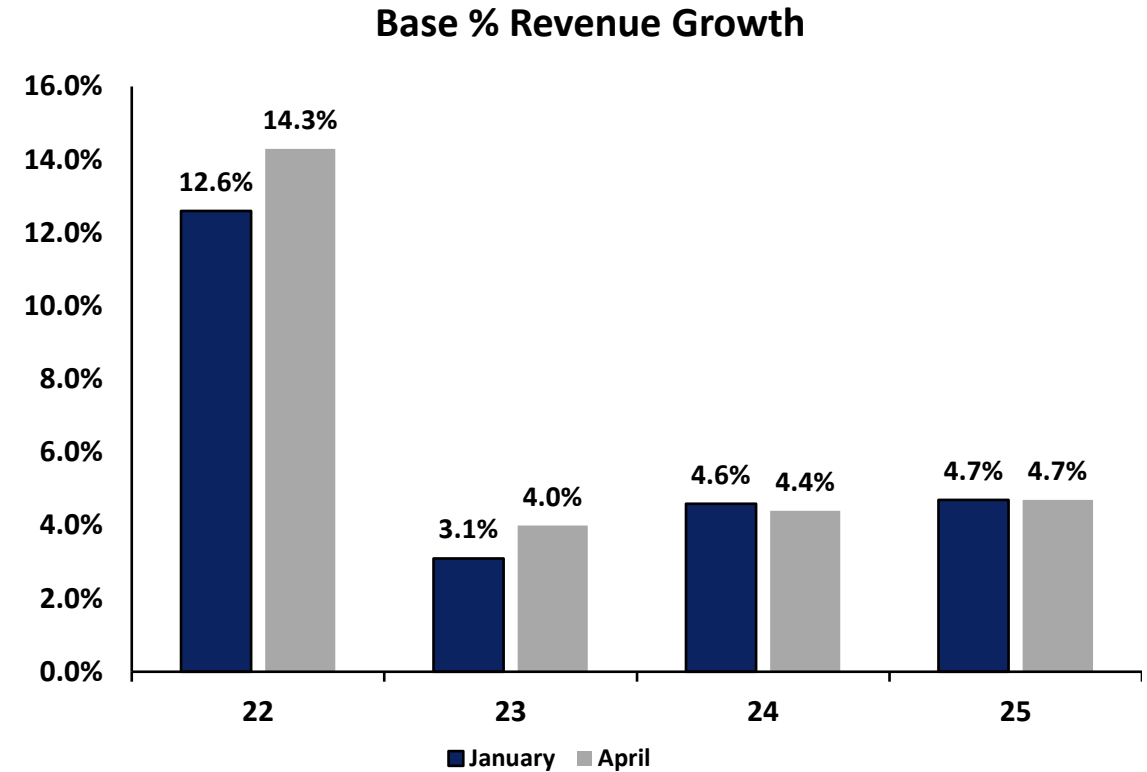
- Finance Advisory Committee
- UA model – base
- UA model – more cautious
- JLBC Staff

Represents Base Growth

- Prior to Enacted Tax Reductions

Income Tax Deferral

- '22% adjusted to remove 7/20 income tax deferral



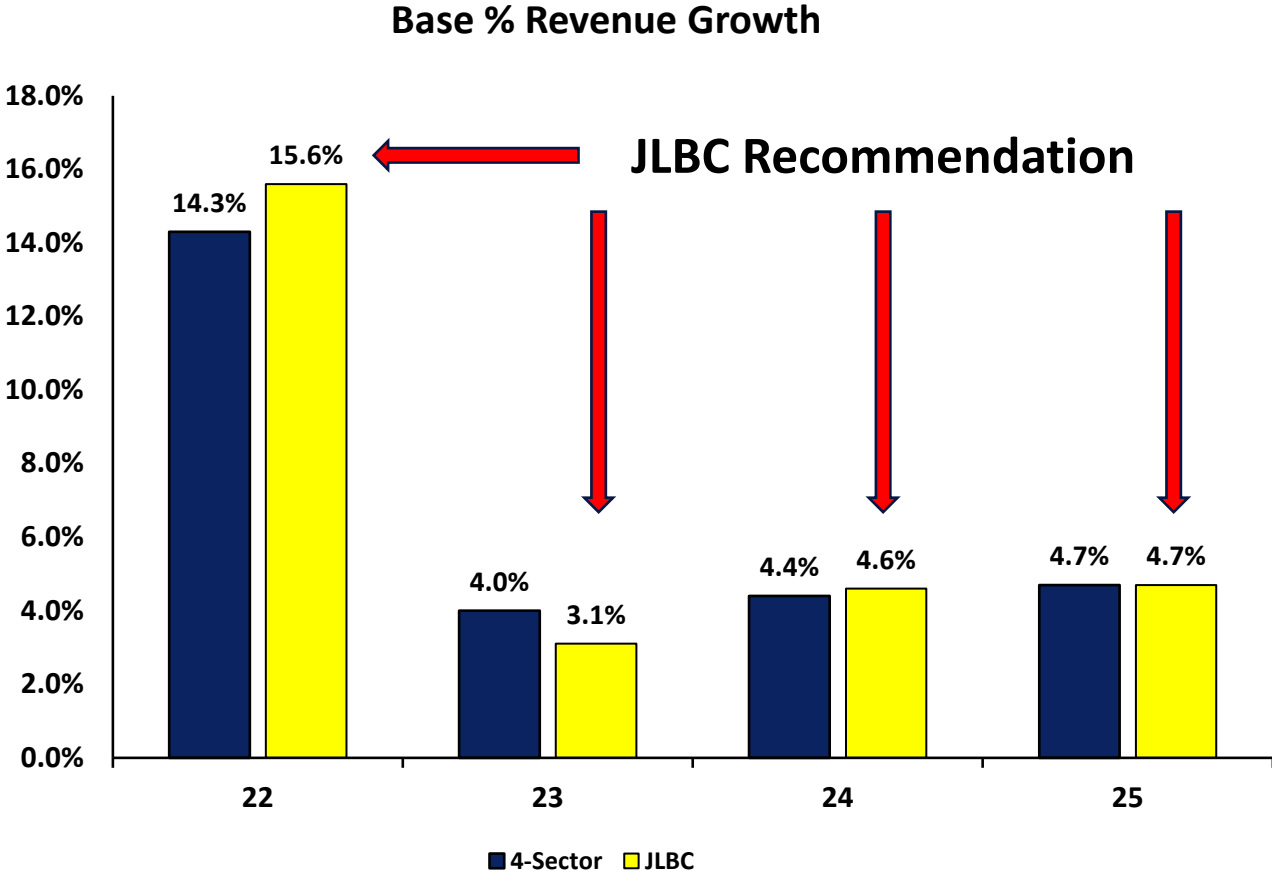
Excludes balance forward, one-time transfers, tax law changes and urban revenue sharing

See Appendix A and B

JLBC Staff Recommends Modifying the April 4-Sector

- Use a 15.6% '22 growth rate rather than the 14.3% 4-Sector rate
 - Based on early income tax filings, there is substantial upside potential above the 14.3% growth in 4-Sector forecast
 - Hard to interpret income tax results in the middle of filing season
- Retain the lower January 4-Sector '23 - '25 growth rates; general economic conditions do not appear to warrant more optimism
 - Federal Reserve has the challenge of raising interest rates by 2%+ in the next 2 years without substantially slowing down economic growth
 - Highest inflation rate in 40 years
 - Russia-Ukraine War

JLBC Staff Recommended '22 - '25 Forecast



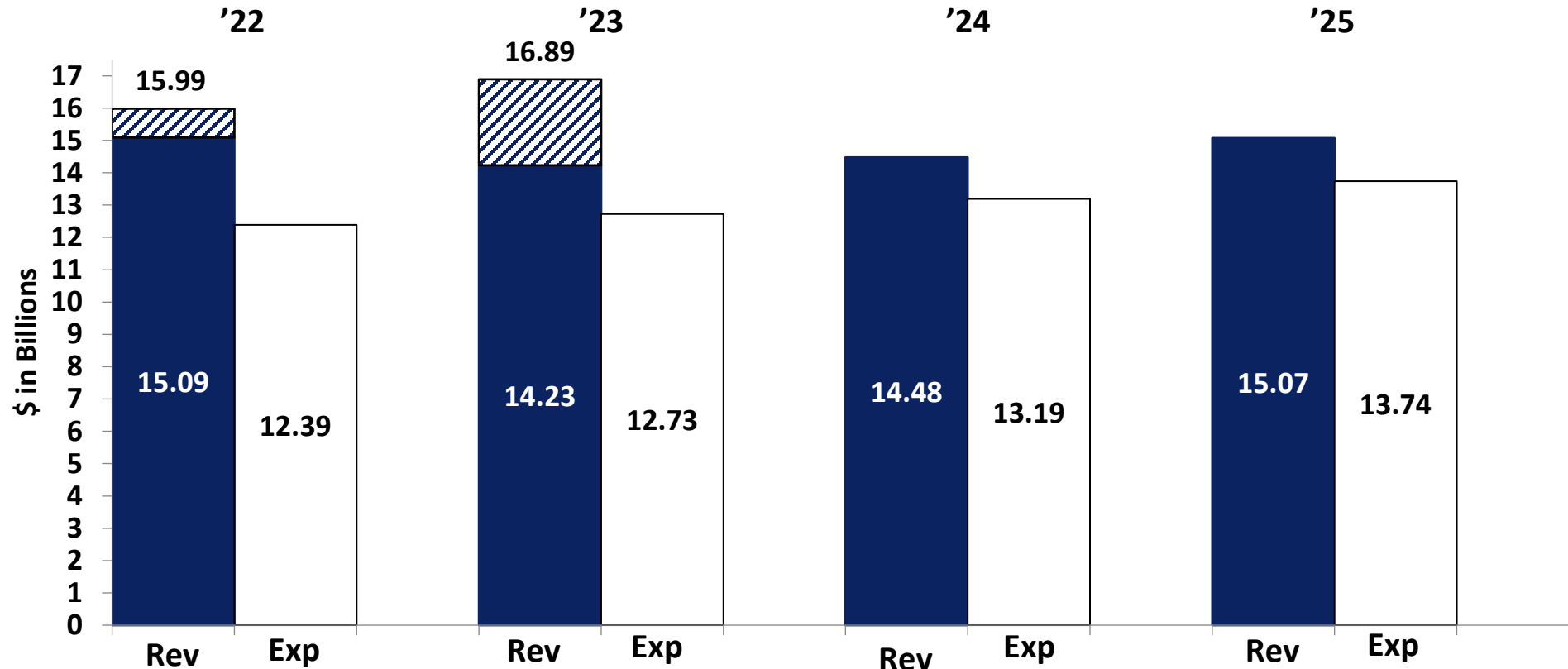
Projected Ending Balances

Excludes \$985 M in Budget Stabilization Fund

More Information in Appendix C

April Baseline Balances: \$1.29 B Ongoing & \$2.8 B One-Time

- \$2.7 B '22 Balance Is After \$939 M Set Aside for Prop 208 Reserve



Cash Balance

\$2.66 B

\$4.16 B

\$1.29 B

\$1.33 B

■ Revenue

▨ Cash Balance

□ Expenditures



Impact of Invalidating Proposition 208

- Superior Court ruled that Prop 208 would cause the K-12 Aggregate Expenditure Limit to be exceeded
- Based on a prior Supreme Court ruling, the result would be to invalidate the Prop 208 3.5% income tax surcharge
- Since the '22 budget set aside resources to limit the impact of the surcharge, the court rulings would effectively free up General Fund \$
- If the rulings stand:
 - Ongoing resources increase from \$1.29 B to \$1.57 B and
 - One-time resources increase from \$2.8 B to \$3.7 B

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Appendix A: April JLBC Revenue Forecast with Deferral ^{1/}

- Uses JLBC Forecast for '22 and January 4-Sector for '23 - '25

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Sales Tax				
JLBC Forecast	13.5%	3.5%	4.0%	4.0%
UA – Low	13.8%	2.2%	3.9%	4.1%
UA – Base	14.6%	4.3%	5.0%	4.8%
FAC	13.4%	6.0%	5.8%	5.5%
Average:	13.8%	4.0%	4.7%	4.6%
Individual Income Tax with Deferral				
JLBC Forecast	5.3%	3.5%	4.3%	4.2%
UA – Low	1.4%	3.3%	4.4%	4.6%
UA – Base	2.1%	4.4%	5.4%	5.3%
FAC	1.0%	5.6%	5.4%	5.1%
Average:	2.5%	4.2%	4.9%	4.8%
Corporate Income Tax				
JLBC Forecast	31.5%	3.0%	3.4%	4.5%
UA – Low	31.7%	0.6%	3.3%	6.2%
UA – Base	32.6%	3.5%	4.3%	7.0%
FAC	25.4%	2.2%	3.7%	4.9%
Average:	30.3%	2.3%	3.7%	5.7%
Insurance Premium Tax				
JLBC Forecast	10.0%	2.6%	3.3%	3.6%
UA – Low	10.2%	2.5%	1.4%	2.8%
UA – Base	11.0%	3.1%	1.9%	3.1%
FAC	9.6%	3.9%	4.4%	3.5%
Average:	10.2%	3.0%	2.7%	3.3%

JLBC Weighted Average	10.7% ^{2/}	3.4%	4.1%	4.1%
UA Low Weighted Average	9.0%	2.6%	4.0%	4.4%
UA Base Weighted Average	9.8%	4.2%	5.0%	5.1%
FAC Consensus Weighted Average	8.2%	5.5%	5.4%	5.2%
“Big-4” Weighted Average	9.4%	3.9%	4.6%	4.7%
Consensus Weighted Average ^{3/}	10.1%	3.1%	4.6%	4.7%

^{1/} FY 2022 figures represent April FAC forecast and FY 2023 - FY 2025 figures represent January FAC forecast.

^{2/} 15.6% when adjusted for small revenue categories and 2020 income tax deferral

^{3/} Represents ongoing revenue adjusted for small revenue categories.

Appendix B: JLBC Forecast '21 - '23 with Deferral

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%	7,087,764.0	13.5%	843,038.0	7,371,897.0	4.0%	284,133.0
Income - Individual	6,532,702.9	44.2%	6,830,636.2	4.6%	297,933.3	5,854,047.0	-14.3%	(976,589.2)
- Corporate	847,020.8	65.5%	1,111,636.5	31.2%	264,615.8	1,137,583.8	2.3%	25,947.2
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	698,388.0	3.0%	20,511.4
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%	15,816,632.9	10.3%	1,470,727.2	15,171,309.6	-4.1%	(645,323.4)
Other Non-Tax Revenues:								
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	155,661.7	2.0%	3,106.9
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	608,906	-15.1%	(107,966.0)
Net Ongoing Revenue	14,904,246.2	28.3%	16,533,505.3	10.9%	1,629,259.2	15,780,215.9	-4.6%	(753,289.4)
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)
Net Ongoing Revenue w/ URS	14,075,753.3	29.4%	15,777,117.0	12.1%	1,701,363.8	14,673,257.3	-7.0%	(1,103,859.7)
One-Time Financing Sources:								
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)
4.5% Maximum Tax Rate	0.0	N/A	(939,076.4)	N/A	(939,076.4)	(684,506.3)	N/A	254,570.1
SB 1783 Impact	0.0	N/A	234,098.3	N/A	234,098.3	241,305.8	3.1%	7,207.4
Subtotal - One-Time Financing Sources	40,905.7	-55.0%	(684,978.1)	N/A	(725,883.8)	(443,200.5)	N/A	241,777.5
Subtotal - Revenues	14,116,659.0	28.7%	15,092,138.9	6.9%	975,480.0	14,230,056.8	-5.7%	(862,082.2)
Balance Forward	372,457.0	-61.1%	894,636.0	140.2%	522,179.0	2,657,809.2	197.1%	1,763,173.2
Total - Resources	14,489,116.0	21.5%	15,986,774.9	10.3%	1,497,659.0	16,887,866.0	5.6%	901,091.0

Appendix B: JLBC Forecast '24 - '25

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	7,716,333.9	4.7%	344,436.8	8,072,088.7	4.6%	355,754.8
Income - Individual	5,828,208.9	-0.4%	(25,838.1)	5,414,378.7	-7.1%	(413,830.2)
- Corporate	1,179,415.2	3.7%	41,831.4	1,246,298.7	5.7%	66,883.5
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	2.7%	19,151.8	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	15,552,565.6	2.5%	381,256.1	15,586,829.4	0.2%	34,263.8
Other Non-Tax Revenues:						
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	160,154.1	2.9%	4,492.4	164,810.5	2.9%	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	636,983.7	4.6%	28,077.3	662,225.8	4.0%	25,242.1
Net Ongoing Revenue	16,189,549.4	2.6%	409,333.4	16,249,055.2	0.4%	59,505.9
Urban Revenue Sharing (URS)	(1,302,713.0)	N/A	(195,754.5)	(1,178,717.5)	N/A	123,995.5
Net Ongoing Revenue w/ URS	14,886,836.4	1.5%	213,578.9	15,070,337.7	1.2%	183,501.4
One-Time Financing Sources:						
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
4.5% Maximum Tax Rate	(634,570.9)	N/A	49,935.4	0.0	N/A	634,570.9
SB 1783 Impact	227,792.8	-5.6%	(13,512.9)	0.0	-100.0%	(227,792.8)
Subtotal - One-Time Financing Sources	(406,778.1)	N/A	36,422.5	0.0	N/A	406,778.1
Subtotal - Revenues	14,480,058.3	1.8%	250,001.4	15,070,337.7	4.1%	590,279.5
Balance Forward	-	-100.0%	(2,657,809.2)	-	N/A	0.0
Total - Resources	14,480,058.3	-14.3%	(2,407,807.8)	15,070,337.7	4.1%	590,279.5

Appendix C: General Fund Balance Sheet

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES WITH ONE-TIME FINANCING SOURCES ^{1/}

	FY 2022 April JLBC	FY 2023 April JLBC	FY 2024 April JLBC	FY 2025 April JLBC
REVENUES				
Ongoing Revenues	16,584,525,300	\$17,096,561,900	\$17,881,802,300	\$18,716,548,800
Enacted Tax Reductions	(51,020,000)	(\$1,316,346,000)	(\$1,692,252,900)	(\$2,467,493,600)
Urban Revenue Sharing	(756,388,300)	(\$1,106,958,600)	(\$1,302,713,000)	(\$1,178,717,500)
Net Ongoing Revenues	15,777,117,000	\$14,673,257,300	\$14,886,836,400	\$15,070,337,700
One-Time Revenues				
Balance Forward	\$894,636,000	\$2,657,809,200		
Enacted Tax Reductions	(\$704,978,100)	(\$443,200,500)	(\$406,778,100)	
Water Infrastructure Repayment	\$20,000,000			
Subtotal One-Time Revenues	\$209,657,900	\$2,214,608,700	(\$406,778,100)	
Total Revenues	\$15,986,774,900	\$16,887,866,000	\$14,480,058,300	\$15,070,337,700
EXPENDITURES				
Ongoing Operating Appropriations	\$12,053,812,800	\$12,539,381,800	\$13,185,974,500	\$13,701,727,000
Administrative Adjustments	\$225,000,000	\$200,000,000	\$170,000,000	\$178,500,000
Revertments	(\$150,000,000)	(\$200,000,000)	(\$210,000,000)	(\$220,000,000)
Subtotal Ongoing Expenditures	\$12,128,812,800	\$12,539,381,800	\$13,145,974,500	\$13,660,227,000
One-Time Expenditures				
Capital Outlay	\$92,632,900			
Reduce K-12 Rollover	\$65,000,000			
Operating One-Time Spending	\$654,235,900	\$186,227,300	\$48,677,100	\$76,726,900
New Medicaid Federal Match Reversion ^{2/}	(\$285,844,400)			
New ADE Formula Funding Reversion ^{2/}	(\$285,000,000)			
University 27th Pay Period	\$20,052,100			
Subtotal One-Time Expenditures	\$261,076,500	\$186,227,300	\$48,677,100	\$76,726,900
Total Expenditures	\$12,389,889,300	\$12,725,609,100	\$13,194,651,600	\$13,736,953,900
Proposition 208 Reserve ^{3/}	\$939,076,400			
Ending Balance ^{4/}	\$2,657,809,200	\$4,162,256,900	\$1,285,406,700	\$1,333,383,800

^{1/} Baseline estimates reflect a "Maximum Commitment" scenario, which is based on the outcomes of pending litigation and referendum that use the most resources.

^{2/} Reflects revertments of savings for a higher federal Medicaid match rate and lower K12 formula costs.

^{3/} Reflects Proposition 208 uncertainty. If surcharge upheld, revenue would be transferred to Proposition 208 fund. If surcharge not upheld, state would refund revenue.

^{4/} Reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.